News release

AVIVA

2 March 2006

AVIVA PLC
PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2005

- Worldwide operating profit up 29% to £2,904 million
- Final dividend increased by 9% and 5% dividend growth target removed to improve flexibility while investing for future growth
- Healthy performance in long-term savings: Life operating profit up 11% to £1,814 million; profits from new business growing ahead of sales with Group margin up to 3.6% (2004: 3.4%)
- Best general insurance result yet: General insurance and health profit up 22% to £1,551 million; worldwide general insurance combined operating ratio (COR) of 95% (2004: 97%), comfortably beating 98% COR commitment
- Fund management profit more than doubling to £92 million^ (2004: £40 million)

Richard Harvey, group chief executive, commented:
"This is another great set of results from Aviva, delivered by managing our business for value. Our composite business model combines strength and flexibility in both long-term savings and general insurance to produce sustainable returns. As a result, we've been able to increase our dividend, moving above the rigid 5% dividend growth target that we set in 2002, and at the same time we are announcing plans to pay £700 million into our UK pension schemes.

"We've delivered a strong life result as profits continue to grow faster than sales. We made real progress in continental Europe where our long-term savings businesses performed well and we've gained good ground in the developing markets of Asia. Our bancassurance expertise has been a major factor in our progress in the UK, continental Europe and Asia. In the UK, sales continue to build momentum while maintaining strong margins.

"Our general insurance business has delivered yet another excellent result, again demonstrating strong and resilient returns. RAC delivered a good set of results, while our cost savings are on track and the integration is largely complete.

"We are confident of delivering further growth from our businesses in 2006. We will continue to evaluate new distribution and acquisition opportunities to provide additional momentum where we can create shareholder value."

Worldwide highlights	2005	2004	Growth in constant currency
Operating profit – EEV basis*	£2,904m	£2,224m	29%
Operating profit – IFRS basis**	£2,128m	£1,669m	25%
Life EEV operating return	£1,814m	£1,611m	11%
General insurance and health operating profit	£1,551m	£1,259m	22%
Long-term savings new business sales	£24,645m	£22,290m	10%
New business contribution – gross	£808m	£706m	14%
New business contribution – net of required capital, tax and minorities	£341m	£297m	14%
Final dividend per share	17.44p	16.00p	9%
Total dividend per share	27.27p	25.36p	7.5%
Equity shareholders' funds***	£14,899m	£11,661m	-
Return on capital employed	15.0%	13.7%	-
Net asset value per share	622p	511p	-

All operating profit is from continuing operations.
All growth rates quoted are at constant rates of exchange.
The 2004 comparative information reflects the adoption of International Financial Reporting Standards (IFRS).
* Including life EEV operating return, before tax and exceptional items.
** Before tax and exceptional items.
*** Measured on an EEV basis, excluding preference shares, direct capital instrument and minority interests.
^ On an IFRS basis

Segmental analysis of Group operating profit*
For the year ended 31 December

Continuing operations		2005 £m	2004 at 2005 exchange rates £m	2004 £m
Life EEV operating return				
United Kingdom		585	551	551
France		321	288	286
Ireland		20	40	40
Italy		96	80	79
Netherlands (including Belgium and Luxembourg)		318	279	277
Poland		128	105	93
Spain		214	181	180
Other Europe		33	22	22
International		99	83	83
		1,814	**1,629**	**1,611**
Fund Management[1]				
United Kingdom		25	1	1
France		8	5	5
Other Europe		7	6	6
International		11	8	8
		51	**20**	**20**
General insurance and health				
United Kingdom		974	797	797
France		35	33	33
Ireland		171	136	135
Netherlands		137	89	88
Other Europe		47	32	32
Canada		147	144	133
Other		40	41	41
		1,551	**1,272**	**1,259**
Non-insurance operations[2]		60	(41)	(41)
Corporate costs	– global finance transformation programme	(28)	(85)	(85)
	– central costs and sharesave schemes	(108)	(103)	(103)
Unallocated interest charges	– external	(248)	(246)	(246)
	– intra-group	(220)	(219)	(219)
	– net pension income	32	28	28
Group operating profit before tax*		**2,904**	**2,255**	**2,224**

* Group operating profit before tax. All operating profit is from continuing operations.

1 Excludes the proportion of the results of Morley's fund management businesses and of our French asset management operation Aviva Gestion d'Actifs (AGA) that arise from the provision of fund management services to our life businesses. These results are included within the Life EEV operating return.

2 Excludes the results of Norwich Union Equity Release. Also 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.

The total IFRS operating profit for the year to 31 December 2005 was £2,128 million (2004: £1,669 million; £1,696 million restated at constant exchange rates).

GROUP CHIEF EXECUTIVE'S STATEMENT

We have had another great year in 2005 with EEV[1] operating profits before tax increasing 29% to £2.9 billion and return on capital employed increasing to 15% compared to 13.7% last year. On an IFRS basis operating profit before tax grew 25% to £2.1 billion. These results continue a trend of sustained growth and demonstrate our ability to develop our existing portfolio of businesses whilst also achieving excellent returns from our acquisitions and joint venture deals.

As a result of our sustained growth I am delighted to announce an increase in our final dividend of 9% to 17.44 pence per share. Our previous target to grow the dividend by 5% per annum was put in place when the dividend was cut in 2002. Naturally, at that time, the Board wanted to give a high degree of certainty to our shareholders regarding future dividend growth. The Board believes that the target growth rate has become too rigid a constraint, and, in the future, our intention is to increase the 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.

We are also announcing today plans to make a payment of £700 million over the next two years into the Group's UK pension schemes. We are able to do this in light of our strong capital and cash flow position and this demonstrates our ongoing commitment to our employees.

The strength of our composite model is becoming increasingly apparent as we continue to demonstrate the growth potential of our portfolio of general insurance and life businesses. I expect further growth in 2006 and we will continue to evaluate new distribution opportunities and acquisitions where we can create shareholder value.

Long-term Savings and Fund Management

With an increase in life and pensions sales of 7% to £22.2 billion alongside a 14% increase in gross new business contribution to £808 million, we continue to demonstrate our focus on profitable growth in our long-term savings business.

I am particularly pleased that total international long-term savings sales increased by 16% to £14.4 billion. Our international portfolio now contributes nearly 60% of life new business for Aviva. In continental Europe we achieved particularly strong performances with gross new business contribution increasing by 22%, comfortably ahead of the growth in life and pensions sales of 13%. I am confident that we can maintain our track record of achieving sustained profitable growth from our portfolio of businesses in Europe.

We continue to build on our competitive advantage in bancassurance with worldwide growth of 22% to £6.2 billion in 2005. Our expertise in this field is gaining recognition in the banking community and has recently resulted in three excellent deals: with Allied Irish Banks, Centurion Bank of Punjab and National Development Bank. These arrangements significantly increase our distribution capability in Ireland, India and Sri Lanka.

Our Asian operations continue to see significant development, with permission received to set up a branch in Jinan, the capital of Shandong province, in March. Shandong has a population of 92 million people and we are very excited about the growth opportunities in this area. We will then have a presence in 10 cities, including five major provinces. Sales increased five-fold in China and more than doubled in India, showing our commitment to expanding our operations in these countries. In the US, our niche business achieved strong sales growth up 32% to £527 million.

The UK business continued to build momentum and finished 2005 on a robust note. The final quarter was the strongest of the year, with £2.8 billion of new business – an increase of 7% compared to the fourth quarter in 2004. We continue to write all business comfortably above the cost of capital, once again demonstrating our commitment to profitability whilst maintaining a market leading position in the UK.

We remain focused on the development of our UK business with the development of a new SIPP product range in advance of pensions simplification and the launch of a new guaranteed with-profits bond. We have also recently announced an initiative to enter the bulk purchase annuity market within the next year.

There was a healthy increase in sales through the bancassurance joint venture with the Royal Bank of Scotland up 39% to £742 million. This follows the introduction of a full product range during the year and further alignment between the insurance sales force and the banking operations, and further growth remains a priority.

Our fund management business has shown significant growth this year with funds under management increasing £37 billion to £317 billion and profits on an IFRS basis more than doubling to £92 million.

General Insurance

With a combined operating ratio (COR) of 95%, our general insurance performance is comfortably in line with our target to meet or beat a COR of 98% for the foreseeable future. Operating profit has increased to £1.6 billion, 22% ahead of last year.

We achieved a strong performance across the general insurance portfolio with strong growth in all our major markets. This was achieved through a combination of improving underwriting disciplines, cost control and better than expected weather

[1] European Embedded Value

conditions in most markets. In the UK our personal lines premiums grew by 17% to £3.7 billion, a notable highlight being the increase in insurance sales over the internet which have overtaken telephone sales for the first time in 2005.

The RAC delivered a good performance in a year of integration with operating profit of £59 million and cost savings are on track, and we are in line to deliver operating profits of £250 million per annum on a like for like basis, demonstrating the importance of this acquisition to the Group. The integration of the RAC with our existing UK General Insurance business is now largely complete. We launched our marketing drive for motor and travel insurance to RAC customers at the end of 2005 and are encouraged by the initial response to our campaign.

Outlook

We are confident of delivering further growth from our existing portfolio of businesses in 2006. While our primary aim is to grow our existing portfolio of businesses, we will continue to evaluate new distribution arrangements and acquisition opportunities to add momentum where we see clearly identifiable opportunities to increase shareholder value.

In summary, these are another great set of results that demonstrate the sustainability which stems from the resilience and strength of our composite model.

Richard Harvey
Group chief executive

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NEWSWIRES: There will be a conference call today for wire services at 8.15am (BST) on +44 (0)20 7162 0125 Quote: Aviva, Richard Harvey.

ANALYSTS: A presentation to investors and analysts will take place at 9.30am (BST) at St Helen's, 1 Undershaft, London, EC3P 3DQ. The investors and analysts presentation is being filmed for live webcast and can be viewed on the Group's website www.aviva.com or on www.cantos.com. In addition a replay will be available on these websites later today. There will also be a live teleconference link to the investor and analyst meeting on +44 (0) 20 7138 0820. A replay facility will be available until 15 March 2006 on +44 (0) 20 7806 1970. The pass code is 2784971# for the whole presentation including Question & Answer session or 2780574# for Question & Answer session only.

The presentation slides will be available on the Group's website, www.aviva.com/investors/presentations.cfm from 9.00am (BST).

The Aviva media centre at www.aviva.com/media includes images, company information and news release archive. High resolution images are also available for the media to view and download free of charge from www.vismedia.co.uk

Photographs are available from the Aviva media centre at www.aviva.com/media.

Notes to editors

- Aviva is one of the leading providers of life and pensions to Europe with substantial positions in other markets around the world, making it the world's sixth largest insurance group based on both gross worldwide premiums and market capitalisation at 31 December 2004.
- Aviva's principal business activities are long-term savings, fund management and general insurance, with worldwide total sales* of £35 billion and assets under management of £317 billion at 31 December 2005.
  * Based on life and pensions PVNBP, total investment sales and general insurance and health net written premiums including share of associates' premiums.
- Overseas currency results are translated at average exchange rates.
- The present value of new business premiums (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 the new contracts, and is expressed at the point of sale.
- All growth rates are quoted at constant currency, which excludes the impact of changes in exchange rates between periods.
- This preliminary announcement may contain "forward-looking statements" with respect to certain of Aviva's plans and its current goals and expectations relating to its future financial condition, performance and results. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond Aviva's control, including amongst other things, UK domestic and global economic business conditions, market-related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory authorities, the impact of competition, inflation, deflation, the timing impact and other uncertainties of future acquisitions or combinations within relevant industries, as well as the impact of tax and other legislation and other regulations in the jurisdictions in which Aviva and its affiliates operate. As a result, Aviva's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in Aviva's forward-looking statements.

  Aviva undertakes no obligation to update the forward-looking statements contained in this presentation or any other forward-looking statements we may make.

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OPERATING AND FINANCIAL REVIEW

Group operating profit before tax

The European Union requires all European listed groups to prepare their consolidated financial statements using standards issued by the International Accounting Standards Board (IASB) with effect from 1 January 2005. Aviva's statutory results have therefore been reported on an International Financial Reporting Standard (IFRS) basis rather than the previous modified statutory solvency basis and prior period comparatives have been restated accordingly. Aviva continues to believe that embedded value provides the best way to value, measure and report life businesses and European Embedded Value (EEV) is therefore a more accurate reflection of the performance of the Group's life businesses.

2005 saw the continuation of strong operational performance across our major businesses. The Group achieved an operating profit before tax, including life EEV operating return, of £2,904 million (2004: £2,224 million), an increase of 29%. On an IFRS basis, worldwide operating profit before tax increased by 25% to £2,128 million (2004: £1,669 million). This strong set of results has been achieved by our continued focus on profitable growth by growing our distribution channels, leveraging our scale advantages in pricing and costs, our disciplined approach to underwriting and efficient claims management. This, combined with our confidence on the improving capital position of the Group, has allowed us to grow our final dividend by 9% to 17.44 pence per share.

	EEV basis		IFRS basis	
	2005 £m	2004 £m	2005 £m	2004 £m
Life EEV operating return / IFRS long-term business profit	1,814	1,611	1,065	1,116
Fund management	51	20	92	40
General insurance and health	1,551	1,259	1,551	1,259
Other:				
Other operations	60	(41)	(8)	(121)
Corporate costs	(136)	(188)	(136)	(188)
Unallocated interest charges	(436)	(437)	(436)	(437)
Operating profit before tax	**2,904**	**2,224**	**2,128**	**1,669**
Profit before tax / Profit before tax attributable to shareholders	5,283	2,469	2,528	1,642
Equity shareholders' funds	14,899	11,661	8,774	6,893

Long-term savings

Our worldwide long-term new business sales grew strongly by 10% to £24.6 billion (2004: £22.3 billion) benefiting from our strong and well diversified international portfolio where sales grew by 16% to £14.4 billion and accounted for 59% of total sales. Worldwide life and pension sales increased by 7% to £22.2 billion (2004: £20.7 billion) and we achieved record investment sales rising by 45% to £2.4 billion (2004: £1.6 billion).

Total new business sales on a present value of new business premium (PVNBP) basis

	2005			Local currency growth		
Long-term savings sales	**Life and pensions £m**	**Retail investments £m**	**Total £m**	**Life and pensions %**	**Retail investments %**	**Total %**
United Kingdom	**9,053**	**1,160**	**10,213**	**(1%)**	**35%**	**2%**
Continental Europe	*11,933*	*1,026*	*12,959*	*13%*	*89%*	*17%*
Rest of the World	*1,260*	*213*	*1,473*	*21%*	*(16%)*	*14%*
International	**13,193**	**1,239**	**14,432**	**14%**	**56%**	**16%**
	22,246	**2,399**	**24,645**	**7%**	**45%**	**10%**
Navigator		938	938		37%	37%

In the UK, Norwich Union had a strong finish to the year delivering a third consecutive quarterly sales growth, with the fourth quarter sales the highest of 2005. Sales performance improved during the year due to the focus on growing volume in key markets while continuing to manage the business for value. Total sales, including investment sales, increased by 2% to £10,213 million (2004: £10,031 million). The sales momentum reflects our focus on offering a broad range of products, the development of propositions ahead of Pensions Simplification (A-day) and the focus on collective investments. We expect further market growth in 2006 as A-day approaches. Coupled with the launch of a new with-profits bond and an increased focus on collective investments, we are well placed to take advantage of this change and anticipate that the sales momentum built in the second half of 2005 both through independent financial advisors and The Royal Bank of Scotland Group (RBSG) distribution channel will continue into 2006.

Sales in continental Europe grew 17% to £12,959 million, accounting for over 50% of total new business sales and reflecting the success of our multi-distribution strategy, broad product offerings and expertise in equity-backed products. Investment sales nearly doubled to £1,026 million and reflected an excellent fourth quarter performance as distribution capability and products were developed further and investor sentiment improved. Our bancassurance partnerships with Crédit du Nord and ABN AMRO

contributed to strong sales growth in France and the Netherlands respectively, while sales grew strongly in Italy as a result of the expansion of our distribution network with Banche Popolari Unite (BPU) from the start of 2005. As a result of the strong relationship with UniCredit Group, Aviva Italy expects to increase its access to the UniCredit Group branch network during 2006. In Ireland, growth in our single premium sales reflected the continued success of our five-year capital guaranteed fund and an attractive choice of fund managers. In Spain, we continued to focus on higher margin protection and pension business. Our other businesses in Poland, Turkey, Germany, the Czech Republic, Hungary, Romania and Lithuania are seeking to achieve strong organic growth while developing further relationships with banks and brokers.

Sales in Asia continued to grow as a result of our expanding distribution, the strong partnerships with the banking group DBS and increased sales from broker distribution channels. We continue to make excellent progress in developing our Indian and Chinese operations through the combination of our attractive savings products and in India, an expanding bancassurance strategy. In January 2006, Aviva India announced a major bancassurance partnership with Centurion Bank of Punjab (CBOP), a leading private bank with 2.2 million customers and 240 branches, taking the number of bancassurance agreements in the country to 18. This deal significantly increases our distribution network in India with a presence in 378 locations.

We have also further strengthened our position in the Indian sub-continent through the acquisition of a 51% stake in Eagle Insurance Limited (Eagle), the third largest insurer in Sri Lanka in February 2006. Eagle has entered a bancassurance agreement with National Development Bank Limited, Sri Lanka's biggest development bank, giving access to 25,000 customers through 28 branches. In China we are now licensed to operate in four major cities, with sales offices in a further five cities. Aviva has recently been granted permission to apply to set up a branch in Jinan, the capital city of Shandong province, and will continue to increase its presence during 2006. In Australia, sales of protection products more than doubled during 2005, and strong growth was achieved in the United States where our niche business continues to enhance its distribution and product range.

We continue to benefit from our strong platform in continental Europe and our product expertise, allied with our extensive multi-distribution network, will enable us to benefit further from the significant opportunities these markets provide. In Asia, we are actively pursuing growth in markets with significant longer-term potential and further developing our relationships with local partners. In line with our strategy for growth in the international long-term savings market, we continue to review value-driven inorganic growth opportunities in the major global long-term savings markets.

Life EEV operating return

		2005 £m	**2004 £m**
New business contribution (after the effect of required capital)		612	516
Profit from existing business	– expected return	895	819
	– experience variances	(39)	(15)
	– operating assumption changes	17	(7)
Expected return on shareholders' net worth		329	298
Life EEV operating return before tax		**1,814**	**1,611**

The Group's life EEV operating return before tax was 11% higher at £1,814 million (2004: £1,611 million) due to increased contributions from both new and existing business. New business contribution after the effect of required capital was 18% higher at £612 million (2004: £516 million). This includes a resilient position in the UK and an improved margin in our international businesses reflecting the benefits of pricing action, cost control and an improvement in business mix towards higher margin products. New business margins before the effect of required capital increased to 3.6% (2004: 3.4%), driven primarily by improved business mix in France and Spain. The Group's new business margin after the effect of required capital was also higher at 2.8% (2004: 2.5%), reflecting improved business mix and our value focus.

The expected returns on existing business and shareholders' net worth were higher at £1,224 million (2004: £1,117 million) and reflect the higher start of year embedded values. Adverse experience variances of £39 million (2004: £15 million adverse) were offset by positive operating assumption changes of £17 million (2004: £7 million loss).

	Present value of new business premiums		New business contribution[1]		New business margin[1, 2]		New business contribution[3]		New business margin[2,3]	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 %	2004 %	2005 £m	2004 £m	2005 %	2004 %
United Kingdom	**9,053**	**9,172**	**265**	**269**	**2.9%**	**2.9%**	**213**	**215**	**2.4%**	**2.3%**
France	3,530	2,782	135	95	3.8%	3.4%	91	54	2.6%	1.9%
Ireland	665	561	16	19	2.4%	3.4%	13	16	2.0%	2.9%
Italy	2,294	1,799	59	48	2.6%	2.7%	36	34	1.5%	1.9%
Netherlands (including Belgium and Luxembourg)	2,407	2,168	88	80	3.7%	3.7%	57	43	2.4%	2.0%
Poland	285	241	14	11	4.9%	4.6%	13	9	4.6%	3.7%
Spain	2,013	2,110	175	143	8.7%	6.8%	155	121	7.7%	5.7%
Other Europe	739	804	7	5	0.9%	0.6%	2	-	0.3%	-
Continental Europe	*11,933*	*10,465*	*494*	*401*	*4.1%*	*3.9%*	*367*	*277*	*3.1%*	*2.6%*
Rest of the World	*1,260*	*1,024*	*49*	*36*	*3.9%*	*3.4%*	*32*	*24*	*2.5%*	*2.3%*
International	**13,193**	**11,489**	**543**	**437**	**4.1%**	**3.8%**	**399**	**301**	**3.0%**	**2.6%**
Total life and pensions business	**22,246**	**20,661**	**808**	**706**	**3.6%**	**3.4%**	**612**	**516**	**2.8%**	**2.5%**

(1) Before effect of required capital which amounted to £196 million (2004: £190 million).
(2) New business margin represents the ratio of new business contribution to present value of new business premiums, expressed as a percentage.
(3) After deducting the effect of required capital.

New business contribution before and after the effect of required capital increased 14% to £808 million (2004: £706 million) and 18% to £612 million (2004: £516 million), respectively, compared to 7% growth in life and pensions new business sales. This was primarily driven by growth in continental Europe, particularly as a result of a beneficial change in product mix in France and Spain. Continental Europe now accounts for around 60% of the Group's new business contribution.

UK

Norwich Union delivered a strong performance in 2005 with total sales, including investment sales, up by 2% to £10,213 million. Fourth quarter sales were the highest of the year and reflected the actions taken in the second half to improve performance and grow volume in its key markets. Strong and appropriate pricing actions have been taken to generate medium and long-term profitable growth. Norwich Union has a broad "waterfront" product range and strong multi-distribution capability and by the end of the third quarter had regained a market leading position with a market share of 11.6%.

New business contribution was £265 million (2004: £269 million) with a new business margin of 2.9% (2004: 2.9%). The withdrawal from certain less profitable personal pension business in the first half of 2005 reduced volumes, but increased margins to 3.2% at the mid point of the year. Strategic pricing action on key products and the re-entry into the more profitable section of the personal pension market at the start of the second half of 2005 resulted in a rebound in Norwich Union's market share and a reduction in new business margin to 2.7% during this period. We do not anticipate further pricing action and any future changes in the overall margin will be driven by business mix.

On a post cost of capital basis new business contribution was £213 million (2004: £215 million) with a margin of 2.4% (2004: 2.3%). This includes the impact of the change in the level of required capital held for annuity business from 200% to 150%, which benefited the result by £13 million.

Life EEV operating return was higher at £585 million (2004: £551 million) primarily driven by increased expected returns from in-force business and shareholders' net worth. The net impact of experience variances and operating assumption changes amounted to a loss of £150 million (2004: loss of £139 million). The adverse persistency and expense variances have been offset by mortality profits of £105 million (2004: £51 million profits) arising principally on protection contracts, better than expected default experience on corporate bonds and commercial mortgages of £19 million (2004: £29 million); and £110 million arising from the change in the level of required capital for annuity business from 200% to 150%.

Adverse exceptional expenses of £148 million (2004: £153 million adverse) included £47 million in respect of ongoing restructuring of the UK Life business and a further £101 million of other exceptional and project costs associated with regulatory change and strategic initiatives.

Persistency experience on unitised with-profit and unit-linked bonds as well as pensions products continues to be adverse, generating a loss of £78 million (2004: £50 million loss). This loss principally arises in relation to bond contracts on surrenders occurring at set anniversary dates where market value adjustments do not apply. Actual lapse experience has continued to be higher than assumed, notwithstanding the change in lapse assumptions made in 2004. While action is ongoing to improve our

current persistency experience, this coupled with an increase in the expected number of lapses on pensions business has resulted in a provision for lapses with a consequential adverse impact on profits of £130 million (2004: £110 million adverse).

Continental Europe

New business contribution before the effect of required capital was 22% higher at £494 million (2004: £401 million), following continued strong performances in Spain, Italy and France including the contribution of £33 million from our partnership with Crédit du Nord. New business margins before and after required capital increased to 4.1% and 3.1% respectively (2004: 3.9% and 2.6%), reflecting the strategic business mix shift towards higher margin, less capital intensive products, notably in France and Spain.

Life EEV operating return from our continental European businesses grew by 14% to £1,130 million (2004: £977 million) primarily driven by new business contribution after the effect of required capital which was £90 million higher at £367 million. Expected returns rose to £646 million (2004: £591 million). Favourable experience variances were lower at £45 million (2004: £57 million favourable), reflecting favourable mortality experience of £67 million (2004: £56 million) offset by adverse persistency and expense experience of £14 million and £16 million (2004: nil and £20 million adverse), respectively. Operating assumption changes were more positive at £72 million (2004: £52 million).

France: Aviva France generated strong sales growth of 26% to £3,530 million (£2,782 million). Within this, unit-linked sales increased by 73% to £1,423 million (2004: £818 million) and Aviva France is well-positioned for continued growth. Our bancassurance partnership with Crédit du Nord recorded sales of £728 million in its first full year (2004: £127 million) and AFER unit-linked sales grew substantially by 78% to £367 million (2004: £205 million). Our strategic focus on more profitable unit-linked sales resulted in a 41% increase in new business contribution to £135 million (2004: £95 million) giving a higher full year new business margin of 3.8% (2004: 3.4%). Life EEV operating return increased to £321 million (2004: £286 million) including £33 million (2004: £4 million) from our bancassurance partnership. This performance primarily reflects the increased contribution from new business, higher expected returns and experience variances partially offset by lower operating assumption changes. The favourable experience variance of £32 million (2004: £22 million) includes higher mortality profits of £29 million (2004: £21 million).

Ireland: Hibernian, the third-largest life and pensions provider in Ireland, increased sales by 18% to £665 million (2004: £561 million) benefiting from strong sales of single premium business during the year. New business contribution of £16 million (2004: £19 million) with a lower new business margin of 2.4% (2004: 3.4%) reflects consumer preference for lower margin single premium business, and includes the adverse impact of further lapse assumption changes in respect of unit-linked pension business. Life EEV operating return was also lower at £20 million (2004: £40 million) driven by adverse experience. Variances were predominantly as a result of lapses on unit-linked pensions business. Our new bancassurance joint venture agreement with Allied Irish Banks (AIB), Ireland’s largest retail bank, completed on 27 January 2006 to create a leading force in the Irish life and pensions market with a market share of around 16% and brings further opportunities for growth.

Italy: Aviva Italy outperformed the local market with total sales growth of 27% to £2,294 million (2004: £1,799 million) benefiting from a combination of strong market growth and the extension of our bancassurance agreement with Banche Popolari Unite (BPU) to a further 380 branches at the start of 2005. New business contribution increased to £59 million (2004: £48 million) due to significantly higher sales, reflected in a new business margin of 2.6% (2004: 2.7%). Life EEV operating return rose to £96 million (2004: £79 million) reflecting the new business growth and the return from our equity investment in the BPU Group at the start of 2005.

Netherlands (including Belgium and Luxembourg): Life and pensions sales in Delta Lloyd grew by 10% to £2,407 million (2004: £2,168 million) with a 9% increase in sales through the bancassurance joint venture with ABN AMRO to £543 million (2004: £493 million). New business contribution was £88 million (2004: £80 million) reflecting strong sales with a steady new business margin of 3.7% (2004: 3.7%). Life EEV operating return of £318 million (2004: £277 million) included favourable operating assumption changes driven by reductions in maintenance expenses, as benefits of the efficiency programmes start to come through.

Poland: CU Polska achieved new business sales growth of 4% to £285 million (2004: £241 million). New business contribution was £14 million (2004: £11 million), resulting in a margin of 4.9% (2004: 4.6%). Life EEV operating return increased to £128 million (2004: £93 million) due to increased experience profits and operating assumption changes including mortality profits of £23 million (2004: £6 million) and favourable maintenance expense experience.

Spain: Aviva Spain generated sales in 2005 of £2,013 million (2004: £2,110 million) achieving underlying growth, excluding one-off sales, of 6%. New business contribution increased significantly by 22% to £175 million (2004: £143 million) improving the new business margin to 8.7% (2004: 6.8%) as we continue to focus on higher margin protection and pension products. New business contribution after the effect of required capital increased by 27% to £155 million (2004: £121 million) resulting in an increase in the life EEV operating return to £214 million (2004: £180 million).

Other Europe: In Aviva’s other European businesses, operations based in the Czech Republic, Dublin, Germany, Hungary, Lithuania, Portugal, Romania and Turkey generated life and pensions sales of £739 million (2004: £804 million) and a healthy life EEV operating return of £33 million (2004: £22 million), 50% higher than 2004. The life business in Portugal was sold on 7 October 2005.

Rest of the World

Our businesses in the rest of the world achieved overall life and pensions sales growth of 21% to £1,260 million (2004: £1,024 million) with encouraging performances from Asia and the US. Total sales in Asia were 23% higher at £396 million (2004: £316 million) as volumes in Hong Kong doubled to £103 million (2004: £52 million) and Singapore's sales of £226 million (2004: £242 million) achieved underlying growth of 35%, excluding limited offerings. Sales continue to grow rapidly in India and China with our share of sales amounting to £32 million (2004: £15 million) and £35 million (2004: £7 million), respectively. Life and pensions sales in Australia increased by 8% to £337 million (2004: £312 million) while sales in the US rose by 32% to £527 million (2004: £396 million), benefiting from a wider product offering and distribution improvements. New business contribution increased by 33% to £49 million (2004: £36 million) with a new business margin of 3.9% (2004: 3.4%) benefiting from improved business mix and higher volumes. The life EEV operating return from our businesses in the rest of the world was £99 million (2004: £83 million), principally due to higher new business contributions.

Bancassurance margins – before required capital, tax and minority interests

The weighted average bancassurance new business margin before the effect of required capital increased to 5.1% (2004: 4.9%), reflecting our strategic focus on higher margin products. The bancassurance margin net of required capital was 4.2% (2004: 4.0%).

Total life and pensions	**Present value of new business premiums**		**New business contribution**[1]		**New business margin**[2]	
	2005 £m	**2004 £m**	**2005 £m**	**2004 £m**	**2005 %**	**2004 %**
United Kingdom	636	461	16	12	2.5%	2.6%
France	728	127	30	4	4.1%	3.1%
Italy	2,134	1,666	57	46	2.7%	2.8%
Netherlands	543	493	19	21	3.5%	4.3%
Spain	1,793	1,956	170	142	9.5%	7.3%
Asia	241	264	20	17	8.3%	6.4%
Total bancassurance channels	**6,075**	**4,967**	**312**	**242**	**5.1%**	**4.9%**

(1) Before effect of required capital which amounted to £58 million (2004: £43 million).
(2) New business margin represents the ratio of new business contribution to present value of new business premiums, expressed as a percentage.

In the UK, the new business margin from life and pensions sales from our partnership with RBSG was largely maintained at 2.5% (2004: 2.6%). Higher unit-linked sales through our French bancassurance partnership with Crédit du Nord increased the new business margin to 4.1% (2004: 3.1%). In Italy, new business contribution rose by 24% to £57 million with a margin of 2.7% (2004: 2.8%) as a result of greater volumes. In Spain, our bancassurance partnerships produced an increased margin of 9.5% (2004: 7.3%) due to the focus on pension and protection products. Our bancassurance partnership with ABN AMRO in the Netherlands generated a margin of 3.5% (2004: 4.3%) as new business sales included an annuity business special promotion in the first quarter of 2005. The new business bancassurance margin from our partnership with DBS in Singapore and Hong Kong was 8.3% (2004: 6.4%), reflecting the profitable growth of these developing operations.

New business contribution – after deducting required capital, tax and minority interest

New business contribution after required capital, tax and minority interest increased by 14% to £341 million outpacing post minority sales growth of 5%. The new business margin therefore improved to 1.8% (2004: 1.6%). The increase arose primarily in our bancassurance channels, reflecting the beneficial change in business mix in France to higher margin unit-linked business and in Spain to higher margin protection business. The margin from our non-bancassurance channels improved to 1.6% (2004: 1.5%) and similarly reflects the higher unit-linked sales achieved from the Group's intermediated distribution channels.

	Present value of new business premiums[1]		**New business contribution**[2]		**New business margin**[3]	
	2005 £m	**2004 £m**	**2005 £m**	**2004 £m**	**2005 %**	**2004 %**
Bancassurance channels	3,238	2,728	93	74	2.9%	2.7%
Other distribution channels	15,815	15,353	248	223	1.6%	1.5%
Total life and pensions business	**19,053**	**18,081**	**341**	**297**	**1.8%**	**1.6%**
Analysed:						
UK	9,053	9,172	149	150	1.6%	1.6%
Continental Europe	*8,740*	*7,885*	*167*	*129*	*1.9%*	*1.6%*
Rest of the World	*1,260*	*1,024*	*25*	*18*	*2.0%*	*1.8%*
International	10,000	8,909	192	147	1.9%	1.6%

(1) Stated after deducting the minority interest.
(2) Stated after deducting the effect of required capital, tax and minority interest.
(3) New business margin represents the ratio of new business contribution to present value of new business premiums, expressed as a percentage.

Long-term business operating profit on an International Financial Reporting Standard (IFRS) basis
On an IFRS basis, our long-term business operating profit before shareholder tax was £1,065 million (2004: £1,116 million). The decrease in the year is driven by the effect of falls in long-term interest rates in the Netherlands.

The operating result from the UK with-profit business of £99 million (2004: £97 million) reflects the changes in bonus rates during 2005 which saw terminal and certain annual bonuses rise following strong with-profits fund investment performance. The UK non-profit result increase to £285 million (2004: £256 million) and includes a strong performance from our annuity and equity release business which offset higher levels of new business strain.

In continental Europe, operating profit of £683 million (2004: £664 million) was driven primarily by France and Spain. In France, operating profit of £258 million (2004: £213 million) includes a contribution from the Crédit du Nord partnership in its first full year of £17 million, with underlying growth reflecting the profitable development of the business and tightly controlled expenses. Additionally, the result includes the benefit of higher investment gains. Operating profit in Spain increased to £89 million (2004: £72 million) due to the higher sales of protection products which delivers new business surplus in the first year. In the Netherlands, the fall in long-term interest rates in 2005 resulted in a lower operating profit of £168 million (2004: £214 million) reflecting provision for guarantees on unit-linked contracts in the first half of the year prior to the slight recovery in rates in the second half of the year.

Our life businesses in the rest of the world reported a loss of £2 million (2004: £99 million profit) reflecting lower investment gains and a change in valuation basis in Asia introduced on 1 January 2005.

Fund management operating profit
Our worldwide fund management operating profit more than doubled to £92 million (2004: £40 million) on an IFRS basis, as the momentum from the first half of the year continued. Assets under management at 31 December 2005 grew to £317 billion (31 December 2004: £280 billion) reflecting the impact of new business flows and the strong performance of worldwide investment markets.

In the UK, our fund management businesses comprise our institutional business Morley Fund Management (Morley), our retail investment business trading as Norwich Union, and our collective investment joint venture business with RBSG. These businesses reported an operating profit of £44 million (2004: £8 million) in the year. Our international operations consist of Morley's overseas businesses based in Melbourne, Dublin, Warsaw, Boston, Milan and Madrid, Aviva Gestion d'Actifs in France, and other businesses including our fund administration business Navigator. Our international fund management operating profit was £48 million (2004: £32 million).

	2005 £m	2004 £m
Morley		
- UK	36	10
- International	13	8
UK (excluding Morley)	8	(2)
France	26	15
Other Europe and International	9	9
Fund management operating profit – IFRS basis	**92**	**40**

The total Morley group contributed an overall operating profit of £52 million (2004: £22 million) to the Group's results, including £3 million from the pooled pensions business which is reported within the life segment (2004: £4 million).

Morley achieved strong growth in 2005 as its global fund management operating profit increased to £49 million (2004: £18 million). This growth reflected increased management fees, higher performance fees (recognised in the second half of the year) contributing £9 million to profits (2004: £4 million) and careful cost control. Operating profit from the UK business was £36 million (2004: £10 million) while overseas businesses, including Hibernian Investment Managers (HIM), accounted for £13 million (2004: £8 million). Fee income benefited from new business wins, revenue enhancing initiatives, and strongly performing investment markets. These, combined with Morley's continued management of its expense base delivered an improved cost/income ratio of 77% (2004: 88%) which is in line with the industry average. Morley's continued market-leading expertise in Property and Socially Responsible Investment (SRI) was recognised as it was named Property Manager of the Year at the UK Pension Awards 2005 and won the Global Pensions SRI Provider of the Year Award 2006.

By increasing the level of specialist, higher margin business and actively managing our cost base, we aim to continue delivering sustainable and profitable growth, while investing for the future. As announced in November 2005, the joint venture in Ireland between Aviva and AIB will result in the transfer of the investment management of Ark Life's policyholder funds (€3 billion at 30 September 2005) to HIM which is expected to complete in the second quarter of 2006. This is in line with Morley's strategic intent to develop further market leading initiatives in partnership with other Aviva businesses.

Operating profit from Norwich Union's retail investment business, amounted to £9 million (2004: £4 million), whilst our collective investment business with RBSG benefited from higher sales of investment products to report a loss of £1 million (2004: loss of £6 million).

Aviva Gestion d'Actifs, our market-leading fund management operation in France, continued to demonstrate its expertise with over 94% of managed funds ranked in the top half for returns over five years. Operating profit increased to £26 million (2004: £15 million) reflecting new business inflows, including a portion of the funds within the Crédit du Nord partnership, and strongly performing equity markets.

Our other overseas businesses reported operating profits of £9 million (2004: £9 million). New business sales through Navigator, our fund administration business grew 37% to £938 million (2004: £661 million). Within this, sales in Australia increased by 26% to £848 million (2004: £648 million), benefiting from continuing improvements in product offerings and customer service while Singapore reported significantly higher sales of £90 million (2004: £13 million) reflecting strong distribution relationships with key brokers and an increased fund choice.

On an EEV basis, the total operating profit from our fund management businesses was £52 million (2004: £20 million) due predominantly to those funds managed on behalf of third parties and the Group's non-life businesses.

General insurance and health operating profit

Net written premiums from the Group's worldwide general insurance and health business increased by 4% to £10.3 billion, driven by an increase in the UK of 7% to £6.1 billion.

Operating profit from our worldwide general insurance and health businesses increased by 22% to £1,551 million (2004: £1,259 million). The Group's general insurance combined operating ratio (COR) improved to 95% (2004: 97%), and is ahead of our stated target to meet or beat a worldwide COR of 98% for the foreseeable future. Scale advantages, focused underwriting, claims management and efficiencies continue to provide us with ongoing benefits.

Underwriting profit for the year totalled £505 million (2004: £271 million). The improved performance was driven by our disciplined approach to underwriting, claims management and lower claims frequency across all our major businesses. Better than expected weather-related claims experience in 2005 benefited the result by £7 million (2004: benefit of £50 million). The worldwide expense ratio was 11.4% (2004: 11.2%), reflecting the change in distribution mix towards the direct channel and investment in the business to gain competitive advantage, including the RAC acquisition. The expense ratio includes employee benefit costs on a more current actuarial basis than previously accounted for under UK GAAP.

The longer-term investment return (LTIR) on general insurance and health business assets increased to £1,046 million (2004: £988 million). The higher start-of-year asset base, together with positive cash inflows, more than offset the decrease in LTIR rates applied in 2005. As previously announced, the Group has decided to make this discretionary change to its LTIR methodology from 2005 in addition to including the amortisation of the premium or discount arising upon the acquisition of fixed income securities as a proxy for gross redemption yield and has restated its 2004 comparatives accordingly.

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 some releases in 2005 which reflect releases from the 2004 accident year and prior. We have increased our confidence levels in our reserves over the past few years and have maintained our reserves at very strong levels.

	Net written premiums		**Underwriting result***		**Operating profit***	
	2005 £m	**2004 £m**	**2005 £m**	**2004 £m**	**2005 £m**	**2004 £m**
United Kingdom	6,127	5,715	303	146	974	797
Continental Europe	*2,754*	*2,731*	*164*	*82*	*390*	*288*
Rest of the World	*1,430*	*1,372*	*38*	*43*	*187*	*174*
International	4,184	4,103	202	125	577	462
Continuing operations	**10,311**	**9,818**	**505**	**271**	**1,551**	**1,259**

* Excludes the Financial Services Compensation Scheme levy of nil (2004: £40 million).

UK

2005 has been a year of great achievement for our UK general insurance business. Norwich Union Insurance (NUI) delivered another outstanding result, with an operating profit of £970 million (2004: £788 million). Our COR improved to 96% (2004: 97%), underlining our commitment to the market to 'meet or beat' a worldwide COR of 98%. This performance has been achieved against the backdrop of the RAC acquisition in May and the subsequent integration activity during the rest of the year. Our balanced portfolio supports sustainable, profitable growth, with a 3% year on year underlying growth in net written premiums (excluding RAC) and 15% in our Direct operation, including over 200% growth in our internet-based sales, making NU Direct one of the UK's leading online insurers.

This excellent result reflects disciplined underwriting and cost control. Weather costs in the year were broadly neutral. We have delivered an additional £40 million of annualised savings in claim costs through effective supply chain management. Our focus on efficiency has enabled us to deliver a 10.5% expense ratio excluding the impact of RAC (2004: 10.6%). Including RAC, the expense ratio was 10.9%. We have achieved rate increases of 4% in personal motor (2004: 2%) and 6% in homeowner (2004: 6%), while commercial rates are holding up and profitability remains strong.

The RAC integration has largely been completed. As announced in October 2005, we now plan to achieve pre-tax savings of £100 million in 2006, at a cost of £130 million, exceeding the £80 million target announced when the RAC was acquired. We expect to deliver an annualised operating profit of £250 million on a like for like basis from the RAC acquisition, with an additional 1.4 million RAC customers by 2008. This acquisition will enable us to deliver an extensive portfolio of products and services to our customers. We have already launched motor and travel products under the RAC Direct Insurance brand and plan to launch a new homeowner product in March 2006.

RAC delivered a good performance in the year, with post acquisition profits of £59 million. The Rescue business, presented as general insurance, contributed £29 million to the insurance underwriting result.

During 2005, we signed a deal with Barclays to become its sole provider of homeowner, motor and travel insurance, and extended our long-standing agreement with Asda to be its sole provider of general insurance until the end of 2009. These deals underscore our position as partner of choice to the UK's top brands. We have achieved consistently strong customer satisfaction scores and won the Insurance Times "General Insurer of the Year" award for the third year running, underlining the consistency of our performance across the business.

We continue to invest in market-leading initiatives. Our digital flood map is being used in England and Wales, leading to a considerable decrease in the number of policyholders being declined homeowner insurance. We plan to install 100,000 Pay As You Drive™ devices by the end of 2006.

NU Healthcare is a leading UK health insurer providing private medical insurance (PMI) and income protection to over 750,000 customers. The PMI health result was £4 million (2004: £9 million) reflecting investment in the business and market conditions.

Continental Europe

In continental Europe, our general insurance and health businesses produced an operating profit of £390 million (2004: £288 million).

In France, our general insurance and health business reported an operating profit of £35 million (2004: £33 million) with an underwriting loss of £21 million (2004: loss of £16 million). Net written premiums increased by 8% to £726 million (2004: £670 million) reflecting rating increases in commercial and health lines. The longer-term investment return was also higher at £56 million (2004: £49 million). The general insurance business reported an unchanged COR of 101%.

In Ireland, the market remains highly competitive leading to a reduction in net written premiums for Hibernian, our market-leading general insurance business, to £499 million (2004: £545 million). As anticipated personal motor rates stabilised in the second half of the year. Operating profit increased to £171 million (2004: £135 million) while the COR improved to 78% (2004: 87%). The underwriting profit increased to £116 million (2004: £82 million) reflecting our focus on disciplined underwriting, lower average claims costs and frequency. Weather-related claims were better than long-term averages benefiting the result by £7 million (2004: neutral impact). Investment in Geocoding, the flood mapping project providing improved risk selection and pricing techniques continues, while our corporate partnership with Tesco was rolled out in July. We have also expanded our RAC Rescue capability and, as announced in October, we are targeting 400,000 additional Roadside customers by 2008. These actions together with our core focus on careful, targeted underwriting and cost management, will support growth of the business.

In the Netherlands, operating profit from general insurance and health increased 54% to £137 million (2004: £88 million). The general insurance COR improved to 93% (2004: 95%) reflecting strong premium rates and favourable claims experience, including the benefit of lower weather-related claims. Legislative reforms in the Dutch healthcare market, which became effective 1 January 2006, amalgamated the provision of public and private health insurance. This reform will create opportunities for our health business as more healthcare services move to private providers.

Our other European general insurance businesses, including operations in Italy, Turkey and Poland, recorded an operating profit of £47 million (2004: £32 million).

Rest of the World

Our general insurance businesses in the rest of the world recorded an operating profit of £187 million (2004: £174 million).

Our Canadian business reported an operating profit of £147 million (2004: £133 million) and the COR was unchanged at 97%. The benefit of favourable claims frequency, notably on our motor business, was mostly offset by higher weather losses impacting property class results in the second half of 2005. The longer-term investment return rose to £112 million (2004: £96 million), reflecting the higher asset base and positive cash inflows. Net written premiums increased slightly on a local currency basis to £1,324 million (2004: £1,202 million) despite legislative automobile reforms that have led to lower premium rates for motor insurance pools. These reduced rates have been matched by lower claims costs and have also benefited our renewal retention level. We have maintained our underwriting discipline as the rates in the commercial market have continued to decrease. Aviva Canada continues to expand its distribution capability, launching its strategic alliance with Loblaw Companies

Ltd. in two further provinces in 2005. It has also invested in initiatives such as Premiere Healthcare which launched in October 2005 to provide the best healthcare solutions for customers, through timely, effective and high quality healthcare services.

The operating profit from our other businesses was £40 million (2004: £41 million). The sale of our Asian general insurance operations completed at the end of the year, and we have recognised a pre-tax profit of £165 million on disposal in the results for the year.

Other operations
The result of the Group's other operations on an IFRS basis improved to a reduced loss of £8 million (2004: loss of £121 million). This improvement reflects the inclusion of the results of RAC non-insurance operations including RAC Services and RAC Auto Windscreens of £30 million, lower losses from NU Life Services Ltd of £66 million (2004: loss of £80 million) and the improved performance from the non-insurance operations in the Netherlands including the banking division result of £39 million (2004: loss of £5 million). The 2005 result also includes a loss of £14 million relating to the development of the Lifetime platform, while in 2004 the results were lowered by a £40 million vacant property provision which has not recurred.

Following the RAC acquisition, we sold Hyundai Cars (UK) to Hyundai Motor UK Limited and the commercial fleet division of Lex Transfleet Limited to Fraikin Limited. In October 2005 HBOS plc exercised their call option to purchase RAC's 50% shareholding in Lex Vehicle Leasing (LVL). We are currently in negotiations to agree a fair value. Accordingly, the assets and liabilities of this business have been included as held for sale on the balance sheet. Since the beginning of 2006 we have also sold Multipart Holdings Ltd and its subsidiaries and Lex Commercials Ltd to Imperial Holdings Ltd and sold our 49.99% share of Hyundai Car Finance to Lloyds TSB Asset Finance. The assets and liabilities of these businesses of £317 million were therefore also classified as held for sale.

On an EEV basis, operating profit for our other operations was £60 million (2004: £41 million loss) as this excludes the majority of NU Life Services Ltd losses which are incorporated within the life EEV operating return.

Corporate costs
Following the successful completion of the global finance transformation programme (GFTP) in the first half of the year, GFTP costs were £28 million (2004: £85 million) lowering the Group's corporate costs to £136 million (2004: £188 million). Other corporate costs have increased to £108 million (2004: £103 million) driven by increased promotional brand spend.

Unallocated interest charges
Unallocated interest charges comprise internal and external interest on borrowings, subordinated debt and intra-group loans not allocated to local business operations and net pension income. Total interest costs in the year were £436 million (2004: £437 million). External interest costs were £248 million (2004: £246 million) while internal interest costs were broadly unchanged at £220 million (2004: £219 million). Net pension income of £32 million (2004: £28 million) represents the expected return on pension scheme assets less the interest charge on pension scheme liabilities and is recognised as a consequence of adopting IFRS.

Interest on the direct capital instrument of £42 million (2004: nil) is not included within unallocated interest and it is instead treated as an appropriation of profits retained in the year. In accordance with IFRS, the £42 million appropriation was charged upon declaration and settlement in November 2005. As the coupon payment attracts tax relief at 30%, the net impact of the appropriation to profit attributable to ordinary shareholders was £29 million.

Profit on ordinary activities before tax

	EEV basis		IFRS basis	
	2005 £m	2004 £m	2005 £m	2004 £m
Operating profit before tax	**2,904**	**2,224**	**2,128**	**1,669**
Impairment of goodwill	(43)	(41)	(43)	(41)
Amortisation of acquired additional value of in-force long-term business	-	-	(73)	(85)
Amortisation and impairment of intangibles	(21)	(3)	(45)	(7)
Financial Services Compensation Scheme and other levies	-	(49)	-	(49)
Profit on disposal of subsidiary and associates	153	34	153	34
Short-term fluctuations on return of investments backing general insurance and health business	517	161	517	161
Variation from longer-term investment return – life business	2,288	501	-	-
Effect of economic assumption changes	(406)	(318)	-	-
Integration costs	(109)	-	(109)	-
Exceptional costs for termination of operations	-	(40)	-	(40)
Profit before tax/ Profit before tax attributable to shareholders' profits	**5,283**	**2,469**	**2,528**	**1,642**

Profit before tax on an EEV basis was substantially higher at £5,283 million (2004: £2,469 million), and includes the positive investment return variances and short-term investment fluctuations of £2,805 million (2004: £662 million) and negative economic assumption changes of £406 million (2004: £318 million negative).

In the second half of 2005 we completed the sale of our Asian general insurance businesses and recorded a profit on sale of £165 million. Other small disposals amounting to a total loss of £12 million were completed. Following the integration activities on acquisition of RAC, a total spend of £109 million has been incurred to date with a further £21 million estimated to be incurred in 2006.

2005 saw a return to strong equity market performance particularly in the second half of 2005. In the UK, the FTSE all share index rose by 18% from the end of 2004 levels, the CAC 40 by 23% and the AEX by 25%. The variance from the longer-term investment return reflects the higher than assumed overall equity returns during the year following these improvements in the equity markets and increased market values of fixed income securities following the fall of 50 basis points and 40 basis points in UK and Euro zone bond yields respectively. This has resulted in a significant increase in the Group's life embedded value. Long-term economic assumptions, which are set by reference to long-term bond yields, were revised downwards at 31 December 2005 and these lower assumptions have reduced the expected value of future profits from in-force life contracts, reducing profits by £406 million.

The non-life short-term fluctuations of £517 million (2004: £161 million) are principally due to the higher equity market returns compared to our longer-term investment return assumptions. The effect of the non-life investment market movements, profit on disposal, and integration costs are included in the IFRS profit before tax attributable to shareholders' profits of £2,528 million (2004: £1,642 million).

The taxation charge for the period was £1,601 million (2004: £650 million) on an EEV basis and includes a charge of £927 million (2004: £618 million) in respect of operating profit, which is equivalent to an effective rate of 31.9% (2004: 27.8%). On an IFRS basis the effective tax rate on operating profit was 25.2% (2004: 19.1%). The increase in the effective rate of tax in 2005 reflects the non recurrence of one-off items in 2004 which reduced the tax charge offset by the release of current tax provisions following agreements reached with tax authorities on a number of issues around the Group.

Dividends

Ordinary dividends

The Board has recommended a final dividend increase of 9% to 17.44 pence net per share (2004: 16.00 pence) payable on 17 May 2006 to shareholders on the register on 10 March 2006. This provides growth of 7.5% in the total dividend for the year of 27.27 pence (2004: 25.36 pence). Our IFRS post-tax operating profits cover this dividend 2.17 times (2004: 2.11 times).

Pension fund deficit

At 31 December 2005 the total pension fund deficit at a group level had increased by £578 million to £1,471 million (gross of tax). The increase in the deficit has been driven by a number of factors including the acquisition of the pension fund deficit of the RAC members of £313 million and the adverse impact on the valuation of liabilities of a 70 basis point reduction in real interest rates during 2005, which more than offset the positive effect of the strong rise in equity markets. The UK schemes are the largest and the total deficit is £1,371 million.

Currently substantially all of the deficit is borne by shareholders as historic contractual arrangements have, to date, meant that no deficit funding has been recharged to the Group's UK with-profit funds. We are close to finalising our negotiations on the appropriate proportion to be borne by the UK with-profit funds and are hopeful of agreeing that these funds will contribute approximately 12% of the future deficit funding payments to the Norwich Union pension fund. Should this level of deficit funding be agreed, shareholders' funds will improve by approximately £120 million (pre-tax) and this will be accounted for in 2006.

The Group commenced regular deficit funding contributions in 2004 which amounted to £51 million during 2005. In light of the Group's strong capital and cash flow position, the Board will propose to the pension scheme trustees that Aviva makes an additional deficit funding contribution to both the Norwich Union and the RAC pension schemes of £700 million over the next two years. It is expected that 12% of the payments will be made from the UK with-profits funds, and the remainder will be funded using internal resources. In anticipation that these proposals will be accepted, the shareholders contributed an additional £160 million at the end of 2005.

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 the Group's risk profile and the regulatory and market requirements of its business. The Group is subject to a number of regulatory capital tests and also employs a number of realistic tests to allocate capital and manage risk. Overall, the Group comfortably meets all of these requirements and, as reported below, 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 and Aa2 ("excellent") negative outlook from Moody's. These ratings were reaffirmed in November 2005 and reflect the Group's very strong liquidity, competitive position, capital base, increasing underlying earnings and positive strategic management.

Capital management

In managing its capital, the Group seeks to:

(i) match the profile of its assets and liabilities, taking account of the risks inherent in each business. In the case of the Group's life operations, which have long-term liabilities, the majority of capital is held in fixed income securities. A significant proportion of the capital supporting the Group's general insurance and health operations is held in equities, reflecting the relatively low risk profile of these businesses;

(ii) maintain financial strength to support new business growth and satisfy the requirements of its policyholders, regulators and rating agencies;
(iii) retain financial flexibility by maintaining strong liquidity, including significant unutilised committed credit lines, and access to a range of capital markets;
(iv) allocate capital efficiently to support growth and repatriate excess capital where appropriate; and
(v) manage exposures to movement in exchange rates by aligning the deployment of capital by currency with the Group's capital requirements by currency.

An important aspect of the Group's overall capital management process is the setting of target risk-adjusted rates of return for individual business units, which are aligned to performance objectives and ensure that the Group is focused on the creation of value for shareholders. The Group has a number of sources of capital available to it and seeks to optimise its debt to equity structure in order to ensure that it can consistently maximise returns to shareholders. The Group considers not only the traditional sources of capital funding but the alternative sources of capital including reinsurance and securitisation, as appropriate, when assessing its deployment and usage of capital.

Return on capital employed

The Group's 2005 post-tax operating return on equity was 15.0% (2004: 13.7%), which reflects the strong operational performance delivered by our businesses. This return is based on the post-tax operating profit from continuing operations, including the EEV operating return, expressed as a percentage of the opening equity capital.

Different measures of capital

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

i) Accounting bases
Although the Group is required to report its results on an IFRS basis, the directors consider that the European Embedded Value principles provide a more accurate and meaningful reflection of the Group's life operations and accordingly we analyse and measure the net asset value and total capital employed for the Group on this basis.

ii) Regulatory bases
In reporting the financial strength of our insurance subsidiaries the Group measures the capital and solvency using the regulations prescribed by the Financial Services Authority (FSA). These regulatory capital tests are based upon required levels of solvency capital and a series of prudent assumptions in respect of the type of business written by the Group's insurance subsidiaries.

iii) Economic bases
Notwithstanding the required levels of capital laid out by the FSA, the Group also measures its capital using various risk based capital models that take into account a more realistic set of financial and non-financial assumptions. These models have been under considerable development over the past few years and have become more relevant in the internal assessment of the Group's financial strength. In addition, these models include measures used by rating agencies in measuring and assessing the financial strength of the Group.

Group

Accounting bases

The Group's capital, from all funding sources, has been allocated such that the capital employed by trading operations is greater than the capital provided by its shareholders and its subordinated debt holders. As a result, the Group is able to enhance the returns earned on its equity capital.

At 31 December 2005 the Group had £23.0 billion (31 December 2004: £19.3 billion) of total capital employed in its trading operations which is efficiently financed by a combination of equity shareholders' funds, preference capital, subordinated debt and borrowings.

	31 December 2005	**31 December 2004**
Total shareholders' funds – EEV basis (including minority interests)	£17.5 billion	£14.0 billion
Total capital employed by business operations	£23.0 billion	£19.3 billion
Net asset value per share	622 pence	511 pence

The significant increase in shareholders' funds reflects strong operational performance and the significant investment gains recorded during the year as well as the capital raised as part of the acquisition of RAC in May. Net asset value per ordinary share, based on equity shareholders' funds, was higher at 622 pence per share.

Regulatory bases

EU Groups directive

	31 December 2005	31 December 2004
Insurance Groups Directive (IGD) excess solvency	£3.5 billion	£3.6 billion
Cover (times) over EU minimum	1.8 times	1.9 times

Aviva Group had an estimated excess regulatory capital, as measured under the EU Groups Directive, of £3.5 billion at 31 December 2005 (31 December 2004: £3.6 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.

The FSA introduced further changes to the valuation rules which applied during 2005 which we signposted last year. From 1 January 2005, the valuations of non-insurance subsidiaries were restated from market value to net asset value reducing IGD by £0.6 billion. Furthermore, the FSA introduced the rules for accounting for pension fund deficits under IAS with effect from April 2005. The impact of this is to reduce Aviva's excess solvency by £0.4 billion. The impact of these valuation changes has been offset by the Group's strong solvency capital generation in the period which amounted to £1.5 billion while the acquisition of RAC reduced the excess regulatory capital by a further £0.8 billion. As previously announced, completion of the Asian general insurance business sale in the period improved the IGD excess solvency by £0.2 billion. The revised FSA rules do not incorporate the full value of the Group's pension fund deficit, inclusion of which would have the effect of reducing the IGD by £0.5 billion.

From 1 January 2005, the Group is required to monitor its capital in accordance with the requirements of the Prudential Sourcebook (PSB) as set out by the FSA. We have established the Group's risk and governance frameworks to ensure compliance and finalised the parameters and assumptions that underpin the Individual Capital Assessment (ICA). From 1 January 2006, the Group is required to have a positive IGD basis solvency level at all times. The Group's risk management processes ensure adequate review of this measure at all times.

Economic bases

We have developed a framework using ICA principles for identifying the risks that business units, and the Group as a whole, are exposed to and quantifying their impact on economic capital. The ICA estimates the capital required to mitigate the risk of insolvency to a 99.5% confidence level over a one year time horizon against financial and non-financial tests.

Currently our ICA uses a mixture of scenario based approaches and risk based capital models. The FSA will use the results of our ICA process when discussing the target levels of capital it believes the UK regulated businesses should maintain. We have been discussing the Group's ICA with the FSA over the past six months and we expect to conclude these discussions shortly.

We continue to develop our risk based capital modelling capability for all our businesses as part of our longer-term development programme for more complex risk modelling techniques, and increasingly operate our business by reference to economic and risk based capital requirements.

General insurance

Regulatory basis

Our principal UK general insurance regulated subsidiaries are CGU International Insurance group (CGUII) and Norwich Union Insurance (NUI). The combined businesses of the CGUII group and NUI group have strong solvency positions. On an aggregate basis the estimated excess solvency margin (representing the regulatory value of excess available assets over the required minimum margin) amounted to £5.4 billion (31 December 2004: £5.7 billion) after covering the minimum capital base of £4.3 billion (31 December 2004: £4.1 billion).

The table below sets out the regulatory basis of these general insurance groups at 31 December 2005 and 31 December 2004.

	31 December 2005			31 December 2004		
	NUI plc	CGUII Group	NUI and CGUII Group pro forma	NUI plc	CGUII Group	NUI and CGUII Group pro forma
Regulated asset value £bn	£1.0 bn	£8.7 bn	£9.7 bn	£1.0 bn	£8.8 bn	£9.8 bn
Required minimum margin £bn	£0.4 bn	£3.9 bn	£4.3 bn	£0.4 bn	£3.7 bn	£4.1 bn
Excess solvency margin £bn	£0.6 bn	£4.8 bn	£5.4 bn	£0.6 bn	£5.1 bn	£5.7 bn
Cover (times)	2.8 times	2.2 times	2.3 times	2.6 times	2.4 times	2.4 times

Economic bases - Risk based capital

The Group uses a number of measures of risk based capital to assess its capital requirements for its general insurance businesses. Financial modelling techniques enhance our practice of active capital management, ensuring sufficient capital is available to protect against unforeseen events and adverse scenarios, and risk management. Our aim continues to be the optimal usage of capital through appropriate allocation to our businesses.

Our traditional risk based capital measure for general insurance business assesses insurance market and credit risks and makes prudent allowance for diversification benefits. The underlying model looks at the level of capital necessary to enable the general insurance business to meet the statutory minimum solvency margin over a five year period with 99% probability of not requiring further capital. We consider risks over a five year period allowing for planned levels of business growth. Based on this model, our risk based capital requirement may be expressed at 34% of net written premiums which is equivalent to £3.5 billion (31 December 2004: £3.3 billion) of capital. This compares with a total of £5.6 billion (31 December 2004: £5.0 billion) of shareholders' capital employed in our general insurance businesses.

Life operations

Economic bases

For the Group's non-participating worldwide life assurance business the Group has set its capital requirements as the higher of:

- Target levels set by reference to own internal risk assessment and internal objectives
- Minimum capital level (i.e. level of solvency capital at which local regulator is empowered to take action)

Having undertaken an assessment of the level of operational, demographic, market and currency risk of each of our life businesses, we have quantified the levels of capital required for each business. We have expressed these as a percentage of EU minimum.

The required capital across all the Group's businesses varies depending on the level of operational, market and currency risk, between 100% and 200% of EU minimum or equivalent. In the UK we have assessed the required capital for our annuity book at 150% of the EU minimum and the remainder of the non-profit portfolio has been set at 100% of the EU minimum. The weighted average level of required capital for the Group's non-participating life business, expressed as a percentage of the EU minimum solvency margin is 128% (2004: 135%). This is a blended rate and we would expect this to change over time with product mix.

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 2005 the aggregate regulatory requirements based on the EU minimum test amounted to £3.9 billion (31 December 2004: £3.7 billion). At this date, the actual net worth held in the Group's long-term business was £7.2 billion (31 December 2004: £6.3 billion) which represents 183% (31 December 2004: 168%) of these minimum requirements.

UK Life operations

Available capital

The available capital of the with-profit funds is represented by the realistic orphan estate. The estate represents the assets of the long-term with-profits funds less the realistic liabilities for non-profit policies, 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-profits 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 2005 and 31 December 2004.

					31 December 2005
	Estimated Realistic assets £bn	**Realistic liabilities*[1] £bn**	**Estimated Realistic orphan estate[2] £bn**	**Estimated required capital margin[3] £bn**	**Estimated excess £bn**
CGNU Life	14.0	11.9	2.1	0.5	1.6
CULAC	14.0	12.1	1.9	0.6	1.3
NUL&P	25.9	24.7	1.2	0.8	0.4
Provident Mutual	2.5	2.5	-	-	-
Aggregate	**56.4**	**51.2**	**5.2**	**1.9**	**3.3**

* These realistic liabilities include the shareholders' share of future bonuses of £0.7 billion (31 December 2004: £0.5 billion). Realistic liabilities adjusted to eliminate the shareholders' share of future bonuses are £50.5 billion (31 December 2004: £47 billion).

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, £0.9 billion and £3.4 billion for CGNU Life, CULAC and NUL&P respectively (31 December 2004: £0.6 billion, £0.9 billion and £3.3 billion for CGNU Life, CULAC and NUL&P respectively).

2 Estimated realistic orphan estate at 31 December 2004 was £1.7 billion, £1.6 billion and £1.2 billion for CGNU Life, CULAC and NUL&P respectively.

3 The required capital margin (RCM) is 2.7 times covered by the orphan estate (31 December 2004: 2.6 times).

Possible reattribution of inherited estate

As previously announced, Aviva is reviewing the possibility of a reattribution of the inherited estate, or orphan assets, of two of our with-profit funds: CGNU Life and CULAC. At 31 December 2005, the estimated inherited estates of the CGNU Life and CULAC with-profits funds were £2.1 billion and £1.9 billion, respectively. At this stage, no decision has been taken to proceed with a reattribution. This will only be undertaken if there are clear benefits for both policyholders and shareholders.

Under FSA rules, one condition of the new regulations (introduced in 2005) for the reattribution of an inherited estate, is the appointment of an independent policyholder advocate to represent policyholders during the procedure, a development that Aviva welcomes. In early February 2005, Aviva was delighted to announce that Clare Spottiswoode has been nominated as the policyholder advocate and that the Financial Services Authority (FSA) has approved this nomination.

The actual appointment of the policyholder advocate would occur once terms of reference are agreed, the FSA has fully considered the outline of any reattribution scheme and if Aviva is fully satisfied that a reattribution is in the clear interests of policyholders and shareholders. The appointment is not expected to happen before the autumn of 2006.

Investment mix

The aggregate investment mix of the assets in the three main with-profit funds at 31 December 2005 was:

	31 December 2005 %	**31 December 2004 %**
Equity	42%	36%
Property	15%	15%
Fixed interest	37%	43%
Other	6%	6%
	100%	**100%**

The equity backing ratio, including property, supporting with-profit asset shares is 72% in CGNU Life and CULAC and 60% in NUL&P. With-profit new business is mainly written through CGNU Life.

Glossary

Life profits reporting

In reporting the headline operating profit, life profits have been included using the European Embedded Value basis. This is used throughout the Aviva Group to assess performance, having adopted the EEV Principles. We have focused on the EEV basis, as we believe EEV operating return is a more realistic measure of the performance of the businesses than IFRS basis. The IFRS basis is used in our financial statements and, on this basis, the operating profit before tax on continuing operations amounted to £2,128 million (2004: £1,669 million). The EEV methodology adopted is in accordance with the EEV Principles introduced by the CFO Forum.

Definitions of Group key performance indicators and other terms

Annual premium equivalent (APE)	–	Method for calculating life, pensions and investment new business levels. It equals the total of new annualised regular premiums plus 10% of single premiums.
Assets under management	–	Represents all assets managed by the Group including funds held on behalf of third parties.
CGUII	–	A principal UK general insurance company and the parent of the majority of the Group's overseas general insurance and life assurance subsidiaries.
Combined operating ratio (COR)	–	The aggregate of incurred claims expressed as a percentage of earned premiums and written expenses and written commissions expressed as a percentage of written premiums.
Covered business	–	The contracts to which the EEV methodology has, in line with the *EEV Principles,* been applied.
EU solvency	–	The excess of assets over liabilities and the world-wide minimum solvency margins, excluding goodwill and the additional value of in-force long-term business, and excluding the surplus held in the Group's life funds. The Group solvency calculation is determined according to the UK Financial Services Authority application of EU Insurance Groups Directive rules.
Financial Options and Guarantees	–	Features of the *covered business* conferring potentially valuable guarantees underlying, or options to change, the level or nature of policyholder benefits and exercisable at the discretion of the policyholder, whose potential value is impacted by the behaviour of financial variables.
Free Surplus	–	The amount of any capital and surplus allocated to, but not required to support, the in-force covered business.
Gross risk free yields	–	Gross of tax yields on risk free fixed interest investments, generally Government bonds.
Holding Company	–	A legal entity with a function of being a consolidating entity for primary financial reporting of *covered business.*
Implicit items	–	Amounts allowed by local regulators to be deducted from capital amounts when determining the EU required minimum margin.
Life EEV operating return	–	Operating return on the EEV basis relating to the lines of business included in the embedded value calculations. From continuing operations and is stated before tax, impairment of goodwill and exceptional items.
Life EEV return	–	Total return on the EEV basis relating to the lines of business included in the embedded value calculations. From continuing operations.
Look-through basis	–	Inclusion of 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.
IFRS operating profit	–	From continuing operations, stated before tax attributable to shareholders' profits, impairment of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items.
Net asset value per ordinary share	–	Net asset value divided by the number of ordinary shares in issue. Net asset value is based on equity shareholders' funds.
New business contribution	–	Is calculated using the same economic assumptions as those used to determine the embedded values at the beginning of each year and is stated before tax and the effect of required capital.
New business margin	–	New business margins are calculated as the new business contribution divided by the present value of new business premiums (PVNBP), and expressed as a percentage. Previously, under the Achieved Profits basis, they were expressed as new business contribution divided by premiums measured on an annual premium equivalent (APE) basis.
Orphan estate	–	The assets of the long-term with-profit funds less the realistic reserves for non-profit policies, less asset shares aggregated across the with-profit policies and any additional amounts expected at the valuation date to be paid to in-force policyholders in the future in respect of smoothing costs and guarantees.
Present value of new business premiums (PVNBP)	–	Present value of new regular premiums plus 100% of single premiums, calculated using assumptions consistent with those used to determine new business contribution.
Required Capital	–	The amount of assets, over and above the value placed on liabilities in respect of *covered business,* whose distribution to shareholders is restricted.
Service companies	–	Companies providing administration or fund management services to the *covered business.*
Solvency cover	–	The excess of the regulatory value of total assets over total liabilities, divided by the regulatory value of the required minimum solvency margin.
Statutory Basis	–	The valuation basis and approach used for reporting financial statements to local regulators.
Stochastic Techniques	–	Techniques that incorporate the potential future variability in assumptions affecting their outcome.
Time Value and Intrinsic Value	–	A financial option or guarantee has two elements of value, the *time value* and *intrinsic value.* The *intrinsic value* is the discounted value of the option or guarantee at expiry, assuming that future economic conditions follow best estimate assumptions. The *time value* is the additional value arising from uncertainty about future economic conditions.

EEV basis

Summarised consolidated income statement – EEV basis
For the year ended 31 December 2005

Page	2005 €m		2005 £m	2004 £m
		Operating profit before tax attributable to shareholders' profits		
23	2,668	Life EEV operating return	1,814	1,611
48	75	Fund management[1]	51	20
49	2,281	General insurance and health	1,551	1,259
		Other:		
50	88	Other operations[2]	60	(41)
51	(200)	Corporate costs	(136)	(188)
51	(641)	Unallocated interest charges	(436)	(437)
	4,271	**Operating profit before tax attributable to shareholders' profits**	**2,904**	**2,224**
		Adjusted for the following:		
	(63)	Impairment of goodwill	(43)	(41)
	(31)	Amortisation and impairment of acquired value of in-force business and intangibles	(21)	(3)
	-	Financial Services Compensation Scheme and other levies	-	(49)
	4,124	Variation from longer-term investment return	2,805	662
	(597)	Effect of economic assumption changes	(406)	(318)
46	225	Profit on the disposal of subsidiaries and associates	153	34
45	(160)	Integration costs	(109)	-
	-	Exceptional costs for termination of operations	-	(40)
	7,769	**Profit before tax**	**5,283**	**2,469**
	(1,363)	Tax on operating profit	(927)	(618)
	(991)	Tax on other activities	(674)	(32)
	5,415	**Profit for the year**	**3,682**	**1,819**
		Attributable to:		
	5,103	Equity shareholders of Aviva plc	3,470	1,641
	312	Minority interests	212	178
	5,415		**3,682**	**1,819**

All profit is from continuing operations.

1 Excludes the proportion of the results of Morley's fund management businesses and of our French asset management operation Aviva Gestion d'Actifs (AGA) that arises from the provision of fund management services to our Life businesses. These results are included within the Life EEV operating return.

2 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 2005

2005	Earnings per share	2005	2004
	Operating profit on an EEV basis after tax, attributable to ordinary shareholders in respect of Aviva plc		
109.6c	Continuing operations	74.5p	63.1p
	Profit after tax for the year on an EEV basis, attributable to ordinary shareholders of Aviva plc		
215.1c	Basic (pence per share)	146.3p	72.0p
213.4c	Diluted (pence per share)	145.1p	71.4p

Summarised consolidated statement of recognised income and expense – EEV basis
For the year ended 31 December 2005

	2005 £m	2004 £m
Fair value gains on AFS securities and owner-occupied properties, net of transfers to the income statement	61	130
Actuarial losses on pension schemes	(547)	(145)
Foreign exchange rate movements	(44)	119
Reserves credit for equity compensation plans	22	21
Aggregate tax effect – shareholder tax	224	(15)
Net income recognised directly in equity	**(284)**	**110**
Profit for the year*	3,682	1,819
Total recognised income and expense for the year	**3,398**	**1,929**

* Stated before the effect of foreign exchange rate movements, which are reported within the foreign exchange rate movements line.

Reconciliation of movements in consolidated shareholders' funds – EEV basis
For the year ended 31 December 2005

	2005 £m	2004 £m
Balance at 1 January	**14,011**	**11,534**
Total recognised income and expense for the year	3,398	1,929
Dividends and appropriations (note 15)	(657)	(570)
Issue of share capital for the acquisition of RAC plc	530	-
Other issues of share capital, net of transaction costs	59	25
Shares issued in lieu of dividends	100	103
Issue of direct capital instrument, net of transaction costs of £9 million	-	981
Capital contribution from minority shareholders	212	4
Minority share of dividends declared in the year	(70)	(41)
Minority interest in (disposed)/acquired subsidiaries	(36)	45
Movement in shares held by employee trusts	-	1
Other movements	(1)	-
Total equity	**17,546**	**14,011**
Minority interests	**(1,457)**	**(1,160)**
Balance at 31 December	**16,089**	**12,851**

Summarised consolidated balance sheet – EEV basis
As at 31 December 2005

31 December 2005 €m		31 December 2005 £m	31 December 2004 £m
	Assets		
3,296	Goodwill	2,274	1,184
1,164	Acquired value of in-force business and intangible assets	803	516
9,354	Additional value of in-force long-term business	6,454	5,018
3,086	Investments in joint ventures	2,129	1,255
1,283	Investments in associates	885	873
1,283	Property and equipment	885	812
19,239	Investment property	13,275	11,057
35,571	Loans	24,544	22,055
	Financial investments		
150,604	Debt securities	103,917	98,719
75,426	Equity securities	52,044	47,291
38,300	Other investments	26,427	20,346
10,333	Reinsurance assets	7,130	8,503
1,475	Deferred tax assets	1,018	908
126	Current tax assets	87	-
11,168	Receivables and other financial assets	7,706	7,509
5,458	Deferred acquisition costs and other assets	3,766	3,189
3,425	Prepayments and accrued income	2,363	2,307
19,900	Cash and cash equivalents	13,732	12,779
670	Assets of operations classified as held for sale	462	-
391,161	**Total assets**	**269,901**	**244,321**
	Equity		
868	Ordinary share capital	599	570
6,432	Capital reserves	4,438	3,878
1,209	Other reserves	834	736
3,764	Retained earnings	2,597	1,709
9,320	Additional retained profit on an EEV basis	6,431	4,768
21,593	**Equity attributable to ordinary shareholders of Aviva plc**	**14,899**	**11,661**
1,725	Preference share capital and direct capital instrument	1,190	1,190
2,111	Minority interests	1,457	1,160
25,429	**Total equity**	**17,546**	**14,011**
	Liabilities		
192,177	Gross insurance liabilities	132,602	124,122
112,042	Gross liability for investment contracts	77,309	69,555
13,012	Unallocated divisible surplus	8,978	7,549
4,546	Net asset value attributable to unitholders	3,137	2,247
4,167	Provisions	2,875	2,125
3,562	Deferred tax liabilities	2,458	1,543
1,497	Current tax liabilities	1,033	922
15,961	Borrowings	11,013	10,090
13,746	Payables and other financial liabilities	9,485	7,240
4,812	Other liabilities	3,320	4,917
210	Liabilities of operations classified as held for sale	145	-
365,732	**Total liabilities**	**252,355**	**230,310**
391,161	**Total equity and liabilities**	**269,901**	**244,321**

Segmentation of summarised consolidated balance sheet – EEV basis
As at 31 December 2005

	Life and related businesses 2005 £m	General business and other 2005 £m	Group 2005 £m	Life and related businesses 2004 £m	General business and other 2004 £m	Group 2004 £m
Total assets before acquired additional value of in-force long-term business	224,453	38,679	263,132	205,498	33,441	238,939
Acquired additional value of in-force long-term business	315	-	315	364	-	364
Total assets included in the statutory IFRS balance sheet	**224,768**	**38,679**	**263,447**	**205,862**	**33,441**	**239,303**
Liabilities of the long-term business	(215,624)	-	(215,624)	(197,054)	-	(197,054)
Liabilities of the general insurance and other businesses	-	(36,731)	(36,731)	-	(33,256)	(33,256)
Net assets on a statutory IFRS basis	**9,144**	**1,948**	**11,092**	**8,808**	**185**	**8,993**
Additional value of in-force long-term business[1]	6,454	-	6,454	5,018	-	5,018
Net assets on an EEV basis[2]	**15,598**	**1,948**	**17,546**	**13,826**	**185**	**14,011**
Equity capital, capital reserves, shares held by employee trusts and other reserves			5,871			5,184
IFRS basis retained earnings			2,597			1,709
Additional EEV basis retained profit			6,431			4,768
Equity attributable to ordinary shareholders of Aviva plc on an EEV basis			**14,899**			**11,661**
Preference share capital and direct capital instrument			1,190			1,190
Minority interests			1,457			1,160
EEV basis total equity			**17,546**			**14,011**

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:

	2005 £m	2004 £m	Movement in the year £m
Group's share included in shareholders' funds	6,431	4,768	1,663
Minority interest share	329	250	79
Movement in AFS securities	(306)	-	(306)
Balance at 31 December	6,454	5,018	1,436

2 Analysis of net assets on an EEV basis is made up as follows:

	2005 £m	2004 £m
Long-term business net assets on an EEV basis	15,598	13,826
Comprises:		
Embedded value	15,113	13,014
RBSG goodwill	217	217
Goodwill allocated to long-term business	631	595
Notional allocation of IAS 19 pension fund deficit to long-term business[3]	(363)	-
Long-term business net assets on an EEV basis	**15,598**	**13,826**

3 The value of the Aviva Pension Scheme deficit has been notionally allocated between segments, based on current funding and the UK Life proportion has been included within the long-term business net assets on an EEV basis.

Basis of preparation – EEV basis

The consolidated income statement and balance sheet on pages 16 to 19 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. In October 2005 the CFO Forum published Additional Guidance on EEV Disclosures applicable for financial reporting for the year ending 31 December 2006 which has been reflected as far as is possible in this preliminary announcement, in accordance with our previous reporting.

In the Directors' opinion, the EEV basis provides a more accurate reflection of the performance of the Group's life and related operations year on year than results presented under 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. 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 Group's approach to establishing economic assumptions (specifically investment returns, required capital and discount rates) was reviewed by Tillinghast, a firm of actuarial consultants, at the time of adopting the EEV principles in 2004. The approach is based on the well established capital asset pricing model theory and is in line with the EEV Principles and Guidance.

The results for 2005 and 2004 have been audited by our auditors, Ernst & Young LLP. Their report in respect of 2005 is included in the Report and Accounts on page 199 of that 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 adoption of IFRS has resulted in no change to the Group's definition of new business under EEV and so 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 and China. 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 43.

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.

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, 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.

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. 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.

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	**2005 £m**	**2004 £m**
New business contribution (after the effect of required capital)	612	516
Profit from existing business		
– expected return	895	819
– experience variances	(39)	(15)
– operating assumption changes	17	(7)
Expected return on shareholders' net worth	329	298
Life EEV operating return before tax	**1,814**	**1,611**
Investment return variances	2,288	501
Effect of economic assumption changes	(406)	(318)
Life EEV return before tax	3,696	1,794
Tax on operating profit	(566)	(490)
Tax charge on other ordinary activities	(579)	(58)
Life EEV return after tax	**2,551**	**1,246**

There were no separate development costs reported in these periods.

New business contribution

The following tables set out the premium volumes and contribution from new business written by the life and related businesses, consistent with the definition of new business set out on page 20.

The contribution generated by new business written during the period 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 period. 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 future 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.

	Annual premium equivalent[1]		**Present value of new business premiums**		**New business contribution before the effect of required capital**		**New business margin before the effect of required capital[2]**	
	2005 £m	**2004 £m**	**2005 £m**	**2004 £m**	**2005 £m**	**2004 £m**	**2005 %**	**2004 %**
Life and pensions								
United Kingdom	**1,142**	**1,166**	**9,053**	**9,172**	**265**	**269**	**2.9%**	**2.9%**
France	384	307	3,530	2,782	135	95	3.8%	3.4%
Ireland	100	86	665	561	16	19	2.4%	3.4%
Italy	252	198	2,294	1,799	59	48	2.6%	2.7%
Netherlands (including Belgium and Luxembourg)	271	261	2,407	2,168	88	80	3.7%	3.7%
Poland	42	37	285	241	14	11	4.9%	4.6%
Spain	240	248	2,013	2,110	175	143	8.7%	6.8%
Other Europe	121	124	739	804	7	5	0.9%	0.6%
Continental Europe	**1,410**	**1,261**	**11,933**	**10,465**	**494**	**401**	**4.1%**	**3.9%**
International	**193**	**171**	**1,260**	**1,024**	**49**	**36**	**3.9%**	**3.4%**
Total (before the effect of required capital)	**2,745**	**2,598**	**22,246**	**20,661**	**808**	**706**	**3.6%**	**3.4%**

1 United Kingdom APE has been restated to include NUER APE volumes of £37 million (2004: £48 million).
2 New business margin represents the ratio of new business contribution before the effect of required capital to PVNBP, expressed as a percentage.

New business contribution before the effect of required capital includes minority interests in 2005 of £156 million (2004: £121 million). This comprises minority interests in France of £19 million (2004: £7 million), Italy £35 million (2004: £27 million), Netherlands £10 million (2004: £10 million), Poland £2 million (2004: £2 million), Spain £89 million (2004: £75 million) and Other Europe £1 million (2004: nil).

Life and pensions	Present value of new business premiums		New business contribution after the effect of required capital		New business margin after the effect of required capital[1]	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 %	2004 %
United Kingdom[2]	**9,053**	**9,172**	**213**	**215**	**2.4%**	**2.3%**
France	3,530	2,782	91	54	2.6%	1.9%
Ireland	665	561	13	16	2.0%	2.9%
Italy	2,294	1,799	36	34	1.6%	1.9%
Netherlands (including Belgium and Luxembourg)	2,407	2,168	57	43	2.4%	2.0%
Poland	285	241	13	9	4.6%	3.7%
Spain	2,013	2,110	155	121	7.7%	5.7%
Other Europe	739	804	2	-	0.3%	-
Continental Europe	**11,933**	**10,465**	**367**	**277**	**3.1%**	**2.6%**
International	**1,260**	**1,024**	**32**	**24**	**2.5%**	**2.3%**
Total (after the effect of required capital)	**22,246**	**20,661**	**612**	**516**	**2.8%**	**2.5%**

1 New business margin represents the ratio of new business contribution after deducting the effect of required capital to PVNBP, expressed as a percentage.
2 The reduction in the level of required capital in respect of UK annuities from 200% to 150% of the EU minimum has increased the 2005 new business contribution amount by £13 million (2004 has not been restated).

New business contribution after the effect of required capital includes minority interests in 2005 of £120 million (2004: £94 million). This comprises minority interests in France of £10 million (2004: £1 million), Italy £21 million (2004: £19 million), Netherlands £7 million (2004: £8 million), Poland £2 million (2004: £2 million), Spain £79 million (2004: £64 million) and Other Europe £1 million (2004: nil).

EEV basis – new business contribution before the effect of required capital, tax and minority interest

	Annual premium equivalent		Present value of new business premiums		New business contribution[1]		New business margin[2]	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m	2005 %	2004 %
Analysed between:								
– Bancassurance channels	710	587	6,075	4,976	311	242	5.1%	4.9%
– Other distribution channels	2,035	2,011	16,171	15,685	497	464	3.1%	3.0%
Total	**2,745**	**2,598**	**22,246**	**20,661**	**808**	**706**	**3.6%**	**3.4%**

1 Stated before the effect of required capital
2 New business margin represents the ratio of new business contribution before the effect of required capital to PVNBP, expressed as a percentage.

EEV basis – new business contribution after the effect of required capital, tax and minority interest

	Annual premium equivalent		Present value of new business premiums[1]		New business contribution[2]		New business margin[3]	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m	2005 %	2004 %
Analysed between:								
– Bancassurance channels	387	328	3,238	2,728	93	74	2.9%	2.7%
– Other distribution channels	1,997	1,978	15,815	15,353	248	223	1.6%	1.5%
Total	**2,384**	**2,306**	**19,053**	**18,081**	**341**	**297**	**1.8%**	**1.6%**

1 Stated after deducting minority interests.
2 Contribution stated after deducting the effect of required capital, tax and minority interests.
3 New business margin represents the ratio of new business contribution after deducting the effect of required capital, tax and minority interests to PVNBP after deducting the minority interests, expressed as a percentage.

Post-tax internal rate of return on life and pensions new business

The internal rate of return (IRR) on life and pensions new business for the Group was 12.5% for 2005 (2004: 12.3%).

The internal rate of return is equivalent to the discount rate at which the present value of the post-tax cash flows expected to be earned over the life time of the business written, including allowance for the time value of options and guarantees, is equal to the total invested capital to support the writing of the business. The capital included in the calculation of the IRR is the initial capital required to pay acquisition costs and set up statutory reserves in excess of premiums received ("initial capital"), plus required capital at the same level as for the calculation of new business contribution post cost of capital.

				2005
	Internal rate of return %	Initial capital £m	Required capital £m	Total invested capital £m
UK	11%	331	157	488
Continental Europe				
France	12%	20	97	117
Ireland	10%	33	15	48
Italy	12%	9	59	68
Netherlands (including Belgium and Luxembourg)	9%	45	78	123
Poland	19%	10	4	14
Spain	27%	15	63	78
Other Europe	13%	37	43	80
International	17%	44	41	85
Total	**13%**	**544**	**557**	**1,101**

The total initial capital for life and pensions new business for 2005 of £544 million (2004: £600 million) shown above is expressed at the point of sale. Hence it is higher than the impact of writing that new business on net worth of £536 million (2004: £520 million) shown on page 28, because the latter amount includes expected profits from the point of sale to the end of the reporting period, partly offset by the expected return on the initial capital.

Aviva's reported internal rates of return calculations are based on the total invested capital used to support the writing of the new business. However, this underestimates the returns due to the Group's shareholders as the total invested capital includes the cash flows attributable to both the Group's debt holders as well as the Group's shareholders. As the cost of debt capital is significantly lower than the Group's IRRs this underestimates the returns on new business for our shareholders measured through the reported internal rate of return calculations.

The Group could equally have defined the internal rate of return calculations based on the cash flows that are attributable to the Group's shareholders as opposed to total cash flows.

The effect on the reported calculation of the internal rates of return on this basis is to increase the IRR for UK Life from 10.6% to 12.3%. The revised calculation assumes that the external capital composition of the Group, 30% debt and 70% equity, is used to finance the initial and required capital, and allows for the cost of debt by deducting the relevant proportion of the Group's debt servicing costs from the future cash flows earned over the lifetime of the products.

The leveraged new business returns comfortably exceed the Group's cost of equity at 31 December 2005 of 7.6% (based on a risk free rate of 4.1%, an equity risk margin of 3% and a market assessed beta of 1.17).

Experience variances

Experience variances include the impact of the difference between expense, demographic and persistency assumptions, and actual experience incurred in the year. Also included are variances arising from tax, where such variances are due to management action.

	2005 £m	2004 £m
United Kingdom	(93)	(81)
France	32	22
Netherlands (including Belgium and Luxembourg)	(8)	12
Rest of Europe	21	23
International	9	9
	(39)	**(15)**

Operating assumption changes

Changes in operating assumptions are made when the assumed future levels of expenses, mortality or other operating assumptions are expected to change permanently.

	2005 £m	2004 £m
United Kingdom	(57)	(58)
France	14	35
Netherlands (including Belgium and Luxembourg)	47	21
Rest of Europe	11	(4)
International	2	(1)
	17	**(7)**

Further disclosures on experience variances and operating assumption changes on an EEV basis are provided on pages 63 and 64.

Geographical analysis of life EEV operating return

	2005 £m	2004 £m
United Kingdom	585	551
Continental Europe		
France	321	286
Ireland	20	40
Italy	96	79
Netherlands (including Belgium and Luxembourg)	318	277
Poland	128	93
Spain	214	180
Other Europe	33	22
International	99	83
	1,814	**1,611**

Life EEV operating return includes minority interests in 2005 of £216 million (2004: £186 million). This comprises minority interests in France of £24 million (2004: £9 million), Italy £52 million (2004: £43 million), Netherlands £17 million (2004: £26 million), Poland £18 million (2004: £16 million), Spain £103 million (2004: £90 million) and Other Europe £2 million (2004: £2 million).

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 2005 and 2004. 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 from life and related businesses to other segments consists of service company profits and losses during the reported period 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.

		Net worth £m	Value of in-force £m	2005 Total £m
Embedded value at the beginning of the year	– Free surplus	1,894		
	– Required capital[1]	4,362		
	Total	**6,256**	**6,758**	**13,014**
New business contribution (after the effect of required capital)		(536)	955	419
Expected return on existing business – return on VIF		-	624	624
Expected return on existing business – transfer to net worth		929	(929)	-
Experience variances and operating assumption changes		96	(115)	(19)
Expected return on shareholders' net worth		225	-	225
Investment return variances and economic assumption changes		785	517	1,302
Life EEV return after tax		**1,499**	**1,052**	**2,551**
Exchange rate movements		(54)	(45)	(99)
Embedded value from business disposed of		(19)	(19)	(38)
Amounts injected into life and related businesses		266	-	266
Amounts released from life and related businesses		(751)	-	(751)
Transfer from life and related businesses to other segments		23	-	23
UK Life pension fund deficit transferred to analysis of net assets on an EEV basis[2]		-	147	147
Embedded value at the end of the year	– Free surplus	2,772		
	– Required capital[1]	4,448		
	Total	**7,220**	**7,893**	**15,113**

1 Required capital is shown net of implicit items permitted by local regulators to cover minimum solvency margins.
2 Reflecting CFO Forum guidance the pension scheme deficit is now being accounted for on an IAS 19 basis. Consequently, the element that had previously been included in the Life EEV analysis, being the present value of agreed deficit funding payments, has been removed from the Life EEV analysis.

The embedded value of business disposed of in 2005 of £38 million represents the embedded value of the business in Portugal and Delta Lloyd's stake in ENNIA Caribe, a Dutch Antilles and Aruba based insurer.

Required capital has increased in the year by £86 million. The movement comprises an increase of £557 million in relation to new business written, a reduction of £415 million in relation to in-force business and a reduction of £56 million in relation to movements in foreign exchange rates. The reduction in the in-force required capital includes a release of £245 million arising from the restructure of the UK non-profit funds and a release of £295 million arising from the reduction in the level of required capital for UK annuities. The underlying increase in the in-force required capital of £125 million reflects the effect of the reduction in long-term interest rates, which has increased statutory reserves and, therefore, capital requirements and which has more than offset the reduction in capital in respect of business run-off.

		Net worth £m	Value of in-force £m	2004 Total £m
Embedded value at the beginning of the year	– Free surplus	1,721		
	– Required capital[1]	4,114		
	Total	**5,835**	**5,916**	**11,751**
New business contribution (after the effect of required capital)		(520)	875	355
Expected return on existing business – return on VIF		-	576	576
Expected return on existing business – transfer to net worth		738	(738)	-
Experience variances and operating assumption changes		(98)	79	(19)
Expected return on shareholders' net worth		208	-	208
Investment return variances and economic assumption changes		167	(41)	126
Life EEV return after tax		**495**	**751**	**1,246**
Exchange rate movements		51	68	119
Embedded value of businesses acquired		79	23	102
Amounts injected into life and related businesses		324	-	324
Amounts released from life and related businesses		(576)	-	(576)
Transfer from life and related businesses to other segments		48	-	48
Embedded value at the end of the year	– Free surplus	1,894		
	– Required capital[1]	4,362		
	Total	**6,256**	**6,758**	**13,014**

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 2004 of £102 million represents the total embedded value of Antarius, the bancassurance joint venture with Crédit du Nord in France.

Segmental analysis of life and related businesses embedded value

	Net worth		Value of in-force covered business		Total
31 December 2005	Required capital[1] £m	Free surplus £m	Present value of in-force £m	Cost of required capital £m	Embedded value £m
United Kingdom	1,120	673	4,916	(396)	6,313
Continental Europe					
France	1,131	133	1,009	(206)	2,067
Ireland	144	142	372	(19)	639
Italy	285	317	170	(56)	716
Netherlands (including Belgium and Luxembourg)	1,024	1,068	1,253	(321)	3,024
Poland	104	109	464	(30)	647
Spain	243	19	515	(52)	725
Other	90	75	116	(25)	256
International	307	236	265	(82)	726
	4,448	**2,772**	**9,080**	**(1,187)**	**15,113**

1 Required capital is shown net of implicit items permitted by local regulators to cover minimum solvency margins.

	Net worth		Value of in-force covered business		Embedded value	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
United Kingdom	1,793	1,933	4,520	3,681	6,313	5,614
Continental Europe						
France	1,264	1,121	803	698	2,067	1,819
Ireland	286	281	353	334	639	615
Italy	602	424	114	114	716	538
Netherlands (including Belgium and Luxembourg)	2,092	1,454	932	1,023	3,024	2,477
Poland	213	188	434	369	647	557
Spain	262	222	463	362	725	584
Other	165	149	91	64	256	213
International	543	484	183	113	726	597
	7,220	**6,256**	**7,893**	**6,758**	**15,113**	**13,014**

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, of £4,448 million at 31 December 2005 (31 December 2004: £4,362 million) is included within the net worth.

The value of in-force covered business includes the effect of holding shareholders' capital to support the level of required capital and allowing for projected future releases. This impact reduces the value of in-force covered business at 31 December 2005 by £1,187 million (31 December 2004: £1,195 million).

The embedded value at the end of 2005 includes minority interests of £1,000 million (2004: £796 million). This comprises minority interests in France of £148 million (2004: £120 million), Italy £365 million (2004: £276 million), Netherlands £70 million (2004: £59 million), Poland £106 million (2004: £90 million), Spain £310 million (2004: £244 million) and Other Europe £1 million (2004: £7 million).

Time value of options and guarantees

The following table sets out the time value of options and guarantees relating to covered business by territory at 31 December 2005 and 31 December 2004.

	2005 £m	2004 £m
United Kingdom	48	44
Continental Europe		
France	84	79
Ireland	3	4
Italy	19	14
Netherlands (including Belgium and Luxembourg)	101	92
Poland	5	5
Spain	8	9
Other Europe	19	18
International	16	9
	303	**274**

The time value of options and guarantees (TVOG) is most significant in the United Kingdom, France and the Netherlands. 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.

The TVOG has increased over the year to £303 million primarily due to the allowance included in new business contribution of £31 million. Also included is an increase of £16 million due to the 40 basis points fall in bond yields in continental Europe during 2005 which has largely been offset by the favourable impacts of investment returns and exchange rates.

Minority interest in life and related businesses' EEV results

	2005			2004
	Shareholders' interest £m	Minority interest £m	Group £m	Group £m
New business contribution before effect of required capital	652	156	808	706
Effect of required capital	(160)	(36)	(196)	(190)
New business contribution including effect of required capital	**492**	**120**	**612**	**516**
Life EEV operating return before tax	**1,598**	**216**	**1,814**	**1,611**
Life EEV return before tax	3,456	240	3,696	1,794
Attributed tax	(1,065)	(80)	(1,145)	(548)
Life EEV return after tax	**2,391**	**160**	**2,551**	**1,246**
Closing life and related businesses' embedded value	**14,113**	**1,000**	**15,113**	**13,014**

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 period. 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.

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 2006. 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		
	2005	**2004**	**2003**	**2005**	**2004**	**2003**
Risk discount rate	6.8%	7.3%	7.5%	6.0%	6.4%	7.0%
Pre-tax investment returns:						
Base government fixed interest	4.1%	4.6%	4.8%	3.3%	3.7%	4.3%
Ordinary shares	7.1%	7.6%	7.8%	6.3%	6.7%	7.3%
Property	6.1%	6.6%	6.8%	5.3%	5.7%	6.3%
Future expense inflation	3.2%	3.3%	3.4%	2.5%	2.5%	2.5%
Tax rate	30.0%	30.0%	30.0%	34.4%	34.9%	35.4%
Required Capital (% EU minimum)	150% / 100%	200% / 100%	200% / 100%	115%	115%	115%

	Ireland			Italy		
	2005	**2004**	**2003**	**2005**	**2004**	**2003**
Risk discount rate	6.0%	6.4%	7.0%	6.0%	6.4%	7.0%
Pre-tax investment returns:						
Base government fixed interest	3.3%	3.7%	4.3%	3.3%	3.7%	4.3%
Ordinary shares	6.3%	6.7%	7.3%	6.3%	6.7%	7.3%
Property	5.3%	5.7%	6.3%	5.3%	5.7%	6.3%
Future expense inflation	4.0%	4.0%	4.0%	2.5%	2.5%	2.5%
Tax rate	12.5%	12.5%	12.5%	38.3%	38.3%	39.8%
Required Capital (% EU minimum)	150%	150%	150%	115%	115%	115%

	Netherlands			Poland		
	2005	**2004**	**2003**	**2005**	**2004**	**2003**
Risk discount rate	6.0%	6.4%	7.0%	8.6%	9.7%	9.7%
Pre-tax investment returns:						
Base government fixed interest	3.3%	3.7%	4.3%	4.9%	6.0%	6.0%
Ordinary shares	6.3%	6.7%	7.3%	7.9%	9.0%	9.0%
Property	5.3%	5.7%	6.3%	n/a	n/a	n/a
Future expense inflation	2.5%	2.5%	2.5%	3.3%	3.4%	3.4%
Tax rate	29.1%	31.5%	25.0%	19.0%	19.0%	19.0%
Required Capital (% EU minimum)	150%	150%	150%	150%	150%	150%

	Spain		
	2005	**2004**	**2003**
Risk discount rate	6.0%	6.4%	7.0%
Pre-tax investment returns:			
Base government fixed interest	3.3%	3.7%	4.3%
Ordinary shares	6.3%	6.7%	7.3%
Property	5.3%	5.7%	6.3%
Future expense inflation	2.5%	2.5%	2.5%
Tax rate	35.0%	35.0%	35.0%
Required Capital (% EU minimum)	125% / 110%	125% / 110%	125% / 110%

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. Required capital in the United Kingdom is 150% EU minimum for Norwich Union Annuity Limited and 100% for other companies. Required capital in Spain is 125% EU minimum for Aviva Vida y Pensiones and 110% for bancassurance companies.

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.

Principal economic assumptions – 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 the Europe (excluding UK) and International businesses, as each of these models better reflect the characteristics of the businesses.

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 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 means and standard deviations (StDev) of future returns at 31 December 2005 for the three most significant asset classes. Interest rates are assumed to have a lognormal distribution with an annualised standard deviation of 13% p.a. for the natural logarithm of the interest rate.

	Mean[1]	StDev[2]
Equities	7.1%	20%
Property	6.1%	15%
Government Bonds	4.1%	3.25-4.75%[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 nth root of the average accumulation minus 1).

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.

Europe (excluding UK) and 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 1 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 returns at 31 December 2005 for the three most significant asset classes: equities, short-term bonds (defined to be of 1 year duration) and long-term bonds (defined to be 10 year zero coupon bonds). In the accumulation of 10 year bonds, it is assumed that these are held for one year, sold as 9 year bonds then the proceeds are reinvested in 10 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]
Short Government Bonds	3.0%	1.5%	3.2%	2.9%	3.5%	5.3%
Long Government Bonds	3.5%	3.8%	3.7%	3.0%	3.9%	3.3%
Equities	6.2%	19.5%	6.4%	19.3%	6.5%	19.0%

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 nth root of the average accumulation minus 1).

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.

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.

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.

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 2005 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 £5,868 million (31 December 2004: £5,953 million).

	2005 £m	2004 £m
Borrowings per summarised consolidated balance sheet – EEV basis	**11,013**	**10,090**
Less: Securitised mortgage funding	(6,303)	(5,193)
Borrowings excluding non-recourse funding - EEV basis	4,710	4,897
Less: Operational financing by businesses	(900)	(598)
External debt and subordinated debt – EEV basis	3,810	4,299
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	5,250	5,739
Effect of marking these instruments to market	618	214
Market value of external debt, subordinated debt, preference shares and direct capital instrument	**5,868**	**5,953**

Sensitivity analysis – economic assumptions

The tables below show the sensitivity of the embedded value as at 31 December 2005 and the new business contribution before the effect of required capital for 2005 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.

Embedded value (net of tax) 31 December 2005	As reported on page 29 £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	6,313	(450)	535	(300)	345
Continental Europe					
France	2,067	(125)	140	(75)	60
Ireland	639	(30)	35	(30)	30
Italy	716	(20)	20	25	(40)
Netherlands (including Belgium and Luxembourg)	3,024	(130)	160	165	(410)
Poland	647	(30)	35	(5)	5
Spain	725	(45)	50	(35)	35
Other	256	(10)	10	10	(35)
International	726	(30)	30	(20)	5
	15,113	**(870)**	**1,015**	**(265)**	**(5)**

Embedded value (net of tax) 31 December 2005	As reported on page 29 £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	6,313	220	(225)	395	(400)	90
Continental Europe						
France	2,067	70	(65)	125	(135)	35
Ireland	639	20	(20)	35	(35)	5
Italy	716	10	(5)	15	(15)	5
Netherlands (including Belgium and Luxembourg)	3,024	275	(310)	335	(335)	100
Poland	647	5	(5)	5	(5)	10
Spain	725	20	(25)	15	(15)	5
Other	256	5	(10)	10	(10)	10
International	726	5	(5)	5	(5)	15
	15,113	**630**	**(670)**	**940**	**(955)**	**275**

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.

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. The reduction of 40 basis points to the assumed pre-tax investment returns at 31 December 2005 has significantly increased this sensitivity, reflecting the level of the guarantees relative to the interest rate assumption.

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) 2005	**As reported on page 24 £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	265	(58)	70	(28)	35
Continental Europe					
France	135	(13)	15	(1)	(3)
Ireland	16	(4)	5	4	-
Italy	59	(2)	3	4	(8)
Netherlands (including Belgium and Luxembourg)	88	(11)	14	22	(50)
Poland	14	(1)	1	-	-
Spain	175	(12)	14	(8)	9
Other	7	(3)	1	1	(5)
International	49	(7)	8	(6)	3
	808	**(111)**	**131**	**(12)**	**(19)**

New business contribution before required capital (gross of tax) 2005	**As reported on page 24 £m**	**1% increase in equity/property returns £m**	**1% decrease in equity/property returns £m**
United Kingdom	265	25	(25)
Continental Europe			
France	135	6	(6)
Ireland	16	3	(3)
Italy	59	1	(1)
Netherlands (including Belgium and Luxembourg)	88	16	(16)
Poland	14	-	-
Spain	175	1	(1)
Other	7	1	(1)
International	49	1	(1)
	808	**54**	**(54)**

One of the key assumptions underpinning the new business contribution is the appropriate level of required capital supporting different types of products. The effect of the assumptions relating to levels of required capital is most significant in relation to annuity business written in the UK. Following a review of the Individual Capital Assessment results in the third quarter of 2005, Aviva concluded that the appropriate level of capital required to support the risks for this business is equivalent to 150% (2004: 200%) of the EU required minimum margins (RMM), notwithstanding the prudent margins incorporated in the technical provisions. This brings the required capital used to report business performance closer in line with the economic capital required to support the business.

Changing the assumption of the required capital backing annuities to 100%, increases the reported value of new business contribution reported after the effect of required capital for 2005 by £13 million and increases the embedded value by £90 million, as shown on page 34.

Sensitivity analysis – non-economic assumptions

The tables below show the sensitivity of the embedded value as at 31 December 2005 and the new business contribution before the effect of required capital for 2005 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);
- 10% decrease in both mortality and morbidity rates.

No future management actions are modelled in reaction to the changing non-economic assumptions. In each sensitivity calculation, all other assumptions remain unchanged.

Embedded value (net of tax) 31 December 2005	**As reported on page 29 £m**	**10% decrease in maintenance expenses £m**	**10% decrease in lapse rates £m**	**10% decrease in mortality / morbidity rates £m**
United Kingdom	6,313	205	70	(120)
Continental Europe				
France	2,067	35	30	35
Ireland	639	10	10	5
Italy	716	5	-	5
Netherlands (including Belgium and Luxembourg)	3,024	70	10	(65)
Poland	647	20	35	15
Spain	725	10	30	15
Other	256	5	5	-
International	726	10	10	20
	15,113	**370**	**200**	**(90)**

New business contribution before required capital (gross of tax) 2005	**As reported on page 24 £m**	**10% decrease in maintenance expenses £m**	**10% decrease in lapse rates £m**	**10% decrease in mortality / morbidity rates £m**
United Kingdom	265	22	19	11
Continental Europe				
France	135	6	6	6
Ireland	16	2	2	1
Italy	59	2	3	2
Netherlands (including Belgium and Luxembourg)	88	8	4	2
Poland	14	1	2	3
Spain	175	4	17	9
Other	7	-	1	(1)
International	49	3	4	4
	808	**48**	**58**	**37**

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.

IFRS basis

Summarised consolidated income statement – IFRS basis
For the year ended 31 December 2005

Page	2005 €m		2005 £m	2004 £m
		Income		
60, 62	36,738	Premiums written net of reinsurance	24,982	23,351
	36,557	Net premiums earned	24,859	23,175
	2,716	Fee and commission income	1,847	1,268
	34,886	Net investment income	23,722	15,733
	526	Share of profit after tax of joint ventures and associates	358	242
	225	Other income	153	34
	74,910		**50,939**	**40,452**
		Expenses		
	(28,979)	Claims and benefits paid, net of recoveries from reinsurers	(19,706)	(17,799)
	(15,259)	Change in insurance liabilities, net of reinsurance	(10,376)	(6,104)
	(11,491)	Change in investment contract provisions	(7,814)	(5,635)
	(2,168)	Change in unallocated divisible surplus	(1,474)	(1,330)
	(6,362)	Fee and commission expense	(4,326)	(4,471)
	(4,681)	Other expenses	(3,184)	(2,566)
	(896)	Finance costs	(609)	(522)
	5,074	**Profit before tax**	**3,450**	**2,025**
	(1,356)	Tax attributable to policyholders' returns	(922)	(383)
	3,718	**Profit before tax attributable to shareholders' profits**	**2,528**	**1,642**
		Tax expense		
	(1,692)	United Kingdom tax	(1,150)	(280)
	(591)	Overseas tax	(402)	(374)
	(2,283)		(1,552)	(654)
	1,356	Less: tax attributable to policyholders' returns	922	383
	(927)	Tax attributable to shareholders' profits	(630)	(271)
	2,791	**Profit for the year**	**1,898**	**1,371**
		Attributable to:		
	2,598	Equity shareholders of Aviva plc	1,767	1,275
	193	Minority interests	131	96
	2,791		**1,898**	**1,371**

All profit is from continuing operations.

	2005		2005	2004
		Earnings per share – IFRS basis		
53	108.1c	Basic (pence per share)	73.5p	55.8p
53	107.2c	Diluted (pence per share)	72.9p	55.3p

Subsequent to 31 December 2005, the directors proposed a final dividend for 2005 of 17.44p (final 2004: 16.00p) per ordinary share, amounting to £418 million (final 2004: £364 million) in total. Subject to the approval by shareholders at the AGM, the dividend will be paid on 17 May 2006 and will be accounted for as an appropriation of retained earnings in the year ending 31 December 2006.

During 2005 the directors declared a final dividend for 2004 of 16.00p per ordinary share (final 2003: 15.15p) and an interim dividend for 2005 of 9.83p per ordinary share (interim 2004: 9.36p) totalling £364 million (2004: £342 million) and £233 million (2004: £211 million) respectively.

Proforma reconciliation of Group operating profit to retained profit for the year – IFRS basis
For the year ended 31 December 2005

Page	2005 €m		2005 £m	2004 £m
		IFRS operating profit before tax attributable to shareholders' profits		
47	1,566	Long-term business	1,065	1,116
48	135	Fund management	92	40
49	2,281	General insurance and health	1,551	1,259
		Other:		
50	(12)	Other operations	(8)	(121)
51	(200)	Corporate costs	(136)	(188)
51	(641)	Unallocated interest charges	(436)	(437)
	3,129	**IFRS operating profit before tax attributable to shareholders' profits**	**2,128**	**1,669**
		Adjusted for the following:		
59	(63)	Impairment of goodwill	(43)	(41)
	(107)	Amortisation and impairment of acquired value of in-force business	(73)	(85)
	(66)	Amortisation and impairment of intangibles	(45)	(7)
	-	Financial Services Compensation Scheme and other levies	-	(49)
49	760	Short-term fluctuation in return on investments backing general insurance and health business	517	161
46	225	Profit on the disposal of subsidiaries and associates	153	34
45	(160)	Integration costs	(109)	-
	-	Exceptional costs for termination of operations	-	(40)
	3,718	**Profit before tax attributable to shareholders' profits**	**2,528**	**1,642**
		Tax attributable to shareholders' profits		
51	(790)	Operating profit	(536)	(319)
51	(137)	Other activities	(94)	48
	2,791	**Profit after tax attributable to shareholders**	**1,898**	**1,371**

	2005		2005	2004
		Earnings per share – IFRS operating profit basis		
53	89.0c	Basic (pence per share)	60.5p	54.1p
53	88.2c	Diluted (pence per share)	60.0p	53.7p

Summarised consolidated balance sheet – IFRS basis

As at 31 December 2005

2005 €m		2005 £m	2004 £m
	Assets		
3,296	Goodwill	2,274	1,184
1,164	Acquired value of in-force business and intangible assets	803	516
3,086	Investments in joint ventures	2,129	1,255
1,283	Investments in associates	885	873
1,283	Property and equipment	885	812
19,239	Investment property	13,275	11,057
35,571	Loans	24,544	22,055
	Financial investments		
150,604	Debt securities	103,917	98,719
75,426	Equity securities	52,044	47,291
38,300	Other investments	26,427	20,346
10,333	Reinsurance assets	7,130	8,503
1,475	Deferred tax assets	1,018	908
126	Current tax assets	87	-
11,168	Receivables and other financial assets	7,706	7,509
5,458	Deferred acquisition costs and other assets	3,766	3,189
3,425	Prepayments and accrued income	2,363	2,307
19,900	Cash and cash equivalents	13,732	12,779
670	Assets of operations classified as held for sale	462	-
381,807	**Total assets**	**263,447**	**239,303**
	Equity		
868	Ordinary share capital	599	570
6,432	Capital reserves	4,438	3,878
1,652	Other reserves	1,140	736
3,764	Retained earnings	2,597	1,709
12,716	**Equity attributable to ordinary shareholders of Aviva plc**	**8,774**	**6,893**
1,725	Preference share capital and direct capital instrument	1,190	1,190
1,634	Minority interests	1,128	910
16,075	**Total equity**	**11,092**	**8,993**
	Liabilities		
192,177	Gross insurance liabilities	132,602	124,122
112,042	Gross liability for investment contracts	77,309	69,555
13,012	Unallocated divisible surplus	8,978	7,549
4,546	Net asset value attributable to unitholders	3,137	2,247
4,167	Provisions	2,875	2,125
3,562	Deferred tax liabilities	2,458	1,543
1,497	Current tax liabilities	1,033	922
15,961	Borrowings	11,013	10,090
13,746	Payables and other financial liabilities	9,485	7,240
4,812	Other liabilities	3,320	4,917
210	Liabilities of operations classified as held for sale	145	-
365,732	**Total liabilities**	**252,355**	**230,310**
381,807	**Total equity and liabilities**	**263,447**	**239,303**

Summarised consolidated statement of recognised income and expense – IFRS basis

For the year ended 31 December 2005

	2005 £m	2004 £m
Fair value gains on AFS securities and owner-occupied properties, net of transfers to the income statement	314	130
Actuarial losses on pension schemes	(547)	(145)
Foreign exchange rate movements	(2)	59
Reserves credit for equity compensation plans	22	21
Share of fair value changes in joint ventures and associates taken to equity	2	-
Aggregate tax effect – policyholder tax	3	-
Aggregate tax effect – shareholder tax	272	(15)
Net income recognised directly in equity	**64**	**50**
Profit for the year*	1,898	1,371
Total recognised income and expense for the year	**1,962**	**1,421**

* Stated before the effect of foreign exchange rate movements, which are reported within the foreign exchange rate movements line.

Reconciliation of movements in consolidated shareholders' funds – IFRS basis

For the year ended 31 December 2005

	2005 £m	2004 £m
Balance at 1 January	**8,993**	**7,024**
Total recognised income and expense for the year	1,962	1,421
Dividends and appropriations (note 15)	(657)	(570)
Issue of share capital for the acquisition of RAC plc	530	-
Other issues of share capital, net of transaction costs	59	25
Shares issued in lieu of dividends	100	103
Issue of direct capital instrument, net of transaction costs of £9 million	-	981
Capital contributions from minority shareholders	212	4
Minority share of dividends declared in the year	(70)	(41)
Minority interest in (disposed) /acquired subsidiaries	(36)	45
Movement in shares held by employee trusts	-	1
Other movements	(1)	-
Total equity	**11,092**	**8,993**
Minority interests	**(1,128)**	**(910)**
Balance at 31 December	**9,964**	**8,083**

Summarised consolidated cash flow statement – IFRS basis

For the year ended 31 December 2005

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

	2005			2004
	Long-term business operations £m	Non-long-term business operations £m	Group £m	Group £m
Cash flows from operating activities				
Cash generated from operations	1,717	1,067	2,784	2,050
Tax paid	(352)	(23)	(375)	(195)
Net cash from operating activities	**1,365**	**1,044**	**2,409**	**1,855**
Cash flow from investing activities:				
Acquisition of subsidiaries, joint ventures and associates, net of cash acquired	(629)	(794)	(1,423)	(540)
Disposal of subsidiaries, joint ventures and associates, net of cash transferred	50	414	464	308
Loans to joint ventures and associates	(128)	-	(128)	-
Purchases of property and equipment	(26)	(180)	(206)	(127)
Proceeds on property and equipment	41	9	50	122
Purchases of intangible assets	(44)	(16)	(60)	(5)
Net cash from investing activities	**(736)**	**(567)**	**(1,303)**	**(242)**
Cash flow from financing activities:				
Proceeds from issue of shares, net of transaction costs	-	59	59	3
Proceeds from issue of direct capital instrument, net of transaction costs	-	-	-	981
Net drawdown of borrowings	150	706	856	1,526
Interest paid on borrowings	(203)	(406)	(609)	(522)
Preference dividends paid	-	(17)	(17)	(17)
Ordinary dividends paid	-	(498)	(498)	(450)
Coupon payments on direct capital instrument	-	(42)	(42)	-
Finance lease payments	-	(8)	(8)	(26)
Capital contributions from minority shareholders	204	8	212	4
Dividends paid to minority interests of subsidiaries	-	(70)	(70)	(41)
Non-trading cash flows between operations	302	(302)	-	-
Net cash from financing activities	**453**	**(570)**	**(117)**	**1,458**
Total cash flow	**1,082**	**(93)**	**989**	**3,071**
Net increase/(decrease) in cash and cash equivalents	1,082	(93)	989	3,071
Cash and cash equivalents at 1 January	9,087	3,039	12,126	9,023
Effect of exchange rate changes on cash and cash equivalents	(62)	14	(48)	32
Cash and cash equivalents at 31 December	**10,107**	**2,960**	**13,067**	**12,126**
Cash and cash equivalents at 31 December comprised:				
Cash at bank and in hand	2,346	1,184	3,530	1,631
Cash equivalents	7,875	2,352	10,227	11,148
	10,221	**3,536**	13,757	12,779
Bank overdrafts	(114)	(576)	(690)	(653)
	10,107	**2,960**	**13,067**	**12,126**

Of the total cash and cash equivalents shown above, £25 million has been classified as held for sale.

1. Basis of preparation – IFRS basis

(a) From 2005, all European Union listed companies are 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. Accordingly, the results for the year ended 31 December 2005 have been prepared in accordance with IFRS accounting policies and have been taken from the Group's Annual Report and Accounts. The Group's previously reported 2004 consolidated financial statements have accordingly been restated to comply with IFRS, with the date of transition to IFRS being 1 January 2004 as detailed in the market release of 5 July 2005, "Impact of International Financial Reporting Standards on the results for 31 December 2004".

The preliminary announcement has been prepared in accordance with the IFRS applicable at 31 December 2005. The IASB issued amendments to IAS 19, *Employee Benefits* and IAS 39, *The Fair Value Option,* in December 2004 and June 2005 respectively and its Interpretation Committee (IFRIC) issued IFRIC Interpretation 4, *Determining whether an Arrangement contains a Lease,* in December 2004. The requirements are applicable for accounting periods beginning on or after 1 January 2006, but the Group has decided to adopt them early and reflect their impact within this preliminary announcement.

(b) In line with the requirements of International Financial Reporting Standard 1, *First-Time Adoption of International Financial Reporting Standards* (IFRS 1), Aviva has applied the Group's accounting policies under IFRS retrospectively at the date of transition, being 1 January 2004, with the exception of a number of permitted exemptions. These are detailed in the market release of 5 July 2005, "Impact of International Financial Reporting Standards on the results for 31 December 2004".

(c) Aviva has chosen to revisit its longer-term investment return (LTIR) methodology from 2005 as part of a discretionary change not required by IFRS. This change in accounting policy was adopted and detailed in the market release of 5 July "Impact of International Financial Reporting Standards on the results for 31 December 2004".

(d) The requirements of International Financial Reporting Standard 5, *Non-current Assets Held for Sale and Discontinued Operations,* have been applied prospectively from 1 January 2005.

(e) Financial Reporting Standard 27, *Life Assurance* (FRS 27) was issued by the UK's Accounting Standards Board (ASB) in December 2004, following the Penrose inquiry. Aviva, along with other major insurance companies and the Association of British Insurers (ABI), has signed a Memorandum of Understanding (MoU) with the ASB relating to FRS 27. Under this MoU, Aviva has agreed to adopt voluntarily in full the standard from 2005 within the Group's IFRS financial statements.

Within FRS 27, the ASB acknowledged the difficulty of applying the requirements retrospectively and indeed it is the Group's view that it would be impractical to do so in accordance with IAS 8. This has no impact on net assets or profit for the year ended 31 December 2004, as the adjustments reflect changes in balance sheet presentation between the unallocated divisible surplus and insurance liabilities. Therefore, only the balance sheet at 31 December 2004 has been restated for the impact of FRS 27. No adjustments have been made, nor are any required, to the balance sheet at 1 January 2004 or the income statement for the year ended 31 December 2004.

(f) In accordance with Phase I of International Financial Reporting Standard 4, *Insurance Contracts* (IFRS 4), 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.

(g) 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 the financial statements are in millions of pounds sterling (£m). As supplementary information, consolidated financial information is also presented in Euros.

(h) The preliminary announcement for the year to 31 December 2005 does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. The results on an IFRS basis for the full years 2004 and 2005 have been audited by Ernst & Young LLP. The auditors have reported on the 2004 and 2005 accounts and their reports were unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985. The Group's Report and Accounts incorporating the restated 2004 financial information will be available from 29 March 2006. The Group's 2004 Report and Accounts, prepared under the previous accounting basis, have been filed with the Registrar of Companies.

2. First time adoption of International Financial Reporting Standards

The Group has adopted International Financial Reporting Standards (IFRS) in preparing these financial statements for the year ended 31 December 2005.

The date of transition to IFRS is 1 January 2004. During 2005, the Group has already published the following restated UK GAAP financial information onto an IFRS basis:

- Restated preliminary opening balance sheet as at 1 January 2004 under International Financial Reporting Standards, published in Appendix B to Aviva plc preliminary announcement 2004 on 9 March 2005 and also on pages 114 to 126 of the Aviva plc Annual Report and Accounts for 2004, including auditors' opinion on page 127.

- Release to the market on 5 July 2005, "Impact of International Financial Reporting Standards on the results for 31 December 2004", including the auditors' opinion on pages 30 and 31, containing restated 31 December 2004 financial information as follows:

    - summarised consolidated pro-forma operating profit statement and notes to the analysis of adjustments as a result of the transition to IFRS;
    - summarised consolidated statement of recognised income and expense;
    - summarised consolidated statement of changes in equity;
    - summarised consolidated balance sheet and notes to the analysis of adjustments as a result of the transition to IFRS;
    - summarised consolidated income statement – EEV basis;
    - summarised consolidated balance sheet – EEV; and
    - the Group's IFRS accounting policies.

In addition, a further update was given on the opening summarised consolidated balance sheet as at 1 January 2004, to take into account changes in IFRS since the publication of the Aviva plc preliminary announcement 2004 on 9 March 2005.

3. Exchange rates

The euro rates employed in this announcement are an average rate of 1 euro = £0.68 (2004: 1 euro = £0.68) and a closing rate of 1 euro = £0.69 (2004: 1 euro = £0.71).

4. Acquisitions

(a) RAC plc

On 4 May 2005, the Group acquired 100% of the share capital of RAC plc. The results of RAC plc's operations have been included in the consolidated financial statements of the Group with effect from 4 May 2005, and contributed £15 million to the consolidated profit before tax.

	£m
Purchase cost	
Cash paid	566
Fair value of 88 million shares issued, based on their published price at date of exchange (average of £6.03 per share)	530
Costs attributable	17
Total	**1,113**

The issue of new shares in the Company in exchange for shares in RAC plc has attracted merger relief under section 131 of the Companies Act 1985. Of the £530 million above, £22 million has been credited to share capital and £508 million has been credited to the merger reserve, increasing that reserve from £2,763 million to £3,272 million.

The assets and liabilities at the date of acquisition were:

	Book value £m	Intangible revaluation £m	Pension scheme valuation £m	Fair value and accounting policy adjustments £m	Fair value £m
Assets					
Intangible assets other than goodwill	59	333	-	-	392
Tax assets	58	-	-	(58)	-
Other assets	608	-	-	38	646
Total assets	**725**	**333**	**-**	**(20)**	**1,038**
Liabilities					
Provisions					
Pension deficit	(257)	-	(56)	-	(313)
Other	(8)	-	-	(14)	(22)
Tax liabilities	-	(118)	17	83	(18)
Other liabilities	(708)	-	-	(3)	(711)
Total liabilities	**(973)**	**(118)**	**(39)**	**66**	**(1,064)**
Net assets acquired	**(248)**	**215**	**(39)**	**46**	**(26)**
Goodwill (including £118 million arising from the creation of the deferred tax liability on intangibles)					**1,139**
Intangible assets					392
Total goodwill and intangible assets					1,531
Less: deferred tax liability					(118)
Total value of goodwill and intangible assets net of associated tax included on balance sheet					1,413

Separable intangible assets have been identified and valued by an independent third party at £392 million, using estimated post-tax cash flows and post-tax discount rates. The Group has assessed the useful economic lives of these intangibles, considering relevant factors such as usage of the asset, typical product lifecycles, potential obsolescence, maintenance costs, the stability of the industry, competitive position, and the period of control over the assets. In the case of the RAC and BSM brands, it has been determined that the existing lives of the assets, their competitive position in and the stability of their respective markets indicate that the brands have indefinite useful lives, and thus no amortisation has been charged in the period since acquisition. Of the total £392 million, £260 million has been assessed as having an indefinite life, with the remaining £132 million, mainly contractual customer relationships, being amortised over nine to 22 years.

A deferred tax liability of £118 million has been provided against these intangible assets, resulting in an increase in residual goodwill by this amount. Although this liability has been recognised in accordance with IAS 12, and a proportion will be amortised to the income statement as the related intangible asset is amortised, this liability is only payable if the intangible asset is sold separately and this is not expected to happen.

The pension scheme valuation adjustment and associated deferred taxation represents the effect of aligning the assumptions of the RAC plc schemes to those of Aviva. The fair value of the RAC pension deficit at the date of acquisition amounted to £313 million (£219 million after deferred tax).

The residual goodwill of £1,139 million essentially represents synergies, both in increased revenues and in reduced costs, expected to arise in RAC plc and our UK general insurance business as a result of the acquisition.

£109 million of integration costs for the restructuring of the combined Norwich Union Insurance and RAC businesses has been included in the results to 31 December 2005.

(b) Gresham Insurance Company Limited

On 31 March 2005, the Group acquired 100% of the share capital of Gresham Insurance Company Limited. The cash consideration including purchase costs was £75 million. The fair value of the net assets acquired, including intangibles of £14 million, was £75 million, giving rise to no goodwill on acquisition.

(c) Solus Automotive Limited

On 11 May 2005, the Group acquired 100% of the share capital of Solus Automotive Limited. The cash consideration including purchase costs was £20 million, including £12 million of cash and £8 million of deferred consideration. The fair value of the net assets acquired was nil, giving rise to £20 million of goodwill on acquisition.

(d) 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 period had been 1 January 2005, after giving effect to purchase accounting adjustments and the elimination of inter-company 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 2005, nor is it necessarily indicative of future results.

	2005 **£m**
Revenues (premiums and fee income)	27,842
IFRS profit before tax attributable to shareholders	2,578

Of the above pre-tax profit, £21 million has arisen since acquisition.

(e) Non-adjusting post-balance sheet events:

(i) Irish bancassurance agreement

On 22 November 2005, the Group announced a new bancassurance agreement in Ireland between its wholly-owned subsidiary, Hibernian Group plc (Hibernian) and Allied Irish Banks plc (AIB). This will create a leading force in the Irish life and pensions market and bring further opportunities for growth in this market. The transaction completed on 27 January 2006, following the receipt of regulatory and European Commission approval.

Under the terms of the agreement, Hibernian Life Holdings Limited (HLH), the parent company of Hibernian Life & Pensions Limited, has acquired all the shares of Ark Life Assurance Company Limited (Ark Life) from AIB in exchange for a 24.99% stake in the enlarged HLH and a balancing cash payment of €195.4 million which also reflects the management of Ark Life funds by Hibernian Investment Managers Limited, part of the Group's fund management business. A further deferred payment of up to €10 million is payable, subject to the fulfilment of certain performance criteria.

AIB calculate embedded value on a different basis to that used by the Group and, in particular, do not use EEV principles. In view of the very recent timing of completion, it is currently impractical to comply with the requirements of paragraph 67 of IFRS 3, *Business Combinations*, and to state with any certainty the fair values of the assets and liabilities acquired, and therefore to estimate the goodwill arising on this acquisition and the unrealised gain on disposal of the Group's 24.99% interest in HLH.

The gain or loss on disposal of this interest in HLH will be calculated in accordance with SIC 13, *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*, and will be recognised in 2006.

(ii) Acquisition in Sri Lanka

On 1 February 2006, the Group acquired a 51% interest in Eagle Insurance Limited (Eagle), the third largest insurer in Sri Lanka, by buying a majority shareholding in Eagle's immediate holding company, NDB Finance Lanka (Pvt) Limited, for cash of £15 million. At the same time, Eagle has entered into a bancassurance agreement with National Development Bank Limited (NDB), Sri Lanka's biggest development bank and Eagle's other major shareholder.

Eagle calculates embedded value on a different basis to that used by the Group and, in particular, do not use EEV principles. In view of the very recent timing of completion, it is currently impractical to comply with the requirements of paragraph 67 of IFRS 3, *Business Combinations*, and to state with any certainty the fair values of the assets and liabilities acquired, and therefore to estimate the goodwill arising on this acquisition.

5. Profit on the disposal of subsidiaries and associates

The net profit on the disposal of subsidiary and associated undertakings comprises:

	2005 £m	2004 £m
General insurance businesses		
United Kingdom	10	28
France	-	6
Asia (a)	122	-
Other small operations	(22)	-
	110	**34**

(a) Sale of Asian general insurance businesses

During 2005, the Group completed the disposal of its Asian general insurance businesses to Mitsui Sumitomo Insurance (MSI) for a total of US$450 million in cash. Under the terms of the agreement, MSI acquired all of Aviva's general insurance businesses in Asia. These comprised the general insurance business of Aviva Limited and the general insurance assets of Aviva Asia Pte Limited in Singapore; Aviva Insurance Berhad in Malaysia (including its branch in Brunei); Aviva Insurance (Thai) Company Limited in Thailand; PT Aviva Insurance in Indonesia; Dah Sing General Insurance Co Limited in Hong Kong; and Aviva's branch operations in Hong Kong, the Philippines, Marianas, Macau and Taiwan. The transaction was achieved through share purchase of Aviva's interests in joint venture operations, business purchase and asset purchase in Singapore, and transfer of Aviva's general insurance branch operations in Hong Kong, the Philippines, Marianas, Macau and Taiwan.

The transaction completed in two phases. Phase I completed on 28 February 2005 and included all businesses above except for Malaysia, Indonesia, Macau, Marianas, Taiwan, Dah Sing and the Philippines. Phase II completed in December 2005 when the last of these businesses was sold, with the exception of Taiwan which completed in February 2006. Due to its immateriality, this last disposal has been treated as a 2005 transaction.

The total sale proceeds were fixed by reference to the net assets of the businesses as at 31 December 2003 and were not adjusted to reflect the results in the period from 1 January 2004 to completion. The Group therefore hedged its exposure to the sale proceeds of US$450 million through the purchase of foreign currency forward contracts. The Group did not bear any continuing operating risk from 31 December 2003.

The results of the Asian general insurance business have been consolidated with those of the Group's ongoing operations until the completion of each transaction. Although the Group retained no economic interest in the operations of this business beyond 31 December 2003, the post-tax operating profits have been incorporated in the Group's consolidated income statement from 1 January 2004 to the date of completion. There is a corresponding offset in the final accounting profit on sale. Total profit on sale was £165 million (£122 million after tax) and is summarised below:

	2005 £m
Net assets as at 31 December 2003	60
Post-tax operating profit to disposal	14
Dividends paid	(5)
FX movements on net assets	4
Net assets at disposal	**73**
Proceeds	256
Less: Net assets	(73)
Transaction costs	(18)
Pre-tax profit on sale	165
Tax attributable to profit on sale	(43)
Post-tax profit on sale	**122**

The net assets at disposal of £73 million, comprised financial investments (£220 million) and other assets (£95 million), less insurance liabilities (£207 million) and other liabilities (£35 million).

(b) Other

In July 2005, the Group completed the sale of the business and certain operational assets and liabilities of Hyundai Cars (UK), which was acquired as part of the RAC group, to Hyundai Motor UK Limited for a total of £70 million. This sale did not give rise to any gain or loss.

In December 2005, the Group sold its commercial fleet business in Lex Transfleet Limited to Fraikin Limited for a total of £69 million, of which £10 million is deferred consideration. The Group acquired 50% of Lex Transfleet Limited with the RAC group, and this company became a wholly-owned subsidiary after the Group acquired the remaining 50% of its share capital in November 2005. The sale resulted in a gain of £5 million.

No other disposal is considered material for further disclosure.

6. Operations classified as held for sale

The assets and liabilities of operations held for sale as at 31 December 2005 were as follows:

	2005 £m	2004 £m
Intangible assets	9	-
Investments and property and equipment	320	-
Receivables and other financial assets	68	-
Deferred acquisition costs and other assets	40	-
Cash and cash equivalents	25	-
Total assets	462	-
Payables and financial liabilities	(96)	-
Other liabilities	(49)	-
Total liabilities	(145)	-
Net assets	**317**	**-**

In October 2005, the Group announced its decision to sell its 50% stake in Lex Vehicle Leasing (Holdings) Limited (LVL), a joint venture with HBOS, as a result of HBOS exercising an option under the JV shareholder's agreement. LVL provides vehicle leasing, supply, management, maintenance and incident support for companies who outsource the day-to-day operations of their fleets, and was acquired as a part of the Group's acquisition of RAC. Completion of the sale of the investment in LVL is expected in the second quarter of 2006 and so the relevant assets and liabilities have been classified as held for sale in the consolidated balance sheet.

At year end, the Group held for sale certain divisions of Manufacturer Support Services (MSS), part of the RAC group. The decision to sell is part of the Group's wider strategy to integrate RAC and exit non-core operations. The divisions being sold primarily comprise Lex Transfleet Limited, Multipart Holdings Limited and Lex Commercials Limited, both wholly-owned subsidiaries, and Hyundai Car Finance Limited, an associate in which the Group holds 49.99%. Lex Transfleet is a provider of complex fleet solutions, Multipart Holdings provides logistics and aftermarket services to the automotive sector and Lex Commercials is a leading UK commercial vehicles dealership group, while Hyundai Car Finance Limited provides vehicle instalment finance and leasing. The disposal groups have also been treated as held for sale and are expected to be sold by the second quarter of 2006.

7. Geographical analysis of life IFRS operating profit

	2005 £m	2004 £m
United Kingdom		
With-profit	99	97
Non-profit	285	256
Continental Europe		
France	258	213
Ireland	28	31
Italy	53	49
Netherlands (including Belgium and Luxembourg)	168	214
Poland	91	80
Spain	89	72
Other	(4)	5
International	(2)	99
Total	**1,065**	**1,116**

8. Geographical analysis of fund management operating profit

(a) IFRS basis

	2005 £m	2004 £m
Morley		
- UK business	36	10
- European and International business	13	8
Other fund management operations		
UK		
- Royal Bank of Scotland	(1)	(6)
- Norwich Union investment funds	9	4
France	26	15
Other Europe	2	2
International	7	7
Total	**92**	**40**

(b) EEV basis

	2005 £m	2004 £m
Morley		
- UK business	17	4
- European and International business	9	5
Other fund management operations		
UK		
- Royal Bank of Scotland	(1)	(6)
- Norwich Union investment funds	9	4
France	8	5
Other Europe	2	1
International	7	7
Total	**51**	**20**

9. Geographical analysis of general insurance and health

(a) Operating result

	Operating profit		Underwriting result	
	2005 £m	**2004 £m**	**2005 £m**	**2004 £m**
United Kingdom	974	797	303	146
Continental Europe				
France	35	33	(21)	(16)
Ireland	171	135	116	82
Netherlands	137	88	54	10
Other	47	32	15	6
International				
Canada	147	133	35	37
Other	40	41	3	6
Total	**1,551**	**1,259**	**505**	**271**
Analysed by:				
General insurance	1,496	1,205	507	276
Health	55	54	(2)	(5)

(b) Investment return information

	Actual investment return credited to income		Longer-term investment return	
	2005 £m	**2004 £m**	**2005 £m**	**2004 £m**
United Kingdom	646	569	671	651
Continental Europe				
France	54	48	56	49
Ireland	43	39	55	53
Netherlands	88	83	83	78
Other	17	20	32	26
International				
Canada	95	83	112	96
Other	27	33	37	35
Total longer-term investment return			**1,046**	**988**
Total actual investment income	**970**	**875**		
Realised gains	216	47		
Unrealised gains	377	227		
Total actual investment return	**1,563**	**1,149**		

The total short-term fluctuation in investment return of £517 million (2004: £161 million) is the difference between the total actual investment return of £1,563 million (2004: £1,149 million) and the total longer-term investment return of £1,046 million (2004: £988 million).

Actual income and longer-term investment return both contain the amortisation of the discount/premium arising on the acquisition of fixed income securities.

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 period, 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.

9. Geographical analysis of general insurance and health (continued)

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	
	2005 %	2004 %	2005 %	2004 %
United Kingdom	7.6%	7.8%	6.6%	6.8%
France	6.7%	7.3%	5.7%	6.3%
Ireland	6.7%	7.3%	5.7%	6.3%
Netherlands	6.7%	7.3%	5.7%	6.3%
Canada	7.4%	7.7%	6.4%	6.7%

For 2006, the Group intends to calculate the longer-term investment return for its general insurance and health business using the same start of year economic assumptions for equities and properties as those used for EEV reporting as shown on page 31 of this announcement.

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:

			2005 £m	2004 £m
Movement in investment return for	**By**	**Change in**	**By**	**By**
Equities	1% higher/lower	Group operating profit	29	25
Properties	1% higher/lower	Group operating profit	4	3

10. Analysis of other operations' operating profit

(a) IFRS basis

	2005 £m	2004 £m
RAC	30	-
Hill House Hammond	-	(8)
UK Life		
- Personal finance subsidiaries	4	(1)
- Your Move	-	9
- Norwich Union Life Services	(66)	(80)
- Lifetime	(14)	-
Other (including a £40 million one-off vacant property provision in 2004)	38	(41)
	(8)	**(121)**

(b) EEV basis

	2005 £m	2004 £m
RAC	30	-
Hill House Hammond	-	(8)
UK Life		
- Personal finance subsidiaries	4	(1)
- Your Move	-	9
- Norwich Union Life Services	3	(3)
- Lifetime	(14)	-
Other (including a £40 million one-off vacant property provision in 2004)	37	(38)
	60	**(41)**

11. Corporate costs

	2005 £m	2004 £m
Global finance transformation programme	(28)	(85)
Central costs and sharesave schemes	(108)	(103)
	(136)	**(188)**

12. Unallocated interest charges

	2005 £m	2004 £m
External		
subordinated debt	(169)	(169)
other	(79)	(77)
Internal	(220)	(219)
Net finance income on pension schemes	32	28
	(436)	**(437)**

13. Tax

(a) Tax charged to the income statement

	2005 £m	2004 £m
Current tax:		
For the year	799	475
Prior year adjustments	(212)	(92)
Total current tax	**587**	**383**
Deferred tax:		
Origination and reversal of timing differences	881	272
Changes in tax rates or tax laws	(5)	(1)
Write down of deferred tax assets	89	-
Total deferred tax	**965**	**271**
Total tax charged to income statement	**1,552**	**654**

The tax expense attributable to policyholders' returns in the UK, Ireland and Australia included in the above charge is £922 million (2004: £383 million).

Tax charge analysed between

	2005 £m	2004 £m
Tax charge attributable to policyholders' returns	922	383
Tax charge on IFRS operating profit before tax attributable to shareholders' profits from continuing operations	536	319
Tax charge/(credit) on profit on other activities	94	(48)
Total tax charged to income statement	**1,552**	**654**

(b) Tax charged to equity

(i) The total tax charge comprises:

	2005 £m	2004 £m
Current tax credit	(13)	-
Deferred tax (credit) / charge	(262)	15
Total tax (credited) / charged to equity	**(275)**	**15**

(ii) The tax expense attributable to policyholders' returns included in the charge above is £3 million (2004: nil).

(c) Tax reconciliation

The tax on the Group's net profit before tax differs from the theoretical amount that would arise using the tax rate of the home country of the Company as follows:

	2005 £m	2004 £m
Net profit before tax	**3,450**	**2,025**
Tax calculated at standard UK corporation tax rate of 30% (2004: 30%)	1,035	608
Different basis of tax for UK life insurance	616	217
Adjustment to tax charge in respect of prior years	(253)	(88)
Non-assessable dividends	(26)	(30)
Non-taxable (profit)/loss on sale of subsidiaries and associates	(4)	12
Disallowable expenses	55	65
Different local basis of tax on overseas profits/(losses)	168	(13)
Deferred tax assets not recognised	(25)	(120)
Other	(14)	3
Tax charge for the year	**1,552**	**654**

14. Earnings per share

(a) Basic earnings per share

(i) The profit attributable to ordinary shareholders is:

	2005 £m	2004 £m
Profit for the year	1,898	1,371
Amount attributable to minority interests	(131)	(96)
Cumulative preference dividends for the year	(17)	(17)
Coupon payments on direct capital instrument net of tax	(29)	-
Profit attributable to ordinary shareholders	**1,721**	**1,258**

14. Earnings per share (continued)

(ii) Basic earnings per share is calculated as follows:

	2005			2004		
	Before tax £m	Net of tax, minorities and preference dividends and DCI appropriation £m	Per share p	Before tax £m	Net of tax, minorities and preference dividends and DCI appropriation £m	Per share p
Operating profit attributable to ordinary shareholders from continuing operations	2,128	1,415	60.5	1,669	1,221	54.1
Adjusted for the following:						
– Impairment of goodwill	(43)	(43)	(1.8)	(41)	(41)	(1.8)
– Amortisation and net impairment of acquired value of in-force business	(73)	(73)	(3.1)	(85)	(85)	(3.8)
– Amortisation and net impairment of intangibles	(45)	(42)	(1.8)	(7)	(7)	(0.3)
– Financial Services Compensation Scheme and other levies	-	-	-	(49)	(29)	(1.3)
– Short-term fluctuation on return on investments backing general insurance and health business	517	430	18.2	161	195	8.7
– Profit on the disposal of subsidiaries and associates	153	110	4.7	34	34	1.5
– Integration costs	(109)	(76)	(3.2)	-	-	-
– Exceptional costs for termination of operations	-	-	-	(40)	(30)	(1.3)
Profit attributable to ordinary shareholders	**2,528**	**1,721**	**73.5**	**1,642**	**1,258**	**55.8**

Earnings per share has been calculated based on the operating profit before impairment of goodwill and other non-operating items, after tax, attributable to ordinary shareholders, as well as on the profit attributable to ordinary shareholders. The directors believe the former earnings per share figures provide a better indication of operating performance. The calculation of basic earnings per share uses a weighted average of 2,340 million (2004: 2,256 million) ordinary shares in issue, after deducting shares owned by the employee share trusts.

The actual number of shares in issue at 31 December 2005 was 2,396 million (2004: 2,282 million).

(b) Diluted earnings per share:

Diluted earnings per share is calculated as follows:

	2005			2004		
	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 equity shareholders	1,721	2,340	73.5	1,258	2,256	55.8
Dilutive effect of share awards and options	-	20	(0.6)	-	18	(0.5)
Diluted earnings per share	**1,721**	**2,360**	**72.9**	**1,258**	**2,274**	**55.3**

Diluted earnings per share on an operating profit attributable to ordinary shareholders is 60.0p (2004: 53.7p).

15. Dividends and appropriations

	2005 £m	2004 £m
Ordinary dividends declared and charged to equity in the year		
Final 2003 - 15.15p per share, paid on 17 May 2004	-	342
Interim 2004 - 9.36p per share, paid on 17 November 2004	-	211
Final 2004 -16.00p per share, paid on 17 May 2005	364	-
Interim 2005 - 9.83p per share, paid on 17 November 2005	234	-
	598	553
Preference dividends declared and charged to equity in the year	17	17
Coupon payments on direct capital instrument-gross of tax	42	-
	657	**570**

Subsequent to 31 December 2005, the directors proposed a final dividend for 2005 of 17.44p per ordinary share, amounting to £418 million in total. Subject to approval by shareholders at the AGM, the dividend will be paid on 17 May 2006 and will be accounted for as an appropriation of retained earnings in the year ending 31 December 2006.

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 will be 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 1 March 2006.

16. Segmental information

(a) Segmental results – primary reporting format - business 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 equity release business written in the United Kingdom.

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 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 among 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 borrowings.

16. Segmental information (continued)

(b) Segmental results of the income statement – primary reporting format - business segments for the year ended 31 December 2005

	Long-term business £m	Fund management £m	General insurance and health £m	Other £m	Total £m
Segment revenue from external customers:					
Net earned premiums	14,671	-	10,188	-	24,859
Fee and commission income	598	264	214	771	1,847
	15,269	264	10,402	771	26,706
Net investment income	21,985	11	1,603	123	23,722
Inter-segment revenue	-	112	-	-	112
Other income	(10)	-	41	122	153
Segment income	**37,244**	**387**	**12,046**	**1,016**	**50,693**
Claims and benefits paid, net of recoveries from reinsurers	(13,482)	-	(6,224)	-	(19,706)
Change in insurance liabilities, net of reinsurance	(10,004)	-	(372)	-	(10,376)
Change in investment contract provisions	(7,814)	-	-	-	(7,814)
Change in unallocated divisible surplus	(1,474)	-	-	-	(1,474)
Fee and commission expense	(1,481)	(55)	(2,752)	(38)	(4,326)
Other operating expenses					
Depreciation	(11)	(6)	(17)	(78)	(112)
Amortisation of acquired value of in-force business	(45)	-	-	-	(45)
Net impairment of acquired value of in-force business	(28)	-	-	-	(28)
Amortisation and net impairment of intangible assets	(24)	-	(5)	(16)	(45)
Impairment of goodwill	(14)	-	-	(29)	(43)
Other impairment losses recognised in the income statement	(37)	-	-	-	(37)
Inter-segment expense	(103)	-	(9)	-	(112)
Other expenses	(999)	(233)	(615)	(1,027)	(2,874)
Finance costs	(203)	-	(58)	(100)	(361)
Segment expenses	**(35,719)**	**(294)**	**(10,052)**	**(1,288)**	**(47,353)**
Segment result before share of profit/(loss) of joint ventures and associates	1,525	93	1,994	(272)	3,340
Share of profit/(loss) of joint ventures and associates	340	(1)	1	18	358
Segmental result before tax	**1,865**	**92**	**1,995**	**(254)**	**3,698**
Unallocated costs:					
Finance costs on central borrowings					(248)
Tax attributable to policyholders' returns					(922)
Tax attributable to shareholders' profits					(630)
Total unallocated expenses					(1,800)
Profit for the year					**1,898**

Finance costs on central borrowings comprise interest payable on borrowings by holding companies within the Group which are not allocated to operating companies.

16. Segmental information (continued)

(b) Segmental results of the income statement – primary reporting format - business segments for the year ended 31 December 2005 (continued)

Proforma reconciliation to operating profit before tax attributable to shareholders' profits

	Long-term business £m	Fund management £m	General insurance and health £m	Other £m	Total £m
Segment result before tax	1,865	92	1,995	(254)	3,698
Finance costs on central borrowings	-	-	-	(248)	(248)
Adjusted for the following items:					
Impairment of goodwill	14	-	-	29	43
Amortisation and impairment of acquired value of in -force business	73	-	-	-	73
Amortisation and impairment of intangible assets	24	-	5	16	45
Short-term fluctuation on investment return	-	-	(517)	-	(517)
(Profit)/loss on the disposal of subsidiaries and associates	10	-	(41)	(122)	(153)
Integration costs	-	-	77	32	109
Unallocated interest	-	(1)	25	(24)	-
Corporate costs reallocation	1	1	7	(9)	-
	1,987	92	1,551	(580)	3,050
Less:					
Tax attributable to policyholders' returns	(922)	-	-	-	(922)
Operating profit before tax attributable to shareholders' profits	**1,065**	**92**	**1,551**	**(580)**	**2,128**

16. Segmental information (continued)

(c) Segmental results of the income statement – primary reporting format - business segments for the year ended 31 December 2004

	Long-term business £m	Fund management £m	General insurance and health £m	Other £m	Total £m
Segment revenue from external customers					
Net earned premiums	13,533	-	9,642	-	23,175
Fee and commission income	534	203	197	334	1,268
	14,067	203	9,839	334	24,443
Net investment income	14,503	8	1,176	46	15,733
Inter-segment revenue	-	114	-	-	114
Other income	-	-	13	21	34
Segment income	**28,570**	**325**	**11,028**	**401**	**40,324**
Claims and benefits paid, net of recoveries from reinsurers	(12,015)	-	(5,784)	-	(17,799)
Change in insurance liabilities, net of reinsurance	(5,393)	-	(711)	-	(6,104)
Change in investment contract provisions	(5,635)	-	-	-	(5,635)
Change in unallocated divisible surplus	(1,330)	-	-	-	(1,330)
Fee and commission expense	(1,865)	(70)	(2,482)	(54)	(4,471)
Other operating expenses					
Depreciation	(14)	(4)	(19)	(60)	(97)
Amortisation of acquired value of in-force business	(72)	-	-	-	(72)
Net impairment of acquired value of in-force business	(13)	-	-	-	(13)
Amortisation and net impairment of intangible assets	(7)	-	-	-	(7)
Impairment of goodwill	(18)	-	(2)	(21)	(41)
Other impairment losses recognised in the income statement	(4)	-	-	(24)	(28)
Inter-segment expense	(105)	-	(9)	-	(114)
Other expenses	(788)	(218)	(610)	(692)	(2,308)
Finance costs	(161)	-	(43)	(72)	(276)
Segment expenses	**(27,420)**	**(292)**	**(9,660)**	**(923)**	**(38,295)**
Segmental result before share of profit/(loss) of joint ventures and associates	**1,150**	**33**	**1,368**	**(522)**	**2,029**
Share of profit/(loss) of joint ventures and associates	235	(6)	-	13	242
Segmental results before tax	**1,385**	**27**	**1,368**	**(509)**	**2,271**
Unallocated costs:					
Finance costs on central borrowings					(246)
Tax attributable to policyholders' returns					(383)
Tax attributable to shareholders' profits					(271)
Total unallocated expenses					(900)
Profit for the year					**1,371**

Finance costs on central borrowings comprise interest payable on borrowings by holding companies within the Group which are not allocated to operating companies.

16. Segmental information (continued)

(c) Segmental results of the income statement – primary reporting format - business segments for the year ended 31 December 2004 (continued)

Proforma reconciliation to operating profit before tax attributable to shareholders' profits

	Long-term business £m	Fund management £m	General insurance and health £m	Other £m	Total £m
Segment result before tax from continuing operations	**1,385**	**27**	**1,368**	**(509)**	**2,271**
Finance costs on central borrowings	-	-	-	(246)	(246)
Adjusted for the following:					
Impairment of goodwill	18	-	2	21	41
Amortisation and impairment of acquired value of in-force business	85	-	-	-	85
Amortisation and impairment of intangible assets	7	-	-	-	7
Financial Services Compensation Scheme and other levies	-	9	40	-	49
Short-term fluctuation on investment return	-	-	(161)	-	(161)
Profit on the disposal of subsidiaries and associates	-	-	(12)	(22)	(34)
Exceptional costs for termination of operations	-	-	-	40	40
Corporate costs reallocation	4	4	22	(30)	-
	1,499	40	1,259	(746)	2,052
Less:					
Tax attributable to policyholders' returns	(383)	-	-	-	(383)
Operating profit before tax attributable to shareholders' profits	**1,116**	**40**	**1,259**	**(746)**	**1,669**

(d) Segmental balance sheet – primary reporting format – on business segments as at 31 December 2005

	Long-term business £m	Fund management £m	General insurance and health £m	Other £m	Total £m
Goodwill	631	-	398	1,245	2,274
Acquired value of in-force business and intangible assets	424	-	265	114	803
Investments in joint ventures and associates	2,815	46	39	114	3,014
Property and equipment	367	4	126	388	885
Investment property	12,895	-	338	42	13,275
Loans	18,240	-	3,661	2,643	24,544
Financial investments					
Debt securities	91,926	2	9,390	2,599	103,917
Equity securities	48,365	12	2,647	1,020	52,044
Other investments	25,920	8	459	40	26,427
Other assets	23,185	436	9,425	2,113	35,159
Segment assets	**224,768**	**508**	**26,748**	**10,318**	**262,342**
Unallocated assets – tax assets					1,105
Total assets					**263,447**
Insurance liabilities	114,176	-	18,426	-	132,602
Liability for investment contracts	77,309	-	-	-	77,309
Unallocated divisible surplus	8,978	-	-	-	8,978
Net asset value attributable to unitholders	3,137	-	-	-	3,137
External borrowings	4,060	-	2,565	578	7,203
Other liabilities, including inter-segment liabilities	6,149	278	(224)	9,622	15,825
Segment liabilities	**213,809**	**278**	**20,767**	**10,200**	**245,054**
Unallocated liabilities					
Central borrowings					3,810
Tax liabilities					3,491
Total liabilities					**252,355**
Total equity					**11,092**
Total equity and liabilities					**263,447**

Central borrowings are borrowings by holding companies within the Group which are not allocated to operating companies.

16. Segmental information (continued)

(e) Segmental balance sheet – primary reporting format - business segments as at 31 December 2004

	Long-term business £m	Fund management £m	General insurance and health £m	Other £m	Total £m
Goodwill	595	-	308	281	1,184
Acquired value of in-force business and intangible assets	451	-	19	46	516
Investments in joint ventures and associates	1,995	40	13	80	2,128
Property and equipment	404	7	133	268	812
Investment property	10,639	-	362	56	11,057
Loans	17,090	-	2,635	2,330	22,055
Financial investments					
Debt securities	86,897	2	9,255	2,565	98,719
Equity securities	44,269	1	2,449	572	47,291
Other investments	20,067	6	224	49	20,346
Other assets	23,455	311	9,786	735	34,287
Segment assets	**205,862**	**367**	**25,184**	**6,982**	**238,395**
Tax					908
Total assets					**239,303**
Insurance liabilities	106,329	-	17,793	-	124,122
Liability for investment contracts	69,555	-	-	-	69,555
Unallocated divisible surplus	7,549	-	-	-	7,549
Net asset value attributable to unitholders	2,247	-	-	-	2,247
External borrowings	4,082	-	1,439	270	5,791
Other liabilities, including inter-segment liabilities	6,250	191	474	7,367	14,282
Segment liabilities	**196,012**	**191**	**19,706**	**7,637**	**223,546**
Unallocated liabilities					
Central borrowings					4,299
Tax liabilities					2,465
Total liabilities					**230,310**
Total equity					**8,993**
Total equity and liabilities					**239,303**

Central borrowings are borrowings by holding companies within the Group which are not allocated to operating companies.

(f) Goodwill allocation and impairment testing

IFRS requires formal impairment testing to be carried out annually. 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. During the year, goodwill allocated to a life cash-generating unit in Germany was tested for impairment. Following the impairment test, an impairment charge of £21 million has been recognised in the income statement. The impairment charge arose as a result of the low interest rate environment in which the cash-generating unit operates in and the further decline in interest rates during the year. The recoverable amount for the cash-generating unit has been measured based on a value in use calculation. A pre-tax discount rate of 6.75% was used in the value in use calculation and cash flows beyond the plan period have been extrapolated using a steady 4.85% growth rate. The remaining £14 million related to other small European businesses. The 2004 impairment charge of £41 million comprised £21 million on one non-insurance Dutch operation, £17 million on other small European businesses and £3 million on other operations.

Other long lived assets such as acquired additional value of in-force, and intangibles are not subject to formal impairment testing but are amortised on an annual basis.

16. Segmental information (continued)

(g) Long-term business summary analysis by geographical segment

(i) Income statement
For the year ended 31 December 2005

	Net written premiums		Fee and commission income		Profit before tax	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
United Kingdom	**4,459**	**4,768**	**169**	**219**	**1,210**	**654**
France	3,553	2,892	160	142	234	196
Ireland	182	195	23	15	56	52
Italy	1,357	1,084	66	45	35	28
Netherlands	2,582	1,859	57	28	164	220
Poland	312	267	45	16	90	80
Spain	1,248	1,206	39	29	75	61
Other Europe	152	565	12	25	(7)	(8)
Continental Europe	**9,386**	**8,068**	**402**	**300**	**647**	**629**
International	**826**	**697**	**27**	**15**	**8**	**102**
Total	**14,671**	**13,533**	**598**	**534**	**1,865**	**1,385**

The following analysis shows the net written premiums from associates and joint ventures on insurance and participating investment contracts which are not included in the analysis above.

	2005 £m	2004 £m
RBSG	217	319
India	14	6
China	30	3
	261	**328**

(ii) Balance sheet
At 31 December 2005

	Segmental total assets		Net assets	
	2005 £m	2004 £m	2005 £m	2004 £m
United Kingdom	**117,803**	**107,495**	**2,929**	**3,162**
France	44,109	41,827	1,177	1,175
Ireland	6,054	5,108	410	403
Italy	10,805	9,492	639	478
Netherlands (including Belgium and Luxembourg)	28,826	27,357	2,229	1,858
Poland	1,860	1,564	191	176
Spain	6,355	5,638	790	761
Other Europe	1,527	1,104	77	60
Continental Europe	**99,536**	**92,090**	**5,512**	**4,911**
International	**7,429**	**6,277**	**702**	**735**
Total	**224,768**	**205,862**	**9,144**	**8,808**

16. Segmental information (continued)

(h) Geographical analysis of life and pensions and investment sales – new business and total income

For the purpose of recording life and pensions new business premiums, the Group's policy is to include 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 equity release business written in the UK. This includes both insurance and investment contracts as defined under IFRS 4, *Insurance Contracts* and is consistent with the definition of covered business used for our supplementary embedded value reporting.

An analysis of new long-term business sales is provided below. In this table, single premiums are those relating to products issued by the Group, which provide for the payment of one premium only. Regular premiums are those where there is a contractual obligation to pay on an ongoing basis. Life and pensions total income represents all net written premiums in the year for insurance contracts and investment contracts, excluding non-participating investment contracts which are required to be accounted for under IAS 39, *Financial Instruments: Recognition and Measurement* and IAS 18, *Revenue*.

	New single premiums		New regular premiums		Total income	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
Life and pensions:						
United Kingdom	**6,573**	**6,502**	**485**	**516**	**4,676**	**5,087**
France	3,077	2,454	76	62	3,553	2,892
Ireland	372	203	63	66	182	195
Italy	1,940	1,529	58	45	1,357	1,084
Netherlands (including Belgium and Luxembourg)	1,245	1,131	146	148	2,582	1,859
Poland	120	60	30	31	312	267
Spain	1,395	1,566	100	91	1,248	1,206
Other Europe	406	336	80	90	152	565
Continental Europe	**8,555**	**7,279**	**553**	**533**	**9,386**	**8,068**
International	**798**	**660**	**113**	**105**	**870**	**706**
Total life and pensions (including share of associates)	**15,926**	**14,441**	**1,151**	**1,154**	**14,932**	**13,861**
Retail sales of mutual fund type products:						
United Kingdom	1,139	840	21	19	1,160	859
Netherlands	563	196	-	-	563	196
Poland	49	75	4	2	53	77
Other Europe	410	254	-	-	410	254
International	213	243	-	-	213	243
Total investment sales	**2,374**	**1,608**	**25**	**21**	**2,399**	**1,629**
Total long-term savings (including share of associates)	**18,300**	**16,049**	**1,176**	**1,175**	**17,331**	**15,490**

* Included within new business sales is £5,071 million single premiums and £357 million regular premiums (2004: £4,338 million single premiums and £410 million regular premiums), in respect of contracts that meet the definition of "non-participating investment" contracts under IFRS 4 "Insurance Contracts". Under IFRS, the premiums on these contracts are not included in the Group income statement under earned premiums, but are included on the balance sheet as a deposit.

16. Segmental information (continued)

(i) General insurance and health business summary analysis by geographical segment

(i) Income statement
For the year ending 31 December 2005

	Net written premiums		Fee and commission income		Profit before tax	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
United Kingdom	**6,127**	**5,715**	**180**	**125**	**1,294**	**778**
France	726	670	11	23	68	71
Ireland	499	545	-	1	181	142
Netherlands	1,270	1,286	7	21	171	145
Other Europe	259	230	5	9	17	44
Continental Europe	**2,754**	**2,731**	**23**	**54**	**437**	**402**
Canada	1,324	1,202	11	11	178	153
Other	106	170	-	7	86	35
International	**1,430**	**1,372**	**11**	**18**	**264**	**188**
Total	**10,311**	**9,818**	**214**	**197**	**1,995**	**1,368**

(ii) Balance sheet
As at 31 December 2005

	Segmental total assets		Net assets	
	2005 £m	2004 £m	2005 £m	2004 £m
United Kingdom	**13,114**	**12,927**	**2,725**	**2,504**
France	1,698	1,741	362	416
Ireland	1,916	1,989	545	498
Netherlands	5,038	3,677	553	461
Other Europe	860	914	302	162
Continental Europe	**9,512**	**8,321**	**1,762**	**1,537**
Canada	3,742	3,111	848	687
Other	380	825	246	277
International	**4,122**	**3,936**	**1,094**	**964**
Total	**26,748**	**25,184**	**5,581**	**5,005**

(iii) General insurance, fund management and other investments mix at 31 December 2005

	United Kingdom £m	Continental Europe £m	International £m	Total £m
Equity securities - fair value	1,965	1,140	574	3,679
Debt and fixed income securities at market value	4,478	5,176	2,337	11,991
Loans secured by mortgages and other loans	693	5,592	19	6,304
Other investments	32	474	1	507
Investments in joint ventures and associates	135	42	22	199
Investment property	268	109	3	380
Total investments	**7,571**	**12,533**	**2,956**	**23,060**

Statistical supplement

Segmental analysis of the components of life EEV operating return

Year ended 31 December 2005 £m

	UK	France	Ireland	Italy	Netherlands	Poland	Spain	Other Europe	International	Total
New business contribution (after the effect of required capital)	213	91	13	36	57	13	155	2	32	612
Profit from existing business										
- expected return	424	122	29	30	139	48	48	22	33	895
- experience variances:										
Maintenance expenses	12	3	(2)	(2)	3	5	(2)	1	(4)	14
Exceptional expenses[1]	(148)	-	(5)	-	(12)	-	(2)	(3)	-	(170)
Mortality/Morbidity[2]	86	29	(1)	2	16	16	5	-	5	158
Lapses[3]	(78)	(4)	(9)	(4)	2	6	1	(6)	9	(83)
Other[4]	35	4	(4)	4	(17)	8	2	11	(1)	42
	(93)	32	(21)	-	(8)	35	4	3	9	(39)
- operating assumption changes:										
Maintenance expenses	(21)	-	1	(3)	25	2	1	(4)	(9)	(8)
Exceptional expenses	(4)	(3)	-	-	(2)	-	-	1	-	(8)
Mortality/Morbidity[5]	19	1	(4)	4	(25)	7	-	2	5	9
Lapses[6]	(130)	-	(8)	-	(10)	-	(2)	(2)	4	(148)
Other[7]	79	16	-	-	59	13	(2)	5	2	172
	(57)	14	(11)	1	47	22	(3)	2	2	17
Expected return on shareholders' net worth	98	62	10	29	83	10	10	4	23	329
Life EEV operating return before tax	**585**	**321**	**20**	**96**	**318**	**128**	**214**	**33**	**99**	**1,814**

1. Exceptional expenses in the UK reflect £47 million relating to ongoing transformation of the life business and £101 million of other exceptional and project costs associated with regulatory change and strategic initiatives.
2. Mortality experience continues to be better than assumed across most of our businesses, and particularly for protection business in the UK, AFER and unit-linked business in France and group business in the Netherlands.
3. Lapse experience in the UK has been worse than assumed and mainly relates to bonds and pension business. In Ireland, the adverse persistency has mainly arisen on unit-linked pensions business.
4. In the UK, other experience profits includes better than assumed default experience on corporate bonds and commercial mortgages.
5. Mortality assumptions have been revised in the Netherlands following the publication of new annuitant mortality tables used for group business.
6. In the UK, the adverse lapse assumption change reflects a more prudent allowance for future persistency experience in the UK following recent experience. In Ireland, the lapse assumption change mainly relates to unit-linked pension business. Lapse assumption changes in the Netherlands largely relate to group business in the intermediary division.
7. Other operating assumption changes in the UK primarily relate to the change in annuitant required capital to 150% of required minimum margins which results in a £110 million one-off benefit. In France other operating assumptions represent an allowance for further tax benefits arising from dividends from subsidiaries. In the Netherlands, they reflect a variety of changes including increased annual management fees on unit-linked contracts, favourable change in asset mix, and the reduction of future guaranteed returns on group pensions business in Belgium. In Poland it was previously assumed that the introduction of new individual pension products would lead to significant conversion of existing policies. The prudent allowance made for this is no longer required.

Segmental analysis of the components of life EEV operating return

Year ended 31 December 2004 £m

	UK	France	Ireland	Italy	Netherlands	Poland	Spain	Other Europe	International	Total
New business contribution (after the effect of required capital)	215	54	16	34	43	9	121	-	24	516
Profit from existing business										
- expected return	367	112	30	29	141	45	40	24	31	819
- experience variances:										
Maintenance expenses[1]	31	(2)	(1)	2	(9)	5	-	1	1	28
Exceptional expenses[2]	(153)	-	-	-	(12)	-	(1)	(3)	(1)	(170)
Mortality/Morbidity[3]	49	21	7	-	17	8	1	2	5	110
Lapses[4]	(50)	5	(1)	(5)	(2)	5	2	(4)	6	(44)
Other[5]	42	(2)	-	3	18	-	2	-	(2)	61
	(81)	22	5	-	12	18	4	(4)	9	(15)
- operating assumption changes:										
Maintenance expenses[6]	77	-	(6)	(3)	-	14	3	1	4	90
Exceptional expenses[7]	(34)	(2)	-	-	(72)	-	-	-	-	(108)
Mortality/Morbidity	2	-	(2)	7	5	(2)	-	1	(1)	10
Lapses[8]	(110)	-	(16)	(3)	9	-	1	1	(1)	(119)
Other[9]	7	37	-	1	79	2	3	(6)	(3)	120
	(58)	35	(24)	2	21	14	7	(3)	(1)	(7)
Expected return on shareholders' net worth	108	63	13	14	60	7	8	5	20	298
Life EEV operating return before tax	**551**	**286**	**40**	**79**	**277**	**93**	**180**	**22**	**83**	**1,611**

1 Maintenance expenses in the UK reflect the benefit of cost saving initiatives undertaken.
2 Exceptional expenses in the UK reflect costs of £65 million for the restructuring of the business services division and one-off project costs of £88 million associated with the pace of regulatory change.
3 Mortality experience across our major businesses continues to be better than our assumptions for protection and annuity business in the UK and protection business in Continental Europe.
4 Lapse experience in the UK has been adverse and mainly relates to bonds, protection schemes and pension products.
5 In the UK, other experience profits include £29 million of profits arising from better than assumed default experience on corporate bonds and commercial mortgages.
6 Maintenance expense assumption changes in the UK reflect the benefit of cost saving initiatives coming through.
7 The UK and the Netherlands include capitalised additional future project expenses.
8 Adverse lapse assumption changes in the UK relates to unitised with-profit bonds and unit-linked bonds. In Ireland, lapse assumption changes have been made on unit-linked pensions business following recent experience.
9 Other operating assumptions in the Netherlands relates to positive changes in asset mix and tax reflecting, in part, the fact that the embedded value of Delta Lloyd was previously assessed using a blended average tax rate of 25%, which is below the local corporation tax rate. The calculation has been refined to tax all future profits at the full corporation tax rate at the beginning of the year of 34.5% and to allow explicitly for the tax benefit arising from investing in the "5% holdings" (investments in Dutch companies where at least 5% of the share capital is owned), on which all investment income is tax free. This change results in a £53 million one-off benefit. France includes the benefit of tax assumption changes. France has historically recorded favourable tax operating experience as a result of better than assumed tax on dividend income. Previously the tax assumptions had been set at full corporation tax for all future profits, whereas in fact dividend income from subsidiaries is tax exempt. In 2004, the calculation has been refined such that the future tax benefit arising from dividend from subsidiaries has now been recognised. This change results in a £39 million benefit.

Supplementary analyses

(a) Analysis of service companies and fund management businesses within embedded value

The EEV methodology incorporates the impact of profits and losses arising from subsidiary undertakings providing administration, investment management and other services where these arise in relation to covered business. The principal subsidiaries of the Aviva group providing such services are NU Life Services Limited (UK), Morley Fund Management (UK) and Aviva Gestion d'Actifs (France). The following table provides an analysis of the elements within the life and other related business embedded value:

	2005			2004
	Fund Management £m	Non-Insurance £m	Total £m	Total £m
United Kingdom[1]	77	(179)	(102)	(343)
France	53	(6)	47	32
Other Europe and International	35	(8)	27	(15)
	165	(193)	(28)	**(326)**

1 Reflecting Additional Guidance on EEV Disclosures published by the CFO Forum, the pension scheme deficit is now accounted for on an IAS 19 basis. Consequently, the element that had previously been included within the embedded value of service companies, being the present value of agreed deficit funding arrangements, has been removed.

The "look-through" value attributable to fund management is based on the level of after-tax profits expected to be earned in the future over the outstanding term of the covered business in respect of services provided to the Group's life operations. The EEV basis income statement excludes the actual statutory basis profits arising from the provision of fund management services to the Group's life businesses. The EEV income statement records the experience profit or loss compared to the assumed profitability, the return on the in-force value arising from the unwind at the relevant risk discount rate and the effect on the in-force value of changes to economic assumptions.

NU Life Services Limited (NULS) is the main provider of administration services to the UK Life business. NULS incurs substantially all of the UK Life businesses operating expenditure, comprising acquisition, maintenance and project costs. Costs are recharged to the UK Life companies (the product companies) on the basis of a pre-determined Management Services Agreement (MSA) which was negotiated in 1998 and will be reviewed in 2008.

The EEV principles "look-through" the contractual terms of the MSA to the underlying expenses of NULS. Accordingly the actual maintenance expenses and a "normal" annual level of project expense allowances have been applied to the product companies. Under EEV, any further one-off project expenditure is reported as experience losses when incurred.

(b) Pension schemes

(i) Pension scheme deficits in consolidated balance sheet

On the consolidated balance sheet, the amount described as Provisions includes the pension scheme deficits and comprises:

	2005 £m	2004 £m
Deficits in the staff pension schemes	1,471	893
Other obligations to staff pension schemes – Insurance policies issued by Group companies	875	813
Total IAS 19 obligations to staff pension schemes	2,346	1,706
Other provisions	529	419
Provisions	**2,875**	**2,125**

(ii) Movements in the pension schemes' deficits comprise:

	2005 £m	2004 £m
Deficits in the schemes at 1 January	(893)	(838)
Employer contributions	383	220
Charge to net operating expenses (see (iii) below)	(130)	(157)
Credit to investment income (see (iii) below)	32	28
Actuarial losses (see (iii) below)	(547)	(145)
Acquisition	(313)	-
Exchange rate movements in foreign plans	(3)	(1)
Deficits in the schemes at 31 December	**(1,471)**	**(893)**

The change in the net pension deficit during 2005 is mainly attributable to changes in assumptions underlying the present value of the schemes' liabilities, partially offset by an increase in the market value of their assets. In the United Kingdom, the value of the liabilities has increased due to lower corporate bond yields, which are used to set the valuation discount rate, a higher assumed inflation rate and a strengthening to the post-retirement mortality future improvements allowed for in the basis. The increase in scheme assets is primarily due to an improvement in equity and bond values since the previous year end, together with deficit contribution payments made by the employing companies. The deficit has further increased by £313 million as a result of the acquisition of RAC plc in May 2005.

Employer contributions included deficit funding payments amounting to £211 million (2004: £50 million).

(iii) The pension expense for these schemes comprises:

	2005 £m	2004 £m
Current service cost	158	148
Past service (credit)/cost	(7)	1
Gain / (loss) on curtailments*	(21)	8
Charge to net operating expenses	130	157
Expected return on scheme assets	(439)	(390)
Interest charge on scheme liabilities	407	362
Credit to investment income	(32)	(28)
Total charge to income	98	129
Expected return on scheme assets	439	390
Actual return on these assets	(1,270)	(595)
Actuarial gains on scheme assets	(831)	(205)
Experience losses/(gains) arising on scheme liabilities	86	(12)
Changes in assumptions underlying the present value of the scheme liabilities	1,292	362
Actuarial losses recognised in the statement of recognised income and expense	**547**	**145**

* The current year credit mainly arises in the Netherlands as a result of changes in the Dutch health care system which reduce the obligations of the relevant scheme.

The cumulative amount of actuarial gains and losses recognised in the statement of recognised income and expenses since 1 January 2004 (the date of transition to IFRS) is £692 million at 31 December 2005 (2004: £145 million).

(c) Long-term savings new business

	Present value of new business premiums[1]		Annual premium equivalent[2]	
	2005 £m	2004 £m	2005 £m	2004 £m
Life and pensions				
United Kingdom	**9,053**	**9,172**	**1,142**	**1,166**
France	3,530	2,782	384	307
Ireland	665	561	100	86
Italy	2,294	1,799	252	198
Netherlands (including Belgium and Luxembourg)	2,407	2,168	271	261
Poland	285	241	42	37
Spain	2,013	2,110	240	248
Other Europe	739	804	121	124
Continental Europe	**11,933**	**10,465**	**1,410**	**1,261**
International	**1,260**	**1,024**	**193**	**171**
Total (before the effect of required capital)	**22,246**	**20,661**	**2,745**	**2,598**
Investment sales				
United Kingdom	**1,160**	**859**	**135**	**103**
Netherlands	563	196	56	20
Poland	53	77	9	10
Other Europe	410	254	41	25
Continental Europe	**1,026**	**527**	**106**	**55**
International	**213**	**243**	**21**	**24**
Total investment sales	**2,399**	**1,629**	**262**	**182**
Total long-term savings (including share of associates and joint ventures)	**24,645**	**22,290**	**3,007**	**2,780**

1 Investment sales are calculated as new single premiums plus annualised value of new regular premiums.
2 United Kingdom APE has been restated to include NUER APE volumes of £37 million (2004: £48 million).

(d) Assets under management

	Life and related business 2005 £m	General business and other 2005 £m	Group 2005 £m	Group 2004 £m
Total IFRS assets included in the balance sheet	**224,768**	**38,679**	**263,447**	**239,303**
Additional value of in-force long-term business	6,454	-	6,454	5,018
Total EEV assets included in the balance sheet	**231,222**	**38,679**	**269,901**	**244,321**
Third party funds under management:				
Unit trusts, Oeics, Peps and Isas			16,188	10,527
Segregated funds			30,821	24,899
Total assets under management			**316,910**	**279,747**

General insurance business only: geographical analysis

(a) General insurance

	Operating profit		Longer-term investment return		Underwriting result	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
United Kingdom	970	788	668	647	302	141
France	26	25	44	39	(18)	(14)
Ireland	171	135	55	53	116	82
Netherlands	97	51	42	33	55	18
Canada	147	133	112	96	35	37
Other	85	73	68	61	17	12
	1,496	**1,205**	**989**	**929**	**507**	**276**

(b) Combined operating ratio analysis – geographical basis – general insurance business only

	Claims ratio		Expense ratio		Combined operating ratio	
	2005 %	2004 %	2005 %	2004 %	2005 %	2004 %
United Kingdom	61.8%	64.4%	10.9%	10.6%	96%	97%
France	73.7%	73.4%	12.0%	12.1%	101%	101%
Ireland	56.8%	66.6%	11.6%	10.3%	78%	87%
Netherlands	60.0%	59.4%	12.0%	11.9%	93%	95%
Canada	66.0%	66.6%	11.9%	12.1%	97%	97%
	62.7%	**65.0%**	**11.4%**	**11.2%**	**95%**	**97%**

Ratios are measured in local currency.
The total Group ratios are based on average exchange rates applying to the respective periods.

Definitions:

Claims ratio	–	Incurred claims expressed as a percentage of net earned premiums.
Expense ratio	–	Written expenses excluding commissions expressed as a percentage of net written premiums.
Commission ratio	–	Written commissions expressed as a percentage of net written premiums.
Combined operating ratio	–	Aggregate of claims ratio, expense ratio and commission ratio.

(c) General insurance business only: class of business analyses

(i) United Kingdom

	Net written premiums		Underwriting result		Combined operating ratio	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 %	2004 %
Personal						
Motor	1,641	1,383	(40)	(12)	102%	102%
Homeowner	1,300	1,041	69	24	97%	97%
Other	772	737	8	9	100%	100%
	3,713	3,161	37	21	100%	100%
Commercial						
Motor	679	755	55	19	94%	97%
Property	877	924	164	98	84%	88%
Other	563	597	46	3	93%	99%
	2,119	2,276	265	120	88%	94%
	5,832	**5,437**	**302**	**141**	**96%**	**97%**

During 2005, annualised rating increases were as follows; personal motor: 4%; homeowners: 6% (including indexation); commercial motor: 1% decrease; commercial property: 1% decrease; and commercial liability: 1% decrease.

(ii) France

	Net written premiums		Underwriting result		Combined operating ratio	
	2005 €m	**2004 €m**	**2005 €m**	**2004 €m**	**2005 %**	**2004 %**
Motor	378	370	(10)	(12)	102%	103%
Property and other	446	399	(16)	(9)	101%	100%
€m	**824**	**769**	**(26)**	**(21)**	**101%**	**101%**
£m	**564**	**523**	**(18)**	**(14)**	**101%**	**101%**

(iii) Netherlands

	Net written premiums		Underwriting result		Combined operating ratio	
	2005 €m	**2004 €m**	**2005 €m**	**2004 €m**	**2005 %**	**2004 %**
Property	351	368	44	6	88%	90%
Motor	370	347	(1)	27	100%	95%
Liability	83	56	15	(12)	84%	119%
Other	242	287	23	6	91%	97%
€m	**1,046**	**1,058**	**81**	**27**	**93%**	**95%**
£m	**716**	**720**	**55**	**18**	**93%**	**95%**

(iv) Canada

	Net written premiums		Underwriting result		Combined operating ratio	
	2005 C$m	**2004 C$m**	**2005 C$m**	**2004 C$m**	**2005 %**	**2004 %**
Automobile	1,756	1,747	70	5	96%	100%
Property	831	821	(2)	79	100%	90%
Liability	281	249	(9)	(12)	102%	106%
Other	43	42	18	14	73%	66%
C$m	**2,911**	**2,859**	**77**	**86**	**97%**	**97%**
£m	**1,324**	**1,202**	**35**	**37**	**97%**	**97%**

Appendix A

Capital

1 – Group capital structure

2 – FRS 27 disclosures

Appendix A1

Group capital structure

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A1 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 the Group's risk profile and the regulatory and market requirements of its business. The European Embedded Value basis provides a more accurate reflection of the performance of the Group's life operations year on year than results under IFRS. Accordingly, the Group's capital structure is analysed on this basis.

The Group's capital, from all funding sources, has been allocated such that the capital employed by trading operations is greater than the capital provided by its shareholders and its subordinated debt holders. As a result, the Group is able to enhance the returns earned on its equity capital.

Capital employed by segment

	2005 £m	2004 £m
Long-term savings	15,598	13,826
General insurance and health	5,581	5,005
Other business	1,876	838
Corporate	(36)	(372)
Total capital employed	**23,019**	**19,297**
Financed by		
Equity shareholders' funds and minority interests	16,356	12,821
Direct capital instrument	990	990
Preference shares	200	200
Subordinated debt	2,808	2,847
External debt	1,002	1,452
Net internal debt	1,663	987
	23,019	**19,297**

At 31 December 2005 the Group had £23.0 billion (31 December 2004: £19.3 billion) of total capital employed in our trading operations which is efficiently financed by a combination of equity shareholders' funds, preference capital, direct capital instruments, subordinated debt and internal and external borrowings.

In 2005, the total capital employed in our long-term savings operations increased by £1.8 billion driven by the operational results and the strong movement in equity markets in the year. The capital employed in our general insurance businesses increased by £0.6 billion reflecting the profits in the year; the capital employed in our non-insurance and corporate businesses rose by £1.3 billion from £0.5 billion to £1.8 billion reflecting the RAC acquisition.

In addition to its external funding sources, the Group has a number of internal debt arrangements in place. These have allowed the assets supporting technical liabilities to be invested into the pool of central assets for use across the Group. They have also enabled the shareholders to deploy cash from some parts of the business to others in order to fund growth. Although intra-group loans in nature, they are counted as part of the capital base for the purpose of capital management. All internal loans satisfy arms length criteria and all interest payments have been made when due.

In order to better reflect the underlying level of internal leverage the presentation of internal debt was revised at the 2004 year end. The revised presentation depicts a net debt position which represents the upstream of internal loans from business operations to corporate and holding entities net of tangible assets held by these entities. The corporate net liabilities represent the element of the pension scheme deficit held centrally.

The ratio of the Group's external debt plus subordinated debt to shareholders' funds was 22% (31 December 2004: 31%). Fixed charged cover on an EEV basis, which measures the extent to which external interest costs are covered by EEV operating profit, was 9.6 times (31 December 2004: 8.7 times).

At 31 December 2005 the market value of the Group's external debt, subordinated debt, preference shares, including both the Aviva plc preference shares and the General Accident plc preference shares of £250 million, within minority interests, and direct capital instrument was £5,868 million (31 December 2004: £5,953 million), with a weighted average cost of 3.8% (31 December 2004: 3.9%). The Group WACC is 6.6% and has been calculated by reference to the cost of equity and cost of debt at the relevant date. The cost of equity at 31 December 2005 was 7.6%, based on a risk free rate of 4.1%, an equity market premium of 3% and a market beta of 1.17.

A1 Group capital structure (continued)

Deployment of equity shareholders' funds

	Equities £m	Fixed income securities £m	Other investments £m	Other net assets £m	2005 Total £m	2004 Total £m
Assets						
Long-term savings	824	4,611	873	1,566	7,874	7,503
General insurance, health, and other business	3,679	1,519	1,274	(1,075)	5,397	4,859
	4,503	6,130	2,147	491	13,271	12,362
Goodwill					2,491	1,401
Additional and acquired value of in-force long-term business and intangible assets					7,257	5,534
Assets backing total capital employed in continuing operations					**23,019**	**19,297**
External debt					(1,002)	(1,452)
Net Internal debt					(1,663)	(987)
Subordinated debt					(2,808)	(2,847)
					17,546	**14,011**
Minority interests					(1,457)	(1,160)
Direct capital instrument					(990)	(990)
Preference capital					(200)	(200)
Equity shareholders' funds					**14,899**	**11,661**

Return on capital employed

	2005 Normalised after-tax return £m	2005 Opening equity capital £m	2005 Return on capital %	2004 Return on capital %
Long-term savings	1,248	13,826	9.0%	8.9%
General insurance and health	1,002	5,005	20.0%	17.1%
Other business	78	838	9.3%	(2.0)%
Corporate	(114)	(372)	30.6%	40.9%
	2,214	**19,297**	**11.5%**	**10.4%**
Borrowings	(237)	(5,286)	4.5%	3.9%
	1,977	**14,011**	**14.1%**	**13.9%**
Minority interests	(187)	(1,160)	16.1%	17.5%
Direct capital instrument	(29)	(990)	2.9%	-
Preference capital	(17)	(200)	8.5%	8.5%
Equity shareholders' funds	**1,744**	**11,661**	**15.0%**	**13.7%**

The return on capital is calculated as the after-tax return on opening equity capital, based on Group operating profit, including Life EEV operating return, on continuing operations.

Sensitivity analysis

The sensitivity of the Group's shareholders' funds on an EEV basis at 31 December 2005 to a 10% fall in global equity markets or a rise of 1% in global interest rates is as follows:

31 December 2004 £bn		31 December 2005 £bn	Equities down 10% £bn	Interest rates up 1% £bn
13.8	Long-term savings[1]	15.6	14.7	15.4
5.5	General insurance and other	7.4	7.0	7.1
(5.3)	Borrowings[2]	(5.5)	(5.5)	(5.5)
14.0	Shareholders' funds	**17.5**	**16.2**	**17.0**

These sensitivities assume a full tax charge/credit on market value assumptions.
1 Assumes EEV assumptions adjusted to reflect revised bond yields.
2 Comprising internal, external and subordinated debt, net of corporate tangible net assets.

The table above incorporates the effect on the value of the pension scheme assets of a 10% decrease in equity and a 1% increase in fixed income bond yields. The latter sensitivity also assumes an equivalent movement in both inflation and discount rate (i.e. no change to real interest rates) and, therefore, incorporates the offsetting effects of these items on the pension scheme liabilities. A 1% increase in the discount rate only has the effect of reducing the pension scheme liability by £1.7 billion thereby enhancing shareholders' funds by £1.2 billion (after deducting tax).

A1 Group capital structure (continued)

Shareholders' funds, including minority interests.

		31 December 2005 Closing shareholders' funds			31 December 2004 Closing shareholders' funds		
	Note	IFRS net assets £m	Internally generated AVIF £m	Total Equity £m	IFRS net assets £m	Internally generated AVIF £m	Total Equity £m
Life assurance	1						
United Kingdom		2,929	3,496	6,425	3,162	2,703	5,865
France		1,177	890	2,067	1,175	644	1,819
Ireland		410	72	482	403	248	651
Italy		639	88	727	478	72	550
Netherlands (including Belgium and Luxembourg)		2,229	826	3,055	1,758	727	2,485
Poland		191	456	647	176	381	557
Spain		790	438	1,228	761	279	1,040
Other Europe		77	128	205	160	53	213
International		702	60	762	735	(89)	646
		9,144	**6,454**	**15,598**	**8,808**	**5,018**	**13,826**
General insurance and health	1,2						
United Kingdom		2,725		2,725	2,504		2,504
France		362		362	416		416
Ireland		545		545	498		498
Netherlands		553		553	461		461
Other Europe		302		302	162		162
Canada		848		848	687		687
Other		246		246	277		277
		5,581	-	**5,581**	**5,005**	**-**	**5,005**
Other business	1,2	1,876		1,876	838		838
Corporate		(36)		(36)	(372)		(372)
External debt	3	(1,002)		(1,002)	(1,452)		(1,452)
Internal debt		(1,663)		(1,663)	(987)		(987)
Subordinated debt		(2,808)		(2,808)	(2,847)		(2,847)
		(3,633)	**-**	**(3,633)**	**(4,820)**	**-**	**(4,820)**
Shareholders' funds, including minority interests		**11,092**	**6,454**	**17,546**	**8,993**	**5,018**	**14,011**
Comprising							
Equities		4,503		4,503	3,881		3,881
Debt and fixed income securities		6,130		6,130	4,802		4,802
Property		957		957	1,292		1,292
Deposits and other investments		1,190		1,190	1,480		1,480
Intangible assets	4	3,294	6,454	9,748	1,917	5,018	6,935
Other net assets		491		491	907		907
Borrowings		(5,473)		(5,473)	(5,286)		(5,286)
		11,092	**6,454**	**17,546**	**8,993**	**5,018**	**14,011**

Notes

1. Goodwill of £2,491 million (2004: £1,401 million) has been allocated as follows: life assurance £848 million (2004: £812 million); general insurance and health £398 million; (2004: £465 million) and other businesses £1,245 million (2004: £124 million).
2. Intangibles of £379 million (2004: £65 million) have been allocated as follows: general insurance and health £265 million (2004: £19 million); other businesses £114 million (2004: £46 million).
3. The external borrowings reported in the summary consolidated balance sheet of £11,013 million (2004: £10,090 million) comprise £6,303 million (2004: £5,193 million) securitised mortgage funding, £2,808 million (2004: £2,847 million) subordinated debt, £900 million (2004: £598 million) borrowings by operating businesses and £1,002 million (2004: £1,452 million) borrowings by holding companies of the Group not allocated to operating companies (shown as external debt).
4. Total intangible assets of £9,748 million (2004: £6,935 million) comprise goodwill of £2,491 million (2004: £1,401 million); acquired value of in-force long-term business and intangibles of £803 million (2004: £516 million) and additional value of in-force long-term business of £6,454 million (2004: £5,018 million). The associated deferred tax liability on the intangibles of £123 million (2004: nil) is included within other net assets.
5. The post-tax pension fund deficit of £989 million has been allocated as follows: life operations £363 million, general insurance and health £532 million, other business £58 million and corporate of £36 million.

A1 Group capital structure (continued)

Geographical analysis of return on capital employed

For the year ended 31 December 2005

		Operating return (Note1)		Opening Shareholders' funds including minority interests	Return on Capital
	Note	**Before tax £m**	**After tax £m**	**£m**	**%**
Life assurance					
United Kingdom		585	409	5,865	7.0%
France		321	209	1,819	11.5%
Ireland		20	17	651	2.6%
Italy		96	60	550	10.9%
Netherlands (including Belgium and Luxembourg)		318	217	2,485	8.7%
Poland		128	104	557	18.7%
Spain		214	139	1,040	13.4%
Other Europe		33	22	213	10.3%
International		99	71	646	11.0%
		1,814	**1,248**	**13,826**	**9.0%**
General insurance and health					
United Kingdom		827	580	2,504	23.2%
France		35	23	416	5.5%
Ireland		171	150	498	30.1%
Netherlands		137	94	461	20.4%
Other Europe		47	32	162	19.8%
Canada		147	95	687	13.8%
Other		40	28	277	10.1%
		1,404	**1,002**	**5,005**	**20.0%**
Other business		111	78	838	9.3%
Corporate		(104)	(114)	(372)	30.6%
External debt		(79)	(67)	(1,452)	4.6%
Net internal debt	2	(73)	(52)	(987)	5.3%
Subordinated debt		(169)	(118)	(2,847)	4.1%
		2,904	**1,977**	**14,011**	**14.1%**

Notes
1. The operating return is based upon Group operating profit, which is stated before impairment of goodwill, amortisation of additional value of in-force business, exceptional items and tax including policyholder tax, adjusted for the short-term fluctuation in investment return.
2. The return before tax of £(73) million comprises investment return of £147 million and unallocated interest of £(220) million.

A1 Group capital structure (continued)

Geographical analysis of return on capital employed (continued)

Year ended 31 December 2004

	Note	Operating return (Note 1) Before tax £m	Operating return (Note 1) After tax £m	Opening shareholders' funds including minority interests £m	Return on Capital %
Life assurance					
United Kingdom		551	385	5,439	7.1%
France		286	185	1,559	11.9%
Ireland		40	35	613	5.7%
Italy		79	49	436	11.2%
Netherlands (including Belgium and Luxembourg)		277	201	2,461	8.2%
Poland		93	75	458	16.4%
Spain		180	117	916	12.8%
Other Europe		22	14	78	17.9%
International		83	60	598	10.0%
		1,611	**1,121**	**12,558**	**8.9%**
General insurance and health					
United Kingdom		662	484	2,711	17.9%
France		33	21	435	4.8%
Ireland		135	118	391	30.2%
Netherlands		90	67	311	21.5%
Other Europe		32	20	109	18.3%
Canada		133	86	618	13.9%
Other		41	29	246	11.8%
		1,126	**825**	**4,821**	**17.1%**
Other business		(21)	(14)	683	(2.0)%
Corporate		(162)	(81)	(198)	40.9%
External debt		(77)	(65)	(1,879)	3.5%
Net internal debt	2	(84)	(61)	(1,613)	3.8%
Subordinated debt		(169)	(118)	(2,838)	4.2%
		2,224	**1,607**	**11,534**	**13.9%**

Notes
1. The operating return is based upon Group operating profit, which is stated before impairment of goodwill, amortisation of additional value of in-force business, exceptional items and tax including policyholder tax, adjusted for the short-term fluctuation in investment return.
2. The return before tax of £(84) million comprises investment return of £135 million and unallocated interest of £(219) million.

Strategic Investments

The Group has certain equity investments which are classified as strategic. The market value of these holdings and the percentage of the issued share capital of these companies held by the Group are as follows:

	Long-term business 2005 £m	Long-term business 2004 £m	General & Other 2005 £m	General & Other 2004 £m	Market value 2005 £m	Market value 2004 £m	Proportion held 2005 %	Proportion held 2004 %
Münchener Rückversicherungs Gesellschaft	150	205	-	179	150	384	0.8%	2.5%
Unicredit Group	383	283	501	255	884	538	2.1%	2.8%
Société Générale	-	242	-	2	-	244	-	1.1%
	533	**730**	**501**	**436**	**1,034**	**1,166**		

Group Capital Resources

During 2004, the FSA published Policy Statement PS04-24 which requires the Group to disclose the Group Capital Resources (GCR), the Capital Resources Requirement (CRR) and the resulting surplus or deficit. The statement for 2005 is given in the table below. This information has been published by the Group in prior years and represents the surplus calculated in accordance with the Insurance Groups' Directive (IGD).

In 2005, the FSA issued further guidance in the Consultation Paper CP05-09. The FRS 27 Group Capital Statement shows the Group's capital resources on a regulatory basis; following publication of CP05-09, the Group is required to reconcile this to the Group's capital resources on a statutory reporting basis. This reconciliation is given in the second table below.

	31 December 2005		
	UK Life Funds £bn	**IGD solvency £bn**	**Group Total £bn**
Group Capital Resources (PS04-24)	3.1	7.8	10.9
Less: Capital Resources Requirement	(3.1)	(4.3)	(7.4)
Group surplus	**-**	**3.5**	**3.5**

Under the FSA rules the Group capital resource amount relating to UK life funds is set at the lower of the regulatory capital requirement and the actual regulatory capital. The UK Life funds are excluded from the IGD solvency calculation.

The FRS 27 Group capital statement shows the Group's capital resources on a regulatory basis; the FSA, following publication of the Consultation Paper CP05-09, requires the Group to reconcile this to the Group's resources on a statutory reporting basis. The Group Capital Adequacy Report is prepared in accordance with the FSA's valuation rules and brings in capital in respect of the with-profit funds equal to the UK Life Capital Resources Requirement; the FRS 27 disclosure brings in the totality of the with-profit capital resources.

	31 December 2005 £bn
Total capital and reserves (IFRS basis)	11.1
Plus: Other qualifying capital	2.9
Plus: UK Life Funds (restricted at amount of regulatory capital requirements)	3.1
Less: Goodwill, acquired AVIF and intangible assets	(3.1)
Less: Other adjustments to restate from IFRS to regulatory basis	(3.1)
Group Capital Resources (PS04–24)	**10.9**

The Group Capital Resources can be analysed as follows:

	31 December 2005 £bn
Core Tier 1 Capital	6.5
Innovative Tier 1 Capital	1.0
Total Tier 1 Capital	7.5
Upper Tier 2 Capital	1.7
Lower Tier 2 Capital	1.7
Group Capital Resources Tier 1 & Tier 2 Capital (PS04–24)	**10.9**
Less: UK Life Funds (restricted at amount of regulatory capital requirements)	(3.1)
Plus: Actual UK life fund capital resources	6.5
Less: Assets treated as inadmissible at local level	(0.7)
Total per FRS 27 capital position statement	**13.6**

Appendix A2

FRS 27 disclosures

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A2 FRS 27 disclosures

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	2005 Total £m	2004 Total £m
Total shareholders' funds	25	22	24	71	2,515	2,586	6,129	8,715	2,377	11,092	8,993
Total other sources of capital[1]	-	-	-	-	-	-	133	133	2,808	2,941	3,016
Unallocated divisible surplus	1,871	1,872	1,633	5,376	-	5,376	3,602	8,978	-	8,978	7,549
Adjustments onto a regulatory basis:											
Shareholders' share of accrued bonus	(74)	(78)	(548)	(700)	-	(700)	-	(700)	-	(700)	(570)
Goodwill, acquired value of in-force long-term business and intangibles	-	-	-	-	(56)	(56)	(798)	(854)	(2,223)	(3,077)	(1,700)
Regulatory valuation and admissibility restrictions[2]	281	125	140	546	(1,221)	(675)	(3,991)	(4,666)	(953)	(5,619)	(4,507)
Total available capital	**2,103**	**1,941**	**1,249**	**5,293**	**1,238**	**6,531**	**5,075**	**11,606**	**2,009**	**13,615**	**12,781**
Analysis of liabilities:											
Participating insurance liabilities	8,691	9,475	19,646	37,812	-	37,812	22,146	59,958	-	59,958	58,304
Unit-linked liabilities	3,201	51	-	3,252	2,692	5,944	12,055	17,999	-	17,999	15,227
Other non-participating life insurance	1,002	1,821	756	3,579	18,116	21,695	14,524	36,219	-	36,219	32,798
Total insurance liabilities	12,894	11,347	20,402	44,643	20,808	65,451	48,725	114,176	-	114,176	106,329
Participating investment liabilities	4,661	2,761	7,986	15,408	-	15,408	31,850	47,258	-	47,258	43,974
Non-participating investment liabilities	10,430	1,099	3,755	15,284	2,664	17,948	12,103	30,051	-	30,051	25,581
Total investment liabilities	15,091	3,860	11,741	30,692	2,664	33,356	43,953	77,309	-	77,309	69,555
Total liabilities	**27,985**	**15,207**	**32,143**	**75,335**	**23,472**	**98,807**	**92,678**	**191,485**	**-**	**191,485**	**175,884**

1 Other sources of capital include subordinated debt of £2,808 million issued by Aviva and £119 million subordinated perpetual loan notes issued by a Dutch subsidiary undertaking
2 Including adjustments for minorities
3 Includes the PM with-profit fund
4 Other operations includes general insurance and fund management business

A2 FRS 27 disclosures (continued)

Analysis of movements in capital
For the year ended 31 December 2005

	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
Opening available capital	1,695	1,633	1,208	4,536	1,433	5,969	4,523	10,492
Movement in liabilities	(4,671)	(400)	800	(4,271)	(4,184)	(8,455)	(7,238)	(15,693)
Other movements in capital[1]	5,079	708	(759)	5,028	3,989	9,017	7,790	16,807
Closing available capital resources	**2,103**	**1,941**	**1,249**	**5,293**	**1,238**	**6,531**	**5,075**	**11,606**

1 Includes movement in: outstanding claims provision; other technical provision; and obligations to staff pension schemes transferred to provisions.

The main drivers of the variance between actual and expected liability movements are reductions in valuation interest rates for traditional contracts and strong investment returns for unit-linked business. Other movements in capital reflect cashflows for premiums received, benefits paid and the investment return on assets held. This movement also includes the change in the regulatory adjustments and regulatory rules. The only regulatory rule changes having significant impact in the year are a change in the basis for inclusion of non-insurance subsidiaries from market value to a surplus assets basis, and new rules relating to the recognition of pension deficits, requiring a charge to be made based on anticipated additional payments over the next five years instead of the inclusion of the full scheme deficit.

A2 FRS 27 disclosures (continued)

In aggregate, the Group has at its disposal total available capital of £13.6 billion (2004: £12.8 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 £5.2 billion (2004: £4.5 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 £8.3 billion (2004: £8.3 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 £13.6 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.

Within the Aviva group there exist intra-group arrangements to provide capital to particular business units. Included within 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.

	31 December 2005					31 December 2004
	Realistic assets £bn	Realistic liabilities £bn	Realistic orphan estate £bn	Required capital margin £bn	Excess £bn	Excess £bn
CGNU Life	14.0	(11.9)	2.1	0.5	1.6	1.4
CULAC	14.0	(12.1)	1.9	0.6	1.3	1.2
NUL&P	25.9	(24.7)	1.2	0.8	0.4	0.2
PM	2.5	(2.5)	-	-	-	-
Aggregate	**56.4**	**(51.2)**	**5.2**	**1.9**	**3.3**	**2.8**

1. These realistic liabilities include the shareholders' share of future bonuses of £0.7 billion (31 December 2004: £0.5 billion). Realistic liabilities adjusted to eliminate the shareholders' share of future bonuses are £50.5 billion (31 December 2004: £47 billion).
2. These realistic liabilities make provision for guarantees and promises on a market consistent stochastic basis. The value of the provision included within the realistic liabilities is £0.7 billion, £0.9 billion and £3.4 billion for CGNU Life, CULAC and NUL&P, respectively (31 December 2004: £0.6 billion, £0.9 billion and £3.3 billion for CGNU Life, CULAC and NUL&P respectively).
3. The required capital margin (RCM) is 2.7 times covered by the orphan estate (31 December 2004: 2.6 times).

A2 FRS 27 disclosures (continued)

For UK non-participating business, the relevant capital requirement is the minimum solvency requirement determined in accordance with FSA regulations. For overseas life businesses, the amount shown is the minimum requirement under the locally applicable regulatory regimes.

For UK and overseas general insurance businesses, the relevant capital requirement is the minimum solvency requirement determined in accordance with the local regulator's requirements.

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.

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.
(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.

Financial guarantees and options

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.

(a) UK Life with-profits business

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

The material guarantees and options to which this provision relates are:
(i) Maturity value guarantees – Substantially all of the conventional with-profit business and a significant proportion of unitised with-profit business have minimum maturity values reflecting the sums assured plus declared annual bonus. In addition, the guarantee fund has offered maturity value guarantees on certain unit-linked products.
(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 guaranteed value of the policy and the market value of the underlying assets.
(iii) Guaranteed annuity options – The Group's UK with-profit funds have written individual and group pensions 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 which 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 Group has made promises to certain policyholders, in relation to their mortgage endowments, that payments on these policies will meet the mortgage value, provided investment returns exceed 6% per annum net of tax between 1 January 2000 and maturity and the investment returns on the free reserves are sufficient to meet the top-up costs.

(b) UK Life non-profit business

The Group's UK non-profit funds are not subject to the requirements of the FSA's realistic reporting regime and, therefore, liabilities are evaluated by reference to local statutory reserving rules.

(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 £44 million at 31 December 2005 (2004: £47 million).

A2 FRS 27 disclosures (continued)

(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 within 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. A PAF of £16 million was established at the end of 2005.

The most significant of these contracts is the AFER Euro fund which has total liabilities of £22 billion at 31 December 2005 (2004: £21 billion). The guaranteed bonus on this contract equals 65% of the average of the last two years' declared bonus rates (or 60% of the TME index rates if higher) and was 3.51% for 2005 (2004: 3.69%) compared with an accounting income from the fund of 4.91% (2004: 5.25%).

Non-AFER contracts with guaranteed surrender values had liabilities of £7 billion (2004: £6 billion) at 31 December 2005 and guaranteed annual bonus rates are between 0% and 4.5% on 97.8% of liabilities. There are higher guarantees in force on some older policies including a small number of policies with a guarantee of 8.5%. For non-AFER business, the accounting income return exceeded guaranteed bonus rates in 2005.

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 2005 for this guarantee is £14 million (2004: £17 million). The reserve is calculated on a prudent basis and is in excess of the economic liability. At the end of 2005, total sums at risk for these contracts were £73 million (2004: £182 million) out of total unit-linked funds of £8 billion (2004: £6 billion). The average age of policyholders was approximately 53. It is estimated that the economic liability would increase by £1 million (2004: £2 million) if yields were to increase by 1% per annum and by £0.1 million (2004: £1 million) if equity markets were to decline by 10% from year end 2005 levels. These figures do not reflect our ability to review the charges 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 pensions 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.

The total liabilities for traditional business at 31 December 2005 are £8 billion (2004: £8 billion) analysed as follows:

	Liabilities 3% guarantee 31 December 2005 £m	Restated[1] liabilities 3% guarantee 31 December 2004 £m	Liabilities 4% guarantee 31 December 2005 £m	Restated[1] liabilities 4% guarantee 31 December 2004 £m
Individual	1,210	1,098	3,112	3,169
Group pensions	412	263	3,175	3,695
Total	**1,622**	**1,361**	**6,287**	**6,864**

1 Restated to reflect the move to the active liability basis under IFRS

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 £127 million (2004: £118 million). An additional provision of £77 million (2004: £27 million) in respect of investment return guarantees on group segregated fund business is held. It is estimated that the provision would increase by £293 million (2004: £234 million) if yields were to reduce by 1% pa and by £44 million (2004: £49 million) if equity markets were to decline by 10% from year end 2005 levels.

A2 FRS 27 disclosures (continued)

(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 £145 million (2004: £125 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 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 no 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 £84 million (2004: £79 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 £74 million (2004: £80 million) if yields were to increase by 1% per annum and by £39 million (2004: £40 million) if equity markets were to decline by 10% from year end 2005 levels.

Return of premium guarantee
In 2005 Hibernian Life has written two tranches of linked bonds with a return of premium guarantee after 5 or 6 years. The provision for these at the end of 2005 is £3 million. It is expected that the provision would increase by £4 million if equity markets were to decline by 10% from year end 2005 levels. We would not expect any significant impact on this provision as a result of interest movements.

(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, where 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. 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 2005, total liabilities for the Spanish business were £2 billion (2004: £2 billion) with a further reserve of £20 million (2004: £13 million) for guarantees. Total liabilities for the Italian business were £4 billion (2004: £4 billion), with a further provision of £55 million (2004: £49 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 (2004: £56 million) in Spain and £12 million (2004: £14 million) in Italy if interest rates fell by 1% from end 2005 values. Under this sensitivity test, the guarantee provision in Spain is calculated conservatively, assuming a long-term market interest rate of 1.68% and no lapses or premium discontinuances.

(d) 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.

Appendix B

Additional disclosures

The following additional disclosures have been extracted from the Group's 2005 Report and Accounts:

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Movements in insurance liabilities

(i) Movements in long-term business provisions

The long-term business provision is calculated separately for each of the Group's life operations. The provisions for overseas subsidiaries have generally been included on the basis of local regulatory requirements, modified where necessary to reflect the requirements of the Companies Acts.

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, whilst those allocated as part of the bonus declaration are included in the movements in the long-term business provision, as detailed below.

The following movements have occurred in the long-term business provisions during the year:

	2005 £m	2004 £m
Carrying amount at 1 January	**106,491**	**96,228**
Provisions in respect of new business	6,589	5,839
Expected change in existing business provisions	(2,703)	(3,164)
Variance between actual and expected experience	3,784	1,680
Impact of operating assumption changes	(1,034)	377
Impact of economic assumption changes	2,411	1,004
Other movements	340	227
Change in liability recognised as an expense	9,387	5,963
Portfolio transfers, acquisitions and disposals	(360)	924
Foreign exchange rate movements	(684)	289
Effect of adjusting to FRS 27 realistic basis	-	3,087
Other movements	(404)	-
Carrying amount at 31 December	**114,430**	**106,491**

(ii) Movements in general insurance and health claims provisions

Significant delays occur in the notification and settlement of claims and a substantial measure of experience and judgement is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty at the 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.

The following changes have occurred in the general insurance and health claims provisions during the year:

	2005 £m	2004 £m
Carrying amount at 1 January	**12,750**	**12,378**
Impact of changes in assumptions	(6)	(30)
Claim losses and expenses incurred in the current year	7,124	6,770
Decrease in estimated claim losses and expenses incurred in prior years	(372)	(234)
Incurred claims losses and expenses	6,746	6,506
Less:		
Payments made on claims incurred in the current year	(3,379)	(3,120)
Payments made on claims incurred in prior years	(3,407)	(3,244)
Recoveries on claim payments	263	233
Claims payments made in the year, net of recoveries	(6,523)	(6,131)
Other movements in the claims provisions	(9)	27
Changes in claims reserve recognised as an expense	214	402
Gross portfolio transfers, acquisitions and disposals	(153)	2
Foreign exchange rate movements	146	32
Other gross movements	8	(64)
Carrying amount at 31 December	**12,965**	**12,750**

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 and are referred to as participating contracts. They are not measured at fair value as there is currently no agreed definition of fair valuation for discretionary features under IFRS. In the absence of such a definition, it is not possible to provide a range of estimates within which a fair value is likely to fall. The IASB has deferred consideration of participating contracts to Phase II of its insurance contracts project.

For participating business, the discretionary participation feature is recognised separately from the guaranteed element and is classified as a liability, referred to as unallocated divisible surplus.

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.

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.

Movements in the year
The following movements have occurred in the year:

(i) Participating investment contracts

	2005 £m	2004 £m
Carrying amount at 1 January	**43,974**	**36,974**
Reserves in respect of new business	3,467	3,284
Expected change in existing business provisions	(1,720)	(1,340)
Variance between actual and expected experience	2,034	1,400
Impact of operating assumption changes	5	(18)
Impact of economic assumption changes	513	47
Other movements	(153)	73
Change in liability	4,146	3,446
Portfolio transfers and acquisitions	4	2,030
Foreign exchange rate movements	(856)	304
Effect of adjusting to FRS 27 realistic basis	-	1,220
Other movements	(10)	-
Carrying amount at 31 December	**47,258**	**43,974**

(ii) Non-participating investment contracts

	2005	2004
	£m	**£m**
Carrying amount at 1 January	**25,581**	**20,493**
Reserves in respect of new business	5,247	3,872
Expected change in existing business provisions	936	769
Variance between actual and expected experience	(1,732)	160
Impact of operating assumption changes	2	-
Impact of economic assumption changes	-	5
Other movements	93	78
Change in liability	4,546	4,884
Portfolio transfers and acquisitions	-	194
Foreign exchange rate movements	(76)	10
Carrying amount at 31 December	**30,051**	**25,581**

Loss development tables

The following table presents the development of claim payments and the estimated ultimate cost of claims for the accident years 2001 to 2005. The upper half of the table shows the cumulative amounts paid during successive years related to each accident year. For example, with respect to the accident year 2001, by the end of 2005 £5,648 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 £6,186 million was re-estimated to be £6,286 million at 31 December 2005. This increase from the original estimate is due to the combination of a number of factors, including claims being settled for larger amounts than originally estimated. The original estimates will also be increased or decreased, as more information becomes known about the individual claims and overall claim frequency and severity.

In the year of adoption of IFRS, only five years are required to be disclosed. This will be 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 claim 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 table below. However, in order to maintain strong reserves the Group transfers much of this release to current accident year (2005) 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 2005 is also due to an improvement in the estimated ultimate cost of claims.

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	Total £m
Net cumulative claim payments							
At end of accident year		(2,970)	(2,913)	(2,819)	(2,870)	(3,281)	
One year later		(4,624)	(4,369)	(4,158)	(4,378)		
Two years later		(5,088)	(4,779)	(4,565)			
Three years later		(5,436)	(5,064)				
Four years later		(5,648)					
Estimate of net cumulative claims							
At end of accident year		6,186	6,037	6,218	6,602	6,982	
One year later		6,333	6,038	6,093	6,266		
Two years later		6,321	5,997	6,037			
Three years later		6,329	5,973				
Four years later		6,286					
Estimate of cumulative claims		6,286	5,973	6,037	6,266	6,982	
Cumulative payments		(5,648)	(5,064)	(4,565)	(4,378)	(3,281)	
	2,417	638	909	1,472	1,888	3,701	**11,025**
Effect of discounting	(16)	(4)	(5)	(5)	(5)	(7)	**(42)**
Present value	2,401	634	904	1,467	1,883	3,694	**10,983**
Cumulative effect of foreign exchange movements	-	-	17	22	29	-	**68**
Present value recognised in the balance sheet	2,401	634	921	1,489	1,912	3,694	**11,051**

In the loss development table 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 the table. Disposals are dealt with by treating all outstanding and IBNR claims of the disposed of entity as “paid” at the date of disposal.

The table also includes information on asbestos and environmental pollution claims provisions from business written before 2001. The claims provisions, net of reinsurance, in respect of this business were £289 million (2004: £224 million). These net provisions were strengthened during the year by £83 million (2004: £71 million).

Sensitivity analysis and capital management

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 our capital more efficiently. Primarily we use Financial Condition Reporting (a medium term projection of the financial health of the business under a variety of economic and operating scenarios), and increasingly Individual Capital Assessment (ICA). However sensitivities to economic and operating experience are regularly produced on all of the Group's financial performance measurements as part of the Group's decision making and planning process, and to set the framework for identifying and quantifying the risks that each of its business units, and the Group as a whole are exposed to.

For example, under ICA, an estimate of how much capital is needed to mitigate the risk of insolvency from events occurring within a selected remote level of probability is measured. This high level risk appetite parameter is then used to calibrate a series of core stresses and scenario tests of both an economic and operating nature to be examined by each business unit. Business units satisfy themselves that the range and level of these tests is appropriate to their local risk profile, and supplement the core tests where necessary. Business units also perform an assessment of the operational risk; this assessment is subject to central review and challenge by Group to verify consistency across business units and to identify aggregate exposures. The businesses are then able to assess the capital requirements within this risk appetite framework. The Group uses both the results at a business unit level and aggregated results to assess the benefits of diversification of risk within the Group, and to assess capital requirements of the types of risk it is exposed to. These results enable the Group to assess whether its risk appetite is appropriate and whether mitigating action is required.

Life insurance and investment contracts
The nature of long-term business is such that a number of assumptions are made in compiling the 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.

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.

Some results of sensitivity testing for long-term business and general insurance and health business are set out below. For each sensitivity test the impact of a change in a single factor is shown, with other assumptions left unchanged.

Sensitivity Factor	Description of sensitivity factor applied
Interest rate & investment return	The impact of a change in market interest rates by ± 1% (e.g. if a current interest rate is 5%, the impact of an immediate change to 4% and 6%). The test allows consistently for similar changes to investment returns and movements in the market value of backing fixed interest securities.
Expenses	The impact of an increase in maintenance expenses 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%

The above sensitivity factors are applied using actuarial and statistical models, with the following pre-tax impacts on profit and shareholders' equity at 31 December 2005:

Long-term business – impact on profit before tax (£m)

	Interest rates +1%	Interest rates -1%	Expenses +10%	Assurance mortality +5%	Annuitant mortality -5%
Insurance participating	5	(35)	(5)	-	-
Insurance non-participating	60	(350)	(5)	(30)	(295)
Investment participating	10	(50)	-	-	-
Investment non-participating	-	-	-	-	-
Total	75	(435)	(10)	(30)	(295)

Sensitivity analysis and capital management (continued)

Long-term business – impact before tax on shareholders' equity (£m)

	Interest rates +1%	Interest rates -1%	Expenses +10%	Assurance mortality +5%	Annuitant mortality -5%
Insurance participating	(10)	(20)	(5)	-	-
Insurance non-participating	20	(305)	(5)	(30)	(295)
Investment participating	(10)	(25)	-	-	-
Investment non-participating	(5)	-	-	-	-
Total	(5)	(350)	(10)	(30)	(295)

The sensitivity to a reduction in market interest rates relates primarily to the effect of interest rate guarantees in the Netherlands, with smaller impacts in the UK and other countries. The different impacts of interest rate changes on shareholders' equity and profit arise from the classification of fixed interest securities as available for sale in some business units, for which movements in unrealised gains would be taken directly to shareholders' equity.

The mortality sensitivities relate primarily to the UK and Irish business units.

General insurance and health business – impact on profit before tax (£m)

	Interest rates +1%	Interest rates -1%	Expenses +10%	Gross loss ratios +5%
Gross and net of reinsurance	(275)	285	(115)	(305)

General insurance and health business – impact before tax on shareholders' equity (£m)

	Interest rates +1%	Interest rates -1%	Expenses +10%	Gross loss ratios +5%
Gross and net of reinsurance	(275)	285	(30)	(305)

The sensitivity to a 5% increase in gross loss ratios is the same for both net and gross of reinsurance because this increase does not result in any material excess of loss reinsurance limits being reached. 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.

Limitations of sensitivity analysis

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

The sensitivity analyses do not take into consideration that the 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.

Shareholder services

Scrip dividend
The Aviva Scrip Dividend Scheme (the "Scheme") provides shareholders with the option of receiving new ordinary shares instead of cash dividends. Shareholders who have not already joined the Scheme but wish to do so should contact Lloyds TSB Registrars at the address on page 91 and request a mandate form. The mandate form will need to be received by Lloyds TSB Registrars no later than 25 April 2006 in order to be effective for the 2005 final dividend.

Dividend payments direct to your bank 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. For overseas shareholders, Transcontinental Account Payment Service (TAPS) is available, which allows shareholders in many countries to have dividends credited direct to their bank accounts in local currencies. To obtain further details and a mandate form please contact the Company's registrar at the address on page 91.

For those private shareholders who currently receive dividends paid directly into their bank or building society account, it is now the Company's practice to issue one consolidated tax voucher each year instead of a voucher with each dividend payment. Shareholders who do not wish to receive this service and wish to continue to receive tax vouchers with each dividend may elect to do so by contacting the Company's registrar at the address on page 91.

E-Communications
Shareholders can receive communications electronically by logging onto www.aviva.com/shareholders and registering for shareholder e-communications. Shareholders will be able to access details of their Aviva shareholding online, elect to receive the Report and Accounts and other shareholder documentation electronically, update their address details online and elect to have their dividends paid directly into their bank or building society account.

Share price
Shareholders can access the current share price of Aviva ordinary shares at www.aviva.com or alternatively can call 0906 843 2197*.

Share dealing facilities
The Company has arranged the following services that can be used to buy or sell Aviva shares. Alternatively, if shareholders hold a share certificate they can also use any bank, building society or stockbroker offering share dealing facilities. If shareholders are in any doubt about buying or selling their shares they should seek professional financial advice.

Share dealing facilities for UK shareholders/share account members
To buy and sell shares over the telephone or internet shareholders can contact Shareview Dealing, arranged through Lloyds TSB Registrars. For telephone purchases or sales call 0870 850 0852** between 8.00am and 4.30pm, Monday to Friday and for internet purchases or sales log on to www.shareview.co.uk/dealing
To buy or sell shares over the telephone, shareholders can contact Barclays Stockbrokers on 0870 549 3002** (if they hold a share certificate) or 0870 549 3001** (if they hold a share account statement).

NatWest Stockbrokers provide a Share Dealing Service at certain branches for Aviva Share Account holders only. For more information contact NatWest Stockbrokers on 0845 122 0689.

NatWest Stockbrokers Limited is operated by a joint venture between The Royal Bank of Scotland Group plc and The Toronto-Dominion Bank. Registered Number: 1959479 England. Registered Office: Waterhouse Square, 138-142 Holborn, London EC1N 2TH. Member of the London Stock Exchange and OFEX. Authorised and regulated by the Financial Services Authority.

Share dealing facilities 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 documentation in order to use this service and details will be provided on registration. Please note that regulations prevent this service being offered to US residents. Settlement proceeds will be sent to either a UK sterling bank account or by sterling cheque.

Amalgamating your shares
If shareholders receive more than one copy of any shareholder communication, it may be because Aviva has more than one record of shareholdings in their name. To ensure that shareholders do not receive duplicate mailings in future, they can have all their shares amalgamated into one account by contacting Lloyds TSB Registrars at the address on page 91.

ShareGift
The Orr Mackintosh Foundation operates a purely voluntary charity share donation scheme for shareholders who wish to dispose of small numbers of shares whose value 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.

Shareholders with disabilities
Alternative versions of this publication (including braille, large print and audio-tape) are available on request from the Company's registrar.

*Calls are currently charged at 60 pence per minute at all times. The average time to access the share price is approximately one minute.
** All 0870 numbers are charged at national rates, and are only available if you are calling from the UK.
For your protection and ours, to check instructions and maintain high quality service standards, we may record and monitor calls made to or from Barclay's Stockbrokers. New Business Development hours are 8.00am – 6.00pm Monday - Friday, excluding Bank Holidays.

Group financial calendar for 2006

Online publication of Aviva plc Annual Report and Accounts 2005	29 March
Annual General Meeting	10 May
Announcement of first quarter long-term savings new business figures	27 April
Announcement of unaudited six months' interim results	9 August
Announcement of third quarter long-term savings new business figures	26 October
Ordinary Shares	
Ex-dividend date	8 March
Record date	10 March
Scrip dividend price available	15 March
Last date for scrip dividend mandate forms to be received in order to be effective for 2005 final dividend	25 April
Dividend payment date	17 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 various addresses that shareholders may find useful if they have a query in respect of their shareholding. Please quote Aviva plc, as well as the name and address in which the shares are held, in all correspondence.

General shareholding queries	Lloyds TSB Registrars	The Causeway Worthing West Sussex BN99 6DA	0870 600 3952
Corporate and single company Peps	Barclays Stockbrokers Limited	Tay House 300 Bath Street Glasgow G2 4LH	0870 514 3263
Individual Savings Accounts (ISAs)	Lloyds TSB Registrars (ISA Manager)	The Causeway Worthing West Sussex BN99 6DA	0870 242 4244

Internet sites

Aviva owns various internet sites, most of which interlink with each other.

Aviva Group	www.aviva.com
UK long-term savings and general insurance	www.norwichunion.com
Fund management	www.morleyfm.com
Aviva worldwide internet sites	www.aviva.com/websites

Corporate social responsibility (CSR)

Aviva's CSR policy and programme continues to take firmer roots within the business and to generate support with staff, shareholders and customers. For Aviva, CSR is defined as embracing corporate performance in respect of standards of business conduct, human rights, the environment and health and safety, as well as the promotion of good and fair relations with employees, customers, suppliers and the community. Trust and integrity are integral to the wellbeing of a financial services company and therefore the Group sees CSR as presenting a vital business opportunity. Aviva's CSR performance is also highly ranked by growing numbers of research agencies and investment houses. More details can be found on our website at www.aviva.com/csr

Aviva plc

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