Aviva plc
Annual Report and Accounts 2007

Forty five million customers.
Twenty seven countries.
One Aviva.

The year's achievements

Achieved strong growth in sales and profits across our worldwide portfolio of businesses despite experiencing the worst UK floods in 60 years

Introduced a regional management structure and set out medium term growth targets

Completed the integration of our businesses in the USA and Ireland

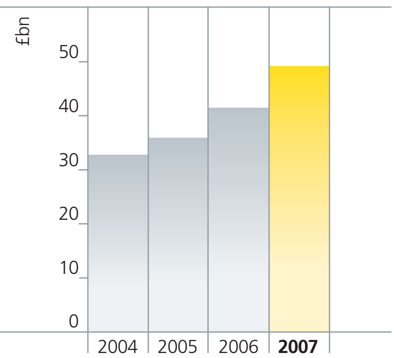
Achieved ratings upgrades in our US life business from AM Best and Standard & Poors

Achieved savings of £250 million in the UK life and general insurance businesses

Gained access to over 50 million potential new customers through bancassurance deals

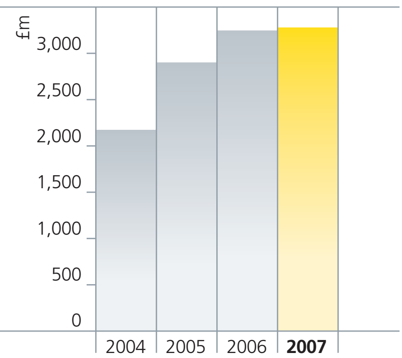
Completed a merger in Turkey, creating Aviva SA, which will contribute to growth in central and eastern Europe

Worldwide sales†



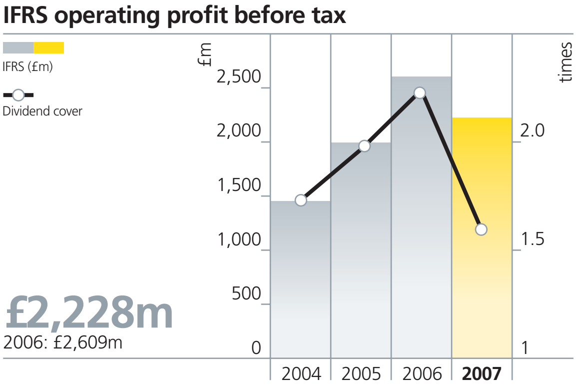
£49.2bn
2006: £41.5bn

EEV operating profit before tax*



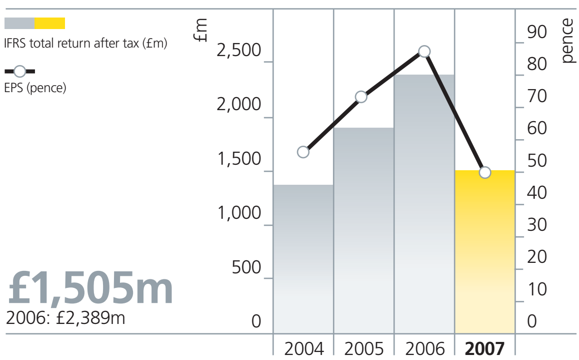
£3,286m
2006: £3,251m

IFRS operating profit before tax



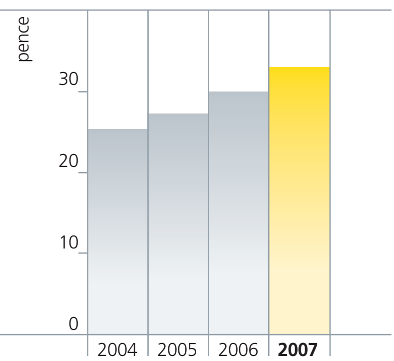
£2,228m
2006: £2,609m

IFRS total return after tax



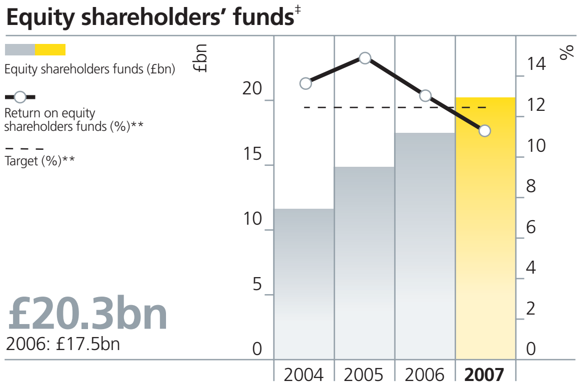
£1,505m
2006: £2,389m

Full year dividend



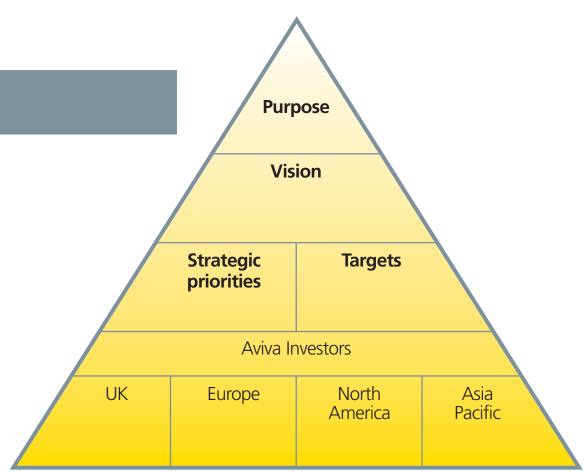
33.00p
2006: 30.00p

Equity shareholders' funds‡



£20.3bn
2006: £17.5bn

* From continuing operations, including long-term savings result on a European Embedded Value (EEV) basis before adjusting items.
** Return based on opening equity shareholders' funds on an EEV basis.
† From continuing operations, including share of associates' premiums.
‡ On an EEV basis.



Purpose
Vision
Strategic priorities
Targets
Aviva Investors
UK
Europe
North America
Asia Pacific

Introduction

'One Aviva, twice the value'.
Realising the full potential of Aviva's businesses by acting as one group.

Our purpose is to bring prosperity and peace of mind. We will do this by realising our vision: "One Aviva, twice the value". By working together across our businesses, we will optimise our performance in the global marketplace and maximise the value we can generate for all our stakeholders.

Andrew Moss
Group chief executive

Cover image:
An overview of our international marketing campaigns that bring the Aviva brands to life.

One Aviva triangle

The Aviva triangle has been developed to explain the purpose, vision, strategy and regional performance of the group in a single and straight forward way.

Group structure

Aviva is the world's fifth largest* insurance group and the largest insurance services provider in the UK. We are one of the leading providers of life and pension products in Europe and are actively growing our long-term savings businesses in Asia Pacific and the USA. Our main activities are long-term savings, fund management and general insurance**.

We have premium income and investment sales of £49.2 billion and £364 billion of funds under management. We have 57,000 employees serving around 45 million customers.

On 28 February we announced the launch of Aviva Investors, our global asset management operation. For 2007, total investment sales of £6,983 million (*2006: £4,910 million)* and total fund management operating profit on an IFRS basis of £155 million (*2006: £155 million*) are reported in the regional split below.

UK

Read more ››
20–31

Total sales

£20,302m
(2006: £19,601m)

PVNBP†	£11,655m
Investment sales	£2,751m
Net written premiums	£5,896m
	£20,302m

EEV operating profit

£1,330m
(2006: £1,936m)

Long-term savings	£864m
Fund management	£41m
General insurance	£433m
Other operations	£(8)m
	£1,330m

IFRS operating profit

£1,225m
(2006: £1,853m)

Employees and locations

33,686
(2006: 33,251)

Our life and general insurance businesses are based in York and Norwich respectively, with operations in over 35 UK locations. We also have overseas operations in India and Sri Lanka

Morley our fund management business is based in the UK and has offices spread across the globe

Major operating brands

Norwich Union is a market leader in the UK long-term savings market

Norwich Union Insurance is the leading general insurer in the UK and we also provide a wide range of motoring services through the RAC

Morley is one of the UK's largest active fund managers and the largest fund management business in the Aviva group

Europe

Read more ››
32–39

Total sales

£19,719m
(2006: £17,018m)

PVNBP†	£14,914m
Investment sales	£1,572m
Net written premiums	£3,233m
	£19,719m

EEV operating profit

£1,971m
(2006: £1,581m)

Long-term savings	£1,543m
Fund management	£31m
General insurance	£442m
Other operations	£(45)m
	£1,971m

IFRS operating profit

£1,230m
(2006:£1,083m)

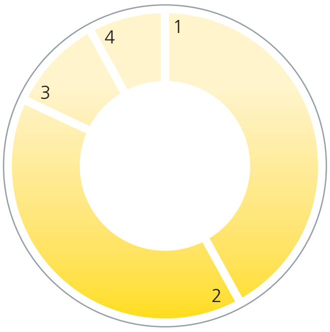
Employees and locations

16,059
(2006: 16,942)

Belgium‡	Luxembourg‡
Czech Republic	Netherlands
France	Poland
Germany‡	Romania
Hungary	Russia
Italy	Spain
Ireland	Turkey
Lithuania	

Major operating brands

Aviva has market leading presence across Europe in long-term savings and continues to lead the general insurance market in Ireland and the Netherlands. In addition we have a highly successful fund management business supporting the results in the region



Contribution to Group total sales

1: UK	2: Europe	3: North America	4: Asia Pacific
42%	40%	10%	8%

North America

Read more ››
40–45

Total sales

£5,014m
(2006: £2,273m)

PVNBP†	£3,602m
Net written premiums	£1,412m
	£5,014m

EEV operating profit

£408m
(2006: £183m)

Long-term savings	£255m
Fund management	£3m
General insurance	£154m
Other operations	£(4)m
	£408m

IFRS operating profit

£256m
(2006: £164m)

Employees and locations

4,717
(2006: 4,659)

Canada
United States

Major operating brands

Aviva USA ranks first and second in the indexed life and indexed annuity markets, respectively

Aviva Canada is ranked second in the Canadian general insurance market

Asia Pacific

Read more ››
46–51

Total sales

£4,117m
(2006: £2,572m)

PVNBP†	£1,429m
Investment sales	£2,660m
Net written premiums	£28m
	£4,117m

EEV operating profit

£97m
(2006: £92m)

Long-term savings	£91m
Fund management	£15m
General insurance	£4m
Other operations	£(13)m
	£97m

IFRS operating profit

£37m
(2006: £50m)

Employees and locations

2,052
(2006: 1,784)

Australia
China
Hong Kong
India
South Korea#
Malaysia
Singapore
Sri Lanka
Taiwan

Major operating brands

In Singapore, we rank first in combined sales of long-term savings products, including unit trusts

Australia: seventh in individual protection market and sixth in the platform market

One of the fastest growing life insurers in Hong Kong

* Based on gross worldwide premiums at 31 December 2006.
** Typically includes motor, household, creditor, health, commercial motor, commercial property and commercial liability insurance.
† Present value of new business premium (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 term of new contracts, and is expressed at the point of sale.
‡ Belgium, Germany and Luxembourg are reported as part of the Netherlands results.
# Aviva announced on 31 January 2008 that it is to enter the South Korean life insurance market by forming a consortium with Woori Finance Holdings Company Ltd.

Chairman's statement

Dear Shareholder,

It has been a busy year for Aviva. I am pleased to report that the group has performed well and made great progress in pursuit of our ambition to provide prosperity and peace of mind for our customers.

Our new group chief executive, Andrew Moss, leads a management team based on a global structure of four regions – the UK, Europe, North America and Asia Pacific. We have refocused our strategic vision as "one Aviva, twice the value". This expresses our commitment to embark upon the next stage of our development from an international group into a truly integrated, global business. We aim to derive the maximum benefit from all parts of the group by sharing our resources and expertise widely and by operating as a single organisation.

At the same time, we achieved a robust set of results for 2007 while dealing with the floods in the UK. We have completed the integration of AmerUs in the United States and Ark Life in Ireland, and undertaken a cost and efficiency review in the UK.

We have also set new cost saving targets for our UK and European businesses totalling £350 million. Our number one priority is to manage our existing assets effectively and efficiently, while continuing to invest for growth.

External view

The economic picture during the last months of 2007 was extremely volatile. Losses on sub-prime lending in the US sparked a crisis in financial markets and share prices fell as investors lost confidence. Although major central banks have cut interest rates, an economic slowdown during the first half of 2008 seems likely before the markets begin to recover. We are also operating in an increasingly difficult general insurance environment, with substantial weather-related losses caused by floods in the UK, and markets generally hardening.

However, many countries around the world are becoming richer. People are living longer, in better health, and are becoming wealthier. They want to put aside money for their future, and will look for a trustworthy provider such as Aviva. In addition, as people become better off, they become more conscious of protecting what they have. They want to insure their motor cars and their homes and their property. Again, that creates business for Aviva.

There are still significant long-term growth opportunities in the mature markets of the UK, Europe and the United States, but there are other big markets emerging. Not just in Asia, but also in central and eastern Europe. That, I think, is a very exciting prospect. It will be good for the insurance industry generally, but for Aviva in particular, because I think we understand better than most the nature of these tremendous opportunities and how to take advantage of them.

Dividend

I am pleased to announce that our recommended final ordinary dividend is 21.10 pence per share, bringing the total dividend for the year to 33.00 pence, an increase of 10% against last year *(2006: 30.00 pence)*. This increase reflects our intention to increase the dividend on a progressive basis, while retaining capital to support future business growth. As a guide, we use dividend cover in the 1.5 to 2.0 times range, based on IFRS operating earnings after tax.

Board developments

Richard Harvey stepped down as group chief executive in July. I wish him all the best for his retirement and extend the thanks of everyone at Aviva for the substantial part he played in the success of the group over the past 15 years. The board is delighted that Andrew Moss has succeeded Richard, having made an impressive contribution since joining the company as group finance director in 2004. We are equally pleased that Philip Scott has brought his considerable experience to the role of group finance director.

We welcomed Nikesh Arora to the board as an independent non-executive director in July. Nikesh is president of Europe, Middle East and Africa operations at Google, with responsibility for the company's business in more than 25 countries. He brings great experience in managing international businesses, combined with cutting-edge understanding of technology, innovation and marketing.

Scott Wheway was appointed to the board as a new independent non-executive director with effect from 5 December 2007. Scott was most recently managing director of Boots the Chemist at Alliance Boots and prior to that he was CEO of Tesco in Japan where he established the business and shaped the long-term strategy for the country. I'm delighted that Scott is joining us. He brings a wealth of retail experience to Aviva, and in particular he has championed first rate customer service, putting the customer at the heart of the businesses he's worked for. I am confident he will be a real asset to the Aviva board.

During the course of the year group executive directors Patrick Snowball and Tidjane Thiam left the group. I would like to thank both of them for their important contribution to our strategic thinking on the board and most recently for their leadership of our UK and European businesses. I would also like to pay tribute to Richard Whitaker, who has retired after serving the board as company secretary since 1998.

Employees

I thank all of our employees for their skill and dedication in helping to deliver a robust set of results. We recognise that the longer term performance of Aviva depends on the inextricable link between motivated staff and satisfied customers.

Our people are our most important asset. This is not empty rhetoric. We strive constantly to make Aviva an employer of choice. We are determined to be an ethical, civilised organisation that respects the people who work for it. Inevitably from time to time we have to make difficult decisions affecting jobs. Our employees have coped well with continuing uncertainty following the introduction of our regional structure and the new targets for reducing costs. We are introducing a talent management programme across the whole group that will recognise each individual's particular skills and potential, with a view to matching them to the roles and career development opportunities that suit them best. We have also introduced employee satisfaction measures into the calculation of executive pay and bonuses.

Recognition

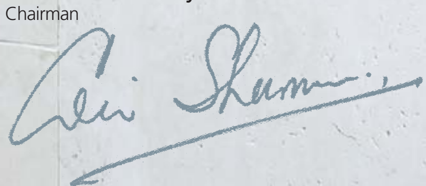
External recognition provides some reassurance that we continue to perform to high standards. Indicators of our success include the fact that, in 2007, for the second consecutive year, Aviva was named one of *The Times* newspaper's "Top 50 Places Where Women Want to Work". We earned a bronze award for excellence in people management in India, and an international award for our leadership in managing diversity in the workplace.

Besides accolades specifically for employment practices, we continue to win plaudits across our business operations. These range from awards as "best general insurer" and "best property manager" to endorsements for product innovation, e-business, socially responsible investment, online financial education and online communications.

Outlook

We look forward to building on Aviva's achievements as we work towards our new vision of "one Aviva, twice the value". I know what talented people we have working in the group's businesses around the world. Thanks to them, we have made great progress. With their support, Aviva will continue to serve its customers well and flourish into the future.

Lord Sharman of Redlynch OBE
Chairman



Group chief executive's statement

Dear Shareholder,

This is my first report on our annual results since becoming group chief executive last July. I am pleased to say that Aviva delivered another robust performance in challenging circumstances in 2007. Strong growth across our long-term savings and asset management businesses more than offset weather-related losses from our UK general insurance operation.

As group chief executive, my intention is to build on the achievements of my predecessor, Richard Harvey. I have set out a clear direction and a set of common goals to take Aviva further up the premier league of international financial services groups. It is an ambitious and exciting agenda. We remain committed to our diversified model of long-term savings, general insurance and investment management, but with a new regional organisation. Our top priority is to realise the full potential of Aviva's existing businesses.

Our new executive management team
Standing from left to right: John Ainley, Mark Hodges, Simon Machell, Tom Godlasky, Igal Mayer, Anupam Sahay, Philip Scott and Alain Dromer. Seated: Andrew Moss.

Read more ››
Page 78

'One Aviva, twice the value'

Our vision of "one Aviva, twice the value" puts a clear focus on growth and efficiency. It signals a period of transformation which will bring us closer to building a truly integrated, global business. Over the past few years, we have grown substantially both organically and by acquisition. Our scale and international reach means that we can now move towards managing Aviva as one group, drawing on our collective knowledge and resources to accelerate the pace of change.

The creation of Aviva Investors, will seek to harness the potential and power of our investment businesses across the globe. We want to improve the discipline and rigour that we apply in choosing to allocate capital as a composite company, and thinking as "One Aviva" will help in achieving this aim. We can also achieve more benefits from our global brand by having a more consistent and unified approach to how we position ourselves in global markets.

Now is the time to set ourselves a target in line with our vision and we will aim to double IFRS total earnings per share by 2012, at the latest, to drive dividend growth.

Prosperity and peace of mind

Our business is about creating prosperity and peace of mind for our customers. Our long-term savings and asset management businesses aim to create financial prosperity and peace of mind, while our general insurance operations protect health and property when things go wrong; for example, during the worst floods in 60 years in the UK last summer. Our staff responded brilliantly to the crisis, doubling the numbers manning our call centres and providing mobile claims centres to provide help on the spot.

Our customers are the reason we have a business. Constant attention to meeting the needs of our customers will create extra sales momentum and deliver growth. By eliminating unnecessary complexity and drawing our operations across the world closer together, we can share services, cut costs, boost productivity and produce tailored products at affordable prices for our 45 million customers in different markets.

Regionalisation

We are becoming a truly global organisation, starting from our historic roots as a UK-based company, developing a major European presence and now growing in Asia Pacific and North America. The regional structure that we have now put in place reflects this development and gets more of our people closer to our customers, making it easier to offer products and services that are relevant in today's changing markets. For example, some 400 people are moving out of the group centre and closer to the businesses.

My new senior management team bring energy and fresh thinking to Aviva, together with a great deal of experience and expertise. They are crucial to the successful running of our business, and I intend that they should be both visible and accountable. You can find out more about each of them on page 78 of this report.

Growth

Insurance is a growth business. Demographics show there will be an increasing need for people to invest for their future well-being, not only in mature economies but also in developing markets. In this context, we have set demanding growth targets for each of our regions which are set out in the regional sections of this report.

To achieve these ambitious targets, it is important that we continue to invest in ways to reach new customers, whether by direct sales, bancassurance, independent agents or a multi-distribution approach. In particular, bancassurance has proved to be a very successful channel for us. During the course of 2007 we signed multiple new agreements with partners in the UK, Europe and Asia Pacific regions, giving us access to over 50 million potential new customers. Our relationship management and partnering expertise remains a core competence of Aviva.

Efficiency

Alongside our growth targets, we have also announced new cost savings initiatives. These aim to save £350 million by 2009 from our UK and mature European businesses. During 2007 we successfully achieved the UK cost and efficiency targets we set in 2006, realising annualised savings of £250 million. We have now also realised the integration savings announced when we acquired AmerUs towards the end of 2006.

Financial results

On an EEV basis, our pre-tax operating profit of £3,286 million *(2006 restated: £3,251 million)* reflects the strength of our diversified business model. Return on equity shareholders' funds was 11.3% *(2006: 13.1%)*. Earnings per share (based on IFRS total return) was 49.2 pence *(2006: 87.5 pence)* mainly reflecting the impact of adverse weather and market conditions in 2007.

On an IFRS basis, the group delivered an overall profit before tax attributable to shareholders of £1,842 million *(2006: £2,977 million)*.

People

We have 57,000 people employed around the world, and it is vital that they all understand the part they have to play in attaining our objectives. Our new structure encourages a greater sense of teamwork, and provides more clarity about how our people contribute towards our overall goals. I am very grateful for the support and commitment of all our employees. During periods of uncertainty and challenge they have continued to work with great professionalism and dedication to achieve the best possible results for our customers and shareholders.

Based on feedback from our global staff opinion surveys, we are actively managing our talent across the group to provide more opportunities for people to develop. If we succeed in our aims and ambitions over the next few years, this will be a company that grows – and growing companies are exciting places to work, with interesting jobs and fantastic career opportunities for staff.

Outlook

The UK remains the largest of our businesses. It is responsible for 42% of our sales and is the bedrock of the group's success. We intend to maintain a market leadership position in the UK in both our long-term savings and general insurance businesses. Europe continues to be a big success story. We are the number one writer of life and pensions business across Europe (including the UK), based on multi-distribution channels in the larger, more developed, markets, and through successful partnering with banks, notably in Spain, Italy and our new market-leading agreement with Akbank in Turkey. Growth prospects across Europe remain excellent.

In North America, our presence took a step change when we bought AmerUs in 2006. Overnight we went from a business on the margin of the US market to one that was five times bigger and right at the heart of an important part of the savings sector. With the baby-boomer generation heading for retirement, we see exciting further potential.

Our presence in Asia Pacific is growing fast, and we want it to be even bigger. We have good businesses in Singapore, Hong Kong and Australia, and have made a great start with joint venture partnerships in India and China. We have now entered new markets in Malaysia and Taiwan, and recently announced our entry into the South Korean market.

"One Aviva, twice the value" signals our plan to increase growth and improve efficiency. I am delighted to be leading Aviva at such an important stage of its development, and am confident that we have created an excellent platform for future success.

Andrew Moss
Group chief executive

Business review

Turkish Aviva advertising
In 2007 Turkey launched the 'Touch the future' brand campaign. The campaign creates a link between the past and future by emphasising the 300 year old history of Aviva to reinforce Aviva as an established and trustworthy company to have the capability for building better tomorrows. The campaign was featured on TV, press, radio and cinema.

Region: **Europe**

Business review

Basis of preparation

This business review complies with the recommendations of the European Union (EU) Modernisation Directive, the Companies Act 1985 (Operating and Financial Review and Directors' Report) Regulations 2005 (the Companies Act) and is in line with current best practice. It is addressed to, and written for, the members of Aviva plc with the aim of providing a fair review of our business development, performance and position at the current time. In producing this review, we aim to present a view that is balanced and comprehensive and that is consistent with the size and complexity of our business. The review is written in the context of the risks and uncertainties facing our business. We anticipate that the format and content of the review will evolve over time, along with developments in our business and the external environment.

Key Performance Indicators

The Companies Act requires that a fair review of the business contains financial and, where applicable, non-financial key performance indicators (KPIs). We consider that our financial KPIs are those that communicate to the members the financial performance and strength of the group as a whole. These KPIs comprise:

- Earnings per share (IFRS basis)
- Operating profit (European Embedded Value basis)
- Operating profit (International Financial Reporting Standards basis)
- Long-term new business sales (PVNBP)
- Proposed ordinary dividend per share and dividend cover
- Return on equity shareholders' funds

Management also use a variety of Other Performance Indicators (OPIs) in both running and assessing the performance of individual business segments and units, rather than the group as a whole. OPIs include measures such as new business margins, combined operating ratio and underwriting profit.

In addition to reporting on our financial performance, it is important that as a forward thinking company we are aware of our wider responsibilities and report on the non-financial aspects of our performance. We consider that our employees and customers are fundamental to the success of our business; as such, they form the basis for our non-financial measures, and include:

- Leadership and employee engagement
- Customer satisfaction

Forward-looking statements

This business review contains "forward-looking statements" about:

- Our future plans
- Our current goals
- Our expectations of our future financial condition, performance and results

By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events that are beyond our control. For example, certain insurance risk disclosures are dependent on our choices about assumptions and models, which by their nature are estimates. As such, actual future gains and losses could differ materially from those that we have estimated. Other factors that could cause actual results to differ materially from those estimated by the forward-looking statement include, but are not limited to:

- Global economic business conditions
- Monetary and interest rate policies
- Foreign currency exchange rates
- Equity and property prices
- The impact of competition, inflation and deflation
- Changes to regulations, taxes and legislation
- The timing and impact of acquisitions and business combinations in relevant industries
- Natural and other disasters
- Changes to consumer saving and spending habits
- Our success in managing the above factors

Consequently, our actual future financial condition, performance and results could differ materially from the plans, goals and expectations set out in our forward-looking statements. We undertake no obligation to update the forward-looking statements contained in this review or any other forward-looking statements we make.

Accounting basis of preparation

In addition to presenting our results and financial position on an International Financial Reporting Standards basis, we also use European Embedded Value (EEV) as an alternative performance measure. Details of the accounting basis of preparation are set out in the "financial reporting" section of this business review on page 63.

Group strategy

Dear Shareholder,

Following the appointment of Andrew Moss as chief executive in July 2007, and the new Executive team, we have refreshed our strategy, building on past achievements, under the banner of "one Aviva, twice the value".

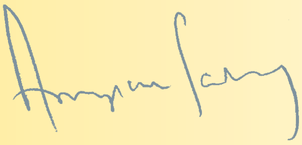
In doing so, we have clarified the five strategic priorities we will pursue at a Group wide level (shown on the right), to maximise the value we can generate for all our stakeholders.

Equally, we have distilled what this means specifically in each of our new 'Regions' formed in 2007: UK, Europe, North America and Asia Pacific, as well as our asset management business. These priorities are described in further detail in subsequent sections.

We have communicated our financial targets to the market. Internally, we have invested considerable effort in energising the organisation and its employees to deliver the results.

We have made significant progress against our strategic objectives in 2007, amid a challenging external environment, and look forward to accelerating from our strong starting position into 2008 and beyond.

Anupam Sahay
Group strategy & development director



To achieve our vision, we are focused on delivering against our five key strategic priorities. These are set out below:

Manage composite portfolio:

We are fully committed to maintaining the composite nature of the group. We firmly believe in the benefits of life insurance, general insurance and asset management as complementary parts of an overall business model that balances cashflow, returns and long-term value creation, and delivers prosperity and peace of mind to customers.

Build global asset management:

We have significant asset management functions across the group. These businesses have historically been managed separately, and we are now bringing them together in a global asset management business – Aviva Investors – that will foster investment performance and creation of solutions, with an increased focus on winning external clients.

Allocate capital rigorously:

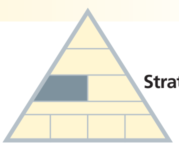
Capital management will continue to be a key focus for Aviva going forward. Capital is treated as a scarce resource, and is allocated to provide the highest sustainable returns for shareholders. We continuously seek improvements in capital structure and efficiency.

Increase customer reach:

We sell our products in 27 countries in the way that our customers choose to buy them. We will continue looking for the right distribution in the right markets. We also get closer to our customers through better understanding their needs, which helps us to generate profitable sales, by providing products and services that customers want at a fair price.

Boost productivity:

We constantly look for ways to boost our productivity, in order to increase our competitiveness, improve our services and deliver higher value to our customers. This will enable Aviva to deliver further sustainable growth.



Strategic priorities

Business review continued:

Group strategy continued

We made good progress in 2007 against priorities set out in last year's Annual Report. Some of our achievements are detailed below, under our strategic priorities, and some covered in the regional sections, where we also describe our regional growth/profitability targets. We have also set out below the measures that we use to assess our success in achieving our group strategic priorities and what we plan to do in 2008.

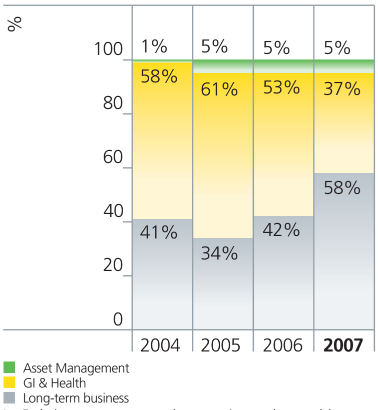
Manage composite portfolio:

2007 Progress
What we achieved in 2007 against these priorities

– The composite model allows us to focus on areas of the business where we can grow profitably at any given time. In 2007 we actively managed the composite portfolio by:
  – Restructuring our UK GI business
  – Extending our life and pensions footprint in North America and Asia, building on strong foundations
  – Taking steps to maintain our number 1 position in European Life and Pensions

2007 Measurement/KPIs
How we measure progress against each strategic priority

IFRS operating profit split by business line*



* Excludes corporate costs, other operations and group debt costs

2008 Priorities
What we are focused on in 2008

– Manage GI for value and cash flow
– Drive rapid profitable growth and long term value creation from the life and pensions business
– Build asset management globally (see below)

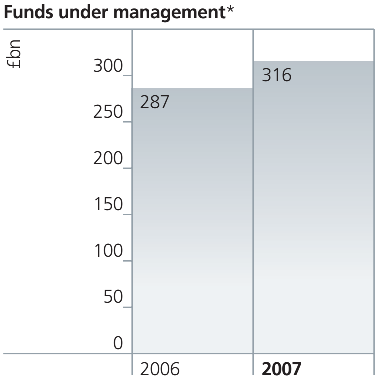
Build global asset management:

2007 Progress
What we achieved in 2007 against these priorities

– Hired Alain Dromer, with a mandate to create and lead a global asset management operation
– Announced Aviva Investors, designed to capitalise on the existing strengths of Aviva's asset management businesses around the world
– Funds under management grew by 10% in 2007
– Continued to build our core product range by leveraging expertise in specialist areas such as asset allocation and alternatives

2007 Measurement/KPIs
How we measure progress against each strategic priority

Funds under management*



* Funds managed or administered by the Group's fund management operations

2008 Priorities
What we are focused on in 2008

– Launch Aviva Investors as the global asset management arm of Aviva, under unified management
– Adapt our investment capabilities to long lasting market trends
– Foster improved performance, through global sharing of knowledge and information
– Develop solutions matching client needs through bundling capabilities and services throughout the group
– Invest in new growth opportunities including new clients and new markets, e.g. China

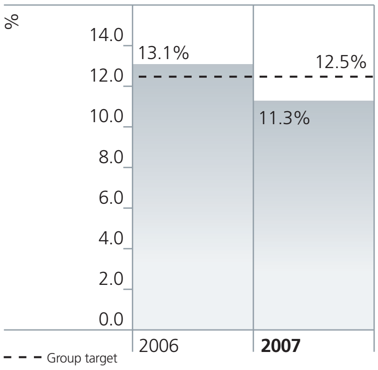
Allocate capital rigorously:

2007 Progress
What we achieved in 2007 against these priorities

- Developed a clear framework for capital allocation, based on strict financial, strategic, capital management and risk management evaluation criteria
- Invested in selected high growth / high margin opportunities (e.g. partnerships in Turkey, China, Italy, Spain)
- Divested underperforming businesses (e.g. Dutch healthcare)
- Maintained progressive dividend policy
- 2007 return on equity shareholders' funds is below our target of 12.5% as explained on page 15

2007 Measurement/KPIs
How we measure progress against each strategic priority

Return on equity shareholders' funds



2008 Priorities
What we are focused on in 2008

- Focus on realising the full potential of Aviva's existing businesses
- Maximise diversification benefits in the Solvency II environment
- Continue progressive dividend policy

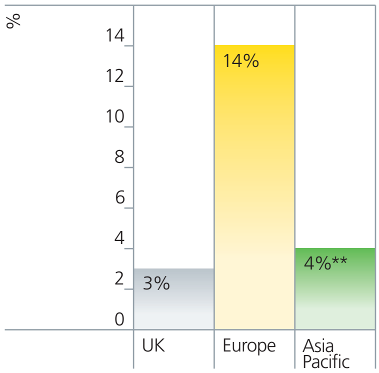
Increase customer reach:

2007 Progress
What we achieved in 2007 against these priorities

- Improved on 2006 customer scores, exceeding customer targets set to increase customer reach by:
  - Improving customer loyalty
  - Encouraging customer advocacy
- Gained access to over 50 million potential new customers through bancassurance deals
- Entered new markets via JVs in Malaysia and Taiwan, and expanded in our existing markets, for example, through new distribution in Italy, Turkey and Russia
- Further developed the Aviva brand through advertising campaigns across our regions

2007 Measurement/KPIs
How we measure progress against each strategic priority

Average extent to which 2007 local customer measures improved on 2006*



* North America excluded due to the early stages of this work following AmerUs integration
** Asia Pacific shown against target as first year of introduction

2008 Priorities
What we are focused on in 2008

- Rapidly grow in high growth markets
- Continue to build access to customers through bancassurance, partners, agencies, sales forces and direct distribution
- Refresh brand positioning
- Implement a variety of customer initiatives, including UK customer services improvement programme ("One and Done")
- Roll out TCF (Treating Customers Fairly) internationally

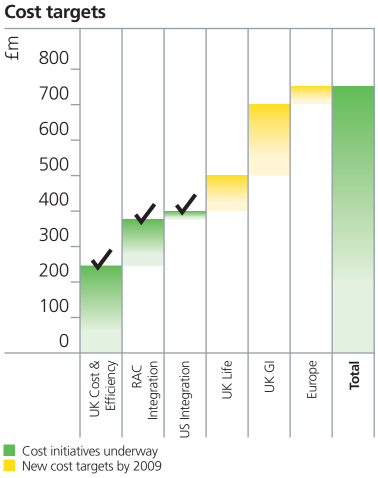
Boost productivity:

2007 Progress
What we achieved in 2007 against these priorities

- Met our targets on a number of major cost saving initiatives across the group:
  - £250 million annualised cost savings from UK cost and efficiency review
  - £130 million from RAC integration
  - £23 million from US integration
- Announced a further set of cost saving initiatives (see 2008 Priorities)

2007 Measurement/KPIs
How we measure progress against each strategic priority

Cost targets



2008 Priorities
What we are focused on in 2008

- Simplify technology landscape
- Increase use of shared services
- By end 2008 we will have achieved:
  - £200 million UK GI cost savings
- By end 2009 we will have achieved:
  - £100 million UK Life cost savings
  - £50 million Aviva Europe cost savings

Business review continued:

Key performance indicators

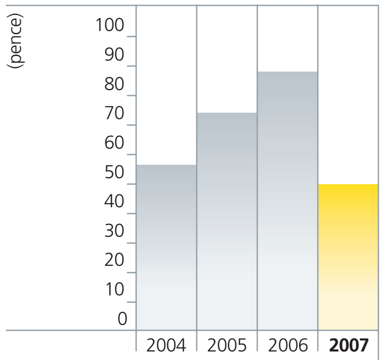
In 2007, the group's strategy was underpinned by focusing on a number of key financial performance measures. The key measures that are used to assess performance at a group level are set out below:

Earnings per share

To demonstrate our commitment to our vision of "one Aviva twice the value", we have announced our ambition to double IFRS earnings per share by 2012. This ambition is based on total IFRS return, including investment volatility and non-operating items over the weighted average number of shares.

Our IFRS earnings per share for 2007 was 49.2 pence *(2006: 87.5 pence)*. This reflects the reduction in operating profit, mainly due to lower results in the general insurance segment as a result of adverse weather in the UK and increased competition, and net adverse short-term fluctuations and economic assumption changes due to closing market conditions.

Earnings per share (IFRS)

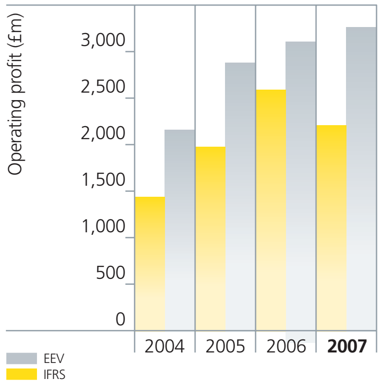


Group operating profit before tax*

We aim to achieve steady sustainable growth in our operating profit, both on an EEV and IFRS basis. In seeking to achieve this growth, we continue to adopt strict financial management disciplines underpinned by strong corporate governance.

Our EEV operating profit remained strong at £3,286 million *(2006 restated: £3,251 million)*. On an IFRS basis, operating profit was £2,228 million *(2006 restated: £2,609 million)*. These results reflect strong performances in the life segment offset by lower results in the general insurance segment as a result of adverse weather and increased competition.

Group operating profit before tax



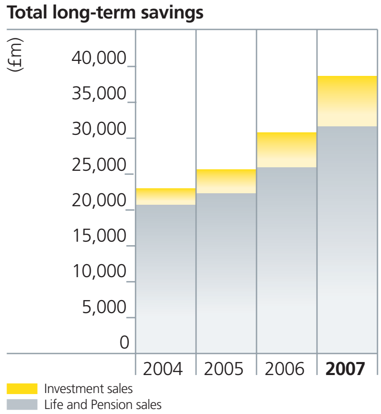
Long-term savings new business sales

During 2007 we announced regional growth targets for our life businesses. These are as follows:

- UK to grow at least in line with the market
- Europe to grow sales by an average of 10% per year to 2010
- North America to double sales within three years of AmerUs acquisition (2009)
- Asia Pacific to grow sales by an average of 20% per year to 2010

Our total new business sales, including investment sales, increased by 25% in 2007 to £38,583 million *(2006: £30,762 million)*. This reflected strong growth across all our regions, performing in line with their individual targets.

Total long-term savings



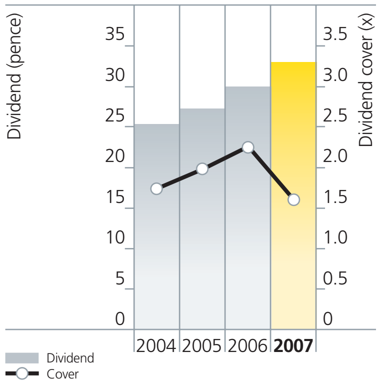
* Group EEV operating profit is calculated using long-term savings operating profit on an EEV basis before adjusting items. Group IFRS operating profit is calculated using long-term savings operating profit on an IFRS basis before adjusting items. 2004 to 2006 have been restated to reflect the new definition of IFRS operating profit – see page 132 for details.

Proposed ordinary dividend per share and dividend cover**

Our intention is to increase the total dividend on a basis judged prudent using a dividend cover in the 1.5 to 2.0 times range as a guide, while retaining capital to support future business growth.

Our board has recommended a final dividend of 21.10 pence per share *(2006: 19.18 pence)*, bringing the total dividend for the year to 33.00 pence *(2006: 30.00 pence)*. This is a 10% increase *(2006: 10%)*. Dividend cover is 1.60 times *(2006: restated 2.26 times)*, within our target range.

Proposed ordinary dividend per share and dividend cover

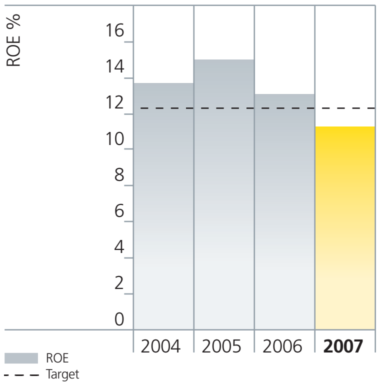


Return on equity shareholders' funds†

We aim to deliver an after-tax operating return on opening equity shareholders' funds, including life profits on a European Embedded Value (EEV basis), equivalent to 12.5%.

Our post-tax operating return on equity shareholders' funds was 11.3% *(2006: 13.1%)*. The reduction against 2006 reflects higher opening shareholders' funds, which have increased by £2.6 billion. The return is below our target of 12.5% due to the impact of the adverse weather in the United Kingdom which has suppressed the return on our general insurance operations.

Return on equity shareholders' funds

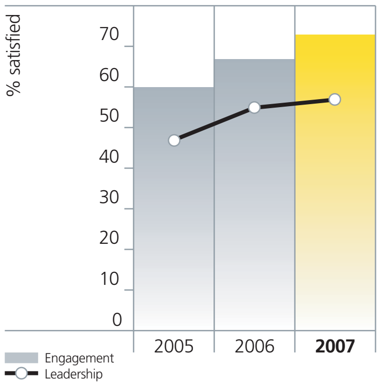


Employee engagement and leadership

Our global employee climate survey continues to provide measures of employee engagement and leadership. For Aviva, employee engagement represents the degree to which people believe in this being a great place to work and are contributing to help meet our collective goals and ambitions. The survey results are used each year to determine and implement actions with the aim of achieving continuous improvement. The climate survey measures employees' perceptions of leadership, verifying alignment with our strategic direction and immediate business plans. Our aim is to improve both measures over time and meet or exceed a global financial services benchmark.

During 2007, we showed progress on both our engagement and leadership scores which is reflective of the work undertaken to focus and embed the people strategy. While we have shown progress against external benchmarks, we recognise that we need to continue to improve as we are slightly lower than the global financial services norm on both measures.

Aviva climate survey results 2007



Customer satisfaction

All Business Units measure and track progress in customer advocacy, and, where feasible, benchmark performance against local competitors.

In 2007, over three quarters of our business units exceeded their 2007 target levels of customer performance and stretching targets have been set for 2008 to drive continuous improvement.

We are committed to greater harmonisation of customer measures across the group and a common 'dashboard' of ten key customer KPIs was introduced at the end of 2007 for the UK businesses, and will be rolled out internationally in 2008.

** Dividend cover is measured on operating earnings after tax on an IFRS basis, expressed as a multiple of the ordinary dividend in respect of the financial year.

† Return on equity shareholders' funds is calculated using after-tax return based on operating profit, including long-term savings profit on a European Embedded Value (EEV) basis before adjusting items, and opening equity capital.

Group performance

Operating profit

Group operating profit – IFRS basis

	12 months 2007 £m	Restated** 12 months 2006 £m
Long-term business*	**1,634**	1,334
Fund management*	**155**	155
General insurance and health	**1,033**	1,686
Other operations and regional costs*	**(74)**	(25)
Regional operating profit before tax	**2,748**	3,150
Corporate centre	**(157)**	(160)
Group debt costs and other interest	**(363)**	(381)
IFRS operating profit before tax	**2,228**	2,609

Group operating profit – EEV basis

	12 months 2007 £m	Restated** 12 months 2006 £m
Long-term business*	**2,753**	2,033
Fund management*	**90**	96
General insurance and health	**1,033**	1,686
Other operations and regional costs*	**(70)**	(23)
Regional operating profit before tax	**3,806**	3,792
Corporate centre	**(157)**	(160)
Group debt costs and other interest	**(363)**	(381)
EEV operating profit before tax	**3,286**	3,251

* The results of the group's asset management and other operations that arise from providing fund management and other services to the life business have been included in the long-term business operating return on an EEV basis. On an IFRS basis, they are included in fund management and other operations.

** We have changed the definition of IFRS basis operating profit this year and restated our 2006 comparatives. This also has a small impact on the general insurance results shown in the EEV basis. Details are shown in note 2 to the financial statements.

Our operating profit before tax, including long-term operating return on an EEV basis, grew to £3,286 million *(2006 restated: £3,251 million)*. This reflected a strong result in our life businesses offset by decreased profits from the general insurance business largely due to the exceptional adverse weather experienced in the UK during the year.

On an IFRS basis, operating profit decreased by 15% to £2,228 million *(2006 restated: £2,609 million)*.

The operating results of our long-term savings, fund management, general insurance and other operations are discussed in detail in the regional sections of this report.

Corporate centre

Corporate costs for the year were £157 million *(2006: £160 million)*. Within this, costs relating to staff profit share and incentive plans remained at £17 million *(2006: £17 million)*. Central spend decreased to £114 million *(2006: £126 million)*, reflecting the drive towards a leaner, activist centre. Project costs increased to £26 million *(2006: £17 million)* as we continue to invest in our brand and global finance strategy.

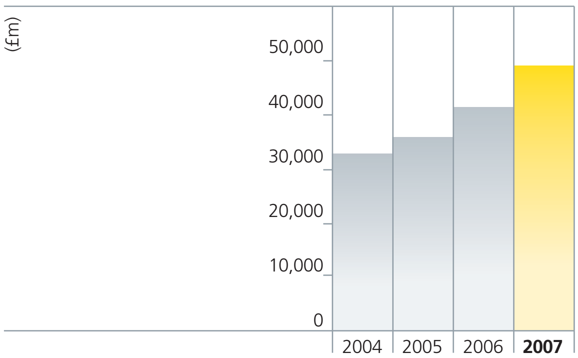
Group debt costs and other interest

Group debt costs and other interest of £363 million *(2006: £381 million)* comprise internal and external interest on borrowings, subordinated debt and intra-group loans not allocated to local business operations. Net pension income is also included, being the expected return on pension scheme assets less the interest charge on pension scheme liabilities. Net income from the staff pension scheme fell to £75 million *(2006: £77 million)*.

Interest costs in the period were lower at £438 million *(2006: £458 million)* reflecting a reduction in internal interest following the restructuring of internal loan agreements. This was offset by an increase in the interest on subordinated debt due to amounts raised in December 2006 to repay locally held AmerUs debt and on commercial paper raised to help fund the AmerUs acquisition.

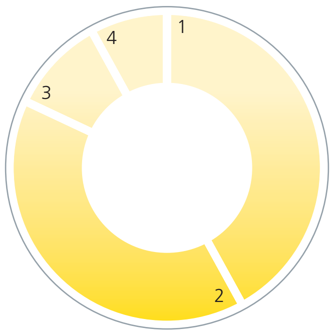
Interest on the £990 million direct capital instrument issued in 2004 is not included within group debt costs as it is instead treated as an appropriation of profits retained in the period.

Total sales



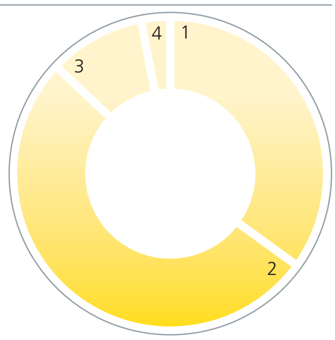
Regional analysis of total sales

Region	%
1 UK	42
2 Europe	40
3 N. America	10
4 Asia Pacific	8
Total	100



Regional analysis of EEV operating profit

Region	%
1 UK	35
2 Europe	52
3 N. America	10
4 Asia Pacific	3
Total	100



Profit before tax

The tables below set out our financial and operational performance for the year ended 31 December 2007.

Reconciliation of group operating profit to profit before tax

	12 months 2007 £m	Restated 12 months 2006 £m
Operating profit before tax – IFRS basis	**2,228**	2,609
Adjusted for the following:		
Investment return variances and economic assumption changes on long-term business	**15**	401
Short-term fluctuation in return on investments backing general insurance and health business	**(184)**	149
Impairment of goodwill – non long-term business subsidiaries	**(10)**	(94)
Amortisation and impairment of intangibles	**(103)**	(64)
Profit on the disposal of subsidiaries and associates	**49**	222
Integration and restructuring costs	**(153)**	(246)
Profit before tax – IFRS basis	**1,842**	2,977
Tax	**(337)**	(588)
Profit for the financial year	**1,505**	2,389
Attributable to:		
Equity shareholders	**1,327**	2,215
Minority interests	**178**	174

Reconciliation of group operating profit to profit before tax – EEV basis

	12 months 2007 £m	Restated 12 months 2006 £m
Operating profit before tax – EEV basis	**3,286**	3,251
Adjusted for the following:		
Variation from longer term investment return on long-term business	**(450)**	319
Effect of economic assumption changes on long-term business	**517**	671
Short-term fluctuation in return of investments backing general insurance and health business	**(184)**	149
Impairment of goodwill	**(10)**	(94)
Amortisation and impairment of intangibles	**(89)**	(46)
Profit on the disposal of subsidiaries and associates	**20**	161
Integration and restructuring costs	**(153)**	(246)
Profit before tax – EEV basis	**2,937**	4,165
Tax	**(803)**	(1,286)
Profit for the financial year	**2,134**	2,879

Profit before tax on an EEV basis was lower at £2,937 million *(2006: £4,165 million)*, reflecting an adverse variance from longer term investment return of £634 million *(2006: £468 million favourable)* and a positive impact from economic assumption changes of £517 million *(2006: £671 million)*.

The variance in longer term investment return reflects long-term economic assumptions which are set with reference to bond yields.

£153 million of integration and restructuring costs have been included in the results to 31 December 2007 *(2006: £246 million)*. These include £45 million relating to the UK cost and efficiency programme announced back in 2006. This initiative has now been completed at a total cost of £250 million. The costs also include £82 million relating to the new savings targets announced in October 2007; further costs of this programme are expected to be £248 million spread over the next two years. The balance of £26 million relates to the completion of integration activity on Ark Life in Ireland and the former AmerUs business in the United States, which were both acquired in 2006.

On an IFRS basis, the negative short-term fluctuations on the non-life business of £184 million *(2006: £149 million favourable)* were due to lower market returns compared to our longer term investment return assumptions. The group reduced their exposure to equities through an active sell-off of the equity book in the second half of the year.

The long-term business favourable investment variance (reflecting our new IFRS operating profit definition) of £15 million *(2006: £401 million)* comprises favourable investment variances in Europe offset by negative effects in the USA and UK. In Europe, the positive variances relate mainly to the realisation of capital gains on securities in the Netherlands and France. In the USA, realised and unrealised losses on investments were driven by the widening of credit spreads on debt securities, while in the UK there was a negative investment variance on surplus assets backing annuity business due to interest rate changes.

Profit on disposal of subsidiaries and associates includes the sale of 50.3% of the Turkish life business as part of the joint venture agreement with Aksigorta A.S. This produced a profit of £74 million on an IFRS basis (£45 million on an EEV basis due to the additional value of long-term in-force business). This was partly offset by losses on a number of small disposals.

Tax

The taxation charge was £803 million *(2006: £1,286 million)* on an EEV basis and includes a charge of £992 million *(£2006: £1,028 million)* on operating profit, which is equivalent to an effective rate of 30.2% *(2006: 31.6%)*. On an IFRS basis the effective rate of tax on operating profit was 27.2% *(2006: 24.7%)*.

Dividend

The Board has recommended a 10% increase in the final dividend to 21.10 pence per share *(2006: 19.18 pence)*, payable on 16 May 2008 to shareholders on the register at 28 March 2008. This equates to 10% growth in the total dividend for the year of 33.00 pence *(2006: 30.00 pence)*. Our IFRS operating profits cover this dividend 1.60 times *(2006: restated 2.26 times)* in line with our dividend cover target of 1.5 - 2.0 times.

Group performance continued

Financial highlights

	12 months 2007 £m	12 months 2006 £m
Worldwide sales*	**49,152**	41,464
Life and pensions new business contribution before required capital	**1,174**	892
Life and pensions new business contribution after required capital	**912**	683
Life and pensions margin before required capital	**3.7%**	3.5%
Life and pensions margin after required capital	**2.9%**	2.6%
General insurance business combined operating ratio	**100%**	94%
Return on equity shareholders' funds	**11.3%**	13.1%
Earnings per share		
Basic – EEV operating profit after tax basis	**76.5p**	79.2p
Basic – IFRS total profit after tax basis	**49.2p**	87.5p

* Based on worldwide long-term savings new business sales, plus general insurance and health business net written premiums.

Worldwide sales

In 2007 we achieved total worldwide sales of £49,152 million *(2006: £41,464 million)* reflecting strong growth in long-term business sales offset by weaker general insurance and health net written premiums.

Long-term new business sales were up 25% to £38,583 million *(2006: £30,762 million)*, comprising a 22% increase in life and pension sales of £31,600 million *(2006: £25,852 million)* and 41% growth in investment sales of £6,983 million *(2006: £4,910 million)*.

Total UK sales were up 6% to £14,406 million *(2006: £13,601 million)*, within this, life and pension sales were up 5% at £11,655 million *(2006: £11,146 million)* supported by significant increases in bonds and annuities. Investment sales of £2,751 million *(2006: £2,455 million)* were up 12% as we extended and diversified our fund offering and focused on improving the performance of our UK equity funds. Our share of sales from the joint venture with the Royal Bank of Scotland Group was up 36% to £1,587 million *(2006: £1,169 million)*, benefiting from the impact of new products and an increase in the number of sales advisers.

Life and pension sales in Aviva Europe grew 15% to £14,914 million *(2006: £12,840 million)*, reflecting the success of our multi-distribution strategy, broad product offerings and our diversified portfolio. Investment sales were up 74% to £1,572 million *(2006: £891 million)* driven by strong inflows in the Netherlands and Poland.

Sales in our US life business were up 39% on a pro forma basis to £3,602 million *(2006: £884 million)*, representing growth across all product lines. This was mainly driven by new product launches and supported by the impact of the recent AM Best rating upgrade to A+.

Aviva Asia Pacific continued to achieve a high rate of growth, with total sales 60% higher at £4,089 million *(2006: £2,546 million)*, driven primarily by strong Navigator (wrap administration platform) sales across the region.

Net written premiums from our general insurance and health business were £10,569 million *(2006: £10,702 million)* reflecting price competition across most regions.

Long-term new business contribution and margin

Our new business contribution before the effect of required capital increased by 30% to £1,174 million *(2006: £892 million)*, generating an improved group margin of 3.7% *(2006: 3.5%)*. The large increase in US sales following the acquisition of AmerUs, in November 2006, has been a key driver in new business contribution growth. Margins have also improved in the UK and Europe reflecting efficiency savings and favourable operating assumption changes.

After the effect of required capital, our new business contribution increased by 33% to £912 million *(2006: £683 million)* reflecting the factors above and lower cost of capital, mainly in the UK from changes to the annuity business and in the US from implementation of an efficient financing solution to free up capital previously held to support redundant reserves.

Earnings per share

Our IFRS earnings per share for 2007 was 49.2 pence *(2006: 87.5 pence)*. This reflects the reduction in operating profit, mainly due to lower results in the general insurance segment as a result of adverse weather and increased competition, and net adverse short-term fluctuations and economic assumption changes.

Combined operating ratio

The worldwide general insurance combined operating ratio (COR) worsened to 100% *(2006: 94%)* mainly as a result of adverse weather in the UK and increased competitive pressures in this business segment across most regions. Excluding the impact of weather, our COR would have been 95%, within our meet or beat target of 98%.

The COR in our Dutch operations improved to 85% *(2006: 89%)* following the favourable development of prior year claims and the retention of premium rates in key areas. In Ireland the COR remained strong but deteriorated to 80% *(2006: 77%)* reflecting intensifying competition and higher claims costs. In Canada and France, CORs were held at 2006 levels.

The reserves in the group are set conservatively with the aim to protect against adverse future claims experience and development. Our business is predominantly short tail in nature and loss development experience is generally stable. As a result of the prudence applied in setting the reserves, there are releases of £832 million (net of reinsurance) in 2007 which reflect releases across most of our businesses from the 2006 accident year and prior. We continue to apply our reserving policy consistently and our reserves remain at very strong levels. Of the total released this year, we would expect around £440 million to repeat, with the balance being exceptional releases.

Return on equity shareholders' funds

Our post-tax operating return on equity shareholders' funds was 11.3% *(2006: 13.1%)*. The reduction against 2006 reflects higher opening shareholders' funds, which have increased by £2.6 billion. The return is below our target of 12.5% due to the impact of the adverse weather in the UK which has suppressed the return on our general insurance operations.

Balance sheet and cash flow

Summarised group consolidated balance sheet As at 31 December 2007

	IFRS basis		EEV basis	
	2007 £m	Restated 2006 £m	**2007 £m**	Restated 2006 £m
Assets				
Goodwill	**3,082**	2,910	**3,082**	2,910
Acquired value of in-force business and intangible assets	**3,197**	2,728	**3,197**	2,728
Additional value of in-force long-term business	**–**	–	**7,982**	6,794
Investment properties, properties and equipment	**16,019**	16,027	**16,019**	16,027
Interests in and loans to joint ventures and associates	**3,782**	3,690	**3,782**	3,690
Financial investments	**215,368**	204,278	**215,368**	204,278
Other assets	**62,498**	52,101	**62,498**	52,101
Cash and cash equivalents	**15,774**	13,117	**15,774**	13,117
Total assets	**319,720**	294,851	**327,702**	301,645
Equity				
Capital and reserves	**12,849**	11,176	**12,559**	10,714
Additional retained profit on an EEV basis	**–**	–	**7,694**	6,817
Equity attributable to shareholders of Aviva plc	**12,849**	11,176	**20,253**	17,531
Preference shares and direct capital instrument	**1,190**	1,190	**1,190**	1,190
Minority interests	**2,553**	1,698	**3,131**	2,137
Total equity	**16,592**	14,064	**24,574**	20,858
Liabilities				
Gross liability for insurance and investment contracts	**251,284**	232,588	**251,284**	232,588
Unallocated divisible surplus	**6,785**	9,465	**6,785**	9,465
Net asset value attributable to unitholders	**3,980**	3,810	**3,980**	3,810
Borrowings	**12,657**	12,137	**12,657**	12,137
Other liabilities	**28,422**	22,787	**28,422**	22,787
Total liabilities	**303,128**	280,787	**303,128**	280,787
Total equity and liabilities	**319,720**	294,851	**327,702**	301,645

During 2007, the equity attributable to our ordinary shareholders on an IFRS basis increased by 15% to £12,849 million *(2006: £11,176 million)* primarily reflecting the growth in retained earnings. On an EEV basis, the equity attributable to our ordinary shareholders was £20,253 million *(2006: £17,531 million)*.

At 31 December 2007, our total assets on an IFRS basis were £320 billion *(restated 2006: £295 billion)*. Under EEV principles, our total assets are £328 million higher *(restated 2006: £302 million)*, the difference relates to the recognition as an asset under EEV of internally generated additional value of in-force (AVIF) long-term business. The growth in assets was substantially driven by an increase in financial investment of £11 billion following strong new business sales and effective management of the active equity portfolio minimising the exposure to the downturn in the equity markets.

Increase in other assets of £10 billion to £62,498 million *(restated 2006: £52,101 million)* was primarily driven by an increase in loans of £7 billion resulting from the restatement of stock lending collateral.

Summary consolidated cash flow statement – IFRS basis

	Long-term business operations £m	**Non long-term business operations £m**	**Total Full year 2007 £m**	Restated Total Full year 2006 £m
Net cash from operating activities	**2,792**	**1,240**	**4,032**	1,879
Net cash from investing activities	**(407)**	**(228)**	**(635)**	(1,574)
Net cash flow from financing activities	**(536)**	**(638)**	**(1,174)**	659
Net increase in cash and cash equivalents	**1,849**	**374**	**2,223**	964
Cash and cash equivalents at 1 January	**9,388**	**3,033**	**12,421**	11,623
Effect of exchange rates	**464**	**141**	**605**	(166)
Cash and cash equivalents at 31 December	**11,701**	**3,548**	**15,249**	12,421

Cash flows from operating activities were £4,032 million *(2006: £1,879 million)*. Investing activities generated a cash outflow of £635 million *(2006: £1,574 million)*.

Financing activities generated a cash outflow of £1,174 million *(2006: £659 million inflow)* primarily driven by interest paid on borrowings.

Business review continued:

UK

Total sales

£20,302m
(2006: £19,601m)

PVNBP	£11,655m
Investment sales	£2,751m
Net written premiums	£5,896m
	£20,302m

EEV operating profit

£1,330m
(2006: £1,936m)

Long-term savings	£864m
Fund management	£41m
General insurance	£433m
Other operations	£(8)m
	£1,330m

IFRS operating profit

£1,225m
(2006: £1,853m)

Employees and locations

33,686
(2006: 33,251)

Our life and general insurance businesses are based in York and Norwich respectively, with operations in over 35 UK locations. We also have overseas operations in India and Sri Lanka

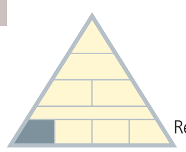
Morley our fund management business is based in the UK and has offices spread across the globe

Major operating brands

Norwich Union is a market leader in the UK long-term savings market

Norwich Union Insurance is the leading general insurer in the UK and we also provide a wide range of motoring services through the RAC

Morley is one of the UK's largest active fund managers and the largest fund management business in the Aviva group



Region: **UK**

Our strategic priorities:

Market leadership

- Address legacy systems issues
- Transform business model
- Exploit UK synergies
- Generate capital

How will we achieve this?

Competitive advantage with brand, breadth of distribution and product range

UK life

- Winning combination of balanced distribution and broad product mix
- Top three by market share across all product categories
- Legacy simplification with service, cost and retention improvements

UK general insurance

- Managing through the cycle by:
    - Premium rating leadership
    - Flattening the impact of claims inflation
    - Expense management
- Re-engineering the business to leverage a single IT platform and simplify the product set
- Build on service excellence

Asset management

- Combine our global asset management businesses to create a one Aviva global investors capability

Progress in 2007:

Improved to a three star (out of five) Financial Adviser Service Awards rating

- We improved our Financial Adviser Service Award for the second year running, receiving a three star rating in the Life & Pension and the Investment Provider categories

Delivered on our cost-saving targets

- Our operational review announced in September 2006 has delivered the targeted £250 million of annualised savings at a cost of £250 million

Simplified our business model to reduce duplication and drive efficiencies

- In March 2007, our life operation announced a partnership with Swiss Re to outsource the administration of almost three million life and pensions policies, expected to complete in early 2009, enabling us to reduce our 550 product systems to 220

Looking forward:

Our medium-term targets are to:

- Grow long-term savings new business sales at least as fast as the market, while at least maintaining margins
- Deliver an additional £200 million of cost savings by 2008 in the general insurance business and a further £100 million in the life business by the end of 2009
- Deliver insurance excellence, achieving a 98% combined operating ratio or better
- Launch Aviva Investors as the global asset management arm of Aviva, under unified management

Business review continued:

UK – Long-term savings

Dear Shareholder,

Aviva UK Life has reported record sales and profits for the second year, delivering on "one Aviva, twice the value". In doing so we are beginning to realise the full potential of our scale position.

In 2007 we've focused on improving our customers' experience, and at the same time created value from our existing business through reducing costs. We've made great progress towards reducing the complexity of our life and pensions operations through an innovative agreement with Swiss Re, which is helping us become a much more efficient organisation.

We've grown sales and improved brand value through joint advertising with Norwich Union Insurance. We continued to grow our presence in the corporate market, putting Norwich Union products directly into customers' workplaces; maintained a strong presence in the financial adviser market; and launched a distribution deal with the Post Office, offering innovative products such as our simplified life insurance product. In 2008, we've continued to innovate and recently announced the launch of a SIPP-lite product to enhance our pensions product range.

The UK market is challenging as the credit crunch and stockmarket volatility continue to impact the economy. Nevertheless, I am confident that our scale, brand, strong distribution footprint and broad product offering puts us firmly on track to realise our long term goal of clear UK market leadership.

Mark Hodges
UK Life, Chief executive

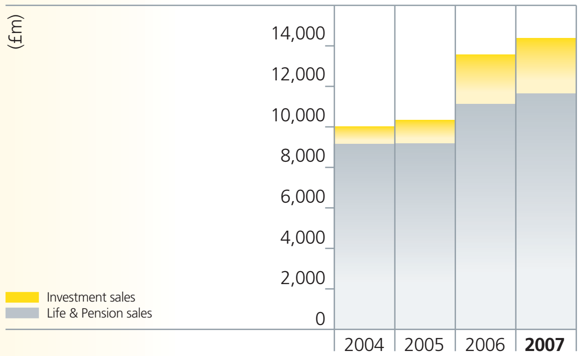
Long-term savings

	IFRS profit before tax £m	IFRS operating profit £m	EEV operating profit £m	PVNBP* £m	New business contribution** £m	New business margin** %
2007	**616**	**723**	**864**	**11,655**	**360**	**3.1**
2006	915	629	744	11,146	327	2.9

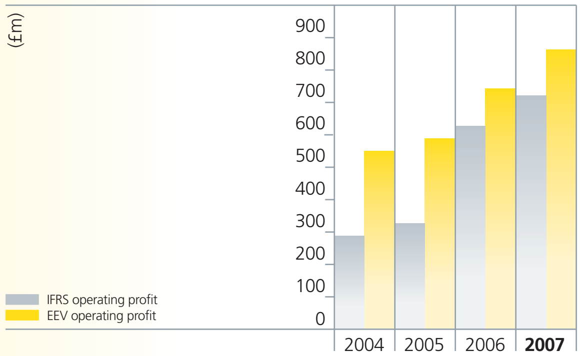
* Excludes investment sales. Investment sales totalled £2,751 million *(2006: £2,455 million)* giving overall new business sales of £14,406 million *(2006: £13,601 million)*.

** Stated before the effect of required capital.

Total long-term saving sales

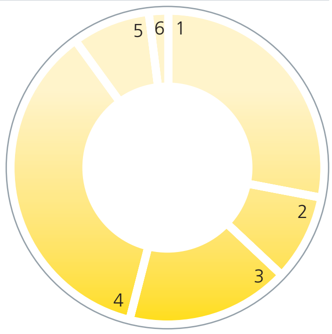


Operating profit



Split of life and pension sales

		%
1	Individual pensions	28
2	Group pensions	9
3	Annuities	17
4	Bonds	36
5	Protection	8
6	Equity release	2
Total		100



Norwich Union is a market leader in the long-term savings market with an unparalleled combination of strong brand, financial flexibility, product breadth and distribution reach. We are based in York, with significant operations in Norwich, Eastleigh and Sheffield in the UK and overseas in India and Sri Lanka.

Our ambition is to create value for our customers and to protect what is important to them. We aim to be easy to do business with and to keep the promises we make to both our customers and shareholders. Our goal is to be the clear market leader.

In 2007 we took 1.3 million calls from customers, 2 million calls from distributors, received 7 million pieces of post, made 750,000 outbound calls, paid £1 billion to bond customers, £500 million to pension customers, paid 11,000 protection claims and raised £3 million for charity, all supported by the commitment of our 11,000 people.

Our business is becoming increasingly profitable. This year, we successfully grew our new business margin and improved the profitability of our existing business. We also made significant progress in our contribution to the "one Aviva, twice the value" strategic priorities of simplifying our legacy systems issues, transforming our business model, continuing to exploit UK synergies and generating capital for the Aviva group.

Returns to customers also improved and holders of with profits products saw the value of their policies increase between 5.4% and 5.8%, while holders of unit-linked funds and collective investments benefited from improved returns with 60% of funds in the first and second quartile.

We help and support our customers' changing needs through the provision of an extensive product range, accessible through a choice of distribution channels. We hold top-three positions in each of our key markets of savings, protection, annuities and pensions, and leverage our scale and breadth to manage our portfolio for long-term value creation.

We continue to diversify our distribution footprint to provide ease of access to our customers and maximise our ability to capitalise on emerging market opportunities. We are a leading provider in the financial adviser market, have a successful joint venture with The Royal Bank of Scotland Group (RBSG), strong relationships with a number of building societies, a strategic alliance with the Co-operative Insurance Society and growing corporate and direct channels. We continue to expand our distribution model and in August launched a partnership with the Post Office, the largest retail and financial services chain in the UK. Our Lifetime platform has continued to perform strongly; over 8,000 advisers have signed terms of business and funds under management reached £737 million (*2006: £341 million)* at the end of 2007.

We are a market leading brand. Our "we just make it easier" advertising campaign with our general insurance business has helped to underpin existing high levels of brand awareness.

To support our "one Aviva, twice the value" strategic objective of simplifying our legacy we are targeting a position where 80% of our business by value is on five core contract systems by the end of 2009. In March 2007, we announced a partnership with Swiss Re to outsource the administration of almost three million policies, which will enable us to reduce our 550 product systems to 220. To support this we successfully transferred 1,000 employees to Swiss Re in October. Policy migration is now underway with the first phase due for completion in March 2008, and all policies migrated by early 2009. This initiative combined with other simplification activity has already enabled us to decommission over 100 systems.

Our people have continued to perform with dedication throughout this period of change. The percentage of our people who are proud to work for NU Life has risen to 69%, whilst those who are personally committed to achieving our organisational goals has increased to 86%. The percentage of individuals who are satisfied with leadership within the company has also improved to 83%.

We have made significant service improvements during the year, with service now supporting our ambition to make it easier for customers. We now offer service promises across our full life and pension product range. 87% of customers believe that Norwich Union is easy to do business with, an increase of 7% since 2006. The number of customers who believe that Norwich Union cares about them and treats them fairly has also improved over the year, with customer service complaints falling by 30%. Maintaining service levels on our Lifetime platform has proved challenging. We temporarily restricted access to the platform for new advisers to enable us to carry out the required rectification work to invest in the underlying wrap platform.

In December we were fined £1.26 million by the FSA following the investigation into a series of frauds committed during 2006. Due to some weakness in internal controls, 74 policies were fraudulently surrendered and 558 other customers' policies were placed at risk. We are sorry that this situation arose and apologised to the affected customers when it happened. We have extensive procedures in place to protect our customers but in this instance weaknesses were exploited and we were the target of organised fraud. Our customers can be assured that we have taken this matter extremely seriously and have thoroughly reviewed our systems and controls as a result. All of our seven million customers are protected by our promise that they will be fully reimbursed and will get help and support if they are innocent victims of fraud.

Business review continued:

UK – Long-term savings continued

Norwich Union launches "Paying for It"

We have utilised our core expertise in finance to develop an educational programme to improve the financial literacy of 14-19 year olds. The nationwide programme, launched with the Citizenship Foundation, includes in-school pupil mentoring with over 300 staff volunteers working with small groups of young people on economic citizenship topics such as money, environment and public spending.

The programme is also supported by a website drawing on the characteristics of social networking sites and providing the opportunity to use Lifescan, a unique tool which lets you measure the impact your financial decisions have on society as a whole.

For more information visit PayingForIt.org.uk

We remain committed to providing a broad product offering to meet the needs of a wide range of customers. During the year, we continued to focus on simpler products, making two direct to consumer protection offerings, an over 50s life cover and our innovative simplified life insurance product, available through our new partnership agreement with the Post Office. Within the financial adviser market, we refreshed our enhanced annuity product, which offers preferential rates to customers who are expected to have a shorter than average life. In anticipation of the decline in appetite for UK commercial property, we extended and diversified our fund offering and focused on improving the performance of our UK equity funds. In the corporate market, we used our unique ability to combine life, general insurance and healthcare products to provide a comprehensive package of products directly into customers' workplaces, developing a foothold in this growth area.

We have improved our Financial Adviser Service Awards rating for the second year running, receiving a three star rating in the Life & Pension and the Investment Provider categories. We also won the Best Investment Service award from Moneyfacts and were voted the best pension provider by Bankhall, one of the largest financial adviser networks. Independent research shows that over the year the percentage of advisers who rate our service as excellent or good has increased from 52% to 66%. Adviser service complaints are down 33%, to their lowest level for four years.

In 2007, despite the market becoming progressively tougher with rises in interest rates, a slowdown in the housing market and stock market volatility, Norwich Union delivered record sales for the second year in a row. Total sales, including investment sales, were up 6% to £14,406 million *(2006: £13,601 million)*, driven by significant increases in sales of individual annuities, bonds and collective investments. Our bancassurance joint venture with RBSG also delivered a second consecutive year of record results with sales in 2007 double those in 2005.

Our new business contribution rose 10% to £360 million *(2006: £327 million)*, the result of sales growth and an improvement in margin to 3.1% *(2006: 2.9%)*. This was driven by a combination of the savings from our ongoing efficiency review and our commitment to maximising shareholder value through balancing price, volume and mix.

On a post cost of capital basis, our new business contribution was 16% higher at £305 million *(2006: £263 million)* with a margin of 2.6% *(2006: 2.4%)*.

Life EEV operating return increased strongly by 15% to £864 million *(2006: £744 million)* benefiting from higher new business profitability and operational improvements in the management of existing business supported by lower costs and improved retention. In 2006 we committed to cutting costs at the same time as improving service. We successfully completed the efficiency review announced in 2006 and have delivered the promised £125 million of annualised savings, £108 million of which contributed to 2007 financial performance. A further £100 million annualised savings are targeted by the end of 2009 which will eliminate our existing business expense overrun. Improved customer retention has been driven through a wide programme of initiatives including the creation of a dedicated advice team, improved customer communications and more active management of distributor commission terms. For similar reasons, our IFRS life operating profit has increased by 15% to £723 million *(2006 restated: £629 million)*.

We continue to review the appropriateness of the operating assumptions that underpin the embedded value of our business. In 2007 we have revised the assumption relating to the rate of improvement of life expectancy, bringing it in line with latest industry studies. This change has adversely impacted profitability by £153 million. We also revised our assumption about the amount of risk capital that we believe we should hold for annuity business to reflect the outcome of our latest risk modelling, which has enhanced our new and existing business profitability by £14 million and £132 million respectively.

During 2007 we have continued to work towards the proposed reattribution of the inherited estate. We are the first company to do so under new rules from the FSA published in 2007, which require negotiation through a policyholder advocate. This is a complex process and has taken longer than anticipated. We have now agreed the eligibility criteria for the reattribution with the policyholder advocate and established the parameters for determining the surplus in the fund and obligations to current investors. Separately to this, we were delighted to announce a special bonus of £2.1 billion for around 1.1 million with-profits policyholders who have invested in CGNU Life and CULAC Life with-profits funds. The distribution of this special bonus clears the way to negotiate a fair price for the balance of the inherited estate, amounting to a further £2.6 billion.

We are confident in our medium to long term outlook for market growth at between 5-10%. However, given the uncertainty over the performance of the UK economy, market growth in 2008 may be slightly slower than in 2007. The UK is the fifth largest economy in the world, yet within this market there remain large numbers of people who either do not save or who are under-protected. In 2008, our focus will remain on completing our simplification programme, driving further operational efficiencies and building on service improvements. At the same time we will remain engaged with the Government, FSA, ABI and other stakeholders on the Retail Distribution Review and NPSS in order to influence an outcome that is satisfactory for customers, distributors and the industry as a whole.

Our scale, brand, broad product offering and strong distribution footprint position us well to succeed in an uncertain 2008. Our aim remains to improve profitability and grow our new business sales at least in line with the market, while maintaining or increasing our overall new business margin from current levels.

"Find the Fisherman" campaign

We believe that all companies should be taking steps to return unclaimed assets to their rightful owners. The "Find the Fisherman" campaign was launched in January 2007, to track down fishermen who worked on the fishing fleets around the UK during the 60s and 70s and had not claimed their pensions. The campaign was a resounding success, generating around 10,000 telephone enquiries from the public, enabling 6,000 policies to be traced and the return of £2.8 million to customers or their families.

Customers can begin to trace a policy by completing a form available from either 0800 152465 or www.norwichunion.com/existing-customer/trace-policies/index

UK – General insurance, health and related services

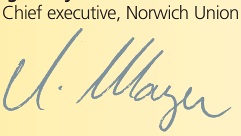
Dear Shareholder,

Our UK general insurance business has had a difficult year. We saw the worst floods for 60 years, affecting 45,000 of our home insurance customers and 6,000 small business customers. Our priority has been to provide first class service to them during these difficult times and I am pleased to report that we have provided industry-leading service in returning customers to their homes and property.

To realise the potential in "one Aviva, twice the value", we are transforming our UK general insurance business to improve the underlying performance of the portfolio and to be cost leaders in order to deliver benefits of scale consistent with our market leading position. Our strategy is to focus on insurance fundamentals to maximise returns through the insurance cycle. This means disciplined underwriting and pricing, controlling the impact of claims inflation and providing excellent customer service.

Looking to the future, I believe that we have a strategy that will allow us to maintain our market leading position through simplifying our structure, maximising the benefits of scale by rigorously managing our expense base and re-engineering our operations to provide efficient and effective service to customers. To achieve these aims, we have already taken market-leading rating action across many segments of our business, and have announced several measures to bring our expense base in line with the industry 'best of breed' within the United Kingdom.

Igal Mayer
Chief executive, Norwich Union Insurance

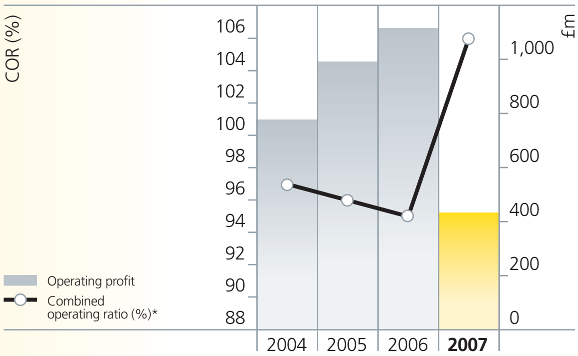


UK – General insurance, health and related services

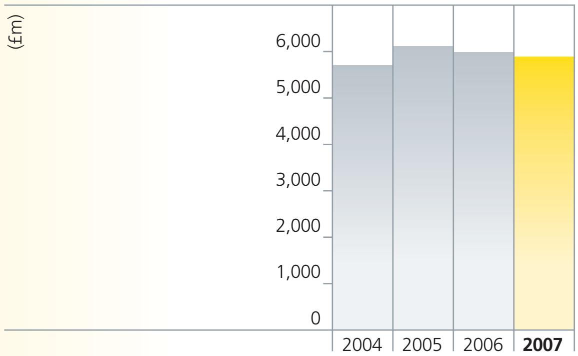
	IFRS profit before tax £m	IFRS operating profit £m	Combined operating ratio* %	Net written premium £m	Underwriting result £m
2007	**241**	**433**	**106**	**5,896**	**(214)**
2006	1,130	1,118	95	6,000	394

* General insurance business only.

IFRS operating profit

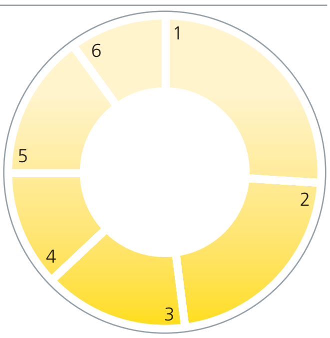


Net written premium sales of UK general insurance



Split of net written premium by class of business (general insurance only)

		%
1	Personal motor	26
2	Homeowner	22
3	Personal other	15
4	Commercial motor	12
5	Commercial property	15
6	Commercial other	10
Total		100



Norwich Union Insurance (NUI) is the leading general insurer in the UK, with a market share of 15%. Our principal goal is to deliver across the insurance cycle by producing consistent earnings and creating long-term shareholder value. Our Norwich Union and RAC brands are both strong and trusted, and we have an excellent reputation for value and service to customers and distributors.

We provide a range of insurance products focused on personal and small business customers, together with a range of motoring solutions through RAC and associated brands. We have a multi-distribution strategy, selling our full portfolio of products through brokers, partners such as banks and building societies, and direct to our customers through our two leading brands, NUD and RAC. Our headquarters are in Norwich and we operate from 35 locations in the UK, India and Sri Lanka.

We adhere to a clearly defined and communicated underwriting strategy supported by strong financial disciplines, and we aim to achieve continuous improvement in the efficiency, effectiveness and simplicity of our processes and structures.

2007 was a tough year for our general insurance business in the UK as we experienced a combination of higher weather claims and competitive conditions in most lines of business. In particular it was a year that will be remembered for the summer flooding experienced in the north and west of England. Following the events in June and July last year, NUI helped over 45,000 households and 6,000 businesses get back on their feet after the floods, and has made interim or full payments to 99% of those affected. Supporting our customers when they need us most and to provide them with peace of mind is, of course, what NUI is here for. In response to these events we ensured a network of loss adjusters, contractors and claims teams were on site at the time (including our mobile advice centre manned by claims and repair specialists) and call centre staff numbers were doubled to deal with the extra calls we received.

The action we took during the summer floods is a clear example that providing excellent customer service to our partners, brokers and policyholders is a top priority for NUI, a fact recognised by a number of achievements in 2007. NUI has been voted General Insurer of the Year at the Insurance Times Awards for the fifth successive year, demonstrating the confidence and trust that independent brokers have in NUI. We were also voted General Insurer of the Year at the Personal Finance & Savings Readership Awards. NU Direct's Retention team won Customer Service Team of the Year at the National Customer Service Awards. RAC has been rated as number one for motorists in the annual JD Power survey for the second consecutive year and was also named as Breakdown and Recovery Company 2007 by the Institute of Transport Management recognising the efficient and reliable service offered.

A key part of our ongoing corporate social responsibility programme is our active engagement in addressing environmental issues. RAC has been named Breakdown/Recovery Company of the Year for the second year running in the Greenfleet Awards, an award recognising environmental best practice and innovation.

Analysis of UK general insurance and health results

	IFRS operating profit		Net written premiums	
	2007	2006	**2007**	2006
Norwich Union Insurance	**380**	1,081	**5,440**	5,583
Aviva Re	**53**	36	**50**	59
NU Healthcare	**–**	1	**406**	358
United Kingdom	**433**	1,118	**5,896**	6,000

RAC in 2007

Our RAC roadside assistance business has grown during the past year, with 9 million customers now on the books. In France, RAC won a contract to provide assistance to 2.2 million Aviva insurance customers. In addition, RAC now manages Hyundai's customer service operation in the UK, and established a presence in the banking sector with membership provided to HBOS account holders.

RAC was named breakdown and recovery company of the year by both the Institute of Transport Management and the Greenfleet Awards 2007. It was praised for providing top-quality motoring benefits and high levels of customer service across Europe, and was recognised for its efforts towards environmental best practice. Motorists also voted RAC top for roadside assistance for the second consecutive year in a survey conducted by consumer research company JD Power and Associates.

For more information visit
www.rac.co.uk

Business review continued:

UK – General insurance, health and related services continued

Floods – Service provided

Norwich Union demonstrated its commitment to those affected by the flood crisis earlier this year. As is the case with any significant event, a major incident response team was instigated to manage the large increase in claims and to work with our customers, providing tips on restoration, discussing concerns and arranging accommodation. We purchased 200 mobile caravans to provide emergency accommodation and an NU-branded bus carried a team to help in any way they could.

For more information visit www.aviva.com

In our core insurance markets, we have continued to use our leading position to provide rating leadership in the current very competitive marketplace. In personal motor, following the correction in the second half of 2006, rating has been broadly in line with claims inflation at 6% *(2006: average increase of 5%)*, which has helped contribute to an improved combined operating ratio in this business line of 102% *(2006: 104%)*. In August we announced average rating increases of 10% on household buildings and contents policies following almost a decade of flat rates in the market. This has contributed to an overall homeowner rate increase of 7% in the year *(2006: 3%)*.

In commercial lines, during the last quarter of 2007 we targeted increases at smaller risks and underperforming segments after experiencing four years of market rate reductions across the board. Overall these increases, commencing in November 2007, averaged 3.5% although rates still decreased by 2% across all commercial lines in 2007 *(2006: 3% reduction)*.

Generally, the market is showing some sign of hardening. In private motor there is now a clear upward trend particularly within the broker channel and we expect this to continue in 2008. There are signs that household is beginning to move too as insurers react to several years of flat rates and the summer floods. In commercial lines, most large insurers are applying modest rate increases and this too is expected to continue in 2008. In both the personal and commercial markets there are still elements of severe price competition but the overall direction is upwards.

In terms of our financial performance, NUI has experienced a very challenging year. The tough market conditions are reflected in net written premiums which have fallen by 3% to £5,440 million (*2006: £5,583 million*) and have also contributed to the decrease in operating profit from its record level of £1,081 million in 2006 to £380 million in 2007. However, the weather had the most significant impact on our 2007 results, with the summer flooding and storms in January 2007 adversely affecting profit by £475 million (*2006: £75 million benefit*). We continue to prudently manage our reserves to avoid future adverse claims experience. Our 2007 operating profit benefited from £430 million (*2006: £385 million)* in respect of prior years. Of this total, £215 million is non-recurring in nature (*2006: £220 million*). Our combined operating ratio rose to 106% (*2006: 95%)*. Excluding the adverse weather, the ratio would have been 97%.

The cost and efficiency programme announced in September 2006 will deliver its anticipated benefits of £125 million from 2008. Despite the benefits accruing from this programme in 2007, our expense ratio of 13.9% is in line with the 2006 ratio, reflecting the pressure on business volumes and the fact that overall rating has been behind cost inflation. We are committed to operational efficiency and, in October, we announced a programme to leverage the investments we have already made and deliver further cost savings. The programme will be introduced in three phases. Phase one is already in train and is set to deliver £200 million of annualised savings by the end of 2008. The remaining phases will concentrate on simplifying our structure (a process that is already well underway) and re-engineering service and processing centres designed to deliver additional benefits in 2009 and beyond.

UK – Fund management

Dear Shareholder,

Morley is entering an exciting phase as it forms a key component in Aviva's global asset management business. In line with this strategic priority, Morley will be combined with Aviva's other asset managers worldwide to create Aviva Investors, a global investor capability. We start this transformation from a position of strength. Morley is one of the UK's largest active fund managers with more than £165 billion of funds under management and a broad range of specialist investment expertise, experience and performance.

We made good progress in 2007 in expanding our global reach. We opened new offices in Spain and Germany, agreed a joint venture in China and established a property presence in the Asia Pacific region. All this was achieved while maintaining our focus of operating a client-centric business based on a suite of high quality products that are differentiated by performance.

Our challenge now is to move fast to draw these strengths together with the fantastic potential elsewhere in the group's asset management businesses and create a truly global Aviva investment operation.

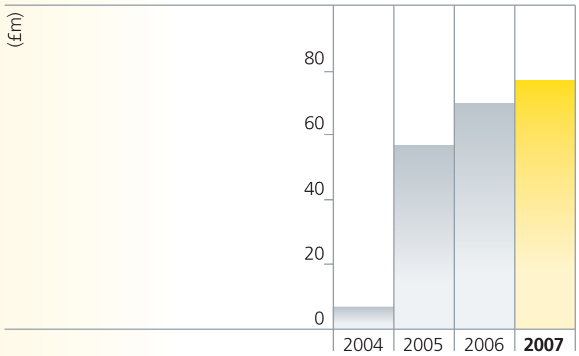
Fund managers across the group currently manage £316 billion in funds across a broad range of asset classes. Bringing the separate operations together allows us to bring the best capabilities and performance from around the world to all our clients.

Alain Dromer
CEO, Morley Fund Management and Aviva Investors

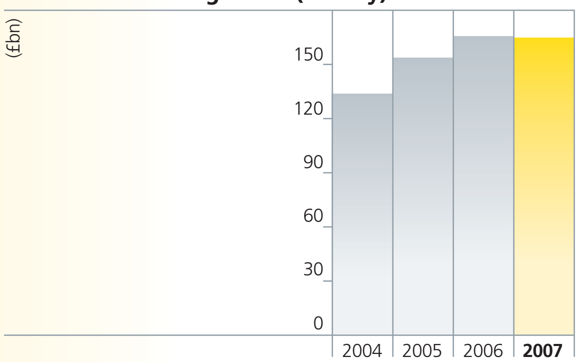
UK – Fund management

	Operating profit IFRS basis		Operating profit EEV basis	
	12 months 2007 £m	12 months 2006 £m	**12 months 2007 £m**	12 months 2006 £m
Morley	**87**	76	**51**	44
The Royal Bank of Scotland	**(9)**	(7)	**(9)**	(7)
Norwich Union investment funds	**(1)**	1	**(1)**	1
Total	**77**	70	**41**	38

IFRS Operating profit



Funds under management (Morley)



UK – Fund management continued

Our primary fund management business in the UK is Morley Fund Management. Morley also has operations in Europe and Asia Pacific regions which are reported in the numbers above as they fall under the management of Morley in the UK rather than the other regional offices.

Morley

Morley is one of the UK's largest active fund managers and the largest fund management business in the Aviva group, with £165 billion *(2006: £166 billion)* of total funds under management.

Our aim at Morley is to build a client-centric business that is among the best in our chosen asset classes and markets and in line with the One Aviva strategic priority to build a global asset management operation.

Morley's strategy is to optimise client satisfaction and service by offering a suite of high quality products differentiated by performance and focused on our core areas of fixed income, pan-European equities, property and asset allocation. We continue to develop products in specialist areas such as alternatives, strengthen our infrastructure and maintain our focus on developing the talent and skills of all our people.

Our commitment to excellence was recognised several times in 2007. Morley was named Best Property Manager at the Financial News Excellence in Institutional Management Awards and also Property Manager of the Year at the 2007 UK Pensions Awards, the G7 Fixed Income Fund also retained its title as Fixed Income Hedge Fund of the Year at the EuroHedge Awards. Our convertibles team was recognised with a AA / V4 rating by Standard & Poor's for the Aviva Morley Global Convertibles Fund. The Fund, one of the largest global convertibles SICAVs, continued to grow strongly throughout the year, reaching the US$1 billion mark in September.

In July, Morley was ranked number one for the third year running for its understanding of socially responsible investing (SRI) and extra-financial issues in the annual Thomson Extel SRI and Extra-Financial survey. Corporate and social responsibility remains a key business driver and the SRI team has done outstanding work in building Morley's reputation as a responsible investor.

The strength of our existing product range was augmented throughout the year as Morley continued to launch new products, responding to demand from our clients. The Aviva Morley Emerging Markets Local Currency Bond Fund, the Morley Private Equity Programme fund of funds product and the Diversified Strategy Fund are all testament to the innovation within the Morley group and all have seen strong early fund flows.

Our property business performed well, despite returns from UK commercial property falling during the year from recent historic highs. Our Lime Property Fund in particular experienced an increase in fund inflows, raising £225 million in the first eight months of the year and signing its 40th institutional client.

Morley announcing an asset management JV with COFCO in October

Morley is working to form a fund management joint venture in China with COFCO. We plan to use this as a platform for developing a substantial asset management business in China and have already opened an office in Shanghai. The Chinese sector has grown rapidly in recent years with cUS$440 billion of assets under management and is expected to increase dramatically over the next decade. This joint venture strengthens the close relationship the Aviva group has had with COFCO since 2003 and marks the next step in Morley's expansion in the Asia Pacific region.

For more information visit www.aviva-cofco.com.cn or www.morleyfm.com

Morley is one of the largest managers in European commercial property assets and in a move to try and replicate that kind of success we announced in April plans to expand Morley's property investments across Japan and the rest of Asia. Morley will work with multiple property partners throughout Asia to develop partnerships in the same way it has done across Europe. The first of these joint ventures is with Mitsubishi UFJ Trust and Banking Corporation (MUTB) of Japan.

Our geographical expansion hasn't been confined to our property business. In February, we opened our Frankfurt office to increase our presence in that part of Europe. Our ambitions in the fast-growing Chinese market were boosted by the opening of Morley's Shanghai Representative Office in November when we also announced that we had signed a memorandum of understanding to form a fund management joint venture with China National Oils, Foodstuffs and Cereals Corporation (COFCO). COFCO is also Aviva's partner in the life business in China and both the relationship with COFCO and the new office should provide us with an excellent platform to grow in this exciting market.

Both in the UK and overseas, our people remain our core asset and we continue to invest in the talent at Morley and to strive to attract the best talent from elsewhere in the industry. We hired extensively throughout the year, bringing new expertise to all our teams and deepening the pool of talent available for our clients.

In September, Alain Dromer took on the leadership of Morley. Alain brings with him the skills and experience of working in large international organisations and as such he is also charged with building Aviva's global asset management business. Previously global head of group investment businesses at HSBC, and with a seat on the group executive committee, Alain is well placed to fast develop Aviva's plans in the investment area.

The Morley group overall performed strongly in 2007 against a background of volatility in financial markets and concern about the collapse of the US sub-prime mortgage market, with operating profit increasing to £91 million *(2006: £79 million)*. Operating profit from fund management rose to £87 million *(2006: £76 million)*, with £70 million being generated by our UK business *(2006: £62 million)* and £17 million from Morley's overseas units *(2006: £14 million)*. Our pooled pensions business contributed £4 million *(2006: £3 million)* to operating profit which is reported in the UK long-term savings segment. Our cost to income ratio remained broadly in line with its 2006 comparative at 73% (*2006: 72%)*.

Sales were strong to third-party distributors and we won a number of institutional mandates across our key asset classes.

The strength of our individual teams and our innovative new products are expected to sustain growth into 2008 and we will continue to explore new ways of adding value for our client base moving forward.

UK fund management

In addition to sales under the Morley brand, we sell ISAs, unit trusts, open-ended investment companies (Oeics) and structured products under the Norwich Union and The Royal Bank of Scotland brands.

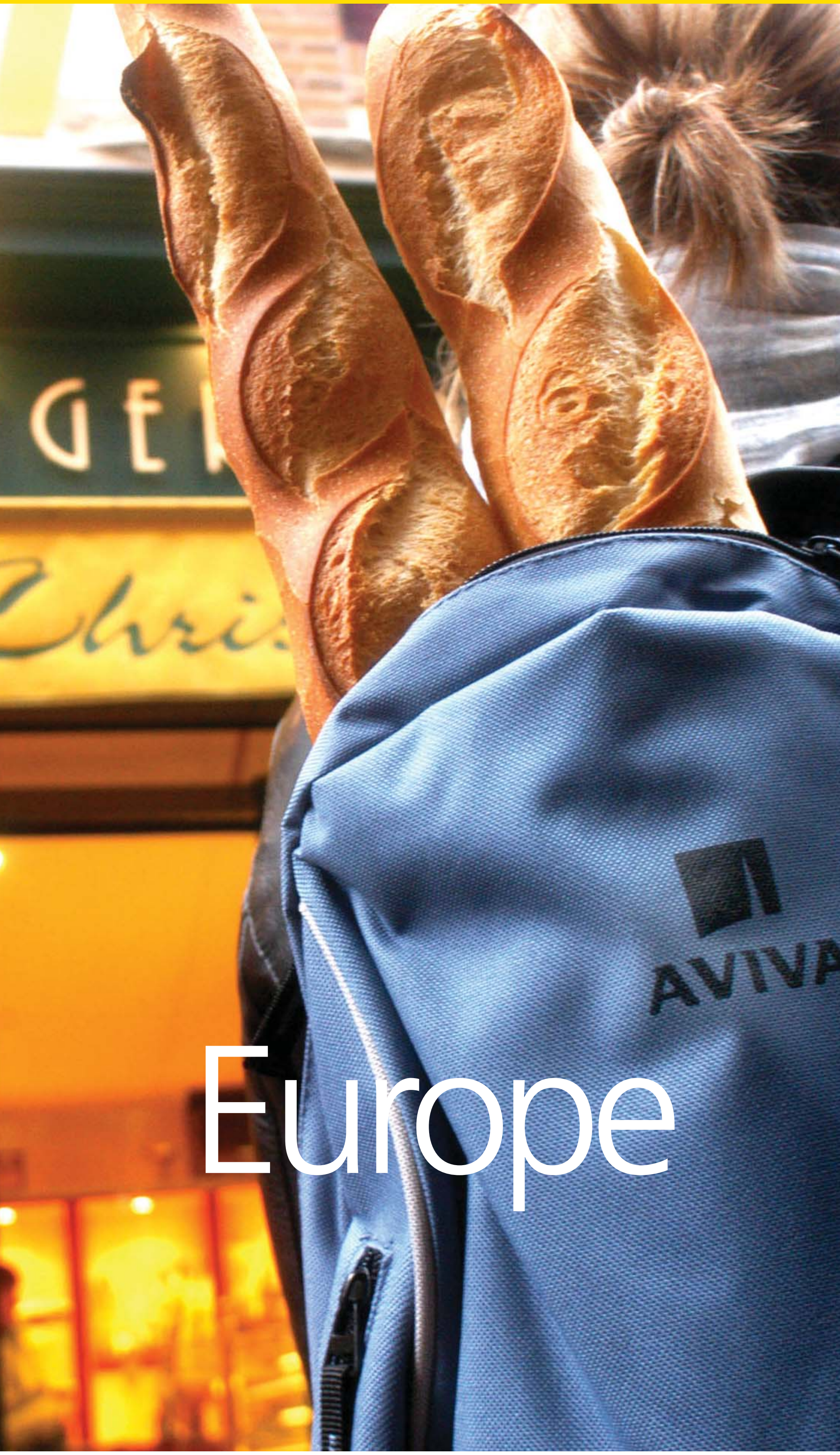
UK – Other operations

Our UK other operations reported an operating loss of £8 million (*2006: £36 million profit)* due to lower results from RAC non-insurance which included a contribution of £17 million in 2006 from disposed operations (Manufacturing Support Services and Lex Vehicle Leasing), and investment in the businesses of AutoWindscreens, BSM and HPI. Having completed the investment in transforming these businesses, we are looking to leverage maximum benefit from these operations.

In 2007 we also incurred costs of £31 million *(2006: £29 million)* through our continuing investment in Lifetime, our wrap platform business.

Business review continued:

Europe



Total sales

£19,719m
(2006: £17,018m)

PVNBP	£14,914m
Investment sales	£1,572m
Net written premiums	£3,233m
	£19,719m

EEV operating profit

£1,971m
(2006: £1,581m)

Long-term savings	£1,543m
Fund management	£31m
General insurance	£442m
Other operations	£(45)m
	£1,971m

IFRS operating profit

£1,230m
(2006: £1,083m)

Employees and locations

16,059
(2006: 16,942)

Belgium*	Luxembourg*
Czech Republic	Netherlands
France	Poland
Germany*	Romania
Hungary	Russia
Italy	Spain
Ireland	Turkey
Lithuania	

* Belgium, Germany and Luxembourg are reported as part of the Netherlands results.

Major operating brands

Aviva has market leading presence across Europe in long-term savings and continues to lead the general insurance market in Ireland and the Netherlands. In addition we have a highly successful fund management business supporting the results in the region

AVIVA
COMMERCIAL UNION grupa AVIVA
delta lloyd
HIBERNIAN an AVIVA company

Region: **Europe**

Our strategic priorities:

Scale, growth and capital

- Leverage the scale of the organisation
- Seize the unique growth opportunities present in the region
- Generate capital for the group

How will we achieve this?

- Access to enormous potential customer base through bancassurance
- Expertise in product innovation driven by a deep understanding of individual markets
- Low cost platforms in southern Europe provide opportunities for profitable growth

Progress in 2007:

Deliver on target integration benefits in Ireland

- We successfully integrated the life businesses of Ark Life and Hibernian and now, from a single location, we are able to deliver new product offerings across both distribution channels
- We completed the launch of a single new business platform which further cements our relationship with AIB and the integration of our two life businesses in Ireland

Continue to focus on higher-margin unit-linked products in France

- We expanded our unit-linked offering through the launch of a new AFER fund and continued to encourage Fourgous** transfers which enable policyholders to diversify their fund

Generate increased sales in the Netherlands through focus on SME pension contracts and developing "white label" products

- Our pensions strategy resulted in higher new pension premiums, including several large group sales, most notably in the final quarter of the year
- We now offer a white-label health product through a leading pharmacy chain

Grow faster than the market in northern Europe where low growth was expected in 2007

- Aviva's growth in northern Europe in 2007 of 22% compared favourably to the overall market growth which was negative in France

Capture opportunities arising from increasing wealth in Russia and central and eastern Europe by continuing to invest in our business

- The merger of our Turkish life and pensions business with AK Emeklilik, the life and pensions business of the Sabancı Holdings Group was completed on 31 October 2007
- The acquisition of Certinvest, a fund management company in Romania, will allow Aviva Romania to provide high quality asset management services to its pension, investment and life insurance clients

Looking forward:

Our medium-term targets are to:

- Grow life new business premiums and new business contribution by an average 10% pa to 2010
- Realise cost savings in our mature businesses of £50 million by end 2009
- Meet or beat a combined operating ratio of 98%

** The Fourgous amendment of 2005 enabled the tax efficient transfer of existing 100% Euro funds into more balanced Euro and unit-linked portfolios.

Business review continued:

Europe

Aviva Europe is committed to delivering the benefits of "one Aviva" by capitalising on our scale to achieve further growth and generate capital. With extensive resources and knowledge in the region, we have proved our ability to use regional experience and capability to add value to our distributors and partners through developing new products and distribution initiatives throughout Europe to meet customers' needs.

Over the year our businesses in southern Europe have grown strongly and further increased market share. The distribution landscape in Spain and Italy is dominated by bancassurance and we have made significant steps in both markets, strengthening existing partnerships and signing new agreements with leading banks in both countries.

Across northern Europe, our joint venture with Allied Irish Banks and the enhancements to our broker channel have led to an increase in market share in Ireland. We increased sales in France and the Netherlands despite difficult market conditions. In France, we successfully worked with the AFER association to modernise the core savings product and sales responded strongly. In the Netherlands we have grown sales through our success in the group pensions market. Our objective is to increase market share in these countries through the continued segmentation of our customer base, the provision of superior and targeted service and advice, cross-selling and the continued enhancement of product offerings.

In central and eastern Europe, sales have grown significantly in Poland reflecting the excellent pension sales and the development of our bancassurance partnerships and popular new products. In Turkey, we have transformed the business by merging our life and pensions business with AK Emeklilik, to create AvivaSA. Elsewhere across the region, our businesses continue to grow strongly and are well positioned to continue to capture the exciting growth opportunities in these emerging markets.

Long-term savings

2007

	IFRS profit before tax £m	IFRS operating profit £m	EEV operating profit £m	PVNBP† £m	New business contribution‡ £m	New business margin‡ %
France	**325**	**243**	**537**	**3,662**	**169**	**4.6**
Ireland	**45**	**73**	**77**	**1,730**	**30**	**1.7**
Italy	**79**	**78**	**137**	**2,924**	**82**	**2.8**
Netherlands*	**407**	**181**	**352**	**2,944**	**93**	**3.2**
Poland**	**117**	**110**	**206**	**844**	**35**	**4.1**
Spain	**106**	**119**	**239**	**2,392**	**189**	**7.9**
Other Europe	**(27)**	**(27)**	**(5)**	**418**	**–**	**–**
Europe	**1,052**	**777**	**1,543**	**14,914**	**598**	**4.0**

2006

	IFRS profit before tax £m	IFRS operating profit £m	EEV operating profit £m	PVNBP† £m	New business contribution‡ £m	New business margin‡ %
France	259	224	402	3,552	153	4.3
Ireland	52	49	(40)	1,273	15	1.2
Italy	76	81	110	2,768	70	2.5
Netherlands*	453	102	329	2,346	56	2.4
Poland**	108	95	162	534	28	5.2
Spain	113	113	221	2,059	184	8.9
Other Europe	(16)	(16)	(13)	308	(4)	(1.3)
Europe	1,045	648	1,171	12,840	502	3.9

* Includes Belgium, Luxembourg and Germany.
** Includes Lithuania.
† Excludes investment sales. Investment sales totalled £1,572 million *(2006: £891 million)* giving overall new business sales of £16,486 million *(2006: £13,731 million).*
‡ Stated before the effect of required capital.

General insurance, health and related services

2007

	IFRS profit before tax £m	IFRS operating profit £m	Combined operating ratio≠ %	Net written premium £m	Underwriting result £m
France	**53**	**70**	**99**	**733**	**11**
Ireland	**151**	**162**	**80**	**474**	**101**
Netherlands	**105**	**169**	**85**	**1,717**	**75**
Other Europe	**16**	**41**	**94**	**309**	**10**
Europe	**325**	**442**	**89**	**3,233**	**197**

2006

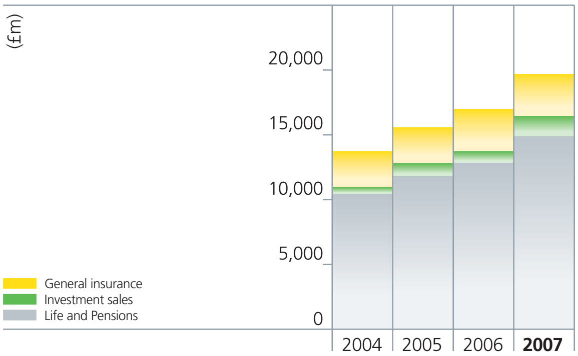
	IFRS profit before tax £m	IFRS operating profit £m	Combined operating ratio≠ %	Net written premium £m	Underwriting result £m
France	77	63	99	735	6
Ireland	297	172	77	519	121
Netherlands	107	139	89	1,755	50
Other Europe	26	43	100	278	12
Europe	507	417	90	3,287	189

≠ General insurance business only.

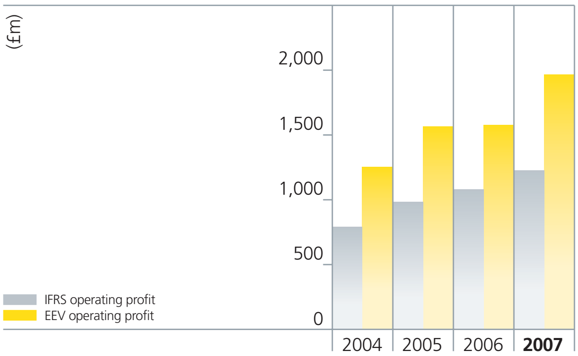
Fund management

	Operating profit IFRS basis		Operating profit EEV basis	
	12 months 2007 £m	12 months 2006 £m	**12 months 2007 £m**	12 months 2006 £m
France	**33**	33	**10**	10
Netherlands	**23**	37	**17**	33
Other Europe	**4**	3	**4**	3
Europe	**60**	73	**31**	46

Total sales



Operating profit



Aviva Europe continued to deliver profitable long term savings (including investment sales) growth, with sales volumes 19% higher at £16,486 million *(2006: £13,731 million)* and EEV life operating profit 30% higher at £1,543 million *(2006: £1,171 million)*. This performance reflects the benefits of our portfolio of businesses at different stages of development.

Our general and health insurance businesses performed strongly in markets where competition is intensifying. Net written premiums decreased by 2% to £3,233 million *(2006: £3,287 million)*. Profitability remains strong across the region, with a general insurance combined operating ratio of 89% *(2006: 90%)* and operating profit of £442 million *(2006: £417 million)*. We continue to innovate and are making good progress in developing our online proposition in Ireland.

Our fund management operations in Europe are continuing to deliver strong investment performance for our customers and good operating results. Operating profits were lower than last year at £31 million *(2006: £46 million)*, reflecting reduced performance fees in the Netherlands.

France

Life

Aviva France is one of the top-ten long-term savings businesses in France with a market share of 5%. Our business focuses on the higher-margin unit-linked segment in which our market share is 7%. We offer a comprehensive range of life and savings products, primarily for private clients. This includes our partnership with AFER, the largest retirement savings association in France. Our distribution is multi-channel, including a direct sales force, brokers, the UFF network of financial advisers, a direct distribution channel, Aviva Assurances, tied agents and our bancassurance partnership with Crédit du Nord.

Our business partnership with AFER has progressed with a successful update of the core product and the addition of a multi-manager fund. This initiative was accompanied by marketing campaigns raising public awareness of the product's competitiveness, which boosted sales volumes in the second half of the year. The other networks have implemented successful product developments supported by marketing campaigns, to encourage volumes, in what has been a difficult period for the market. We continue to be committed to ensuring that our customers receive best advice throughout their lifetimes.

Volatility in the financial markets and uncertainty in the run-up to the May presidential elections led to a decline in overall market premiums. Even so, Aviva France out-performed the market, achieving a 2% growth in sales to £3,662 million *(2006: £3,552 million)*. This strong sales performance, combined with a continued focus on profitability, resulted in a higher new business contribution of £169 million *(2006: £153 million)*, with an increased margin of 4.6% *(2006: 4.3%)*. The operating profit on an EEV basis of £537 million *(2006: £402 million)* was boosted by the recognition of benefits from the increased proportion of unit-linked assets within managed funds, efficiency gains and product development and continued positive experience variances on lapses and mortality.

The outlook for 2008 is for stable market conditions, although competition from rival banking products and equity market uncertainty will affect the life market.

Fund management

Aviva Gestion d'Actifs (AGA) continues to be widely recognised in the French market as a leading asset manager, with 89% of our funds ranked in the top half for performance over a five year period. AGA continues to earn industry awards; for the fourth consecutive year Aviva's multi-fund life policies received a Gold Award at the 2007 Life Insurance Trophies, held by the leading financial weekly *Le Revenu*. IFRS operating profit was stable at £33 million *(2006: £33 million)*.

Business review continued:

Europe continued

General insurance and health

Our French general insurance business has a 4% share of the agent and broker market, selling predominantly personal and small commercial insurance through our 875-strong agent network and our direct insurer, Eurofil, the second-largest direct distributor.

In 2007 we launched new household and multi-risk products, both of which were well supported by agents. We are collaborating with Generali to achieve supply chain economies of scale in respect of motor repairs and we are continuing to develop our internet portal for agents. In addition, since the year end we have transferred our roadside assistance service to RAC.

The general insurance combined operating ratio remained stable at 99% *(2006: 99%)* with the claims ratio reflecting a continuation of favourable claims experience and strong control of costs. The underwriting result was £11 million *(2006: £6 million)* and total operating profit, including longer term investment return, progressed to £70 million *(2006: £63 million)*.

Ireland

Life

Operating as Hibernian Life, we are a top three life and pension provider in Ireland. We distribute our products through a successful broker network and our bancassurance partnership with Allied Irish Banks (AIB), which has the largest branch network in the country.

The full integration of Ark Life with Hibernian is now complete. Sales from both companies are now processed on a single new business platform, representing an important step in terms of future operational efficiency.

A number of new product initiatives were completed during 2007. These included a re-launch of our term assurance protection products and the introduction of several new funds across both channels, including the launch of the highly successful Secure Capital Fund.

On an EEV basis, life operating profit in 2007 increased to £77 million *(2006: £40 million loss)*. The loss reported in 2006 reflected an exceptional level of operating assumption changes. Total life and pension sales increased strongly, by 35%, to £1,730 million *(2006: £1,273 million)*. Growth in the bancassurance channel was 46% while sales through the broker channel grew by 26%. New business contribution has doubled from £15 million to £30 million reflecting growth in volumes, efficiency gains and an increased focus on higher margin products. The new business margin increased to 1.7% *(2006: 1.2%)*.

The outlook for 2008 remains positive although a slowing in the rate of Irish economic growth and greater uncertainty in the Irish property market is expected to reduce the rate of market growth. Hibernian is well placed to capture the market opportunities through its leading broker distribution and by building on the current momentum in the bank channel.

General insurance

Hibernian is the largest general insurer in Ireland, and has maintained its market share against the backdrop of intense market competition. The majority of our business is sourced through brokers with an increasing proportion sourced from direct and corporate partners.

In 2007 we launched Hibernian Rescue and Hibernian Driving School and a number of innovative product offerings, including a multi-vehicle policy called "All Drive". We now sell direct motor insurance through AIB's website, consolidating our position as distribution leaders. During 2007, we teamed up with the Road Safety Authority as the sponsor of the new high-profile multimedia Irish road safety campaign. We also successfully retained the Excellence Ireland Quality Association (EIQA) Q Mark award in October 2007.

We continue to develop our internet presence and the number of policies sold directly is increasing. Further development is planned for 2008 to ensure our internet capability remains market leading. The changes in the claims environment have enabled more efficient settlement of claims, which has led to strong profits.

The combined operating ratio was 80% *(2006: 77%)* and our underwriting result was £101 million *(2006: £121 million)* reflecting competitive market conditions, increasing pressure on premium rates and increasing claims frequency. Total operating profit, including longer term investment return, was £162 million *(2006: £172 million)*.

Although market profitability is expected to decline during 2008, reflecting continued pressure on premium rates, Hibernian is well positioned to grow while maintaining acceptable levels of profitability, due to its innovative product lines, scale and strong distribution capability.

Hibernian going the extra mile

In Ireland, staff looked at how they could make a difference to customer service by changing behaviours and "going the extra mile". We focused on a different theme each month, such as improving the way we handle phone calls and reducing the amount of jargon in our communications. The programme emphasised Hibernian's commitment to being a leader in customer service within the industry.

For more information visit www.hibernian.ie

Italy

Life

Aviva Italy is the country's sixth-largest life insurer, with a market share of 5.4%. Our distribution is principally through bancassurance and we have significant partnership relationships with UniCredit Group, Banca delle Marche, Unione di Banche Italiane (formerly known as Banche Popolari Unite) and Banco Popolare (formed from the merged Banca Popolare Italiana and Banco Popolare di Verona e Novara businesses).

Our focus in 2007 continued to be on customer penetration and expanding our distribution reach whilst maximising the advantage of our cost efficient platform. Sales growth in 2007 was also supported by the implementation of 45 new products combined with successful marketing campaigns.

In 2007 Aviva has formed a joint venture with Banco Popolare, which includes a new long-term agreement to sell protection and non-life insurance products which began on 1 January 2008. This replaces our previous agreement with Banco Popolare Italiana to distribute life and long-term savings products.

In September, Aviva Italy further strengthened and diversified its distribution by purchasing, together with other investors, a stake in Banca Bipielle Network, a 1,000-strong financial adviser network, from Banco Popolare. This network will further extend and diversify our distribution reach in the market.

In January 2008 Aviva Italy reached an agreement with UBI Banca for acquisition of 50% plus 1 share in UBI Assicurazioni Vita S.p.A., an Italian life insurance company currently wholly-owned by UBI Banca. It distributes life insurance products through Banca Popolare di Ancona and other channels. The transaction, which remains subject to certain conditions, is expected to be completed in the first half of 2008.

EEV Operating profit increased in line with the growth in the business, up 3% to £137 million *(2006: £110 million)*. Total sales grew by 5% to £2,924 million *(2006: £2,768 million)*, contrasting favourably with the Italian market which declined by over 5% during 2007. This strong performance was generated through high quality marketing campaigns and the continued development of our relationships with our bank partners.

New business profitability has increased in 2007, with new business margin rising to 2.8% *(2006: 2.5%)*. Growth in margin reflects an increased emphasis on higher margin products, including stronger sales of unit linked contracts. The growth in volumes, and the changed product mix, contributed to an overall new business contribution of £82 million *(2006: £70 million)*.

The outlook for 2008 is that the market will continue to remain challenging but the potential for Aviva Italy's growth remains strong as it continues to develop its bancassurance relationships.

General insurance

Our general insurance business in Italy has continued to develop and will be boosted by the new long-term distribution agreement with Banco Popolare which will provide a strong basis for future growth. The IFRS operating profit is reported within Other Europe.

The Netherlands

Life

Our Netherlands life business, Delta Lloyd, is focusing on achieving operating efficiencies and product and distribution innovation, while building the trust of our customers through excelling at customer service and strong financial disciplines. Our pensions strategy focuses on sales to the SME market, with expertise centralised to best provide dedicated pensions and employee benefits advice.

In 2007 this approach resulted in higher new pension premiums including large group pension sales, and generated total sales growth of 25% to £2,944 million *(2006: £2,346 million)*. Stronger annuity and pension sales more than offset the fall in unit-linked sales affected by industry concerns surrounding policy charges and a decline in mortgage related business. We continue to support our relationship with ABN AMRO bank through our insurance venture, and sales through the Florius brand owned by ABN AMRO commenced in April 2007.

New business contribution increased by 66% to £93 million *(2006: £56 million)*, reflecting the sales growth and a higher margin of 3.2% *(2006: 2.4%)*. The increase in new business profitability follows an increase in interest rates, in a market where competition and pricing remain fierce. EEV operating profit rose to £352 million *(2006: £329 million)*, with the strong gains on new business profitability and increased expected returns on the in-force business being partially offset by an allowance for worsening annuitant mortality.

Operating profit on an IFRS basis was £181 million *(2006: £102 million)* reflecting increased expected returns due to higher interest rates and more favourable mortality and other technical reserve movements.

The acquisition of the Erasmus Groep was completed at the end of March 2007, and these operations are now integrated into the Delta Lloyd group.

On 21 January 2008, Delta Lloyd announced its agreement with SNS REAAL to buy Swiss Life Belgium for €135 million. The transaction, which is conditional upon completion of SNS REAAL's acquisition of the Dutch and Belgian activities of Swiss Life Holding and subject to approval from the relevant regulators and works council, is expected to be completed in the second quarter of 2008. The acquisition will give Delta Lloyd a top-5 position in the Belgian group life insurance market.

The Dutch market is expected to remain highly competitive in 2008 following legislative changes in January enabling banks to compete for retirement savings business. Delta Lloyd continues its strategy of strengthening its position through broadening its distribution.

Direct motor insurance launched in Poland using group expertise

We are very excited by the potential of the direct motor insurance market in Poland. We have a proven track record in launching and running successful direct motor insurance businesses in other European markets including the UK, Ireland and the Netherlands, and we used this expertise together with our already sizeable customer base in Poland and highly recognised brands to give us a significant advantage in the market.

For more information visit www.cu.pl or www.aviva.com

Fund management

Delta Lloyd Asset Management manages investments both for Delta Lloyd's own insurance operations and for third parties including individual and institutional customers. As well as managing equity and fixed interest funds, our operations also include management of a property portfolio. The acquisition of Cyrte Investments has brought new expertise in technology and media to our fund offering, and provides a platform for further innovative growth.

IFRS operating profit was £23 million *(2006: £37 million)*, reflecting lower performance related fees following the exceptional levels earned in 2006 and included £2 million in respect of Cyrte Investments since its consolidation at the end of September 2007.

General insurance and health

Delta Lloyd is a top-five general and health insurance provider in the Netherlands selling a range of products including personal motor, household and small commercial policies as well as healthcare policies. Distribution is through a variety of routes, including intermediaries, direct and white-label business, and through our bancassurance joint venture with ABN AMRO Bank.

Operating profit from general insurance and health was £169 million *(2006: £139 million)*. The general insurance underwriting result was £122 million *(2006: £83 million)* and the combined operating ratio improved to 85% *(2006: 89%)*, following favourable development of prior year claims and the maintenance of premium rates in key areas. The health underwriting result deteriorated to a loss of £47 million *(2006: £33 million loss)* as a result of higher claims costs net of recoveries from the central health fund and reorganisation costs.

In December 2007, we agreed the sale of our health operations to O.W.M CZ Groep Zorgverkeraar U.A (CZ) with effect from 1 January 2009, in a transaction that will give Delta Lloyd the opportunity to sell life, pensions and general insurance products to CZ's existing customer base from January 2008.

The Delta Lloyd growth and efficiency programme is expected to have a major impact in general insurance where centralising specialist areas such as IT and simplifying the organisation, as well as initiatives designed to grow revenues, are expected to deliver benefits from 2008.

Poland

Life

Our life and pensions businesses both continued to perform extremely well in 2007. Our life business is ranked number two in the market while we have retained the market leading position in the pensions market since 1999. We are also the third largest life and pensions provider in Lithuania. Our businesses, which currently trade under the Commercial Union brand name, launched a new logo and website which is more closely aligned with the Aviva brand.

This year we have increased the productivity and size of our direct sales force, while continuing to develop other distribution channels. We recently announced the creation of a joint venture with Bank Zachodni WBK (a subsidiary of Allied Irish Banks) to sell both life and general insurance products through the bank's network of 400 branches. This will significantly enhance our distribution network, providing access to 1.4 million customers.

A new flagship life insurance product "Nowa Perspektywa" was launched during the final quarter, offering individual unit-linked life insurance. This has been designed to offer a modern product that combines protection with investment and the flexibility to vary the contract as life circumstances change.

Our life EEV operating return grew strongly to £206 million *(2006: £162 million)* with favourable lapse and mortality experience boosting profitability of the in-force book. Our life and pension sales grew by 53% to £844 million *(2006: £534 million)* with both life and pensions business showing strong performances. New business contribution was £35 million *(2006: £28 million)*, with a margin of 4.1% *(2006: 5.2%)*.

The outlook for 2008 remains promising, despite more unstable market conditions, and we expect continued profitable growth. Through our product initiatives and the development of distribution channel capabilities we are very well positioned in this rapidly growing market.

General insurance

Our general insurance business in Poland continues to develop. Late in 2007 we launched a direct motor insurance product to provide further potential for growth in this dynamic market. IFRS operating profit is reported within Other Europe.

Spain

Aviva Spain is the country's third-largest life insurer, with a market share of 9.5%. The life insurance market is dominated by bancassurance distribution and Aviva has partnerships with Bancaja, Caja España, Caixa Galicia, Unicaja, Caja de Granada and, more recently, Cajamurcia. We also distribute through an agency based network via Aviva Vida y Pensiones (AVP).

In June 2007 we announced a new joint venture with the Spanish savings bank Caja de Ahorros de Murcia (Cajamurcia) to form a joint venture life company. The new life company will distribute life and pensions products via Cajamurcia's network of 413 branches.

Earlier in the year we successfully launched a new savings product (PIAS), which is optimised to the new tax environment and in which Aviva Spain is the market leader. Sales of savings products, including PIAS, were very strong, and offset lower sales of mortgage linked protection business, which were affected by the slow down in the Spanish housing market. Pension sales were boosted by the efficient transfer late in the year of a portfolio of pension policies into the new joint venture with Cajamurcia.

Life EEV operating return increased to £239 million *(2006: £221 million)* reflecting overall growth in new business together with good returns on the in-force book of business. Total sales continued to show strong growth, up 15% to £2,392 million *(2006: £2,059 million)*. Increased sales of savings products which offset the decline in protection products, led to an overall increase in new business contribution to £189 million *(2006: £184 million)* with a new business margin of 7.9% *(2006: 8.9%)*.

The outlook for 2008 is more cautious, with the bancassurance market expected to continue to be impacted by the slowdown in the mortgage market and the Europe-wide credit squeeze. Long-term growth potential, however, remains strong in the market and Aviva Spain continues to develop its bancassurance relationships.

Other Europe

Life

Aviva's other European businesses are in Turkey, the Czech Republic, Hungary, Romania and Russia.

In 2007, our Turkish life and pensions business merged with AK Emeklilik, the life and pensions company of Sabancı Holdings, to form AvivaSA. The new company merged on 31 October 2007 to become the largest pensions provider in the market, with a market share of 25%, and the third largest life insurer with a market share of 11%. Under the merger, AvivaSA has an exclusive long-term bancassurance agreement with Akbank, Turkey's second largest privately-owned bank.

In the Czech Republic and Hungary, sales through the broker and direct sales force channel have increased during the year. In Romania, we have established a new company to sell newly created mandatory pensions. In all of these markets, pension reform continues to offer a long term potential.

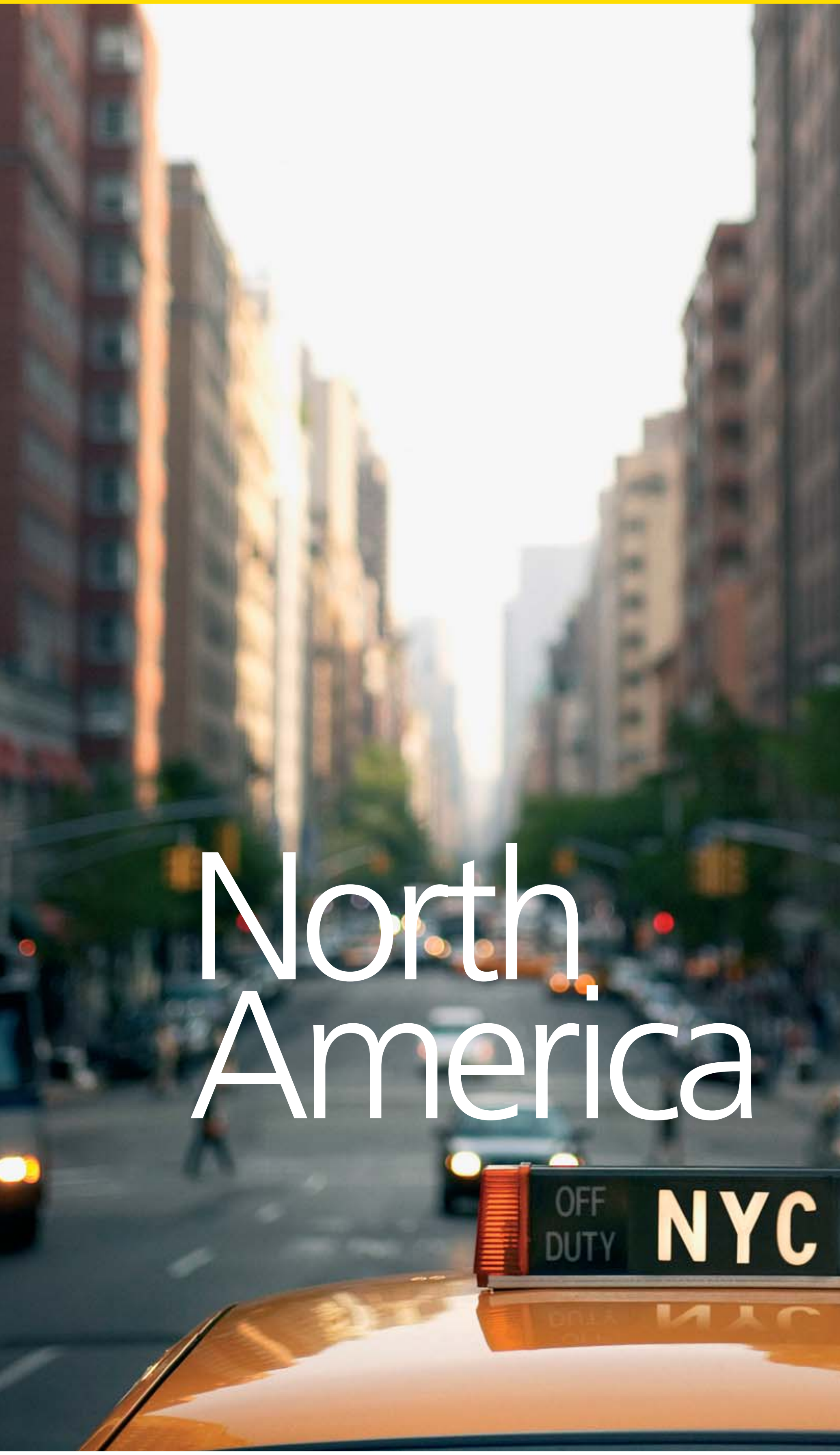
Following the launch of operations in Russia during the latter part of 2006, rapid sales growth has been achieved in 2007, especially in corporate protection business. Agreements with ten leading retail banks have been signed and bancassurance sales are growing rapidly.

We generated an EEV operating loss of £5 million *(2006: £13 million loss)* reflecting the developing nature of these businesses. Total life and pensions sales increased strongly to £418 million *(2006: £308 million)* with notable contributions from Hungary, which benefited from an increase in demand for savings products, and Turkey where higher agent numbers generated larger case sizes and strong sales.

General insurance

Our other European general insurance businesses are in Italy, Poland and Turkey. Our Turkish operation continues to progress well through geographical expansion. IFRS operating profit for our other European operations fell to £41 million *(2006: £43 million)*.

North America



Total sales

£5,014m
(2006: £2,273m)

PVNBP	£3,602m
Net written premiums	£1,412m
	£5,014m

EEV operating profit

£408m
(2006: £183m)

Long-term savings	£255m
Fund management	£3m
General insurance	£154m
Other operations	£(4)m
	£408m

IFRS operating profit

£256m
(2006: £164m)

Employees and locations

4,717
(2006: 4,659)

Canada
United States

Major operating brands

Aviva USA ranks first and second in the indexed life and indexed annuity markets, respectively

Aviva Canada is ranked second in the Canadian general insurance market

Region: **North America**

Our strategic priorities are:

Double scale
- Grow in new and existing markets and geographies
- Optimise our new regional business model
- Engage our people and customers

How will we achieve this?

- Meet the retirement needs of the "baby boomer" generation
- Deliver competitive advantage through product innovation
- Build upon the recent re-rating of our US life business to widen distribution
- Leverage group expertise to expand asset management capabilities in the region
- Streamline back-office processes, enhance risk selection and pricing sophistication
- Build brand awareness across the region, including employee brand
- Instill customer centricity

Progress in 2007:

Delivered on target integration benefits
- Our life operations located in Boston were successfully combined with those of the former AmerUs companies
- Exceeded our target of £23 million in cost savings within our cost target of £25 million

Implementing specific local initiatives to improve service to attract and retain customers
- Our Canadian business is the only insurer in the world to have achieved accreditation by the Commission on Accreditation of Rehabilitation Facilities, an independent, non-profit accreditor of service providers in many areas of healthcare, community programme and medical rehabilitation

Capture opportunities presented by retirement of the "baby boomer" generation
- Launched innovative market leading products such as Wellness for Life
- Achieved ratings upgrade from AM Best which will help us be more competitive

Continuing to strengthen our relationship with key brokers and other partners
- Achieved exceptional satisfaction scores from our brokers in Canada, with 88% responding that they would recommend Aviva to their customers

Exploiting and sharing our knowledge and skills in multi-channel distribution, product development and service delivery
- Joined forces with colleagues in Asia Pacific on product design and industry trends
- Led discussions on the potential for equity indexed annuity products in other Aviva businesses

Looking forward:

Our medium-term targets are to:
- Double the volume of US life new business sales within three years of the acquisition of AmerUs, while maintaining margins
- Realise the benefits of our strategic investments in our general insurance business to accelerate growth and improve profitability
- Further expand distribution and continue to deliver innovative products
- Continue to meet or beat a 98% combined operating ratio

North America continued

Dear Shareholder,

Aviva North America is an exciting place to be. The Americas region is of major global importance being home to some of the world's largest and richest economies with almost half of world general insurance premiums and a quarter of life premiums.

Our focus on this important geographical region provides us with significant opportunities – to drive relentless profitable growth in our life business through the huge demand for retirement products from the 'baby-boomer' generation and deliver improved and sustained profits from our general insurance business.

The US is home to our rapidly growing life business and our general insurance business is based in Canada. These great businesses currently serve their home markets and we are exploring possible cross-border selling opportunities across the North American region.

Strengthening the Aviva brand across the North America region is a strategy that will figure prominently in our growth ambitions. We will continue to deliver high-value propositions for our customers and, as a leader in our sector, will set high standards. We shall excel in product innovation and be disciplined about expense management.

We're in the right markets, with the right products, at the right time. We have achieved terrific growth in the last year and I am confident that our growth and profitability will continue to enhance shareholder value into the future.

Tom Godlasky
Chief executive, North America

Long-term savings

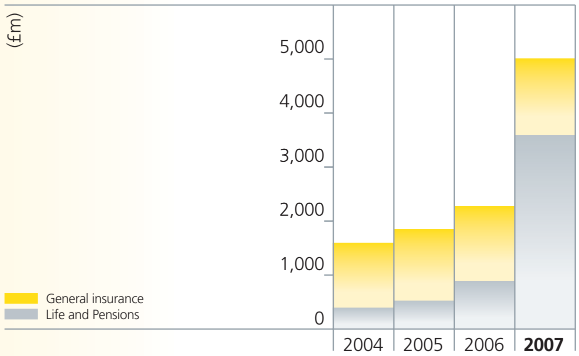
	IFRS profit before tax £m	IFRS operating profit £m	EEV operating profit £m	PVNBP £m	New business contribution* £m	New business margin* %
2007	**(137)**	**103**	**255**	**3,602**	**154**	**4.3**
2006	17	13	32	884	20	2.3

* Stated before the effect of required capital.

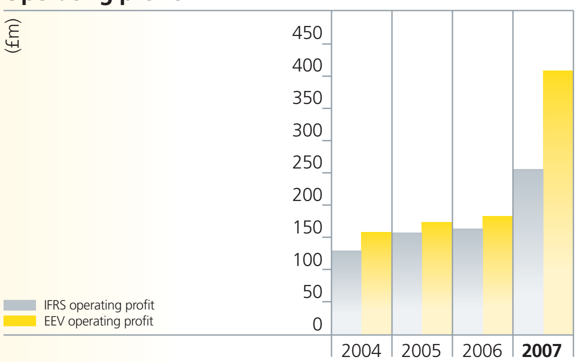
General insurance

	IFRS profit before tax £m	IFRS operating profit £m	Combined operating ratio %	Net written premium £m	Underwriting result £m
2007	**147**	**154**	**98**	**1,412**	**18**
2006	169	148	98	1,389	27

Total sales



Operating profit



Aviva's presence in the North America Region is underpinned by two highly successful and diverse businesses, the Aviva USA life business and the Aviva Canada general insurance business. The Aviva USA operation ranks first and second in the indexed life and indexed annuity markets respectively, having achieved significant growth and market penetration during the year. Aviva Canada continues to perform strongly through the insurance cycle and has maintained its number two position in the Canadian market and remains the leading insurer in Canada's largest province, Ontario.

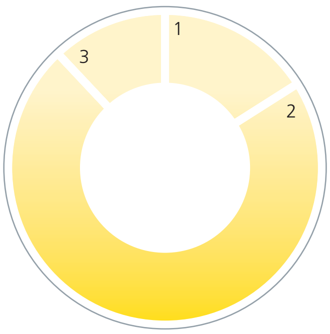
The outlook for the region is strong and we operate in some of the largest and richest economies in the world. We will continue the rapid and profitable growth in our life business and deliver sustainable profitable growth in our general insurance business. We will achieve our ambitions by leveraging the strengths of our existing businesses, exploiting cross-border opportunities and through developing the Aviva brand across the region.

In the fourth quarter of the year we opened our regional head office in Chicago. This was an important step, providing a focal point for our businesses across the North American region and a central hub from which business development opportunities across the Americas can be pursued.

North American life new business and general insurance premiums grew to £5,014 million *(2006: £2,273 million)* and regional EEV operating profit for North America was up 131% to £408 million *(2006: £183 million)* accounting for 11% of the Aviva group.

USA – Product split of total long-term savings sales

	%
1 Life	16
2 Annuities	72
3 Funding agreements	12
Total	100



USA

Aviva USA has had a record year with sales of £3,602 million *(pro forma 2006: £2,821 million)* up 39% on a pro forma basis following the acquisition of the former AmerUs Group completed in late 2006. This excellent performance was achieved through the introduction of new products and our expanding distribution network. We are on track to double the size of the business within three years following the acquisition.

Our annuity sales increased 47% on a pro forma basis to £2,600 million *(pro forma 2006: £1,921 million)* which is a terrific result. This performance has been achieved against a backdrop of an annuity market which has been unsettled by equity volatility and a low yield environment. The outlook remains compelling particularly as the "baby boomer" generation reach and enter retirement over the coming years.

Other sales grew by 21% on a pro forma basis to £1,002 million *(pro forma 2006: £900 million)*, including funding agreement sales of £429 million *(pro forma 2006: £330 million)* which are large corporate transactions. The US life market has grown by 8% in the year, fuelled by increasing consumer demand for guaranteed benefits.

Innovation in product design has been a key part of our success. We launched the second generation of the Guaranteed Lifetime Withdrawal Benefit rider, improving a product already recognised as market leading, and introduced a new suite of products to our proprietary distribution network.

In addition we are now offering a variety of wellness products and services through an exclusive relationship with Mayo Clinic Health Solutions. These services are core to our new "Wellness for Life" programme, an innovative industry leading product expected to differentiate and enhance the Aviva brand in the United States.

We successfully launched a new national marketing campaign to build Aviva brand awareness across the United States through television, print media and trade magazines. Continuing to raise customer awareness of Aviva in the eyes of both our existing and prospective customers is an important part of our plans for 2008.

Rating upgrades were announced in October and November 2007, with AM Best increasing our rating to A+ "superior", and Standard & Poors and Fitch to AA-. These upgrades recognise Aviva USA as being core to the Aviva group and reflect the strength of our business in indexed markets, strong earnings performance and strong capitalisation. The upgrades are very important to our customers and agents and will help us continue to grow by being more competitive in existing distribution channels as well as through accessing a broader product and distribution platform.

North America continued

Our success in 2007 has been achieved by remaining focused on our customers, agents and employees while going through a major transformation integrating our businesses following the acquisition of AmerUs in November 2006. The operations located in Boston have now been successfully combined with those of the former AmerUs companies, with all of the goals associated with the integration of those operations met, including exceeding the key financial target of achieving £23 million of annualised savings at a cost of £25 million.

Our people are our greatest resource and remain at the heart of what we do. We successfully managed the integration of our two businesses, minimising job losses while retaining our key people during this challenging period of time. Being part of Aviva enabled us to benefit from the talent pool across the global organisation through the sharing of information, best practices and people.

In addition, recruitment at our life headquarters in Des Moines was at an all time high, reflecting the significant growth in the business. Over 245 new positions have been created and we were successful in attracting new talent locally, regionally and from across the US. This is an exciting time for our people in Aviva USA.

The increase in EEV life operating profit to £255 million *(2006: £32 million)* reflects the benefit of the AmerUs acquisition and improved new business profits following the excellent sales performance. The acquistion also contributed to the increase in IFRS operating profit to £103 million (*2006: £13 million*). During the year, our total assets grew by 10% to £20 billion.

The future for the US business remains exciting. The attractiveness of our products, coupled with our expanding distribution and excellence in product innovation when set in the context of a long-term growth market, puts us in a great position going forward. The strong momentum upon which we finished 2007 will continue to fuel our performance in the year ahead.

Canada

Aviva Canada provides innovative, market-leading products to clients across Canada. Supported by over 3,000 independent brokers, we operate through a multi-channel, multi-distribution network including retail customers, groups, affinities, small to medium commercial and programme business.

We achieved growth without compromising profitability. Net written premiums were £1,412 million *(2006: £1,389 million)*, an increase of 4%, reflecting growth in both personal and commercial lines.

Our operating profit improved to £154 million *(2006: £148 million)* which is a good result in challenging market conditions. A reduction in underwriting profit was offset by an increase in investment return, resulting from higher fixed income yields and higher average asset balances.

Product innovation – Wellness for Life

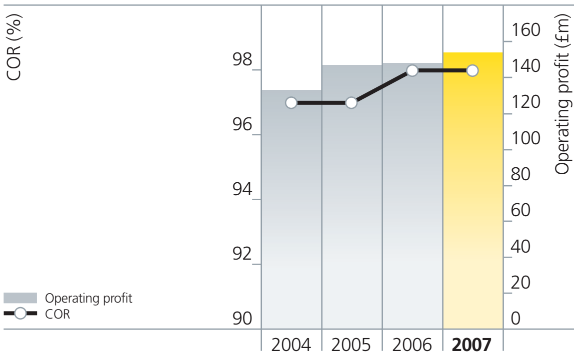
An innovative new product is our 'Wellness for Life' Programme. This first-of-its-kind life insurance product has been developed with the world-renowned Mayo Clinic, rewarding consumers for leading a healthy lifestyle.

Customers have the opportunity to reduce the cost of their life insurance by meeting some wellness-oriented criteria, such as having regular physical examinations by a doctor or by maintaining their body weight within a range established at the time they purchase the policy.

Wellness for Life is consistent with our commitment to improving the lives of our customers and providing them with the best possible products and services.

For more information visit www.avivausa.com

Canada – operating profit and COR



In personal lines, our premiums increased by 3% in a market with flat rates in Ontario and auto reform impacting several provinces. Our warranty business experienced organic growth of over 60%. In the specialty personal lines market we continued as the number one provider of leisure and lifestyle insurance products.

Commercial lines net written premiums increased by 6% in a softening market. In particular, Fastrax, our broker portal for small commercial business, achieved good growth of 29%. Utilising this technology and with further growth, we expect to become the leader in this market.

Management of claims costs is a core expertise. We proactively manage claims costs through our Premiere Healthcare programme and have partnered with the University Health Network to deliver ground-breaking research on treatment for soft tissue injuries. Our claims satisfaction is exceptional and stands at an impressive 93%. We are the only insurer in the world to have achieved accreditation by CARF (Commission on Accreditation of Rehabilitation Facilities), an independent, non-profit accreditor of service providers in many areas of healthcare, community programmes and medical rehabilitation.

In 2007 we achieved exceptional satisfaction scores from our brokers with 88% responding that they would recommend Aviva to their customers. We remain committed to supporting the independent broker channel in Canada and we have invested significantly in helping brokers to protect their business and develop new growth opportunities.

We are making substantial investments in the business to secure our future profitability and growth. Our investments will help us streamline back-office processes, enhance risk selection and pricing sophistication and improve the overall broker and consumer experience.

Through investment and engagement Aviva Canada continues to be successful in attracting, building and retaining the best talent in the industry. Our approach to training has won international acclaim with our Core Insurance Skills programme recognised by Skillsoft (a global provider of e-learning content).

Looking ahead, we expect that the Canadian general insurance market will continue to experience low growth driven by a softening of commercial lines rates and greater stability for rates in personal lines. Motor insurance rate increases in Ontario will positively impact the outlook for premium and profit growth.

In 2008 to 2009, we will start realising the benefits of the strategic investments we have made over the past few years. This will allow management to accelerate the growth of the business and improve underwriting performance. We are also making a strong investment in communicating the Aviva brand. The launch of our brand campaign in 2008 will significantly raise consumer awareness.

ThinkFirst and Aviva Canada Insurance – Safety for Canadian Kids

Aviva Canada launched a signature partnership in 2007 with ThinkFirst, a charitable organisation devoted to the prevention of injury in children and young people.

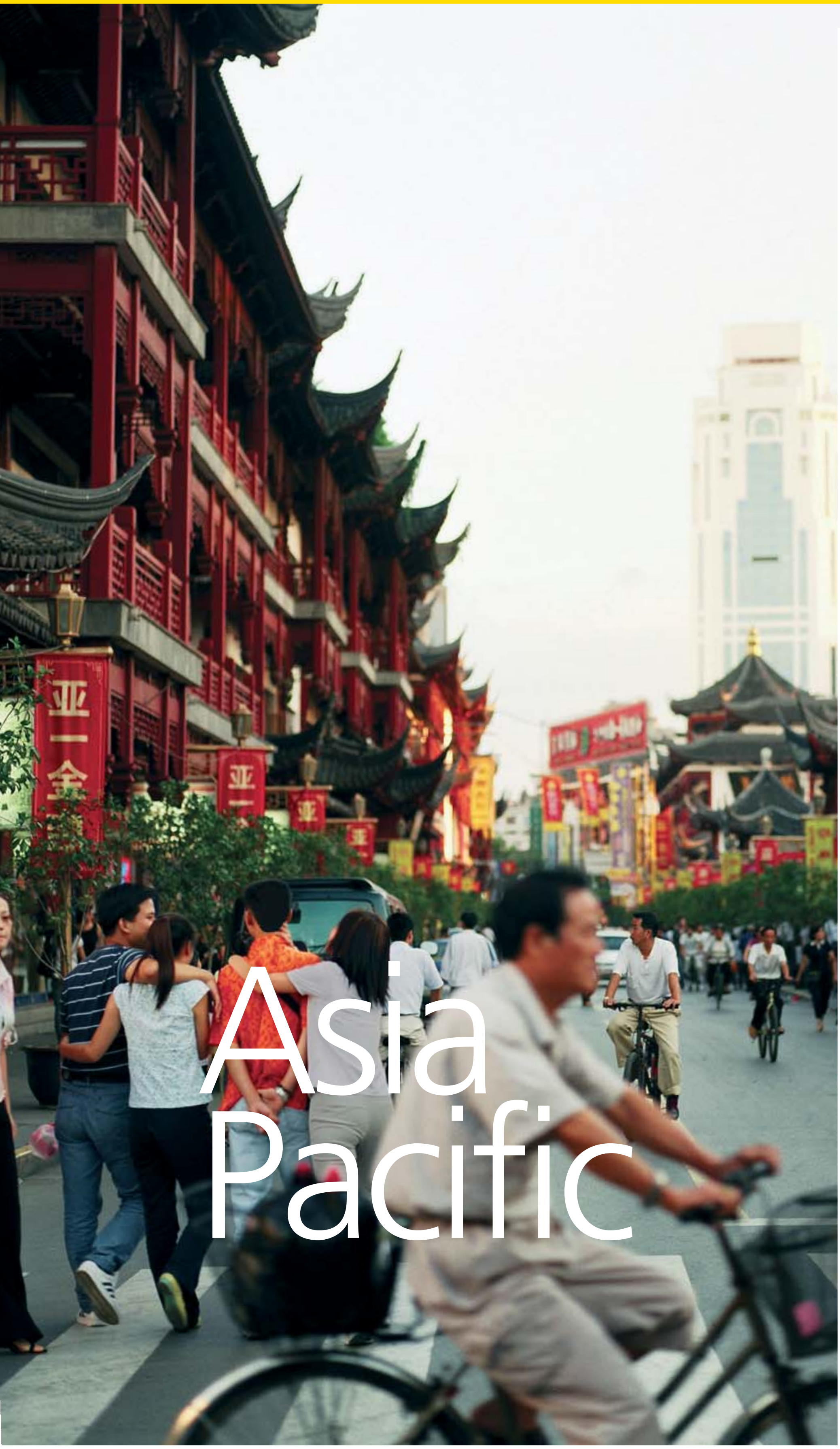
We have committed to C$500,000 in sponsorship over the next two years which will help to strengthen existing local ThinkFirst chapters and assist in the creation of new ones.

The partnership will provide opportunities for Aviva employees to volunteer at special events and with local chapters. It will connect Aviva and our employees with the concept of protection in the community at large.

For more information visit www.thinkfirst.ca or www.avivacanada.com

Business review continued:

Asia Pacific



Total sales

£4,117m
(2006: £2,572m)

PVNBP	£1,429m
Investment sales	£2,660m
Net written premiums	£28m
	£4,117m

EEV operating profit

£97m
(2006: £92m)

Long-term savings	£91m
Fund management	£15m
General insurance	£4m
Other operations	£(13)m
	£97m

IFRS operating profit

£37m
(2006: £50m)

Employees and locations

2,052
(2006: 1,784)

Australia	Malaysia
China	Singapore
Hong Kong	Sri Lanka
India	Taiwan
South Korea*	

* Aviva announced on 31 January 2008 that it is to enter the South Korean life insurance market by forming a consortium with Woori Finance Holdings Company Ltd.

Major operating brands

In Singapore, we rank first in combined sales of long-term savings products, including unit trusts

Australia: seventh in individual protection market and sixth in the platform market

One of the fasted growing life insurers in Hong Kong

AVIVA

Region: **Asia Pacific**

Our strategic priorities are:

Scale and growth through:

- Prioritised portfolio
- Regional operating model
- Investment required

How will we achieve this?

- Take advantage of the huge and well understood demographic opportunities
- Drive growth through the successful bancassurance model
- Share expertise such as the Australian wrap platform
- Expand further our geographical footprint in the region
- Realise cost savings and synergies through the regional operating model

Progress in 2007:

Continue to roll out our successful bancassurance distribution model, tailored to the specific needs of our markets

- New bancassurance deals signed in Malaysia, India, Sri Lanka and Taiwan

Continue to strengthen our relationships with key brokers and other partners

- In Australia, we acquired a strategic stake in Meritus Financial Group which resulted in Aviva having equity holdings in four Dealer Groups
- In Taiwan, we entered into a JV partnership with First Financial Holdings Company which will have an exclusive bancassurance agreement with its flagship subsidiary, First Commercial Bank, Taiwan's second largest bank network
- In Singapore, we acquired DollarDex which would enable us to build a direct customer base and further diversify distribution via our entry in the B-2-C segment
- In Malaysia, we bought a strategic stake in two of CIMB Group's subsidiaries which will provide access to over four million customers as well as introducing takaful (Islamic Insurance) to the Aviva Group

Exploit the scale of Aviva through knowledge sharing and skills in multi-channel distribution, product development and service delivery

- Joined forces with Aviva USA and Spain to share knowledge on product design and industry trends. Delegates from Asia Pacific included Australia, China, Hong Kong, Singapore and Taiwan

Looking forward:

Our medium-term target is to:

- Grow long-term savings new business sales by an average of at least 20% a year to 2010

Asia Pacific continued

Dear Shareholder,

There are huge opportunities in the Asia Pacific region to grow Aviva's business over the coming years.

By continuing to expand our portfolio of long-term savings, protection and takaful insurance products across more countries in the region, by continuing to offer better service to customers and by continuing to invest in our people, we plan to achieve our targets and increase our share of the group result.

While we are exploring new markets in the region, we are also focusing on achieving our full potential in our existing businesses, particularly those where we have just begun operations.

One of our main strengths lies in the "one Aviva" operating model which enables us to share skills and services across the region and group. For example, we are investigating opportunities to implement our very successful Navigator product in more countries. When entering new markets we can use expertise from elsewhere in the region, adapting tried and tested distribution approaches to the local market and establish ourselves quickly.

We have already achieved rapid growth in Asia Pacific. The Aviva brand is becoming well known, our business model is successful, and we are confident that we can continue to build on this strong base.

Simon Machell
Chief executive, Asia Pacific

Long-term savings

2007	IFRS profit before tax £m	IFRS operating profit £m	EEV operating profit £m	PVNBP* £m	New business contribution** £m	New business margin** %
Australia	**47**	**37**	**48**	**439**	**26**	**5.9**
Asia	**(7)**	**(6)**	**43**	**990**	**36**	**3.6**
Asia Pacific	**40**	**31**	**91**	**1,429**	**62**	**4.3**

2006	IFRS profit before tax £m	IFRS operating profit £m	EEV operating profit £m	PVNBP* £m	New business contribution** £m	New business margin** %
Australia	59	37	49	297	17	5.7
Asia	9	7	37	685	26	3.8
Asia Pacific	68	44	86	982	43	4.4

* Excludes investment sales. Investment sales totalled £2,660 million *(2006: £1,564 million)* giving overall new business sales of £4,089 million *(2006: £2,546 million)*.

** Stated before the effect of required capital.

Fund management

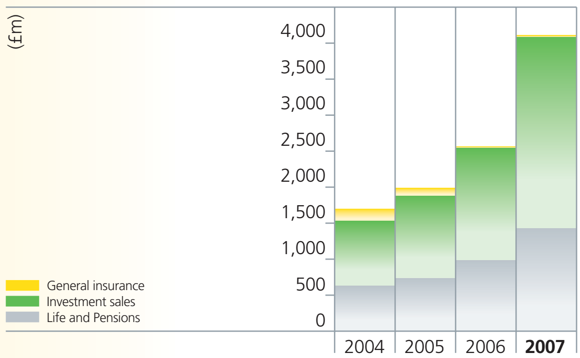
	IFRS operating profit 2007 £m	IFRS operating profit 2006 £m	EEV operating profit 2007 £m	EEV operating profit 2006 £m
Asia Pacific	**15**	9	**15**	9

General insurance, health and related services

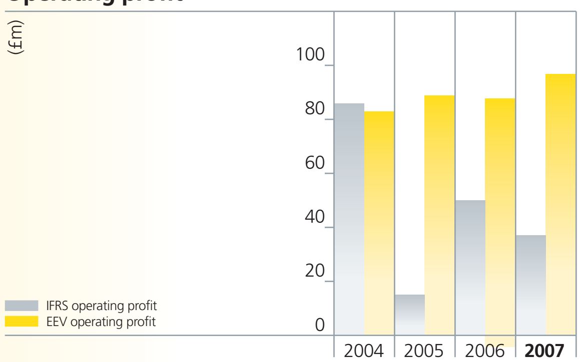
	IFRS profit before tax £m	IFRS operating profit £m	Combined operating ratio* %	Net written premium £m	Underwriting result £m
2007	**4**	**4**	**97**	**28**	**3**
2006	5	3	98	26	3

* General insurance business only.

Total sales

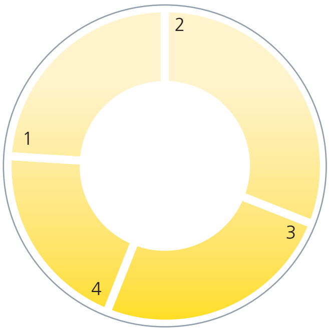


Operating profit



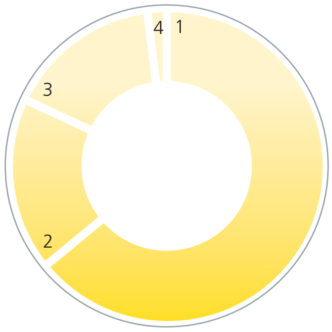
Total life and pensions sales (PVNBP)

	%
1 Australia	31
2 Hong Kong	25
3 Singapore	20
4 Other	24
Total	100



Total EEV operating profit

	%
1 Australia	64
2 Hong Kong	17
3 Singapore	17
4 Other	2
Total	100



Regional goals and objectives

We have continued to make great progress towards our ambition of establishing Aviva as a leading international player in the Asia Pacific region. We plan to grow the business by at least 20% per year to 2010, aiming to make Aviva Asia Pacific a more significant part of the Aviva group.

During 2007 we added two new businesses to our Asia Pacific footprint, Taiwan and Malaysia. In January 2008, we formed a partnership with Woori Finance Holdings Company Ltd to enter the South Korean life insurance market by acquiring a stake in LIG Insurance Co Ltd which is expected to take place in the first half of 2008 subject to regulatory approval.

We now have operations in nine markets. Our businesses are all at different stages of development and in tandem with the economic outlook for Asia, which predicts growth rates of between 4.1% in Taiwan to 8.6% in China for the next five years, our outlook is very positive. We currently have the opportunity to actively grow our existing businesses in the region, in particular in the high growth markets of India and China and at the same time, we are assessing the potential of other markets in the region. In order to grow efficiently, we are also focusing on maximising the use of shared services and knowledge across the region.

Strategic developments

Aviva has a strong agenda for growth in the region, aiming to build scale and expand into new markets. A strong regional office, based in Singapore, has been established to act as a hub of expertise and to provide support to the region. The regional operating model will provide cost savings and synergies as well as facilitate the sharing of product expertise and transfer of ideas between markets.

We operate a multi-distribution strategy, with particular strength in bancassurance, and aim to continue to harness the benefits of multi-distribution in all of our markets. Initiatives to achieve this will see the growth of channels beyond the dominant agency sales force, which we expect to decline in the region over coming years due to increased deregulation.

Our brand in Asia Pacific

Building our brand has become more important than ever with commoditised products and increased competition. In 2007, our customer advocacy scores across most of our markets improved, meeting key performance targets. Our focus to build brand awareness made further progress as the operations in Singapore, Australia, Hong Kong and India launched a shared brand campaign utilising a common consumer theme, raising prompted brand awareness scores across each of these markets.

Business results

Aviva Asia Pacific continues to achieve a strong rate of growth with total new business sales 60% higher at £4,089 million (*2006: £2,546 million*) driven primarily by strong Navigator sales across the region.

In Australia, total sales grew by 46% to £2,400 million *(2006: £1,600 million)* following strategic investment in key independent financial adviser groups and favourable changes to superannuation legislation. Within this total, life and pension sales increased 44% to £439 million *(2006: £297 million)* reflecting growth in protection business and a strongly performing retail investment sector.

Sales for the rest of Asia Pacific of £1,689 million *(2006: £946 million)* continued to grow as a result of our expanding distribution and broadening geographical presence.

Life and pension sales were up 51% to £990 million *(2006: £685 million)*. In Singapore, sales grew through our strong relationships with key brokers and those in Hong Kong through the continued good performance of our partnership with the banking group DBS. In China we have increased our presence in the country to eight provinces and are now ranked second among foreign insurers and in India, sales have increased through bancassurance partnerships, ongoing expansion of the direct sales force and the addition of new branches in the year.

Our performance to date demonstrates the effectiveness of multi-channel distribution. Leveraging this core capability in 2007, we have established a further two new joint ventures in Malaysia and Taiwan, giving Aviva access to nine million potential new customers across these markets.

Life EEV operating profit for the region increased by 6% to £91 million *(2006: £86 million)*, with an improvement in new business contribution to £62 million *(2006: £43 million)* reflecting the strong sales performance in the year. New business margin remained strong at 4.3% *(2006: 4.4%)*. Operating profit in fund management was £15 million *(2006: £9 million)* mainly due to higher funds under administration following the Navigator sales performance.

Business review continued:

Asia Pacific continued

Australia – Risk*first*, changing the way the life insurance industry operates

Aviva's new Riskfirst system, the first signature-free online underwriting platform in Australia, is changing the way the life insurance industry operates. The online process enables faster completion of life insurance policies which has improved advisers' turnaround time by a third and benefited relationships with their clients.

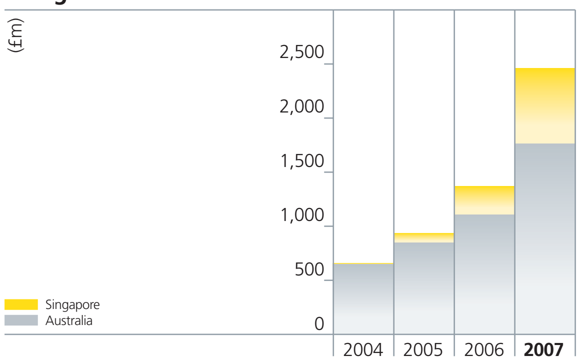
The Riskfirst applications accounted for 25% of new business just three months after launch – a clear demonstration that this is breakthrough technology that sets Aviva apart. Our pioneering technology was a contributory factor as Aviva earned first place in the prestigious Taylor Life Insurance Industry Survey in December 2007. The survey is based on the views of more than 1,600 protection advisers across the industry.

For more information visit www.avivagroup.com.au

Australia

Our strategy is for continued growth of our existing independent financial adviser channel while diversifying distribution into new channels. 2007 has been a year of outstanding growth for our investment and superannuation products provided through the Navigator platform and our protection business. This growth was based upon the continued strength of our product and service offer and significant contributions from the key adviser groups in which Aviva holds strategic stakes. Favourable changes in superannuation legislation during 2007 have driven strong market growth for Navigator and we have seized these opportunities to outperform the market. We are currently ranked seventh in the individual protection market based on new business and sixth in the platform market based on net inflows and are increasing market share in both areas. Our service excellence on protection resulted in Aviva being recognised as the number one protection provider in the Taylor Life Insurance Survey. This survey is the benchmark in the Life Insurance sector.

Navigator investment sales



China

Aviva-COFCO operates a multi-channel, multi-product strategy which now includes direct telemarketing. We have always been focused on our 10x10x10 strategy – to achieve 10% new business market share across 10 provinces by 2010 – and 2007 was a significant year, being the joint venture's fifth anniversary. In the space of those five years we already have eight branch licences with operations in 25 cities. We are ranked second largest foreign life provider in terms of total premium among 25 foreign insurers in China.

Hong Kong

Hong Kong is a dynamic financial market which plays a leading role in the regional economy. Our business here progressed significantly in 2007 with over 80% growth against 2006. Strong performance came from the rapid development of our independent financial adviser (IFA) channel, which now accounts for more than half of our sales, and our continued bancassurance success with the Development Bank of Singapore (DBS), South East Asia's largest banking group. As one of the fastest growing life insurers in Hong Kong, we aim to continue to build our market share through further development in the growing bancassurance and IFA channels.

India

India's young urban population base provides strong growth potential in the long-term savings market. Our strategy is to acquire new customers through distribution relationships with banks as well as through our 30,000 strong direct sales force *(2006:14,000)*. The quality of our direct sales force is key for incremental growth and we are investing in capability and infrastructure to improve the quality of sale and productivity per agent. We currently rank eighth among the private insurance companies in the market.

Malaysia

In July, we entered the Malaysian market through the acquisition of a 49% stake in two of CIMB Group's subsidiaries, Commerce Life Assurance Berhad and Commerce Takaful Berhad who have entered into exclusive bancassurance agreements with CIMB Group's subsidiary, CIMB Bank, giving Aviva access to over four million potential new customers as well as introducing takaful (Islamic insurance) to the Aviva group.

In October, we obtained regulatory approval from Bank of Negara on establishment of the International Currency Business Unit (ICBU). This ICBU establishment allows a window for companies to sell Takaful products in multiple currencies with a ten year tax waiver for the entity.

China – Aviva-COFCO recognised for foresight with best channel strategy award

中英人寿
AVIVA-COFCO

In an industry-wide ceremony, Aviva-COFCO, our joint venture in China, was given the "Best Channel Strategy" award by China Insurance Marketing, a national magazine for Chinese business professionals. This recognises the company's foresight and initiative in creating a centre for the training and development of brokers. The training programme includes product knowledge, customer service, sales, business administration and management.

For more information visit www.aviva-cofco.com.cn

Singapore

In Singapore, we rank first in combined sales of long-term savings products, including unit trusts. We employ a multi-channel distribution strategy led by a strong partnership with DBS Bank. Our IFA channel has been growing aggressively and we established a new channel in 2007, wholesaling through Manulife and TM Asia. In the employee benefits and healthcare business, we are the leading provider, providing insurance for one out of every three insured employees in Singapore. Our Navigator business crossed S$2 billion (£700 million) funds under administration in October 2007. We aim to continue to build our market share through further development in the various channels, increasing brand awareness and improving customer engagement.

Sri Lanka

In Sri Lanka, we own a 51% stake in Eagle Insurance (Eagle). Eagle is ranked the third largest life insurer and fifth largest general insurer in the country. During 2007, Eagle entered into its third bancassurance agreement, with Sampath Bank, gaining access to almost one million additional potential new customers.

Taiwan

In December, we received approval from Taiwan's regulator to set up our life insurance joint venture, First Aviva, with First Financial Holdings Company (FFHC). First-Aviva, in which we have a 49% shareholding, will distribute long-term savings and pension products through an exclusive bancassurance agreement with FFHC's flagship subsidiary, First Commercial Bank, Taiwan's second largest bank network. First-Aviva commenced operations on 2 January 2008.

Finance

Dear Shareholder,

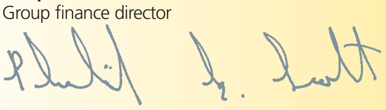
During my first year as Group Finance Director there has been significant activity across the Aviva finance community and our major achievements are set out on the right.

We have made significant progress on the development of the global finance strategy this year. This will enable us to lay firm foundations for future growth, meet future regulatory requirements and prepare for financial reporting change. In 2007 we focused on two areas: the creation of robust governance to secure the timely and efficient delivery of the strategy; and the development of the policies, frameworks and guidelines that we will use in 2008 to deliver and embed the change group-wide.

At the end of August, I chaired the first finance directors' forum since the creation of our regional structure. Its representatives come from every business and region and have a key role in defining our finance agenda. Our first meeting focused on managing our considerable finance talent – developing leaders for the future and finance professionals with the skills and experience to support our challenging plans.

The global finance conference at the beginning of October gave the finance leadership team the chance to see the benefits of working together to deliver financial clarity and simplicity across the group. We are committed to creating a "One Finance" team and to play our part in achieving "one Aviva, twice the value".

Philip Scott
Group finance director



Allocate capital

– We completed our work on the individual capital assessment (ICA) of the group for 2006
– We achieved an AM Best upgrade for the US business to A+ ("superior") from A ("excellent"). Additionally, Standard & Poor's have reaffirmed their rating of our core subsidiaries as AA/AA- (very strong) including upgrading the Aviva USA rating to AA-, all with a "stable" outlook

Manage risk

– The risk management framework and guidance was rolled out across the group during 2007
– We appointed Marcelo Cruz as our new chief risk officer

Financial reporting

– We introduced a new approach to reporting our life operating profit on an IFRS basis, which enables us to monitor underlying performance without the distortions caused by market volatility
– We continued to participate in development of IFRS Phase II and submitted our feedback on the International Accounting Standard's Board preliminary views in November

Looking forward

– We will build on the progress made to date to deliver and embed the Global Finance strategy across the group
– In line with other CFO forum members, we are working to roll out market consistent embedded value reporting for year end 2008
– We will continue to embed ICA into our business decision making process for investment assessment and for capital allocation

Capital management

Capital

Capital management objectives

Aviva's capital management philosophy is focused on capital efficiency and effective risk management to support a progressive dividend policy and earnings per share growth. Rigorous capital allocation is one of the Group's primary strategic priorities and is ultimately governed by the Group Executive Committee.

The Group's overall capital risk appetite is set and managed with reference to the requirements of a range of different stakeholders including shareholders, policyholders, regulators and rating agencies. In managing capital we seek to:

- maintain sufficient, but not excessive, financial strength to support new business growth and satisfy the requirements of our stakeholders;
- 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 lines and access to a range of capital markets;
- allocate capital rigorously across the Group, to drive value adding growth in accordance with risk appetite;
- increase the dividend on a basis judged prudent, while retaining capital to support future business growth, using dividend cover on an IFRS operating earnings after tax basis in the 1.5 to 2.0 times range as a guide.

Capital resources

The primary sources of capital used by the Group are equity shareholders' funds, preference shares, subordinated debt and borrowings. We also consider and, where efficient to do so, utilise alternative sources of capital such as reinsurance and securitisation in addition to the more traditional sources of funding. Targets are established in relation to regulatory solvency, ratings, liquidity and dividend capacity and are a key tool in managing capital in accordance with our risk appetite and the requirements of our various stakeholders.

Overall, the Group has significant resources and financial strength. The ratings of the Group's main operating subsidiaries are AA/AA- ("very strong") with a stable outlook from Standard & Poor's, Aa3 ("excellent") with a stable outlook from Moody's and A+ ("Superior") with a stable outlook from AM Best. These ratings reflect the Group's strong liquidity, competitive position, capital base, increasing underlying earnings and strategic and operational management. The Group is subject to a number of regulatory capital tests and also employs economic capital measures to manage capital and risk.

Capital allocation

Capital allocation is undertaken based on a rigorous analysis of a range of financial, strategic, risk and capital factors to ensure that capital is allocated efficiently to value adding business opportunities. A clear management decision-making framework, incorporating ongoing operational and strategic performance review, periodic longer term strategic and financial planning and robust due diligence over capital allocation is in place, governed by the Group Executive Committee and Group Capital Management Committee. These processes incorporate various capital profitability metrics, including an assessment of return on capital employed and internal rates of return in relation to hurdle rates to ensure capital is allocated efficiently and that excess business unit capital is repatriated where appropriate.

Different measures of capital

In recognition of the requirements of different stakeholders, the Group measures its capital on a number of different bases, all of which are taken into account when managing and allocating capital across the Group. These include measures which comply with the regulatory regimes within which the Group operates and those which the directors consider appropriate for the management of the business. The primary measures which the Group uses are:

(i) Accounting bases

The Group reports its results on both an IFRS and a European Embedded Value basis. The directors consider that the European Embedded Value principles provide a more meaningful measure of the long term underlying value of the capital employed in the Group's life and related businesses. This basis allows for the impact of uncertainty in the future investment returns more explicitly and is consistent with the way the life business is priced and managed. Accordingly, in addition to IFRS, we analyse and measure the net asset value and total capital employed for the Group on this basis. This is the basis on which Group Return on Equity is measured and against which the corresponding Group target is expressed.

(ii) Regulatory bases

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. The Group has fully complied with these regulatory requirements during the year.

(iii) Rating agency bases

The Group's ratings are an important indicator of financial strength and maintenance of these ratings is one of the key drivers of capital risk appetite. Certain rating agencies have proprietary capital models which they use to assess available capital resources against capital requirements, as a component of their overall criteria for assigning ratings. In addition, rating agency measures and targets in respect of gearing and fixed charge cover are also important in evaluating the level of borrowings utilised by the Group. While not mandatory external requirements, in practice rating agency capital measures tend to act as one of the primary drivers of capital requirements, reflecting the capital strength required in relation to our target ratings.

(iv) Economic bases

The Group also measures its capital using an economic capital model that takes into account a more realistic set of financial and non-financial assumptions. This model has been developed considerably over the past few years and is increasingly relevant in the internal management and external assessment of the Group's capital resources. The economic capital model is used to assess the Group's capital strength in accordance with the Individual Capital Assessment (ICA) requirements established by the FSA. Further developments are planned to meet the emerging requirements of the Solvency II framework and other external agencies.

Further details regarding the use of economic capital in risk management are set out in the "Risk management" section on page 58.

Accounting basis and capital employed by segment

The table below shows how our capital, on an EEV basis, is deployed by segment and how that capital is funded.

	2007 £m	2006 £m
Long-term savings	**23,272**	20,094
General insurance and health	**5,487**	5,176
Other business including fund management	**1,056**	1,059
Corporate*	**(31)**	(19)
Total capital employed	**29,784**	26,310
Financed by:		
Equity shareholders' funds	**20,253**	17,531
Minority interests**	**3,131**	2,137
Direct capital instrument	**990**	990
Preference shares	**200**	200
Subordinated debt	**3,054**	2,937
External debt	**1,257**	1,258
Net internal debt	**899**	1,257
	29,784	26,310
Net asset value per share – EEV basis	**772p**	683p

* The "Corporate" net liabilities represent the element of the pension scheme deficit held centrally.

** Minority interests have increased to £3,131 million *(2006: £2,137 million)* due to foreign exchange movement, capital contributions from property investment vehicles and acquired subsidiaries, primarily Cajamurcia and Avipop.

At 31 December 2007 the Group had £29.8 billion *(Restated 31 December 2006: £26.3 billion)* of total capital employed, in its trading operations measured on an EEV basis. The significant increase in shareholders' funds reflects the strong operational performance in the period and foreign exchange impacts. Net asset value per ordinary share, based on equity shareholders' funds, has grown to 772 pence per share *(2006: 683 pence per share)*.

Total capital employed is financed by a combination of equity shareholders' funds, preference capital, subordinated debt and borrowings. In addition to our external funding sources, we have certain internal borrowing arrangements in place which allow some of the assets that support technical liabilities to be invested in a pool of central assets for use across the Group. These internal debt balances allow for the capital allocated to business operations to exceed the externally sourced capital resources of the Group. Although intra-group in nature, they are included as part of the capital base for the purpose of capital management. These arrangements arise in relation to the following:

– Certain subsidiaries, subject to continuing to satisfy standalone capital and liquidity requirements, loan funds to corporate and holding entities, these loans satisfy arms length criteria and all interest payments are made when due.

– Aviva International Insurance (AII) Ltd acts as both a UK general insurer and as the primary holding company for the Group's foreign subsidiaries. Internal capital management mechanisms in place allocate a portion of the total capital of the company to the UK general insurance operations. These mechanisms also allow for some of the assets backing technical liabilities to be made available for use across the Group. Balances in respect of these arrangements are also treated as internal debt for capital management purposes.

Net internal debt represents the balance of the above amounts due from corporate and holding entities, less the tangible net assets held by these entities. Financial leverage, the ratio of the Group's external senior and subordinated debt to EEV capital and reserves was 17% *(2006: 20%)*. Fixed charge cover, which measures the extent to which external interest costs, including subordinated debt interest and preference dividends, are covered by EEV operating profit was 9.8 times *(2006: 10.3 times)*.

Regulatory bases

Regulatory basis – Group: European Insurance Groups Directive (IGD)

	31 December 2007	31 December 2006
Insurance Groups Directive (IGD) excess solvency	**£3.1 bn**	£3.5 bn
Cover (times) over EU minimum	**1.6 times**	1.8 times

The Group has a regulatory obligation to have positive solvency on a regulatory IGD basis at all times. The Group's risk management processes ensure adequate review of this measure. At 31 December 2007, the estimated excess regulatory capital was £3.1 billion *(31 December 2006: £3.5 billion)*. 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 Group's UK Life funds.

The minimum solvency requirement for the Group's 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 Aviva's 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 the Group's major non-European businesses (the US, Australia and Canada) a risk charge on assets and liabilities approach is used. The IGD is a pure aggregation test with no credit given for the considerable diversification benefits of Aviva.

Our excess solvency of £3.1 billion reflects a net decrease of £0.4 billion since 31 December 2006, driven by increased capital resource requirements due to changes in regulatory rules and a strengthening of the Group's approach to the calculation of the resource requirement. These additional requirements offset the growth in resources due to strong operational performance.

Regulatory basis – General insurance and International

Our principal UK general insurance regulated subsidiaries are AII and Norwich Union Insurance (NUI). During 2007, NUI was transferred to become a subsidiary of the AII Group, bringing all of the UK general insurance operations under AII. The combined businesses of the AII Group have a strong solvency position as set out in the table below. On an aggregate basis the estimated excess solvency margin (representing the regulatory value of excess available assets over the required minimum margin) amounted to £3.7 billion *(31 December 2006: £3.8 billion)* after covering the minimum capital base of £5.5 billion *(31 December 2006: £4.5 billion)*.

Business review continued:

Capital management continued

	31 December 2007 All Group	31 December 2006 All Group pro forma including NUI
Capital resources	**£9.2bn**	£8.3bn
Capital resources requirement	**£5.5bn**	£4.5bn
Solvency surplus	**£3.7bn**	£3.8bn
Cover	**1.7 times**	1.8 times

Regulatory basis – Long-term businesses

For the Group's non-participating worldwide life assurance businesses, our capital requirements, expressed as a percentage of the EU minimum, are set for internal management and embedded value reporting purposes as the higher of:

- Target levels set by reference to internal risk assessment and internal objectives, taking account of the level of operational, demographic, market and currency risk.
- Minimum capital level (ie level of solvency capital at which local regulator is empowered to take action).

The required capital across the Group's life businesses varies between 100% and 250% of EU minimum or equivalent. During the year, we reduced the required capital for the UK annuity business from 150% to 100% of required minimum margin, bringing it into line with the remainder of the non-profit portfolio. The weighted average level of required capital for the Group's non-participating life business, expressed as a percentage of the EU minimum (or equivalent) solvency margin has decreased to 130% (*31 December 2006: 134*%) reflecting the reduction in the level of required capital for the UK annuities business.

These levels of required capital are used in the calculation of the Group's embedded value to evaluate the cost of locked in capital. At 31 December 2007 the aggregate regulatory requirements based on the EU minimum test amounted to £5.1 billion *(31 December 2006: £4.3 billion)*. At this date, the actual net worth held in the Group's long-term business was £10.5 billion *(31 December 2006: £8.9 billion)* which represents 205% *(31 December 2006: 206%)* of these minimum requirements.

Regulatory basis – UK Life with-profit funds

The available capital of the with-profit funds is represented by the realistic inherited estate. The estate represents the assets of the long-term with-profit funds less the realistic liabilities for non-profit policies within the 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, guarantees and promises. Realistic balance sheet information is shown below for the three main UK with-profit funds; CGNU Life, Commercial Union Life Assurance Company (CULAC) and Norwich Union Life & Pensions (NUL&P). These realistic liabilities have been included within the long-term business provision and the liability for insurance and investment contracts on the Group's IFRS balance sheet at 31 December 2007 and 31 December 2006. Aviva recently announced a one off, special bonus of £2.3 billion in respect of the CGNU Life and CULAC with-profits funds, the impact of this special bonus is reflected in the numbers presented below.

	31 December 2007					December 2006
	Estimated realistic assets £bn	Realistic liabilities* £bn	Estimated realistic inherited estate** £bn	Estimated risk capital margin† £bn	Estimated excess £bn	Estimated excess £bn
CGNU Life	**14.5**	**(13.1)**	**1.4**	**(0.3)**	**1.1**	2.0
CULAC	**13.9**	**(12.7)**	**1.2**	**(0.4)**	**0.8**	2.0
NUL&P‡	**26.1**	**(24.2)**	**1.9**	**(0.6)**	**1.3**	1.2
Aggregate	**54.5**	**(50.0)**	**4.5**	**(1.3)**	**3.2**	5.2

* These realistic liabilities include the shareholders' share of future bonuses of £1.2 billion *(31 December 2006: £0.7 billion)*. Realistic liabilities adjusted to eliminate the shareholders' share of future bonuses are £48.8 billion *(31 December 2006: £48.6 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 £0.7 billion, £0.8 billion and £3.0 billion for CGNU Life, CULAC and NUL&P respectively *(31 December 2006: £0.5 billion, £0.7 billion and £3.0 billion for CGNU Life, CULAC and NUL&P respectively)*.

** Estimated realistic inherited estate at 31 December 2006 was £2.5 billion, £2.5 billion and £1.8 billion for CGNU Life, CULAC and NUL&P respectively. The distribution has resulted in a £2.3 billion reduction in the estimated realistic inherited estate.

† The risk capital margin (RCM) is 3.5 times covered by the inherited estate *(31 December 2006: 4.2 times)*. The RCM is lower as a result of de-risking the cost of guarantees.

‡ The NUL&P fund includes the Provident Mutual (PM) fund which has realistic assets and liabilities of £2.1 billion and therefore does not impact the realistic inherited estate.

Investment mix

The aggregate investment mix of the assets in the three main with-profit funds at 31 December 2007 was:

	31 December 2007 %	31 December 2006 %
Equity	**37%**	42%
Property	**13%**	16%
Fixed interest	**37%**	36%
Other	**13%**	6%
	100%	100%

The equity backing ratios, including property, supporting with-profit asset shares are 75% in CGNU Life, and CULAC and 70% in NUL&P. New with-profit business is mainly written through CGNU Life.

A de-risking strategy has been implemented in CGNU Life and CULAC to protect the estate from variations in equity and property values. While the asset mix for funds backing policyholder liabilities were unchanged by this, the de-risking involved the reduction of the equity proportion of the assets backing the cost of guarantees and the inherited estate by approximately £2 billion.

Potential reattribution of the inherited estate

Aviva's negotiations with the Policyholder Advocate, Clare Spottiswoode, regarding the potential reattribution of the remainder of the inherited estates of CGNU Life and CULAC continue. We are keen to bring this to a conclusion soon so that we can put an offer to policyholders as early as possible. We will only complete this process if we are able to negotiate an arrangement that is fair to policyholders and shareholders.

Regulatory basis - Solvency II

Solvency II represents new legislation which proposes a fundamental review of the capital adequacy regime for the European insurance industry. It aims to establish a revised set of EU-wide capital requirements and risk management standards that will replace the current requirements applicable to European insurance firms and Groups. Solvency II is a unique opportunity to modernise the regulation of insurance companies and groups. Aviva is fully committed to contributing to the success of Solvency II and continues to play an active role in its development through participation in the consultation and quantitative impact studies run by the European Commission and European Regulators, as well as working with industry forums and working parties. Solvency II has the potential to align regulatory capital with internal risk processes and measures, provided the possible problems and pitfalls are avoided. While the proposed regime is still at an early stage, the progress has been encouraging; the European Commission published its draft proposal for the high level principles, "Level 1 Framework Directive", in July 2007 and it is envisaged that the full suite of rules will be in place by the end of 2010, with full implementation by 2012.

Rating agency bases

Ratings are important in supporting access to debt capital markets and in providing assurance to business partners and policyholders over the financial strength of the Group and its ability to service contractual obligations. In recognition of this, the Group has solicited rating relationships with a number of rating agencies. Rating agencies generally assign ratings based on an assessment of a range of financial (e.g. capital strength, gearing and fixed charge cover ratios) and non financial (e.g. competitive position and quality of management) factors. Managing our capital and liquidity position in accordance with the Group's target rating levels is a core consideration in all material capital management and capital allocation decisions.

Economic bases

The Group uses a risk based capital (RBC) model to assess its economic capital requirements and to aid in risk and capital management across the Group. This model is used to support the Group's Individual Capital Assessments (ICA) which are reported to the FSA for all UK regulated insurance businesses.

This model is based on a framework for identifying the risks that business units, and the Group as a whole, are exposed to. The FSA now uses the results of our ICA process when setting target levels of capital for the UK regulated businesses. In line with FSA requirements, the ICA estimates the capital required to mitigate the risk of insolvency to a 99.5% confidence level over a one year time horizon (equivalent to events occurring in one out of 200 years) against financial and non-financial tests. Currently our ICA uses a mixture of scenario based approaches and stochastic economic capital models. Tests covering investment and insurance scenarios are specified centrally to provide consistency across businesses and to achieve a minimum standard. Where appropriate, businesses may also supplement these with tests specific to their own situation. In aggregating the various risk tests at business unit and Group level, we allow for correlation effects between different risks as well as diversification benefits. This means that the aggregate sum of the risks is less than the sum of all of the individual risks. Financial modelling techniques enhance our practice of active risk and capital management, ensuring sufficient capital is available to protect against unforeseen events and adverse scenarios. Our aim continues to be the optimal usage of capital through appropriate allocation to our businesses. 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.

Capital management actions

During the year, we have undertaken a number of proactive actions in relation to capital management:

– In the UK, Norwich Union generated operational capital of £0.3bn through financial reinsurance, improving the returns for shareholders through the use of leveraged capital. Norwich Union also recently completed a capital transaction transferring to Swiss Re an economic interest in part of the UK Life policy book to be administered by them under the outsourcing agreement made earlier in 2007, which comes into effect as this business migrates to Swiss Re over 2008 and 2009.

– In the US, our Life business completed a transaction to offset the onerous capital requirements imposed by regulation AXXX. The transaction relates to equity indexed life contracts including a no lapse guarantee. At the end of 2007, approximately £0.1bn of liability was ceded to a captive reinsurance company. The amount ceded is expected to grow significantly in future years.

– Consistent with a focus on EPS growth, we have also announced the withdrawal of the current scrip dividend scheme and the introduction of a Dividend Reinvestment Plan, which avoids new share issuance, from the 2008 interim dividend onwards.

– We also continue to actively manage our exposure to investment risk and in the second half of 2007 we reduced our exposure to equity market volatility by selling £2.6bn and £0.8bn of equities in our general insurance shareholder funds and the staff pension schemes respectively. These actions are consistent with our ongoing focus on efficient capital management and enhancing returns to shareholders.

Risk management

The Group's approach to risk and capital management

As part of our overall corporate governance framework described on pages 82 to 87 we operate a risk management structure, under the leadership of a Group Chief Risk Officer whose primary objective is to align the strategic decisions of the group with shareholder risk appetite. Group Risk has a mission also to manage risks by protecting the group from events that can hinder the achievement of our objectives, our financial performance, or cause us to fail to exploit opportunities. Risk management incorporates an integrated group-wide approach to identify, assess, measure, manage, and monitor the risks to which our businesses are exposed. Group Risk is also responsible for regulatory risk and relationship with our regulators worldwide, for managing the corporate governance and for business continuity programmes.

We have established a number of policies that deal with the management of both financial and non-financial risks. These policies define our risk appetite and set out risk management and control and business conduct standards for the group's worldwide operations. They enable a broadly consistent approach to the management of risk by business units. For each policy, a member of senior management is responsible for overseeing compliance with that policy throughout the group.

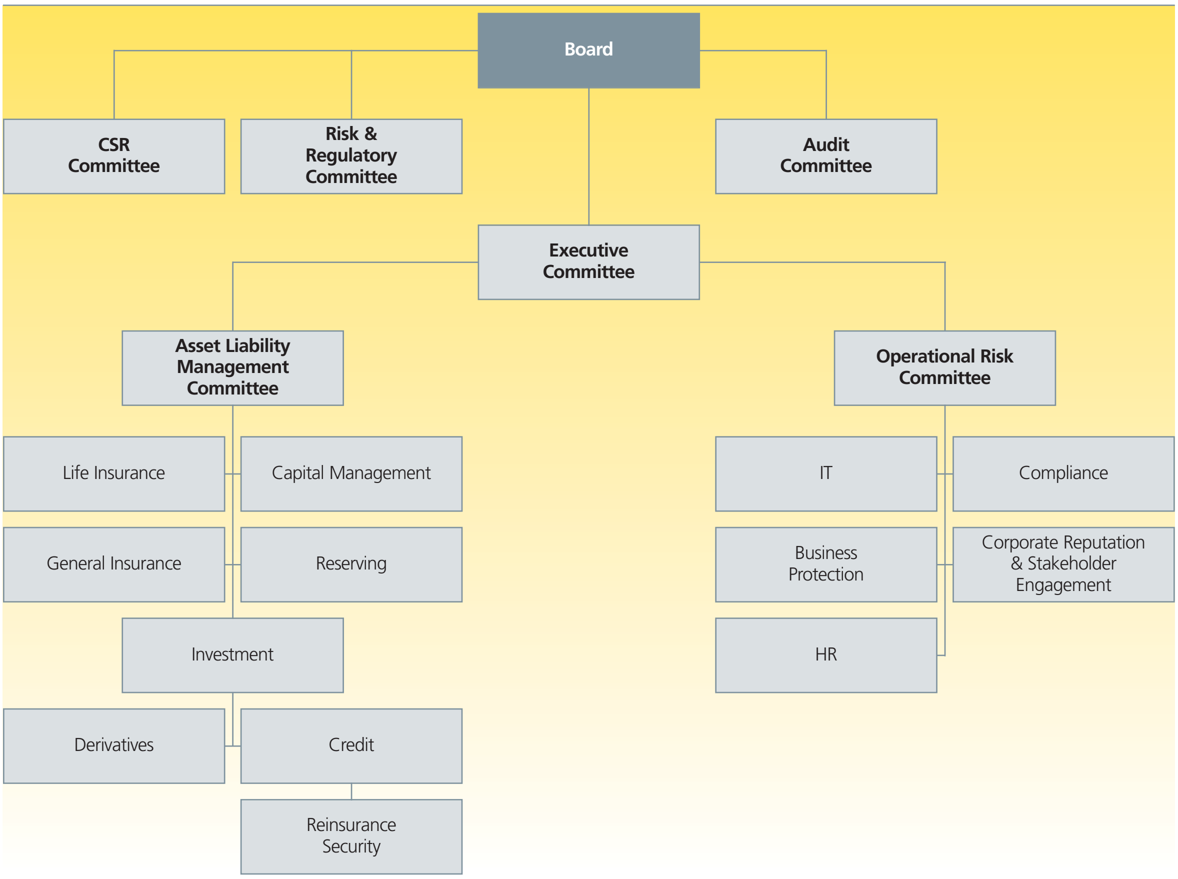
Risk management is coordinated by a central Group team, led by the Group Chief Risk Officer. Within our regional structure, each regional support office is in the process of appointing regional risk officers will that work under the leadership and coordination of Group Risk to ensure that the risk profile within the regions is under the limits established and agreed by the Group centre. The regional risk officers work with the business unit risk officers to ensure that the risk management framework is embedded and working appropriately in our businesses, and work with the Group senior management to communicate and coordinate risk management decisions that are taken at a group level.

Additionally, we operate a number of oversight committees to monitor aggregate risk data, take risk management decisions, and to ensure the implementation of the risk policies. Our risk management committee structure is set out below.

Group Risk also reports to the Chairman of the Risk & Regulatory Committee assuring independence of the function. Our governance structure and policies are regularly reviewed to reflect the changing commercial and regulatory environment, and our own organisational structure.

In 2007 we have reviewed our group policy set. The policies have been refreshed, and set out in consistent language both the inherent risks Aviva faces and the minimum standards of control required to mitigate them. The policies clearly set out the roles and responsibilities of businesses, regions, policy owners, and group oversight committees, reflecting the change in organisational structure that has taken place in Aviva. These policies became effective on 1 January 2008, and will become fully embedded during 2008.

Risk Committees: Financial and Operating Risk



Our governance structure and policies are regularly reviewed to reflect the changing commercial and regulatory environment, and our own organisational structure.

Risk and capital management

We believe that the measurement of economic capital provides a clear and consistent way to monitor and compare the risks in our businesses.

As previously explained, we have developed a capital management framework using Individual Capital Assessment (ICA) principles for identifying the risks that business units, and the group as a whole are exposed to, quantifying their impact on economic capital.

ICA analysis is now incorporated into our key decision making processes. Our ICA models inform us about the relative impact on economic capital from the risks we face, enabling us to formulate mitigating strategies.

We also use financial condition reports which cover the medium-term financial outlook of the business, including forecasts of the overall financial position and key performance indicators under a variety of economic and operating scenarios, allowing for new business sales, to inform our capital and risk management decisions.

We monitor specific risks on a regular basis through our risk monitoring framework. Our businesses are required to disclose all material risks along with information on the likelihood and severity of these risks and the mitigating actions taken or planned. This process enables us to assess the overall risk exposure of the group, to develop a group-wide risk map identifying concentrations of risk and to define the risks that we are prepared to accept. This risk map is continually monitored and is refreshed quarterly.

The risks facing Aviva

Aviva faces a wide variety of financial, insurance, and other risks from our business's operations, which we have categorised in four groups. These are shown in the chart below:

The types of risks in our business and the way in which we manage them are discussed in detail below.

Market risk

We are exposed to potential adverse financial impact from variation in the values of our investments, caused by changes in equity and property prices, credit risk, interest rates, liquidity, and foreign exchange rates.

Our business has market risk from fluctuations in both the values of assets held and the value of liabilities. At a group level, we have market risk from owning a portfolio of international businesses whose values can change, and from assets that support the liabilities of our staff pension scheme.

We recognise that market risk is part of the businesses that we run, and that a certain level of market risk is acceptable in order to deliver benefits to both policyholders and shareholders. For each type of market risk, we have developed clear policies and procedures on how that risk should be monitored and managed, either within our business units or at a group level. Our group investment committee (GIC) is responsible for overseeing market risk. For example, the GIC identifies the levels of market movement at which mitigating actions should be taken.

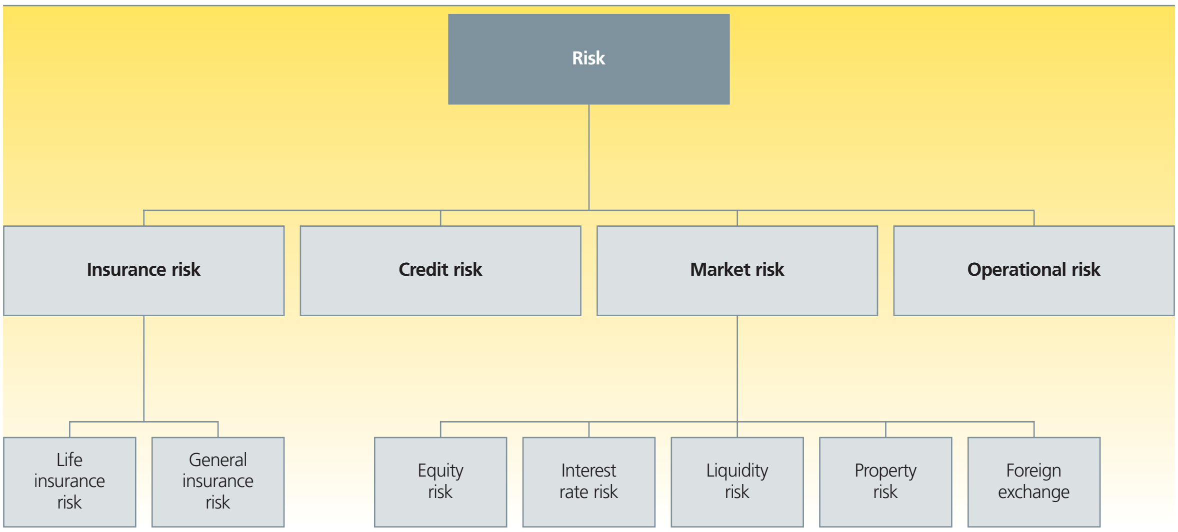
Actions could include buying downside protection against movements in equity prices or interest rates. The GIC also considers aggregation of market risk, including indirect market risk exposure from our staff pension schemes, and formulates risk appetite decisions for the amounts invested in different types of asset, and where appropriate reduces or increases exposure to asset classes.

We manage market risk and apply our market risk policy to all of the group's financial assets, including both policyholder assets (those assets supporting the technical liabilities) and shareholder assets (the surplus assets held within the businesses and Aviva group centre not required to meet policyholder benefits, and any additional assets held to cover regulatory margins). In practice assets can move between these categories. The total of policyholder and shareholder assets will account for all the investments of the business.

Asset liability management is ultimately overseen by the Group Asset Liability Management Committee in which all the members of the Executive Committee are members.

We also continually monitor the financial impact of changes to market values through a number of measurements of economic capital or sensitivities to key performance indicators.

Several of our long term savings businesses sell products where the majority of the market risk is borne by the policyholder. Any market risk attributable to policyholders is prudently managed to satisfy the policyholders' objectives for risk and reward.



Business review continued:

Risk management continued

Our market risk policy sets out the minimum principles that business units are expected to follow in managing the assets backing the technical insurance liabilities. We have set standards for the way businesses should match their liabilities with appropriate assets, and have a clear decision-making and monitoring process to be followed when liabilities cannot be matched or a degree of mismatching is desired. We regularly monitor how business units are performing asset liability management (ALM) at both the group investment committee and group asset liability management committee. ALM issues are considered as part of our business risk reporting, and in determining ICA and Risk Based Capital requirements.

Equity price risk

Our largest market risk exposure is to changes in equity prices. However, recent equity market rises in the past few years resulted in our equity risk rising to a level that was not optimal when compared to risk appetite, and so the equity holdings were reduced within a number of our general insurance shareholder funds. Equity risk was also reduced within the UK Staff Pension fund in the third quarter of 2007. This reduced our equity exposure by £3.5 billion.

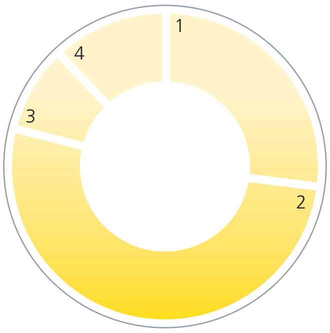
A 10% decrease in equity prices causes a £775 million pre-tax decrease in the level of shareholders' funds on an IFRS basis and on an EEV basis would reduce embedded value by £1,155 million, net of tax.

Our GIC continually monitors exposure against a risk appetite set and agreed by the Board, and has a process in place to manage the exposure in different market conditions, including extreme movements.

We monitor concentrations of equity risk, for example from material shareholdings in our strategic business partners, or from equities held in our staff pension schemes. We formulate our equity risk management strategy taking into account the full range of our equity holdings.

Shareholders' equity holdings by currency

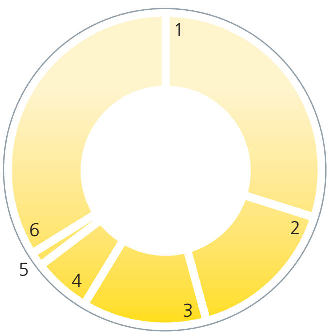
	%
1 Sterling	27
2 Euro	52
3 US dollar	9
4 Other	12
Total	100



Credit risk exposures

	%
1 AAA	30
2 AA	16
3 A	13
4 BBB	6
5 Speculative Grade	1
6 Not rated	34
Total	100

Note: Not Rated includes mortgages and other debt that does not attract an external rating.



Interest rate risk

Interest rate risk is the risk that arises from both the products we sell and the value of our investments due to changes in the level of interest rates. For example, long-term debt and fixed income securities are both exposed to fluctuations in interest rates. We are exposed to reductions in interest rates on business carrying investment return guarantees, and to interest rate increases on business carrying surrender value guarantees. A 1% decrease in interest rates would increase shareholders' funds on an IFRS basis by £939 million pre-tax and on an EEV basis would increase embedded value by £685 million, net of tax. Sensitivities to increases in interest rates are shown in note 55 and the section on EEV reporting.

We manage our interest rate risk in a number of ways. In some categories of our long-term business, we reduce interest rate risk through the close matching of assets and liabilities. On short-term business such as general insurance business, we require a close matching of assets and liabilities by duration to minimise this risk.

If we cannot entirely remove exposure through matching, we also use a variety of derivative instruments including futures, options, swaps, caps and floors in order to hedge against unfavourable market movements in interest rates.

Property price risk

We invest in physical property assets, in a variety of locations worldwide that are exposed to fluctuation in values. We believe investing in these assets provides long-term benefits for our businesses and clients. Investment in property is managed locally by our business units, subject to the risk appetite of that business unit, and within any local regulations on asset admissibility or liquidity.

Liquidity risk

Maintaining sufficient available liquid assets to meet our obligations as they fall due is an important part of our financial management practice. Our businesses must all operate controls to identify sources of liquidity risk, monitor potential exposures, and manage their liquidity requirements.

At group level, we maintain a prudent level of liquidity consistent with the expectations of the FSA and the investment community. We also maintain a buffer of liquid assets to cover unforeseen contingencies including the provision of temporary funds to any of our business units that experience temporary liquidity shortfalls, and the group maintains significant committed borrowing facilities from a range of highly rated banks to further mitigate this risk.

Foreign currency exchange risk

We operate internationally and we are therefore exposed to the financial impact arising from changes in the exchange rates of various currencies. Over half of our premium income arises in currencies other than sterling and our net assets are denominated in a variety of currencies, but predominantly in sterling, euros and US dollars.

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 their local currency to match local currency liabilities. We are also exposed to some exchange risk from assets held in staff pension schemes, as a part of the investment strategy agreed with the scheme trustees, although this has now been largely hedged.

Movements in exchange rates may affect the value of consolidated shareholders' equity, which is expressed in sterling. 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 we feel it is appropriate; for example, in any acquisition or disposal activity.

Derivatives risk

We use derivatives in a number of our businesses to enable efficient investment management, to hedge investment risks, or as part of structured retail savings products. Derivatives can involve complex financial transactions and to minimise the risks involved we have set minimum standards we expect our businesses to adopt when using derivatives and our group derivatives committee monitors exposures, the control framework, and approves any proposed transactions that fall outside the local business delegated authorities. A number of our investment management businesses operate hedge funds; these are subject to the same Aviva control framework for using derivatives in addition to local regulatory supervision of such funds.

Credit risk

We have a significant exposure to credit risk through our investments in corporate bonds, commercial mortgages, and other securities. We hold these investments for the benefit of both our policyholders and shareholders.

We monitor and manage two types of credit risk. Firstly, we manage the exposure to individual counterparties, by measuring exposure against centrally set limits. The aggregate exposure we are prepared to accept takes account of credit ratings issued by rating agencies such as Standard & Poor's. We also manage the level of risk we are prepared to take, and we are using increasingly detailed analysis to define our optimal balance between risk and reward, monitoring the types of investment available to us to achieve best our aims.

We also consider the risk of a fall in the value of fixed interest securities from changes in the perceived credit worthiness of the issuer which is typically recognised through changes in the fixed interest securities' credit spreads.

Our group credit committee (GCC) takes responsibility for monitoring credit exposures to individual counterparties and determining who we are prepared to work with. Our GIC sets the credit risk appetite as part of our overall management of market risk. In 2008 we will be enhancing our capability to monitor and manage credit risk through the development of credit risk management systems.

We are also exposed to credit risk through our use of reinsurance. Our reinsurance security committee, part of our GCC, verifies that reinsurance arrangements are only placed with providers who meet our counterparty credit standards.

Insurance risk

Our core business is insurance, and we carefully manage the risks arising from the life and general insurance business that we write.

Life insurance risk

Our life insurance businesses are exposed to the full range of life insurance risks from the products that they have written, typically longevity, mortality, and morbidity risk, as well as experience on persistency and unforeseen expenses.

Our policy on life insurance risk sets out the practice standards we expect our business units to follow in underwriting such risks, and our life insurance risk committee regularly monitors its application, and develops detailed guidance on managing the major areas of risk, and sponsors the sharing of best practice between businesses.

Longevity risk

We have a significant exposure to annuity business and our most significant life insurance risk is associated with longevity. Longevity statistics are monitored in detail, compared with emerging industry trends, and the results are used to inform both the reserving and pricing of annuities. Inevitably, there remains uncertainty about the development of future longevity that cannot be removed. Should our annuitant mortality assumptions worsen by 5% then shareholders' equity would decrease by £295 million pre-tax on an IFRS basis and decrease embedded value by £210 million on an EEV basis, net of tax.

Mortality and morbidity risk

Our business units manage mortality and morbidity risk on protection business using reinsurance and while they can select reinsurers locally, we review reinsurance coverage across the group and our overall reinsurance programme is assessed centrally to manage group-wide risk exposures. Sensitivity tests show that we are not materially affected by mortality risk. Our equity reduces by only £20 million for a 5% worsening in assurance mortality experience on an IFRS basis and decreases embedded value by £145 million on an EEV basis, net of tax.

Persistency risk

Persistency risk affects all of our life insurance businesses and is managed at a business unit level through frequent monitoring of current experience, benchmarked against local market information. Actual experience against the expected level of lapses is also assessed within the analysis of embedded value operating profit. Where possible, the financial impact of lapses is reduced through appropriate product design. The group life insurance risk committee has developed guidelines on persistency management, sharing best practice on the setting of lapse assumptions, product design, experience monitoring, and management action.

Expense risk

Expenses are managed at a business unit level, as part of general day-to-day business management, and expense management is a key part of a business' ability to meet financial targets.

Business review continued:

Risk management continued

General insurance risk

Our general insurance businesses are exposed to a typical range of general insurance risks from the business that they underwrite.

Such risks include:

- Fluctuation in the timing, frequency and severity of claims and claim settlements compared to that expected when the business was written
- Unexpected claims arising from a single source
- Inadequate reinsurance protection or other risk transfer techniques
- Inadequate reserves

Our group general insurance risk committee (GIRC) oversees the risk management framework, within a clearly communicated underwriting strategy. We have, as a group, made a clear statement on the target for the combined operating ratio (COR). To achieve this goal, we operate technical management committees focusing on each of our key general insurance risks in detail for example, underwriting, claims management, and reinsurance.

Catastrophe Risk

Our largest risk is claims incurred from catastrophic events. This risk is controlled through monitoring risk aggregations and using catastrophe reinsurance cover.

Reinsurance cover

We actively use reinsurance to help reduce the financial impact of a catastrophe and to manage the volatility of our earnings. Reinsurance purchases are reviewed annually at both business unit and group level to verify that the protection we have purchased matches the level of exposure. Reinsurance arrangements are only placed with providers who meet our counterparty security standards. We use extensive financial modelling and actuarial analysis to optimise the cost and risk management benefits from our reinsurance programme.

We cede much of our worldwide catastrophe risk to third-party reinsurers, but retain a pooled element for our own account, gaining diversification benefits. Our total retained risk increases as catastrophe events become more remote, so that our total loss from our most concentrated exposure (northern European wind storm) is approximately £370 million for a one in ten year event, compared to approximately £700 million for a one in 100 year event.

Claims ratios

Another material risk is the impact of worsening claims ratios. This risk is actively managed through business unit focus on underwriting discipline, control of claims management, and finding innovative solutions to the way we measure and price the risk we underwrite. For example, our UK business has developed digital flood mapping to understand better the risk to household insurance from flood damage, and has developed "telematics", our Pay As You Drive™ technology to provide a closer link between risk and pricing.

Emerging insurance risks

Both life and general insurance business are subject to new types of risk which may emerge. By their very nature these risks are evolving, uncertain, and difficult to quantify.

Recent developments relating to avian flu and other pandemic risks have raised considerable interest in the life insurance market. Our life insurance risk committee monitors developments in these risks based on published industry research, and makes assessments of the impact on the group through stress and scenario testing.

In general insurance potential risks include the impact of climate change. Emerging claims types are considered when setting latent claims reserves, and through the underwriting and pricing process.

Operational risk

We are also exposed to operational risk arising from inadequately controlled internal processes or systems, human error and from external events. This includes all risks that we are exposed to, other than the financial risks described above and strategic and group risks. Operational risks include risks relating to:

- Regulation, information technology, financial crime, business protection, human resources, outsourcing, purchasing, communications, and legal
- Brand management, customer management, products, sales management and distribution
- Financial processes including financial reporting and taxation
- External developments

Our businesses are primarily responsible for identifying, managing and reporting these risks as part of our quarterly risk reporting processes. Each operational risk is assessed by considering the potential impact and the probability of the event occurring. Impact assessments are made against financial, operational and reputational criteria.

Business management teams must be satisfied that all material risks falling outside our risk appetite are being mitigated, monitored and reported at an appropriate level. Any risks with a high impact level are continually monitored centrally.

Our operational risk committee (ORC) determines the risk appetite that the group can work within for these types of risk, assesses and monitors overall operational risk exposures, identifying any concentrations of operational risk across the group, and in particular verifies that mitigating action plans are implemented.

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. In addition to fulfilling this legal obligation, the group has also complied with IFRS as issued by the IASB and applicable at 31 December 2007.

The financial data contained in the report and accounts has been prepared using the group's accounting policies set out on pages 114 to 125. Where applicable, the financial statements have also been prepared in accordance with the Statement of Recommended Practice (SORP) on accounting for insurance business issued by the Association of British Insurers (ABI) in December 2005, as amended in December 2006.

Following a review of certain balance sheet items, we have restated the 2006 comparative figures to gross up for cash collateral items and to reclassify certain certificates of deposit. Details are given in note 2 to the financial statements.

European Embedded Value (EEV) basis of reporting

We present the results and financial position of our life and related businesses on an EEV basis, in addition to the IFRS basis. The directors consider that the EEV methodology represents a more meaningful basis of reporting the underlying value of the Group's life and related businesses and the underlying drivers of performance than IFRS methodology. This basis allows for the impact of uncertainty in the future investment returns more explicitly and is consistent with the way the business is priced and managed.

The EEV methodology adopted is in accordance with the EEV Principles introduced by the CFO Forum in May 2004, and updated in October 2005. Under the EEV methodology, the total profit recognised over the full lifetime of an insurance policy is the same as under the IFRS basis of reporting. However, the EEV basis gives a fairer indication of the profitability of business on inception. Additionally, shareholders' funds on an EEV basis incorporate internally generated additional value of in-force business (AVIF), which is excluded for IFRS reporting. Our incentive schemes and internal management reporting are largely aligned to the EEV basis. These financial statements include supplementary information on EEV reporting in the "Alternative method of reporting long-term business" section.

Longer term investment return

The long-term nature of most of our operations means that short-term realised and unrealised gains and losses are shown as an adjustment to operating profit. We focus instead on operating profit incorporating a longer term investment return (LTIR). Our rates of return that we use for equity and property in our LTIR methodology are aligned with the rates that we use under EEV principles. For fixed interest securities, we include the amortisation of premiums or discounts arising on purchase, thereby producing an LTIR that is equivalent to the gross redemption yield.

Previously this methodology has been applied to our general insurance and health businesses but following the adoption of a new operating profit definition in November 2007, this has been extended to our long-term savings business. Further details of this change are set out in note 2 to the financial statements on page 132.

Critical accounting policies and 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, balance sheet, other primary statements and notes to the financial statements. These are set out on pages 114 to 125.

Critical accounting policies

The major areas of judgement on policy application are considered to be over whether Group entities should be consolidated (set out in policy D), on product classification (set out in policy F) and in the classification of financial investments (set out in policy S).

Use of estimates

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

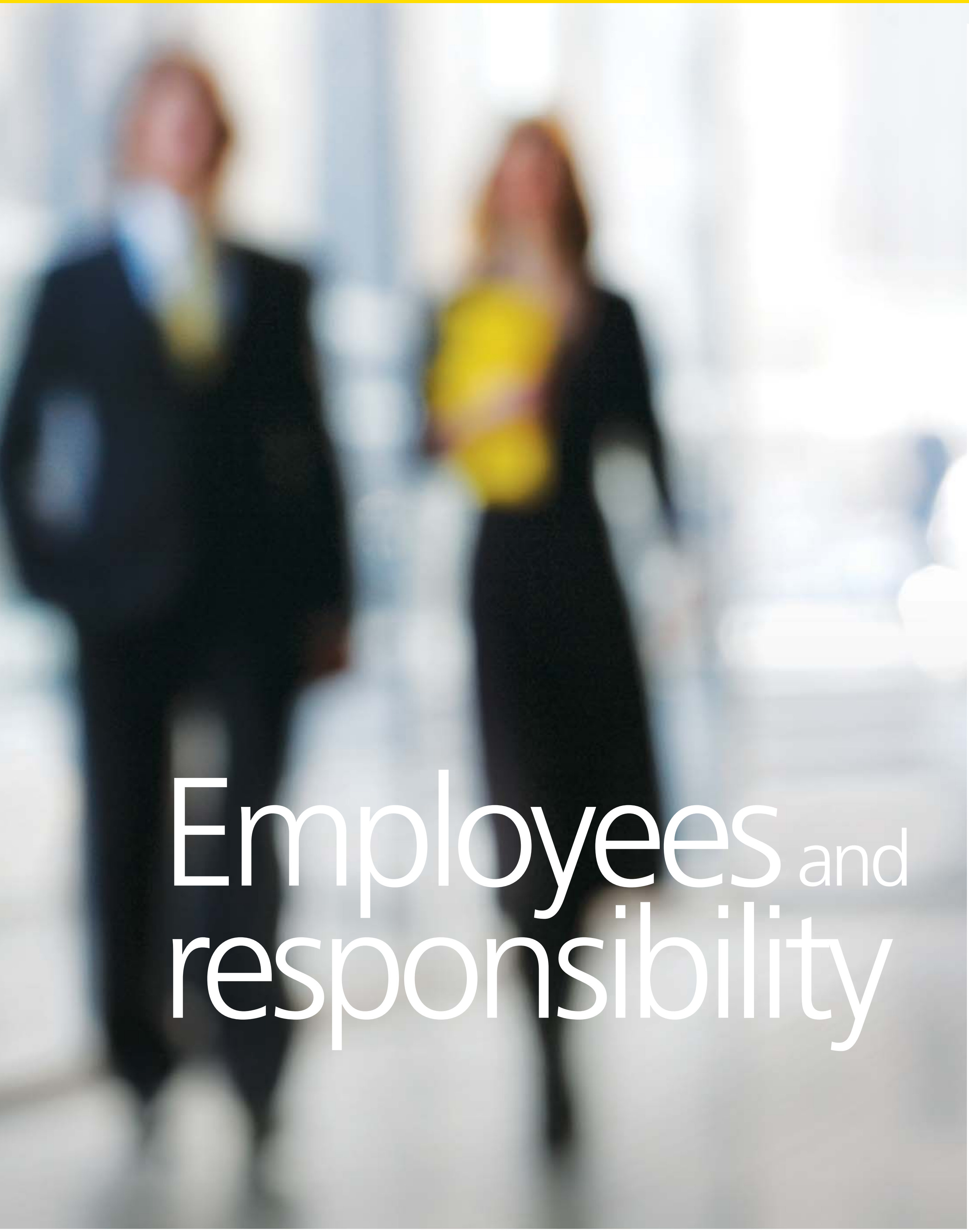
The table below sets out those items that we consider particularly susceptible to changes in estimates and assumptions, and the relevant accounting policy.

Item	Accounting policy
Insurance and participating investment contract liabilities	F & K
Goodwill, AVIF and other intangible assets	N
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 tax	AB

Future accounting developments

We continue to take an active role in the development of new accounting standards, via industry forums and working parties, and reviewing and providing comment on proposals from the IASB. Phase II of the IASB's project on insurance contracts remains the most significant area of development to us. We fully support the timely development of a global standard for insurance accounting that reflects the economics of our business. A discussion paper setting out the IASB's preliminary view was published in May 2007 and we responded both directly and through the CFO Forum of leading European insurers, in which we play an active role. This is the first stage in the development of the IASB's standard and it is unlikely to be finalised before the end of 2010 at the earliest. These developments are still at a relatively early stage so it is too soon to assess the impact this change in accounting will have. While this standard is under development, we will continue to focus on EEV as the best measure of value for our long-term business. We continue to monitor other major IASB projects including financial statement presentation, liabilities, revenue recognition and fair value measurement.

Employees and responsibility



Dear Shareholder,

2007 has been a year of great progress in Aviva's employee and responsibility agenda in support of our "one Aviva, twice the value" vision. Progress included the creation of a regional structure for Aviva, international moves of senior leaders, the effective implementation of our people strategy and improved visibility for corporate social responsibility (CSR). All these activities have strengthened Aviva and provide an excellent foundation for further progress in 2008.

We have improved our talent management processes, the way we lead our people, and are building Aviva as an engaging place to work. This was supported by a 70% (*2006: 66%*) participation rate in the global employee survey, which showed strong and improving results, and in which 70% of participants agreed that Aviva is a great place to work.

Our CSR plans are key to our business strategy and we made further progress in 2007. Key initiatives included our carbon offsetting and carbon reduction programme, building employee awareness and engagement in all aspects of CSR, including volunteering.

This review is an update on our progress and achievements to date. It represents a level of performance of which we can be proud, and one on which we can build further to meet our plans to be an employer of choice and a responsible corporate citizen.

John Ainley
Group human resources director

Talking Talent

Manage talent to maximise productivity and fulfilment of objectives for Aviva and the individual.

Leading People

Recruit and develop leaders who excite their people to exceptional performance, bringing to life the relationship between engaged employees and satisfied customers.

Experiencing Aviva

Build Aviva as a strong employment brand by delivering a great employee experience.

Embedding our CSR vision

Act responsibly for the long term in how we do business, to help meet our ambition of being the world's most trusted savings, investment and insurance provider. Managing and steering performance on business ethics, values, environment and diversity is central in our interactions with customers, our people, community and suppliers.

We report our progress on CSR fully in a separate CSR report, which is available online at www.aviva.com/csr.

Employees and responsibility continued

Employees and responsibility

Aviva's ambition is to be the world's most trusted savings, investment and insurance provider and we will achieve this in part by exciting our people to exceptional performance. This, then, is our goal as we deliver on our employee and responsibility agenda and strive to meet the expectations of our stakeholders:

– Our **shareholders**, who wish to receive a return on their investment, but also to be assured that the company is behaving responsibly in how it operates
– Our **customers**, who rightly expect Aviva to treat them fairly and to be open and honest in the products and services we offer them
– Our **employees**, whose engagement and commitment to delivering a great service to our customers is essential
– The **communities** in which we operate, and the **suppliers and organisations** with which we work, who want Aviva to be a responsible employer and partner, thinking about the way we do business and acting responsibly to the benefit of all

Governance

Governance of our people and CSR agenda operates at Board level through regular updates and reviews and, in particular, through the activity of the Board Committees on CSR and Remuneration. The reports of both these committees can be found on pages 92 and 93 respectively.

John Ainley, group human resources director, is responsible for implementing the employee and responsibility strategy and is supported by strong teams at the group, regional and business unit level who work together to deliver our objectives. Apart from regular monthly meetings and global task forces, annual global conferences are organised for this community to network, exchange best practices, review progress and agree on the collective agenda for the organisation.

In 2007, substantial work was undertaken to identify the risks in implementing the CSR, environment and people policy. In alignment with the group risk management process, we have established means to identify risks and mitigating actions through a robust set of metrics. In 2008 we will continue to embed these new policies as well as strengthening the risk assessment process.

People

We employ some 57,000 people worldwide. In 2007 we put in place a new regionalised structure comprised of the UK, Europe, Asia Pacific and North America. Together with our group centre function, the strategy to create a lean, activist group centre and empowered regional teams is now operational, encouraging growth, the sharing of best practices and the achievement of regional business objectives and synergies.

To help set up the new structure, there were a number of moves amongst our senior people in 2007 creating a better balance of talent across the group. In all circumstances where we undertake major structural change we seek to minimise the number of compulsory redundancies through voluntary turnover and redeployment. Where unavoidable redundancies take place we provide support to affected employees through outplacement services and job search assistance. Further details are provided on aviva.com/csr.

In 2007, we conducted extensive research through focus groups into our employees' experiences of working for Aviva to help us understand what Aviva meant to them as an employer. The findings from this exercise are now being worked into an employment brand strategy, enabling us to attract and retain talent in highly competitive markets. We are also providing business units with practical tools to bring the employment brand to life locally.

The quality of people leadership will be critical in delivering on our plans. In 2007 we developed a leadership feedback tool which we will roll out across the group in 2008 and 2009. The tool is for use by anyone with line management responsibility, recognising the importance of the line management relationship in employee engagement, and has been successfully piloted in 2007.

Talent management

Managing our employee talent is fundamental to the success of Aviva. Our "Talking Talent" process was piloted amongst the group's senior managers in 2007 and will be rolled out globally across Aviva in 2008 and 2009. Talking Talent is underpinned by a shared belief that all of our people have talent that can be harnessed to the benefit of our customers. It is therefore in our interest that we understand those talents using a consistent framework and then deploy our employees in the right jobs at the right time.

70% consider Aviva a great place to work
(Employee survey 2007)

Improvement against 2006 survey	Base points
Communication	7
Empowerment and innovation	6
Talent management	5
Values	4
Engagement	4
Diversity index	4
Leadership	4
Customer focus	2
Efficiency and effectiveness	2

In a continued effort to create a strong annual feedback mechanism for employees', we carried out our global employee climate survey for the third consecutive year. We had a strong overall participation rate of 70% *(2006: 66%)* with four business units achieving a 100% participation. The results showed improvement on all survey categories and improved performance against our external benchmark of performance in global financial services companies.

Our senior management pay is linked to employee survey results through clear targets on leadership and engagement. We also pay special attention to action-planning using the results: the businesses, regions and group draw up plans to address employee issues and to build on our existing strengths. Progress on these plans is then shared with employees before the next survey cycle.

During the course of 2007, we conducted a major redesign of the programmes offered through the Aviva Leadership Academy which continues to support our leadership work. Working with a range of the world's foremost institutions in the field of leadership development, the programmes now provide a unique opportunity for Aviva managers to gain deeper self-insight and awareness of the impact of their leadership. It strongly supports the concept of "One Aviva" by encouraging an international network of colleagues to learn from each other while gaining insights and fresh perspectives from the outside world.

We measure our success in achieving our people strategy in part through our global climate survey, which is open to our workforce worldwide. The survey was completed by over 42,000 employees in 2007 and is a key performance management, governance and communication tool. Findings from this survey are presented to local executive teams and the Board.

Our European Consultative Forum and employee forum in the UK ("Your Forum") provide an opportunity for regular sharing of information and dialogue at a more informal level with representatives of the wider employee population.

We also participate in external surveys and benchmark studies which allow us to compare ourselves with best practice and to learn from what others do. In 2007 Aviva in the UK was included in *The Times* "Top 50 Places Where Women Want to Work" list for the second consecutive year, while our businesses in Ireland, Australia and India were once again listed in national "Great Places to Work" surveys.

Diversity

Being a global organisation spread across 27 countries, multiple time zones and cultures brings challenges. This is well understood and addressed through our diversity programme which embodies the key principles of respect, valuing differences and inclusion.

To embed our diversity vision we created a "Respect Diversity Toolkit" which is an online learning and knowledge resource. It includes training materials, interactive games, presentations, DVDs, and best practice and benchmarking information. Its success was recently recognised internally, with Norwich Union making its content available to 30,000 employees, and externally, with a City launch in London. This "toolkit" approach has been replicated this year in other work streams for HR and CSR since it is an excellent platform from which to cascade and share knowledge across the group. Our "Respect Diversity" initiative and toolkit have also been recognised as best practice by the Equal Opportunities Commission in the UK.

Business review continued:

Employees and responsibility continued

The diversity agenda has been strengthened by employee networks. The Global Senior Women's Network event in Madrid was well attended by 50 women in senior management from across the group. This network resulted in the creation of local networks in London and Norwich with over 200 members involved. Since its launch our gay, lesbian and bisexual network, Pride Aviva, has increased its membership to 150 in the UK. Pride Aviva was also instrumental in securing Aviva's sponsorship and financial support for the first gay and lesbian youth conference in the UK to be organised by Stonewall*. Aviva France has also demonstrated its commitment to combating discrimination at work by adding its signature to a new diversity charter.

UN Global Innovation Award for diversity

Aviva was recognised for its international diversity programmes at the World Diversity Leadership Summit, hosted by the United Nations Global Compact in May 2007. The judging panel of World Diversity Leadership Council, a peer group of corporate diversity experts, selected Aviva for its innovative approach in embedding diversity within the company. Its Think Again campaign and Respect Diversity toolkit was noted in this award.

Business ethics and values

We keep standards of business conduct at the front of our minds in our day-to-day work and do this in part by continuing to encourage our employees to live the Aviva values of integrity, performance, progressiveness and teamwork. Programmes around the world continue to reinforce these values. The value ambassador programme is one which recognises employees and teams whose actions exemplify the Aviva values. Some countries also include induction on values for new joiners and refresh the key principles in people processes and management training. All efforts are monitored through the employee survey which captures feedback on whether managers and employees are living the Aviva values.

Integrity

Integrity is behaving in a way consistent with professional and ethical standards. It is being open, honest and keeping commitments, taking personal responsibility for what we say and do. It is about earning trust and respect through honesty and fairness.

Performance

Being performance-driven is having and achieving clear goals through everyone working towards the goals in an effective manner.

Progressiveness

Being progressive is having a vision of the future, encouraging innovation and improvement, and championing continuous learning. It is about leading the industry by listening and responding to customers and keeping ahead of the competition.

Teamwork

Teamwork is the lifeblood of Aviva. It means commitment to a common vision and objectives, depending on one another, pulling together and sharing knowledge and learning. It is creating a sense of community and belonging in how we operate as a business. It means taking pride in Aviva's achievements.

Our CSR policy ensures all employees are aware of our commitment to responsible business. The policy continues to tackle the challenge posed by financial crime, demonstrating the importance of transparent and honest business practices. In addition, each business unit is required to provide assurance every six months that they have complied with our business ethics principles.

Community

We recognise the responsibility we have to the communities in which we operate and have taken steps in 2007 to make our community efforts stronger and more effective.

We have developed a new global community investment strategy which is aligned to our "One Aviva, twice the value" vision. The global strategy will help us to channel financial and organisational support to areas in which we have real expertise to offer. The main areas of focus will be "financial education and literacy" and "coping with life trauma". These two areas lie at the heart of what we do as an organisation and we believe we will be credible partners for other organisations and initiatives in these areas.

* Stonewall is a campaigning organisation in the UK that works with the government, companies and communities for equality and justice for lesbians, gaymen and bisexuals.

During 2007 we donated £6.8 million to charitable and community activities worldwide, an 8% increase over 2006 *(2006: £6.3 million).*

Aviva was one of the first companies to sign up to the Oxfam 365 Alliance in 2006. Our funding ensures that Oxfam can maintain a state of constant preparedness, enabling them to respond immediately to emergencies wherever they occur in the world. This includes keeping the UK's biggest emergencies warehouse full of supplies. During 2007, Oxfam responded to more than 30 emergencies worldwide, including hurricanes in Mexico, Central America and the Caribbean and severe flooding in India, Nepal and Bangladesh. Oxfam continues to provide emergency supplies of clean, safe water and sanitation facilities to hundreds of thousands of people in Darfur and Chad, as well as to communities in Angola and Ethiopia. In the UK we supported Breakthrough Breast Cancer's largest fund-raising event, the Aviva Walk London, for a second consecutive year. In Canada, we launched a two year partnership with Think First Canada, a national non-profit charity dedicated to injury prevention. In India, our Global Services business has established a significant partnership with the Akanksha Foundation which works with underprivileged children in providing them with education and training to earn a livelihood.

As well as corporate support, we continue to promote employee volunteering as a means for our people to become engaged with their local communities.

Aviva wins Community Impact award

Aviva gained a Community Impact award from BITC for our "Better Together Day", which was held at our London, St Helen's office. The event saw the office opened up to local schools, enabling children to see what a real city establishment is like – from the basement archives to the boardroom. The leadership team was highly supportive of the day, offering some of its time to meet the participants and engage in a Q&A session.

Environment

Our focus on environment intensified in 2007 with progress being made on three strategic areas to combat climate change: carbon reduction, carbon offsetting and enhanced employee education and engagement.

Businesses continued to work on reduction targets for CO_2 emissions, electricity, water and waste. Aviva was the first insurer to offset emissions on a global basis and become carbon-neutral. The projects chosen for offsetting are in countries where we operate and in Africa. They are a good balance of commercial and social projects, allowing some "signature" Aviva projects – wholly funded and branded by the group and include "green cement" production in the Netherlands and Ireland; a biogas project in Sri Lanka; providing more efficient wood-burning stoves in Africa; pumps for irrigation in rural India; and wind turbines in both India and China.

Employee awareness was enhanced by engaging staff in the environmental agenda and explaining the many aspects of environmental management, including an online carbon calculator, an "energy saving" week and internal communications. Our efforts have resulted in an improved response in the 2007 global climate survey on questions covering environmental responsibility, up six points from last year.

Externally, we had great opportunities this year to progress work on battling climate change with like-minded companies, non-governmental organisations, academics and governments. Andrew Moss joined fellow group chief executives and chairmen to work on the cross-sectoral CBI Climate Change Taskforce which called on government, business and consumers to factor climate change into day-to-day life now to avoid larger economic costs going forward.

We co-authored, and were a founder signatory to, the ClimateWise principles – the first climate change principles created to address the role that multi-line insurers can have in respect of risk analysis, business lines and operations. By signing up to the principles we have agreed that we will report annually on the progress we have made against them.

Further, Aviva believes that institutional investors, like Morley, have an interest in promoting and supporting a strategic response by companies to the issue of climate change. The best measure is via corporate disclosure. In response to this belief, earlier this year, Morley engaged with 29 persistently non-responding companies in 2007 to request carbon disclosure project adherence. Over half of the companies engaged with provided a full response for the first time.

Business review continued:

Employees and responsibility continued

Aviva 'Best in Class' for carbon disclosure

In 2007, Aviva was honoured as "Best in Class" for our approach to climate change disclosure in a report released by the Carbon Disclosure Project (CDP5), a coalition of over 315 global investors with more than $41 trillion (£20 trillion) in assets. In the report, Aviva was included in the "Climate Disclosure Leadership Index" (CDLI), a prestigious roll of honour for global corporations addressing the challenges of climate change. The CDLI comprises 68 FTSE500 companies that show distinction in their responses to the Carbon Disclosure Project survey based on their reporting of greenhouse gas emissions and assessment of climate change strategies.

Customers

With our core purpose to provide prosperity and peace of mind to our customers, it is vital that our corporate social responsibility agenda is at the heart of the way we interact with our customers – in our vision and values, our strategies, our products and our services. In laying a strong foundation, our group customer policy directs uncompromising standards of commitment to customers from everyone.

In 2007, we continued to focus on embedding "customer-centricity" in our culture; a common dashboard of customer indicators, led by the Net Promoter Score®*. This was developed to provide a framework on which all businesses will report to the executive committee and Board their progress in improving the customer experience. Additionally, performance against customer targets help to determine senior management bonuses across the group. We also launched the customer and employee centricity "wiki" – an online knowledge sharing and discussion tool – as a forum for "agents of change" to share best practice across the group. In April 2008 our ambition is to further build on this by launching an orchestrated programme of activities focused on customer centricity.

At a local level, our businesses continue to innovate for our customers. We encourage you to read our CSR report to be published in 2008, which highlights some unique best practice from around the world on this agenda.

Suppliers

We understand that our suppliers play an important role in ensuring that we continue to meet the needs of our customers and the delivery of our services to them.

The embedding of CSR in the Aviva global purchasing policy means that we have identified our benchmarks and expectations on each procurement activity and can influence our large supplier base to deliver this. More importantly we can ensure that post contract award these principles continue to be delivered and enhanced rather than eroded.

Externally, Aviva UK procurement is leading the development of a standard financial services supply chain approach. This is being driven through the Financial Services Purchasing Forum CSR Sub-group of the Chartered Institute of Purchasing and Supply, chaired by Aviva. By employing a consistent approach and message across financial services procurement we simplify the achievement of CSR objectives for ourselves and our suppliers and, through greater leverage and co-operation, we should be able to effect positive change quickly with 30 financial services peer organisations working with us on this initiative.

* Net Promoter is a registered trademark of Satmetrix Systems, Inc., Bain & Company and Fred Reichheld.

External Benchmarking

Our CSR achievements in 2007 were recognised by our continued inclusion in some of the leading external benchmarks, which provide a good measure of our progress. Some of the key achievements are highlighted below:

- The **Dow Jones Sustainability World and STOXX** indices track the financial performance of the leading sustainability-driven companies worldwide. Aviva continued to feature in these indices in 2007.
- Aviva was awarded a bronze class distinction in the **SAM (Sustainable Asset Management) Sustainability Yearbook 2008.** Only the top-scoring 15% of the 2,500 largest companies in the world, as reflected in the Dow Jones Global Index and assessed by SAM, are included in the Sustainability Yearbook.
- The **FTSE4Good Index Series** measures the performance of companies that meet globally recognised standards on corporate social responsibility. It is a good benchmark as the criteria evolve over time, demanding continued improvement. Aviva continues to be included in the index.
- We also continue to be included in both the E. Capital Partners Investment's (ECPI) **Ethical Index Euro and Ethical Index Global indices.** We were rated EE+ (where "E" stands for ethical) and were considered to be the best-performing CSR company in our sector.
- Aviva was ranked 35 out of 100 in the **2007 Accountability Rating** of the world's largest companies – a tool for measuring the extent to which companies have built responsible practices into the way they do business.

Six Steps wins an award

Six-steps.org was named as the winner of the Best Corporate Social Responsibility Programme at the 2007 IFS Financial Innovation awards. This is an accessible, engaging and jargon-free web site, which provides people with free, unbiased financial information and ideas. It is part of our commitment to play a leading role in financial education, and is initially aimed at the UK. This innovation meets a currently unfulfilled need across the population in the UK and hopes to address similar needs in other countries as plans are afoot to launch in other sites around the world.

Focusing on Aviva's carbon offset programme: treadle pumps

As part of Aviva's carbon offset programme, we are involved with a treadle pump project in Uttar Pradesh, northern India where a large percentage of the population live below the poverty line. Irrigation is vitally important to crop production in the area but fuel for diesel pumps is both expensive and polluting.

Treadle pumps are human-powered, designed to lift water from a depth of seven metres or less; they are cost effective and non-polluting. They typically replace rented diesel pumps which can have a spectacular income impact for the farmer. In the sample surveyed, rural households more than doubled their income.

IDE India have been working in 15 major Indian states, providing more than 850,000 farmers with green technology.

Accounting for Sustainability

Working with the Accounting for Sustainability project, Aviva is helping define a new reporting standard for sustainable business and a tool-kit to embed sustainable decision making. The table on pages 72 and 73 demonstrates some of the measures in the sustainability model.

We continue to work towards internalising the cost of carbon and demonstrating how environmental impacts of the business can be brought into our reporting and accounting process.

Business review continued:

Employees and responsibility continued

Accounting for Sustainability: Climate, waste and resource impact

Key indicators	Direct company impacts	
	Cash flow performance	Non-financial indicators

Greenhouse gas emissions

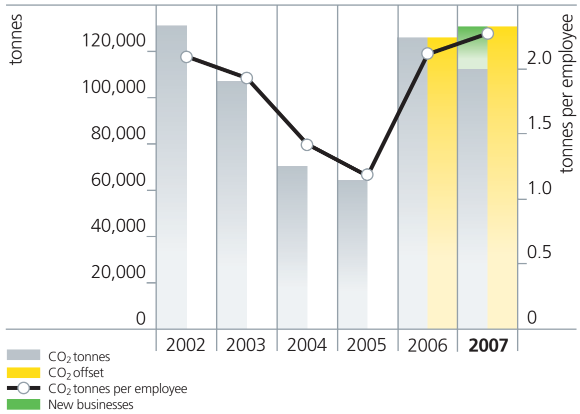
- CO_2 emissions
- Other significant emissions

CO_2 emissions
Total cost of offsetting 100% of our global CO_2 emissions in 2007 is approximately £909,000. We incur up to a 2% premium for zero emission / renewable electricity compared to fossil fuels.

Furthermore, while it is not possible to attribute individual weather events such as the June-July 2007 UK flooding event to climate change, the increased incidence of such events has a significant impact on the insurance claims which we incur.

Other significant emissions
Other than CO_2 emissions our operations do not generate material quantities of any other significant greenhouse gases.

Aviva's CO_2 emissions



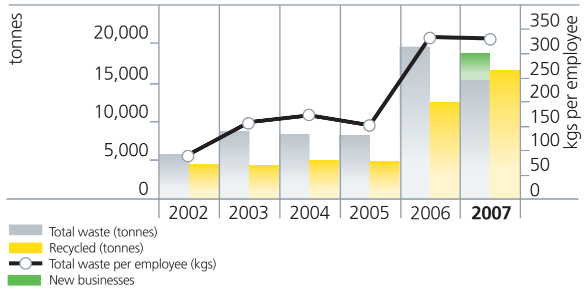
Waste

- Hazardous and non-hazardous waste
- Conservation investment

Hazardous and non-hazardous waste
Total disposal cost for hazardous and non hazardous waste in the UK was £464,000 in 2007 *(2006: £585,000)* which includes UK landfill tax at circa £80 per tonne.

Conservation investment
Total capital expenditure for storage and recycling in the UK was £200,000.

Aviva's waste



Resource usage

- Water
- Energy intensity
- Paper usage
- Environmental incidents

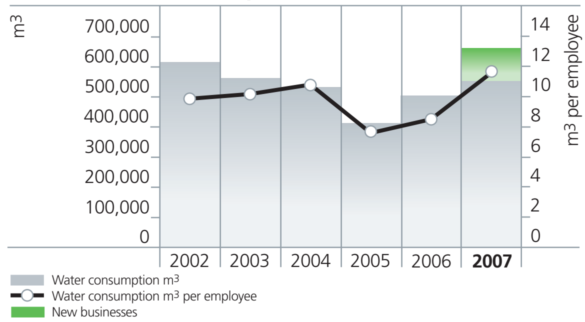
Water
The operating cost of water usage was £938,000 in 2007 *(2006: £670,000)*.

Energy intensity
Total cost of building-related energy in 2007 was £20.4 million *(2006: £19.4 million)*.

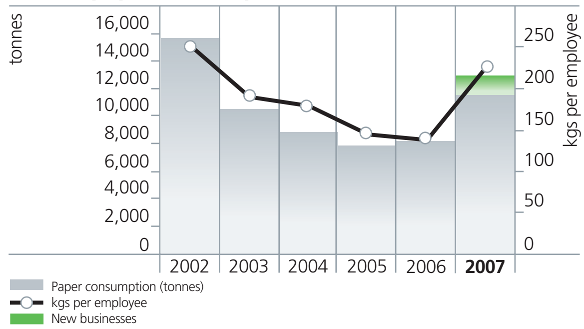
Paper usage
We currently do not track the cost of paper usage.

Environmental incidents
During 2007 there were no environmental incidents as a result of our operations, resulting in fines of £nil *(2006: £nil)*.

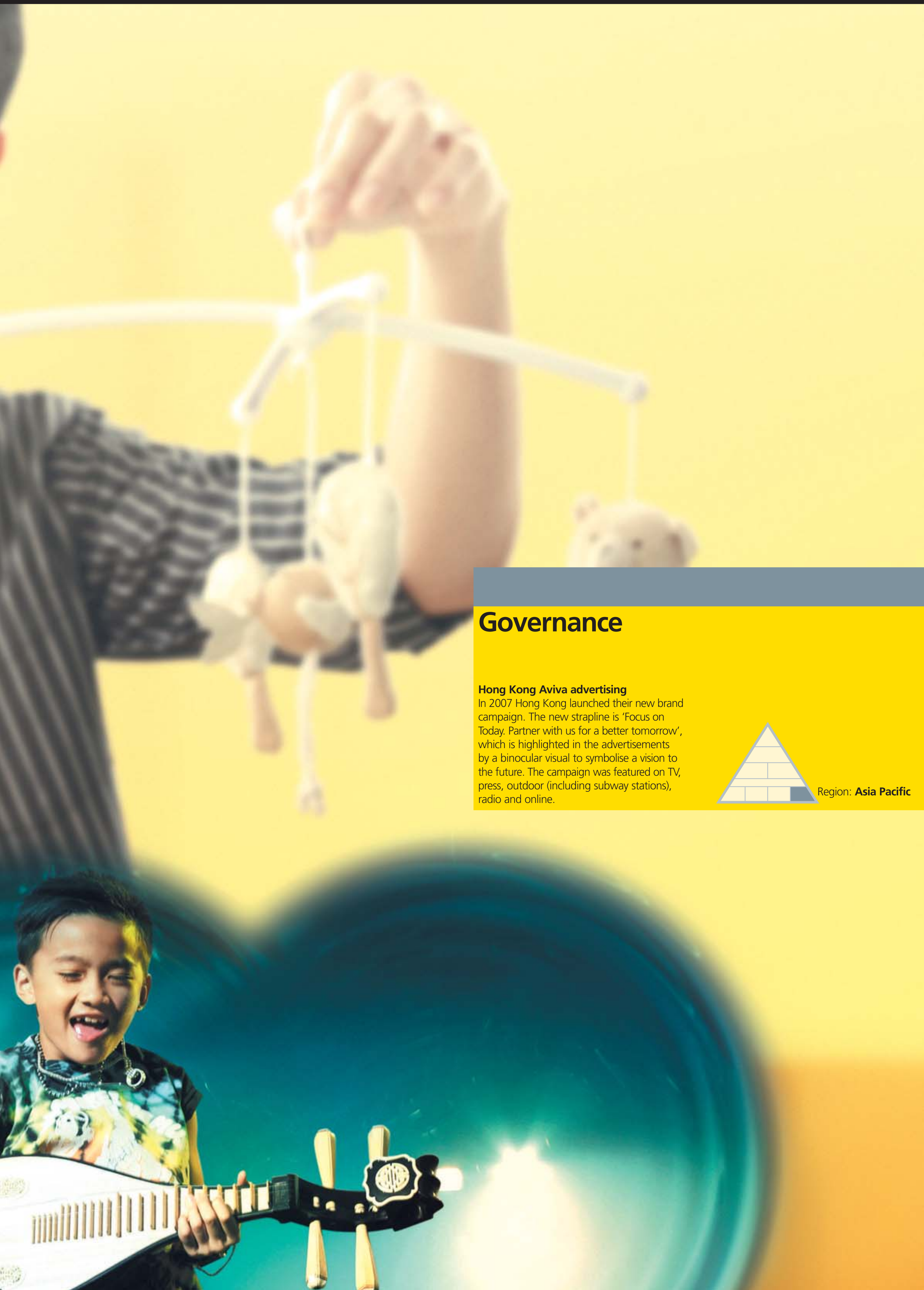
Aviva's water consumption



Aviva's paper consumption



	Indirect impacts	Industry
Commentary on our performance, strategy and targets	**Products/Suppliers/Investments**	**Benchmark information**
In 2007, our total CO_2 emissions increased, mainly due to the inclusion of emissions data from our new business in Aviva USA, Aviva Global Services, Sri Lanka and Russia. From our existing businesses, emissions have shown an 11% decrease, by 13,555 tonnes reflecting significant focus on energy efficiency and resourcing renewable energy. Currently 61% *(2006: 55%)* of our electricity worldwide is purchased from zero emission sources. We offset our remaining emissions on a retrospective basis. We began this process in 2006, compensating for the carbon output of our consumption of non-renewable sourced electricity, gas and oil from buildings and business travel, including air, car and train, across all of our global operations. Our top two areas for reducing our carbon footprint in 2008: – We are installing Telepresence systems in six locations worldwide to begin with to reduce the amount of business travel. We have set a reduction target of 10% for the routings. – We are working with our vehicles service fleet (RAC) to investigate alternative lower intensity fuels. Although we are growing organically and by acquisition, we will still strive to reduce our CO_2 emissions per full-time equivalent employee over time.	We are looking at ways in which to help our customers reduce their own CO_2 emissions through the provision of innovative products such as "Pay As You Drive™" and by offering reduced premium insurance for drivers of hybrid and flexi-fuel in the UK, Canada and the Netherlands. Aviva France offers reduced premium household insurance for energy efficient houses. Delta Lloyd has a motor insurance product, which as part of the product provides emission offsetting for the mileage covered by the driver. The UK business has also pioneered digital flood mapping to more closely match risk to premium and has showcased flood resistant and resilient measures to assist customers with climate change adaptation. In the Netherlands, Delta Lloyd Asset Management Business has two funds which concentrate on climate change mitigation (Environmental Technology Fund and New Energy Fund), with funds under management of €103 million. Morley Fund Management with £165 billion funds under management engages with companies they invest in to encourage greater environmental reporting/disclosure.	Carbon Disclosure Project CDP 5. "Best in class" Innovest ranking "AAA". BREEAM minimum ranking "Good" for new build and refurbishment.
In 2007, the total volume of waste decreased and the total amount recycled increased. Plastic wrap from the Auto Windscreens operation is now being recycled – 70 tonnes per year with a value of £135 per tonne. Opportunities are being taken to reduce the amount of waste coming into the business through clauses in purchasing contracts around removal of packaging. In 2007, with the proportion of waste recycled increasing from 64% to 88%, recycling costs (including secure destruction of all paper) and cleaning costs were lower as a result of segregation. In the UK we have recycling in place for 14 different waste streams.	We are working with our upstream partners to eliminate waste from the business through take back and to switch to biodegradable wrapping etc. Environmental clauses are included in contracts with suppliers. Each new supplier has to sign up to Aviva's CSR Supplier Code of Conduct – focusing on environmental impact as well as human rights and social issues. We follow all building regulations (insulation, proper disposal of waste material including building waste and white goods). We have a responsible motor repair network which disposes of waste and spare parts responsibly.	200 kgs of waste per employee per year. Recycling rate of 60–70% (BRE Office toolkit).
There is limited scope for the retro-fitting of latest technologies in water usage reduction in washrooms. However, where possible we take advantage of such technologies. Consideration of the use of greywater is included in requirements for new buildings. Our energy strategy is to invest in new energy saving technology and to reduce our energy dependency on fossil fuels. We are prepared to pay up to 2% premium for purchasing electricity from renewable/zero emission sources. Energy conservation investment is now starting to be measured. Capital expenditure work on energy conservation is proceeding with a payback period of less than three years. Our strategy is to increase the use of recycled content paper, while reducing overall paper use. Cost and quality of recycled papers are now comparable with virgin content paper. We have introduced self selection options, which enable policyholders to receive and save policy documentation online, thus reducing paper usage, printing and postage costs.	Work is continuing with marketing departments and suppliers to provide marketing materials with recycled content and remanufactured stationery products. Shareholders have been asked to switch to electronic transfer of dividends and receiving communications over electronic mediums.	$7.7m^3$ per employee per year. (National Water Demand Management Centre).



Governance

Hong Kong Aviva advertising
In 2007 Hong Kong launched their new brand campaign. The new strapline is 'Focus on Today. Partner with us for a better tomorrow', which is highlighted in the advertisements by a binocular visual to symbolise a vision to the future. The campaign was featured on TV, press, outdoor (including subway stations), radio and online.

Region: **Asia Pacific**

Board of directors

1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11


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1 Andrew Moss

Group chief executive

Age 49

Appointed to the Board in May 2004. Joined as group finance director in May 2004 and became group chief executive in July 2007. Previously director – finance, risk management and operations in Lloyd's (*insurance*) and formerly held a number of senior management positions at HSBC plc (*banking*).

Member of the nomination and corporate social responsibility committees.

2 Philip Scott FIA

Group finance director

Age 54

Appointed to the Board in May 2000 and became group finance director in July 2007. Joined Norwich Union in 1973 and held a number of senior positions before joining the Norwich Union board in 1993. Formerly, responsible for the group's insurance businesses outside Europe and Morley, the group's UK fund management operations. Currently a non-executive director of Diageo plc (*drinks*).

3 Lord Sharman of Redlynch OBE

Chairman

Age 65

Appointed to the Board in January 2005 and became chairman in January 2006. Currently chairman of Aegis Group plc (*media services*), an independent non-executive director of BG Group plc (*utility*) and an independent non-executive director of Reed Elsevier plc (*publishing*). Former chairman of KPMG International (*auditors*), former deputy chairman of Group 4 Securicor plc (*security services*), former member of the supervisory board ABN AMRO N.V. (*banking*) and a former independent non-executive director of Young & Co.'s Brewery PLC (*drinks*) and AEA Technology plc (*commercial/technology*).

Chairman of the Board and nomination committee and member of the corporate social responsibility committee.

4 Nikesh Arora

Independent non-executive director

Age 40

Appointed to the Board in July 2007. Currently President, Europe, Middle East and Africa Operations at Google (*consumer services*). Formerly chief marketing officer and a member of the management board at T-Mobile (*communications*) and held senior management positions at Deutsche Telekom, Fidelity Investments (*financial services*) and Putnam Investments (*financial services*).

Member of the risk and regulatory committee.

5 Guillermo de la Dehesa

Independent non-executive director

Age 66

Appointed to the Board in May 2000. Joined the board of Norwich Union as a non-executive director in 1999. Currently non-executive chairman of Aviva's operations in Spain, a director of Campofrio (*consumer*) and of Banco Santander (*banking*) and also International Advisor of Goldman Sachs. Chairman for the Centre of Economic Policy Research (CEPR) and of the Instituto de Empresa Business School and a member of the Group of Thirty (*consultative group on international economic and monetary affairs*). A former deputy general manager of the Bank of Spain and former Secretary of State of Finance in Spain.

Member of the nomination and corporate social responsibility committees.

6 Wim Dik

Senior independent non-executive director

Age 69

Appointed to the Board in December 1999. Currently chairman of the supervisory board of Zesko Holding B.V. (*telecommunications*) and Tele Atlas N.V. (*information systems*), a non-executive director of Unilever N.V. and Unilever plc (*consumer*) and of LogicaCMG plc (*computer services*). Former Minister for Foreign Trade in the Netherlands. Former chairman of Nederlandse Unilever Bedrijven B.V. (*consumer*) and former chairman and chief executive officer of KPN Royal Dutch Telecom (*telecommunications*). Former chairman of the supervisory board of Holland Casino (*gaming*) and a former member of the supervisory boards of TNT Post Group (*mail services*) and ABN AMRO N.V. (*banking*).

Chairman of the corporate social responsibility committee and member of the risk and regulatory and nomination committees.

7 Mary Francis CBE

Independent non-executive director

Age 59

Appointed to the Board in October 2005. Currently senior independent director of Centrica plc (*utilities*), a non-executive director of Alliance & Leicester plc (*banking*), a non-executive director of St Modwen Properties plc (*property development*) and a director of Almeida Theatre Company Limited. A member of the advisory board of the National Consumer Council and Governor of the Pensions Policy Institute. Formerly Director General of the Association of British Insurers, non-executive director of the Bank of England and Fund Distribution Limited and a senior civil servant.

Chairman of the risk and regulatory committee and a member of the remuneration and audit committees.

8 Richard Karl Goeltz

Independent non-executive director

Age 65

Appointed to the Board in May 2004. Currently a non-executive director of the Warnaco Group Inc (*clothing*), Delta Air Lines, Inc. (*transport*), Federal Home Loan Mortgage Corporation (Freddie Mac) (*financial services*), New Germany Fund (*investment trust*) and a director of The London School of Economics and Political Science. Former chief financial officer of American Express Company (*financial services*), NatWest Group plc (*banking*) and The Seagram Company Ltd (*drinks*) and a former member of the Accounting Standards Board (UK).

Chairman of the remuneration committee and member of the audit committee.

9 Carole Piwnica

Independent non-executive director

Age 50

Appointed to the Board in May 2003. A member of the New York and Paris bars, practising law in Europe and the United States specialising in private equity and EU regulatory matters. Currently a non-executive director of Toepfer International GmbH (*trading*), Dairy Crest Group plc (*dairy foods*) and a member of the biotech advisory board of Monsanto (*biotechnology*). Former non-executive vice-chairman of governmental affairs for Tate & Lyle plc (*agricultural/industrial*) and S A Spadel N.V. (*food and beverages*) and former chairman of Amylum Group (*agricultural/industrial*).

Member of the audit, remuneration and corporate social responsibility committees.

10 Russell Walls

Independent non-executive director

Age 64

Appointed to the Board in May 2004. Currently a non-executive director of Signet Group plc (*retail*) and chairman of its audit committee. Chairman of Delphic Diagnostics Limited (*medical*) and treasurer and trustee of The British Red Cross. Former group finance director of BAA plc (*transport*), Wellcome plc (*pharmaceuticals*) and Coats Viyella plc (*textiles*). Former senior independent non-executive director of Stagecoach Group plc (*transport*) and Hilton International Group plc (*leisure*) and a former non-executive director of the Mersey Docks and Harbour Company (*transport*).

Chairman of the audit committee and a member of the risk and regulatory and nomination committees.

11 Scott Wheway

Independent non-executive director

Age 41

Appointed to the Board in December 2007. Former director of The Boots Company plc (now known as The Boots Company Limited) (*pharmacy*) and managing director of Boots the Chemist at Alliance Boots plc. Formerly held a number of senior management positions at Tesco plc (*retail services*).

Member of the remuneration and corporate social responsibility committees.

Graham Jones

Group Company Secretary

Executive management

Andrew Moss

Group chief executive

Age 49

See page 77

Philip Scott FIA

Group finance director

Age 54

See page 77

Mark Hodges

Chief executive, Norwich Union Life

Age 42

Joined the Group in 1991. Formerly managing director of Norwich Union General Insurance, finance director of Norwich Union Insurance and finance director of Aviva general insurance international. A chartered certified accountant (FCCA) and holds an MBA from Cranfield Business School.

Simon Machell

Chief executive, Aviva Asia Pacific

Age 44

Joined the Group in 1994. Formerly chief executive of Norwich Union Insurance in the UK, Managing Director of RAC and auditor and management consultant at Ernst & Young. Holds an Economics degree and is a Fellow of the Institute of Chartered Accountants.

Alain Dromer

Chief executive, Aviva Investors and Morley

Age 53

Joined the Group in September 2007. Formerly global head of group investment businesses at HSBC, senior executive vice president and head of asset management and insurance at Credit Commercial de France and director of capital markets at La Compagnie Financiére Edmond de Rothschild. Previously at the French Treasury in the Ministry of Finance and the French Institute for Statistics and Economic Studies. Educated at l'École Polytechnique, Paris and l'École Nationale de la Statistique l'Administration Économique.

Thomas Godlasky

Chief executive, Aviva North America

Age 52

Joined the Group in 2006. Formerly chairman, president and chief executive officer of AmerUs Group and chief investment officer of AmerUs Capital. Previously with Providian Corporation, Federated Investors, Inc and Mellon Bank. Holds a Bachelor of Science degree in urban and regional planning from Indiana University of Pennsylvania and a master's degree in public administration from the University of Pittsburgh. A graduate of Harvard Business School's Advanced Management Program and is a Chartered Financial Analyst.

Igal Mayer

Chief executive, Norwich Union Insurance

Age 46

Joined the Group in 1989. Formerly chief executive officer of Aviva Canada, chief financial officer and executive vice-president. Previously finance director Norwich Union and managing director for CGU Insurance in London. Holds a BA Honours in Commerce and Economics from the University of Toronto, is a chartered accountant and has received an honorary Chartered Insurance Professional designation from Insurance Institute of Canada.

Anupam Sahay

Group strategy and development director

Age 38

Joined the Group in 2007. Formerly a partner with the global financial services group at McKinsey & Company, advising leading insurers and banks in Europe, USA, Asia and Australia. Holds an undergraduate degree in Engineering and an MBA from the Indian Institute of Management.

John Ainley

Group HR director

Age 51

Joined the Group in 1999. Formerly held senior HR positions with WH Smith plc, ICL plc, Priory Hospitals Group and General Electric plc. Previously also Group HR Director for Norwich Union plc and HR Director for Norwich Union Insurance and Norwich Union Life. Holds a law degree and is a companion of the Chartered Institute of Personnel Development.

Directors' report

The directors submit their report and accounts for Aviva plc, together with the consolidated accounts of the Aviva Group of companies, for the year ended 31 December 2007. The Business review for the Company is contained on pages 10 to 73 and includes a review of the Group's operations, current position and future prospects together with a description of the principal activities of the Group and other information required to be included. Details of material acquisitions and disposals made by the Group during the year are contained in note 3 to the accounts.

Results

The Group results for the year are shown in the consolidated income statement on page 126.

Dividends

The directors are recommending a final dividend of 21.10 pence per share (*2006: 19.18 pence*), which together with the interim dividend of 11.9 pence paid on 16 November 2007 (*2006: 10.82 pence*), produces a total dividend for the year of 33.00 pence per share (*2006: 30.00 pence*). The total cost of ordinary dividends paid in 2007, was £801 million (*2006: £693 million*), leaving £472 million to be transferred to reserves (*2006: £1,468 million to reserves*) after tax, minority investments, preference dividends and payments in respect of the direct capital instrument. The final dividend for 2007 will be paid on 16 May 2008 to all holders of ordinary shares on the Register of Members at the close of business on 28 March 2008. The Company's Scrip Dividend Scheme will be available to shareholders in respect of the payment of the final dividend. In addition, a local currency payment service will be available to shareholders residing in certain participating countries outside the UK. Further details of these arrangements can be found in the shareholder services section on pages 270 to 272.

Share capital

The issued ordinary share capital of the Company was increased by 56 million ordinary shares during the year. 56,039,397 shares were allotted under the Group's employee share and incentive plans and the Aviva Scrip Dividend Scheme. At 31 December 2007 the issued ordinary share capital totalled 2,622 million shares of 25 pence each and the issued preference share capital totalled 200 million shares of £1 each. Accordingly, the issued ordinary share capital constituted 76.6% of the Company's total issued share capital and the issued preference share capital constituted 23.4% of the Company's total issued share capital at 31 December 2007. All the Company's shares are fully paid up and quoted on the London Stock Exchange. Details of the Company's share capital and shares under option at 31 December 2007 and shares issued during the year are given in notes 28 to 31 to the financial statements.

The rights and obligations attaching to the Company's ordinary shares and preference shares as well as 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 or by writing to the Company Secretary. With the exception of restrictions on transfer of shares under the Company's share incentive plan while the shares are subject to the plan, 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 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 of the Company, the Company's articles of association may be amended by special resolution of the Company's shareholders. 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 is considered to be significant in terms of their potential impact on the business of the Group as a whole. All of the Company's share 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.

Authority to purchase own shares

At the Company's Annual General Meeting held on 26 April 2007, shareholders renewed the Company's authorities to make market purchases of up to 256 million ordinary shares, up to 100 million 8¾% preference shares and up to 100 million 8⅜% preference shares. These authorities were not used during the year and, at the forthcoming Annual General Meeting, shareholders will be asked to renew them for another year. Details are contained in the Notice of Meeting. The Company held no Treasury shares during the year.

Post balance sheet events

On 5 February 2008, the Group's UK long-term business operation Norwich Union Life, announced a one-off, special bonus worth £2.3 billion. Further details can be found in Note 59 on page 235.

Directors

The following persons served as directors of the Company during the year:

Nikesh Arora (appointed 1 July 2007)
Guillermo de la Dehesa
Wim Dik
Mary Francis
Richard Karl Goeltz
Richard Harvey (retired on 11 July 2007)
Andrew Moss
Carole Piwnica
Philip Scott
Lord Sharman of Redlynch
Patrick Snowball (resigned 8 May 2007)
Tidjane Thiam (appointed 1 May 2007, resigned 21 September 2007)
Russell Walls
Scott Wheway (appointed 5 December 2007)

The biographical details of the persons currently serving as directors appear on page 77.

The Company's articles of association require one-third of the directors to retire by rotation each year and also require each director to retire at intervals of not more than three years. At the forthcoming Annual General Meeting Lord Sharman, chairman and non-executive director, and Andrew Moss and Philip Scott, both executive directors, will retire and, being eligible, will offer themselves for re-election. Guillermo de la Dehesa and Wim Dik who were re-elected by shareholders at last year's Annual General Meeting will retire on 31 December 2008, in line with the Board's plans to renew and refresh its composition. Andrew Moss and Philip Scott are executive directors and each has a service contract with the Company, details of which can be found in the Directors' renumeration report. Nikesh Arora and Scott Wheway will offer themselves for election by the shareholders at the forthcoming Annual General Meeting being the first such meeting after their appointment.

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 service contracts between each executive director and a Group company. 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 309B of the Companies Act 1985. These indemnities were in force throughout the year and are currently in force. Details of directors' remuneration, service contracts and interests in the shares of the Company are set out in the Directors' remuneration report.

Substantial shareholdings

During 2007 the Company maintained a register of substantial shareholdings in accordance with the provisions of the Disclosure and Transparency Rules of the Financial Services Authority. As at 27 February 2008 the Company had received notifications that the holdings exceeding the 3% notification threshold were those of Barclays plc which held directly 133,026,405 voting rights (representing 5.08% of the total voting rights attaching to the issued ordinary share capital of the Company), Legal & General Group plc which held directly 104,107,838 voting rights (4.01%) and Axa S.A. and its Group companies which held a total of 259,452,649 voting rights (9.99%) of which 28,520,097 (1.10%) were held directly and 230,932,552 (8.89%) were held indirectly.

Financial instruments

Aviva 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 Business review and an indication of the exposure of the Group companies to such risks is contained in note 55 to the accounts.

Health and safety

The health and safety of the Group's employees is a priority and is reviewed at regular intervals. Each business within the Group has an appointed health and safety representative, whose role is to bring to the attention of senior management any areas of concern that should be addressed within the health and safety programme. Information on health and safety matters is communicated to staff through the normal communication channels. Under the Group's Business Protection Policy the Group Chief Executive is accountable for health and safety.

Charitable donations

Aviva has continued to support community initiatives and charitable causes worldwide and the total Group commitment during the year, as measured in accordance with Business in The Community's Community Investment Survey, was £6.8 million (*2006: £6.3 million*).

In 2007, the Group's community investment in the United Kingdom totalled £4 million (*2006: £3.7 million*) of which £1.4 million (*2006: £1.4 million*) was given in the form of donations to charitable organisations. The Company allocates a part of its budget to matching contributions raised by staff and to providing financial support to charities and communities where members of staff give a personal commitment in terms of their time. In addition, the Company provides a significant level of support to a number of national charities. During 2007, the Company continued its commitment to Breakthrough Breast Cancer, Wheelpower (the British wheelchair sports association), The Princess Royal Trust for Carers and NCH (the children's charity). In support of its "Forward Thinking" initiative the Company has continued with the partnership of the Oxfam 365 Alliance which provides immediate humanitarian aid to disasters occurring throughout the world. The Company has committed to support the Oxfam 365 Alliance for three years from 2006.

In addition, the Group's businesses are committed to supporting their local communities. For example, Aviva Canada has launched a two year partnership with ThinkFirst Canada, a national non-profit charity dedicated to injury prevention, particularly those associated with the brain and spinal cord and Aviva Global Services, together with the Akanksha Foundation, has opened the first of four "Aviva Akanksha" schools in Pune, India.

Political donations

At the Annual General Meeting held in 2004, shareholders passed a resolution, on a precautionary basis, to authorise the Company to make donations to EU political organisations and to incur EU political expenditure (as such terms are defined in Section 347A of the Companies Act 1985) not exceeding £100,000. During the year the Company made no donations to EU political organisations and incurred no political expenditure.

It is the Company's policy not to make political donations of the type caught by the Companies Acts (although overseas subsidiaries do make other donations such as those made through Political Action Committees), and the Company does not intend to change this policy. However, at the forthcoming Annual General Meeting of the Company the shareholders' approval will again be sought to authorise the Group to make political donations and/or incur political expenditure (as such terms are defined in Sections 362 to 379 of the Companies Act 2006 which superseded Section 347A of the Companies Act 1985) in amounts not exceeding £100,000. The definitions used in the Companies Act 2006 are broad in nature and this authority is being sought to ensure that any activities undertaken throughout the Group's businesses which could otherwise be construed to fall within these provisions can be undertaken without inadvertently infringing them. Further details of this are contained in the Notice of Meeting.

Group employees

The Group's statement on its employees is set out in the Business review.

In summary, the Group's commitment to communication and dialogue with employees continues. A strong emphasis is placed on the provision of news through a variety of media, including intranets (both a Group-wide intranet, Arena, and local business unit intranets), Aviva radio, which can be accessed via mobile phone or computer, and poster campaigns. Employees have opportunities to voice their opinions and ask questions through intranet sites, opinion surveys and the Group's climate survey which is open to all employees. Face-to-face briefings and team meetings are actively encouraged and are held in all business units across the Group. The Group's businesses in the United Kingdom have established employee consultative forums and a European Consultative Forum convenes annually to discuss matters impacting the business across Europe.

Employee practice

Aviva Group companies are 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 in its employees. These commitments extend to recruitment and selection, training, career development, flexible working arrangements, promotion and performance appraisal. In the event of employees becoming disabled, every effort is made to ensure that their employment with the Group continues and to provide specialised training where this is appropriate.

Creditor payment policy and practice

It is the Group's policy to pay creditors when they fall due for payment. 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. The Company has no trade creditors. In respect of Group activities in the UK, the amounts due to trade creditors at 31 December 2007 represented approximately 23 days of average daily purchases through the year (*2006: 22 days*).

Reappointment of the auditor and disclosure of information to the auditor

In accordance with Section 385 of the Companies Act 1985, a resolution is to be proposed at the Annual General Meeting to reappoint Ernst & Young LLP as auditor of the Company. A resolution will also be proposed authorising the directors to determine the auditor's remuneration. The Audit Committee reviews the appointment of the auditor, the auditor's effectiveness and relationship with the Group, including the level of audit and non-audit fees paid. Further details on the work of the auditor and the Audit Committee are set out below in the Audit Committee report.

The directors in office at the date of this report confirm that, so far as they are each aware, there is no relevant audit information of which Ernst & Young LLP are 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 Ernst & Young are aware of that information.

Annual General Meeting

The 2008 Annual General Meeting of the Company will be held on 1 May 2008 at The Barbican Centre, Silk Street, London EC2Y 8DS at 11am. A separate document accompanying the Annual Report and Accounts contains the Notice convening the Meeting and a description of the business to be conducted thereat.

By order of the Board.

Graham Jones
Group Company Secretary
27 February 2008
Registered Office: St. Helen's
1 Undershaft, London EC3P 3DQ Registered in England No. 2468686

Corporate governance report

The Combined Code on Corporate Governance

The Combined Code on Corporate Governance sets out guidance in the form of principles and provisions on how companies should be directed and controlled to follow good governance practice. The Financial Services Authority requires companies listed in the UK to disclose, in relation to Section 1 of the Combined Code, how they have applied its principles and whether they have complied with its provisions throughout the accounting year. Where the provisions have not been complied with companies must provide an explanation for this.

It is the Board's view that the Company has been fully compliant throughout the accounting period with the provisions set down in Section 1 of the Combined Code, apart from a period of 23 days in January 2007. During this period the majority of the members of the Nomination Committee were not independent non-executive directors. The Committee did not meet during this period. This report sets out details of how the Company has applied the principles and complied with the provisions of the Combined Code during 2007. Further information on the Combined Code can be found on the Financial Reporting Council's website, www.frc.org.uk

The Board

The directors are responsible to shareholders for ensuring that the Company is appropriately managed and that it achieves its objectives. It meets regularly to determine the Company's strategic direction, to review the Company's operating and financial performance and to oversee that the Company is adequately resourced and effectively controlled. The specific duties of the Board are clearly set out in its terms of reference that address a wide range of corporate governance issues and list those items that are specifically reserved for decision by the Board. Matters requiring Board approval include:

– Group strategy and business plans;

– Acquisitions, disposals and other transactions outside delegated limits;

– Financial reporting and controls;

– Capital structure;

– Dividend policy;

– Shareholder documentation;

– The constitution of Board committees; and

– Key business policies, including the remuneration policy.

The full terms of reference for the Board can be found on the Company's website www.aviva.com and are available from the Group Company Secretary. Matters that are not specifically reserved for the Board and its committees under its terms of reference, or for shareholders in general meeting, are delegated to the Group Chief Executive. The Board's terms of reference also set out those matters that must be reported to the Board, such as 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 Board and its committees operate in line with work plans agreed prior to the start of each year. At Board and committee meetings, directors receive regular reports on the Group's financial position, risk management, regulatory compliance, key business operations and other material issues. Directors are fully briefed in advance of Board and committee meetings on all matters to be discussed. The Group Company Secretary is responsible for following Board procedures and advising the Board, through the Chairman, on governance matters. All directors have access to his advice and services.

The Board has adopted a procedure whereby directors may, in the performance of their duties, seek independent professional advice at the Company's expense if considered appropriate. No director obtained any such independent professional advice during 2007.

The directors

The Board currently comprises the Chairman, eight independent non-executive directors and two executive directors. Each non-executive director serves for a fixed term not exceeding three years that may be renewed by mutual agreement. Subject to the Board being satisfied with a director's performance, independence and commitment, there is no specified limit regarding the number of terms a director may serve. Each director is required to be elected by shareholders at the Annual General Meeting following his/her appointment by the Board and to be re-elected at least once every three years. Any non-executive director who has served on the Board for nine years or more is required to submit himself/herself for re-election annually. The Board's policy is to appoint and retain non-executive directors who can apply their wider knowledge and experiences to their understanding of the Aviva Group, and to review and refresh regularly the skills and experience the board requires through a programme of rotational retirement. In addition to the strengths of experience, diversity and an international perspective, the Board also seeks to comply with the requirements of the Combined Code on the independence of directors. The process for appointing new directors is conducted by the Nomination Committee whose report, including a description of its duties, is set out on page 90.

The Combined Code requires that at least half the Board, excluding the Chairman, should comprise independent non-executive directors as determined by the Board. The Nomination Committee performs an annual review of directors' interests in which all potential or perceived conflicts, including time commitments, length of service and other issues relevant to their independence, are considered. It is the Board's view that an independent non-executive director also needs to be able to present an objective, rigorous and constructive challenge to management, drawing on his/her wider experiences to question assumptions and viewpoints and where necessary defend their beliefs. 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 directors, excluding the Chairman, are independent non-executive directors. Each of the directors being proposed for re-election at the 2008 Annual General Meeting has been subject to a formal performance evaluation and took part in a peer evaluation review during 2007. Biographical details of all the directors are set out on page 77.

The Chairman

The respective roles of the Chairman and Group Chief Executive are set out in the Board's terms of reference. The Chairman's priority is the management of the Board and the Group Chief Executive's priority is the management of the Company. The Chairman's commitment to the Company is two to three days per week and his main interests outside the Company are set out in his biographical details on page 77. During the year the Chairman ceased to be a Supervisory Board member of ABN Amro NV.

Senior Independent Director

Under the Combined Code the Board appoints one of the non-executive directors to act as Senior Independent Director. The main responsibility of the Senior Independent Director is 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. The Senior Independent Director is also responsible for leading the Board's discussion on the Chairman's performance and the appointment of a new chairman, when appropriate. Wim Dik served as the Senior Independent Director throughout 2007.

Board effectiveness

The effectiveness of the Board is vital to the success of the Group. 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 process is led by the Chairman and supported by the Group Company Secretary. All directors complete a questionnaire evaluating the Board and committees' processes, their effectiveness and where improvements may be considered. The process also includes a peer review in which directors assess their fellow directors' performance against set criteria, including the skills that they bring to the Company and the contribution they make. This process is complemented by separate meetings between each director and the Chairman where feedback is discussed. In 2007, following the process introduced in 2006, the directors completed a comprehensive questionnaire which was returned to an independent third-party who had helped with the preparation of the questions, and who then collated comments, drew the conclusions and presented the findings to the Board.

The performance of the Chairman is also included in the above process and takes into account the views of both the executive and non-executive directors. The Chairman's evaluation is managed by the Senior Independent Director who provides feedback to the Chairman. As part of the Chairman's evaluation the non-executive directors meet separately under the chairmanship of the Senior Independent Director.

Following this comprehensive review, the directors have concluded that the Board and its committees operate effectively. Additionally, the Chairman has concluded that each director contributes effectively and demonstrates full commitment to his/her duties.

The Board evaluation process assesses the executive directors in their capacities as directors of the Company. They are evaluated in respect of their executive duties through a separate process whereby the Chairman and the non-executive directors assess the Group Chief Executive and the Group Chief Executive assesses the executive directors.

Training and development

The Board believes strongly in the development of all its employees and directors and it is a requirement of each director's appointment that they commit to continue their development. The form that this development takes is subject to individual director's requirements and the quality and relevance of the training available.

During the year, directors attended a number of courses ranging from external seminars for members of the Audit and Remuneration Committees to internal seminars on directors' duties and life assurance. In addition, members of the Audit and Risk and Regulatory Committees received two tailored training sessions. Training sessions have been built into the Board's and committees' work plans for 2008. The Board made visits to the Group's businesses located in the United Kingdom and North America during the year to gain a closer understanding of their operations.

The Board has a comprehensive induction programme consisting of several separate sessions which take place over a number of months at times convenient for the director. The sessions include presentations from key members of senior management, visits to the Group's main operating businesses, 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 item.

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 and committee meetings held in 2007 was as follows:

Board and Board committee attendance 2007

	Board	Audit Committee	Nomination Committee	Risk and Regulatory Committee	Corporate Social Responsibility Committee	Remuneration Committee
Number of meetings held	12	6	5	7	4	8
Nikesh Arora (appointed 1 July 2007)	5/6	–	–	2/3	–	–
Guillermo de la Dehesa	12	–	5	–	4	–
Wim Dik	11/12	–	4/5	7	4	–
Mary Francis	10/12	6	–	7	–	8
Richard Goeltz	12	6	–	–	–	8
Andrew Moss	11/12	–	1/1	–	3/3	–
Carole Piwnica	12	6	–	–	4	8
Philip Scott	11/12	–	–	–	–	–
Lord Sharman	12	–	5	–	4	–
Russell Walls	12	6	4/4	7	–	–
Scott Wheway (appointed 5 December 2007)	0/0	–	–	–	–	0/0
Former directors						
Richard Harvey (retired 11 July 2007)	7/7	–	4/4	–	1/1	–
Patrick Snowball (resigned 8 May 2007)	4/4	–	–	–	–	–
Tidjane Thiam (appointed 1 May 2007, resigned 21 September 2007)	4/4	–	–	–	–	–

– Indicates not a member of that committee.

During 2007 the Chairman and the non-executive directors met on one occasion in the absence of the executive directors and there was one meeting of the non-executive directors chaired by the Senior Independent Director at which the Chairman was not present in order to appraise the Chairman's performance.

Board committees

The Board has established the following standing committees to oversee and debate important issues of policy and oversight outside the main Board meetings.

– Audit Committee;

– Corporate Social Responsibility Committee;

– Nomination Committee;

– Risk and Regulatory Committee; and

– Remuneration Committee.

Throughout the year the chairman of each committee provided the Board with a summary of the key issues considered at the meetings of the committees and the minutes of the meetings were circulated to the Board. The committees operate within defined terms of reference, copies of which are published on the Company's website www.aviva.com and are available from the Group Company Secretary upon request. Board committees are authorised to engage the services of external advisers as they deem necessary in the furtherance of their duties at the Company's expense.

Reports of the committee chairmen are set out below.

Internal controls

The Combined Code requires directors to review and report annually to shareholders on the effectiveness of the Company's systems of internal control which include financial, operational and compliance controls, and risk management. The Board has the overall responsibility for maintaining the systems of internal control of the Company and for monitoring their effectiveness; while the implementation of internal control systems is the responsibility of management. The Group's systems of internal control are designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material financial misstatement or loss.

The systems are designed to:

– Safeguard assets;

– Maintain proper accounting records;

– Provide reliable financial information;

– Identify and manage business risks;

– Maintain compliance with appropriate legislation and regulation; and

– Identify and adopt best practice.

The principal features of the control framework and the methods by which the Board satisfies itself that it is operating effectively are detailed overleaf.

Control environment

The Group has an established governance framework, the key features of which include:

– Terms of reference for the Board and each of its committees;

– A clear organisational structure, with documented delegation of authority from the Board to executive management;

– A Group policy framework, which sets out risk management and control standards for the Group's operations worldwide;

– Defined procedures for the approval of major transactions and capital allocation; and

– Committees of senior executives responsible for reviewing the Group's financial risks (Asset and Liability Management Committee) and non-financial i.e. operational risks (Group Operational Risk Committee).

The Group's risk and governance framework has been structured in accordance with the Financial Services Authority's risk-based framework for integrating and embedding risk and capital management (Prudential Sourcebook).

Risk identification, assessment and management
There is in place an ongoing process for identifying, evaluating and managing the significant risks faced by the Group which has operated throughout 2007 and up to the date of signing this report. The Group's risk management and control framework is designed to support the identification, assessment, monitoring, management and control of risks that are significant to the achievement of the Group's business objectives. The Group has a set of formal policies which govern the management and control of both financial and non-financial risks. The adoption of these policies throughout the Group enables a broadly consistent approach to the management of risk at business unit level. At Group level, policy owners are responsible for the Group-wide aggregation and oversight of their specific risks. During 2007 the Group policy set has been revised and refreshed and the risk management framework has been reviewed and a Group Chief Risk Officer appointed.

The Asset and Liability Management Committee is responsible for reviewing and monitoring the financial risks to the Group and, with the assistance of its sub-committees, considers the risks relating to life assurance, general insurance, reserving, capital management, credit and investment. Similarly, a Group Operational Risk Committee monitors risks associated with information technology, business protection, human resource management, business standards and regulatory compliance.

Management monitors the completeness of the Group's risk profile on a regular basis through a Group risk monitoring framework. Each quarter, businesses report residual risk profiles and the adequacy of the mitigating action programmes, based on local materiality levels. These impact assessments are based on financial, reputational and operational criteria. This enables the Group risk function to assess the overall risk exposure and to develop a Group-wide risk profile that is refreshed quarterly. Material items in the Group risk report are reported to the committee of the Group's senior executives (Executive Committee), the Risk and Regulatory Committee and in respect of social, environmental and ethical risks, the Board's Corporate Social Responsibility Committee. The Executive Committee considers whether the residual risks are within the Group's risk appetite, and the adequacy of the mitigating actions.

The Boards, audit committees and management of the operational businesses also consider local risk reports in a similar way. Regular reports are supported by escalation procedures for new or deteriorating risks that are classified at the highest impact levels. In addition, business unit heads and Group functional heads provide, in relation to their own areas of responsibility, a certificate every six months to confirm compliance with the Group's governance and risk management framework, and the terms of their delegated authority. Any risk or control issues not already reported through the regular risk management processes must be specifically highlighted.

Control procedures and monitoring systems
The Group has a well-developed system of planning, incorporating Board approval of a rolling three-year Group plan. Performance against the plan is subsequently monitored and reported to the Board each time it meets. This report also includes updates on relevant measures of solvency and liquidity. Performance is reported through the half-yearly publication of the Company's results based on accounting policies that are applied consistently throughout the Group. Operational management reports quarterly to the Executive Committee on a wide range of key performance and other significant matters and the Board receives regular representations from the senior executives responsible for each principal business operation.

Whilst the Audit Committee has the overall responsibility of monitoring the Group's internal control process on behalf of the Board, it is assisted by the Risk and Regulatory Committee, which oversees the regulatory compliance and non-financial control processes and reports to the Board. In addition, the Audit Committee performs an annual review of the effectiveness of the internal audit function and the framework for the Group's systems of internal control. Throughout 2007, the Audit Committee and the Risk and Regulatory Committee received quarterly reports from the Group Audit Director on issues arising, and updates on previously reported items. More detailed reports on the work of these committees during 2007 are set out overleaf.

The Board has conducted a review of the effectiveness of the Group's systems of internal control. Where weaknesses were identified as part of the control review, mitigating actions have been taken or plans put in place. These are monitored by the appropriate committee on behalf of the Board. The Board is not aware of any significant weaknesses that do not have mitigating actions in place.

Internal audit
The Group's internal audit function advises management on the effectiveness of its internal control systems, the adequacy of these systems to manage business risk and to safeguard the Group's assets and resources. Through the Group Audit Director, the internal audit function provides objective assurance on risk and control to both the Audit Committee and Risk and Regulatory Committee. The effectiveness of the Group's internal audit function is reviewed each year by the Audit Committee.

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. At these meetings, a wide range of relevant issues including strategy, performance, management and governance are discussed within the constraints of the information already made public.

The Company's Investor Relations Department is dedicated to facilitating communication with institutional investors. The directors consider it important to understand the views of shareholders and, in particular, any issues which concern them. The Board receives reports on matters that have been raised with management at the regular meetings held with the large investors. During the year the Chairman held a meeting with the major institutional investors and attended investor meetings with management. In addition, the Senior Independent Director is available to meet with major shareholders to discuss any areas of concern that cannot be resolved through normal channels of investor communication and arrangements can be made to meet with the Senior Independent Director through the Group Company Secretary. Similarly, arrangements can be made for major shareholders to meet with newly appointed directors. In addition, the Board consults with shareholders in connection with specific issues where it considers appropriate.

The Board is equally interested in the concerns of private shareholders and, on its behalf, the Group Company Secretary oversees communication with these investors. It is the practice of the Company to issue a postage paid reply form with its Annual General Meeting documentation to enable shareholders to put relevant questions to the directors. This is considered to be particularly helpful for those shareholders who are unable to attend the meeting. Written responses are provided through a brochure containing answers to the most frequently asked questions that is also placed on the Company's website. All material information reported to the regulatory news services is simultaneously published on the Company's website affording all shareholders full access to Company announcements.

The Company has taken full advantage of the provisions within the Companies Act 2006 allowing communications to be made electronically to shareholders where they have not requested hard copy documentation. As a result the Company's website has become the primary method of communication for the majority of its shareholders. Details of the information available for shareholders on the website can be found on the Shareholder information pages 270 to 272.

The Company's Annual General Meeting provides a valuable opportunity for the Board to communicate with private investors. At the meeting, the Company complies with the Combined Code as it relates to voting, the separation of resolutions and the attendance of committee chairmen. Whenever possible, all directors attend the Annual General Meeting and shareholders are invited to ask questions during the meeting and have an opportunity to meet with the directors following the conclusion of the formal part of the meeting. In line with the revised Combined Code, details of proxy voting by shareholders, including votes withheld, are made available on request and are placed on the Company's website following the meeting.

The Company's annual report and accounts and annual review, together with the Company's interim reports, trading statements and other public announcements are designed to present a balanced and understandable view of the Group's activities and prospects. The Chairman's statement, Group Chief Executive's review, and Business review provide an assessment of the Group's affairs and they will be supported by a presentation to be made at the Annual General Meeting.

Institutional investor

Morley Fund Management Limited (Morley), the Group's largest asset management company, believes that good governance contributes to better performance and practices. Therefore, as a major investor, the Group monitors the governance of the companies in which it invests. To this end, Morley holds regular meetings with the senior management of companies where it will raise matters which may affect the future performance of those companies.

Morley maintains a detailed Corporate Governance and Voting Policy as part of its investment strategy, which underpins its approach to engaging and voting at company general meetings. The policy also extends to cover social, environmental and ethical issues. Its policy is applied pragmatically, after careful consideration of all relevant information. In addition, Morley makes detailed voting reports available to clients and publishes statistics on its website.

Directors' responsibilities

The directors are required to prepare accounts for each accounting period that comply with the relevant provisions of the Companies Act 1985, the Companies Act 2006 (where applicable) and International Financial Reporting Standards (IFRS) as adopted by the European Union, and which present fairly the financial position, financial performance and cash flows of the Company and the Group at the end of the accounting period. A fair presentation of the financial statements in accordance with IFRS requires the directors to:

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

The directors are responsible for maintaining proper accounting records which are intended to disclose with reasonable accuracy, at any time, the financial position of the Company and the Group. They are also ultimately responsible for the systems of internal control maintained by the Group for safeguarding the assets of the Company and the Group and for the prevention and detection of fraud and other irregularities. Further details of the systems of internal controls maintained by the Group are more fully described above.

Going concern

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 accounts.

Audit Committee report

This report provides details of the role of the Audit Committee and the work it has undertaken during the year. The purpose of the Committee is to assist the Board in discharging its responsibilities for the integrity of the Company's financial statements, the assessment of the effectiveness of the systems of internal financial controls and monitoring the effectiveness and objectivity of the internal and external auditors. The full terms of reference for the Committee can be found on the Company's website, www.aviva.com, and are available from the Group Company Secretary.

The following independent non-executive directors, served on the Committee during the year:

Member	Period From	Period To
Russell Walls (Chairman from 1 January 2007)	1 July 2004	To date
Mary Francis	1 January 2007	To date
Richard Karl Goeltz	1 July 2004	To date
Carole Piwnica	24 September 2003	To date

The Committee met on six occasions in 2007 and each member attended every meeting. In addition, the Committee held separate meetings with members of senior management for the purpose of induction and training. The Group Company Secretary acts as the secretary to the Committee. Russell Walls, a Fellow Chartered Certified Accountant, is a former Group Finance Director of BAA plc, Wellcome plc and Coats Viyella plc. Richard Karl Goeltz is a former Chief Financial Officer of American Express Company, NatWest Group plc and The Seagram Company Ltd. The Board is satisfied that these directors have recent and relevant financial experience.

The Group Chief Executive, Group Finance Director, Group Audit Director, Group Chief Accountant and the external auditor normally attend, by invitation, all meetings of the Committee. Other members of senior management are also invited to attend as appropriate to present reports. It is the Committee's practice at each meeting to meet separately with the Group Audit Director and the external auditor without any members of management being present. In performing its duties, the Committee has access to the services of the Group Audit Director, the Group Company Secretary and external professional advice.

The Committee follows an agreed annual work plan. It reviews, with members of management and the internal and external auditors, the Company's financial announcements including the annual report and accounts to shareholders and associated documentation. It places particular emphasis on their fair presentation and the reasonableness of the judgemental factors and appropriateness of significant accounting policies used in their preparation. At each meeting, the Committee receives a report from the Group Audit Director concerning the Company's systems of internal financial control, including any significant new issues and actions taken on previously reported issues. Twice each year, the Committee receives reports on the adequacy of the Group's life assurance and general insurance reserves. The Committee also reviews the annual work plan for the Group's internal audit function. The Committee reports to the Board regarding the effectiveness of the Group's overall systems of internal control. The Committee itself reviews the financial controls and works closely with the Risk and Regulatory Committee, which reviews the non-financial controls.

During the Board's visit to the Group's North American operations in September 2007, the Committee held joint meetings with the Risk and Regulatory Committee and members of the local business unit audit committees. The meetings allowed the Committee to gain a deeper understanding of the relevant local issues and assess the effectiveness of the systems of internal financial controls and the effectiveness and objectivity of the internal and external auditors.

In addition, the Committee reviewed the Group's capital and risk frameworks against the regulatory reforms incorporated in the Financial Services Authority's Prudential Sourcebook (PSB) concerning the Group's individual capital assessments (ICA). The Committee endorsed the proposed assumptions, methodology and process followed in determining the amount of capital required to support the Group's business plans and recommended the ICA to the Board for approval.

Each of the Group's major business units has an audit committee that provides an oversight role for its business. All such committees include members who are independent of the relevant business. The Group Audit Director reviews the papers and minutes from these committees and brings all significant matters to the Committee's attention. In 2007 the Committee made contact with the chairmen of the local audit committees and some members attended local committee meetings.

The Committee receives reports from the external auditor and regularly holds discussions with both the internal and external auditors in the absence of management. The chairman of the Committee reports to the subsequent meeting of the Board on the Committee's work and the Board receives a copy of the minutes of each meeting of the Committee.

Internal audit

The Group's internal audit function reports to management on the effectiveness of the Company's systems of internal controls, the adequacy of these systems to manage business risk and to safeguard the Group's assets and resources. Through the Group Audit Director, the internal audit function provides objective assurance on risks and controls to the Committee. The plans, the level of resources and the budget of the internal audit function are reviewed at least annually by the Committee, which also undertakes an annual review of the effectiveness of the Group's internal audit function against guidance criteria provided by the Institute of Chartered Accountants in England and Wales. In addition, the Group Audit Committee is consulted in determining the remuneration of the Group Audit Director. This review is complemented with a questionnaire to assess the effectiveness of Group Audit and completed by a sample of the major Business Units, audit committee members and Executive members. As of 1 April 2007, the Group internal audit structure was modified and the reporting line of all internal audit resources from each business unit have been centralised so that they report to the Group Audit Director, rather than to the business unit head.

External auditor

Ernst & Young LLP (Ernst & Young) was appointed auditor of the Company in 2001 having previously been the auditor of Norwich Union plc. Following the annual external audit effectiveness review the Committee concluded that the audit was fit for purpose and recommended that a re-tender process should not be undertaken in 2007 but that the relationship and the effectiveness of the auditor be kept under review. The audit signing partner changed as part of a rotation process in 2002 and in line with that process there has been a further rotation in audit partner following the sign-off of the statements for the 2006 financial year. Ernst & Young audits all significant subsidiaries of the Group other than Delta Lloyd (the Group's subsidiary operating in the Netherlands, Belgium, Luxembourg and Germany), which is audited by PricewaterhouseCoopers LLP (PwC). To fulfil its Group reporting responsibilities Ernst & Young reviews the work of PwC in accordance with standard auditing practices.

The Company has policies aimed at safeguarding and supporting the independence and objectivity of the external auditors. The policies regulate the appointment of former audit employees to senior finance positions in the Group and set out the approach to be taken by the Group when using the services of the auditor. It distinguishes between those matters where an independent view is required, such as audit and assurance work, and other advisory services. In addition to statutory audits, audit and assurance work includes reviewing statutory returns, actuarial assurance, regulatory advice requiring auditor reporting, due diligence on acquisitions and disposals, fraud investigations and control reviews and audit reviews. As a general principle the auditor cannot be engaged by the Company for any other purpose, although the policy recognises that there may be areas of minor significance where, for pragmatic reasons, it may be in the Group's interests to use the external auditor for this work.

Annually, the Committee reviews a formal letter provided by the external auditor confirming its independence and objectivity within the context of applicable regulatory requirements and professional standards.

As part of the Committee's continual drive for improvement, the policy in respect of external auditors underwent a detailed review this year. The policy was updated to reflect current global best practice on auditor independence, which is considered to be full compliance with all UK, US and International Federation of Accountants (IFAC) rules. The revised policy aims to be simpler to interpret, providing greater clarity on what services may and may not be provided by the Group's auditors. This revised policy became operational from 1 January 2008.

The Group paid £10.2 million to Ernst & Young LLP for audit services in 2007, relating to the statutory audit of the Group and Company financial statements and the audit of Group subsidiaries and associates pursuant to legislation (*2006: £9.2 million*). The fees for other services which included advice on accounting and regulatory matters, reporting on internal controls, corporate governance matters, and due diligence work were £8.9 million giving a total fee to Ernst & Young of £19.1 million (*2006: £15.8 million*). Further details are provided in note 12 to the accounts. In addition, the Group engaged the SMART Company in relation to certain assurance work including verification of its Corporate Social Responsibility Report.

During the year, the Committee performed its annual review of the independence, effectiveness and objectivity of the external auditor; assessing the audit firm, the audit partner and audit teams. The process was conducted by means of a questionnaire, completed Group-wide by members of senior management and members of the Group's finance community. The questionnaire sought opinions on the importance of certain criteria and the performance of the auditor against those criteria. The questionnaires were collated by the Group Company Secretary. Based on this review, the Committee concluded that the audit service of Ernst & Young was fit for purpose and provided a robust overall examination of the Group's business and the risks involved.

In line with the Combined Code requirement the Board undertook a review of the effectiveness of all its committees during the year, including the Audit Committee. In addition, the Committee also carried out a self-evaluation of its effectiveness.

This report was reviewed and approved by the Board on 27 February 2008.

Russell Walls
Chairman, Audit Committee

Nomination Committee report

This report provides details of the role of the Nomination Committee and the work it has undertaken during the year.

The main purpose of the Committee is to assist the Board by keeping the composition of the Board under review and conducting a rigorous and transparent process when making or renewing appointments of directors to the Board. It also advises the Board on issues of directors' conflicts of interest and independence. The full terms of reference for the Committee can be found on the Company's website, www.aviva.com, and are available from the Group Company Secretary.

The following directors served on the Committee during the year:

	Period	
Member	From	To
Lord Sharman (Chairman)	25 January 2006	To date
Guillermo de la Dehesa	21 June 2000	To date
Wim Dik	26 April 2004	To date
Richard Harvey	21 June 2000	11 July 2007
Andrew Moss	12 July 2007	To date
Russell Walls	23 January 2007	To date

The Committee met on five occasions in 2007 and the members' attendance record is set out in the Corporate governance report above. The Group Company Secretary acts as the secretary to the Committee. Russell Walls was appointed a member of the Committee on 23 January 2007 and Andrew Moss was appointed a member of the Committee on 12 July 2007.

The Committee keeps under review the skill requirements of the Board and the knowledge, experience, length of service and performance of the directors. It also reviews their external interests with a view to identifying any actual, perceived or potential conflicts of interests, including the time available to commit to their duties to the Company. The Committee also monitors the independence of each non-executive director and makes recommendations concerning such to the Board. The results of these reviews are important when the Board considers succession planning and the re-election and reappointment of directors. Members of the Committee take no part in any discussions concerning their own circumstances.

As a result of the restructuring of the senior management team during 2007 there has been a reduction in the number of executive directors on the Board. The Committee will review the position during 2008.

As part of the ongoing planning process for the smooth replacement of current non-executive directors, including refreshing the skill set with a view to the future, the Committee identified a number of candidates. During the year the Board accepted the Committee's recommendations that Nikesh Arora and Scott Wheway join the Board. In respect of both appointments the Committee engaged a search agency to help it identify suitable candidates and assist with the preparation of an interview list.

The appointment of two new non-executive directors during the year also helps to maintain the balance of the Board in the context of the intended retirement of Guillermo de la Dehesa and Wim Dik during 2008.

In line with the Combined Code requirement the Board undertook a review of the effectiveness of all its committees during the year, including the Nomination Committee.

This report was reviewed and approved by the Board on 27 February 2008.

Lord Sharman of Redlynch
Chairman, Nomination Committee

Risk and Regulatory Committee report

This report provides details of the role of the Risk and Regulatory Committee and the work it has undertaken during the year, and should be read in conjunction with the report on the Group's approach to risk and capital management on pages 54 to 62.

The purpose of the Committee is to assist the Board in providing leadership, direction and oversight with regard to the Group's risk and regulatory policies and procedures, including those related to compliance, risk management, financial malpractice and internal controls. The full terms of reference for the Committee can be found on the Company's website, www.aviva.com, and are available from the Group Company Secretary.

The following independent non-executive directors served on the Committee during the year:

	Period	
Member	From	To
Mary Francis (Chairman from 1 January 2007)	14 January 2006	To date
Nikesh Arora	1 July 2007	To date
Wim Dik	14 January 2006	To date
Russell Walls	14 January 2006	To date

Nikesh Arora joined the Committee on his appointment to the Board on 1 July 2007. There were no other changes in the membership of the Committee during the year. The Group Company Secretary acts as the secretary to the Committee. The Committee met on seven occasions in 2007 and the members' attendance record is set out in the Corporate governance report above. In addition the Committee held separate meetings with members of senior management and Ernst & Young for the purposes of induction and training.

The Group Chief Executive, Group Finance Director, Group Audit Director, the Chief Risk Officer, the Director of Group Compliance and the external auditor normally attend, by invitation, all meetings of the Committee. Other members of senior management are also invited to attend as appropriate to present reports. It is the Committee's practice at each meeting to meet separately with the Group Audit Director and the external auditor without any members of management being present. In performing its duties, the Committee has access to the services of the Group Audit Director, the Chief Risk Officer, the Director of Group Compliance, the Group Company Secretary and external professional advisors.

The work of the Committee falls into the following broad areas:

Risk management

A particular focus of the Committee's work in 2007 was on improvements to the framework for risk and control across the Group. The Committee was involved in a review of the risk policy (including risk appetite) statements for each of the main categories of risk faced by the Group, and in a review of the processes for identifying, controlling and reporting risks in the business units, regions and Group centre. A new Chief Risk Officer has been appointed. The Committee has also received regular oversight reports on the Group's key risks and the measures being taken by management to contain them. It has increased its focus on market and other financial risks and will continue to do so in the year ahead.

Regulation and compliance

The Committee has reviewed the Group's regulatory operating plan and has received regular reports on its relationships with its external regulators. In particular, the Committee monitors the actions being taken by management in relation to the Risk Mitigation Programme agreed with the Financial Services Authority (FSA) and the overall relationship with the FSA as the Group's lead regulator. Reports on any material compliance issues are received by the Committee, including any reputational issues which may arise and the lessons learned. In addition, the Committee receives reports on legislative and regulatory developments which may impact the Group, such as the FSA's Treating Customers Fairly initiative and the European Union's Directive on Markets in Financial Instruments.

Group Internal Audit

The Group Internal Audit function provides the Committee with independent and objective assurance over the appropriateness, effectiveness and sustainability of the Company's system of internal controls in place to mitigate significant risks. The Group Internal Audit plan is based on a robust and structured planning process using a risk based methodology that allows for quarterly updates to reflect changes to the Company's risk profile. Key control issues reported by Group Internal Audit to management and to the Committee members are monitored on a quarterly basis until the risk exposure has been properly mitigated. Reports on financial malpractice are also presented to the Committee including incidence of fraud, anti-money laundering procedures and, at least on an annual basis, arrangements whereby persons can report in confidence any concerns about lack of probity (whistleblowing).

Business protection

The Committee has reviewed plans for maintaining and further enhancing the Group's business continuity management, systems for information security and management of IT risks.

During the Board's visit to the Group's North American operations in September 2007, the Committee held joint meetings with the Audit Committee and members of the local business unit audit committees. The meetings allowed the Committee to gain a deeper understanding of the relevant local issues and assess how the Group's risk, and regulatory policies and procedures were being embedded in the business.

The chairman of the Committee reports at the subsequent meeting of the Board on the Committee's work and the Board receives a copy of the minutes of each meeting of the Committee.

In line with the Combined Code requirement the Board undertook a review of the effectiveness of all its committees during the year, including the Risk and Regulatory Committee.

This report was reviewed and approved by the Board on 27 February 2008.

Mary Francis
Chairman, Risk and Regulatory Committee

Corporate Social Responsibility Committee report

This report provides details of the role of the Corporate Social Responsibility Committee and the work it has undertaken during the year.

The purpose of the Committee is to provide guidance and direction to the Group's corporate social responsibility (CSR) programme, review the risks and opportunities relating to the seven individual elements in the programme (namely: standards of business conduct, environment, human rights and diversity, community, customers, suppliers and employees) and to monitor progress. The full terms of reference for the Committee can be found on the Company's website, www.aviva.com, and are available from the Group Company Secretary.

The following directors served on the Committee during the year:

		Period
Member	From	To
Wim Dik (Chairman)	14 January 2006	To date
Guillermo de la Dehesa	14 January 2006	To date
Richard Harvey	14 January 2006	11 July 2007
Andrew Moss	12 July 2007	To date
Carole Piwnica	14 January 2006	To date
Lord Sharman	14 January 2006	To date

The Committee met on four occasions in 2007 and the members' attendance record is set out in the Corporate governance report above. The Group Company Secretary acts as the secretary to the Committee.

During the year the Committee met to consider the conclusions of the Group's CSR Annual Conference that took place in June 2007, and which was addressed by both the Chairman of the Committee and a non-executive director committee member. The Committee reviewed and approved the content and scope of the Company's 2007 CSR Report, monitored the management of the CSR risks affecting the Group and helped establish a process by which CSR related targets and objectives within the Group's individual businesses are set, monitored and embedded in the businesses. New policies on CSR and Environment were established as a result of this process. Members of the Committee are interviewed as part of the external assurance process of the CSR programme and the subsequent management report is reviewed by the Committee to assist the strengthening and future direction of the programme going forward.

The Committee reviewed each business unit's performance and progress during the year. During the Board's visit to the Group's North American operations in September 2007, the Committee held a meeting with the senior managers responsible for CSR in the Group's businesses in the United States, while the Chairman of the Committee visited the general insurance business in Canada. The meetings allowed the Committee to gain a deeper understanding of the relevant local issues and assess how CSR was being embedded in the business.

Together with the Board, the Committee participated in a knowledge learning session on climate change in April 2007 addressed by a leading climate change scientist. The Committee also reviewed the Group's carbon offset projects as part of Management's commitment to become carbon neutral on a global basis.

In line with the Combined Code requirement the Board undertook a review of the effectiveness of all its committees during the year, including the Corporate Social Responsibility Committee.

This report was reviewed and approved by the Board on 27 February 2008.

Wim Dik
Chairman, Corporate Social Responsibility Committee

Directors' remuneration report

This report sets out the remuneration policy for the Company's directors, describes its implementation and discloses the amounts paid in 2007. In addition to meeting statutory requirements, particularly the Companies Act 1985, Schedule 7A, the Remuneration Committee (the "Committee") has aimed to comply with best practice guidelines, including guidance produced by the Association of British Insurers (ABI) and the National Association of Pension Funds, in producing this report.

The Remuneration Committee

The Committee is a committee of the Board. The terms of reference for the Committee are available from the Group Company Secretary and can be found on the Company's website. The Committee's key objectives are to:

– Establish a competitive remuneration package to attract, retain and motivate scarce, high quality leaders;

– Promote the achievement of both our annual plans and our strategic objectives and ambitions by providing a remuneration package that contains appropriately motivating targets; and

– Align senior executives' remuneration with the interests of shareholders and other stakeholders, including customers and employees.

Within the context of these objectives, the Committee's main responsibilities are to:

– Recommend to the Board the Group's remuneration policy for the executive directors and members of senior management, covering basic salary, bonus, long term incentives, retirement provision, long term wealth creation and other benefits;

– Strike an appropriate balance between (i) the fixed and variable and (ii) the cash, equity and equity related components of the total remuneration package;

– Ensure the remuneration package is congruent with and provides the incentives to realise short and long term goals;

– Review and determine the terms of employment and remuneration of the individual executive directors, including any specific recruitment or severance terms;

– Review and, within the broad policy from time to time approved by the Board, determine the remuneration terms of the Chairman of the Board;

– Recommend to the Board the establishment of any employee share plans and exercise all the Board's powers in relation to the operation of all share and incentive plans, including the granting of awards, the setting and testing of performance conditions (where appropriate), and any discretion on behalf of the Board regarding any material amendments to the plans' rules not requiring the approval of shareholders; and

– Select, appoint and determine terms of reference for independent remuneration consultants to advise the Committee on remuneration policy and levels of remuneration.

Remuneration Committee membership

The following independent non-executive directors served on the committee during the year:

	Period	
Members	From	To
Richard Karl Goeltz (Chairman from January 2006)	3 May 2004	To date
Mary Francis	25 January 2006	To date
Carole Piwnica	25 January 2006	To date
Scott Wheway	5 December 2007	To date

The Committee meetings are attended by Andrew Moss, Group Chief Executive (other than when his own remuneration is being discussed) and John Ainley, Group Human Resources Director. The Group Company Secretary acts as secretary to the Committee. The Chairman attends when discussing the remuneration of the Group Chief Executive.

The Committee is advised by David Hope, Group Human Resources Strategy Director, on market practice and the alignment of reward arrangements to business strategy and by Tim Harris, Group Chief Accountant, on matters relating to the performance measures and targets for the Group's incentive plans. In addition, the Committee appointed New Bridge Street Consultants (NBSC) to advise on a review of senior executive remuneration (see below). NBSC provided no other material assistance to the Company in 2007. Deloittes LLP, which provided other services to the Group in 2007, advised the Committee on the calculation of Total Shareholder Return (TSR) in respect of the Long Term Incentive Plan (LTIP) vesting. The Group Company Secretary and Linklaters LLP (Linklaters) advised the Committee in relation to the operation of the Company's share plans. Linklaters provided other legal services to the Company during 2007.

In line with Combined Code requirements, the Board undertook a review of the effectiveness of the Committee during the year. Additionally, the Committee reviewed its own performance and agreed steps to enhance its effectiveness.

Remuneration Committee activity

The Committee is required by its Terms of Reference to meet at least three times per year and has a standing calendar of items within its remit. In addition to these standing items, the Committee discusses matters relating to the operation of the remuneration policy and emerging market practices. In 2007 the Committee met eight times and discussed, amongst others, the following key issues:

Meetings	Standing agenda items	Other agenda items
February	– The annual review of executive directors' basic salaries and benefits in kind – Decisions on executive directors' awards and approval of grants of share awards under the Annual Bonus Plan (ABP) – Decisions on LTIP grants and associated performance conditions for the 2007 grants and performance testing of subsisting grants – A decision on the award to be made under the UK's All Employee Share Ownership Plan to UK employees and on the operation of Hibernian's All Employee Share Scheme – A review of dilution limits – Approval of recommendations on contributions into the Aviva Capital Accumulation Plan – Approval of the 2006 Directors' remuneration report	– An initial review of the potential retirement terms of Group Chief Executive, Richard Harvey if he were to retire from the Company – A review of a new LTIP proposed for Morley Fund Management
April (twice)	– A decision on revised fees for the Chairman of the Board	– Approval of departure terms for Aviva executive director, Patrick Snowball – Approval of the appointment terms for Aviva executive director, Tidjane Thiam
May	– A review of the use of comparator/market data and consideration of market trends in executive director pay – A market based review of total remuneration for senior management below executive director level – A review of Remuneration Committee effectiveness	– Approval of appointment terms for Group CEO, Andrew Moss – Approval of the performance conditions of Aviva USA's LTIP – A review of currency exchange issues in calculating relative TSR for the Aviva LTIP
June	– None	– Approval of Group Chief Executive Richard Harvey's retirement terms
August	– A review of revised executive directors' bonus targets following internal restructuring – A review of corporate governance and compliance with ABI guidelines on executive pay – Approval of an invitation to UK employees to participate in a Save As You Earn scheme	– Consideration of a revised process for setting and assessing executive directors' personal objectives – Approval of the Terms of Reference for a review of executive directors' remuneration – Consideration of the impact of foreign exchange movements on target setting
December (twice)	– Approval of 2008 performance targets for the operation of the ABP – Approval of executive directors' personal objectives for 2008 – Initial consideration of the 2007 Directors' remuneration report	– A review of executive directors' total remuneration – Consideration of a proposal to introduce a matching element to ABP deferrals – A review of the remuneration of the Chief Executive, Aviva Investors – Agreement on internal assurance on non-financial performance for the ABP – A review of Aviva's current policy on dividends on LTIP shares which vest – Approval of amendments to UK all employee share ownership plans in response to legislative changes

Remuneration policy

Alignment with Group Strategy
The Committee considers alignment between Group Strategy and the remuneration of its senior executives to be critical. It believes that senior executives should be highly rewarded (on a market competitive basis) for the delivery of stretching goals but also should receive reduced rewards when the business performs poorly. To achieve this alignment Aviva's remuneration package is leveraged, with a high percentage of pay "at risk" against the achievement of stretching goals. Furthermore two-thirds of any bonus and any LTIP grant are delivered in the form of Aviva shares. The requirement to defer bonus and participation in the LTIP closely ties the long term value of executive remuneration to Aviva's share price performance.

Executives thus have high exposure to the same benefits and drawbacks of share price movement as other shareholders. The belief that our Executives should be shareholders is reinforced through formal guidelines requiring executive directors to build up and retain a significant holding of Aviva shares.

The Group's strategic priorities and targets are set out elsewhere in this report. Those priorities are reflected closely in our remuneration package:

– Basic Salary: Delivering our business plans requires talented senior executives focused on business performance. Overall remuneration is heavily influenced by basic salary. Internal and external equity in basic salary positioning is an important contributor to a motivational remuneration package and hence to delivering our business plan. A range of market data is used to inform decision making taking into account our policy with regard to the FTSE 30 and FTSE 50 data. We wish to win, keep and focus talented individuals on delivering sustained group performance.

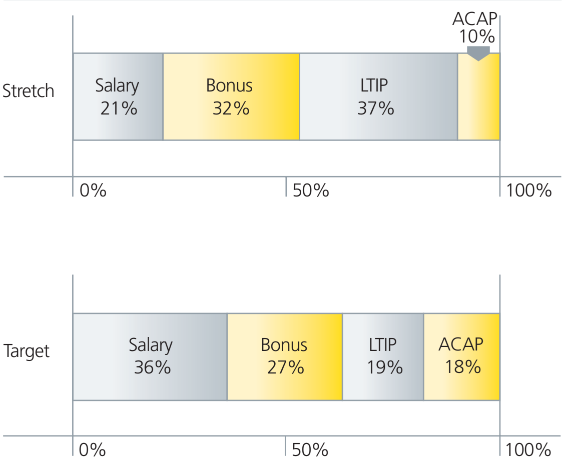
– Bonuses: Bonus structures are effective only if they drive, through the targets chosen, sustained profitable growth for shareholders. In choosing targets careful thought also needs to be given to the unhelpful behaviours they might inadvertently promote. These considerations are regularly debated by the Committee. Management is asked to explain and justify the targets recommended for adoption. The Committee must assure itself that the final targets are, firstly, the correct ones to provide incentives and, secondly, are set at an appropriately challenging level. This debate has resulted in significant developments in Aviva's target setting in recent years. In brief, the moves have been towards a smaller number of financial targets, with emphasis given through gearing to operating profit and new business contribution – two measures of particular relevance to a large life insurance business. The emphasis in 2007 has been to reduce and focus the number of financial measures further for 2008. These financial targets sit alongside targets on customer advocacy and employee engagement introduced in 2005 that the Committee believes are critical to long-term organisational health. The personal objectives of executive directors and executive committee members are also reviewed by the Committee to ensure they adequately reflect the strategic aims of the Group, good governance and best practice.

– The LTIP encourages a longer-term management focus on Return on Capital Employed (ROCE) and relative TSR. These metrics measure how the Company is performing in both relative and absolute terms. It also ensures direct line of sight for executives between, on the one hand, the actual experience of shareholders investing in the insurance sector and Aviva in particular and, on the other, their own financial interests and wealth creation opportunities.

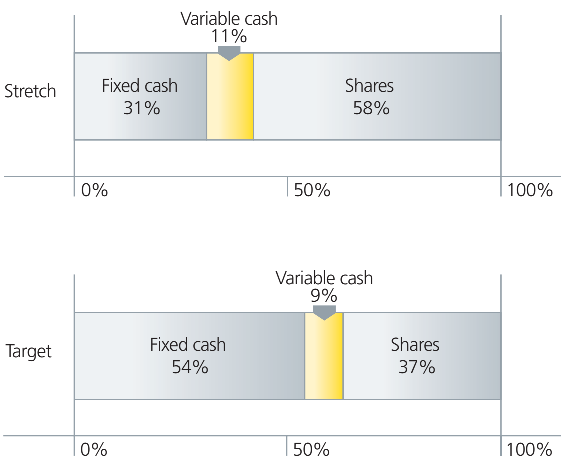
The Committee considers all these elements, plus pension and other benefits, as a whole. They look to ensure that an appropriate balance is maintained between them so that the need for both short-term success and long-term sustainable growth is recognised. The Committee also ensures that the non-financial business measures and individual objectives reflect adequately Aviva's environmental, social and governance responsibilities and send the right messages to management about the positive behaviours required to meet those responsibilities.

Constituent elements of reward as a percentage of total remuneration
The bar charts below show how the Group's remuneration policy translates in practice into the Chief Executive's remuneration package. They show outcomes at both "target" and "stretch" levels of performance.

Total remuneration elements



Remuneration split between cash and shares



The first bar chart shows the breakdown of the package into its main constituent elements. The second bar chart shows a breakdown which highlights the proportion in the package of fixed cash, variable cash and shares. For the purposes of the second table, fixed cash includes basic salary and the discretionary Aviva Capital Accumulation Plan (ACAP) payment. Variable cash is the one-third of bonus paid in cash annually. The share element includes both the two-thirds of bonus deferred into shares and the LTIP.

- "Target" performance means a target bonus outcome (75% of basic salary) and minimum LTIP vesting on both the TSR and ROCE elements (30% of an LTIP award).
- "Stretch" performance means a stretch bonus outcome (150% of basic salary) and full LTIP vesting (100% of an LTIP award).

The breakdown does not include any share price growth, the dividends on the (ABP) deferred shares or other benefits (cash car allowance, value of Private Medical Insurance (PMI) and all-employee share ownership plans).

Remuneration policy in practice

Policy	How delivered
Total remuneration – Total remuneration package levels are informed by relevant pay data, in particular the lower quartile to median range of the FTSE 30 and the median to upper quartile range of the FTSE 50. – These reference points are chosen to reflect Aviva's market capitalisation and comparability to other large, sophisticated multi-national companies and the positioning that is appropriate to Aviva in those different comparator groups.	– Basic salary – Annual Bonus Plan – LTIP – Long-term savings – Pension – Benefits – All-employee share schemes.
Basic salary – Benchmarked as for total remuneration but with positioning and progression taking account of individual and business performance and the levels of increase provided for the broader UK employee population (basic salaries of the UK staff increased by 3.5% on average in 2007). – The Committee takes seriously institutional investors' concerns on the "ratcheting" of basic salaries and does not unquestionably accept a particular market position or salary.	– Monthly in cash – Reviewed annually in February, with changes taking effect from 1 April.
Discretionary Annual Bonus Plan (ABP) – The ABP is intended to motivate directors to achieve the annual business plan, based on a series of key financial, employee and customer performance indicators (KPIs), which make up 70% of the bonus opportunity, and personal objectives (30%). – 75% of basic salary is payable for "on target" performance and up to 150% is for "stretch" performance. – Deferred shares vest on the third anniversary of the date of grant, subject to the recipient remaining in service. On resignation during the three year deferral period all or part of the grant is forfeited (100% in year of grant, 50% in following year and 25% in year after that).	– Annually, one-third is paid in cash and two-thirds in deferred shares.
Long Term Incentive Plan (LTIP) – The LTIP is intended to promote achievement of the Company's longer-term objectives, to aid the retention of key personnel and to align executive interests to those of shareholders. – The Group Chief Executive is eligible to receive an annual award of shares equal to 175% of basic salary. Other executive directors are eligible to receive an annual award of shares equal to 150% of basic salary. – Awards to other senior staff vary based on performance over time and potential and are normally up to 150% of basic salary. – No award may exceed 200% of basic salary.	– Annual awards in restricted shares that vest, subject to performance conditions being met at the end of a three year performance period. – Awards that do not vest lapse.
Long term savings – The ACAP is a long-term savings vehicle which aids retention whilst recognising a need for flexibility in long-term wealth planning. – Company contributions are discretionary and vary year-on-year, but would not normally exceed 50% of basic salary. Contributions for the executive directors are shown in the table on page 97. – No one who participates in the ACAP is accruing benefits in the Aviva Staff Pension Scheme. A resignation or departure for breach of contract generally results in forfeiture of contribution for the relevant year.	– Discretionary payments into a trust where they are held for a minimum of five years.

Policy	How delivered
Aviva Staff Pension Scheme (ASPS) The UK ASPS provides a competitive post-retirement package. No executive director is currently accruing service based benefits in the ASPS. The scheme provides accrual at $^1/_{30}$, $^1/_{45}$ or $^1/_{60}$ of annual basic salary depending on seniority and the date of joining the scheme. Lump sum death in service benefit of four times basic salary is provided, as is a spouse/partner's pension equal to two-thirds of actual or, on death in service and in certain other circumstances, prospective pension. Post-retirement increases are equivalent to Retail Price Index (RPI) up to a maximum of 10%. Retirement benefits can be accessed from age 60.	– Deferred cash payable on retirement in the form of a lump sum/monthly payment.
Other benefits Other benefits are provided on a market competitive basis.	– Cash car allowance – Private medical insurance – All-employee share ownership plans.

Overview of the effect on current executive directors

The effect of these policies in 2007 for current executive directors is as follows (details on pension benefits are contained later in this report):

Andrew Moss, Group Chief Executive

Element	Amount	Commentary
Basic salary	£790,000 during the year. As at 1 January £700,000 As at 31 December £880,000	Mr Moss was appointed Group Chief Executive from 1 July with a commensurate increase in basic salary. He was previously Group Finance Director.
Annual Bonus Plan	£853,336 (97.0% of basic salary)	Bonus is a function of the degree of achievement of 2007 targets as follows: Financial 22.5% (maximum 50%) Employee 7.7% (maximum 10%) Customer 7.8% (maximum 10%) Personal 26.7% (maximum 30%).
LTIP – face value of grant	£1,050,000	The face value of the grant represented 150% of Mr Moss's basic salary on 28 February 2007. This reflected his role as Group Finance Director at the date of grant.
Aviva Capital Accumulation Plan	£398,750	The Trustee of the Plan accepted Aviva's recommendation and made an award into the plan taking account of Mr Moss's then current and pending roles.
Other benefits	£16,120 cash car allowance 2% basic salary supplement Private medical insurance	Mr Moss receives 2% of basic salary as a non-pensionable cash supplement provided in consideration of his surrendering his Unapproved Unfunded Retirement Benefit (UURB) promise at the cash supplement when accrual in the ASPS ceased.

Philip Scott, Group Finance Director

Element	Amount	Commentary
Basic salary	£565,000 during the year As at 1 January £550,000 As at 31 December £570,000	Mr Scott received a basic salary increase from 1 April of £20,000 (3.6%).
Annual Bonus Plan	£641,250 (112.5% of basic salary)	Bonus is a function of the degree of achievement of 2007 targets as follows: Financial 29.7% (maximum 50%) Employee 6.8% (maximum 10%) Customer 8.4% (maximum 10%) Personal 30.0% (maximum 30%).
LTIP – face value of grant	£825,000	The face value of the grant represented 150% of Mr Scott's basic salary on 28 February 2007.
Other benefits	£16,120 cash car allowance Private medical insurance	

Overview of the effect on former executive directors

For those executive directors who left employment with the Company in 2007 or as at 31 December 2007 were under notice, the overview is as follows:

Richard Harvey, former Group Chief Executive
(Retired from the Company on 31 July 2007)

Element	Amount	Commentary
Basic salary	£525,000 during the year As at 1 January £900,000 As at 31 July £900,000	– Mr Harvey received no increase in basic salary during the year.
Annual Bonus Plan	£523,950 (99.8% of basic salary prorated for the seven months of the year worked)	– Mr Harvey received a bonus based on unaudited half year financial results and personal performance. Given his retirement, the award was paid wholly in cash in August 2007.
LTIP – face value of grant	n/a	– Mr Harvey received no LTIP award in 2007. His 2005 and 2006 LTIP awards will vest in March 2008 and March 2009 to the extent that the Committee determines the performance conditions have been met. Any vested award will be subject to pro-rating for Mr Harvey's service during the performance period.
Aviva Capital Accumulation Plan	£600,000	– The Trustee of the Plan accepted Aviva's recommendation and made an award to the benefit of Mr Harvey into the plan.
Other benefits	£11,083 cash car allowance Private medical insurance	

Patrick Snowball
(Left the Company by mutual agreement on 30 June 2007)

Element	Amount	Commentary
Basic salary	£280,000 during the year As at 1 January £550,000 As at 30 June £570,000	– Mr Snowball received a basic salary increase from 1 April of £20,000 (3.6%).
Annual Bonus Plan	No payment was made to Mr Snowball in respect of 2007 performance	– Mr Snowball received those ABP shares from the 2006 and 2007 deferrals that vested by right under the scheme rules and, additionally, at the Remuneration Committee's discretion, the balance of those deferrals. – Mr Snowball also received those shares from the 2005 Deferred Bonus Plan (DBP) award that were his by right under the scheme rules. The Remuneration Committee determined that the 2005 DBP matching shares should be forfeited.
LTIP – face value of grant	£825,000 (forfeited on departure)	– The face value of the grant represented 150% of Mr Snowball's basic salary on 28 February 2007. – In accordance with the rules of the Plan, on his departure, the Remuneration Committee determined that his 2007 award and the unvested 2005 and 2006 awards should be forfeited.
Other benefits	£8,060 cash car allowance Private medical insurance	

Tidjane Thiam

(Resigned in September 2007 and is serving a contractual notice period on "garden leave" until 20 March 2008. Mr Thiam is bound by a non-compete covenant that runs concurrent with this period of garden leave).

Element	Amount	Commentary
Basic salary	£467,833 during the year As at 1 January £400,000 As at 31 December £500,000	– Mr Thiam received a basic salary increase of £14,000 (3.5%) from 1 April and a further increase in May when appointed an executive director.
Annual Bonus Plan (ABP)	No payment was made to Mr Thiam in respect of 2007 performance	– Given his voluntary resignation, Mr Thiam received no bonus in respect of 2007. – On his final departure Mr Thiam will receive those shares from the 2005 DBP award that are his by right under the scheme rules. The matching shares provided by the Company will lapse. He will forfeit his total 2007 ABP deferral and will receive that portion from the 2006 ABP deferral (50%) to which he is entitled under the scheme rules, whilst the remaining 50% balance will be forfeited.
LTIP – face value of grant	£600,000 (forfeited on resignation)	– The face value of the grant represented 150% of Mr Thiam's basic salary on 28 February 2007. – On his resignation his 2007 award and the unvested 2005 and 2006 awards were forfeited.
Other benefits	£13,300 cash car allowance Private medical insurance	

Annual Bonus Plan (ABP) – target setting

The financial targets which underpin the ABP (accounting for 50% of annual bonus) are derived from Aviva's return, growth and capital efficiency/capital generation goals. Two of the financial targets (operating profit and new business contribution) are "stretched" due to their importance in achieving these aspirations.

Employee and customer targets (each accounting for up to 10% of annual bonus) are set taking into account performance to date and aspirations for the future. The employee targets on leadership and engagement are derived from the Group's global climate survey in which all business units participate and which over 42,000 staff completed in 2007. This survey is delivered through an independent third party able to provide extensive external benchmark data. Our current aim is to reach the relevant global and national norms on leadership and engagement. Our aspiration is to be at the upper quartile positions over time.

The ABP replaced the Aviva Deferred Bonus Plan (DBP), which was approved by shareholders in 2001 and provided for a one-for-one match on deferred awards. Vesting of awards is not subject to any further performance conditions and takes place on the third anniversary from grant. Final awards were made under the DBP in respect of the 2004 financial year in March 2005 and will vest in 2008.

Our customer metrics do not yet have the same degree of consistency and external comparability in all business units as our employee climate survey. Different methodologies and measures are used in different parts of the business. We already derive suitable performance targets from available data and are working to establish greater consistency and external comparability.

Internal assurance that the outcomes on employee and customer targets were accurately calculated and reported was provided to the Committee by Group Audit.

Personal objectives based on delivery of key strategic priorities, personal leadership and operating performance of the relevant portion of the business account for up to 30% of annual bonus.

The Group's performance against its financial, employee and customer KPIs in 2007, as they affected the bonus of the Chief Executive, is shown in the table below.

	Weighting (% of total bonus opportunity)		
Key performance indicators	On target (%)	Stretch (%)	Actual payment (%)
ROCE (external)	3	3	1.5
Operating profit (EEV/IFRS)	6	20	–
Operating profit (IFRS)	3	3	–
PVNBP	3	3	3.0
New business contribution	4	15	15.0
IRR	3	3	3.0
COR – GI and health	3	3	–
Customer	5	10	7.8
Employee	5	10	7.7
Personal – individual strategic	15	30	26.7
Total	**50**	**100**	**64.7**

Long Term Incentive Plan – target setting

The Aviva LTIP vests subject to the achievement of two equally weighted performance measures chosen to reflect shareholders' long-term interest in absolute (ROCE) and relative (TSR) performance.

ROCE targets are set annually within the context of Aviva's three year business plan. Vesting depends upon performance over the three year period against a target return. Aviva's external auditor provides a formal opinion on the ROCE vesting calculation. The 2007 LTIP award has the following three year ROCE targets:

ROCE over the three year performance period	Percentage of shares in overall LTIP award that vests based on achievement of ROCE targets
Less than 31.5%	0%
31.5%	15%
Between 31.5% and 37.5%	Prorata between 15% and 50% on a straight-line basis
37.5% and above	50%

Relative TSR determines the vesting of the other 50% of any Aviva LTIP award. The comparator group for the assessment of relative TSR performance under the 2007 grant comprises Aegon, Allianz, Axa, Fortis, Friends Provident, Generali, HBOS, ING, Legal and General, Lloyds TSB, Prudential, Royal Bank of Scotland, Royal and Sun Alliance, Standard Life and Zurich. The 2005 and 2006 LTIP grants are based on the same comparator group but without Standard Life.

TSR vesting operates as follows:

TSR position over the three year performance period	Percentage of shares in overall LTIP award that vests based on achievement of TSR targets
Below median	0%
Median	15%
Between median and upper quintile	Prorata between 15% and 50% on a straight-line basis
Upper quintile and above	50%

Details of unvested LTIP awards are provided on page 175.

As at 31 December 2007, vesting projections (non-audited) of subsisting LTIP awards were as follows:

LTIP award	31 December 2007 vesting projection (% of award)
Aviva LTIP 2007	43%
Aviva LTIP 2006	46.5%
Aviva LTIP 2005	50%

Details of the assumptions used in valuing the LTIP for accounting purposes can be found on page 176 of this report. The vesting assumption made in respect of the 2007 grant for accounting purposes is 50%.

The following table has been drawn up to assist in understanding the potential value of the LTIP grants made to executive directors in 2007:

LTIP	Andrew Moss	Philip Scott
Face value of grant	£1,050,000	£825,000
Minimum vesting	£315,000	£247,500
Expected value	£607,750	£477,500
Maximum vesting	£1,397,500	£1,098,000

Assumptions are as follows:

– Minimum vesting assumes TSR and ROCE elements vest at the minimum level, producing a 30% vesting of the total award. No share price growth is assumed;

– Expected value, based on the vesting assumption made for accounting purposes, assumes TSR and ROCE elements vest at a combined rate of 50% of the total award. Share price growth of 5% per annum is assumed over the three year performance period;

– Maximum vesting assumes both TSR and ROCE elements vest in full, producing a 100% vesting;

– Share price growth of 10% per annum is assumed over the three year performance period.

The current LTIP succeeds a previous long term incentive plan, the last awards under which were made in 2004 and vested in 2007. For the 2007 LTIP release, at the end of the performance period, on TSR the Company was ranked eighth out of the 20 companies in the comparator group (34.9% vesting) and ROCE was 32.4% (30% vesting). The total vesting was therefore 64.9%. The 35.1% of the award which did not vest lapsed.

The vesting history under the previous long term incentive plan is as follows:

Year of grant	Performance period	Percentage of award vesting ROCE	TSR	Total
2002	January 2002 to December 2004	23.3	23.0	46.3
2003	January 2003 to December 2005	30.0	34.9	64.9
2004	January 2004 to December 2006	30.0	34.9	64.9

Aviva does not award additional shares for the dividends that were paid during the three year performance period on those shares that vest.

Deferred/Annual Bonus Plan and Long Term Incentive Plan Awards

	At 1 January 2007[1] Number	Awards granted during year[2] Number	Awards vesting during year[2] Number	Awards lapsing during year[2] Number	**At 31 December 2007[2] Number**	Market price at date awards granted Pence	Market price at date awards vested Pence	Vesting date
Richard Harvey[3]								
Aviva Long Term Incentive Plan								
– 2004	139,059	–	90,249	48,810	**–**	527.5	763.5	March 2007
Aviva Long Term Incentive Plan 2005								
– 2005	207,437	–	–	–	**207,437**	633.5	–	March 2008
– 2006	170,731	–	–	–	**170,731**	814.0	–	March 2009
Aviva Deferred Bonus Plan								
– 2004	118,478	–	118,478	–	**–**	527.5	763.5	March 2007
– 2005	109,764	–	–	–	**109,764**	633.5	705.5	August 2007
Aviva Annual Bonus Plan								
– 2006	83,317	–	–	–	**83,317**	814.0	705.5	August 2007
Andrew Moss								
Aviva Long Term Incentive Plan								
– 2004	83,650	–	54,288	29,362	**–**	535.0	705.0	August 2007
Aviva Long Term Incentive Plan 2005								
– 2005	102,803	–	–	–	**102,803**	633.5	–	March 2008
– 2006	87,804	–	–	–	**87,804**	814.0	–	March 2009
– 2007	–	136,540	–	–	**136,540**	778.5	–	March 2010
Aviva Deferred Bonus Plan								
– 2005	61,408	–	–	–	**61,408**	633.5	–	March 2008
Aviva Annual Bonus Plan								
– 2006	47,648	–	–	–	**47,648**	814.0	–	March 2009
– 2007	–	64,273	–	–	**64,273**	778.5	–	March 2010

Directors' remuneration report continued

	At 1 January 2007[1] Number	Awards granted during year[2] Number	Awards vesting during year[2] Number	Awards lapsing during year[2] Number	**At 31 December 2007[2] Number**	Market price at date awards granted Pence	Market price at date awards vested Pence	Vesting date
Philip Scott								
Aviva Long Term Incentive Plan								
– 2004	88,867	–	57,674	31,193	**–**	527.5	763.5	March 2007
Aviva Long Term Incentive Plan 2005								
– 2005	116,822	–	–	–	**116,822**	633.5	–	March 2008
– 2006	95,121	–	–	–	**95,121**	814.0	–	March 2009
– 2007	–	107,282	–	–	**107,282**	778.5	–	March 2010
Aviva Deferred Bonus Plan								
– 2004	68,960	–	68,960	–	**–**	527.5	763.5	March 2007
– 2005	68,690	–	–	–	**68,690**	633.5	–	March 2008
Aviva Annual Bonus Plan								
– 2006	47,138	–	–	–	**47,138**	814.0	–	March 2009
– 2007	–	58,647	–	–	**58,647**	778.5	–	March 2010
Patrick Snowball[4]								
Aviva Long Term Incentive Plan								
– 2004	84,452	–	54,809	29,643	**–**	527.5	763.5	March 2007
Aviva Long Term Incentive Plan 2005								
– 2005	107,943	–	–	–	**107,943**	633.5	–	–
– 2006	95,121	–	–	–	**95,121**	814.0	–	–
– 2007	–	107,282	–	–	**107,282**	778.5	–	–
Aviva Deferred Bonus Plan								
– 2004	70,802	–	70,802	–	**–**	527.5	763.5	March 2007
– 2005	67,068	–	–	–	**67,068**	633.5	741.0	July 2007
Aviva Annual Bonus Plan								
– 2006	56,100	–	–	–	**56,100**	814.0	741.0	July 2007
– 2007	–	65,847	–	–	**65,847**	778.5	741.0	July 2007
Tidjane Thiam[5]								
Aviva Long Term Incentive Plan 2005								
– 2005	53,457	–	–	–	**53,457**	633.5	–	–
– 2006	78,048	–	–	–	**78,048**	814.0	–	–
– 2007	78,023	–	–	–	**78,023**	778.5	–	–
Aviva Deferred Bonus Plan								
– 2005	39,914	–	–	–	**39,914**	633.5	–	March 2008
Aviva Annual Bonus Plan								
– 2006	30,985	–	–	15,493	**15,492**	814.0	–	March 2009
– 2007	45,866	–	–	45,866	**–**	778.5	–	–

Notes

1. For the director appointed in 2007, the amounts disclosed relate to their awards at the date of appointment.
2. For former directors, the amounts disclosed relate to their awards held during their period of service as director. Where awards have lapsed or are due to lapse no vesting date is given.
3. Richard Harvey resigned from the Board with effect from 11 July 2007.
4. Patrick Snowball resigned from the Board with effect from 8 May 2007.
5. Tidjane Thiam was appointed to the Board on 1 May 2007 and resigned from the Board with effect from 21 September 2007.

Planned Future Changes

The Committee reviewed in 2007 the remuneration package of Aviva's senior executives. This was against a background of the Chief Executive, Andrew Moss' clear strategic imperative for the Group to deliver "one Aviva, twice the value". "Twice the value" will be measured in terms of growth in the Company's Earnings Per Share (EPS) with a target of doubling EPS in five years. Management also has an incentive to achieve the goal more quickly. No current element of executive remuneration is focused on EPS growth. The use of this measure will achieve direct alignment between a portion of executive remuneration and the additional financial goals of the new strategy.

The remuneration review also showed that the potential rewards represented by Aviva's long-term incentives fall short of benchmark figures in the comparator groups for our executive directors.

As a result of the review, and subject to the outcome of consultation with institutional investors, we therefore to intend to put to shareholders at the 2008 Annual General Meeting a proposal to introduce a matching element to a proportion of the shares deferred under the ABP, with the following key features:

– The proportion of the deferred shares eligible for the matching award will be 100% for the CEO and 75% for the Finance Director and Executive Committee. The matching element will be extended to the top 400 executives within the Company with a reducing proportion of the deferred element matched depending on seniority.

– The maximum match will be two shares for each share eligible for matching. Vesting of the matching shares will depend upon the Company's EPS performance over a three year period as follows:-

Performance Level	Annualised EPS Growth	Matching Ratio
Below threshold	Less than 10% pa	Nil
Threshold	10% pa	0.1 for 1
Stretch	26% pa	2 for 1

– Matching will be on a straight-line basis for performance between threshold and stretch.

– Subject to shareholder approval, the first award of matching shares will be made in 2008, matching a proportion of deferrals made under ABP in respect of 2007 performance.

The Committee has satisfied itself that following the introduction of the matching share element the total remuneration of the CEO and Finance Director would be positioned consistent with our policy on FTSE 30 and FTSE 50 benchmarking. Further details on the proposals are included in the notice of meeting for the 2008 Annual General Meeting.

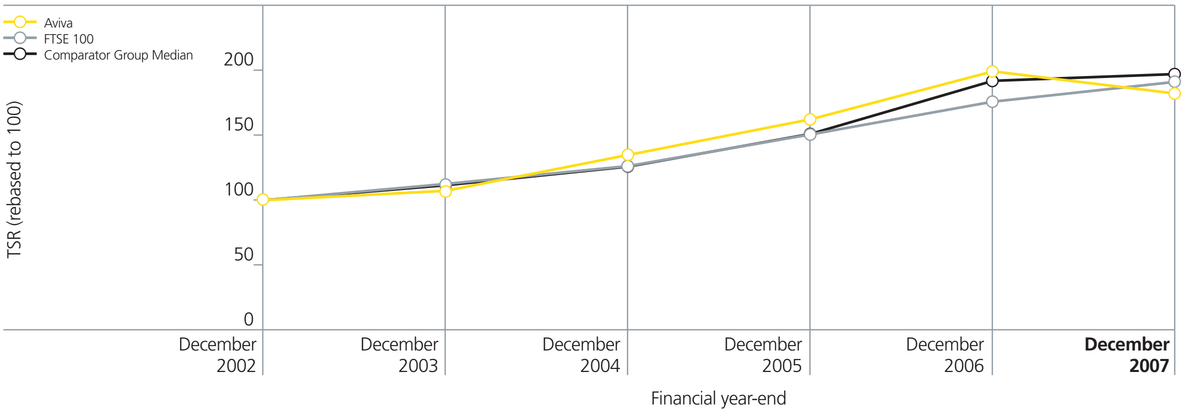
Other than this proposal, we do not anticipate any further significant changes in remuneration in 2008.

Performance graph

The following graph 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 compose the current LTIP comparator group for TSR purposes were chosen on the basis of product and geographic match to Aviva and are listed above. The TSR graph for the comparator group has been plotted using both the 19 companies (excluding Aviva) in the comparator group for pre-2005 grants and the 15 companies (excluding Aviva) in the group for grants in 2005 to date.

Aviva plc five-year TSR performance against the FTSE 100 Index and median of the two comparator groups



Executive directors' service contracts

Service contracts agreed with each executive director incorporate their terms and conditions of employment. Contracts were reviewed during 2006 and new contracts issued, bringing them into line with good market practice, particularly in respect of mitigation and phased payments. The aim is to strike a fair balance between the Company's and the employee's interests taking into account good market practice. The key terms are as follows:

Provision	Policy	
Notice period By the director By the Company	 – Six 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' basic salary. This may be increased by a discretionary redundancy payment (where appropriate) but any such further termination payment is capped at 12 months' basic salary. – Any amount is subject to phased payments and mitigation requirements.	
Remuneration and benefits	– As described in this report. The detailed operation of the annual bonus and LTIP plans is at the Company's discretion and in the case of the long-term savings plans at the trustees' discretion.	
Expenses	– Reimbursement reasonably incurred in accordance with their duties.	
Holiday entitlement	– 30 working days plus public holidays.	
Sickness	– In line with senior management terms, ie 100% basic salary for 52 weeks, and 75% thereafter.	
Non-compete	– During employment and for six months after leaving.	
Contract dates	Director	Date current contract commenced
	Andrew Moss	1 January 2007
	Philip Scott	15 November 2006
	Tidjane Thiam	3 April 2006
	Patrick Snowball	15 November 2006
	Richard Harvey	15 November 2006

Share ownership requirements

A requirement was introduced in 2005 that the Group Chief Executive and any executive directors should build, over a five year period, a shareholding in the Company equivalent to 175% of basic salary and 150% of basic salary respectively. Shares held in compulsory bonus deferrals and performance shares held in unvested LTIPs are not taken into account in applying this test.

As at 31 December 2007, based on that day's closing share price of 673p, Mr Moss's shareholding of 73,208 shares represented 56% of his basic salary of £880,000 (his holding of 43,377 shares at 1 January 2007 representing 33.2%) and Mr Scott's shareholding of 291,106 shares represented 344% of his basic salary of £570,000 (his holding of 274,896 shares at 1 January 2007 representing 325%).

External Board appointments

Aviva recognises its senior executives can benefit from serving in a personal capacity as a non-executive director of non-Aviva Group companies. Aviva therefore has a policy of allowing senior executives to serve as a non-executive director of one external company, subject to approval by the Board, and to retain any board fees. Exceptionally, a second non-executive directorship might be approved.

The only Executive Director who held such an appointment during 2007 was Philip Scott who was appointed to the Board of Diageo plc on 17 October 2007.

All-employee share plans

Executive directors are eligible to participate in a number of HM Revenue & Customs (HMRC) approved all-employee share plans on the same basis as other eligible employees.

These plans include a share element of the Aviva All-Employee Share Ownership Plan (AESOP). Under this plan, eligible employees can receive up to a maximum of £3,000 per annum in shares based upon the profits of the Company's UK business. The shares are free of tax subject to a retention period. In addition, the partnership 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 no matching to this investment by the Company.

The Aviva Savings Related Share Option Scheme allows 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.

Details of holdings under these plans can be found on page 110.

Dilution

Awards granted under the Aviva ABP and the Aviva LTIP are met by the issue of new shares when awards vest. The Committee monitors the number of shares issued under its various share plans and their impact on dilution limits. The relevant dilution limits established by the Association of British Insurers in respect of all share plans (10% in any rolling ten year period) and executive share plans (5% in any rolling ten year period) were, based on the Company's issued share capital at 31 December 2007, 2.6% and 0.90% respectively.

Between March 1998 and March 2003, the Company met its liability for shares awarded under the incentive plans by funding an employee trust that acquired shares in the market at the time of grant. Details of the shares currently held in the employee trusts are set out in note 30 to the accounts.

In December 2007 a loan of £10 million was made to the Employee Benefit Trust to ensure sufficient shares were available to meet its ongoing liabilities.

Non-executive directors (NEDs)

The NEDs, including the Chairman, have letters of appointment which set out their duties and responsibilities. The key terms of the appointments are as follows:

Provision	Policy		
Period	– Three year term which can be extended by mutual consent.		
Termination	– By the director or the Company giving the other one month's written notice without compensation.		
Fees	– As described below.		
Expenses	– Reimbursement of travel and other expenses reasonably incurred in the performance of their duties.		
Time commitment	– Between 25 and 50 days per annum depending upon Board and Committee requirements and corporate activity.		
Non-compete	– During term of directorship and for six months after leaving.		
Appointment dates	Director	Date of last appointment	Date appointment ends
	Nikesh Arora	1 July 2007	AGM 2010
	Guillermo de la Dehesa	30 May 2006	30 May 2009
	Wim Dik	7 December 2005	7 December 2008
	Mary Francis	1 October 2005	1 October 2008
	Richard Karl Goeltz	3 May 2007	31 May 2010
	Carole Piwnica	8 May 2006	31 May 2009
	Lord Sharman	15 January 2008	AGM 2008
	Russell Walls	3 May 2007	31 May 2010
	Scott Wheway	5 December 2007	AGM 2010

It is the Company's policy to set the fees paid to its Chairman 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 (other than the Chairman) in respect of membership and, where appropriate, chairmanship of Board Committees.

From 2007 fees will be 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 executive directors, 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 and NEDs receive no benefits in addition to their fees nor do they participate in any incentive or performance plans or pension arrangements.

The Company's Articles of Association provide that the total aggregate remuneration paid to the Chairman and NEDs will be determined by the Board within the limits set by shareholders. The current aggregate limit of £1.5 million was approved by shareholders at the Company's 2005 Annual General Meeting. The amount paid in 2007 was £1.04 million. Executive directors are remunerated under their service contracts and receive no additional fee for serving as directors.

NED fees payable from 1 April 2007 are as follows:

Chairman	£475,000
Board membership fee	£60,000

Additional fees are paid as follows:

Senior independent director	£20,000
Committee Chairman – Audit – Remuneration – Risk and Regulatory	£35,000 (inclusive of committee membership fee) £20,000 (inclusive of committee membership fee) £15,000 (inclusive of committee membership fee)
Committee membership – Audit – Remuneration – Nomination – Risk and regulatory – Corporate Social Responsibility	£10,000 £10,000 £5,000 £5,000 £5,000

Directors' service contracts and letters of appointment are available for inspection at the Company's registered office during normal hours of business.

Directors' remuneration in 2007

This section of the report sets out the remuneration paid or payable to the directors in respect of the year to 31 December 2007. The following sections headed "Directors' remuneration", "Executive directors' pension arrangements" and "Share incentive plans" along with their associated footnotes have been subject to audit.

	Basic salary/fees		Bonuses		ACAP		Benefits		Total	
	2007 £'000	2006 £'000	**2007 £'000**	2006 £'000	**2007 £'000**	2006 £'000	**2007 £'000**	2006 £'000	**2007 £'000**	2006 £'000
Chairman										
Lord Sharman	**450**	375	**–**	–	**–**	–	**–**	–	**450**	375
Executive directors										
Richard Harvey	**525**	875	**524**	1,296	**600**	450	**46**	61	**1,695**	2,682
Andrew Moss	**790**	533	**853**	744	**398**	275	**56**	36	**2,097**	1,588
Philip Scott	**565**	543	**641**	680	**–**	–	**55**	63	**1,261**	1,286
Patrick Snowball	**280**	543	**–**	763	**–**	–	**16**	39	**296**	1,345
Tidjane Thiam	**196**	–	**–**	–	**–**	–	**6**	–	**202**	–
Non-executive directors										
Nikesh Arora	**32**	–	**–**	–	**–**	–	**–**	–	**32**	–
Guillermo de la Dehesa	**95**	86	**–**	–	**–**	–	**–**	–	**95**	86
Wim Dik	**90**	69	**–**	–	**–**	–	**–**	–	**90**	69
Mary Francis	**90**	64	**–**	–	**–**	–	**–**	–	**90**	64
Richard Karl Goeltz	**87**	78	**–**	–	**–**	–	**–**	–	**87**	78
Carole Piwnica	**82**	74	**–**	–	**–**	–	**–**	–	**82**	74
Russell Walls	**102**	64	**–**	–	**–**	–	**–**	–	**102**	64
Scott Wheway	**5**	–	**–**	–	**–**	–	**–**	–	**5**	–
Former directors										
Derek Stevens*	**–**	99	**–**	–	**–**	–	**–**	–	**–**	99
André Villeneuve*	**–**	65	**–**	–	**–**	–	**–**	–	**–**	65
Total emoluments of directors	**3,389**	3,468	**2,018**	3,483	**998**	725	**179**	199	**6,584**	7,875

* Retired on 31 December 2006.

Notes

1. "Bonuses" include the value of shares granted under the Aviva All-Employee Share Ownership Plan (maximum £3,000) and the total amounts earned in respect of 2006 performance under the Annual Bonus Plan (ie the cash bonus paid plus the amount deferred and granted in the form of shares).
2. "Benefits". All the executive directors received life assurance benefits during the year that relate to the cost incurred by the Company of insuring the directors' life assurance and spouses' benefits which, had they died during the year, could not have been wholly paid by the pension scheme and would therefore have been met by the Company. The disclosure also includes the cost of private medical insurance, and where appropriate, accompanied travel, accommodation and car benefits. All the numbers disclosed include the tax charged on the benefits. No directors received an expense allowance during the year.
3. Payments to former directors: Since his retirement as a director in 2003, Anthony Wyand has served as a consultant and as a director on the Boards of some of the Group's European operations. Under this arrangement, a fee of £120,000 was paid to him in 2007. Derek Stevens, a former non-executive director who retired from the Board on 31 December 2006 received a fee of £25,000 in 2007 for continuing to serve as chairman of the Aviva Staff Pension Scheme.
4. During the year, shares granted to certain former executive directors under the Company's incentive plans vested. Details of these awards were fully disclosed in the year of grant.
5. For the purposes of the disclosure required by Schedule 6 to the Companies Act 1985 the total aggregate emoluments of the directors in respect of 2007 was £6.6 million *(2006: £7.9 million).*
6. No compensation payment for loss of office was made to any director, or former director, during the year.
7. Amounts paid to Tidjane Thiam relate only to the period for which he served as an executive director.

8. Fees earned in 2007 by the non-executive directors are set out below.

	Board membership fees	Senior independent director	Fees as non-executive Chairman of the Group's operations in Spain	Remuneration	Committee Chairman / Membership				Total fees
					Audit	Nomination	Corporate Social Responsibility	Risk and Regulatory	
Lord Sharman, Chairman	£450,000	–	–	–	–	–	–	–	£450,000
Nikesh Arora	£30,000	–	–	–	–	–	–	£2,500	£32,500
Guillermo de la Dehesa	£57,500	–	£27,397	–	–	£5,000	£5,000	–	£94,897
Wim Dik	£57,500	£17,500	–	–	–	£5,000	£5,000	£5,000	£90,000
Mary Francis	£57,500	–	–	£10,000	£10,000	–	–	£12,500	£90,000
Richard Goeltz	£57,500	–	–	£20,000	£10,000	–	–	–	£87,500
Carole Piwnica	£57,500	–	–	£10,000	£10,000	–	£5,000	–	£82,500
Russell Walls	£57,500	–	–	–	£35,000	£4,704	–	£5,000	£102,204
Scott Wheway	£4,384	–	–	£731	–	–	£365	–	£5,480

8.1. Following a full review in March 2007 of Aviva's fees against market benchmarks (the first full review for two years) the following changes in NEDs' emoluments were made with effect from 1 April 2007:

– The Chairman's fee was increased from £375,000 pa to £475,000 pa

– Board membership fees were increased from £50,000 pa to £60,000 pa

– The additional fee payable to the Senior Independent Director was increased from £10,000 pa to £20,000 pa

– A fee of £15,000 pa was introduced for chairing the Risk and Regulatory Committee (inclusive of membership fee). Mary Francis had previously received a membership fee of £5,000 pa

8.2. Nikesh Arora joined the board and the Risk and Regulatory Committee with effect from 1 July 2007

8.3. Scott Wheway joined the board, the Remuneration Committee and the Corporate Social Responsibility Committee with effect from 5 December 2007

Senior executives' remuneration

The total compensation paid during the year to key management personnel, being those having authority and responsibility for planning, directing and controlling the activities of the Company, including the Company's directors and NEDs (as required to be disclosed by International Accounting Standard 24) was £50 million *(2006: £53 million)* and is set out below in note 58 to the Accounts.

Executive directors' pension arrangements

During 2007 executive directors, with the exception of Mr Harvey and Mr Moss, accumulated pension benefits under the defined benefits section of the Pension Scheme as detailed below.

	Richard Harvey[1] £'000	Andrew Moss[2] £'000	Philip Scott[3] £'000	Patrick Snowball[4] £'000	Tidjane Thiam[5] £'000
Accrued annual pension at 1 January 2007	75	20	361	289	49
Increase in accrued annual pension during the year as a result of inflation	–	–	14	6	2
Augmentation of benefits	–	–	–	–	–
Adjustment to accrued annual pension as a result of salary increase relative to inflation	–	–	1	1	15
Increase in accrued annual pension as a result of additional service	–	–	–	9	9
Reduction due to lump sum settlement and early retirement	(25)	–	–	–	–
Accrued annual pension at 31 December 2007[6]	50	20	376	305	75
Employee contributions during the year[7]	–	–	28	14	12
Transfer value of accrued pension at 31 December 2006	1,252	231	5,236	4,833	452
Transfer value of accrued pension at 31 December 2007	1,153	248	5,609	5,283	720
Change in transfer value during the period less employee contributions	(99)	17	345	436	256
Age at 31 December 2007 (years)	57	49	53	57	45

Notes

1. Mr. Harvey ceased to accrue pension benefits in the Pension Scheme with effect from April 2006. Instead, contributions have been paid into his ACAP. Mr. Harvey's Pension Scheme Benefit at March 2006 was £75,000 pa. This increased in line with deferred pension increases (the lower of the increase in the RPI or 5%). Mr. Harvey subsequently took early retirement with effect from 31 July 2007. As part of Mr. Harvey's agreed early retirement terms, the Company agreed to base the calculation of his pension on it being paid two years earlier than a retirement of age 60 rather than three. Consequently, his early retirement pension payable from 1 August 2007 amounted to £69,153 pa rather than £65,237 pa. To provide this additional £3,916 pa pension, a cost was incurred to the Company of £101,857. Mr. Harvey then surrendered £19,014 pa of his pension for a cash sum, reducing his pension payable from 1 August 2007 to £50,139 pa. This will increase annually in payment in line with RPI, subject to a maximum of 10%.
2. Mr. Moss ceased accrual in the Pension Scheme with effect from 31 March 2006, and as a result, his post-March 2006 pension benefit was £19,556 pa. This will increase in line with deferred pensions (the lower of the increase in RPI or 5%) subject to the LTA. At 31 December 2007 it increased to £20,260 pa. The amounts shown above are rounded to the nearest thousand, thus showing no increase in pension for Mr. Moss.
3. Mr Scott has been accruing benefits in the Pension Scheme since before June 1989, so was not therefore subject to the HMRC Earnings Cap. Following pensions' simplification Mr Scott registered with HMRC for enhanced protection. He remains a member of the scheme and continues to accrue benefits as a result of salary increases and inflation. However, he is not accruing benefits as a result of additional service. Mr. Scott's pension will be based upon his final pensionable salary and years of service at retirement, subject to an overriding limit of two-thirds of final pensionable salary.
4. Mr. Snowball had been accruing benefits in the pension scheme since before June 1989, so was not therefore subject to HMRC's Earnings Cap. He continued to accrue benefits in the Pension Scheme until he left the Company on 30 June 2007. His deferred pension at that date is that shown above at 31 December 2007, which will increase until his retirement in line with RPI subject to a maximum of 5%.
5. Mr. Thiam was appointed as Group Executive Director with effect from 1 May 2007. The above shows his benefits, including pensionable service prior to him being appointed an executive director. He ceased to be Group Executive Director with effect from 21 September 2007. The above only allows for benefits up to that date.
6. The "accrued pension" is the amount of annual pension to which the directors would have been entitled at age 60, had they left service at 31 December 2007. The amount shown in respect of Mr. Harvey is his annual pension in payment at 31 December 2007. See note 1 above.
7. Members of the Defined Benefit section of the Pension Scheme made a contribution of 5% of their pensionable salary.
8. The change in transfer values over the year includes the effect of changes made by the Trustee of the Pension Scheme to the assumptions used in respect of changes to market values and expected future investment returns. Transfer values represent the estimated liability on the Scheme to pay the stated level of benefits. They are not sums paid or due to a director, and do not represent the true cost of providing the pension benefit.
9. 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.

Share incentive plans

Details of the directors who held executive office for any part of the financial year, and hold or held options to subscribe for ordinary shares of the Company or hold or held awards over shares in the Company, pursuant to the Company's share-based incentive plans, are set out below.

Savings related share options

These are options granted under the HMRC approved Aviva Savings Related Share Option Scheme. Options are normally exercisable during the six month period following the end of the relevant (three, five or seven year) savings contract.

	At 1 January 2007 Number[1]	Options granted during year Number	Options exercised during year Number	Options lapsing during year Number	**At 31 December 2007 Number**[2]	Exercise price Pence	Exercise Period
Richard Harvey[3]							
Savings related options 2002	4,426	–	–	–	**4,426**	401.0	August 2007 – January 2008
Andrew Moss							
Savings related options 2005	3,279	–	–	–	**3,279**	491.0	December 2010 – May 2011
Philip Scott							
Savings related options 2002	4,096	–	4,096	–	**–**	401.0	December 2007 – May 2008
Tidjane Thiam[4]							
Savings related options 2006	1,593	–	–	–	**1,593**	593.0	Options lapse March 2008

Notes

1. For the directors appointed in 2007, the amounts disclosed relate to their awards at the date of appointment.
2. For former directors, the amounts disclosed relate to their awards held at the date of resignation from the Board.
3. Richard Harvey resigned from the Board with effect from 11 July 2007.
4. Tidjane Thiam was appointed to the Board on 1 May 2007 and resigned from the Board with effect from 21 September 2007.

The mid-market price of an ordinary share in the Company on 31 December 2007, being the last business day of the year, was 673 pence, and the mid-market prices during the year ranged from 625 pence to 854 pence. During the year, directors made an aggregate gain of £10,957 upon the exercise of share options.

Accounting changes

Major changes to accounting policies and practices in 2005, including adopting International Financial Reporting Standards and European Embedded Value principles for supplementary reporting, affected a number of the key performance indicators and performance measures used in connection with the Company's long term incentive plans. During the transition period the Committee received reports showing the effects of these changes on the performance measures and satisfied itself that the evaluation of actual performance against the performance conditions which were originally set using prior accounting practices is appropriate having made allowance for the accounting changes.

The interests held by each person who was a director at the end of the financial year in the ordinary shares of 25 pence each in the Company are shown below. All the disclosed interests are beneficial. The table also summarises the interests in shares held through the Company's various all-employee and executive share schemes. Details of the options and long term incentive awards are shown on pages 101 to 102 and the Aviva Share Plan is described on page 110.

Directors' remuneration report continued

	Shares[1]		Bonus Plan Awards[2]		Long Term Incentive Awards[3]		Options[4]	
	1 January 2007[i]	**31 December 2007[ii]**	1 January 2007[i]	**31 December 2007[ii]**	1 January 2007[i]	**31 December 2007[ii]**	1 January 2007[i]	**31 December 2007[ii]**
Nikesh Arora	–	**–**	–	**–**	–	**–**	–	**–**
Guillermo de la Dehesa	144	**144**	–	**–**	–	**–**	–	**–**
Wim Dik	200	**200**	–	**–**	–	**–**	–	**–**
Mary Francis	1,000	**1,800**	–	**–**	–	**–**	–	**–**
Richard Karl Goeltz	2,500	**2,500**	–	**–**	–	**–**	–	**–**
Andrew Moss	43,337	**73,208**	109,056	**173,329**	274,257	**327,147**	3,279	**3,279**
Carole Piwnica	2,500	**2,500**	–	**–**	–	**–**	–	**–**
Philip Scott	274,896	**291,106**	184,788	**174,475**	300,810	**319,225**	4,096	**–**
Lord Sharman	2,000	**5,000**	–	**–**	–	**–**	–	**–**
Russell Walls	1,500	**4,000**	–	**–**	–	**–**	–	**–**
Scott Wheway	–	**–**	–	**–**	–	**–**	–	**–**
Former directors								
Tidjane Thiam*	2,079	**2,144**	116,765	**55,406**	209,528	**209,528**	1,593	**1,593**
Patrick Snowball**	22,815	**23,270**	193,970	**189,015**	287,516	**310,346**	–	**–**
Richard Harvey†	198,758	**278,760**	311,559	**193,081**	517,227	**378,168**	4,426	**4,426**

i For the directors appointed in 2007, the amounts disclosed relate to their awards at the date of appointment.

ii For former directors, the amounts disclosed relate to their awards held at the date of resignation from the Board.

* Tidjane Thiam was appointed to the board on 1 May 2007 and resigned from the board with effect from 21 September 2007.

** Patrick Snowball resigned from the Board with effect from 8 May 2007.

† Richard Harvey resigned from the board with effect from 11 July 2007.

Notes

1. "Shares" are the directors' beneficial holdings in the ordinary shares of the Company and in respect of the executive directors include shares held in trust under the Company's All-Employee Share Ownership Plan (AESOP) being shares purchased by them under the partnership element and shares granted under the free share element of the AESOP.
2. "Bonus Plan Awards" relates to entitlements to shares arising through the current, or former, Aviva Bonus Plans. Under these plans some of the earned bonuses are paid in the form of shares and deferred for three years. The transfer of the shares to the director at the end of the period is not subject to the attainment of performance conditions but a proportion of the shares can be forfeited if the executive leaves service before the end of the period.
3. "Long Term Incentive Awards" are awards granted under the Aviva Long Term Incentive Plans which vest only if the performance conditions are achieved.
4. "Options" are options over shares granted under the Aviva Savings Related Share Option Scheme.

The following changes to directors' interests which relate to shares acquired each month under the partnership element of the AESOP during the period 1 January 2008 to 29 February 2008 have been reported to the Company.

	Number of shares
Philip Scott	45

This report was reviewed and approved by the Board on 27 February 2008.

Richard Karl Goeltz
Chairman, Remuneration Committee

Independent auditor's report to the shareholders of Aviva plc

We have audited the Group and parent company financial statements (the "financial statements") of Aviva plc for the year ended 31 December 2007 which comprise the Accounting Policies, the Consolidated and Parent Company Income Statements, the pro forma reconciliation of Group operating profit to profit before tax, the Consolidated and Parent Company balance sheets, the Consolidated and Parent Company statement of recognised income and expense, the Consolidated and Parent Company reconciliation of movements in shareholders' equity, the Consolidated and Parent Company cash flow statements and the related notes 1 to 59 and A to I. We have also audited the information in the Directors' remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' remuneration report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Business review that is cross referred from the Directors' report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Overview, the Business review, the Board of Directors, the Directors' report, the Corporate Governance report, the Audit Committee report, the Nomination Committee report, the Risk and Regulatory committee report, the Corporate Social Responsibility committee and the unaudited part of the Directors' remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' remuneration report to be audited.

Opinion

In our opinion:

– The financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's and the parent company's affairs as at 31 December 2007 and of the Group's profit and the parent company's loss for the year then ended;

– The financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and

– The information given in the Directors' report is consistent with the financial statements.

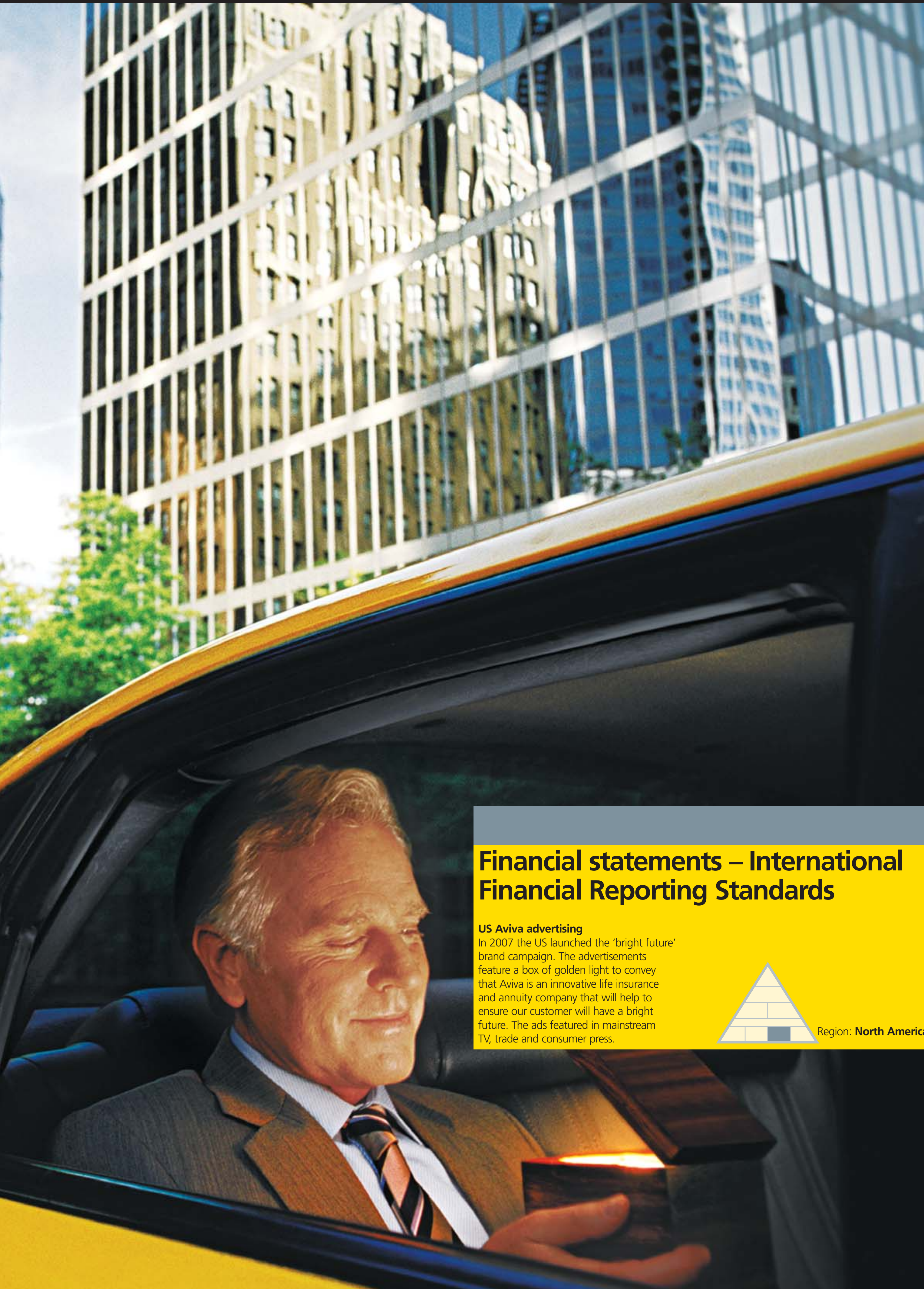
Separate opinion in relation to IFRSs

As explained in the Accounting Policies to the Group financial statements, the Group, in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board.

In our opinion the Group financial statements give a true and fair view, in accordance with IFRSs, of the state of the Group's affairs as at 31 December 2007 and of its profit for the year then ended.

Ernst & Young LLP
Registered Auditor
London
27 February 2008


TAXI
24 hr
service



Financial statements – International Financial Reporting Standards

US Aviva advertising
In 2007 the US launched the ‘bright future’ brand campaign. The advertisements feature a box of golden light to convey that Aviva is an innovative life insurance and annuity company that will help to ensure our customer will have a bright future. The ads featured in mainstream TV, trade and consumer press.

Region: **North America**

Accounting policies

Aviva plc (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, Australia and other countries throughout the world. The Group also invests in securities, properties, mortgages and loans and carries on the business of trading in property.

The Group is managed using reportable segments based on the above activities. These are long-term business, fund management, general insurance and health, further details of which are given in note 4.

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

(A) Basis of presentation

Since 2005, all European Union listed companies have been required to prepare consolidated financial statements using International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU). The date of transition to IFRS was 1 January 2004. In addition to fulfilling their legal obligation to comply with IFRS as adopted by the European Union, the Group and Company have also complied with IFRS as issued by the International Accounting Standards Board and applicable at 31 December 2007.

In November 2006, the IASB issued IFRS 8, *Operating Segments*, the requirements of which are applicable for accounting periods beginning on or after 1 January 2009. On adoption, it will result in amendments to the disclosure of our segmental results but will have no impact on the results overall. The IASB also issued IAS 1, *Presentation of Financial Statements: A Revised Presentation*, and an amendment to IAS 23, *Borrowing Costs*, during 2007, neither of which has yet been endorsed by the EU. These are not applicable for the current accounting period and, on adoption, they will not have any material impact on the Group's financial reporting.

Since the year end, the IASB has issued a revised version of IFRS 3, *Business Combinations*, and an amendment to IAS 27, *Consolidated and Separate Financial Statements,* which are applicable to accounting periods beginning on or after 1 July 2009, and amendments to IAS 1, *Presentation of Financial Instruments,* IAS 32, *Financial Instruments: Presentati*on, and IFRS 2, *Share-Based Payments: Vesting Conditions and Cancellations*, which are applicable to accounting periods beginning on or after 1 January 2009. None of these has yet been endorsed by the EU and, on adoption, will not have any material impact on the Group's financial reporting.

IFRIC interpretation 11, *IFRS 2 – Group and Treasury Share Transactions*, and interpretation 12, *Service Concession Agreements,* were issued during 2006 but neither of them is applicable for the current accounting period. In addition, IFRIC interpretation 13, *Customer Loyalty Programmes and IFRIC interpretation* 14, *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction,* have been issued during 2007. They have not yet been endorsed by the EU but neither of them is applicable for the current accounting period. On adoption, none of these interpretations will have any impact on the Group's financial reporting.

In accordance with Phase I 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 policy F below.

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). As supplementary information, consolidated financial information is also presented in euros.

The separate financial statements of the Company are on pages 236 to 243.

FRS 27
Financial Reporting Standard 27, *Life Assurance*, (FRS 27) was issued by the UK's Accounting Standards Board (ASB) on 13 December 2004, following the Penrose inquiry. Aviva, along with other major insurance companies and the Association of British Insurers (ABI), signed a Memorandum of Understanding (MoU) with the ASB relating to FRS 27. Under this MoU, Aviva voluntarily agreed to adopt in full the standard from 2005 in the Group's IFRS financial statements.

(B) Operating profit

The long-term nature of much of the Group's operations means that, for management's decision-making and internal performance management, short-term realised and unrealised investment gains and losses are treated as non-operating items. The Group focuses instead on an operating profit measure that incorporates an expected return on investments supporting its long-term business, general insurance and health business. Operating profit for long-term business is based on expected investment returns on financial investments backing shareholder and policyholder funds over the reporting period, with allowance for the corresponding expected movements in liabilities. Variances between actual and expected investment returns, and the impact of changes in economic assumptions on liabilities, are disclosed separately outside operating profit. For general insurance and health business, the total investment income, including realised and unrealised gains, is analysed between that calculated using a longer term return and short-term fluctuations from this. Further details of this analysis and the assumptions used are given in notes 8 and 9.

(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, balance sheet, other primary statements and notes to the financial statements.

Critical accounting policies

The major areas of judgement on policy application are considered to be over whether Group entities should be consolidated (set out in policy D), on product classification (set out in policy F) and in the classification of financial investments (set out in policy S).

Use of estimates

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

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

Item	Accounting policy
Insurance and participating investment contract liabilities	F & K
Goodwill, AVIF and other intangible assets	N
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 tax	AB

Further details on the estimation of amounts for insurance and participating investment contract liabilities are given in notes 38, 39 and 50 to these financial statements.

(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 of disposal. All inter-company transactions, balances and unrealised surpluses and deficits on transactions between Group companies have been eliminated.

From 1 January 2004, the date of first time adoption of IFRS, the Group is required to use the purchase method of accounting to account for the acquisition of subsidiaries. Under this method, the cost of an acquisition is measured as the fair value of assets given up, shares issued or liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill (see policy N below). Any surplus of the acquirer's interest in the subsidiary's net assets over the cost of acquisition is credited to the income statement.

Merger accounting and 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 balance sheet, 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.

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 balance sheet. 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 and are, instead, carried at fair value through profit and loss within financial investments in the consolidated balance sheet, 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 no party exerts control, 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 disproportionate influence, 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 balance sheet. As explained in 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 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 balance sheet, subsidiaries 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 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 balance sheets 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 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 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 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 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. Accounting for insurance contracts is determined in accordance with the Statement of Recommended Practice issued by the Association of British Insurers in December 2005, as amended in December 2006. However, 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.

(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 taken 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 balance sheet 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 policy H) and the investment income attributable to those contracts, but are accounted for directly through the balance sheet 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, income from the RAC's non-insurance activities, 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 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 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.

The realised gain or loss on disposal of an investment is the difference between the proceeds received, net of transaction costs, and its original cost or amortised cost as appropriate. Unrealised gains and losses 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.

(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 and those relating to UK with-profit and non-profit contracts, to be consistent with the value of the backing assets. In the United States, shadow adjustments are made to the liabilities or related deferred acquisition costs and are recognised directly in equity. 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 policy S), that are recognised directly in equity, in the same way as if those gains or losses had been realised. The Group has adopted FRS 27, *Life Assurance*, for liabilities relating to such contracts, which adds to the requirements of IFRS but does not vary them in any way. Further details are given in policy A above.

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 38(b). For liabilities of the UK with-profit fund, FRS 27 requires liabilities to be calculated as the realistic basis liabilities as set out by the UK's Financial Services Authority, 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.

Present value of future profits (PVFP) on non-participating business written in a with-profit fund

For 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 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. This amount is recognised as a reduction in the liability rather than as an asset on the balance sheet, and is then apportioned between the amounts that have been taken into account in the measurement of liabilities and other amounts which are shown as an adjustment to the unallocated divisible surplus.

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.

Liability adequacy

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

General insurance and health provisions

(i) 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 balance sheet 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 balance sheet date. Provisions for certain claims are discounted, using rates having regard to the returns generated by the assets supporting the liabilities. Any estimate represents a determination within a range of possible outcomes. Further details of estimation techniques are given in note 38(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.

(ii) Provision for unearned premiums

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

(iii) Liability adequacy

At each reporting date, the 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 balance sheet.

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 balance sheet.

(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 balance sheet 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, to be consistent with the value of the backing assets. Certain liabilities for non-linked non-participating contracts are measured at amortised cost.

The fair value liability is in principle established through the use of prospective discounted cash-flow techniques. For unit-linked contracts, the fair value liability is equal to the current unit fund value, plus additional non-unit reserves if required on a fair value basis. For non-linked contracts, the fair value liability is equal to the present value of expected cash flows on a market-consistent basis.

Amortised cost is calculated as the fair value of consideration received at the date of initial recognition, less the net effect of principal 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 accepts 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.

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 balance sheet as appropriate.

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

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

If a reinsurance asset is impaired, the 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. In most cases, this is classified as AVIF but, for non-participating investment contracts, it is included within intangibles. If this results from the acquisition of an investment in a joint venture or an associate, the AVIF 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.

The full embedded value of the long-term business and further details of the methodology and assumptions are included as supplementary information on pages 247 to 267.

Intangible assets
Intangibles consist primarily of brands, certain of which have been assessed as having indefinite useful lives, and contractual relationships such as access to distribution networks and customer lists. The economic lives of the latter 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 22 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, a provision for impairment will be charged 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 by geographical reporting unit and business segment. 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 16(b).

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

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:

– Land	No depreciation
– Properties under construction	No depreciation
– Owner-occupied properties	25 years
– Motor vehicles	Three years, or lease term if longer
– Computer equipment	Three to five years
– Other assets	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.

All borrowing costs and 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.

(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.

(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; or

– 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 balance sheet 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 FV 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 policy T below). All other securities in the FV category are classified as other than trading. The AFS category is used where the relevant long-term business liability (including shareholders' funds) is passively managed.

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, except for impairment losses and relevant foreign exchange gains and losses, are recorded in a separate investment valuation reserve within equity.

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

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

Impairment

The Group reviews the carrying value of its investments on a regular basis. If the carrying value of an investment is greater than the recoverable amount, the carrying value is reduced through a charge to the income statement in the period of impairment. The following policies are used to determine the level of any impairment:

Listed AFS securities: The Group performs an objective review of the current financial position and prospects of the issuer on a regular basis, to identify whether any impairment provision is required. This review takes into account the likelihood of the current market price recovering to former levels.

Unlisted AFS securities: The Group considers the current financial position of the issuer and the future prospects in identifying the requirement for an impairment provision.

For both listed and unlisted AFS securities identified as being impaired, the cumulative unrealised net loss previously recognised within the AFS reserve is transferred to realised losses for the year.

Mortgages, investment property and securitised loans: Impairment is measured based on the present value of expected future cash flows discounted at the effective rate of interest of the loan, subject to the fair value of the underlying collateral. When a loan is considered to be impaired, the income statement is charged with the difference between the carrying value and the estimated recoverable amount. Interest income on impaired loans is recognised based on the estimated recoverable amount.

Reversals of impairments 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, commodity values or equity instruments. All derivatives are initially recognised in the balance sheet 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 balance sheet at the date of purchase, representing their fair value at that date.

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

The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities on the balance sheet as they do not represent the fair value of these transactions. These amounts are disclosed in note 56.

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. Exposure to gain or loss on both types of swap contracts will increase or decrease over their respective lives as a function of maturity dates, interest and foreign exchange rates, and the timing of payments.

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 where 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 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.

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

To the extent that a loan is uncollectible, it is written-off as impaired. Subsequent recoveries 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. 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 on the balance sheet with a corresponding liability for the repayment. Non-cash collateral received is not recognised on the balance sheet unless the Group either sells or repledges these assets in the absence of default, at which point the obligation to return this collateral is recognised as a liability.

Collateral pledged in the form of cash, which is legally segregated from the Group, is derecognised from the balance sheet with a corresponding receivable for its return. Non-cash collateral pledged is not derecognised from the balance sheet unless the Group defaults on its obligations under the relevant agreement, and therefore continues to be recognised on the balance sheet within the appropriate asset classification.

(W) Deferred acquisition costs and other assets

The costs directly attributable to the acquisition of new business for insurance and participating investment contracts (excluding those written in the UK) are deferred to the extent that they are expected to be recoverable 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 are 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 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) Cash flow statement

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 normally those with less than three months' maturity from the date of acquisition, and include certificates of deposit.

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.

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. Assets held for use in such leases are included in property and equipment, and are depreciated to their residual values over their estimated useful lives. Rentals from such leases are credited to the income statement on a straight-line basis over the period of the relevant leases. Payments made as lessees under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the relevant leases.

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

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 reliably 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 balance sheet date.

Pension obligations

The Group operates a large number of pension schemes around the world, 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, taking account of the recommendations of qualified actuaries.

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, in accordance with the advice of qualified actuaries. 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 balance sheet.

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 (for example, when employees leave the scheme) or on settlements (for example, 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 equity through the Statement of recognised income and expense.

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 and in note 29.

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.

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 reserves as appropriate.

Provision is made for deferred tax liabilities, or credit taken for deferred tax assets, using the liability method, on all material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the 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 balance sheet 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.

Deferred tax related to fair value re-measurement of available for sale investments, owner-occupied properties and other amounts taken directly to equity is recognised in the balance sheet as a deferred tax asset or liability. In addition to paying tax on shareholders' profits, the Group's life businesses in the UK, Ireland and Australia 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, operating profit has been calculated after charging policyholder tax.

(AC) Borrowings

Borrowings 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.

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.

(AD) 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.

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. Gains and losses on sales of own shares are charged or credited to the treasury share account in equity.

(AE) 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.

(AF) Earnings per share

Basic 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 average number of ordinary shares purchased by the Group and held as treasury shares.

Earnings per share has also been calculated on the operating profit before impairment of goodwill and other adjusting items, after tax, attributable to ordinary shareholders, as the directors believe this figure provides a better indication of operating performance. Details are given in note 14.

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 earnings per share.

(AG) 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 balance sheet. The relevant assets are recorded at the lower of their carrying amount and their fair value, less the estimated selling costs.

Consolidated income statement
For the year ended 31 December 2007

2007 €m		Note	2007 £m	Restated 2006 £m
	Income	5		
45,575	Gross written premiums		**30,991**	28,735
(2,438)	Premiums ceded to reinsurers		**(1,658)**	(1,501)
43,137	Premiums written net of reinsurance		**29,333**	27,234
(31)	Net change in provision for unearned premiums		**(21)**	93
43,106	Net earned premiums	G	**29,312**	27,327
2,588	Fee and commission income	H & I	**1,760**	1,870
14,453	Net investment income	J	**9,828**	15,490
(447)	Share of (loss)/profit after tax of joint ventures and associates		**(304)**	485
72	Profit on the disposal of subsidiaries and associates		**49**	222
59,772			**40,645**	45,394
	Expenses	6		
(39,884)	Claims and benefits paid, net of recoveries from reinsurers		**(27,121)**	(23,444)
(5,157)	Change in insurance liabilities, net of reinsurance		**(3,507)**	(2,620)
(2,968)	Change in investment contract provisions		**(2,018)**	(6,002)
4,297	Change in unallocated divisible surplus		**2,922**	(558)
(6,446)	Fee and commission expense		**(4,383)**	(5,043)
(5,107)	Other expenses		**(3,473)**	(3,557)
(1,776)	Finance costs	7	**(1,208)**	(847)
(57,041)			**(38,788)**	(42,071)
2,731	**Profit before tax**		**1,857**	3,323
(22)	Tax attributable to policyholders' returns	13	**(15)**	(346)
2,709	**Profit before tax attributable to shareholders' profits**		**1,842**	2,977
(518)	Tax expense	AB & 13	**(352)**	(934)
22	Less: tax attributable to policyholders' returns	13	**15**	346
(496)	Tax attributable to shareholders' profits		**(337)**	(588)
2,213	**Profit for the year**		**1,505**	2,389
	Attributable to:			
1,951	Equity shareholders of Aviva plc		**1,327**	2,215
262	Minority interests	36b	**178**	174
2,213			**1,505**	2,389
	Earnings per share	AF & 14		
72.4c	Basic (pence per share)		**49.2p**	87.5p
71.6c	Diluted (pence per share)		**48.7p**	86.6p

The accounting policies (identified alphabetically) on pages 114 to 125 and notes (identified numerically) on pages 132 to 235 are an integral part of these financial statements.

Pro forma reconciliation of Group operating profit to profit before tax
For the year ended 31 December 2007

2007 €m		Note	2007 £m	Restated 2006 £m
	Operating profit before tax attributable to shareholders' profits			
2,403	Long-term business		**1,634**	1,334
228	Fund management		**155**	155
1,519	General insurance and health		**1,033**	1,686
	Other			
(109)	Other operations and regional costs		**(74)**	(25)
(231)	Corporate centre		**(157)**	(160)
(534)	Group debt costs and other interest		**(363)**	(381)
3,276	**IFRS operating profit before adjusting items and tax attributable to shareholders' profits**		**2,228**	2,609
	Adjusted for the following:			
22	Investment return variances and economic assumption changes on long-term business	8	**15**	401
(15)	Impairment of goodwill	16	**(10)**	(94)
(151)	Amortisation and impairment of intangibles	17	**(103)**	(64)
(271)	Short-term fluctuation in return on investments backing general insurance and health business	9b	**(184)**	149
73	Profit on the disposal of subsidiaries and associates	3b	**49**	222
(225)	Integration and restructuring costs	3c	**(153)**	(246)
2,709	**Profit before tax attributable to shareholders' profits**		**1,842**	2,977
	Tax attributable to shareholders' profits			
(893)	Operating profit	14a(i)	**(607)**	(645)
397	Other activities	14a(i)	**270**	57
(496)			**(337)**	(588)
2,213	**Profit for the year**		**1,505**	2,389

2006 has been restated to reflect the change in the definition of group operating profit on an International Financial Reporting Standards (IFRS) basis. See note on page 132.

The accounting policies (identified alphabetically) on pages 114 to 125 and notes (identified numerically) on pages 132 to 235 are an integral part of these financial statements.

Pro forma reconciliation of Group operating profit to profit before tax continued
For the year ended 31 December 2007

Operating profit can be further analysed into the following geographical segments:

Year ended 31 December 2007	**Long-term business £m**	**Fund management £m**	**General insurance and health £m**	**Other operations £m**	**Total £m**
UK	**723**	**77**	**433**	**(8)**	**1,225**
Europe	**777**	**60**	**442**	**(49)**	**1,230**
North America	**103**	**3**	**154**	**(4)**	**256**
Asia Pacific	**31**	**15**	**4**	**(13)**	**37**
	1,634	**155**	**1,033**	**(74)**	**2,748**
Corporate centre					**(157)**
Group debt costs and other interest					**(363)**
					2,228

Year ended 31 December 2006	Long-term business £m	Fund management £m	General insurance and health £m	Other operations £m	Restated Total £m
UK	629	70	1,118	36	1,853
Europe	648	73	417	(55)	1,083
North America	13	3	148	–	164
Asia Pacific	44	9	3	(6)	50
	1,334	155	1,686	(25)	3,150
Corporate centre					(160)
Group debt costs and other interest					(381)
					2,609

The accounting policies (identified alphabetically) on pages 114 to 125 and notes (identified numerically) on pages 132 to 235 are an integral part of these financial statements.

Consolidated statement of recognised income and expense
For the year ended 31 December 2007

2007 €m		Note	2007 £m	2006 £m
	Fair value gains on AFS securities,			
253	owner-occupied properties and hedging instruments	34 & 36b	**172**	374
(575)	Fair value gains transferred to profit	34	**(391)**	(162)
–	Impairment losses on revalued assets	34	**–**	(2)
	Share of fair value changes in			
13	joint ventures and associates taken to equity	34	**9**	–
953	Actuarial gains/(losses) on pension schemes	46e(iv)	**648**	(117)
	Actuarial (gains)/losses on pension schemes transferred			
(90)	to unallocated divisible surplus and other movements	46c(i)	**(61)**	3
1,087	Foreign exchange rate movements	34 & 36b	**739**	(346)
(263)	Aggregate tax effect – shareholder tax	13b	**(179)**	(5)
1,378	**Net income recognised directly in equity**		**937**	(255)
2,213	Profit for the year		**1,505**	2,389
3,591	**Total recognised income and expense for the year**		**2,442**	2,134
	Attributable to:			
3,156	Equity shareholders of Aviva plc		**2,145**	1,978
435	Minority interests	36b	**297**	156
3,591			**2,442**	2,134

Reconciliation of movements in consolidated shareholders' equity
For the year ended 31 December 2007

2007 €m		Note	2007 £m	2006 £m
19,266	**Balance at 1 January**		**14,064**	11,092
3,345	Total recognised income and expense for the year		**2,442**	2,134
(1,193)	Dividends and appropriations	15	**(871)**	(762)
	Issue of share capital for the acquisition of AmerUs in 2006,			
–	net of transaction costs		**–**	892
66	Other issues of share capital, net of transaction costs	28	**48**	43
412	Shares issued in lieu of dividends	35	**301**	203
421	Capital contributions from minority shareholders	36b	**307**	397
(90)	Minority share of dividends declared in the year	36b	**(66)**	(75)
434	Minority interest in acquired/(disposed) subsidiaries	36b	**317**	92
68	Reserves credit for equity compensation plans	34	**50**	48
22,729	**Balance at 31 December**		**16,592**	14,064

The accounting policies (identified alphabetically) on pages 114 to 125 and notes (identified numerically) on pages 132 to 235 are an integral part of these financial statements.

Consolidated balance sheet
As at 31 December 2007

2007 €m		Note	2007 £m	Restated 2006 £m
	Assets			
4,222	Goodwill	N & 16	**3,082**	2,910
4,379	Acquired value of in-force business and intangible assets	N & 17	**3,197**	2,728
3,529	Interests in, and loans to, joint ventures	C & 18	**2,576**	2,795
1,652	Interests in, and loans to, associates	C & 19	**1,206**	895
1,290	Property and equipment	O & 20	**942**	904
20,653	Investment property	P & 21	**15,077**	15,123
49,579	Loans	U & 22	**36,193**	28,574
	Financial investments	R, S & 24		
162,928	Debt securities		**118,937**	114,466
76,737	Equity securities		**56,018**	56,762
55,360	Other investments		**40,413**	33,050
295,025			**215,368**	204,278
11,108	Reinsurance assets	M & 41	**8,109**	7,825
808	Deferred tax assets	AB & 44b	**590**	1,199
515	Current tax assets	44a	**376**	344
11,823	Receivables and other financial assets	25	**8,629**	8,098
6,147	Deferred acquisition costs and other assets	V & 26	**4,487**	3,476
4,090	Prepayments and accrued income	26d	**2,986**	2,585
21,608	Cash and cash equivalents	X & 52d	**15,774**	13,117
1,545	Assets of operations classified as held for sale	AG & 3d	**1,128**	–
437,973	**Total assets**		**319,720**	294,851
	Equity			
	Capital	AD		
897	Ordinary share capital	28	**655**	641
274	Preference share capital	31	**200**	200
1,171			**855**	841
	Capital reserves			
1,675	Share premium	28	**1,223**	1,189
4,481	Merger reserve	C & 33	**3,271**	3,271
6,156			**4,494**	4,460
2,010	Other reserves	34	**1,467**	993
8,538	Retained earnings	35	**6,233**	5,082
17,875	**Equity attributable to shareholders of Aviva plc**		**13,049**	11,376
1,356	Direct capital instrument	32	**990**	990
3,498	Minority interests	36	**2,553**	1,698
22,729	**Total equity**		**16,592**	14,064
	Liabilities			
209,644	Gross insurance liabilities	K & 38	**153,040**	144,230
134,581	Gross liabilities for investment contracts	L & 39	**98,244**	88,358
9,295	Unallocated divisible surplus	K & 43	**6,785**	9,465
5,452	Net asset value attributable to unitholders	C	**3,980**	3,810
2,653	Provisions	Z, AA & 45	**1,937**	2,850
3,464	Deferred tax liabilities	AB & 44b	**2,529**	3,077
1,629	Current tax liabilities	44a	**1,189**	1,262
17,338	Borrowings	AC & 47	**12,657**	12,137
24,740	Payables and other financial liabilities	R & 48	**18,060**	11,364
5,158	Other liabilities	49	**3,765**	4,234
1,290	Liabilities of operations classified as held for sale	AG & 3d	**942**	–
415,244	**Total liabilities**		**303,128**	280,787
437,973	**Total equity and liabilities**		**319,720**	294,851

Approved by the Board on 27 February 2008.

Philip Scott
Director

The accounting policies (identified alphabetically) on pages 114 to 125 and notes (identified numerically) on pages 132 to 235 are an integral part of these financial statements.

Consolidated cash flow statement
For the year ended 31 December 2007

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

	Note	Long-term business operations £m	Non-long-term business operations £m	Total 2007 £m	Restated Total 2006 £m
Cash flows from operating activities					
Cash generated from operations	52a	**3,215**	**1,618**	**4,833**	2,474
Tax paid		**(423)**	**(378)**	**(801)**	(595)
Net cash from operating activities		**2,792**	**1,240**	**4,032**	1,879
Cash flows from investing activities					
Acquisitions of subsidiaries, joint ventures and associates, net of cash acquired	52b	**(661)**	**(108)**	**(769)**	(1,889)
Disposals of subsidiaries, joint ventures and associates, net of cash transferred	52c	**256**	**27**	**283**	616
Loans to joint ventures and associates	18a & 19a	**33**	**–**	**33**	(104)
Purchases of property and equipment	20	**(46)**	**(181)**	**(227)**	(295)
Proceeds on sale of property and equipment		**28**	**65**	**93**	156
Purchases of intangible assets	17	**(17)**	**(31)**	**(48)**	(58)
Net cash used in investing activities		**(407)**	**(228)**	**(635)**	(1574)
Cash flows from financing activities					
Proceeds from issue of ordinary shares, net of transaction costs	28b	**–**	**48**	**48**	935
New borrowings drawn down, net of expenses		**784**	**5,538**	**6,322**	6,119
Repayment of borrowings		**(498)**	**(5,502)**	**(6,000)**	(5,218)
Net drawdown of borrowings	47e	**286**	**36**	**322**	901
Interest paid on borrowings		**(608)**	**(600)**	**(1,208)**	(825)
Preference dividends paid		**–**	**(17)**	**(17)**	(17)
Ordinary dividends paid		**–**	**(500)**	**(500)**	(490)
Coupon payments on direct capital instrument		**–**	**(53)**	**(53)**	(52)
Finance lease payments		**–**	**(7)**	**(7)**	(22)
Capital contributions from minority shareholders		**278**	**29**	**307**	304
Dividends paid to minority interests of subsidiaries		**(48)**	**(18)**	**(66)**	(75)
Non-trading cash flows between operations		**(444)**	**444**	**–**	–
Net cash from financing activities		**(536)**	**(638)**	**(1,174)**	**659**
Net increase in cash and cash equivalents		**1,849**	**374**	**2,223**	964
Cash and cash equivalents at 1 January	52d	**9,388**	**3,033**	**12,421**	11,623
Effect of exchange rate changes on cash and cash equivalents		**464**	**141**	**605**	(166)
Cash and cash equivalents at 31 December	52d	**11,701**	**3,548**	**15,249**	12,421

Of the total cash and cash equivalents, £96 million *(2006: £nil)* was classified as held for sale (see note 3(d)).

Cash and cash equivalents in long-term business operations are primarily held for the benefit of policyholders and so are generally not available for use by the Group.

The accounting policies (identified alphabetically) on pages 114 to 125 and notes (identified numerically) on pages 132 to 235 are an integral part of these financial statements.

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 an average rate for the year of €1 = £0.68 *(2006: €1 = £0.68)* and £1 = US$2.00 *(2006: £1= US$1.84)*. Assets and liabilities have been translated at the year end rate of €1 = £0.73 *(2006: €1 = £0.67)* and £1 = US$1.99 *(2006: £1= US$1.96)*.

Total foreign currency movements during 2007 resulted in a gain recognised in the income statement of £45 million *(2006: £99 million gain)*.

2 – Presentation changes

(a) Change to definition of operating profit

IFRS operating profit is one of the key indicators of performance for the Group and we have changed its definition to provide greater clarity and insight into the factors driving our results, in particular the impact of economic volatility from the underlying business performance.

The new definition uses "expected rates of investment return" to report the operating profit of our long-term savings business, thus bringing this business into line with the way we report our general insurance and health operating profit. It also brings the methodology used for the IFRS basis into closer alignment with that used for the European Embedded Value (EEV) basis, which is the industry's alternative performance measure.

The change in definition does not affect the underlying performance, the economics of our business, the profit before tax attributable to shareholders or the profit for the year being restated. It only changes the allocation of profit between operating and non-operating elements.

The key changes to our definition of IFRS operating profit are:

(i) Operating profit is now based on the investment returns that the Group expects to make on the financial investments that back the shareholder and policyholder funds of its long-term business over the reporting period, rather than the actual returns on these investments. The difference between the expected return and the actual return on investments, and the corresponding impact on liabilities, is shown below the operating profit line.

(ii) The amortisation of acquired value of in-force business (AVIF) on both insurance and investment contracts is now included within operating profit. This change matches the emergence of benefit from the acquired book with the associated amortisation expense.

(iii) The criteria for treating an item as an adjustment, outside operating profit, have been refined to limit these to significant items only. The Financial Services Compensation Scheme and other levies are now included in operating profit.

(iv) The result for Norwich Union Life Services has been reclassified as long-term business instead of other operations, to match its treatment under EEV.

The table below sets out the effect of the above changes to IFRS operating profit for the year ended 31 December 2006:

	As reported 2006 £m	Effect of restating the definition of IFRS operating profit £m	Restated 2006 £m
Operating profit before tax attributable to shareholders' profits			
Long-term business	1,896	(562)	1,334
Fund management	155	–	155
General insurance and health	1,680	6	1,686
Other:			
Other operations and regional costs	(80)	55	(25)
Corporate centre	(160)	–	(160)
Group debt costs and other interest	(381)	–	(381)
Operating profit before adjusting items and tax attributable to shareholders' profits	3,110	(501)	2,609
Adjusted for the following:			
Investment return variances and economic assumption changes on long-term business	–	401	401
Impairment of goodwill	(94)	–	(94)
Amortisation and impairment of acquired value of in-force business	(100)	100	–
Amortisation and impairment of intangibles	(70)	6	(64)
Short-term fluctuation in return on investments backing general insurance and health business	149	–	149
Profit on the disposal of subsidiaries and associates	222	–	222
Integration and restructuring costs	(246)	–	(246)
Financial Services Compensation Scheme and other levies	6	(6)	–
Profit before tax attributable to shareholders' profits	2,977	–	2,977
Tax attributable to shareholders' profits			
Operating profit	(725)	80	(645)
Other activities	137	(80)	57
	(588)	–	(588)
Profit for the year	2,389	–	2,389

2 – Presentation changes continued

(b) Restatement of prior year figures

(i) Gross up for cash collateral received

The Group enters into stock lending transactions and receives cash or non-cash collateral to reduce the Group's exposure to counterparty credit risk. Collateral received in the form of cash is then lent out at market rates of interest. During 2007, we identified that certain cash collateral transactions should have been historically recognised on the balance sheet, with a corresponding obligation to return this collateral, instead of showing a net nil position.

As a result, the figures for loan assets and payables and other financial liabilities as at 31 December 2006 have been restated by increasing them both by £2,129 million. The equivalent adjustment at 1 January 2006, the start of the comparative period, would have been to increase both loan assets and payables and other financial liabilities by £120 million.

In addition, we identified that the interest paid on cash collateral received and the interest earned from onlending this cash had previously been offset and reported as net interest income. The 2006 comparative figures have therefore been restated in order to report this interest expense and interest income separately, by increasing both by £17 million.

Neither of these adjustments has any impact on profit for the year, operating profit or earnings per share in 2006, nor on retained earnings, net assets or total equity at either 1 January 2006 or 31 December 2006.

(ii) Restatement of cash equivalents

As described in accounting policy X, cash equivalents include short-term highly liquid investments which normally have maturity dates of less than three months from the date of acquisition. During the year, we have reviewed the application of this policy to all such investments, as a result of which we have determined that certain investments, previously classified as cash equivalents, would be more appropriately classified as financial investments.

The application of this review to prior year balances has led to a reduction of the cash equivalents balance at 31 December 2006 by £1,425 million, with a corresponding increase in the debt securities total of the same amount. This restatement has no impact on net assets or total equity. The effect on the opening balances in the prior year is to reduce cash equivalents and increase debt securities by £1,444 million. The effect on the cash flow statement is therefore to reduce the prior year cash flows from operating activities by £19 million.

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 on page 268 to 269.

(a) Acquisitions

(i) Erasmus Group

On 26 March 2007, the Group's Dutch subsidiary, Delta Lloyd, acquired 100% of the shares in Erasmus Groep BV ("Erasmus") in the Netherlands. Erasmus writes both general insurance and long-term business, and the acquisition has further strengthened Delta Lloyd's position in the Dutch insurance market.

The Erasmus acquisition has not given rise to any goodwill on acquisition. The relevant calculation is as follows:

Purchase cost:

	£m
Cash paid	53
Attributable costs	1
Total consideration	**54**

3 – Subsidiaries continued
The assets and liabilities at the date of acquisition were:

	Book value £m	Fair value and accounting policy adjustments £m	Fair value £m
Assets			
Acquired value of in-force business on insurance contracts	–	6	6
Intangible assets	2	18	20
Investments	411	5	416
Loans	204	16	220
Reinsurance assets	33	–	33
Receivables and other financial assets	22	–	22
Prepayments and accrued income	13	–	13
Cash and cash equivalents	35	–	35
Other assets	31	1	32
Total assets	**751**	**46**	**797**
Liabilities			
Gross insurance liabilities	(674)	(20)	(694)
Borrowings	(15)	–	(15)
Provisions	(4)	(6)	(10)
Tax liabilities	(1)	(3)	(4)
Other liabilities	(20)	–	(20)
Total liabilities	**(714)**	**(29)**	**(743)**
Total net assets acquired	**37**	**17**	**54**
Goodwill arising on acquisition			**–**

The value of Erasmus's distribution channels has been identified as a separate intangible asset and valued by an independent third party at £8 million, using estimated post-tax cash flows and discount rates. It has been assessed as having a life of 20 years and is being amortised on a straight-line basis over that period. As permitted by IFRS 4, Insurance Contracts, an intangible asset of £12 million has also been recognised for the impact of discounting the non-life insurance liabilities, to bring them to fair value. This intangible asset will be amortised over the life of the relevant non-life insurance contracts.

The assets and liabilities as at the acquisition date in the table above are stated at their provisional values, and may be amended in 2008, in accordance with paragraph 62 of IFRS 3, *Business Combinations.*

The results of Erasmus have been included in the consolidated financial statements of the Group with effect from 26 March 2007, and have contributed £5 million to the consolidated profit before tax.

(ii) Bancassurance partnership with Cajamurcia
On 6 June 2007, the Group announced that it had entered into a long-term bancassurance agreement with Spanish savings bank Caja de Ahorros de Murcia (Cajamurcia) that will enhance the Group's leading position in the Spanish life market. Cajamurcia will provide exclusive access to its network of branches to Caja Murcia Vida y Pensiones, de Seguros y Reaseguros SA (Cajamurcia Vida), the newly-created life insurance company jointly-owned by the Group and Cajamurcia, to sell insurance and pension products. Regulatory approval to write new business was received on 21 November 2007 and the new company began trading on 30 November 2007.

On signing the agreement, the Group acquired 5% of the share capital of Cajamurcia Vida and Cajamurcia granted the Group a call option over a further 45% of the shares in this company which may be exercised in the two month period following the first anniversary of the agreement being signed. Further consideration of £69 million would be payable on exercising the option, with additional amounts of up to £187 million payable, dependant on the performance of the new company. If it does not exercise this option during this period, the Group has granted a call option over its 5% holding to Cajamurcia.

The Group paid £8 million for the initial 5% holding on completion on 6 June 2007. The Group has the power to control the financial and operating policies of Cajamurcia Vida through having the majority vote at meetings of the company's board of directors. We have therefore consolidated its results and balance sheet since that date.

3 – Subsidiaries continued
The acquisition of the initial 5% shareholding has given rise to goodwill on acquisition of £2 million, calculated as follows:

Purchase cost:

	£m
Cash paid	8
Attributable costs	1
Total consideration	**9**

The book and fair values of the assets and liabilities at the date of acquisition were:

	£m
Assets	
Intangible assets	202
Other assets	–
Total assets	**202**
Liabilities	
Deferred tax on acquired assets	(60)
Total liabilities	**(60)**
Total net assets	**142**
Net assets acquired (initial 5% share)	**7**
Goodwill arising on acquisition of this holding	**2**

The value of the agreement to distribute through Cajamurcia's branch network has been identified as a separate intangible asset with a value of £202 million, using estimated post-tax cash flows and discount rates.

As noted above, the results of Cajamurcia Vida have been included in the consolidated financial statements of the Group and have contributed £nil to the consolidated profit before tax since it began trading on 30 November 2007.

(iii) Italian transactions with Banco Popolare
During the year, the Group's Italian holding company has entered into three sets of transactions with an Italian bank, Banco Popolare Societa Cooperativa (Banco Popolare). Details of these transactions are as follows :

(a) Petunia and Banca Network
On 18 September 2007, the Group made a capital contribution of £19 million to Petunia SpA (Petunia), an investment holding company, previously held as a financial investment. The Group's holding in Petunia has increased to 40.62% but, as the Group has 51% of voting rights and management control, the Group has consolidated this company as a subsidiary. The total capitalisation of the company at this date was £47 million, which was used to purchase a 49.75% stake in Banca Bipielle Network SpA, an Italian distribution network, from Banco Popolare on 26 September 2007. The acquired company has since been renamed Banca Network Investimenti SpA (Banca Network).

The Group does not have management control of Banca Network and so accounts for it as an investment in an associate. The total consideration was £49 million, comprising cash consideration of £46 million and contingent consideration of £3 million (representing the present value of future expected performance-related consideration). The fair value of the Group's share of Banca Network's identifiable net assets at the date of acquisition was £27 million. The residual goodwill of £22 million has been included in the carrying value of the investment in associate (see note 19).

This residual goodwill has been calculated based on the provisional fair values of the net assets and liabilities of Banca Network, and may be restated in 2008, in accordance with paragraph 62 of IFRS 3, *Business Combinations*.

(b) Area Life
On 26 September 2007, the Group acquired a 55% stake in Area Life International Assurance Limited (Area Life), a life assurance company based in Ireland, selling exclusively to Italian residents, from Banco Popolare for £7 million.

This acquisition has not given rise to any goodwill on acquisition. The relevant calculation is as follows:

Purchase cost:

	£m
Cash paid	**7**

3 – Subsidiaries continued

The assets and liabilities at the date of acquisition were:

	Book value £m	Fair value and accounting policy adjustments £m	Fair value £m
Assets			
Acquired value of in-force business on insurance contracts	–	20	20
Investments	284	–	284
Reinsurance assets	20	–	20
Cash and cash equivalents	12	–	12
Other assets	4	–	4
Total assets	**320**	**20**	**340**
Liabilities			
Gross insurance liabilities	(278)	(14)	(292)
Deferred tax liability	(5)	(1)	(6)
Payables and other financial liabilities	(26)	–	(26)
Other liabilities	(3)	–	(3)
Total liabilities	**(312)**	**(15)**	**(327)**
Total net assets	**8**	**5**	**13**
Net assets acquired (55%)	**4**	**3**	**7**
Goodwill arising on acquisition			**–**

The assets and liabilities above have been stated at their provisional fair values and may be amended in 2008, in accordance with paragraph 62 of IFRS 3, *Business Combinations.*

The results of Petunia, Banca Network and Area Life have been included in the consolidated financial statements of the Group with effect from 26 September 2007, and have contributed £nil to the consolidated profit before tax.

(c) Bancassurance agreement via Avipop Assicurazioni

On 14 December 2007, the Group entered a long-term bancassurance partnership in protection and non-life insurance with Banco Popolare that will further strengthen the Group's bancassurance presence in Italy and creates a new opportunity in the fast-growing protection sector.

The Group paid £184 million to secure the long-term bancassurance agreement with Banco Popolare and to acquire 50% plus one share of Avipop Assicurazioni SpA (Avipop Assicurazioni), a non-life subsidiary of the bank. Life protection business will be written in a subsidiary of Avipop Assicurazioni, which will begin trading later in 2008, subject to regulatory approval. The Group has the majority of the voting rights and management control of Avipop Assicurazioni and has therefore fully consolidated it as a subsidiary.

The acquisition of Avipop Assicurazioni has given rise to goodwill on acquisition of £52 million, calculated as follows:

Purchase cost:

	£m
Cash paid	184
Attributable costs	4
Total consideration	**188**

The assets and liabilities of the company at the date of acquisition were:

	Book value £m	Fair value and accounting policy adjustments £m	Fair value £m
Assets			
Intangible assets	–	386	386
Investments	9	–	9
Other assets	3	–	3
Total assets	**12**	**386**	**398**
Liabilities			
Gross insurance liabilities	(1)	–	(1)
Deferred tax liability	–	(125)	(125)
Other liabilities	(1)	–	(1)
Total liabilities	**(2)**	**(125)**	**(127)**
Total net assets	**10**	**261**	**271**
Net assets acquired (50%)			**136**
Goodwill arising on acquisition			**52**

3 – Subsidiaries continued

The value of the agreement to distribute through Banco Popolare's branch network has been identified as a separate intangible asset and has been valued by an independent third party at £386 million (100% share), using estimated post-tax cash flows and discount rates. The intangible asset has been assessed as having an indefinite useful life, subject to annual tests for impairment. The distribution agreement is initially for ten years, with five year automatic renewal periods. It is expected to be renewed indefinitely, due to the unfavourable terms of the put option for failure to renew.

The residual goodwill represents the impact of recognising a deferred tax liability on the intangible asset.

The assets and liabilities as at the acquisition date in the table opposite are stated at their provisional values, and may be amended in 2008, in accordance with paragraph 62 of IFRS 3, *Business Combinations*.

The results of Avipop Assicurazioni have been included in the consolidated financial statements of the Group with effect from 14 December 2007, and have contributed £nil to the consolidated profit before tax.

(iv) Cyrte Investments

On 27 September 2007, the Group acquired an 85% stake in Cyrte Investments BV (Cyrte Investments), a Dutch fund management company, for £37 million. The net assets of Cyrte Investments at the date of acquisition were £nil, giving rise to residual goodwill of £37 million.

The residual goodwill represents the value of the company's workforce and a premium paid for the investment concepts developed in the company, based on Cyrte's expertise in the telecommunications, media and technology sectors. No material intangible assets were identified.

The net assets as at the acquisition date are stated at their provisional values, and may be amended in 2008, in accordance with paragraph 62 of IFRS 3, *Business Combinations*.

The results of Cyrte Investments have been included in the consolidated financial statements of the Group with effect from 27 September 2007, and have contributed £2 million to the consolidated profit before tax.

The Group has also invested £209 million in three funds, managed by Cyrte Investments, giving it an ownership interest in the three funds of between 13% and 18%. These funds have been accounted for as investments in associates, as Cyrte Investments is the general partner of the funds and the Group's holding gives it significant influence on the investment committee, the management board of the funds. The Group's investment of £209 million has been included in interests in associates in note 19.

(v) Hamilton Insurance Company Limited and Hamilton Life Assurance Company Limited

On 1 November 2007, the Group completed the acquisition of Hamilton Insurance Company Limited and Hamilton Life Assurance Company Limited (the Hamilton companies) from HFC Bank Limited, a subsidiary of HSBC Finance Corporation. In addition, the Group's UK general insurance businesses signed a number of five-year agreements to underwrite creditor business for HFC Bank and some of its subsidiaries, and to provide home, protection and travel insurance products to 10.2 million of HSBC Bank's UK customers.

The acquisition of Hamilton Insurance Company Limited has given rise to goodwill on acquisition of £2 million, calculated as follows:

Purchase cost:

	£m
Cash paid	55
Attributable costs	2
Total consideration	**57**

The book and fair values of the assets and liabilities at the date of acquisition were:

	£m
Assets	
Investments	68
Reinsurance assets	24
Cash and cash equivalents	25
Other assets	24
Total assets	**141**
Liabilities	
Gross insurance liabilities	(67)
Other liabilities	(19)
Total liabilities	**(86)**
Total net assets acquired	**55**
Goodwill arising on acquisition	**2**

3 – Subsidiaries continued

The acquisition of Hamilton Life Assurance Company Limited (Hamilton Life) has given rise to goodwill on acquisition of £21 million, calculated as follows:

Purchase cost:

	£m
Cash paid	44
Attributable costs	1
Total consideration	**45**

The assets and liabilities at the date of acquisition were:

	Book value £m	Fair value and accounting policy adjustments £m	Fair value £m
Assets			
Acquired value of in-force business on investment contracts	–	3	3
Investments	122	–	122
Other assets	5	–	5
Total assets	**127**	**3**	**130**
Liabilities			
Gross insurance liabilities	(34)	–	(34)
Investment contract liabilities	(68)	–	(68)
Other liabilities	(4)	–	(4)
Total liabilities	**(106)**	**–**	**(106)**
Total net assets acquired	**21**	**3**	**24**
Goodwill arising on acquisition			**21**

Included in the consideration paid and goodwill arising on the Hamilton Life acquisition is £20 million in respect of unrecognised deferred tax assets, which the Group may be able to utilise in future years but cannot recognise now.

The assets and liabilities as at the acquisition date in both the tables above are stated at their provisional values, and may be amended in 2008, in accordance with paragraph 62 of IFRS 3, *Business Combinations.*

The results of the Hamilton companies have been included in the consolidated financial statements of the Group with effect from 1 November 2007, and have contributed £1 million to the consolidated profit before tax.

(vi) Material acquisitions summary

	2007 £m
Total net assets	**283**
Less: Minority interests	**–**
Net assets acquired	**283**
Goodwill arising on acquisition	**114**
Total consideration	**397**
The total consideration comprised:	
Cash paid	**388**
Attributable costs	**9**
	397

(vii) Other

In addition to the goodwill arising on the above acquisitions, the Group also made a number of smaller acquisitions, giving rise to additional goodwill of £1 million. Total goodwill arising in the year was £115 million (see note 16(a)).

3 – Subsidiaries continued

(viii) Unaudited pro forma combined revenues and profit

Shown below are unaudited pro forma figures for combined revenues and profit as though the acquisition date for all business combinations effected during the year had been 1 January 2007, after giving effect to purchase accounting adjustments and the elimination of intercompany transactions. The pro forma financial information is not necessarily indicative of the combined results that would have been attained had the acquisitions taken place at 1 January 2007, nor is it necessarily indicative of future results.

	2007 £m
Revenues (net earned premiums and fee income)	**31,390**
Profit before tax attributable to shareholders	**1,862**

Of the above pre-tax profit, £17 million has arisen since acquisition.

(ix) Non-adjusting post-balance sheet events

(a) Acquisition of UBI Assicurazioni Vita

On 17 January 2008, the Group announced that it had reached an agreement with Unione di Banche Italiane Scpa (UBI Banca) for the acquisition of 50% plus one share in UBI Assicurazioni Vita SpA., an Italian life insurance company wholly-owned by UBI Banca, for a consideration of £49 million. Completion of the transaction is subject to certain conditions and the approval of the relevant regulatory authorities, and is expected to take place in the first half of 2008.

(b) Acquisition of Swiss Life Belgium

On 21 January 2008, the Group announced that it had signed a memorandum of understanding with SNS REAAL to buy Swiss Life Belgium, a multi-line insurer, for €135 million. By combining Swiss Life Belgium with its Belgian insurance operation, managed through its Dutch subsidiary Delta Lloyd, the Group would further strengthen its position in the Belgian group life insurance market.

The transaction is conditional upon completion of SNS REAAL's acquisition of the Dutch and Belgian activities of Swiss Life Holding, which was announced on 19 November 2007. The completion of Delta Lloyd's acquisition of Swiss Life Belgium will be subject to approval from the relevant regulators and works council, and is expected to take place in the second quarter of 2008.

(c) Investment in LIG Life Insurance Co. Ltd.

On 31 January 2008, the Group announced that it would be entering the South Korea life insurance market by agreeing to acquire jointly with Woori Finance Holdings Company Ltd ("Woori") a 91.65% stake in LIG Life Insurance Co. Ltd ("LIG Life"), a South Korean life insurance company, for KRW 137.2 billion (£73 million). After completion, the Group will hold 40.65% of LIG Life. Aviva and Woori plan to develop LIG Life's business distribution, predominantly through bancassurance via Woori's banking network and independent financial advisors.

(b) Disposal of subsidiaries, joint ventures and associates

The profit on the disposal of subsidiaries, joint ventures and associates comprises:

	2007 £m	2006 £m
United Kingdom (see note 19(b))	**(7)**	69
Turkey (see note 18(c))	**71**	–
Ireland	**–**	86
France	**–**	79
Other small operations	**(15)**	(12)
Profit on disposal before tax	**49**	222
Tax on profit on disposal	**3**	13
Profit on disposal after tax	**52**	235

(c) Integration and restructuring costs

£153 million of integration and restructuring costs have been included in the results to 31 December 2007 (*2006: £246 million*). These include £45 million relating to the UK cost and efficiency programme announced in 2006. This initiative has now been completed at a total cost of £250 million. The costs also include £82 million relating to the new savings targets announced in October 2007. Further costs of this programme are expected to be £248 million, spread over the next two years. The balance of £26 million relates to the completion of integration activity on Ark Life in Ireland and the former AmerUs business in the United States, which were both acquired in 2006.

3 – Subsidiaries continued

(d) Operations classified as held for sale

(i) 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 2007 relate to our Dutch health insurance businesses, and were as follows:

	2007 £m	2006 £m
Financial investments	**316**	–
Receivables and other financial assets	**554**	–
Prepayments and accrued income	**146**	–
Tax assets	**16**	–
Cash and cash equivalents	**96**	–
Total assets	**1,128**	–
Gross insurance liabilities	**(627)**	–
Borrowings	**(12)**	–
Payables and financial liabilities	**(72)**	–
Other liabilities	**(220)**	–
Tax liabilities and other provisions	**(11)**	–
Total liabilities	**(942)**	–
Net assets	**186**	–

(ii) Dutch health insurance business
On 16 July 2007, the Group announced that its Dutch subsidiary, Delta Lloyd Group (DL), had reached an agreement to sell its health insurance business to OWM CZ Groep Zorgverkeraar UA (CZ), a mutual health insurer, and create a long-term alliance for the cross-selling of insurance products. Under the terms of the agreement, CZ will purchase the DL health insurance business and take on its underwriting risk and policy administration. DL will continue to market and distribute health insurance products from CZ to its existing customers, and to provide asset management for the transferred business. DL will also have exclusive rights to market life, general insurance and income protection products to CZ's customers. The transaction is expected to take effect on 1 January 2009, subject to regulatory, competition and other relevant approvals.

The relevant assets and liabilities of the DL health insurance business have been classified as held for sale, at their carrying values, in the consolidated balance sheet as at 31 December 2007.

(e) Other information
Principal subsidiaries at 31 December 2007 are listed on pages 268 to 269.

One of the Group's wholly-owned subsidiaries, Delta Lloyd NV, is subject to the provisions of Dutch corporate law and particularly the Dutch "structure company" regime. Under this regime, Delta Lloyd operates under a Supervisory Board which has a duty to have regard to the interests of a wide variety of stakeholders. The Supervisory Board includes two Aviva Group representatives and is responsible for advising and supervising Delta Lloyd's Executive Board. The shareholder is one of the most important stakeholders to whom the Supervisory Board has a duty.

Dutch Law changed in October 2004 to ensure that Supervisory Board directors in Dutch companies were henceforth to be elected by a company's shareholders voting on nominations made by its Supervisory Board and the Works Council. Under the previous system, Supervisory Board directors appointed their own successors. In 2006, Delta Lloyd commenced proceedings against Aviva plc to try to compel the Company to adhere to the system that existed prior to the change in the law, on the basis of agreements they say were entered into in 1973 when the Group acquired Delta Lloyd. The Company disputes these claims and does not expect the litigation, whatever its outcome, to have any adverse effect on the financial or operational performance of Delta Lloyd or the Group. We expect a judgement from the court on this issue sometime in 2008, which either party will then have the ability to appeal.

4 – Segmental information

The Group's results can be segmented, either by activity or by geography. Our primary reporting format is by business activity, whilst our secondary segmentation is by geographical area. This note provides segmental information on the consolidated income statement and balance sheet.

(a) Primary reporting format – business segments

(i) Reporting segments
The principal activity of the Group is financial services, which is managed using the following reportable segments: long-term business, fund management, general insurance and health.

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 the Lifetime mortgage business written in the UK.

4 – Segmental information continued

Fund management activities
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.

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.

Other
Other activities not related to the core business segments or which are not reportable segments due to their immateriality, such as the RAC non-insurance operations, our banking businesses and service companies, are included as "Other" in the following tables.

Head office expenses, such as Group treasury and finance functions are also reported as "Other", together with eliminations and any other reconciling items. Certain financing costs and taxes are not allocated across the segments. 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.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet but excluding items such as tax and certain borrowings.

(ii) Segmental results by business segment

For the year ended 31 December 2007	Long-term business £m	Fund management £m	General insurance and health £m	Other £m	Total £m
Gross written premiums	**19,622**	**–**	**11,369**	**–**	**30,991**
Premiums ceded to reinsurers	**(858)**	**–**	**(800)**	**–**	**(1,658)**
Net written premiums	**18,764**	**–**	**10,569**	**–**	**29,333**
Net change in provision for unearned premiums	**–**	**–**	**(21)**	**–**	**(21)**
Net earned premiums	**18,764**	**–**	**10,548**	**–**	**29,312**
Fee and commission income	**698**	**488**	**179**	**395**	**1,760**
	19,462	**488**	**10,727**	**395**	**31,072**
Net investment income	**8,529**	**45**	**827**	**427**	**9,828**
Inter-segment revenue	**–**	**152**	**–**	**–**	**152**
Profit /(Loss) on the disposal of subsidiaries and associates	**–**	**–**	**(7)**	**56**	**49**
Segment income	**27,991**	**685**	**11,547**	**878**	**41,101**
Claims and benefits paid, net of recoveries from reinsurers	**(19,640)**	**–**	**(7,481)**	**–**	**(27,121)**
Change in insurance liabilities, net of reinsurance	**(3,900)**	**–**	**393**	**–**	**(3,507)**
Change in investment contract provisions	**(2,018)**	**–**	**–**	**–**	**(2,018)**
Change in unallocated divisible surplus	**2,922**	**–**	**–**	**–**	**2,922**
Fee and commission expenses	**(1,281)**	**(135)**	**(2,907)**	**(60)**	**(4,383)**
Other operating expenses					
Depreciation	**(31)**	**(2)**	**(7)**	**(89)**	**(129)**
Amortisation of acquired value of in-force business	**(160)**	**–**	**–**	**–**	**(160)**
Net Impairment of acquired value of in-force business	**–**	**–**	**–**	**–**	**–**
Amortisation and net impairment of intangible assets	**(62)**	**(6)**	**(25)**	**(17)**	**(110)**
Impairment of goodwill	**(1)**	**(9)**	**–**	**–**	**(10)**
Other impairment losses recognised in the income statement	**(45)**	**–**	**(10)**	**(2)**	**(57)**
Inter-segment expense	**(140)**	**–**	**(11)**	**(1)**	**(152)**
Other expenses	**(1,230)**	**(361)**	**(788)**	**(628)**	**(3,007)**
Finance costs	**(537)**	**(24)**	**3**	**(391)**	**(949)**
Segment expenses	**(26,123)**	**(537)**	**(10,833)**	**(1,188)**	**(38,681)**
Segment result before share of profit/(loss) of joint ventures and associates	**1,868**	**148**	**714**	**(310)**	**2,420**
Share of profit/(loss) of joint ventures and associates	**(297)**	**(9)**	**3**	**(1)**	**(304)**
Segment result before tax	**1,571**	**139**	**717**	**(311)**	**2,116**
Unallocated costs					
Finance costs on central borrowings (see overleaf)					**(259)**
Tax attributable to policyholders' returns					**(15)**
Tax attributable to shareholders' profits					**(337)**
Profit for the year					**1,505**

4 – Segmental information continued

Finance costs on central borrowing comprise interest payable on borrowings by holding companies within the Group which are not allocated to operating companies.

Impairment losses, and reversal of such losses, recognised directly in equity were £(1) million and £nil respectively in long-term business.

Pro forma reconciliation to operating profit before tax attributable to shareholders' profits

For the year ended 31 December 2007	Long-term business £m	Fund management £m	General insurance and health £m	Other £m	Total £m
Segment result before tax	1,571	139	717	(311)	2,116
Finance costs on central borrowings	–	–	–	(259)	(259)
Adjusted for the following:					
Investment return variances and economic assumption changes on long-term business	(15)	–	–	–	(15)
Impairment of goodwill	1	9	–	–	10
Amortisation and impairment of intangibles	55	6	25	17	103
Short-term fluctuation in return on investments backing general insurance and health business	–	–	184	–	184
(Profit)/loss on the disposal of subsidiaries and associates	–	–	7	(56)	(49)
Integration and restructuring costs	37	1	100	15	153
	1,649	155	1,033	(594)	2,243
Less:					
Tax attributable to policyholders' returns	(15)	–	–	–	(15)
Operating profit before tax attributable to shareholders' profits	1,634	155	1,033	(594)	2,228

4 – Segmental information continued

For the year ended 31 December 2006	Long-term business £m	Fund management £m	General insurance and health £m	Other £m	Restated Total £m
Gross written premiums	17,308	–	11,427	–	28,735
Premiums ceded to reinsurers	(776)	–	(725)	–	(1,501)
Net written premiums	16,532	–	10,702	–	27,234
Net change in provision for unearned premiums	–	–	93	–	93
Net earned premiums	16,532	–	10,795	–	27,327
Fee and commission income	704	452	172	542	1,870
	17,236	452	10,967	542	29,197
Net investment income	13,947	17	1,299	227	15,490
Inter-segment revenue	–	199	–	–	199
Profit on the disposal of subsidiaries and associates	11	–	88	123	222
Segment income	31,194	668	12,354	892	45,108
Claims and benefits paid, net of recoveries from reinsurers	(16,523)	–	(6,921)	–	(23,444)
Change in insurance liabilities, net of reinsurance	(2,594)	–	(26)	–	(2,620)
Change in investment contract provisions	(6,002)	–	–	–	(6,002)
Change in unallocated divisible surplus	(558)	–	–	–	(558)
Fee and commission expenses	(2,125)	(111)	(2,742)	(65)	(5,043)
Other operating expenses					
Depreciation	(22)	(3)	(19)	(79)	(123)
Amortisation of acquired value of in-force business	(58)	–	–	–	(58)
Net Impairment of acquired value of in-force business	(28)	–	–	–	(28)
Amortisation and net impairment of intangible assets	(32)	(1)	(18)	(19)	(70)
Impairment of goodwill	–	–	–	(94)	(94)
Other impairment losses recognised in the income statement	6	–	(5)	(1)	–
Inter-segment expense	(191)	–	(8)	–	(199)
Other expenses	(1,109)	(392)	(806)	(877)	(3,184)
Finance costs	(384)	–	(3)	(230)	(617)
Segment expenses	(29,620)	(507)	(10,548)	(1,365)	(42,040)
Segment result before share of profit/(loss) of joint ventures and associates	1,574	161	1,806	(473)	3,068
Share of profit/(loss) of joint ventures and associates	471	(7)	5	16	485
Segment result before tax	2,045	154	1,811	(457)	3,553
Unallocated costs					
Finance costs on central borrowings (see below)					(230)
Tax attributable to policyholders' returns					(346)
Tax attributable to shareholders' profits					(588)
Profit for the year					2,389

Finance costs on central borrowings comprise interest payable on borrowings by holding companies within the Group which is not allocated to operating companies.

Impairment losses, and reversal of such losses, recognised directly in equity were £nil and £2 million respectively in long-term business.

Notes to the consolidated financial statements continued

4 – Segmental information continued
Pro forma reconciliation to operating profit before tax attributable to shareholders' profits

For the year ended 31 December 2006	Long-term business £m	Fund management £m	General insurance and health £m	Other £m	Restated Total £m
Segmental result before tax	2,045	154	1,811	(457)	3,553
Finance costs on central borrowings	–	–	(2)	(228)	(230)
Adjusted for the following items:					
Investment return variances and economic assumption changes on long-term business	(401)	–	–	–	(401)
Impairment of goodwill	–	–	–	94	94
Amortisation and impairment of intangibles	26	1	18	19	64
Short-term fluctuation in return on investments backing general insurance and health business	–	–	(149)	–	(149)
Profit on the disposal of subsidiaries and associates	(12)	–	(88)	(122)	(222)
Integration and restructuring costs	21	–	95	130	246
Other interest and cost reallocation	1	–	1	(2)	–
	1,680	155	1,686	(566)	2,955
Less:					
Tax attributable to policyholders' returns	(346)	–	–	–	(346)
Operating profit before tax attributable to shareholders' profits	1,334	155	1,686	(566)	2,609

(iii) Segmental balance sheet by business segment

As at 31 December 2007	**Long-term business £m**	**Fund management £m**	**General insurance and health £m**	**Other £m**	**Total £m**
Goodwill	**1,414**	**3**	**418**	**1,247**	**3,082**
Acquired value of in-force business and intangible assets	**2,628**	**12**	**424**	**133**	**3,197**
Interests in, and loans to, joint ventures and associates	**3,509**	**47**	**4**	**222**	**3,782**
Property and equipment	**435**	**9**	**70**	**428**	**942**
Investment property	**14,701**	**–**	**360**	**16**	**15,077**
Loans	**26,600**	**–**	**960**	**8,633**	**36,193**
Financial investments	**201,455**	**32**	**10,420**	**3,461**	**215,368**
Other assets	**28,202**	**630**	**11,688**	**593**	**41,113**
Segment assets	**278,944**	**733**	**24,344**	**14,733**	**318,754**
Unallocated assets – tax assets					**966**
Total assets					**319,720**
Insurance liabilities	**135,014**	**–**	**18,026**	**–**	**153,040**
Liability for investment contracts	**98,244**	**–**	**–**	**–**	**98,244**
Unallocated divisible surplus	**6,785**	**–**	**–**	**–**	**6,785**
Net asset value attributable to unitholders	**3,934**	**–**	**46**	**–**	**3,980**
External borrowings	**3,947**	**–**	**–**	**4,399**	**8,346**
Other liabilities, including inter-segment liabilities	**13,714**	**348**	**212**	**10,430**	**24,704**
Segment liabilities	**261,638**	**348**	**18,284**	**14,829**	**295,099**
Unallocated liabilities					
Central borrowings (see opposite)					**4,311**
Tax liabilities					**3,718**
Total liabilities					**303,128**
Total equity					**16,592**
Total equity and liabilities					**319,720**
Capital expenditure (excluding business combinations)					
Intangible assets	**47**	**3**	**(340)**	**371**	**81**
Property and equipment	**46**	**5**	**13**	**163**	**227**
	93	**8**	**(327)**	**534**	**308**

4 – Segmental information continued

As at 31 December 2006	Long-term business £m	Fund management £m	General insurance and health £m	Other £m	Restated Total £m
Goodwill	1,317	9	390	1,194	2,910
Acquired value of in-force business and intangible assets	2,301	18	287	122	2,728
Interests in, and loans to, joint ventures and associates	3,526	44	39	81	3,690
Property and equipment	460	4	94	346	904
Investment property	14,714	–	384	25	15,123
Loans	20,934	–	735	6,905	28,574
Financial investments	189,082	30	11,400	3,766	204,278
Other assets	23,558	534	9,603	1,406	35,101
Segment assets	255,892	639	22,932	13,845	293,308
Unallocated assets – tax assets					1,543
Total assets					294,851
Insurance liabilities	126,224	–	18,006	–	144,230
Liability for investment contracts	88,358	–	–	–	88,358
Unallocated divisible surplus	9,465	–	–	–	9,465
Net asset value attributable to unitholders	3,786	1	23	–	3,810
External borrowings	3,894	–	11	4,037	7,942
Other liabilities, including inter-segment liabilities	8,904	313	(712)	9,943	18,448
Segment liabilities	240,631	314	17,328	13,980	272,253
Unallocated liabilities					
Central borrowings (see below)					4,195
Tax liabilities					4,339
Total liabilities					280,787
Total equity					14,064
Total equity and liabilities					294,851
Capital expenditure (excluding business combinations)					
Intangible assets	29	14	15	32	90
Property and equipment	55	3	13	224	295
	84	17	28	256	385

Central borrowings are borrowings by holding companies within the Group which are not allocated to operating companies.

(b) Secondary reporting format – geographical segments

(i) Reporting segments

The Group's business is managed on a regional basis in four main geographical areas. These are United Kingdom (UK), Europe, North America and Asia Pacific.

Revenue by destination does not differ materially from revenue by geographical origin, as most risks are located in the countries where the contracts were written.

4 – Segmental information continued

(ii) Segmental results and balance sheets – geographical segment

Year ended 31 December 2007	United Kingdom £m	Europe £m	North America £m	Asia Pacific £m	Total £m
Gross written premiums	**12,166**	**13,539**	**4,628**	**658**	**30,991**
Premiums ceded to reinsurers	**(1,021)**	**(389)**	**(194)**	**(54)**	**(1,658)**
Internal reinsurance revenue	**28**	**(19)**	**(7)**	**(2)**	**–**
Net written premiums	**11,173**	**13,131**	**4,427**	**602**	**29,333**
Net change in provision for unearned premiums	**42**	**(22)**	**(40)**	**(1)**	**(21)**
Net earned premiums	**11,215**	**13,109**	**4,387**	**601**	**29,312**
Fee and commission income	**789**	**766**	**37**	**168**	**1,760**
	12,004	**13,875**	**4,424**	**769**	**31,072**
Other income	**6,211**	**2,661**	**875**	**282**	**10,029**
Segment income	**18,215**	**16,536**	**5,299**	**1,051**	**41,101**
Segmental result before tax	**866**	**1,216**	**(13)**	**47**	**2,116**
Segment assets	**150,363**	**139,684**	**23,957**	**4,750**	**318,754**
Unallocated assets – tax assets					**966**
Total assets					**319,720**
Segment liabilities	**140,289**	**129,399**	**21,314**	**4,097**	**295,099**
Unallocated liabilities – central borrowings and tax liabilities					**8,029**
Total liabilities					**303,128**
Capital expenditure (excluding business combinations)	**180**	**112**	**9**	**7**	**308**

Year ended 31 December 2006	United Kingdom £m	Europe £m	North America £m	Asia Pacific £m	Restated Total £m
Gross written premiums	12,280	13,449	2,424	582	28,735
Premiums ceded to reinsurers	(1,012)	(354)	(91)	(44)	(1,501)
Internal reinsurance revenue	32	(20)	(12)	–	–
Net written premiums	11,300	13,075	2,321	538	27,234
Net change in provision for unearned premiums	126	(22)	(9)	(2)	93
Net earned premiums	11,426	13,053	2,312	536	27,327
Fee and commission income	995	721	21	133	1,870
	12,421	13,774	2,333	669	29,197
Other income	9,986	5,031	520	374	15,911
Segment income	22,407	18,805	2,853	1,043	45,108
Segmental result before tax	1,749	1,540	188	76	3,553
Segment assets	144,285	123,087	21,816	4,120	293,308
Unallocated assets – tax assets					1,543
Total assets					294,851
Segment liabilities	135,639	114,342	18,818	3,454	272,253
Unallocated liabilities – central borrowings and tax liabilities					8,534
Total liabilities					280,787
Capital expenditure (excluding business combinations)	287	66	28	4	385

5 – Details of income

This note gives further detail on the items appearing in the first section of the consolidated income statement.

	2007 £m	Restated 2006 £m
Gross written premiums (note 4a)		
Long-term:		
Insurance contracts	**15,589**	13,188
Participating investment contracts	**4,033**	4,120
General insurance and health	**11,369**	11,427
	30,991	28,735
Less: premiums ceded to reinsurers (note 4a)	**(1,658)**	(1,501)
Gross change in provision for unearned premiums (note 38e)	**(24)**	89
Reinsurers' share of change in provision for unearned premiums (note 41c(iii))	**3**	4
Net change in provision for unearned premiums	**(21)**	93
Net earned premiums	**29,312**	27,327
Fee and commission income		
Fee income from investment contract business	**416**	410
Fund management fee income	**576**	395
Other fee income	**481**	779
Reinsurance commissions receivable	**223**	204
Other commission income	**110**	98
Net change in deferred revenue	**(46)**	(16)
	1,760	1,870
Total revenue	**31,072**	29,197
Net investment income		
Interest and similar income		
From financial instruments designated as trading and other than trading	**6,427**	5,444
From AFS investments and financial instruments at amortised cost	**1,485**	968
	7,912	6,412
Dividend income	**2,095**	2,115
Other income from investments designated as trading		
Realised gains and losses	**49**	124
Unrealised gains and losses (see policy J)	**65**	208
	114	332
Other income from investments designated as other than trading		
Realised gains and losses	**5,017**	4,989
Unrealised gains and losses (see policy J)	**(5,968)**	(998)
	(951)	3,991
Realised gains on AFS investments	**391**	162
Net income from investment properties		
Rent	**844**	757
Expenses relating to these properties	**(27)**	(27)
Realised gains on disposal	**105**	46
Fair value (losses)/gains on investment properties	**(745)**	1,507
	177	2,283
Realised gains on loans	**7**	59
Foreign exchange gains and losses on investments other than trading	**11**	128
Other investment income	**72**	8
Net investment income	**9,828**	15,490
Share of (loss)/profit after tax of joint ventures (note 18a)	**(339)**	462
Share of profit after tax of associates (note 19a)	**35**	23
Share of (loss)/profit after tax of joint ventures and associates	**(304)**	485
Profit on disposal of subsidiaries and associates (note 3b)	**49**	222
Total income	**40,645**	45,394

6 – Details of expenses

This note gives further detail on the items appearing in the second section of the consolidated income statement.

	2007 £m	Restated 2006 £m
Claims and benefits paid		
Claims and benefits paid to policyholders on long-term business		
Insurance contracts	**14,743**	12,460
Participating investment contracts	**5,604**	4,350
Non-participating investment contracts	**64**	428
Claims and benefits paid to policyholders on general insurance and health business	**7,779**	7,232
	28,190	24,470
Less: Claim recoveries from reinsurers		
Insurance contracts	**(1,056)**	(1,009)
Participating investment contracts	**(13)**	(17)
Claims and benefits paid, net of recoveries from reinsurers	**27,121**	23,444
Change in insurance liabilities		
Change in insurance liabilities	**3,360**	1,649
Change in reinsurance asset for insurance provisions	**147**	971
Change in insurance liabilities, net of reinsurance	**3,507**	2,620
Change in investment contract provisions		
Investment income allocated to investment contracts	**885**	3,122
Other changes in provisions		
Participating investment contracts	**1,025**	2,683
Non-participating investment contracts	**90**	198
Change in reinsurance asset for investment contract provisions	**18**	(1)
Change in investment contract provisions	**2,018**	6,002
Change in unallocated divisible surplus	**(2,922)**	558
Fee and commission expense		
Acquisition costs		
Commission expenses for insurance and participating investment contracts	**3,351**	2,919
Change in deferred acquisition costs for insurance and participating investment contracts	**(627)**	210
Deferrable costs for non-participating investment contracts	**265**	230
Other acquisition costs	**1,348**	1,376
Change in deferred acquisition costs for non-participating investment contracts	**(279)**	(159)
Reinsurance commissions and other fee and commission expense	**325**	467
	4,383	5,043
Other expenses		
Other operating expenses		
Staff costs and other expenses	**2,724**	2,750
Central costs and sharesave schemes	**163**	160
Depreciation (note 20)	**129**	122
Impairment of goodwill on subsidiaries (note 16a)	**10**	94
Amortisation of acquired value of in-force business (note 17)	**160**	58
Amortisation of intangible assets (note 17)	**106**	72
Net impairment of acquired value of in-force business (note 17)	**–**	28
Impairment/(reversal of impairment) of intangible assets (note 17)	**4**	(2)
Integration and restructuring costs (note 3c)	**153**	246
	3,449	3,528
Impairments		
Net impairment/(reversal of impairment) on loans	**9**	(4)
Net impairment/(reversal of impairment) on financial investments	**49**	(1)
Net impairment on receivables and other financial assets	**1**	5
Net impairment on non-financial assets	**(1)**	–
	58	–
Other net foreign exchange (gains)/losses	**(34)**	29
Finance costs (note 7)	**1,208**	847
Total expenses	**38,788**	42,071

7 – Finance costs

This note analyses the interest costs on our borrowings (which are described in note 47) and similar charges.

Finance costs comprise:

	2007 £m	Restated 2006 £m
Interest expense on core structural borrowings		
Subordinated debt	**179**	169
Debenture loans	**25**	32
Commercial paper	**55**	29
	259	230
Interest expense on operational borrowings		
Amounts owed to credit institutions	**38**	69
Securitised mortgage loan notes		
At amortised cost	**222**	197
At fair value	**103**	94
	325	291
	363	360
Interest on banking customer deposits	**166**	95
Interest on reinsurance deposits	**37**	38
Interest on collateral received	**190**	32
Other similar charges	**193**	92
Total finance costs	**1,208**	847
These are analysed as:		
Allocated interest and similar charges	**845**	466
Group debt costs and other interest	**363**	381
	1,208	847

8 – Long-term business economic volatility

The long-term nature of much of the Group's operations means that, for management's decision-making and internal performance management, the effects of short-term economic volatility are treated as non-operating items. The Group focuses instead on an operating profit measure that incorporates an expected return on investments supporting its long-term business. This note explains the methodology behind this.

(a) Definitions

Operating profit for long-term business is based on expected investment returns on financial investments backing shareholder and policyholder funds over the reporting period, with consistent allowance for the corresponding expected movements in liabilities. Operating profit includes the effect of variance 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 movements 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 separately outside operating profit.

(b) Economic volatility

The investment variances and economic assumption changes excluded from the long-term business operating profit are as follows:

	Long-term business	
	2007 £m	2006 £m
Investment variances and economic assumption changes	**15**	401

Economic items had a neutral net impact on profit in 2007, with favourable investment variances in the Europe region largely offset by negative effects in the USA and UK. In Europe, positive variances related mainly to realisation of capital gains on securities in the Netherlands and France. In the USA, realised and unrealised losses on investments were driven by the widening of credit spreads on debt securities, while in the UK there was a negative investment variance on surplus assets backing annuity business due to interest rate changes.

This compares to a significantly positive net impact of economic items on profit in 2006. In 2006 the positive investment variance was driven primarily by favourable equity market performance worldwide and increases in market interest rates in the Euro zone. In particular, there was a significant reduction in the cost of investment guarantees in the Netherlands as market interest rates increased.

8 – Long-term business economic volatility continued

(c) Methodology

The expected investment returns and corresponding expected movements in long-term business liabilities are calculated separately for each principal long-term business unit.

The expected return on investments for both policyholder and shareholders funds is based on opening economic assumptions applied to the expected funds under management over the reporting period. Expected funds under management are equal to the opening value of funds under management, adjusted for sales and purchases during the period arising from expected operating experience. The actual investment return is affected by differences between the actual and expected funds under management and changes in asset mix. To the extent that these differences arise from the operating experience of the long-term business, or management decisions to change asset mix, the effect is included in the operating profit. The residual difference between actual and expected investment return is included in investment variances.

The movement in liabilities included in operating profit reflects both the change in liabilities due to the expected return on investments and the impact of experience variances and assumption changes for non-economic items. The effect of differences between actual and expected experience on liabilities, and changes to economic assumptions used to value liabilities, are taken outside operating profit. For many types of long-term business, including unit-linked and with-profits funds, movements in asset values are offset by corresponding changes in liabilities, limiting the net impact on profit. For other long-term business the profit impact of economic volatility depends on the degree of matching of assets and liabilities, and exposure to financial options and guarantees.

(d) Assumptions

The expected rate of investment return is determined using consistent assumptions between operations, having regard to local economic and market forecasts of investment return and asset classification under IFRS.

Where assets are classified as fair value through profit or loss, the Group has applied the same "real-world" economic assumptions for fixed interest securities, equities and properties as are used under EEV principles. The principal assumptions underlying the calculation of the expected investment return are:

	Expected return Fixed interest		Expected return Equities		Expected return Properties	
	2007 %	2006 %	**2007 %**	2006 %	**2007 %**	2006 %
United Kingdom	**4.6**	4.1	**7.6**	7.1	**6.6**	6.1
France	**4.0**	3.3	**7.0**	6.3	**6.0**	5.3
Netherlands	**4.0**	3.3	**7.0**	6.3	**6.0**	5.3

Where fixed interest securities are classified as available for sale, the expected investment return comprises the expected interest or dividend payments and amortisation of the premium or discount at purchase.

9 – Longer term investment return for general insurance and health business

For general insurance and health business, the total investment income, including realised and unrealised gains, is split between a calculated longer term return and short-term fluctuations from this. This note gives details of the longer term return calculation and the relevant assumptions.

(a) The longer term investment return, net of expenses, attributable to the general insurance and health business result was £1,029 million *(2006: £1,073 million).*

(b) The longer term investment return and short-term fluctuation are as follows:

	General insurance and health business	
	2007 £m	2006 £m
Net investment income (note 4a(ii))	**827**	1,299
Internal charges included under other headings	**18**	(77)
	845	1,222
Analysed between:		
Longer term investment return	**1,029**	1,073
Short-term fluctuation in investment return	**(184)**	149
	845	1,222

9 – Longer term investment return for general insurance and health business continued

(c) The longer term investment return is calculated separately for each principal general insurance and health business unit. In respect of equities and properties, the return is calculated by multiplying the opening market value of the investments, adjusted for sales and purchases during the year, by the longer term rate of investment return. The longer term rate of investment return is determined using consistent assumptions between operations, having regard to local economic and market forecasts of investment return. The allocated longer term return for other investments is the actual income receivable for the year.

(d) The total assets supporting the general insurance and health business, which contribute towards the longer term return were £18,291 million *(2006: £19,718 million)*.

The principal assumptions underlying the calculation of the longer term investment return are:

	Longer term rates of return Equities		Longer term rates of return Properties	
	2007 %	2006 %	**2007 %**	2006 %
United Kingdom	**7.6**	7.1	**6.6**	6.1
France	**7.0**	6.3	**6.0**	5.3
Ireland	**7.0**	6.3	**6.0**	5.3
Netherlands	**7.0**	6.3	**6.0**	5.3
Canada	**7.1**	7.0	**6.1**	6.0

The Group has applied the same economic assumptions for equities and properties as are used under EEV principles to calculate the longer term investment return for its general insurance and health business.

(e) The table below compares the actual return on investments attributable to the general insurance and health business, after deducting investment management expenses and charges, with the aggregate longer term return over a four year period. This table will be built up over time to give aggregate and comparative figures over a five year period.

	2004 – 2007 £m
Actual return attributable to shareholders	4,779
Longer term return credited to operating results	(4,136)
Excess of actual returns over longer term returns	643

(f) The table below shows the sensitivity of the Group's general insurance and health operating profit before tax to changes in the longer term rates of return:

Movement in investment return for	By	Change in	**2007 £m**	2006 £m
Equities	1% higher/lower	Group operating profit before tax	**27**	31
Properties	1% higher/lower	Group operating profit before tax	**4**	4

10 – Employee information

This note shows where our staff are employed throughout the world and analyses the total staff costs.

The number of persons employed by the Group was:

	At 31 December		Average for the year	
	2007 Number	2006 Number	**2007 Number**	2006 Number
United Kingdom operations*	**33,686**	33,251	**33,560**	35,340
Europe	**16,059**	16,942	**15,839**	16,770
North America**	**4,717**	4,659	**4,853**	3,623
Asia Pacific	**2,052**	1,784	**2,005**	1,784
Corporate centre	**497**	502	**497**	502
	57,011	57,138	**56,754**	58,019

* Including support staff in India and Sri Lanka.

** The lower average number in 2006 reflects the inclusion of AmerUs staff only since November 2006.

10 – Employee information continued

Total staff costs were:

	2007 £m	2006 £m
Wages and salaries	**1,831**	1,798
Social security costs	**229**	216
Post-retirement obligations		
Defined benefit schemes (note 46d)	**191**	213
Defined contribution schemes (note 46d)	**63**	71
Profit sharing and incentive plans	**169**	148
Equity compensation plans (note 29d)	**50**	48
Termination benefits	**9**	31
	2,542	2,525

These costs are charged within:

	2007 £m	2006 £m
Acquisition costs	**592**	597
Claims handling expenses	**318**	253
Central costs and sharesave schemes	**109**	76
Other operating expenses	**1,523**	1,599
	2,542	2,525

11 – Directors

Information concerning individual directors' emoluments, interests and transactions is given in the Directors' remuneration report.

12 – Auditors' remuneration

This note shows the total remuneration payable by the Group to our principal auditors, Ernst & Young.

The total remuneration payable by the Group, excluding VAT and any overseas equivalent thereof, to its principal auditors, Ernst & Young LLP, and its associates in respect of the audit of these financial statements is shown below, together with fees payable in respect of other work.

	2007 £000	2006 £000
Fees payable to Ernst & Young LLP for the statutory audit of the Aviva Group and Company financial statements	**1,364**	1,452
Fees payable to Ernst & Young LLP and its associates for other services to Group companies:		
Audit of Group subsidiaries pursuant to legislation	**8,388**	7,731
Additional fees related to the prior year audit of Group subsidiaries pursuant to legislation	**372**	–
Other services pursuant to legislation	**2,124**	2,326
Tax services	**201**	187
Services relating to information technology	**173**	40
Services relating to corporate finance transactions	**736**	1,432
All other services – Supplementary reporting (see below)	**931**	885
– Other supplementary services	**4,749**	1,660
Fees payable to Ernst & Young LLP for services to Group pension schemes		
Audit of Group pension scheme	**67**	70
	19,105	15,783

In addition to the above amounts payable to the principal auditors, fees for audit services of £3.8 million *(2006: £2.1 million)* were payable to other firms. The total fees payable for audit services were therefore £14.0 million *(2006: £11.3 million).*

Fees for supplementary reporting are in respect of the audit of the Group's EEV figures. Although EEV is the Group's primary management reporting basis and our disclosures require a full audit, the relevant fees are not classified as being for statutory audit.

13 – Tax

This note analyses the tax charge for the year and explains the factors that affect it.

(a) Tax charged to the income statement

(i) The total tax charge comprises:

	2007 £m	2006 £m
Current tax		
For this year	**888**	1,022
Prior year adjustments	**(94)**	(287)
Total current tax	**794**	735
Deferred tax		
Origination and reversal of temporary differences	**(348)**	221
Changes in tax rates or tax laws	**(88)**	(7)
Write-down of deferred tax assets	**(6)**	(15)
Total deferred tax	**(442)**	199
Total tax charged to income statement (note 13c)	**352**	934

(ii) The Group, as a proxy for policyholders in the UK, Ireland and Australia, is required to record taxes on investment income and gains each year. Accordingly, the tax benefit or expense attributable to UK, Irish and Australian life insurance policyholder returns is included in the tax charge. The tax expense attributable to policyholders' returns included in the charge above is £15 million *(2006: £346 million)*.

(iii) The tax charge can be analysed as follows:

	2007 £m	2006 £m
UK tax	**97**	479
Overseas tax	**255**	455
	352	934

(iv) Unrecognised tax losses and temporary differences of previous years were used to reduce current tax expense and deferred tax expense by £51 million and £6 million, respectively *(2006: £73 million and £24 million, respectively)*.

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

	2007 £m	2006 £m
Long-term business technical provisions and other insurance items	**315**	364
Deferred acquisition costs	**34**	(47)
Unrealised gains on investments	**(793)**	(144)
Pensions and other post-retirement obligations	**40**	166
Unused losses and tax credits	**(272)**	(247)
Subsidiaries, associates and joint ventures	**(33)**	135
Intangibles and additional value of in-force long-term business	**(75)**	(73)
Provisions and other temporary differences	**342**	45
Total deferred tax (credited)/charged to income statement	**(442)**	199

(b) Tax charged to equity

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

	2007 £m	2006 £m
Current tax	**(19)**	(9)
Deferred tax		
In respect of pensions and other post-retirement obligations	**269**	(29)
In respect of unrealised (gains)/losses on investments	**(71)**	43
	198	14
Total tax charged to equity	**179**	5

(ii) The tax credit attributable to policyholders' returns included above is £nil *(2006: £nil)*.

13 Tax continued

(c) Tax reconciliation

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate of the home country of the Company as follows:

	2007 £m	2006 £m
Profit before tax	**1,857**	3,323
Tax calculated at standard UK corporation tax rate of 30% (2006: 30%)	**557**	997
Different basis of tax for UK life insurance	**5**	209
Adjustment to tax charge in respect of prior years	**(49)**	(287)
Non-assessable dividends	**(124)**	(55)
Non-taxable profit on sale of subsidiaries and associates	**(18)**	(80)
Disallowable expenses	**7**	46
Different local basis of tax on overseas profits	**56**	201
Reduction in future UK tax rate (net of movements in unallocated divisible surplus)	**(64)**	–
Deferred tax valuation difference	**1**	(60)
Other	**(19)**	(37)
Total tax charged to income statement (note 13a)	**352**	934

14 – Earnings per share

This note shows how we calculate earnings per share, based both on the present shares in issue (the basic earnings per share) and the potential future shares in issue, including conversion of share options granted to employees (the diluted earnings per share). We have also shown the same calculations based on our operating profit as we believe this gives a better indication of operating performance.

(a) Basic earnings per share

(i) The profit attributable to ordinary shareholders is:

	2007			2006		
	Operating profit £m	Adjusting items £m	Total £m	Operating profit £m	Adjusting items £m	Restated Total £m
Profit before tax	**2,228**	**(386)**	**1,842**	2,609	368	2,977
Tax attributable to shareholders' profits	**(607)**	**270**	**(337)**	(645)	57	(588)
Profit for the year	**1,621**	**(116)**	**1,505**	1,964	425	2,389
Minority interests	**(191)**	**13**	**(178)**	(179)	5	(174)
Preference dividends	**(17)**	**–**	**(17)**	(17)	–	(17)
Coupon payments in respect of direct capital instruments (net of tax)	**(37)**	**–**	**(37)**	(37)	–	(37)
Profit attributable to ordinary shareholders	**1,376**	**(103)**	**1,273**	1,731	430	2,161

(ii) Basic earnings per share is calculated as follows:

	2007			2006		
	Before tax £m	Net of tax, minorities, preference dividends and DCI £m	Per share p	Before tax £m	Net of tax, minorities, preference dividends and DCI £m	Restated per share p
Operating profit attributable to ordinary shareholders	**2,228**	**1,376**	**53.2**	2,609	1,731	70.1
Non-operating items:						
Investment return variances and economic assumption changes on long-term business (note 8)	**15**	**79**	**3.1**	401	336	13.6
Impairment of goodwill (note 16a)	**(10)**	**(10)**	**(0.4)**	(94)	(94)	(3.8)
Amortisation and net impairment of intangibles (note 17)	**(103)**	**(72)**	**(2.8)**	(64)	(48)	(1.9)
Short-term fluctuation in return on investments backing general insurance and health business (note 9b)	**(184)**	**(38)**	**(1.5)**	149	189	7.7
Profit on the disposal of subsidiaries and associates (note 3b)	**49**	**52**	**2.0**	222	235	9.5
Integration and restructuring costs (note 3c)	**(153)**	**(114)**	**(4.4)**	(246)	(188)	(7.7)
Profit attributable to ordinary shareholders	**1,842**	**1,273**	**49.2**	2,977	2,161	87.5

14 – Earnings per share continued

(iii) The calculation of basic earnings per share uses a weighted average of 2,588 million *(2006: 2,469 million)* ordinary shares in issue, after deducting shares owned by the employee share trusts. The actual number of shares in issue at 31 December 2007 was 2,622 million *(2006: 2,566 million)*.

(b) Diluted earnings per share

(i) Diluted earnings per share is calculated as follows:

	2007			2006		
	Total £m	Weighted average number of shares m	Per share p	Total £m	Weighted average number of shares m	Per share p
Profit attributable to ordinary shareholders	**1,273**	**2,588**	**49.2**	2,161	2,469	87.5
Dilutive effect of share awards and options	**–**	**24**	**(0.5)**	–	27	(0.9)
Diluted earnings per share	**1,273**	**2,612**	**48.7**	2,161	2,496	86.6

(ii) Diluted earnings per share on operating profit attributable to ordinary shareholders is calculated as follows:

	2007			2006		
	Total £m	Weighted average number of shares m	Per share p	Total £m	Weighted average number of shares m	Restated Per share p
Operating profit attributable to ordinary shareholders	**1,376**	**2,588**	**53.2**	1,731	2,469	70.1
Dilutive effect of share awards and options	**–**	**24**	**(0.5)**	–	27	(0.7)
Diluted earnings per share	**1,376**	**2,612**	**52.7**	1,731	2,496	69.4

15 – Dividends and appropriations

This note analyses the total dividends and other appropriations we have paid during the year. The table below does not include the final dividend proposed after the year end because this is not accrued in these financial statements. The impact of scrip dividends is shown separately in note 35.

	2007 £m	2006 £m
Ordinary dividends declared and charged to equity in the year		
Final 2006 – 19.18 pence per share, paid on 18 May 2007 (Final 2005 – 17.44 pence per share, paid on 17 May 2006)	**492**	418
Interim 2007 – 11.90 pence per share, paid on 16 November 2007 (Interim 2006 – 10.82 pence per share, paid on 17 November 2006)	**309**	275
	801	693
Preference dividends declared and charged to equity in the year	**17**	17
Coupon payments on direct capital instrument	**53**	52
	871	762

Subsequent to 31 December 2007, the directors proposed a final dividend for 2007 of 21.10 pence per ordinary share *(2006:19.18 pence)*, amounting to £553 million *(2006: £492 million)* in total. Subject to approval by shareholders at the AGM, the dividend will be paid on 16 May 2008 and will be accounted for as an appropriation of retained earnings in the year ending 31 December 2008.

Interest on the direct capital instrument issued in November 2004 is treated as an appropriation of retained profits and, accordingly, it is accounted for when paid. Tax relief is obtained at a rate of 30%.

Irish shareholders who are due to be paid a dividend denominated in euros will receive a payment at the exchange rate prevailing on 27 February 2008.

16 – 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

	2007 £m	2006 £m
Gross amount		
At 1 January	**3,086**	2,359
Acquisitions	**115**	761
Movements in contingent consideration	**(5)**	32
Disposals	**(16)**	(8)
Foreign exchange rate movements	**93**	(58)
At 31 December	**3,273**	3,086
Accumulated impairment		
At 1 January	**(176)**	(85)
Impairment losses	**(10)**	(94)
Disposals	**9**	–
Foreign exchange rate movements	**(14)**	3
At 31 December	**(191)**	(176)
Carrying amount at 31 December	**3,082**	2,910

Movements in contingent consideration relate to contingent consideration paid/received in respect of past acquisitions of subsidiaries. Goodwill arising on acquisitions completed before 1 January 1998 was charged directly to reserves. Goodwill arising on the Group's acquisition of joint ventures and associates is included within the carrying value of those investments (see notes 18 and 19).

(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 goodwill		Carrying amount of intangibles with indefinite useful lives (detailed in note 17)		Total	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
United Kingdom						
Long-term business	**71**	50	**–**	–	**71**	50
General insurance and health (see (i) below)	**316**	314	**185**	185	**501**	499
RAC non-insurance operations (see (ii) below)	**892**	892	**36**	36	**928**	928
Other	**68**	77	**–**	–	**68**	77
Europe						
France (long-term business) (see (iii) below)	**–**	–	**45**	42	**45**	42
Ireland						
Long-term business (see (iv) below)	**101**	91	**–**	–	**101**	91
General insurance and health (see (v) below)	**81**	74	**–**	–	**81**	74
Italy						
Long-term business (see (vi) below)	**46**	11	**254**	–	**300**	11
General insurance and health (see (vi) below)	**42**	22	**132**	–	**174**	22
Netherlands (see (vii) below)	**212**	163	**–**	–	**212**	163
Spain (long-term business) (see (viii) below)	**552**	518	**–**	–	**552**	518
Other	**19**	11	**–**	–	**19**	11
North America						
United States (long-term business) (see (ix) below)	**624**	635	**–**	–	**624**	635
Canada	**17**	15	**–**	–	**17**	15
Asia Pacific						
Various	**41**	37	**–**	–	**41**	37
	3,082	2,910	**652**	263	**3,734**	3,173

As explained in accounting policy N, 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. The tests led to impairment of goodwill of £10 million.

Goodwill and intangibles with indefinite useful lives have been tested for impairment in these businesses as follows:

16 – Goodwill continued

(i) UK (general insurance and health)

The recoverable amount of the UK general insurance and health unit has been determined based on a value in use calculation. The calculation uses cash flow projections based on business plans approved by management covering a three year period and a risk adjusted discount rate of 10.17% *(2006: 10.45%).* Cash flows beyond that three year period have been extrapolated using a steady 0% growth rate *(2006: 3%).* The recoverable amount significantly exceeds the carrying value of the cash-generating unit including goodwill and intangible assets with indefinite useful lives and a reasonably possible change in a key assumption will not cause the carrying value of the cash-generating unit to exceed its recoverable amount.

Key assumptions used for the calculation were:

– Budgeted operating profit represents the operating profit in the business plans, approved by management and as such reflects the best estimate of future profits based on both historical experience and expected growth rates for the UK general insurance industry.

– Some of the assumptions that underline the budgeted operating profit include market share, premium rate changes, claims inflation and commission rates.

– Growth rate represents the rate used to extrapolate future cash flows beyond the business plan period and has been based upon latest information available regarding future and past growth rates. The growth rate is considered to be consistent with both past experience and external sources of data (ABI Annual Market Statistics).

(ii) RAC (non-insurance operations)

The recoverable amount of the RAC (non-insurance operations) has also been determined based on a value in use calculation. The calculation uses cash flow projections based on business plans approved by management covering a three year period and a risk adjusted discount rate of 9.98% *(2006: 10.32%).* Cash flows beyond that three year period have been extrapolated using a steady 2% growth rate. The recoverable amount significantly exceeds the carrying value of the cash generating unit including goodwill and intangible assets with indefinite useful lives and a reasonably possible change in a key assumption will not cause the carrying value of the cash-generating unit to exceed its recoverable amount.

Key assumptions used for the calculation were:

– Budgeted operating profit represents the operating profit in the business plans, approved by management and as such reflects the best estimate of future profits based on both historical experience and expected growth. Some of the assumptions that underline the budgeted operating profit include market share, fee income and customer numbers.

(iii) France (long-term business)

The recoverable amount of the indefinite life intangible asset has been assessed as part of the recoverable amount of the French long-term business cash generating unit and has been determined based on a fair value less costs to sell calculation. The first step of the test was to compare the carrying value of the business, including indefinite life intangible assets, to the European Embedded Value (EEV). If the EEV is less than the carrying value of the business, the present value of profits from expected new business is considered.

The EEV of the French long term business was significantly greater than its carrying value, including indefinite life intangible assets. A reasonably possible change in a key assumption will not cause the carrying value of the cash generating unit to exceed its recoverable amount. Key assumptions used for the calculation were:

– Embedded value represents the shareholder interest in the life business and is calculated in accordance with the European Embedded Value (EEV) principles. The embedded value is the total of the net worth of the life business and the value of the in-force business. The underlying methodology and assumptions have been reviewed by the Group's auditors.

(iv) Ireland (long-term business)

The recoverable amount of the Irish long-term business has been determined based on a fair value less costs to sell calculation. The first step of the test was to compare the carrying value of the business, including goodwill, to the European Embedded Value (EEV). If the EEV is less than the carrying value of the business the present value of profits from expected new business is considered.

The EEV of the Irish long-term business is greater than its carrying value so the recoverable value will be significantly in excess of its carrying value, including goodwill. A reasonably possible change in a key assumption will not cause the carrying value of the cash generating unit to exceed its recoverable amount. Key assumptions used for the calculation were:

– Embedded value represents the shareholder interest in the life business and is calculated in accordance with the European Embedded Value (EEV) principles. The embedded value is the total of the net worth of the life business and the value of the in-force business. The underlying methodology and assumptions have been reviewed by the Group's auditors.

(v) Ireland (general insurance and health)

The recoverable amount of the Irish general insurance and health unit has been determined based on a value in use calculation. The calculation uses cash flow projections based on business plans approved by management covering a three year period and a risk adjusted discount rate of 8.07% *(2006: 8.07%)*. Cash flows beyond that three year period have been extrapolated using a steady 4.6% growth rate *(2006: 4.6%)*. The recoverable amount significantly exceeds the carrying value of the cash generating unit including goodwill and a reasonably possible change in a key assumption will not cause the carrying value of the cash generating unit to exceed its recoverable amount.

16 – Goodwill continued

Key assumptions used for the calculation were:

- Budgeted operating profit represents the operating profit in the business plans, approved by management and as such reflects the best estimate of future profits based on both historical experience and expected growth rates for the Irish economy. Some of the assumptions that underline the budgeted operating profit include market share, premium rate changes, claims inflation and commission rates.
- Growth rate represents the rate used to extrapolate future cash flows beyond the business plan period. Prices are assumed to remain static in the foreseeable future and volumes are assumed to increase in line with real GDP. These are consistent with external sources of data (ESRI and PwC European Economic Outlook).

(vi) Italy (long-term, general insurance and health)

The majority of the goodwill and the intangible asset with an indefinite useful life allocated to the Italian business arises from the acquisitions described in note 3(a), which occurred in the second half of 2007. Since the acquisition dates, the assets and liabilities of the acquired companies have not changed significantly, and there have been no other events that might have materially affected the recoverable amount of the unit.

(vii) Netherlands (long-term, general insurance and health)

The recoverable amount of the Netherlands life and general insurance and health cash generating units have been determined on the basis of a value in use calculation. This calculation is an appraisal value and is based on the discounted expected future cash flows from the operations over a 25-year period. Expected cash flows for future periods have been obtained from the plan figures for a three year period. Expected cash flows for later periods have been extrapolated, taking into account the growth rate.

Key assumptions used for the calculation were:

- Growth rate represents the rate applied to extrapolate new business contributions beyond the business plan period, and is based on management's best estimate of future growth. The rate is in line with industry expectations of 2.5%.
- Risk-adjusted discount rate represents the rate used to discount expected profits from future new business. The discount rate is a combination of a risk-free rate and a risk margin to make prudent allowance for the risk that experiences in future years may differ from those assumed. The rate is fixed at 6.7%.

(viii) Spain (long-term business)

The recoverable amount of the Spanish unit has been determined based on a fair value less costs to sell calculation. This calculation is an actuarially-determined appraisal value and is based on the embedded value of the business together with the present value of expected profits from future new business. The recoverable amount significantly exceeds the carrying value of the cash generating unit including goodwill and a reasonably possible change in a key assumption will not cause the carrying value of the cash generating unit to exceed its recoverable amount.

Key assumptions used for the calculation were:

- Embedded value represents the shareholder interest in the life business and is calculated in accordance with the European Embedded Value (EEV) principles. The embedded value is the total of the net worth of the life business and the value of the in-force business. The underlying methodology and assumptions have been reviewed by a firm of actuarial consultants and by the Group's auditors;
- New business contribution represents the present value of projected future distributable profits generated from business written in a period. This is based on business plans approved by management;
- Growth rate represents the rate used to extrapolate new business contributions beyond the business plan period, and is based on management's best estimate of future growth. The rate is in line with industry expectations; and
- Risk adjusted discount rate represents the rate used to discount expected profits from future new business. 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 may differ from that assumed.

(ix) United States (long-term business)

The recoverable amount of the United States unit has been determined based on a fair value less costs to sell calculation. This calculation is an actuarially-determined appraisal value and is based on the embedded value of the business together with the present value of expected profits from future new business. The recoverable amount significantly exceeds the carrying value of the cash generating unit including goodwill and a reasonably possible change in a key assumption will not cause the carrying value of the cash generating unit to exceed its recoverable amount.

Key assumptions used for the calculation were:

- Embedded value represents the shareholder interest in the life business and is calculated in accordance with the European Embedded Value (EEV) principles. The embedded value is the total of the net worth of the life business and the value of the in-force business. The underlying methodology and assumptions have been reviewed by a firm of actuarial consultants and by the Group's auditors;
- New business contribution represents the present value of projected future distributable profits generated from business written in a period. This is based on business plans approved by management;
- Growth rate represents the rate used to extrapolate new business contributions beyond the business plan period, and is based on management's best estimate of future growth. The rate is in line with industry expectations; and
- Risk adjusted discount rate represents the rate used to discount expected profits from future new business. 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 may differ from that assumed.

17 – 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* £m	AVIF on investment contracts** £m	Other intangible assets with finite useful lives £m	Intangible assets with indefinite useful lives £m	Total £m
Gross amount					
At 1 January 2006	614	11	312	302	1,239
Additions	22	–	58	–	80
Acquisition of subsidiaries	1,642	90	380	–	2,112
Disposals	–	–	(14)	–	(14)
Transfers	–	–	39	(39)	–
Foreign exchange rate movements	(93)	–	(23)	–	(116)
At 31 December 2006	2,185	101	752	263	3,301
Additions	24	–	48	–	72
Acquisition of subsidiaries	29	–	205	386	620
Disposals	–	–	(8)	–	(8)
Transfers	–	–	(54)	54	–
Foreign exchange rate movements	35	9	62	6	112
At 31 December 2007	**2,273**	**110**	**1,005**	**709**	**4,097**
Accumulated amortisation					
At 1 January 2006	(299)	(3)	(125)	–	(427)
Amortisation for the year	(58)	(6)	(66)	–	(130)
Disposals	–	–	1	–	1
Impairment losses recognised	(28)	–	2	–	(26)
Foreign exchange rate movements	6	–	3	–	9
At 31 December 2006	(379)	(9)	(185)	–	(573)
Amortisation for the year	(160)	(7)	(99)	–	(266)
Transfers	–	–	54	(54)	–
Impairment losses recognised	–	–	(4)	–	(4)
Foreign exchange rate movements	(36)	(2)	(16)	(3)	(57)
At 31 December 2007	**(575)**	**(18)**	**(250)**	**(57)**	**(900)**
Carrying amount					
At 31 December 2006	1,806	92	567	263	2,728
At 31 December 2007	**1,698**	**92**	**755**	**652**	**3,197**

* On insurance and participating investment contracts.
** On non-participating investment contracts.

Intangible assets with indefinite useful lives comprise:

(i) the RAC and BSM brands, and the value of the Union Financière 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; and

(ii) the bancassurance distribution agreement with Banco Popolare, signed during the year, described in note 3(a)(iii)(c).

Impairment testing of these intangibles is covered in note 16(b).

Other intangible assets with finite useful lives consist primarily of the value of bancassurance and other distribution agreements.

18 – 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
At 1 January 2006	–	2,001	128	2,129
Share of results before tax	–	465	–	465
Share of tax	–	(3)	–	(3)
Share of profit after tax	–	462	–	462
Acquisitions and additions	–	372	113	485
Disposals and reduction in Group interests	–	(127)	–	(127)
Reclassification to subsidiaries	–	(93)	–	(93)
Dividends received	–	(59)	–	(59)
Foreign exchange rate movements	–	(2)	–	(2)
At 31 December 2006	–	2,554	241	2,795
Share of results before tax	**–**	**(337)**	**–**	**(337)**
Share of tax	**–**	**(2)**	**–**	**(2)**
Share of profit after tax	**–**	**(339)**	**–**	**(339)**
Acquisitions and additions	**196**	**453**	**126**	**775**
Disposals and reduction in Group interests	**–**	**(267)**	**–**	**(267)**
Reclassification to financial investments	**–**	**(208)**	**(42)**	**(250)**
Fair value gains taken to equity	**–**	**9**	**–**	**9**
Loans repaid	**–**	**–**	**(159)**	**(159)**
Foreign exchange rate movements	**1**	**10**	**1**	**12**
At 31 December 2007	**197**	**2,212**	**167**	**2,576**

(ii) The balances at 31 December comprised:

2007	**Goodwill and intangibles £m**	**Equity interests £m**	**Loans £m**	**2007 Total £m**
Property management undertakings	**–**	**2,124**	**167**	**2,291**
Long-term business undertakings	**197**	**88**	**–**	**285**
Total	**197**	**2,212**	**167**	**2,576**

2006	Goodwill and intangibles £m	Equity interests £m	Loans £m	2006 Total £m
Property management undertakings	–	2,519	241	2,760
Long-term business undertakings	–	35	–	35
Total	–	2,554	241	2,795

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 proportion held	PLP proportion held
Airport Property Partnership	50.0%	50.0%
Apia Regional Office Fund Limited Partnership	50.0%	58.8%
Ashtenne Industrial Fund Limited Partnership	66.7%	38.0%
The Junction Limited Partnership	50.0%	46.0%
The Mall Limited Partnership	50.0%	33.5%
Queensgate Limited Partnership	50.0%	50.0%
Quercus Healthcare Property Partnership Limited	50.0%	53.3%

All the above entities perform property ownership and management activities, and are incorporated and operate in Great Britain. All these investments are held by subsidiary entities.

18 – Interests in, and loans to, joint ventures continued

(c) Long-term business undertakings
The principal joint ventures are as follows:

Company	Class of share	Proportion held	Country of incorporation and operation
AVIVA-COFCO Life Insurance Co. Limited	Ordinary shares of RMB1each	50.0%	China
AvivaSA Emeklilik ve Hayat A.Ş.	Ordinary shares of YTL1each	49.7%	Turkey
CIMB Aviva Assurance Berhad	Ordinary shares of RM1each	49.0%	Malaysia
CIMB Aviva Takaful Berhad	Ordinary shares of RM1each	49.0%	Malaysia
First-Aviva Life Insurance Co., Ltd.	Ordinary shares of NT$10 each	49.0%	Taiwan

All investments in the above companies are unlisted. The shares in the Chinese company are held by the Company but all the other investments are held by subsidiaries.

Details of these investments are as follows:

(i) China
The Group has a 50% holding in AVIVA-COFCO Life Insurance Company Limited, a life assurance company incorporated and operating in China. These shares are held by the Company, with a share of net assets of £44 million *(2006: £18 million)* and a fair value of £52 million *(2006: £35 million).*

(ii) Turkey
On 31 October 2007, the Group entered into a joint venture agreement with Aksigorta AŞ ("Aksigorta"), the insurance company of the Sabanci Holding Group, to form a new Turkish life and pensions joint venture. Under the terms of the agreement, the Group's Turkish life and pensions business, Aviva Hayat ve Emeklilik A.Ş. ("Aviva HE") merged with Ak Emeklilik A.Ş. ("Ak E"), Aksigorta's life and pensions business. The joint venture entered into an exclusive long-term bancassurance agreement with Akbank TAŞ, Turkey's second-largest privately-owned bank.

The Group and Sabanci jointly control the joint venture through equal shareholdings of 49.7%, with the remaining 0.6% being held by individual shareholders. The new company, AvivaSA Emeklilik ve Hayat A.S, began trading on 1 November 2007.

As consideration for its shareholding, the Group contributed the business of Aviva HE to the joint venture and paid £49 million to Aksigorta. The transaction has been accounted for as an acquisition of a 49.7% joint venture and the disposal of 50.3% of Aviva HE. Goodwill arising of £45 million, included in the carrying value of the joint venture, has been calculated as follows:

(a) Acquisition of shareholding in joint venture
Purchase cost:

	£m
Fair value of 50.3% of Aviva HE (see below)	**85**
Cash paid	**49**
Attributable costs	**2**
Total consideration	**136**
Fair value of 49.7% of Ak E's identifiable net assets	**91**
Goodwill	**45**

Included in the fair value of Ak E's net assets were acquired value of in-force business of £34 million and a distribution contract intangible asset, valued by an independent third party at £49 million, using post-tax cash flows and discount rates. The intangible asset has been assessed as having a life of 15 years and is being amortised over that period. The residual goodwill represents the value of the direct sales force and expected synergies.

The carrying value of the joint venture at the date of acquisition was as follows:

	£m
Carrying value of 49.7% of Aviva HE's net assets*	**8**
Fair value of 49.7% of Ak E's net assets	**91**
Goodwill	**45**
Total carrying value	**144**

* Calculated as 49.7% of the total net assets of £17 million given in the table below.

18 – Interests in, and loans to, joint ventures continued

(b) Disposal of shareholding in subsidiary
The profit on disposal of 50.3% of Aviva HE was £74 million, calculated as follows:

Carrying value of the assets and liabilities at the date of disposal:

	£m
Assets	
Investments	**153**
Other assets	**14**
Total assets	**167**
Liabilities	
Gross insurance liabilities	**(136)**
Deferred tax liability	**(14)**
Total liabilities	**(150)**
Total net assets	**17**
Net assets disposed of (50.3%)	**9**
Consideration	
Fair value of 50.3% of Aviva HE	**85**
Less transaction costs	**(2)**
	83
Profit on disposal before reserve release	**74**
Release of balance on currency translation reserve (note 34)	**(3)**
Profit on disposal (note 3b)	**71**

(iii) Malaysia
On 2 July 2007, the Group entered the Malaysian long-term savings market through a joint venture with the CIMB Group, listed on Malaysia's stock exchange as Bumiputra-Commerce Holdings Berhad. Under an agreement signed on that date and completed the same day, the Group acquired a 49% interest in two of CIMB Group's subsidiaries, Commerce Life Assurance Berhad (Commerce Life) and Commerce Takaful Berhad (Commerce Takaful), for a total cash consideration of £72 million, representing the value of our share of net assets and expected contribution from new business. In addition, Commerce Life and Commerce Takaful will enter into exclusive bancassurance agreements with CIMB Group's subsidiary, CIMB Bank, for the distribution of life and takaful insurance products through the bank's branches.

(iv) Taiwan
On 27 April 2007, the Group signed an agreement with First Financial Holding Co., Ltd (FFHC) to form a joint venture, First-Aviva Life Assurance Co., Ltd (First-Aviva). This gives Aviva access to one of Asia's most attractive markets and enables us to participate in the island's pension reform. The Group holds 49% of First-Aviva, whose total capital is £34 million. Regulatory approval of an insurance licence was received on 31 December 2007 and operations commenced on 2 January 2008. First-Aviva will manufacture long-term savings and pension products in Taiwan, and distribute them through an exclusive bancassurance agreement with First Commercial Bank, a subsidiary of FFHC.

18 – Interests in, and loans to, joint ventures continued

(d) Additional information

Summarised aggregate financial information on the Group's interests in its joint ventures is as follows:

	2007 £m	2006 £m
Income	**242**	510
Expenses	**(579)**	(45)
Share of results before tax	**(337)**	465
Long-term assets	**4,317**	4,273
Current assets	**395**	126
Share of total assets	**4,712**	4,399
Long-term liabilities	**(1,684)**	(1,695)
Current liabilities	**(762)**	(150)
Share of total liabilities	**(2,446)**	(1,845)
Share of net assets	**2,266**	2,554

The joint ventures have no significant contingent liabilities to which the Group is exposed, nor has the Group any significant contingent liabilities in relation to its interests in them.

19 – 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

	Goodwill £m	Equity interests £m	Loans £m	Total £m
At 1 January 2006	252	622	11	885
Share of results before tax	–	48	–	48
Share of tax	–	(11)	–	(11)
Share of results after tax	–	37	–	37
Amortisation of acquired value of in-force business	–	(14)	–	(14)
Share of profit after tax	–	23	–	23
Acquisitions and additions	28	10	–	38
Disposals	–	(26)	–	(26)
Dividends received	–	(12)	–	(12)
Foreign exchange rate movements	–	(4)	–	(4)
Other movements and reclassifications as held for sale	–	–	(9)	(9)
Movements in carrying amount	28	(9)	(9)	10
At 31 December 2006	280	613	2	895
Share of results before tax	**–**	**51**	**–**	**51**
Share of tax	**–**	**(4)**	**–**	**(4)**
Share of results after tax	**–**	**47**	**–**	**47**
Amortisation of acquired value of in-force business	**–**	**(12)**	**–**	**(12)**
Share of profit after tax	**–**	**35**	**–**	**35**
Acquisitions and additions (see below)	**26**	**270**	**–**	**296**
Disposals	**–**	**(25)**	**–**	**(25)**
Dividends received	**–**	**(32)**	**–**	**(32)**
Foreign exchange rate movements	**4**	**33**	**–**	**37**
Movements in carrying amount	**30**	**281**	**–**	**311**
At 31 December 2007	**310**	**894**	**2**	**1,206**

The loans are interest-bearing but are not secured, and no guarantees were received in respect thereof.

Acquisitions in 2007 comprise 49.75% of Banca Network Investimenti SpA (see note 3(a)(iii)) and interests in three investment funds managed by Cyrte Investments BV (see note 3(a)(iv)).

19 – Interests in, and loans to, associates continued

(b) Principal associates

The principal associates included above are:

Company	Type of business	Class of share	Proportion held	Country of incorporation and operation
Aviva Life Insurance Company India Private Limited	Insurance	Ordinary shares of RS1 each	26.0%	India
Banca Network Investimenti SpA	Product distribution	Ordinary shares of €1 each	49.75%	Italy
Cyrte Fund I CV	Investment fund	Partnership share	13.04%	Netherlands
Cyrte Fund II BV	Investment fund	Ordinary shares of €1 each	16.00%	Netherlands
Cyrte Fund III CV	Investment fund	Partnership share	17.91%	Netherlands
RBSG Collective Investments Limited	Investment	Ordinary shares of £1 each	49.99%	Great Britain
RBS Life Investments Limited	Insurance	Ordinary shares of £1 each	49.99%	Great Britain

All investments in principal associates are unlisted and are held by subsidiaries.

In June 2007, the Group sold its holdings in The British Aviation Insurance Company Limited to Berkshire Hathaway for £15 million, resulting in a loss on disposal of £7 million.

(c) Additional information

Summarised aggregate financial information on the Group's interests in its associates is as follows:

	2007 £m	2006 £m
Share of revenues	**385**	427
Share of results before tax	**51**	48
Share of assets	**3,218**	3,111
Share of liabilities	**(2,324)**	(2,498)
Share of net assets	**894**	613

The associates have no significant contingent liabilities to which the Group is exposed, nor has the Group any significant contingent liabilities in relation to its interest in them.

(d) Impairment testing

The Group's investments in RBS Life Investments Limited and RBSG Collective Investments Limited have been tested for impairment by comparing their carrying values (which include goodwill which arose on their acquisition) with their recoverable amounts. The recoverable amounts for both the investments have been determined based on value in use calculations. The calculations use cash flow projections based on business plans approved by management covering a five year period and a risk adjusted discount rate of 81%. Cash flows beyond that five year period have been extrapolated using a growth rate of 4.5%. The recoverable amounts significantly exceed the carrying values of both the investments and a reasonably possible change to the key underlying assumptions will not cause the carrying values of the investments to exceed their recoverable amounts.

20 – Property and equipment

This note analyses our tangible fixed assets, which are primarily properties occupied by Group companies and computer equipment.

	Properties under construction £m	Owner-occupied properties £m	Motor vehicles £m	Computer equipment £m	Other assets £m	Total £m
Cost or valuation						
At 1 January 2006	54	499	89	655	368	1,665
Additions	31	43	1	154	66	295
Acquisitions of subsidiaries	–	6	1	2	2	11
Disposals	–	(78)	(78)	(99)	(72)	(327)
Transfers to investment property	–	(6)	–	–	–	(6)
Transfers	(19)	19	–	–	–	–
Reversal of impairment losses (see note 34)	–	(2)	–	–	–	(2)
Fair value gains (see note 34)	–	26	–	–	–	26
Foreign exchange rate movements	(1)	(8)	–	(10)	(5)	(24)
At 31 December 2006	65	499	13	702	359	1,638
Additions	27	9	3	92	96	227
Acquisitions of subsidiaries	–	10	1	1	2	14
Disposals	(16)	(60)	(4)	(37)	(14)	(131)
Transfers to investment property	(27)	(14)	–	–	–	(41)
Transfers	(6)	6	–	–	–	–
Fair value gains (see note 34)	–	23	–	–	–	23
Impairment losses	–	(2)	–	–	–	(2)
Foreign exchange rate movements	2	26	1	14	19	62
Other movements	–	–	–	–	4	4
At 31 December 2007	**45**	**497**	**14**	**772**	**466**	**1,794**
Depreciation						
At 1 January 2006	–	–	(21)	(437)	(237)	(695)
Charge for the year	–	–	(11)	(85)	(26)	(122)
Disposals	–	–	24	16	33	73
Foreign exchange rate movements	–	–	–	7	3	10
At 31 December 2006	–	–	(8)	(499)	(227)	(734)
Charge for the year	–	(1)	(1)	(97)	(30)	(129)
Disposals	–	–	2	32	8	42
Foreign exchange rate movements	–	–	–	(14)	(14)	(28)
Other movements	–	–	–	–	(3)	(3)
At 31 December 2007	**–**	**(1)**	**(7)**	**(578)**	**(266)**	**(852)**
Carrying amount						
At 31 December 2006	65	499	5	203	132	904
At 31 December 2007	**45**	**496**	**7**	**194**	**200**	**942**

Owner-occupied properties are stated at their revalued amounts, as assessed by qualified external valuers or by local qualified staff of the Group in overseas operations, all with recent relevant experience. These values are assessed in accordance with the relevant parts of the current RICS Appraisal and Valuation Standards in the UK, and with current local valuation practices in other countries. This assessment, on the basis of Existing Use Value and in accordance with UK Practice Statement 1.3, is the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction, after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion, assuming that the buyer is granted vacant possession of all parts of the property required by the business and disregarding potential alternative uses. The valuation assessment adopts market-based evidence and is in line with guidance from the International Valuation Standards Committee and the requirements of IAS 16, *Property, Plant and Equipment,* for all but specialised-use properties which are valued on a depreciated replacement cost (DRC) basis as permitted by paragraph 33 of IAS 16.

If owner-occupied properties were stated on a historical cost basis, the carrying amount would be £301 million *(2006: £368 million).*

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

21 – Investment property

This note gives details of the properties we hold for long-term rental yields or capital appreciation.

	Freehold £m	Leasehold £m	Total £m
Carrying value			
At 1 January 2006	10,765	2,510	13,275
Additions	1,373	342	1,715
Capitalised expenditure on existing properties	125	48	173
Acquisitions of subsidiaries	35	–	35
Fair value gains	1,227	280	1,507
Disposals	(1,494)	(47)	(1,541)
Transfers from property and equipment	6	–	6
Foreign exchange rate movements	(41)	(6)	(47)
At 31 December 2006	11,996	3,127	15,123
Additions	1,413	109	1,522
Capitalised expenditure on existing properties	138	11	149
Acquisitions of subsidiaries	4	–	4
Disposals of subsidiaries	(3)	–	(3)
Fair value losses	(648)	(97)	(745)
Disposals	(831)	(432)	(1,263)
Transfers from property and equipment	10	31	41
Foreign exchange rate movements	210	39	249
At 31 December 2007	**12,289**	**2,788**	**15,077**

Investment properties are stated at their market values as assessed by qualified external valuers or by local qualified staff of the Group in overseas operations, all with recent relevant experience. Values are calculated using a discounted cash flow approach and are based on current rental income plus anticipated uplifts at the next rent review, assuming no future growth in rental income. This uplift and the discount rate are derived from rates implied by recent market transactions on similar properties.

The fair value of investment properties leased to third-parties under operating leases was as follows:

	2007 £m	2006 £m
Freeholds	**11,925**	10,423
Leaseholds	**2,691**	3,039
	14,616	13,462

Future contractual aggregate minimum lease rentals receivable under the non-cancellable portion of the above leases are given in note 51(b)(i).

22 – 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 2007 and 2006 were as follows:

	2007 £m	2006 £m
Policy loans	**1,316**	1,217
Loans to banks	**7,576**	3,295
Securitised mortgage loans (see note 23)		
UK	**1,777**	1,923
Netherlands	**5,610**	4,786
	7,387	6,709
Non-securitised mortgage loans	**17,596**	15,185
Loans and advances to bank customers	**1,307**	1,085
Loans to brokers and other intermediaries	**80**	–
Other loans	**931**	1,083
Total	**36,193**	28,574

Of the above loans, £25,666 million *(2006: £23,243 million)* is expected to be recovered more than one year after the balance sheet date.

The carrying amounts of the above loans are stated at amortised cost with the exception of £5,476 million *(2006: £4,941 million)* of securitised mortgage loans and £12,849 million *(2006: £11,316 million)* of non-securitised mortgage loans which are designated as other than trading and measured at fair value. The fair value has been calculated by discounting the future cash flows using appropriate current interest rates for each portfolio of mortgages.

The change in fair value of these loans during the year, attributable to a change in credit risk, was a loss of £210 million *(2006: £nil)*. The cumulative change attributable to changes in credit risk to 31 December 2007 was a loss of £210 million *(2006: £nil)*.

(b) 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 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 £6,282 million *(2006: £2,129 million)*. The value of collateral that was actually sold or repledged in the absence of default was £nil *(2006: £nil)*.

23 – Securitised mortgages and related assets

The Group has loans receivable, secured by mortgages, which have then been securitised through non-recourse borrowings, in our UK Life and Dutch businesses. This note gives details of the relevant transactions.

(a) Description of arrangements

(i) United Kingdom
In a long-term business subsidiary (NUER), 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 noteholders, loan providers and other third-parties in the priority of payments. The purchases of the mortgages were funded by the issue of fixed rate, floating rate and index-linked notes by the ERF companies.

All the shares in the ERF companies are held by independent companies, whose shares are held on trust. Although NUER does not own, directly or indirectly, any of the share capital of the ERF companies or their parent companies, it retains control of the residual or ownership risks related to them, and they have therefore been treated as subsidiaries in the consolidated financial statements. NUER has no right to repurchase the benefit of any of the securitised mortgage loans, other than in certain circumstances where NUER is in breach of warranty or loans are substituted in order to effect a further advance.

NUER has purchased subordinated notes and granted subordinated loans to some of the ERF companies. These have been eliminated on consolidation through offset against the borrowings of the ERF companies in the consolidated balance sheet.

23 – Securitised mortgages and related assets continued

(ii) Netherlands and Belgium

In three subsidiaries, Delta Lloyd Levensverzekering NV (DLL), Amstelhuys NV (AMS), and Delta Lloyd Bank NV/SA (DLB), the principal benefits of certain portfolios of mortgage loans have been transferred to a number of special purpose securitisation companies, which were funded primarily through the issue of fixed rate, floating rate and index-linked notes.

All the shares in the securitisation companies are held by independent trustee companies. Although DLL, AMS and DLB do not own, directly or indirectly, any of the share capital of the securitisation companies or their parent companies, they retain control of the residual or ownership risks related to them, and these companies have therefore been treated as subsidiaries in the consolidated financial statements. DLL, AMS and DLB have no right, nor any obligation, to repurchase the benefit of any of the securitised mortgage loans before the optional call date, other than in certain circumstances where they are in breach of warranty.

Delta Lloyd companies have purchased notes in the securitisation companies, which have been eliminated on consolidation through offset against the borrowings of the securitisation companies in the consolidated balance sheet.

(iii) General

In all of the above transactions, the Company and its subsidiaries are not obliged to support any losses that may be suffered by the noteholders and do not intend to provide such support. Additionally, the notes were issued on the basis that noteholders 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 noteholders have no recourse whatsoever to other companies in the Aviva Group.

(b) Carrying values

The following table summarises the securitisation arrangements:

	Securitised assets 2007 £m	**Securitised borrowings 2007 £m**	Securitised assets 2006 £m	Securitised borrowings 2006 £m
UK				
Securitised mortgage loans				
– At fair value	**1,777**	**(1,691)**	1,923	(1,856)
	1,777	**(1,691)**	1,923	(1,856)
Other securitisation assets/(liabilities)	**23**	**(109)**	121	(188)
	1,800	**(1,800)**	2,044	(2,044)
Netherlands				
Securitised mortgage loans				
– At fair value	**3,699**	**(3,706)**	3,018	(3,329)
– At amortised cost	**1,911**	**(2,283)**	1,768	(2,038)
	5,610	**(5,989)**	4,786	(5,367)
Other securitisation assets/(liabilities)	**379**	**–**	581	–
	5,989	**(5,989)**	5,367	(5,367)

Loan notes held by third-parties are as follows:

	UK 2007 £m	**Netherlands 2007 £m**	UK 2006 £m	Netherlands 2006 £m
Total loan notes issued, as above	**1,691**	**5,989**	1,856	5,367
Less: Loan notes held by Group companies	**(17)**	**(369)**	(21)	(134)
Loan notes held by third-parties (note 47(c))	**1,674**	**5,620**	1,835	5,233

24 – Financial investments

This note analyses our financial investments by type and shows their cost and fair value. These will change from one period to the next as a result of new business written, claims paid and market movements.

(a) Carrying amount
Financial investments comprise:

				2007
	At fair value through profit or loss			
	Trading £m	Other than trading £m	Available for sale £m	Total £m
Debt securities				
UK government	–	18,767	–	18,767
Non-UK government	35	27,692	936	28,663
Corporate – UK	21	13,219	34	13,274
Corporate – Non-UK	123	36,100	922	37,145
Other	–	8,818	12,350	21,168
	179	104,596	14,242	119,017
Less assets classified as held for sale	–	(80)	–	(80)
	179	104,516	14,242	118,937
Equity securities				
Corporate – UK	–	26,081	58	26,139
Corporate – Non-UK	46	26,349	3,720	30,115
	46	52,430	3,778	56,254
Less assets classified as held for sale	–	(236)	–	(236)
	46	52,194	3,778	56,018
Other investments				
Unit trusts and other investment vehicles	4	35,364	181	35,549
Derivative financial instruments	1,609	–	–	1,609
Deposits with credit institutions	114	502	–	616
Minority holdings in property management undertakings	–	977	–	977
Other	–	1,645	17	1,662
	1,727	38,488	198	40,413
Total financial investments	1,952	195,514	18,218	215,684
Less assets classified as held for sale	–	(316)	–	(316)
	1,952	195,198	18,218	215,368

Of the above total, £154,732 million *(2006: £115,004 million)* is expected to be recovered more than one year after the balance sheet date.

24 – Financial investments continued

	At fair value through profit or loss: Trading £m	At fair value through profit or loss: Other than trading Restated £m	Available for sale £m	2006 Total Restated £m
Debt securities				
UK government	–	19,921	–	19,921
Non-UK government	7	19,388	434	19,829
Corporate – UK	19	12,230	80	12,329
Corporate – Non-UK	119	41,858	4,725	46,702
Other	–	7,969	7,716	15,685
	145	101,366	12,955	114,466
Equity securities				
Corporate – UK	–	30,580	140	30,720
Corporate – Non-UK	34	24,666	1,342	26,042
	34	55,246	1,482	56,762
Other investments				
Unit trusts and other investment vehicles	5	28,860	147	29,012
Derivative financial instruments	1,325	–	–	1,325
Deposits with credit institutions	–	381	–	381
Minority holdings in property management undertakings	–	542	–	542
Other	6	1,735	49	1,790
	1,336	31,518	196	33,050
Total financial investments	1,515	188,130	14,633	204,278

(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 £m**	**2007 Fair value £m**
Debt securities	**119,625**	**1,931**	**(2,539)**	**119,017**
Equity securities	**48,357**	**8,492**	**(595)**	**56,254**
Other investments				
Unit trusts and investment vehicles	**32,827**	**3,106**	**(384)**	**35,549**
Derivative financial instruments	**–**	**1,609**	**–**	**1,609**
Deposits with credit institutions	**616**	**–**	**–**	**616**
Minority holdings in property management undertakings	**977**	**–**	**–**	**977**
Other	**1,470**	**249**	**(57)**	**1,662**
	203,872	**15,387**	**(3,575)**	**215,684**

	Cost/ amortised cost Restated £m	Unrealised gains £m	Unrealised losses £m	2006 Fair value Restated £m
Debt securities	112,834	2,402	(770)	114,466
Equity securities	45,045	12,330	(613)	56,762
Other investments				
Unit trusts and investment vehicles	26,433	2,642	(63)	29,012
Derivative financial instruments	–	1,325	–	1,325
Deposits with credit institutions	381	–	–	381
Minority holdings in property management undertakings	542	–	–	542
Other	1,712	86	(8)	1,790
	186,947	18,785	(1,454)	204,278

The gains related to AFS investments recognised in equity in 2007 were £149 million *(2006: £347 million)* and the gains recognised in the income statement on disposals were £391 million *(2006: £162 million gain)*. (See notes 5 and 34.)

24 – Financial investments continued

(c) Financial investment arrangements

(i) Stock lending arrangements

The Group has entered into stock lending arrangements in the UK and overseas during the year 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.

The Group receives collateral in order to reduce the credit risk of these arrangements. The level of collateral held is monitored regularly, with further collateral obtained where this is considered necessary to manage the 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 amounts of financial assets received and pledged in this manner at 31 December 2007 were £23,779 million and £4 million respectively *(2006: £16,902 million and £nil respectively)*. The value of collateral that was actually sold or re-pledged in the absence of default was £nil *(2006: £nil)*.

In addition to the above, the Group has received and pledged cash collateral under stock lending arrangement that has been recognised on the balance sheet with a corresponding obligation or receivable for its return. These latter balances are shown separately in notes 48 and 25 respectively.

(ii) Stock repurchase arrangements

Included within financial investments are £358 million *(2006: £722 million)* of debt securities and other fixed income securities which have been sold under stock repurchase arrangements. The obligations arising under these arrangements are shown in note 48.

(iii) Other arrangements

Certain financial investments are specifically deposited under local laws in various overseas countries as security for the holders of policies issued in those countries.

25 – Receivables and other financial assets

This note analyses our total receivables.

	2007 £m	2006 £m
Amounts owed by contract holders	**2,554**	1,921
Amounts owed by intermediaries	**1,417**	1,258
Deposits with ceding undertakings	**1,163**	1,028
Amounts due from reinsurers	**701**	707
Amounts due from brokers for investment sales	**326**	89
Amounts receivable for collateral pledged (notes 24c(i) and 56e)	**21**	–
Other financial assets	**3,001**	3,184
Total	**9,183**	8,187
Less: Amounts classified as held for sale	**(554)**	–
	8,629	8,187
Expected to be recovered in less than one year	**8,271**	7,757
Expected to be recovered in more than one year	**358**	430
	8,629	8,187

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.

26 – Deferred acquisition costs and other assets

This note shows the products on which we are deferring some of our acquisition costs and details the movements in the balance during the year.

(a) Carrying amount

The carrying amount comprises:

	2007 £m	2006 £m
Deferred acquisition costs in respect of:		
Insurance contracts – Long-term business	**1,473**	848
Insurance contracts – General insurance and health business	**1,583**	1,422
Participating investment contracts	**112**	364
Non-participating investment contracts	**1,126**	566
Retail fund management business	**27**	22
Total deferred acquisition costs	**4,321**	3,222
Surpluses in the staff pension schemes (note 46e(vii))	**27**	56
Other assets	**139**	198
Total	**4,487**	3,476

Deferred acquisition costs 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 after the balance sheet date.

(b) Movements in the year

The movements in deferred acquisition costs during the year were:

	2007 £m	2006 £m
Carrying amount at 1 January	**3,222**	3,175
Acquisition costs deferred during the year	**3,780**	3,248
Amortisation	**(2,894)**	(3,224)
Impairment losses	**36**	–
Impact of assumption changes	**32**	–
Foreign exchange rate movements	**97**	(49)
Other movements	**48**	72
Carrying amount at 31 December	**4,321**	3,222

Amortisation of deferred acquisition costs include £nil *(2006: £271 million)* for the effect of adjusting to the PS06/14 realistic basis.

(c) Other assets

Other assets include £66 million *(2006: £2 million)* that is expected to be recovered more than one year after the balance sheet date.

(d) Prepayments and accrued income

Prepayments and accrued income include £111 million *(2006: £62 million)* that is expected to be recovered more than one year after the balance sheet date.

27 – 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 balance sheet, while the liabilities are included within insurance and investment contract provisions. This note analyses the carrying values of assets backing these liabilities.

The carrying values of assets backing unit-linked liabilities are as follows:

	2007 £m	2006 £m
Loans	**347**	879
Debt securities	**15,065**	15,308
Equity securities	**27,743**	25,839
Other investments	**33,171**	26,712
Reinsurance assets	**1,905**	1,136
Cash and cash equivalents	**3,939**	3,648
	82,170	73,522

28 – Ordinary share capital

This note gives details of Aviva plc's ordinary share capital and shows the movements during the year.

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

	2007 £m	2006 £m
The authorised share capital of the Company at 31 December 2007 was: 3,000,000,000 *(2006: 3,000,000,000)* ordinary shares of 25 pence each	**750**	750
The allotted, called up and fully paid share capital of the Company at 31 December 2007 was: 2,621,792,828 *(2006: 2,565,753,431)* ordinary shares of 25 pence each	**655**	641

(b) During 2007, a total of 56,039,397 ordinary shares of 25 pence each were allotted and issued by the Company as follows:

	Number of shares	Share capital £m	Share premium £m
At 1 January	**2,565,753,431**	**641**	**1,189**
Shares issued under the Group's Employee and Executive Share Option Schemes	**14,871,901**	**4**	**44**
Shares issued in lieu of dividends	**41,167,496**	**10**	**(10)**
At 31 December	**2,621,792,828**	**655**	**1,223**

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.

Shares in lieu of the 2006 final and 2007 interim dividends were issued on 17 May and 16 November 2007 respectively. The issue of shares in lieu of cash dividends is considered a bonus issue under the terms of the Companies Act 1985 and the nominal value of the shares is charged to the share premium account.

29 – Equity compensation plans

This note describes the various equity compensation plans we use, and shows how we value the options and awards of shares in the Company.

(a) Description of the plans
The Group maintains a number of active stock option and award schemes. These are as follows:

(i) Savings-related options
These are options granted under the Inland Revenue-approved Save As You Earn (SAYE) share option schemes in the UK and 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.

(ii) Executive share options
These are options granted on various dates from 1998 to 2004, under the Aviva Executive Share Option Scheme or predecessor schemes. Options granted between 1998 and 2000 were subject to the satisfaction of conditions relating to either the Company's return on equity shareholders' funds (ROE) or its relative total shareholder return (TSR) against a chosen comparator group. In respect of options granted from 2000 the performance condition has been a mixture of both ROE and TSR measures. In all cases, performance is measured over a three year performance period and the options are normally exercisable between the third and tenth anniversary of their grant.

(iii) Deferred bonus plan options
These are options granted in 1999 and 2000 under the CGU Deferred Bonus Plan. Participants who deferred their annual cash bonus in exchange for an award of shares of equal value also received a matching award over an equal number of share options. The exercise of these options is not subject to the attainment of performance conditions. These options are exercisable up to the tenth anniversary of their grant.

(iv) Long-term incentive plan awards
These awards have been made to senior Group executives since 2001 and are described in section (b) below and in the Directors' remuneration report.

(v) Deferred bonus plan awards
These awards have been made under the Aviva Deferred Bonus Plan, and are described in section (b) below and in the Directors' remuneration report. The Group has established various employee share trusts to facilitate the delivery of shares under the above schemes. Details of these trusts are given in note 30.

(vi) Annual bonus plan awards
These awards have been made under the Aviva Annual Bonus Plan 2005, and are described in section (b) below and in the Directors' remuneration report.

29 – Equity compensation plans continued

(b) Outstanding options and awards

(i) Share options

At 31 December 2007, options to subscribe for ordinary shares of 25 pence each in the Company were outstanding as follows:

Aviva Savings Related Share Option Scheme	Option price p	Number of shares	Normally exercisable	Option price p	Number of shares	Normally exercisable
	895.20	52,450	2007	428.00	997,989	2007, 2009 or 2011
	664.00	89,273	2008	491.00	3,961,387	2008, 2010 or 2012
	401.00	1,899,805	2007 or 2009	593.00	3,050,594	2009, 2011 or 2013
	406.00	1,258,700	2008 or 2010	563.00	5,880,795	2010, 2012 or 2014

Hibernian Savings Related Share Option Scheme (in euros)	Option price c	Number of shares	Normally exercisable	Option price c	Number of shares	Normally exercisable
	663.00	15,602	2007	719.00	155,196	2008 or 2010
	586.00	129,787	2008	879.00	211,975	2009 or 2011
	630.00	51,614	2007 or 2009	830.00	290,130	2010 or 2012

RAC Savings Related Share Option Scheme	Option price p	Number of shares	Normally exercisable	Option price p	Number of shares	Normally exercisable
	354.94	226,921	2007 or 2009	312.27	334,149	2008

Aviva Executive Share Option Scheme	Option price p	Number of shares	Normally exercisable	Option price p	Number of shares	Normally exercisable
	1073.31	8,385	2001 to 2008	972.33	11,749	2003 to 2010
	1119.00	29,068	2001 to 2008	960.00	37,853	2003 to 2010
	853.00	116,275	2001 to 2008	1035.00	578,367	2004 to 2011
	965.00	7,425	2002 to 2009	499.00	14,272	2005 to 2012
	870.83	34,853	2002 to 2009	516.00	925,507	2005 to 2012
	919.00	305,169	2002 to 2009	512.00	1,152,752	2006 to 2013
	822.00	44,939	2003 to 2010	526.00	933,072	2007 to 2014

Aviva Executive Share Option Scheme (Delta Lloyd)	Option price p	Number of shares	Normally exercisable
	380.00	160,596	2003 to 2008

RAC Executive Share Option Scheme	Option price p	Number of shares	Normally exercisable
	347.49	4,136	2005 to 2009

CGU plc Deferred Bonus Plan	Option price p	Number of shares	Normally exercisable	Option price p	Number of shares	Normally exercisable
	899.50	5,703	2002 to 2009	875.00	21,058	2003 to 2010
	966.50	1,986	2002 to 2009			

The following table summarises information about options outstanding at 31 December 2007:

Range of exercise prices	**Outstanding options Number**	**Weighted average remaining contractual life Years**	**Weighted average exercise price p**
£1.75 – £4.89	**5,079,299**	**2**	**399.34**
£4.90 – £8.04	**16,664,953**	**5**	**543.36**
£8.05 – £11.19	**1,255,280**	**3**	**967.45**

The comparative figures as at 31 December 2006 were:

Range of exercise prices	Outstanding options Number	Weighted average remaining contractual life Years	Weighted average exercise price p
£1.75 – £4.89	9,927,374	2	399.71
£4.90 – £8.04	15,900,844	5	538.45
£8.05 – £11.19	1,708,401	4	959.35

29 – Equity compensation plans continued

(ii) Share awards

At 31 December 2007, awards issued under the Company's executive incentive plans over ordinary shares of 25 pence each in the Company were outstanding as follows:

Aviva Long-Term Incentive Plan 2005	Number of shares	Vesting period	Number of shares	Vesting period
	3,164,449	2005 to 2007	3,148,041	2007 to 2009
	2,749,115	2006 to 2008		

Aviva Deferred Bonus Plan	Number of shares	Vesting date
	2,360,127	24 March 2008

Aviva Annual Bonus Plan 2005	Number of shares	Vesting date	Number of shares	Vesting date
	2,696,404	30 March 2009	3,541,850	23 March 2010

The vesting of awards under the Aviva Long-Term Incentive Plan 2005 is subject to the attainment of performance conditions as described in the Directors' remuneration report. Shares which do not vest, lapse.

(iii) Shares to satisfy awards and options

Prior to March 2003, it was the practice to satisfy awards and options granted under the executive incentive plans through shares purchased in the market and held by employee share trusts which were established for the purpose of satisfying awards under the various executive incentive plans and funded by the Company.

Since March 2003, it has generally been the Company's practice to satisfy the awards granted after that date by the issue of new shares at the time of vesting, and no shares were purchased by the trusts. However, during 2007, shares have been purchased by the trustee to allow awards to be satsified from trust where necessary to comply with local regulations. Further details are given in note 30.

(c) Movements in the year

A summary of the status of the option plans as at 31 December 2007 and 2006, and changes during the years ended on those dates, is shown below.

	2007		2006	
	Number of options	**Weighted average exercise price p**	Number of options	Weighted average exercise price p
Outstanding at 1 January	**27,536,619**	**514.54**	35,984,159	497.34
Granted during the year	**6,289,583**	**563.00**	3,912,011	593.00
Exercised during the year	**(5,144,763)**	**437.82**	(5,665,668)	394.93
Expired during the year	**(5,681,907)**	**594.60**	(6,693,883)	569.15
Outstanding at 31 December	**22,999,532**	**534.70**	27,536,619	514.54
Exercisable at 31 December	**5,637,127**	**580.27**	12,757,480	516.30

(d) Expense charged to the income statement

The total expense recognised for the year arising from equity compensation plans was as follows:

	2007 £m	2006 £m
Equity-settled expense	**50**	48
Cash-settled expense	**–**	–
	50	48

(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 Black-Scholes option-pricing model, were £2.13 and £6.17 *(2006: £2.35 and £6.70)* respectively.

29 – Equity compensation plans continued

(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	2007	2006
Share price	**733.5p**	781p
Exercise price	**563p**	593p
Expected volatility	**24%**	26%
Expected life	**4.07 years**	3.82 years
Expected dividend yield	**3.83%**	3.70%
Risk-free interest rate	**5.09%**	4.80%

The expected volatility used was based on the historical volatility of the share price over a period equivalent to the expected life of the options 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.

1,496,069 options granted after 7 November 2002 were exercised during the year *(2006: nil).*

(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	2007	2006
Share price	**778.5p**	814p
Expected volatility*	**18.35%**	23%
Expected volatility of comparator companies' share price*	**19%**	22%
Correlation between Aviva and competitors' share price*	**53%**	50%
Expected life	**2.20 years**	3.0 years
Expected dividend yield	**3.83%**	3.60%
Risk-free interest rate*	**5.36%**	4.50%

* For awards with market-based performance conditions.

The expected volatility used was based on the historical volatility of the share price over a period equivalent to the expected life of the options 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.

30 – Shares held by employee trusts

We satisfy awards and options granted under the executive incentive plans partly through shares purchased in the market and held by employees 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:

	2007		2006	
	Number	**£m**	Number	£m
Cost debited to shareholders' funds				
At 1 January	**682,202**	**–**	1,823,788	–
Acquired in the year	**1,556,583**	**10**	–	–
Distributed in the year	**(717,721)**	**–**	(1,141,586)	–
Balance at 31 December	**1,521,064**	**10**	682,202	–

The shares are owned by employee share trusts in the Company and a subsidiary undertaking to satisfy awards under the Group's Long-Term Incentive Plan and Deferred Bonus Plans. Details of the features of the plans can be found in the Directors' renumeration report.

These shares were purchased in the market and are carried at cost less amounts changed to the income statement in prior years. At 31 December 2007, they had an aggregrate nominal value of £380,266 *(2006: £170,550)* and a market value of £10 million *(2006: £6 million)*. The trustees have waived their rights to dividends on the shares held in the trusts.

31 – Preference share capital

This note gives details of Aviva plc's preference share capital.

The preference share capital of the Company at 31 December 2007 was:

	2007 £m	2006 £m
Authorised		
200,000,000 cumulative irredeemable preference shares of £1 each	**200**	200
1,000,000,000 Sterling preference shares of £1 each	**1,000**	1,000
	1,200	1,200

	2007 €m	2006 €m
700,000,000 Euro preference shares of €1 each	**700**	700

	2007 £m	2006 £m
Issued and paid up		
100,000,000 8⅜% cumulative irredeemable preference shares of £1 each	**100**	100
100,000,000 8¾% cumulative irredeemable preference shares of £1 each	**100**	100
	200	200

The Sterling preference shares, 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.

32 – Direct capital instrument

This note gives details of the direct capital instrument issued in November 2004.

Notional amount	2007 £m	2006 £m
5.9021% £500 million direct capital instrument	**500**	500
4.7291% €700 million direct capital instrument	**490**	490
	990	990

The euro and sterling direct capital instruments (the DCIs) were issued on 25 November 2004. 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 addition, under certain circumstances defined in the terms and conditions of the issue, the Company may at its sole option:

(i) substitute at any time all (but not some only) of the DCIs for, or vary the terms of the DCIs so that they become, Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities;

(ii) substitute all (but not some only) of the DCIs for fully paid non-cumulative preference shares in the Company. These preference shares could 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. 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 on any relevant payment date. Deferred coupons shall be satisfied only in the following circumstances, all of which occur at the sole option of the Company:

(i) Redemption; or

(ii) Substitution by, or variation so they become, alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities; or

(iii) 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.

33 – Merger reserve

This note analyses the movements in the merger reserve during the year.

Movements in the year comprised:

	2007 £m	2006 £m
Balance at 1 January	**3,271**	3,271
Merger relief on acquisition of AmerUs	**–**	871
Transfer to retained earnings on realisation (note 35)	**–**	(871)
Balance at 31 December	**3,271**	3,271

34 – 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.

Movements in the year comprised:

	Currency translation reserve (see accounting policy E) £m	Owner-occupied properties reserve (see accounting policy O) £m	Investment valuation reserve (see accounting policy S) £m	Hedging instruments reserve (see accounting policy T) £m	Equity compensation reserve (see accounting policy AA) £m	Total £m
Balance at 1 January 2006	55	179	844	19	43	1,140
Arising in the year:						
Fair value gains	–	26	347	–	–	373
Fair value gains transferred to profit on disposals	–	–	(162)	–	–	(162)
Fair value gains transferred to retained earnings on disposals (note 35)	–	(9)	–	–	–	(9)
Impairment losses on revalued assets	–	(2)	–	–	–	(2)
Reserves credit for equity compensation plans (note 29d)	–	–	–	–	48	48
Shares issued under equity compensation plans (note 35)	–	–	–	–	(18)	(18)
Foreign exchange rate movements	(386)	–	–	59	–	(327)
Aggregate tax effect – shareholders' tax	–	–	(50)	–	–	(50)
Balance at 31 December 2006	(331)	194	979	78	73	993
Arising in the year:						
Fair value gains	–	23	149	–	–	172
Fair value gains transferred to profit on disposals	–	–	(391)	–	–	(391)
Transfer to profit on disposal of subsidiary (note 18c)	3	–	–	–	–	3
Fair value gains transferred to retained earnings on disposals (note 35)	–	(25)	–	–	–	(25)
Share of fair value changes in joint ventures and associates taken to equity (note 18a)	–	–	9	–	–	9
Reserves credit for equity compensation plans (note 29d)	–	–	–	–	50	50
Shares issued under equity compensation plans (note 35)	–	–	–	–	(34)	(34)
Foreign exchange rate movements	758	–	–	(141)	–	617
Aggregate tax effect – shareholders' tax	–	–	73	–	–	73
Balance at 31 December 2007	**430**	**192**	**819**	**(63)**	**89**	**1,467**

The above reserves are shown net of minority interests.

35 – Retained earnings

This note analyses the movements in the consolidated retained earnings during the year.

	2007 £m	2006 £m
Balance at 1 January	**5,082**	2,597
Profit for the year attributable to equity shareholders	**1,327**	2,215
Actuarial gains/(losses) on pension schemes (note 46e (iv)	**648**	(117)
Actuarial (gains)/losses on pension schemes transferred to unallocated divisible surplus and other movements	**(61)**	3
Dividends and appropriations (note 15)	**(871)**	(762)
Shares issued in lieu of dividends	**301**	203
Shares issued under equity compensation plans (note 34)	**34**	18
Transfer from merger reserve on realisation (note 33)	**–**	871
Fair value gains realised from reserves (note 34)	**25**	9
Aggregate tax effect	**(252)**	45
Balance at 31 December	**6,233**	5,082

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 shares issued in lieu of the 2006 final and 2007 interim dividends, as explained in note 28(b).

36 – Minority interests

This note gives details of the Group's minority interests and shows the movements during the year.

(a) Minority interests at 31 December comprised:

	2007 £m	2006 £m
Equity shares in subsidiaries	**1,418**	850
Share of earnings	**429**	284
Share of other reserves	**450**	308
	2,297	1,442
Preference shares in General Accident plc	**250**	250
Preference shares in other subsidiaries	**6**	6
	2,553	1,698

(b) Movements in the year comprised:

	2007 £m	2006 £m
Balance at 1 January	**1,698**	1,128
Profit for the year attributable to minority interests	**178**	174
Minority share of movements in other reserves	**1**	1
Foreign exchange rate movements	**118**	(19)
Recognised income and expense attributable to minority interests	**297**	156
Capital contributions from minority shareholders	**307**	397
Minority share of dividends declared in the year	**(66)**	(75)
Minority interest in acquired subsidiaries	**317**	92
Balance at 31 December	**2,553**	1,698

37 – Contract liabilities and associated reinsurance

The following notes explain how we calculate our liabilities to our policyholders for insurance and investment products we have sold to them. Notes 38 and 39 cover these liabilities and note 40 details the financial guarantees and options given for some of these products. Note 41 details the reinsurance recoverables on these liabilities whilst note 42 shows the effects of the assumptions we have changed during the year.

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

	2007			2006		
	Gross provisions £m	**Reinsurance assets £m**	**Net £m**	Gross provisions £m	Reinsurance assets £m	Net £m
Long-term business						
Insurance contracts	**(135,312)**	**4,298**	**(131,014)**	(126,614)	4,139	(122,475)
Participating investment contracts	**(53,609)**	**22**	**(53,587)**	(49,400)	–	(49,400)
Non-participating investment contracts	**(44,635)**	**1,461**	**(43,174)**	(38,958)	1,395	(37,563)
	(233,556)	**5,781**	**(227,775)**	(214,972)	5,534	(209,438)
Outstanding claims provisions						
Long-term business	**(727)**	**94**	**(633)**	(696)	67	(629)
General insurance and health	**(10,842)**	**1,634**	**(9,208)**	(10,165)	1,659	(8,506)
	(11,569)	**1,728**	**(9,841)**	(10,861)	1,726	(9,135)
Provisions for claims incurred but not reported	**(2,300)**	**84**	**(2,216)**	(2,553)	79	(2,474)
	(247,425)	**7,593**	**(239,832)**	(228,386)	7,339	(221,047)
Provision for unearned premiums	**(5,484)**	**511**	**(4,973)**	(5,182)	484	(4,698)
Provision arising from liability adequacy tests	**(24)**	**–**	**(24)**	(49)	–	(49)
Other technical provisions	**(3)**	**5**	**2**	(57)	2	(55)
Totals	**(252,936)**	**8,109**	**(244,827)**	(233,674)	7,825	(225,849)
Less amounts classified as held for sale	**627**	**–**	**627**	–	–	–
	(252,309)	**8,109**	**(244,200)**	(233,674)	7,825	(225,849)

38 – Insurance liabilities

This note analyses our insurance contract liabilities by type of product and describes how we calculate these liabilities and what assumptions we have used.

(a) Carrying amount

Insurance liabilities at 31 December comprise:

	2007			2006		
	Long-term business £m	**General insurance and health £m**	**Total £m**	Long-term business £m	General insurance and health £m	Total £m
Long-term business provisions						
Participating	**66,093**	**–**	**66,093**	63,705	–	63,705
Unit-linked non-participating	**20,601**	**–**	**20,601**	21,004	–	21,004
Other non-participating	**48,618**	**–**	**48,618**	41,905	–	41,905
	135,312	**–**	**135,312**	126,614	–	126,614
Outstanding claims provisions	**727**	**10,842**	**11,569**	696	10,165	10,861
Provision for claims incurred but not reported	**–**	**2,300**	**2,300**	–	2,553	2,553
	727	**13,142**	**13,869**	696	12,718	13,414
Provision for unearned premiums	**–**	**5,484**	**5,484**	–	5,182	5,182
Provision arising from liability adequacy tests	**–**	**24**	**24**	–	49	49
Other technical provisions	**–**	**3**	**3**	–	57	57
Total	**136,039**	**18,653**	**154,692**	127,310	18,006	145,316
Less: Obligations to staff pension schemes transferred to provisions (note 45a)	**(1,025)**	**–**	**(1,025)**	(1,086)	–	(1,086)
Less amounts classified as held for sale	**–**	**(627)**	**(627)**	–	–	–
	135,014	**18,026**	**153,040**	126,224	18,006	144,230

38 – 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

  – "with-profit" funds of CGNU Life Assurance (CGNU Life), Commercial Union Life Assurance (CULAC) and the with-profit and Provident Mutual funds of Norwich Union Life & Pensions (NUL&P), where the with-profit policyholders are entitled to at least 90% of the distributed profits, the shareholders receiving the balance;

  – "non-profit" funds of Norwich Union Annuity and NUL&P, where shareholders are entitled to 100% of the distributed profits. Shareholder profits on unitised with-profit business written by Norwich Union Life & Pensions and on stakeholder unitised with-profit business are derived from management fees and policy charges, and emerge in the non-profit funds.

– 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 Netherlands, the balance of profits, after providing appropriate returns for policyholders and after tax, accrues for the benefit of the shareholders. The bases for determining returns for policyholders are complex, but are consistent with methods and criteria followed generally in the Netherlands. In addition, a substantial number of policies provide benefits that are determined by investment performance, subject to certain guarantees, and shareholders' profits are derived largely from management fees.

– In the United States, there are two main business segments – 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 nonparticipating investment contracts.

– In other overseas operations.

(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, mainly using the net premium method, modified where necessary to reflect the requirements of the Companies Act.

Material judgement is required in calculating the provisions and is exercised particularly through the choice of assumptions where there is discretion over these. 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.

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.

(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. Explicit provision is made for vested bonuses (including those vesting following the most recent fund valuation), but no such provision is made for future regular or terminal bonuses. However, this method makes implicit allowance for future regular or terminal bonuses already earned, by margins in the valuation discount rate used.

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. Explicit provision is made for vested bonuses and explicit allowance is also made for future regular bonuses, but not terminal bonuses.

38 – 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, the retrospective approach is not available or is inappropriate, so a prospective valuation approach is used instead, including allowance for anticipated future regular and final bonuses.

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

– Maturity Guarantees;

– Smoothing (which can be negative);

– Guaranteed Annuity Options;

– GMP underpin on Section 32 transfers; and

– Expected payments under Mortgage Endowment Promise.

In the Provident Mutual and With-Profit sub-funds in NUL&P, 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. Where policyholders have valuable guarantees, options or promises, then future persistency is assumed to improve, and future take-up rates of guaranteed annuity options are assumed to increase.

The 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 gilts, plus a margin of 0.1% is used. The rates vary, according to the outstanding term of the policy, with a typical rate as at 31 December 2007 being 4.72% for a policy with ten years outstanding.

Volatility of investment return Volatility assumptions are set with reference to implied volatility data on traded market instrument, where available. Specimen values based on the average term of the liabilities are as follows:

		Volatility
	2007	2006
Equities	**25% (NUL&P)/23.5% (other WP funds)**	17% (for UK stocks)
Property	**15%**	15%
Gilts	**3.75%**	3.25% (NUL&P)/ 4.5% (other WP funds)
Corporate bonds	**5.75%**	5.25% (NUL&P)/6.5% (other WP funds)

Future regular bonuses Annual bonus assumptions for 2008 have been set consistently with the year end 2007 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 are set with regard to recent company experience and general industry trends. Most assumptions are unchanged from 2006 but for some endowment and whole life business the basis has been strengthened although the base mortality tables are unchanged.

		Mortality table used
	2007	2006
Assurances, pure endowments and deferred annuities before vesting	**Nil or AM92/AF92**	Nil or AM92/AF92
Pensions business after vesting and pensions annuities in payment	**PCMA00/PCFA00 adjusted plus allowance for future mortality improvement**	PCMA00/PCFA00 adjusted plus allowance for future mortality improvement

Non-profit 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.

38 – Insurance liabilities continued

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.

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.

At the end of 2006 changes were made to the assumptions for certain non-profit business, resulting from a decision taken by management to adopt changes permitted by the FSA Policy Statement 06/14, Prudential Changes for Insurers, issued in December 2006. In 2007 these changes were applied to healthcare business in addition to the business affected at the end of 2006.

Valuation discount rates are largely unchanged since 2006, reflecting the yields on the supporting assets.

	Valuation discount rates	
	2007	2006
Assurances		
Life conventional non-profit	**3.1% to 3.9%**	3.1% to 3.9%
Pensions conventional non-profit	**3.9% to 4.1%**	3.9% to 4.1%
Deferred annuities		
Non-profit – in deferment	**3.9% to 4.1%**	3.9% to 4.1%
Non-profit – in payment	**4.3%**	4.3%
Annuities in payment		
Conventional annuity	**4.3% to 4.9%**	4.3% to 4.9%
Non-unit reserves		
Life	**3.4%**	3.4%
Pensions	**4.2%**	4.2%

Mortality assumptions are set with regard to recent company experience and general industry trends. Since 2006, the assurance mortality basis has been reviewed with the aim of harmonising assumptions wherever possible across similar lines of business in order to simplify the basis. The base mortality tables used in the valuation remain unchanged however, as summarised below:

	Mortality tables used	
	2007	2006
Assurances		
Non-profit	**AM80/AF80 or AM92/AF92 or TM92/TF92 adjusted for smoker status and age/sex specific factors**	AM80/AF80 or AM92/AF92 or TM92/TF92 adjusted for smoker status and age/sex specific factors
Pure endowments and deferred annuities before vesting	**Nil or AM80/AF80 or AM92/AF92 adjusted**	Nil or AM80/AF80 or AM92/AF92 adjusted
General annuity business after vesting	**ML00/IFL00 adjusted plus allowance for future mortality improvement**	IML00/IFL00 adjusted plus allowance for future mortality improvement
Pensions business after vesting	**PCMA00/PCFA00 adjusted plus allowance for future mortality improvement**	PCMA00/PCFA00 adjusted plus allowance for future mortality improvement
Annuities in payment		
General annuity business	**ML00/IFL00 adjusted plus allowance for future mortality improvement**	IML00/IFL00 adjusted plus allowance for future mortality improvement
Pensions business	**PCMA00/PCFA00 adjusted or IML00/IFL00 adjusted plus allowance for future mortality improvement**	PCMA00/PCFA00 adjusted or IML00/IFL00 adjusted plus allowance for future mortality improvement

38 – Insurance liabilities continued

(b) France

The majority of provisions arise from a single premium savings product and are based on the accumulated fund value, adjusted to maintain consistency with the value of the assets backing the policyholder liabilities. 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 discount rates	Mortality tables used
	2007 and 2006	2007 and 2006
Life assurances	**1.75% to 4.5%**	**PM60-64, TD73-77, TD88/90, TF00-02, TH00-02**
Annuities	**1.75% to 4.5%**	**TPRV (prospective table), TGF05, TGH05**

(c) Netherlands

On transition to IFRS, the valuation of most long-term insurance and participating investment contracts was changed from existing methods that generally used historic assumptions to an active basis using current market interest rates. A liability adequacy test is performed in line with IFRS requirements. Where liabilities are based on current market interest rates and assets are valued at market value, the margin in the liability adequacy test is determined by comparison of the liabilities with the present value of best estimate cash flows.

	Valuation discount rates	Mortality tables used
	2007 and 2006	2007 and 2006
Life assurances	**Actual swap rate**	**GBM 61-65, GMB GBM/V 76-80, GBM 80-85, GBM/V 85-90 and GBM/V90-95**
Annuities in deferment and in payment	**Actual swap rate**	**GBM/V 76-80, GBM/V 85-90, GBM/V 95-00, Coll 1993/2003 and DIL 98, plus further allowance for future mortality improvement**

(d) 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 2007 *(2006: 2.00% to 7.50%)*. The weighted average interest rate for all traditional life policy reserves in 2007 was 4.46% *(2006: 4.48%)*.

Future policy benefit reserves for universal life insurance, indexed life, deferred annuity products and funding agreements are computed under a retrospective deposit method and represent policy account balances before applicable surrender charges. The weighted average interest crediting rates for universal life products were 5.45% in 2007 *(2006: 4.37%)*. The range of interest crediting rates for deferred annuity products, excluding sales inducement payouts, was 2.50% to 7.00% in 2007 *(2006: 2.75% to 7.00%)*. 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 call options to hedge the growth in interest credited to the customer as a direct result of increases in the related indices. Both the call options 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. 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 equity so that unrealised gains or losses on investments that are recognised directly in equity affect the measurement of the liability, or related assets, in the same way as realised gains or losses.

38 – Insurance liabilities continued

(e) 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.

Movements The following movements have occurred in the long-term business provisions during the year:

	2007 £m	2006 £m
Carrying amount at 1 January	**126,614**	114,430
Provisions in respect of new business	**10,470**	8,750
Expected change in existing business provisions	**(6,280)**	(5,678)
Variance between actual and expected experience	**(877)**	1,209
Effect of adjusting to PS06/14 realistic basis	**(60)**	(800)
Impact of other operating assumption changes	**95**	(333)
Impact of economic assumption changes	**(909)**	(1,727)
Effect of special bonus to with-profit policyholders (note 59)	**1,728**	–
Other movements	**(324)**	314
Change in liability recognised as an expense	**3,843**	1,735
Effect of portfolio transfers, acquisitions and disposals	**571**	12,454
Foreign exchange rate movements	**4,284**	(2,005)
Carrying amount at 31 December	**135,312**	126,614

(c) General insurance and health liabilities

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 balance sheet date. 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.

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

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

		Rate		Mean term of liabilities	
Country	Class	2007	2006	2007	2006
Netherlands	Permanent health and injury	**3.87%**	3.61%	**8 years**	9 years
UK	Reinsured London Market business	**5.00%**	5.00%	**8 years**	8 years

The gross outstanding claims provisions before discounting were £13,439 million *(2006: £12,768 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.

Assumptions
Outstanding claims provisions are estimated based on known facts at the date of estimation. Case estimates are generally set by skilled claims technicians, applying their experience and knowledge to the circumstances of individual claims. 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.

38 – Insurance liabilities continued

In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in the future, for example, to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures in order to arrive at the estimated ultimate cost of claims that represents the likely outcome, from the range of possible outcomes, taking account of all the uncertainties involved.

Movements

The following changes have occurred in the general insurance and health claims provisions during the year:

	2007 £m	2006 £m
Carrying amount at 1 January	**12,718**	12,965
Impact of changes in assumptions	**1**	2
Claim losses and expenses incurred in the current year	**8,273**	7,639
Decrease in estimated claim losses and expenses incurred in prior years	**(937)**	(550)
Incurred claims losses and expenses	**7,337**	7,091
Less:		
Payments made on claims incurred in the current year	**(4,408)**	(3,765)
Payments made on claims incurred in prior years	**(3,686)**	(3,771)
Recoveries on claim payments	**315**	304
Claims payments made in the year, net of recoveries	**(7,779)**	(7,232)
Other movements in the claims provisions	**36**	(7)
Changes in claims reserve recognised as an expense	**(406)**	(148)
Effect of portfolio transfers, acquisitions and disposals	**175**	207
Foreign exchange rate movements	**655**	(306)
Carrying amount at 31 December	**13,142**	12,718

The effect of changes in the main assumptions is given in note 42.

(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 2001 to 2007. The upper half of the tables shows the cumulative amounts paid during successive years related to each accident year. For example, with respect to the accident year 2002, by the end of 2007 £5,618 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 £6,250 million was re-estimated to be £6,122 million at 31 December 2007. This decrease from the original estimate is due to the combination of a number of factors. The original estimates will be increased or decreased, as more information becomes known about the individual claims and overall claim frequency and severity.

In 2005, the year of adoption of IFRS, only five years were required to be disclosed. This is being increased in each succeeding additional year, until ten years of information is included.

The Group aims to maintain strong reserves in respect of its non-life 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 then result in a release of reserves from earlier accident years, as shown in the loss development tables. However, in order to maintain reserve adequacy, the Group transfers releases to current accident year (2007) reserves where the development of claims is less mature and there is much greater uncertainty attaching to the ultimate cost of claims. The release from prior accident year reserves during 2007 is also due to an improvement in the estimated ultimate cost of claims.

38 – Insurance liabilities continued

(ii) Gross figures

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

Accident year	All prior years £m	2001 £m	2002 £m	2003 £m	2004 £m	2005 £m	2006 £m	2007 £m	**Total £m**
Gross cumulative claim payments									
At end of accident year		(3,029)	(2,952)	(2,819)	(2,971)	(3,345)	(3,653)	(4,393)	
One year later		(4,766)	(4,486)	(4,190)	(4,561)	(5,011)	(5,525)		
Two years later		(5,303)	(4,921)	(4,613)	(4,981)	(5,449)			
Three years later		(5,701)	(5,233)	(4,972)	(5,263)				
Four years later		(5,966)	(5,466)	(5,258)					
Five years later		(6,121)	(5,618)						
Six years later		(6,223)							
Estimate of gross ultimate claims									
At end of accident year		6,590	6,250	6,385	6,891	7,106	7,533	8,530	
One year later		6,770	6,372	6,172	6,557	6,938	7,318		
Two years later		6,775	6,287	6,124	6,371	6,813			
Three years later		6,798	6,257	6,036	6,178				
Four years later		6,754	6,205	5,932					
Five years later		6,679	6,122						
Six years later		6,630							
Estimate of gross ultimate claims		6,630	6,122	5,932	6,178	6,813	7,318	8,530	
Cumulative payments		(6,223)	(5,618)	(5,258)	(5,263)	(5,449)	(5,525)	(4,393)	
	3,201	407	504	674	915	1,364	1,793	4,137	**12,995**
Effect of discounting	(266)	(4)	(4)	(4)	(2)	(3)	(5)	(9)	**(297)**
Present value	2,935	403	500	670	913	1,361	1,788	4,128	**12,698**
Cumulative effect of foreign exchange movements	–	19	24	37	46	36	99	–	**261**
Effect of acquisitions	12	3	2	63	17	23	29	34	**183**
Present value recognised in the balance sheet	2,947	425	526	770	976	1,420	1,916	4,162	**13,142**

38 – Insurance liabilities continued

(iii) Net of reinsurance

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

Accident year	All prior years £m	2001 £m	2002 £m	2003 £m	2004 £m	2005 £m	2006 £m	2007 £m	**Total £m**
Net cumulative claim payments									
At end of accident year		(2,970)	(2,913)	(2,819)	(2,870)	(3,281)	(3,612)	(4,317)	
One year later		(4,624)	(4,369)	(4,158)	(4,378)	(4,925)	(5,442)		
Two years later		(5,088)	4,779)	(4,565)	(4,712)	(5,344)			
Three years later		(5,436)	(5,064)	(4,924)	(4,986)				
Four years later		(5,648)	(5,297)	(5,180)					
Five years later		(5,763)	(5,424)						
Six years later		(5,841)							
Estimate of net ultimate claims									
At end of accident year		6,186	6,037	6,218	6,602	6,982	7,430	8,363	
One year later		6,333	6,038	6,093	6,266	6,818	7,197		
Two years later		6,321	5,997	6,037	6,082	6,688			
Three years later		6,329	5,973	5,942	5,882				
Four years later		6,286	5,912	5,851					
Five years later		6,219	5,855						
Six years later		6,173							
Estimate of net ultimate claims		6,173	5,855	5,851	5,882	6,688	7,197	8,363	
Cumulative payments		(5,841)	(5,424)	(5,180)	(4,986)	(5,344)	(5,442)	(4,317)	
	1,634	332	431	671	896	1,344	1,755	4,046	**11,109**
Effect of discounting	(39)	(3)	(4)	(4)	(2)	(3)	(5)	(9)	**(69)**
Present value	1,595	329	427	667	894	1,341	1,750	4,037	**11,040**
Cumulative effect of foreign exchange movements	–	13	21	34	45	34	97	–	**244**
Effect of acquisitions	8	2	2	43	16	22	28	19	**140**
Present value recognised in the balance sheet	1,603	344	450	744	955	1,397	1,875	4,056	**11,424**

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 2001. The claim provisions, net of reinsurance, in respect of this business at 31 December 2007 were £323 million (*2006: £312 million*). The movement in the year reflects strengthening of provisions by £20 million (*2006: £9 million)*, foreign exchange rate movements and timing differences between claim payments and reinsurance recoveries.

(e) Provision for unearned premiums

Movements

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

	2007 £m	2006 £m
Carrying amount at 1 January	**5,182**	5,381
Premiums written during the year	**11,369**	11,427
Less: Premiums earned during the year	**(11,345)**	(11,516)
Changes in UPR recognised as expense/(income)	**24**	(89)
Gross portfolio transfers and acquisitions	**87**	3
Foreign exchange rate movements	**191**	(113)
Carrying amount at 31 December	**5,484**	5,182

39 – Liability for investment contracts

This note analyses our investment contract liabilities by type of product and describes how we calculate these liabilities and what assumptions we have used.

(a) Carrying amount

The liability for investment contracts at 31 December comprised:

	2007 £m	2006 £m
Long-term business		
Participating contracts	**53,609**	49,400
Non-participating contracts at fair value	**43,608**	38,081
Non-participating contracts at amortised cost	**1,027**	877
	44,635	38,958
Total	**98,244**	88,358

(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 38. 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 distributable surplus. Guarantees on long-term investment products are discussed in note 40.

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.

Most non-participating investment contracts measured at fair value 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. For this 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 26 and the deferred income liability is shown in note 49.

In the United States, 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 be terminated by Aviva at any time. The weighted average interest rates for fixed-rate and floating-rate funding agreements in 2007 were 5.21% and 5.15% *(2006: 5.07% and 5.55%)* respectively. The funding agreements are measured at fair value equal to the present value of contractual cash flows.

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.

39 – Liability for investment contracts continued

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

(i) Participating investment contracts

	2007 £m	2006 £m
Carrying amount at 1 January	**49,400**	47,258
Provisions in respect of new business	**3,009**	3,001
Expected change in existing business provisions	**(1,978)**	(2,237)
Variance between actual and expected experience	**(404)**	2,131
Effect of adjusting to PS06/14 realistic basis	**–**	(105)
Impact of operating assumption changes	**(3)**	(43)
Impact of economic assumption changes	**178**	(125)
Effect of special bonus to with-profit policyholders (note 59)	**399**	–
Other movements	**(176)**	51
Change in liability recognised as an expense	**1,025**	2,673
Effect of portfolio transfers, acquisitions and disposals	**–**	125
Foreign exchange rate movements	**3,184**	(656)
Carrying amount at 31 December	**53,609**	49,400

The effect of changes in main assumptions is given in note 42.

(ii) Non-participating investment contracts

	2007 £m	2006 £m
Carrying amount at 1 January	**38,958**	30,051
Provisions in respect of new business	**8,575**	5,695
Expected change in existing business provisions	**(1,094)**	(163)
Variance between actual and expected experience	**(3,231)**	265
Impact of operating assumption changes	**(2)**	15
Impact of economic assumption changes	**20**	(5)
Other movements	**61**	56
Change in liability	**4,329**	5,863
Effect of portfolio transfers, acquisitions and disposals	**254**	3,396
Foreign exchange rate movements	**1,094**	(352)
Carrying amount at 31 December	**44,635**	38,958

The negative variance between actual and expected experience relates to lower than expected investment returns on unit funds and adverse lapse experience.

The effect of changes in main assumptions is given in note 42.

40 – Financial guarantees and options

This note details the financial guarantees and options we have 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 38 and 39.

(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.

40 – Financial guarantees and options continued

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.

(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.

(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.

(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, while these do not constitute guarantees, the with-profit fund companies have made promises to certain policyholders in relation to their with-profit mortgage endowments. Subject to certain conditions, 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.

(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,* as outlined in note 38b(iii)(a).

(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 £36 million at 31 December 2007 *(2006: £39 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 Aléas Financiers" (PAF), when accounting income is less than 125% of guaranteed minimum credited returns. No PAF was established at the end of 2007.

The most significant of these contracts is the AFER Eurofund which has total liabilities of £24 billion at 31 December 2007 *(2006: £21 billion).* The guaranteed bonus on this contract equals 75% of the average of the last two years' declared bonus rates and was 3.64% for 2007 *(2006: 3.30%)* compared with an accounting income from the fund of 4.92% *(2006: 4.81%).*

Non-AFER contracts with guaranteed surrender values had liabilities of £8 billion *(2006: £6 billion)* at 31 December 2007 and all guaranteed annual bonus rates are between 0% and 4.5%. For non-AFER business, the accounting income return exceeded guaranteed bonus rates in 2007.

40 – Financial guarantees and options continued

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 balance sheet at the end of 2007 for this guarantee is £30 million *(2006: £8 million).* The reserve is calculated on a prudent basis and is in excess of the economic liability. At the end of 2007, total sums at risk for these contracts were £63 million *(2006: £38 million)* out of total unit-linked funds of £15 billion *(2006: £13 billion).* The average age of policyholders was approximately 53. It is estimated that this liability would increase by £17 million *(2006: £3 million)* if yields were to decrease by 1% per annum and by £7 million *(2006: £2 million)* if equity markets were to decline by 10% from year end 2007 levels. These figures do not reflect our ability to review the tariff for this option.

(ii) Netherlands
Guaranteed minimum return at maturity
In the Netherlands, it is market practice to guarantee a minimum return at maturity on traditional savings and pension contracts. Guarantees on older lines of business are 4% per annum while, for business written since 1 September 1999, the guarantee is 3% per annum. On Group pensions business, it is often possible to recapture guarantee costs through adjustments to surrender values or to premium rates.

On transition to IFRS, Delta Lloyd changed the reserving basis for most traditional contracts to reflect current market interest rates, for consistency with the reporting of assets at market value. The cost of meeting interest rate guarantees is allowed for directly in the liabilities. Although most traditional contracts are valued at market interest rate, the split by level of guarantee shown below is according to the original underlying guarantee.

The total liabilities for traditional business at 31 December 2007 are £10 billion *(2006: £8 billion)* analysed as follows:

	Liabilities 3% guarantee 31 December 2007 £m	Liabilities 3% guarantee 31 December 2006 £m	**Liabilities 4% guarantee 31 December 2007 £m**	Liabilities 4% guarantee 31 December 2006 £m
Individual	**1,387**	1,222	**3,671**	2,989
Group pensions	**485**	518	**3,993**	3,180
Total	**1,872**	1,740	**7,664**	6,169

Delta Lloyd has certain unit-linked contracts which provide a guaranteed minimum return at maturity from 4% pa to 2% pa.

Provisions consist of unit values plus an additional reserve for the guarantee. The additional provision for the guarantee was £70 million *(2006: £76 million).* An additional provision of £19 million *(2006: £43 million)* in respect of investment return guarantees on group segregated fund business is held. It is estimated that the provision would increase by £211 million *(2006: £163 million)* if yields were to reduce by 1% pa and by £21 million *(2006: £25 million)* if equity markets were to decline by 10% from year end 2007 levels.

(iii) 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 £160 million *(2006: £152 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.

"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 "out-of-the-money" by £53 million *(2006: £69 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 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. It is estimated that the guarantees would be out-of-the-money by £46 million *(2006: £74 million)* if yields were to increase by 1% per annum and by £29 million *(2006: £31 million)* if equity markets were to decline by 10% from year end 2007 levels.

Return of premium guarantee
Hibernian Life has written two tranches of linked bonds with a return of premium guarantee after five or six years. The provision for these at the end of 2007 is £0.1 million *(2006: £nil).* It is estimated that the provision would not increase if equity markets were to decline by 10% from year end 2007 levels by £1.4 million. It is estimated that the provision would increase if interest rates were to increase by 1% from year end 2007 levels by £0.1 million.

40 – Financial guarantees and options continued

(iv) 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 2007, total liabilities for the Spanish business were £4 billion *(2006: £3 billion)* with a further reserve of £16 million *(2006: £18 million)* for guarantees. Total liabilities for the Italian business were £4 billion *(2006: £5 billion),* with a further provision of £48 million *(2006: £46 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 £66 million *(2006: £66 million)* in Spain and £14 million *(2006: £9 million)* in Italy if interest rates fell by 1% from end 2007 values. Under this sensitivity test, the guarantee provision in Spain is calculated conservatively, assuming a long-term market interest rate of 1.42% and no lapses or premium discontinuances.

(v) 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 call options to hedge the growth in interest credited to the policyholder. The call options held by the Group and the options embedded in the policy are both carried at fair value. At 31 December 2007, the total liabilities for indexed products were £8.4 billion *(2006: £5.4 billion)*. If interest rates were to increase by 1%, the provision for embedded options would decrease by £89 million *(2006: £51 million)* and, if interest rates were to decrease by 1%, the provision would increase by £86 million *(2006: £56 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 2007, the liabilities for total return strategy products were £1.2 billion *(2006: £1.4 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 2007, a total of £0.7 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 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.

41 – 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:

	2007 £m	2006 £m
Long-term business		
Insurance contracts	**4,298**	4,139
Participating investment contracts	**22**	–
Non-participating investment contracts	**1,461**	1,395
Outstanding claims provisions	**94**	67
	5,875	5,601
General insurance and health		
Outstanding claims provisions	**1,634**	1,659
Provisions for claims incurred but not reported	**84**	79
Provision for unearned premiums	**511**	484
Other technical provisions	**5**	2
	2,234	2,224
Total	**8,109**	7,825

Of the above total, £2,927 million *(2006: £3,848 million)* is expected to be recovered more than one year after the balance sheet date.

41 – Reinsurance assets continued

(b) Assumptions

The assumptions 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

	2007 £m	2006 £m
Carrying amount at 1 January	**5,534**	4,706
Asset in respect of new business	**216**	226
Expected change in existing business asset	**(124)**	57
Variance between actual and expected experience	**52**	(69)
Effect of adjusting to PS06/14 realistic basis	**–**	(502)
Impact of other operating assumption changes	**14**	(84)
Impact of economic assumption changes	**(122)**	(341)
Other movements	**(40)**	–
Change in asset	**(4)**	(713)
Effect of portfolio transfers, acquisitions and disposals	**24**	1,639
Foreign exchange rate movements	**227**	(98)
Carrying amount at 31 December	**5,781**	5,534

(ii) In respect of general insurance and health outstanding claims provisions and IBNR

	2007 £m	2006 £m
Carrying amount at 1 January	**1,738**	1,914
Reinsurers' share of claim losses and expenses		
Incurred in current year	**169**	102
Incurred in prior years	**32**	78
Reinsurers' share of incurred claim losses and expenses	**201**	180
Less:		
Reinsurance recoveries received on claims		
Incurred in current year	**(75)**	(30)
Incurred in prior years	**(223)**	(307)
Reinsurance recoveries received in the year	**(298)**	(337)
Change in reinsurance asset recognised as income	**(97)**	(157)
Effect of portfolio transfers, acquisitions and disposals	**39**	(5)
Foreign exchange rate movements	**41**	(32)
Other movements	**(3)**	18
Carrying amount at 31 December	**1,718**	1,738

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

	2007 £m	2006 £m
Carrying amount at 1 January	**484**	482
Premiums ceded to reinsurers in the year	**800**	726
Less: Reinsurers' share of premiums earned during the year	**(797)**	(722)
Changes in reinsurance asset recognised as income	**3**	4
Reinsurers' share of portfolio transfers and acquisitions	**18**	1
Foreign exchange rate movements	**6**	(3)
Carrying amount at 31 December	**511**	484

42 – 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 2006 to 2007, and this affected the profit recognised for the year with an equivalent effect on liabilities. This note analyses the effect of the changes.

This disclosure only allows for the impact on liabilities and related assets, such as reinsurance, deferred acquisition costs and AVIF, and does not allow for offsetting movements in the value of backing financial assets.

	Effect on profit 2007 £m	Effect on profit 2006 £m
Assumptions		
Long-term insurance business		
Interest rates	**850**	947
Expenses	**(13)**	16
Persistency rates	**(2)**	45
Mortality for assurance contracts	**16**	25
Mortality for annuity contracts	**11**	60
Tax and other assumptions	**60**	(17)
Investment contracts		
Interest rates	**12**	23
Expenses	**5**	87
Persistency rates	**–**	2
Tax and other assumptions	**7**	(4)
General insurance and health business		
Change in loss ratio assumptions	**–**	(2)
Change in discount rate assumptions	**3**	–
Change in expense ratio assumptions	**(4)**	–
Total	**945**	1,182

The impact of interest rates for long-term business relates primarily to the UK and the Netherlands. This results from the use of higher valuation interest rates for the UK annuities and Dutch traditional business, reflecting the rise in market interest rates over the year. The mortality impacts relate to assumption changes in the UK. The impact on existing business of applying FSA Policy Statement 06/14, *Prudential Changes for Insurers*, in 2007 is £60 million, relating to UK income protection business. This is reflected in reductions in insurance contract liabilities of £60 million (see note 38(b)). The impact on new business in 2007 is £4 million, giving a total increase in pre-tax profit for the year of £64 million.

43 – Unallocated divisible surplus

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

The following movements have occurred in the year:

	2007 £m	2006 £m
Carrying amount at 1 January	**9,465**	8,978
Change in participating contract assets	**2,463**	8,614
Change in participating contract liabilities	**(3,244)**	(7,640)
Impact of change in management policy	**–**	(286)
Transfer in respect of pension scheme deficit funding (note 46c(i))	**–**	(130)
Effect of special bonus to with-profit policyholders (note 59)	**(2,127)**	–
Other movements	**(14)**	–
Change in liability recognised as an expense	**(2,922)**	558
Effect of portfolio transfers, acquisitions and disposals	**3**	–
Movement in respect of change in pension scheme deficit (note 46c(i))	**61**	30
Foreign exchange rate movements	**173**	(101)
Other movements	**5**	–
Carrying amount at 31 December	**6,785**	9,465

44 – Tax assets and liabilities

This note analyses the tax assets and liabilities that appear in the balance sheet, and explains the movements in these balances in the year.

(a) General

Current tax assets and liabilities recoverable or payable in more than one year are £223 million and £769 million *(2006: £81 million and £842 million)* respectively.

(b) Deferred tax

(i) The balances at 31 December comprise:

	2007 £m	2006 £m
Deferred tax assets	**590**	1,199
Deferred tax liabilities	**(2,529)**	(3,077)
Net deferred tax liability	**(1,939)**	(1,878)

(ii) The net deferred tax liability arises on the following items:

	2007 £m	2006 £m
Long-term business technical provisions and other insurance items	**905**	1,247
Deferred acquisition costs	**(170)**	(126)
Unrealised gains on investments	**(1,577)**	(2,379)
Pensions and other post-retirement obligations	**79**	344
Unused losses and tax credits	**465**	250
Subsidiaries, associates and joint ventures	**(194)**	(227)
Intangibles and additional value of in-force long-term business	**(811)**	(738)
Provisions and other temporary differences	**(636)**	(249)
Net deferred tax liability	**(1,939)**	(1,878)

(iii) The movement in the net deferred tax liability was as follows:

	2007 £m	2006 £m
Net liability at 1 January	**(1,878)**	(1,440)
Acquisition of subsidiaries	**(185)**	(182)
Amounts credited/(charged) to profit (note 13a)	**442**	(199)
Amounts charged to equity (note 13b)	**(198)**	(14)
Exchange differences	**(37)**	16
Other movements	**(83)**	(59)
Net liability at 31 December	**(1,939)**	(1,878)

The Group has unrecognised tax losses of £1,066 million *(2006: £1,746 million)* to carry forward against future taxable income of the necessary category in the companies concerned. None of these tax losses will expire in the next 20 years *(2006: £26 million within ten years and £26 million within 15-20 years).* The remaining losses have no expiry date.

In addition, the Group has an unrecognised capital loss of £409 million *(2006: £468 million).* This tax loss can be offset against future capital gains and has no expiry date.

Deferred tax liabilities of £666 million *(2006: £527 million)* have not been established for temporary differences associated with investments in subsidiaries and interests in joint ventures and associates (including tax payable on remittance of overseas retained earnings) because the Group can control the timing of the reversal of these differences and it is probable that they will not reverse in the foreseeable future. Such unremitted earnings totalled £4,258 million at 31 December 2007 *(2006: £2,552 million).*

45 – Provisions

This note details the non-insurance provisions that the Group holds, and shows the movements in these during the year.

(a) Carrying amounts

	2007 £m	2006 £m
Deficits in the staff pension schemes (note 46(e)(vii))	**205**	1,029
Other obligations to staff pension schemes – insurance policies issued by Group companies (note 38a)	**1,025**	1,086
Total IAS 19 obligations to staff pension schemes	**1,230**	2,115
Restructuring provision	**136**	234
Other provisions	**571**	501
Total	**1,937**	2,850

Of the total, £1,277 million *(2006: £2,262 million)* is expected to be settled more than one year after the balance sheet date.

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

	Restructuring provision £m	Other provisions £m	Total £m
At 1 January 2007	**234**	**501**	**735**
Additional provisions	**198**	**174**	**372**
Unused amounts reversed	**–**	**(11)**	**(11)**
Change in the discounted amount arising from passage of time	**–**	**5**	**5**
Charge to income statement	**198**	**168**	**366**
Utilised during the year	**(300)**	**(101)**	**(401)**
Acquisition of subsidiaries	**–**	**1**	**1**
Exchange differences	**3**	**3**	**6**
At 31 December 2007	**135**	**572**	**707**

Other provisions comprise many small provisions throughout the Group for obligations such as costs of compensation, litigation, staff entitlements and reorganisation.

46 – Pension obligations

This note describes the Group's pension arrangements for its employees and explains how our obligations to these schemes are calculated.

(a) Introduction

The Group operates a large number of defined benefit and defined contribution pension schemes around the world. The only material defined benefit schemes are in the UK, the Netherlands, Canada and Ireland and, of these, the main UK scheme is by far the largest.

The assets of the main UK, Irish and Canadian schemes are held in separate trustee-administered funds to meet long-term pension liabilities to past and present employees. In the Netherlands, the main scheme is held in a separate foundation which invests in the life funds of the Group. 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.

An actuarial report has been submitted for each of the defined benefit schemes within the last three years, using appropriate methods for the respective countries on local funding bases.

46 – Pension obligations continued

(b) Membership

The number of scheme members at 31 December 2007 was as follows:

	UK Number	Netherlands Number	Canada Number	Ireland Number
Active members	**10,532**	**5,048**	**4,192**	**821**
Deferred pensioners	**53,953**	**5,015**	**620**	**830**
Pensioners	**27,176**	**2,815**	**2,597**	**674**
Total members	**91,661**	**12,878**	**7,409**	**2,325**

(c) Main UK scheme

In the UK, the Group operates two main pension schemes, the Aviva Staff Pension Scheme (ASPS) and the smaller RAC (2003) Pension Scheme. New entrants join the defined contribution section of the ASPS, as the defined benefit section is closed to new employees. 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 below as the trustees).

(i) Defined benefit section of the ASPS

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. At 31 March 2006, the date of the last actuarial valuation, this section of the scheme had an excess of obligations over available assets, on a funding basis, of £1,019 million (*31 March 2005: excess obligations of £888 million*). The Company has agreed with the trustees a funding plan through to March 2014, over which it will aim to eliminate the funding deficit. Funding levels are monitored on an annual basis.

The employing companies' contributions to the defined benefit section of the ASPS throughout 2007 were 37% of employees' pensionable salaries, together with the cost of redundancies during the year, and additional deficit funding payments totalling £83 million. As this section of the scheme is closed to new entrants and the contribution rate is determined using the projected unit credit method, it is expected that the percentage cost of providing future service benefits will continue to increase as the membership ages, leading to higher pension costs, and the number of members falls, leading to a higher charge per member. The employers' contribution rate for 2008 has therefore been increased to 39% of pensionable salaries (expected to be £114 million), pending finalisation of the April 2007 valuation. The Group is also expecting to make further contributions of £320 million into the ASPS prior to March 2008 and £49 million later in the year. Active members of this section of the ASPS contribute 5% of their pensionable salaries.

For funding purposes, the scheme's valuation as at 1 April 2007 is currently being completed, with the obligations calculated using the Projected Unit Method (which is described below).

In 2006, the Group's UK life business carried out an investigation into the allocation of costs in respect of funding the ASPS, to identify the deficit that arose in respect of accruals prior to the introduction of the current management services agreements (MSAs) and to propose a split between individual product companies based on an allocation of the deficit into pre- and post-MSA amounts. The results of this review were updated during 2006 and agreed by the relevant company boards and accepted by the UK regulator. Consequently, with effect from 1 January 2006, the Company's UK with-profit product companies are liable for a share, currently 12%, of the additional payments for deficit funding referred to above. This resulted in a transfer of £130 million from the unallocated divisible surplus (UDS) to the income statement in 2006, to reflect the position at the start of that year, and a movement of £61 million in 2007 (*2006: £30 million*) back to the UDS via the statement of recognised income and expense to reflect actuarial movements in the deficit during the year and therefore a change in the amount recoverable from the with-profit product companies.

For funding purposes, the scheme's valuation as at 1 April 2007 is currently being completed, with the obligations calculated using the Projected Unit Method (which is described below).

(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. The employers' contribution rates for members of the defined contribution section throughout 2007 were 8% of pensionable salaries, together with further contributions up to 4% where members contribute, and the cost of the death-in-service benefits. These contribution rates are unchanged for 2008.

46 – Pension obligations continued

(d) Charges to the income statement

The total pension costs of the Group's defined benefit and defined contribution schemes were:

	2007 £m	2006 £m
UK defined benefit schemes	**137**	150
UK defined contribution schemes	**44**	51
Overseas defined benefit schemes	**54**	63
Overseas defined contribution schemes	**19**	20
	254	284

There were no significant contributions outstanding or prepaid as at either 31 December 2007 or 2006.

(e) IAS 19 disclosures

Disclosures under IAS 19 for the material defined benefit schemes in the UK, the Netherlands, Canada and Ireland 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.

Including the deficit funding in the UK schemes discussed above, total employer contributions for these schemes in 2008 are expected to be £568 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 buy out benefits at a particular date. A buy-out valuation will almost always be the highest estimate of the pension deficit, as it assumes that the entire liability will be settled in one payment, with all obligations transferred to an insurance company. However, there are only a limited number of organisations that would be able to buy out the pension liabilities in schemes of the size and geographical spread of those in our Group, and they would naturally seek to make a profit on the transaction. The full buy-out cost would only be known if quotes were obtained from such organisations but, to illustrate the cost of a buy-out valuation, an estimate for the main UK scheme is that the year end liabilities of £7.2 billion could be valued some £3.7 billion higher, at £10.9 billion.

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 2007. The updating was made by actuaries in each country who, other than the actuary of the Aviva Staff Pension Scheme and Dutch arrangements, were independent of the Group. Scheme assets are stated at their fair values at 31 December 2007.

The main actuarial assumptions used to calculate scheme liabilities under IAS 19 are:

	UK		Netherlands		Canada		Ireland	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
Inflation rate	**3.4%**	3.1%	**2.0%**	1.9%	**2.5%**	2.5%	**2.5%**	2.25%
General salary increases	**5.2%**	4.9%	**3.0%**	2.4%*	**3.75%**	3.75%	**4.25%**	4.0%
Pension increases	**3.4%**	3.1%	**2.0/2.4%****	1.9%	**1.25%**	1.25%	**2.4%**	2.15%
Deferred pension increases	**3.4%**	3.1%	**2.0/2.4%****	1.9%	**–**	–	**2.4%**	2.15%
Discount rate	**5.8%**	5.1%	**5.5%**	4.6%	**5.25%**	5.0%	**5.6%**	4.7%
Basis of discount rate	AA-rated corporate bonds		AA-rated Eurozone corporate bonds		AA-rated corporate bonds		AA-rated Eurozone corporate bonds	

* Age-related scale increases plus 3% *(2006: 2.4%).*

** 2.0% until 2011 and 2.4% thereafter *(2006: 1.9% and 1.9% respectively).*

The discount rate and inflation 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 £1.5 billion.

46 – Pension obligations continued

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 2007 for scheme members are as follows:

			Life expectancy/(pension duration) at NRA of a male		Life expectancy/(pension duration) at NRA of a female	
	Mortality table	Normal retirement age (NRA)	Currently aged NRA	20 years younger than NRA	Currently aged NRA	20 years younger than NRA
UK	PA92U08MC with a one year age rating deduction and an allowance for or future improvements	60	87.8 (27.8)	88.9 (28.9)	90.7 (30.7)	91.7 (31.7)
Netherlands	Coll 2003 Group Annuity Mortality with different age corrections and an allowance for future improvements	65	82.8 (17.8)	82.8 (17.8)	87.1 (22.1)	87.1 (22.1)
Canada	UP1994 projected to 2005, using Scale AA	65	83.2 (18.2)	83.2 (18.2)	86.2 (21.2)	86.2 (21.2)
Ireland	PA92C2020 (current pensioners)/2040 (future pensioners)	60	84.4 (24.4)	85.7 (25.7)	87.4 (27.4)	88.7 (28.7)

The assumptions above are based on commonly-used mortality tables. In the UK, the standard mortality tables 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 by far the most material to the Group, the assumptions include an allowance for future mortality improvement, based on the actuarial profession's medium cohort projection table. The effect of assuming all members were one year younger would increase the above schemes' liabilities by £199 million.

The scheme liabilities have an average duration of 22 years in the UK schemes and between 14 and 28 years in the overseas schemes.

(ii) Assumptions on scheme assets
The expected rates of return on the schemes' assets are:

	UK		Netherlands		Canada		Ireland	
	2008	**2007**	2008	**2007**	2008	**2007**	2008	**2007**
Equities	7.6%	**8.0%**	7.2%	**6.5%**	7.0%	**7.8%**	7.4%	**7.5%**
Bonds	5.3%	**4.75%**	4.6%	**4.0%**	4.5%	**4.5%**	4.5%	**4.1%**
Property	6.6%	**6.0%**	5.8%	**6.2%**	n/a	**n/a**	6.4%	**5.5%**
Other	5.8%	**5.3%**	4.6%	**4.0%**	n/a	**n/a**	2.3%	**n/a**

The overall rates of return are based on the expected returns within each asset category and on current asset allocations. The expected returns are developed in conjunction with external advisers and take into account both current market expectations of future returns, where available, and historical returns. The figures for the total expected return on scheme assets in the following section are stated after deducting investment expenses.

(iii) Investments in Group-managed funds and insurance policies
Plan assets in the UK and Dutch schemes include investments in Group-managed funds and insurance policies with other Group companies. Their treatment in the relevant parts of the financial statements is as follows :

Plan assets – The treatment of these funds and policies in the consolidated balance sheet is described in section (vii) below.

Expected rates of return – Where the relevant insurance policies are in segregated funds with specific asset allocations, their expected rates of return are included in the appropriate line in the table in section (ii) above.

Pension expense – To avoid double-counting of investment income on scheme assets and the assets backing the underlying policies, adjustments have been made to the former in the tables in section (iv) below.

46 – Pension obligations continued

(iv) Pension expense
As noted above, plan assets in the UK and Dutch schemes include insurance policies with other Group companies. To avoid double-counting of investment income on scheme assets and the assets backing the underlying policies, adjustments have been made to the former in the current year as shown in the tables below.

Recognised in the income statement
The total pension expense for these schemes comprises:

	2007 £m	2006 £m
Current service cost	173	196
Past service cost	–	3
Loss/(gain) on curtailments	15	(39)
Total pension cost	188	160
Charged to net operating expenses	188	196
Included in profit on disposal of subsidiaries and associates	–	(36)
Total pension cost as above	188	160
Expected return on scheme assets	(614)	(530)
Less: Income accounted for elsewhere (see (iii) above)	49	40
	(565)	(490)
Interest charge on scheme liabilities	515	453
Credit to investment income	(50)	(37)
Total charge to income	**138**	**123**

Recognised in the statement of recognised income and expense

	2007 £m	2006 £m
Expected return on scheme assets	614	530
Actual return on these assets	(404)	(800)
Actuarial losses/(gains) on scheme assets	210	(270)
Less: (gains)/losses accounted for elsewhere (see (iii) above)	(72)	19
	138	(251)
Experience losses/(gains) arising on scheme liabilities	80	(63)
Changes in assumptions underlying the present value of the scheme liabilities	(902)	430
Loss on acquisitions and scheme transfers	36	1
Actuarial (gains)/losses recognised in the statement of recognised income and expense	**(648)**	117

The cumulative amount of actuarial gains and losses on the pension schemes recognised in the statement of recognised income and expense since 1 January 2004 (the date of transition to IFRS) is a loss of £161 million at 31 December 2007 *(2006: loss of £809 million).*

(v) Experience gains and losses
The following disclosures of experience gains and losses will be built up over time to give a five year history. Scheme assets exclude insurance policies with Group companies and income on the assets underlying them.

	2007 £m	2006 £m	2005 £m	2004 £m
Fair value of scheme assets at the end of the year	8,814	8,137	7,334	5,473
Present value of scheme liabilities at the end of the year	(10,017)	(10,196)	(9,680)	(7,179)
Net deficits in the schemes	(1,203)	(2,059)	(2,346)	(1,706)
Difference between the expected and actual return on scheme assets				
Amount of (gains)/losses	138	(251)	(798)	(184)
Percentage of the scheme assets at the end of the year	1.6%	3.1%	10.9%	3.4%
Experience (gains)/losses on scheme liabilities (excluding changes in assumptions)				
Amount of (gains)/losses	80	(63)	86	(12)
Percentage of the present value of scheme liabilities	0.8%	0.6%	0.9%	0.2%

46 – Pension obligations continued

(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 equity and debt securities. These reflect the current long-term asset allocation ranges chosen, having regard to the structure of liabilities within the schemes.

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 asset risks to which the scheme is exposed are:

Equity market risk – the effect of equity market falls on the value of plan assets.

Inflation risk – the effect of inflation rising faster than expected on the value of the plan liabilities.

Interest rate risk – falling interest rates leading to an increase in liabilities significantly exceeding the increase in the value of assets.

During 2007, there has been a reduction in the proportion of assets invested in equities, thereby mitigating the equity risk. 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.

(vii) Balance sheet recognition

The assets and liabilities of the schemes, attributable to defined benefit members, including investments in Group insurance policies (see footnote below), at 31 December 2007 were:

	UK		Netherlands		Canada		Ireland		Total	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m
Equities	**4,347**	4,682	**306**	310	**144**	129	**256**	249	**5,053**	5,370
Bonds	**3,059**	2,046	**556**	498	**85**	75	**174**	163	**3,874**	2,782
Property	**562**	581	**52**	46	**–**	–	**42**	25	**656**	652
Other	**135**	318	**114**	80	**2**	2	**5**	19	**256**	419
Total fair value of assets	**8,103**	7,627	**1,028**	934	**231**	206	**477**	456	**9,839**	9,223
Present value of scheme liabilities	**(8,229)**	(8,601)	**(1,049)**	(944)	**(289)**	(251)	**(450)**	(400)	**(10,017)**	(10,196)
(Deficits)/surplus in the schemes	**(126)**	(974)	**(21)**	(10)	**(58)**	(45)	**27**	56	**(178)**	(973)

The surplus in the Irish schemes of £27 million *(2006: £56 million)* is included in Other assets (note 26), whilst the deficits in the other schemes of £205 million *(2006: £1,029 million)* are included in provisions (note 45).

Plan assets in the table above include investments in Group-managed funds in the consolidated balance sheet of £150 million *(2006: £336 million)* in the UK scheme, and insurance policies of £143 million and £1,025 million *(2006: £152 million and £934 million)* in the UK and Dutch schemes respectively. 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". Since 1 January 2007, the UK insurance policies have been considered transferable under the terms of IAS 19. However, the Dutch insurance policies are considered non-transferable under the terms of IAS 19 and so have been treated as other obligations to staff pension schemes within provisions (see note 45).

46 – Pension obligations continued

The total IAS 19 obligations and strict IAS 19 assets (ie excluding the non-transferable insurance policies) of the schemes give a net deficit of £1,203 million (*2006: £2,059 million*), as shown in the following table.

	UK		Netherlands		Canada		Ireland		Total	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m
Equities	**4,347**	4,682	**–**	–	**144**	129	**256**	249	**4,747**	5,060
Bonds	**3,059**	2,046	**–**	–	**85**	75	**174**	163	**3,318**	2,284
Property	**562**	581	**–**	–	**–**	–	**42**	25	**604**	606
Other	**135**	166	**3**	–	**2**	2	**5**	19	**145**	187
Total fair value of assets	**8,103**	7,475	**3**	–	**231**	206	**477**	456	**8,814**	8,137
Present value of scheme liabilities	**(8,229)**	(8,601)	**(1,049)**	(944)	**(289)**	(251)	**(450)**	(400)	**(10,017)**	(10,196)
IAS 19 net (deficits)/surplus in the schemes	**(126)**	(1,126)	**(1,046)**	(944)	**(58)**	(45)	**27**	56	**(1,203)**	(2,059)
Included in other assets (note 26)	**–**	–	**–**	–	**–**	–	**27**	56	**27**	56
Included in provisions (note 45)	**(126)**	(1,126)	**(1,046)**	(944)	**(58)**	(45)	**–**	–	**(1,230)**	(2,115)
	(126)	(1,126)	**(1,046)**	(944)	**(58)**	(45)	**27**	56	**(1,203)**	(2,059)

The present value of unfunded post-retirement benefit obligations included in the totals in both of the tables above is £107 million *(2006: £95 million)*.

(viii) Movements in the scheme deficits and surpluses

Movements in the pension schemes' deficits and surpluses comprise:

					2007
	Scheme assets £m	**Scheme liabilities £m**	**Pension scheme deficit £m**	**Adjust for Group insurance policies £m**	**IAS 19 pensions deficit £m**
Deficits in the schemes at 1 January	**9,223**	**(10,196)**	**(973)**	**(1,086)**	**(2,059)**
Employer contributions	**297**	**–**	**297**	**(41)**	**256**
Employee contributions	**23**	**(23)**	**–**	**(4)**	**(4)**
Benefits paid	**(339)**	**339**	**–**	**33**	**33**
Current and past service cost (see (iv) above)	**(4)**	**(169)**	**(173)**	**–**	**(173)**
Losses on curtailments (see (iv) above)	**–**	**(15)**	**(15)**	**–**	**(15)**
Credit/(charge) to investment income (see (iv) above)	**614**	**(515)**	**99**	**(49)**	**50**
Acquisitions	**72**	**(91)**	**(19)**	**(15)**	**(34)**
Other actuarial gains/(losses) (see (iv) above)	**(210)**	**822**	**612**	**72**	**684**
Buy-outs and other transfers	**6**	**(6)**	**–**	**(2)**	**(2)**
Changes in asset admissibility	**–**	**–**	**–**	**152**	**152**
Exchange rate movements on foreign plans	**157**	**(163)**	**(6)**	**(85)**	**(91)**
Deficits in the schemes at 31 December	**9,839**	**(10,017)**	**(178)**	**(1,025)**	**(1,203)**

					2006
	Scheme assets £m	Scheme liabilities £m	Pension scheme deficit £m	Adjust for Group insurance policies £m	IAS 19 pensions deficit £m
Deficits in the schemes at 1 January	8,209	(9,680)	(1,471)	(875)	(2,346)
Employer contributions	554	–	554	(94)	460
Employee contributions	24	(24)	–	(3)	(3)
Benefits paid	(313)	313	–	30	30
Current and past service cost (see (iv) above)	(4)	(195)	(199)	–	(199)
Losses on curtailments (see (iv) above)	–	39	39	–	39
Credit/(charge) to investment income (see (iv) above)	530	(453)	77	(40)	37
Acquisitions	4	(5)	(1)	–	(1)
Other actuarial gains/(losses) (see (iv) above)	270	(267)	3	(119)	(116)
Buy-outs and other transfers	2	16	18	(2)	16
Exchange rate movements on foreign plans	(53)	60	7	17	24
Net deficits in the schemes at 31 December	9,223	(10,196)	(973)	(1,086)	(2,059)

46 – Pension obligations continued

The change in the pension schemes' net deficits during 2007 is mainly attributable to favourable changes in assumptions underlying the present value of the schemes' liabilities, and further deficit contribution payments to the main UK scheme made by the employing companies.

47 – Borrowings

Our borrowings are either core structural borrowings, such as subordinated debt, debenture loans and most commercial paper, or operational borrowings, such as bank loans and financing for securitised mortgage loan notes. 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:

	2007 £m	2006 £m
Core structural borrowings, at amortised cost	**4,311**	4,195
Operational borrowings, at amortised cost	**3,347**	2,842
Operational borrowings, at fair value	**5,011**	5,100
	8,358	7,942
	12,669	12,137
Less amounts classified as held for sale	**(12)**	–
	12,657	12,137

(b) Core structural borrowings

The following table provides information about the carrying amounts and maturity periods of these borrowings. Borrowings are considered current if the contractual maturity dates are within a year.

			2007 Maturity dates of undiscounted cash flows					
	Carrying value £m	Denominated currency	Within 1 year £m	1-5 years £m	5-10 years £m	10-15 years £m	Over 15 years £m	Total £m
Subordinated debt								
6.125% £700 million subordinated notes 2036	**689**	**£**	**–**	**–**	**–**	**–**	**700**	**700**
5.750% €800 million subordinated notes 2021	**586**	**€**	**–**	**–**	**–**	**588**	**–**	**588**
5.250% €650 million subordinated notes 2023	**474**	**€**	**–**	**–**	**–**	**–**	**477**	**477**
5.700% €500 million undated subordinated notes	**364**	**€**	**–**	**–**	**–**	**–**	**367**	**367**
6.125% £800 million undated subordinated notes	**790**	**£**	**–**	**–**	**–**	**–**	**800**	**800**
Floating rate US$300 million subordinated notes 2017	**151**	**US$**	**–**	**–**	**151**	**–**	**–**	**151**
	3,054		**–**	**–**	**151**	**588**	**2,344**	**3,083**
Debenture loans								
9.5% guaranteed bonds 2016	**198**	**£**	**–**	**–**	**200**	**–**	**–**	**200**
2.5% subordinated perpetual loan notes	**127**	**€**	**–**	**–**	**–**	**–**	**360**	**360**
Other loans	**10**	**Various**	**–**	**10**	**–**	**–**	**–**	**10**
	335	**–**	**–**	**10**	**200**	**–**	**360**	**570**
Commercial paper	**922**	**Various**	**935**	**–**	**–**	**–**	**–**	**935**
Total	**4,311**		**935**	**10**	**351**	**588**	**2,704**	**4,588**
Contractual undiscounted interest payments			**256**	**834**	**1,023**	**869**	**625**	**3,607**
Total contractual undiscounted cash flows for core structural borrowings			**1,191**	**844**	**1,374**	**1,457**	**3,329**	**8,195**

47 – Borrowings continued

			2006 Maturity dates of undiscounted cash flows					
	Carrying value £m	Denominated currency	Within 1 year £m	1-5 years £m	5-10 years £m	10-15 years £m	Over 15 years £m	Total £m
Subordinated debt								
6.125% £700 million subordinated notes 2036	689	£	–	–	–	–	700	700
5.750% €800 million subordinated notes 2021	537	€	–	–	–	539	–	539
5.250% €650 million subordinated notes 2023	434	€	–	–	–	–	438	438
5.700% €500 million undated subordinated notes	334	€	–	–	–	–	337	337
6.125% £800 million undated subordinated notes	790	£	–	–	–	–	800	800
Floating rate US$300 million subordinated notes 2017	153	US$	–	–	–	153	–	153
	2,937		–	–	–	692	2,275	2,967
Debenture loans								
9.5% guaranteed bonds 2016	198	£	–	–	200	–	–	200
2.5% subordinated perpetual loan notes	116	€	–	–	–	–	330	330
5.95% senior notes 2015	165	Various	165	–	–	–	–	165
Other loans	42	Various	–	22	–	–	20	42
	521		165	22	200	–	350	737
Commercial paper	737	Various	737	–	–	–	–	737
Total	4,195		902	22	200	692	2,625	4,441
Contractual undiscounted interest payments			252	820	1,020	888	701	3,681
Total contractual undiscounted cash flows for core structural borrowings			1,154	842	1,220	1,580	3,326	8,122

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 £79 million *(2006: £91 million)*.

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.

All the above borrowings are stated at amortised cost.

47 – Borrowings continued

(c) Operational borrowings

The following table provides information about the carrying amounts and maturity periods of these borrowings. Borrowings are considered current if the contractual maturity dates are within a year.

			2007 Maturity dates of undiscounted cash flows					
	Carrying value £m	Denominated currency	Within 1 year £m	1-5 years £m	5-10 years £m	10-15 years £m	Over 15 years £m	Total £m
Amounts owed to credit institutions								
Bank loans	**1,064**	**Various**	**375**	**306**	**314**	**9**	**60**	**1,064**
Securitised mortgage loan notes								
UK lifetime mortgage business	**1,674**	**£**	**–**	**14**	**125**	**–**	**1,613**	**1,752**
Dutch domestic mortgage business	**5,620**	**€**	**–**	**–**	**–**	**–**	**5,890**	**5,890**
	7,294		**–**	**14**	**125**	**–**	**7,503**	**7,642**
Total	**8,358**		**375**	**320**	**439**	**9**	**7,563**	**8,706**
Contractual undiscounted interest payments			**374**	**1,392**	**1,705**	**1,652**	**8,425**	**13,548**
Total contractual undiscounted cash flows for operational borrowings			**749**	**1,712**	**2,144**	**1,661**	**15,988**	**22,254**

			2006 Maturity dates of undiscounted cash flows					
	Carrying value £m	Denominated currency	Within 1 year £m	1-5 years £m	5-10 years £m	10-15 years £m	Over 15 years £m	Total £m
Amounts owed to credit institutions								
Bank loans	874	Various	273	116	89	114	282	874
Securitised mortgage loan notes								
UK lifetime mortgage business	1,835	£	–	–	–	–	1,721	1,721
Dutch domestic mortgage business	5,233	€	–	–	–	–	5,233	5,233
	7,068		–	–	–	–	6,954	6,954
Total	7,942		273	116	89	114	7,236	7,828
Contractual undiscounted interest payments			351	1,306	1,638	1,603	9,238	14,136
Total contractual undiscounted cash flows for operational borrowings			624	1,422	1,727	1,717	16,474	21,964

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.

All the above borrowings are stated at amortised cost, except for the loan notes issued in connection with the UK lifetime mortgage business £1,674 million *(2006: £1,836 million)* and £3,337 million *(2006: £3,265 million)* of the loan notes issued in connection with the Dutch domestic mortgage business, which are carried at fair value. 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.

47 – Borrowings continued

(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 date	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	14 November 2001	14 November 2036	16 November 2026	5 year Benchmark Gilt + 2.85%
€800 million	14 November 2001	14 November 2021	14 November 2011	3 month Euribor + 2.12%
€650 million	29 September 2003	2 October 2023	2 October 2013	3 month Euribor + 2.08%
€500 million	29 September 2003	Undated	29 September 2015	3 month Euribor + 2.35%
£800 million	29 September 2003	Undated	29 September 2022	5 year Benchmark Gilt + 2.40%
US$300 million	19 December 2006	19 June 2017	19 June 2012	3 month US LIBOR + 0.84%

The subordinated notes were issued by the Company. They 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 2007 was £3,006 million *(2006: £3,076 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.

The 2.5% perpetual subordinated loan notes were issued by a Dutch subsidiary to finance the acquisition of NUTS OHRA Beheer BV in 1999. They are convertible into ordinary shares in Delta Lloyd NV, should there be a public offering of those shares. These loan notes have a face value of €489.9 million but, because they are considered to be perpetual, their carrying value is €172.4 million, calculated in 1999 and based on the future cash flows in perpetuity discounted back at a market rate of interest. The rate of interest paid on the notes is being gradually increased to a maximum of 2.76% in 2009.

The 5.95% Senior Notes had been issued by a United States subsidiary prior to acquisition by the Group. On 23 February 2007, the subsidiary exercised its option to redeem the notes early for an amount not significantly different to their carrying value. As a result, these notes have been shown in table (b) for 2006 as maturing within one year.

Other loans comprise borrowings in the United States.

Fixed rate borrowings comprise £335 million *(2006: £521 million)* of the total carrying value of £335 million *(2006: £521 million)*. The fair value of debenture loans at 31 December 2007 was £395 million *(2006: £580 million)*, calculated with reference to quoted prices or discounted future cash flows as appropriate.

(iii) Commercial paper

The commercial paper consists of £918 million in the Company *(2006: £733 million)* and £4 million in France *(2006: £4 million)*. All of this 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.

(iv) Bank loans

Bank loans comprise:

	2007 £m	2006 £m
Non-recourse		
Loans to property partnerships (see *(a)* below)	**485**	123
Loans to Irish investment funds (see (b) below)	**74**	–
RBS securitisation arrangement (see (c) below)	**–**	199
Other non-recourse loans	**16**	15
	575	337
Mortgages sold to building societies (see *(d)* below)	**–**	257
Banking loans	**103**	109
Other loans	**386**	171
	1,064	874

47 – Borrowings continued

(a) As explained in accounting policy C, 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 Aviva Group. Loans of £485 million *(2006: £123 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 C, 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. The amount of these loans can be varied without any penalty being charged, subject to a maximum of 50% Loan to Value and a maximum facility of €378 million.

(c) In September 2004, one of the Group's UK long-term business subsidiaries, Norwich Union Life & Pensions Limited (NULAP), entered into a securitisation arrangement with The Royal Bank of Scotland Group plc (RBSG), to provide funding to cover initial new business acquisition and administration costs. Under the arrangement, an RBSG company provided a loan facility of £200 million to NULAP in respect of selected term assurance policies, secured on future premiums and repayment of commissions due from brokers where a policy has lapsed. The funding was repayable over four years from the date of advance, and interest was charged at a floating rate. RBSG had no recourse to the policyholder or shareholders' funds of any companies in the Aviva Group. On 12 January 2007, under a Deed of Release and Termination, this arrangement was cancelled.

(d) One of the Group's UK long-term business subsidiaries, Norwich Union Equity Release Limited (NUER), has transferred the beneficial interest in certain portfolios of lifetime mortgages to various UK building societies, retaining a proportion of the interest earned. The transfers qualify for partial derecognition and, as such, the interest receivable on the mortgages is recognised as an asset within non-securitised mortgage loans, carried at fair value, with a corresponding liability recognising the fair value of future interest payable to the building societies. This liability has previously been recognised within borrowings. As this liability does not represent actual operational borrowings, but a liability to pay a proportion of future interest receivable on the mortgages to the building societies, the liability has been reclassified to other liabilities.

The fair value of these loans is considered to be the same as their carrying value.

(v) Securitised mortgage loan notes

Loan notes have been issued by special purpose securitisation companies in the UK and the Netherlands. Details of these securitisations are given in note 23.

For the Dutch securitised mortgage loan notes carried at amortised cost of £2,283 million *(2006: £2,038 million),* their fair value is £2,283 million *(2006: £2,006 million)*, calculated based on the future cash flows discounted back at the market rate of interest.

(e) Movements during the year

Movements in borrowings during the year were:

	Core structural £m	Operational £m	Total 2007 £m
New borrowings drawn down, net of expenses	**4,780**	**1,542**	**6,322**
Repayment of borrowings	**(4,799)**	**(1,201)**	**(6,000)**
Net cash inflow	**(19)**	**341**	**322**
Foreign exchange rate movements	**133**	**499**	**632**
Acquisitions	**–**	**18**	**18**
Borrowings reclassified to other liabilities	**–**	**(174)**	**(174)**
Fair value movements	**–**	**(268)**	**(268)**
Amortisation of discounts and other non-cash items	**2**	**–**	**2**
Movements in the year	**116**	**416**	**532**
Balance at 1 January	**4,195**	**7,942**	**12,137**
Balance at 31 December	**4,311**	**8,358**	**12,669**

47 – Borrowings continued
Movements in borrowings during the previous year were:

	Core structural £m	Operational £m	Total 2006 £m
New borrowings drawn down, net of expenses	3,967	2,152	6,119
Repayment of borrowings	(3,793)	(1,425)	(5,218)
Net cash inflow	174	727	901
Foreign exchange rate movements	(76)	(107)	(183)
Borrowings acquired for non-cash consideration	–	11	11
Acquisitions	303	139	442
Fair value movements	–	(52)	(52)
Amortisation of discounts and other non-cash items	5	–	5
Movements in the year	406	718	1,124
Balance at 1 January	3,803	7,210	11,013
Balance at 31 December	4,209	7,928	12,137

All movements in fair value in 2007 and 2006 on securitised mortgage loan notes designated as fair value through profit or loss were attributable to changes in market conditions. These loan notes have external credit ratings which have not changed since the inception of the loans.

(f) Undrawn borrowings
The Group has the following undrawn committed central borrowing facilities available to it, of which £1,000 million *(2006: £1,000 million)* is used to support the commercial paper programme:

	2007 £m	2006 £m
Expiring within one year	**500**	1,180
Expiring beyond one year	**1,575**	980
	2,075	2,160

48 – Payables and other financial liabilities

This note analyses our financial liabilities at the end of the year.

	2007 £m	2006 £m
Payables arising out of direct insurance	**1,731**	1,389
Payables arising out of reinsurance operations	**410**	408
Deposits received from reinsurers	**1,294**	1,244
Bank overdrafts	**621**	696
Derivative liabilities	**606**	355
Bank customer accounts	**2,460**	2,008
Bank deposits received from other banks	**1,288**	1,013
Amounts due to brokers for investment purchases	**901**	342
Obligations for repayment of collateral received (notes 24c(i) & 56e)	**6,545**	2,129
Obligations under stock repurchase arrangements (note 24c(ii))	**358**	722
Other financial liabilities	**1,918**	1,058
	18,132	11,364
Less: Amounts classified as held for sale	**(72)**	–
	18,060	11,364
Expected to be settled within one year	**16,097**	10,329
Expected to be settled in more than one year	**1,963**	1,035
	18,060	11,364

Bank overdrafts arise substantially from unpresented cheques and amount to £183 million *(2006: £266 million)* in long-term business operations and £438 million *(2006: £430 million)* in general business and other operations.

49 – Other liabilities

This note analyses our other liabilities at the end of the year.

	2007 £m	2006 £m
Deferred income	**339**	265
Reinsurers' share of deferred acquisition costs	**233**	221
Accruals	**1,274**	1,138
Other liabilities	**2,139**	2,610
	3,985	4,234
Less: Amounts classified as held for sale	**(220)**	–
	3,765	4,234
Expected to be settled within one year	**2,914**	3,468
Expected to be settled in more than one year	**851**	766
	3,765	4,234

50 – 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 38 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 future 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 therefrom, 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 the UK, Australia and Canada. Given the significant delays that are experienced in the notification of these claims, the potential number of incidents which they cover and the uncertainties associated with establishing liability and the availability of reinsurance, the ultimate cost cannot be determined with certainty. However, the Group's net exposure to such liabilities is not significant and, on the basis of current information and having regard to the level of provisions made for general insurance claims, the directors consider that any costs arising are not likely to have a material impact on the financial position of the Group.

(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 40 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 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. The directors continue to believe that the existing provisions for such guarantees and options are sufficient.

(d) Pensions mis-selling
The pensions review of past sales of personal pension policies which involved transfers, opt outs and non-joiners from occupational schemes, as required by the Financial Services Authority (FSA), has largely been completed. A provision of some £23 million at 31 December 2007 *(2006: £31 million)* remains to meet the outstanding costs of the very few remaining cases, the anticipated cost of any guarantees provided, and potential levies payable to the Financial Services Compensation Scheme. It continues to be the directors' view that there will be no material effect either on the Group's ability to meet the expectations of policyholders or on shareholders.

50 – Contingent liabilities and other risk factors continued

(e) Endowment reviews
In December 1999, the FSA announced the findings of its review of mortgage endowments and expressed concern as to whether, given decreases in expected future investment returns, such policies could be expected to cover full repayment of mortgages. A key conclusion was that, on average, holders of mortgage endowments had enjoyed returns such that they had fared at least as well as they would have done without an endowment. Nevertheless, following the FSA review, all of the Group's UK mortgage endowment policyholders received policy-specific letters advising them whether their investment was on track to cover their mortgage.

In May 2002, in accordance with FSA requirements, the Group commenced sending out the second phase of endowment policy update letters, which provide policyholders with information about the performance of their policies and advice as to whether these show a projected shortfall at maturity. The Group will send these updates annually to all mortgage endowment holders, in accordance with FSA requirements. The Group has made provisions totalling £96 million at 31 December 2007 *(2006: £128 million)* to meet potential mis-selling costs and the associated expenses of investigating complaints. It continues to be the directors' view that there will be no material effect either on the Group's liability to meet the expectations of policyholders or on shareholders.

In August 2004, the Group confirmed its intention to introduce time barring on mortgage endowment complaints, under FSA rules. The Group now includes details of its endowment policyholders' time bar position within the annual re-projection mailings. Customers will be given at least 12 months individual notice before a time bar becomes applicable – double the six months' notice required by the FSA.

(f) 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 and in addition monitors 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 operate a system of "prior product approval" and hence place less emphasis than the FSA on regulating sales and marketing practices.

The directors believe each of the Group's regulated businesses dedicates appropriate resources to its compliance programme, endeavours to respond to regulatory enquiries in a constructive way, and takes corrective action when warranted. However, all regulated financial services companies face the risk that their regulator could find that they have failed to comply with 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.

(g) Aviva USA litigation
In November 2006, the Group completed the acquisition of the AmerUs Group, a US-based insurer. In common with other companies operating in the sector, AmerUs is subject to litigation, including class-action litigation, arising out of its sale of equity-based index-linked annuity products. The Group is aware of a multi-district class action filed against AmerUs in Pennsylvania but is not aware of any adverse development. The directors continue to monitor the situation and consider that the litigation will not have a material effect on the Group's ability to meet shareholder expectations.

(h) 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.

The Company and several of its subsidiaries have guaranteed the overdrafts and borrowings of certain other Group companies. At 31 December 2007, the total exposure of the Group and Company is £7 million *(2006: £7 million)* and £113 million *(2006: £109 million)* respectively but, in the opinion of the directors, no material loss will arise in respect of these guarantees and indemnities.

In addition, in line with standard business practice, various Group companies have been 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.

51 – 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, property and equipment and intangible assets, which have not been recognised in the financial statements, are as follows:

	2007 £m	2006 £m
Investment property	**55**	135
Property and equipment	**160**	152
	215	287

Contractual obligations for future repairs and maintenance on investment properties are £nil *(2006: £3 million)*.

The Group has capital commitments to its joint ventures of £nil *(2006: £nil)* and to other investment vehicles of £157 million *(2006: £14 million)*.

(b) Operating lease commitments

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

	2007 £m	2006 £m
Within 1 year	**644**	448
Later than 1 year and not later than 5 years	**1,879**	1,597
Later than 5 years	**3,265**	3,423
	5,788	5,468

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

	2007 £m	2006 £m
Within 1 year	**82**	108
Later than 1 year and not later than 5 years	**254**	386
Later than 5 years	**853**	873
	1,189	1,367
The total of future minimum sub-lease payments expected to be received under non-cancellable sub-leases	**159**	200

52 – Cash flow statement

This note gives further detail behind the figures in the cash flow statement.

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

	2007 £m	Restated 2006 £m
Profit before tax	**1,857**	3,323
Adjustments for:		
Share of losses/(profits) of joint ventures and associates	**304**	(485)
Dividends received from joint ventures and associates	**32**	71
Profit on sales of:		
Investment property	**(105)**	(46)
Property and equipment	**(4)**	(2)
Subsidiaries, joint ventures and associates	**(49)**	(222)
Investments	**(5,464)**	(5,334)
	(5,622)	(5,604)
Fair value (gains)/losses on:		
Investment property	**745**	(1,507)
Investments	**6,171**	790
Borrowings	**(268)**	(52)
	6,648	(769)
Depreciation of property and equipment	**129**	122
Equity compensation plans, equity settled expense	**50**	48
Impairment of:		
Goodwill on subsidiaries	**10**	94
Other investments and loans	**58**	(5)
Acquired value of in-force business and intangibles	**4**	26
Non-financial assets	**–**	5
	72	120
Amortisation of:		
Premium or discount on debt securities	**32**	278
Premium or discount on loans	**(7)**	–
Premium or discount on borrowings	**2**	5
Acquired value of in-force business and intangibles	**266**	130
	293	413
Change in unallocated divisible surplus	**(2,922)**	558
Interest expense on borrowings	**1,208**	825
Net finance income on pension schemes	**(99)**	(77)
Foreign currency exchange (gains)	**(45)**	(99)
Changes in working capital		
Decrease in reinsurance assets	**75**	966
(Increase)/decrease in deferred acquisition costs	**(906)**	51
Decrease in insurance liabilities and investment contracts	**8,739**	9,974
Decrease/ (Increase)in other assets and liabilities	**7,395**	(4,301)
	15,303	6,690
Net purchases of operating assets		
Purchases of investment property	**(1,671)**	(1,888)
Proceeds on sale of investment property	**1,368**	1,587
Net purchases of financial investments	**(12,072)**	(2,361)
	(12,375)	(2,662)
Cash generated from operations	**4,833**	2,474

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.

52 – Cash flow statement continued

(b) Cash flows in respect of the acquisition of subsidiaries, joint ventures and associates

	2007 £m	2006 £m
Cash consideration for subsidiaries, joint ventures and associates acquired	**857**	2,321
Less: Cash and cash equivalents acquired with subsidiaries	**(88)**	(432)
Cash flows on acquisitions	**769**	1,889

(c) Cash flows in respect of the disposal of subsidiaries, joint ventures and associates

	2007 £m	2006 £m
Cash proceeds from disposal of subsidiaries, joint ventures and associates	**295**	616
Net cash and cash equivalents divested with subsidiaries	**(12)**	–
Cash flows on disposals	**283**	616

(d) Cash and cash equivalents in the Cash flow statement at 31 December comprised:

	2007 £m	2006 Restated £m
Cash at bank and in hand	**4,004**	4,087
Cash equivalents	**11,866**	9,030
	15,870	13,117
Bank overdrafts	**(621)**	(696)
	15,249	12,421

Of the total cash and cash equivalents shown above, £96 million has been classified as held for sale *(2006: £nil)* (see note 3d).

53 – 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 describes the way we manage our capital and shows where this is employed.

(a) Capital management objectives

Aviva's capital management philosophy is focused on capital efficiency and effective risk management to support a progressive dividend policy and EPS growth. Rigorous capital allocation is one of the Group's primary strategic priorities and is ultimately overseen by the Group Executive Committee.

The Group's overall capital risk appetite is set and managed with reference to the requirements of a range of different stakeholders including shareholders, policyholders, regulators and rating agencies. In managing capital we seek to:

- maintain sufficient, but not excessive, financial strength to support new business growth and satisfy the requirements of our stakeholders
- 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 lines and access to a range of capital markets
- allocate capital rigorously across the Group, to drive value adding growth in accordance with risk appetite.
- increase the dividend on a basis judged prudent, while retaining capital to support future business growth, using dividend cover on an IFRS operating earnings after tax basis in the 1.5 to 2.0 times range as a guide.

Further detail over the management and allocation of capital resources is set out in the following sections and in note 55 on risk management.

53 – Group capital structure continued

(b) Capital resources
The primary sources of capital used by the Group are equity shareholder's funds, preference shares, subordinated debt and borrowings. We also consider and, where efficient to do so, utilise alternative sources of capital such as reinsurance and securitisation in addition to the more traditional sources of funding. Targets are established in relation to regulatory solvency, ratings, liquidity and dividend capacity and are a key tool in managing capital in accordance with our risk appetite and the requirements of our various stakeholders.

Overall, the Group has significant resources and financial strength. The ratings of the Group's main operating subsidiaries are AA/AA- ("very strong") with a stable outlook from Standard & Poor's, Aa3 ("excellent") with a stable outlook from Moody's and A+ ("Superior") with a stable outlook from AM Best. These ratings reflect the Group's strong liquidity, competitive position, capital base, increasing underlying earnings and strategic and operational management. The Group is subject to a number of regulatory capital tests and also employs economic capital measures to manage capital and risk.

(c) Capital allocation
Capital allocation is undertaken based on a rigorous analysis of a range of financial, strategic, risk and capital factors to ensure that capital is allocated efficiently to value adding business opportunities. A clear management decision making framework, incorporating ongoing operational and strategic performance review, periodic longer term strategic and financial planning and robust due diligence over capital allocation is in place, including formal oversight from the Group Executive Committee and Group Capital Management Committee. These processes incorporate various capital profitability metrics, including an assessment of return on capital employed and internal rates of return in relation to hurdle rates to ensure capital is allocated efficiently and that excess business unit capital is repatriated where appropriate.

(d) Different measures of capital
In recognition of the requirements of different stakeholders, the Group measures its capital on a number of different bases, all of which are taken into account when managing and allocating capital across the Group. These include measures which comply with the regulatory regimes within which the Group operates and those which the directors consider appropriate for the management of the business. The primary measures which the Group uses are:-

(i) Accounting bases
The Group reports its results on both an IFRS and a European Embedded Value basis. The directors consider that the European Embedded Value principles provide a more meaningful measure of the long term underlying value of the capital employed in the Group's life and related businesses. This basis allows for the impact of uncertainty in the future investment returns more explicitly and is consistent with the way the life business is priced and managed. Accordingly, in addition to IFRS, we analyse and measure the net asset value and total capital employed for the Group on this basis. This is the basis on which Group Return on Equity is measured and against which the corresponding Group target is expressed.

(ii) Regulatory bases
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 Group's Directive ("IGD") to calculate regulatory capital adequacy at an aggregate Group level. The Group fully complied with these regulatory requirements during the year.

(iii) Rating agency bases
The Group's ratings are an important indicator of financial strength and maintenance of these ratings is one of the key drivers of capital risk appetite. Certain rating agencies have proprietary capital models which they use to assess available capital resources against capital requirements, as a component of their overall criteria for assigning ratings. In addition, rating agency measures and targets in respect of gearing and fixed charge cover are also important in evaluating the level of borrowings utilised by the Group. While not mandatory external requirements, in practice rating agency capital measures tend to act as one of the primary drivers of capital requirements, reflecting the capital strength required in relation to our target ratings.

(iv) Economic bases
The Group also measures its capital using an economic capital model that takes into account a more realistic set of financial and non-financial assumptions. This model has been developed considerably over the past few years and is increasingly relevant in the internal management and external assessment of the Group's capital resources. The economic capital model is used to assess the Group's capital strength in accordance with the Individual Capital Assessment (ICA) requirements established by the FSA. Further developments are planned to meet the emerging requirements of the Solvency II framework and other external agencies. Further details regarding the use of economic capital in risk management are set out in note 55 on "Risk Management".

(e) Group capital structure
The table below sets out the capital that is managed by the Group on an IFRS and EEV basis which, as described above, is considered as a more meaningful measure of the value of capital employed in the life and related businesses. Internally generated AVIF represents the additional value of in-force long term business recognised under the EEV basis. Further detail on the EEV basis is set out in the "Alternative method of reporting long-term business profits" section starting on page 247.

53 – Group capital structure continued

	Non-GAAP measure			Non-GAAP measure		
	IFRS net assets 2007 £m	**Internally-generated AVIF 2007 £m**	**EEV net assets 2007 £m**	IFRS net assets 2006 £m	Internally-generated AVIF 2006 £m	Restated EEV net assets 2006 £m
Long-term savings	**15,290**	**7,982**	**23,272**	13,300	6,794	20,094
General insurance and health	**5,487**	**–**	**5,487**	5,176	–	5,176
Other business	**1,056**	**–**	**1,056**	1,059	–	1,059
Corporate	**(31)**	**–**	**(31)**	(19)	–	(19)
Total capital employed	**21,802**	**7,982**	**29,784**	19,516	6,794	26,310
Financed by						
Equity shareholders' funds and minority interests	**15,402**	**7,982**	**23,384**	12,874	6,794	19,668
Direct capital instrument	**990**	**–**	**990**	990	–	990
Preference shares	**200**	**–**	**200**	200	–	200
	16,592	**7,982**	**24,574**	14,064	6,794	20,858
Subordinated debt	**3,054**	**–**	**3,054**	2,937	–	2,937
External debt	**1,257**	**–**	**1,257**	1,258	–	1,258
Net internal debt	**899**	**–**	**899**	1,257	–	1,257
	21,802	**7,982**	**29,784**	19,516	6,794	26,310

At 31 December 2007 the Group had £29.8 billion *(31 December 2006: £26.3 billion)* of total capital employed, measured on an EEV basis, in its trading operations which is efficiently financed by a combination of equity shareholders' funds, preference capital, subordinated debt and borrowings.

In 2007, the total capital employed increased by £3.5 billion reflecting strong operational performance and foreign exchange impacts.

(i) "Corporate" net liabilities represent the element of the pension scheme deficit held centrally.

(ii) In addition to our external funding sources, we have certain internal borrowing arrangements in place which allow some of the assets that support technical liabilities to be invested in a pool of central assets for use across the Group. These internal debt balances allow for the capital allocated to business operations to exceed the externally sources capital resources of the Group. Although intra-group in nature, they are included as part of the capital base for the purpose of capital management. These arrangements arise in relation to the following:

– Certain subsidiaries, subject to continuing to satisfy standalone capital and liquidity requirements, loan funds to corporate and holding entities, these loans satisfy arms length criteria and all interest payments are made when due.

– Aviva International Insurance (AII) Ltd acts as both a UK general insurer and as the primary holding company for the Group's foreign subsidiaries. Internal capital management mechanisms in place allocate a portion of the total capital of the company to the UK general insurance operations. These mechanisms also allow for some of the assets backing technical liabilities to be made available for use across the Group. Balances in respect of these arrangements are also treated as internal debt for capital management purposes.

Net internal debt represents the balance of the above amounts due from corporate and holding entities, less the tangible net assets held by these entities.

Further disclosures on the Group's regulatory capital position are also set out in the capital section of the business review and in note 54, Capital Statement. The purpose of note 54, which is prepared in accordance with FRS27, is to set out the financial strength of the Group and provide an analysis of the disposition and constraints over the availability of capital to meet risks and regulatory requirements.

54 – Capital statement

FRS 27 requires us to produce a capital statement which 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.

Available capital resources

	CGNU with-profit fund £m	CULAC with-profit fund £m	NUL&P with-profit fund[3] £m	Total UK life with-profit funds £m	Other UK life operations £m	Total UK life operations £m	Overseas life operations £m	Total life operations £m	Other operations[4] £m	2007 Total £m	2006 Total £m
Total shareholders' funds	**43**	**42**	**41**	**126**	**4,412**	**4,538**	**10,751**	**15,289**	**1,303**	**16,592**	14,064
Other sources of capital[1]	**–**	**–**	**–**	**–**	**200**	**200**	**49**	**249**	**2,981**	**3,230**	3,090
Unallocated divisible surplus	**1,515**	**1,222**	**2,184**	**4,921**	**41**	**4,962**	**1,823**	**6,785**	**–**	**6,785**	9,465
Adjustments onto a regulatory basis:											
Shareholders' share of accrued bonus	**(331)**	**(333)**	**(528)**	**(1,192)**	**–**	**(1,192)**	**–**	**(1,192)**	**–**	**(1,192)**	(730)
Goodwill and other intangibles	**–**	**–**	**–**	**–**	**(400)**	**(400)**	**(4,029)**	**(4,429)**	**(2,385)**	**(6,814)**	(5,638)
Regulatory valuation and admissibility restrictions[2]	**206**	**275**	**124**	**605**	**(1,742)**	**(1,137)**	**72**	**(1,065)**	**(731)**	**(1,796)**	(746)
Total available capital resources	**1,433**	**1,206**	**1,821**	**4,460**	**2,511**	**6,971**	**8,666**	**15,637**	**1,168**	**16,805**	19,505
Analysis of liabilities:											
Participating insurance liabilities	**10,689**	**9,895**	**16,876**	**37,460**	**2,148**	**39,608**	**26,485**	**66,093**	**–**	**66,093**	63,705
Unit-linked liabilities	**–**	**–**	**–**	**–**	**5,291**	**5,291**	**15,310**	**20,601**	**–**	**20,601**	21,004
Other non-participating life insurance	**1,218**	**1,851**	**341**	**3,410**	**15,751**	**19,161**	**29,159**	**48,320**	**–**	**48,320**	41,515
Total insurance liabilities	**11,907**	**11,746**	**17,217**	**40,870**	**23,190**	**64,060**	**70,954**	**135,014**	**–**	**135,014**	126,224
Participating investment liabilities	**2,055**	**2,534**	**7,524**	**12,113**	**2,782**	**14,895**	**38,714**	**53,609**	**–**	**53,609**	49,400
Non-participating investment liabilities	**55**	**18**	**2**	**75**	**26,056**	**26,131**	**18,504**	**44,635**	**–**	**44,635**	38,958
Total investment liabilities	**2,110**	**2,552**	**7,526**	**12,188**	**28,838**	**41,026**	**57,218**	**98,244**	**–**	**98,244**	88,358
Total liabilities	**14,017**	**14,298**	**24,743**	**53,058**	**52,028**	**105,086**	**128,172**	**233,258**	**–**	**233,258**	214,582

1. Other sources of capital include Subordinated debt of £3,054 million issued by Aviva and £176 million of other qualifying capital issued by Dutch, Italian, Spanish and US subsidiary undertakings.
2. Including an adjustment for minorities.
3. Includes the Provident Mutual with-profit fund.
4. Other operations include general insurance and fund management business.
5. Goodwill and other intangibles includes goodwill of £535 million and JVs and associates
6. On 5 February 2008 Norwich Union Life announced a one-off special bonus worth an estimated £2.3 billion. In accordance with FRS 27, a transfer of £2.1 billion has been made from the unallocated divisible surplus to increase insurance and participating investment contract liabilities. £0.2 billion of shareholder's share of the special bonus is included within the shareholders' share of the accrued bonus line.

54 – Capital statement continued

Analysis of movements in capital of long-term businesses

For the year ended 31 December 2007

	CGNU with-profit fund £m	CULAC with-profit fund £m	NUL&P with-profit fund £m	Total UK life with-profit funds £m	Other UK life operations £m	Total UK life operations £m	Overseas life operations £m	Total life operations £m
Available capital resources at 1 January	**2,548**	**2,479**	**1,823**	**6,850**	**1,913**	**8,763**	**9,290**	**18,053**
Effect of new business	**(54)**	**(38)**	**–**	**(92)**	**(162)**	**(254)**	**(325)**	**(579)**
Expected change in available capital resources	**208**	**246**	**169**	**623**	**153**	**776**	**492**	**1,268**
Variance between actual and expected experience	**(125)**	**(187)**	**(201)**	**(513)**	**114**	**(399)**	**(598)**	**(997)**
Effect of operating assumption changes	**(42)**	**(57)**	**6**	**(93)**	**(32)**	**(125)**	**(2)**	**(127)**
Effect of economic assumption changes	**(165)**	**(163)**	**(67)**	**(395)**	**(13)**	**(408)**	**(7)**	**(415)**
Effect of changes in management policy	**(1,195)**	**(1,207)**	**(19)**	**(2,421)**	**–**	**(2,421)**	**(1)**	**(2,422)**
Effect of changes in regulatory requirements	**–**	**–**	**–**	**–**	**–**	**–**	**(337)**	**(337)**
Transfers, acquisitions and disposals	**–**	**–**	**–**	**–**	**21**	**21**	**44**	**65**
Foreign exchange movements	**–**	**–**	**–**	**–**	**–**	**–**	**682**	**682**
Other movements	**258**	**133**	**110**	**501**	**517**	**1,018**	**(572)**	**446**
Available capital resources at 31 December	**1,433**	**1,206**	**1,821**	**4,460**	**2,511**	**6,971**	**8,666**	**15,637**

Further analysis of the movement in the liabilities of the long-term business can be found in notes 38 and 39.

The analysis of movements in capital provides an explanation of the movement in available capital of the Group's life business for the year. This analysis is intended to give an understanding of the underlying causes of the changes in the available capital of the Group's life business, and provides a distinction between some of the key factors affecting the available capital.

For the UK with-profit funds, the decrease in available capital is driven by a special bonus of £2.3 billion announced on 5 February 2008, which is treated as a transfer from unallocated divisible surplus to policy liabilities. This is shown in the changes in management policy line. Equity performance was moderate, which had a direct effect on the equity content of the estate assets. In addition, the implied market volatility for equities has increased, which raises the assumed asset share volatility and consequently guarantee costs have increased. The positive other movements relate mainly to methodology and modelling changes.

The changes in management policy shown in CGNU and CULAC with-profit funds relate to the special bonus announced on 5 February 2008.

For the Overseas life operations, the negative variance between actual and expected experience is driven mainly by the increase in market interest rates, which has led to capital depreciation of fixed interest assets and consequential reduction of the unallocated divisible surplus in France and other European businesses.

In aggregate, the Group has at its disposal total available capital of £16.8 billion (*2006: £19.5 billion*), representing the aggregation of the solvency capital of all of our businesses. This capital is available to meet risks and regulatory requirements set by reference to local guidance and EU directives.

After effecting the year end transfer to shareholders, the UK with-profit funds' available capital of £4.5 billion (*2006: £6.9 billion*) can only be used to provide support for UK with-profits business and is not available to cover other shareholder risks. This is comfortably in excess of the required capital margin and, therefore, the shareholders are not required to provide further capital support to this business.

For the remaining life and general insurance operations, the total available capital amounting to £12.3 billion (*2006: £12.6 billion*) is significantly higher than the minimum requirements established by regulators and, in principle, the excess is available to shareholders. In practice, management will hold higher levels of capital within each business operation to provide appropriate cover for risk.

As the total available capital of £16.8 billion is arrived at on the basis of local regulatory guidance, which evaluates assets and liabilities prudently, it understates the economic capital of the business which is considerably higher. This is a limitation of the Group Capital Statement which, to be more meaningful, needs to evaluate available capital on an economic basis and compare it with the risk capital required for each individual operation, after allowing for the considerable diversification benefits that exist in our Group.

54 – Capital statement continued

Within the Aviva group there exist intra-group arrangements to provide capital to particular business units. Included in these arrangements is a subordinated loan of £200 million from Aviva plc to the NUL&P non-profit fund to provide capital to support the writing of new business.

The available capital of the Group's with-profit funds is determined in accordance with the "Realistic balance sheet" regime prescribed by the FSA's regulations, under which liabilities to policyholders include both declared bonuses and the constructive obligation for future bonuses not yet declared. The available capital resources include an estimate of the value of their respective estates, included as part of the unallocated divisible surplus. The estate represents the surplus in the fund that is in excess of any constructive obligation to policyholders. It represents capital resources of the individual with-profit fund to which it relates and is available to meet regulatory and other solvency requirements of the fund and, in certain circumstances, additional liabilities may arise.

The liabilities included in the balance sheet for the with-profit funds do not include the amount representing the shareholders' portion of future bonuses. However, the shareholders' portion is treated as a deduction from capital that is available to meet regulatory requirements and is therefore shown as a separate adjustment in the capital statement.

In accordance with the FSA's regulatory rules under its realistic capital regime, the Group is required to hold sufficient capital in its UK life with-profit funds to meet the FSA capital requirements, based on the risk capital margin (RCM). The determination of the RCM depends on various actuarial and other assumptions about potential changes in market prices, and the actions management would take in the event of particular adverse changes in market conditions.

The table below provides the information on the UK with-profits funds on a realistic basis.

	31 December 2007					31 December 2006
	Estimated realistic assets £bn	**Estimated realistic liabilities £bn**[1]	**Estimated realistic inherited estate £bn**[2]	**Estimated risk capital margin £bn**[3]	**Estimated excess £bn**	Excess £bn
CGNU Life	**14.5**	**(13.1)**	**1.4**	**(0.3)**	**1.1**	2.0
CULAC	**13.9**	**(12.7)**	**1.2**	**(0.4)**	**0.8**	2.0
NUL&P[4]	**26.1**	**(24.2)**	**1.9**	**(0.6)**	**1.3**	1.2
Aggregate	**54.5**	**(50.0)**	**4.5**	**(1.3)**	**3.2**	5.2

1. 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 £0.7 billion, £0.8 billion and £3.0 billion for CGNU Life, CULAC and NUL&P, respectively *(31 December 2006: £0.5 billion, £0.7 billion and £3.0 billion for CGNU Life, CULAC and NUL&P respectively).*
2. Estimated realistic inherited estate at 31 December 2006 was £2.5 billion, £2.5 billion and £1.8 billion for CGNU Life, CULAC and NUL&P respectively.
3. The risk capital margin (RCM) is 3.5 times covered by the inherited estate *(31 December 2006: 4.2 times).*
4. The NUL&P fund includes the Provident Mutual (PM) fund, which has realistic assets and liabilities of £2.1 billion and therefore does not impact the realistic inherited estate.

Under the FSA regulatory regime, UK with-profit funds is required to hold capital equivalent to the greater of their regulatory requirement based on EU Directive ("regulatory peak") and the FSA realistic basis ("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 business in the EEA, US, Canada, Australia, Hong Kong and Singapore, the available capital and the minimum capital 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.

All businesses hold sufficient available capital to meet their minimum capital requirement.

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-profit funds (CGNU Life, CULAC and NUL&P) – any available surplus held in each fund can only be used to meet the requirements of the fund itself or be distributed to policyholders and shareholders. 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 in the case of CGNU Life, CULAC and NUL&P.

(ii) UK non-participating funds – any available surplus held in these is attributable to shareholders. Capital within 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.

54 – Capital statement continued

(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. 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.

55 – Risk management

This note sets out the major risks our businesses face and describes our approach to managing these. It also gives sensitivity analyses around the major economic and non-economic assumptions that can cause volatility in our earnings and capital requirements. .

(a) Risk management framework
The Group has established a risk management framework whose primary objective is to protect the Group from events that hinder the sustainable achievement of the Group's performance objectives, including failing to exploit opportunities. Risk is categorised as follows:

– Market

– Credit

– Insurance

– Operational

– Liquidity

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

– Defined terms of reference for the Board, its committees, and the associated executive management committees;

– A clear organisational structure with documented delegated authorities and responsibilities from the Board to Board committees, executive management committees and senior management;

– A Group policy framework that sets out risk appetite, risk management, control and business conduct standards for the Group's worldwide operations. Each policy has a member of senior management who is charged with overseeing compliance with the policy throughout the Group, and sets out the risks being managed, our risk appetite, and the control standards that we would expect a business to implement; and

– A risk management function operating throughout the group, from Group Centre, to regional support office, to business units, with clear responsibilities and objectives.

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

The Group also monitors a set of specific risks on a regular basis through the Group risk monitoring framework. Business units are required to disclose to the Group risk function all material risks, along with information on likelihood and severity of risks, and the mitigating actions taken or planned. This enables the Group to assess its overall risk exposure against local and global risk appetites, and to develop a group-wide risk map, identifying any concentrations of risk that may exist, and to identify where risks lie outside risk appetite and mitigating action is required or risk appetite requires revision in light of changing market conditions. The risk map is refreshed quarterly, and business units are required to escalate material changes intra-quarter.

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

In addition, where the Group's long-term savings businesses have written insurance products where the majority of investment risks are borne by its policyholders, these risks are actively and prudently managed, in line with local regulations and marketing literature, in order to satisfy the policyholders' risk and reward objectives.

55 – Risk management continued

(b) Market risk

Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows of financial instruments from fluctuations in interest rates, equity prices, property prices, and foreign currency exchange rates. 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.

The Group has established a policy on market risk which sets out the principles that businesses are expected to adopt in respect of management of the key market risks to which the Group is exposed. The Group monitors adherence to this market risk policy and regularly reviews how business units are managing these risks locally, through the Group Investment Committee and ultimately to the Asset Liability Management committee. For each of the major components of market risk, described in more detail below, the Group has put in place additional policies and procedures to set out how each risk should be managed and monitored, and the approach to setting an appropriate risk appetite.

The management of market risk is undertaken in both business units and at Group level. Business units manage market risks locally using their market risk framework and within local regulatory constraints. Business units may also be constrained by the requirement to meet policyholders' reasonable expectations and to minimise or avoid market risk in a number of areas. The Group Investment committee is responsible for managing market risk at Group level, and a number of investment related risks, in particular those faced by them shareholder funds throughout the Group.

The financial impact from changes in market risk (such as interest rates, equity prices and property values) is examined through stress tests adopted in the Individual Capital Assessments (ICA) and Financial Condition Reports (FCR), which both consider the impact on capital from variations in financial circumstances on either a remote scenario, or to changes from the central operating scenario. Both consider the management actions that may be taken in mitigation of the change in circumstances.

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

The Group market risk policy sets out the minimum principles and framework for matching liabilities with appropriate assets, the approaches to be taken when liabilities cannot be matched and the monitoring processes that are required. The Group has criteria for matching assets and liabilities for all classes of business to minimize the impact of mismatches between the value of assets and the liabilities due to market movements. The local regulatory environment for each business will also set the conditions under which assets and liabilities are to be matched.

The Group writes unit-linked business in a number of its operations. In unit-linked business, the policyholder bears the investment risk on the assets held in the unit-linked funds, as the policy benefits are directly linked to the value of the assets in the fund. 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.

Equity price risk

The Group is subject to equity price risk due to daily changes in the market values of its equity securities portfolio. The Group's shareholders are exposed to the following sources of equity risk:

– direct equity shareholdings in shareholder funds and the Group defined benefit pension funds;

– the indirect impact from changes in the value of equities held in policyholders' funds from which management charges or a share of performance are taken;

– its interest in the free estate of long-term funds.

At business unit level, equity price risk is actively managed in order to mitigate anticipated unfavourable market movements where this lies outside the risk appetite of either the company in respect of shareholder assets or the fund in respect of policyholder assets concerned. In addition 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 stochastic models, in particular to understand the impact of equity performance on guarantees, options and bonus rates.

The Investment Committee actively monitors equity assets owned directly by the Group, which may include some material shareholdings in the Group's strategic business partners. Concentrations of specific equity holdings (eg the strategic holdings) are also monitored monthly by the Capital Management Committee.

A sensitivity to changes in equity prices is given in section (g) below.

55 – Risk management continued

Property price risk

The Group is subject to property price risk due to holdings of investment properties in a variety of locations worldwide. Investment in property is managed at business unit level, and will be subject to local regulations on asset admissibility, liquidity requirements and the expectations of policyholders as well as overall risk appetite. The Investment Committee also actively monitors property assets owned directly by the Group.

At 31 December 2007, no material derivative contracts had been entered into to mitigate the effects of changes in property prices.

A sensitivity to changes in property prices is given in section (g) below.

Interest rate risk

Interest rate risk arises primarily from the Group's investments in long-term debt and fixed income securities, which are exposed to fluctuations in interest rates.

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

On short-term business such as general insurance business the Group requires a close matching of assets and liabilities to minimise this risk.

Interest rate risk is monitored and managed by the Group Investment Committee, and the Group Asset Liability Management Committee.

Exposure to interest rate risk is monitored through several measures that include Value-at-Risk analysis, position limits, scenario testing, stress testing and asset and liability matching using measures such as duration. The impact of exposure to sustained low interest rates is regularly monitored.

Interest rate risk is also managed using a variety of derivative instruments, including futures, options, swaps, caps and floors, in order to provide a degree of hedging against unfavourable market movements in interest rates inherent in the assets backing technical liabilities.

At 31 December 2007, the Group had entered into a number of interest rate swap agreements to mitigate the effects of potential adverse interest rate movements, and to enable close matching of assets and liabilities.

A sensitivity to changes in interest rates is given in section (g) below.

Further information on borrowings is included in note 47.

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 unit-linked or with-profit contract liabilities. For this reason, no sensitivity analysis is given for these holdings.

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.

The Group's foreign exchange policy requires that each of our subsidiaries maintains sufficient assets in its local currency to meet local currency liabilities. Therefore, capital held by the Group's business units should be able to support local business activities regardless of foreign currency movements. However, such 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. The Group's foreign exchange policy is to manage these exposures by aligning the deployment of capital by currency with the Group's capital requirements by currency. Limits are set to control the extent to which the deployment of capital is not aligned fully with the Group's capital requirement for each major currency. Currency borrowings and derivatives are used to manage exposures within the limits that have been set.

At 31 December 2007, the Group's total equity deployment by currency was:

	Sterling £m	Euro £m	US$ £m	Other £m	Total £m
Capital at 31 December 2007	**4,488**	**8,655**	**1,456**	**1,993**	**16,592**
Capital at 31 December 2006	3,289	7,698	1,508	1,569	14,064

55 – Risk management continued

Net assets are stated after taking account of the effect of currency swaps and forward foreign exchange contracts.

A 10% change in sterling to euro/US$ foreign exchange rates would have had the following impact on net assets. Apart from the impact on financial instruments covered below, the changes arise from retranslation of Business Unit balance sheets from their functional currencies into sterling, with movements being taken through the currency translation reserve. These movements in exchange rates therefore have no impact on profit.

	10% increase in sterling/ euro rate £m	10% decrease in sterling/ euro rate £m	10% increase in sterling/ US$ rate £m	10% decrease in sterling/ US$ rate £m
Net assets at 31 December 2007	**(866)**	**866**	**(146)**	**146**
Net assets at 31 December 2006	(770)	770	(151)	151

Derivatives risk

Derivatives are used by a number of the larger businesses, within policy guidelines agreed by the Board of directors, as set out in the group policy on derivatives use. Activity is overseen by the Group Derivatives Committee, which monitors implementation of the policy, exposure levels and approves large or complex transactions proposed by businesses. Derivatives are primarily used for efficient investment management, risk hedging purposes or to structure specific retail-savings products. Derivative transactions are covered by either cash or corresponding assets and liabilities. Speculative activity is prohibited, unless approval has been obtained from the Group Derivatives Committee. Over the counter derivative contracts are entered into only with approved counterparties, in accordance with our Group credit policies, thereby reducing the risk of credit loss.The Group also manages a number of hedge funds which use derivatives extensively within a defined derivative framework.

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.

Correlation risk

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

A number of policyholder participation 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 40.

(c) Credit risk

Monitoring credit risk

We have a significant exposure to credit risk through our investments in corporate bonds, commercial mortgages, and other securities. We hold these investments for the benefit of both our policyholders and shareholders.

Credit risk is the risk of loss in the value of financial assets due to counterparties failing to meet all or part of their obligations. The Group risk management framework also includes the market related aspect of credit risk. This is the risk of a fall in the value of fixed interest securities from changes in the perceived worthiness of the issuer and is manifested through changes in the fixed interest securities' credit spreads.

The Group's management of credit risk includes monitoring exposures at a Group level and requiring business units to implement local credit risk policies. The local business unit credit risk policies involve the establishment and operation of specific risk management committees and the detailed reporting and monitoring of the financial asset portfolio against pre-established risk criteria. Large individual counterparty exposures exceeding £25 million are aggregated and monitored at Group level against centrally-set limits reflecting the credit ratings by companies such as Standard & Poor's. In addition, the Group evaluates the concentration of exposures by industry sector and geographic region through the Group Credit Committee.

55 – Risk management continued

Credit ratings

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

The following table provides information regarding the aggregated credit risk exposure, for financial assets with external credit ratings, of the Group at 31 December 2007.

	Credit rating						
	AAA	**AA**	**A**	**BBB**	**Speculative grade**	**Not-rated**	**Carrying value in the balance sheet £m**
Debt securities	**46.0%**	**19.6%**	**20.7%**	**8.3%**	**1.1%**	**4.3%**	**118,937**
Reinsurance assets	**14.7%**	**67.8%**	**7.4%**	**0.4%**	**1.2%**	**8.5%**	**8,109**
Other investments	**1.5%**	**2.1%**	**2.1%**	**2.1%**	**–**	**92.2%**	**40,413**
Loans	**3.4%**	**17.6%**	**1.0%**	**0.7%**	**1.3%**	**76.0%**	**36,193**

As at 31 December 2006

	Credit rating Restated						
	AAA	AA	A	BBB	Speculative grade	Not-rated	Carrying value in the balance sheet Restated £m
Debt securities	48.6%	17.2%	19.7%	7.7%	0.8%	6.0%	114,466
Reinsurance assets	14.5%	66.9%	5.1%	0.9%	–	12.6%	7,825
Other investments	3.1%	2.2%	2.8%	0.7%	–	91.2%	33,050
Loans	8.8%	2.9%	1.0%	0.5%	1.4%	92.3%	28,574

The carrying amount of assets included on the balance sheet represents the maximum credit exposure.

Credit concentration risk

The long-term businesses and general insurance businesses are generally not individually exposed to significant concentrations of credit risk due to the regulations, applicable in most markets, limiting investments in individual assets and asset classes. In cases where the business is particularly exposed to credit risk (e.g. in respect of defaults on mortgages or debt matching annuity liabilities) this risk is translated into a more conservative discount rate used to value the liabilities, creating a greater capital requirement, and this credit risk is actively managed. The impact of aggregation of credit risk is monitored as described above. With the exception of Government bonds the largest aggregated counterparty exposure is approximately 0.5% of the Group's total assets.

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 the impact from reinsurer default is measured regularly, in particular through the ICA tests, and is managed accordingly. Both the Group Credit Committee and Group Reinsurance Security Committee have a monitoring role over this risk.

The Group's largest reinsurance counterparty is National Indemnity Corporation, a member of the Berkshire Hathaway Group. At 31 December 2007 the reinsurance asset recoverable from National Indemnity Corporation was £1.1 billion. This exposure is monitored on a regular basis with the forecast to completion monitored for any shortfall in the claims history to verify that the contract is progressing as expected and that no further exposure for the Group will arise.

In the event of a catastrophic event, the counterparty exposure to a single reinsurer is estimated not to exceed 1.1% of shareholders' equity.

55 – Risk management continued

Unit-linked business

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

Impairment of financial assets

The following table provides information regarding the carrying value of financial assets that have been impaired and the ageing of financial assets that are past due but not impaired.

At 31 December 2007

		Financial assets that are past due but not impaired					
	Neither past due nor impaired £m	**0-3 months £m**	**3-6 months £m**	**6 months-1 year £m**	**Greater than 1 year £m**	**Financial assets that have been impaired £m**	**Carrying value in the balance sheet £m**
Debt securities	**118,866**	**–**	**–**	**–**	**–**	**71**	**118,937**
Reinsurance assets	**8,107**	**–**	**–**	**–**	**–**	**2**	**8,109**
Other investments	**40,413**	**–**	**–**	**–**	**–**	**–**	**40,413**
Loans	**35,937**	**210**	**11**	**3**	**15**	**17**	**36,193**
Receivables and other financial assets	**8,347**	**200**	**21**	**13**	**2**	**46**	**8,629**

At 31 December 2006

		Financial assets that are past due but not impaired					
	Neither past due nor impaired Restated £m	0-3 months £m	3-6 months £m	6 months-1 year £m	Greater than 1 year £m	Financial assets that have been impaired £m	Carrying value in the balance sheet Restated £m
Debt securities	114,466	–	–	–	–	–	114,466
Reinsurance assets	7,707	–	–	–	–	118	7,825
Other investments	33,050	–	–	–	–	–	33,050
Loans	28,388	101	3	4	15	63	28,574
Receivables and other financial assets	7,274	711	49	32	26	6	8,098

The fair value of collateral held against loans that are past due or impaired at 31 December 2007 was £185 million *(2006: £61 million)*. This predominantly consists of commercial properties.

Credit terms are set locally within overall credit limits prescribed by the Group Credit Committee and within the framework of the Group Credit Policy. The credit quality of financial assets is managed at the local business unit level. 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 collateral from the counterparty.

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

55 – Risk management continued

(d) Liquidity risk

The Group has a strong liquidity position and through the application of a Group Liquidity Management policy seeks to maintain sufficient financial resources to meet its obligations as they fall due. In addition to its strong liquidity position, the Group maintains significant committed borrowing facilities from a range of highly rated banks to further mitigate this risk.

Analysis of maturity of liabilities

For non-linked insurance business, the following table shows the gross liability at 31 December 2007 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 IFRS4 Insurance Contracts.

Almost all investment contracts may be surrendered or transferred on demand. For such contracts the earliest contractual maturity date is therefore the current balance sheet date, for a surrender amount approximately equal to the current balance sheet liability. Although we expect surrenders, transfers and maturities to occur over many years, the total liability for non-linked investment contracts is shown in the Within 1 year column below. Unit-linked contracts are repayable or transferable on demand and therefore excluded from this analysis.

At 31 December 2007

	Total £m	**Within 1 year £m**	**1-5 years £m**	**5-15 years £m**	**Over 15 years £m**
Long-term business					
Insurance contracts – non linked	**106,758**	**9,480**	**27,726**	**44,305**	**25,247**
Investment contracts – non linked	**45,492**	**45,492**	**–**	**–**	**–**
General insurance and health	**18,653**	**8,325**	**7,517**	**2,666**	**145**

At 31 December 2006

	Total £m	Within 1 year £m	1-5 years £m	5-15 years £m	Over 15 years £m
Long-term business					
Insurance contracts – non linked	99,482	9,140	25,959	40,651	23,732
Investment contracts – non linked	41,578	41,578	–	–	–
General insurance and health	18,006	8,482	6,824	2,617	83

A maturity analysis of borrowings is given in note 47

(e) Insurance risk

(i) Life insurance risk

Types of risk

Life insurance risk in the Group arises through its exposure to mortality and morbidity insurance and exposure to worse than anticipated operating experience on factors such as persistency levels and management and administration expenses.

Risk management framework

The Group has developed a life insurance risk policy and guidelines on the practical application of this policy. Individual life insurance risks are managed at a business unit level.

The management of life insurance risk is undertaken primarily in business units but is also monitored at Group level. The impact of life insurance risks is monitored by the business units as part of the control cycle of business management. Exposure is monitored through the assessment of liabilities, the asset liability management framework, profit reporting (under both IFRS and EEV), financial condition reporting, and the ICA process. Significant insurance risks will be reported through the Group Risk Monitoring framework and overseen by the Life Insurance Risk Committee. At Group level the overall exposure to life insurance risk is measured through the ICA, FCRs, and other management reporting.

The Life Insurance Risk Committee monitors the risk framework developed and implemented in each business, and receives management information on life insurance risks. The committee considers all areas of life insurance risk, but in particular has a remit to monitor mortality, longevity, morbidity, persistency, pricing, unit pricing and expenses.
The committee also considers the reinsurance coverage across the life businesses. It confirms that guidance and procedures are in place for each of the major components of life insurance risk, and that businesses adopt a risk management framework to mitigate against any life insurance risk outside local appetite, within the parameters for the overall Group risk appetite. The framework adopted in business units is reviewed in detail and approved twice yearly.

The committee has also developed guidance for business units on management of a number of areas of life insurance risk to ensure best practice is shared throughout the group and common standards are adopted.

55 – Risk management continued

Management of life insurance risks
The individual life insurance risks are managed as follows:

– Mortality and morbidity risks are mitigated by use of reinsurance. The Group allows business units to select reinsurers, from those approved by the Group, based on local factors, but assesses the overall programme to manage group-wide risk exposures and monitor the aggregation of risk ceded to individual reinsurers is within appetite for credit risk.

– Longevity risk is carefully 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 the capital implications to manage the impact on the group-wide exposure and the capital funding that businesses may require as a consequence. The Group has used reinsurance solutions to reduce the risks from longevity where possible and desirable 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, benchmarked against local market information. 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 other wise lapse. The Group Life insurance Risk Committee 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.

Apart from ICA and FCR, sensitivity testing is widely used to measure the capital required and volatility in earnings due to exposure to life insurance risks, typically through EEV reporting (examples of which are contained elsewhere in this report). This assessment is taken at both business unit level and at Group level where the impact of aggregation of similar risks can be measured. This enables the Group to determine whether action is required to reduce risk, or whether that risk is within the overall risk appetite.

Concentration risk
The Group writes a diverse mix of business in worldwide markets that are all subject to similar risks (mortality, persistency etc). The Group assesses the relative costs and concentrations of each type of risk through the ICA capital requirements and material issues are escalated to and addressed at the Life Insurance Risk Committee. This analysis enables the Group to assess whether accumulations of risk exceeds risk appetite.

One key concentration of life insurance risk for the Group is improving longevity risk from pensions in payment and deferred annuities in the UK and the Netherlands where the Group has material portfolios. The Group continually monitors this risk and the opportunities for mitigating actions through reinsurance, improved asset liability matching, or innovative solutions that emerge in the market.

When looking at concentrations of risk, for example market risk, the risk within Aviva staff pension schemes is also considered.

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

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.

Examples of each type of embedded derivative affecting the Group are:

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

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

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

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

55 – Risk management continued

(ii) General insurance risk

Type 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;

– Inaccurate pricing of risks or inappropriate underwriting of risks when underwritten;

– Inadequate reinsurance protection or other risk transfer techniques; and

– Inadequate reserves.

The majority of the general insurance business underwritten by the Group is of a short tail nature such as motor, household and commercial property insurances. The Group's underwriting strategy and appetite is agreed by the Executive Committee and communicated via specific policy statements and guidelines. Like life insurance risk, general insurance risk is managed primarily at business unit level with oversight at a Group level, through a number of general insurance risk committees.

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

The General Insurance Risk Committee monitors and develops the management of insurance risk in the general insurance business units, and assesses the aggregate risk exposure. It is responsible for the development, implementation, and review of the Group policies for underwriting, claims handling, reinsurance and reserving that operate within the Group risk management framework. The implementation of these policies and the management of these risks is supported by sub-committees for each of these four areas of risk.

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 Group has pioneered various developments, such as the Norwich Union UK Digital Flood Map to effectively manage exposures arising from specific perils. Where appropriate such projects are employed throughout the business units to promote the adoption of best practice as standard.

General Insurance claims reserving

Actuarial claims reserving is conducted by local actuaries in the various general insurance business units according to the General Insurance Reserving policy. The General Insurance Risk Committee monitors and maintains the General Insurance Reserving policy, and conducts quarterly reviews of the Group's general insurance claims provisions, and their adequacy. The reviews are conducted under the direction of the Aviva General Insurance Actuarial Director and include peer reviews of the business unit's own conclusions as well as independent analysis to confirm the reasonableness of the local reviews.

The adequacy of the Group's general insurance claims provisions is ultimately overseen by the Group Reserving Committee, which covers both life and general insurance reserving.

A number of business units also have periodic external reviews by local consultant actuaries (often as part of the local regulatory requirement).

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. Reinsurance purchases must be in line with the strategy set out in our Group reinsurance policy . The basis of these purchases is underpinned by extensive financial and capital modelling and actuarial analysis to optimise the cost and capital efficiency benefits. For the larger business units, this involves utilising externally sourced probabilistic models to verify the accumulations and loss probabilities based on the Group's specific portfolios of business. Where external models are not available, scenarios are developed and tested using the Group's data to determine potential losses and appropriate levels of reinsurance protection.

The reinsurance is placed with providers who meet the Group's counterparty security requirements, and large reinsurance placements may also require approval from the Group Asset Liability Management Committee.

Concentration risk

Processes are in place to manage catastrophe risk in individual business units and at a Group level. 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. Aviva's total retained risk increases as catastrophe events become more remote, so that the total Group loss from its most concentrated catastrophe exposure (Northern European windstorm) is approximately £370 million, on a "one in ten years" basis, compared to approximately £700 million when measured on a "one in 100 years" basis.

55 – Risk management continued

(f) Operational risk

Types of operational risk
Operational risk arises as a result of inadequately controlled internal processes or systems, human error, or from external events.

This definition is intended to include all risks to which the Group is exposed, other than the financial risks described previously, and strategic and Group risks that are considered elsewhere. It includes risks relating to:

– Regulation, information technology, financial crime, business protection, human resources, outsourcing, purchasing, communications and legal

– Brand management, customer management, products, sales management and distribution

– Financial processes including financial reporting and taxation

– External development

Risk management framework
In accordance with Group policies, business unit management has primary responsibility for the effective identification, management, monitoring and reporting of risks to the business unit executive management team and to Group as part of the quarterly risk reporting process. Each operational risk is assessed by considering the potential impact and the probability of the event occurring. Impact assessments are made against financial, operational and reputational criteria.

Business unit risk management and governance functions are responsible for implementing the Group risk management methodologies and frameworks to assist line management in this work. They also provide support and independent challenge on the completeness, accuracy and consistency of risk assessments, and the adequacy of mitigating action plans. As a result, the business unit executive management team satisfies itself that all material risks falling outside our risk appetite are being mitigated, monitored and reported at an appropriate level. Any risks with a high impact level are continually monitored centrally.

The Group Operational Risk Committee (ORC) oversees the Group's aggregate operational risk exposure on behalf of the Group Executive Committee and reports to the Board Risk & Regulatory Committee. It makes recommendations on the risk appetite that the group can work within for operational risk, assesses and monitors overall operational risk exposures, identifying any concentrations of operational risk across the group, and in particular verifies that mitigating action plans are implemented. The ORC operates a number of sub-committees which focus on specific areas of operational risk covering business protection, IT, compliance, human resources, and business standards.

(g) Risk and capital management

Sensitivity test analysis
The Group uses a number of sensitivity test-based risk management tools to understand the volatility of earnings, the volatility of its capital requirements, and to manage its capital more efficiently. Primarily, EEV, ICA, and FCRs are used. Sensitivities to economic and operating experience are regularly produced on all of the Group's financial performance measurements to inform the Group's decision making and planning processes, and as part of the framework for identifying and quantifying the risks that each of its business units, and the Group as a whole are exposed to.

For long-term business in particular, sensitivities of EEV 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. More information on EEV sensitivities can be found in the presentation of results on an EEV basis in the supplementary notes to this report.

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 EEV methodology.

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

55 – Risk management continued

Sensititvity test results

Some 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.

Sensitivity Factor	Description of sensitivity factor applied
Interest rate and investment return	The impact of a change in market interest rates by ± 1% (eg if a current interest rate is 5%, the impact of an immediate change to 4% and 6%). The test allows consistently for similar changes to investment returns and movements in the market value of backing fixed interest securities.
Expenses	The impact of an increase in maintenance expenses by 10%.
Equity/property market values	The impact of a change in equity/property market values by ± 10%.
Assurance mortality/morbidity (life insurance only)	The impact of an increase in mortality/morbidity rates for assurance contracts by 5%.
Annuitant 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 2007
Impact on profit before tax (£m)

	Interest rates +1%	Interest rates –1%	Equity/ property +10%	Equity/ property –10%	Expenses +10%	Assurance mortality +5%	Annuitant mortality –5%
Insurance participating	**15**	**(10)**	**–**	**–**	**(5)**	**–**	**–**
Insurance non-participating	**(205)**	**165**	**45**	**(35)**	**(5)**	**(20)**	**(295)**
Investment participating	**(5)**	**(25)**	**–**	**–**	**(5)**	**–**	**–**
Investment non-participating	**(35)**	**40**	**65**	**(60)**	**–**	**–**	**–**
Assets backing life shareholders' funds	**(115)**	**140**	**180**	**(175)**	**–**	**–**	**–**
Total	**(345)**	**310**	**290**	**(270)**	**(15)**	**(20)**	**(295)**

Impact before tax on shareholders' equity (£m)

	Interest rates +1%	Interest rates –1%	Equity/ property +10%	Equity/ property –10%	Expenses +10%	Assurance mortality +5%	Annuitant mortality –5%
Insurance participating	**(5)**	**20**	**–**	**–**	**(5)**	**–**	**–**
Insurance non-participating	**(320)**	**275**	**105**	**(95)**	**(5)**	**(20)**	**(295)**
Investment participating	**(5)**	**(25)**	**–**	**–**	**(5)**	**–**	**–**
Investment non-participating	**(170)**	**190**	**65**	**(60)**	**–**	**–**	**–**
Assets backing life shareholders' funds	**(165)**	**190**	**460**	**(455)**	**–**	**–**	**–**
Total	**(665)**	**650**	**630**	**(610)**	**(15)**	**(20)**	**(295)**

Sensitivities as at 31 December 2006
Impact on profit before tax (£m)

	Interest rates +1%	Interest rates –1%	Equity/ property +10%	Equity/ property –10%	Expenses +10%	Assurance mortality +5%	Annuitant mortality –5%
Insurance participating	(5)	–	35	(35)	–	–	(5)
Insurance non-participating	25	(210)	20	(40)	(5)	(20)	(295)
Investment participating	(30)	(35)	10	(10)	(5)	–	–
Investment non-participating	(15)	15	40	(40)	–	–	–
Assets backing life shareholders' funds	(280)	305	255	(255)	–	–	–
Total	(305)	75	360	(380)	(10)	(20)	(300)

55 – Risk management continued

Impact before tax on shareholders' equity (£m)

	Interest rates +1%	Interest rates –1%	Equity/ property +10%	Equity/ property –10%	Expenses +10%	Assurance mortality +5%	Annuitant mortality –5%
Insurance participating	(25)	25	35	(35)	–	–	(5)
Insurance non-participating	(240)	60	35	(50)	(5)	(20)	(295)
Investment participating	(30)	(35)	10	(10)	(5)	–	–
Investment non-participating	(70)	70	40	(40)	–	–	–
Assets backing life shareholders' funds	(320)	345	290	(290)	–	–	–
Total	(685)	465	410	(425)	(10)	(20)	(300)

The different impacts of the economic sensitivities on profit and shareholders' equity arise from classification of certain assets as available for sale in some business units, for which movements in unrealised gains or losses would be taken directly to shareholders' equity.

The sensitivities to economic movements relate mainly to business in the UK, USA and the Netherlands. In the UK and USA, a fall in market interest rates has a beneficial impact on non-participating business and shareholders' funds, 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. In the USA most debt securities are classified as available-for-sale, which limits the overall sensitivity of IFRS profit to interest rate movements. In contrast, a rise in market interest rates has a positive impact for non-participating business in the Netherlands, due to the effect of minimum investment return guarantees, which acts to partly offset the impacts in the UK and USA.

The sensitivity to movements in equity and property market values relates mainly to holdings in the Netherlands, although the impact on IFRS profit is moderated by the classification of equities as available for sale.

Changes in sensitivities between 2006 and 2007 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 mortality sensitivities relate primarily to the UK and Ireland.

The impact on the Group's results from sensitivity to these assumptions can also be found in the EEV sensitivities included in the alternative method of reporting long-term business profits section.

General insurance and health business
Sensitivities as at 31 December 2007

Impact on profit before tax (£m)

	Interest rates +1%	**Interest rates –1%**	**Equity/ property +10%**	**Equity/ property –10%**	**Expenses +10%**	**Gross loss ratios +5%**
Gross of reinsurance	**(230)**	**265**	**110**	**(110)**	**(150)**	**(390)**
Net of reinsurance	**(275)**	**310**	**110**	**(110)**	**(150)**	**(365)**

Impact before tax on shareholders' equity (£m)

	Interest rates +1%	**Interest rates –1%**	**Equity/ property +10%**	**Equity/ property –10%**	**Expenses +10%**	**Gross loss ratios +5%**
Gross of reinsurance	**(230)**	**265**	**110**	**(110)**	**(35)**	**(390)**
Net of reinsurance	**(275)**	**310**	**110**	**(110)**	**(35)**	**(365)**

Sensitivities as at 31 December 2006

Impact on profit before tax (£m)

	Interest rates +1%	Interest rates –1%	Equity/ property +10%	Equity/ property –10%	Expenses +10%	Gross loss ratios +5%
Gross of reinsurance	(225)	245	370	(370)	(140)	(350)
Net of reinsurance	(270)	290	370	(370)	(140)	(325)

Impact before tax on shareholders' equity (£m)

	Interest rates +1%	Interest rates –1%	Equity/ property +10%	Equity/ property –10%	Expenses +10%	Gross loss ratios +5%
Gross of reinsurance	(225)	245	370	(370)	(35)	(350)
Net of reinsurance	(270)	290	370	(370)	(35)	(325)

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.

55 – Risk management continued

Fund management and non-insurance business
Sensitivities as at 31 December 2007
Impact on profit before tax (£m)

	Interest rates +1%	Interest rates –1%	Equity/ property +10%	Equity/ property –10%
Total	**(35)**	**35**	**55**	**(55)**

Impact before tax on shareholders' equity (£m)

	Interest rates +1%	Interest rates –1%	Equity/ property +10%	Equity/ property –10%
Total	**(35)**	**35**	**55**	**(55)**

Sensitivities as at 31 December 2006
Impact on profit before tax (£m)

	Interest rates +1%	Interest rates –1%	Equity/ property +10%	Equity/ property –10%
Total	(26)	26	44	(44)

Impact before tax on shareholders' equity (£m)

	Interest rates +1%	Interest rates –1%	Equity/ property +10%	Equity/ property –10%
Total	(52)	51	78	(78)

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, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the balance sheet. 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.

Sensitivity of fair values not derived from market information.
Assets are held at fair value in accordance with the relevant accounting policy. The majority of such assets are valued based on quoted market information or observable market data.

A small percentage (less than 1%) of total assets recorded at fair value, are based on estimates. Where estimates are used, these are based on a combination of independent third party evidence and internally developed models, calibrated to market observable data where possible. Whilst such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternative assumptions would not change the fair value significantly.

56 – Derivative financial instruments

This note gives details of the various derivative instruments we use to mitigate risk.

The Group uses cash flow, fair value and net investment hedges to mitigate risk, as detailed below.

(a) Cash flow hedges
The Group had no cash flow hedge activity at 31 December 2007 *(2006: nil)*.

(b) Fair value hedges
The Group had no fair value hedge activity at 31 December 2007 *(2006: nil)*.

(c) Net investment hedges
To reduce the Group's 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 2007 was £1,988 million *(2006: £1,875 million)* and its fair value at that date was £1,972 million *(2006: £1,973 million)*.

The foreign exchange loss of £114 million *(2006: gain £59 million)* on translation of the debt to sterling at the balance sheet date was recognised in the hedging instruments reserve in shareholders' equity. This hedge was fully effective throughout the current and prior year.

– The Group has entered into a Sterling/Euro cross currency swap derivative which has been designated as a hedge of the net investment in its European subsidiaries. The notional value of the derivative at 31 December 2007 was £1,000 million *(2006: nil)* and its fair value at that date was £27 million *(2006: nil)*.

– This fair value loss of £27 million *(2006: nil)* on revaluation of the derivative at balance sheet date was recognised in the hedging instruments reserve in shareholders' equity. This hedge was fully effective since its inception in the current year.

(d) Non-hedge derivatives
The Group's non-hedge derivative activity at 31 December 2007 was as follows:

	2007			2006		
	Contract/ notional amount £m	**Fair value asset £m**	**Fair value liability £m**	Contract/ notional amount £m	Fair value asset £m	Fair value liability £m
Foreign exchange contracts						
OTC						
Forwards	**9,594**	**24**	**(106)**	12,379	93	(7)
Interest and currency swaps	**859**	**57**	**–**	245	–	(52)
Options	**–**	**–**	**–**	–	–	–
Total	**10,453**	**81**	**(106)**	12,624	93	(59)
Interest rate contracts						
OTC						
Forwards	**3,305**	**15**	**(2)**	538	9	(4)
Swaps	**16,172**	**279**	**(320)**	9,412	184	(264)
Options	**986**	**251**	**(1)**	943	239	(2)
Exchange traded						
Futures	**6,505**	**220**	**(37)**	(2,060)	74	(5)
Options	**15**	**–**	**–**	30	–	–
Total	**26,983**	**765**	**(360)**	8,863	506	(275)
Equity/Index contracts						
OTC						
Forwards	**–**	**–**	**–**	8	–	–
Options	**12,278**	**267**	**(61)**	3,705	258	(3)
Exchange traded						
Futures	**5,456**	**418**	**(23)**	951	391	(9)
Options	**473**	**21**	**(2)**	93	27	(6)
Total	**18,207**	**706**	**(86)**	4,757	676	(18)
Other	**414**	**57**	**(24)**	305	50	(3)
Totals at 31 December	**56,057**	**1,609**	**(576)**	26,549	1,325	(355)

56 – Derivative financial instruments continued

The notional amounts above reflect the aggregate of individual derivative positions on a gross basis and so give an indication of the overall scale of the derivative transaction. They do not reflect current market values of the open positions.

Fair value assets are recognised as "Derivative financial instruments" in note 24(a), whilst fair value liabilities are recognised as "other financial liabilities" in note 48.

The Group's derivative risk management policies are outlined in note 55(b).

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

	2007 £m	2006 £m
Within one year	**151**	162
Between one and two years	**100**	63
Between two and three years	**20**	7
Between three and four years	**20**	7
Between four and five years	**21**	18
After five years	**516**	214
	828	471

(e) Collateral

Certain derivative contracts, primarily interest rate and currency swaps, involve the receipt or pledging of collateral. The amounts of collateral receivable or repayable are included in notes 25 and 48 respectively.

57 – Assets under management

In addition to the assets included in the consolidated balance sheet, the Group manages many funds for third parties. This note details the total funds under management.

The total Group assets under management are:

	2007 £m	2006 £m
Total IFRS assets included in the consolidated balance sheet	**319,720**	294,851
Additional value of in-force long-term business	**7,982**	6,794
Total EEV assets included in the balance sheet	**327,702**	301,645
Third party funds under management		
Unit trusts, OEICs, Peps and Isas	**25,868**	20,574
Segregated funds	**54,422**	43,672
	407,992	365,891
Non-managed assets	**(44,074)**	(39,010)
Funds under management	**363,918**	326,881
Funds not managed by Aviva fund managers	**(48,017)**	(39,711)
Funds under management by Aviva fund managers	**315,901**	287,170

58 – 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 received income from related parties from transactions made in the normal course of business. Loans to related parties are made on normal arm's length commercial terms.

Services provided to related parties

	2007		2006	
	Income earned in year £m	**Receivable at year end £m**	Income earned in year £m	Receivable at year end £m
Associates	**58**	**–**	50	1
Joint ventures	**4**	**2**	16	241
Employee pension schemes	**26**	**6**	6	–
	88	**8**	72	242

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 50(h).

Services provided by related parties
There were no services provided by related parties in either 2006 or 2007.

Details of loans made to joint ventures and associates may be found in notes 18 and 19 respectively.

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:

	2007 £m	2006 £m
Salary and other short-term benefits	**33**	32
Post-employment benefits	**1**	1
Equity compensation plans	**14**	16
Termination benefits	**2**	4
Total	**50**	53

Information concerning individual directors' emoluments, interests and transactions is given in the Directors' remuneration report.

59 – Post-balance sheet event

Special bonus declared by UK Life business
On 5 February 2008, the Group's UK long-term business operation, Norwich Union Life, announced a one-off, special bonus worth an estimated £2.3 billion, benefiting around 1.1 million with-profit policyholders in its CGNU Life and CULAC with-profit funds. This special bonus has been made possible by the strength of the two with-profit funds and a change to the investment strategy for supporting policy guarantees. This has enabled the business to free up a significant part of the inherited estate (included within the unallocated divisible surplus) for payment to policyholders. This change will not affect normal policy returns, nor will it impact on policyholders' security or alter the type of investments backing their policies.

The bonus will be used to enhance policy values by around 10% in total, in three instalments, with the qualifying dates being 1 January 2008, 1 January 2009 and 1 January 2010. In accordance with the way the funds are managed, the bonus distribution is being split on a 90/10 basis between policyholders and shareholders. Over the three years, policyholders will receive a total currently estimated as £2,127 million and shareholders will receive a total currently estimated as £236 million.

As explained in accounting policy K and note 38(b), the Group's insurance and participating investment contract liabilities are measured in accordance with IFRS 4, *Insurance Contracts*, and FRS 27, *Life Assurance.* The latter requires liabilities for with-profit funds falling within the scope of the UK's Financial Services Authority's capital regime to be determined in accordance with this regime, adjusted to remove the shareholders' share of future bonuses. This requires us to recognise planned discretionary bonuses within policyholder liabilities at the balance sheet date, even if there was no constructive obligation at the time. As a result of the announcement made above, a transfer of £2,127 million has been made from the unallocated divisible surplus (note 43) in order to increase insurance liabilities by £1,728 million (note 38(b)) and participating investment contract liabilities by £399 million (note 39(c)). In compliance with paragraph 4(a) of FRS 27, the insurance liabilities on a realistic basis exclude any shareholders' interest in this bonus. Furthermore, no profit arising to shareholders has been accrued in these financial statements as the payment to them was not a constructive obligation at the balance sheet date.

Financial statements of the Company
Income statement
For the year ended 31 December 2007

	Note	2007 £m	2006 £m
Income			
Dividends received from subsidiaries		**2,568**	865
Interest receivable from Group companies		**158**	219
Profit on disposal of subsidiary		**–**	94
Net investment income		**4**	34
		2,730	1,212
Expenses			
Operating expenses	B	**(193)**	(201)
Interest payable to Group companies		**(944)**	(1,341)
Interest payable on borrowings		**(232)**	(215)
		(1,369)	(1,757)
Profit/(loss) before tax		**1,361**	(545)
Tax credit	C	**356**	521
Profit/(loss) after tax		**1,717**	(24)

Statement of recognised income and expense
For the year ended 31 December 2007

	Note	2007 £m	2006 £m
Fair value (losses)/gains on investments in subsidiaries	A	**(3,420)**	4,075
Fair value gains transferred to income statement		**–**	(94)
Aggregate tax effect		**16**	15
Actuarial gains/(expenses) on pension scheme		**5**	(4)
Net (expenses)/income recognised directly in equity		**(3,399)**	3,992
Profit/(loss) for the year		**1,717**	(24)
Total recognised income and expense for the year		**(1,682)**	3,968

Reconciliation of movements in shareholders' equity
For the year ended 31 December 2007

	Note	2007 £m	2006 £m
Balance at 1 January		**23,136**	18,746
Total recognised income and expense for the year		**(1,682)**	3,968
Dividends and appropriations	15	**(871)**	(762)
Issue of share capital for the acquisition of AmerUs, net of transaction costs		**–**	892
Other issues of share capital, net of transaction costs	28	**48**	43
Shares issued in lieu of dividends	35	**301**	203
Reserves credit for equity compensation plans	10	**50**	48
Other movements		**–**	(2)
Balance at 31 December		**20,982**	23,136

Where applicable, the accounting policies of the Company are the same as those of the Group on pages 114 to 125. The notes (identified alphabetically) on pages 239 to 243 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 132 to 235.

Company balance sheet
At 31 December 2007

	Note	2007 £m	2006 £m
Assets			
Non-current assets			
Investments in subsidiaries	A	**24,466**	27,886
Investment in joint venture	18c	**52**	35
Loans owed by subsidiaries		**2,607**	2,641
Deferred tax assets	C	**9**	9
Current tax assets		**714**	545
		27,848	31,116
Current assets			
Loans owed by subsidiaries		**132**	645
Other amounts owed by subsidiaries		**1,027**	3,163
Other assets		**115**	78
Cash and cash equivalents		**14**	5
Total assets		**29,136**	35,007
Equity			
Ordinary share capital	28	**655**	641
Preference share capital	31	**200**	200
Called up capital		**855**	841
Share premium account	28b	**1,223**	1,189
Merger reserve	D	**735**	735
Investment valuation reserve	D	**13,883**	17,303
Equity compensation reserve	D	**89**	73
Retained earnings	D	**3,207**	2,005
Direct capital instrument	32	**990**	990
Total equity		**20,982**	23,136
Liabilities			
Non-current liabilities			
Borrowings	E	**3,252**	3,135
Loans owed to subsidiaries		**1,842**	3,720
Provisions		**40**	31
		5,134	6,886
Current liabilities			
Borrowings	E	**918**	733
Loans owed to subsidiaries		**1,846**	1,031
Other amounts owed to subsidiaries		**191**	3,157
Other creditors		**65**	64
Total liabilities		**8,154**	11,871
Total equity and liabilities		**29,136**	35,007

Approved by the Board on 27 February 2008.

Philip Scott
Director

Where applicable, the accounting policies of the Company are the same as those of the Group on pages 114 to 125. The notes (identified alphabetically) on pages 239 to 243 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 132 to 235.

Financial statements of the Company continued

Cash flow statement

For the year ended 31 December 2007

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.

	2007 £m	2006 £m
Cash flows from financing activities		
Funding provided by subsidiaries	**399**	299
New borrowings drawn down, net of expenses	**4,780**	3,956
Repayment of borrowings	**(4,606)**	(3,722)
Net drawdown of borrowings	**174**	234
Preference dividends paid	**(17)**	(17)
Ordinary dividends paid	**(500)**	(490)
Interest paid on borrowings	**(47)**	(23)
Net cash from financing activities	**9**	3
Net increase in cash and cash equivalents	**9**	3
Cash and cash equivalents at 1 January	**5**	2
Cash and cash equivalents at 31 December	**14**	5

Where applicable, the accounting policies of the Company are the same as those of the Group on pages 114 to 125. The notes (identified alphabetically) on pages 239 to 243 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 132 to 235.

Notes to the Company financial statements
For the year ended 31 December 2007

A – Investments in subsidiaries

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

	2007 £m	2006 £m
Fair value as at 1 January	**27,886**	22,919
Additions	**–**	1,562
Disposals	**–**	(670)
Movement in fair value	**(3,420)**	4,075
At 31 December	**24,466**	27,886

(ii) At 31 December 2007, the Company has two wholly-owned subsidiaries, both incorporated in Great Britain. These are General Accident plc and Aviva Group Holdings Limited. Aviva Group Holdings Limited is an intermediate holding company, whilst General Accident plc no longer carries out this function. The principal subsidiaries of the Aviva Group at 31 December 2007 are listed on pages 268 and 269.

B – Operating expenses

(i) Operating expenses
Operating expenses comprise:

	2007 £m	2006 £m
Staff costs and other employee related expenditure (see below)	**92**	87
Other operating costs	**95**	71
Net foreign exchange losses	**6**	43
Total	**193**	201

(ii) Staff costs
Total staff costs were:

	2007 £m	2006 £m
Wages and salaries	**46**	53
Social security costs	**6**	6
Post-retirement obligations		
Defined benefit schemes (see (iii) below)	**6**	6
Defined contribution schemes	**2**	2
Profit sharing and incentive plans	**13**	1
Equity compensation plans (see (iv) below)	**17**	17
Termination benefits	**2**	2
Total	**92**	87

(iii) Pension costs
The Company is one of a number of UK companies being charged for its employees participating in the Aviva Staff Pension Scheme, and its contributions are affected by the financial position of the scheme. There is no contractual agreement or policy for charging the net defined benefit cost for this scheme across the participating Group entities but, instead, this cost is recognised in the financial statements of the main UK employing company. The Company therefore recognises a pension expense equal to its contributions payable in the year for its staff, together with the service cost of any unfunded benefits, within staff costs above.

Full disclosure on the Group's pension schemes is given in note 46.

(iv) 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 note 29. 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 immateriality.

C – Tax

(i) Tax credited to income statement:

	2007 £m	2006 £m
Current tax:		
For this year	**351**	438
Prior year adjustments	**5**	76
Total current tax	**356**	514
Deferred tax:		
Origination and reversal of timing differences	**–**	7
Total deferred tax	**–**	7
Total tax credited to income statement	**356**	521

(ii) Tax reconciliation

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

	2007 £m	2006 £m
Profit/(loss) before tax	**1,361**	(545)
Tax calculated at standard UK corporation tax rate of 30% (2006: 30%)	**(408)**	163
Adjustment to tax charge in respect of prior years	**5**	76
Non-assessable dividends	**770**	259
Disallowable expenses	**(11)**	(12)
Non-taxable profit on sale of subsidiary	**–**	28
Deferred tax asset not recognised	**–**	7
Total tax credited to income statement	**356**	521

(iii) The net deferred tax asset comprises:

	2007 £m	2006 £m
Provisions and other temporary differences	**9**	9
Net deferred tax asset	**9**	9

(iv) The movement in the net deferred tax asset was as follows:

	2007 £m	2006 £m
Net asset at 1 January	**9**	2
Amounts credited to profit	**–**	7
Net asset at 31 December	**9**	9

The Company has unrecognised tax losses of £nil *(2006: £167 million)* to carry forward against future taxable profits. The losses which were unrecognised in the company in 2006 remain unrecognised in other UK subsidiaries.

D – Reserves

	Merger reserve £m	Investment valuation reserve £m	Equity compensation reserve £m	Retained earnings £m
Balance at 1 January 2006	735	13,322	43	1,690
Arising in the year:				
Loss for the year	–	–	–	(24)
Fair value gains on investments in subsidiaries	–	4,075	–	–
Fair value gains transferred to income statement	–	(94)	–	–
Actuarial losses on pension schemes	–	–	–	(4)
Dividends and appropriations	–	–	–	(762)
Reserves credit for equity compensation plans	–	–	48	–
Shares issued in lieu of dividends	–	–	–	203
Issue of share capital under equity compensation scheme	–	–	(18)	18
Merger relief on acquisition of AmerUs	871	–	–	–
Transfer to retained earnings on realisation of merger reserve	(871)	–	–	871
Aggregate tax effect	–	–	–	15
Other movements	–	–	–	(2)
Balance at 31 December 2006	735	17,303	73	2,005
Arising in the year:				
Profit for the year	–	–	–	1,717
Fair value losses on investments in subsidiaries	–	(3,420)	–	–
Actuarial gains on pension schemes	–	–	–	5
Dividends and appropriations	–	–	–	(871)
Reserves credit for equity compensation plans	–	–	50	–
Shares issued in lieu of dividends	–	–	–	301
Issue of share capital under equity compensation scheme	–	–	(34)	34
Aggregate tax effect	–	–	–	16
Balance at 31 December 2007	**735**	**13,883**	**89**	**3,207**

E – Borrowings

The Company's borrowings comprise:

	2007 £m	2006 £m
Subordinated debt	**3,054**	2,937
9.5% guaranteed bonds 2016	**198**	198
Commercial paper	**918**	733
Total	**4,170**	3,868

Maturity analysis of contractual undiscounted cash flows:

	2007			2006		
	Principal £m	**Interest £m**	**Total £m**	Principal £m	Interest £m	Total £m
Within 1 year	**932**	**235**	**1,167**	733	222	955
1 to 5 years	**–**	**799**	**799**	–	773	773
5 to 10 years	**351**	**998**	**1,349**	200	966	1,166
10 to 15 years	**588**	**867**	**1,455**	692	834	1,526
Over 15 years	**2,344**	**206**	**2,550**	2,275	260	2,535
Total contractual undiscounted cash flows	**4,215**	**3,105**	**7,320**	3,900	3,055	6,955

Where subordinated debt is undated, the interest payments have not been included beyond 15 years. Annual interest payments for these borrowings are £70 million *(2006: £68 million)*.

The fair value of the subordinated debt at 31 December 2007 was £3,006 million *(2006: £3,076 million)*. The fair value of the 9.5% guaranteed bonds 2016 at 31 December 2007 was £249 million *(2006: £275 million)*. The fair value of the commercial paper is considered to be the same as its carrying value.

Further details of these borrowings can be found in note 47.

F – Derivative financial instruments

Non-hedge derivatives
The Company's non-hedge derivative activity at 31 December 2007 was as follows:

	2007			2006		
	Contract/ notional amount £m	**Fair value asset £m**	**Fair value liability £m**	Contract/ notional amount £m	Fair value asset £m	Fair value liability £m
Foreign exchange contracts						
OTC						
Forwards	–	–	–	73	–	(2)
Total	–	–	–	73	–	(2)

G – Contingent liabilities

Details of the Company's contingent liabilities are given in note 50(h).

H – Risk management policies

Risk management in the context of the Group is considered in note 55.

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 risk management policies are given in note 55. 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 a three month rolling average of the Company's share price. 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. Management believes the resulting estimated fair values recorded in the balance sheet and any changes in fair values recorded in the income statement are reasonable, and are the most appropriate values at the balance sheet date.

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 notes E and 47) 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 notes E and 47.

Currency risk
The Company's direct subsidiaries are all incorporated and operating in the UK, and therefore are not exposed to currency risk. However, these subsidiaries are themselves 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 note 55.

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 financial investments in these currencies, generating the net investment hedge described in note 56(c).

I – 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	2007 £m	2006 £m
Within 1 year	**132**	645
1 to 5 years	**1,359**	1,253
Over 5 years	**1,248**	1,388
Total	**2,739**	3,286

Loans owed to subsidiaries

	2007			2006		
Maturity analysis of contractual undiscounted cash flows	Principal £m	Interest £m	Total £m	Principal £m	Interest £m	Total £m
Within 1 year	**1,846**	**258**	**2,104**	1,031	240	1,271
1 to 5 years	**843**	**334**	**1,177**	3,372	353	3,725
Over 5 years	**999**	**341**	**1,340**	348	74	422
Total	**3,688**	**933**	**4,621**	4,751	667	5,418

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

	Income earned in year 2007 £m	Receivable at year end 2007 £m	Income earned in year 2006 £m	Receivable at year end 2006 £m
Subsidiaries	**2,726**	**3,766**	1,084	6,449

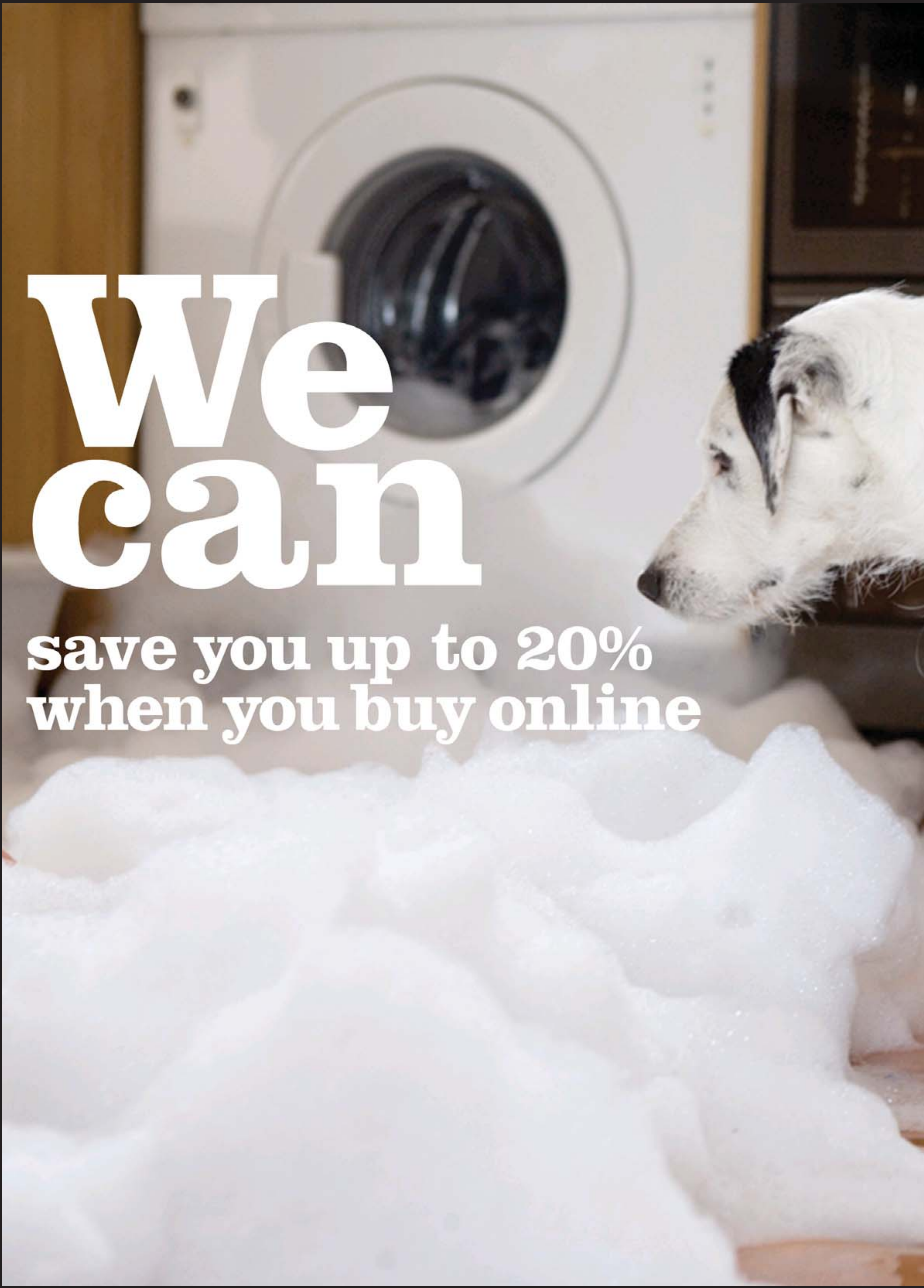
The related parties' receivables are not secured and no guarantees were received in respect thereof. The receivables will be settled in accordance with normal credit terms. Details of guarantees, indemnities and warranties given by the Company on behalf of related parties are given in note 50(h).

Services provided by related parties

	Expense incurred in year 2007 £m	Payable at year end 2007 £m	Expense incurred in year 2006 £m	Payable at year end 2006 £m
Subsidiaries	**944**	**3,879**	1,341	7,908

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 may be found in note 58.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Financial statements – Information on the European Embedded Value

Norwich Union advertising
In September 2007 Norwich Union launched a new brand advertising campaign. The adverts show a number of problems in life that we can't solve alongside the benefits Norwich Union can provide.The advertising shows how Norwich Union's products and services reflect it's brand promise: We make it easier to choose us, use us and stay with us.

Region: **UK**

Independent auditor's report to the directors of Aviva plc on the alternative method of reporting long-term business profits

We have audited the alternative method of reporting long-term business on pages 247 to 267 in respect of the year ended 31 December 2007, which comprises a European Embedded Value basis Summarised Consolidated Income Statement, Consolidated Statement of Recognised Income and Expense, Reconciliation of Movements in Consolidated Shareholders' Funds, Summarised Consolidated Balance Sheet and the related notes on pages 247 to 267. The alternative method of reporting long-term business has been prepared in accordance with the European Embedded Values Principles published by the CFO Forum in May 2004 and the Additional Guidance on European Embedded Value Disclosures published by the CFO Forum in October 2005 (together "the EEV Principles") as described on, and using the methodology and assumptions set out on, pages 251 to 253.

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

Respective responsibilities of directors and auditors

The directors are responsible for preparing the alternative method of reporting long-term business on the above European Embedded Value basis.

Our responsibilities, as independent auditors, in relation to the alternative method of reporting long-term business are established in the UK by the Auditing Practices Board and our profession's ethical guidance. We report to you our opinion as to whether the alternative method of reporting long-term business has been properly prepared in accordance with the European Embedded Value basis. We also report to you if we have not received all the information and explanations we require for our audit of the alternative method of reporting long-term business.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the alternative method of reporting long-term business. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the alternative method of reporting long-term business, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the alternative method of reporting long-term business stated on the European Embedded Value basis is free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of the alternative method of reporting long-term business.

Opinion

In our opinion the alternative method of reporting long-term business for the year ended 31 December 2007 has been properly prepared in accordance with the EEV Principles, using the methodology and assumptions set out on pages 251 to 253.

Ernst & Young LLP
Registered Auditor
London
27 February 2008

Alternative method of reporting long-term business profits

Summarised consolidated income statement – EEV basis

For the year ended 31 December 2007

2007 €m		2007 £m	Restated 2006 £m
	Operating profit before tax attributable to shareholders' profits		
4,049	Life EEV operating return	**2,753**	2,033
132	Fund management[1]	**90**	96
1,519	General insurance and health[2]	**1,033**	1,686
	Other:		
(103)	Other operations and regional costs[3]	**(70)**	(23)
(231)	Corporate centre	**(157)**	(160)
(534)	Group debt costs and other interest	**(363)**	(381)
4,832	**Operating profit before tax attributable to shareholders' profits**	**3,286**	3,251
	Adjusted for the following:		
(661)	Variation from longer term investment return on long-term business	**(450)**	319
760	Effect of economic assumption changes on long-term business	**517**	671
	Short-term fluctuation in return of investments backing		
(270)	general insurance and health business	**(184)**	149
(15)	Impairment of goodwill	**(10)**	(94)
(131)	Amortisation and impairment of intangibles	**(89)**	(46)
29	Profit on the disposal of subsidiaries and associates	**20**	161
(225)	Integration and restructuring costs	**(153)**	(246)
4,319	**Profit before tax**	**2,937**	4,165
(1,459)	Tax on operating profit	**(992)**	(1,028)
278	Tax on other activities	**189**	(258)
3,138	**Profit for the year**	**2,134**	2,879
	Attributable to:		
2,749	Equity shareholders of Aviva plc	**1,869**	2,648
389	Minority interests	**265**	231
3,138		**2,134**	2,879

All profit is from continuing operations.

1. Excludes the proportion of the results of Morley's fund management businesses, of our French asset management operation Aviva Gestion d'Actifs (AGA) and other fund management operations within the Group that arises from the provision of fund management services to our Life businesses. These results are included within the Life EEV operating return.
2. Restated 2006 results reflect the adjustment to general insurance and health operating profit for £6m FSCS levy credit, previously reported outside the operating profit but within profit before tax.
3. Excludes the proportion of the results of Norwich Union Life Services relating to the services provided to the UK life business. These results are included within the Life EEV operating return. Other subsidiaries providing services to our life businesses do not materially impact the Group results.

Earnings per share – EEV basis

For the year ended 31 December 2007

2007	Earnings per share	2007	2006
	Operating profit on an EEV basis after tax, attributable to ordinary shareholders of Aviva plc		
112.5c	Basic (pence per share)	**76.5p**	79.2p
111.5c	Diluted (pence per share)	**75.8p**	78.3p
	Profit after tax for the year on an EEV basis, attributable to ordinary shareholders of Aviva plc		
103.1c	Basic (pence per share)	**70.1p**	105.1p
102.2c	Diluted (pence per share)	**69.5p**	103.9p

Alternative method of reporting long-term business profits continued

Consolidated statement of recognised income and expense – EEV basis

For the year ended 31 December 2007

2007 €m		2007 £m	2006 £m
66	Fair value gains on AFS securities, owner-occupied properties and hedging instruments	45	42
(18)	Fair value gains transferred to profit	(12)	(18)
–	Impairment losses on revalued assets	–	(2)
953	Actuarial gains/(losses) on pension schemes *(IFRS section: note 17c)*	648	(117)
(90)	Actuarial gains/(losses) on pension schemes transferred to unallocated divisible surplus and other movements	(61)	3
1,650	Foreign exchange rate movements	1,122	(401)
(361)	Aggregate tax effect – shareholder tax	(246)	27
2,200	**Net income/(expense) recognised directly in equity**	**1,496**	(466)
3,138	Profit for the year	2,134	2,879
5,338	**Total recognised income and expense for the year**	**3,630**	2,413
	Attributable to:		
4,697	Equity shareholders of Aviva plc	3,194	2,208
641	Minority interests	436	205
5,338		**3,630**	2,413

Reconciliation of movements in consolidated shareholders' equity – EEV basis

For the year ended 31 December 2007

2007 €m		2007 £m	2006 £m
28,572	**Balance at 1 January**	20,858	17,546
4,973	Total recognised income and expense for the year	3,630	2,413
(1,193)	Dividends and appropriations *(IFRS section: note 15)*	(871)	(762)
–	Issue of share capital for the acquisition of AmerUs in 2006, net of transaction costs	–	892
66	Other issues of share capital, net of transaction costs	48	43
412	Shares issued in lieu of dividends	301	203
421	Capital contribution from minority shareholders	307	397
(90)	Minority share of dividends declared in the year	(66)	(75)
434	Minority interest in acquired/disposed subsidiaries	317	153
68	Reserves credit for equity compensation plans	50	48
33,663	**Total equity**	**24,574**	20,858
(4,289)	**Minority interests**	**(3,131)**	(2,137)
29,374	**Balance at 31 December**	**21,443**	18,721

Summarised consolidated balance sheet – EEV basis

As at 31 December 2007

2007 €m		2007 £m	2006 Restated £m
	Assets		
4,222	Goodwill	**3,082**	2,910
4,379	Acquired value of in-force business and intangible assets	**3,197**	2,728
10,934	Additional value of in-force long-term business	**7,982**	6,794
3,529	Interests in, and loans to, joint ventures	**2,576**	2,795
1,652	Interests in, and loans to, associate	**1,206**	895
1,290	Property and equipment	**942**	904
20,653	Investment property	**15,077**	15,123
49,579	Loans	**36,193**	28,574
	Financial Investments		
162,927	Debt securities	**118,937**	114,466
76,737	Equity securities	**56,018**	56,762
55,360	Other investments	**40,413**	33,050
11,108	Reinsurance assets	**8,109**	7,825
808	Deferred tax assets	**590**	1,199
515	Current tax assets	**376**	344
11,824	Receivables and other financial assets	**8,629**	8,098
6,147	Deferred acquisition costs and other assets	**4,487**	3,476
4,090	Prepayments and accrued income	**2,986**	2,585
21,608	Cash and cash equivalents	**15,774**	13,117
1,545	Assets of operations classified as held for sale	**1,128**	–
448,907	**Total assets**	**327,702**	301,645
	Equity		
897	Ordinary share capital	**655**	641
6,156	Capital reserves	**4,494**	4,460
1,612	Other reserves	**1,177**	531
8,538	Retained earnings	**6,233**	5,082
10,541	Additional retained profit on an EEV basis	**7,694**	6,817
27,744	**Equity attributable to ordinary shareholders of Aviva plc**	**20,253**	17,531
1,630	Preference share capital and direct capital instrument	**1,190**	1,190
4,289	Minority interests	**3,131**	2,137
33,663	**Total equity**	**24,574**	20,858
	Liabilities		
209,644	Gross insurance liabilities	**153,040**	144,230
134,581	Gross liabilities for investment contracts	**98,244**	88,358
9,295	Unallocated divisible surplus	**6,785**	9,465
5,452	Net asset value attributable to unitholders	**3,980**	3,810
2,653	Provisions	**1,937**	2,850
3,464	Deferred tax liabilities	**2,529**	3,077
1,629	Current tax liabilities	**1,189**	1,262
17,338	Borrowings	**12,657**	12,137
24,740	Payables and other financial liabilities	**18,060**	11,364
5,158	Other liabilities	**3,765**	4,234
1,290	Liabilities of operations classified as held for sale	**942**	–
415,244	**Total liabilities**	**303,128**	280,787
448,907	**Total equity and liabilities**	**327,702**	301,645

Alternative method of reporting long-term business profits continued

Segmentation of summarised consolidated balance sheet – EEV basis

As at 31 December 2007

	Life and related businesses 2007 £m	**General business and other 2007 £m**	**Group 2007 £m**	Life and related businesses 2006 £m	General business and other 2006 £m	Group 2006 £m
Total assets before acquired additional value of in-force long-term business	**278,021**	**40,001**	**318,022**	255,084	37,961	293,045
Acquired additional value of in-force long-term business	**1,698**	**–**	**1,698**	1,806	–	1,806
Total assets included in the statutory IFRS balance sheet	**279,719**	**40,001**	**319,720**	256,890	37,961	294,851
Liabilities of the long-term business	**(264,429)**	**–**	**(264,429)**	(243,590)	–	(243,590)
Liabilities of the general insurance and other businesses	**–**	**(38,699)**	**(38,699)**	–	(37,197)	(37,197)
Net assets on a statutory IFRS basis	**15,290**	**1,302**	**16,592**	13,300	764	14,064
Additional value of in-force long-term business[1]	**7,982**	**–**	**7,982**	6,794	–	6,794
Net assets on an EEV basis[2]	**23,272**	**1,302**	**24,574**	20,094	764	20,858
Equity capital, capital reserves, shares held by employee trusts and other reserves			**6,326**			5,632
IFRS basis retained earnings			**6,233**			5,082
Additional EEV basis retained profit			**7,694**			6,817
Equity attributable to ordinary shareholders of Aviva plc on an EEV basis			**20,253**			17,531
Preference share capital and direct capital instrument			**1,190**			1,190
Minority interests			**3,131**			2,137
EEV basis total equity			**24,574**			20,858

1. The analysis between the Group's and the minority interest's share of the additional value of in-force long-term business is as follows:

	2007 £m	2006 £m	Movement in the year £m
Group's share included in shareholders' funds	**7,694**	6,817	877
Minority interest share	**578**	439	139
Movement in AFS securities	**(290)**	(462)	172
Per balance at 31 December	**7,982**	6,794	1,188

2. Analysis of long-term business net assets on an EEV basis is made up as follows:

	2007 £m	2006 £m
Embedded value	**20,319**	18,098
RBSG goodwill	**217**	217
Goodwill and intangible assets allocated to long-term business	**2,036**	1,527
Notional allocation of IAS 19 pension fund deficit to long-term business[3,4]	**(58)**	(179)
Minority interest in property investment vehicles	**758**	431
Long-term business net assets on an EEV basis[5]	**23,272**	20,094

3. The value of the Aviva Staff Pension Scheme deficit has been notionally allocated between segments, based on current funding and the life proportion has been included within the long-term business net assets on an EEV basis.
4. Effective from 31 December 2006, the pension fund deficit notionally allocated to long-term business is net of the proportion of funding borne by the UK with-profit funds.
5. The long term business net assets on an EEV basis have been restated to include the minority interest on property investment vehicles held in the UK. This change recognises that the embedded value reflects these investments post minority interest, whereas IFRS reports these investments gross. Prior year comparatives have been restated accordingly.

Basis of preparation – EEV basis

The summarised consolidated income statement and balance sheet on pages 247 to 249 present the Group's results and financial position for the life and related businesses on the European Embedded Value (EEV) basis and for its non-life businesses on the International Financial Reporting Standards (IFRS) basis. The EEV methodology adopted is in accordance with the EEV Principles introduced by the CFO Forum in May 2004 and the Additional Guidance on EEV Disclosures published by the CFO Forum in October 2005.

The Directors consider that the EEV methodology represents a more meaningful basis of reporting the value of the Group's life and related businesses and the drivers of performance, than IFRS methodology. This basis allows for the impact of uncertainty in the future investment returns more explicitly and is consistent with the way the business is priced and managed.

At the time the Group adopted EEV principles in 2004, its approach to establishing economic assumptions, including investment returns, required capital and discount rates, was reviewed by Tillinghast, a firm of actuarial consultants. The approach used by the Group is based on the established 'capital asset pricing model' theory and remains in line with EEV principles and guidance.

The results for 2007 and 2006 have been audited by our auditors, Ernst & Young LLP. Their report in respect of 2007 is included in the Report and Accounts on page 246 of this document.

Covered business

The EEV calculations cover the following lines of business: 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 associated undertakings and joint ventures, as well as the equity release business written in the UK. The Group's definition of new business under EEV includes contracts that meet the definition of "non-participating investment" contracts under IFRS.

Covered business includes the Group's share of our joint venture operations including our arrangement with The Royal Bank of Scotland Group (RBSG) and our operations in India, China, Turkey, Malaysia and Taiwan. In addition, the results of Group companies providing significant administration, investment management and other services and of Group holding companies have been included to the extent that they relate to covered business. Together these businesses are referred to as "Life and related businesses".

New business premiums

New business premiums include:

– premiums arising from the sales of new contracts during the year;

– non-contractual additional premiums, including future Department of Work and Pensions (DWP) rebate premiums; and

– expected renewals on new contracts and expected future contractual alterations to new contracts.

For products sold to individuals, premiums are generally considered to represent new business in certain circumstances, including where a new contract has been signed, or where underwriting has been performed. Renewal premiums include contractual renewals, non-contractual variations that are reasonably predictable and recurrent single premiums that are pre-defined and reasonably predictable.

For group products, new business includes new contracts and increases to aggregate premiums under existing contracts. Renewal premiums are based on the level of premium received during the reporting period and allow for premiums expected to be received beyond the expiry of any guaranteed premium rates.

Foreign exchange adjustments

Embedded value and other balance sheet items denominated in foreign currencies have been translated to sterling using the appropriate closing exchange rate. New business contribution and other income statement items have been translated using an average exchange rate for the relevant period. The exchange rates adopted in this announcement are shown on page 132.

EEV Methodology

Overview

Under the EEV methodology, profit is recognised as it is earned over the life of products defined within covered business. The total profit recognised over the lifetime of a policy is the same as under the IFRS basis of reporting, but the timing of recognition is different.

Calculation of the embedded value

The shareholders' interest in the life and related businesses is represented by the embedded value. The embedded value is the total of the net worth of the life and related businesses and the value of in-force covered business. Calculations are performed separately for each business and are based on the cash flows of that business, after allowing for both external and intra-group reinsurance. Where one life business has an interest in another life business, the net worth of that business excludes the interest in the dependent company.

The embedded value is calculated on an after-tax basis applying current legislation and practice together with future known changes. Profits are then grossed up for tax at the full rate of corporation tax for the UK and at an appropriate rate for each of the other countries based on opening year tax rates.

EEV methodology continued

Net worth

The net worth is the market value of the shareholders' funds and the shareholders' interest in the surplus held in the non-profit component of the long-term business funds, determined on a statutory solvency basis and adjusted to add back any non-admissible assets, and consists of the required capital and free surplus. Required capital is reported net of implicit items permitted on a local regulatory basis to cover minimum solvency margins which are assessed at a local entity basis. The level of required capital for each business, which ranges between 100% and 150% of the EU minimum solvency requirement for our main European businesses and 250% of the EU minimum equivalent solvency requirements in the US, reflects the level of capital considered by the Directors to be appropriate to manage the business, allowing for our internal assessment of the level of market, insurance and operating risk inherent in the underlying products. The same definition of required capital is used for both existing and new business. The free surplus comprises the market value of shareholder assets in excess of local statutory reserves and required capital.

Value of in-force covered business

The value of in-force covered business is the present value at the appropriate risk discount rate (which incorporates a risk margin) of the distributable profits to shareholders arising from the in-force covered business projected on a best estimate basis, less a deduction for the cost of holding the required level of capital.

In the UK, shareholders' distributable profits arise when they are released following actuarial valuations. These valuations are carried out in accordance with statutory requirements designed to ensure and demonstrate solvency in long-term business funds. Future distributable profits will depend on experience in a number of areas such as investment return, discontinuance rates, mortality, administration costs, as well as management and policyholder actions. Releases to shareholders arising in future years from the in-force covered business and associated required capital can be projected using best estimate assumptions of future experience. In overseas businesses generally there are similar requirements restricting payments to shareholders from life businesses.

The value of in-force covered business includes an allowance for the impact of financial options and guarantees arising from best estimate assumptions (the intrinsic value) and from additional costs related to the variability of investment returns (the time value). The intrinsic value is included in the underlying value of the in-force covered business using deterministic assumptions. The time value of financial options and guarantees has been determined using stochastic modelling techniques.

Stochastic modelling typically involves projecting the future cash flows of the business under thousands of economic scenarios that are representative of the possible future outcomes for market variables such as interest rates and equity returns. Allowance is made, where appropriate, for the effect of management and/or policyholder actions in different economic conditions on future assumptions such as asset mix, bonus rates and surrender rates. The time value is determined by deducting the average value of shareholder cash flows under these economic scenarios from the deterministic shareholder value under best estimate assumptions.

The cost of holding required capital is the difference between the required capital and the present value at the appropriate risk discount rate of the projected release of the required capital and investment earnings on the assets deemed to back the required capital. Where the required capital is covered by policyholder assets, for example in the UK with-profit funds, there is no impact of cost of capital on shareholder value. The assets regarded as covering the required capital are those that the operation deems appropriate.

The value of in-force covered business includes the capitalised value of profits and losses arising from subsidiary companies providing administration, investment management and other services to the extent that they relate to covered business. This is referred to as the "look through" into service company expenses. In addition, expenses arising in holding companies that relate directly to acquiring or maintaining covered business have been allowed for. Where external companies provide services to the life and related businesses, their charges have been allowed for in the underlying projected cost base.

Risk discount rates

Under the EEV methodology, a risk discount rate (RDR) is required to express a stream of expected future distributable profits as a single value at a particular date (the present value). It is the interest rate that an investment equal to the present value would have to earn in order to be able to replicate exactly the stream of future profits. The RDR is a combination of a risk free rate to reflect the time value of money plus a risk margin to make prudent allowance for the risk that experience in future years may differ from that assumed. In particular, a risk margin is added to allow for the risk that expected additional returns on certain asset classes (e.g. equities) are not achieved.

Risk discount rates for our life businesses have been calculated using a risk margin based upon a Group Weighted Average Cost of Capital (WACC). The Group WACC is calculated using a gross risk free interest rate, an equity risk margin, a market assessed risk factor (beta), and an allowance for the gearing impact of debt financing (including subordinated debt) on a market value basis. The market assessed risk factor captures the market's view of the effect of all types of risk on our business, including operational and other non-economic risk.

EEV methodology continued
The RDR is only one component of the overall allowance for risk in EEV calculations. Risk is also allowed for in the cost of holding statutory reserving margins, additional required capital and in the time value of options and guarantees. Hence to derive the RDR the Group WACC is adjusted to reflect the average level of required capital assumed to be held, and to reflect the explicit valuation of the time value of options and guarantees.

In order to derive risk discount rates for each of our life businesses, the adjusted Group WACC is expressed as a risk margin in excess of the gross risk free interest rate used in the WACC calculation as described above. This risk margin is used for all our main businesses including the US. Business-specific discount rates are then calculated as the sum of this risk margin and the appropriate local gross risk free rate at the valuation date, based on returns on government bonds. A common risk free rate, and hence a common RDR, is used for all of our businesses within the Eurozone. Additional country-specific risk margins are applied to smaller businesses to reflect additional economic, political and business-specific risk. For example, risk margins ranging from 3.7% to 8.7% are applied to the Group's eastern European and Asian operations. Within each business, a constant RDR has been applied in all future time periods and in each of the economic scenarios underlying the calculation of the time value of options and guarantees.

At each valuation date, the risk margin is reassessed based on current economic factors and is updated only if a significant change has occurred. In particular, changes in risk profile arising from movements in asset mix are allowed for via the updated risk margin calculation.

Following the review of the risk margin at 31 December 2006, the Directors decided to leave the life embedded value risk margin unchanged at 2.7%. The market assessed risk factor (beta) had reduced since the initial risk margin was originally set, implying a reduction of the risk in the life business. Following the review at 31 December 2007, the Directors have decided to maintain the life embedded value risk margin at 2.7%. Management will keep the risk margin under review and will make adjustments as necessary to reflect past trends and future expected trends in the riskiness of the life business, based on the beta.

The sensitivity disclosures on page 265 indicate the impact to the embedded value that would arise for a change in the risk discount rate.

Participating business
Future regular bonuses on participating business are projected in a manner consistent with current bonus rates and expected future returns on assets deemed to back the policies.

For with-profit funds in the UK and Ireland, for the purpose of recognising the value of the estate, it is assumed that terminal bonuses are increased to exhaust all of the assets in the fund over the future lifetime of the in-force with-profit policies. However, under stochastic modelling there may be some extreme economic scenarios when the total assets in the Group's with-profit funds are not sufficient to pay all policyholder claims. The average additional shareholder cost arising from this shortfall has been included in the time value of options and guarantees.

For profit sharing business in continental Europe, where policy benefits and shareholder value depend on the timing of realising gains, apportionment of unrealised gains between policyholders' benefits and shareholders reflect contractual requirements as well as existing practice. Where under certain economic scenarios additional shareholder injections are required to meet policyholder payments, the average additional cost has been included in the time value of options and guarantees.

Consolidation adjustments
The effect of transactions between our life companies such as loans and reinsurance arrangements has been included in results split by territory in a consistent manner. No elimination is required on consolidation.

As the EEV methodology incorporates the impact of profits and losses arising from subsidiary companies providing administration, investment management and other services to the Group's life companies, the equivalent profits and losses have been removed from the relevant segment (non insurance or fund management) and are instead included within the results of life and related businesses. In addition, the underlying basis of calculation for these profits has changed from the IFRS basis to the EEV basis.

The capitalised value of the future profits and losses from such service companies are included in the embedded value and new business contribution calculations for the relevant territory, but the net assets (representing historical profits and other amounts) remain under non insurance or fund management. In order to reconcile the profits arising in the financial period within each segment with the assets on the opening and closing balance sheets, a transfer of IFRS profits from life and related business to the appropriate segment is deemed to occur. An equivalent approach has been adopted for expenses within our holding companies.

Components of life EEV return

The life EEV return comprises the following components:

- new business contribution written during the period including value added between the point of sale and end of the period;
- the profit from existing business equal to:
  - the expected return on the value of the in-force covered business at the beginning of the period,
  - experience variances caused by the differences between the actual experience during the period and expected experience based on the operating assumptions used to calculate the start of year value;
  - the impact of changes in operating assumptions including risk margins;
- the expected investment return on the shareholders' net worth, based upon assumptions applying at the start of the year;
- investment return variances caused by differences between the actual return in the period and the expected return based on economic assumptions used to calculate the start of year value; and
- the impact of changes in economic assumptions in the period.

The life EEV operating return comprises the first three of these components and is calculated using economic assumptions as at the start of the year and operating (demographic, expenses and tax) assumptions as at the end of the year.

Life EEV return	**2007 £m**	2006 £m
New business contribution (after the effect of required capital)	**912**	683
Profit from existing business		
– expected return	**1,266**	1,011
– experience variances	**(16)**	(50)
– operating assumption changes	**114**	44
Expected return on shareholders' net worth	**477**	345
Life EEV operating return before tax	**2,753**	2,033
Investment return variances	**(450)**	319
Effect of economic assumption changes	**517**	671
Life EEV return before tax	**2,820**	3,023
Tax on operating profit	**(819)**	(630)
Tax charge on other ordinary activities	**(1)**	(295)
Life EEV return after tax	**2,000**	2,098

There were no separate development costs reported in these years.

New business contribution

The table below sets out the premium volumes, the contribution from and the resulting margin achieved on new business written by the life and related businesses.

The contribution generated by new business written during the year is the present value of the projected stream of after tax distributable profit from that business. New business contribution before tax is calculated by grossing up the contribution after tax at the full corporation tax rate for UK business and at appropriate rates of tax for other countries. New business contribution has been calculated using the same economic assumptions as those used to determine the embedded value as at the start of the year and operating assumptions used to determine the embedded value as at the end of the year, and is rolled forward to the end of the financial year. New business contribution is shown before and after the effect of required capital, calculated on the same basis as for in-force covered business.

New business sales are expressed on two bases: annual premium equivalent (APE) and the present value of new business premiums (PVNBP). 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, and is expressed at the point of sale. The premium volumes and projection assumptions used to calculate the present value of regular premiums for each product are the same as those used to calculate new business contribution, so the components of the new business margin are on a consistent basis.

New business contribution continued

Geographical analysis of new business

	Annual premium equivalent		Present value of new business premiums		New business contribution Before the effect of required capital		New business margin[1] Before the effect of required capital		New business contribution After the effect of required capital		New business margin[1] After the effect of required capital	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m
Life and pensions												
United Kingdom	**1,498**	1,439	**11,655**	11,146	**360**	327	**3.1%**	2.9%	**305**	263	**2.6%**	2.4%
France	**406**	391	**3,662**	3,552	**169**	153	**4.6%**	4.3%	**117**	110	**3.2%**	3.1%
Ireland	**256**	190	**1,730**	1,273	**30**	15	**1.7%**	1.2%	**25**	9	**1.4%**	0.7%
Italy	**343**	323	**2,924**	2,768	**82**	70	**2.8%**	2.5%	**61**	50	**2.1%**	1.8%
Netherlands (including Belgium and Germany)	**335**	270	**2,944**	2,346	**93**	56	**3.2%**	2.4%	**53**	25	**1.8%**	1.1%
Poland	**105**	72	**844**	534	**35**	28	**4.1%**	5.2%	**32**	25	**3.8%**	4.7%
Spain	**290**	248	**2,392**	2,059	**189**	184	**7.9%**	8.9%	**173**	168	**7.2%**	8.2%
Other Europe	**85**	63	**418**	308	**–**	(4)	**0.0%**	(1.3)%	**(5)**	(6)	**(1.2)%**	(1.9)%
Europe	**1,820**	1,557	**14,914**	12,840	**598**	502	**4.0%**	3.9%	**456**	381	**3.1%**	3.0%
North America	**378**	97	**3,602**	884	**154**	20	**4.3%**	2.3%	**108**	8	**3.0%**	0.9%
Asia	**160**	107	**990**	685	**36**	26	**3.6%**	3.8%	**27**	22	**2.7%**	3.2%
Australia	**80**	58	**439**	297	**26**	17	**5.9%**	5.7%	**16**	9	**3.6%**	3.0%
Asia Pacific	**240**	165	**1,429**	982	**62**	43	**4.3%**	4.4%	**43**	31	**3.0%**	3.2%
Total life and pensions	**3,936**	3,258	**31,600**	25,852	**1,174**	892	**3.7%**	3.5%	**912**	683	**2.9%**	2.6%
Investment sales	**761**	534	**6,983**	4,910								
Total long-term savings (including share of associates and joint ventures)[2]	**4,697**	3,792	**38,583**	30,762								

1. New business margin represents the ratio of new business contribution to PVNBP, expressed as a percentage.
2. Total long-term savings includes investment sales. Investment sales are calculated as new single premiums plus annualised value of new regular premiums.

Analysis of new business by distribution channel

Before the effect of required capital, tax and minority interest

	Annual premium equivalent		Present value of new business premiums		New business contribution		New business margin	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m	**2007 %**	2006 %
Analysed between:								
– Principal bancassurance channels	**1,016**	942	**8,281**	7,737	**397**	369	**4.8%**	4.8%
– Other distribution channels	**2,920**	2,316	**23,319**	18,115	**777**	523	**3.3%**	2.9%
Total	**3,936**	3,258	**31,600**	25,852	**1,174**	892	**3.7%**	3.5%

After the effect of required capital, tax and minority interest

	Annual premium equivalent		Present value of new business premiums		New business contribution		New business margin	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m	**2007 %**	2006 %
Analysed between:								
– Principal bancassurance channels	**590**	553	**4,730**	4,465	**133**	121	**2.8%**	2.7%
– Other distribution channels	**2,839**	2,252	**22,674**	17,607	**396**	255	**1.7%**	1.4%
Total	**3,429**	2,805	**27,404**	22,072	**529**	376	**1.9%**	1.7%

Alternative method of reporting long-term business profits continued

Geographical analysis of the components of life EEV operating return

2007	UK £m	France £m	Ireland £m	Italy £m	Netherlands £m	Poland £m	Spain £m	Other Europe £m	Europe £m	North America £m	Asia £m	Australia £m	Asia Pacific £m	Total £m
New business contribution (after the effect of required capital)	305	117	25	61	53	32	173	(5)	456	108	27	16	43	912
Profit from existing business														
– expected return	538	163	45	37	192	62	65	16	580	114	13	21	34	1,266
– experience variances:														
Maintenance expenses	10	4	(4)	(2)	(3)	3	(1)	(5)	(8)	(2)	(1)	–	(1)	(1)
Project and other related expenses[1]	(90)	9	(3)	–	(19)	–	(2)	(8)	(23)	(17)	(2)	(3)	(5)	(135)
Mortality/Morbidity[2]	14	27	(1)	1	7	14	(4)	3	47	(3)	8	3	11	69
Lapses[3]	(5)	10	3	(6)	(9)	23	(9)	3	15	–	(4)	(1)	(5)	5
Other[4]	26	3	(5)	7	(3)	9	10	(3)	18	(1)	–	3	3	46
	(45)	53	(10)	–	(27)	49	(6)	(10)	49	(23)	1	2	3	(16)
– operating assumption changes:														
Maintenance expenses[5]	7	2	(1)	(2)	–	5	–	(8)	(4)	(30)	1	–	1	(26)
Project and other related expenses	(2)	(1)	–	–	(7)	–	–	(9)	(17)	–	–	–	–	(19)
Mortality/Morbidity[6]	(133)	(2)	–	3	(31)	14	(8)	(1)	(25)	–	(1)	4	3	(155)
Lapses[7]	(6)	–	–	(2)	2	35	(16)	4	23	(8)	(4)	(2)	(6)	3
Other[8]	108	122	–	7	12	–	16	5	162	42	–	(1)	(1)	311
	(26)	121	(1)	6	(24)	54	(8)	(9)	139	4	(4)	1	(3)	114
Expected return on shareholders' net worth	92	83	18	33	158	9	15	3	319	52	6	8	14	477
Life EEV operating return before tax	**864**	**537**	**77**	**137**	**352**	**206**	**239**	**(5)**	**1,543**	**255**	**43**	**48**	**91**	**2,753**

1. Project and other related expenses in the UK reflect project costs associated with strategic initiatives, including developments designed to offer simpler products to customers, and the simplification of systems and processes. In the Netherlands, project costs mainly represent one-off restructuring costs in the Dutch businesses. In the USA, expenses reflect a number of one-off expenses including management incentive rewards, brand awareness and investment in strategic systems.
2. Mortality experience continues to be better than the assumptions set across a number of our businesses.
3. Lapse experience in Poland continues to be better than the long-term assumptions set for both Life and Pension products.
4. In the UK, other experience profits include better than assumed default experience on corporate bonds and commercial mortgages.
5. In the USA, expense assumptions have been strengthened following investment in the business capability.
6. In the UK, the allowance for annuitant mortality improvement has been strengthened, by increasing the minimum rates of improvement.
7. In Poland lapse assumptions have been changed following continued favourable experience. In Spain, lapse assumptions have been strengthened mainly on risk products.
8. In the UK, other operating assumption changes reflect the reduction in the level of required capital assumed on our annuity portfolio. In France, other operating assumption changes reflect increased profitability driven by product development and the increased proportion of unit-linked assets within managed funds. In the USA, other assumption changes relate to the implementation of an efficient financing solution to free up capital previously held to support excessive regulatory reserves.

Geographical analysis of the components of life EEV operating return continued

2006	UK £m	France £m	Ireland £m	Italy £m	Netherlands £m	Poland £m	Spain £m	Other Europe £m	Europe £m	North America £m	Asia £m	Australia £m	Asia Pacific £m	Total £m
New business contribution (after the effect of required capital)	263	110	9	50	25	25	168	(6)	381	8	22	9	31	683
Profit from existing business														
– expected return	474	142	41	26	158	52	53	9	481	29	10	17	27	1,011
– experience variances:														
Maintenance expenses	13	9	4	(1)	(11)	5	(2)	(2)	2	–	–	(2)	(2)	13
Project and other related expenses[1]	(149)	1	(4)	–	(23)	–	(1)	(2)	(29)	–	–	–	–	(178)
Mortality/Morbidity[2]	(13)	33	(2)	4	3	16	1	2	57	–	8	7	15	59
Lapses[3]	(66)	8	(9)	(8)	2	21	(1)	(2)	11	(9)	(6)	3	(3)	(67)
Other[4]	75	20	(9)	6	20	3	11	(1)	50	(2)	(2)	2	–	123
	(140)	71	(20)	1	(9)	45	8	(5)	91	(11)	–	10	10	(50)
– operating assumption changes:														
Maintenance expenses[5]	58	–	(3)	–	60	(3)	–	(11)	43	(12)	(1)	(5)	(6)	83
Project and other related expenses[6]	(46)	(2)	(22)	–	(9)	–	–	(3)	(36)	–	–	–	–	(82)
Mortality/Morbidity[7]	57	45	(13)	–	–	17	–	(1)	48	3	4	7	11	119
Lapses[8]	(224)	(41)	(47)	–	(14)	17	(21)	(1)	(107)	–	–	2	2	(329)
Other[9]	215	9	–	2	19	1	2	3	36	–	(1)	3	2	253
	60	11	(85)	2	56	32	(19)	(13)	(16)	(9)	2	7	9	44
Expected return on shareholders' net worth	87	68	15	31	99	8	11	2	234	15	3	6	9	345
Life EEV operating return before tax	744	402	(40)	110	329	162	221	(13)	1,171	32	37	49	86	2,033

1. Project and other related expenses in the UK reflect £32 million relating to the ongoing transformation of the life business and £117 million of other exceptional and project costs associated with strategic initiatives, including developments designed to improve the future new business volumes, and regulatory changes. In the Netherlands, these expenses reflect higher project costs compared to allowances as well as the payment to ABN AMRO in respect of the joint venture operations.
2. Mortality experience continues to be better than the assumptions set across many of our businesses.
3. Lapse experience in the UK has been worse than assumed and primarily relates to bonds and pensions. In Poland, lapses for both life and pension products have been lower than assumed resulting in the favourable experience variance.
4. In the UK, other experience profits include better than assumed default experience on corporate bonds and mortgages, and the benefit of higher than expected performance fees in Morley.
5. Maintenance expenses in the UK relate to Morley's change in profit margin. The change in Delta Lloyd is also driven by improved asset management profitability. The adverse movement in North America is due to a reassessment of expenses in our Boston-based operations.
6. In the UK, exceptional expenses relate to short-term project costs and capitalisation of reorganisation costs. Ireland reflects changes in expense assumptions regarding the future attribution of investment income and expenses between policyholders and shareholders.
7. The change in mortality assumptions in the UK includes an alignment in the basis for internal business. Mortality assumptions in France were changed following improvements in mortality experience over the last few years.
8. In the UK, the lapse assumption change relates to bonds and pension business while the change in Ireland relates to the Celebration Bond and unit-linked bonds. In France, lapse assumptions have been changed for non-AFER business in Aviva Vie. In Spain, lapse assumptions have been changed for risk business and some savings products.
9. In the UK, the assumption changes reflect the beneficial impact of the with-profit funds sharing the pension scheme deficit funding (£126 million) and the impact of PS06/14, primarily in reducing the non-profit reserves (£50 million). In Delta Lloyd the impact is due to changes to management fee rebates.

Analysis of movement in life and related businesses embedded value

The following tables provide an analysis of the movement in embedded value for the life and related businesses for 2007 and 2006. The analysis is shown separately for net worth and the value of in-force covered business, and includes amounts transferred between these categories. The transfer to life and related businesses from other segments consists of service company profits and losses during the reported year that have emerged from the value of in-force. Since the "look through" into service companies includes only future profits and losses, these amounts must be eliminated from the closing embedded value. All figures are shown net of tax.

			2007
	Net worth £m	**Value of in-force £m**	**Total £m**
Embedded value at the beginning of the year – Free surplus	**3,569**		
– Required capital[1]	**5,314**		
Total	**8,883**	**9,215**	**18,098**
New business contribution (after the effect of required capital)	**(649)**	**1,285**	**636**
Expected return on existing business – return on VIF	**–**	**892**	**892**
Expected return on existing business – transfer to net worth	**1,216**	**(1,216)**	**–**
Experience variances and operating assumption changes	**342**	**(270)**	**72**
Expected return on shareholders' net worth	**334**	**–**	**334**
Investment return variances and economic assumption changes	**539**	**(473)**	**66**
Life EEV return after tax	**1,782**	**218**	**2,000**
Exchange rate movements	**572**	**402**	**974**
Embedded value from business acquired	**84**	**26**	**110**
Net amounts released from life and related businesses	**(795)**	**–**	**(795)**
Transfer from life and related businesses to other segments	**(68)**	**–**	**(68)**
Embedded value at the end of the year – Free surplus	**4,127**		
– Required capital[1]	**6,331**		
Total	**10,458**	**9,861**	**20,319**

1. Required capital is shown net of implicit items permitted by local regulators to cover minimum solvency margins.

The embedded value of business acquired in the twelve months to 31 December 2007 of £110 million represents the embedded value of Hamilton Life Asssurance Company Limited, Area Life International Assurance Limited and Erasmus Groep BV, Caja de Ahorros De Murcia, Aviva SA Emeklilik ve Hayat A.S, CIMB Aviva Takaful Berhad, CIMB Aviva Assurance Berhad and First Aviva Life Assurance Co.,Ltd.

Required capital has increased in the period by £1,017 million. The movement comprises an increase of £810 million in relation to new business written, a reduction of £372 million regarding in-force business, an increase of £197 million due to a reduction in implicit items, £46 million additional in-force required capital relating to the acquisitions during the period and a £336 million increase due to foreign exchange rate movements. The decrease in the in-force business required capital includes the impact of the higher solvency margin required for certain unit linked business, following clarification by the French regulator to the industry and the reduction in the level of required capital for UK annuities.

			2006
	Net worth £m	Value of in-force £m	Total £m
Embedded value at the beginning of the year – Free surplus	2,772		
– Required capital[1]	4,448		
Total	7,220	7,893	15,113
New business contribution (after the effect of required capital)	(602)	1,071	469
Expected return on existing business – return on VIF	–	710	710
Expected return on existing business – transfer to net worth	1,023	(1,023)	–
Experience variances and operating assumption changes	400	(415)	(15)
Expected return on shareholders' net worth	239	–	239
Investment return variances and economic assumption changes	355	340	695
Life EEV return after tax	1,415	683	2,098
Exchange rate movements	(189)	(120)	(309)
Embedded value of business acquired	675	759	1,434
Net amounts released from life and related businesses	(253)	–	(253)
Transfer to life and related businesses from other segments	113	–	113
UK pension fund deficit borne by UK with-profit funds transferred to analysis of net assets on an EEV basis[2]	(98)	–	(98)
Embedded value at the end of the year – Free surplus	3,569		
– Required capital[1]	5,314		
Total	8,883	9,215	18,098

1. Required capital is shown net of implicit items permitted by local regulators to cover minimum solvency margins.
2. The impact of the operating assumption change reflecting the UK with-profits funds contribution to the UK pension scheme deficit funding has been removed from the Life EEV analysis as the pension fund deficit notionally allocated to long-term business net assets on an EEV basis is net of the proportion of funding borne by the UK with-profits funds.

Segmental analysis of life and related businesses embedded value

2007	Net worth: Required capital[1] £m	Net worth: Free surplus £m	Value of in-force covered business: Present value of in-force £m	Value of in-force covered business: Cost of required capital £m	Total: Embedded value £m
United Kingdom	**1,307**	**1,338**	**4,816**	**(355)**	**7,106**
France	**1,510**	**74**	**1,416**	**(340)**	**2,660**
Ireland	**267**	**213**	**564**	**(45)**	**999**
Italy	**305**	**464**	**299**	**(61)**	**1,007**
Netherlands (including Belgium and Germany)	**1,456**	**1,557**	**1,605**	**(442)**	**4,176**
Poland	**129**	**128**	**726**	**(41)**	**942**
Spain	**316**	**87**	**714**	**(69)**	**1,048**
Other Europe	**24**	**33**	**110**	**(11)**	**156**
Europe	**4,007**	**2,556**	**5,434**	**(1,009)**	**10,988**
North America[2]	**776**	**46**	**918**	**(152)**	**1,588**
Asia Pacific	**241**	**187**	**281**	**(72)**	**637**
Total	**6,331**	**4,127**	**11,449**	**(1,588)**	**20,319**

1. Required capital is shown net of implicit items permitted by local regulators to cover minimum solvency margins.
2. AmerUs holding company debt amounting to £349 million at 31 December 2007 *(2006: £362 million)* has been included within other operations.

2006	Net worth: Required capital[1] £m	Net worth: Free surplus £m	Value of in-force covered business: Present value of in-force £m	Value of in-force covered business: Cost of required capital £m	Total: Embedded value £m
United Kingdom	1,334	641	5,103	(442)	6,636
France	1,143	250	1,142	(244)	2,291
Ireland	254	143	535	(40)	892
Italy	320	329	206	(63)	792
Netherlands (including Belgium and Germany)	1,067	1,701	1,461	(362)	3,867
Poland	105	107	540	(33)	719
Spain	273	37	606	(59)	857
Other Europe	18	25	75	(12)	106
Europe	3,180	2,592	4,565	(813)	9,524
North America	618	211	794	(145)	1,478
Asia Pacific	182	125	204	(51)	460
Total	5,314	3,569	10,666	(1,451)	18,098

1. Required capital is shown net of implicit items permitted by local regulators to cover minimum solvency margins.

The shareholders' net worth is the market value of the shareholders' funds and the shareholders' interest in the surplus held in the non-profit component of the long-term business funds, determined on a statutory solvency basis and adjusted to add back any non-admissible assets. Required capital, net of implicit items, is included within the net worth.

The value of in-force covered business includes "cost of required capital" – the effect of holding shareholders' capital to support the level of required capital and allowing for projected future releases.

Alternative method of reporting long-term business profits continued

Time value of options and guarantees

The following table sets out the time value of options and guarantees relating to covered business by territory.

	2007 £m	2006 £m
United Kingdom	**50**	50
France	**89**	77
Ireland	**2**	2
Italy	**22**	17
Netherlands (including Belgium and Germany)	**129**	146
Poland	**4**	4
Spain	**4**	4
Other Europe	**1**	–
Europe	**251**	250
North America	**85**	68
Asia Pacific	**6**	4
Total	**392**	372

The time value of options and guarantees (TVOG) is most significant in the United Kingdom, France, the Netherlands and the United States. In the United Kingdom, this relates mainly to non-market value adjustment (MVA) guarantees on unitised with-profit business and guaranteed annuity rates. In France, this relates mainly to guaranteed crediting rates and surrender values on traditional business including the AFER fund. In the Netherlands, this relates mainly to maturity guarantees on unit-linked products and interest rate guarantees on traditional individual and group profit sharing business. In the United States, this relates to crediting rate, death benefit and surrender guarantees on life business.

The TVOG has increased by £20 million to £392 million, reflecting the impact of adverse investment variances.

Geographical analysis of fund management operating profit

The summarised consolidated income statement – EEV basis, includes profit from the Group's fund management operations as analysed below. This excludes the proportion of the results of Morley's fund management businesses, of our French asset management operation Aviva Gestion d'Actifs (AGA) and other fund management operations within the Group that arises from the provision of fund management services to our Life businesses. These results are included within the Life EEV operating return.

	2007 £m	2006 £m
UK business	**40**	35
International business	**11**	9
Morley	**51**	44
Royal Bank of Scotland	**(9)**	(7)
Norwich Union investment funds	**(1)**	1
United Kingdom	**41**	38
France	**10**	10
Netherlands	**17**	33
Other Europe	**4**	3
Europe	**31**	46
North America	**3**	3
Asia Pacific	**15**	9
Total	**90**	96

Analysis of other operations' operating result

The summarised consolidated income statement – EEV basis, includes the results of the Group's other operations as analysed below. Where subsidiaries provide services to our life businesses, that proportion has been excluded. These results are included within the Life EEV operating return. Other subsidiaries providing services to our life businesses do not materially impact the Group results.

	2007 £m	2006 £m
United Kingdom	**(8)**	36
Europe	**(45)**	(53)
North America	**(4)**	–
Asia Pacific	**(13)**	(6)
Total	**(70)**	(23)

Summary of minority interest in life and related businesses' EEV results[1]

2007	France £m	Ireland £m	Italy £m	Nether-lands £m	Poland £m	Spain £m	Europe £m	Asia Pacific £m	Total £m	Share-holder interest £m	Group £m
Minority interest											
New business contribution before effect of required capital	**25**	**6**	**48**	**6**	**4**	**103**	**192**	**1**	**193**	**981**	**1,174**
Effect of required capital	**(11)**	**(1)**	**(13)**	**(3)**	**–**	**(9)**	**(37)**	**–**	**(37)**	**(225)**	**(262)**
New business contribution after effect of required capital	**14**	**5**	**35**	**3**	**4**	**94**	**155**	**1**	**156**	**756**	**912**
Life EEV operating return before tax	**43**	**20**	**75**	**21**	**25**	**124**	**308**	**3**	**311**	**2,442**	**2,753**
Life EEV return after tax	**23**	**15**	**76**	**8**	**23**	**75**	**220**	**2**	**222**	**1,778**	**2,000**
Closing life and related businesses' embedded value	**214**	**243**	**532**	**127**	**119**	**473**	**1,708**	**11**	**1,719**	**18,600**	**20,319**

2006	France £m	Ireland £m	Italy £m	Nether-lands £m	Poland £m	Spain £m	Europe £m	Asia Pacific £m	Total £m	Share-holder interest £m	Group £m
Minority interest											
New business contribution before effect of required capital	24	3	41	9	4	93	174	1	175	717	892
Effect of required capital	(9)	(2)	(12)	(2)	(1)	(7)	(33)	–	(33)	(176)	(209)
New business contribution after effect of required capital	15	1	29	7	3	86	141	1	142	541	683
Life EEV operating return before tax	33	(11)	60	30	25	108	245	2	247	1,786	2,033
Life EEV return after tax	16	(7)	46	22	24	79	180	4	184	1,914	2,098
Closing life and related businesses' embedded value	162	216	413	102	118	366	1,377	10	1,387	16,711	18,098

1. There are no minorities in the United Kingdom or North America.

Principal economic assumptions

Deterministic calculations

Economic assumptions are derived actively, based on market yields on risk-free fixed interest assets at the end of each reporting year. The same margins are applied on a consistent basis across the Group to gross risk-free yields to obtain investment return assumptions for ordinary shares and property and to produce risk discount rates. Additional country-specific risk margins are applied to smaller businesses to reflect additional economic, political and business-specific risk, which result in the application of risk margins ranging from 3.7% to 8.7% in our eastern European and Asian business operations. Expense inflation is derived as a fixed margin above a local measure of long-term price inflation. Risk free rates and price inflation have been harmonised across territories within the Euro currency zone, except for expense inflation in Ireland where significant differences remain. Required capital is shown as a multiple of the EU statutory minimum solvency margin or equivalent.

Investment return assumptions are generally derived by major product class, based on hypothecating the assets at the valuation date. Future assumed reinvestment rates are consistent with implied market returns at 31 December 2007. Rates have been derived using rates from the current yield curve at a duration based on the term of the liabilities, or directly from forward yield curves where considered appropriate. Assumptions about future investment mix are consistent with long-term plans. In most cases, the investment mix is assumed to continue unchanged throughout the projection period. The changes in assumptions between reporting dates reflect the actual movements in risk free yields in the United Kingdom, the Eurozone and other territories. The principal economic assumptions used are as follows:

	United Kingdom			France		
	2007	2006	2005	**2007**	2006	2005
Risk discount rate	**7.3%**	7.3%	6.8%	**7.1%**	6.7%	6.0%
Pre-tax investment returns:						
Base government fixed interest	**4.6%**	4.6%	4.1%	**4.4%**	4.0%	3.3%
Ordinary shares	**7.6%**	7.6%	7.1%	**7.4%**	7.0%	6.3%
Property	**6.6%**	6.6%	6.1%	**6.4%**	6.0%	5.3%
Future expense inflation	**3.5%**	3.4%	3.2%	**2.5%**	2.5%	2.5%
Tax rate	**28.0%**	30.0%	30.0%	**34.4%**	34.4%	34.4%
Required Capital (% EU minimum)	**100%**	150%/ 100%	150%/ 100%	**115%**	115%	115%

Alternative method of reporting long-term business profits continued

Principal economic assumptions continued

	Ireland			Italy		
	2007	2006	2005	**2007**	2006	2005
Risk discount rate	**7.1%**	6.7%	6.0%	**7.1%**	6.7%	6.0%
Pre-tax investment returns:						
Base government fixed interest	**4.4%**	4.0%	3.3%	**4.4%**	4.0%	3.3%
Ordinary shares	**7.4%**	7.0%	6.3%	**7.4%**	7.0%	6.3%
Property	**6.4%**	6.0%	5.3%	**6.4%**	6.0%	5.3%
Future expense inflation	**4.0%**	4.0%	4.0%	**2.5%**	2.5%	2.5%
Tax rate	**12.5%**	12.5%	12.5%	**32.4%**	38.3%	38.3%
Required Capital (% EU minimum)	**150%**	150%	150%	**115%**	115%	115%

	Netherlands			Poland		
	2007	2006	2005	**2007**	2006	2005
Risk discount rate	**7.1%**	6.7%	6.0%	**9.4%**	8.7%	8.6%
Pre-tax investment returns:						
Base government fixed interest	**4.4%**	4.0%	3.3%	**5.7%**	5.0%	4.9%
Ordinary shares	**7.4%**	7.0%	6.3%	**8.7%**	8.0%	7.9%
Property	**6.4%**	6.0%	5.3%	**n/a**	n/a	n/a
Future expense inflation	**2.5%**	2.5%	2.5%	**4.1%**	3.4%	3.3%
Tax rate	**25.5%**	25.5%	29.1%	**19.0%**	19.0%	19.0%
Required Capital (% EU minimum)	**150%**	150%	150%	**150%**	150%	150%

	Spain			United States		
	2007	2006	2005	**2007**	2006*	2005
Risk discount rate	**7.1%**	6.7%	6.0%	**6.7%**	7.4%	7.2%
Pre-tax investment returns:						
Base government fixed interest	**4.4%**	4.0%	3.3%	**4.0%**	4.7%	4.5%
Ordinary shares	**7.4%**	7.0%	6.3%	**7.0%**	7.7%	n/a
Property	**6.4%**	6.0%	5.3%	**n/a**	n/a	n/a
Future expense inflation	**2.5%**	2.5%	2.5%	**3.0%**	3.0%	3.0%
Tax rate	**30.0%**	30.0%	35.0%	**35.0%**	35.0%	35.0%
Required Capital (% EU minimum, or equivalent)	**125%/ 110%**	125%/ 110%	125%/ 110%	**250%**	250%	200%

* The principal economic assumptions used for AmerUs Group Co. at the date of acquisition were as follows: risk discount rate of 7.2%, pre-tax investment returns of 4.6% for base government fixed interest and required capital of 250%.

For service companies, expense inflation relates to the underlying expenses rather than the fees charged to the life company. Future returns on corporate fixed interest investments are calculated from prospective yields less an adjustment for credit risk. Following the change made to the required capital in Norwich Union Annuity Limited, required capital in the United Kingdom is now 100% EU minimum for all life companies. Required capital in Spain is 125% EU minimum for Aviva Vida y Pensiones and 110% for bancassurance companies. The level of required capital for the US business is 250% of the risk based capital, at the company action level, set by the National Association of Insurance Commissioners. The required capital is equivalent to 5% of the insurance liabilities on a local regulatory basis which is broadly equivalent to the required capital we hold for our main European businesses.

Other economic assumptions

Required capital relating to with-profit business is assumed to be covered by the surplus within the with-profit funds and no effect has been attributed to shareholders. Bonus rates on participating business have been set at levels consistent with the economic assumptions and Aviva's medium-term bonus plans. The distribution of profit between policyholders and shareholders within the with-profit funds assumes that the shareholder interest in conventional with-profit business in the United Kingdom and Ireland continues at the current rate of one-ninth of the cost of bonus.

Stochastic calculations

The time value of options and guarantees calculation allows for expected management and policyholder actions in response to varying future investment conditions. The management actions modelled include changes to asset mix and bonus rates. Modelled policyholder actions are described under "Other assumptions".

This section describes the models used to generate future investment simulations and gives some sample statistics for the simulations used. Two separate models have been used, for the UK businesses and for International businesses, to better reflect the characteristics of the businesses.

Principal economic assumptions continued

United Kingdom

Model

Overall asset returns have been generated assuming that the portfolio total return has a lognormal distribution. The mean and standard deviation of the overall asset return have been calculated using the evolving asset mix of the fund and assumptions over the mean and standard deviation of each asset class, together with the correlations between them.

Asset classes

The significant asset classes for UK participating business are equities, property and long-term fixed rate bonds. The most significant assumption is the distribution of future long-term interest rates, since this is the most important factor in the cost of guaranteed annuity options.

Summary statistics

The following table sets out the mean and standard deviations (StDev) of future returns at 31 December 2007 for the three most significant asset classes. Interest rates are assumed to have a lognormal distribution with an annualised standard deviation of 11.5% p.a. for the natural logarithm of the interest rate.

	Mean[1]	StDev[2]
Equities	7.6%	20%
Property	6.6%	15%
Government Bonds	4.6%	3.25-4.5%[3]

1. Means have been calculated by accumulating a unit investment for the required number of years in each simulation, averaging the accumulation across all simulations, and converting the result to an equivalent annual rate (by taking the n^{th} root of the average accumulation minus one).
2. Standard deviations have been calculated by accumulating a unit investment for the required number of years in each simulation, taking the natural logarithm of the result, calculating the variance of this statistic, dividing by the projection period (n years) and taking the square root. This makes the result comparable to implied volatilities quoted in investment markets.
3. Depending on the duration of the portfolio.

For the UK, the statistics are the same over all projection horizons. Assumptions are also required for correlations between asset classes. These have been set based on an assessment of historical data. Returns for corporate fixed interest investments in each scenario are equal to the return on Government bonds plus a fixed additional amount, based on current spreads less a margin for credit risk.

International

Model

Government nominal interest rates are generated by a model that projects a full yield curve at annual intervals. The model assumes that the logarithm of the short rate follows a mean reverting process subject to two normally distributed random shocks. This ensures that nominal interest rates are always positive, the distribution of future interest rates remains credible, and the model can be calibrated to give a good fit to the initial yield curve.

The total annual return on equities is calculated as the return on one year bonds plus an excess return. The excess return is assumed to have a lognormal distribution. The model also generates property total returns and real yield curves, although these are not significant asset classes for Aviva outside the UK.

Asset classes

The most important assets are fixed rate bonds of various durations. In some businesses equities are also an important asset class.

Summary statistics

The following table sets out the means and standard deviations of future euro and US dollar returns at 31 December 2007 for the three most significant asset classes: equities (in the case of euro), short-term bonds (defined to be of one year duration) and long-term bonds (defined to be ten year zero coupon bonds). In the accumulation of ten year bonds, it is assumed that these are held for one year, sold as nine year bonds then the proceeds are reinvested in ten year bonds, although in practice businesses follow more complex asset strategies or tend to adopt a buy and hold strategy. Correlations between asset classes have been set using the same approach as described for the United Kingdom.

	5-year return		10-year return		20-year return	
	Mean[1]	StDev[2]	Mean[1]	StDev[2]	Mean[1]	StDev[2]
Euro						
Short Government Bonds	4.0%	1.9%	4.1%	3.7%	4.4%	6.6%
Long Government Bonds	4.7%	4.8%	4.7%	3.6%	4.7%	3.9%
Equities	7.3%	19.5%	7.3%	19.2%	7.3%	19.2%
US dollar						
Short Government Bonds	3.4%	1.7%	3.9%	3.7%	4.3%	6.6%
Long Government Bonds	4.2%	4.9%	4.6%	3.6%	4.8%	4.1%

1. Means have been calculated by accumulating a unit investment for the required number of years in each simulation, averaging the accumulation across all simulations, and converting the result to an equivalent annual rate (by taking the n^{th} root of the average accumulation minus one).
2. Standard deviations have been calculated by accumulating a unit investment for the required number of years in each simulation, taking the natural logarithm of the result, calculating the variance of this statistic, dividing by the projection period (n^{th} years) and taking the square root. This makes the result comparable to implied volatilities quoted in investment markets.

Principal economic assumptions continued

Other assumptions

Taxation
Current tax legislation and rates have been assumed to continue unaltered, except where changes in future tax rates have been announced.

Demographic assumptions
Assumed future mortality, morbidity and lapse rates have been derived from an analysis of Aviva's recent operating experience. Where appropriate, surrender and option take up rate assumptions that vary according to the investment scenario under consideration have been used in the calculation of the time value of options and guarantees, based on our assessment of likely policyholder behaviour in different investment scenarios.

Expense assumptions
Management expenses and operating expenses of holding companies attributed to life and related businesses have been included in the EEV calculations and split between expenses relating to the acquisition of new business, the maintenance of business in-force and project expenses. Future expense assumptions include an allowance for maintenance expenses and a proportion of recurring project expenses. Certain expenses of an exceptional nature, when they occur, are identified separately and are generally charged as incurred. No future productivity gains have been anticipated.

Where subsidiary companies provide administration, investment management or other services to businesses included in the European Embedded Value calculations, the value of profits or losses arising from these services have been included in the embedded value and new business contribution.

Valuation of debt
Borrowings in the EEV consolidated balance sheet are valued on an IFRS basis, consistent with the primary financial statements. At 31 December 2007 the market value of the Group's external debt, subordinated debt, preference shares including General Accident plc preference shares of £250 million (classified as minority interests) and direct capital instrument was £5,774 million *(2006: £5,991 million)*.

	2007 £m	2006 £m
Borrowings per summarised consolidated balance sheet – EEV basis	**12,657**	12,137
Add: amount included within held for sale	**12**	–
Less: Securitised mortgage funding	**(7,295)**	(7,068)
Borrowings excluding non-recourse funding – EEV basis	**5,374**	5,069
Less: Operational financing by businesses	**(1,063)**	(874)
External debt and subordinated debt – EEV basis	**4,311**	4,195
Add: Preference shares (including General Accident plc) and direct capital instrument	**1,440**	1,440
External debt, subordinated debt, preference shares and direct capital instrument – EEV basis	**5,751**	5,635
Effect of marking these instruments to market	**23**	356
Market value of external debt, subordinated debt, preference shares and direct capital instrument	**5,774**	5,991

Other
It has been assumed that there will be no changes to the methods and bases used to calculate the statutory technical provisions and current surrender values, except where driven by varying future investment conditions under stochastic economic scenarios.

Sensitivity analysis

Economic assumptions

The following tables show the sensitivity of the embedded value as at 31 December 2007 and the new business contribution before the effect of required capital for 2007 to:

– one percentage point increase and decrease in the discount rates;

– one percentage point increase and decrease in interest rates, including all consequential changes (including assumed investment returns for all asset classes, market values of fixed interest assets, risk discount rates);

– one percentage point increase and decrease in the assumed investment returns for equity and property investments, excluding any consequential changes to the risk discount rate;

– 10% rise and fall in market value of equity and property assets (not applicable for new business contribution); and

– decrease in the level of required capital to 100% EU minimum (or equivalent) (not applicable for new business contribution).

In each sensitivity calculation, all other assumptions remain unchanged except where they are directly affected by the revised economic conditions. For example, future bonus rates are automatically adjusted to reflect sensitivity changes to future investment returns. Some of the sensitivity scenarios may have consequential effects on valuation bases, where the basis for certain blocks of business is actively updated to reflect current economic circumstances. Consequential valuation impacts on the sensitivities are allowed for where an active valuation basis is used. Where businesses have a target asset mix, the portfolio is re-balanced after a significant market movement otherwise no re-balancing is assumed.

Embedded value (net of tax) 31 December 2007	As reported on page 259 £m	1% increase in discount rates £m	1% decrease in discount rates £m	1% increase in interest rates £m	1% decrease in interest rates £m
United Kingdom	7,106	(465)	540	(390)	460
France	2,660	(170)	195	(150)	135
Ireland	999	(40)	45	(40)	50
Italy	1,007	(25)	30	(55)	(35)
Netherlands (including Belgium and Germany)	4,176	(205)	245	5	(220)
Poland	942	(50)	55	(20)	20
Spain	1,048	(50)	60	(30)	30
Other Europe	156	(5)	5	–	–
Europe	10,988	(545)	635	(290)	(20)
North America	1,588	(85)	95	(165)	160
Asia Pacific	637	(20)	25	(10)	5
Total	20,319	(1,115)	1,295	(855)	605

Embedded value (net of tax) 31 December 2007	As reported on page 259 £m	1% increase in equity/ property returns £m	1% decrease in equity/ property returns £m	10% rise in equity/ property market values £m	10% fall in equity/ property market values £m	EU minimum capital (or equivalent) £m
United Kingdom	7,106	225	(225)	435	(445)	–
France	2,660	100	(95)	130	(135)	55
Ireland	999	15	(15)	30	(30)	15
Italy	1,007	5	(5)	15	(25)	10
Netherlands (including Belgium and Germany)	4,176	265	(275)	475	(470)	125
Poland	942	10	(15)	20	(20)	15
Spain	1,048	10	(10)	15	(15)	5
Other Europe	156	–	–	–	(5)	–
Europe	10,988	405	(415)	685	(700)	225
North America	1,588	15	(20)	–	–	90
Asia Pacific	637	5	(5)	10	(10)	10
Total	20,319	650	(665)	1,130	(1,155)	325

In general, the magnitude of the sensitivities will reflect the size of the embedded values, though this will vary as the sensitivities have different impacts on the different components of the embedded value. In addition, other factors can have a material impact, such as the nature of the options and guarantees, as well as the types of investments held. The interest rate sensitivity will vary significantly by territory, depending on the type of business written: for example, where non-profit business is well matched by backing assets, the favourable impact of reducing the risk discount rate is the dominant factor.

Sensitivity analysis continued
Sensitivities will also vary according to the current economic assumptions, mainly due to the impact of changes to both the intrinsic cost and time value of options and guarantees. Options and guarantees are the main reason for the asymmetry of the sensitivities where the guarantee impacts to different extents under the different scenarios. This can be seen in the sensitivity of a 1% movement in the interest rate for the Netherlands, where there is a significant amount of business with investment return guarantees.

Sensitivities to a 1% movement in the equity/property return will only impact the value of the in-force covered business, whereas a 10% movement in equity/property values may impact both the net worth and the value of in-force, depending on the allocation of assets.

New business contribution before required capital (gross of tax) 31 December 2007	As reported on page 255 £m	1% increase discount rates £m	1% decrease in discount rates £m	1% increase in interest rates £m	1% decrease in interest rates £m
United Kingdom	360	(53)	64	(17)	21
France	169	(15)	17	(2)	–
Ireland	30	(5)	6	(3)	4
Italy	82	(4)	4	–	(3)
Netherlands (including Belgium and Germany)	93	(27)	33	7	(21)
Poland	35	(4)	4	(1)	1
Spain	189	(12)	14	(5)	5
Other Europe	–	–	–	1	(1)
Europe	598	(67)	78	(3)	(15)
North America	154	(11)	11	(15)	5
Asia Pacific	62	(6)	7	6	(7)
Total	1,174	(137)	160	(29)	4

New business contribution before required capital (gross of tax) 31 December 2007	As reported on page 255 £m	1% increase in equity/ property returns £m	1% decrease in equity/ property returns £m
United Kingdom	360	31	(31)
France	169	8	(6)
Ireland	30	3	(3)
Italy	82	1	(1)
Netherlands (including Belgium and Germany)	93	45	(45)
Poland	35	1	(1)
Spain	189	2	(2)
Other Europe	–	–	(1)
Europe	598	60	(59)
North America	154	7	(7)
Asia Pacific	62	4	(3)
Total	1,174	102	(100)

Sensitivity analysis continued

Non-economic assumptions

The tables below show the sensitivity of the embedded value as at 31 December 2007 and the new business contribution before the effect of required capital for 2007 to the following changes in non-economic assumptions:

– 10% decrease in maintenance expenses (a 10% sensitivity on a base expense assumption of £10pa would represent an expense assumption of £9pa). Where there is a "look through" into service company expenses, the fee charged by the service company is unchanged while the underlying expense decreases;

– 10% decrease in lapse rates (a 10% sensitivity on a base assumption of 5% pa would represent a lapse rate of 4.5% pa);

– 5% decrease in both mortality and morbidity rates disclosed separately for life assurance and annuity business.

No future management actions are modelled in reaction to the changing non-economic assumptions. In each sensitivity calculation all other assumptions remain unchanged. No changes to valuation bases have been included.

Embedded value (net of tax) 31 December 2007	As reported on page 259 £m	10% decrease in maintenance expenses £m	10% decrease in lapse rates £m	5% decrease in mortality/ morbidity rates – life assurance £m	5% decrease in mortality/ morbidity rates – annuity business £m
United Kingdom	**7,106**	**165**	**95**	**50**	**(140)**
France	**2,660**	**40**	**40**	**25**	**(5)**
Ireland	**999**	**15**	**25**	**5**	**(5)**
Italy	**1,007**	**5**	**5**	**–**	**–**
Netherlands (including Belgium and Germany)	**4,176**	**95**	**15**	**20**	**(55)**
Poland	**942**	**20**	**45**	**10**	**–**
Spain	**1,048**	**15**	**50**	**15**	**(5)**
Other Europe	**156**	**5**	**5**	**–**	**–**
Europe	**10,988**	**195**	**185**	**75**	**(70)**
North America	**1,588**	**30**	**10**	**10**	**–**
Asia Pacific	**637**	**10**	**10**	**10**	**–**
Total	**20,319**	**400**	**300**	**145**	**(210)**

New business contribution before required capital (gross of tax) Year to 31 December 2007	As reported on page 255 £m	10% decrease in maintenance expenses £m	10% decrease in lapse rates £m	5% decrease in mortality/ morbidity rates – life assurance £m	5% decrease in mortality/ morbidity rates – annuity business £m
United Kingdom	**360**	**19**	**23**	**15**	**(11)**
France	**169**	**5**	**8**	**4**	**–**
Ireland	**30**	**2**	**6**	**1**	**–**
Italy	**82**	**2**	**2**	**1**	**–**
Netherlands (including Belgium and Germany)	**93**	**10**	**6**	**3**	**(14)**
Poland	**35**	**2**	**4**	**2**	**–**
Spain	**189**	**5**	**19**	**5**	**–**
Other Europe	**–**	**1**	**1**	**(1)**	**–**
Europe	**598**	**27**	**46**	**15**	**(14)**
North America	**154**	**4**	**3**	**3**	**–**
Asia Pacific	**62**	**6**	**5**	**3**	**–**
Total	**1,174**	**56**	**77**	**36**	**(25)**

The demographic sensitivities shown above represent a standard change to the assumptions for all products. Different products will be more or less sensitive to the change and impacts may partially offset.

Aviva Group of Companies

Parent Company
Aviva plc

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 or services in connection therewith, unless otherwise stated.

United Kingdom
Aviva Employment Services Limited
Aviva Insurance Limited
Aviva International Insurance Limited
CGNU Life Assurance Limited
CGU Bonus Limited
CGU Underwriting Limited
Commercial Union Life Assurance Company Limited
Gresham Insurance Company Limited
Hamilton Insurance Company Limited
Hamilton Life Assurance Company Limited
HPI Limited
Lifetime Group Limited
London and Edinburgh Insurance Company Limited
Morley Fund Management Limited
Morley Pooled Pensions Limited
Norwich Union Annuity Limited
Norwich Union Central Services Limited
Norwich Union Collective Investments Limited
Norwich Union Consumer Products Limited
Norwich Union Equity Release Limited
Norwich Union Healthcare Limited
Norwich Union Insurance Limited
Norwich Union Insurance Services Limited
Norwich Union Investment Funds Limited
Norwich Union Life (RBS) Limited
Norwich Union Life & Pensions Limited
Norwich Union Life Services Limited
Norwich Union Risk Services Limited
NUI Investments Limited
RAC Auto Windscreens Limited
RAC Insurance Limited
RAC Motoring Services
RAC plc
The British School of Motoring Limited

Australia
Aviva Australia Holdings Limited and its principal subsidiaries:
- Norwich Union Life Australia Limited
- Navigator Australia Limited

Portfolio Partners Limited

Belgium
Delta Lloyd Life N.V.

Bermuda
Aviva Re Limited

Canada
Aviva Canada Inc and its principal operating 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

Czech Republic
Aviva zivotni pojist'ovna, a.s.

France
Aviva Participations SA and its principal subsidiaries:
- Antarius S.A. (50.0%)
- Aviva Assurances S.A.
- Aviva Courtage S.A.
- Aviva France SA
- Aviva Gestion d'Actifs S.A.
- Aviva Vie SA
- Eurofil S.A.
- Société d'Epargne Viagére SA (75.0%)
- Union Financière de France Banque (Banking) (76.3%)

Germany
Delta Lloyd Deutschland AG and its principal subsidiary:
- Delta Lloyd Lebensversicherung AG (99.5%)

Hong Kong
Aviva Life Insurance Company Limited

Hungary
Aviva Életbiztosító Zártkörũen Mũködõ Részvénytársaság

Ireland
Hibernian Group plc and its principal subsidiaries:
- Ark Life Assurance Company Limited
- Hibernian General Insurance Limited
- Hibernian Life & Pensions Limited
- Hibernian Investment Managers Limited

Italy
Aviva Italia Holding S.p.A and its principal subsidiaries:
- Aviva Assicurazioni S.p.A (50.0%)
- Aviva Italia S.p.A
- Aviva Life SpA (50.0%)
- Aviva Previdenza S.p.A (50.0%)
- Aviva Vita S.p.A (25.5%)
- Eurovita Assicurazioni S.p.A (40.5%)

Lithuania
UAB Commercial Union Lietuva Gyvybes draudimas

Luxembourg
Commercial Union International Life SA

Netherlands
Delta Lloyd N.V. (92.0%) and its principal subsidiaries:
- Delta Lloyd ABN AMRO Verzekeringen Holding BV (51.0%)
- Delta Lloyd Asset Management N.V.
- Delta Lloyd Bankengroep N.V. (Banking)
- Delta Lloyd Levensverzekering N.V.
- Delta Lloyd Schadeverzekering N.V.
- Delta Lloyd Zorgverzekering N.V.
- Erasmus Groep BV
- OHRA Schadeverzekeringen N.V.
- OHRA Levensverzekeringen N.V.

Poland
Commercial Union Polska – Towarzystwo Ubezpieczen Na Zycie SA (90.0%)
Commercial Union Polska – Towarzystwo Ubezpieczen Ogolnych SA (90.0%)
Commercial Union Powszechne Towarzystwo Emerytalne Emerytalne BPH CU WBK S.A. (88.8%)

Romania
Aviva Asigurari de Viata SA

Russia
Closed Joint Stock Insurance Company Aviva (Zao)

Singapore
Aviva Limited
Navigator Investment Services Limited

Spain
Aseguradora Valenciana S.A., de Seguros y Reaseguros (Aseval) (50.0%)
Aviva Vida y Pensiones, Sociedad Anonima 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. (5.0%)
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%)

Sri Lanka
Eagle Insurance Company Limited (51.0%)

Turkey
Aviva Sigorta A.S. (98.6%)

United States
AmerUs Group Co and its principal subsidiaries:
- American Investors Life Insurance Company, Inc.
- AmerUs Annuity Group Co. (AAG)
- AmerUs Life Insurance Company
- AmerUs Life and Annuity Company
- Aviva Capital Management
- ILICO Holdings, Inc.
- Indianapolis Life Insurance Company Limited

Aviva USA Corporation and its principal operating subsidiary:
- Aviva Life Insurance Company

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 2007 are set out in notes 18 and 19.

United Kingdom
RBS Life Investments Limited (49.99%)
RBSG Collective Investments Limited (49.99%)
The Group also has interests in several property limited partnerships. Further details are provided in note 18.

China
AVIVA-COFCO Life Insurance Co. Limited (50.0%)

India
Aviva Life Insurance Company India Private Limited (26.0%)

Malaysia
CIMB Aviva Assurance Berhad (49.0%)
CIMB Aviva Takaful Berhad (49.0%)

Taiwan
First-Aviva Life Assurance Co., Ltd (49.0%)

Turkey
AvivaSA Emeklilik ve Hayat A.S (49.7%)

Aviva plc is a public limited company incorporated on 09 February 1990 and registered in England and Wales.

Registered Office:
St Helen's, 1 Undershaft
London EC3P 3DQ

Registered number: 2468686

Aviva plc's ordinary and preference shares are listed on the London Stock Exchange and the Luxembourg Stock Exchange.

Documents concerning the company which are referred to in the report and accounts are available for inspection at St Helen's, 1 Undershaft, London EC3P 3DQ.

Aviva plc's objects can be found in the Memorandum of Association in the Memorandum and Articles

Shareholder services

Managing your shareholding

The Company's Register of Members is maintained by the Company's Registrar, Equiniti, and any shareholders who have any queries in respect of their shareholding should contact them directly by using the contact details provided on page 272. In addition to assisting with general queries the Registrar can also help with the following:

Amalgamating your shareholding

If shareholders received more than one copy of the Company's communications, it could be because there is more than one record for them on the share register. To avoid duplicate mailings the Registrar can arrange for accounts to be amalgamated.

Dividend payments directly to your bank or building society account

As an alternative to having dividends paid by cheque, shareholders can, if they wish, have them credited directly into their bank or building society account on the dividend payment date. Having the dividend paid directly into their bank or building society account avoids the risk of cheques being lost or intercepted in the post and is more convenient as payment is credited automatically on the payment date. Shareholders wishing to set up a dividend mandate can do so by completing the dividend mandate form attached to the dividend cheque, via the Company's website at **www.aviva.com/dividendmandate** or by contacting the Registrar.

For overseas shareholders, an overseas payment service is available, which allows shareholders in over 30 countries worldwide to have dividends credited directly into their bank accounts in local currencies, normally costing less than paying in a sterling cheque. Dividend mandate forms for overseas shareholders can be obtained via the Company's website at **www.aviva.com/dividendmandate** or by contacting the Registrar.

Consolidated tax vouchers

Private shareholders who have dividends paid directly into their bank or building society account receive one consolidated tax voucher each year unless they have requested otherwise. If you would prefer to receive a tax voucher with each dividend payment please contact the Registrar.

Scrip Dividend

The Company currently operates the Aviva Scrip Dividend Scheme (the "Scheme") which provides shareholders with the opportunity to receive their dividends in the form of new ordinary shares in the Company instead of cash. Shareholders who have not joined the Scheme but wish to do so should contact the Registrar, Equiniti, and request a mandate form. The completed mandate form will need to be received by Equiniti by no later than 17 April 2008 in order to be effective for the 2007 final dividend (payable on 16 May 2008). Further details are included on the Company's website at **www.aviva.com/scripdividend.**

It is the Company's intention that following the payment of the 2007 final dividend on 16 May 2008 the Aviva Scrip Dividend Scheme will be withdrawn and shareholders will be offered the opportunity to participate in a Dividend Reinvestment Plan. Full details of the new plan will be communicated to shareholders at this time.

ID fraud/unsolicited mail

Aviva has been working with Equiniti to review its procedures and where possible restrict the opportunities for fraud. All shareholders must continue to be vigilant and if any unsolicited mail offering advice is received, shareholders should inform the Registrar immediately.

Corporate Nominee

The Company operates a corporate nominee service, the Aviva Share Account. Shareholders who choose to join the nominee account will not have any personal details entered on the Company's public share register. Members of the Aviva Share Account may retain the same rights as registered shareholders and are able to elect to receive the same shareholder communications. To join the Aviva Share Account or view the terms and conditions please contact the Registrar using the contact details provided on page 272.

Company website

Visit **www.aviva.com** for up-to-date investor information including the Company's latest results and key dates. An electronic copy of current and past Annual and Interim Reports can be viewed online or downloaded from the website. Shareholders can also find Aviva's current and historic share prices, share dealing information, news, updates and, when available, presentations from the Group Chief Executive. Shareholders may also register to receive future shareholder communications electronically by visiting **www.aviva.com/ecomms**

Also for a comprehensive shareholder guide including practical help on many shareholder related topics including transferring shares and updating personal details online, shareholders may visit the shareholder centre at **www.aviva.com/shareholders**

Electronic communications

Aviva has taken full advantage of changes brought about by the Companies Act 2006 which recognises the growing importance of electronic communications and allows companies to provide documentation and communications to shareholders via their websites (except to those who have specifically elected to receive a hard (ie paper) copy).

The wider use of electronic communications enables fast receipt of documents, reduces the Company's printing, paper and postage costs and has a positive impact on the environment.

Shareholders may also cast their vote for the 2008 AGM online quickly and easily using the Sharevote service by visiting **www.sharevote.co.uk** or the Aviva website at **www.aviva.com/agm**

ShareGift

The Orr Mackintosh Foundation operates a purely voluntary charity share donation scheme for shareholders who wish to dispose of small numbers of shares when the dealing costs or minimum fees makes it uneconomical to sell them. Details of the scheme are available from ShareGift at **www.sharegift.org** or can be obtained from the Company's Registrar.

Share dealing

Shareholders who hold their shares in the Aviva Share Account will need to use one of the services detailed below to buy or sell Aviva shares. Those who hold a share certificate can use the services below or any bank, building society or stockbroker offering share dealing facilities. Shareholders in any doubt about buying or selling Aviva shares should seek professional financial advice.

– You can buy or sell shares via the internet or by telephone through Shareview Dealing, a share dealing service provided by Equiniti Financial Services Limited. For internet purchases and sales log on to **www.shareview.co.uk/dealing** and for telephone purchases and sales call 08456 037 037 between 8am and 4.30pm, Monday to Friday.

  Equiniti Financial Services Limited also offers a postal share dealing service. For further information and a postal share dealing form telephone 0871 384 2953*.

  Equiniti Financial Services Limited is authorised and regulated by the Financial Services Authority, registered number 6208699.

– To buy or sell shares over the telephone, shareholders can contact Barclays Stockbrokers on 0870 549 3002 (for shareholders with a share certificate) or 0870 549 3001 (for shareholders with an Aviva Share Account statement). To check instructions and maintain high quality service standards, Barclays Stockbrokers may record and monitor calls. New Business Development hours are between 8am and 6pm, Monday to Friday, excluding Bank Holidays.

  Barclays Stockbrokers is authorised and regulated by the Financial Services Authority, registered number 124247.

  Barclays Stockbrokers also offers a postal share dealing service. For further information and a postal share dealing form telephone 0870 514 3263.

– NatWest Stockbrokers provide a share dealing service either over the telephone or at certain NatWest branches for Aviva Share Account holders only. For more information contact NatWest Stockbrokers on 0845 122 0689. NatWest Stockbrokers Limited ("NWS") is a member of the London Stock Exchange and PLUS. NWS is authorised and regulated by the Financial Services Authority, registered number 124395. Registered Office: Waterhouse Square, 138-142 Holborn, London EC1N 2TH. Registered in England and Wales, registered number 1959479, England. NWS is operated by a joint venture between The Royal Bank of Scotland Group plc and The Toronto-Dominion Bank.

Share dealing for overseas shareholders

– To sell Aviva shares over the telephone, shareholders can contact Barclays Stockbrokers on +44 (0)141 352 3959. Non UK residents will need to provide various documents in order to use this service and details will be provided on registration. Please note that regulations prevent this service from being offered to the residents of the United States, Canada and Australia. Settlement proceeds will be sent to either a UK sterling bank account or by sterling cheque.

Share price

Shareholders can access the current share price of Aviva plc ordinary shares at **www.aviva.com/shareprice** or alternatively can call FT Cityline on 0906 843 2197. Calls are currently charged at 60 pence per minute on a per second basis from a BT landline. Charges from other networks and mobile networks may vary. The average time to access the share price is approximately one minute. The current share price of Aviva's preference shares can be found on the London Stock Exchange website at **www.londonstockexchange.com/en-gb/pricesnews**

Shareholder information

Shareholder profile

The categories of ordinary shareholders and the range and size of shareholdings as at 31 December 2007 are set out below:

Analysis of shareholders	No. of shareholders	%	No. of shares	%
Individual	604,469	96.99	243,470,993	9.29
Banks and nominee companies	14,794	2.37	2,265,097,530	86.40
Pension fund managers and insurance companies	97	0.02	105,077	0.00
Other corporate bodies	3,856	0.62	113,119,228	4.31
Total	**623,216**	**100**	**2,621,792,828**	**100**

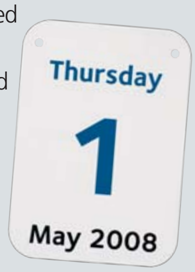
Range of shareholdings	No. of shareholders	%	No. of shares	%
1 – 1,000	575,055	92.27	155,625,575	5.94
1,001 – 5,000	43,493	6.98	79,754,845	3.04
5,001 – 10,000	2,244	0.36	15,346,224	0.59
10,001 – 250,000	1,758	0.28	94,694,622	3.61
250,001 – 500,000	194	0.03	69,090,531	2.64
500,001 and above	472	0.08	2,207,281,031	84.18
Total	**623,216**	**100**	**2,621,792,828**	**100**

* Calls to these numbers are charged at 8 pence per minute from a BT landline. Charges from other telephone providers may vary.

Shareholder services continued

Annual General Meeting

The Company's Annual General Meeting will be held at the Barbican Centre, Silk Street, London EC2Y 8DS on 1 May 2008 at 11am. The Notice of Meeting, together with details of the business to be conducted at the Meeting, is available on the Company's website at **www.aviva.com/agm**



Shareholders unable to attend the Meeting still have an opportunity to submit a question to the Board of Directors. Answers to the most frequently asked questions will be circulated at the Meeting and published on the Company's website shortly after the Meeting. Any shareholders wishing to submit a question may do this by completing and returning the form included in the Notice of Meeting or online via the Aviva website at **www.aviva.com/agm**

The voting results for the 2008 AGM, including the number of votes withheld, will be available on the Company's website shortly after the AGM at **www.aviva.com/agm**

Group financial calendar for 2008

Announcement of quarterly trading update	25 April
Annual General Meeting	1 May
Announcement of unaudited six months' interim results	30 July
Announcement of quarterly trading update	22 October

Ordinary shares – 2007 final dividend

Ex-dividend date	26 March
Record date	28 March
Scrip dividend price available	2 April
Dividend payment date	16 May

Preference shares

First dividend payment for 8⅜% cumulative irredeemable preference shares	31 March
First dividend payment for 8¾% cumulative irredeemable preference shares	30 June
Second dividend payment for 8⅜% cumulative irredeemable preference shares	30 September
Second dividend payment for 8¾% cumulative irredeemable preference shares	31 December

Useful contact details

Detailed below are the contact details and various addresses that shareholders may find useful.
Please quote Aviva plc, as well as the name and address in which the shares are held, in all correspondence.
If you have your shareholder reference, please have this available as well.

General shareholding, administration and Aviva Share Account queries:
Equiniti
Aspect House, Spencer Road
Lancing, West Sussex BN99 6DA

www.shareview.co.uk
e-mail: aviva@equiniti.com

0871 384 2953*

*Calls to these numbers are charged at 8 pence per minute from a BT landline. Charges from other telephone providers may vary.

Individual Savings Accounts (ISAs):
Equiniti (ISA) Manager
Aspect House, Spencer Road
Lancing, West Sussex BN99 6DA

0871 384 2244*

Barclays Stockbrokers (ISA) Manager
Tay House, 300 Bath Street
Glasgow G2 4JR

0870 514 3263

Internet sites

Aviva owns various internet sites, most of which interlink with each other.

Aviva Group:
www.aviva.com
www.aviva.com/shareholders

UK Long-term savings and general insurance:
www.norwichunion.com

Fund management:
www.morleyfm.com

Aviva worldwide internet sites:
www.aviva.com/websites

Aviva plc

Registered in England Number:
2468686
Registered Office:
St Helen's, 1 Undershaft, London EC3P 3DQ
Telephone: +44 (0)20 7283 2000
www.aviva.com

Alternative format

If you would like to request a copy of our Annual Report and Accounts or Annual Review in an alternative format, for example, large print, braille or audio cassette, please contact the Registrar using the details above.

Designed and produced by Radley Yeldar using the paperless proofing system RingMaster®.
Board photography by Marcus Ginns.

We are committed to caring for the environment and looking for sustainable ways to minimise our impact on it.

This year our annual report and accounts has been printed by Burlington. We choose Burlington because they have the important environmental certification by SGS for the FSC standards.

Also we take care to minimise the impact on the environment in the paper we use. The paper we have used, Greencoat 55 Silk, is made from 55% recycled post-consumer fibre using non-toxic, harmless de-inking residues. It also contains fibre sourced from responsibly managed and sustainable forests, certified in accordance with the FSC. And additionally, it is manufactured under strict environmental management systems, the international ISO 14001 standard and EMAS (Eco-Management & Audit Scheme).

FSC – Forest Stewardship Council. This ensures there is an audited chain of custody from the tree in the well managed forest through to the finished document in the printing factory.

ISO 14001 – A pattern of control for an environmental management system against which an organisation can be credited by a third party.

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