News release

AVIVA

28 February 2008

AVIVA PLC
PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2007

- **Excellent long-term savings result offsets general insurance adverse weather impact**
  - EEV operating profit up 1% to £3,286m (2006: £3,251m)

- **Lower IFRS return reflects impact of adverse weather and reduced investment gains following higher than expected gains in 2006**
  - IFRS operating profit down 15% to £2,228m (2006: £2,609m); IFRS earnings per share 49.2p (2006: 87.5p)

- **Strong long-term savings sales and profits across all regions**
  - Life EEV operating profit up 35% to £2,753m (2006: £2,033m)
  - Long-term savings new business sales up 25% to £38.6bn; increased margin of 3.7% (2006: 3.5%)

- **General insurance profits lower in a challenging year**
  - General insurance and health operating profit down 39% to £1,033m (2006: £1,686m)
  - Combined operating ratio (COR) of 100% (2006: 94%); 95% before impact of £475m UK exceptional weather losses

- **Healthy balance sheet**
  - Net asset value per share of 772p, up 13%
  - Shareholder exposure to equity market volatility reduced by £3.4 billion sale of equities in 2007
  - Conservative balance sheet not materially affected by global credit concerns

- **Dividend increase of 10% to 33.00p**
  - Demonstrates confidence in delivery against stated targets

- **Delivering on 'One Aviva, twice the value' vision**
  - New group target to double IFRS total earnings per share by 2012 at the latest, to drive further dividend growth
  - New globally integrated asset management business, 'Aviva Investors', to transform investment model and increase third party business, notably through cross-border sales

Andrew Moss, group chief executive, commented:
"2007 brought change at Aviva as we sharpened our focus on growth and efficiency in line with our 'One Aviva, twice the value' vision. The advantage of our diverse business model is demonstrated by robust financial results which show our fast-growing life business offsetting the exceptional losses caused by the worst UK floods for 60 years.

"In volatile investment markets our conservative approach to investment risk has served us well. In the second half of 2007 we reduced shareholder exposure to equity market volatility by selling £3.4 billion of equities. Net asset value per share is up 13%.

"Although the external environment is uncertain, customers need the products we provide and our markets remain fundamentally attractive. We have a strong balance sheet and a clear strategy and we believe now is the time to set ourselves a further target in line with our vision of 'One Aviva, twice the value'. In addition to our existing growth and efficiency targets, we aim to double IFRS total earnings per share by 2012, at the latest, and drive further dividend growth."

Worldwide highlights	**2007**	**2006**	**Local currency growth**
Operating profit – EEV basis*†	£3,286m	£3,251m	1%
Profit after tax – EEV basis	£2,134m	£2,879m	(26)%
Operating profit – IFRS basis** †	£2,228m	£2,609m	(15)%
Profit after tax – IFRS basis	£1,505m	£2,389m	(37)%
Earnings per share (total IFRS return)	49.2p	87.5p	(44)%
Total dividend per share	33.00p	30.00p	10%
Net asset value per share	772p	683p	13%
Equity shareholders' funds***	£20,253m	£17,531m	16%
Return on equity shareholders' funds	11.3%	13.1%	-

All operating profit is from continuing operations and all growth rates are quoted in local currency.
* 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.
† 2006 comparative restated for the change in IFRS operating profit definition announced 22 November 2007 (impact on EEV for FSCS levies was £6 million).

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

Continuing operations	2007 £m	2006 at 2007 exchange rates £m	Restated 2006 £m
Life EEV operating return			
United Kingdom	**864**	**744**	**744**
France	537	405	402
Ireland	77	(40)	(40)
Italy	137	111	110
Netherlands (including Belgium and Germany)	352	331	329
Poland	206	168	162
Spain	239	223	221
Other Europe	(5)	(13)	(13)
Europe	**1,543**	**1,185**	**1,171**
North America	**255**	**26**	**32**
Asia	43	38	37
Australia	48	51	49
Asia Pacific	**91**	**89**	**86**
	2,753	**2,044**	**2,033**
Fund management [1]			
United Kingdom [2]	**41**	**38**	**38**
France	10	10	10
Netherlands	17	33	33
Other Europe	4	3	3
Europe	**31**	**46**	**46**
North America	**3**	**3**	**3**
Asia Pacific	**15**	**9**	**9**
	90	**96**	**96**
General insurance and health			
United Kingdom[3]	**433**	**1,118**	**1,118**
France	70	63	63
Ireland	162	173	172
Netherlands	169	140	139
Other Europe	41	44	43
Europe	**442**	**420**	**417**
North America	**154**	**145**	**148**
Asia Pacific	**4**	**3**	**3**
	1,033	**1,686**	**1,686**
Other operations and regional costs [4]	(70)	(23)	(23)
Regional operating profit before tax	**3,806**	**3,803**	**3,792**
Corporate centre	(157)	(160)	(160)
Group debt costs and other interest	(363)	(381)	(381)
Group operating profit before tax	**3,286**	**3,262**	**3,251**

* 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 consistent with CFO Forum EEV principles.
2 Includes retail investment business trading as Norwich Union, our collective investment joint venture business with RBSG and both the UK and international businesses of Morley.
3 UK general insurance includes the results of the Group's reinsurance operations
4 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 2007 was £2,228 million (2006 restated: £2,609 million; £2,615 million restated at constant exchange rates).

GROUP CHIEF EXECUTIVE'S STATEMENT

Overview
This is my first preliminary results announcement since taking up the role of group chief executive in July 2007. In a year of considerable change for Aviva, we have delivered a robust financial result in a challenging year, with EEV operating profit of £3,286 million (2006 restated: £3,251 million). Statutory operating profit on an IFRS basis was £2,228 million (2006 restated: £2,609 million), particularly reflecting the impact of exceptional adverse weather events on our UK general insurance business. Our dividend increase of 10% is consistent with our progressive dividend policy and reflects our confidence in the future prospects for our business.

The quality of the 2007 result confirms the operational resilience of our composite business model, which combines international long-term savings, general insurance and asset management operations. The strong growth across all regions in our long-term savings business has offset the £475 million of losses caused by exceptional adverse weather in the UK. This is backed by a strong and well-diversified balance sheet.

We delivered an excellent result in our long-term saving business, achieving a 25% increase in long-term savings sales while improving our new business margins. New business profits grew by 32% to £1,174 million and our gross margin on sales rose to 3.7% from 3.5% in 2006. Growth outstripped our stated targets in Europe and Asia Pacific, and we are on track to double the size of our US business within three years of the acquisition of AmerUs. In the UK, we have grown in line with the market and increased margins, while reducing cost overruns and improving service.

In contrast, 2007 was a challenging year for our general insurance business and we experienced a combination of exceptional weather losses, higher claims and competitive conditions in many of our markets. As a result, our overall general insurance results reduced to £1,033 million (2006 restated: £1,686 million). We took action to improve our position as early as 2006 by increasing motor rates in the UK and we have since taken further steps on both rating and costs during 2007. In light of this, I am confident that the outlook is positive and that we will meet or beat our 98% combined operating ratio (COR) target while maintaining our strong balance sheet to back this business. We have also reviewed our reinsurance retention levels to ensure that they remain appropriate in light of current economic and environmental conditions.

Our general insurance result continued to benefit from profits emerging on the settlement of prior year claims reflecting our ongoing conservative approach to claims reserving and our focus on claims management initiatives. At the half year we reported releases of £330 million. The total full year releases of £832 million net of reinsurance (2006: £598 million) include £440 million in respect of the UK, £310 million for Europe, £52 million for North America and £30 million for Aviva Re. We continue to manage our reserves prudently to avoid future adverse claims experience and so emerging prior year profits will continue to be a feature of our general insurance results.

Our conservative approach to managing investment risk has served us well. We have today published new information to provide reassurance to shareholders on the credit quality of our assets. We continue to manage our position actively and in the autumn we reduced our exposure to equity market volatility by selling £3.4 billion of equities in our general insurance shareholder funds and UK pension scheme; this was done at a time when equity markets were considerably higher than they are today. We invested the proceeds into high grade investment bonds and also increased our downside protection through derivatives.

'One Aviva, twice the value'
In taking up my new role I appointed a new and energetic executive team which has a proven track record of delivery. We have a clear vision: 'One Aviva, twice the value.' It signals a period of transformation and a clear focus on growth and efficiency. We will measure the value created by reference to an additional group target: to double IFRS total earnings per share by 2012 at the latest, thus driving further dividend growth for our shareholders. This target aligns closely with our other targets and will be achieved by delivering strong, profitable growth across our portfolio, particularly in our life business, by achieving our £350 million cost and efficiency savings and by continuing to manage capital more effectively.

We have a new organisational structure to reflect our scale and international reach, with four regions: UK, Europe, North America and Asia-Pacific. Each regional CEO has taken a fresh look at the strategy for the region and is implementing plans to deliver our ambitious growth targets, with a clear focus on profitability. Our priority is to realise the full potential of our existing businesses. We will also explore new markets and growth opportunities where they can be financed from our internal resources. For example, we entered into multiple new bancassurance partnerships in 2007, bringing access to over 50 million potential new customers, and we will see the full benefit flowing through to our 2008 results.

Review of 2007 results
UK
- Total long-term savings sales up 6% to £14,406 million
- Life EEV operating profit up 16% to £864 million
- Life new business gross margin up to 3.1%
- UK general insurance result down 61% to £433 million, due primarily to exceptional adverse weather

UK Life: We are transforming our UK Life business and growing its profitability. Our objective is to grow new business sales at least as fast as the market, while maintaining margins, and to drive value from our back book. We wish to maintain a leadership position in our home market and generate value for customers and shareholders from our focus on costs, customer retention and service. In 2007, this strategy delivered record sales and profits, with lower costs and improved service. We also negotiated an innovative arrangement with Swiss Re to outsource the administration of almost three million policies, thereby enabling us to rationalise our legacy systems and accelerate improvements in customer service.

We remain positive in our outlook for our performance in the UK in 2008, given our broad product range and strong distribution. We believe that this will give us some resilience in uncertain markets, but expect market growth to be slightly lower than in 2007.

Earlier this month we announced a £2.3 billion special bonus distribution from the inherited estate of two of our with-profits funds. We have led the industry on this issue in a new regulatory environment. This distribution of around half of the inherited estate was made possible by the funds' financial strength and performance, and by the changes made to our investment strategy. 90 per cent of the value will be paid to qualifying policyholders and 10 per cent to shareholders.

In addition, our negotiations with the Policyholder Advocate regarding the potential reattribution of the remainder of the inherited estate of £2.6 billion continue. We are keen to bring this to a conclusion soon so that we can put an offer to policyholders as early as possible so that they can decide whether they wish to accept it or not. Further delay is leading to significant numbers of policyholders becoming ineligible in any reattribution offer. We can only complete this process if we are able to negotiate an arrangement that is fair to policyholders and shareholders.

UK General Insurance: Our UK General Insurance business had a difficult year. We saw competitive conditions in most lines of business and the worst floods for 60 years. Our priority has been to provide first-class service to our 45,000 home insurance customers and 6,000 business customers who made claims during these difficult times and I am pleased to report that we have made interim or full payments in 99% of cases.

We have taken action to address underlying general insurance profitability through previously announced rate increases in motor, homeowner and commercial lines. In addition, we have embarked on a transformational programme for our UK general insurance business which will drive our expense ratio down. Our strategy is to focus on insurance fundamentals to maximise returns through the insurance cycle. This means disciplined underwriting and pricing, controlling the impact of claims inflation and providing excellent customer service.

In 2007, we benefited from prior year reserve releases of £430 million. This includes £215 million in respect of non-recurring bodily injury experience, additional reinsurance recoveries and the benefit of claims management initiatives. We have also reviewed our reinsurance programme and have put in place additional cover to protect us against multiple weather events.

Europe

- Total long-term savings sales up 19% to £16,486 million
- Life EEV operating profit up 30% to £1,543 million
- Life new business gross margin up to 4.0%
- COR of 89%

In Europe, we delivered growth well in excess of our medium-term target to grow new business sales by an average of 10% a year to 2010, while increasing new business profit at least as fast. In our substantial businesses of France, Italy and Spain we outperformed the market, demonstrating our distribution strength and competitive product offerings.

We will continue to seize the unique growth opportunities this region presents. We draw strength from our combination of mature businesses in northern Europe and the faster growing markets of central and eastern Europe, where we have already established strong businesses. Through our regional approach we plan to leverage our scale across our markets and will continue to grow our distribution reach and access to customers, particularly through our significant bancassurance capability.

Our composite model is reflected in the region with our general insurance business supporting the development of our long-term savings business. At 89%, the regional COR was well ahead of our group 'meet or beat' target. In 2007, we benefited from prior year reserve releases of £310 million, including £130 million for Ireland, where new initiatives reduced the cost of bodily injury claims, and £173 million for the Netherlands, which includes releases from disability provisions and better than expected claims settlement experience.

North America

- Total long-term savings sales up 39% to £3,602 million (on a pro forma basis)
- Life EEV operating profit up 29% to £255 million (on a pro forma basis)
- Life new business gross margin up to 4.3%
- COR of 98%

In the US, we delivered record sales and improved margins. Aviva's financial backing and brand strength, combined with the strong fundamentals of the AmerUs business we acquired at the end of 2006, has fuelled our growth. We completed the integration of AmerUs and will exceed the targeted $45 million cost savings target (£23 million). As anticipated, our US business was upgraded by AM Best and this, together with the increasing power of the Aviva brand, is already bringing us access to new distribution.

Our US business offers resilience in a recessionary environment as our products primarily provide guaranteed capital returns for customers seeking to invest their accumulated funds to provide an income during retirement. We remain optimistic about our growth prospects in the US and remain on track to double new business sales within three years of the acquisition of AmerUs, while maintaining margins.

The Canadian general insurance business performed well. In 2007, we benefited from prior year reserve releases of £52 million in respect of positive experience on bodily injury personal motor claims and mandatory motor industry pools.

Asia-Pacific

- Total long-term savings sales up 60% to £4,089 million
- Life EEV operating profit up 6% to £91 million
- Life new business gross margin remaining strong at 4.3%

In Asia-Pacific, we are growing fast and creating value. We have operations in eight markets and the region is becoming an increasingly important part of our business, now accounting for 11% of our new long-term savings business.

We entered two new markets in 2007: Taiwan and Malaysia. In January 2008 we also announced our plans to enter the South Korean long-term savings market. In each case, Aviva was selected as a partner of choice by highly reputable banking partners. We are making strong progress in our more established markets, growing by over 200% in China during the year and building our leading bancassurance capability in India, where we now have over 35 distribution agreements.

We continue to explore new markets to increase our footprint in this fast-growing region. We are committed to our medium-term target to grow long-term savings new business sales by an average of at least 20% a year to 2010.

Asset management

- IFRS operating profit consistent at £155m
- Funds under management by Aviva fund managers at 31.12.07 up 10% to £316 billion

In September 2007, I appointed Alain Dromer with a brief to harness the power and scale of our investment operations by creating a globally integrated asset management business.

We are announcing today our plans for 'Aviva Investors'. This is a clear example of our 'One Aviva, twice the value' strategy in action. Our fund managers manage £316 billion across a broad range of asset classes. We plan to grow significantly and accelerate the profit contribution of asset management to group profits. We will do this by increasing the proportion of third party business, notably through cross border sales, and focusing on the fastest growing markets and client segments. Our strategy will mean transforming our investment model to deliver greater specialism and focus. This will mean offering the power and scale of our combined resource through one global investment division as well as generating out-performance through small, autonomous teams engaged in active portfolio management.

Summary and outlook

The fundamentals of our business are strong. Our composite model brings together our long-term savings business with its compelling demographic drivers, a global asset management capability, with significant growth potential, and our general insurance business providing valuable protection for customers and important capital generation for the group.

Although the external environment is uncertain, customers need the products we provide and we draw strength and resilience from our composite model, broad product portfolio and geographic spread. Our business is backed by a strong and well-diversified balance sheet, which has not been materially affected by global credit concerns. We remain confident about the growth prospects for our business and are committed to our growth and efficiency targets. Our new target, to double IFRS total earnings per share by 2012 at the latest, will align delivery behind our 'One Aviva, twice the value' vision and drive further dividend growth and value for our shareholders.

Andrew Moss
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 0025 Quote: Aviva, Andrew Moss.

ANALYSTS: A presentation to investors and analysts will take place at 9.30am (BST) at the London Stock Exchange, 10 Paternoster Square, London, EC4M 7LS. 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 0839. A replay facility will be available until 11 March 2008 on +44 (0)20 7806 1970. The pass code is 8404414# for the whole presentation including the question & answer session or 4665957# for the question & answer session only.

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

The Aviva media centre at www.aviva.com/media includes images, company information and news release archive. Photographs are available from the Aviva media centre at www.aviva.com/media.

Notes to editors

- Aviva is a leading provider of life and pensions to Europe with substantial positions in other markets around the world, making it the world's fifth largest insurance group based on gross worldwide premiums at 31 December 2006.
- Aviva's principal business activities are long-term savings, fund management and general insurance, with worldwide total sales* of £49.2 billion and total funds under management of £364 billion at 31 December 2007.
  * Based on life and pensions PVNBP, total investment sales and general insurance and health net written premiums including share of associates' premiums.
- Income statements and cash flows of foreign entities are translated at average exchange rates while their balance sheets are translated at the closing exchange rates on 31 December 2007.
- 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 in local currency.
- This preliminary announcement may include oral and written "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. These forward-looking statements sometimes use words such as 'anticipate', 'target', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe' or other words of similar meaning. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which may be beyond Aviva's control, including, among other things, UK domestic and global economic and 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, the possible effects of inflation or deflation, the timing impact and other uncertainties relating to acquisitions by the Aviva Group and relating to other future acquisitions or combinations within relevant industries, the impact of tax and other legislation and regulations in the jurisdictions in which Aviva and its affiliates operate, as well as the other risks and uncertainties set forth in our 2006 Annual Report to Shareholders. 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, and persons receiving this announcement should not place undue reliance on forward-looking statements.
  Aviva undertakes no obligation to update the forward-looking statements made in this announcement or any other forward-looking statements we may make. Forward-looking statements made in this announcement are current only as of the date on which such statements are made.
  .
- **Following a number of requests from analysts who will be participating in an investor event being held by another company, the Q1 trading update has been rescheduled to Friday, 25 April 2008, instead of 23 April 2008.**

  This amendment has resulted in a slightly altered timetable for 25 April 2008, detailed as follows:

07:00	Release to Stock Exchange
08:45-09:30	Media Conference call
09:45-10:30	Analyst Conference call

  In line with the new EU transparency reporting standards, Aviva plc will be amending the format of the quarterly update. The new format will provide new business information and will also provide an update on our other businesses. We will provide detailed margin disclosures at the interim results announcement and year end results announcement.

Contents

	Page
Operating and financial review	1
European Embedded Value (EEV) basis	20
Summarised consolidated income statement – EEV basis	21
Earnings per share – EEV basis	21
Consolidated statement of recognised income and expense – EEV basis	22
Reconciliation of movements in consolidated shareholders' equity – EEV basis	22
Summarised consolidated balance sheet – EEV basis	23
Segmentation of summarised consolidated balance sheet – EEV basis	24
Basis of preparation – EEV basis	25
Components of life EEV return	26
New business contribution	27
Geographical analysis of the components of life EEV operating return	29
Analysis of movement in life and related businesses embedded value	31
Segmental analysis of life and related businesses embedded value	32
Time value of options and guarantees	33
Analysis of service companies and fund management businesses within embedded value	33
Geographical analysis of fund management operating profit	34
Analysis of other operations and regional costs	34
Summary of minority interest in life and related businesses EEV results	35
Principal economic assumptions – deterministic calculations	36
Principal economic assumptions – stochastic calculations	37
Principal economic assumptions – other assumptions	38
Sensitivity analysis – economic assumptions	39
Sensitivity analysis – non-economic assumptions	41
IFRS basis	42
Summarised consolidated income statement – IFRS basis	43
Pro forma reconciliation of Group operating profit to profit before tax – IFRS basis	44
Earnings per share – IFRS basis	44
Consolidated statement of recognised income and expense – IFRS basis	45
Reconciliation of movements in consolidated shareholders' equity – IFRS basis	45
Summarised consolidated balance sheet – IFRS basis	46
Summarised consolidated cash flow statement – IFRS basis	47
Basis of preparation – IFRS basis	48
Exchange rates	49
Acquisitions	49
Profit on the disposal of subsidiaries and associates	52
Integration and restructuring costs	53
Operations classified as held for sale	53
Geographical analysis of long-term business IFRS operating profit	53
Geographical analysis of fund management operating profit	54
Geographical analysis of general insurance and health	54
Analysis of other operations' operating profit	57
Corporate centre	57
Group debt costs and other interest	58
Tax	58
Earnings per share	59
Dividends and appropriations	60
Segmental information	61
Pension schemes	68
Special bonus declared by UK Life business	70
Appendix A1 – Group capital structure	71
Appendix A2 – FRS 27 disclosures	79
Appendix B – Additional Report & Accounts disclosures	87
Appendix C – Additional Disclosures	95
Appendix D – Analysis of Asset disclosure	103

OPERATING AND FINANCIAL REVIEW

1. Group operating profit before tax

The Group delivered a robust operating profit before tax, including life EEV operating return at £3,286 million (2006 restated: £3,251 million) with strong results in the life segment offset by lower results in the general insurance segment as a result of adverse effects from weather and an increase in competition in the current year. On an IFRS basis, worldwide operating profit before tax decreased by 15% to £2,228 million (2006 restated: £2,609 million) due to the impact of adverse weather.

	EEV basis		IFRS basis	
		Restated*		Restated*
	2007 £m	2006 £m	2007 £m	2006 £m
Life EEV operating return / IFRS long-term business profit	2,753	2,033	1,634	1,334
Fund management	90	96	155	155
General insurance and health	1,033	1,686	1,033	1,686
Other:				
Non-insurance operations	(70)	(23)	(74)	(25)
Corporate Centre	(157)	(160)	(157)	(160)
Group debt costs and other interest	(363)	(381)	(363)	(381)
Operating profit before tax	**3,286**	**3,251**	**2,228**	**2,609**
Profit before tax attributable to shareholders' profits	2,937	4,165	1,842	2,977
Equity shareholders' funds	20,253	17,531	12,849	11,176

* 2006 comparative restated for the change in IFRS operating profit definition (impact on EEV for FSCS levies was £6 million).

2. Long-term savings

Our worldwide long-term new business sales grew strongly in 2007, with total long-term savings new business sales up 25% to £38.6 billion (2006: £30.8 billion). The overall increase reflects growth in life and pension sales of 22% to £31.6 billion (2006: £25.9 billion), and strong investment sales, up 41% to £7.0 billion (2006: £4.9 billion).

	2007			Local currency growth		
Long-term savings sales	Life and pensions £m	Retail investments £m	Total £m	Life and pensions %	Retail investments %	Total %
United Kingdom	11,655	2,751	14,406	5%	12%	6%
Europe	14,914	1,572	16,486	15%	74%	19%
North America	3,602	-	3,602	343%	-	343%
Asia Pacific	1,429	2,660	4,089	49%	67%	60%
Total new business sales on a present value of new business premium (PVNBP) basis	**31,600**	**6,983**	**38,583**	**22%**	**41%**	**25%**

United Kingdom

Our UK business had a strong 2007 despite tougher market conditions in the second half of the year. Total long-term sales increased by 6% to £14,406 million (2006: £13,601 million) with improvements across all distribution channels. Within this total, life and pensions new business sales grew by 5% to £11,655 million (2006: £11,146 million), with strong growth in individual annuities and bond sales. Investment sales were up by 12% to £2,751 million (2006: £2,455 million) despite the decline in demand for UK commercial property funds in the second half of the year. Our share of sales through the bancassurance partnership with the Royal Bank of Scotland Group (RBSG) was up by 36% to £1,587 million (2006: £1,169 million), and double the level of sales achieved in 2005. This performance was underpinned by particularly strong sales of its bond and collective investments propositions and an increase in active sales advisers to the 2007 target of 1,000. Our 2007 market share has declined to 10.6% (2006: 10.8% following restatement of sales by competitors). We retained our top-three position for each of our four key markets of annuities, savings, protection and pensions.

Norwich Union continues to leverage its market leading brand, broad product range and strong multi-distribution capability to deliver enhanced shareholder value. We've focused on improving our customers' experience, and at the same time improved our efficiency. We've grown sales and improved brand value through joint advertising with Norwich Union Insurance and continued to expand our distribution footprint. We've launched two simplified products through our distribution partnership with the Post Office and recently announced the launch of our "SIPP-lite" product to enhance our pensions product range.

We remain committed to delivering improvements in efficiency and service levels, addressing complex legacy systems and developing simpler customer propositions making us easy to do business with. In March 2007, we announced a partnership with Swiss Re to outsource the administration of almost three million policies, enabling us to reduce our 550 product systems to 220. To support this we successfully transferred 1,000 employees to Swiss Re in October. Policy migration is now underway with the first phase due for completion in March 2008, and all policies migrated by early 2009. This initiative combined with other simplification activity has already allowed us to decommission over 100 systems.

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

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

Europe

Total sales in Aviva Europe increased 19% to £16,486 million (2006: £13,731 million). Within this, life and pension sales grew 15% to £14,914 million (2006: £12,840 million), reflecting the success of our multi-distribution strategy, broad product offerings and our diversified portfolio. Investment sales were up 74% to £1,572 million (2006: £891 million) driven by strong inflows in the Netherlands and Poland.

In the Netherlands, Delta Lloyd's life and pension sales were up 25%, boosted by a £540 million group pension contract. Overall life and pension sales in Ireland grew by 35% with growth in both the bancassurance and broker channels being supported by new product developments and expansion of the fund range. In France, product innovation, including the modernisation of the AFER product and successful marketing campaigns, helped sales grow by 2% in a market which declined overall in 2007 due to political and equity market uncertainty.

Life sales in Spain continued to show strong growth, up 15%, reflecting the highly successful launch of the tax efficient PIAS[1] product and the efficient transfer of a portfolio of pension policies of £178 million into the new joint venture with Cajamurcia. In Italy, sales grew by 5%, contrasting with the Italian market which declined during 2007[2]. This favourable performance was generated by additional marketing campaigns and the continued development of relationships with our bank partners.

In Poland, strong sales growth of 53% resulted from the development of our distribution platform combined with a strong equity market performance and the launch of umbrella funds at the end of 2006. Life and pension sales in our other central and eastern European businesses increased by 39%, including strong sales of savings products in Hungary and Turkey. In November the merger of Aviva Turkey's life and pensions business with AK Emeklilik was completed, which will create a strong foundation for future growth.

North America

Sales in our US life business were up 39% on a pro forma[3] basis to £3,602 million (2006: £884 million), representing growth across all product lines. On a pro forma[3] basis sales of annuities increased 47%, life sales grew by 9% and funding agreement sales by 42%. Funding agreement sales, an integral part of our product portfolio, are large corporate transactions and consequently vary quarter on quarter.

We continue to be optimistic in our outlook for growth in 2008 and remain on track to double the size of our business within three years of the acquisition of the former AmerUs Group which completed in late 2006.

Asia Pacific

Total long-term savings sales for the year increased by 60% to £4,089 million (2006: £2,546 million), including growth of 49% in life and pension sales to £1,429 million (2006: £982 million). This was driven primarily by significantly higher investment sales across the region through Navigator (our wrap administration platform).

In Australia, total sales grew by 46% following strategic investment in key independent financial adviser groups and favourable changes to superannuation legislation. Within this total, life and pension sales increased 44% as a result of a £64 million one-off transfer of group pension business, growth in protection business and a strongly performing retail investment sector.

Sales for the rest of Asia Pacific continued to grow as a result of our expanding distribution and broadening geographical presence. Sales in Singapore grew through our strong relationships with key brokers and those in Hong Kong through the continued good performance of our partnership with the banking group DBS. In China we have increased our presence in the country to eight provinces and are now ranked second among foreign insurers, and in India, sales have increased through bancassurance partnerships, ongoing expansion of the direct sales force and the addition of new branches in the year.

During 2007 we added two new businesses to our portfolio. In July 2007 we entered the Malaysian market through the acquisition of a 49% stake in two of CIMB Group's subsidiaries and entered into exclusive bancassurance agreements with CIMB Bank. In December 2007 we received approval from Taiwan's regulator to set up our life insurance joint venture, First Aviva, with First Financial Holdings Company (FFHC), in which we have a 49% shareholding. First Aviva commenced operations on 2 January 2008.

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[1] PIAS are newly introduced savings contracts with tax benefits if they are in force for ten years and if an annuity is purchased at maturity.

[2] ANIA quotes market decline of 5.5%, based on new business single premium plus regular premiums, at the end of November 2007 compared to the first 11 months of 2006.

[3] Pro forma increases are based upon the combined sales for the former Aviva business based in Boston and the former AmerUs Group for the 2006 year and are stated on a local currency rate basis.

More recently, in January 2008, we announced our intention to form a partnership with Woori Finance Holdings Company Ltd to enter the South Korean life insurance market by acquiring a stake in LIG Insurance Co Ltd. This is expected to take place in the first half of 2008 subject to regulatory approval.

We now have operations in nine Asia Pacific markets. Our businesses are at different stages of development, and in tandem with the economic outlook for Asia which predicts growth rates of between 4.1% in Taiwan to 8.6% in China for the next five years, our outlook is very positive. We have the opportunity to actively grow our existing businesses in the region, in particular in the high growth markets of India and China. At the same time, we are assessing the potential of other markets in the region.

3. Life EEV operating return

		2007 £m	2006 £m
New business contribution (after the effect of required capital)		912	683
Profit from existing business	– expected return	1,266	1,011
	– experience variances	(16)	(50)
	– operating assumption changes	114	44
Expected return on shareholders' net worth		477	345
Life EEV operating return before tax		**2,753**	**2,033**
Analysed by:			
United Kingdom		*864*	*744*
Europe		*1,543*	*1,171*
North America		*255*	*32*
Asia Pacific		*91*	*86*

Worldwide life EEV operating return before tax was 35% higher at £2,753 million (2006: £2,033 million) due to increased contributions from both new and existing business. New business contribution after the effect of required capital was 33% higher at £912 million (2006: £683 million) with the group's new business margin after the effect of required capital improving to 2.9% (2006: 2.6%).

	2007 £m	2006 £m
New business value post cost of capital	912	683
Persistency experience variances	5	(67)
Persistency assumption changes	3	(329)
Net flows after persistency	**920**	**287**
Other experience variances	(21)	17
Other operating assumption changes	111	373
Net flows after all operating experience and variances	**1,010**	**677**

After adjusting for small favourable persistency experience and assumption changes of £8 million (2006: adverse £396 million) we have generated strong net flows into our life and pensions book. Other adverse experience variances of £21million (2006 favourable: £17 million) were offset by positive Other operating assumption changes of £111 million (2006 favourable: £373 million).

The expected returns on existing business and shareholders' net worth increased to £1,743 million (2006: £1,356 million) reflecting the higher start of year embedded values and higher economic assumptions.

	Present value of new business premiums		New business contribution[1]		New business margin[1, 2]		New business contribution[3]		New business margin[2,3]	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 %	2006 %	2007 £m	2006 £m	2007 %	2006 %
United Kingdom	**11,655**	**11,146**	**360**	**327**	**3.1%**	**2.9%**	**305**	**263**	**2.6%**	**2.4%**
France	3,662	3,552	169	153	4.6%	4.3%	117	110	3.2%	3.1%
Ireland	1,730	1,273	30	15	1.7%	1.2%	25	9	1.4%	0.7%
Italy	2,924	2,768	82	70	2.8%	2.5%	61	50	2.1%	1.8%
Netherlands (including Belgium & Germany)	2,944	2,346	93	56	3.2%	2.4%	53	25	1.8%	1.1%
Poland	844	534	35	28	4.1%	5.2%	32	25	3.8%	4.7%
Spain	2,392	2,059	189	184	7.9%	8.9%	173	168	7.2%	8.2%
Other Europe[4]	418	308	-	(4)	-	(1.3)%	(5)	(6)	(1.2)%	(1.9)%
Europe	**14,914**	**12,840**	**598**	**502**	**4.0%**	**3.9%**	**456**	**381**	**3.1%**	**3.0%**
North America	**3,602**	**884**	**154**	**20**	**4.3%**	**2.3%**	**108**	**8**	**3.0%**	**0.9%**
Asia	990	685	36	26	3.6%	3.8%	27	22	2.7%	3.2%
Australia	439	297	26	17	5.9%	5.7%	16	9	3.6%	3.0%
Asia Pacific	**1,429**	**982**	**62**	**43**	**4.3%**	**4.4%**	**43**	**31**	**3.0%**	**3.2%**
Total life and pensions business	**31,600**	**25,852**	**1,174**	**892**	**3.7%**	**3.5%**	**912**	**683**	**2.9%**	**2.6%**

(1) Before effect of required capital which amounted to £262 million (2006: £209 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.
(4) 'Other Europe' is made up of the Czech Republic, Hungary, Romania, Russia and Turkey.

United Kingdom

Norwich Union delivered record sales for the second year running, with life and pension sales up 5% to £11,655 million (2006: £11,146 million). New business contribution rose 10% to £360 million (2006: £327 million), the result of sales growth and an improvement in margin to 3.1% (2006: 2.9%). This was driven by a combination of the savings from our ongoing efficiency review and our commitment to maximising shareholder value through balancing price, volume and mix.

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

Life EEV operating return increased strongly by 16% to £864 million (2006: £744 million) benefiting from higher new business profitability and operational improvements in the management of existing business resulting in lower costs and improved retention. In 2006 we committed to cutting costs at the same time as improving service. We have successfully completed the efficiency review announced in 2006 and have delivered the promised £125 million of annualised savings, £108 million of which contributed to 2007 financial performance. A further £100 million annualised savings are targeted by the end of 2009 which will eliminate our existing business expense overrun.

Improved customer retention has been driven through a wide programme of initiatives including the creation of a dedicated advice team, improved customer communications and more active management of distributor commission terms. Persistency experience has substantially improved to a loss of £5 million (2006: loss of £66 million). Our focus on retention activity will continue in 2008; key components of this include the migration of individual pension policies to a single, more modern administration platform, extending the functionality of this platform to offer additional features such as wider investment fund choice, e-trading, income drawdown, and providing a free upgrade to existing personal pension customers wishing to access these features. The three-stage special bonus distribution to qualifying with-profits policyholders announced earlier this year rewards customer loyalty and improves retention.

As announced in October, we have reviewed our annuitant mortality assumptions, in particular those relating to future rates of mortality improvements. This review and research into projection methodologies has resulted in the strengthening of our best-estimate annuitant longevity assumption by increasing the minimum mortality improvement factors, bringing these into line with CMI Working Paper 27. The effect of this change is to reduce profit by £153 million. Alongside this change, we have reduced the required capital for the UK annuity business from 150% to 100% of required minimum margin, bringing it into line with the economic capital requirement for this business. This improves new and existing business profits by £14 million and £132 million respectively. The combined impact of these changes was broadly neutral.

Over the last four years we have exploited our scale by raising approximately £1 billion of reinsurance financing, including a £320 million financial reinsurance transaction in 2007, improving the returns for shareholders through the use of leveraged capital. We recently completed a capital transaction which transferred to Swiss Re an economic interest in part of the UK Life policy book to be administered by them under the outsourcing agreement made earlier in 2007. This transaction will come into effect as this business migrates to Swiss Re over 2008 and 2009. The transaction size is predicted to be £281 million, plus future profit commission. The transfer has the effect of improving the return on embedded value of the UK Life business by between 40 and 50 basis points. With-profit policies and a small non-profit book are excluded from this capital transaction.

Europe

New business contribution before the effect of required capital was £598 million (2006: £502 million). This reflected continued growth across the region, with volumes growing strongly in the Netherlands, Ireland, Spain, Poland and Italy. New business margins before and after required capital were 4.0% and 3.1% respectively (2006: 3.9% and 3.0%), reflecting increased margins in the Netherlands, where interest rate development was favourable, and improved profitability in Ireland, France and Italy.

Life EEV operating return from our continental European businesses was £1,543 million (2006: £1,171 million). New business contribution after the effect of required capital was £456 million (2006: £381 million), mainly reflecting increased contributions from the Netherlands, Italy and Ireland. Expected returns rose to £899 million (2006: £715 million) resulting from the higher start of year embedded value. Favourable experience variances added £49 million (2006: £91 million) to the Aviva Europe result, due to strong favourable variances in France and Poland while operating assumption changes from the same countries further boosted the Aviva Europe performance by £139 million (2006: £16 million negative), again reflecting the strong profitability arising from existing business in France and Poland.

France: Sales grew by 2% to £3,662 million (2006: £3,552 million) in a market which declined overall in 2007[4] due to political and fiscal uncertainty in the first half of the year and equity market turbulence in the second half. This strong sales performance, combined with a continued focus on profitability, resulted in a higher new business contribution of £169 million (2006: £153 million), with an increased margin of 4.6% (2006: 4.3%). The operating profit on an EEV basis of £537 million (2006: £402 million) was boosted by the increased proportion of unit-linked assets within managed funds, efficiency gains, product development and continued positive experience variances on lapses and mortality.

The Netherlands: Delta Lloyd's life and pension sales have grown by 25% to £2,944 million (2006: £2,346 million), driven by group pension scheme sales. New business contribution increased by 66% to £93 million (2006: £56 million), reflecting the sales growth and a higher margin of 3.2% (2006: 2.4%). The increase in new business profitability follows an increase in interest rates, in a market where competition and pricing remain fierce. Operating profit rose to £352 million (2006: £329 million), with the strong gains on new business profitability and increased expected returns on the in-force business being partially offset by allowances for worsening annuitant mortality.

Ireland: Overall life and pension sales increased strongly by 35% to £1,730 million (2006: £1,273 million). New business profitability has grown strongly, with new business contribution doubling to £30 million (2006: £15 million). This has been driven by strong volume growth, an increased focus on higher margin funds and product development initiatives. Over 2007, new business margin increased to 1.7% (2006: 1.2%). The operating return in 2007 increased to £77 million (2006: £40 million loss). The loss reported in 2006 reflected an exceptional level of adverse operating assumption changes.

Italy: Total sales grew by 5% to £2,924 million (2006: £2,768 million), contrasting with the Italian market which declined by more than 5% during 2007[5]. New business profitability increased in 2007, with new business margin rising to 2.8% (2006: 2.5%). Growth in margin reflects an increased emphasis on higher margin products, including stronger sales of unit-linked contracts. The growth in volumes, together with the change in product mix, contributed to an overall new business contribution of £82 million (2006: £70 million). The operating return increased in line with the growth in new business contribution and in-force book, up 23% to £137 million (2006: £110 million).

Spain: Life sales continued to show strong growth, up 15% to £2,392 million (2006: £2,059 million) despite sales of risk products being affected by the slow down in the Spanish mortgage market. Increased sales of savings products successfully offset reduced new business contribution from mortgage related protection products and led to an overall growth in new business contribution to £189 million (2006: £184 million). This was achieved in increasingly difficult trading conditions. Overall, the growth in new business contribution, together with returns on the in-force book of business, contributed to a 7% increase in operating return to £239 million (2006: £221 million). The reduced new business margin of 7.9% (2006: 8.9%) reflects the change in business mix.

Poland: Life and pension sales have grown by 53% to £844 million (2006: £534 million). The strong growth in volumes, with increased focus on sales through our bank partners, led to an overall new business contribution of £35 million (2006: £28 million). Changes to the product and distribution mix led to a fall in the new business margin to 4.1% (2006: 5.2%). The operating return increased substantially to £206 million (2006: £162 million), with favourable lapse and mortality experience boosting the profitability of the in-force book.

Other Europe: The strong momentum in sales, increasing 39% to £418 million (2006: £308 million), helped generate a breakeven new business contribution (2006: £4 million negative). The creation of AvivaSA transformed the scale of the business in Turkey and supported the strong sales growth. Overall, the operating loss for Other Europe was lower at £5 million (2006: £13 million loss), reflecting the continued growth and development of these businesses.

North America

The life EEV operating return was £255 million (2006: £32 million) reflecting increased new business contribution and higher expected returns following the acquisition of AmerUs.

New business margins before and after the effect of required capital increased to 4.3% and 3.0% respectively (2006: 2.3% and 0.9% respectively) reflecting a favourable change in product mix towards higher margin indexed life and indexed annuity products and the discontinuance of lower margin life products as part of a product rationalisation process.

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[4] In GWP terms, the FFSA states that the French market for life individual products has declined 4% in 2007 compared to the 12 months of 2006.

[5] ANIA quotes market decline of 5.5%, based on new business single premium plus regular premiums, at the end of November 2007 compared to the first 11 months of 2006.

Asia Pacific
The life EEV operating return increased to £91 million (2006: £86 million), benefiting from higher new business volumes.

New business margins before and after the effect of required capital were 4.3% and 3.0% respectively (2006: 4.4% and 3.2% respectively). New business margins were influenced by the scale and timing of marketing campaigns and product launches, resulting in some volatility between quarters. Growth potential for the region remains strong and Aviva's diversified distribution model places the business in a strong position for continued future growth.

4. Bancassurance margins – before required capital, tax and minority interests
The weighted average bancassurance new business margin for our principal bancassurance partners, before the effect of required capital, was 4.8% (2006: 4.8%). This mainly reflects increases in the UK, France and Asia being offset by a reduced margin in Spain and the Netherlands. After the effect of required capital, the bancassurance margin was 4.0% (2006: 4.0%).

Bancassurance life and pensions	Present value of new business premiums		New business contribution[1]		New business margin[2]	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 %	2006 %
United Kingdom	**1,145**	**991**	**54**	**38**	**4.7%**	**3.8%**
France	778	838	36	36	4.6%	4.3%
Ireland	864	589	14	9	1.6%	1.5%
Italy	2,754	2,695	77	68	2.8%	2.5%
Netherlands	359	425	13	18	3.6%	4.2%
Spain	2,171	1,832	188	180	8.7%	9.8%
Europe	**6,926**	**6,379**	**328**	**311**	**4.7%**	**4.9%**
Asia Pacific	**210**	**367**	**15**	**20**	**7.1%**	**5.4%**
Principal bancassurance channels	**8,281**	**7,737**	**397**	**369**	**4.8%**	**4.8%**

(1) Before effect of required capital which amounted to £74 million (2006: £56 million).
(2) New business margin represents the ratio of new business contribution to present value of new business premiums, expressed as a percentage.

United Kingdom
New business margin from Norwich Union's bancassurance partnership with RBSG improved to 4.7% (2006: 3.8%) reflecting economies of scale from higher volumes and a more profitable product mix.

Europe
In France, the new business margin of our bancassurance joint venture was 4.6% (2006: 4.3%). In Ireland, new business margin has increased to 1.6% (2006: 1.5%) while sales through our partnership with AIB increased by 46%. The new business bancassurance margin in Italy increased to 2.8% (2006: 2.5%), reflecting a change in business mix. In Spain, our bancassurance partnerships produced a new business margin of 8.7% (2006: 9.8%), reflecting higher sales of savings products and lower sales of protection products linked to mortgages. Our bancassurance agreement with ABN AMRO in the Netherlands generated a margin of 3.6% (2006: 4.2%) again reflecting a change in business mix and tighter product margins.

Asia Pacific
The new business bancassurance margin from our partnership with DBS in Singapore and Hong Kong remained high, increasing to 7.1% (2006: 5.4%) reflecting the profitable growth of these developing operations.

5. New business contribution – after deducting required capital, tax and minority interest
New business contribution after required capital, tax and minority interest increased by 41% to £529 million (2006: £376 million) with a resultant new business margin of 1.9% (2006: 1.7%).

	Present value of new business premiums[1]		New business contribution[2]		New business margin[3]	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 %	2006 %
Principal bancassurance channels	4,730	4,465	133	121	2.8%	2.7%
Other distribution channels	22,674	17,607	396	255	1.7%	1.4%
Total life and pensions business	**27,404**	**22,072**	**529**	**376**	**1.9%**	**1.7%**
Analysed by:						
United Kingdom	*11,655*	*11,146*	*214*	*185*	*1.8%*	*1.7%*
Europe	*10,726*	*9,067*	*213*	*162*	*2.0%*	*1.8%*
North America	*3,602*	*884*	*70*	*5*	*1.9%*	*0.6%*
Asia Pacific	*1,421*	*975*	*32*	*24*	*2.3%*	*2.5%*

(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.

6. 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 £1,634 million (2006 restated: £1,334 million), an increase of 21%.

United Kingdom

On an IFRS basis, life operating profit increased by 15% to £723 million (2006 restated: £629 million), due to lower expenses, higher income from unit-linked business and lower new business strain. The result included £167 million (2006: £149 million) benefit arriving from phased adoption of reserving changes introduced by PS06/14. The review of UK annuitant mortality assumptions has had a broadly neutral effect on the IFRS reported figures.

Europe

In Europe, life IFRS operating profit increased to £777 million (2006 restated: £648 million), driven primarily by increased profits in France, the Netherlands and Ireland. In France, the operating profit was higher at £243 million (2006 restated: £224 million) reflecting increased expected returns due to higher interest rates and a larger investment portfolio. In the Netherlands, operating profit on an IFRS basis was £181 million (2006 restated: £102 million) reflecting increased expected returns due to higher interest rates and more favourable mortality and other technical reserve movements. In Ireland, operating profit increased to £73 million (2006 restated: £49 million) reflecting strong business growth and improved operating performance.

North America

Life operating profit was £103 million (2006 restated: £13 million) driven primarily by the inclusion of the AmerUs business.

Asia Pacific

Life operating profit reduced in 2007 to £31 million (2006 restated: £44 million), reflecting the impact of new business strain in the developing Asian businesses.

7. Fund management operating profit

Our worldwide fund management operating profit remained stable at £155 million (2006: £155 million) on an IFRS basis. Funds under management by Aviva at 31 December 2007 grew to £316 billion (31 December 2006: £287 billion) reflecting the impact of new business and the performance of global investment markets.

	2007 £m	2006 £m
Morley	87	76
Other UK	(10)	(6)
United Kingdom	**77**	**70**
France	33	33
Netherlands	23	37
Other Europe	4	3
Europe	**60**	**73**
North America	**3**	**3**
Asia Pacific	**15**	**9**
Fund management operating profit – IFRS basis	**155**	**155**

On an EEV basis, the total operating profit from our fund management businesses was £90 million (2006: £96 million) and represents the profit from those funds managed on behalf of third parties and the group's non-life businesses.

United Kingdom

Our UK fund management businesses comprise our institutional business, 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 £77 million (2006: £70 million) in the period.

Morley

IFRS fund management operating profit grew significantly to £87 million (2006: £76 million) reflecting increased investment management fee revenue resulting from business wins and investment market performance, continued cost control and focused investment in the business. In total the Morley group contributed operating profit of £91 million (2006: £79 million) to the group's results, including a £4 million contribution (2006: £3 million) from the pooled pensions business which is reported within long-term business segment.

Closing funds under management declined slightly to £165 billion (2006: £166 billion), impacted by the fall in UK property capital values.

Global equity markets returned 9.5% in sterling terms in 2007, a year that was divided into two distinct periods. Against a backdrop of solid corporate performance, share buy-backs and significant M&A activity, several indices approached or exceeded all time highs during the first half of the year. However, during the second half, problems in the US sub-prime mortgage market and subsequent global impacts (lack of credit availability and increased cost of credit, banking sector write-downs and mounting concerns of a US recession) drove investors to restructure their portfolios away from equities

and resulted in market falls. Commercial property was similarly affected and posted market returns of (5.5)% for the year, the first negative year since 1992. Property company shares were also significantly impacted, falling by 35% during the year.

In common with the industry in general, the subsequent change in consumer sentiment resulted in negative cash flows in the second half of the year in respect of UK retail property funds.

Gross sales through Morley distribution channels remained strong and were achieved across a variety of asset classes and products. Average margins achieved on new business increased, in line with our strategy of targeting higher margin Alternatives and specialist multi-asset mandates.

Operating losses from Norwich Union's retail investment business amounted to £10 million (2006: £6 million loss) where increased sales through the company's collectives investment business resulted in higher upfront costs.

Europe

In France, operating profit from Aviva Gestion d'Actifs (AGA) was stable at £33 million (2006: £33 million). AGA continued to demonstrate its expertise with 89% of managed funds ranked in the top half for returns over five years and for the fourth consecutive year Aviva's multi-fund life policies received a Gold Award at the 2007 Life Insurance Trophies held by the leading financial weekly *Le Revenu*.

Operating profit from our fund management business in the Netherlands was £23 million (2006: £37 million), reflecting lower performance related fees following the exceptional level earned in 2006. The current year result includes £2 million in respect of Cyrte Investments since its acquisition at the end of September 2007.

Asia Pacific

In Asia Pacific, our fund management and administration business consists of the successful Navigator platforms in Australia and Singapore. Operating profits improved to £15 million (2006: £9 million), reflecting the strong distribution relationships with key brokers and favourable changes to superannuation legislation in Australia.

8. General insurance and health operating profit

The Group's net written premiums from its worldwide general insurance and health businesses decreased by 1% to £10.6 billion (2006: £10.7 billion), reflecting increasing price competition across most regions.

Group operating profit from general insurance and health businesses decreased by 39% to £1,033 million (2006: £1,686 million). The worldwide general insurance combined operating ratio (COR) worsened to 100% (2006: 94%) mainly as a result of adverse weather in the UK and increased competitive pressures in this business segment across most regions. Excluding the impact of this exceptional adverse weather in the UK the group COR would have been 95%.

The general insurance and health underwriting profit decreased to £4 million (2006: £613 million) following worse than expected weather claims experience in the UK of £475 million (2006: £75 million benefit). The worldwide GI expense ratio was 13.9% (2006: 13.7%), reflecting reduced premiums and ongoing investment made to secure the future profitability of the business.

The longer-term investment return (LTIR) on general insurance and health business assets was £1,029 million (2006: £1,073 million) as the impact of the higher start-of-year asset base and higher LTIR rates in 2007 were offset by the effect of the actions taken during the second half of 2007 to reduce the level of investments held in equities. The proceeds of the equity sales were reinvested in lower risk assets which generate a lower level of longer term return.

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 favourable. As a result of the conservatism applied in setting the reserves, there are releases of £832 million (net of reinsurance) for our general insurance business and £137 million for our health operations in 2007 which reflect releases from the 2006 accident year and prior. We continue to apply our reserving policy consistently and our reserves remain at strong levels. Further description of loss development is given on page 89.

	Net written premiums		Underwriting result		Operating profit	
				Restated		Restated
	2007	2006	2007	2006	2007	2006
	£m	£m	£m	£m	£m	£m
United Kingdom	5,896	6,000	(214)	394	433	1,118
Europe	3,233	3,287	197	189	442	417
North America	1,412	1,389	18	27	154	148
Asia Pacific	28	26	3	3	4	3
Continuing operations	**10,569**	**10,702**	**4**	**613**	**1,033**	**1,686**

United Kingdom

Total operating profit of £433 million (2006: £1,118 million) includes a contribution of £53 million (2006: £37 million) from our captive reinsurance operations and health business. NU Healthcare is a leading UK health insurer providing medical insurance (PMI) and income protection to over 800,000 customers. The remaining commentary relates to Norwich Union Insurance, our UK GI business only.

2007 was a tough year for our general insurance business in the UK as we experienced a combination of higher weather claims and competitive conditions in most lines of business. We took action to deal with this as early as 2006 by increasing motor rates and we have taken further rating action in homeowners and across all commercial lines. In addition we have embarked on a transformational programme for our UK GI business which will see our expense ratio drop from 13.9 % to 12.4% in 2008. In light of this, we are confident that the outlook is positive and that we will continue to 'meet or beat' our 98% COR target while maintaining our strong balance sheet to back this business.

We have reviewed our reinsurance programme protecting our UK GI business and put in place additional protection via an aggregate cover to protect us against multiple weather events like those experienced in 2007. If this additional cover had been in place in 2007 our weather related losses would have been reduced by £100 million. In addition, as part of the renewal of our main catastrophe programme, we anticipate reducing our net retention. This programme renews on 1 April.

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

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

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

In commercial lines, during the last quarter of 2007 we targeted increases for smaller risks and underperforming segments, after experiencing four years of market rate reductions across the board. These increases averaged 3.5% and commenced in November 2007, although rates still decreased by 2% across all commercial lines in 2007 (2006: 3% reduction). The combined operating ratio for commercial property business was 124% (2006: 79%) reflecting the adverse weather, higher than usual large claims experience and a number of environmental factors that have contributed to the deterioration in performance.

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

Supporting our customers when they need us most and to provide them with peace of mind is vital and the action we took during the summer floods is a clear example of the importance we place on providing excellent customer service. In response to these events we ensured a network of loss adjusters, contractors and claims teams were on site at the time (including our mobile advice centre manned by claims and repair specialists) and call centre staff numbers were doubled to deal with the extra calls we received.

Our commitment to customer service has also been recognised by a number of achievements in 2007. NUI has been voted General Insurer of the Year at the Insurance Times Awards for the fifth successive year, demonstrating the confidence and trust that independent brokers have in NUI. We were also voted General Insurer of the Year at the Personal Finance & Savings Readership Awards. NU Direct's Retention team won Customer Service Team of the Year at the National Customer Service Awards. RAC has been rated as number one for motorists in the annual JD Power survey for the second consecutive year and was also named as Breakdown and Recovery Company 2007 by the Institute of Transport Management recognising the efficient and reliable service offered.

Europe

In Europe, our general insurance and health businesses recorded an operating profit of £442 million (2006: £417 million).

In *France*, our general insurance and health business reported an operating profit of £70 million (2006: £63 million) with an underwriting profit of £11 million (2006: £6 million). The underwriting result benefited from our strong control of costs and favourable claims experience, with the general insurance COR stable at 99% (2006: 99%). Net written premiums were

stable at £733 million (2006: £735 million), reflecting moderate general insurance premium rate increases offset by the loss of a group health contract.

In *Ireland*, our market leading general insurance business reported operating profit of £162 million (2006: £172 million). The underwriting profit decreased to £101 million (2006: £121 million) and the COR deteriorated to 80% (2006: 77%) reflecting intensifying competition and higher claims costs. While policy count increased, falling premium rates meant that net written premiums reduced to £474 million (2006: £519 million). The business has continued to focus on growing sales through the emerging internet channel and has successfully grown sales through both the Hibernian and AIB websites. A number of new initiatives were launched in 2007, building on the life and pensions partnership and consolidating Hibernian's position as distribution leaders.

In the *Netherlands*, operating profit from general insurance and health was £169 million (2006: £139 million). The general insurance COR improved to 85% (2006: 89%), following favourable development of prior year claims and the maintenance of premium rates in key areas. General insurance premiums increased to £788 million (2006: £733 million) following the inclusion of Erasmus since its acquisition in March 2007. The health underwriting result deteriorated to a loss of £45 million (2006: £33 million loss) as a result of higher claims costs, net of recoveries from the central health fund and reorganisation costs. Health premiums were 10% lower at £929 million (2006: £1,022 million) reflecting differences in the timing and size of receipts from the central risk equalisation fund.

Other general insurance operations are based in Italy, Poland and Turkey and achieved net written premium of £309 million (2006: £278 million) and an operating profit of £41 million (2006: £43 million). In Italy, following the merger of the Banca Popolare Italiana Group network with Banco Popolare di Verona e Novara SCRL (BPVN), our business has agreed an exclusive long-term distribution agreement with the newly formed bank, Banco Popolare, to sell Aviva's credit protection and non-life products through its network of circa 2,200 branches. Distribution through the new agreement has already commenced in 2008 and will create a strong basis for future growth. Towards the end of 2007, our business in Poland launched a direct motor product. We are excited about the potential of the direct insurance market in Poland and hope for further success in the development of other direct business across Europe.

North America

In Canada, operating profit was £154 million (2006: £148 million), an underlying increase of 7% in local currency terms. This result reflects an increase in investment return from higher fixed income yields and higher average asset balances partly offset by a reduction in the underwriting result to £18 million (2006: £27 million). COR remained stable at 98% (2006: 98%).

Net written premiums were £1,412 million (2006: £1,389 million). This represents an underlying 4% increase in local currency driven by growth in both personal and commercial lines volumes, particularly in property through increased warranty business. This growth was partly offset by reductions in motor premiums resulting from increased competition. In the face of this, Aviva Canada continues to take an industry leading stance, achieving growth without compromising on profitability.

Asia Pacific

The operating profit from our health insurance business in Singapore and general insurance business in Sri Lanka amounted to £4 million (2006: £3 million).

9. Other operations and regional costs

The Group's other operations recorded an operating loss of £74 million (2006 restated: loss of £25 million) on an IFRS basis. This reflected lower results in the United Kingdom and costs relating to the establishment of new regional offices.

	2007 £m	Restated 2006 £m
United Kingdom	(8)	36
Europe	(49)	(55)
North America	(4)	-
Asia Pacific	(13)	(6)
Total	**(74)**	**(25)**

United Kingdom

UK non-insurance operations reported an operating loss of £8 million (2006: £36 million profit) due to lower results from RAC non-insurance which included a contribution of £17 million in 2006 from disposed operations (Manufacturing Support Services and Lex Vehicle Leasing), and investment in the businesses of AutoWindscreens, BSM and HPI. Having completed the investment in transforming these businesses, we are looking to leverage maximum benefit from these operations. Continuing investment in the Lifetime business was £31 million (2006: £29 million).

Following the restatement of IFRS operating profit, NU Life Services covered business is now reported within the life result and comparatives have been adjusted.

Europe

The improvement in the loss to £49 million (2006: £55 million) reflects lower pension and interest charges, partially offset by the inclusion of new regional costs. In the Netherlands one-off items offset lower banking profits.

North America
The loss of £4 million (2006: nil) reflects the inclusion of new regional costs and the results of our other non-insurance businesses.

Asia Pacific
The loss of £13 million (2006: £6 million) reflects corporate brand expenditure and new regional costs.

On an EEV basis, our other operations reported a loss of £70 million (2006: £23 million loss) due to the reallocation of certain European costs to the life EEV operating return.

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

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

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

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

12. Profit on ordinary activities before tax

	EEV basis		IFRS basis	
	2007 £m	**2006 £m**	**2007 £m**	**2006 £m**
Operating profit before tax	**3,286**	**3,251**	**2,228**	**2,609**
Investment return variances and economic assumption changes on long-term business	67	990	15	401
Short-term fluctuation in return on investments backing general insurance and health business	(184)	149	(184)	149
Impairment of goodwill	(10)	(94)	(10)	(94)
Amortisation and impairment of intangibles	(89)	(46)	(103)	(64)
Profit on the disposal of subsidiaries and associates	20	161	49	222
Integration and restructuring costs	(153)	(246)	(153)	(246)
Profit before tax/ Profit before tax attributable to shareholders' profits	**2,937**	**4,165**	**1,842**	**2,977**

Profit before tax on an EEV basis was lower at £2,937 million (2006: £4,165 million), and includes investment variance and economic assumption changes of £67 million (2006: £990 million) which reflects the positive impact of £175 million due to the reduction in the UK corporate tax rate to 28% partly offset by the adverse impacts of worse than assumed equity returns and interest rate movements in the year.

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

The negative short-term fluctuation in return on investments backing general insurance and health business of £184 million (2006: £149 million positive) is due to lower market returns compared to our longer-term investment return assumptions. The Group reduced their exposure to equities through an active sell off of their equity book in the second half of the year. The effect of the non-life investment market movements and integration costs are included in the IFRS profit before tax attributable to shareholders' profits of £1,842 million (2006: £2,977 million).

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

£153 million of integration and restructuring costs have been included in the results to 31 December 2007 (2006: £246 million). These include £45 million relating to the UK cost and efficiency programme announced back in 2006. This initiative has now been completed at a total cost of £250 million. The costs also include £82 million relating to the new savings

targets announced in October 2007; further costs of this programme are expected to be £248 million spread over the next two years. The balance of £26 million relates to the completion of integration activity on Ark Life in Ireland and the former AmerUs business in the United States, which were both acquired in 2006.

13. Taxation
The taxation charge for the year was £803 million (2006: £1,286 million) on an EEV basis and includes a charge of £992 million (2006: £1,028 million) in respect of operating profit, which is equivalent to an effective rate of 30.2% (2006: 31.6%) mainly reflecting the impact of one-off tax credits due to changes in future UK tax rates and the release of provisions. The effective tax rate on IFRS operating profit is 27.2% (2006: 24.7%).

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

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

Preference dividends
8 3/8 % cumulative irredeemable preference shares of £1 each
On 18 January 2008 a dividend of 4 3/16 % per share for the six month period ending 31 March 2008 was announced. This dividend is payable on 31 March 2008 to preference shareholders that were on the register on 8 February 2008.

8 3/4% cumulative irredeemable preference shares of £1 each
The Board has recommended a dividend of 4 3/8 % per share for the six month period ending 30 June 2008 payable on 30 June 2008 to preference shareholders on the register on 9 May 2008.

16. Pension fund deficit
At 31 December 2007, the Group's overall pension fund deficit less surpluses had reduced by £795 million to £178 million (gross of tax). This was mainly due to the favourable impact on the valuation of liabilities of a 40 basis point increase in the UK real discount rate (the difference between the discount and inflation rate) during the year. In March 2006 we announced additional funding of £700 million. The final payment of £320 million will be made in March 2008.

17. Return on equity shareholders' funds
The group's post-tax operating return on equity shareholders' funds was 11.3% (2006: 13.1%). This was lower than last year due to opening shareholders' funds being £2.6 billion higher. The return is below our target of 12.5% due to the impact of the adverse weather in the UK which has suppressed the return in the general insurance operations.

18. Capital

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

The Group's overall capital risk appetite is set and managed with reference to the requirements of a range of different stakeholders including shareholders, policyholders, regulators and rating agencies. In managing capital we seek to:
- maintain sufficient, but not excessive, financial strength to support new business growth and satisfy the requirements of our stakeholders;
- optimise our overall debt to equity structure to enhance our returns to shareholders, subject to our capital risk appetite and balancing the requirements of the range of stakeholders;
- retain financial flexibility by maintaining strong liquidity, including significant unutilised committed credit lines and access to a range of capital markets;
- allocate capital rigorously across the Group, to drive value adding growth in accordance with risk appetite;
- increase the dividend on a basis judged prudent, while retaining capital to support future business growth, using dividend cover on an IFRS operating earnings after tax basis in the 1.5 to 2.0 times range as a guide.

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

Overall, the Group has significant resources and financial strength. The ratings of the Group's main operating subsidiaries are AA/AA- ("very strong") with a stable outlook from Standard & Poor's, Aa3 ("excellent") with a stable outlook from Moody's and A+ ("Superior") with a stable outlook from AM Best. These ratings reflect the Group's strong liquidity,

competitive position, capital base, increasing underlying earnings and strategic and operational management. The Group is subject to a number of regulatory capital tests and also employs economic capital measures to manage capital and risk.

Capital allocation

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

Different measures of capital

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

i) Accounting bases

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

ii) Regulatory bases

Individual regulated subsidiaries measure and report solvency based on applicable local regulations, including in the UK the regulations established by the Financial Services Authority (FSA). These measures are also consolidated under the European Insurance Groups Directive (IGD) to calculate regulatory capital adequacy at an aggregate Group level. The Group has fully complied with these regulatory requirements during the year.

iii) Rating agency bases

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

iv) Economic bases

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

Accounting basis and capital employed by segment

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

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

(1) The "Corporate" net liabilities represent the element of the pension scheme deficit held centrally.
(2) Minority interests have increased to £3,131 million (2006: £2,137 million) due to foreign exchange movement, capital contributions from property investment vehicles and acquired subsidiaries, primarily Cajamurcia and Avipop.

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

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

- Certain subsidiaries, subject to continuing to satisfy standalone capital and liquidity requirements, loan funds to corporate and holding entities, these loans satisfy arms length criteria and all interest payments are made when due.
- Aviva International Insurance (AII) Ltd acts as both a UK general insurer and as the primary holding company for the Group's foreign subsidiaries. Internal capital management mechanisms in place allocate a portion of the total capital of the company to the UK general insurance operations. These mechanisms also allow for some of the assets backing technical liabilities to be made available for use across the Group. Balances in respect of these arrangements are also treated as internal debt for capital management purposes.

Net internal debt represents the balance of the above amounts due from corporate and holding entities, less the tangible net assets held by these entities.

Financial leverage, the ratio of the Group's external senior and subordinated debt to EEV capital and reserves was 17% (2006: 20%). Fixed charge cover, which measures the extent to which external interest costs, including subordinated debt interest and preference dividends, are covered by EEV operating profit was 9.8 times (2006: 10.3 times).

Regulatory bases

Regulatory basis – Group: European Insurance Groups Directive

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

The Group has a regulatory obligation to have positive solvency on a regulatory IGD basis at all times. The Group's risk management processes ensure adequate review of this measure. At 31 December 2007, the estimated excess regulatory capital was £3.1 billion (31 December 2006: £3.5 billion). This measure represents the excess of the aggregate value of regulatory capital employed in our business over the aggregate minimum solvency requirements imposed by local regulators, excluding the surplus held in the Group's UK life funds. The minimum solvency requirement for the Group's European businesses is based on the Solvency I Directive. In broad terms, for EU operations, this is set at 4% and 1% of non-linked and unit-linked life reserves respectively and for Aviva's general insurance portfolio of business is the higher of 18% of gross premiums or 26% of gross claims, in both cases adjusted to reflect the level of reinsurance recoveries. For the Group's major non-European businesses (the US, Australia and Canada) a risk charge on assets and liabilities approach is used. The IGD is a pure aggregation test with no credit given for the considerable diversification benefits of Aviva.

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

Regulatory basis - General insurance and International

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

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

Regulatory basis – Long-term businesses

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

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

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

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

Regulatory basis - UK Life with-profit funds

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

	31 December 2007					31 December 2006
	Estimated realistic assets £bn	Estimated realistic liabilities[1, 2] £bn	Estimated realistic inherited estate[3] £bn	Estimated risk capital margin[4] £bn	Estimated excess £bn	Estimated excess £bn
CGNU Life	14.5	(13.1)	1.4	(0.3)	1.1	2.0
CULAC	13.9	(12.7)	1.2	(0.4)	0.8	2.0
NUL&P[5]	26.1	(24.2)	1.9	(0.6)	1.3	1.2
Aggregate	**54.5**	**(50.0)**	**4.5**	**(1.3)**	**3.2**	**5.2**

1 These realistic liabilities include the shareholders' share of future bonuses of £1.2 billion (31 December 2006: £0.7 billion). Realistic liabilities adjusted to eliminate the shareholders' share of future bonuses are £48.8 billion (31 December 2006: £48.6 billion).
2 These realistic liabilities make provision for guarantees, options and promises on a market consistent stochastic basis. The value of the provision included within realistic liabilities is £0.7 billion, £0.8 billion and £3.0 billion for CGNU Life, CULAC and NUL&P respectively (31 December 2006: £0.5 billion, £0.7 billion and £3.0 billion for CGNU Life, CULAC and NUL&P respectively).
3 Estimated realistic inherited estate at 31 December 2006 was £2.5 billion, £2.5 billion and £1.8 billion for CGNU Life, CULAC and NUL&P respectively. The distribution has resulted in a £2.3 billion reduction in the estimated realistic inherited estate.
4 The risk capital margin (RCM) is 3.5 times covered by the inherited estate (31 December 2006: 4.2 times). The RCM is lower as a result of de-risking the cost of guarantees.
5 The NUL&P fund includes the Provident Mutual (PM) fund which has realistic assets and liabilities of £2.1 billion and therefore does not impact the realistic inherited estate.

Investment mix

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

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

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

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

Potential reattribution of inherited estate

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

Regulatory basis – Solvency II

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

Rating agency bases

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

Economic bases

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

This model is based on a framework for identifying the risks that business units, and the Group as a whole, are exposed to. The FSA now uses the results of our ICA process when setting target levels of capital for the UK regulated businesses. In line with FSA requirements, the ICA estimates the capital required to mitigate the risk of insolvency to a 99.5% confidence level over a one year time horizon (equivalent to events occurring in 1 out of 200 years) against financial and non-financial tests. Our ICA uses a mixture of scenario based approaches and stochastic economic capital models. Tests covering investment and insurance scenarios are specified centrally to provide consistency across businesses and to achieve a minimum standard. Where appropriate, businesses may also supplement these with tests specific to their own situation. In aggregating the various risk tests at business unit and Group level, we allow for correlation effects between different risks as well as diversification benefits. This means that the aggregate sum of the risks is less than the sum of all of the individual risks.

Financial modelling techniques enhance our practice of active risk and capital management, ensuring sufficient capital is available to protect against unforeseen events and adverse scenarios. Our aim continues to be the optimal usage of capital through appropriate allocation to our businesses. We continue to develop our economic capital modelling capability for all our businesses as part of our development programme to increase the focus on economic capital management.

Capital Generation and Utilisation

As part of its capital management processes, the Group regularly reviews the generation and deployment of capital. The table below demonstrates the net capital generation of the Group on a regulatory basis. The net capital generated can be considered as a measure of the change in the Group's surplus capital on a regulatory basis. A reconciliation of the movement in IGD surplus is also shown.

	2007 £bn	2006 £bn
Operational capital generation:		
Life in-force profits	1.9	1.7
New business strain	(0.6)	(0.6)
Non-life profits	0.6	1.0
Operational capital generated	**1.9**	**2.1**
Increase in capital requirements	(0.5)	(0.5)
Free operational capital generated	**1.4**	**1.6**
Interest costs	(0.2)	(0.2)
External dividend	(0.9)	(0.8)
Scrip dividend	0.3	0.2
Capital generated after financing costs	**0.6**	**0.8**
Investment return variances and economic assumption changes	0.2	0.5
Profit on disposals	0.1	0.2
Capital raising	-	1.1
Cost of acquisitions	(0.6)	(1.8)
Qualifying assets acquired net of capital requirements	0.1	(0.3)
Pension funding and restructuring costs	(0.1)	(0.3)
Foreign exchange impact on surplus capital	0.2	(0.1)
Other	-	(0.1)
Net capital generated	**0.5**	**-**
Reconciliation to movement in IGD surplus		
Opening IGD surplus	3.5	3.6
Net capital generated	0.5	-
Regulatory changes	(0.4)	(0.1)
Additional capital requirement over regulatory minimum	0.4	0.6
Non - IGD qualifying capital generated within life funds	(0.6)	(0.4)
Minorities	(0.2)	(0.1)
Other	(0.1)	(0.1)
Closing IGD surplus	**3.1**	**3.5**

Free operational capital generated represents the net of the following:

- Operating profits emerging on a statutory basis for the life in-force business, net of new business strain and before any changes in inadmissible assets, and IFRS operating profits earned by the Group's non-life businesses.
- The increase in capital requirements of the Group's ongoing businesses. Capital requirements represent target operating capital levels rather than regulatory minimum levels, as this is considered a better reflection of capital utilised in the business. For the life businesses this is the capital used in the calculation of the Group's embedded value to evaluate the cost of locked in capital. For general insurance businesses we have calculated target capital based on two

times the regulatory minimum. Where appropriate, the increase in capital requirements shown has been adjusted for the impact of foreign exchange movements and other one off changes to required capital.

In arriving at net capital generated, the analysis additionally takes account of material non-operating items affecting capital over the period. Material items in 2007 include the impact of investment return variances and economic assumption changes and the impact of acquisitions in the year.

The reconciliation of the net capital generated to the movement in the Group's IGD surplus takes into account capital generated within life funds which fall outside the perimeter of the Group's IGD calculation.

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

- In the UK, Norwich Union generated operational capital of £0.3bn through financial reinsurance, improving the new business returns for shareholders through the use of leveraged capital. Norwich Union also recently completed a capital transaction transferring to Swiss Re an economic interest in part of the UK Life policy book to be administered by them under the outsourcing agreement made earlier in 2007, which comes into effect as this business migrates to Swiss Re over 2008 and 2009.
- In the US, our Life business completed a transaction to offset the onerous capital requirements imposed by regulation AXXX. The transaction relates to equity indexed life contracts including a no lapse guarantee. At the end of 2007, approximately £0.1bn of liability was ceded to a captive reinsurance company. The amount ceded is expected to grow significantly in future years.
- Consistent with a focus on EPS growth, we have also announced the withdrawal of the current scrip dividend scheme and the introduction of a Dividend Reinvestment Plan, which avoids new share issuance, from the 2008 interim dividend onwards.
- We also continue to actively manage our exposure to investment risk and in the second half of 2007 we reduced our exposure to equity market volatility by selling £2.6bn and £0.8bn of equities in our general insurance shareholder funds and the staff pension schemes respectively. These actions are consistent with our ongoing focus on efficient capital management and enhancing returns to shareholders.

Glossary

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.
AII (previously named 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.
Funds under management	–	Represents all assets actively managed or administered by or on behalf of the Group including those funds managed by third parties.
Funds under management by Aviva	–	Represents all assets actively managed or administered by the fund management operations of the Group.
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.*
IFRS operating profit	–	From continuing operations on an IFRS basis, stated before tax attributable to shareholders' profits, impairment of goodwill and exceptional items.
Implicit items	–	Amounts allowed by local regulators to be deducted from capital amounts when determining the EU required minimum margin.
Inherited 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.
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.
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.
Net worth	–	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.
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.
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.
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 2007

Page	2007 €m		2007 £m	Restated 2006 £m
		Operating profit before tax attributable to shareholders' profits		
26	4,049	Life EEV operating return	2,753	2,033
34	132	Fund management[1]	90	96
54	1,519	General insurance and health[2]	1,033	1,686
		Other:		
34	(103)	Other operations and regional costs[3]	(70)	(23)
57	(231)	Corporate centre	(157)	(160)
58	(534)	Group debt costs and other interest	(363)	(381)
	4,832	**Operating profit before tax attributable to shareholders' profits**	**3,286**	**3,251**
		Adjusted for the following:		
	(661)	Variation from longer-term investment return on long-term business	(450)	319
	760	Effect of economic assumption changes on long-term business	517	671
	(271)	Short-term fluctuation in return of investments backing general insurance and health business	(184)	149
67	(15)	Impairment of goodwill	(10)	(94)
	(131)	Amortisation and impairment of intangibles	(89)	(46)
	29	Profit on the disposal of subsidiaries and associates	20	161
53	(225)	Integration and restructuring costs	(153)	(246)
	4,318	**Profit before tax**	**2,937**	**4,165**
	(1,459)	Tax on operating profit	(992)	(1,028)
	279	Tax on other activities	189	(258)
	3,138	**Profit for the year**	**2,134**	**2,879**
		Attributable to:		
	2,719	Equity shareholders of Aviva plc	1,869	2,648
	419	Minority interests	265	231
	3,138		**2,134**	**2,879**

All profit is from continuing operations.

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

2. Restated 2006 results reflect the adjustment to general insurance and health operating profit for £6 million FSCS levy credit, previously reported outside operating profit but included in profit before tax.

3. Excludes the proportion of the results of Norwich Union Life Services relating to the services provided to the UK Life business. These results are included within the Life EEV operating return. Other subsidiaries providing services to our Life businesses do not materially impact the Group results.

Earnings per share – EEV basis
For the year ended 31 December 2007

2007	Earnings per share	2007	2006
	Operating profit on an EEV basis after tax, attributable to ordinary shareholders of Aviva plc		
112.5c	Basic (pence per share)	76.5p	79.2p
111.5c	Diluted (pence per share)	75.8p	78.3p
	Profit after tax for the year on an EEV basis, attributable to ordinary shareholders of Aviva plc		
103.1c	Basic (pence per share)	70.1p	105.1p
102.2c	Diluted (pence per share)	69.5p	103.9p

Consolidated statement of recognised income and expense – EEV basis
For the year ended 31 December 2007

2007 €m		2007 £m	2006 £m
66	Fair value gains/(losses) on AFS securities, owner-occupied properties and hedging instruments	45	42
(18)	Fair value gains transferred to profit	(12)	(18)
-	Impairment losses on revalued assets	-	(2)
953	Actuarial gains/(losses) on pension schemes	648	(117)
(90)	Actuarial gains/(losses) on pension schemes transferred to unallocated divisible surplus and other movements	(61)	3
1,650	Foreign exchange rate movements	1,122	(401)
(361)	Aggregate tax effect – shareholder tax	(246)	27
2,200	**Net income/(expense) recognised directly in equity**	**1,496**	**(466)**
3,138	Profit for the year	2,134	2,879
5,338	**Total recognised income and expense for the year**	**3,630**	**2,413**
	Attributable to:		
4,697	Equity shareholders of Aviva plc	3,194	2,208
641	Minority interests	436	205
5,338		**3,630**	**2,413**

Reconciliation of movements in consolidated shareholders' equity – EEV basis
For the year ended 31 December 2007

2007 €m		2007 £m	2006 £m
28,572	**Balance at 1 January**	**20,858**	17,546
4,973	Total recognised income and expense for the year	3,630	2,413
(1,193)	Dividends and appropriations	(871)	(762)
-	Issue of share capital for the acquisition of AmerUs in 2006, net of transaction costs	-	892
66	Other issues of share capital, net of transaction costs	48	43
412	Shares issued in lieu of dividends	301	203
421	Capital contribution from minority shareholders	307	397
(90)	Minority share of dividends declared in the year	(66)	(75)
434	Minority interest in acquired/disposed subsidiaries	317	153
68	Reserves credit for equity compensation plans	50	48
33,663	**Total equity**	**24,574**	**20,858**
(4,289)	**Minority interests**	**(3,131)**	**(2,137)**
29,374	**Balance at 31 December**	**21,443**	**18,721**

Summarised consolidated balance sheet – EEV basis
As at 31 December 2007

2007 €m		2007 £m	2006 £m
	Assets		
4,222	Goodwill	3,082	2,910
4,379	Acquired value of in-force business and intangible assets	3,197	2,728
10,934	Additional value of in-force long-term business	7,982	6,794
3,529	Interests in, and loans to, joint ventures	2,576	2,795
1,652	Interests in, and loans to, associates	1,206	895
1,290	Property and equipment	942	904
20,653	Investment property	15,077	15,123
49,579	Loans	36,193	28,574
	Financial investments		
162,927	Debt securities	118,937	114,466
76,737	Equity securities	56,018	56,762
55,360	Other investments	40,413	33,050
11,108	Reinsurance assets	8,109	7,825
808	Deferred tax assets	590	1,199
515	Current tax assets	376	344
11,824	Receivables and other financial assets	8,629	8,098
6,147	Deferred acquisition costs and other assets	4,487	3,476
4,090	Prepayments and accrued income	2,986	2,585
21,608	Cash and cash equivalents	15,774	13,117
1,545	Assets of operations classified as held for sale	1,128	-
448,907	**Total assets**	**327,702**	**301,645**
	Equity		
897	Ordinary share capital	655	641
6,156	Capital reserves	4,494	4,460
1,612	Other reserves	1,177	531
8,538	Retained earnings	6,233	5,082
10,541	Additional retained profit on an EEV basis	7,694	6,817
27,744	**Equity attributable to ordinary shareholders of Aviva plc**	**20,253**	**17,531**
1,630	Preference share capital and direct capital instrument	1,190	1,190
4,289	Minority interests	3,131	2,137
33,663	**Total equity**	**24,574**	**20,858**
	Liabilities		
209,644	Gross insurance liabilities	153,040	144,230
134,581	Gross liabilities for investment contracts	98,244	88,358
9,295	Unallocated divisible surplus	6,785	9,465
5,452	Net asset value attributable to unitholders	3,980	3,810
2,653	Provisions	1,937	2,850
3,464	Deferred tax liabilities	2,529	3,077
1,629	Current tax liabilities	1,189	1,262
17,338	Borrowings	12,657	12,137
24,740	Payables and other financial liabilities	18,060	11,364
5,158	Other liabilities	3,765	4,234
1,290	Liabilities of operations classified as held for sale	942	-
415,244	**Total liabilities**	**303,128**	**280,787**
448,907	**Total equity and liabilities**	**327,702**	**301,645**

Segmentation of summarised consolidated balance sheet – EEV basis
As at 31 December 2007

	Life and related businesses 2007 £m	General business and other 2007 £m	Group 2007 £m	Life and related businesses 2006 £m	General business and other 2006 £m	Group 2006 £m
Total assets before acquired additional value of in-force long-term business	278,021	40,001	318,022	255,084	37,961	293,045
Acquired additional value of in-force long-term business	1,698	-	1,698	1,806	-	1,806
Total assets included in the statutory IFRS balance sheet	**279,719**	**40,001**	**319,720**	**256,890**	**37,961**	**294,851**
Liabilities of the long-term business	(264,429)	-	(264,429)	(243,590)	-	(243,590)
Liabilities of the general insurance and other businesses	-	(38,699)	(38,699)	-	(37,197)	(37,197)
Net assets on a statutory IFRS basis	**15,290**	**1,302**	**16,592**	**13,300**	**764**	**14,064**
Additional value of in-force long-term business[1]	7,982	-	7,982	6,794	-	6,794
Net assets on an EEV basis[2]	**23,272**	**1,302**	**24,574**	**20,094**	**764**	**20,858**
Equity capital, capital reserves, shares held by employee trusts and other reserves			6,326			5,632
IFRS basis retained earnings			6,233			5,082
Additional EEV basis retained profit			7,694			6,817
Equity attributable to ordinary shareholders of Aviva plc on an EEV basis			**20,253**			**17,531**
Preference share capital and direct capital instrument			1,190			1,190
Minority interests			3,131			2,137
EEV basis total equity			**24,574**			**20,858**

1 The analysis between the Group's and the minority interest's share of the additional value of in-force long-term business is as follows:

	2007 £m	2006 £m	Movement in the year £m
Group's share included in shareholders' funds	7,694	6,817	877
Minority interest share	578	439	139
Movement in AFS securities	(290)	(462)	172
Per balance at 31 December	**7,982**	**6,794**	**1,188**

2 Analysis of long-term business net assets on an EEV basis is made up as follows:

	2007 £m	2006 £m
Embedded value	20,319	18,098
RBSG goodwill	217	217
Goodwill and intangible assets allocated to long-term business	2,036	1,527
Notional allocation of IAS 19 pension fund deficit to long-term business[3,4]	(58)	(179)
Minority interest in property investment vehicles	758	431
Long-term business net assets on an EEV basis[5]	**23,272**	**20,094**

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

4. Effective from 31 December 2006, the pension fund deficit notionally allocated to long-term business is net of the proportion of funding borne by the UK with-profit funds.

5. The long term business net assets on an EEV basis have been restated to include the minority interest on property investment vehicles held in the UK. This change recognises that the embedded value reflects these investments post minority interest, whereas IFRS reports these investments gross. Prior year comparatives have been restated accordingly.

1. Basis of preparation – EEV basis

The summarised consolidated income statement and balance sheet on pages 21 to 24 present the Group's results and financial position for the life and related businesses on the European Embedded Value (EEV) basis and for its non-life businesses on the International Financial Reporting Standards (IFRS) basis. The EEV methodology adopted is in accordance with the EEV Principles introduced by the CFO Forum in May 2004 and the Additional Guidance on EEV Disclosures published by the CFO Forum in October 2005. Detailed information on the basis of preparation and EEV methodology is set out in Aviva Plc's 2006 Report and Accounts; any updates are detailed below.

The Directors consider that the EEV methodology represents a more meaningful basis of reporting the value of the Group's life and related businesses and the drivers of performance than IFRS methodology. This basis allows for the impact of uncertainty in the future investment returns more explicitly and is consistent with the way the business is priced and managed.

At the time the Group adopted EEV principles in 2004, its approach to establishing economic assumptions, including investment returns, required capital and discount rates, was reviewed by Tillinghast, a firm of actuarial consultants. The approach used by the Group is based on the established 'capital asset pricing model' theory and remains in line with EEV principles and guidance.

The results for 2007 and 2006 have been audited by our auditors, Ernst & Young LLP. Their report in respect of 2007 is included in the Report and Accounts on page 246 of that document. The preliminary announcement for the year ended 31 December 2007 does not constitute statutory accounts as defined in section 240 of the Companies Act 1985.

Covered business

Covered business includes the Group's share of our joint venture operations including our arrangement with The Royal Bank of Scotland Group (RBSG) and our operations in India, China, Turkey, Malaysia and Taiwan.

Risk discount rates

Following review at 31 December 2007, the Directors have decided to maintain the life embedded value risk margin at 2.7%. The market assessed risk factor (beta) has reduced since the initial risk margin was originally set, implying a reduction of the risk in the life business. Management will keep the risk margin under review and will make adjustments as necessary to reflect past trends and future expected trends in the riskiness of the life business, based on the beta.

The sensitivity disclosures on pages 39 and 40 indicate the impact to the embedded value that would arise from a change in the risk discount rate.

2. Components of life EEV return

The life EEV return comprises the following components:

- new business contribution written during the period including value added between the point of sale and end of the period;
- the profit from existing business equal to:
  - the expected return on the value of the in-force covered business at the beginning of the period,
  - experience variances caused by the differences between the actual experience during the period and expected experience based on the operating assumptions used to calculate the start of year value,
  - the impact of changes in operating assumptions including risk margins;
- the expected investment return on the shareholders' net worth, based upon assumptions applying at the start of the year;
- investment return variances caused by differences between the actual return in the period and the expected return based on economic assumptions used to calculate the start of year value; and
- the impact of changes in economic assumptions in the period.

The life EEV operating return comprises the first three of these components and is calculated using economic assumptions as at the start of the year and operating (demographic, expenses and tax) assumptions as at the end of the year.

Life EEV return	**2007 £m**	**2006 £m**
New business contribution (after the effect of required capital)	912	683
Profit from existing business		
– expected return	1,266	1,011
– experience variances	(16)	(50)
– operating assumption changes	114	44
Expected return on shareholders' net worth	477	345
Life EEV operating return before tax	**2,753**	**2,033**
Investment return variances	(450)	319
Effect of economic assumption changes	517	671
Life EEV return before tax	2,820	3,023
Tax on operating profit	(819)	(630)
Tax charge on other ordinary activities	(1)	(295)
Life EEV return after tax	**2,000**	**2,098**

There were no separate development costs reported in these years.

3. New business contribution

The table below sets out the premium volumes, the contribution from and the resulting margin achieved on new business written by the life and related businesses.

The contribution generated by new business written during the year is the present value of the projected stream of after tax distributable profit from that business. New business contribution before tax is calculated by grossing up the contribution after tax at the full corporation tax rate for UK business and at appropriate rates of tax for other countries. New business contribution has been calculated using the same economic assumptions as those used to determine the embedded value as at the start of the year and operating assumptions used to determine the embedded value as at the end of the year, and is rolled forward to the end of the financial year. New business contribution is shown before and after the effect of required capital, calculated on the same basis as for in-force covered business.

New business sales are expressed on two bases: annual premium equivalent (APE) and the present value of new business premiums (PVNBP). The PVNBP calculation is equal to total single premium sales received in the year plus the discounted value of regular premiums expected to be received over the term of the new contracts, and is expressed at the point of sale. The premium volumes and projection assumptions used to calculate the present value of regular premiums for each product are the same as those used to calculate new business contribution, so the components of the new business margin are on a consistent basis.

(a) Geographical analysis of new business

	Annual premium equivalent		Present value of new business premiums		New business contribution (Before the effect of required capital)		New business margin[1] (Before the effect of required capital)		New business contribution (After the effect of required capital)		New business margin[1] (After the effect of required capital)	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m	2007 %	2006 %	2007 £m	2006 £m	2007 %	2006 %
Life and pensions												
United Kingdom	**1,498**	**1,439**	**11,655**	**11,146**	**360**	**327**	**3.1%**	**2.9%**	**305**	**263**	**2.6%**	**2.4%**
France	406	391	3,662	3,552	169	153	4.6%	4.3%	117	110	3.2%	3.1%
Ireland	256	190	1,730	1,273	30	15	1.7%	1.2%	25	9	1.4%	0.7%
Italy	343	323	2,924	2,768	82	70	2.8%	2.5%	61	50	2.1%	1.8%
Netherlands (including Belgium and Germany)	335	270	2,944	2,346	93	56	3.2%	2.4%	53	25	1.8%	1.1%
Poland	105	72	844	534	35	28	4.1%	5.2%	32	25	3.8%	4.7%
Spain	290	248	2,392	2,059	189	184	7.9%	8.9%	173	168	7.2%	8.2%
Other Europe	85	63	418	308	-	(4)	-	(1.3)%	(5)	(6)	(1.2)%	(1.9)%
Europe	**1,820**	**1,557**	**14,914**	**12,840**	**598**	**502**	**4.0%**	**3.9%**	**456**	**381**	**3.1%**	**3.0%**
North America	**378**	**97**	**3,602**	**884**	**154**	**20**	**4.3%**	**2.3%**	**108**	**8**	**3.0%**	**0.9%**
Asia	160	107	990	685	36	26	3.6%	3.8%	27	22	2.7%	3.2%
Australia	80	58	439	297	26	17	5.9%	5.7%	16	9	3.6%	3.0%
Asia Pacific	**240**	**165**	**1,429**	**982**	**62**	**43**	**4.3%**	**4.4%**	**43**	**31**	**3.0%**	**3.2%**
Total life and pensions	**3,936**	**3,258**	**31,600**	**25,852**	**1,174**	**892**	**3.7%**	**3.5%**	**912**	**683**	**2.9%**	**2.6%**
Investment sales	761	534	6,983	4,910								
Total long-term savings (including share of associates and joint ventures)[2]	**4,697**	**3,792**	**38,583**	**30,762**								

1. New business margin represents the ratio of new business contribution to PVNBP, expressed as a percentage.
2. Total long-term savings includes investment sales. Investment sales are calculated as new single premiums plus annualised value of new regular premiums.

3. New business contribution (continued)

(b) Analysis of new business by distribution channel

(i) Before the effect of required capital, tax and minority interest

	Annual premium equivalent		Present value of new business premiums		New business contribution		New business margin	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m	2007 %	2006 %
Analysed between:								
- Principal bancassurance channels	1,016	942	8,281	7,737	397	369	4.8%	4.8%
- Other distribution channels	2,920	2,316	23,319	18,115	777	523	3.3%	2.9%
Total	**3,936**	**3,258**	**31,600**	**25,852**	**1,174**	**892**	**3.7%**	**3.5%**

(ii) After the effect of required capital, tax and minority interest

	Annual premium equivalent		Present value of new business premiums		New business contribution		New business margin	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m	2007 %	2006 %
Analysed between:								
- Principal bancassurance channels	590	553	4,730	4,465	133	121	2.8%	2.7%
– Other distribution channels	2,839	2,252	22,674	17,607	396	255	1.7%	1.4%
Total	**3,429**	**2,805**	**27,404**	**22,072**	**529**	**376**	**1.9%**	**1.7%**

(c) 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 14.1% for 2007 (2006: 12.6%).

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.

				2007
	Internal rate of return %	Initial capital £m	Required capital £m	Total invested capital £m
United Kingdom	**13%**	**275**	**138**	**413**
France	13%	30	108	138
Ireland	10%	66	27	93
Italy	17%	6	48	54
Netherlands (including Belgium and Germany)	8%	68	144	212
Poland	22%	20	10	30
Spain	32%	22	73	95
Other Europe	12%	50	4	54
Europe	**14%**	**262**	**414**	**676**
North America	**14%**	**103**	**224**	**327**
Asia Pacific	**20%**	**46**	**34**	**80**
Total	**14%**	**686**	**810**	**1,496**

The total initial capital for life and pensions new business for 2007 of £686 million (2006: £633 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 £649 million (2006: £602 million) shown on page 31, because the latter amount includes expected profits from the point of sale to the end of the reporting year, partly offset by the cost of holding the initial capital.

4. Geographical analysis of the components of life EEV operating return

2007 £m	UK	France	Ireland	Italy	Nether-lands	Poland	Spain	Other Europe	Europe	North America	Asia	Australia	Asia Pacific	Total
New business contribution (after the effect of required capital)	**305**	117	25	61	53	32	173	(5)	**456**	**108**	27	16	**43**	**912**
Profit from existing business														
- expected return	**538**	163	45	37	192	62	65	16	**580**	**114**	13	21	**34**	**1,266**
- experience variances:														
Maintenance expense	**10**	4	(4)	(2)	(3)	3	(1)	(5)	**(8)**	**(2)**	(1)	-	**(1)**	**(1)**
Project and other related expenses[1]	**(90)**	9	(3)	-	(19)	-	(2)	(8)	**(23)**	**(17)**	(2)	(3)	**(5)**	**(135)**
Mortality/Morbidity[2]	**14**	27	(1)	1	7	14	(4)	3	**47**	**(3)**	8	3	**11**	**69**
Lapses[3]	**(5)**	10	3	(6)	(9)	23	(9)	3	**15**	**-**	(4)	(1)	**(5)**	**5**
Other[4]	**26**	3	(5)	7	(3)	9	10	(3)	**18**	**(1)**	-	3	**3**	**46**
	(45)	53	(10)	-	(27)	49	(6)	(10)	**49**	**(23)**	1	2	**3**	**(16)**
- operating assumption changes:														
Maintenance expenses[5]	**7**	2	(1)	(2)	-	5	-	(8)	**(4)**	**(30)**	1	-	**1**	**(26)**
Project and other related expenses	**(2)**	(1)	-	-	(7)	-	-	(9)	**(17)**	**-**	-	-	**-**	**(19)**
Mortality/Morbidity[6]	**(133)**	(2)	-	3	(31)	14	(8)	(1)	**(25)**	**-**	(1)	4	**3**	**(155)**
Lapses[7]	**(6)**	-	-	(2)	2	35	(16)	4	**23**	**(8)**	(4)	(2)	**(6)**	**3**
Other[8]	**108**	122	-	7	12	-	16	5	**162**	**42**	-	(1)	**(1)**	**311**
	(26)	121	(1)	6	(24)	54	(8)	(9)	**139**	**4**	(4)	1	**(3)**	**114**
Expected return on shareholders' net worth	**92**	83	18	33	158	9	15	3	**319**	**52**	6	8	**14**	**477**
Life EEV operating return before tax	**864**	537	77	137	352	206	239	(5)	**1,543**	**255**	43	48	**91**	**2,753**

1. Project and other related expenses in the UK reflect project costs associated with strategic initiatives, including developments designed to offer simpler products to customers, and the simplification of systems and processes. In the Netherlands, project costs mainly represent one-off restructuring costs in the Dutch businesses. In the USA, expenses reflect a number of one-off expenses including management incentive rewards, brand awareness and investment in strategic systems.
2. Mortality experience continues to be better than the assumptions set across a number of our businesses.
3. Lapse experience in Poland continues to be better than the long-term assumptions set for both Life and Pension products.
4. In the UK, other experience profits include better than assumed default experience on corporate bonds and commercial mortgages.
5. In the USA, expense assumptions have been strengthened following investment to support the growth in the business.
6. In the UK, the allowance for annuitant mortality improvement has been strengthened, by increasing the minimum rates of improvement.
7. In Poland lapse assumptions have been changed following continued favourable experience. In Spain, lapse assumptions have been strengthened mainly on risk products.
8. In the UK, other operating assumption changes include the reduction in the level of required capital assumed on the company's annuity portfolio. In France, other operating assumption changes reflect increased profitability driven by product development and the increased proportion of unit-linked assets within managed funds. In the USA, other assumption changes relate to the implementation of the AXXX securitisation, an efficient financing solution to free up capital previously held to support excessive regulatory reserves.

4. Geographical analysis of the components of life EEV operating return (continued)

2006 £m

	UK	France	Ireland	Italy	Nether-lands	Poland	Spain	Other Europe	**Europe**	**North America**	Asia	Australia	**Asia Pacific**	**Total**
New business contribution (after the effect of required capital)	**263**	110	9	50	25	25	168	(6)	**381**	**8**	22	9	**31**	**683**
Profit from existing business														
- expected return	**474**	142	41	26	158	52	53	9	**481**	**29**	10	17	**27**	**1,011**
- experience variances:														
Maintenance expenses	**13**	9	4	(1)	(11)	5	(2)	(2)	**2**	**-**	-	(2)	**(2)**	**13**
Project and other related expenses[1]	**(149)**	1	(4)	-	(23)	-	(1)	(2)	**(29)**	**-**	-	-	**-**	**(178)**
Mortality/Morbidity [2]	**(13)**	33	(2)	4	3	16	1	2	**57**	**-**	8	7	**15**	**59**
Lapses [3]	**(66)**	8	(9)	(8)	2	21	(1)	(2)	**11**	**(9)**	(6)	3	**(3)**	**(67)**
Other [4]	**75**	20	(9)	6	20	3	11	(1)	**50**	**(2)**	(2)	2	**-**	**123**
	(140)	71	(20)	1	(9)	45	8	(5)	**91**	**(11)**	-	10	**10**	**(50)**
- operating assumption changes:														
Maintenance expenses[5]	**58**	-	(3)	-	60	(3)	-	(11)	**43**	**(12)**	(1)	(5)	**(6)**	**83**
Project and other related expenses[6]	**(46)**	(2)	(22)	-	(9)	-	-	(3)	**(36)**	**-**	-	-	**-**	**(82)**
Mortality/Morbidity[7]	**57**	45	(13)	-	-	17	-	(1)	**48**	**3**	4	7	**11**	**119**
Lapses[8]	**(224)**	(41)	(47)	-	(14)	17	(21)	(1)	**(107)**	**-**	-	2	**2**	**(329)**
Other[9]	**215**	9	-	2	19	1	2	3	**36**	**-**	(1)	3	**2**	**253**
	60	11	(85)	2	56	32	(19)	(13)	**(16)**	**(9)**	2	7	**9**	**44**
Expected return on shareholders' net worth	**87**	68	15	31	99	8	11	2	**234**	**15**	3	6	**9**	**345**
Life EEV operating return before tax	**744**	402	(40)	110	329	162	221	(13)	**1,171**	**32**	37	49	**86**	**2,033**

1. Project and other related expenses in the UK reflect £32 million relating to the ongoing transformation of the life business and £117 million of other exceptional and project costs associated with strategic initiatives, including developments designed to improve the future new business volumes, and regulatory changes. In the Netherlands, these expenses reflect higher project costs compared to allowances as well as the payment to ABN AMRO in respect of the joint venture operations.
2. Mortality experience continues to be better than the assumptions set across many of our businesses.
3. Lapse experience in the UK has been worse than assumed and primarily relates to bonds and pensions. In Poland, lapses for both life and pension products have been lower than assumed resulting in the favourable experience variance.
4. In the UK, other experience profits include better than assumed default experience on corporate bonds and mortgages, and the benefit of higher than expected performance fees in Morley.
5. Maintenance expenses in the UK relate to Morley's change in profit margin. The change in Delta Lloyd is also driven by improved asset management profitability. The adverse movement in North America is due to a reassessment of expenses in our Boston-based operations.
6. In the UK, exceptional expenses relate to short-term project costs and capitalisation of reorganisation costs. Ireland reflects changes in expense assumptions regarding the future attribution of investment income and expenses between policyholders and shareholders.
7. The change in mortality assumptions in the UK includes an alignment in the basis for internal business. Mortality assumptions in France were changed following improvements in mortality experience over the last few years.
8. In the UK, the lapse assumption change relates to bonds and pension business while the change in Ireland relates to the Celebration Bond and unit-linked bonds. In France, lapse assumptions have been changed for non-AFER business in Aviva Vie. In Spain, lapse assumptions have been changed for risk business and some savings products.
9. In the UK, the assumption changes reflect the beneficial impact of the with-profit funds sharing the pension scheme deficit funding (£126 million) and the impact of PS06/14, primarily in reducing the non-profit reserves (£50 million). In Delta Lloyd the impact is due to changes to management fee rebates.

5. Analysis of movement in life and related businesses embedded value

The following tables provide an analysis of the movement in embedded value for the life and related businesses for 2007 and 2006. The analysis is shown separately for net worth and the value of in-force covered business, and includes amounts transferred between these categories. The transfer to life and related businesses from other segments consists of service company profits and losses during the reported year that have emerged from the value of in-force. Since the "look through" into service companies includes only future profits and losses, these amounts must be eliminated from the closing embedded value. All figures are shown net of tax.

		2007 Net worth £m	Value of in-force £m	Total £m
Embedded value at the beginning of the year	– Free surplus	3,569		
	– Required capital[1]	5,314		
	Total	**8,883**	**9,215**	**18,098**
New business contribution (after the effect of required capital)		(649)	1,285	636
Expected return on existing business – return on VIF		-	892	892
Expected return on existing business – transfer to net worth		1,216	(1,216)	-
Experience variances and operating assumption changes		342	(270)	72
Expected return on shareholders' net worth		334	-	334
Investment return variances and economic assumption changes		539	(473)	66
Life EEV return after tax		**1,782**	**218**	**2,000**
Exchange rate movements		572	402	974
Embedded value of business acquired		84	26	110
Net amounts released from life and related businesses		(795)	-	(795)
Transfer from life and related businesses to other segments		(68)	-	(68)
Embedded value at the end of the year	– Free surplus	4,127		
	– Required capital[1]	6,331		
	Total	**10,458**	**9,861**	**20,319**

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

The embedded value of business acquired in the twelve months to 31 December 2007 of £110 million represents the embedded value of Hamilton Life Assurance Company Limited, Area Life International Assurance Limited and Erasmus Groep BV, Caja de Ahorros De Murcia, Aviva SA Emeklilik ve Hayat A.Ş CIMB Aviva Takaful Berhad, CIMB Aviva Assurance Berhad and First Aviva Life Assurance Co., Ltd.

Required capital has increased in the period by £1,017 million. The movement comprises an increase of £810 million in relation to new business written, a reduction of £372 million regarding in-force business, an increase of £197 million due to a reduction in implicit items, £46 million additional in-force required capital relating to the acquisitions during the period and a £336 million increase due to foreign exchange rate movements. The decrease in the in-force business required capital includes the impact of the higher solvency margin required for certain unit linked business, following clarification by the French regulator to the industry and the reduction in the level of required capital for UK annuities.

		2006 Net worth £m	Value of in-force £m	Total £m
Embedded value at the beginning of the year	– Free surplus	2,772		
	– Required capital[1]	4,448		
	Total	**7,220**	**7,893**	**15,113**
New business contribution (after the effect of required capital)		(602)	1,071	469
Expected return on existing business – return on VIF		-	710	710
Expected return on existing business – transfer to net worth		1,023	(1,023)	-
Experience variances and operating assumption changes		400	(415)	(15)
Expected return on shareholders' net worth		239	-	239
Investment return variances and economic assumption changes		355	340	695
Life EEV return after tax		**1,415**	**683**	**2,098**
Exchange rate movements		(189)	(120)	(309)
Embedded value of business acquired		675	759	1,434
Net amounts released from life and related businesses		(253)	-	(253)
Transfer to life and related businesses from other segments		113	-	113
UK pension fund deficit borne by UK with-profit funds transferred to analysis of net assets on an EEV basis[2]		(98)	-	(98)
Embedded value at the end of the year	– Free surplus	3,569		
	– Required capital[1]	5,314		
	Total	**8,883**	**9,215**	**18,098**

1. Required capital is shown net of implicit items permitted by local regulators to cover minimum solvency margins.
2. The impact of the operating assumption change reflecting the UK with-profits funds contribution to the UK pension scheme deficit funding has been removed from the live EEV analysis as the pension fund deficit notionally allocated to long-term business net assets on an EEV basis is net of the proportion of funding borne by the UK with-profit funds.

6. Segmental analysis of life and related businesses embedded value

	Net worth		Value of in-force covered business		2007 Total
	Required capital[1]	Free surplus	Present value of in-force	Cost of required capital	Embedded value
	£m	£m	£m	£m	£m
United Kingdom	**1,307**	**1,338**	**4,816**	**(355)**	**7,106**
France	1,510	74	1,416	(340)	2,660
Ireland	267	213	564	(45)	999
Italy	305	464	299	(61)	1,007
Netherlands (including Belgium and Germany)	1,456	1,557	1,605	(442)	4,176
Poland	129	128	726	(41)	942
Spain	316	87	714	(69)	1,048
Other Europe	24	33	110	(11)	156
Europe	**4,007**	**2,556**	**5,434**	**(1,009)**	**10,988**
North America [2]	**776**	**46**	**918**	**(152)**	**1,588**
Asia Pacific	**241**	**187**	**281**	**(72)**	**637**
Total	**6,331**	**4,127**	**11,449**	**(1,588)**	**20,319**

1. Required capital is shown net of implicit items permitted by local regulators to cover minimum solvency margins.
2. AmerUs holding company debt amounting to £349 million at 31 December 2007 (2006: £362 million) has been included within other operations.

	Net worth		Value of in-force covered business		2006 Total
	Required capital[1]	Free surplus	Present value of in-force	Cost of required capital	Embedded value
	£m	£m	£m	£m	£m
United Kingdom	**1,334**	**641**	**5,103**	**(442)**	**6,636**
France	1,143	250	1,142	(244)	2,291
Ireland	254	143	535	(40)	892
Italy	320	329	206	(63)	792
Netherlands (including Belgium and Germany)	1,067	1,701	1,461	(362)	3,867
Poland	105	107	540	(33)	719
Spain	273	37	606	(59)	857
Other Europe	18	25	75	(12)	106
Europe	**3,180**	**2,592**	**4,565**	**(813)**	**9,524**
North America	**618**	**211**	**794**	**(145)**	**1,478**
Asia Pacific	**182**	**125**	**204**	**(51)**	**460**
Total	**5,314**	**3,569**	**10,666**	**(1,451)**	**18,098**

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

The shareholders' net worth is the market value of the shareholders' funds and the shareholders' interest in the surplus held in the non-profit component of the long-term business funds, determined on a statutory solvency basis and adjusted to add back any non-admissible assets. Required capital, net of implicit items, is included within the net worth.

The value of in-force covered business includes 'cost of required capital' - the effect of holding shareholders' capital to support the level of required capital and allowing for projected future releases.

7. Time value of options and guarantees

The following table sets out the time value of options and guarantees relating to covered business by territory.

	2007 £m	2006 £m
United Kingdom	**50**	**50**
France	89	77
Ireland	2	2
Italy	22	17
Netherlands (including Belgium and Germany)	129	146
Poland	4	4
Spain	4	4
Other Europe	1	-
Europe	**251**	**250**
North America	**85**	**68**
Asia Pacific	**6**	**4**
Total	**392**	**372**

The time value of options and guarantees (TVOG) is most significant in the United Kingdom, France, the Netherlands and the United States. In the United Kingdom, this relates mainly to non-market value adjustment (MVA) guarantees on unitised with-profit business and guaranteed annuity rates. In France, this relates mainly to guaranteed crediting rates and surrender values on traditional business including the AFER fund. In the Netherlands, this relates mainly to maturity guarantees on unit-linked products and interest rate guarantees on traditional individual and group profit sharing business. In the United States, this relates to crediting rate, death benefit and surrender guarantees on life business.

The TVOG has increased by £20 million to £392 million reflecting the impact of adverse investment variances.

8. 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 include NU Life Services Limited (UK), Morley (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:

	2007			2006
	Fund management £m	Other operations £m	Total £m	Total £m
United Kingdom	148	(146)	2	(28)
France	143	26	169	71
Netherlands	92	(59)	33	7
Other	27	8	35	30
Total	**410**	**(171)**	**239**	**80**

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 businesses operating expenditure, comprising acquisition, maintenance and project costs. Costs are recharged to the UK Life companies (the product companies) on the basis of pre-determined Management Services Agreements (MSAs) which 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.

9. Geographical analysis of fund management operating profit

The summarised consolidated income statement – EEV basis, includes profit from the Group's fund management operations as analysed below. As explained in note 8, this excludes the proportion of the results of Morley's fund management businesses, of our French asset management operation Aviva Gestion d'Actifs (AGA) and other fund management operations within the Group that arises from the provision of fund management services to our Life businesses. These results are included within the Life EEV operating return.

	2007 £m	2006 £m
UK business	40	35
International business	11	9
Morley	51	44
Royal Bank of Scotland	(9)	(7)
Norwich Union investment funds	(1)	1
United Kingdom	**41**	**38**
France	10	10
Netherlands	17	33
Other Europe	4	3
Europe	**31**	**46**
North America	**3**	**3**
Asia Pacific	**15**	**9**
Total	**90**	**96**

10. Analysis of other operations and regional costs

The summarised consolidated income statement – EEV basis, includes the results of the Group's other operations as analysed below. Where subsidiaries provide services to our life business, that proportion has been excluded. These results are included within the life EEV operating return.

	2007 £m	2006 £m
United Kingdom	**(8)**	**36**
Europe	**(45)**	**(53)**
North America	**(4)**	**-**
Asia Pacific	**(13)**	**(6)**
Total	**(70)**	**(23)**

11. Summary of minority interest in life and related businesses' EEV results[1]

2007 £m

	France	Ireland	Italy	Netherlands	Poland	Spain	Europe	Asia Pacific	Total	Shareholder interest	Group
Minority interest											
New business contribution before effect of required capital	25	6	48	6	4	103	**192**	**1**	**193**	**981**	**1,174**
Effect of required capital	(11)	(1)	(13)	(3)	-	(9)	**(37)**	**-**	**(37)**	**(225)**	**(262)**
New business contribution after effect of required capital	14	5	35	3	4	94	**155**	**1**	**156**	**756**	**912**
Life EEV operating return before tax	43	20	75	21	25	124	**308**	**3**	**311**	**2,442**	**2,753**
Life EEV return after tax	23	15	76	8	23	75	**220**	**2**	**222**	**1,778**	**2,000**
Closing life and related businesses' embedded value	214	243	532	127	119	473	**1,708**	**11**	**1,719**	**18,600**	**20,319**

2006 £m

	France	Ireland	Italy	Netherlands	Poland	Spain	Europe	Asia Pacific	Total	Shareholder interest	Group
Minority interest											
New business contribution before effect of required capital	24	3	41	9	4	93	**174**	**1**	**175**	**717**	**892**
Effect of required capital	(9)	(2)	(12)	(2)	(1)	(7)	**(33)**	**-**	**(33)**	**(176)**	**(209)**
New business contribution after effect of required capital	15	1	29	7	3	86	**141**	**1**	**142**	**541**	**683**
Life EEV operating return before tax	33	(11)	60	30	25	108	**245**	**2**	**247**	**1,786**	**2,033**
Life EEV return after tax	16	(7)	46	22	24	79	**180**	**4**	**184**	**1,914**	**2,098**
Closing life and related businesses' embedded value	162	216	413	102	118	366	**1,377**	**10**	**1,387**	**16,711**	**18,098**

1. There are no minorities in the United Kingdom or North America.

12. Principal economic assumptions

(a) Deterministic calculations

Economic assumptions are derived actively, based on market yields on risk-free fixed interest assets at the end of each reporting year. The same margins are applied on a consistent basis across the Group to gross risk-free yields to obtain investment return assumptions for ordinary shares and property and to produce risk discount rates. Additional country-specific risk margins are applied to smaller businesses to reflect additional economic, political and business-specific risk, which result in the application of risk margins ranging from 3.7% to 8.7% in our eastern European and Asian business operations. Expense inflation is derived as a fixed margin above a local measure of long-term price inflation. Risk free rates and price inflation have been harmonised across territories within the Euro currency zone, except for expense inflation in Ireland where significant differences remain. Required capital is shown as a multiple of the EU statutory minimum solvency margin or equivalent.

Investment return assumptions are generally derived by major product class, based on hypothecating the assets at the valuation date. Future assumed reinvestment rates are consistent with implied market returns at 31 December 2007. Rates have been derived using rates from the current yield curve at a duration based on the term of the liabilities, or directly from forward yield curves where considered appropriate. Assumptions about future investment mix are consistent with long-term plans. In most cases, the investment mix is assumed to continue unchanged throughout the projection period. The changes in assumptions between reporting dates reflect the actual movements in risk free yields in the United Kingdom, the Eurozone and other territories. The principal economic assumptions used are as follows:

	United Kingdom			France		
	2007	**2006**	**2005**	**2007**	**2006**	**2005**
Risk discount rate	7.3%	7.3%	6.8%	7.1%	6.7%	6.0%
Pre-tax investment returns:						
Base government fixed interest	4.6%	4.6%	4.1%	4.4%	4.0%	3.3%
Ordinary shares	7.6%	7.6%	7.1%	7.4%	7.0%	6.3%
Property	6.6%	6.6%	6.1%	6.4%	6.0%	5.3%
Future expense inflation	3.5%	3.4%	3.2%	2.5%	2.5%	2.5%
Tax rate	28.0%	30.0%	30.0%	34.4%	34.4%	34.4%
Required Capital (% EU minimum)	100%	150% / 100%	150% / 100%	115%	115%	115%

	Ireland			Italy		
	2007	**2006**	**2005**	**2007**	**2006**	**2005**
Risk discount rate	7.1%	6.7%	6.0%	7.1%	6.7%	6.0%
Pre-tax investment returns:						
Base government fixed interest	4.4%	4.0%	3.3%	4.4%	4.0%	3.3%
Ordinary shares	7.4%	7.0%	6.3%	7.4%	7.0%	6.3%
Property	6.4%	6.0%	5.3%	6.4%	6.0%	5.3%
Future expense inflation	4.0%	4.0%	4.0%	2.5%	2.5%	2.5%
Tax rate	12.5%	12.5%	12.5%	32.4%	38.3%	38.3%
Required Capital (% EU minimum)	150%	150%	150%	115%	115%	115%

	Netherlands			Poland		
	2007	**2006**	**2005**	**2007**	**2006**	**2005**
Risk discount rate	7.1%	6.7%	6.0%	9.4%	8.7%	8.6%
Pre-tax investment returns:						
Base government fixed interest	4.4%	4.0%	3.3%	5.7%	5.0%	4.9%
Ordinary shares	7.4%	7.0%	6.3%	8.7%	8.0%	7.9%
Property	6.4%	6.0%	5.3%	n/a	n/a	n/a
Future expense inflation	2.5%	2.5%	2.5%	4.1%	3.4%	3.3%
Tax rate	25.5%	25.5%	29.1%	19.0%	19.0%	19.0%
Required Capital (% EU minimum)	150%	150%	150%	150%	150%	150%

	Spain			United States		
	2007	**2006**	**2005**	**2007**	**2006***	**2005**
Risk discount rate	7.1%	6.7%	6.0%	6.7%	7.4%	7.2%
Pre-tax investment returns:						
Base government fixed interest	4.4%	4.0%	3.3%	4.0%	4.7%	4.5%
Ordinary shares	7.4%	7.0%	6.3%	7.0%	7.7%	n/a
Property	6.4%	6.0%	5.3%	n/a	n/a	n/a
Future expense inflation	2.5%	2.5%	2.5%	3.0%	3.0%	3.0%
Tax rate	30.0%	30.0%	35.0%	35.0%	35.0%	35.0%
Required Capital (% EU minimum, or equivalent)	125% / 110%	125% / 110%	125% / 110%	250%	250%	200%

* The principal economic assumptions used for AmerUs Group Co. at the date of acquisition were as follows: risk discount rate of 7.2%, pre-tax investment returns of 4.6% for base government fixed interest and required capital of 250%.

For service companies, expense inflation relates to the underlying expenses rather than the fees charged to the life company. Future returns on corporate fixed interest investments are calculated from prospective yields less an adjustment for credit risk. Following the change made to the required capital in Norwich Union Annuity Limited (NUA), required capital in the United Kingdom is now 100% Required capital in Spain is 125% EU minimum for Aviva Vida y Pensiones and 110% for bancassurance companies. The level of required capital for the US business is 250% of the risk based capital, at the company action level, set by the National Association of Insurance Commissioners. The required capital is equivalent to 5% of the insurance liabilities on a local regulatory basis which is broadly equivalent to the required capital we hold for our main European businesses.

12. Principal economic assumptions (continued)

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.

(b) Stochastic calculations

The time value of options and guarantees calculation allows for expected management and policyholder actions in response to varying future investment conditions. The management actions modelled include changes to asset mix and bonus rates. Modelled policyholder actions are described under "Other assumptions".

This section describes the models used to generate future investment simulations and gives some sample statistics for the simulations used. Two separate models have been used, for the UK businesses and for International businesses, to better reflect the characteristics of the businesses.

United Kingdom

Model
Overall asset returns have been generated assuming that the portfolio total return has a lognormal distribution. The mean and standard deviation of the overall asset return have been calculated using the evolving asset mix of the fund and assumptions over the mean and standard deviation of each asset class, together with the correlations between them.

Asset Classes
The significant asset classes for UK participating business are equities, property and long-term fixed rate bonds. The most significant assumption is the distribution of future long-term interest rates, since this is the most important factor in the cost of guaranteed annuity options.

Summary Statistics
The following table sets out the mean and standard deviations (StDev) of future returns at 31 December 2007 for the three most significant asset classes. Interest rates are assumed to have a lognormal distribution with an annualised standard deviation of 11.5% p.a. for the natural logarithm of the interest rate.

	Mean[1]	StDev[2]
Equities	7.6%	20%
Property	6.6%	15%
Government Bonds	4.6%	3.25-4.5%[3]

1. Means have been calculated by accumulating a unit investment for the required number of years in each simulation, averaging the accumulation across all simulations, and converting the result to an equivalent annual rate (by taking the nth root of the average accumulation minus one).
2. Standard deviations have been calculated by accumulating a unit investment for the required number of years in each simulation, taking the natural logarithm of the result, calculating the variance of this statistic, dividing by the projection period (n years) and taking the square root. This makes the result comparable to implied volatilities quoted in investment markets.
3. Depending on the duration of the portfolio.

For the UK, the statistics are the same over all projection horizons. Assumptions are also required for correlations between asset classes. These have been set based on an assessment of historical data. Returns for corporate fixed interest investments in each scenario are equal to the return on Government bonds plus a fixed additional amount, based on current spreads less a margin for credit risk.

International

Model
Government nominal interest rates are generated by a model that projects a full yield curve at annual intervals. The model assumes that the logarithm of the short rate follows a mean reverting process subject to two normally distributed random shocks. This ensures that nominal interest rates are always positive, the distribution of future interest rates remains credible, and the model can be calibrated to give a good fit to the initial yield curve.

The total annual return on equities is calculated as the return on one year bonds plus an excess return. The excess return is assumed to have a lognormal distribution. The model also generates property total returns and real yield curves, although these are not significant asset classes for Aviva outside the UK.

Asset Classes
The most important assets are fixed rate bonds of various durations. In some businesses equities are also an important asset class.

Summary Statistics
The following table sets out the means and standard deviations of future euro and US dollar returns at 31 December 2007 for the three most significant asset classes: equities (in the case of euro), short-term bonds (defined to be of one year duration) and long-term bonds (defined to be 10 year zero coupon bonds). In the accumulation of 10 year bonds, it is assumed that these are held for one year, sold as nine 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.

12. Principal economic assumptions (continued)

(b) Stochastic calculations (continued)

	5 – year return		10 – year return		20 – year return	
	Mean[1]	StDev[2]	Mean[1]	StDev[2]	Mean[1]	StDev[2]
Euro						
Short Government Bonds	4.0%	1.9%	4.1%	3.7%	4.4%	6.6%
Long Government Bonds	4.7%	4.8%	4.7%	3.6%	4.7%	3.9%
Equities	7.3%	19.5%	7.3%	19.2%	7.3%	19.2%
US dollar						
Short Government Bonds	3.4%	1.7%	3.9%	3.7%	4.3%	6.6%
Long Government Bonds	4.2%	4.9%	4.6%	3.6%	4.8%	4.1%

1. Means have been calculated by accumulating a unit investment for the required number of years in each simulation, averaging the accumulation across all simulations, and converting the result to an equivalent annual rate (by taking the nth root of the average accumulation minus one).
2. Standard deviations have been calculated by accumulating a unit investment for the required number of years in each simulation, taking the natural logarithm of the result, calculating the variance of this statistic, dividing by the projection period (n years) and taking the square root. This makes the result comparable to implied volatilities quoted in investment markets.

(c) Other assumptions

Taxation
Current tax legislation and rates have been assumed to continue unaltered, except where changes in future tax rates have been announced.

Demographic assumptions
Assumed future mortality, morbidity and lapse rates have been derived from an analysis of Aviva's recent operating experience. Where appropriate, surrender and option take up rate assumptions that vary according to the investment scenario under consideration have been used in the calculation of the time value of options and guarantees, based on our assessment of likely policyholder behaviour in different investment scenarios.

Expense assumptions
Management expenses and operating expenses of holding companies attributed to life and related businesses have been included in the EEV calculations and split between expenses relating to the acquisition of new business, the maintenance of business in-force and project expenses. Future expense assumptions include an allowance for maintenance expenses and a proportion of recurring project expenses. Certain expenses of an exceptional nature, when they occur, are identified separately and are generally charged as incurred. No future productivity gains have been anticipated.

Where subsidiary companies provide administration, investment management or other services to businesses included in the European Embedded Value calculations, the value of profits or losses arising from these services have been included in the embedded value and new business contribution.

Valuation of debt
Borrowings in the EEV consolidated balance sheet are valued on an IFRS basis, consistent with the primary financial statements. At 31 December 2007 the market value of the Group's external debt, subordinated debt, preference shares including General Accident plc preference shares of £250 million (classified as minority interests) and direct capital instrument was £5,774 million (2006: £5,991 million).

	2007 £m	2006 £m
Borrowings per summarised consolidated balance sheet – EEV basis	**12,657**	**12,137**
Add: amount included within held for sale	12	-
Less: Securitised mortgage funding	(7,295)	(7,068)
Borrowings excluding non-recourse funding - EEV basis	5,374	5,069
Less: Operational financing by businesses	(1,063)	(874)
External debt and subordinated debt – EEV basis	4,311	4,195
Add: Preference shares (including General Accident plc) and direct capital instrument	1,440	1,440
External debt, subordinated debt, preference shares and direct capital instrument – EEV basis	5,751	5,635
Effect of marking these instruments to market	23	356
Market value of external debt, subordinated debt, preference shares and direct capital instrument	**5,774**	**5,991**

Other
It has been assumed that there will be no changes to the methods and bases used to calculate the statutory technical provisions and current surrender values, except where driven by varying future investment conditions under stochastic economic scenarios.

13. Sensitivity analysis

(a) Economic assumptions

The following tables show the sensitivity of the embedded value as at 31 December 2007 and the new business contribution before the effect of required capital for 2007 to:

- one percentage point increase and decrease in the discount rates;
- one percentage point increase and decrease in interest rates, including all consequential changes (including assumed investment returns for all asset classes, market values of fixed interest assets, risk discount rates);
- one percentage point increase and decrease in the assumed investment returns for equity and property investments, excluding any consequential changes to the risk discount rate;
- 10% rise and fall in market value of equity and property assets (not applicable for new business contribution); and
- decrease in the level of required capital to 100% EU minimum (or equivalent) (not applicable for new business contribution).

In each sensitivity calculation, all other assumptions remain unchanged except where they are directly affected by the revised economic conditions. For example, future bonus rates are automatically adjusted to reflect sensitivity changes to future investment returns. Some of the sensitivity scenarios may have consequential effects on valuation bases, where the basis for certain blocks of business is actively updated to reflect current economic circumstances. Consequential valuation impacts on the sensitivities are allowed for where an active valuation basis is used. Where businesses have a target asset mix, the portfolio is re-balanced after a significant market movement otherwise no re-balancing is assumed.

Embedded value (net of tax) 31 December 2007	**As reported on page 32 £m**	**1% increase in discount rates £m**	**1% decrease in discount rates £m**	**1% increase in interest rates £m**	**1% decrease in interest rates £m**
United Kingdom	**7,106**	**(465)**	**540**	**(390)**	**460**
France	2,660	(170)	195	(150)	135
Ireland	999	(40)	45	(40)	50
Italy	1,007	(25)	30	(55)	(35)
Netherlands (including Belgium and Germany)	4,176	(205)	245	5	(220)
Poland	942	(50)	55	(20)	20
Spain	1,048	(50)	60	(30)	30
Other Europe	156	(5)	5	-	-
Europe	**10,988**	**(545)**	**635**	**(290)**	**(20)**
North America	**1,588**	**(85)**	**95**	**(165)**	**160**
Asia Pacific	**637**	**(20)**	**25**	**(10)**	**5**
Total	**20,319**	**(1,115)**	**1,295**	**(855)**	**605**

Embedded value (net of tax) 31 December 2007	**As reported on page 32 £m**	**1% increase in equity / property returns £m**	**1% decrease in equity / property returns £m**	**10% rise in equity / property market values £m**	**10% fall in equity / property market values £m**	**EU minimum capital (or equivalent) £m**
United Kingdom	**7,106**	**225**	**(225)**	**435**	**(445)**	**-**
France	2,660	100	(95)	130	(135)	55
Ireland	999	15	(15)	30	(30)	15
Italy	1,007	5	(5)	15	(25)	10
Netherlands (including Belgium and Germany)	4,176	265	(275)	475	(470)	125
Poland	942	10	(15)	20	(20)	15
Spain	1,048	10	(10)	15	(15)	5
Other Europe	156	-	-	-	(5)	-
Europe	**10,988**	**405**	**(415)**	**685**	**(700)**	**225**
North America	**1,588**	**15**	**(20)**	**-**	**-**	**90**
Asia Pacific	**637**	**5**	**(5)**	**10**	**(10)**	**10**
Total	**20,319**	**650**	**(665)**	**1,130**	**(1,155)**	**325**

13. Sensitivity analysis (continued)

(a) Economic assumptions (continued)

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.

Sensitivities to a 1% movement in the equity/property return will only impact the value of the in-force covered business, whereas a 10% movement in equity/property values may impact both the net worth and the value of in-force, depending on the allocation of assets.

New business contribution before required capital (gross of tax) 31 December 2007	**As reported on page 27 £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	**360**	**(53)**	**64**	**(17)**	**21**
France	169	(15)	17	(2)	-
Ireland	30	(5)	6	(3)	4
Italy	82	(4)	4	-	(3)
Netherlands (including Belgium and Germany)	93	(27)	33	7	(21)
Poland	35	(4)	4	(1)	1
Spain	189	(12)	14	(5)	5
Other Europe	-	-	-	1	(1)
Europe	**598**	**(67)**	**78**	**(3)**	**(15)**
North America	**154**	**(11)**	**11**	**(15)**	**5**
Asia Pacific	**62**	**(6)**	**7**	**6**	**(7)**
Total	**1,174**	**(137)**	**160**	**(29)**	**4**

New business contribution before required capital (gross of tax) 31 December 2007	**As reported on page 27 £m**	**1% increase in equity / property returns £m**	**1% decrease in equity/ property returns £m**
United Kingdom	**360**	**31**	**(31)**
France	169	8	(6)
Ireland	30	3	(3)
Italy	82	1	(1)
Netherlands (including Belgium and Germany)	93	45	(45)
Poland	35	1	(1)
Spain	189	2	(2)
Other Europe	-	-	(1)
Europe	**598**	**60**	**(59)**
North America	**154**	**7**	**(7)**
Asia Pacific	**62**	**4**	**(3)**
Total	**1,174**	**102**	**(100)**

13. Sensitivity analysis (continued)

(b) Non-economic assumptions

The tables below show the sensitivity of the embedded value as at 31 December 2007 and the new business contribution before the effect of required capital for 2007 to the following changes in non-economic assumptions:

- 10% decrease in maintenance expenses (a 10% sensitivity on a base expense assumption of £10pa would represent an expense assumption of £9pa). Where there is a "look through" into service company expenses the fee charged by the service company is unchanged while the underlying expense decreases;
- 10% decrease in lapse rates (a 10% sensitivity on a base assumption of 5% pa would represent a lapse rate of 4.5% pa);
- 5% decrease in both mortality and morbidity rates disclosed separately for life assurance and annuity business.

No future management actions are modelled in reaction to the changing non-economic assumptions. In each sensitivity calculation all other assumptions remain unchanged. No changes to valuation bases have been included.

Embedded value (net of tax) 31 December 2007	**As reported on page 32 £m**	**10% decrease in maintenance expenses £m**	**10% decrease in lapse rates £m**	**5% decrease in mortality / morbidity rates - life assurance £m**	**5% decrease in mortality / morbidity rates - annuity business £m**
United Kingdom	**7,106**	**165**	**95**	**50**	**(140)**
France	2,660	40	40	25	(5)
Ireland	999	15	25	5	(5)
Italy	1,007	5	5	-	-
Netherlands (including Belgium and Germany)	4,176	95	15	20	(55)
Poland	942	20	45	10	-
Spain	1,048	15	50	15	(5)
Other Europe	156	5	5	-	-
Europe	**10,988**	**195**	**185**	**75**	**(70)**
North America	**1,588**	**30**	**10**	**10**	**-**
Asia Pacific	**637**	**10**	**10**	**10**	**-**
Total	**20,319**	**400**	**300**	**145**	**(210)**

New business contribution before required capital (gross of tax) Year to 31 December 2007	**As reported on page 27 £m**	**10% decrease in maintenance expenses £m**	**10% decrease in lapse rates £m**	**5% decrease in mortality / morbidity rates - life assurance £m**	**5% decrease in mortality / morbidity rates - annuity business £m**
United Kingdom	**360**	**19**	**23**	**15**	**(11)**
France	169	5	8	4	-
Ireland	30	2	6	1	-
Italy	82	2	2	1	-
Netherlands (including Belgium and Germany)	93	10	6	3	(14)
Poland	35	2	4	2	-
Spain	189	5	19	5	-
Other Europe	-	1	1	(1)	-
Europe	**598**	**27**	**46**	**15**	**(14)**
North America	**154**	**4**	**3**	**3**	**-**
Asia Pacific	**62**	**6**	**5**	**3**	**-**
Total	**1,174**	**56**	**77**	**36**	**(25)**

The demographic sensitivities shown above represent a standard change to the assumptions for all products. Different products will be more or less sensitive to the change and impacts may partially offset.

IFRS basis

Summarised consolidated income statement – IFRS basis
For the year ended 31 December 2007

Page	2007 €m		2007 £m	Restated 2006 £m
		Income		
62,64	43,137	Premiums written net of reinsurance	29,333	27,234
	(31)	Net change in provision for unearned premiums	(21)	93
	43,106	Net earned premiums	29,312	27,327
	2,588	Fee and commission income	1,760	1,870
	14,453	Net investment income	9,828	15,490
	(447)	Share of (loss)/profit after tax of joint ventures and associates	(304)	485
	72	Profit on the disposal of subsidiaries and associates	49	222
	59,772		**40,645**	**45,394**
		Expenses		
	(39,884)	Claims and benefits paid, net of recoveries from reinsurers	(27,121)	(23,444)
	(5,157)	Change in insurance liabilities, net of reinsurance	(3,507)	(2,620)
	(2,968)	Change in investment contract provisions	(2,018)	(6,002)
	4,297	Change in unallocated divisible surplus	2,922	(558)
	(6,446)	Fee and commission expense	(4,383)	(5,043)
	(5,107)	Other expenses	(3,473)	(3,557)
	(1,776)	Finance costs	(1,208)	(847)
	(57,041)		**(38,788)**	**(42,071)**
	2,731	**Profit before tax**	**1,857**	**3,323**
	(22)	Tax attributable to policyholders' returns	(15)	(346)
	2,709	**Profit before tax attributable to shareholders' profits**	**1,842**	**2,977**
		Tax expense		
	(143)	United Kingdom tax	(97)	(479)
	(375)	Overseas tax	(255)	(455)
	(518)		(352)	(934)
	22	Less: tax attributable to policyholders' returns	15	346
	(496)	Tax attributable to shareholders' profits	(337)	(588)
	2,213	**Profit for the year**	**1,505**	**2,389**
		Attributable to:		
	1,951	Equity shareholders of Aviva plc	1,327	2,215
	262	Minority interests	178	174
	2,213		**1,505**	**2,389**

All profit is from continuing operations.

Page	2007		2007	2006
		Earnings per share – IFRS basis		
59	72.4c	Basic (pence per share)	49.2p	87.5p
59	71.6c	Diluted (pence per share)	48.7p	86.6p

Subsequent to 31 December 2007, the directors proposed a final dividend for 2007 of 21.10p (final 2006: 19.18p) per ordinary share, amounting to £553 million (final 2006: £492 million) in total. Subject to the approval by shareholders at the AGM the dividend will be paid on 16 May 2008 and will be accounted for as an appropriation of retained earnings in the year ending 31 December 2008.

During 2007 the directors declared a final dividend for 2006 of 19.18p per ordinary share (final 2005: 17.44p) and an interim dividend for 2007 of 11.90p per ordinary share (interim 2006: 10.82p) totalling £492 million (2006: £418 million) and £309 million (2005: £275 million) respectively.

Pro forma reconciliation of Group operating profit to profit before tax – IFRS basis
For the year ended 31 December 2007

Page	2007 €m		2007 £m	Restated 2006 £m
		IFRS operating profit before tax attributable to shareholders' profits		
53	2,403	Long-term business	1,634	1,334
54	228	Fund management	155	155
54	1,519	General insurance and health	1,033	1,686
		Other:		
57	(109)	Other operations and regional costs	(74)	(25)
57	(231)	Corporate centre	(157)	(160)
58	(534)	Group debt costs and other interest	(363)	(381)
	3,276	**IFRS operating profit before adjusting items and tax attributable to shareholders' profits**	**2,228**	**2,609**
		Adjusted for the following:		
	22	Investment return variances and economic assumption changes on long-term business	15	401
	(15)	Impairment of goodwill	(10)	(94)
	(151)	Amortisation and impairment of intangibles	(103)	(64)
	(271)	Short-term fluctuation in return on investments backing general insurance and health business	(184)	149
52	73	Profit on the disposal of subsidiaries and associates	49	222
53	(225)	Integration and restructuring costs	(153)	(246)
	2,709	**Profit before tax attributable to shareholders' profits**	**1,842**	**2,977**
		Tax attributable to shareholders' profits		
58	(893)	Operating profit	(607)	(645)
58	397	Other activities	270	57
	(496)		(337)	(588)
	2,213	**Profit for the year**	**1,505**	**2,389**

2006 has been restated to reflect the change in the definition of group operating profit on an International Financial Reporting Standards ("IFRS") basis. See the Basis of preparation note on page 48.

Page	2007		2007	Restated 2006
		Earnings per share – IFRS operating profit basis		
59	72.4c	Basic (pence per share)	53.2p	70.1p
59	71.6c	Diluted (pence per share)	52.7p	69.4p

Consolidated statement of recognised income and expense – IFRS basis
For the year ended 31 December 2007

2007 €m		2007 £m	2006 £m
253	Fair value gains/(losses) on AFS securities, owner-occupied properties and hedging instruments	172	374
(575)	Fair value (gains) transferred to profit	(391)	(162)
-	Impairment losses on revalued assets	-	(2)
13	Share of fair value changes in joint ventures and associates taken to equity	9	-
953	Actuarial gains/(losses) on pension schemes *(note 17c)*	648	(117)
(90)	Actuarial (gains)/losses on pension schemes transferred to unallocated divisible surplus and other movements	(61)	3
1,087	Foreign exchange rate movements	739	(346)
-	Aggregate tax effect – policyholder tax	-	-
(263)	Aggregate tax effect – shareholder tax	(179)	(5)
1,378	**Net income recognised directly in equity**	**937**	**(255)**
2,213	Profit for the year	1,505	2,389
3,591	**Total recognised income and expense for the year**	**2,442**	**2,134**
	Attributable to:		
3,154	Equity shareholders of Aviva plc	2,145	1,978
437	Minority interests	297	156
3,591		**2,442**	**2,134**

Reconciliation of movements in consolidated shareholders' equity – IFRS basis
For the year ended 31 December 2007

2007 €m		2007 £m	2006 £m
19,266	**Balance at 1 January**	**14,064**	**11,092**
3,345	Total recognised income and expense for the year	2,442	2,134
(1,193)	Dividends and appropriations *(note 15)*	(871)	(762)
-	Issue of share capital for the acquisition of AmerUs in 2006, net of transaction costs	-	892
66	Other issues of share capital, net of transaction costs	48	43
412	Shares issued in lieu of dividends	301	203
421	Capital contributions from minority shareholders	307	397
(90)	Minority share of dividends declared in the year	(66)	(75)
434	Minority interest in acquired/(disposed) subsidiaries	317	92
68	Reserves credit for equity compensation plans	50	48
22,729	**Total equity**	**16,592**	**14,064**
(3,498)	**Minority interests**	**(2,553)**	**(1,698)**
19,231	**Balance at 31 December**	**14,039**	**12,366**

Summarised consolidated balance sheet – IFRS basis
As at 31 December 2007

2007 €m		2007 £m	Restated 2006 £m
	Assets		
4,222	Goodwill	3,082	2,910
4,379	Acquired value of in-force business and intangible assets	3,197	2,728
3,529	Interests in, and loans to, joint ventures	2,576	2,795
1,652	Interests in, and loans to, associates	1,206	895
1,290	Property and equipment	942	904
20,653	Investment property	15,077	15,123
49,579	Loans	36,193	28,574
	Financial investments		
162,928	Debt securities	118,937	114,466
76,737	Equity securities	56,018	56,762
55,360	Other investments	40,413	33,050
11,108	Reinsurance assets	8,109	7,825
808	Deferred tax assets	590	1,199
515	Current tax assets	376	344
11,823	Receivables and other financial assets	8,629	8,098
6,147	Deferred acquisition costs and other assets	4,487	3,476
4,090	Prepayments and accrued income	2,986	2,585
21,608	Cash and cash equivalents	15,774	13,117
1,545	Assets of operations classified as held for sale	1,128	-
437,973	**Total assets**	**319,720**	**294,851**
	Equity		
897	Ordinary share capital	655	641
6,156	Capital reserves	4,494	4,460
2,010	Other reserves	1,467	993
8,538	Retained earnings	6,233	5,082
17,601	**Equity attributable to ordinary shareholders of Aviva plc**	**12,849**	**11,176**
1,630	Preference share capital and direct capital instrument	1,190	1,190
3,498	Minority interests	2,553	1,698
22,729	**Total equity**	**16,592**	**14,064**
	Liabilities		
209,644	Gross insurance liabilities	153,040	144,230
134,581	Gross liabilities for investment contracts	98,244	88,358
9,295	Unallocated divisible surplus	6,785	9,465
5,452	Net asset value attributable to unitholders	3,980	3,810
2,653	Provisions	1,937	2,850
3,464	Deferred tax liabilities	2,529	3,077
1,629	Current tax liabilities	1,189	1,262
17,338	Borrowings	12,657	12,137
24,740	Payables and other financial liabilities	18,060	11,364
5,158	Other liabilities	3,765	4,234
1,290	Liabilities of operations classified as held for sale	942	-
415,244	**Total liabilities**	**303,128**	**280,787**
437,973	**Total equity and liabilities**	**319,720**	**294,851**

Summarised consolidated cash flow statement – IFRS basis
For the year ended 31 December 2007

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

	2007			2006
	Long-term business operations £m	Non-long-term business operations £m	Group £m	Restated Group £m
Cash flows from operating activities				
Cash generated from operations	3,215	1,618	4,833	2,474
Tax paid	(423)	(378)	(801)	(595)
Net cash from operating activities	**2,792**	**1,240**	**4,032**	**1,879**
Cash flows from investing activities:				
Acquisition of subsidiaries, joint ventures and associates, net of cash acquired	(661)	(108)	(769)	(1,889)
Disposal of subsidiaries, joint ventures and associates, net of cash transferred	256	27	283	616
Loans to joint ventures and associates	33	-	33	(104)
Purchases of property and equipment	(46)	(181)	(227)	(295)
Proceeds on sale of property and equipment	28	65	93	156
Purchases of intangible assets	(17)	(31)	(48)	(58)
Net cash (used in) / from investing activities	**(407)**	**(228)**	**(635)**	**(1,574)**
Cash flows from financing activities:				
Proceeds from issue of ordinary shares, net of transaction costs	-	48	48	935
Net drawdown of borrowings	286	36	322	901
Interest paid on borrowings	(608)	(600)	(1,208)	(825)
Preference dividends paid	-	(17)	(17)	(17)
Ordinary dividends paid	-	(500)	(500)	(490)
Coupon payments on direct capital instrument	-	(53)	(53)	(52)
Finance lease payments	-	(7)	(7)	(22)
Capital contributions from minority shareholders	278	29	307	304
Dividends paid to minority interests of subsidiaries	(48)	(18)	(66)	(75)
Non-trading cash flows between operations	(444)	444	-	-
Net cash from / (used in) financing activities	**(536)**	**(638)**	**(1,174)**	**659**
Net increase in cash and cash equivalents	1,849	374	2,223	964
Cash and cash equivalents at 1 January	9,388	3,033	12,421	11,623
Effect of exchange rate changes on cash and cash equivalents	464	141	605	(166)
Cash and cash equivalents at 31 December	**11,701**	**3,548**	**15,249**	**12,421**
Cash and cash equivalents at 31 December comprised:				
Cash at bank and in hand	2,740	1,264	4,004	4,087
Cash equivalents	9,144	2,722	11,866	9,030
	11,884	**3,986**	**15,870**	**13,117**
Bank overdrafts	(183)	(438)	(621)	(696)
	11,701	**3,548**	**15,249**	**12,421**

Of the total cash and cash equivalents shown above £96 million has been classified as held for sale (full year 2006: nil).

See the Basis of preparation note on page 48, for an explanation of the 2006 restatement of cash and cash equivalents.

1. Basis of preparation – IFRS

a) From 2005, all European Union listed companies were 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. The results in this preliminary announcement have been prepared in accordance with IFRS applicable at 31 December 2007 and have been taken from the Group's Annual Report and Accounts which will published on 26 March 2008.

The preliminary announcement for the year ended 31 December 2007 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 2007 and 2006 have been audited by Ernst & Young LLP. The auditors have reported on the 2006 and 2007 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 2006 Report and Accounts have been filed with the Registrar of Companies.

b) Change to definition of operating profit

The adoption of IFRS accounting policies in 2005 led to increased volatility in the results of the Group's long-term savings businesses, due primarily to investment market performance and fiscal policy changes. IFRS operating profit is one of the key indicators of performance for the Group and we have therefore changed its definition to disclose the results reflecting longer-term investment performance and reflect certain other changes described below:

The key changes to our definition of IFRS operating profit are:

(i) Operating profit is now based on the investment returns that the Group expects to make on the financial investments that back the shareholder and policyholder funds of its long-term business over the reporting period, rather than the actual returns on these investments. The difference between the expected return and the actual return on investments, and the corresponding impact on liabilities, is shown below the operating profit line.

(ii) The amortisation of acquired value of in-force business (AVIF) on both insurance and investment contracts is now included within operating profit. This change matches the emergence of benefit from the acquired book with the associated amortisation expense.

(iii) The criteria for treating an item as exceptional, outside operating profit, have been refined to limit these to significant items only. Accordingly, the 2006 Financial Services Compensation Scheme levy is now included in operating profit.

(iv) The result for Norwich Union Life Services has been reclassified as long-term business instead of other operations, to match its treatment under EEV.

c) Restatement of prior year figures

i) Gross up for cash collateral received

During 2007 we identified that certain cash collateral transactions should have been historically recognised on the balance sheet, with a corresponding obligation to return this collateral, instead of showing a net nil position. As a result, the figures for loan assets and payables and other financial liabilities as at 31 December 2006 have been restated by increasing them both by £2,129 million. In addition, we identified that the interest paid on cash collateral received and the interest earned from on-lending this cash had previously been offset and reported as net interest income. The 2006 comparative figures have therefore been restated in order to report this interest expense and interest income separately, by increasing both by £17 million.

Neither of these adjustments has any impact on profit for the year, operating profit or earnings per share in 2006, nor retained earnings, net assets or total equity at 31 December 2006.

ii) Restatement of cash equivalents

During the year, we have reviewed the policy for cash and cash equivalents and have determined that certain investments, previously classified as cash equivalents, would be more appropriately classified as financial investments.

The application of this review to prior year balances has led to a reduction of the cash equivalents balance at 31 December 2006 by £1,425 million, with a corresponding increase in the debt securities total of the same amount. This restatement has no impact on net assets or total equity. The effect on the opening balances in the prior year is to reduce cash equivalents and increase debt securities by £1,444 million. The effect on the cash flow statement is therefore to reduct the prior year cash flows from operating activities by £19 million.

d) 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.

e) The results for the year to 31 December 2007 are presented on a regional basis: United Kingdom, Europe, North America and Asia Pacific.

i) The UK region includes the UK life and general insurance businesses, all of the business of Morley as well as the results of Aviva Re, the Group's captive reinsurance business;

ii) Europe incorporates all European operations excluding the UK as set out above;

iii) North America is made up of our life business in the United States and general insurance and fund management businesses in Canada; and

iv) Asia Pacific includes all our Asian and Australian businesses.

f) The Group enters into stock lending transactions and received cash or non-cash collateral to reduce the Group's exposure to counterparty credit risk. Collateral received in the form of cash is then lent out at market rates of interest. During 2007, we identified that certain cash collateral transactions should have been historically recognised on the balance sheet, with a corresponding obligation to return this collateral, instead of showing a net nil position.

As a result, the figures for loan assets and payables and other financial liabilities as at 31 December 2006 have been restated by increasing them both by £2,129 million. The equivalent adjustment at 1 January 2006, the start of the comparative period, would have been to increase both loan assets and payables and other financial liabilities by £120 million.

In addition we identified that the interest paid on cash collateral received and the interest earned from on-lending this cash had previously been offset and reported as net interest income. The 2006 comparative figures have therefore been restated in order to report this interest expense and interest income separately, by increasing both by £17 million. Neither of these adjustments has any impact on profit for the year, operating profit or earnings per share in 2006, nor on retained earnings, net assets or total equity at either 1 January 2006 or 31 December 2006.

2. Exchange rates

The Group's principal overseas operations during the year were located within the Eurozone and the United States.

The results and cash flows of these operations have been translated into sterling at an average rate for the year of €1 = £0.68 (2006: €1 = £0.68) and £1 = US$2.00 (2006: £1 = US$1.84). Assets and liabilities have been translated at the year end rate of €1 = £0.73 (2006: €1 = £0.67) and £1 = US$1.99 (2006: £1 = US$1.96).

Total foreign currency movements during 2007 resulted in a gain recognised in the income statement of £45 million (*2006: £99 million gain).*

3. Acquisitions

	Country	Date of acquisition	% share acquired	Total Net Asset acquired	Cash Paid	Costs	Total Consideration	Goodwill
				£m	£m	£m	£m	£m
Name								
Erasmus Group	Netherlands	26/03/2007	100%	54	53	1	54	-
Cajamurcia Vida	Spain	06/06/2007	5%	7	8	1	9	2
Area Life	Italy	26/09/2007	55%	7	7	-	7	-
Avipop Assicurazioni	Italy	14/12/2007	50%	136	184	4	188	52
Cyrte Investments	Netherlands	27/09/2007	85%	-	37	-	37	37
Hamilton Insurance	UK	01/11/2007	100%	55	55	2	57	2
Hamilton Life Assurance	UK	01/11/2007	100%	24	44	1	45	21
Total				**283**	**388**	**9**	**397**	**114**
Other:								
Smaller acquisitions giving rise to additional goodwill								**1**
Total goodwill arising in the year								**115**

(i) Erasmus Group

On 26 March 2007, the Group's Dutch subsidiary, Delta Lloyd, acquired 100% of the shares in Erasmus Groep BV ("Erasmus") in the Netherlands. Erasmus writes both general insurance and long-term business, and the acquisition has further strengthened Delta Lloyd's position in the Dutch insurance market.

The value of Erasmus's distribution channels has been identified as a separate intangible asset and valued by an independent third party at £8 million, using estimated post-tax cash flows and discount rates. It has been assessed as having a life of 20

years and is being amortised on a straight line basis over that period. As permitted by IFRS 4, *Insurance Contracts,* an intangible asset of £12 million has also been recognised for the impact of discounting the non-life insurance liabilities, to bring them to fair value. This intangible asset will be amortised over the life of the relevant non-life insurance contracts.

The net assets as at the acquisition date in the table above are stated at their provisional values, and may be amended in 2008, in accordance with paragraph 62 of IFRS 3, *Business Combinations*.

The results of Erasmus have been included in the consolidated financial statements of the Group with effect from 26 March 2007, and have contributed £5 million to the consolidated profit before tax.

(ii) Bancassurance partnership with Cajamurcia

On 6 June 2007, the Group announced that it had entered into a long-term bancassurance agreement with Spanish savings bank Caja de Ahorros de Murcia (Cajamurcia) that will enhance the Group's leading position in the Spanish life market. Cajamurcia will provide exclusive access to its network of branches to Cajamurcia Vida y Pensiones de Seguros y Reaseguros SA (Cajamurcia Vida), the newly-created life insurance company jointly-owned by the Group and Cajamurcia, to sell insurance and pension products. Regulatory approval to write new business was received on 21 November 2007 and the new company began trading on 30 November 2007.

On signing the agreement, the Group acquired 5% of the share capital of Cajamurcia Vida and Cajamurcia granted the Group a call option over a further 45% of the shares in this company which may be exercised in the two month period following the first anniversary of the agreement being signed. Further consideration of £69 million would be payable on exercising the option, with additional amounts of up to £187 million payable, dependent on the performance of the new company. If it does not exercise this option during this period, the Group has granted a call option over its 5% holding to Cajamurcia.

The Group paid £8 million for the initial 5% holding on completion on 6 June 2007. The Group has the power to control the financial and operating policies of Cajamurcia Vida through having the majority vote at meetings of the company's board of directors. We have therefore consolidated its results and balance sheet since that date.

The value of the agreement to distribute through Cajamurcia's branch network has been identified as a separate intangible asset with a value of £202 million, using estimated post-tax cash flows and discount rates.

As noted above, the results of Cajamurcia Vida have been included in the consolidated financial statements of the Group and have contributed £nil to the consolidated profit before tax since it began trading on 30 November 2007.

(iii) Italian transactions with Banco Popolare

During the year, the Group's Italian holding company has entered into three sets of transactions with an Italian bank, Banco Popolare Societa Cooperativa (Banco Popolare). Details of these transactions are as follows:

(a) Petunia and Banca Network

On 26 September 2007, the Group acquired a 40.62% stake in Petunia SpA (Petunia), a newly-formed investment holding company for £19 million. The Group has the majority of voting rights and management control of Petunia and so has consolidated this company as a subsidiary. The total capitalisation of the company at the completion date was £47 million,which was used to purchase a 49.75% stake in Banca Bipielle Network SpA (Bipielle Net), an Italian distribution network,from Banco Popolare. The acquired company has since been renamed Banca Network Investimenti SpA (Banca Network).

The Group does not have management control of Banca Network and so accounts for it as an investment in an associate. The total consideration was £49 million, comprising cash consideration of £46 million and contingent consideration of £3 million (representing the present value of future expected performance-related consideration). The fair value of the Group's share of Banca Network's identifiable net assets at the date of acquisition was £27 million. The residual goodwill of £22 million has been included in the carrying value of the investment in associate (see note 19).

The fair value of the Group's share of Banca Network's identifiable net assets at the date of acquisition was £27 million.
The residual goodwill of £22 million has been included in the carrying value of the investment in associate.

This residual goodwill has been calculated based on the provisional fair values of the net assets and liabilities of Banca Network and may be restated in 2008, in accordance with paragraph 62 of IFRS 3, *Business Combinations.*

(b) Area Life

As part of the above transaction, on 26 September 2007, the Group acquired a 55% stake in Area Life International Assurance Limited (Area Life), a life assurance company based in Ireland selling exclusively to Italian residents, from Banco Popolare for £7 million.

The net assets above have been stated at their provisional fair values and may be amended in 2008, in accordance with paragraph 62 of IFRS 3, *Business Combinations.*

The results of Petunia, Banca Network and Area Life have been included in the consolidated financial statements of the Group with effect from 26 September 2007 and have contributed £nil to the consolidated profit before tax.

(c) Bancassurance agreement via Avipop Assicurazioni and Avipop Vita

On 14 December 2007, the Group entered a long-term bancassurance partnership in protection and non-life insurance with Banco Popolare that will further strengthen the Group's bancassurance presence in Italy and creates a new opportunity in the fast-growing protection sector.

The Group paid £184 million to secure the long-term bancassurance agreement with Banco Popolare and to acquire 50% plus one share of Avipop Assicurazioni SpA., a non-life subsidiary of the bank. Life protection business will be written in a newly-incorporated life company, Avipop Vita SpA, which will begin trading later in 2008, subject to regulatory approval. The Group currently owns all the shares in this life company but, once regulatory approval has been obtained, will reduce its holding to 50% plus one share. The Group has management control of both companies and has therefore fully consolidated them as subsidiaries.

The value of the agreement to distribute through Banco Popolare's branch network has been identified as a separate intangible asset and has been valued by an independent third party at £386 million (100% share), using estimated post-tax cash flows and discount rates. The intangible asset has been assessed as having an indefinite useful life, subject to annual tests for impairment. The residual goodwill represents the impact of recognising a deferred tax liability on the intangible asset.

The net assets as at the acquisition date are stated at their provisional values, and may be amended in 2008, in accordance with paragraph 62 of IFRS 3, *Business Combinations*.

The results of the Avipop companies have been included in the consolidated financial statements of the Group with effect from 14 December 2007, and have contributed £nil to the consolidated profit before tax.

(iv) Cyrte Investments

On 27 September 2007, the Group acquired an 85% stake in Cyrte Investments BV (Cyrte Investments), a Dutch fund management company, for £37 million. The net assets of Cyrte Investments at the date of acquisition were £nil, giving rise to residual goodwill of £37 million.

The residual goodwill represents the value of the company's workforce and a premium paid for the investment concepts developed in the company, based on Cyrte's expertise in the telecommunications, media and technology sectors. No material intangible assets were identified.

The net assets as at the acquisition date are stated at their provisional values, and may be amended in 2008, in accordance with paragraph 62 of IFRS 3, *Business Combinations*.

The results of Cyrte Investments have been included in the consolidated financial statements of the Group with effect from 27 September 2007, and have contributed £2 million to the consolidated profit before tax.

The Group has also invested £209 million in three funds, managed by Cyrte investments, giving it an ownership interest in the three funds of between 13% and 18%. These funds have been accounted for as investments in associates, as Cyrte Investments is the general partner of the funds and the Group's holding gives it significant influence on the investment committee, the management board of the funds. The Group's investment of £209 million has been included in investments in associates.

(v) Hamilton Insurance Company Limited and Hamilton Life Assurance Company Limited

On 1 November 2007, the Group completed the acquisition of Hamilton Insurance Company Limited and Hamilton Life Assurance Company Limited (the Hamilton companies) from HFC Bank Limited, a subsidiary of HSBC Finance Corporation. In addition, the Group's UK general insurance businesses signed a number of five-year agreements to underwrite creditor business for HFC Bank and some of its subsidiaries, and to provide home, protection and travel insurance products to 10.2 million of HSBC Bank's UK customers.

Included in the consideration paid and goodwill arising on the Hamilton Life acquisition is £20 million in respect of unrecognised deferred tax assets, which the Group may be able to utilise in future years but cannot recognise now.

The results of the Hamilton companies have been included in the consolidated financial statements of the Group with effect from 1 November 2007 and have contributed £1 million to the consolidated profit before tax.

(vi) Unaudited pro forma combined revenues and profit

Shown below are unaudited pro forma figures for combined revenues and profit as though the acquisition date for all business combinations effected during the year had been 1 January 2007, after giving effect to purchase accounting adjustments and the elimination of intercompany transactions. The pro forma financial information is not necessarily indicative of the combined results that would have been attained had the acquisitions taken place at 1 January 2007, nor is it necessarily indicative of future results.

	2007 £m
Revenues (net earned premiums and fee income)	**31,390**
Profit before tax attributable to shareholders	**1,862**

Of the above pre-tax profit, £17 million has arisen since acquisition.

(vii) Non-adjusting post-balance sheet events

(a) Acquisition of UBI Assicurazioni Vita

On 17 January 2008, the Group announced that it had reached an agreement with Unione di Banche Italiane Scpa (UBI Banca) for the acquisition of 50% plus one share in UBI Assicurazioni Vita SpA., an Italian life insurance company wholly-owned by UBI Banca, for a consideration of £49 million. Completion of the transaction is subject to certain conditions and the approval of the relevant regulatory authorities and is expected to take place in the first half of 2008.

(b) Acquisition of Swiss Life Belgium

On 21 January 2008, the Group announced that it had signed a memorandum of understanding with SNS REAAL to buy Swiss Life Belgium, a multi-line insurer, for €135 million. By combining Swiss Life Belgium with its Belgian insurance operation, managed through its Dutch subsidiary Delta Lloyd, the Group would further strengthen its position in the Belgian group life insurance market.

The transaction is conditional upon completion of SNS REAAL's acquisition of the Dutch and Belgian activities of Swiss Life Holding, which was announced on 19 November 2007. The completion of Delta Lloyd's acquisition of Swiss Life Belgium will be subject to approval from the relevant regulators and works council, and is expected to take place in the second quarter of 2008.

(c) Investment in LIG Life Insurance Co. Ltd.

On 31 January 2008, the Group announced that it would be entering the South Korea life insurance market by agreeing to acquire jointly with Woori Finance Holdings Company Ltd ("Woori") a 91.65% stake in LIG Life Insurance Co. Ltd ("LIG Life"), a South Korean life insurance company, for KRW 137.2 billion (£73 million).

After completion, the Group will hold 40.65% of LIG Life. Aviva and Woori plan to develop LIG Life's business distribution, predominantly through bancassurance via Woori's banking network and independent financial advisors.

4. Profit on the disposal of subsidiaries and associates

The profit on the disposal of subsidiaries, joint ventures and associates comprises:

	2007 £m	**2006 £m**
United Kingdom (see below)	(7)	69
Turkey	71	-
Ireland	-	86
France	-	79
Other small operations	(15)	(12)
Profit on disposal before tax	**49**	222
Tax on profit on disposal	3	13
Profit on disposal after tax	**52**	235

In June 2007, the Group sold its holding in its associate, the British Aviation Insurance Company Limited to Berkshire Hathaway for £15 million, resulting in a loss on disposal of £7 million.

On 31 October 2007, the Group entered into a joint venture agreement with Aksigorta AŞ ("Aksigorta"), the insurance company of the Sabanci Holding Group, to form a new Turkish life and pensions joint venture. Under the terms of the agreement, the Group's Turkish life and pensions business, Aviva Hayat ve Emeklilik A.Ş. ("Aviva HE") merged with Ak Emeklilik A. Ş ("Ak E") Aksigorta's life and pensions business. The joint venture entered into an exclusive long-term bancassurance agreement with Akbank TAS, Turkey's second-largest privately-owned bank.

The Group and Sabanci jointly control the joint venture through equal shareholdings of 49.7%, with the remaining 0.6% being held by individual shareholders. The new company, AvivaSA Emeklilik ve Hayat A.Ş began trading on 1 November 2007.

As consideration for its shareholding, the Group contributed the business of Aviva HE to the joint venture and paid £49 million to Aksigorta. The transaction has been accounted for as an acquisition of a 49.7% joint venture and the disposal of 50.3% of Aviva HE. The disposal consideration was £83 million, net of transaction costs, giving rise to a profit on disposal of £71 million.

On an EEV basis, the profit on disposal before tax falls to £20 million (£161 million) due to the inclusion of in-force business in the assets disposed of.

5. Integration and restructuring costs

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

6. Operations classified as held for sale

(i) Assets and liabilities of operations classified as held for sale

The assets and liabilities of operations classified as held for sale as at 31 December 2007 relate to our Dutch health insurance business, and were as follows:

	2007 £m	2006 £m
Financial investments	316	-
Receivables and other financial assets	554	-
Prepayments and accrued income	145	-
Tax assets	17	-
Cash and cash equivalents	96	-
Total assets	**1,128**	**-**
Gross insurance liabilities	(627)	-
Borrowings	(12)	-
Payables and financial liabilities	(72)	-
Other liabilities	(220)	-
Tax liabilities and other provisions	(11)	-
Total liabilities	**(942)**	**-**
Net assets	**186**	**-**

(ii) Dutch health insurance business

On 16 July 2007, the Group announced that its Dutch subsidiary, Delta Lloyd Group ("DL"), had reached an agreement to sell its health insurance business to OWM CZ Groep Zorgverkeraar UA ("CZ"), a mutual health insurer, and create a long-term alliance for the cross-selling of insurance products. Under the terms of the agreement, CZ will purchase the DL health insurance business and take on its underwriting risk and policy administration. DL will continue to market and distribute health insurance products from CZ to its existing customers and continue to provide asset management for the transferred business. DL will also have exclusive rights to market life, general insurance and income protection products to CZ's customers. The transaction is expected to take effect on 1 January 2009, subject to regulatory, competition and other relevant approvals.

The relevant assets and liabilities of the DL health insurance business have been classified as held for sale, at their carrying values, in the consolidated balance sheet as at 31 December 2007.

7. Geographical analysis of long-term business IFRS operating profit[1]

	2007 £m	Restated 2006 £m
With-profit	178	147
Non-profit [2]	545	482
United Kingdom	**723**	**629**
France	243	224
Ireland	73	49
Italy	78	81
Netherlands (including Belgium and Germany)	181	102
Poland	110	95
Spain	119	113
Other Europe	(27)	(16)
Europe	**777**	**648**
North America	**103**	**13**
Asia	(6)	7
Australia	37	37
Asia Pacific	**31**	**44**
Total	**1,634**	**1,334**

1 See page 48 for details of the change in the long-term business operating profit definition.

2 Includes covered business from Norwich Union Life Services which has been reclassified from other operations

8. Geographical analysis of fund management operating profit

	2007 £m	2006 £m
UK business	70	62
International business	17	14
Morley	87	76
The Royal Bank of Scotland Group	(9)	(7)
Norwich Union investment funds	(1)	1
United Kingdom	**77**	**70**
France	33	33
Netherlands	23	37
Other Europe	4	3
Europe	**60**	**73**
North America	**3**	**3**
Asia Pacific	**15**	**9**
Total	**155**	**155**

9. Geographical analysis of general insurance and health

(a) Operating result

	Operating profit		Underwriting result	
	2007 £m	Restated 2006 £m	2007 £m	Restated 2006 £m
United Kingdom[1]	**433**	**1,118**	**(214)**	**394**
France	70	63	11	6
Ireland	162	172	101	121
Netherlands	169	139	75	50
Other	41	43	10	12
Europe	**442**	**417**	**197**	**189**
North America	**154**	**148**	**18**	**27**
Asia Pacific	**4**	**3**	**3**	**3**
Total	**1,033**	**1,686**	**4**	**613**
Analysed by:				
General insurance	1,037	1,658	47	645
Health	(4)	28	(43)	(32)
Total	**1,033**	**1,686**	**4**	**613**

[1] The United Kingdom includes the operating profit of Aviva Re, previously shown in the 'International' segment which no longer exists. Comparatives have been restated accordingly. See page 48.

(b) Investment return information

	Actual investment return credited to income		Longer-term investment return	
	2007 £m	2006 £m	2007 £m	2006 £m
United Kingdom	**575**	**651**	**647**	**724**
France	42	35	59	57
Ireland	52	41	61	51
Netherlands	79	72	94	89
Other	23	17	31	31
Europe	**196**	**165**	**245**	**228**
North America	**120**	**98**	**136**	**121**
Asia Pacific	**-**	**1**	**1**	**-**
Total longer-term investment return			**1,029**	**1,073**
Total actual investment income	**891**	**915**		
Realised gains	579	281		
Unrealised (losses)/gains	(625)	26		
Total actual investment return	**845**	**1,222**		

The total short-term adverse fluctuation in investment return of £184 million (2006: £149 million favourable) is the difference between the total actual investment return of £845 million (2006: £1,222 million) and the total longer-term investment return of £1,029 million (2006: £1,073 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 period.

The Group has calculated 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 37 of this announcement.

The total assets supporting the general insurance and health business, which contribute towards the longer-term return, were £18,291 million (2006: £19,718 million). Total assets comprise debt securities £10,757 million (2006: £9,112 million), equity securities £1,195 million (2006: £3,417 million), properties £360 million (2006: £384 million), cash and cash equivalents £3,178 million (2006: £2,823 million) and other assets £2,801 million (2006: £3,982 million).

The principal assumptions underlying the calculation of the longer-term investment return are:

	Longer-term rates of return Equities		Longer-term rates of return Properties	
	2007 %	2006 %	2007 %	2006 %
United Kingdom	7.6%	7.1%	6.6%	6.1%
France	7.0%	6.3%	6.0%	5.3%
Ireland	7.0%	6.3%	6.0%	5.3%
Netherlands	7.0%	6.3%	6.0%	5.3%
Canada	7.1%	7.0%	6.1%	6.0%

General insurance business only: geographical analysis

(c) Analysis of operating profit

	Operating profit		Longer-term investment return		Underwriting result	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
United Kingdom	**433**	**1,117**	**642**	**720**	**(209)**	**397**
France	54	47	47	45	7	2
Ireland	162	172	61	51	101	121
Netherlands	193	128	73	45	120	83
Other Europe	41	43	31	31	10	12
Europe	**450**	**390**	**212**	**172**	**238**	**218**
North America	**154**	**148**	**136**	**121**	**18**	**27**
Asia Pacific	**-**	**3**	**-**	**-**	**-**	**3**
Total	**1,037**	**1,658**	**990**	**1,013**	**47**	**645**

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

	Claims ratio		Expense ratio		Combined operating ratio	
	2007 %	2006 %	2007 %	2006 %	2007 %	2006 %
United Kingdom	65.9%	58.7%	13.9%	13.9%	106%	95%
France	72.7%	73.0%	10.2%	10.4%	99%	99%
Ireland	54.2%	55.8%	14.3%	11.2%	80%	77%
Netherlands	45.1%	51.5%	18.8%	17.8%	85%	89%
Canada	65.9%	66.7%	13.6%	12.4%	98%	98%
Total	**63.7%**	**60.3%**	**13.9%**	**13.7%**	**100%**	**94%**

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.

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

(i) United Kingdom (excluding Group reinsurance)

	Net written premiums		Underwriting result		Combined operating ratio	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 %	2006 %
Personal						
Motor	1,431	1,631	(25)	(39)	102%	104%
Homeowner	1,223	1,262	(296)	23	124%	98%
Other	797	694	10	56	100%	100%
	3,451	3,587	(311)	40	110%	102%
Commercial						
Motor	636	638	61	40	91%	94%
Property	807	826	(175)	194	124%	79%
Other	546	532	192	115	68%	78%
	1,989	1,996	78	349	98%	83%
Total	**5,440**	**5,583**	**(233)**	**389**	**106%**	**95%**

During the year to 31 December 2007, annualised rating increases were as follows: personal motor 6%; homeowner 7% (including indexation); commercial motor 1% decrease; commercial property 2% decrease; commercial liability 4% decrease.

(ii) France

	Net written premiums		Underwriting result		Combined operating ratio	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 %	2006 %
Motor	254	256	(2)	-	101%	99%
Property and other	320	308	9	2	97%	97%
Total	**574**	**564**	**7**	**2**	**99%**	**99%**

(iii) Netherlands

	Net written premiums		Underwriting result		Combined operating ratio	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 %	2006 %
Motor	267	238	42	13	84%	96%
Property	249	252	19	29	93%	88%
Liability	61	67	13	2	79%	97%
Other	211	176	46	39	77%	76%
Total	**788**	**733**	**120**	**83**	**85%**	**89%**

(iv) Canada

	Net written premiums		Underwriting result		Combined operating ratio	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 %	2006 %
Motor	795	821	7	11	99%	99%
Property	450	413	10	6	96%	98%
Liability	143	133	(5)	3	103%	98%
Other	24	22	6	7	68%	60%
Total	**1,412**	**1,389**	**18**	**27**	**98%**	**98%**

10. Analysis of other operations and regional costs

	2007 £m	Restated 2006 £m
United Kingdom	(8)	36
Europe	(49)	(55)
North America	(4)	-
Asia Pacific	(13)	(6)
Total	**(74)**	**(25)**

The 2006 results have been restated to remove the covered business element of the NULS result (previously included in the UK line) to the life segment.

11. Corporate Centre

	2007 £m	2006 £m
Project spend	(26)	(17)
Share awards and other incentive schemes	(17)	(17)
Central spend	(114)	(126)
Total	**(157)**	**(160)**

12. Group debt costs and other interest

	2007 £m	2006 £m
External		
Subordinated debt	(179)	(169)
Other	(80)	(61)
Internal	(179)	(228)
Net finance income on pension schemes	75	77
Total	**(363)**	**(381)**

13. Tax

(a) Tax charged to the income statement

	2007 £m	2006 £m
Current tax:		
For the year	888	1,022
Prior year adjustments	(94)	(287)
Total current tax	**794**	**735**
Deferred tax:		
Origination and reversal of temporary differences	(348)	221
Changes in tax rates or tax laws	(88)	(7)
Write down of deferred tax assets	(6)	(15)
Total deferred tax	**(442)**	**199**
Total tax charged to income statement	**352**	**934**
Analysed between:		
Tax charge attributable to policyholders' returns	15	346
Tax charge on IFRS operating profit before tax attributable to shareholders' profits from continuing operations	607	645
Tax credit on profit on other activities	(270)	(57)
	352	**934**

The Group, as a proxy for policyholders in the UK, Ireland and Australia, is required to record taxes on investment income and gains each year. Accordingly, the tax benefit or expense attributable to UK, Irish and Australian life insurance policyholder returns is included in the tax charge.

(b) Tax charged to equity

(i) The total tax charge/(credit) comprises:

	2007 £m	2006 £m
Current tax credit	(19)	(9)
Deferred tax charge	198	14
Total tax charged to equity	**179**	**5**

(ii) The tax expense attributable to policyholders' returns included in the charge above is £nil million (2006: nil).

(c) Tax reconciliation

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

	2007 £m	2006 £m
Profit before tax	**1,857**	**3,323**
Tax calculated at standard UK corporation tax rate of 30% (2006: 30%)	557	997
Different basis of tax for UK life insurance	5	209
Adjustment to tax charge in respect of prior years	(49)	(287)
Non-assessable dividends	(124)	(55)
Non-taxable profit on sale of subsidiaries and associates	(18)	(80)
Disallowable expenses	7	46
Different local basis of tax on overseas profits	56	201
Reduction in future UK tax rate (net of movement in unallocated divisible surplus)	(64)	-
Deferred tax valuation difference	1	(60)
Other	(19)	(37)
Tax charged to the income statement	**352**	**934**

14. Earnings per share

(a) Basic earnings per share

(i) The profit attributable to ordinary shareholders is:

	2007 £m	2006 £m
Profit for the year	1,505	2,389
Amount attributable to minority interests	(178)	(174)
Cumulative preference dividends for the year	(17)	(17)
Coupon payments in respect of direct capital instruments (net of tax)	(37)	(37)
Profit attributable to ordinary shareholders	**1,273**	**2,161**

14. Earnings per share (continued)

(a) Basic earnings per share (continued)

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

			2007			2006
	Before tax £m	Net of tax, minorities, preference dividends and DCI £m	Per share p	Before tax £m	Net of tax, minorities, preference dividends and DCI £m	Per share p
Operating profit attributable to ordinary shareholders	2,228	1,376	53.2	2,609	1,731	70.1
Adjusted for the following:						
– Investment return variances and economic assumption changes on long-term business	15	79	3.1	401	336	13.6
– Impairment of goodwill	(10)	(10)	(0.4)	(94)	(94)	(3.8)
– Amortisation and net impairment of intangibles	(103)	(72)	(2.8)	(64)	(48)	(1.9)
– Short-term fluctuation in return on investments backing general insurance and health business	(184)	(38)	(1.5)	149	189	7.7
– Profit on the disposal of subsidiaries and associates	49	52	2.0	222	235	9.5
– Integration and restructuring costs	(153)	(114)	(4.4)	(246)	(188)	(7.7)
Profit attributable to ordinary shareholders	**1,842**	**1,273**	**49.2**	**2,977**	**2,161**	**87.5**

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 2,588 million (2006: 2,469 million) ordinary shares in issue, after deducting shares owned by the employee share trusts. The actual number of shares in issue at 31 December 2007 was 2,622 million (31 December 2006: 2,566 million).

(b) Diluted earnings per share

(i) Diluted earnings per share is calculated as follows:

			2007			2006
	Total £m	Weighted average number of shares m	Per share p	Total £m	Weighted average number of shares m	Per share p
Profit attributable to ordinary shareholders	1,273	2,588	49.2	2,161	2,469	87.5
Dilutive effect of share awards and options	-	24	(0.5)	-	27	(0.9)
Diluted earnings per share	**1,273**	**2,612**	**48.7**	**2,161**	**2,496**	**86.6**

(ii) Diluted earnings per share on operating profit attributable to ordinary shareholders is calculated as follows:

			2007			2006
	Total £m	Weighted average number of shares m	Per share p	Total £m	Weighted average number of shares m	Per share p
Profit attributable to ordinary shareholders	1,376	2,588	53.2	1,731	2,469	70.1
Dilutive effect of share awards and options	-	24	(0.5)	-	27	(0.7)
Diluted earnings per share	**1,376**	**2,612**	**52.7**	**1,731**	**2,496**	**69.4**

15. Dividends and appropriations

	2007 £m	2006 £m
Ordinary dividends declared and charged to equity in the year		
Final 2006 - 19.18 pence per share, paid on 18 May 2007 (Final 2005 - 17.44 pence per share, paid on 17 May 2006)	492	418
Interim 2007 – 11.90 pence per share, paid on 16 November 2007 (Interim 2006 - 10.82 pence per share, paid on 17 November 2006)	309	275
	801	693
Preference dividends declared and charged to equity in the year	17	17
Coupon payments on direct capital instrument - gross of tax	53	52
	871	**762**

Subsequent to 31 December 2007, the directors proposed a final dividend for 2007 of 21.10 pence per ordinary share (2006: 19.18 pence), amounting to £553 million (2006: £492 million) in total. Subject to approval by the shareholders at the AGM, the dividend will be paid on 16 May 2008 and will be accounted for as an appropriation of retained earnings in the year ending 31 December 2008.

Interest on the direct capital instrument issued in November 2004 is treated as an appropriation of retained profits and, accordingly, 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 27 February 2008.

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 lifetime mortgage 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 mostly to small and medium-sized businesses, for risks associated mainly with motor vehicles, property and liability, such as employers' liability and professional indemnity liability, and medical expenses.

Other
Other activities not related to the core business segments or which are not reportable segments due to their immateriality, such as the RAC non-insurance operations, our banking businesses and service companies are included as "Other" in the following tables. Head office expenses, such as Group treasury and finance functions are also reported as "Other", together with eliminations and any other reconciling items. This also includes certain financing costs and taxes which 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 certain borrowings.

16. Segmental information (continued)

(b) Segmental results of the income statement – primary reporting format - business segments for the year ended 31 December 2007

	Long-term business £m	Fund management £m	General insurance and health £m	Other £m	Total £m
Segment income from external customers:					
Net written premiums	18,764	-	10,569	-	29,333
Net change in provision for unearned premiums	-	-	(21)	-	(21)
Net earned premiums	18,764	-	10,548	-	29,312
Fee and commission income	698	488	179	395	1,760
	19,462	488	10,727	395	31,072
Net investment income	8,529	45	827	427	9,828
Inter-segment revenue	-	152	-	-	152
(Loss)/profit on the disposal of subsidiaries and associates	-	-	(7)	56	49
Segment income	**27,991**	**685**	**11,547**	**878**	**41,101**
Claims and benefits paid, net of recoveries from reinsurers	(19,640)	-	(7,481)	-	(27,121)
Change in insurance liabilities, net of reinsurance	(3,900)	-	393	-	(3,507)
Change in investment contract provisions	(2,018)	-	-	-	(2,018)
Change in unallocated divisible surplus	2,922	-	-	-	2,922
Fee and commission expense	(1,281)	(135)	(2,907)	(60)	(4,383)
Other operating expenses					
Depreciation	(31)	(2)	(7)	(89)	(129)
Amortisation of acquired value of in-force business	(160)	-	-	-	(160)
Amortisation and net impairment of intangible assets	(62)	(6)	(25)	(17)	(110)
Impairment of goodwill	(1)	(9)	-	-	(10)
Other impairment losses recognised in the income statement	(45)	-	(10)	(2)	(57)
Inter-segment expense	(140)	-	(11)	(1)	(152)
Other expenses	(1,230)	(361)	(788)	(628)	(3,007)
Finance costs	(537)	(24)	3	(391)	(949)
Segment expenses	**(26,123)**	**(537)**	**(10,833)**	**(1,188)**	**(38,681)**
Segment result before share of profit/(loss) of joint ventures and associates	1,868	148	714	(310)	2,420
Share of profit/(loss) of joint ventures and associates	(297)	(9)	3	(1)	(304)
Segmental result before tax	**1,571**	**139**	**717**	**(311)**	**2,116**
Unallocated costs:					
Finance costs on central borrowings					(259)
Tax attributable to policyholders' returns					(15)
Tax attributable to shareholders' profits					(337)
Total unallocated expenses					(611)
Profit for the year					**1,505**

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 2007 (continued)

Pro forma 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	**1,571**	**139**	**717**	**(311)**	**2,116**
Finance costs on central borrowings	-	-	-	(259)	(259)
Adjusted for the following:					
Investment return variances and economic assumption changes on long-term business	(15)	-	-	-	(15)
Impairment of goodwill	1	9	-	-	10
Amortisation and impairment of intangibles	55	6	25	17	103
Short-term fluctuation in return on investments backing general insurance and health business	-	-	184	-	184
Profit on the disposal of subsidiaries and associates	-	-	7	(56)	(49)
Integration and restructuring costs	37	1	100	15	153
	1,649	155	1,033	(594)	2,243
Less:					
Tax attributable to policyholders' returns	(15)	-	-	-	(15)
Operating profit before tax attributable to shareholders' profits	**1,634**	**155**	**1,033**	**(594)**	**2,228**

16. Segmental information (continued)

(c) Segmental results of the income statement – primary reporting format - business segments for the year ended 31 December 2006

	Restated Long-term business £m	Fund management £m	General insurance and health £m	Other £m	Restated Total £m
Segment income from external customers:					
Net written premiums	16,532	-	10,702	-	27,234
Net change in provision for unearned premiums	-	-	93	-	93
Net earned premiums	16,532	-	10,795	-	27,327
Fee and commission income	704	452	172	542	1,870
	17,236	452	10,967	542	29,197
Net investment income	13,947	17	1,299	227	15,490
Inter-segment revenue	-	199	-	-	199
Profit on the disposal of subsidiaries and associates	11	-	88	123	222
Segment income	**31,194**	**668**	**12,354**	**892**	**45,108**
Claims and benefits paid, net of recoveries from reinsurers	(16,523)	-	(6,921)	-	(23,444)
Change in insurance liabilities, net of reinsurance	(2,594)	-	(26)	-	(2,620)
Change in investment contract provisions	(6,002)	-	-	-	(6,002)
Change in unallocated divisible surplus	(558)	-	-	-	(558)
Fee and commission expense	(2,125)	(111)	(2,742)	(65)	(5,043)
Other operating expenses					
Depreciation	(22)	(3)	(19)	(79)	(123)
Amortisation of acquired value of in-force business	(58)	-	-	-	(58)
Net impairment of acquired value of in-force business	(28)	-	-	-	(28)
Amortisation and net impairment of intangible assets	(32)	(1)	(18)	(19)	(70)
Impairment of goodwill	-	-	-	(94)	(94)
Other impairment losses recognised in the income statement	6	-	(5)	(1)	-
Inter-segment expense	(191)	-	(8)	-	(199)
Other expenses	(1,109)	(392)	(806)	(877)	(3,184)
Finance costs	(384)	-	(3)	(230)	(617)
Segment expenses	**(29,620)**	**(507)**	**(10,548)**	**(1,365)**	**(42,040)**
Segment result before share of profit/(loss) of joint ventures and associates	1,574	161	1,806	(473)	3,068
Share of profit/(loss) of joint ventures and associates	471	(7)	5	16	485
Segmental result before tax	**2,045**	**154**	**1,811**	**(457)**	**3,553**
Unallocated costs:					
Finance costs on central borrowings					(230)
Tax attributable to policyholders' returns					(346)
Tax attributable to shareholders' profits					(588)
Total unallocated costs					(1,164)
Profit for the year					**2,389**

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 2006 (continued)

Pro forma reconciliation to operating profit before tax attributable to shareholders' profits

	Restated Long-term business £m	Fund management £m	General insurance and health £m	Restated Other £m	Restated Total £m
Segment result before tax	**2,045**	**154**	**1,811**	**(457)**	**3,553**
Finance costs on central borrowings	-	-	(2)	(228)	(230)
Adjusted for the following items:					
Investment return variances and economic assumption changes on long-term business	(401)	-	-	-	(401)
Impairment of goodwill	-	-	-	94	94
Amortisation and impairment of intangibles	26	1	18	19	64
Short-term fluctuation in return on investments backing general insurance and health business	-	-	(149)	-	(149)
Profit on the disposal of subsidiaries and associates	(12)	-	(88)	(122)	(222)
Integration and restructuring costs	21	-	95	130	246
Other interest and cost reallocation	1	-	1	(2)	-
	1,680	155	1,686	(566)	2,955
Less:					
Tax attributable to policyholders' returns	(346)	-	-	-	(346)
Operating profit before tax attributable to shareholders' profits	**1,334**	**155**	**1,686**	**(566)**	**2,609**

(d) Segmental balance sheet – primary reporting format – business segments as at 31 December 2007

	Long-term business £m	Fund management £m	General insurance and health £m	Other £m	Total £m
Goodwill	1,414	3	418	1,247	3,082
Acquired value of in-force business and intangible assets	2,628	12	424	133	3,197
Interests in, and loans to, joint ventures and associates	3,509	47	4	222	3,782
Property and equipment	435	9	70	428	942
Investment property	14,701	-	360	16	15,077
Loans	26,600	-	960	8,633	36,193
Financial investments	201,455	32	10,420	3,461	215,368
Other assets	28,202	630	11,688	593	41,113
Segment assets	**278,944**	**733**	**24,344**	**14,733**	**318,754**
Unallocated assets – tax assets					966
Total assets					**319,720**
Insurance liabilities	135,014	-	18,026	-	153,040
Liability for investment contracts	98,244	-	-	-	98,244
Unallocated divisible surplus	6,785	-	-	-	6,785
Net asset value attributable to unitholders	3,934	-	46	-	3,980
External borrowings	3,947	-	-	4,399	8,346
Other liabilities, including inter-segment liabilities	13,714	348	212	10,430	24,704
Segment liabilities	**261,638**	**348**	**18,284**	**14,829**	**295,099**
Unallocated liabilities					
Central borrowings					4,311
Tax liabilities					3,718
Total liabilities					**303,128**
Total equity					**16,592**
Total equity and liabilities					**319,720**

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 2006

	Restated Long-term business £m	Fund management £m	General insurance and health £m	Restated Other £m	Restated Total £m
Goodwill	1,317	9	390	1,194	2,910
Acquired value of in-force business and intangible assets	2,301	18	287	122	2,728
Interests in, and loans to, joint ventures and associates	3,526	44	39	81	3,690
Property and equipment	460	4	94	346	904
Investment property	14,714	-	384	25	15,123
Loans	20,934	-	735	6,905	28,574
Financial investments	189,082	30	11,400	3,766	204,278
Other assets	23,558	534	9,603	1,406	35,101
Segment assets	**255,892**	**639**	**22,932**	**13,845**	**293,308**
Unallocated assets – tax assets					1,543
Total assets					**294,851**
Insurance liabilities	126,224	-	18,006	-	144,230
Liability for investment contracts	88,358	-	-	-	88,358
Unallocated divisible surplus	9,465	-	-	-	9,465
Net asset value attributable to unitholders	3,786	1	23	-	3,810
External borrowings	3,894	-	11	4,037	7,942
Other liabilities, including inter-segment liabilities	8,904	313	(712)	9,943	18,448
Segment liabilities	**240,631**	**314**	**17,328**	**13,980**	**272,253**
Unallocated liabilities					
Central borrowings					4,195
Tax liabilities					4,339
Total liabilities					**280,787**
Total equity					**14,064**
Total equity and liabilities					**294,851**

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

(f) Assets under management

	Life and related business 2007 £m	General business and other 2007 £m	2007 £m	2006 £m
Total IFRS assets included in the balance sheet	**279,719**	**40,001**	**319,720**	**294,851**
Additional value of in-force long-term business			7,982	6,794
Total EEV assets included in the balance sheet			**327,702**	**301,645**
Third party funds under management:				
Unit trusts, OEICs, PEPs and ISAs			25,868	20,574
Segregated funds			54,422	43,672
			407,992	**365,891**
Non-managed assets			(44,074)	(39,010)
Funds under management			**363,918**	**326,881**
Funds not managed by Aviva fund managers			(48,017)	(39,711)
Funds under management by Aviva fund managers			**315,901**	**287,170**

The Group this year has redefined its assets under management to reflect customer funds managed by Aviva entities and, separately, funds managed by Aviva fund management subsidiaries.

16. Segmental information (continued)

(g) 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. An impairment charge of £10 million (2006: £94 million) was booked in the year.

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

(i) Income statement

	Net written premiums		Fee and commission income		Profit before tax	
				Restated		Restated
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
United Kingdom	**5,277**	**5,300**	**169**	**214**	**616**	**915**
France	3,674	3,573	201	179	325	259
Ireland	371	397	72	64	45	52
Italy	966	1,919	84	69	79	76
Netherlands (including Belgium and Germany)	2,716	2,079	37	21	407	453
Poland	447	395	14	55	117	108
Spain	1,501	1,266	60	56	106	113
Other Europe	223	159	7	3	(27)	(16)
Europe	**9,898**	**9,788**	**475**	**447**	**1,052**	**1,045**
North America	**3,015**	**932**	**12**	**4**	**(137)**	**17**
Asia Pacific	**574**	**512**	**42**	**39**	**40**	**68**
Total	**18,764**	**16,532**	**698**	**704**	**1,571**	**2,045**

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.

	2007 £m	2006 £m
RBSG	274	236
India	51	31
China	116	38
Turkey	5	-
Malaysia	53	-
	499	305

(ii) Balance sheet

	Segmental total assets		Segmental net assets	
		Restated		Restated
	2007 £m	2006 £m	2007 £m	2006 £m
United Kingdom	**132,794**	**126,355**	**5,887**	**5,285**
France	53,000	46,547	1,584	1,355
Ireland	11,611	10,951	972	1,040
Italy	13,520	11,828	1,032	613
Netherlands (including Belgium and Germany)	31,797	28,340	3,157	2,922
Poland	2,995	2,232	282	216
Spain	7,624	6,641	1,203	862
Other Europe	577	483	344	65
Europe	**121,124**	**107,022**	**8,574**	**7,073**
North America	**20,436**	**18,828**	**2,291**	**2,470**
Asia Pacific	**4,590**	**3,687**	**554**	**433**
Total	**278,944**	**255,892**	**17,306**	**15,261**

16. Segmental information (continued)

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

(i) Income statement

	Net written premiums		Fee and commission income		Profit before tax	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
United Kingdom	**5,896**	**6,000**	**147**	**157**	**241**	**1,130**
France	733	735	1	-	53	77
Ireland	474	519	1	1	151	297
Netherlands	1,717	1,755	11	-	105	107
Other Europe	309	278	8	3	16	26
Europe	**3,233**	**3,287**	**21**	**4**	**325**	**507**
North America	**1,412**	**1,389**	**9**	**10**	**147**	**169**
Asia Pacific	**28**	**26**	**2**	**1**	**4**	**5**
Total	**10,569**	**10,702**	**179**	**172**	**717**	**1,811**

(ii) Balance sheet

	Segmental total assets		Segmental net assets	
	2007 £m	2006 £m	2007 £m	2006 £m
United Kingdom	**12,544**	**12,548**	**3,386**	**3,216**
France	1,856	1,731	339	376
Ireland	1,812	1,765	430	444
Netherlands	3,174	2,775	760	630
Other Europe	1,102	803	459	266
Europe	**7,944**	**7,074**	**1,988**	**1,716**
North America	**3,802**	**3,250**	**659**	**647**
Asia Pacific	**54**	**60**	**27**	**25**
Total	**24,344**	**22,932**	**6,060**	**5,604**

17. Pension schemes

(a) Pension scheme deficits in consolidated balance sheet

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

	2007 £m	2006 £m
Deficits in the staff pension schemes	205	1,029
Other obligations to staff pension schemes – Insurance policies issued by Group companies*	1,025	1,086
Total IAS 19 obligations to staff pension schemes	1,230	2,115
Restructuring provisions	136	234
Other provisions	571	501
Total provisions	**1,937**	**2,850**

* Pension assets in Delta Lloyd include insurance policies of £1,025 million (2006: £1,086 million) which are non-transferable under the terms of IAS19 so have been transferred as other obligations to staff pension scheme within provisions above.

Of the total, £1,277 million (2006: £2,262 million) is expected to be settled more than one year after the balance sheet date.

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

	2007 £m	2006 £m
Deficits in the schemes at 1 January	(973)	(1,471)
Employer contributions	297	554
Charge to net operating expenses (see (c) below)	(188)	(160)
Credit to investment income	99	77
Actuarial gains	612	3
Acquisitions	(19)	(1)
Buy-outs and other transfers	-	18
Exchange rate movements in foreign plans	(6)	7
Deficits in the schemes at 31 December	**(178)**	**(973)**

The current year surplus in the Irish schemes of £27 million (2006: £56 million) is included in Other assets whilst the deficits in the other schemes of £205 million (2006: £1,029 million) are included in provisions.

(c) The pension expense for these schemes comprises:

	2007 £m	2006 £m
Current service cost	173	196
Past service cost	-	3
Loss/(gain) on curtailments	15	(39)
Total pension cost	188	160
Charged to net operating expenses	188	196
Included in profit on disposal of subsidiaries and associates	-	(36)
Total pension cost as above	188	160
Expected return on scheme assets	(614)	(530)
Less: income accounted for elsewhere	49	40
	(565)	(490)
Interest charge on scheme liabilities	515	453
Credit to investment income	(50)	(37)
Total charge to income	**138**	**123**
Expected return on scheme assets	614	530
Actual return on these assets	(404)	(800)
Actuarial (gains)/losses on scheme assets	210	(270)
Less: (losses)/gains accounted for elsewhere	(72)	19
Experience (gains)/losses arising on scheme liabilities	80	(63)
Changes in assumptions underlying the present value of the scheme liabilities	(902)	430
Loss on acquisitions	36	1
Actuarial (gains)/losses recognised in the statement of recognised income and expense	**(648)**	**117**

The cumulative amount of actuarial gains and losses on the pension schemes recognised in the statement of recognised income and expenses since 1 January 2004 (the date of transition to IFRS) is a loss of £161 million at 31 December 2007 (2006: loss of £809 million).

18. Special bonus declared by UK Life business

On 5 February 2008, the Group's UK long-term business operation, Norwich Union Life, announced a one-off, special bonus worth an estimated £2.3 billion, benefiting around 1.1 million with-profit policyholders in its CGNU Life and CULAC with-profit funds. This special bonus has been made possible by the strength of these with-profit funds and a change to the investment strategy for supporting policy guarantees. This has enabled the business to free up a significant part of the inherited estate (included within the unallocated divisible surplus) for payment to policyholders. This change will not affect normal policy returns, nor will it impact on policyholders' security or alter the type of investments backing their policies.

The bonus will be used to enhance policy values by around 10% in total, in three instalments, with the qualifying dates being 1 January 2008, 1 January 2009 and 1 January 2010. In accordance with the way the funds are managed, the bonus distribution is being split on a 90/10 basis between policyholders and shareholders. Over the three years, policyholders will receive a total currently estimated as £2,127 million and shareholders will receive a total currently estimated as £236 million.

The Group's insurance and participating investment contract liabilities are measured in accordance with IFRS 4, *Insurance Contracts*, and FRS 27, *Life Assurance*. The latter requires liabilities for with-profit funds falling within the scope of the UK's Financial Services Authority's capital regime to be determined in accordance with this regime, adjusted to remove the shareholders' share of future bonuses. This requires us to recognise planned discretionary bonuses within policyholder liabilities at the balance sheet date, even if there was no constructive obligation at the time. As a result of the announcement made above, a transfer of £2,127 million has been made from the unallocated divisible surplus in order to increase insurance liabilities by £1,728 million and participating investment contract liabilities by £399 million. In compliance with paragraph 4(a) of FRS 27, the insurance liabilities on a realistic basis exclude any shareholders' interest in this bonus. Furthermore, no profit arising to shareholders has been accrued in these financial statements as the payment to them was not a constructive obligation at the balance sheet date.

Appendix A1

Group capital structure

	Page
Capital employed by segment	72
Deployment of equity shareholders' funds	73
Sensitivity analysis	74
Shareholders' funds, including minority interests	75
Analysis of return on capital employed	76
Group Capital resources	78

A Group capital structure

The Group maintains an efficient capital structure financed by 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's capital structure, analysed on an EEV basis, is set out below.

Capital employed by segment

	2007 £m	2006 £m
Long-term savings	23,272	20,094
General insurance and health	5,487	5,176
Other business including fund management	1,056	1,059
Corporate[1]	(31)	(19)
Total capital employed	**29,784**	**26,310**
Financed by		
Equity shareholders' funds and minority interests	23,384	19,668
Direct capital instrument	990	990
Preference shares	200	200
Subordinated debt	3,054	2,937
External debt	1,257	1,258
Net internal debt	899	1,257
	29,784	**26,310**

[1] The "Corporate" net liabilities represent the element of the pension scheme deficit held centrally

At 31 December 2007 the Group had £29.8 billion (restated 31 December 2006: £26.3 billion) of total capital employed in our trading operations which is financed by a combination of equity shareholders' funds, preference capital, direct capital instruments, subordinated debt and internal and external borrowings.

In the year to 31 December 2007, the total capital employed increased by £3.5 billion reflecting growth in long-term saving operations driven by operational results and foreign exchange impacts.

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

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

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

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

At 31 December 2007 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 £5,774 million (2006: £5,991 million), with a weighted average cost of 4.2% (31 December 2006: 3.9%). The Group WACC is 7.0% 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 2007 was 7.9%, based on a risk free rate of 4.6%, an equity market premium of 3% and a market beta of 1.1.

A Group capital structure (continued)

Deployment of equity shareholders' funds

In order to better reflect the risk to shareholder funds the presentation of deployment of equity shareholders' funds has been revised at 31 December 2007. To do this we have 'looked through' unitised investments which are classified as "other" within the IFRS balance sheet and made adjustments for minority holdings that are fully consolidated on the balance sheet. In addition, we have explicitly shown the market risks within the staff pension schemes.

						31 December 2007	Restated 31 December 2006
	Equities £m	Property £m	Cash, Loans & Debt securities £m	Other Invest-ments £m	Other net assets £m	Total £m	Total £m
Total assets included in the statutory IFRS balance sheet	**56,018**	**16,019**	**170,904**	**40,413**	**36,366**	**319,720**	**294,851**
Goodwill[1]					(3,299)	(3,299)	(3,127)
Acquired value of in-force business and intangible assets					(3,197)	(3,197)	(2,728)
Liabilities of the long-term, general & other businesses excluding pension fund deficit and debt	(49,693)	(13,094)	(162,303)	(35,184)	(37,466)	(297,740)	(274,362)
Minorities and other investments reclassification[2]	259	233	320	(3,681)	2,869	-	-
Shareholder funds	**6,584**	**3,158**	**8,921**	**1,548**	**(4,727)**	**15,484**	**14,634**
Pension fund	5,022	641	3,875	301	(10,017)	(178)	(973)
Adjusted shareholder funds	**11,606**	**3,799**	**12,796**	**1,849**	**(14,744)**	**15,306**	**13,661**
Goodwill[1]						3,299	3,127
Additional and acquired value of in-force long-term business and intangible assets[3]						11,179	9,522
Assets backing total capital employed in continuing operations						**29, 784**	**26,310**

Notes:

1. Includes goodwill relating to the joint venture with the Royal Bank of Scotland Group.
2. Minority and other investments reclassification represents the reallocation of unit trusts to their constituent parts net of net asset value attributable to unitholders.
3. Net internal debt represents the upstream of internal loans from business operations to corporate and holding entities net of tangible assets held by those entities.

A Group capital structure (continued)

Sensitivity analysis

The sensitivity of the Group's shareholders' funds on an EEV basis at 31 December 2007 to a 10% fall in global equity markets or a rise of 1% in global interest rates is as follows:

2006 £bn		2007 £bn	Equities down 10% £bn	Interest rates up 1% £bn
20.1	Long-term savings[1]	23.3	22.3	22.4
6.2	General insurance and other	6.5	6.1	6.1
(5.4)	Borrowings[2]	(5.2)	(5.2)	(5.2)
20.9	**Shareholders' funds**	**24.6**	**23.2**	**23.3**

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 real interest rate only has the effect of reducing the pension scheme liability by £1.4 billion thereby enhancing shareholders' funds by £1 billion (after deducting tax).

Risk management – Equity hedges

The following table shows the material equity derivatives currently within the Group's shareholder funds that are used as part of a long-term strategy to manage equity risk. It excludes derivatives used for portfolio management purposes:

Derivative	Notional £bn[1]	Market fall required before protection starts[2]	Outstanding Duration
(a)	0.7	10%	9 months
(b)	0.4	2%	3-15 months

Notes:
1. The notional amount represents the market value as at 31 December 2007 of the equities covered by the hedge.
2. The 'market fall before protection starts' shows the percentage the market could fall from the 31 December 2007 positions before the derivative moves into the money.
3. We use different methods to reduce the cost of derivatives. We have limited the downside protection on derivative (a) and we have created a zero cost collar by selling some of the upside on derivative (b).

A Group capital structure (continued)

Shareholders' funds, including minority interests.

	Note	31 December 2007 Closing shareholders' funds			31 December 2006 Closing shareholders' funds		
		IFRS net assets £m	Internally generated AVIF £m	Total equity £m	IFRS net assets £m	Internally generated AVIF £m	Total equity £m
Life assurance	1,2						
United Kingdom		**4,428**	**3,680**	**8,108**	**3,757**	**3,403**	**7,160**
France		1,447	1,214	2,661	1,221	1,070	2,291
Ireland		943	195	1,138	971	48	1,019
Italy		1,020	204	1,224	688	115	803
Netherlands (including Belgium and Germany)		2,994	1,152	4,146	2,860	977	3,837
Poland		276	671	947	202	517	719
Spain		1,122	630	1,752	845	530	1,375
Other Europe		346	(90)	256	61	45	106
Europe		**8,148**	**3,976**	**12,124**	**6,848**	**3,302**	**10,150**
North America	5	**2,202**	**154**	**2,356**	**2,315**	**(27)**	**2,288**
Asia Pacific		**512**	**172**	**684**	**380**	**116**	**496**
		15,290	**7,982**	**23,272**	**13,300**	**6,794**	**20,094**
General insurance and health	1,2						
United Kingdom		**2,960**	**-**	**2,960**	**2,887**	**-**	**2,887**
France		301	-	301	333	-	333
Ireland		423	-	423	423	-	423
Netherlands		756	-	756	684	-	684
Other Europe		295	-	295	161	-	161
Europe		**1,775**	**-**	**1,775**	**1,601**	**-**	**1,601**
North America		**726**	**-**	**726**	**666**	**-**	**666**
Asia Pacific		**26**	**-**	**26**	**22**	**-**	**22**
		5,487	-	**5,487**	**5,176**	-	**5,176**
Other business	1,2	1,056	-	1,056	1,059	-	1,059
Corporate		(31)	-	(31)	(19)	-	(19)
External debt		(1,257)	-	(1,257)	(1,258)	-	(1,258)
Internal debt		(899)	-	(899)	(1,257)	-	(1,257)
Subordinated debt		(3,054)	-	(3,054)	(2,937)	-	(2,937)
		(4,185)	**-**	**(4,185)**	**(4,412)**	-	**(4,412)**
Shareholders' funds, including minority interests		**16,592**	**7,982**	**24,574**	**14,064**	**6,794**	**20,858**
Comprising:							
Equities		11,741	-	11,741	14,343	-	14,343
Property		4,644	-	4,644	3,263	-	3,263
Cash, loans and debt securities		11,986	-	11,986	7,102	-	7,102
Other investments		1,865	-	1,865	1,446	-	1,446
Other net assets and pension liability		(14,930)	-	(14,930)	(12,493)	-	(12,493)
Intangible assets	3	6,496	7,982	14,478	5,855	6,794	12,649
Borrowings		(5,210)	-	(5,210)	(5,452)	-	(5,452)
Shareholders' funds, including minority interests		**16,592**	**7,982**	**24,574**	**14,064**	**6,794**	**20,858**

Notes

IFRS net assets shown above include the allocation of tax assets and liabilities and hence differ from segmental net assets disclosed on pages 67 and 68.

1. Goodwill of £3,299 million (31 December 2006: £3,127 million) has been allocated as follows: life assurance £1,631 million (31 December 2006: £1,533 million); general insurance and health £418 million (31 December 2006: £390 million); other businesses £1,250 million (31 December 2006: £1,204 million).
2. Intangibles of £1,191 million (31 December 2006: £638 million) have been allocated as follows: life assurance £622 million (31 December 2006: £211 million); general insurance and health £424 million (31 December 2006: £287 million); other businesses £145 million (31 December 2006: £140 million).

A Group capital structure (continued)

Notes (continued)

3. Total intangible assets of £14,478 million (31 December 2006: £12,649 million) comprise goodwill of £3,299 million (31 December 2006: £3,127 million); acquired value of in-force long-term business and intangibles of £3,197 million (31 December 2006: £2,728 million) and additional value of in-force long-term business of £7,982 million (31 December 2006: £6,794 million). The associated deferred tax liability on the intangibles of £811 million (31 December 2006: £738 million) is included within other net assets.
4. The post-tax pension fund deficit of £722 million (31 December 2006: £673 million) has been allocated as follows: life operations £(2) million (31 December 2006: £179 million), general insurance and health: £(23) million (31 December 2006: £458 million), other business £747 million (31 December 2006: £17 million) and corporate of £nil (31 December 2006: £19 million).
5. AVIF was negative for the US life business in 2006 due to the embedded value being below its balance sheet value on an IFRS basis. This is due to the cost of locked-in required capital under EEV which is not recognised under IFRS.

Analysis of return on capital employed
For the year ended 31 December 2007

	Note	Operating return (Note 1)		Restated Opening Shareholders' funds including minority interests	Annualised Return on Capital
		Before tax £m	After tax £m	£m	%
Life assurance					
United Kingdom		**864**	**605**	**7,160**	**8.4%**
France		537	351	2,291	15.3%
Ireland		77	67	1,019	6.6%
Italy		137	85	803	10.6%
Netherlands (including Belgium and Germany)		352	261	3,837	6.8%
Poland		206	167	719	23.2%
Spain		239	167	1,375	12.1%
Other Europe		(5)	-	106	-
Europe		**1,543**	**1,098**	**10,150**	**10.8%**
North America		**255**	**165**	**2,288**	**7.2%**
Asia Pacific		**91**	**68**	**496**	**13.7%**
		2,753	**1,936**	**20,094**	**9.6%**
General insurance and health					
United Kingdom		**306**	**214**	**2,887**	**7.4%**
France		70	45	333	13.5%
Ireland		162	142	423	33.6%
Netherlands		169	123	684	18.0%
Other Europe		41	29	161	18.0%
Europe		**442**	**339**	**1,601**	**21.2%**
North America		**154**	**100**	**666**	**15.0%**
Asia Pacific		**4**	**3**	**22**	**13.6%**
		906	**656**	**5,176**	**12.7%**
Fund management		90	63	305	20.7%
Other business		(70)	(49)	754	(6.5)%
Corporate		(82)	(95)	(19)	500.0%
External debt		(79)	(55)	(1,258)	4.4%
Net internal debt	2	(53)	(37)	(1,257)	2.9%
Subordinated debt		(179)	(125)	(2,937)	4.3%
		3,286	**2,294**	**20,858**	**11.0%**
Less:					
Minority interests			(259)	(2,137)	12.1%
Direct capital instrument			(37)	(990)	3.7%
Preference capital			(17)	(200)	8.5%
Return on equity shareholders' funds			**1,981**	**17,531**	**11.3%**

Notes

1. The operating return is based upon Group EEV operating profit, which is stated before impairment of goodwill, amortisation of intangibles, exceptional items and tax including policyholder tax, adjusted for the short-term fluctuation in investment return.
2. The net internal debt return before tax of (£53) million comprises investment return of £127 million and Group internal debt costs and other interest of (£180) million.

A Group capital structure (continued)

Analysis of return on capital employed (continued)
For the year ended 31 December 2006

	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		**744**	**521**	**6,524**	**8.0%**
France		402	264	2,067	12.8%
Ireland		(40)	(35)	482	(7.3)%
Italy		110	68	727	9.3%
Netherlands (including Belgium and Germany)		329	235	3,055	7.7%
Poland		162	132	658	20.0%
Spain		221	143	1,228	11.6%
Other Europe		(13)	(10)	95	(10.5)%
Europe		**1,171**	**797**	**8,312**	**9.6%**
North America		**32**	**21**	**332**	**6.3%**
Asia Pacific		**86**	**64**	**430**	**14.9%**
		2,033	**1,403**	**15,598**	**9.0%**
General insurance and health					
United Kingdom		**957**	**670**	**2,907**	**23.0%**
France		63	41	362	11.3%
Ireland		172	150	545	27.5%
Netherlands		139	98	553	17.7%
Other Europe		54	38	167	22.8%
Europe		**428**	**327**	**1,627**	**20.1%**
North America		**148**	**96**	**848**	**11.3%**
Asia Pacific		**4**	**3**	**17**	**17.6%**
		1,537	**1,096**	**5,399**	**20.3%**
Other business		65	45	1,876	2.4%
Corporate		(83)	(112)	(36)	311.1%
External debt		(61)	(43)	(1,002)	4.3%
Net internal debt	2	(77)	(54)	(1,481)	3.6%
Subordinated debt		(169)	(118)	(2,808)	4.2%
		3,245	**2,217**	**17,546**	**12.6%**
Less:					
Minority interests			(208)	(1,457)	14.3%
Direct capital instrument			(37)	(990)	3.7%
Preference capital			(17)	(200)	8.5%
Return on equity shareholders' funds			**1,955**	**14,899**	**13.1%**

Notes

1. The operating return is based upon Group operating profit, which is stated before impairment of goodwill and exceptional items including policyholder tax, adjusted for the short-term fluctuation in investment return.
2. The net internal debt return before tax of £(77) million comprises investment return of £151 million and Group internal debt costs and other interest of £(228) million.

Group Capital Resources

Since 1 January 2005 insurance groups have been required to report their capital adequacy to the FSA. UK insurers are required to disclose in respect of its ultimate insurance parent undertaking the Group Capital Resources (GCR), the Capital Resources Requirement (CRR) and the resulting surplus or deficit. From 31 December 2006 the *Prudential sourcebook for insurers* INSPRU 6.1.15R requires UK insurers to meet this requirement at the ultimate EEA insurance parent level. The statement for 2007 is given in the table below. This information represents the group solvency surplus calculated in accordance with the INSPRU 6.1.

			31 December 2007
	UK Life Funds £bn	**Other businesses £bn**	**Group Total £bn**
Group Capital Resources	7.7	8.7	16.4
Less: Capital Resources Requirement	(7.7)	(5.6)	(13.3)
IGD Group surplus	**-**	**3.1**	**3.1**

The sensitivity of the Group's IGD surplus at 31 December 2007 to a 10% fall in global equity markets or a rise of 1% in global interest rates is as follows

	2007 £bn	**Equities down 10% £bn**	**Interest rates up 1% £bn**
IGD Group surplus	**3.1**	**2.6**	**2.5**

The sensitivity to equity market falls has been reduced during the year due to the sale of £2.6bn equities within the general insurance operations. This reduced the sensitivity by £0.2 billion after tax. This was partly offset by strengthening of the euro which increased the Group's sensitivity by £0.1 billion. Most of the IGD equity exposure is in Delta Lloyd, however, we have in place a number of hedging instruments which would protect the Group's IGD solvency position against more severe equity shock. The overall IGD sensitivity to a 10% fall in equity markets (excluding Delta Lloyd) is £0.2 billion.

In 2006, the FSA further extended the requirement to reconcile Group capital resources on regulatory basis to the Group's capital resources on a statutory reporting basis. In addition, this reconciliation provides further analysis of differences between the Group capital resources and the amounts included in the capital statement made in accordance with FRS 27 and disclosed in the Group consolidated accounts. This reconciliation is given in the second table below. We continue to monitor and actively manage our IGD equity exposure through a combination of assessing the appropriate levels of equity exposures as well as hedging transactions.

The Group Capital Adequacy Report is prepared in accordance with the FSA's valuation rules (Peak 1) and brings in capital in respect of the UK life funds equal to the UK Life Capital Resources Requirement. The FRS 27 disclosure brings in the realistic value of with-profit capital resources (Peak 2). As the two bases differ, the reconciliation below is presented by removing the restricted regulatory assets and then replacing them with the unrestricted realistic assets.

	31 December 2007 £bn
Total capital and reserves (IFRS basis)	16.6
Plus: Other qualifying capital	3.4
Plus: UK unallocated divisible surplus	5.0
Less: Goodwill, acquired AVIF and intangible assets	(6.3)
Less: Adjustments onto a regulatory basis	(2.3)
Group Capital Resources on regulatory basis	**16.4**
The Group Capital Resources can be analysed as follows:	
Core Tier 1 Capital	13.6
Tier 1 waiver (implicit items)	0.2
Innovative Tier 1 Capital	1.0
Total Tier 1 Capital	14.8
Upper Tier 2 Capital	1.7
Lower Tier 2 Capital	2.0
Group Capital Resources Deductions	(2.1)
Group Capital Resources on regulatory basis (Tier 1 & Tier 2 Capital)	16.4
Less: UK life restricted regulatory assets	(8.3)
Add: UK life unrestricted realistic assets	6.9
Add: Overseas UDS – restricted asset	1.8
Total FRS 27 capital	**16.8**

Appendix A2

FRS 27 disclosures

	Page
Capital statement	
Available capital resources	80
Analysis of liabilities	80
Analysis of movements in capital of long-term businesses	81
Financial guarantees and options	
a) UK Life with-profits business	83
b) UK Life non-profits business	84
c) Overseas life business	
i) France	84
ii) Netherlands	84
iii) Ireland	85
iv) Spain and Italy	85
v) United States	85

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	2007 Total £m	2006 Total £m
Total shareholders' funds	43	42	41	126	4,412	4,538	10,751	15,289	1,303	16,592	14,064
Total other sources of capital[1]	-	-	-	-	200	200	49	249	2,981	3,230	3,090
Unallocated divisible surplus	1,515	1,222	2,184	4,921	41	4,962	1,823	6,785	-	6,785	9,465
Adjustments onto a regulatory basis:											
Shareholders' share of accrued bonus	(331)	(333)	(528)	(1,192)	-	(1,192)	-	(1,192)	-	(1,192)	(730)
Goodwill, acquired value of in-force long-term business and intangibles	-	-	-	-	(400)	(400)	(4,029)	(4,429)	(2,385)	(6,814)	(5,638)
Regulatory valuation and admissibility restrictions[2]	206	275	124	605	(1,742)	(1,137)	72	(1,065)	(731)	(1,796)	(746)
Total available capital	**1,433**	**1,206**	**1,821**	**4,460**	**2,511**	**6,971**	**8,666**	**15,637**	**1,168**	**16,805**	**19,505**
Analysis of liabilities:											
Participating insurance liabilities	10,689	9,895	16,876	37,460	2,148	39,608	26,485	66,093	-	66,093	63,705
Unit-linked liabilities	-	-	-	-	5,291	5,291	15,310	20,601	-	20,601	21,004
Other non-participating life insurance	1,218	1,851	341	3,410	15,751	19,161	29,159	48,320	-	48,320	41,515
Total insurance liabilities	11,907	11,746	17,217	40,870	23,190	64,060	70,954	135,014	-	135,014	126,224
Participating investment liabilities	2,055	2,534	7,524	12,113	2,782	14,895	38,714	53,609	-	53,609	49,400
Non-participating investment liabilities	55	18	2	75	26,056	26,131	18,504	44,635	-	44,635	38,958
Total investment liabilities	2,110	2,552	7,526	12,188	28,838	41,026	57,218	98,244	-	98,244	88,358
Total liabilities	**14,017**	**14,298**	**24,743**	**53,058**	**52,028**	**105,086**	**128,172**	**233,258**	**-**	**233,258**	**214,582**

1. Other sources of capital include subordinated debt of £3,054 million issued by Aviva and £176 million of other qualifying capital issued by Dutch, Italian, Spanish and US subsidiary undertakings
2. Including an adjustment for minorities.
3. Includes the Provident Mutual with-profit fund
4. Other operations include general insurance and fund management business
5. Goodwill and other intangibles includes goodwill of £535m and JVs and associates.
6. On 5 February 2008 Norwich Union Life announced a one-off special bonus worth an estimated £2.3 billion. In accordance with FRS 27, a transfer of £2.1 billion has been made from the unallocated divisible surplus to increase insurance and participating investment contract liabilities. £0.2 billion of shareholder's share of the special bonus is included within the shareholders' share of the accrued bonus line.

A2 FRS 27 disclosures (continued)

Analysis of movements in capital of long-term businesses

For the year ended 31 December 2007

	CGNU with-profit fund £m	CULAC with-profit fund £m	NUL&P with-profit fund £m	Total UK life with-profit funds £m	Other UK life operations £m	Total UK life operations £m	Overseas life operations £m	Total life operations £m
Available capital resources at 1 January	2,548	2,479	1,823	6,850	1,913	8,763	9,290	18,053
Effect of new business	(54)	(38)	-	(92)	(162)	(254)	(325)	(579)
Expected change in available capital resources	208	246	169	623	153	776	492	1,268
Variance between actual and expected experience	(125)	(187)	(201)	(513)	114	(399)	(598)	(997)
Effect of operating assumption changes	(42)	(57)	6	(93)	(32)	(125)	(2)	(127)
Effect of economic assumption changes	(165)	(163)	(67)	(395)	(13)	(408)	(7)	(415)
Effect of changes in management policy	(1,195)	(1,207)	(19)	(2,421)	-	(2,421)	(1)	(2,422)
Effect of changes in regulatory requirements	-	-	-	-	-	-	(337)	(337)
Transfers, acquisitions and disposals	-	-	-	-	21	21	44	65
Foreign exchange movements	-	-	-	-	-	-	682	682
Other movements	258	133	110	501	517	1,018	(572)	446
Available capital resources at 31 December	**1,433**	**1,206**	**1,821**	**4,460**	**2,511**	**6,971**	**8,666**	**15,637**

Further analysis of the movement in the liabilities of the long-term business can be found on pages 88 and 89.

The analysis of movements in capital provides an explanation of the movement in available capital of the Group's life business for the year.

This analysis is intended to give an understanding of the underlying causes of the changes in the available capital of the Group's life business, and provides a distinction between some of the key factors affecting the available capital.

For the UK with-profit funds, the decrease in available capital is driven by a special bonus worth an estimated £2.3 billion announced on 5 February 2008, which is treated as a transfer from unallocated divisible surplus to policy liabilities. Equity performance was moderate, which had a direct effect on the equity content of the estate assets. In addition, the implied market volatility for equities has increased, which raises the assumed asset share volatility and consequently guarantee costs have increased. The positive other movements relate mainly to methodology and modelling changes.

The changes in management policy shown in CGNU and CULAC with-profit funds relate to the special bonus announced on 5 February 2008.

For the Overseas life operations, the negative variance between the actual and expected experience is driven mainly by the increase in market interest rates, which has led to a capital depreciation of fixed interest assets and consequential reduction of the unallocated divisible surplus in France and other European businesses.

A2 FRS 27 disclosures (continued)

In aggregate, the Group has at its disposal total available capital of £16.8 billion (2006: £19.5 billion), representing the aggregation of the solvency capital of all of our businesses. This capital is available to meet risks and regulatory requirements set by reference to local guidance and EU directives.

After effecting the year end transfer to shareholders, the UK with-profit funds' available capital of £4.5 billion (2006: £6.9 billion) can only be used to provide support for UK with-profits business and is not available to cover other shareholder risks. This is comfortably in excess of the required capital margin and, therefore, the shareholders are not required to provide further capital support to this business.

For the remaining life and general insurance operations, the total available capital amounting to £12.3 billion (2006: £12.6 billion) is significantly higher than the minimum requirements established by regulators and, in principle, the excess is available to shareholders. In practice, management will hold higher levels of capital within each business operation to provide appropriate cover for risk.

As the total available capital of £16.8 billion is arrived at on the basis of local regulatory guidance, which evaluates assets and liabilities prudently, it understates the economic capital of the business which is considerably higher. This is a limitation of the Group Capital Statement which, to be more meaningful, needs to evaluate available capital on an economic basis and compare it with the risk capital required for each individual operation, after allowing for the considerable diversification benefits that exist in our Group.

Within the Aviva group there exists intra-group arrangements to provide capital to particular business units. Included in these arrangements is a subordinated loan of £200 million from Aviva plc to the NUL&P non-profit fund to provide capital to support the writing of new business.

The available capital of the Group's with-profit funds is determined in accordance with the "Realistic balance sheet" regime prescribed by the FSA's regulations, under which liabilities to policyholders include both declared bonuses and the constructive obligation for future bonuses not yet declared. The available capital resources include an estimate of the value of their respective estates, included as part of the unallocated divisible surplus. The estate represents the surplus in the fund that is in excess of any constructive obligation to policyholders. It represents capital resources of the individual with-profit fund to which it relates and is available to meet regulatory and other solvency requirements of the fund and, in certain circumstances, additional liabilities may arise.

The liabilities included in the balance sheet for the with-profit funds do not include the amount representing the shareholders' portion of future bonuses. However, the shareholders' portion is treated as a deduction from capital that is available to meet regulatory requirements and is therefore shown as a separate adjustment in the capital statement.

In accordance with the FSA's regulatory rules under its realistic capital regime, the Group is required to hold sufficient capital in its UK life with-profit funds to meet the FSA capital requirements, based on the risk capital margin (RCM). The determination of the RCM depends on various actuarial and other assumptions about potential changes in market prices, and the actions management would take in the event of particular adverse changes in market conditions.

The table below provides the information on the UK with-profits funds on a realistic basis.

					31 December 2007	31 December 2006
	Estimated Realistic assets £bn	Realistic Liabilities[1] £bn	Estimated Realistic inherited estate[2] £bn	Estimated risk capital margin[3] £bn	Estimated Excess £bn	Excess £bn
CGNU Life	14.5	(13.1)	1.4	(0.3)	1.1	2.0
CULAC	13.9	(12.7)	1.2	(0.4)	0.8	2.0
NUL&P[4]	26.1	(24.2)	1.9	(0.6)	1.3	1.2
Aggregate	**54.5**	**(50.0)**	**4.5**	**(1.3)**	**3.2**	**5.2**

These realistic liabilities include the shareholders' share of future bonuses of £1.2 billion (31 December 2006: £0.7 billion). Realistic liabilities adjusted to eliminate the shareholders' share of future bonuses are £48.8 billion (31 December 2006: £48.6 billion).

1. These realistic liabilities make provision for guarantees, options and promises on a market consistent stochastic basis. The value of the provision included within realistic liabilities is £0.7 billion, £0.8 billion and £3.0 billion for CGNU Life, CULAC and NUL&P, respectively (31 December 2006: £0.5 billion, £0.7 billion and £3.0 billion for CGNU Life, CULAC and NUL&P respectively).
2. Estimated realistic inherited estate at 31 December 2006 was £2.5 billion, £2.5 billion and £1.8 billion for CGNU Life, CULAC and NUL&P respectively.
3. The risk capital margin (RCM) is 3.5 times covered by the inherited estate (31 December 2006: 4.2 times).
4. The NUL&P fund includes the Provident Mutual (PM) fund, which has realistic assets and liabilities of £2.1 billion and therefore does not impact the realistic inherited estate.

A2 FRS 27 disclosures (continued)

Under the FSA regulatory regime, UK with-profit funds is required to hold capital equivalent to the greater of their regulatory requirement based on EU Directive ("regulatory peak") and the FSA realistic basis ("realistic peak") described above.

For UK non-participating business, the relevant capital requirement is the minimum solvency requirement determined in accordance with FSA regulations. The available capital reflects the excess of regulatory basis assets over liabilities before deduction of capital resources requirement.

For UK general insurance businesses, the relevant capital requirement is the minimum solvency requirement determined in accordance with the FSA requirements.

For overseas business in the EEA, US, Canada, Australia, Hong Kong and Singapore, the available capital and the minimum capital requirement are calculated under the locally applicable regulatory regimes. The businesses outside these territories are subject to the FSA rules for the purposes of calculation of available capital and capital resource requirement.

For fund management and other businesses, the relevant capital requirement is the minimum solvency requirement determined in accordance with the local regulator's requirements for the specific class of business.

All businesses hold sufficient available capital to meet their minimum capital requirement.

The available capital resources in each regulated entity are generally subject to restrictions as to their availability to meet requirements that may arise elsewhere in the Group. The principal restrictions are:

(i) UK with-profit funds (CGNU Life, CULAC and NUL&P) - any available surplus held in each fund can only be used to meet the requirements of the fund itself or be distributed to policyholders and shareholders. With-profit policyholders are entitled to at least 90% of the distributed profits while the shareholders receive the balance. The latter distribution would be subject to a tax charge, which is met by the fund in the case of CGNU Life, CULAC and NUL&P.
(ii) UK non-participating funds – any available surplus held in these is attributable to shareholders. Capital within the non-profit funds may be made available to meet requirements elsewhere in the Group subject to meeting the regulatory requirements of the fund. Any transfer of the surplus may give rise to a tax charge subject to availability of tax relief elsewhere in the Group.
(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-profit business

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

The material guarantees and options to which this provision relates are:

(i) Maturity value guarantees – Substantially all of the conventional with-profit business and a significant proportion of unitised with-profit business have minimum maturity values reflecting the sums assured plus declared annual bonus. In addition, the guarantee fund has offered maturity value guarantees on certain unit-linked products.
(ii) No market valuation reduction (MVR) guarantees – For unitised business, there are a number of circumstances where a "no MVR" guarantee is applied, for example on certain policy anniversaries, guaranteeing that no market value reduction will be applied to reflect the difference between the accumulated value of units and the market value of the underlying assets.
(iii) Guaranteed annuity options – The Group's UK with-profit funds have written individual and group 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 that contain a guaranteed minimum level of pensions as part of the condition of the original transfer from state benefits to the policy.

In addition, while these do not constitute guarantees, the with-profit fund companies have made promises to certain policyholders in relation to their with-profit mortgage endowments. Subject to certain conditions, top-up payments will be made on these policies at maturity to meet the mortgage value up to a maximum of the 31 December 1999 illustrated shortfall.

A2 FRS 27 disclosures (continued)

(b) UK Life non-profit business

The Group's UK non-profit funds are evaluated by reference to local statutory reserving rules, including changes introduced in 2006 under the FSA Policy Statement 06/14 *Prudential Changes for insurers*.

(i) Guaranteed annuity options – Similar options to those written in the with-profit fund have been written in relation to non-profit products. Provision for these guarantees does not materially differ from a provision based on a market-consistent stochastic model, and amounts to £36 million at 31 December 2007 *(2006: £39 million)*.

(ii) Guaranteed unit price on certain products – Certain unit-linked pension products linked to long-term life insurance funds provide policyholders with guaranteed benefits at retirement or death. No additional provision is made for this guarantee as the investment management strategy for these funds is designed to ensure that the guarantee can be met from the fund, mitigating the impact of large falls in investment values and interest rates.

(c) Overseas life businesses

In addition to guarantees written in the Group's UK life businesses, our overseas businesses have also written contracts containing guarantees and options. Details of the significant guarantees and options provided by overseas life businesses are set out below.

(i) France

Guaranteed surrender value and guaranteed minimum bonuses

Aviva France has written a number of contracts with such guarantees. The guaranteed surrender value is the accumulated value of the contract including accrued bonuses. Bonuses are based on accounting income from amortised bond portfolios, where the duration of bond portfolios is set in relation to the expected duration of the policies, plus income and releases from realised gains on equity-type investments. Policy reserves are equal to guaranteed surrender values. Local statutory accounting envisages the establishment of a reserve, "Provision pour Aléas Financiers" (PAF), when accounting income is less than 125% of guaranteed minimum credited returns. No PAF was established at the end of 2007.

The most significant of these contracts is the AFER Euro fund which has total liabilities of £24 billion at 31 December 2007 (2006: £21 billion). The guaranteed bonus on this contract equals 75% of the average of the last two years' declared bonus rates and was 3.64% for 2007 (2006: 3.30%) compared with an accounting income from the fund of 4.92% (2006: 4.81%).

Non-AFER contracts with guaranteed surrender values had liabilities of £8 billion (2006: £6 billion) at 31 December 2007 and all guaranteed annual bonus rates are between 0% and 4.5%. For non-AFER business, the accounting income return exceeded guaranteed bonus rates in 2007.

Guaranteed death and maturity benefits

In France, the Group has also sold unit-linked policies where the death and/or maturity benefit is guaranteed to be at least equal to the premiums paid. The reserve held in the Group's consolidated balance sheet at the end of 2007 for this guarantee is £30 million (2006: £8 million). The reserve is calculated on a prudent basis and is in excess of the economic liability. At the end of 2007, total sums at risk for these contracts were £63 million (2006: £38 million) out of total unit-linked funds of £15 billion (2006: £13 billion). The average age of policyholders was approximately 53. It is estimated that this liability would increase by £17 million (2006: £3 million) if yields were to decrease by 1% per annum and by £7 million (2006: £2 million) if equity markets were to decline by 10% from year end 2007 levels. These figures do not reflect our ability to review the tariff for this option.

(ii) Netherlands

Guaranteed minimum return at maturity

In the Netherlands, it is market practice to guarantee a minimum return at maturity on traditional savings and pension contracts. Guarantees on older lines of business are 4% per annum while, for business written since 1 September 1999, the guarantee is 3% per annum. On group pensions business, it is often possible to recapture guarantee costs through adjustments to surrender values or to premium rates.

On transition to IFRS, Delta Lloyd changed the reserving basis for most traditional contracts to reflect current market interest rates, for consistency with the reporting of assets at market value. The cost of meeting interest rate guarantees is allowed for directly in the liabilities. Although most traditional contracts are valued at market interest rate, the split by level of guarantee shown below is according to the original underlying guarantee.

The total liabilities for traditional business at 31 December 2007 are £10 billion (2006: £8 billion) analysed as follows:

	Liabilities 3% guarantee 31 December 2007 £m	Liabilities 3% guarantee 31 December 2006 £m	Liabilities 4% guarantee 31 December 2007 £m	Liabilities 4% guarantee 31 December 2006 £m
Individual	1,387	1,222	3,671	2,989
Group pensions	485	518	3,993	3,180
Total	**1,872**	**1,740**	**7,664**	**6,169**

A2 FRS 27 disclosures (continued)

Delta Lloyd has certain unit-linked contracts which provide a guaranteed minimum return at maturity from 4% per annum to 2% per annum. Provisions consist of unit values plus an additional reserve for the guarantee. The additional provision for the guarantee was £70 million (2006: £76 million). An additional provision of £19 million (2006: £43 million) in respect of investment return guarantees on group segregated fund business is held. It is estimated that the provision would increase by £211 million (2006: £163 million) if yields were to reduce by 1% per annum and by £21 million (2006: £25 million) if equity markets were to decline by 10% from year end 2007 levels.

(iii) Ireland

Guaranteed annuity options
Products with similar GAOs to those offered in the UK have been issued in Ireland. The current net of reinsurance provision for such options is £160 million (2006: £152 million). This has been calculated on a deterministic basis, making conservative assumptions for the factors which influence the cost of the guarantee, principally annuitant mortality, option take-up and long-term interest rates.

These GAOs are "in the money" at current interest rates but the exposure to interest rates under these contracts has been hedged through the use of reinsurance, using derivatives (swaptions). The swaptions effectively guarantee that an interest rate of 5% will be available at the vesting date of these benefits so there is reduced exposure to a further decrease in interest rates.

"No MVR" guarantees
Certain unitised with-profit policies containing "no MVR" guarantees, similar to those in the UK, have been sold in Ireland. These guarantees are currently "out-of-the-money" by £53 million (2006: £69 million). This has been calculated on a deterministic basis as the excess of the current policy surrender value over the discounted value (excluding terminal bonus) of the guarantees. The value of these guarantees is sensitive to the performance of investments held in the with-profit fund. Amounts payable under these guarantees are determined by the bonuses declared on these policies. It is estimated that the guarantees would be out-of-the-money by £46 million (2006: £74 million) if yields were to increase by 1% per annum and by £29 million (2006: £31 million) if equity markets were to decline by 10% from year end 2007 levels.

Return of premium guarantee
Hibernian Life has written two tranches of linked bonds with a return of premium guarantee after five or six years. The provision for these at the end of 2007 is £0.1 million (2006: £nil). In addition, it is estimated that the provision would increase if equity markets were to decline by 10% from year end 2007 levels by £1.4 million. It is estimated that the provision would increase if interest rates were to increase by 1% from year end 2007 levels by £0.1 million.

(iv) Spain and Italy

Guaranteed investment returns and guaranteed surrender values
The Group has written contracts containing guaranteed investment returns and guaranteed surrender values in both Spain and Italy. Traditional profit-sharing products receive an appropriate share of the investment return, assessed on a book value basis, subject to a guaranteed minimum annual return of up to 6% in Spain and 4% in Italy on existing business, while on new business the maximum guaranteed rate is lower. Liabilities are generally taken as the face value of the contract plus, if required, an explicit provision for guarantees calculated in accordance with local regulations. At 31 December 2007, total liabilities for the Spanish business were £4 billion (2006: £3 billion) with a further reserve of £16 million (2006: £18 million) for guarantees. Total liabilities for the Italian business were £4 billion (2006: £5 billion), with a further provision of £48 million (2006: £46 million) for guarantees. Liabilities are most sensitive to changes in the level of interest rates. It is estimated that provisions for guarantees would need to increase by £66 million (2006: £66 million) in Spain and £14 million (2006: £9 million) in Italy if interest rates fell by 1% from end 2007 values. Under this sensitivity test, the guarantee provision in Spain is calculated conservatively, assuming a long-term market interest rate of 1.42% and no lapses or premium discontinuances.

(v) United States

Indexed and total return strategy products
In the United States, the Group writes indexed life and deferred annuity products. These products guarantee the return of principal to the policyholder and credit interest based on certain indices, primarily the Standard & Poor's 500 Composite Stock Price Index. A portion of each premium is used to purchase call options to hedge the growth in interest credited to the policyholder. The call options held by the Group and the options embedded in the policy are both carried at fair value. At 31 December 2007, the total liabilities for indexed products were £8.4 billion (2006: £5.4 billion). If interest rates were to increase by 1%, the provision for embedded options would decrease by £89 million (2006: £51 million) and, if interest rates were to decrease by 1%, the provision would increase by £86 million (2006: £56 million).

The Group has certain products that credit interest based on a total return strategy, whereby policyholders are allowed to allocate their premium payments to different asset classes within the general account. The Group guarantees a minimum return of premium plus approximately 3% interest over the term of the contracts. The linked general account assets are fixed maturity securities, and both the securities and the contract liabilities are carried at fair value. At 31 December 2007, the liabilities for total return strategy products were valued at £1.2 billion (2006: £1.4 billion).

The Group offers an optional lifetime guaranteed income benefit focused on the retirement income segment of the deferred annuity marketplace to help customers manage income during both the accumulation stage and the distribution stage of their financial life. At 31 December 2007, a total of £0.7 billion in indexed deferred annuities have elected this benefit taking steps to guarantee retirement income.

(d) Sensitivity

In providing these guarantees and options, the Group's capital position is sensitive to fluctuations in financial variables including foreign currency exchange rates, interest rates, real estate prices and equity prices. Interest rate guaranteed returns, such as those available on guaranteed annuity options (GAOs), are sensitive to interest rates falling below the guaranteed level. Other guarantees, such as maturity value guarantees and guarantees in relation to minimum rates of return, are sensitive to fluctuations in the investment return below the level assumed when the guarantee was made.

Appendix B

Additional Report & Accounts disclosures

The following additional disclosures have been extracted from the Group's 2007 Report and Accounts:

	Page
Movements in long-term liabilities	
Movements in long-term business provisions	88
Long-term business investment liabilities	88
(i) Participating investment contracts	89
(ii) Non-participating investment contracts	89
Movements in general insurance and health claims provisions	90
Loss development table	91
Sensitivity analysis and capital management	
Long-term business – impact on profit before tax	92
Long-term business – impact before tax on shareholders' equity	93
General insurance and health business – impact on profit before tax	93
General insurance and health business – impact before tax on shareholders' equity	93
Fund management and non-insurance businesses – impact on profit before tax	94
Fund management and non-insurance businesses – impact before tax on shareholders' equity	94

Movements in long-term liabilities

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, mainly using the net premium method, 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:

	2007 £m	2006 £m
Carrying amount at 1 January	**126,614**	**114,430**
Provisions in respect of new business	10,470	8,750
Expected change in existing business provisions	(6,280)	(5,678)
Variance between actual and expected experience	(877)	1,209
Effect of adjusting to PS06/14 realistic basis	(60)	(800)
Impact of other operating assumption changes	95	(333)
Impact of economic assumption changes	(909)	(1,727)
Effects of special bonus to with-profits policyholders	1,728	-
Other movements	(324)	314
Change in liability recognised as an expense	3,843	1,735
Effect of portfolio transfers, acquisitions and disposals	571	12,454
Foreign exchange rate movements	4,284	(2,005)
Other movements	-	-
Carrying amount at 31 December	**135,312**	**126,614**

A transfer was made from UDS to participating contract liabilities in the UK. This reflects the expected management action to declare a special bonus to with-profits policyholders in CGNU and CULAC. No IFRS profit impact is recognised in 2007 as it is considered inappropriate to anticipate management actions in the recognition of shareholder profit.

Long-term business investment liabilities

Investment contracts are those that do not transfer significant insurance risk from the contract holder to the issuer, and are therefore treated as financial instruments under IFRS.

Many investment contracts contain a discretionary participation feature in which the contract holder has a contractual right to receive additional benefits as a supplement to guaranteed benefits. These are referred to as participating contracts and are measured according to the methodology and group practice for long-term business liabilities. They are not measured at fair value as there is currently no agreed definition of fair valuation for discretionary participation features under IFRS. In the absence of such a definition, it is not possible to provide a range of estimates within which a fair value is likely to fall. The IASB has deferred consideration of participating contracts to Phase II of its insurance contracts project.

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

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.

In the United States, funding agreements consist of one to ten year fixed rate contracts. These contracts may not be cancelled by the holders unless there is a default under the agreement, but may be terminated by Aviva at any time. The weighted average interest rates for fixed-rate and floating-rate funding agreements in 2007 were 5.21% and 5.15% (2006: 5.07% and 5.55% respectively). The funding agreements are measured at fair value equal to the present value of contractual cash flows.

There is a small volume of annuity certain business for which the liability is measured at amortised cost using the effective interest method. The fair value of contract liabilities measured at amortised cost is not materially different from the amortised cost liability.

Movements in long-term liabilities (continued)

Movements in the year

The following movements have occurred in the year:

(i) Participating investment contracts

	2007 £m	2006 £m
Carrying amount at 1 January	**49,400**	**47,258**
Provisions in respect of new business	3,009	3,001
Expected change in existing business provisions	(1,978)	(2,237)
Variance between actual and expected experience	(404)	2,131
Effect of adjusting to PS06/14 realistic basis	-	(105)
Impact of other operating assumption changes	(3)	(43)
Impact of economic assumption changes	178	(125)
Effect of special bonus to with-profits policyholders	399	-
Other movements	(176)	51
Change in liability	1,025	2,673
Effect of portfolio transfers, acquisitions and disposals	-	125
Foreign exchange rate movements	3,184	(656)
Other movements	-	-
Carrying amount at 31 December	**53,609**	**49,400**

(ii) Non-participating investment contracts

	2007 £m	2006 £m
Carrying amount at 1 January	**38,958**	**30,051**
Provisions in respect of new business	8,575	5,695
Expected change in existing business provisions	(1,094)	(163)
Variance between actual and expected experience	(3,231)	265
Impact of operating assumption changes	(2)	15
Impact of economic assumption changes	20	(5)
Other movements	61	56
Change in liability	4,329	5,863
Effect of portfolio transfers, acquisitions and disposals	254	3,396
Foreign exchange rate movements	1,094	(352)
Carrying amount at 31 December	**44,635**	**38,958**

Movements in general insurance and health claims provisions

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:

	2007 £m	2006 £m
Carrying amount at 1 January	**12,718**	**12,965**
Impact of changes in assumptions	1	2
Claim losses and expenses incurred in the current year	8,273	7,639
Decrease in estimated claim losses and expenses incurred in prior years		
- General insurance	(800)	(520)
- Health	(137)	(30)
Incurred claims losses and expenses	7,337	7,091
Less:		
Payments made on claims incurred in the current year	(4,408)	(3,765)
Payments made on claims incurred in prior years	(3,686)	(3,771)
Recoveries on claim payments	315	304
Claims payments made in the year, net of recoveries	(7,779)	(7,232)
Other movements in the claims provisions	36	(7)
Changes in claims reserve recognised as an expense	(406)	(148)
Gross portfolio transfers, acquisitions and disposals	175	207
Foreign exchange rate movements	655	(306)
Carrying amount at 31 December	**13,142**	**12,718**

Releases from non-life prior year provisions

The Group aims to establish non-life reserves on an appropriately conservative basis to protect against adverse future claims development. Our business is predominantly short tail in nature and loss development experience is generally favourable. As a result of conservatism applied in setting reserves, as the ultimate cost of claims becomes more certain, in the absence of adverse claims development, there may be releases from prior accident years. The impact of these prior year releases on Aviva is shown in the loss development tables set out below.

The Group's approach to reserving for the current accident year remains consistent and appropriately conservative.

During 2007 the Group has released £832 million from general insurance prior year net claim provisions (£800 million gross). In addition, during 2007, £137 million has been released from health insurance provisions, £130 million of which relates to the Netherlands health insurance business, which is held for sale at 31 December 2007.

Releases from general insurance provisions by region

United Kingdom

- £440 million, the main components of which are:
  - better than anticipated bodily injury claims settlement experience, resulting in releases from personal motor, mainly accident years 2003 to 2005, and commercial motor
  - "inflation busting" initiatives in 2007 mitigating claim costs and legal expenses on prior year open claims
  - additional reinsurance recoveries and case estimate savings as a result of decommissioning legacy systems, and releasing amounts previously held for pleural plaque claims
  - favourable development on commercial liability claims from accident years 1998 to 2006
  - of this £440 million, the NUI operating profited benefited by £430 million

Europe includes:

- £130 million from Ireland due to lower than expected costs of settling motor and commercial liability claims and other favourable claims development
- £173 million from the Netherlands due to continued releases from disability provisions and better than anticipated claims settlement experience

North America

- £52 million from Canada mainly due to favourable experience on personal motor claims and various mandatory auto residual market pools

Health insurance provision releases

£137 million has been released from prior year health insurance provisions, £130 million of which relates to the Netherlands health insurance business. Included within this £130 million is £53 million due to refunds resulting from prior claim overpayments, which have only a minor impact on profit due to the offsetting effect of the lower premiums from the Verevening (central health fund) that result. In addition, greater certainty regarding ultimate claim costs in the health insurance market has also led to releases.

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 2007. 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 2003, by the end of 2007 £5,180 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 £6,218 million was re-estimated to be £5,851 million at 31 December 2007. This decrease from the original estimate is due to the combination of a number of factors. The original estimates will be increased or decreased, as more information becomes known about the individual claims and overall claim frequency and severity.

In 2005, the year of adoption of IFRS, only five years were required to be disclosed. This is being increased in each succeeding additional year, until ten years of information is included.

The Group aims to maintain strong reserves in respect of its non-life and health business in order to protect against adverse future 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. However, in order to maintain strong reserves the Group transfers much of this release to current accident year (2007) reserves where the development of claims is less mature and there is much greater uncertainty attaching to the ultimate cost of claims. The release from prior accident year reserves during 2007 is also due to an improvement in the estimated ultimate cost of claims.

After the effect of reinsurance the loss development table is:

Accident Year	**All prior years £m**	**2001 £m**	**2002 £m**	**2003 £m**	**2004 £m**	**2005 £m**	**2006 £m**	**2007 £m**	**Total £m**
Net cumulative claim payments									
At end of accident year		(2,970)	(2,913)	(2,819)	(2,870)	(3,281)	(3,612)	(4,317)	
One year later		(4,624)	(4,369)	(4,158)	(4,378)	(4,925)	(5,442)		
Two years later		(5,088)	(4,779)	(4,565)	(4,712)	(5,344)			
Three years later		(5,436)	(5,064)	(4,924)	(4,986)				
Four years later		(5,848)	(5,297)	(5,180)					
Five years later		(5,763)	(5,424)						
Six years later		(5,841)							
Estimate of net cumulative claims									
At end of accident year		6,186	6,037	6,218	6,602	6,982	7,430	8,363	
One year later		6,333	6,038	6,093	6,266	6,818	7,197		
Two years later		6,321	5,997	6,037	6,082	6,688			
Three years later		6,329	5,973	5,942	5,882				
Four years later		6,286	5,912	5,851					
Five years later		6,219	5,855						
Six years later		6,173							
Estimate of cumulative claims		6,173	5,855	5,851	5,882	6,688	7,197	8,363	
Cumulative payments		(5,841)	(5,424)	(5,180)	(4,986)	(5,344)	(5,442)	(4,317)	
	1,634	332	431	671	896	1,344	1,755	4,046	11,109
Effect of discounting	(39)	(3)	(4)	(4)	(2)	(3)	(5)	(9)	(69)
Present value	1,595	329	427	667	894	1,341	1,750	4,037	11,040
Cumulative effect of foreign exchange movements	-	13	21	34	45	34	97	-	244
Effect of acquisitions	8	2	2	43	16	22	28	19	140
Present value recognised in the balance sheet	**1,603**	**344**	**450**	**744**	**955**	**1,397**	**1,875**	**4,056**	**11,424**

In the loss development 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 loss development tables above include 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 £323 million (*2006: £312 million*). The movement in the year reflects strengthening of provisions by £20 million (*2006: £9 million*), foreign exchange rate movements and timing difference between claim payments and reinsurance recoveries.

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 its capital more efficiently. Primarily EEV, 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) are used. 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 as part of the framework for identifying and quantifying the risks that each of its business units, and the Group as a whole are exposed to.

For long-term business in particular, sensitivities of EEV performance indicators to changes in both economic and non-economic experience are continually used to manage the business and to inform the decision making process. More information on EEV sensitivities can be found in the presentation of results in the EEV section of this announcement.

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.
Equity / property market values	The impact of a change in equity/property market values by ± 10%
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 2007:

Long-term business

Sensitivities as at 31 December 2007

Impact on profit before tax (£m)

	Interest rates +1%	Interest rates -1%	Equity / property +10%	Equity / property -10%	Expenses +10%	Assurance mortality +5%	Annuitant mortality -5%
Insurance participating	15	(10)	-	-	(5)	-	-
Insurance non-participating	(205)	165	45	(35)	(5)	(20)	(295)
Investment participating	(5)	(25)	-	-	(5)	-	-
Investment non-participating	(35)	40	65	(60)	-	-	-
Assets backing life shareholders' funds	(115)	140	180	(175)	-	-	-
Total	**(345)**	**310**	**290**	**(270)**	**(15)**	**(20)**	**(295)**

Sensitivity analysis and capital management (continued)

Impact before tax on shareholders' equity (£m)

	Interest rates +1%	Interest rates -1%	Equity / property +10%	Equity / property -10%	Expenses +10%	Assurance mortality +5%	Annuitant mortality -5%
Insurance participating	(5)	20	-	-	(5)	-	-
Insurance non-participating	(320)	275	105	(95)	(5)	(20)	(295)
Investment participating	(5)	(25)	-	-	(5)	-	-
Investment non-participating	(170)	190	65	(60)	-	-	-
Assets backing life shareholders' funds	(165)	190	460	(455)	-	-	-
Total	**(665)**	**650**	**630**	**(610)**	**(15)**	**(20)**	**(295)**

Sensitivities as at 31 December 2006

Impact on profit before tax (£m)

	Interest rates +1%	Interest rates -1%	Equity / property +10%	Equity / property -10%	Expenses +10%	Assurance mortality +5%	Annuitant mortality -5%
Insurance participating	(5)	-	35	(35)	-	-	(5)
Insurance non-participating	25	(210)	20	(40)	(5)	(20)	(295)
Investment participating	(30)	(35)	10	(10)	(5)	-	-
Investment non-participating	(15)	15	40	(40)	-	-	-
Assets backing life shareholders' funds	(280)	305	255	(255)	-	-	-
Total	**(305)**	**75**	**360**	**(380)**	**(10)**	**(20)**	**(300)**

Impact before tax on shareholders' equity (£m)

	Interest rates +1%	Interest rates -1%	Equity / property +10%	Equity / property -10%	Expenses +10%	Assurance mortality +5%	Annuitant mortality -5%
Insurance participating	(25)	25	35	(35)	-	-	(5)
Insurance non-participating	(240)	60	35	(50)	(5)	(20)	(295)
Investment participating	(30)	(35)	10	(10)	(5)	-	-
Investment non-participating	(70)	70	40	(40)	-	-	-
Assets backing life shareholders' funds	(320)	345	290	(290)	-	-	-
Total	**(685)**	**465**	**410**	**(425)**	**(10)**	**(20)**	**(300)**

Changes in sensitivities between 2006 and 2007 arise primarily from the acquisitions of Ark Life and AmerUs, and the effect of increases in market interest rates. The different impacts of the economic sensitivities on profit and shareholders' equity arise from classification of certain assets as available for sale in some business units, for which movements in unrealised gains or losses would be taken directly to shareholders' equity. The economic impacts on profit before tax for insurance contracts relate mainly to the effect of minimum return guarantees in the Netherlands. However, in the case of the interest rate sensitivities, the impacts on shareholders' equity are more than offset by the effect of changes in the market value of fixed interest securities in the United States that are classified as available for sale.

The mortality sensitivities relate primarily to the UK and Ireland.

The impact on the Group's results from sensitivity to these assumptions can also be found in the EEV sensitivities included in the alternative method of reporting long-term business profits section.

General insurance and health business

Sensitivities as at 31 December 2007

Impact on profit before tax (£m)

	Interest rates +1%	Interest rates -1%	Equity / property +10%	Equity / property -10%	Expenses +10%	Gross loss ratios +5%
Net of reinsurance	(275)	310	110	(110)	(150)	(365)

Impact before tax on shareholders' equity (£m)

	Interest rates +1%	Interest rates -1%	Equity / property +10%	Equity / property -10%	Expenses +10%	Gross loss ratios +5%
Net of reinsurance	(275)	310	110	(110)	(35)	(365)

Sensitivities as at 31 December 2006

Impact on profit before tax (£m)

	Interest rates +1%	Interest rates -1%	Equity / property +10%	Equity / property -10%	Expenses +10%	Gross loss ratios +5%
Net of reinsurance	(270)	290	370	(370)	(140)	(325)

Impact before tax on shareholders' equity (£m)

	Interest rates +1%	Interest rates -1%	Equity / property +10%	Equity / property -10%	Expenses +10%	Gross loss ratios +5%
Net of reinsurance	(270)	290	370	(370)	(35)	(325)

For general insurance, the impact of the expense sensitivity on profit also includes the increase in ongoing administration expenses, in addition to the increase in the claims handling expense provision.

Fund management and non-insurance businesses

Sensitivities as at 31 December 2007

Impact on profit before tax (£m)

	Interest rates +1%	Interest rates -1%	Equity / property +10%	Equity / property -10%
Total	(35)	35	55	(55)

Impact before tax on shareholders' equity (£m)

	Interest rates +1%	Interest rates -1%	Equity / property +10%	Equity / property -10%
Total	(35)	35	55	(55)

Sensitivities as at 31 December 2006

Impact on profit before tax (£m)

	Interest rates +1%	Interest rates -1%	Equity / property +10%	Equity / property -10%
Total	(26)	26	44	(44)

Impact before tax on shareholders' equity (£m)

	Interest rates +1%	Interest rates -1%	Equity / property +10%	Equity / property -10%
Total	(52)	51	78	(78)

Limitations of sensitivity analysis

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

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

A number of the business units use passive assumptions to calculate their long-term business liabilities. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the balance sheet. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity. Similarly, for general insurance liabilities, the interest rate sensitivities only affect profit and equity where explicit assumptions are made regarding interest (discount) rates or future inflation.

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

Appendix C

Additional disclosures

	Page
Operating cost base	96
Cost savings	97
Margin on assets	99

Analysis of Total Group Expenses

Introduction

Aviva is committed to improving the efficiency of its operations. This disclosure has been developed for investors to facilitate the tracking of progress on operational efficiency and cost saving initiatives and to understand how cost saving initiatives impact profit. This disclosure shows the overall movement in the Operating Cost Base between 2006 and 2007. This is analysed into the key components of movement - impact of acquisitions/disposals, organic growth (based on growth in GWP and PVNBP / VIF), inflation, productivity savings, movements in one-off restructuring costs and realised savings from cost initiatives.

Overall, this analysis shows that the total operating cost base reduced from £5,019 million in 2006 to £4,995 million in 2007, with a like-for- like reduction during 2007 of 6.5%.

The Operating Cost Base

The Aviva operating cost base is calculated from total IFRS Expenses - with all charges relating to claims (excluding claims handling), commissions, provisions and liabilities, financing, amortisation and impairments, and forex, removed as set out in the table below:

Total Expenses & the Operating Cost Base

		2007 £m	2006 £m
Total Expenses		**38,788**	**42,071**
Less:	Claims, Commissions, and Changes in Provisions & Liabilities	32,253	35,780
Less:	IFRS Adjustments & Amortisation	332	425
Less:	Finance Costs	1,208	847
Total Operating Cost Base		**4,995**	**5,019**

Reduction in the Operating Cost Base

The total Operating Cost Base has reduced during 2007, moving from £5,019 million to £4,995 million, a reduction of £24 million (0.5%).

In order to analyse the Operating Cost Base movement in 2007 the adjustments necessary to place the 2006 figures on a like-for-like basis have been calculated. These adjustments account for the impact of inflation in the year, adjust for any impact from the cost bases of businesses disposed of / acquired, and adjust for the growth of the Group (as represented by the growth in revenues and the in-force portfolio).

Adjusting for these elements increases the notional Cost Base (after productivity savings) to £5,342 million. Based on this total the actual Operating Cost Base for 2007 of £4,995 million represents a like-for-like reduction of £347 million (6.5%).

The table and notes below set out and explain the like-for-like adjustments, their calculation, and the inherent assumptions – the two most important being that:

a) A composite of the Consumer Price Index and the Retail Price Index is used as a measure of inflation

b) Costs are assumed to move in proportion to changes in premium / VIF. The actual relationship between these will be more complex – this is adjusted for by the separate inclusion of productivity savings.

The table below also sets out the different components which have then caused the reduction in the Operating Cost Base:

Movement in the Operating Cost Base

	£m
Total Operating Cost Base 2006	**5,019**
Impact of acquisitions and disposals [1]	42
Inflation [2]	154
Organic growth [3]	239
Productivity savings [4]	(112)
Movement in restructuring and integration spend [5]	(93)
Realised savings from cost initiatives [6]	(241)
Other [7]	(13)
Total Operating Cost Base 2007	**4,995**

1 – Impact of acquisitions and disposals - Adjustment to the cost base for the purchase of AmerUs and the disposal of MSS

2 – Inflation **-** Notional level of inflation that would have impacted the operating cost base during the year. Calculated using a composite of the Retail Price Index and the Consumer Price Index for individual countries, applied to operating expenditure, i.e. excluding restructuring and integration costs (but including adjustments for acquisitions and disposals). The overall weighted average inflation rate is calculated at 3.0%

3 – Organic growth - Increase in the cost base implied by the growth of the organisation in revenue terms (GWP used as proxy for the GI businesses; a combination of PVNBP and VIF movements used for the Life businesses). The growth proxies, adjusted for any acquisitions / disposals, are then applied to operating expenditure, i.e. excluding restructuring and integration costs (but including adjustments for acquisitions and disposals)

4 – Productivity savings - The difference between the growth in the cost base implied by the organic growth calculation and the actual change that has taken place

5 – Movement in restructuring and integration spend – Comparison of restructuring and integration spend in 2007 (£153 million) and 2006 (£246 million)

6 – Realised savings from cost initiatives - Cost savings realised in the year, and attributable to specific initiatives (equivalent run-rate savings may be higher). These savings are as follows:

NUL Cost and Efficiency	£92 million	(Principally emerging as improved new business margin and reduced in-force adverse expense variance – added to the 2006 savings this gives a cumulative figure of £108 million)
US Integration	£17 million	
NUI Cost and Efficiency	£ 132 million	(Principally offsetting the impact of inflation and reduced premiums to deliver an expense ratio in line with prior year – impact partially offset in year by movement in deferred acquisition cost reserve)
Total Realised Savings	**£241 million**	

No savings have been delivered in 2007 in respect of the £350 million targets announced in October 2007 (see following pages).

7 – Other - Movements in the operating cost base which are specifically identifiable and one-off in nature.

Cost saving commitments for new targets announced in October 2007

This note provides details of the Group's published commitments to deliver cost savings. At 2007 year end, the Group's UK Cost and Efficiency initiatives, RAC integration and US integration were complete and only the £350 million cost savings targets announced in October 2007 remain to be delivered. Consequently, only the targets announced in October 2007 are included in the table below and there is limited information to report at this year end. Aviva is, however, committed to providing this disclosure every half year so that investors can monitor delivery of the cost-saving commitments made.

Movement in Costs Savings target (recurring, annualised savings)	**New targets announced in year***	**Savings to be delivered in future years**	**Savings over / (under) delivered**	**Impact of economic changes on targets c/fwd**	**Cost savings targets c/fwd**
	£m	**£m**	**£m**	**£m**	**£m**
Savings expected to be achieved in:					
year ended 31 December 2007	-	-	-	-	-
year ended 31 December 2008	290	-	-	-	290
year ended 31 December 2009	60	-	-	-	60
Total	**350**	**-**	**-**	**-**	**350**

* Targets include £200 million for NUI, £100 million for NU Life and £50 million for Europe.
No cost savings from these initiatives were realised (earned) in the Income Statement for the year ended 31 December 2007. All £82 million of costs incurred in the year were expensed in the Income Statement for the year in restructuring costs.

Movement in initial costs to deliver Costs Savings target (total expenses incurred)	Costs of delivery of new targets announced in year	Less: Costs incurred in year	Less: Costs now to be incurred in future years	Increase / (decrease) in costs of delivery	Impact of economic changes on costs of delivery c/fwd	Costs to deliver c/fwd
	£m	£m	£m	£m	£m	£m
Costs expected to be incurred in:						
year ended 31 December 2007	82	(82)	-	-	-	-
year ended 31 December 2008	178	-	-	-	-	178
year ended 31 December 2009	70	-	-	-	-	70
Total	**330**	**(82)**	**-**	**-**	**-**	**248**

Footnotes

1. Cost savings initiatives included in this note are supported by detailed implementation plans, which identify the activities, timeframe and expected costs of delivering the planned initiatives.

2. Cost Savings targets announced in the year to be achieved in 2007 are measured at the value of the relevant recurring costs in the year ended 31 December 2006. Cost savings targets announced in the year and to be delivered in 2008 and 2009 are measured at the value of the relevant recurring costs in the year ended 31 December 2007.

3. The impact of economic changes will include the effect, where significant, of restating targets brought forward that are to be achieved in 2008 and future years for foreign exchange and inflation movements.

4. Cost savings "realised" are the actual cost savings earned in the Income Statement for the year, and will be less than the amount "achieved" when the saving was achieved part way through the year. For EEV reporting, this excludes the benefit of any reduction in related unit cost assumptions.

5. "Initial costs to deliver Cost Savings targets" are the total one-off, initial costs that will be required to complete and deliver announced cost savings programmes. They are measured at the real value expected to be incurred when the costs arise.

Long-term business summary analysis by geographical segment

Margin on assets

(a) Introduction

Aviva is committed to improving the explanation of its results to generalist investors. During 2007, a number of requests were received to present our long-term business result as a function of funds under management, consistent with practices elsewhere in the savings industry. This disclosure provides an additional perspective on the long-term business performance, as part of our intention to provide continuous improvement in the external presentation of our IFRS result and enable these results to be better understood.

This disclosure presents the overall profit from the long-term business as if generated by a margin on the income-bearing assets supporting that business. In the analysis which follows two net margin figures are highlighted. Firstly, the operating profit margin is based on our new definition of life operating profit, which excludes the effect of economic volatility in the period. Secondly, the margin based on profit before shareholder tax includes the impact of economic volatility and other non-operating items.

(b) Margins on average assets

Full Year 2007		As margin on average assets (basis points)					
	Average Assets (£bn)	**Operating revenue**	**Acquisition & Admin costs**	**Operating profit**	**Economic items**	**Other non-operating items**	**Profit before shareholder tax**
UK	**124.8**	**179**	**(121)**	**58**	**(9)**	**(1)**	**48**
France	48.7	123	(73)	50	17	0	67
Netherlands	28.8	269	(206)	63	80	(2)	141
Other	40.6	275	(188)	87	(1)	(5)	81
Europe	**118.1**	**211**	**(145)**	**66**	**26**	**(2)**	**90**
North America	**16.3**	**228**	**(165)**	**63**	**(112)**	**(35)**	**(84)**
Asia Pacific	**4.2**	**385**	**(311)**	**74**	**3**	**(2)**	**75**
Total	**263.4**	**200**	**(138)**	**62**	**1**	**(4)**	**59**

Full Year 2006		As margin on average assets (basis points)					
	Average Assets (£bn)	**Operating revenue**	**Acquisition & Admin costs**	**Operating profit**	**Economic items**	**Other non-operating items**	**Profit before shareholder tax**
UK	**117.6**	**243**	**(190)**	**53**	**(2)**	**1**	**52**
France	44.3	128	(77)	51	7	0	58
Netherlands	27.2	220	(183)	37	126	3	166
Other	34.2	249	(155)	94	5	(11)	88
Europe	**105.7**	**191**	**(130)**	**61**	**38**	**(3)**	**96**
North America	**5.1**	**286**	**(260)**	**26**	**51**	**(43)**	**34**
Asia Pacific	**3.6**	**577**	**(457)**	**120**	**20**	**6**	**146**
Total	**232.0**	**225**	**(168)**	**57**	**18**	**(2)**	**73**

The above tables are based on the IFRS income statement and balance sheet for the long-term business segment:

(i) average assets is the arithmetic average of the opening and closing balance sheet value of assets, together with non-consolidated funds under management and excluding certain non-financial assets; excluded assets are goodwill, acquired value of in-force business (AVIF) and other intangibles, reinsurance assets, deferred acquisition costs and other assets, and prepayments and accrued income;
(ii) operating revenue items include premium and investment income, claims and movements in liabilities, based on expected investment returns on financial investments backing shareholder and policyholder funds;
(iii) acquisition and administration costs include fee and commission expense, other operating expenses and finance costs;
(iv) operating profit is equal to operating revenue less acquisition and administration costs;
(v) economic items include the effect of variances between actual and expected investment returns and the impact of changes in economic assumptions on liabilities, which are excluded from operating profit;
(vi) other non-operating items include impairment of goodwill, amortisation of intangibles other than AVIF, profit on disposal of subsidiaries and integration and restructuring costs; and,
(vii) the final column is based on profit before tax attributable to shareholders' profits, which combines the operating profit, economic items and other non-operating items.

(c) Reconciliation of net margins to segmental result and balance sheet

	Full year 2007			Full year 2006		
	Profit	**Average assets**	**Net margin**	**Profit**	**Average assets**	**Net margin**
	£m	£bn	bpts	£m	£bn	bpts
Long-term business result before tax	1,571			2,045		
less:						
Tax attributable to policyholder returns	(15)			(346)		
Result after policyholder tax	1,556	263.4	**59**	1,699	232.0	**73**
Operating profit before tax attributable to shareholders' profits	1,634	263.4	**62**	1,334	232.0	**57**

	Closing	**Average**	**Opening**	**Closing**	**Average**	**Opening**
	£bn	£bn	£bn	£bn	£bn	£bn
Segment assets	278.9		255.9	255.9		224.8
adjustments:						
Additional funds under management	11.7		8.5	8.5		6.7
Goodwill and other intangibles	(4.0)		(3.6)	(3.6)		(1.1)
Other excluded assets	(11.1)		(9.5)	(9.5)		(8.8)
Weighting for USA acquisition				(8.8)		
Asset base	275.5	**263.4**	251.3	242.5	**232.0**	221.6

(d) Methodology and observations

This disclosure presents the overall profit from the long-term business as if generated by a margin on the income-bearing assets supporting that business. Advantages of this presentation are:

- consistency with metrics used by the fund management industry, presented in a fashion which may be more accessible to the generalist investor;
- the margin on assets is an appropriate measure for investment contracts and insurance contracts that are predominantly savings vehicles; and,
- the calculation normalises the profit emerging from different sized operations to give an indication of relative profitability.

However there are a number of limitations to this analysis for the Aviva group, which offers a full range of long-term policies, including protection, annuity and with-profits business, in addition to non-participating savings and investment contracts. In particular:

- the method assumes that profit emerges as a function of the asset base; for contracts that provide protection benefits the measure is less useful, as there is no direct link between profit emergence and the supporting assets;
- the variety in levels of margin between business units and regions partly reflects differences in business mix and the relative importance of assets under management as a profit driver; for example the net margin on assets backing investment contracts will generally be lower than for annuity and protection business as the latter includes profits arising from mortality margins;
- the measure can show spurious volatility for smaller or rapidly developing operations with a low asset base; and,

- the analysis is based on IFRS results, which does not reflect value creation in our long-term business, and may show new business strain in rapidly growing businesses.

The disclosure could be enhanced by splitting investment and protection business, but this is not facilitated by IFRS product classification, under which many contracts with savings characteristics are classified as insurance contracts. Furthermore, our long-term business units are managed on an integrated basis, with various contract types supported by common administrative and investment services.

(e) Commentary on 2007 and 2006 margins

The total operating profit margin on assets increased from 57 bps in 2006 to 62 bps in 2007. The increase was driven mainly by the UK, Netherlands and USA, reflecting organic activity and acquisition of new operations. The overall margin increase of 5 bps can be further analysed between an increase of 11 bps for growth in operating profit less a reduction of 6 bps to allow for the increased asset base.

Economic items had a neutral net impact on profit in 2007, with favourable investment variances in the Europe region offset by negative effects in the USA and UK. In Europe, positive variances related mainly to realisation of capital gains on securities in the Netherlands and France. In the USA, realised and unrealised losses on investments were driven by the widening of credit spreads on securities, while in the UK there was a negative investment variance on surplus assets backing annuity business due to interest rate changes.

This compares to a significantly positive net impact of economic items on profit in the previous year. In 2006 the positive investment variance was driven primarily by favourable equity market performance worldwide and increases in market interest rates in the Euro zone. In particular, there was a significant reduction in the cost of investment guarantees in the Netherlands as market interest rates increased.

The non-operating items relate mainly to integration costs and amortisation of other intangibles arising from the acquisitions in Ireland (included in Europe Other) and the USA in 2006.

For the UK business, the operating profit margin increased from 53 bps in 2006 to 58 bps in 2007. The margin increase of 5 bps is composed of 16 bps from growth in underlying profits, less 8 bps for the net effect of one-off profit items which had a greater impact in 2006, and 3 bps for the effect of growth in the asset base. For non-profit business the improved result is driven by expense savings, growth in the in-force book and lower new business strain. This is combined with an increased contribution from the with-profits business, due to higher bonus rates and removal of market value reductions.

The UK margins on assets presented above are blended margins combining our participating (with-profits) and non-participating business. Average assets of the UK with-profits business were £64.0 billion (2006: £62.8 billion) with operating profit of 28bps (2006: 23bps) and profit before shareholder tax of 28bps (2006: 23bps). This apparently low return reflects IFRS accounting for the share of bonuses accruing to policyholders, rather than the underlying performance within the participating funds.

Average assets of the UK non-participating business were £61.1billion (2006: £55.3 billion) with operating profit of 89bps (2006: 87bps) and profit before shareholder tax of 65bps (2006: 64bps). This reflects the underlying strength of the profitability of our UK life business measured on an IFRS basis.

The French long-term business shows a stable operating margin progression, based on its well-established portfolios of AFER and other unit-linked investment contracts. Favourable investment variances over the period further augment the margins based on profit before shareholder tax.

In the Netherlands, the operating profit margin increased significantly. The margin based on profit before shareholder tax margin was affected by economic volatility, in particular the impact of movements in market interest rates and the timing of realisation of capital gains on equities.

For this disclosure, Other Europe includes our well-established and profitable operations in Ireland, Italy, Poland and Spain as well as newer developing businesses in Central and Eastern Europe. Operating margins were stable, boosted by high margins on protection business portfolios in Poland and Spain. The newer smaller operations currently make a negative net contribution to margins due to the effect of the low asset base and development costs.

The North America margins include results from the AmerUs business acquired in November 2006, with average assets for 2006 weighted to allow for timing of the purchase. The increase in operating profit margin in 2007 reflects the inclusion of the acquired business for a full year for the first time.

The negative economic variances seen for the US business were driven by realised and unrealised losses on investments as a result of the widening of credit spreads on assets predominantly relating to funding agreement business. The assets and liabilities for this business are both carried at fair value, are matched in terms of duration, and the assets are of high quality. However, a temporary accounting mismatch has arisen due to widening of credit spreads. This has resulted in a temporary adverse movement on the asset not matched by a corresponding movement on the liability, which it is anticipated will reverse prior to settlement of the contract.

The Asia Pacific region combines our well-established profitable business in Australia, which shows high stable profit margins, and the new and rapidly developing Asian operations.

(f) Future developments

From 2008 we intend to provide further disclosure of IFRS profit drivers, using a format similar to the embedded value analysis of movements. We consider that this will provide more relevant information on the sources of profit for all types of long-term business. In the meantime, however, we believe there is merit in presenting this “margin on average assets” disclosure as an additional perspective on the financial results of our life businesses.

Appendix D

Analysis of
Asset disclosure

Analysis of assets

1. Key Messages

- The quality of AVIVA's balance sheet asset base is strong, as detailed and evidenced in this comprehensive disclosure
- Balance sheet assets have been appropriately valued with 83% of assets (including 100% of financial investments) measured at fair value
- Except for tax assets and investments in joint ventures and associates (which are equity accounted) the remaining assets are recognised at cost/amortised cost and tested for impairment
- Asset valuations have been arrived at using external market parameters
  - 68% of fair values are calculated based on quoted market prices
  - a further 31% of fair values are valued using models applying observable market parameters
  - where applicable fair values have been adjusted for any assets that operate in an illiquid market
- The principal asset classes are Debt Securities (£119 billion), Equities (£56 billion), Other Financial Investments (£40 billion) and Loans (£36 billion)
- The majority (95%) of debt securities are investment grade (with 1% below investment grade and 4% not rated)
- The Group has very limited exposure to Sub-prime RMBS/ABS, Alt A, Wrapped Credit, CDOs and CLOs; these investments represent less than 1% of total balance sheet assets and are typically AAA rated
- The Groups Loan portfolio continues to perform well with 99.3% of the portfolio neither past due nor impaired
- Of the assets specifically attributable to shareholders (as compared to Policyholder and Participating Fund risks), only 5% is held in equities), reflecting the equity de-risking programme in the second half of 2007
- Equities and other financial investments are principally held to back Policyholder liabilities (in unit linked and participating funds) and as such reflect policyholder investment mandates

2. Introduction

Set against the background of recent volatility in the credit markets, there is an increasing demand for financial institutions to provide additional insight into the quality of assets recognised on the balance sheet. AVIVA has responded to the requests for further information with this extensive special disclosure which evidences the Group's prudent management of its balance sheet.

The purpose of this disclosure is to evidence the quality of the Aviva Group's balance sheet assets by providing:

- further detail on the composition of the asset base
- details of the valuation bases used
- an analysis of assets to reflect whether the shareholder or policyholder ultimately bears the underlying credit and market risk
- supplementary analysis to evidence asset quality

This disclosure focuses on the balance sheet position. To understand the impact of investment returns on the income statement it is important to note the following underlying financial dynamics of the Business (as reflected in the Proforma reconciliation of Group operating profit to profit before tax – IFRS basis):

- Long Term Business
  - For the life policyholder funds, there is a close matching between most long-term business assets and liabilities
  - Operating profit is reported based on expected investment returns with consistent allowance for the corresponding expected movements in liabilities
  - Investment variances and economic assumption changes are reported separately outside of operating profit. The variance for 2007 was +£15 million with favourable movements in the Europe region largely offset by negative effects in the USA and UK

- General Insurance and Health Business
  - Operating profit is calculated based on longer term investment returns
  - Any short term fluctuations in investment returns (e.g. arising from changes in interest rates or equity market movements) are identified and reported separately
  - The value of short term fluctuations in investment returns in 2007 was -£184 million, principally driven by movements in equity prices

3. Total Assets - Shareholder / Policyholder Exposure to Risk

Within this disclosure, the Group's total assets have been segmented based on where the market and credit risks are held, according to the following guidelines:

Policyholder Assets

The Group writes unit-linked business in a number of long-term business operations. In unit-linked business, the policyholder bears the investment risk on the assets in the unit-linked funds, as the policy benefits are directly linked to the value of the assets in the funds. These assets are managed according to the investment mandates of the funds which are consistent with the expectations of the policyholders. By definition, there is a precise match between the investment assets and the policyholder liabilities, and so the market risk and credit risk lie with policyholders. The shareholders' exposure on this business is limited to the extent that income arising from asset management charges is based on the value of assets in the funds.

Participating Fund Assets

Some insurance and investment contracts in our long-term businesses contain a discretionary participating feature, which is a contractual right to receive additional benefits as a supplement to guaranteed benefits. These are referred to as participating contracts. The market risk and credit risk in relation to assets held within Participating Funds (including 'with-profit' funds) are shared between policyholders and shareholders in differing proportions. In general, the risks and rewards of participating funds rests primarily with the policyholders.

The assets within Participating Funds cover liabilities for participating insurance contracts and participating investment contracts in addition to other liabilities within the participating funds.

Shareholder Assets

Assets held within long-term businesses that are not backing unit-linked liabilities or participating funds, directly expose the Shareholders of Aviva plc to market and credit risks. Likewise, assets held within General Insurance & Health, Fund Management and non-Insurance businesses also expose our shareholders to market and credit risks. The Group has established comprehensive risk management policies to monitor and mitigate these risks as outlined in this disclosure.

	Policyholder Assets £m	Participating Fund Assets £m	Shareholder Assets £m	Total Assets £m	Less Assets of operations classified as held for Sale £m	Balance Sheet Total £m
Assets						
Goodwill, Acquired value of in-force business and intangible assets	-	-	6,279	6,279	-	6,279
Interests in joint ventures and associates	749	1,675	1,358	3,782	-	3,782
Property and equipment	-	114	828	942	-	942
Investment Property	5,385	7,818	1,874	15,077	-	15,077
Loans	347	8,581	27,265	36,193	-	36,193
Financial investments						
Debt securities	15,065	61,549	42,403	119,017	(80)	118,937
Equity securities	27,743	22,826	5,685	56,254	(236)	56,018
Other investments	26,284	11,362	2,767	40,413	-	40,413
Reinsurance assets	1,905	999	5,205	8,109	-	8,109
Deferred tax assets	-	-	606	606	(16)	590
Current tax assets	-	-	376	376	-	376
Receivables and other financial assets	458	2,206	6,519	9,183	(554)	8,629
Deferred acquisition costs and other assets	114	292	4,081	4,487	-	4,487
Prepayments and accrued income	181	1,263	1,688	3,132	(146)	2,986
Cash and cash equivalents	3,939	5,012	6,919	15,870	(96)	15,774
Assets of operations classified as held for sale	-	-	-	-	-	1,128
Total assets	**82,170**	**123,697**	**113,853**	**319,720**	**(1,128)**	**319,720**
	25%	39%	36%			

As can be seen from the table above, 36% of assets can be directly attributed to shareholders where the apportionment of assets is predominantly weighted towards debt securities and loans. In comparison equities, investment property and other investments (e.g. unit trusts) are weighted more towards policyholder and participating assets, reflecting the underlying policyholder investment mandates.

Note, the remainder of this disclosure is prepared based on gross assets prior to the adjustment for assets of operations classified as held for sale.

4. Total Assets - Description of Valuation Bases

The valuation of the Group's assets have been categorised into four major categories:

1) Fair Value – Fair value is the amount for which an asset can be exchanged between knowledgeable, willing parties in an arm's length transaction;
2) Cost / Amortised Cost – The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition less principal repayments, plus or minus the cumulative amortisation (using the effective interest method) of any difference between the initial amount and the maturity amount, and less any reduction for impairment or uncollectibility. The cost/amortised cost of a non-financial asset is the amount at which the asset is initially recognised less any cumulative amortisation / depreciation (if applicable), and less any reduction for impairment;
3) Equity Accounted – Investments in associates and joint ventures are accounted for using the equity method of accounting. Under this method, the cost of the investment in a given associate or joint venture, together with the Group's share of that entity's post-acquisition changes to shareholders' funds, is included as an asset in the consolidated balance sheet. The Group's share of their post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. Distributions received from the investee reduce the Group's carrying amount of the investment; and
4) Tax Assets – Within the Group's balance sheet, assets are recognised for deferred tax and current tax. The valuation basis of these assets does not directly fall within any of the categories outlined above. As such, these assets have been reported separately within the analysis of the Group's assets in the table below.

A split of the Group's total assets into these categories is as follows:

	Fair Value £m	Cost / Amortised Cost £m	Equity Accounted £m	Tax Assets £m	Total £m
Assets					
Goodwill, Acquired value of in-force business and intangible assets	-	6,279	-	-	6,279
Interests in joint ventures and associates	-	-	3,782	-	3,782
Property and equipment	497	445	-	-	942
Investment Property	15,077	-	-	-	15,077
Loans	18,325	17,868	-	-	36,193
Financial investments					
Debt securities	119,017	-	-	-	119,017
Equity securities	56,254	-	-	-	56,254
Other investments	40,413	-	-	-	40,413
Reinsurance assets	-	8,109	-	-	8,109
Deferred tax assets	-	-	-	606	606
Current tax assets	-	-	-	376	376
Receivables and other financial assets	-	9,183	-	-	9,183
Deferred acquisition costs and other assets	-	4,487	-	-	4,487
Prepayments and accrued income	-	3,132	-	-	3,132
Cash and cash equivalents	15,870	-	-	-	15,870
Total assets	**265,453**	**49,503**	**3,782**	**982**	**319,720**
	83.0%	15.5%	1.2%	0.3%	

As shown in the above table, 83% of the Group's total assets are carried at fair value (inclusive of cash and cash equivalents).

With such a significant portion of the Group's total assets carried at fair value, the impact of market risks and credit risks of these assets has been fully reflected within the Group's reported 31 December 2007 financial position. Furthermore, all other assets have been tested for impairment and, in the case of financial assets carried at amortised cost, this has included a specific analysis of the recoverability of the assets by reference to the credit risk of the counterparty.

The carrying values of assets on the different valuation bases are analysed in the tables below between Policyholder, Participating Fund and Shareholder Assets respectively.

	Fair Value £m	Cost / Amortised Cost £m	Equity Accounted £m	Tax Assets £m	Total £m
Assets - Policyholder assets					
Goodwill, Acquired value of in-force business and intangible assets	-	-	-	-	-
Interests in joint ventures and associates	-	-	749	-	749
Property and equipment	-	-	-	-	-
Investment Property	5,385	-	-	-	5,385
Loans	100	247	-	-	347
Financial investments					
Debt securities	15,065	-	-	-	15,065
Equity securities	27,743	-	-	-	27,743
Other investments	26,284	-	-	-	26,284
Reinsurance assets	-	1,905	-	-	1,905
Deferred tax assets	-	-	-	-	-
Current tax assets	-	-	-	-	-
Receivables and other financial assets	-	458	-	-	458
Deferred acquisition costs and other assets	-	114	-	-	114
Prepayments and accrued income	-	181	-	-	181
Cash and cash equivalents	3,939	-	-	-	3,939
Assets - Policyholder assets	**78,516**	**2,905**	**749**	**-**	**82,170**
	95.6%	3.5%	0.9%	0.0%	

Policyholder assets are typically held in respect of unit linked liabilities and as such are principally invested in financial investments measured at fair value.

	Fair Value £m	Cost / Amortised Cost £m	Equity Accounted £m	Tax Assets £m	Total £m
Assets - Participating fund assets					
Goodwill, Acquired value of in-force business and intangible assets	-	-	-	-	-
Interests in joint ventures and associates	-	-	1,675	-	1,675
Property and equipment	114	-	-	-	114
Investment Property	7,818	-	-	-	7,818
Loans	428	8,153	-	-	8,581
Financial investments					
Debt securities	61,549	-	-	-	61,549
Equity securities	22,826	-	-	-	22,826
Other investments	11,362	-	-	-	11,362
Reinsurance assets	-	999	-	-	999
Deferred tax assets	-	-	-	-	-
Current tax assets	-	-	-	-	-
Receivables and other financial assets	-	2,206	-	-	2,206
Deferred acquisition costs and other assets	-	292	-	-	292
Prepayments and accrued income	-	1,263	-	-	1,263
Cash and cash equivalents	5,012	-	-	-	5,012
Assets - Participating fund assets	**109,109**	**12,913**	**1,675**	**-**	**123,697**
	88.2%	10.4%	1.4%	0.0%	

In addition to Investment Property and Financial Investments (both measured at fair value), Participating Fund assets include £8.2bn of held at amortised cost.

	Fair Value £m	Cost / Amortised Cost £m	Equity Accounted £m	Tax Assets £m	Total £m
Assets - Shareholder assets					
Goodwill, Acquired value of in-force business and intangible assets	-	6,279	-	-	6,279
Interests in joint ventures and associates	-	-	1,358	-	1,358
Property and equipment	383	445	-	-	828
Investment Property	1,874	-	-	-	1,874
Loans	17,797	9,468	-	-	27,265
Financial investments					
Debt securities	42,403	-	-	-	42,403
Equity securities	5,685	-	-	-	5,685
Other investments	2,767	-	-	-	2,767
Reinsurance assets	-	5,205	-	-	5,205
Deferred tax assets	-	-	-	606	606
Current tax assets	-	-	-	376	376
Receivables and other financial assets	-	6,519	-	-	6,519
Deferred acquisition costs and other assets	-	4,081	-	-	4,081
Prepayments and accrued income	-	1,688	-	-	1,688
Cash and cash equivalents	6,919	-	-	-	6,919
Assets - Shareholder assets	**77,828**	**33,685**	**1,358**	**982**	**113,853**
	68.4%	29.6%	1.2%	0.9%	

Over two thirds of shareholder assets are measured at fair value. The remaining assets include goodwill, loans, reinsurance assets and receivables, all carried at amortised cost but subject to regular impairment reviews.

5. Risk Management Framework – Market Risk

Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows of financial instruments from fluctuations in interest rates, equity prices, property prices, and foreign currency exchange rates. Market risk arises in Aviva's operating businesses due to fluctuations in both the value of liabilities and the value of investments held. At Group level, it also arises in relation to the overall portfolio of international businesses and in the value of investment assets owned directly by the shareholders.

The Group has established a policy on market risk which sets out the principles that businesses are expected to adopt in respect of management of the key market risks to which the Group is exposed. The Group monitors adherence to this market risk policy and regularly reviews how business units are managing these risks locally, through the Group Investment Committee, which reports to the Group Asset Liability Management Committee (ALCO). For each of the major components of market risk, described in more detail below, the Group has put in place additional policies and procedures to set out how each risk should be managed and monitored, and the approach to setting an appropriate risk appetite.

The management of market risk is undertaken in both business units and at Group level. Business units manage market risks locally using their market risk framework and within local regulatory constraints. Business units may also be constrained by the requirement to meet policyholders' reasonable expectations and to minimise or avoid market risk in a number of areas. The Group Investment Committee is responsible for managing market risk at Group level, and a number of investment related risks, in particular those faced by shareholder funds throughout the Group.

The financial impact from changes in market risk (such as interest rates, equity prices and property values) is examined through stress tests adopted in the Individual Capital Assessments (ICA) and Financial Condition Reports (FCR), which consider the impact on capital from variations in financial circumstances on either a remote scenario, or to changes from the central operating scenario. Both consider the management actions that may be taken in mitigation of the change in circumstances.

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

The Group market risk policy sets out the minimum principles and framework for matching liabilities with appropriate assets, the approaches to be taken when liabilities cannot be matched and the monitoring processes that are required. The Group has criteria for matching assets and liabilities for all classes of business to minimize the impact of mismatches between the value of assets and the liabilities due to market movements. The local regulatory environment for each business will also set the conditions under which assets and liabilities are to be matched.

The Group writes unit-linked business in a number of its operations. In unit-linked business, the policyholder bears the investment risk on the assets held in the unit-linked funds, as the policy benefits are directly linked to the value of the assets in the fund. The shareholders' exposure to market risk on this business is limited to the extent that income arising from asset management charges is based on the value of assets in the fund.

The risk management policies and procedures that the Group has put in place for each major component of market risk is as follows:

- *Equity price risk*

The Group is subject to equity price risk due to daily changes in the market values of its equity securities portfolio. The Group's shareholders are exposed to the following sources of equity risk:

-direct equity shareholdings in shareholder funds and the Group defined benefit pension funds;
the indirect impact from changes in the value of equities held in policyholders' funds from which management charges or a share of performance are taken; and
-its interest in the free estate of long-term funds.

At business unit level, equity price risk is actively managed in order to mitigate anticipated unfavourable market movements where this lies outside the risk appetite of either the company in respect of shareholder assets or the fund in respect of policyholder assets concerned. In addition local asset admissibility regulations require that business units hold diversified portfolios of assets thereby reducing exposure to individual equities. The Group does not have material holdings of unquoted equity securities.

Equity risk is also managed using a variety of derivative instruments, including futures and options.

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

The Investment Committee actively monitors equity assets owned directly by the Group, which may include some material shareholdings in the Group's strategic business partners. Concentrations of specific equity holdings (e.g. the strategic holdings) are also monitored monthly by the Group Capital Management Committee.

- *Property price risk*

The Group is subject to property price risk due to holdings of investment properties in a variety of locations worldwide. Investment in property is managed at business unit level, and will be subject to local regulations on asset admissibility, liquidity requirements and the expectations of policyholders, as well as overall risk appetite. The Investment Committee also actively monitors property assets owned directly by the Group.

At 31 December 2007, no material derivative contracts had been entered into to mitigate the effects of changes in property prices.

- *Interest rate risk*

Interest rate risk arises primarily from the Group's investments in long-term debt and fixed income securities, which are exposed to fluctuations in interest rates.

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

On short-term business, such as general insurance business, the Group requires a close matching of assets and liabilities to minimise this risk.

Interest rate risk is monitored and managed by the Group Investment Committee, and the Group's Asset Liability Management Committee.

Exposure to interest rate risk is monitored through several measures that include Value-at-Risk analysis, position limits, scenario testing, stress testing and asset and liability matching using measures such as duration. The impact of exposure to sustained low interest rates is regularly monitored.

Interest rate risk is also managed using a variety of derivative instruments, including futures, options, swaps, caps and floors, in order to provide a degree of hedging against unfavourable market movements in interest rates inherent in the assets backing technical liabilities.

At 31 December 2007, the Group had entered into a number of interest rate swap agreements to mitigate the effects of potential adverse interest rate movements, and to enable close matching of assets and liabilities.

- *Currency risk*

The Group has minimal exposure to currency risk from financial instruments held by Business Units in currencies other than their functional currencies, as nearly all such holdings are backing either unit-linked or with-profit contract liabilities.

The Group operates internationally and as a result is exposed to foreign currency exchange risk arising from fluctuations in exchange rates of various currencies. Approximately half of the Group's premium income arises in currencies other than sterling and the Group's net assets are denominated in a variety of currencies, of which the largest are euro, sterling, and US dollars. The Group does not hedge foreign currency revenues as these are substantially retained locally to support the growth of the Group's business and meet local regulatory and market requirements.

The Group's foreign exchange policy requires that each of our subsidiaries maintains sufficient assets in its local currency to meet local currency liabilities. Therefore, capital held by the Group's business units should be able to support local business activities regardless of foreign currency movements. However, such movements may impact the value of the Group's consolidated shareholders' equity which is expressed in sterling. This aspect of foreign exchange risk is monitored and managed centrally, against pre-determined limits. The Group's foreign exchange policy is to manage these exposures by aligning the deployment of capital by currency with the Group's capital requirements by currency. Limits are set to control the extent to which the deployment of capital is not aligned fully with the Group's capital requirement for each major currency. Currency borrowings and derivatives are used to manage exposures within the limits that have been set.

- *Derivatives risk*

Derivatives are used by a number of the larger businesses, within policy guidelines agreed by the Board of directors, as set out in the Group policy on derivatives use. Activity is overseen by the Group Derivatives Committee, which monitors implementation of the policy, exposure levels and approves large or complex transactions proposed by businesses. Derivatives are primarily used for efficient investment management, risk hedging purposes or to structure specific retail-savings products. Derivative transactions are covered by either cash or corresponding assets and liabilities. Speculative activity is prohibited, unless approval has been obtained from the Group Derivatives Committee. Over the counter derivative contracts are entered into only with approved counterparties, in accordance with our Group credit policies, thereby reducing the risk of credit loss. The Group also manages a number of hedge funds which use derivatives extensively within a defined derivative framework.

The Group applies strict requirements to the administration and valuation processes it uses, and has a control framework that is consistent with market and industry practice for the activity that is undertaken.

- *Correlation risk*

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

A number of policyholder participation features have an influence on the Group's interest rate risk. The major features include guaranteed surrender values, guaranteed annuity options, and minimum surrender and maturity values.

6. Risk Management Framework – Credit Risk

- *Monitoring credit risk*

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

Credit risk is the risk of loss in the value of financial assets due to counterparties failing to meet all or part of their obligations. The Group risk management framework also includes the market related aspect of credit risk. This is the risk of a fall in the value of fixed interest securities from changes in the perceived worthiness of the issuer and is manifested through changes in the fixed interest securities' credit spreads.

The Group's management of credit risk includes monitoring exposures at a Group level and requiring individual operating businesses to implement local credit risk policies. The local business unit credit risk policies involve the establishment and operation of specific risk management committees and the detailed reporting and monitoring of the financial asset portfolio against pre-established risk criteria. Large individual counterparty exposures exceeding £25 million are aggregated and monitored at Group level against centrally-set limits reflecting the credit ratings by companies such as Standard & Poor's. In addition, the Group evaluates the concentration of exposures by industry sector and geographic region through the Group Credit Committee.

- *Credit ratings*

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

- *Credit concentration risk*

The long-term businesses and general insurance businesses are generally not individually exposed to significant concentrations of credit risk due to the regulations, applicable in most markets, limiting investments in individual assets and asset classes. In cases where the business is particularly exposed to credit risk (e.g. in respect of defaults on mortgages or debt matching annuity liabilities) this risk is translated into a more conservative discount rate used to value the liabilities, creating a greater capital requirement, and this credit risk is actively managed. The impact of aggregation of credit risk is monitored as described above. With the exception of Government Debt Securities the largest aggregated counterparty exposure is approximately 0.5% of the Group's total assets.

- *Reinsurance credit exposures*

The Group is exposed to concentrations of risk with individual reinsurers, due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings. The Group operates a policy to manage its reinsurance counterparty exposures, by limiting the reinsurers that may be used, and the impact from reinsurer default is measured regularly, in particular through the ICA tests, and is managed accordingly. Both the Group Credit Committee and Group Reinsurance Security Committee have a monitoring role over this risk.

The Group's largest reinsurance counterparty is National Indemnity Corporation, a member of the Berkshire Hathaway Group. At 31 December 2007 the reinsurance asset recoverable from National Indemnity Corporation was £1.1 billion. This exposure is monitored on a regular basis with the forecast to completion monitored for any shortfall in the claims history, to verify that the contract is progressing as expected and that no further exposure for the Group will arise.

In the event of a catastrophic event, the counterparty exposure to a single reinsurer is estimated not to exceed 1.1% of shareholders' equity.

- *Unit-Linked business*

As discussed previously, in unit-linked business the policyholder bears the market risk, including credit risk, on investment assets in the unit funds, and the shareholders' exposure to credit risk is limited to the extent that their income arises from asset management charges based on the value of assets in the fund.

- *Impairment of financial assets*

Credit terms are set locally within overall credit limits prescribed by the Group Credit Committee and within the framework of the Group Credit Policy. The credit quality of financial assets is managed at the local business unit level. Where assets have been classed as "past due and impaired", an analysis is made of the risk of default and a decision is made whether to seek collateral from the counterparty.

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

7. Analysis of Asset Quality

The following sections analyse the quality of various Group assets. The table below provides an overview of where additional information is provided.

	Cross Reference	**Further Analysis £m**	**No further analysis £m**	**Total £m**
Assets				
Goodwill, Acquired value of in-force business and intangible assets	*7.1*	6,279		6,279
Interests in joint ventures and associates	*7.2*	3,782		3,782
Property and equipment			942	942
Investment Property	*7.3*	15,077		15,077
Loans	*7.4*	36,193		36,193
Financial investments				-
Debt securities	*7.5.1*	119,017		119,017
Equity securities	*7.5.2*	56,254		56,254
Other investments	*7.5.3*	40,413		40,413
Reinsurance assets	*7.6*	8,109		8,109
Deferred tax assets			606	606
Current tax assets			376	376
Receivables and other financial assets	*7.7*	9,183		9,183
Deferred acquisition costs and other assets			4,487	4,487
Prepayments and accrued income			3,132	3,132
Cash and cash equivalents	*7.8*	15,870		15,870
Total assets		**310,177**	**9,543**	**319,720**
		97.0%	3.0%	

As can be seen from the table, the analysis covers 97% of the Group's total assets. The remaining assets are not discussed further in the context of this disclosure on the basis that their value and quality will typically not fluctuate based on movements in the credit markets.

Fair Value Hierarchy

To provide further information on the valuation techniques used to measure assets carried at fair value, this disclosure categorises the measurement basis for assets carried at fair value into a 'fair value hierarchy' as follows:

Quoted market prices in active markets – ('Level 1')

Inputs to Level 1 fair values are quoted prices (unadjusted) in active markets for identical assets. An active market is a market in which transactions for the asset occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Examples are listed equities in active markets, listed debt securities in active markets and quoted unit trusts in active markets.

Valued using models with significant observable market parameters – ('Level 2')

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

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

Examples are securities measured using discounted cash flow models based on market observable swap yields, investment property measured using market observable information and listed debt or equity securities in a market that is inactive.

Valued using models with significant unobservable market parameters – ('Level 3')

Inputs to Level 3 fair values are unobservable inputs for the asset. Unobservable inputs may have been used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset at the measurement date (or market information for the inputs to any valuation models). As such, unobservable inputs reflect the business unit's own assumptions about the inputs that market participants would use in pricing the asset.

Examples are certain private equity investments and private placements.

7.1. Goodwill, Acquired value of in-force business and intangible assets

The Group's Goodwill, Acquired value of in-force business and the majority of other intangible assets have arisen from the Group's business combinations. These business combinations have included several bancassurance transactions which have resulted in £640 million of the total £3,082 million of Goodwill and £630 million of the total £1,408 million of other intangible assets which primarily represent the value of bancassurance distribution agreements acquired in these business combinations.

As at 31 December 2007, the Group has assessed the value of these bancassurance related assets and has not identified a need to impair any of these amounts.

7.2. Interests in Joint Ventures and Associates

Investments in Joint Ventures and Associates are accounted for using the equity method. Under this method, the cost of the investment in a given associate or joint venture, together with the Group's share of that entity's post-acquisition changes to shareholders' funds, is included as an asset in the consolidated balance sheet. The carrying value of both joint ventures and associates includes goodwill identified on their acquisition and any loans that Group companies have advanced to them.

Some 89% of the carrying value of joint ventures comprises interests in property limited partnerships (PLPs) which are held in the UK and certain European long-term business policyholder and participating funds as part of their investment strategy. These funds have invested in a number of PLPs, either directly or via property unit trusts (PUTs), through a mix of capital and loans. The PLPs are managed by general partners (GPs), in which the long-term business shareholder companies hold equity stakes and which themselves hold nominal stakes in the PLPs. The PUTs are managed by a Group subsidiary. Accounting for the PUTs and PLPs as subsidiaries, joint ventures or other financial investments depends on the shareholdings in the GPs and the terms of each partnership agreement. Where the Group exerts control over a PLP, it has been treated as a subsidiary and its assets and liabilities have been consolidated within the appropriate balance sheet headings. Where the partnership is managed by a contractual agreement such that no party exerts control, notwithstanding that the Group's partnership share in the PLP (including its indirect stake via the relevant PUT and GP) may be greater than 50%, such PUTs and PLPs have been classified as joint ventures and accounted for using the equity method described above. Where the Group holds minority stakes in PLPs, with no disproportionate influence, the relevant investments are carried at fair value through profit and loss within financial investments. The underlying assets of these PLPs are almost entirely investment property which are valued on the same basis as those held directly and shown in section 7.3 of this disclosure.

The Group's principal associates are through two bancassurance investments with Royal Bank of Scotland Group (RBSG). Their assets are held for the benefit of their policyholders and, as described above, the Group equity accounts for its share of net assets and any goodwill on acquisition. The Group's investments in the RBSG companies have been tested for impairment by comparing their carrying values with their recoverable amounts, based on value in use calculations. The recoverable amounts exceed the carrying values of these investments, and a reasonably possible change to the key underlying assumptions will not cause the carrying values of the investments to exceed their recoverable amounts.

We have also accounted for our recent investment in certain Dutch investment funds as associates because of the influence we have over the management of these funds.

7.3. Investment Property

	Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Investment Property - Total				
Leased to third parties under operating leases	-	14,616	-	14,616
Vacant Investment Property / Held for Capital Appreciation	-	461	-	461
Total Investment Property	**-**	**15,077**	**-**	**15,077**
	0.0%	100.0%	0.0%	

Investment property assets are further analysed into Policyholder, Participating fund and Shareholder assets.

	Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Investment Property - Policyholder assets				
Leased to third parties under operating leases	-	5,173	-	5,173
Vacant Investment Property / Held for Capital Appreciation	-	212	-	212
Investment Property - Policyholder assets	**-**	**5,385**	**-**	**5,385**
	0.0%	100.0%	0.0%	

	Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Investment Property - Participating Fund assets				
Leased to third parties under operating leases	-	7,647	-	7,647
Vacant Investment Property / Held for Capital Appreciation	-	171	-	171
Investment Property - Participating Fund assets	**-**	**7,818**	**-**	**7,818**
	0.0%	100.0%	0.0%	

	Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Investment Property - Shareholder assets				
Leased to third parties under operating leases	-	1,796	-	1,796
Vacant Investment Property / Held for Capital Appreciation	-	78	-	78
Investment Property - Shareholder assets	**-**	**1,874**	**-**	**1,874**
	0.0%	100.0%	0.0%	

Some 87% of investment properties by value are held in unit linked or participating funds. Investment properties are stated at their market values as assessed by qualified external valuers or by local qualified staff of the Group in overseas operations, all with recent relevant experience. Values are calculated using a discounted cash flow approach and are based on current rental income plus anticipated uplifts at the next rent review, assuming no future growth in rental income. This uplift and the discount rate are derived from rates implied by recent market transactions on similar properties. The basis of valuation therefore naturally falls to be classified as Level 2. Valuations are typically undertaken on a quarterly (and in some cases monthly) basis.

Nearly 97% of investment properties by value are leased to third parties under operating leases, with the remainder either being vacant or held for capital appreciation.

7.4. Loans

The Group loan portfolio is principally made up of:

- Policy loans which are generally collateralised by a lien or charge over the underlying policy
- Loans and advances to banks primarily relate to loans of cash collateral received in stock lending transactions. These loans are fully collateralised by other securities;
- Residential mortgage loans (securitised and non-securitised). Securitised mortgages are secured by non-recourse borrowings;
- Non securitised commercial loans are primarily held by the UK Life Business to back annuity liabilities; and
- Other loans which typically represent loans and advances to customers of our banking business.

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

For certain mortgage loans, the Group has taken advantage of the revised fair value option under IAS 39 to present the mortgages, associated borrowings, other liabilities and derivative financial instruments at fair value, since they are managed together on a fair value basis. This presentation provides more relevant information and eliminates any accounting mismatch that would otherwise arise from using different measurement bases for these three items. The carrying values of mortgages measured as fair value are estimated using discounted cash flow forecasts, based on a risk-adjusted discount rate which reflects the risks associated with these products. They are revalued at each period end, with movements in their fair values being taken to the income statement.

	Fair Value Hierarchy					
	Level 1 £m	Level 2 £m	Level 3 £m	Sub-Total Fair Value £m	Amortised Cost £m	Total £m
Loans - Total						
Policy loans	-	-	-	-	1,316	1,316
Loans & Advances to Banks	-	-	-	-	7,576	7,576
Securitised mortgage loans - residential	-	5,476	-	5,476	1,911	7,387
Securitised mortgage loans - commercial	-	-	-	-	-	-
Total securitised mortgage loans	-	5,476	-	5,476	1,911	7,387
Non-securitised mortgage loans - residential	-	1,429	-	1,429	3,065	4,494
Non-securitised mortgage loans - commercial	-	11,420	-	11,420	1,682	13,102
Total non-securitised mortgage loans	-	12,849	-	12,849	4,747	17,596
Other Loans	-	-	-	-	2,318	2,318
Total Loans	**-**	**18,325**	**-**	**18,325**	**17,868**	**36,193**
	0.0%	50.6%	0.0%		49.4%	

	Fair Value Hierarchy					
	Level 1 £m	Level 2 £m	Level 3 £m	Sub-Total Fair Value £m	Amortised Cost £m	Total £m
Loans - Policyholder assets						
Policy loans	-	-	-	-	-	-
Loans & Advances to Banks	-	-	-	-	247	247
Securitised mortgage loans - residential	-	-	-	-	-	-
Securitised mortgage loans - commercial	-	-	-	-	-	-
Total securitised mortgage loans	-	-	-	-	-	-
Non-securitised mortgage loans - residential	-	-	-	-	-	-
Non-securitised mortgage loans - commercial	-	100	-	100	-	100
Total non-securitised mortgage loans	-	100	-	100	-	100
Other Loans	-	-	-	-	-	-
Loans - Policyholder assets	**-**	**100**	**-**	**100**	**247**	**347**
	0.0%	28.8%	0.0%		71.2%	

	Fair Value Hierarchy					
	Level 1 £m	Level 2 £m	Level 3 £m	Sub-Total Fair Value £m	Amortised Cost £m	Total £m
Loans - Participating Fund assets						
Policy loans	-	-	-	-	1,014	1,014
Loans & Advances to Banks	-	-	-	-	6,605	6,605
Securitised mortgage loans - residential	-	-	-	-	-	-
Securitised mortgage loans - commercial	-	-	-	-	-	-
Total securitised mortgage loans	-	-	-	-	-	-
Non-securitised mortgage loans - residential	-	-	-	-	496	496
Non-securitised mortgage loans - commercial	-	428	-	428	19	447
Total non-securitised mortgage loans	-	428	-	428	515	943
Other Loans	-	-	-	-	19	19
Loans - Participating Fund assets	**-**	**428**	**-**	**428**	**8,153**	**8,581**
	0.0%	5.0%	0.0%		95.0%	

	Fair Value Hierarchy					
	Level 1 £m	Level 2 £m	Level 3 £m	Sub-Total Fair Value £m	Amortised Cost £m	Total £m
Loans - Shareholder assets						
Policy loans	-	-	-	-	302	302
Loans & Advances to Banks	-	-	-	-	724	724
Securitised mortgage loans - residential	-	5,476	-	5,476	1,911	7,387
Securitised mortgage loans - commercial	-	-	-	-	-	-
Total securitised mortgage loans	-	5,476	-	5,476	1,911	7,387
Non-securitised mortgage loans - residential	-	1,429	-	1,429	2,569	3,998
Non-securitised mortgage loans - commercial	-	10,892	-	10,892	1,663	12,555
Total non-securitised mortgage loans	-	12,321	-	12,321	4,232	16,553
Other Loans	-	-	-	-	2,299	2,299
Loans - Shareholder assets	**-**	**17,797**	**-**	**17,797**	**9,468**	**27,265**
	0.0%	65.3%	0.0%		34.7%	

Shareholder exposure to non-securitised mortgage loans is predominantly to commercial, rather than residential, mortgages. These are typically held to back annuity liabilities. Historical data has shown the portfolio to be of very high quality, with minimal bad debts incurred on the large UK portfolio in the last 15 years. As there are no quoted prices, mortgages are valued on a Level 2 basis.

Securitised mortgage loans above of £7.4 billion are secured through non-recourse borrowings in our UK Life and Dutch businesses.

Loans to banks predominantly relate to loans of cash received as collateral in stock lending transactions. These loans are made to highly rated banking counterparties and are fully collateralised by other securities.

Arrears

		Financial assets that are past due but not impaired					
	Neither past due nor impaired	0-3months	3-6months	6months-1year	Greater than 1 years	Financial assets that have been impaired	Total
Total Loans	**35,937**	**210**	**11**	**3**	**15**	**17**	**36,193**
	99.3%	0.6%	0.0%	0.0%	0.0%	0.0%	
Policyholder assets	347	-	-	-	-	-	347
Participating Fund assets	8,558	16	-	-	7	-	8,581
Shareholder assets	27,032	194	11	3	8	17	27,265
Total Loans	**35,937**	**210**	**11**	**3**	**15**	**17**	**36,193**

The Group reviews the carrying value of loans at least at each reporting date. If the carrying value of a loan is greater than the recoverable amount, the carrying value is reduced through a charge to the income statement in the period of impairment. Impairment is measured based on the present value of expected future cash flows discounted at the effective rate of interest of the loan, subject to the fair value of the underlying collateral. Reversals of impairments are only recognised where the decrease in the impairment can be objectively related to an event occurring after the write-down (such as an improvement in the debtor's credit rating).

The level of arrears is negligible in relation to the size of the portfolio.

Loan to Value

The following section provides an analysis of the loan to value of the securitised and non-securitised mortgage loans.

	LTV >100% £m	LTV 95-100% £m	LTV 90-95% £m	LTV 80-90% £m	LTV 70-80% £m	LTV <70% £m	Total £m
Mortgage Loans - Loan to Value (LTV) - Total							
Securitised mortgage loans - residential	-	487	1,478	2,882	248	2,292	7,387
Securitised mortgage loans - commercial	-	-	-	-	-	-	-
Total securitised mortgage loans	-	487	1,478	2,882	248	2,292	7,387
Non-securitised mortgage loans - residential	-	-	1,042	1,539	140	1,773	4,494
Non-securitised mortgage loans - commercial	341	1,003	865	3,626	3,430	3,837	13,102
Total non-securitised mortgage loans	341	1,003	1,907	5,165	3,570	5,610	17,596
Total Mortgage Loans - Loan to Value (LTV)	**341**	**1,490**	**3,385**	**8,047**	**3,818**	**7,902**	**24,983**
	1.4%	6.0%	13.5%	32.2%	15.3%	31.6%	

	LTV >100% £m	LTV 95-100% £m	LTV 90-95% £m	LTV 80-90% £m	LTV 70-80% £m	LTV <70% £m	Total £m
Loan to Value (LTV) - Policyholder assets							
Securitised mortgage loans - residential	-	-	-	-	-	-	-
Securitised mortgage loans - commercial	-	-	-	-	-	-	-
Total securitised mortgage loans	-	-	-	-	-	-	-
Non-securitised mortgage loans - residential	-	-	-	-	-	-	-
Non-securitised mortgage loans - commercial	-	-	-	-	-	100	100
Total non-securitised mortgage loans	-	-	-	-	-	100	100
Loan to Value (LTV) - Policyholder assets	**-**	**-**	**-**	**-**	**-**	**100**	**100**
	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	

	LTV >100% £m	LTV 95-100% £m	LTV 90-95% £m	LTV 80-90% £m	LTV 70-80% £m	LTV <70% £m	Total £m
Loan to Value (LTV) - Participating Fund assets							
Securitised mortgage loans - residential	-	-	-	-	-	-	-
Securitised mortgage loans - commercial	-	-	-	-	-	-	-
Total securitised mortgage loans	-	-	-	-	-	-	-
Non-securitised mortgage loans - residential	-	-	-	-	-	496	496
Non-securitised mortgage loans - commercial	-	16	-	227	185	19	447
Total non-securitised mortgage loans	-	16	-	227	185	515	943
Loan to Value (LTV) - Participating Fund assets	**-**	**16**	**-**	**227**	**185**	**515**	**943**
	0.0%	1.7%	0.0%	24.1%	19.6%	54.6%	

Loan to Value (LTV) - Shareholder assets	**LTV >100% £m**	**LTV 95-100% £m**	**LTV 90-95% £m**	**LTV 80-90% £m**	**LTV 70-80% £m**	**LTV <70% £m**	**Total £m**
Securitised mortgage loans - residential	-	487	1,478	2,882	248	2,292	7,387
Securitised mortgage loans - commercial	-	-	-	-	-	-	-
Total securitised mortgage loans	-	487	1,478	2,882	248	2,292	7,387
Non-securitised mortgage loans - residential	-	-	1,042	1,539	140	1,277	3,998
Non-securitised mortgage loans - commercial	341	987	865	3,399	3,245	3,718	12,555
Total non-securitised mortgage loans	341	987	1,907	4,938	3,385	4,995	16,553
Loan to Value (LTV) - Shareholder assets	**341**	**1,474**	**3,385**	**7,820**	**3,633**	**7,287**	**23,940**
	1.4%	6.2%	14.1%	32.7%	15.2%	30.4%	

The loan to value data is based on an estimated current property valuation.

The residential loans (securitised and non-securitised) are predominantly based in the Netherlands where the LTV's have been calculated on a conservative basis. More specifically recorded property values, and lending criteria, are based on Execution Values – which typically represent 85% of actual property value at outset. LTV calculations have therefore been estimated based on Execution Values indexed for property price movements from date of loan origination. In addition, loans over 100% of Execution Value will typically be supported by other collateral - the data above includes the full loan amounts but not the additional collateral

Commercial loans are principally held by the UK Life Business to back annuity liabilities. The portfolio is well diversified in terms of property type, location and tenants as well as the spread of loans written over time. The UK portfolio has had an excellent track record with minimal losses in the last 15 years. There are effectively several layers of protection. Even if tenants default on their lease payments we would still expect the borrower to be able to service the loan. A high proportion of borrowers are long term property investors and long standing customers of Aviva with a strong track record. Additionally, there is the option of selling the security or restructuring the loans.

Of the total non-securitised mortgage loans – commercial of £12.6 billion; £2.3 billion relates to mortgages secured against General Practitioner premises or other health related premises leased to NHS trusts or Primary Care Trusts. Due to Government involvement in these sectors, we consider these loans to be particularly low risk. The LTVs of these loans are as follows:

	LTV >100% £m	LTV 95-100% £m	LTV 90-95% £m	LTV 80-90% £m	LTV 70-80% £m	LTV <70% £m	Total £m
LTV - Non-securitised mortgage loans - commercial (UK health related premises)	**-**	**828**	**326**	**347**	**307**	**493**	**2,301**
	0.0%	36.0%	14.2%	15.1%	13.3%	21.4%	

7.5. *Financial Investments*

Financial investments are an integral element of an insurance business.

Aviva holds very large quantities of high quality bonds, primarily to match our liability to make guaranteed payments to policyholders. Some credit risk is taken, partly to boost returns to policyholders and partly to optimise the risk/return profile for shareholders. The risks are consistent with the products we offer and the related investment mandates, and are in line with our risk appetite.

The Group also holds significant quantities of equities. Many of these are held in participating funds or unit linked funds, where they form an integral part of the investment expectations of policyholders and follow well-defined investment mandates. Some equities are also held in shareholder funds and the staff pension schemes, where the holdings are designed to maximise long-term returns with an acceptable level of risk. The vast majority of equity investments are valued at quoted market prices.

The Group's credit risk policy restricts the exposure to individual counterparties across all types of risk.

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

Where it is determined that the market in which a price is quoted has become inactive, the quoted price is assessed against either independent valuations or internally modelled valuations which take into account other market observable information. Where the quoted price differs sufficiently from these reassessed prices, the fair value recognised on the balance sheet is based on this adjusted valuation. However, if these reassessed prices confirm that the quoted price remains appropriate, then the fair value recognised on the balance sheet continues to be the quoted price.

The Group classifies its investments as either financial assets at fair value through profit or loss (FV) or financial assets available for sale (AFS). The classification depends on the purpose for which the investments were acquired, and is determined by local management at initial recognition. In general, the FV category is used as, in most cases, the Group's investment or risk management strategy is to manage its financial investments on a fair value basis. The AFS category is used where the relevant long-term business liability (including shareholders funds) is passively managed.

Investments classified as FV and AFS are subsequently carried at fair value. Changes in the fair value of FV investments are included in the income statement in the period in which they arise. Changes in the fair value of securities classified as AFS, except for impairment losses, are recorded in a separate investment valuation reserve in equity. Where investments classified as AFS are sold or impaired, the accumulated fair value adjustments are transferred out of the investment valuation reserve to the income statement.

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

For listed investments classified as AFS, the Group performs an objective review of the current financial position and prospects of the issuer on a regular basis, to identify whether any impairment provision is required. This review takes into account the likelihood of the current market price recovering to former levels. For unlisted investments classified as AFS, the Group considers the current financial position of the issuer and the future prospects in identifying the requirement for an impairment provision. For both listed and unlisted AFS securities identified as being impaired, the cumulative unrealised net loss previously recognised within the AFS reserve is transferred to realised losses for the year.

Less than 1.5% of financial investments (less than 1% of total assets recorded at fair value) are fair valued using models with significant unobservable market parameters. Where estimates are used these are based on a combination of independent third party evidence and internally developed models, calibrated to market observable data where possible. Whilst such valuations are sensitive to estimates it is believed that changing one or more of the assumptions for reasonably possible alternative assumptions would not change the fair value significantly.

7.5.1. Debt Instruments

Fair Value measurement

	Fair Value Hierarchy			
	Level 1	**Level 2**	**Level 3**	**Total**
	£m	**£m**	**£m**	**£m**
Debt Securities - Total				
UK government	18,747	20	-	18,767
Non-UK government	27,054	1,535	74	28,663
Corporate - UK	12,988	282	4	13,274
Corporate - non-UK	27,483	8,993	669	37,145
Other	12,775	7,880	513	21,168
Total Debt Securities	**99,047**	**18,710**	**1,260**	**119,017**
	83.2%	15.7%	1.1%	

This data shows that the majority of debt securities are valued on a level 1 or 2 basis.

	Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Debt Securities - Policyholder assets				
UK government	3,573	5	-	3,578
Non-UK government	2,613	41	-	2,654
Corporate - UK	2,450	76	4	2,530
Corporate - non-UK	2,116	1,919	-	4,035
Other	761	1,499	8	2,268
Debt Securities - Policyholder assets	**11,513**	**3,540**	**12**	**15,065**
	76.4%	23.5%	0.1%	

	Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Debt Securities - Participating Fund assets				
UK government	12,692	15	-	12,707
Non-UK government	13,935	1,287	74	15,296
Corporate - UK	4,823	101	-	4,924
Corporate - non-UK	18,492	6,221	642	25,355
Other	1,924	862	481	3,267
Debt Securities - Participating Fund assets	**51,866**	**8,486**	**1,197**	**61,549**
	84.3%	13.8%	1.9%	

	Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Debt Securities - Shareholder assets				
UK government	2,482	-	-	2,482
Non-UK government	10,506	207	-	10,713
Corporate - UK	5,715	105	-	5,820
Corporate - non-UK	6,875	853	27	7,755
Other	10,090	5,519	24	15,633
Debt Securities - Shareholder assets	**35,668**	**6,684**	**51**	**42,403**
	84.1%	15.8%	0.1%	

Over 84% of shareholder exposure to debt securities are based on quoted prices in an active market.

Ratings / Products

The tables below provide further details of the products included within debt securities and their ratings.

The overall quality of the Book is very good. 40% of total holdings are in government bonds. A further 48% of holdings are in corporate bonds with an average rating between AA and A. Where shareholder risk is skewed toward the lower rating categories in the tables below, this is typically to back specific product lines and the risk is commensurate with the investment objectives.
The Group has extremely limited exposure to 'Sub-prime' debt securities and also limited exposure to CDOs and CLOs.

'Wrapped credit' is credit exposure that has been insured with monoline insurers to achieve a better credit rating. Aviva is a long-term holder of this debt and will not be a forced seller in the event that the monolines are downgraded. The exposure is diversified across several monolines and the underlying bonds are diversified across many different counterparties. Consequently, this is believed to represent a small level of risk in relation to the size of the Group.

The majority of the Residential Mortgage-Backed Securities (RMBS) are US investments and the bulk of these are backed by one of the US Government Sponsored Entities such as Fannie Mae and Freddie Mac. The majority of the remaining US RMBS are backed by fixed rate loans originated in 2005 or before.

	Ratings						
	AAA	AA	A	BBB	Less than BBB	Not-Rated	Total
	£m	£m	£m	£m	£m	£m	£m
Debt Securities - Total							
UK government	18,732	21	-	-	-	14	18,767
Non-UK government	17,492	3,610	6,349	381	-	831	28,663
Corporate - UK	2,030	4,046	3,204	1,892	58	77	11,307
Corporate - non-UK	9,831	13,725	12,582	6,134	1,013	2,295	45,580
Sub-prime RMBS	75	5	1	3	1	-	85
Sub-prime CDO	5	-	-	2	-	-	7
Sub-prime ABS	56	-	-	1	-	-	57
Alt-A	209	5	-	-	-	-	214
CDO	187	65	155	83	-	128	618
CLO	75	14	-	3	-	32	124
RMBS	2,653	141	21	16	4	6	2,841
ABS	1,159	75	80	13	15	102	1,444
CMBS	1,245	317	100	75	-	-	1,737
ABCP - conduit	309	-	-	-	-	126	435
ABCP - SIV	40	-	-	-	-	-	40
ABFRN	107	26	2	2	1	7	145
Wrapped credit	748	16	25	-	-	-	789
Certificates of Deposit	-	514	98	-	-	-	612
Private Placements	124	370	959	929	40	897	3,319
Other	146	347	1,239	297	137	715	2,881
Less Debt Securities reported as Cash equivalents	(524)	-	-	-	-	(124)	(648)
Total Debt Securities	**54,699**	**23,297**	**24,815**	**9,831**	**1,269**	**5,106**	**119,017**
	46.0%	19.6%	20.7%	8.3%	1.1%	4.3%	

	Ratings						
	AAA	AA	A	BBB	Less than BBB	Not-Rated	Total
	£m	£m	£m	£m	£m	£m	£m
Debt Securities - Policyholder assets							
UK government	3,565	-	-	-	-	13	3,578
Non-UK government	1,430	192	757	47	-	228	2,654
Corporate - UK	1,350	371	313	167	12	13	2,226
Corporate - non-UK	292	2,145	923	282	61	411	4,114
Sub-prime RMBS	30	1	-	1	1	-	33
Sub-prime CDO	-	-	-	-	-	-	-
Sub-prime ABS	7	-	-	-	-	-	7
Alt-A	-	-	-	-	-	-	-
CDO	24	10	1	5	-	16	56
CLO	37	2	-	-	-	6	45
RMBS	320	10	1	2	-	1	334
ABS	94	4	2	1	-	16	117
CMBS	33	36	4	1	-	-	74
ABCP - conduit	220	-	-	-	-	35	255
ABCP - SIV	21	-	-	-	-	-	21
ABFRN	37	15	2	-	-	1	55
Wrapped credit	61	16	-	-	-	-	77
Certificates of Deposit	-	409	98	-	-	-	507
Private Placements	-	10	15	17	-	-	42
Other	22	58	1,051	17	-	112	1,260
Less Debt Securities reported as Cash equivalents	(355)	-	-	-	-	(35)	(390)
Debt Securities - Policyholder assets	**7,188**	**3,279**	**3,167**	**540**	**74**	**817**	**15,065**
	47.7%	21.8%	21.0%	3.6%	0.5%	5.4%	

	Ratings						
					Less than		
	AAA	AA	A	BBB	BBB	Not-Rated	Total
	£m	£m	£m	£m	£m	£m	£m
Debt Securities - Participating Fund assets							
UK government	12,707	-	-	-	-	-	12,707
Non-UK government	8,948	1,466	4,486	184	-	212	15,296
Corporate - UK	256	1,495	1,557	988	46	-	4,342
Corporate - non-UK	7,931	8,850	6,752	2,632	141	356	26,662
Sub-prime RMBS	17	4	-	1	-	-	22
Sub-prime CDO	-	-	-	-	-	-	-
Sub-prime ABS	3	-	-	-	-	-	3
Alt-A	-	-	-	-	-	-	-
CDO	25	7	-	4	-	14	50
CLO	3	2	-	-	-	5	10
RMBS	329	11	7	2	-	-	349
ABS	212	5	14	1	15	13	260
CMBS	107	110	17	1	-	-	235
ABCP - conduit	24	-	-	-	-	51	75
ABCP - SIV	3	-	-	-	-	-	3
ABFRN	48	9	-	2	-	6	65
Wrapped credit	168	-	-	-	-	-	168
Certificates of Deposit	-	88	-	-	-	-	88
Private Placements	124	16	168	101	21	63	493
Other	69	226	31	52	4	425	807
Less Debt Securities reported as Cash equivalents	(35)	-	-	-	-	(51)	(86)
Debt Securities - Participating Fund assets	**30,939**	**12,289**	**13,032**	**3,968**	**227**	**1,094**	**61,549**
	50.3%	20.0%	21.2%	6.4%	0.4%	1.8%	

	Ratings						
					Less than		
	AAA	AA	A	BBB	BBB	Not-Rated	Total
	£m	£m	£m	£m	£m	£m	£m
Debt Securities - Shareholder assets							
UK government	2,460	21	-	-	-	1	2,482
Non-UK government	7,114	1,952	1,106	150	-	391	10,713
Corporate - UK	424	2,180	1,334	737	-	64	4,739
Corporate - non-UK	1,608	2,730	4,907	3,220	811	1,528	14,804
Sub-prime RMBS	28	-	1	1	-	-	30
Sub-prime CDO	5	-	-	2	-	-	7
Sub-prime ABS	46	-	-	1	-	-	47
Alt-A	209	5	-	-	-	-	214
CDO	138	48	154	74	-	98	512
CLO	35	10	-	3	-	21	69
RMBS	2,004	120	13	12	4	5	2,158
ABS	853	66	64	11	-	73	1,067
CMBS	1,105	171	79	73	-	-	1,428
ABCP - conduit	65	-	-	-	-	40	105
ABCP - SIV	16	-	-	-	-	-	16
ABFRN	22	2	-	-	1	-	25
Wrapped credit	519	-	25	-	-	-	544
Certificates of Deposit	-	17	-	-	-	-	17
Private Placements	-	344	776	811	19	834	2,784
Other	55	63	157	228	133	178	814
Less Debt Securities reported as Cash equivalents	(134)	-	-	-	-	(38)	(172)
Debt Securities - Shareholder assets	**16,572**	**7,729**	**8,616**	**5,323**	**968**	**3,195**	**42,403**
	39.1%	18.2%	20.3%	12.6%	2.3%	7.5%	

7.5.2. Equity Instruments

Fair Value Measurement

	Fair Value Hierarchy			
	Level 1	**Level 2**	**Level 3**	**Total**
	£m	**£m**	**£m**	**£m**
Equity securities - Total				
UK	26,023	116	-	26,139
Non-UK	25,290	4,193	632	30,115
Total Equity securities	**51,313**	**4,309**	**632**	**56,254**
	91.2%	7.7%	1.1%	

All equities have been fair valued with over 91% having quoted prices in active markets.

	Fair Value Hierarchy			
	Level 1	**Level 2**	**Level 3**	**Total**
	£m	**£m**	**£m**	**£m**
Equity securities - Policyholder assets				
UK	11,486	3	-	11,489
Non-UK	13,650	2,604	-	16,254
Equity securities - Policyholder assets	**25,136**	**2,607**	**-**	**27,743**
	90.6%	9.4%	0.0%	

	Fair Value Hierarchy			
	Level 1	**Level 2**	**Level 3**	**Total**
	£m	**£m**	**£m**	**£m**
Equity securities - Participating Fund assets				
UK	14,336	66	-	14,402
Non-UK	8,041	335	48	8,424
Equity securities - Participating Fund assets	**22,377**	**401**	**48**	**22,826**
	98.0%	1.8%	0.2%	

	Fair Value Hierarchy			
	Level 1	**Level 2**	**Level 3**	**Total**
	£m	**£m**	**£m**	**£m**
Equity securities - Shareholder assets				
UK	201	47	-	248
Non-UK	3,599	1,254	584	5,437
Equity securities - Shareholder assets	**3,800**	**1,301**	**584**	**5,685**
	66.8%	22.9%	10.3%	

In 2007, a decision was taken to reduce shareholder exposure by selling £3.4 billion of equities during the second half of the year.

The remaining shareholder investments include a strategic holding in Unicredito (£574 million) and holdings in other Italian banks (£256 million), the latter being unquoted and subject to level 3 valuation.

Otherwise, shareholder equities are principally held in our Netherlands business and are a mix of diversified European equities, and Netherlands equities with a beneficial tax treatment.

7.5.3. Other Investments

Fair Value Measurement

	Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Other investments - Total				
Unit trusts and other investment vehicles	29,890	5,383	276	35,549
Derivative financial instruments	122	1,461	26	1,609
Deposits with credit institutions	36	580	-	616
Minority holdings in property management undertakings	-	977	-	977
Other	902	743	17	1,662
Total Other Investments	**30,950**	**9,144**	**319**	**40,413**
	76.6%	22.6%	0.8%	

	Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Other investments - Policyholder assets				
Unit trusts and other investment vehicles	22,536	3,259	16	25,811
Derivative financial instruments	12	76	-	88
Deposits with credit institutions	-	-	-	-
Minority holdings in property management undertakings	-	149	-	149
Other	233	3	-	236
Other investments - Policyholder assets	**22,781**	**3,487**	**16**	**26,284**
	86.7%	13.3%	0.1%	

	Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Other investments - Participating Fund assets				
Unit trusts and other investment vehicles	6,825	1,297	253	8,375
Derivative financial instruments	27	888	-	915
Deposits with credit institutions	6	-	-	6
Minority holdings in property management undertakings	-	778	-	778
Other	597	691	-	1,288
Other investments - Participating Fund assets	**7,455**	**3,654**	**253**	**11,362**
	65.6%	32.2%	2.2%	

	Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Other investments - Shareholder assets				
Unit trusts and other investment vehicles	529	827	7	1,363
Derivative financial instruments	83	497	26	606
Deposits with credit institutions	30	580	-	610
Minority holdings in property management undertakings	-	50	-	50
Other	72	49	17	138
Other investments - Shareholder assets	**714**	**2,003**	**50**	**2,767**
	25.8%	72.4%	1.8%	

Other Investments primarily represents Unit trusts and other investment vehicles. Nearly 77% of other investments are fair valued with reference to quoted prices in an active market with a further 22% fair valued using market observable information. These unit trusts and other investment vehicles invest in a variety of assets with the majority of the value being invested in Property and Equity securities in the UK and overseas, with a smaller portion being invested in Debt Securities.

7.6. Reinsurance Assets

The Group assumes and cedes reinsurance in the normal course of business, with retention limits varying by line of business. Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.

If a reinsurance asset is impaired, the Group reduces the carrying amount accordingly and recognises that impairment loss in the income statement. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after

initial recognition of the reinsurance asset, that the Group may not receive all amounts due to it under the terms of the contract, and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

Arrears

		Financial assets that are past due but not impaired					
	Neither past due nor impaired	0-3months	3-6months	6months-1year	Greater than 1 years	Financial assets that have been impaired	Total
Total Reinsurance Assets	**8,107**	**-**	**-**	**-**	**-**	**2**	**8,109**
	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	

Ratings

	Ratings						
	AAA	AA	A	BBB	Less than BBB	Not-Rated	Total
Total Reinsurance Assets	**3,106**	**2,733**	**616**	**16**	**49**	**1,589**	**8,109**
	38.3%	33.7%	7.6%	0.2%	0.6%	19.6%	

As shown in the table above, there are no amounts of reinsurance asset past due but not impaired and only £2 million of reinsurance assets are being carried where the exposure to the counterparty has already resulted in an impairment.

7.7. Receivables and other financial assets

		Financial assets that are past due but not impaired					
	Neither past due nor impaired	0-3months	3-6months	6months-1year	Greater than 1 years	Financial assets that have been impaired	Total
Receivables and other financial assets - Total	**8,901**	**200**	**21**	**13**	**2**	**46**	**9,183**
	96.9%	2.2%	0.2%	0.1%	0.0%	0.5%	
Policyholder assets	457	1	-	-	-	-	458
Participating Fund assets	2,167	1	-	-	-	38	2,206
Shareholder assets	6,277	198	21	13	2	8	6,519
Total Receivables and other financial assets	**8,901**	**200**	**21**	**13**	**2**	**46**	**9,183**

Credit terms vary from subsidiary to subsidiary, and from country to country, and are set locally within overall credit limits prescribed by the Group Credit Committee, and within the framework of the Group Credit Policy.

The credit quality of receivables and other financial assets is managed at the local business unit level. Where assets classed as "past due and impaired" exceed local credit limits, and are also deemed at sufficiently high risk of default, an analysis of the asset is performed and a decision is made whether to seek sufficient collateral from the counterparty or to write down the value of the asset as impaired.

The Group reviews the carrying value of its receivables at each reporting period. If the carrying value of a receivable or other financial asset is greater than the recoverable amount, the carrying value is reduced through a charge to the income statement in the period of impairment.

7.8. Cash and cash equivalents

Cash and cash equivalents consist of cash at banks and in hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months' maturity from the date of acquisition, and include certificates of deposit.

Cash and cash equivalents are carried at their face value which by their nature is essentially equal to their fair value.

The Group's Credit Risk Policy includes specific requirements in relation to aggregate counterparty exposures and money market exposure limits which cover assets reported as cash and cash equivalents in the Group's balance sheet. The responsibility for monitoring of these limits falls with the Group Credit Committee and the Business Unit Credit Committee. The aggregate counterparty exposure limits are determined based on the credit rating of the counterparty. The money market exposure limits are determined based on the credit rating of the counterparty and the term of the intended exposure.

8. Pension Fund Assets

In addition to the assets recognised directly on the Group's balance sheet outlined in the disclosures above, the Group is also exposed to the 'Plan Assets' that are shown net of the present value of scheme liabilities within the IAS 19 net pension deficit. The net pension deficit is recognised within Provisions on the Group's balance sheet.

Plan Assets include investments in Group-managed funds in the consolidated balance sheet of £150 million in the UK scheme, and insurance policies of £143 million and £1,025 million in the UK and Dutch schemes respectively. Where the investment and insurance policies are in segregated funds with specific asset allocations, they are included in the appropriate lines in the table below, otherwise they appear in "Other". The Dutch insurance policies are considered non-transferable under the terms of IAS 19 and so have been excluded as assets of the relevant scheme in this table.

The total strict IAS 19 assets (ie excluding the non-transferable insurance policies) of the schemes are analysed as follows:

	UK	Netherlands	Canada	Ireland	Total
	2007 £m	2007 £m	2007 £m	2007 £m	2007 £m
Equities	4,347	-	144	225	4,716
Bonds	3,059	-	85	175	3,319
Property	562	-	-	27	589
Other	135	3	2	50	190
Total fair value of assets	8,103	3	231	477	8,814

Risk management and asset allocation strategy

The long-term investment objectives of the trustees and the employers are to limit the risk of the assets failing to meet the liabilities of the schemes over the long term, and to maximise returns consistent with an acceptable level of risk so as to control the long-term costs of these schemes. To meet these objectives, each scheme's assets are invested in a diversified portfolio, consisting primarily of equity and debt securities. These reflect the current long-term asset allocation ranges chosen, having regard to the structure of liabilities within the schemes.

Main UK scheme

Both the Group and the trustees regularly review the asset/liability management of the main UK scheme. It is fully understood that, whilst the current asset mix is designed to produce appropriate long-term returns, this introduces a material risk of volatility in the scheme's surplus or deficit of assets compared with its liabilities.

The principal asset risks to which the scheme is exposed are:-

- Equity market risk – the effect of equity market falls on the value of plan assets,
- Inflation risk – the effect of inflation rising faster than expected on the value of the plan liabilities.
- Interest rate risk – falling interest rates leading to an increase in liabilities significantly exceeding the increase in the value of assets.

During 2007, there has been a reduction in the proportion of assets invested in equities, thereby mitigating the equity risk. There is also an exposure to currency risk where assets are not denominated in the same currency as the liabilities. The majority of this exposure has been removed by the use of hedging instruments.

Other schemes

The other schemes are considerably less material but their risks are managed in a similar way to those in the main UK scheme.

9. Available Funds

To ensure access to liquidity as and when needed, the Group maintains over £2 billion of undrawn committed central borrowing facilities with various highly rated banks. £1billion of this is allocated to support the credit rating of Aviva plc's £2 billion commercial paper programme. The expiry profile of the undrawn committed central borrowing facilities is as follows:

	2007 £m
Expiring within one year	500
Expiring beyond one year	1,575
	2,075

10. Guarantees

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.

For the UK Life with-profit business, provisions in respect of these guarantees and options are calculated on a market consistent basis, in which stochastic models are used to evaluate the level of risk (and additional cost) under a number of economic scenarios, which allow for the impact of volatility in both interest rates and equity prices. For UK Life non-profit business, provisions do not materially differ from those determined on a market consistent basis.

In all other Businesses, provisions for guarantees and options are calculated on a local basis with sensitivity analysis undertaken where appropriate to assess the impact on provisioning levels of a movement in interest rates and equity levels (typically a 1% increase in interest rates and 10% decline in equity markets). Refer to section A2 for further details.

APPENDIX D- Audit Opinion

REPORT TO DIRECTORS OF AVIVA PLC ONLY

INDEPENDENT AUDITOR'S ASSURANCE REPORT TO THE DIRECTORS OF AVIVA PLC ON EXAMINATION OF THE ANALYSIS OF ASSET DISCLOSURE REPORT

We have examined the accompanying Analysis of Asset Disclosure report of Aviva plc ("Company") on pages 103 to 132, as at 31 December 2007 ("Asset Disclosure report"). The Asset Disclosure report has been prepared in accordance with the attached accounting policies set out on pages 127 to 131.

This report is made solely to the Company's directors, as a body. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's directors as a body, for our examination, for this report, or for the opinions we have formed.

The Asset Disclosure report is the responsibility of the Company's directors. Our responsibility is to provide conclusions on this report based on our examination.

Scope of our examination

We conducted our examination in accordance with the International Standard on Assurance Engagements (ISAE 3000). We planned and performed our examination so as to obtain all the information and explanations which we considered necessary in order to provide limited assurance about whether the Asset Disclosure report has been properly prepared, in all material respects, in accordance with the accounting policies set out on pages 127 to 131. Our examination includes agreeing on a test basis the amounts and disclosures of the Asset Disclosure report to underlying accounting records, inquiries of company personnel and analytical procedures applied to financial data in the Asset Disclosure report.

Conclusions

Based on our work described in this report, nothing has come to our attention that causes us to believe that the Asset Disclosure report has not been properly prepared, in all material respects, in accordance with the attached accounting policies set out on pages 127 to 131. This report relates only to the Asset Disclosure report and does not extend to any financial statements of Aviva plc, or its subsidiaries, taken as a whole.

Ernst & Young LLP
Registered auditor
London

27 February 2008

APPENDIX D – APPLICABLE ACCOUNTING POLICIES

The following accounting policies are applicable to this disclosure (full details of the principal accounting policies adopted in the Group's financial statements are included in the Report and Accounts).

(A) Reinsurance

The Group accepts and cedes reinsurance in the normal course of business, with retention limits varying by line of business. Premiums on reinsurance assumed are recognised as revenue in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business.

The cost of reinsurance related to long-duration contracts is accounted for over the life of the underlying reinsured policies, using assumptions consistent with those used to account for these policies.

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

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

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

If a reinsurance asset is impaired, the Group reduces the carrying amount accordingly and recognises that impairment loss in the income statement. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Group may not receive all amounts due to it under the terms of the contract, and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

(B) Goodwill, AVIF and intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill on acquisitions prior to 1 January 2004 (the date of transition to IFRS) is carried at its book value (original cost less cumulative amortisation) on that date, less any impairment subsequently incurred. Goodwill arising before 1 January 1998 was eliminated against reserves and has not been reinstated. Goodwill arising on the Group's investments in subsidiaries since that date is shown as a separate asset, whilst that on associates and joint ventures is included within the carrying value of those investments.

Acquired value of in-force business (AVIF)

The present value of future profits on a portfolio of long-term insurance and investment contracts, acquired either directly or through the purchase of a subsidiary, is recognised as an asset. In most cases, this is classified as AVIF but, for non-participating investment contracts, it is included within intangibles. If this results from the acquisition of an investment in a joint venture or an associate, the AVIF is held within the carrying amount of that investment. In all cases, the AVIF is amortised over the useful lifetime of the related contracts in the portfolio on a systematic basis. The rate of amortisation is chosen by considering the profile of the additional value of in-force business acquired and the expected depletion in its value. The value of the acquired in-force long-term business is reviewed annually for any impairment in value and any reductions are charged as expenses in the income statement.

Intangible assets

Intangibles consist primarily of brands, certain of which have been assessed as having indefinite useful lives, and contractual relationships such as access to distribution networks and customer lists. The economic lives of the latter are determined by considering relevant factors such as usage of the asset, typical product life cycles, potential obsolescence, maintenance costs, the stability of the industry, competitive position, and the period of control over the assets.

These intangibles are amortised over their useful lives, which range from 5 to 22 years, using the straight-line method.
The amortisation charge for the year is included in the income statement under "Other operating expenses".
For intangibles with finite lives, a provision for impairment will be charged where evidence of such impairment is observed. Intangibles with indefinite lives are subject to regular impairment testing, as described below.

Impairment testing

For impairment testing, goodwill and intangibles with indefinite useful lives have been allocated to cash generating units by geographical reporting unit and business segment. The carrying amount of goodwill and intangible assets with indefinite useful lives is reviewed at least annually or when circumstances or events indicate there may be uncertainty over this value. Goodwill and indefinite life intangibles are written down for impairment where the recoverable amount is insufficient to support its carrying value. Further details on goodwill allocation and impairment testing are given in note 16(b).

(C) Property and equipment

Owner-occupied properties are carried at their revalued amounts, which are supported by market evidence, and movements are taken to a separate reserve within equity.

When such properties are sold, the accumulated revaluation surpluses are transferred from this reserve to retained earnings. These properties are depreciated down to their estimated residual values over their useful lives. All other items classed as property and equipment within the balance sheet are carried at historical cost less accumulated depreciation.

Investment properties under construction are included within property and equipment until completion, and are stated at cost less any provision for impairment in their values.

Depreciation is calculated on the straight-line method to write down the cost of other assets to their residual values over their estimated useful lives as follows:

– Land	No depreciation
– Properties under construction	No depreciation
– Owner-occupied properties	25 years
– Motor vehicles	Three years,or lease term if longer
– Computer equipment	Three to five years
– Other assets	Three to five years

The assets' residual values, useful lives and method of depreciation are reviewed regularly, and at least at each financial year end, and adjusted if appropriate. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount.

All borrowing costs and repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing asset will flow to the Group and the renovation replaces an identifiable part of the asset. Major renovations are depreciated over the remaining useful life of the related asset.

(D) Investment property

Investment property is held for long-term rental yields and is not occupied by the Group. Completed investment property is stated at its fair value, which is supported by market evidence, as assessed by qualified external valuers or by local qualified staff of the Group in overseas operations. Changes in fair values are recorded in the income statement in net investment income.

(E) Impairment of non-financial assets

Property and equipment and other non-financial assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

(F) Derecognition and offset of financial assets and financial liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:
– The rights to receive cash flows from the asset have expired;
– The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third-party under a "pass-through" arrangement; or
– The Group has transferred its rights to receive cash flows from the asset and has either transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.
Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(G) Financial investments

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

In general, the FV category is used as, in most cases, the Group's investment or risk management strategy is to manage its financial investments on a fair value basis. Debt securities and equity securities, which the Group buys with the intention to resell in the short term, are classified as trading, as are non-hedge derivatives (see policy S below). All other securities in the FV category are classified as other than trading. The AFS category is used where the relevant long-term business liability (including shareholders' funds) is passively managed.

Purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the assets, at their fair values.

Debt securities are initially recorded at their fair value, which is taken to be amortised cost, with amortisation credited or charged to the income statement. Investments classified as trading, other than trading and AFS are subsequently carried at fair value. Changes in the fair value of trading and other than trading investments are included in the income statement in the period in which they arise.

Changes in the fair value of securities classified as AFS, except for impairment losses and relevant foreign exchange gains and losses, are recorded in a separate investment valuation reserve within equity.

The fair values of investments are based on quoted bid prices or amounts derived from cash flow models. Fair values for unlisted equity securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Securities, for which fair values cannot be measured reliably, are recognised at cost less impairment. When securities classified as AFS are sold or impaired, the accumulated fair value adjustments are

transferred out of the investment valuation reserve to the income statement.

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

Impairment
The Group reviews the carrying value of its investments on a regular basis. If the carrying value of an investment is greater than the recoverable amount, the carrying value is reduced through a charge to the income statement in the period of impairment. The following policies are used to determine the level of any impairment:

Listed AFS securities: The Group performs an objective review of the current financial position and prospects of the issuer on a regular basis, to identify whether any impairment provision is required. This review takes into account the likelihood of the current market price recovering to former levels.

Unlisted AFS securities: The Group considers the current financial position of the issuer and the future prospects in identifying the requirement for an impairment provision.
For both listed and unlisted AFS securities identified as being impaired, the cumulative unrealised net loss previously recognised within the AFS reserve is transferred to realised losses for the year.

Mortgages, investment property and securitised loans: Impairment is measured based on the present value of expected future cash flows discounted at the effective rate of interest of the loan, subject to the fair value of the underlying collateral. When a loan is considered to be impaired, the income statement is charged with the difference between the carrying value and the estimated recoverable amount. Interest income on impaired loans is recognised based on the estimated recoverable amount.

Reversals of impairments are only recognised where the decrease in the impairment can be objectively related to an event occurring after the write-down (such as an improvement in the debtor's credit rating), and are not recognised in respect of equity instruments.

(H) Derivative financial instruments and hedging
Derivative financial instruments include foreign exchange contracts, interest rate futures, currency and interest rate swaps, currency and interest rate options (both written and purchased) and other financial instruments that derive their value mainly from underlying interest rates, foreign exchange rates, commodity values or equity instruments.

All derivatives are initially recognised in the balance sheet at their fair value, which usually represents their cost. They are subsequently remeasured at their fair value, with the method of recognising movements in this value depending on whether they are designated as hedging instruments and, if so, the nature of the item being hedged. Fair values are obtained from quoted market prices or, if these are not available, by using valuation techniques such as discounted cash flow models or option pricing models. All derivatives are carried as

assets when the fair values are positive and as liabilities when the fair values are negative. Premiums paid for derivatives are recorded as an asset on the balance sheet at the date of purchase, representing their fair value at that date.

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

The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities on the balance sheet as they do not represent the fair value of these transactions.

Interest rate and currency swaps
Interest rate swaps are contractual agreements between two parties to exchange periodic payments in the same currency, each of which is computed on a different interest rate basis, on a specified notional amount. Most interest rate swaps involve the net exchange of payments calculated as the difference between the fixed and floating rate interest payments. Currency swaps, in their simplest form, are contractual agreements that involve the exchange of both periodic and final amounts in two different currencies. Exposure to gain or loss on both types of swap contracts will increase or decrease over their respective lives as a function of maturity dates, interest and foreign exchange rates, and the timing of payments.

Interest rate futures, forwards and options contracts
Interest rate futures are exchange-traded instruments and represent commitments to purchase or sell a designated security or money market instrument at a specified future date and price. Interest rate forward agreements are OTC where two-parties agree on an interest rate and other terms that will become a reference point in determining, in concert with an agreed notional principal amount, a net payment to be made by one-party to the other, depending what rate in fact prevails at a future point in time. Interest rate options, which consist primarily of caps and floors, are interest rate protection instruments that involve the potential obligation of the seller to pay the buyer an interest rate differential in exchange for a premium paid by the buyer. This differential represents the difference between current rate and an agreed rate applied to a notional amount. Exposure to gain or loss on all interest rate contracts will increase or decrease over their respective lives as interest rates fluctuate.

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

Derivative instruments for hedging
On the date a derivative contract is entered into, the Group designates certain derivatives as either:
(i) a hedge of the fair value of a recognised asset or liability (fair value hedge);
(ii) a hedge of a future cash flow attributable to a recognised asset or liability, a highly probable forecast transaction or a firm commitment (cash flow hedge); or
(iii) a hedge of a net investment in a foreign operation (net investment hedge).

Hedge accounting is used for derivatives designated in this way, provided certain criteria are met. At the inception of the transaction, the Group documents the relationship between the hedging instrument and the hedged item, as well as the risk management objective and the strategy for undertaking the hedge transaction. The Group also documents its assessment of whether the hedge is expected to be, and has been, highly effective in offsetting the risk in the hedged item, both at inception and on an ongoing basis.

Changes in the fair value of derivatives that are designated and qualify as net investment or cash flow hedges, and that prove to be highly effective in relation to the hedged risk, are recognised in a separate reserve within equity.

Gains and losses accumulated in this reserve are included in the income statement on disposal of the relevant investment or occurrence of the cash flow as appropriate.

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

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

For certain mortgage loans, the Group has taken advantage of the revised fair value option under IAS 39 to present the mortgages, associated borrowings, other borrowings and derivative financial instruments at fair value, since they are managed as a portfolio on a fair value basis. This presentation provides more relevant information and eliminates any accounting mismatch that would otherwise arise from using different measurement bases for these three items. The fair values of mortgages classified as FV are estimated using discounted cash flow forecasts, based on a risk-adjusted discount rate which reflects the risks associated with these products. They are revalued at each period end, with movements in their fair values being taken to the income statement.

To the extent that a loan is uncollectible, it is written-off as impaired. Subsequent recoveries are credited to the income statement.

(J) Collateral
The Group receives and pledges collateral in the form of cash or non-cash assets in respect of stock lending transactions, certain derivative contracts and loans in order to reduce the credit risk of these transactions. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

Collateral received in the form of cash, which is not legally segregated from the Group, is recognised as an asset on the balance sheet with a corresponding liability for the repayment. Non-cash collateral received is not recognised on the balance sheet unless the Group either sells or repledges these assets in the absence of default, at which point the obligation to return this collateral is recognised as a liability.

Collateral pledged in the form of cash, which is legally segregated from the Group, is derecognised from the balance sheet with a corresponding receivable for its return. Non-cash collateral pledged is not derecognised from the balance sheet unless

the Group defaults on its obligations under the relevant agreement, and therefore continues to be recognised on the balance sheet within the appropriate asset classification.

(K) Deferred acquisition costs and other assets

The costs directly attributable to the acquisition of new business for insurance and participating investment contracts (excluding those written in the UK) are deferred to the extent that they are expected to be recoverable out of future margins in revenues on these contracts. For participating contracts written in the UK, acquisition costs are generally not deferred as the liability for these contracts [are] calculated in accordance with the FSA's realistic capital regime and FRS 27. For non-participating investment and investment fund management contracts, incremental acquisition costs and sales enhancements that are directly attributable to securing an investment management service are also deferred.

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

Long-term business deferred acquisition costs are amortised systematically over a period no longer than that in which they are expected to be recoverable out of these margins. Deferrable acquisition costs for non-participating investment and investment fund management contracts are amortised over the period in which the service is provided. General insurance and health deferred acquisition costs are amortised over the period in which the related revenues are earned. The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset.

Deferred acquisition costs are reviewed by category of business at the end of each reporting period and are written-off where they are no longer considered to be recoverable.
Other assets include vehicles which are subject to repurchase agreements and inventories of vehicle parts.

The former are carried at the lower of their agreed repurchase price or net realisable value, whilst the latter are carried at the lower of cost and net realisable value, where cost is arrived at on the weighted average cost formula or "first in first out" (FIFO) basis. Provision is made against inventories which are obsolete or surplus to requirements.

(L) Cash and cash equivalents

Cash and cash equivalents
Cash and cash equivalents consist of cash at banks and in hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months' maturity from the date of acquisition, and include certificates of deposit.

APPENDIX D – GLOSSARY OF TERMS

ABS: Asset Backed Security. A financial security backed by a loan, lease or receivables against assets other than real estate and mortgage-backed securities. For investors, asset-backed securities are an alternative to investing in corporate debt.

MBS: Mortgage Backed Security. A type of asset-backed security that is secured by a mortgage or collection of mortgages. These securities must also be grouped in one of the top two ratings as determined by an accredited credit rating agency, and usually pay periodic payments that are similar to coupon payments. Furthermore, the mortgage must have originated from a regulated and authorized financial institution.

RMBS: Residential Mortgage Backed Securitiy. A type of security whose cash flows come from residential debt such as mortgages, home-equity loans and subprime mortgages. This is a type of mortgage-backed security that focuses on residential instead of commercial debt. Holders of an RMBS receive interest and principal payments that come from the holders of the residential debt.

CMBS: Commercial Mortgage Backed Security. A type of mortgage backed security that is secured by the loan on a commercial property.

Sub-prime: Lowest grade of US mortgage lending. A type of loan that is offered at a rate above prime to individuals who do not qualify for prime rate loans. Quite often, subprime borrowers are turned away from traditional lenders because of their low credit ratings or other factors that suggest that they have a reasonable chance of defaulting on the debt repayment.

Alt-A: Mid grade US mortgage lending. A classification of mortgages where the risk profile falls between prime and subprime. The borrowers behind these mortgages will typically have clean credit histories, but the mortgage itself will generally have some issues that increase its risk profile. These issues include higher loan-to-value and debt-to-income ratios or inadequate documentation of the borrower's income.

CDO: Collateralised Debt Obligation. An investment-grade security backed by a pool of bonds, loans and other assets. CDOs do not specialize in one type of debt but are often non-mortgage loans or bonds. CDOs are unique in that they represent different types of debt and credit risk. These different types of debt are often referred to as 'tranches' or 'slices'. Each slice has a different maturity and risk associated with it. The higher the risk, the more the CDO pays.

CLO: Collateralised Loan Obligation. A special purpose vehicle (SPV) with securitisation payments in the form of different tranches. Financial institutions back this security with receivables from loans.

ABCP: Asset backed commercial paper. This is typically one of two types of vehicle – conduits and SIVs:

> ***Conduits*** Vehicles that invest in debt assets and finance them in the short-term market through issuing commercial paper (CP). The types of assets purchased by these vehicles include, inter alia, debt securities, trade receivables, credit card receivables, loans and equipment leases. The CP programme achieves a high short-term rating as a consequence of the credit quality of the assets, and the existence of a 100% bank liquidity line that will fund the vehicle if CP cannot be issued. If the quality of the underlying assets is not sufficiently high, then the ratings agencies will require credit enhancement to be built into the structure. This may be in the form of over-collateralisation, letters of credit, guarantees etc. The liquidity provider is required to lend to the vehicle all that is needed to repay maturing CP (regardless of the value of the assets in the vehicle). The only circumstance in which the bank is not required to provide funding is where defaults have occurred in the asset portfolios which are greater in size than the available credit enhancement. In that situation, the bank need only lend against the non defaulted assets. Consequently, an investor in CP issued by a conduit is only likely to take a loss in the event that the liquidity provider will not lend to the vehicle (because of defaults in the asset portfolio) or cannot because it is having problems of its own.
>
> ***SIVs*** Structured investment vehicles. They buy long-term securities and typically finance them from a mixture of short-term debt (i.e. CP), medium term debt and subordinated debt (capital notes). Given the different capital structure, these vehicles do not have the same level of liquidity support as conduits. In times of stress, the expectation is that these vehicles will need to liquidate their portfolios as the size of the liquidity lines in place is not sufficient to cover all outstanding debt. Given this, lenders to SIVs are potentially more vulnerable to falls in the value of the vehicle's investments than is the case with a conduit.

ABFRN: Asset backed floating rate notes (FRNs). These are bonds backed by pools of assets such as mortgages, credit card or loan receivables. The pool of assets generates the cash flows that are used to repay principal and interest on the notes. The FRNs are normally structured in such a way that some notes are subordinated to others. Consequently, as a result of this structure, and the existence of cash reserve funds and over-collateralisation, the most senior tranches of notes are generally highly rated (typically AAA).

Wrapped credit: Where a monoline insurer or other entity with a AAA rating has provided a guarantee (wrapper) around a credit risk that might otherwise be rated, say, BBB.

Shareholder services

Managing your shareholding:
Shareholders who have any queries in respect of their shareholding should contact the Company's Registrar, Equiniti. Contact details can be found below. In addition to assisting with general queries, the Registrar can also help with the following:

Amalgamating different share accounts - If shareholders received more than one copy of the Company's communications, it could be because there is more than one record for the shareholder on the share register. To avoid duplicate mailings the Registrar can arrange for accounts to be amalgamated.

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. Having the dividend paid directly into their bank or building society account avoids the risk of cheques being lost or intercepted in the post and is more convenient as payment is credited automatically on the payment date. Shareholders wishing to set up a dividend mandate can do so by completing the dividend mandate form attached to the dividend cheque, via the Company's website www.aviva.com/dividendmandate or by contacting the Registrar. For overseas shareholders, an overseas payments service is available, which allows shareholders in over 30 countries worldwide to have dividends credited directly to their bank accounts in local currencies, normally costing less than paying in a sterling cheque. Dividend mandate forms for overseas shareholders can be obtained via the Company's website at www.aviva.com/shareholders or by contacting the Registrar.

Consolidated Tax Vouchers - Private shareholders who have dividends paid directly into their bank or building society account receive one consolidated tax voucher each year instead of a voucher with each dividend payment, unless they have requested otherwise.

Scrip Dividend - The Aviva Scrip Dividend Scheme (the "Scheme") provides shareholders with the opportunity to receive their dividends in the form of new ordinary shares in the Company instead of cash. Shareholders who have not joined the Scheme but wish to do so should contact the Registrar, Equiniti, and request a mandate form. The completed mandate form will need to be received by Equiniti no later than 17 April 2008 in order to be effective for the 2007 final dividend. Further details are included on the Company's website www.aviva.com/scripdividend.
It is the Company's intention that following the payment of the 2007 final dividend on 16 May 2008 the Aviva Scrip Dividend Scheme will be withdrawn and shareholders will be offered the opportunity to participate in a Dividend Reinvestment Plan. Full details of the new plan will be communicated to shareholders at this time.

Share Dealing
Shareholders who hold their shares in the Aviva Share Account will need to use one of the services detailed below to buy or sell Aviva shares. Those who hold a share certificate can use the services below or any bank, building society or stockbroker offering share dealing facilities. Shareholders in any doubt about buying or selling Aviva shares should seek professional financial advice.

Share dealing facilities for UK shareholders/share account members

- You can buy or sell shares via the internet or by telephone through Shareview Dealing, a share dealing service provided by Equiniti. For internet purchases and sales log on to www.shareview.co.uk/dealing and for telephone purchases and sales call 08456 037 037 between 8.00am and 4.30pm, Monday to Friday

- Equiniti Financial Services Limited also offers a postal share dealing service. For further information and a postal share dealing form telephone 0871 384 2953*.

- Equiniti Financial Services Limited is authorised and regulated by the Financial Services Authority, registered number 6208699.

- To buy or sell shares over the telephone, shareholders can contact **Barclays Stockbrokers** on 0870 549 3002 (for shareholders with a share certificate) or 0870 549 3001 (for shareholders with an Aviva Share account statement). To check instructions and maintain high quality service standards, Barclays Stockbrokers may record and monitor calls. New Business Development hours are 8.00am to 6.00pm Monday to Friday, excluding Bank Holidays. Barclays Stockbrokers is authorised and regulated by the Financial Services Authority, registered number 124247.

- Barclays Stockbrokers also offers a postal share dealing service. For further information and a postal share dealing form telephone 0870 514 3263.

- NatWest Stockbrokers provide a Share Dealing Service either over the telephone or at certain NatWest branches for Aviva Share Account holders only. For more information contact NatWest Stockbrokers on 0845 122 0689. NatWest Stockbrokers Limited ("NWS") is a member of the London Stock Exchange and PLUS. NWS is authorised and regulated by the Financial Services Authority, registered number 124395. Registered Office: Waterhouse Square, 138-142 Holborn, London EC1N 2TH. Registered Number 1959479, England. NWS is operated by a joint venture between The Royal Bank of Scotland Group plc and The Toronto-Dominion Bank.

Share dealing 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 documents in order to use this service and details will be provided on registration. Please note that regulations prevent this service from being offered to the residents of the United States, Canada and Australia. Settlement proceeds will be sent to either a UK sterling bank account or by sterling cheque.

Shareholder Information

Share price
Shareholders can access the current share price of Aviva plc ordinary shares at www.aviva.com/shareprice or alternatively can call FT Cityline on 0906 843 2197. Calls are currently charged at 60 pence per minute on a per second basis from a BT landline. Charges from other networks and mobile networks may vary. The average time to access a share price is approximately one minute. The current share price of Aviva's preference shares can be found on the London Stock Exchange website at www.londonstockexchange.com/en-gb/pricenews.

ShareGift - The Orr Mackintosh Foundation operates a purely voluntary charity share donation scheme for shareholders who wish to dispose of small numbers of shares when the dealing costs or minimum fee 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.

Group financial calendar for 2008

Online publication of Aviva plc Annual Report and Accounts 2007	26 March
Announcement of first quarter long-term savings new business figures	25 April
Annual General Meeting	1 May
Announcement of unaudited six months' interim results	30 July
Announcement of third quarter long-term savings new business figures	22 October

Ordinary Shares

Ex-dividend date*	26 March
Record date	28 March
Scrip dividend price available*	2 April
Last date for scrip dividend forms to be received in order to be effective for 2007 final dividend	17 April
Dividend payment date	16 May

Preference Shares

8⅜% cumulative irredeemable preference shares	
First payment date	31 March
Second payment date	30 September
8¾% cumulative irredeemable preference shares	
First payment date	30 June
Second payment date	31 December

Useful contact details
Detailed below are the contact details 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. If you have a shareholder reference, please have this available as well.

General shareholding, administration
An Aviva Share Account queries:
Equiniti
Aspect House, Spencer Road
Lancing, West Sussex BN99 6DA

www.shareview.co.uk
e-mail: Aviva@equiniti.com

0871 384 2953*

*Calls to these numbers are charged at 8 pence per minute from a BT landline. Charges from other telephone providers may vary.

Individual Savings Accounts (ISA's)
Equiniti (ISA) Manager
Aspect House, Spencer Road
Lancing, West Sussex BN99 6DA

0871 384 2244*

Barclays Stockbrokers (ISA) Manager
Tay House, 300 Bath Street
Glasgow G2 4RJ

0870 514 3263

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

E-Communications

At the 2007 Annual General Meeting, a resolution was passed to amend the Company's Articles of Association to take full advantage of the provisions in the Companies Act 2006 in relation to electronic communications. In particular, the provisions enable all communications between the shareholder and the Company to be made in electronic form. Documents will be supplied via the Company's website to shareholders who have not requested a hard copy or provided an e-mail address to which documents or information may be sent. If you wish to continue to receive hard copy documents and have previously not elected to do so, you should write to the Registrar. The wider use of electronic communications enables faster receipt of documents, reduces the Company's printing, paper and postage costs and has a positive impact on the environment. If you have not already done so, to receive communications electronically, log onto www.aviva.com/shareholders and register for shareholder e-communications.

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

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