News release

4 February 2009

Aviva plc

Aviva announces restatement of interim 2008 and full year 2007 results on an MCEV basis

MCEV is the next step in evolving embedded value reporting

- Greater transparency and comparability
- A shareholder's perspective on value
- A market consistent approach to financial risk
- A greater focus on disclosure of cash being generated by the business
- Explicit allowances for non-hedgeable risk

MCEV does not change the economics of our business, just the timing of profit recognition

- General insurance, IFRS and solvency reporting is unchanged
- The dividend paying capacity remains unchanged
- Long term savings IRRs remain broadly unchanged
- Restatement impact on equity shareholders funds: 1% decrease for 2007 and 7% decrease for mid 2008, due to volatile markets

Aviva is a well-diversified group with a strong balance sheet on any measure

Aviva plc ("Aviva") announces the restatement of its supplementary financial information on a Market Consistent Embedded Value basis (MCEV). A presentation for investors and analysts will take place today covering the group's 2008 long-term savings new business sales and the restatement of the full year 2007 and the half year 2008 results on an MCEV basis. This presentation takes place ahead of the group's full year results, which will be announced on 5 March.

Philip Scott, chief financial officer said, "Embedded value remains key to measuring the performance of long-term business. MCEV is an important step forward in increasing the transparency of our business and we have provided significantly more information and improved our disclosures.

"The adoption of MCEV does not change the economics of our business, but it does change the timing of when we report the profit that we earn from writing long-term savings business. MCEV does not affect our statutory results, our regulatory capital position or our dividend paying capacity."

Worldwide Highlights

	MCEV Restated 6 months 2008	EEV Reported 6 months 2008	**MCEV Restated Full year 2007**	EEV Reported Full year 2007
	Reviewed	Reviewed	**Audited**	Audited
Equity shareholders' funds	**£17,389m**	£18,672m	**£19,998m**	£20,253m
Net asset value per share	**654p**	702p	**763p**	772p
Operating profit before tax	**£1,509m**	£1,719m	**£3,065m**	£3,286m
(Loss)/profit after tax	**£(2,361)m**	£(1,275)m	**£1,946m**	£2,134m
Life and pensions PVNBP	**£18,214m**	£17,283m	**£32,722m**	£31,600m
Value of new business gross of tax and minority interests	**£352m**	£488m	**£897m**	£912m
New business margin[1]	**1.9%**	2.8%	**2.7%**	2.9%

1. New business margin is based on the value of new business gross of tax and minorities over PVNBP.

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Analysts:

A presentation to investors and analysts, covering both the long-term savings new business announcement and the restatement of 2007 results onto an MCEV basis, will take place at 1000 hrs (GMT) at St Helen's, 1 Undershaft, London, EC3P 3DQ. The investor and analyst presentation is being filmed for live webcast and can be viewed on the group's website at 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 0818. A replay facility will be available until 17 February 2009 on +44 (0)20 7806 1970. The pass code for the whole presentation, including the question and answer session, is 5463049# and for the question and answer session only the pass code is 4478829#.

The presentation slides will be available on the group's website, www.aviva.com/investors/presentations.cfm from 0930 hrs (GMT).

The Aviva media centre at www.aviva.com/media includes images, company information and news release archive. Photographs are available on 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 2007.
- Aviva's principal business activities are long-term savings, fund management and general insurance, with worldwide total sales* of £49.2 billion at 31 December 2007 and total funds under management of £359 billion at 30 June 2008.

  *Based on 2007 published life and pensions PVNBP on an EEV basis, total investment sales and general insurance and health net written premiums including share of associates' premiums.
- Embedded value is a method of reporting the economic value of life insurance business. This information helps investors to value life insurance companies.

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Adoption of Aviva Market Consistent Embedded Value (MCEV) methodology and impact on results

A – Introduction

This document provides a summary of the impact of adopting Aviva's Market Consistent Embedded Value (MCEV) methodology on the group's supplementary life reporting for the 2007 full year results and 2008 interim results and a statistical supplement with reconciliation tables. The document also includes the impact of a change in the accounting policy for latent claims in the group's general insurance business.

The results for the year ended 31 December 2007 have been audited by our independent auditors, Ernst & Young LLP. The results for the six months to 30 June 2008 are unaudited but have been reviewed by Ernst & Young LLP. Their reports in respect of the year to 31 December 2007 and the six months to 30 June 2008 are shown on pages 61 and 62.

B – Impact of MCEV adoption

In June 2008 the CFO Forum, a group representing the Chief Financial Officers of major European insurers, launched the Market Consistent Embedded Value Principles, with the intention of improving transparency and comparability in embedded value reporting across Europe. The CFO Forum members agreed that all participants will implement the principles in the form of supplementary reporting from the 2009 year end, with optional early implementation.

The Aviva plc Board has decided to adopt a market consistent embedded value methodology for supplementary reporting in respect of the financial year ended 31 December 2008 and to restate comparative financial information for the full year ended 31 December 2007 and the six months to 30 June 2008. Aviva's market consistent methodology is described in the basis of preparation note on page 22. In summary, Aviva's methodology adopts the CFO Forum Principles and Guidance published in June 2008 with the exception of the use of an adjusted risk-free yield due to current market conditions for immediate annuities in the UK and Netherlands and for immediate annuities, deferred annuities and all other US contracts. Further detail can be found in the basis of preparation note.

Aviva's MCEV methodology will therefore replace the European Embedded Value (EEV) basis of reporting as the alternative method of reporting long-term business profits, with effect from the 2008 preliminary results announcement. The directors regard the adoption of MCEV as a refinement to the EEV basis of reporting, which previously complied with some of the CFO Forum MCEV Principles, and believe that value based reporting provides information that is fundamental to understanding the financial performance of the group's life and related businesses. Accordingly the move from the EEV basis to MCEV represents an evolution of the previously adopted approach and is not a wholesale change to Aviva's embedded value reporting basis. Embedded value is also consistent with the way pricing is assessed and the business is managed. In adopting these principles early the directors are seeking to achieve consistency and continuity of performance reporting through supplementary reporting. This is particularly important at a time when phase two of the approach to accounting for insurance business under International Financial Reporting Standards (IFRS) has not yet been implemented.

MCEV is the next step in embedded value reporting bringing improved transparency and comparability. In summary, MCEV provides:

- a perspective on value, being the present value of future cash flows available to the shareholder, adjusted for the risks of those cash flows;
- improved consistency of the basic framework for risk valuation through a market consistent approach to financial risk;
- improved comparability of, and increase in, embedded value disclosures, including a greater focus on disclosure of cash emerging from the business and explicit disclosure of the allowance for non-hedgeable risks; and,
- mandatory external review.

There is no change to the underlying fundamentals or economics of our business as a result of adopting the MCEV methodology. Financial information on an MCEV basis provides a further perspective on the business, particularly for internal capital allocation purposes. Profits over the life of contracts remain unchanged; however, the timing of profit recognition changes.

While MCEV is key in assessing our life businesses in respect of value generation and the impact of the cost of capital and capital allocation, it is not the only measure we use to assess our business. We continue to also use statutory IFRS and regulatory capital measures, which are unchanged by the adoption of MCEV. The Group's dividend policy, which is set in relation to operating earnings after tax on an IFRS basis, is also unchanged by MCEV. Additionally, the internal rate of return (IRR) gives a further perspective on the value of all the cashflows associated with new business, including the investment return generated.

With effect from the 2008 preliminary results, the group intends to use the same economic assumptions for equities and properties as those used under the MCEV methodology to calculate the longer-term investment return used in IFRS reporting for its life, general insurance and health business and pension schemes. This will improve the 2008 operating result on the MCEV basis by approximately £80 million.

C – Impact of turbulent market conditions

The CFO Forum MCEV Principles were designed during a period of relatively stable market conditions. As announced on 19 December 2008, the CFO Forum has agreed to conduct a review of the impact of turbulent market conditions on the MCEV Principles, the result of which may lead to changes to the published MCEV Principles or the issuance of further guidance. The particular areas under review include implied volatilities, the cost of non-hedgeable risks, the use of swap rates as a proxy for risk-free rates and the effect of liquidity premia.

Aviva's MCEV methodology adopts the CFO Forum Principles and Guidance with the exception of use of an adjusted risk-free yield due to current market conditions for immediate annuities in the UK and Netherlands and for immediate annuities, deferred annuities and other US contracts. In stable markets, swap curves are an appropriate risk-free rate. However, in the current turbulent market it is possible, for products where backing asset portfolios can be held to maturity, to earn risk free returns in excess of swaps by investing in corporate bonds and credit default swaps (CDS).

The risk free rate for these products has therefore been increased above the swap curve due to the additional risk-free returns available on backing asset portfolios in the current market. This is not in compliance with Principle 14 of the CFO Forum MCEV Principles, which require that the risk-free rates "should, wherever possible, be the swap yield curve appropriate to the currency of the cash flows". Aviva believes that these adjustments are required to maintain consistency with current market prices. Further details can be found in the basis of preparation note on page 22. Sensitivity analysis has been provided on page 44 to changes in the risk free rate. This methodology will be updated if the CFO Forum issues additional guidance.

D – Impact of change in accounting policy for latent claims and other restatement changes

As part of the group's aim to continuously improve the relevance and reliability of its external financial reporting, Aviva undertook a review of the group's General Insurance ("GI") Reserving Policy in 2008.

As part of this review, the group concluded that estimating latent claims provisions on an undiscounted basis, and discounting back to current values, represented an improvement to the existing estimation technique. This approach is in line with best practice for long term liabilities and moves the measurement of latent claims onto a more economic basis, consistent with our internal model for economic capital and the measurement model being proposed for both IFRS Phase II and Solvency II. Further this approach improves consistency with the reporting of other long tail classes of business which are already being discounted, namely certain London Markets latent claims and Netherlands Permanent Health and Injury Business.

The application of discounting to our latent claims provisions for IFRS purposes represents a change in accounting policy and therefore has been applied retrospectively. The cumulative impact of discounting on the opening balance sheet as at 1 January 2007 is £153 million, and a prior year adjustment has been made. The group has also made some changes to the IFRS balance sheet to reflect the consolidation of funds and treatment of shares held by employee trusts.

The impact of the change in accounting policy and restatement changes on the six months to 30 June 2008 and full year ended 31 December 2007 are set out in the basis of preparation section on page 26.

E – Group operating profit before tax

The adoption of the MCEV methodology has resulted in:

– group operating profit before tax for the six months to 30 June 2008 of £1,509 million compared to £1,719 million under EEV; and,

– group operating profit before tax for the year to 31 December 2007 of £3,065 million compared to £3,286 million under EEV.

Analysis of operating profit
The group's operating profit can be analysed as follows:

	MCEV Restated 6 months 2008 £m	EEV Reported 6 months 2008 £m	**MCEV Restated Full year 2007 £m**	EEV Reported Full year 2007 £m
	Reviewed	Reviewed	**Audited**	Audited
Life and pensions operating earnings	**1,280**	1,480	**2,544**	2,753
Fund management[1]	**30**	30	**90**	90
General insurance and health	**528**	538	**1,021**	1,033
Other:				
Other operations and regional costs	**(57)**	(57)	**(70)**	(70)
Corporate centre	**(71)**	(71)	**(157)**	(157)
Group debt costs and other interest	**(201)**	(201)	**(363)**	(363)
Operating profit before tax	**1,509**	1,719	**3,065**	3,286

1. Excludes the proportion of the results of Aviva Investors and other fund management businesses within the Group that arise from the provision of fund management services to our life businesses. These results are included within the life and pensions MCEV operating earnings consistent with Aviva's MCEV methodology.

Adoption of Aviva Market Consistent Embedded Value (MCEV) principles and impact on results continued

E – Group operating profit before tax continued

The conversion from EEV to MCEV does not impact on the operating profit of our non-life businesses. However, the general insurance and health figures have been restated for the change in accounting policy in respect of discounting latent claims.

Life and pensions operating earnings in the first half of 2008 were £1,280 million on an MCEV basis compared to £1,480 million on an EEV basis due to the impact of widening credit spreads on the value of new business and changes in operating assumptions.

For 2007, life and pensions operating earnings were £2,544 million compared to £2,753 million on an EEV basis due to movements in experience variances and operating assumption changes.

The components of the life and pensions operating earnings are shown below.

	MCEV Restated 6 months 2008 £m	EEV Reported 6 months 2008 £m	**MCEV Restated Full year 2007 £m**	EEV Reported Full year 2007 £m
	Reviewed	Reviewed	**Audited**	Audited
Value of new business	**352**	488	**897**	912
Earnings from existing business				
- expected returns at the reference rate	**465**	–	**877**	–
- expected returns in excess of the reference rate	**227**	–	**420**	–
- expected returns	**692**	694	**1,297**	1,266
- experience variances	**42**	43	**(111)**	(16)
- operating assumption changes	**(97)**	(46)	**(25)**	114
- other operating variances	**(19)**	–	**1**	–
Expected return on shareholders' net worth	**310**	301	**485**	477
Life and pension operating earnings before tax	**1,280**	1,480	**2,544**	2,753

For both time periods, operating earnings reduce because of the lower recognised value of new business. Additionally, experience variances and operating assumption changes have a more significant impact due to MCEV economic methodology, which discounts future cashflows at a lower rate than under EEV. The expected return on in-force remains broadly unchanged for both time periods.

F – (Loss)/profit after tax

Analysis of profit

The table below sets out the reconciliation of the Group's operating profit before tax to (loss)/profit after tax, on both an MCEV and an EEV basis:

	MCEV Restated 6 months 2008 £m	EEV Reported 6 months 2008 £m	**MCEV Restated Full year 2007 £m**	EEV Reported Full year 2007 £m
	Reviewed	Reviewed	**Audited**	Audited
Operating profit before tax	**1,509**	1,719	**3,065**	3,286
Effect of economic variances on long-term business[1]	**(4,086)**	(2,783)	**(19)**	67
Short-term fluctuations in return on investments backing general insurance and health business	**(314)**	(314)	**(184)**	(184)
Economic assumption changes on general insurance and health business	**6**	–	**2**	–
Impairment of goodwill	**(42)**	(42)	**(10)**	(10)
Amortisation and impairment of intangible assets	**(44)**	(44)	**(89)**	(89)
Profit on disposal of subsidiaries and associates	**9**	9	**20**	20
Integration and restructuring costs	**(132)**	(132)	**(153)**	(153)
Exceptional Items[2]	**(155)**	(84)	**–**	–
(Loss)/profit before tax	**(3,249)**	(1,671)	**2,632**	2,937
Tax on operating earnings	**(453)**	(523)	**(924)**	(992)
Tax on other activities	**1,341**	919	**238**	189
(Loss)/profit after tax	**(2,361)**	(1,275)	**1,946**	2,134

1. On an EEV basis, £(2,783) million for the six months 2008 includes variation from longer term investment return on long-term business of £(2,638) million and effect of economic assumption changes on long-term business of £(145) million. £67 million for the full year 2007 includes variation from longer term investment return on long-term business of £(450) million and effect of economic assumption changes on long-term business of £517 million.

2. Exceptional items includes £84 million in costs due to the closure of the wrap platform in the UK and migration of the operations to a third party provider, Scottish Friendly and £71 million in the Netherlands, reflecting the provision for restricting charges on existing unit-linked contracts in line with the Ombudsman's recommendations. Under EEV this was reported within operating assumption changes.

F – (Loss)/profit after tax continued

Economic variances are the key area of change. This is largely due to the difference in treatment of credit spreads. Under EEV, the increases in credit spreads had a limited impact on the embedded value as an allowance was taken for higher expected future income within the value of in-force which broadly offset the fall in asset values. Under MCEV, however, no future spreads in excess of the risk-free rate are allowed for. As a result, when credit spreads increased in the first half of 2008, the market value of assets reduced but assumed future investment cashflows did not change. The adverse impact of removing future investment returns in excess of the risk-free rate more than offset the positive impact of lower discount rates.

Economic assumption changes on general insurance and health business reflect the change between opening and closing discount rates on the latent claims provisions.

G – Shareholders' equity

The reported value of shareholders' funds has reduced under the MCEV basis, as a result of changes described in Section H.

The value of shareholders' funds attributable to non-life businesses are unaffected by the new MCEV methodology, but have reduced due to restatement changes and changes to the IFRS accounting for latent claims described in Section D.

	MCEV Restated 6 months 2008 £m	EEV Reported 6 months 2008 £m	**MCEV Restated Full year 2007 £m**	EEV Reported Full year 2007 £m
	Reviewed	Reviewed	**Audited**	Audited
Embedded Value (including minority interests)	**18,579**	19,867	**20,096**	20,319
Goodwill and intangible assets allocated to long-term business	**2,495**	2,335	**2,359**	2,253
Notional allocation of IAS 19 pension fund deficit to long-term business	**(140)**	(140)	**(58)**	(58)
Minority interest in property investment vehicles	**–**	838	**–**	758
Long-term business net assets	**20,934**	22,900	**22,397**	23,272
General insurance and other net assets	**282**	347	**1,292**	1,302
Total equity	**21,216**	23,247	**23,689**	24,574
Preference share capital and direct capital instruments	**(1,190)**	(1,190)	**(1,190)**	(1,190)
Minority interests	**(2,637)**	(3,385)	**(2,501)**	(3,131)
Equity attributable to ordinary shareholders of Aviva plc	**17,389**	18,672	**19,998**	20,253
Net asset value per share	**654p**	702p	**763p**	772p

H – Impact of MCEV methodology for life and related businesses

The MCEV methodology has introduced the following key changes to embedded value reporting:

– economic assumptions are now market consistent;

– explicit allowance is made for the cost of non-hedgeable risk;

– required capital also takes account of business unit targets; and,

– operating assumptions have been reviewed to confirm that they are probability-weighted, mean best estimates of expected future experience.

In summary, the impact of the restatement to MCEV varies by product type.

Risk contracts, for example term assurances, tend to increase in value under MCEV compared to EEV. This is because these contracts contain lower than average levels of market risk. Under EEV, an aggregate discount rate was used for all contracts. Under MCEV, market and non-market risks are allowed for separately and explicitly.

The impact on savings contracts, for example unit linked contracts, tends to be broadly neutral. If the assets backing the savings contracts are predominantly invested in lower risk assets then the value will tend to increase as the lower discount rate applied to future cashflows more than offsets the reduced assumed future investment returns. However, contracts with significant guarantees tend to reduce in value under MCEV as the market consistent cost of the guarantees is typically higher than under EEV.

Immediate annuities, deferred annuities and other contracts where shareholders are exposed directly to asset risk tend to reduce in value. MCEV anticipates no profits at outset from the taking of asset risk, whereas EEV recognised the expected profits from taking asset risk, net of expected defaults. This approach is consistent with the market price of corporate bonds and equities. The profits from taking asset risk will be recognised through the earnings from existing business over the life of the contracts. These types of contracts have been referred to as "spread contracts" in this document.

The tables below show how the introduction of MCEV methodology has impacted the results. In particular, they detail the impact of each element of the changes in the move from EEV to MCEV.

Adoption of Aviva Market Consistent Embedded Value (MCEV) principles and impact on results continued

H – Impact of MCEV methodology for life and related businesses continued

Impact of MCEV methodology on embedded value

The embedded values on an MCEV basis at 31 December 2007 and 31 December 2006 were 1% lower at £20,096 million (EEV: £20,319 million) and £18,004 million (EEV: £18,098 million), respectively. This is in line with our expectations, as previously stated, that the group's embedded value would not significantly change as a result of adopting MCEV in a stable market. This reflects Aviva's diversity geographically and by product mix.

The embedded value on an MCEV basis at 30 June 2008 reduced by 6% to £18,579 million (EEV: £19,867 million) due to turbulent market conditions which resulted in the adverse impact of changes in economic assumptions. This is due to the difference in treatment of credit spreads under MCEV as credit spreads widened in the first half of 2008.

Impact of changes in economic assumptions (including discounting at risk-free rate)

In 2008, under EEV, the impact of credit spreads widening was reduced as an allowance was taken for higher expected future investment income which broadly offset the fall in market values within the net worth. Under MCEV, however, no future spreads in excess of risk-free are allowed for. As a result, when credit spreads increased in the first half of 2008, the market value of assets reduced resulting in adverse economic variances with no increase in projected future investment cash flows. This compares with a favourable impact on transition from EEV to MCEV of economic assumptions changes at the end of 2007 and 2006 which reflected the lower discount rate applied under MCEV. This partly offset the cost of residual non-hedgeable risk, the impact of changes in operating assumptions and model changes.

Cost of residual non-hedgeable risk

The cost of residual non-hedgeable risk allows for risks not allowed for elsewhere in the value of future profits from in-force and new business. The cost of residual non-hedgeable risk is equivalent to a 2.5% charge applied to the group-diversified economic capital required to cover the non-hedgeable risks over the life of the contracts. The cost of residual non-hedgeable risk has increased over the restatement period as the required levels of economic capital for non-hedgeable risks have increased.

Changes to required capital

The change to required capital reflects the consideration of business unit targets and the review of economic capital requirements. Capital requirements by country under the two bases are set out on page 40. Capital requirements have increased for certain businesses under MCEV, notably the US and the Netherlands. For the UK annuity business capital was actually higher in 2006 under EEV than MCEV at 150% of the EU minimum. This was revised down to 100% from 2007 onwards, reflecting the capital fungibility within the UK. Therefore the change to 110% for the UK annuity business under MCEV represents a reduction in capital for 2006 but an increase for 2007 and 2008.

Impact of changes in operating assumptions

This reflects the updating of lapse assumptions for UK, Poland, the US and Spain. These changes are described in Section I.

Other

This mainly reflects modelling refinements in the US, France and the Netherlands.

Embedded value	**Reviewed 30 June 2008 £m**	**Audited 31 December 2007 £m**	**Audited 31 December 2006 £m**
EEV basis as reported	19,867	20,319	18,098
Impact of changes in economic assumptions (including discounting at risk-free rate)	(365)	521	624
Cost of residual non-hedgeable risk	(604)	(568)	(491)
Changes to required capital	(86)	(69)	(6)
Impact of changes in operating assumptions	(93)	(134)	(155)
Other	(140)	27	(66)
MCEV basis gross of minority interests	**18,579**	**20,096**	**18,004**
Minority interests	(2,002)	(1,848)	(1,498)
MCEV basis net of minority interests	**16,577**	**18,248**	**16,506**

Analysed by:

	MCEV Restated 6 months 2008 £m	EEV Reported 6 months 2008 £m	**MCEV Restated Full year 2007 £m**	EEV Reported Full year 2007 £m	**MCEV Restated Full year 2006 £m**	EEV Reported Full year 2006 £m
	Reviewed	Reviewed	**Audited**	Audited	**Audited**	Audited
United Kingdom	**5,776**	6,547	**6,911**	7,106	**6,535**	6,636
Europe	**11,109**	10,949	**11,293**	10,988	**9,690**	9,524
North America	**974**	1,714	**1,206**	1,588	**1,268**	1,478
Asia Pacific	**720**	657	**686**	637	**511**	460
Embedded value gross of minority interests	**18,579**	19,867	**20,096**	20,319	**18,004**	18,098

H – Impact of MCEV methodology for life and related businesses continued

Impact of MCEV methodology on embedded value continued

In the United Kingdom, the embedded value has reduced on an MCEV basis compared to EEV due to business mix as the lower embedded value of annuities more than offset the higher value of term assurance. This effect increases over the restatement period as corporate bond yields have increased.

The impact of MCEV on the embedded value in Europe is relatively neutral reflecting the diversity of our European portfolio by geography and product. Excluding the Netherlands, the Europe business mix is predominantly risk and savings. In the Netherlands, contracts and their backing assets contain a significant amount of equity and credit risk. This tends to reduce the value under MCEV. Overall, the impact on the aggregate Europe embedded value is limited.

North America sells predominantly spread-type contracts. As MCEV makes no allowance for investment returns in excess of the risk-free rate, the MCEV value reduces substantially compared to EEV. The impact of adopting MCEV has increased over the restatement period as risk-free rates have reduced and corporate bond spreads have increased.

The embedded value of our businesses in Asia Pacific increases under MCEV as EEV included territory-specific additional margins in the risk discount rate. This has been changed to an allowance in the cost of residual non-hedgeable risks under MCEV which results in an increase in value. Additionally, the Asia Pacific business is predominantly risk and savings business.

Impact of MCEV methodology on new business

The group's life and pensions sales, as measured by the present value of new business premiums (PVNBP), in the first half of 2008 were 5% higher at £18,214 million on an MCEV basis (EEV: £17,283 million) and for 2007 were 4% higher at £32,722 million (EEV: £31,600 million). PVNBP is higher under MCEV as this reflects the use of the risk-free discount rate. This is lower than the risk discount rate used under EEV which included a risk margin to allow for both economic and non-economic risks that were not explicitly allowed for elsewhere.

The impact of economic assumption changes depends on the proportion of regular premium business and the difference between the EEV risk discount rate and the risk-free rate. As the risk free rate has reduced between 2007 and half-year 2008, the impact on PVNBP increased.

The new business tables below provide life and pensions sales, the value of new business and new business margins net of minority interests and tax where applicable. This is consistent with the CFO Forum required presentation of the analysis of earnings, which is shown net of tax and minority interests.

PVNBP	Reviewed 6 months 2008 £m	Audited Full year 2007 £m
EEV basis as reported	17,283	31,600
Impact of changes in economic assumptions (including discounting at risk-free rate)	997	970
Impact of changes in operating assumptions	(66)	152
MCEV basis gross of minority interests	**18,214**	**32,722**
Minority interests	(2,048)	(4,333)
MCEV basis net of minority interests	**16,166**	**28,389**

Analysed by:

	Net of minority interests		Gross of minority interests	
Reviewed 6 months 2008	**MCEV Restated £m**	EEV Reported £m	**MCEV Restated £m**	EEV Reported £m
United Kingdom	**6,010**	5,863	**6,010**	5,863
Europe	**7,037**	6,364	**9,081**	8,431
North America	**2,227**	2,205	**2,227**	2,205
Asia Pacific	**892**	781	**896**	784
Total life and pension PVNBP	**16,166**	15,213	**18,214**	17,283

	Net of minority interests		Gross of minority interests	
Audited Full year 2007	**MCEV Restated £m**	EEV Reported £m	**MCEV Restated £m**	EEV Reported £m
United Kingdom	**11,797**	11,655	**11,797**	11,655
Europe	**11,359**	10,726	**15,684**	14,914
North America	**3,646**	3,602	**3,646**	3,602
Asia Pacific	**1,587**	1,421	**1,595**	1,429
Total life and pension PVNBP	**28,389**	27,404	**32,722**	31,600

H – Impact of MCEV methodology for life and related businesses continued

Value of new business and new business margin

The value of new business reduced to £352 million for the six months to 30 June 2008 (EEV new business contribution after the effect of required capital: £488 million) and £897 million in 2007 from £912 million after the effect of required capital reported under EEV. This, combined with the increase in PVNBP has resulted in a lower group margin of 1.9% on an MCEV basis for half year 2008 (margin after required capital on an EEV basis: 2.8%) and 2.7% for 2007, compared to 2.9% on an EEV basis.

Value of new business	**Reviewed 6 months 2008 £m**	**Audited Full year 2007 £m**
EEV basis as reported (after the effect of required capital)	488	912
Impact of changes in economic assumptions (including discounting at risk-free rate)	(67)	138
Cost of residual non-hedgeable risk	(59)	(91)
Changes to required capital	(11)	(16)
Impact of changes in operating assumptions	2	(35)
Other	(1)	(11)
MCEV basis gross of tax and minority interests	**352**	**897**
Tax and minority interests	(173)	(393)
MCEV basis net of tax and minority interests	**179**	**504**

Analysed by:

	Net of tax and minority interests		**Gross of tax and minority interests**	
Reviewed 6 months 2008	**MCEV Restated £m**	EEV Reported £m	**MCEV Restated £m**	EEV Reported £m
United Kingdom	**53**	111	**73**	154
Europe	**106**	109	**255**	245
North America	**(5)**	44	**(8)**	68
Asia Pacific	**25**	16	**32**	21
Total value of new business	**179**	280	**352**	488

	Net of tax and minority interests		**Gross of tax and minority interests**	
Audited Full year 2007	**MCEV Restated £m**	EEV Reported £m	**MCEV Restated £m**	EEV Reported £m
United Kingdom	**195**	214	**278**	305
Europe	**225**	213	**502**	456
North America	**34**	70	**52**	108
Asia Pacific	**50**	32	**65**	43
Total value of new business	**504**	529	**897**	912

	Net of tax and minority interests		**Gross of tax and minority interests**	
Reviewed 6 months 2008	**MCEV Restated %**	EEV Reported %	**MCEV Restated %**	EEV Reported %
United Kingdom	**0.9%**	1.9%	**1.2%**	2.6%
Europe	**1.5%**	1.7%	**2.8%**	2.9%
North America	**(0.2)%**	2.0%	**(0.4)%**	3.1%
Asia Pacific	**2.8%**	2.0%	**3.6%**	2.7%
New business margin	**1.1%**	1.8%	**1.9%**	2.8%

H – Impact of MCEV methodology for life and related businesses continued

Value of new business and new business margin continued

Audited Full year 2007	Net of tax and minority interests MCEV Restated %	Net of tax and minority interests EEV Reported %	Gross of tax and minority interests MCEV Restated %	Gross of tax and minority interests EEV Reported %
United Kingdom	**1.7%**	1.8%	**2.4%**	2.6%
Europe	**2.0%**	2.0%	**3.2%**	3.1%
North America	**0.9%**	1.9%	**1.4%**	3.0%
Asia Pacific	**3.2%**	2.3%	**4.1%**	3.0%
New business margin	**1.8%**	1.9%	**2.7%**	2.9%

United Kingdom
The reduction in margin under MCEV is attributable to the non-recognition of that element of the asset yield (net of credit default allowances) which we have secured above the risk-free rate. This effect is more pronounced in the first half of 2008 due to the widening of asset yields secured (net of credit default allowances) over the risk-free rate. The half year 2008 margin also reflects the greater proportion of annuity business in this period.

Europe
For Europe, the value of new business is higher than EEV in 2007, caused mainly by the positive impact of economic assumption changes. The small decrease in 2008 is mainly driven by the more adverse impact of economic assumption changes in the Netherlands, due to the sale of several large group contracts, which are adversely affected by the move to MCEV, and market movements increasing the expected costs of policyholder guarantees on contracts written during the period.

North America
North America margins reduce as the main product types are deferred annuity and other spread-type contracts. MCEV does not recognise at outset any earnings in excess of the risk-free rate. In 2008 the adverse impact is made more pronounced as the risk-free rate in the US has reduced over the 6 month period.

Asia Pacific
The Asia Pacific value of new business increases under MCEV, as EEV included territory-specific additional margins in the risk discount rate. This has been changed to an allowance in the cost of residual non-hedgeable risks under MCEV which results in an increase in value. The majority of the business sold in Asia is savings business and the margin for this business has increased by around 50%.

Impact of MCEV methodology on life and pension earnings

Group life and pension earnings	Reviewed 6 months 2008 £m	Audited Full year 2007 £m
EEV basis as reported	1,480	2,753
Impact of changes in economic assumptions (including discounting at risk-free rate)	(268)	(133)
Cost of residual non-hedgeable risk	(14)	(49)
Changes to required capital	(8)	(86)
Impact of changes in operating assumptions	44	46
Other	46	13
MCEV earnings gross of tax and minority interests	**1,280**	**2,544**
Tax and minority interests	(506)	(977)
MCEV earnings net of tax and minority interests	**774**	**1,567**

Analysed by:

	MCEV Restated 6 months 2008 £m Reviewed	EEV Reported 6 months 2008 £m Reviewed	MCEV Restated Full year 2007 £m Audited	EEV Reported Full year 2007 £m Audited
United Kingdom	**417**	471	**822**	864
Europe	**728**	823	**1,503**	1,543
North America	**74**	139	**124**	255
Asia Pacific	**61**	47	**95**	91
Life and pension operating earnings before tax	**1,280**	1,480	**2,544**	2,753

Adoption of Aviva Market Consistent Embedded Value (MCEV) principles and impact on results continued

H – Impact of MCEV methodology for life and related businesses continued

Impact of MCEV methodology on life and pension earnings continued

United Kingdom
UK operating earnings have reduced largely reflecting the change in the value of new business. Other changes reflect the aggregate impact of minor items and the reclassification under MCEV of credit default experience profits from operating earnings to economic variances.

Europe
European operating earnings are lower than EEV in both periods. The larger fall in 2008 is mainly driven by the negative impact of economic assumption changes, where, particularly in France and the Netherlands, the market falls and increased market volatility have had a more severe impact on the cost of policyholder guarantees than under EEV.

Operational assumption changes and other impacts were favourable overall in 2008 and adverse overall in 2007. In 2007, the other impacts are driven mainly by the Netherlands (updating assumptions in the German with profits fund model increased the shareholder share of surplus in positive scenarios) and Spain (the removal of positive credit default assumption changes that are no longer relevant under MCEV), offset by France (modelling refinements). In 2008, the positive other impacts in France are due to modelling refinements, and in the Netherlands, are due to the impact of the re-allocation out of operating profit of a provision held due to settlement for compensation with regard to unit-linked insurance policies, which have been the subject of an industry review.

North America
As the business has been growing, the return on the existing business has been more than offset by the lower recognised value of new business.

Asia Pacific
The value of new business has increased by around 50% as discussed above. Other changes are due to the strengthening of annuitant mortality assumptions and the analysis of lapse experience.

I – MCEV methodology

Aviva's MCEV methodology is described in the basis of preparation note on page 22. Aviva's MCEV methodology, except for the adjustment noted below, follows the CFO Forum's 17 MCEV Principles and supporting guidance issued in June 2008, which set out an improved approach to calculating the valuation of shareholders' interest in a life insurance company.

Due to current market conditions, an adjustment has been made to the risk-free rate for immediate annuity contracts in the UK and the Netherlands and immediate annuities, deferred annuities and other contracts in the US. This does not comply with the CFO Forum Principle 14 which requires that the risk-free rates "should, wherever possible, be the swap yield curve appropriate to the currency of the cash flows". In stable markets, swap curves are an appropriate proxy for risk-free rates; however, in the current turbulent market it is possible, for products where backing asset portfolios can be held to maturity, to earn returns in excess of swaps by investing in corporate bonds and credit default swaps (CDS). The risk free rate for these products has been therefore increased above the swap curve due to additional risk-free returns available in the current market.

Under EEV, the group was already complying with a number of the CFO Forum Principles. Accordingly, the directors regard the adoption of MCEV as an enhancement to the EEV basis of reporting. The new basis is also consistent with the way pricing is assessed and the business is managed.

The MCEV methodology does not change the fundamentals of embedded value reporting, where the life embedded value is the sum of the net worth, representing the value of shareholder assets, and the present value of in-force business (VIF), reflecting the present value of margins locked into statutory reserves.

Of the 17 principles, the following have led to a change in the group's results:

Revised economic basis
Under the CFO Forum MCEV Principles the mechanism through which risk is allowed for in the overall embedded value calculation has changed. Under EEV, in order to reflect the overall risk profile of the group's business, a risk margin within the discount rate allowed for any residual risks that were not explicitly allowed for. Under MCEV, all risks are allowed for explicitly and therefore the risk discount rate does not include any risk margin.

Principle 12 – Economic assumptions, Principle 13 – Investment returns and discount rates and Principle 14 – Reference rates
Under MCEV, each cash flow is discounted at a rate consistent with the riskiness of that cash flow as implied by observable market data. To implement this, the group has used a methodology in which a risk-free reference rate is used for both investment returns and discount rates (a "certainty equivalent" approach).

With the exception of UK and Netherlands immediate annuities and immediate annuities, deferred annuities and other US contracts, the reference rate has been taken in line with CFO Forum guidance as the swap yield curve where this is well defined in a market. For UK and Netherlands immediate annuities and US immediate annuities, deferred annuities and other contracts, an adjusted risk-free rate has been used to reflect the additional risk-free returns in excess of swap yields available in the current markets.

I – MCEV methodology continued

Where swap yields are not available or reliable, the lower of government bond yields and available swap rates (or other similar yield information) from the most highly rated banks in the market have been used. In contrast under EEV, government bonds were used in setting the risk-free rate and for the restated periods the risk-free rates used were typically slightly higher.

As a result of the adoption of MCEV, we have reviewed and reassessed all economic assumptions. As a consequence, the assumed equity risk premium has been revised to 3.5% over swaps from 3.0% over government bonds. The property risk premium has been retained at 2.0%. This reflects management's view of expected asset performance relative to risk-free returns and has been used to calculate expected returns within operating earnings. This assumption does not impact the embedded value as asset risk premia are not recognised until earned. The difference between the operating expected return and the actual return is taken to economic variances. The asset risk premium assumptions also affect the Internal Rate of Return (IRR), the Implied Discount Rate (IDR) and payback period calculations.

Assumptions

Principle 11 – Assessment of appropriate non economic projection assumptions
We have reviewed our best estimate assumptions to ensure that links to economic scenarios (dynamic assumptions) and other asymmetries are appropriately allowed for. Existing dynamic lapse assumptions in North America have been revised to consider the lower average returns from market consistent scenarios while those in France have been maintained as they are considered to be appropriate. Lapse rates in other business units have been reviewed for evidence of a link between persistency and economic scenarios. As evidence is generally not sufficiently strong to justify dynamic lapse assumptions, uncertainty around lapse rates has been reflected as indirect allowances for asymmetries within the mean best estimate lapse assumptions.

Whilst reviewing best estimate assumptions, we have also taken the opportunity to revise a number of demographic experience assumptions. In aggregate, these changes have no material impact on the embedded value however, the impact on individual business units are as follows:

UK Life – On pensions business, the assumed transfer rate assumptions have increased reflecting an allowance for asymmetries. The effect of this change and other minor changes in demographic assumptions for UK Life business was a reduction in the embedded value of £134 million at 30 June 2008, £142 million at 31 December 2007 and £84 million at 31 December 2006.

For MCEV, we have revised our definition of required capital and used consistent levels of required capital throughout the restatement. In contrast under EEV, the level of required capital held for the UK annuity business reduced in 2007 with the impact broadly offset by a change in annuitant mortality assumptions. In order to provide a meaningful comparison of MCEV and EEV profit in 2007, the mortality assumption change has been treated as an adjustment to the opening balance sheet, reducing the MCEV at 31 December 2006 by £117 million. There is no change to the embedded value at 31 December 2007.

Poland – Life and pensions lapse assumptions have been reduced reflecting emerging experience. This results in increases in the embedded value of £165 million at 30 June 2008, £143 million at 31 December 2007 and £142 million at 31 December 2006.

Spain – The lapse assumptions on bancassurance, group risk and unit linked business were revised using the latest calendar year experience where negative trends were discernible, excluding any possible future positive effects that may emerge from existing and new management actions to control lapses. Additional adjustments were made to allow for the asymmetric impacts of policyholder behaviour. These revisions resulted in a decrease in the embedded value of £36 million at 30 June 2008, £33 million at 31 December 2007 and £30 million at 31 December 2006.

USA – On Fixed and Indexed Annuity business lapse rates have been changed by including an allowance for partial withdrawals to allow for the emerging best estimate view. In addition, on the same products, there have been other, less significant, changes to the lapse rates to reflect our latest view of experience. The impact of these changes is a decrease in the embedded value of £70 million at 30 June 2008, £69 million at 31 December 2007 and £62 million at 31 December 2006.

Principle 15 – Stochastic models
Stochastic models have been used for all material covered business classes. These have been calibrated to market conditions at the valuation dates.

I – MCEV methodology continued

Required capital

Principle 5 – Required capital

Under the CFO Forum MCEV Principles, the level of required capital should reflect at least the minimum level of solvency capital below which the local supervisor is empowered to take action. In addition it should include any further capital which is not available for distribution to shareholders because it is required to meet internal objectives. For each business we have assessed the required capital as the amount deemed to be locked in to support the business objectives and to meet regulatory requirements. We have also taken into account the group's pricing bases and internal economic capital targets.

The directors consider that, in all cases, the level of required capital represents an appropriate level of capital to be carried to match the risks of the group's current portfolio of business.

The table below summarises the level of required capital across the business units, expressed as a percentage of the EU minimum solvency margin (or equivalent):

Capital requirement % of EU minimum (or equivalent)	2007 MCEV basis %	2007 EEV basis %
United Kingdom[1]	100% / 110%	100%
France	110%	115%
Ireland	150%	150%
Italy[2]	115% / 184%	115%
Netherlands (including Belgium and Germany)[3]	188%	150%
Poland	150%	150%
Spain[4]	110% / 125%	110% / 125%
North America	325%	250%

1. The required capital in the United Kingdom under the EEV basis was 100% following the change made in 2007 to the required capital in Norwich Union Annuity Limited (NUA). The required capital under MCEV is 100% for unit-linked and other non-participating business and 110% for annuity business.
2. Required capital in Italy under MCEV is 184% of the EU minimum for Eurovita and 115% for other companies.
3. Required capital in the Netherlands is 188% for full-year 2007 and 190% for the six months to 30 June 2008. This capital level is the aggregate capital required for the Netherlands.
4. Required capital in Spain is 125% of the EU minimum for Aviva Vida y Pensiones and 110% for bancassurance companies.

The required capital across the group's life businesses varies between 100% and 325% of the EU minimum solvency margin (or equivalent). The weighted average level of required capital as a percentage of the EU minimum solvency margin (or equivalent) has increased to 139% on an MCEV basis (EEV: 130%).

The required capital for annuity business in the United Kingdom is 110% under MCEV compared to 100% under EEV as economic capital requirements become higher than statutory capital requirements towards the end of the contracts. We have reviewed the economic capital requirements of our businesses and this has resulted in changes to the required capital in the Netherlands, Eurovita in Italy and France. The required capital level in France has reduced as economic capital is below the statutory capital requirement. In Aviva USA, required capital of 325% reflects rating agency commitments.

Principle 8 – Frictional costs of required capital

Under the CFO Forum MCEV Principles, the cost of holding the required capital is taken to be the present value of any additional taxation and investment costs that shareholders will incur as a result of the capital being tied up within the company rather than it being directly invested in the market. These additional costs are known as frictional costs and a deduction for these has been taken in all the value of in-force and new business numbers quoted, except where stated.

The frictional costs calculated under MCEV are significantly less than the cost of capital under EEV This reflects the difference between the risk discount rate, which included an explicit risk margin, and the expected post-tax investment return on the assets backing the required capital. Under MCEV, risks are modelled explicitly and the risk margin is not needed. Where implicit items have been allowed by local regulators, these have been deducted from the level of required capital at each balance sheet date in the table below.

	MCEV basis			EEV basis		
Group cost of capital	Total Frictional costs £m	Required capital £m	Frictional costs/ Required capital %	Cost of capital £m	Required capital £m	Cost of capital/ Required capital %
30 June 2008 Reviewed	964	7,419	13%	1,783	6,751	26%
31 December 2007 Audited	852	6,895	12%	1,588	6,331	25%
31 December 2006 Audited	733	5,834	13%	1,450	5,314	27%

I – MCEV methodology continued

Risk allowances within the value of in-force

In the table below there is a comparison at a group level of the impact of the risk allowances on the VIF on both the EEV and MCEV basis.

The present value of future profits (PVFP) is the present value of the distributable profits to shareholders arising from the in-force covered business projected using economic and best estimate non-economic assumptions as described above. In order to calculate the present value of in-force (VIF) it is necessary to allow explicitly for all risks not allowed for in this discounting process. This includes the frictional cost of required capital outlined above, the time value of financial options and guarantees and any residual non-hedgeable risks. Hedgeable market risks are allowed for on a market consistent basis through the use of risk-free investment return and discount rate assumptions.

	Reviewed 30 June 2008		Audited 31 December 2007	
Gross of minority interests	**MCEV £m**	**EEV £m**	**MCEV £m**	**EEV £m**
Present value of future profits (PVFP)	11,539	12,364	11,881	11,841
Frictional costs (MCEV)/cost of capital (EEV)	(964)	(1,783)	(852)	(1,588)
Cost of residual non-hedgeable risk	(604)	–	(568)	–
Time value of financial options and guarantees	(893)	(444)	(745)	(392)
Value of in-force covered business (VIF)	**9,078**	**10,137**	**9,716**	**9,861**

Principle 7 – Financial options and guarantees

Financial options and guarantees can affect shareholder cash flows in an asymmetric way. In adverse scenarios shareholders can be liable for the entire cost of the option or guarantee, whereas in favourable scenarios shareholders may get only part of the benefit. Under MCEV and EEV methodologies, we explicitly calculate the time value of financial options and guarantees (TVOG) using stochastic simulations. This is determined by deducting the average value of shareholder cash flows under a large number of stochastic economic scenarios from the deterministic shareholder value under best estimate assumptions (the PVFP).

The TVOG is higher under MCEV than EEV as market-consistent scenarios are more heavily weighted to scenarios with low investment returns, increasing the cost of guarantees. The removal of asset risk premiums from the valuation of options and guarantees is most significant in the US, France and Netherlands. The TVOG also increases as future cashflows are discounted at a rate consistent with risk-free returns in each scenario, rather than the higher, constant risk-discount rate used under EEV.

Market volatility assumptions have been used for MCEV compared to long-term expected volatilities under EEV. Market volatilities are typically higher than long-term, expected volatilities over the restatement period. This has increased the TVOG.

All assumptions have been reviewed to ensure that asymmetries are modelled explicitly where material. Dynamic lapse assumptions have been used in the US and France, since in these countries we have sufficient evidence to be able to set credible assumptions.

For many contracts there is general uncertainty about future lapse rates and the evidence for dynamic lapse behaviour is limited. In such cases we have included an allowance in the mean best estimate assumption where it is considered appropriate.

Principle 9 – Cost of residual non-hedgeable risks

The cost of residual non-hedgeable risks covers risks not already allowed for in the time value of options and guarantees or the PVFP. The allowance includes the impact of both non-hedgeable financial and non-financial risks. The most significant risk not included in the PVFP or TVOG is operational risk.

Aviva's methodology includes a cost of non-hedgeable risk equivalent to a charge of 2.5% applied to Group-diversified capital. The allowance equals £604 million, £568 million and £491 million at the 30 June 2008, 31 December 2007 and 31 December 2006 balance sheet dates. The cost has been calculated as a 1.5% charge applied to business unit-level capital that is, allowing for diversification within a business unit, but not between business units. The charge was set so as to give an aggregate allowance that was in excess of the expected operational risk costs arising from the in-force covered business over its remaining lifetime.

The capital levels are projected to be sufficient to cover non-hedgeable risks at the 99.5% confidence level one-year after the valuation date. The capital is equal to the capital from the independently reviewed ICA results for those risks considered and has been projected as running-off over the remaining life of the in-force portfolio in line with the drivers of the capital requirement.

In addition to the operational risk allowance, financial non-hedgeable risks and other product level asymmetries have been allowed for. These allowances are not material as significant financial non-hedgeable risks and product level asymmetries are either modelled explicitly and included in the TVOG or are included in the PVFP through the use of appropriate best estimate assumptions. No allowance has been made within the cost of non-hedgeable risk for symmetrical risks as such risks are diversifiable by investors.

Adoption of Aviva Market Consistent Embedded Value (MCEV) principles and impact on results continued

I – MCEV methodology continued

Value of new business and margins

Principle 10 – New business and renewals

The group's definition of new business under the previous methodology is consistent with Principle 10 and therefore there has been no change in our classification of premiums as new business or renewals.

The CFO Forum has stated that the value of new business should be calculated using economic assumptions in line with market conditions at the point of sale for all business; however, it recognises that this is not practical and therefore allows companies to make reasonable approximations to this. Aviva has complied with this principle by calculating the value of new business on a quarterly basis with the assumptions being taken as those appropriate to the start of each quarter. For interest sensitive contracts that are re-priced more frequently than quarterly, weekly or monthly economic assumptions have been used.

The calculation of the present value of new business premiums (PVNBP) is equal to the discounted value of new regular premiums plus the total amount of single premiums received in the period. The discounted value of regular premiums is based on the policy conditions of the contracts sold, and the same projection assumptions are used for calculating the value of new business. Under MCEV, the risk free discount rate is used which is lower than the risk discount rate previously used under EEV, and hence the PVNBP generated by each regular premium contract if higher.

The tables on pages 7 to 9 set out the present value of life and pensions new business premiums, the value of new business and the new business margin expressed as a percentage of that value on both bases.

Implied discount rates

As described earlier, under MCEV methodology the risk-free reference rate is used to discount the cash flows to calculate the present value of future profits. Deductions are then made for risk allowances to arrive at the MCEV. It is possible to calculate a discount rate that when applied to all expected cash flows including expected asset spread earnings, gives a value of future profits that equates to the MCEV. This is the implied discount rate (IDR). The IDR would typically be higher than the EEV discount rate as EEV explicitly allows for options and guarantees.

Audited **31 December 2007**	**Total in-force business** **%**	**New business** **%**
United Kingdom	8.4%	10.2%
Europe	7.5%	6.8%
North America	14.3%	19.3%
Asia Pacific	9.4%	8.5%
Average	**8.0%**	**9.1%**

The IDR for existing business in the UK and the US reflects the amount of credit spread business.

Outside the UK and the US, new business IDRs are lower than for existing business, indicating that the level of market risk in new business has reduced. This reflects new business sales of products where the policyholder takes a greater level of investment risk, such as unit-linked products, and lower levels of guarantees.

Aviva MCEV financial statements

Aviva MCEV financial statements continued

Summarised consolidated income statement – MCEV basis

	Reviewed 6 months 2008 £m	Audited Full year 2007 £m
Operating profit before tax attributable to shareholders' profits		
Life MCEV operating earnings	1,280	2,544
Fund management[1]	30	90
General insurance and health	528	1,021
Other:		
Other operations and regional costs[2]	(57)	(70)
Corporate centre	(71)	(157)
Group debt costs and other interest	(201)	(363)
Operating profit before tax attributable to shareholders' profits	**1,509**	**3,065**
Adjusted for the following:		
Economic variances on long-term business	(4,086)	(19)
Short-term fluctuation in return of investments backing general insurance and health business	(314)	(184)
Economic assumption changes on general insurance and health business	6	2
Impairment of goodwill	(42)	(10)
Amortisation and impairment of intangibles	(44)	(89)
Profit on the disposal of subsidiaries and associates	9	20
Integration and restructuring costs	(132)	(153)
Exceptional items	(155)	–
(Loss)/profit before tax	**(3,249)**	**2,632**
Tax on operating earnings	(453)	(924)
Tax on other activities	1,341	238
(Loss)/profit for the period	**(2,361)**	**1,946**
Attributable to:		
Equity shareholders of Aviva plc	(2,401)	1,704
Minority interests	40	242
	(2,361)	**1,946**

All profit is from continuing operations.

1. Excludes the proportion of the results of Aviva Investors fund management businesses 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 MCEV operating earnings consistent with Aviva's MCEV methodology.
2. Excludes the proportion of the results of subsidiaries providing services to the Life business. These results are included within the life MCEV operating earnings.

Earnings per share – MCEV basis

Earnings per share	Reviewed 6 months 2008	Audited Full year 2007
Operating earnings on an MCEV basis after tax, attributable to ordinary shareholders of Aviva plc		
Basic (pence per share)	33.9p	70.4p
Diluted (pence per share)	33.6p	69.8p
Earnings after tax on an MCEV basis, attributable to ordinary shareholders of Aviva plc		
Basic (pence per share)	(91.6)p	63.8p
Diluted (pence per share)	(91.6)p	63.2p

Consolidated statement of recognised income and expense – MCEV basis

	Reviewed 6 months 2008 £m	Audited Full year 2007 £m
Fair value (losses)/gains on AFS securities, owner-occupied properties and hedging instruments	(130)	45
Fair value gains transferred to profit	(10)	(12)
Impairment losses on revalued assets	74	–
Actuarial (losses)/gains on pension schemes	(690)	648
Actuarial gains/(losses) on pension schemes transferred to unallocated divisible surplus and other movements	71	(61)
Foreign exchange rate movements	984	1,159
Aggregate tax effect – shareholder tax	11	(246)
Net income recognised directly in equity	**310**	**1,533**
(Loss)/profit for the period	(2,361)	1,946
Total recognised (expense)/income for the period	**(2,051)**	**3,479**
Attributable to:		
Equity shareholders of Aviva plc	(2,274)	3,044
Minority interests	223	435
	(2,051)	**3,479**

Reconciliation of movements in consolidated shareholders' equity – MCEV basis

	Reviewed 6 months 2008 £m	Audited Full year 2007 £m
Balance at 1 January	23,689	20,443
Total recognised income and expense for the period	(2,051)	3,479
Dividends and appropriations	(563)	(871)
Other issues of share capital, net of transaction costs	31	48
Shares issued in lieu of dividends	170	301
Capital contribution from minority shareholders	7	–
Minority share of dividends declared in the period	(75)	(66)
Minority interest in acquired/disposed subsidiaries	59	315
Movement in shares held by employee trust	–	(10)
Changes in minority interest in existing subsidiaries	(78)	–
Reserves credit for equity compensation plans	27	50
Total equity	21,216	23,689
Minority interests	(2,637)	(2,501)
Balance at 30 June/31 December	**18,579**	**21,188**

Aviva MCEV financial statements continued

Summarised consolidated balance sheet – MCEV basis

	Reviewed 30 June 2008 £m	Audited 31 December 2007 £m	Audited 31 December 2006 £m
Assets			
Goodwill	3,048	3,082	2,910
Acquired value of in-force business and intangible assets	3,170	3,197	2,728
Additional value of in-force long-term business[1]	6,542	7,758	6,698
Interests in, and loans to, joint ventures	2,588	2,576	2,795
Interests in, and loans to, associates	1,211	1,206	895
Property and equipment	996	942	904
Investment property	14,668	15,391	15,123
Loans	37,387	36,193	28,574
Financial investments			
Debt securities	124,176	121,312	114,466
Equity securities	48,517	58,829	56,762
Other investments	38,476	36,269	33,050
Reinsurance assets	8,273	8,054	7,764
Deferred tax assets	249	590	1,199
Current tax assets	534	376	344
Receivables and other financial assets	10,750	8,619	8,098
Deferred acquisition costs and other assets	5,074	4,487	3,476
Prepayments and accrued income	3,183	2,986	2,585
Cash and cash equivalents	18,783	16,089	13,117
Assets of operations classified as held for sale	6,643	1,128	–
Total assets	**334,268**	**329,084**	**301,488**
Equity			
Ordinary share capital	664	655	641
Capital reserves	4,516	4,494	4,460
Other reserves	1,601	1,179	530
Shares held by employee trusts	(10)	(10)	–
Retained earnings	5,244	6,338	5,195
Additional retained earnings on an MCEV basis[2]	5,374	7,342	6,610
Equity attributable to ordinary shareholders of Aviva plc	17,389	19,998	17,436
Preference share capital and direct capital instruments	1,190	1,190	1,190
Minority interests[3]	2,637	2,501	1,817
Total equity	**21,216**	**23,689**	**20,443**
Liabilities			
Gross insurance liabilities	154,593	152,839	144,016
Gross liabilities for investment contracts	98,627	98,244	88,358
Unallocated divisible surplus	4,065	6,785	9,465
Net asset value attributable to unitholders	7,452	6,409	4,241
Provisions	2,398	1,937	2,850
Deferred tax liabilities	1,257	2,532	3,079
Current tax liabilities	1,125	1,225	1,301
Borrowings	13,373	12,657	12,137
Payables and other financial liabilities	19,720	18,060	11,364
Other liabilities	4,537	3,765	4,234
Liabilities of operations classified as held for sale	5,905	942	–
Total liabilities	**313,052**	**305,395**	**281,045**
Total equity and liabilities	**334,268**	**329,084**	**301,488**

The summarised consolidated balance sheet presented above is unaltered from the corresponding IFRS summarised consolidated balance sheet, with the exception of the following:

1. Adding the excess of the Life MCEV, including minority interests, over the corresponding Life IFRS net assets represented as the additional value of in-force long-term business.
2. Corresponding item within equity represented by the additional retained profit on an MCEV basis.
3. Corresponding adjustments to minority interests.

The balance sheet has been restated for the conversion to MCEV, the change in accounting for latent claims and consolidation of funds. Details of the latter two changes are set out on page 26.

Reconciliation between shareholders' equity on an IFRS basis and an MCEV basis

	Reviewed 30 June 2008		
	IFRS £m	Adjustment £m	MCEV £m
Ordinary share capital	664	–	664
Capital reserves	4,516	–	4,516
Other reserves	1,211	390	1,601
Shares held by employee trusts	(10)	–	(10)
Retained earnings	5,244	–	5,244
Additional retained earnings on an MCEV basis	–	5,374	5,374
Equity attributable to ordinary shareholders of Aviva plc	**11,625**	**5,764**	**17,389**
Preference share capital	200	–	200
Direct capital instruments	990	–	990
Minority interests	1,859	778	2,637
Total equity	**14,674**	**6,542**	**21,216**

	Audited 31 December 2007		
	IFRS £m	Adjustment £m	MCEV £m
Ordinary share capital	655	–	655
Capital reserves	4,494	–	4,494
Other reserves	1,469	(290)	1,179
Shares held by employee trusts	(10)	–	(10)
Retained earnings	6,338	–	6,338
Additional retained earnings on an MCEV basis	–	7,342	7,342
Equity attributable to ordinary shareholders of Aviva plc	**12,946**	**7,052**	**19,998**
Preference share capital	200	–	200
Direct capital instruments	990	–	990
Minority interests	1,795	706	2,501
Total equity	**15,931**	**7,758**	**23,689**

	Audited 31 December 2006		
	IFRS £m	Adjustment £m	MCEV £m
Ordinary share capital	641	–	641
Capital reserves	4,460	–	4,460
Other reserves	992	(462)	530
Retained earnings	5,195	–	5,195
Additional retained earnings on an MCEV basis	–	6,610	6,610
Equity attributable to ordinary shareholders of Aviva plc	**11,288**	**6,148**	**17,436**
Preference share capital	200	–	200
Direct capital instruments	990	–	990
Minority interests	1,267	550	1,817
Total equity	**13,745**	**6,698**	**20,443**

Aviva MCEV financial statements continued

Group MCEV analysis of earnings

	Covered business[1] £m A	Non-covered but related to life business[2] £m B	Total life business[3] £m A+B	Non-covered relating to non-life £m C	Total non-covered business £m B+C	Total £m A+B+C
						Reviewed 6 months 2008
Opening Group MCEV	18,248	2,059	20,307	881	2,940	21,188
Opening adjustments	–	–	–	–	–	–
Adjusted opening Group MCEV	**18,248**	**2,059**	**20,307**	**881**	**2,940**	**21,188**
Operating MCEV earnings	774	–	774	126	126	900
Non-operating MCEV earnings	(2,836)	(19)	(2,855)	(446)	(465)	(3,301)
Total MCEV earnings	**(2,062)**	**(19)**	**(2,081)**	**(320)**	**(339)**	**(2,401)**
Other movements in IFRS net equity	–	(88)	(88)	(674)	(762)	(762)
Capital and dividend flows	(599)	–	(599)	264	264	(335)
Foreign exchange variances	800	102	902	(13)	89	889
Acquired/divested businesses	190	117	307	(307)	(190)	–
Closing Group MCEV	**16,577**	**2,171**	**18,748**	**(169)**	**2,002**	**18,579**
Preference share capital and direct capital instruments						(1,190)
Equity attributable to ordinary shareholders of Aviva plc on an MCEV basis						**17,389**

	Covered business[1] £m A	Non-covered but related to life business[2] £m B	Total life business[3] £m A+B	Non-covered relating to non-life £m C	Total non-covered business £m B+C	Total £m A+B+C
						Audited Full year 2007
Opening Group MCEV	16,506	1,594	18,100	528	2,122	18,628
Opening adjustments	–	–	–	–	–	–
Adjusted opening Group MCEV	**16,506**	**1,594**	**18,100**	**528**	**2,122**	**18,628**
Operating MCEV earnings	1,567	–	1,567	309	309	1,876
Non-operating MCEV earnings	52	(33)	19	(191)	(224)	(172)
Total MCEV earnings	**1,619**	**(33)**	**1,586**	**118**	**85**	**1,704**
Other movements in IFRS net equity	–	124	124	316	440	440
Capital and dividend flows	(829)	–	(829)	347	347	(482)
Foreign exchange variances	851	61	912	(14)	47	898
Acquired/divested businesses	101	313	414	(414)	(101)	–
Closing Group MCEV	**18,248**	**2,059**	**20,307**	**881**	**2,940**	**21,188**
Preference share capital and direct capital instruments						(1,190)
Equity attributable to ordinary shareholders of Aviva plc on an MCEV basis						**19,998**

1. Covered business represents the business that the MCEV calculations cover, as detailed in the Basis of preparation note. The embedded value is presented net of minority interests and tax.
2. Non-covered but related to life business represents the adjustments to the MCEV, including goodwill, to calculate the long-term business net assets on an MCEV basis. An analysis of net assets on an MCEV basis gross of minority interests is provided on page 21.
3. Net assets for the total life businesses on an MCEV basis presented net of minority interests.

Segmentation of summarised consolidated balance sheet

	Reviewed 30 June 2008			Audited 31 December 2007			Audited 31 December 2006		
	Life and related businesses £m	General business and other £m	Group £m	Life and related businesses £m	General business and other £m	Group £m	Life and related businesses £m	General business and other £m	Group £m
Total assets before acquired value of in-force long-term business	282,765	43,155	325,920	278,128	41,500	319,628	255,113	37,871	292,984
Acquired additional value of in-force long-term business	1,806	–	1,806	1,698	–	1,698	1,806	–	1,806
Total assets included in the IFRS balance sheet	**284,571**	**43,155**	**327,726**	**279,826**	**41,500**	**321,326**	**256,919**	**37,871**	**294,790**
Liabilities of the long-term business	(270,179)	–	(270,179)	(265,187)	–	(265,187)	(244,021)	–	(244,021)
Liabilities of the general insurance and other businesses	–	(42,873)	(42,873)	–	(40,208)	(40,208)	–	(37,024)	(37,024)
Net assets on a statutory IFRS basis	14,392	282	14,674	14,639	1,292	15,931	12,898	847	13,745
Additional value of in-force long-term business[1]	6,542	–	6,542	7,758	–	7,758	6,698	–	6,698
Net assets on an MCEV basis[2]	**20,934**	**282**	**21,216**	**22,397**	**1,292**	**23,689**	**19,596**	**847**	**20,443**
Equity capital, capital reserves, shares held by employee trusts and other reserves			6,771			6,318			5,631
IFRS basis retained earnings			5,244			6,338			5,195
Additional MCEV basis retained earnings			5,374			7,342			6,610
Equity attributable to ordinary shareholders of Aviva plc on an MCEV basis			**17,389**			**19,998**			**17,436**
Preference share capital and direct capital instruments			1,190			1,190			1,190
Minority interests			2,637			2,501			1,817
MCEV basis total equity			**21,216**			**23,689**			**20,443**

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

	Reviewed 30 June 2008	Audited 31 December 2007	Audited 31 December 2006
Group's share included in shareholders' funds	5,374	7,342	6,610
Minority interests' share	778	706	550
Movements in AFS securities	390	(290)	(462)
Per balance at 30 June/31 December	6,542	7,758	6,698

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

	Reviewed 30 June 2008	Audited 31 December 2007	Audited 31 December 2006
Embedded value	16,577	18,248	16,506
RBSG goodwill	217	217	217
Goodwill and intangible assets allocated to long-term business	2,278	2,142	1,554
Notional allocation of IAS19 pension fund deficit to long-term business[3,4]	(140)	(58)	(179)
Minority interests	2,002	1,848	1,498
Long-term business net assets on an MCEV basis	20,934	22,397	19,596

3. The value of the Aviva Staff Pension Schemes 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 MCEV basis.

4. The pensions fund deficit notionally allocated to long-term business is net of the proportion of funding borne by the UK with-profit funds.

1 – Basis of preparation

The summarised consolidated income statement and balance sheet on pages 16 to 21 present the group's results and financial position for the life and related businesses on the Market Consistent Embedded Value (MCEV) basis and for its non-life businesses on the International Financial Reporting Standards (IFRS) basis. The MCEV methodology adopted is in accordance with the MCEV Principles published by the CFO Forum in June 2008 with the exception of the use of an adjusted risk-free yield due to current market conditions for immediate annuities in the UK and Netherlands and for immediate annuities, deferred annuities and other contracts in the US.

The CFO Forum MCEV Principles were designed during a period of relatively stable market conditions. As announced on 19 December 2008, the CFO Forum has agreed to conduct a review of the impact of turbulent market conditions on the MCEV Principles, the result of which may lead to changes to the published MCEV Principles or the issuance of guidance. The particular areas under review include implied volatilities, the cost of non-hedgeable risks, the use of swap rates as a proxy for risk-free rates and the effect of liquidity premia.

The directors consider that Aviva's MCEV 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 values future cash flows from assets consistently with market prices, including more explicit allowance for the impact of uncertainty in future investment returns and other risks. Embedded value is also consistent with the way pricing is assessed and the business is managed.

The results for 2007 and 2006 have been audited by our auditors, Ernst & Young LLP. The results for the six month period to 30 June 2008 are unaudited but have been reviewed by our auditors. Their reports can be found on pages 55 and 56.

Covered business
The MCEV calculations cover the following lines of business: life insurance, long-term health and accident insurance, savings, pensions and annuity business written by our life insurance subsidiaries, including managed pension fund business and our share of the other life and related business written in our associated undertakings and joint ventures, as well as the equity release business written in the UK.

Covered business includes the group's share of our joint ventures including our arrangement with The Royal Bank of Scotland Group (RBSG) and our associated undertakings in India, China, Turkey, Malaysia, Taiwan and South Korea. In addition, the results of group companies providing significant administration, investment management and other services and of group holding companies have been included to the extent that they relate to covered business. Together these businesses are referred to as "Life and related businesses".

Adjusted risk-free rate
Aviva's MCEV methodology adopts the CFO Forum Principles and Guidance with the exception of the use of an adjusted risk-free yield due to current market conditions for UK and Netherlands immediate annuities and for immediate annuities, deferred annuities and other contracts in the US. In stable markets, swap curves are an appropriate risk-free rate. However, in the current turbulent market it is possible, for products where backing asset portfolios can be held to maturity, to earn returns in excess of swaps by investing in corporate bonds and credit default swaps (CDS).

The risk-free rate for these products has therefore been increased above the swap curve due to additional risk-free returns available on backing asset portfolios in the current market. Sensitivity analysis has been provided on page 44 on the additions to the swap curves.

The risk-free rate is taken as the swap yield curve for the currency of the liability, adjusted by:

	31 December 2007 Embedded value	30 June 2008 Embedded value	2007 second-half New business	2008 first-half New business
UK, the Netherlands and US immediate annuities, US deferred annuities and other US contracts	0.50%	0.50%	0.25%	0.55%

New business premiums
New business premiums include:

– premiums arising from the sale of new contracts during the period;
– non-contractual additional premiums, including future Department of Work and Pensions (DWP) rebate premiums; and
– expected renewals on new contracts and expected future contractual alterations to new contracts.

The group's definition of new business under MCEV includes contracts that meet the definition of "non-participating investment" contracts under IFRS.

For products sold to individuals, premiums are considered to represent new business where a new contract has been signed, or where underwriting has been performed. Renewal premiums include contractual renewals, non-contractual variations that are reasonably predictable and recurrent single premiums that are pre-defined and reasonably predictable.

For group products, new business includes new contracts and increases to aggregate premiums under existing contracts. Renewal premiums are based on the level of premium received during the reporting period and allow for premiums expected to be received beyond the expiry of any guaranteed premium rates.

1 – Basis of preparation continued

Life and pensions operating earnings
For life and pensions operating earnings, Aviva uses normalised investment returns, which are generally expressed as risk free returns plus an asset risk premium. The use of asset risk premiums reflects management's long term expectations of asset returns in excess of the reference rate from investing in different asset classes. This assumption does not impact the embedded value as asset risk premia are not recognised until earned.

MCEV methodology

Overview
Under the MCEV methodology, profit is recognised as it is earned over the life of products defined within covered business. The total profit recognised over the lifetime of a policy is the same as under the IFRS basis of reporting, but the timing of recognition is different.

Calculation of the embedded value
The shareholders' interest in the life and related businesses is represented by the embedded value. The embedded value is the total of the net worth of the life and related businesses and the value of in-force covered business. Calculations are performed separately for each business and are based on the cash flows of that business, after allowing for both external and intra-group reinsurance. Where one life business has an interest in another, the net worth of that business excludes the interest in the dependent company.

The embedded value is calculated on an after-tax basis applying current legislation and practice together with future known changes. Where gross results are presented, these have been calculated by grossing up post-tax results at the full rate of corporation tax for each country based on opening period tax rates.

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

Required capital is the market value of assets attributed to the covered business over and above that required to back liabilities for covered business, for which distribution to shareholders is restricted. Required capital is reported net of implicit items permitted on a local regulatory basis to cover minimum solvency margins which are assessed at a local entity level. The level of required capital for each business unit is set equal to the higher of:

– The level of capital at which the local regulator is empowered to take action;

– The capital requirement of the business unit under the group's economic capital requirements; and,

– The target capital level of the business unit.

This methodology reflects the level of capital considered by the directors to be appropriate to manage the business. The same definition of required capital is used for both existing and new business.

The free surplus is the market value of any assets allocated to, but not required to support, the in-force covered business at the valuation date.

The table below summarises the level of required capital across the business units expressed as a percentage of the EU minimum solvency margin (or equivalent):

	Reviewed 30 June 2008 %	Audited 31 December 2007 %	Audited 31 December 2006 %
United Kingdom[1]	100% / 110%	100% / 110%	100% / 110%
France	110%	110%	110%
Ireland	150%	150%	150%
Italy[2]	115% / 184%	115% / 184%	115%
Netherlands (including Belgium and Germany)[3]	193%	188%	183%
Poland	150%	150%	150%
Spain[4]	110% / 125%	110% / 125%	110% / 125%
North America	325%	325%	325%

1. The required capital in the United Kingdom under MCEV is 100% for unit-linked and other non-participating business and 110% for annuity business
2. Required capital in Italy under MCEV is 184% of the EU minimum for Eurovita and 115% for other companies
3. Required capital in the Netherlands is 188% for full-year 2007 and 193% for the six months to 30 June 2008. This capital level is the aggregate capital required for the Netherlands.
4. Required capital in Spain is 125% of the EU minimum for Aviva Vida y Pensiones and 110% for bancassurance companies

1 – Basis of preparation continued

Value of in-force covered business (VIF)
The value of in-force covered business consists of the following components:

- present value of future profits;
- time value of financial options and guarantees;
- frictional costs of required capital; and,
- cost of residual non-hedgeable risks.

Present value of future profits (PVFP)
This is the present value of the distributable profits to shareholders arising from the in-force covered business projected on a best estimate basis.

Distributable profits generally arise when they are released following actuarial valuations. These valuations are carried out in accordance with any local statutory requirements designed to ensure and demonstrate solvency in long-term business funds. Future distributable profits will depend on experience in a number of areas such as investment return, discontinuance rates, mortality, administration costs, as well as management and policyholder actions. Releases to shareholders arising in future years from the in-force covered business and associated required capital can be projected using assumptions of future experience.

Future profits are projected using best estimate non-economic assumptions and market consistent economic assumptions. In principle, each cash flow is discounted at a rate that appropriately reflects the riskiness of that cash flow, so higher risk cash flows are discounted at higher rates. In practice, the PVFP is calculated using the "certainty equivalent" approach, under which the reference rate is used for both the investment return and the discount rate. This approach ensures that asset cash flows are valued consistently with the market prices of assets without options and guarantees. Further information on the risk-free rates is given in Note12.

The PVFP includes the capitalised value of profits and losses arising from subsidiary companies providing administration, investment management and other services to the extent that they relate to covered business. This is referred to as the "look through" into service company expenses. In addition, expenses arising in holding companies that relate directly to acquiring or maintaining covered business have been allowed for. Where external companies provide services to the life and related businesses, their charges have been allowed for in the underlying projected cost base.

Time value of financial options and guarantees (TVOG)

The PVFP calculation is based on a single (base) economic scenario. However, a single scenario cannot appropriately allow for the effect of certain product features. If an option or guarantee affects shareholder cash flows in the base scenario, the impact is included in the PVFP and is referred to as the intrinsic value of the option guarantee.

However, future investment returns are uncertain and the actual impact on shareholder profits may be higher or lower. The value of in-force business needs to be adjusted for the impact of the range of potential future outcomes. Stochastic modelling techniques can be used to assess the impact of potential future outcomes, and the difference between the intrinsic value and the total stochastic value is referred to as the time value of the option or guarantee.

Stochastic modelling typically involves projecting the future cash flows of the business under thousands of economic scenarios that are representative of the possible future outcomes for market variables such as interest rates and equity returns. Under a market consistent approach, the economic scenarios generated reflect the market's tendency towards risk aversion. Allowance is made, where appropriate, for the effect of management and/or policyholder actions in different economic conditions on future assumptions such as asset mix, bonus rates and surrender rates.

Stochastic models are calibrated to market yield curves and volatility levels at the valuation date. Tests are performed to confirm that the scenarios used produce results that replicate the market price of traded instruments.

Where evidence exists that persistency rates are linked to economic scenarios, dynamic lapse assumptions are set that vary depending on the individual scenarios. This cost is included in the TVOG. Dynamic lapses are modelled for parts of the US and French business. Asymmetries in non-economic assumptions that are linked to economic scenarios, but that have insufficient evidence for credible dynamic assumptions, are allowed for within mean best estimate assumptions.

Frictional costs of required capital
The additional costs to a shareholder of holding the assets backing required capital within an insurance company rather than directly in the market are called frictional costs. They are explicitly deducted from the PVFP. The additional costs allowed for are the taxation costs and any additional investment expenses on the assets backing the required capital. The level of required capital has been set out above in the net worth section.

Frictional costs are calculated by projecting forwards the future levels of required statutory capital. Tax on investment return and investment expenses are payable on the assets backing required capital up until the point that they are released to shareholders.

Cost of residual non-hedgeable risks (CNHR)
The cost of residual non-hedgeable risks (CNHR) covers risks not already allowed for in the time value of options and guarantees or the PVFP. The allowance includes the impact of both non-hedgeable financial and non-financial risks. The most significant risk not included in the PVFP or TVOG is operational risk.

1 – Basis of preparation continued

Aviva's methodology includes a cost of non-hedgeable risk equivalent to a charge of 2.5% applied to group-diversified capital. The cost has been calculated as a 1.5% charge applied to business unit-level capital, that is, allowing for diversification within a business unit, but not between business units. The charge was set so as to give an aggregate allowance that was in excess of the expected operational risk costs arising from the in-force covered business over its remaining lifetime.

The capital levels used are projected to be sufficient to cover non-hedgeable risks at the 99.5% confidence level one-year after the valuation date. The capital is equal to the capital from the ICA results for those risks considered. The capital has been projected as running off over the remaining life of the in-force portfolio in line with the drivers of the capital requirement.

In addition to the operational risk allowance, financial non-hedgeable risks and other product level asymmetries have been allowed for. These allowances are not material as significant financial non-hedgeable risks and product level asymmetries are either modelled explicitly and included in the TVOG or are included in the PVFP through the use of appropriate best estimate assumptions. Asymmetric risks allowed for in the TVOG or PVFP are described earlier in the Basis of Preparation and in Note 7(c). No allowance has been made within the cost of non-hedgeable risk for symmetrical risks as these are diversifiable by investors.

Participating business
Future regular bonuses on participating business are projected in a manner consistent with current bonus rates and expected future market-consistent returns on assets deemed to back the policies.

For with-profit funds in the UK and Ireland, for the purpose of recognising the value of the estate, it is assumed that terminal bonuses are increased to exhaust all of the assets in the fund over the future lifetime of the in-force with-profit policies. However, under stochastic modelling there may be some extreme economic scenarios when the total assets in the group's with-profit funds are not sufficient to pay all policyholder claims. The average additional shareholder cost arising from this shortfall has been included in the TVOG.

For profit sharing business in continental Europe, where policy benefits and shareholder value depend on the timing of realising gains, the apportionment of unrealised gains between policyholders and shareholders reflect contractual requirements as well as existing practice. Under certain economic scenarios where additional shareholder injections are required to meet policyholder payments, the average additional cost has been included in the TVOG.

The embedded value of the US spread-based products anticipates the application of management discretion allowed for contractually within the policies, subject to contractual guarantees. This includes the ability to change the crediting rates and indexed strategies available within the policy. Consideration is taken of the economic environment assumed in future projections and returns in excess of the reference rate are not assumed. Anticipated market and policyholder reaction to management action has been considered. The anticipated management action is consistent with current decision rules and has been approved and signed off by management and legal counsel.

Consolidation adjustments
The effect of transactions between group life companies such as loans and reinsurance arrangements have been included in the results split by territory in a consistent manner. No elimination is required on consolidation.

As the MCEV methodology incorporates the impact of profits and losses arising from subsidiary companies providing administration, investment management and other services to the group's life companies, the equivalent profits and losses have been removed from the relevant segment (non-insurance or fund management) and are instead included within the results of life and related businesses. In addition, the underlying basis of calculation for these profits has changed from the IFRS basis to the MCEV basis.

The capitalised value of the future profits and losses from such service companies are included in the embedded value and value of new business calculations for the relevant business, but the net assets (representing historical profits and other amounts) remain under non-insurance or fund management. In order to reconcile the profits arising in the financial period within each segment with the assets on the opening and closing balance sheets, a transfer of IFRS profits from life and related business to the appropriate segment is deemed to occur. An equivalent approach has been adopted for expenses within our holding companies.

The assessments of goodwill, intangibles and pension schemes relating to life insurance business utilise the IFRS measurement basis.

Post-balance sheet events
On 10 September 2008, Aviva plc ("Aviva") announced that its Dutch business, Delta Lloyd Group ("Delta Lloyd") had reached a settlement for compensation with regard to unit-linked insurance policies, which have been the subject of an industry review. The adverse impact on Delta Lloyd's embedded value is expected to be approximately £230 million* (pre-tax). This settlement will be shown as an exceptional item in the Aviva group's results for the year ending 31 December 2008 therefore, £71 million (pre-tax) which has been provided for in the 30 June 2008 results is also treated as an exceptional item. Only a limited impact on IFRS profit is anticipated, as IFRS provisions already established on the basis of Dutch regulatory requirements are considered adequate.

Except for the item above we are aware of no post balance sheet events impacting our half year 2008 and full year 2007 results.

* €300 million translated at an average exchange rate of €1.29

1 – Basis of preparation continued

Restatement for the change in accounting policy for latent reserves
As part of the Company's aim to continuously improve the relevance and reliability of its external financial reporting, Aviva undertook a review of the Group's General Insurance Reserving Policy in 2008.

As part of this review the Group concluded that estimating all of our latent claim provisions on an undiscounted basis, and discounting back to current values, represented an improvement to the existing estimation technique. This approach is in line with best practice for long-term liabilities and moves the measurement of latent claims onto a more economic basis, consistent with our internal model for economic capital and the measurement model being proposed for both IFRS Phase II and Solvency II.

Further this approach improves consistency with the reporting of other long-tail classes of business which are already being discounted, namely certain London Markets latent claims and Netherlands Permanent Health and Injury Business.

Discount rate
The discount rate that has been applied is based on the relevant swap curve in the relevant currency at the reporting date, having regard to the duration of expected settlement of the claims. The rate, based on the swap curve, is set at the start of the accounting period with any change in discount rates between the start and end of the accounting period being reflected below operating profit as an economic assumption change. The range of rates used is between 3.6% and 6.3% depending on the duration of the claim and the reporting date. We estimate that latent claims will be payable for around the next 35 to 40 years with an average duration of 15 years.

IFRS Treatment
The application of discounting to all of our latent claims reserves for IFRS purposes represents a change in accounting policy and therefore has been applied retrospectively. The cumulative impact of discounting on our opening position as at 1 January 2007 is £153 million which will be treated as a prior period adjustment.

The impact of the change in accounting policy on the general insurance and health claims provisions and our results for the six months ended 30 June 2008, the full year ended 31 December 2007 and the opening 1 January 2007 position is set out below.

General insurance and health claims provisions	Reviewed 30 June 2008 £m	Audited 31 December 2007 £m	Audited 1 January 2007 £m
Carrying amount as reported, net of reinsurance	11,410	11,424	10,980
Impact of discounting			
Prior period adjustment brought forward	(145)	(153)	(153)
Impact on operating profit	10	12	–
Impact on short term fluctuations and economic assumption changes	(6)	(2)	–
Impact of foreign exchange movements	(1)	(2)	–
	(142)	(145)	(153)
Carrying amount restated, net of reinsurance	**11,268**	**11,279**	**10,827**

The impact on shareholders' funds after tax was £105 million, £107 million and £112 million at 30 June 2008, 31 December 2007 and 31 December 2006 respectively.

Restatement for the consolidation of funds
The long-term business net assets on an MCEV basis have been restated to reanalyse the amounts previously classified as minority interest on property investment vehicles to net asset value attributable to unitholders. This change recognises that the property investment vehicles are unit trusts and, as a result, the third party holding should be recognised as a liability rather than a minority interest holding. Prior period comparatives have been restated with a reduction in minority interest and an increase in amounts due to unitholders of £838 million, £758 million and £431 million at 30 June 2008, 31 December 2007 and 31 December 2006 respectively.

During 2008, we identified certain specialised investment vehicles that the group manages required consolidation in accordance with IAS 27. This results in grossing up assets and liabilities for the effect of the third party participation. As a result, the figures for investment property, debt securities, equity securities, other investments and net assets attributable to unitholders as at 31 December 2007 and 31 December 2006 have been restated.

Neither of these adjustments has any impact on profit or cash flow in any reported period.

Treatment of shares held by employee trusts
Employee share trusts have purchased the Company's shares in the market to satisfy awards under various share plans. At 30 June 2008 and 31 December 2007, these trusts held shares with a cost of £10 million which, on materiality grounds, were included within other financial assets rather than being shown as a deduction from total shareholders' equity in the consolidated balance sheet. In view of the Company's current policy of purchasing shares in the market rather than issuing new shares, which will lead to larger balances on this account, we have restated the 30 June 2008 and 31 December 2007 figures accordingly.

2 – Translation of foreign exchange

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

The results and cash flows of these operations have been translated at the average rates for that period and the assets and liabilities have been translated at the period end rates as follows:

	30 June 2008	31 December 2007	31 December 2006
Eurozone			
– Average rate (€1 equals)	£0.77	£0.68	£0.68
– Period end rate (€1 equals)	£0.79	£0.73	£0.67
United States			
– Average rate (US$1 equals)	£0.51	£0.50	£0.54
– Period end rate (US$1 equals)	£0.51	£0.50	£0.51

3 – Analysis of life and pensions MCEV earnings

The components of the life MCEV earnings in the consolidated income statement have been further analysed in this note. This analysis is performed in two ways. Part (a) shows the life MCEV earnings gross of both taxes and minorities analysed in total. Part (b) shows the movement between the opening and closing embedded value with a breakdown into the different components of that embedded value, net of tax and minorities. Part (b) analysis follows the CFO Forum disclosure requirements.

(a) Life and pensions MCEV earnings

In this table the life and pensions MCEV earnings have been broken down into constituent parts. The life and pensions MCEV operating earnings comprise:

– the value of new business written during the period;

– the earnings from existing business; and,

– the expected investment return on the shareholders' net worth.

These components are calculated using economic assumptions as at the start of the year (in-force business) or start of the quarter (new business) and operating (demographic and expenses) assumptions as at the end of the period.

Life and pensions MCEV earnings	Reviewed 6 months 2008 £m	Audited Full year 2007 £m
Value of new business	352	897
Earnings from existing business		
- expected returns at the reference rate	465	877
- expected returns in excess of the reference rate	227	420
- expected returns	692	1,297
- experience variances	42	(111)
- operating assumption changes	(97)	(25)
- other operating variances	(19)	1
Expected return on shareholders' net worth	310	485
Life and pensions operating earnings before tax	**1,280**	**2,544**
Economic variances	(4,086)	(19)
Other non-operating variances	(71)	–
Life and pensions earnings before tax	**(2,877)**	**2,525**
Tax on operating earnings	(365)	(754)
Tax on other activities	1,206	48
Life and pensions earnings after tax	**(2,036)**	**1,819**

There were no separate development costs reported in these periods.

The table above presents a summarised breakdown of the life and pensions MCEV earnings on a gross of minorities basis and gross of tax with tax shown separately. The group favours the gross presentation for consistency with the IFRS results. The table below compares the key items on the different bases as the subsequent analysis is provided predominately on a net of tax and minorities basis as preferred by the CFO Forum Principles.

3 – Analysis of life and pensions MCEV earnings continued

Key indicators	Reviewed 6 months 2008 Net of minorities and tax £m	Reviewed 6 months 2008 Gross of minorities and tax £m	Audited Full year 2007 Net of minorities and tax £m	Audited Full year 2007 Gross of minorities and tax £m
Value of new business	179	352	504	897
Life and pensions operating earnings	774	1,280	1,567	2,544
Life and pensions earnings	(2,062)	(2,877)	1,619	2,524

(b) Presentation of analysis of earnings

The following table provides an analysis of the movement in embedded value for the life and related businesses for 30 June 2008 and 31 December 2007. The analysis is shown separately for free surplus, required capital and the value of in-force covered business, and includes amounts transferred between these categories. Included within capital and dividend flows is the transfer to life and related businesses from other segments consisting of service company profits and losses during the reported period that have emerged from the value of in-force. Since the "look through" into service companies includes only future profits and losses, these amounts must be eliminated from the closing embedded value. All figures are shown net of tax and minority interests.

	Reviewed 6 months 2008 £m				Audited Full year 2007 £m			
	Earnings on MCEV analysis				Earnings on MCEV analysis			
	Free surplus	Required capital[1]	VIF	Total MCEV	Free surplus	Required capital[1]	VIF	Total MCEV
Opening MCEV	**3,204**	**6,240**	**8,804**	**18,248**	**3,066**	**5,287**	**8,153**	**16,506**
New business value	(905)	511	573	179	(1,432)	808	1,128	504
Expected existing business contribution (reference rate)	–	–	306	306	–	–	573	573
Expected existing business contribution (in excess of reference rate)	–	–	155	155	–	–	284	284
Transfers from VIF and required capital to the free surplus	949	(308)	(641)	–	1,683	(439)	(1,244)	–
Experience variances	65	17	(58)	24	271	(13)	(336)	(78)
Assumption changes	182	(109)	(150)	(77)	18	(8)	(40)	(30)
Expected return on shareholders' net worth	111	88	–	199	172	136	–	308
Other operating variance	9	(27)	6	(12)	2	12	(8)	6
Operating MCEV earnings	411	172	191	774	714	496	357	1,567
Economic variances	(1,450)	(97)	(1,243)	(2,790)	37	112	(97)	52
Other non-operating variance	3	(4)	(45)	(46)	–	–	–	–
Total MCEV earnings	**(1,036)**	**71**	**(1,097)**	**(2,062)**	**751**	**608**	**260**	**1,619**
Capital and dividend flows	(599)	–	–	(599)	(829)	–	–	(829)
Foreign exchange variance	123	325	352	800	172	308	371	851
Acquired/divested business	79	58	53	190	44	37	20	101
Closing MCEV	**1,771**	**6,694**	**8,112**	**16,577**	**3,204**	**6,240**	**8,804**	**18,248**

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

4 – New business

This note gives more detail relating to the value of new business. A geographical breakdown is shown together with a product split at a regional level. There is also more detail on the capital required to write new business, the rate of return achieved and how quickly the initial capital invested is paid back.

The table below sets out the PVNBP, written by the life and related businesses the value of new business and the resulting margin net of tax and minority interests.

New business sales are expressed as the present value of new business premiums (PVNBP). The PVNBP calculation is equal to total single premium sales received in the period 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 the value of new business, so the components of the new business margin are on a consistent basis.

The value generated by new business written during the period is the present value of the projected stream of after tax distributable profit from that business. The value of new business has been calculated using economic assumptions at the point of sale which has been implemented with the assumptions being taken as those appropriate to the start of each quarter. For interest sensitive contracts that are re-priced more frequently, weekly or monthly economic assumptions have been used and the same operating assumptions as those used to determine the embedded value. The value of new business is shown after the effect of the frictional costs of holding required capital, and after the effect of the costs of residual non-hedgeable risks on the same basis as for the in-force covered business.

(a) Geographical analysis of new business contribution

	Present value of new business premiums[1]		Value of new business[2]		New business margin[3]	
Life and pensions	**Reviewed 6 months 2008 £m**	**Audited Full year 2007 £m**	**Reviewed 6 months 2008 £m**	**Audited Full year 2007 £m**	**Reviewed 6 months 2008 %**	**Audited Full year 2007 %**
United Kingdom	**6,010**	**11,797**	**53**	**195**	**0.9%**	**1.7%**
France	1,692	3,157	38	81	2.2%	2.6%
Ireland	524	1,335	6	26	1.1%	1.9%
Italy	649	1,284	12	20	1.8%	1.6%
Netherlands (including Belgium and Germany)	1,965	2,941	(31)	3	(1.6)%	0.1%
Poland	827	966	22	34	2.7%	3.5%
Spain	713	1,223	43	57	6.0%	4.7%
Other Europe	667	453	16	4	2.4%	0.9%
Europe	**7,037**	**11,359**	**106**	**225**	**1.5%**	**2.0%**
North America	**2,227**	**3,646**	**(5)**	**34**	**(0.2)%**	**0.9%**
Asia	680	1,133	21	39	3.1%	3.4%
Australia	212	454	4	11	1.9%	2.4%
Asia Pacific	**892**	**1,587**	**25**	**50**	**2.8%**	**3.2%**
Total life and pensions	**16,166**	**28,389**	**179**	**504**	**1.1%**	**1.8%**

1. PVNBP is calculated net of minorities.
2. Value of new business is calculated net of tax and minorities.
3. New business margin represents the ratio of the value of new business to PVNBP, expressed as a percentage.
4. Total long-term savings includes investment sales. Investment sales are calculated as new single premiums plus annualised value of new regular premiums.

A more detailed breakdown of the new business premiums can be found on page 58 and 59.

4 – New business continued

(b) Post-tax internal rate of return on life and pensions new business and payback period

The new business written requires up front capital investment, due to high set-up costs and capital requirements. The internal rate of return (IRR) is a measure of the shareholder return expected on this capital investment. It 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 the value of new business.

The payback period shows how quickly shareholders can expect the total capital to be repaid. The payback period has been calculated based on undiscounted cash flows and allows for the initial and required capital.

The projected investment returns in both the IRR and payback period calculations assume that equities, properties and bonds earn a return in excess of risk-free consistent with the long-term rate of return assumed in operating earnings.

The IRR on life and pensions new business for the group was 12.9% for the first half of 2008 and full year 2007.

	Reviewed 6 months 2008			
	Internal rate of return %	Initial capital £m	Required capital £m	Total invested capital £m
United Kingdom	**13%**	**130**	**80**	**210**
France	11%	21	60	81
Ireland	9%	35	12	47
Italy	17%	6	23	29
Netherlands (including Belgium and Germany)	6%	73	138	211
Poland	20%	15	7	22
Spain	39%	13	39	52
Other Europe	18%	38	7	45
Europe	**13%**	**201**	**286**	**487**
North America	**11%**	**61**	**174**	**235**
Asia	18%	30	12	42
Australia	13%	2	14	16
Asia Pacific	**17%**	**32**	**26**	**58**
Total	**12.9%**	**424**	**566**	**990**

	Audited Full year 2007				
	Internal rate of return %	Initial capital £m	Required capital £m	Total invested capital £m	Payback period years
United Kingdom	**13%**	**256**	**149**	**405**	**8**
France	12%	29	107	136	8
Ireland	11%	69	23	92	7
Italy	15%	4	52	56	6
Netherlands (including Belgium and Germany)	6%	78	181	259	22
Poland	23%	18	10	28	4
Spain	28%	24	68	92	3
Other Europe	18%	48	4	52	5
Europe	**13%**	**270**	**445**	**715**	**12**
North America	**12%**	**125**	**280**	**405**	**6**
Asia	23%	48	11	59	4
Australia	15%	–	23	23	6
Asia Pacific	**21%**	**48**	**34**	**82**	**4**
Total	**12.9%**	**699**	**908**	**1,607**	**9**

The payback period is only provided for full year 2007 as it will only be updated annually.

The total initial capital for life and pensions new business for half year 2008 of £424 million and for full year 2007 of £699 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 £394 million and £624 million respectively shown on page 28, because the latter amount includes expected profits from the point of sale to the end of the reporting period, partly offset by the cost of holding the initial capital.

5 – Free surplus emergence

This note shows how our business generates free surplus. To do this the impact of the business on net worth and required capital is considered separately for existing business and new business.

The following table illustrates the free surplus expected to emerge from existing business into net worth over 2007 and the impact of writing new business on the net worth and required capital free surplus levels. As this new disclosure will be included within the 2008 preliminary results announcement, 2007 comparatives are presented below.

	Audited Full year 2007								
	Existing business					New business			Total business
	Transfer from VIF to net worth £m	Return on net worth £m	Impact of experience variances and assumption changes on net worth £m	Release of required capital to free surplus £m	Total existing business surplus generation £m	Impact on net worth £m	Reduction in free surplus from required capital £m	Total new business surplus generation £m	Total free surplus generation £m
United Kingdom	549	66	225	57	897	(245)	(149)	(394)	503
Europe	537	197	42	118	894	(225)	(345)	(570)	324
North America	103	33	19	133	288	(107)	(280)	(387)	(99)
Asia Pacific	55	12	(4)	4	67	(47)	(34)	(81)	(14)
Total	**1,244**	**308**	**282**	**312**	**2,146**	**(624)**	**(808)**	**(1,432)**	**714**

6 – Maturity profile of business

This note sets out how the VIF generated by the in-force and new business is modelled as emerging into free surplus over future years. Cashflows are projected on a certainty equivalent basis and are discounted at risk-free rates.

As this new disclosure will be included within the 2008 preliminary results announcement, 2007 comparatives are presented below.

(a) Total in-force business

To show the profile of the VIF emergence, the value of VIF in the consolidated balance sheet has been split into five year tranches depending on the date when the profit is expected to emerge.

	Audited Full year 2007						
£m	0–5	6–10	11–15	16–20	20+	Total gross of minority interest	Total net of minority interest
United Kingdom	1,574	1,209	615	345	524	4,267	4,267
Europe	2,200	1,170	736	412	332	4,850	3,946
North America	168	129	41	16	(24)	330	330
Asia Pacific	130	105	15	8	11	269	261
Total	**4,072**	**2,613**	**1,407**	**781**	**843**	**9,716**	**8,804**

(b) New business

To show the profile of the VIF emergence, the value of new business per page 28 has been split into five year tranches depending on the date when the profit is expected to emerge.

	Audited Full year 2007						
£m	0–5	6–10	11–15	16–20	20+	Total gross of minority interest	Total net of minority interest
United Kingdom	192	114	55	31	48	440	440
Europe	283	140	91	56	29	599	450
North America	85	61	6	(1)	(11)	140	140
Asia Pacific	46	41	5	3	4	99	98
Total	**606**	**356**	**157**	**89**	**70**	**1,278**	**1,128**

7 – Geographical analysis

This note provides a geographical split of the MCEV operating earnings part (a),the embedded value part (b), the risk allowances that are within the VIF part (c) and the implied discount rates part (d).

(a) Components of life MCEV operating earnings

														Reviewed 6 months 2008
	UK £m	France £m	Ireland £m	Italy £m	Netherlands £m	Poland £m	Spain £m	Other Europe £m	Europe £m	North America £m	Asia £m	Australia £m	Asia Pacific £m	Total £m
Value of new business	53	38	6	12	(31)	22	43	16	106	(5)	21	4	25	179
Earnings from existing business														
– expected existing business contribution (reference rate)	114	47	12	4	36	30	12	7	148	28	6	10	16	306
– expected existing business contribution (in excess of reference rate)	59	12	2	1	54	3	6	–	78	16	1	1	2	155
Experience variances														
– maintenance expense	–	–	(3)	–	1	2	(1)	(4)	(5)	–	2	(1)	1	(4)
– project and other related expenses[1]	(20)	–	(3)	–	(1)	–	(1)	(2)	(7)	(1)	–	–	–	(28)
– mortality/ morbidity[2]	8	11	1	–	(11)	8	(1)	1	9	1	2	1	3	21
– lapses[3]	(9)	3	–	–	14	10	(3)	(2)	22	(1)	(8)	1	(7)	5
– other[4]	24	6	(6)	4	4	1	1	–	10	(3)	(1)	–	(1)	30
Operating assumption changes:														
– maintenance expenses	–	–	(1)	–	(4)	–	–	–	(5)	(5)	–	–	–	(10)
– mortality/ morbidity[5]	–	–	–	–	(89)	–	(1)	–	(90)	–	–	–	–	(90)
– lapses	–	–	–	–	7		–		7	–	–	–	–	7
– other[6]	16	(3)	–	4	(1)	–	–	–	–	–	–	–	–	16
Expected return on shareholders' net worth	56	31	10	10	53	5	5	4	118	18	4	3	7	199
Other operating variances[7]	(1)	(1)	7	(1)	(17)	–	–	–	(12)	–	1	–	1	(12)
Life MCEV operating earnings after tax and minority interests	**300**	**144**	**25**	**34**	**15**	**81**	**60**	**20**	**379**	**48**	**28**	**19**	**47**	**774**

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
2. Mortality experience continues to be better than the assumptions set across a range of businesses.
3. Lapse experience has been volatile, in part reflecting wider economic volatility. In the UK, lapse experience for non-profit pension and bond products was worse than expected. In Poland, lapse experience continued to be better than the long-term assumptions for both Life and Pension products. In the Netherlands, the positive lapse variance reflects better than expected persistency in the Group Pensions business.
4. Other experience profits reflect an accumulation of small items.
5. Mortality assumption changes in the Netherlands reflect the impact of using a new industry mortality basis.
6. Other operating assumption changes in the UK reflect the distribution of a special bonus to with profit policyholders.
7. Other operating variances reflect the impact of various small modelling changes.

7 – Geographical analysis continued

(a) Components of life MCEV operating earnings continued

														Audited Full year 2007
	UK £m	France £m	Ireland £m	Italy £m	Netherlands £m	Poland £m	Spain £m	Other Europe £m	Europe £m	North America £m	Asia £m	Australia £m	Asia Pacific £m	Total £m
Value of new business	195	81	26	20	3	34	57	4	225	34	39	11	50	504
Earnings from existing business														
– expected existing business contribution (reference rate)	261	90	17	6	66	36	18	8	241	48	9	14	23	573
– expected existing business contribution (in excess of reference rate)	133	20	5	1	95	5	9	–	135	14	1	1	2	284
Experience variances														
– maintenance expense	7	1	(2)	3	(3)	2	–	(4)	(3)	(13)	(1)	(2)	(3)	(12)
– project and other related expenses[1]	(61)	6	(3)	–	(13)	–	(1)	(7)	(18)	–	(1)	–	(1)	(80)
– mortality/ morbidity[2]	8	18	(1)	–	(1)	10	(3)	2	25	(2)	4	2	6	37
– lapses[3]	(9)	5	4	(5)	4	13	(1)	1	21	–	(9)	–	(9)	3
– other[4]	(17)	(14)	(4)	1	12	5	5	1	6	(18)	2	1	3	(26)
Operating assumption changes:														
– maintenance expenses[5]	6	(2)	(2)	–	(12)	4	–	(8)	(20)	(19)	1	–	1	(32)
– project and other related expenses	1	(1)	–	–	(3)	–	–	(9)	(13)	–	–	–	–	(12)
– mortality/ morbidity[6]	20	(1)	–	1	(24)	11	(5)	2	(16)	–	(7)	3	(4)	–
– lapses	(11)	–	–	–	2	8	(7)	3	6	(3)	(7)	(1)	(8)	(16)
– other[7]	(22)	85	–	2	(23)	(4)	–	(11)	49	6	(3)	–	(3)	30
Expected return on shareholders' net worth	66	53	15	12	103	5	6	3	197	33	6	6	12	308
Other operating variances[8]	(2)	–	–	(3)	11	–	(3)	3	8	–	–	–	–	6
Life MCEV operating earnings after tax and minority interests	**575**	**341**	**55**	**38**	**217**	**129**	**75**	**(12)**	**843**	**80**	**34**	**35**	**69**	**1,567**

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 business.
2. Mortality experience continues to be better than the assumptions set across a range of businesses.
3. Lapse experience in Poland continues to be better than assumptions set across both Life and Pensions businesses.
4. Other experience profits reflect an accumulation of small items, including an increased allowance for operational risk in the USA.
5. Maintenance expense assumptions have been strengthened in the USA following investment to support the growth of the business, and in the Netherlands following a review of expenses.
6. Mortality assumptions in the UK reflect changes to the anti-selection loading on annuities. In the Netherlands, the mortality assumption strengthening reflected a partial implementation of a new industry mortality basis.
7. In France, other operating assumption changes reflect increased profitability driven by product development and the increased proportion of unit-linked assets within managed funds.
8. Other operating variances in the Netherlands relate to changes in asset management fees.

7 – Geographical analysis continued

(b) Embedded value

	Reviewed 30 June 2008			
	Net worth			
	Free surplus £m	Required capital[1] £m	VIF £m	Total Embedded value £m
United Kingdom	**931**	**1,395**	**3,450**	**5,776**
France[2]	(58)	1,260	1,135	2,337
Ireland	156	205	502	863
Italy	217	227	157	601
Netherlands (including Belgium and Germany)	516	1,936	885	3,337
Poland	69	134	933	1,136
Spain	83	191	360	634
Other Europe	35	26	150	211
Europe	**1,018**	**3,979**	**4,122**	**9,119**
North America[3]	**(305)**	**1,039**	**240**	**974**
Asia	110	66	228	404
Australia	17	215	72	304
Asia Pacific	**127**	**281**	**300**	**708**
Total	**1,771**	**6,694**	**8,112**	**16,577**

1. Required capital is shown net of implicit items permitted by local regulators to cover minimum solvency margins.
2. France has a positive surplus on a statutory basis.
3. Aviva USA's holding company debt amounting to £356 million at 30 June 2008 has been included within non-covered business.

	Audited 31 December 2007			
	Net worth			
	Free surplus £m	Required capital[1] £m	VIF £m	Total Embedded value £m
United Kingdom	**1,255**	**1,389**	**4,267**	**6,911**
France	28	1,280	1,228	2,536
Ireland	159	201	465	825
Italy	208	156	125	489
Netherlands (including Belgium and Germany)	1,247	1,713	856	3,816
Poland	111	116	816	1,043
Spain	61	175	334	570
Other Europe	32	24	122	178
Europe	**1,846**	**3,665**	**3,946**	**9,457**
North America[2]	**(70)**	**946**	**330**	**1,206**
Asia	124	53	190	367
Australia	49	187	71	307
Asia Pacific	**173**	**240**	**261**	**674**
Total	**3,204**	**6,240**	**8,804**	**18,248**

1. Required capital is shown net of implicit items permitted by local regulators to cover minimum solvency margins.
2. Aviva USA's holding company debt amounting to £349 million at 31 December 2007 has been included within non-covered business.

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. This is split between required capital, net of implicit items, and free surplus.

7 – Geographical analysis continued

(b) Embedded value continued

	Audited 31 December 2006			
	Net worth			Total
	Free surplus £m	Required capital[1] £m	VIF £m	Embedded value £m
United Kingdom	**970**	**1,294**	**4,271**	**6,535**
France	220	962	993	2,175
Ireland	113	193	433	739
Italy	177	132	90	399
Netherlands (including Belgium and Germany)	1,296	1,428	697	3,421
Poland	93	94	638	825
Spain	41	152	318	511
Other Europe	27	19	86	132
Europe	**1,967**	**2,980**	**3,255**	**8,202**
North America[2]	**(4)**	**829**	**443**	**1,268**
Asia	92	31	117	240
Australia	41	153	67	261
Asia Pacific	**133**	**184**	**184**	**501**
Total	**3,066**	**5,287**	**8,153**	**16,506**

1. Required capital is shown net of implicit items permitted by local regulators to cover minimum solvency margins.
2. Aviva USA's holding company debt amounting to £362 million at 31 December 2006 has been included within non-covered business.

(c) Risk allowances within the present value of in-force ("VIF")

Within the VIF in the tables above there are additional allowances for risks not included within the basic present value of future profits calculation. These are set out below:

	Reviewed 30 June 2008				
	PVFP £m	Frictional costs £m	Non-hedgeable risks £m	Time value of financial options and guarantees £m	VIF £m
United Kingdom	**3,893**	**(200)**	**(154)**	**(89)**	**3,450**
France	1,712	(150)	(133)	(294)	1,135
Ireland	530	(10)	(17)	(1)	502
Italy	200	(24)	(7)	(12)	157
Netherlands (including Belgium and Germany)	1,550	(306)	(76)	(283)	885
Poland	1,029	(19)	(69)	(8)	933
Spain	411	(20)	(26)	(5)	360
Other Europe	158	(4)	(3)	(1)	150
Europe	**5,590**	**(533)**	**(331)**	**(604)**	**4,122**
North America	**516**	**(110)**	**(27)**	**(139)**	**240**
Asia	256	(10)	(9)	(9)	228
Australia	130	(34)	(18)	(6)	72
Asia Pacific	**386**	**(44)**	**(27)**	**(15)**	**300**
Total	**10,385**	**(887)**	**(539)**	**(847)**	**8,112**

7 – Geographical analysis continued

(c) Risk allowances within the present value of in-force ("VIF") continued

	Audited 31 December 2007				
	PVFP £m	Frictional costs £m	Non-hedgeable risks £m	Time value of financial options and guarantees £m	VIF £m
United Kingdom	**4,698**	**(183)**	**(154)**	**(94)**	**4,267**
France	1,713	(132)	(126)	(227)	1,228
Ireland	491	(9)	(16)	(1)	465
Italy	160	(17)	(9)	(9)	125
Netherlands (including Belgium and Germany)	1,422	(263)	(67)	(236)	856
Poland	897	(15)	(60)	(6)	816
Spain	378	(17)	(22)	(5)	334
Other Europe	128	(3)	(3)	–	122
Europe	**5,189**	**(456)**	**(303)**	**(484)**	**3,946**
North America	**581**	**(105)**	**(28)**	**(118)**	**330**
Asia	210	(7)	(7)	(6)	190
Australia	123	(30)	(16)	(6)	71
Asia Pacific	**333**	**(37)**	**(23)**	**(12)**	**261**
Total	**10,801**	**(781)**	**(508)**	**(708)**	**8,804**

	Audited 31 December 2006				
	PVFP £m	Frictional costs £m	Non-hedgeable risks £m	Time value of financial options and guarantees £m	VIF £m
United Kingdom	**4,711**	**(175)**	**(147)**	**(118)**	**4,271**
France	1,419	(107)	(115)	(204)	993
Ireland	456	(8)	(14)	(1)	433
Italy	116	(13)	(5)	(8)	90
Netherlands (including Belgium and Germany)	1,244	(217)	(62)	(268)	697
Poland	703	(12)	(45)	(8)	638
Spain	354	(14)	(18)	(4)	318
Other Europe	92	(3)	(3)	–	86
Europe	**4,384**	**(374)**	**(262)**	**(493)**	**3,255**
North America	**626**	**(104)**	**(20)**	**(59)**	**443**
Asia	126	(3)	(4)	(2)	117
Australia	106	(22)	(12)	(5)	67
Asia Pacific	**232**	**(25)**	**(16)**	**(7)**	**184**
Total	**9,953**	**(678)**	**(445)**	**(677)**	**8,153**

The TVOG is most significant in the United Kingdom, France, the Netherlands and the United States. In the United Kingdom, this relates mainly to unitised with-profit business without market value adjustment (MVA) guarantees, guaranteed annuity rates and negative equity guarantees on equity release business. In France, this relates mainly to surrender value guarantees and investment rate guarantees on some traditional business. 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.

7 – Geographical analysis continued

(d) Implied risk discount rates

In the valuation of a block of business, the implied discount rate is the rate of discount such that a traditional embedded value for the business equates to the MCEV.

The cashflows projected are the expected future cashflows including expected investment cashflows from equities, bond and properties earning a risk premium in excess of risk free, statutory reserves and required capital. The risk premiums used are consistent with those used in the expected existing business contribution within operating earnings. As the risk premiums are positive, a discount rate higher than risk-free is required to give a value equal to the market-consistent embedded value.

Average derived risk discount rates are shown below for the embedded value and the value of new business.

Audited Full year 2007	New business %	Total in-force business %
United Kingdom	**10.2%**	**8.4%**
France	5.3%	6.8%
Ireland	6.4%	6.2%
Italy	5.9%	6.5%
Netherlands (including Belgium and Germany)	9.1%	9.0%
Poland	7.1%	7.2%
Spain	5.6%	6.5%
Other Europe	10.1%	11.3%
Europe	**6.8%**	**7.5%**
North America	**19.3%**	**14.3%**
Asia	8.5%	9.5%
Australia	9.0%	9.1%
Asia Pacific	**8.5%**	**9.4%**
Average	**9.1%**	**8.0%**

8 – Analysis of service companies and fund management businesses within embedded value

This note details the value of service companies and fund management businesses that has been included within the embedded value due to the ''look through'' approach specified by the MCEV methodology.

Aviva's MCEV methodology incorporates the impact of earnings 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) and Aviva Investors (UK and France). The following table provides an analysis of the elements within the life and other related business embedded value:

	Reviewed 6 months 2008			Audited Full year 2007
	Fund management £m	Other operations £m	Total £m	Total £m
United Kingdom	139	(141)	(2)	2
France	133	37	170	186
Netherlands	100	(62)	38	33
Other	29	10	39	35
Total	**401**	**(156)**	**245**	**256**

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 MCEV basis income statement excludes the actual statutory basis profits arising from the provision of fund management services to the group's life businesses. The MCEV income statement records the experience profit or loss compared to the assumed profitability, the expected return on the in-force value 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 predetermined Management Services Agreements (MSAs).

9 – Geographical analysis of fund management operating earnings

This note sets out further information on the operating earnings from fund management set out in the summarised consolidated income statement. These are unchanged from the previously reported numbers.

The summarised consolidated income statement – MCEV basis, includes earnings from the Group's fund management operations as analysed below. As explained in note 8, this excludes the proportion of the results of Aviva Investors fund management businesses and other fund management operations within the group that arise from the provision of fund management services to our Life businesses. These results are included within the Life MCEV operating earnings.

	Reviewed 6 months 2008 £m	Audited Full year 2007 £m
United Kingdom	13	40
Europe	6	15
North America	1	3
Asia	–	6
Aviva Investors	**20**	**64**
United Kingdom	(8)	(10)
Netherlands	6	17
Other Europe	3	4
Asia	9	15
Total	**30**	**90**

10 – Analysis of other operations and regional costs

This note sets out further information on the operating earnings from other operations set out in the summarised consolidated income statement. These are unchanged from the previously reported numbers.

Where subsidiaries provide services to our life business, that proportion has been excluded. These results are included within the life MCEV operating return.

	Reviewed 6 months 2008			Audited Full Year 2007		
	Regional costs £m	Other operations £m	Total £m	Regional costs £m	Other operations £m	Total £m
United Kingdom	–	(33)	(33)	–	(8)	(8)
Europe	(12)	(1)	(13)	(11)	(34)	(45)
North America	(5)	1	(4)	(2)	(2)	(4)
Asia Pacific	(9)	2	(7)	(3)	(10)	(13)
Total	**(26)**	**(31)**	**(57)**	**(16)**	**(54)**	**(70)**

11 – Summary of minority interest in life and related businesses' MCEV results

Reviewed 6 months 2008	France £m	Ireland £m	Italy £m	Netherlands £m	Poland £m	Spain £m	Europe £m	Asia Pacific £m	Total £m	Shareholders' interest £m	Group £m
New business contribution, net of tax	7	1	12	3	3	48	74	–	74	179	253
Life MCEV operating earnings after tax	14	9	35	10	12	61	141	–	141	774	915
Life MCEV earnings after tax	(7)	(6)	27	(18)	8	22	26	–	26	(2,062)	(2,036)
Closing covered businesses' embedded value	243	279	620	159	169	520	1,990	12	2,002	16,577	18,579

Audited Full year 2007	France £m	Ireland £m	Italy £m	Netherlands £m	Poland £m	Spain £m	Europe £m	Asia Pacific £m	Total £m	Shareholders' interest £m	Group £m
New business contribution, net of tax	14	6	27	3	5	70	125	1	126	504	630
Life MCEV operating earnings after tax	32	19	46	19	18	88	222	1	223	1,567	1,790
Life MCEV earnings after tax	24	15	65	13	22	57	196	3	199	1,619	1,818
Closing covered businesses' embedded value	235	266	551	158	154	472	1,836	12	1,848	18,248	20,096

There are no minority interests in the United Kingdom or North America.

12 – Assumptions used in the calculation of MCEV

(a) Economic assumptions - Deterministic calculations

Economic assumptions are derived actively, based on market yields on risk-free fixed interest assets at the end of each reporting period.

In setting the risk-free rate we have, wherever possible used the mid-price swap yield curve for an AA-rated bank.

The curve is extrapolated if necessary to get rates suitable to the liabilities. For markets in which there is no reliable swap yield curve the relevant government bond yields are used.

Required capital is shown as a multiple of the EU statutory minimum solvency margin or equivalent.

The adjustments made to swap rates to derive a risk-free rate for UK and Netherlands immediate annuities and immediate annuities, deferred annuities and all other US business are shown below the reference rate table.

The principal economic assumptions used are as follows:

Reference rate and expense inflation

	United Kingdom			Eurozone (excluding the Netherlands)		
	30 June 2008	31 December 2007	31 December 2006	30 June 2008	31 December 2007	31 December 2006
Reference rate – term 1 year	6.38%	5.74%	5.58%	5.39%	4.75%	4.03%
Reference rate – term 5 years	6.12%	5.09%	5.38%	5.12%	4.56%	4.13%
Reference rate – term 10 years	5.66%	5.01%	5.11%	5.05%	4.72%	4.20%
Reference rate – term 15 years	5.33%	4.92%	4.91%	5.11%	4.86%	4.27%
Reference rate – term 20 years	5.04%	4.83%	4.75%	5.08%	4.91%	4.31%
Expense inflation	4.40%	3.63%	3.48%	2.90%	2.89%	2.82%

12 – Assumptions used in the calculation of MCEV continued

(a) Economic assumptions - Deterministic calculations continued

	Netherlands[1]			Poland		
	30 June 2008	31 December 2007	31 December 2006	30 June 2008	31 December 2007	31 December 2006
Reference rate – term 1 year	5.11%	4.70%	4.07%	6.94%	6.24%	4.60%
Reference rate – term 5 years	4.72%	4.55%	4.12%	6.44%	5.78%	5.27%
Reference rate – term 10 years	4.84%	4.74%	4.21%	5.94%	5.49%	5.24%
Reference rate – term 15 years	5.03%	4.90%	4.30%	5.74%	5.38%	5.24%
Reference rate – term 20 years	5.09%	4.98%	4.34%	5.68%	5.35%	5.24%
Expense inflation	2.91%	2.96%	2.54%	5.88%	4.67%	3.06%

	United States		
	30 June 2008	31 December 2007	31 December 2006
Reference rate – term 1 year	3.04%	4.22%	5.33%
Reference rate – term 5 years	3.95%	4.18%	5.10%
Reference rate – term 10 years	4.58%	4.67%	5.19%
Reference rate – term 15 years	4.81%	4.89%	5.27%
Reference rate – term 20 years	5.04%	4.98%	5.31%
Expense inflation	3.00%	3.45%	3.24%

1. The economic assumptions used in the Netherlands differ from those in the Eurozone as the Dutch bank swap rate is used in the Netherlands.

For service companies, expense inflation relates to the underlying expenses rather than the fees charged to the life company.

In current markets, the following adjustments are made to the swap rate for UK and Netherlands immediate annuities and all US contracts. The risk-free rate is taken as the swap yield curve for the currency of the liability, adjusted by:

	31 December 2007 Embedded value	30 June 2008 Embedded value	2007 second-half New business	2008 first-half New business
UK and Netherlands immediate annuities and immediate annuities, deferred annuities and other US contracts	0.50%	0.50%	0.25%	0.55%

Risk premium – used for operating profit, Implied Discount Rates (IDR), Internal Rates of Return (IRR) and payback period

For life and pensions operating earnings, Aviva uses normalised investment returns, which are generally expressed as risk free returns plus an asset risk premium. The use of asset risk premia only impacts operating earnings as expected returns reflect management's long term expectations of asset returns in excess of the reference rate from investing in different asset classes. This assumption does not impact the balance sheet embedded value or value of new business as asset risk premia are not recognised until earned. The asset risk premia set out in the table below are added to the 1 year reference rate to calculate expected returns.

	All territories	
	30 June 2008	31 December 2007
Equity risk premium	3.5%	3.5%
Property risk premium	2.0%	2.0%

Future returns on corporate fixed interest investments are calculated from prospective yields less an adjustment for credit risk.

Required capital and tax

	Tax rates[1]			Required capital (% EU minimum or equivalent)		
	30 June 2008	31 December 2007	31 December 2006	30 June 2008	31 December 2007	31 December 2006
United Kingdom	28.0%	28.0%	30.0%	100% / 110%	100% / 110%	100% / 110%
France	34.4%	34.4%	34.4%	110%	110%	110%
Ireland	12.5%	12.5%	12.5%	150%	150%	150%
Italy	32.4%	32.4%	38.3%	115% / 184%	115% / 184%	115%
Netherlands	25.5%	25.5%	25.5%	193%	188%	183%
Poland	19.0%	19.0%	19.0%	150%	150%	150%
Spain	30.0%	30.0%	30.0%	110% / 125%	110% / 125%	110% / 125%
United States	35.0%	35.0%	35.0%	325%	325%	325%

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

12 – Assumptions used in the calculation of MCEV 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. 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) Economic Assumptions – Stochastic calculations

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

The embedded value of the US spread based products anticipates the application of management discretion allowed for contractually within the policies, subject to contractual guarantees. This includes the ability to change the crediting rates and indexed strategies available within the policy. Consideration is taken of the economic environment assumed in future projections and returns in excess of the reference rate are not assumed. Anticipated market and policyholder reaction to management action has been considered. The anticipated management action is consistent with current decision rules and has been approved and signed off by management and legal counsel.

Model – United Kingdom, Europe (excluding Delta Lloyd) and North America

Swap rates are generated by a model, the Libor Market Model (LMM), that projects a full swap curve at monthly intervals. Forward rates are assumed to have a log-normal distribution which guarantees non-negative interest rates. The model is calibrated to at-the-money swaptions of a variety of terms and tenors. Swaption volatilities are taken from Bloombergs. Tests have been performed to ensure that sufficient scenarios have been used that the result converges to the stochastic value of the business being valued.

The total annual return on equities is calculated as the return on one year swaps plus an excess return. This excess return is modelled using a log-normal model where volatility varies by time horizon. This allows the model to capture the term structure of implied volatilities. The model is calibrated to at-the-money options of a variety of terms. Option volatilities are taken from a survey of investment banks.

The model also generates property total returns and real yield curves, although these are not significant asset classes for Aviva outside the UK. In the absence of liquid market data, the volatilities of these asset classes are based on historic data.

Assumptions for correlations between asset classes have been set based on historic data.

Model – Netherlands

In the Netherlands, yield curves are based on De Nederlandsche Bank (DNB) yield curve data.

The interest rate model used is a short rate G2++ model. The model is calibrated to the DNB yield curve and the swaption implied volatilities. Swaption implied volatilities are taken from Bloomberg.

The equity model is a Heston model. The model considers an equity volatility surface in the market and covers strike levels between 0.8 and 1.2. The model is calibrated to the same DNB curves used in interest rate model. The option volatilites used for year-end 2006 and year-end 2007 are DJ Eurostoxx 50-quotes (28/12/07) taken from Bloomberg. For half year 2008 the model was calibrated to DJ Eurostoxx 50-quotes provided by a market maker.

The inflation model used is based on the standard Jarrow-Yildirim inflation model which connects real and nominal yields and an inflation index. This is calibrated to ZCII quotes on HICPxT-index.

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.

For many businesses, including US, France and Netherlands, the most important assets are fixed rate bonds of various durations.

12 – Assumptions used in the calculation of MCEV continued

Summary statistics

Swaption implied volatilities

The implied volatility is that determined by Black's formula to reproduce the market price of the option. The following table sets out the model swaption implied volatilities used at 30 June 2008, 31 December 2007 and 31 December 2006.

				30 June 2008 Swap length				31 December 2007 Swap length				31 December 2006 Swap length
Option length	10 years	15 years	20 years	25 years	10 years	15 years	20 years	25 years	10 years	15 years	20 years	25 years
UK sterling												
10 years	n/a	n/a	11.8%	n/a	n/a	n/a	10.9%	n/a	n/a	n/a	12.5%	n/a
15 years	n/a	n/a	11.9%	n/a	n/a	n/a	10.8%	n/a	n/a	n/a	12.7%	n/a
20 years	n/a	n/a	12.1%	n/a	n/a	n/a	10.8%	n/a	n/a	n/a	12.7%	n/a
25 years	n/a	n/a	12.4%	n/a	n/a	n/a	10.9%	n/a	n/a	n/a	12.6%	n/a
Euro												
10 years	11.3%	11.0%	10.5%	10.1%	11.7%	11.1%	10.6%	10.3%	13.3%	12.7%	12.2%	11.8%
15 years	10.8%	10.7%	10.3%	9.9%	11.4%	10.9%	10.5%	10.2%	12.7%	12.2%	11.7%	11.3%
20 years	10.4%	9.9%	9.5%	9.2%	10.6%	10.2%	9.9%	9.7%	12.0%	11.5%	11.0%	10.6%
25 years	9.9%	9.4%	9.1%	8.8%	10.3%	9.9%	9.6%	9.4%	11.4%	10.9%	10.5%	10.1%
Netherlands												
10 years	11.3%	11.2%	11.3%	11.4%	11.1%	10.9%	10.7%	10.7%	12.5%	12.1%	11.8%	11.6%
15 years	10.8%	10.6%	10.7%	10.8%	10.7%	10.4%	10.2%	10.3%	11.9%	11.5%	11.2%	11.0%
20 years	10.8%	10.5%	10.4%	10.5%	10.3%	10.0%	9.8%	9.8%	11.7%	11.2%	10.8%	10.7%
25 years	10.1%	10.3%	10.1%	10.2%	10.1%	9.8%	9.4%	9.4%	11.3%	10.9%	10.5%	10.4%
US dollar												
10 years	18.3%	15.7%	13.6%	11.9%	17.1%	15.0%	13.4%	12.2%	11.4%	10.5%	9.7%	9.0%
15 years	15.7%	13.2%	11.3%	9.8%	15.0%	13.2%	11.9%	10.9%	10.2%	9.3%	8.7%	8.1%
20 years	13.4%	11.3%	9.6%	8.4%	13.3%	11.8%	10.7%	10.0%	9.0%	8.3%	7.7%	7.2%
25 years	12.0%	10.2%	8.8%	8.0%	12.4%	11.2%	10.3%	9.8%	8.3%	7.6%	7.1%	6.7%

Equity implied volatilities

The implied volatility is that determined by the Black-Scholes' formula to reproduce the market price of the option. The following table sets out the model equity implied volatilities used at 30 June 2008, 31 December 2007 and 31 December 2006.

30 June 2008							Country
Option length	UK	France	Italy	Ireland	Netherlands	Spain	US
5 years	25.8%	26.0%	22.4%	24.6%	24.0%	24.8%	23.8%
10 years	27.2%	27.5%	24.4%	25.9%	25.5%	26.0%	25.9%
15 years	27.7%	29.5%	24.6%	26.9%	26.5%	27.3%	28.0%

31 December 2007							Country
Option length	UK	France	Italy	Ireland	Netherlands	Spain	US
5 years	23.7%	26.2%	23.7%	24.6%	26.5%	25.5%	23.4%
10 years	25.2%	27.5%	26.0%	26.7%	28.9%	27.2%	25.1%
15 years	25.8%	29.1%	26.0%	28.2%	29.5%	28.3%	27.0%

31 December 2006							Country
Option length	UK	France	Italy	Ireland	Netherlands	Spain	US
5 years	17.3%	19.5%	18.9%	19.6%	19.9%	18.7%	16.1%
10 years	20.1%	20.8%	22.0%	22.4%	21.7%	20.5%	18.6%
15 years	21.8%	22.1%	23.1%	24.2%	22.0%	22.0%	21.0%

Property implied volatilities

Best estimate levels of volatility have been used, in the absence of meaningful option prices from which implied levels of volatility can be derived.

For the UK and the Netherlands, model property implied volatility is 15% for 31 December 2006, 31 December 2007 and 30 June 2008.

12 – Assumptions used in the calculation of MCEV continued

Demographic assumptions

Assumed future mortality, morbidity and lapse rates have been derived from an analysis of Aviva's recent operating experience with a view to giving a best estimate of future experience. We have anticipated future changes in experience where that is appropriate, e.g. we have allowed for improvements in future policyholder longevity.

We have set the assumptions based on a best estimate of outcome of shareholder outcomes. In particular, where the policyholder behaviour varies with economic experience, we have set assumptions which are dynamic, i.e. vary depending on the economic assumptions. For example, 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.

Additionally, where demographic experience is not driven by economic scenarios but is asymmetric on a stand-alone basis, the best estimate assumption considers the weighted-average expected experience, not simply the median or most likely outcome.

Expense assumptions

Management expenses and operating expenses of holding companies attributed to life and related businesses have been included in the MCEV 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 our life businesses, the value of profits or losses arising from these services have been included in the embedded value and value of new business.

Non-hedgeable risk

A charge of 2.5% has been applied to the group-diversified capital required on a 1-in-200 one-year basis over the remaining lifetime of in-force business.

(c) Other assumptions continued

Valuation of debt

Borrowings in the MCEV consolidated balance sheet are valued on an IFRS basis, consistent with the primary financial statements. At 30 June 2008 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 £5,753 million (31 December 2007: £5,774 million).

	Reviewed 30 June 2008 £m	Audited 31 December 2007 £m	Audited 31 December 2006 £m
Borrowings per summarised consolidated balance sheet – MCEV basis	**13,373**	**12,657**	**12,137**
Add: amount included within held for sale	13	12	–
Less: Securitised mortgage funding	(7,620)	(7,295)	(7,068)
Borrowings excluding non-recourse funding – MCEV basis	5,766	5,374	5,069
Less: Operational financing by businesses	(1,134)	(1,063)	(874)
External debt and subordinated debt – MCEV basis	4,632	4,311	4,195
Add: Preference shares (including General Accident plc) and direct capital instrument	1,440	1,440	1,440
External debt, subordinated debt, preference shares and direct capital instrument – MCEV basis	6,072	5,751	5,635
Effect of marking these instruments to market	(319)	23	356
Market value of external debt, subordinated debt, preference shares and direct capital instrument	**5,753**	**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

In this note the sensitivity of both our embedded value and value of new business is presented. There are sensitivities to the economic assumptions used and the non-economic assumptions.

(a) Economic assumptions

The following tables show the sensitivity of the embedded value and the value of new business to:

- Using swap yields as the risk-free rate
- one and two percentage point increase and decrease in the risk-free rate, including all consequential changes (including assumed investment returns for all asset classes, market values of fixed interest assets, risk discount rates);
- 10% increase and decrease in market values of equity and property assets;
- 25% increase in equity and swaption volatilities;
- 50 basis point increase and decrease in credit spreads; and
- decrease in the level of required capital to 100% EU minimum (or equivalent) .

There is also sensitivity for shareholders' funds to a fall in equity markets on page 50.

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.

For new business, the sensitivities reflect the impact of a change immediately after inception of the policy.

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.

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%–2% movement in the interest rate for the Netherlands and US, where there is a significant amount of business with investment return guarantees.

Embedded value

			Risk free rates			
Embedded value (net of tax and minority interest) 30 June 2008 reviewed	**As reported on page 34 £m**	**Risk free rate as swap yields £m**	**1% increase £m**	**1% decrease £m**	**2% increase £m**	**2% decrease £m**
United Kingdom	**5,776**	**(540)**	**(123)**	**148**	**(253)**	**288**
France	2,337	–	(145)	93	(310)	90
Ireland	863	–	(45)	51	(90)	108
Italy	601	–	6	(32)	7	(83)
Netherlands (including Belgium and Germany)	3,337	(31)	75	(271)	66	(931)
Poland	1,136	–	(24)	24	(46)	52
Spain	634	–	(17)	17	(35)	32
Other Europe	211	–	(4)	5	(8)	9
Europe	**9,119**	**(31)**	**(154)**	**(113)**	**(416)**	**(723)**
North America	**974**	**(217)**	**(169)**	**122**	**(362)**	**134**
Asia	404	–	(2)	(7)	(10)	(26)
Australia	304	–	(9)	9	(19)	21
Asia Pacific	**708**	–	**(11)**	**2**	**(29)**	**(5)**
Total	**16,577**	**(788)**	**(457)**	**159**	**(1,060)**	**(306)**

13 – Sensitivity analysis continued

Embedded value continued

Embedded value (net of tax and minority interest) 30 June 2008 reviewed	As reported on page 34 £m	Equity/property Market values 10% increase £m	Equity/property Market values 10% decrease £m	Equity/property Volatility 25% increase £m
United Kingdom	**5,776**	**463**	**(326)**	**(17)**
France	2,337	205	(211)	(154)
Ireland	863	24	(24)	–
Italy	601	7	(7)	1
Netherlands (including Belgium and Germany)	3,337	428	(428)	(105)
Poland	1,136	22	(22)	–
Spain	634	11	(12)	(2)
Other Europe	211	1	(1)	–
Europe	**9,119**	**698**	**(705)**	**(260)**
North America	**974**	**–**	**–**	**–**
Asia	404	12	(12)	–
Australia	304	7	(7)	–
Asia Pacific	**708**	**19**	**(19)**	–
Total	**16,577**	**1,180**	**(1,050)**	**(277)**

Embedded value (net of tax and minority interest) 30 June 2008 reviewed	As reported on page 34 £m	Swaption implied volatilities 25% increase £m	Corporate bond credit spreads 50bps increase £m	Corporate bond credit spreads 50bps decrease £m	EU minimum capital (or equivalent) £m
United Kingdom	**5,776**	**–**	**(581)**	**638**	**11**
France	2,337	(53)	(58)	65	19
Ireland	863	–	–	–	3
Italy	601	(1)	(6)	6	7
Netherlands (including Belgium and Germany)	3,337	(7)	(191)	191	83
Poland	1,136	–	–	–	6
Spain	634	–	(46)	46	2
Other Europe	211	–	–	–	2
Europe	**9,119**	**(61)**	**(301)**	**308**	**122**
North America	**974**	**(54)**	**(308)**	**327**	**76**
Asia	404	–	(10)	9	5
Australia	304	–	–	–	4
Asia Pacific	**708**	**–**	**(10)**	**9**	**9**
Total	**16,577**	**(115)**	**(1,200)**	**1,282**	**218**

13 – Sensitivity analysis continued

Embedded value (net of tax and minority interest) 31 December 2007 Audited	As reported on page 34 £m	Risk free rate as swap yields £m	Risk free rates: 1% increase £m	1% decrease £m	2% increase £m	2% decrease £m
United Kingdom	**6,911**	**(528)**	**(103)**	**116**	**(223)**	**222**
France	2,536	–	(116)	79	(226)	91
Ireland	825	–	(38)	43	(77)	91
Italy	489	–	6	(30)	9	(71)
Netherlands (including Belgium and Germany)	3,816	(28)	85	(485)	93	(1,372)
Poland	1,043	–	(21)	22	(42)	47
Spain	570	–	(17)	16	(34)	30
Other Europe	178	–	(1)	2	(4)	5
Europe	**9,457**	**(28)**	**(102)**	**(353)**	**(281)**	**(1,179)**
North America	**1,206**	**(171)**	**(197)**	**125**	**(412)**	**120**
Asia	367	–	1	(7)	–	(27)
Australia	307	–	(7)	8	(16)	19
Asia Pacific	**674**	**–**	**(6)**	**1**	**(16)**	**(8)**
Total	**18,248**	**(727)**	**(408)**	**(111)**	**(932)**	**(845)**

Embedded value (net of tax and minority interest) 31 December 2007 Audited	As reported on page 34 £m	Equity/property: Market values 10% increase £m	Market values 10% decrease £m	Volatility 25% increase £m
United Kingdom	**6,911**	**457**	**(461)**	**(24)**
France	2,536	161	(164)	(116)
Ireland	825	23	(23)	–
Italy	489	6	(7)	1
Netherlands (including Belgium and Germany)	3,816	457	(473)	(70)
Poland	1,043	20	(20)	–
Spain	570	11	(11)	(3)
Other Europe	178	1	(1)	–
Europe	**9,457**	**679**	**(699)**	**(188)**
North America	**1,206**	–	–	–
Asia	367	11	(11)	–
Australia	307	7	(7)	3
Asia Pacific	**674**	**18**	**(18)**	**3**
Total	**18,248**	**1,154**	**(1,178)**	**(209)**

Embedded value (net of tax and minority interest) 31 December 2007 Audited	As reported on page 34 £m	Swaption implied volatilities 25% increase £m	Corporate bond credit spreads 50bps increase £m	Corporate bond credit spreads 50bps decrease £m	EU minimum capital (or equivalent) £m
United Kingdom	**6,911**	**–**	**(622)**	**685**	**10**
France	2,536	(42)	(35)	43	17
Ireland	825	–	–	–	3
Italy	489	(1)	(6)	6	5
Netherlands (including Belgium and Germany)	3,816	(45)	(81)	81	20
Poland	1,043	–	–	–	6
Spain	570	–	(42)	42	2
Other Europe	178	–	–	–	1
Europe	**9,457**	**(88)**	**(164)**	**172**	**54**
North America	**1,206**	**(88)**	**(284)**	**294**	**72**
Asia	367	–	(11)	10	4
Australia	307	–	–	–	3
Asia Pacific	**674**	**–**	**(11)**	**10**	**7**
Total	**18,248**	**(176)**	**(1,081)**	**1,161**	**143**

13 – Sensitivity analysis continued

Value of new business

Value of new business (net of tax and minority interest) 6 months 2008 reviewed	As reported on page 29 £m	Risk free rate as swap yields £m	Risk free rates 1% increase £m	1% decrease £m	2% increase £m	2% decrease £m
United Kingdom	**53**	**(57)**	**2**	**(6)**	**4**	**(15)**
France	38	–	(2)	1	(4)	3
Ireland	6	–	(1)	1	(1)	2
Italy	12	–	–	–	–	(2)
Netherlands (including Belgium and Germany)	(31)	–	4	(11)	7	(52)
Poland	22	–	(1)	1	(1)	1
Spain	43	–	(2)	2	(4)	5
Other Europe	16	–	(1)	2	(3)	4
Europe	**106**	**–**	**(3)**	**(4)**	**(6)**	**(39)**
North America	**(5)**	**(24)**	**(21)**	**21**	**(53)**	**21**
Asia	21	–	1	(2)	1	(6)
Australia	4	–	(1)	1	(1)	2
Asia Pacific	**25**	–	**–**	**(1)**	**–**	**(4)**
Total	**179**	**(81)**	**(22)**	**10**	**(55)**	**(37)**

Value of new business (net of tax and minority interest) 6 months 2008 reviewed	As reported on page 29 £m	Equity/property Market values 10% rise £m	Market values 10% fall £m	Volatility 25% increase £m
United Kingdom	**53**	**2**	**(2)**	**(1)**
France	38	1	–	–
Ireland	6	1	(1)	–
Italy	12	–	–	–
Netherlands (including Belgium and Germany)	(31)	3	(2)	(2)
Poland	22	–	–	–
Spain	43	–	–	–
Other Europe	16	–	–	–
Europe	**106**	**5**	**(3)**	**(2)**
North America	**(5)**	**–**	**–**	**–**
Asia	21	–	–	–
Australia	4	–	–	–
Asia Pacific	**25**	**–**	**–**	**–**
Total	**179**	**7**	**(5)**	**(3)**

Value of new business (net of tax and minority interest) 6 months 2008 reviewed	As reported on page 29 £m	Swaption implied volatilities 25% increase £m	Corporate bond credit spreads 50bps increase £m	Corporate bond credit spreads 50bps decrease £m	EU minimum capital (or equivalent) £m
United Kingdom	**53**	**–**	**(49)**	**51**	**1**
France	38	(1)	–	–	1
Ireland	6	–	–	–	–
Italy	12	–	–	–	–
Netherlands (including Belgium and Germany)	(31)	(1)	(2)	2	1
Poland	22	–	–	–	–
Spain	43	–	(2)	2	–
Other Europe	16	–	–	–	–
Europe	**106**	**(2)**	**(4)**	**4**	**2**
North America	**(5)**	**(6)**	**(29)**	**30**	**9**
Asia	21	–	–	–	1
Australia	4	–	–	–	–
Asia Pacific	**25**	**–**	**–**	**–**	**1**
Total	**179**	**(8)**	**(82)**	**85**	**13**

13 – Sensitivity analysis continued

Value of new business continued

Value of new business (net of tax and minority interest) 31 December 2007 audited	As reported on page 29 £m	Risk free rate as swap yields £m	Risk free rates 1% increase £m	1% decrease £m	2% increase £m	2% decrease £m
United Kingdom	**195**	**(19)**	**(2)**	**1**	**(6)**	**(1)**
France	81	–	(2)	4	(7)	7
Ireland	26	–	(2)	3	(4)	5
Italy	20	–	–	(1)	(1)	(4)
Netherlands (including Belgium and Germany)	3	–	11	(25)	9	(95)
Poland	34	–	(1)	1	(2)	2
Spain	57	–	(3)	3	(5)	7
Other Europe	4	–	–	–	(1)	1
Europe	**225**	**–**	**3**	**(15)**	**(11)**	**(77)**
North America	**34**	**(8)**	**(39)**	**27**	**(89)**	**3**
Asia	39	–	5	(6)	9	(19)
Australia	11	–	(1)	1	(2)	3
Asia Pacific	**50**	–	**4**	**(5)**	**7**	**(16)**
Total	**504**	**(27)**	**(34)**	**8**	**(99)**	**(91)**

Value of new business (net of tax and minority interest) 31 December 2007 audited	As reported on page 29 £m	Equity/property Market values 10% increase £m	10% decrease £m	Volatility 25% increase £m
United Kingdom	**195**	**5**	**(5)**	**(3)**
France	81	1	–	1
Ireland	26	2	(2)	–
Italy	20	–	–	–
Netherlands (including Belgium and Germany)	3	2	(2)	(3)
Poland	34	–	–	–
Spain	57	–	–	–
Other Europe	4	–	–	–
Europe	**225**	**5**	**(4)**	**(2)**
North America	**34**	**–**	**–**	**–**
Asia	39	–	–	–
Australia	11	–	–	–
Asia Pacific	**50**	**–**	**–**	**–**
Total	**504**	**10**	**(9)**	**(5)**

Value of new business (net of tax and minority interest) 31 December 2007 audited	As reported on page 29 £m	Swaption implied volatilities 25% increase £m	Corporate bond credit spreads 50bps increase £m	50bps decrease £m	EU minimum capital (or equivalent) £m
United Kingdom	**195**	**–**	**(110)**	**72**	**1**
France	81	(1)	–	–	1
Ireland	26	–	–	–	–
Italy	20	–	–	–	–
Netherlands (including Belgium and Germany)	3	–	(7)	7	2
Poland	34	–	–	–	1
Spain	57	–	(2)	3	–
Other Europe	4	–	–	–	–
Europe	**225**	**(1)**	**(9)**	**10**	**4**
North America	**34**	**(11)**	**(44)**	**46**	**17**
Asia	39	–	–	–	1
Australia	11	–	–	–	–
Asia Pacific	**50**	–	–	–	**1**
Total	**504**	**(12)**	**(163)**	**128**	**23**

13 – Sensitivity analysis continued

(b) Non-economic assumptions

The following table below show the sensitivity of the embedded value and the value of new business to the following changes in non-economic assumptions:

- 10% decrease in maintenance expenses (a 10% sensitivity on a base expense assumption of £10 p.a. would represent an expense assumption of £9 p.a.). 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% p.a. would represent a lapse rate of 4.5% p.a.); and
- 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

Embedded value (net of tax) 30 June 2008 reviewed	As reported on page 34 £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	**5,776**	**164**	**95**	**72**	**(298)**
France	2,337	52	58	24	(2)
Ireland	863	16	21	10	(4)
Italy	601	5	4	1	–
Netherlands (including Belgium and Germany)	3,337	126	11	13	(47)
Poland	1,136	36	71	14	–
Spain	634	7	40	12	(3)
Other Europe	211	6	14	2	–
Europe	**9,119**	**248**	**219**	**76**	**(56)**
North America	**974**	**34**	**8**	**26**	**(6)**
Asia	404	11	6	4	–
Australia	304	7	16	10	–
Asia Pacific	**708**	**18**	**22**	**14**	**–**
Total	**16,577**	**464**	**344**	**188**	**(360)**

Embedded value (net of tax) 31 December 2007 audited	As reported on page 34 £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	**6,911**	**183**	**100**	**70**	**(212)**
France	2,536	48	54	23	–
Ireland	825	16	20	10	(3)
Italy	489	4	3	1	–
Netherlands (including Belgium and Germany)	3,816	102	13	10	(46)
Poland	1,043	31	62	13	–
Spain	570	7	33	9	(2)
Other Europe	178	6	10	1	–
Europe	**9,457**	**214**	**195**	**67**	**(51)**
North America	**1,206**	**30**	**7**	**26**	**(8)**
Asia	367	10	5	3	(1)
Australia	307	6	14	8	(2)
Asia Pacific	**674**	**16**	**19**	**11**	**(3)**
Total	**18,248**	**443**	**321**	**174**	**(274)**

13 – Sensitivity analysis continued

Value of new business

Value of new business (net of tax) 6 months 2008 reviewed	As reported on page 29 £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	**53**	**10**	**8**	**10**	**(11)**
France	38	2	1	1	–
Ireland	6	1	2	–	–
Italy	12	–	–	–	–
Netherlands (including Belgium and Germany)	(31)	1	–	1	2
Poland	22	1	3	1	–
Spain	43	2	6	2	–
Other Europe	16	1	2	–	–
Europe	**106**	**8**	**14**	**5**	**2**
North America	**(5)**	**2**	**1**	**3**	**(1)**
Asia	21	5	2	2	–
Australia	4	1	1	1	–
Asia Pacific	**25**	**6**	**3**	**3**	–
Total	**179**	**26**	**26**	**21**	**(10)**

Value of new business (net of tax) 31 December 2007 audited	As reported on page 29 £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	**195**	**14**	**13**	**19**	**(15)**
France	81	3	2	2	–
Ireland	26	2	4	–	–
Italy	20	1	–	–	–
Netherlands (including Belgium and Germany)	3	2	1	1	–
Poland	34	2	4	1	–
Spain	57	1	7	2	–
Other Europe	4	1	1	–	–
Europe	**225**	**12**	**19**	**6**	–
North America	**34**	**4**	**2**	**6**	**(1)**
Asia	39	5	3	1	–
Australia	11	1	2	2	–
Asia Pacific	**50**	**6**	**5**	**3**	–
Total	**504**	**36**	**39**	**34**	**(16)**

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.

Group shareholder funds

	Reviewed 30 June 2008				Audited 31 December 2007			
		Equities down 10%				Equities down 10%		
Group shareholder funds	As reported £bn	Direct £bn	Indirect £bn	Interest rates up 1% £bn	As reported £bn	Direct £bn	Indirect £bn	Interest rates up 1% £bn
Long-term savings[1]	20.9	(0.4)	(0.5)	(0.4)	22.4	(0.5)	(0.5)	(0.5)
General insurance and other	5.8	(0.4)	–	(0.3)	6.5	(0.4)	–	(0.4)
Borrowings[2]	(5.5)	–	–	–	(5.2)	–	–	–
Shareholders' funds	**21.2**	**(0.8)**	**(0.5)**	**(0.7)**	**23.7**	**(0.9)**	**(0.5)**	**(0.9)**

These sensitivities assume a full tax charge/credit on market value appreciation/falls.

1. Assumes MCEV assumptions adjusted to reflect revised bond yields.
2. Comprising internal, external and subordinated debt.
3. 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 £1.5 billion at 30 June 2008 and £1.4 billion at 31 December 2007 thereby enhancing shareholders' funds by £1.2 billion at 30 June 2008 and £1.1 billion at 31 December 2007 (after deducting tax).

14 – Return on capital employed

This note gives details of the return on the capital employed in our business.

Shareholders' funds, including minority interests

	30 June 2008 closing shareholders' funds			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	IFRS net assets £m	Internally generated AVIF £m	Total equity £m
Life and pensions									
United Kingdom	**3,564**	**2,387**	**5,951**	**3,670**	**3,484**	**7,154**	**3,326**	**3,303**	**6,629**
France	1,504	1,076	2,580	1,447	1,323	2,770	1,221	1,134	2,355
Ireland	988	300	1,288	943	286	1,229	971	132	1,103
Italy	1,171	279	1,450	1,020	238	1,258	688	164	852
Netherlands (including Belgium and Germany)	2,464	989	3,453	2,994	950	3,944	2,860	654	3,514
Poland	253	1,058	1,311	276	926	1,202	202	744	946
Spain	1,168	737	1,905	1,122	624	1,746	845	567	1,412
Other Europe	494	(174)	320	346	(68)	278	61	71	132
Europe	**8,042**	**4,265**	**12,307**	**8,148**	**4,279**	**12,427**	**6,848**	**3,466**	**10,314**
North America	**2,112**	**(364)**	**1,748**	**2,202**	**(227)**	**1,975**	**2,315**	**(237)**	**2,078**
Asia Pacific	**674**	**254**	**928**	**619**	**222**	**841**	**409**	**166**	**575**
	14,392	**6,542**	**20,934**	**14,639**	**7,758**	**22,397**	**12,898**	**6,698**	**19,596**
General insurance and health									
United Kingdom	**2,750**	**–**	**2,750**	**3,049**	**–**	**3,049**	**2,984**	**–**	**2,984**
France	274	–	274	301	–	301	333	–	333
Ireland	474	–	474	435	–	435	434	–	434
Netherlands	723	–	723	756	–	756	684	–	684
Other Europe	308	–	308	295	–	295	161	–	161
Europe	**1,779**	**–**	**1,779**	**1,787**	**–**	**1,787**	**1,612**	**–**	**1,612**
North America	**771**	**–**	**771**	**732**	**–**	**732**	**670**	**–**	**670**
Asia Pacific	**17**	**–**	**17**	**26**	**–**	**26**	**22**	**–**	**22**
	5,317	**–**	**5,317**	**5,594**	**–**	**5,594**	**5,288**	**–**	**5,288**
Fund management and other business	841	–	841	1,186	–	1,186	1,179	–	1,179
Corporate	(32)	–	(32)	(31)	–	(31)	(19)	–	(19)
Subordinated debt	(3,911)	–	(3,911)	(3,054)	–	(3,054)	(2,937)	–	(2,937)
External debt	(721)	–	(721)	(1,257)	–	(1,257)	(1,258)	–	(1,258)
Net internal debt	(1,212)	–	(1,212)	(1,146)	–	(1,146)	(1,406)	–	(1,406)
Shareholders' funds, including minority interests	**14,674**	**6,542**	**21,216**	**15,931**	**7,758**	**23,689**	**13,745**	**6,698**	**20,443**
Comprising:									
Equities	10,517	–	10,517	11,741	–	11,741	14,343	–	14,343
Property	3,120	–	3,120	3,886	–	3,886	2,832	–	2,832
Cash' loans and debt securities	11,338	–	11,338	12,132	–	12,132	7,255	–	7,255
Other investments	2,423	–	2,423	1,865	–	1,865	1,446	–	1,446
Other net assets and pension liability	(13,315)	–	(13,315)	(14,732)	–	(14,732)	(12,925)	–	(12,925)
Intangible assets	6,435	6,542	12,977	6,496	7,758	14,254	5,855	6,698	12,553
Borrowing	(5,844)	–	(5,844)	(5,457)	–	(5,457)	(5,061)	–	(5,061)
	14,674	**6,542**	**21,216**	**15,931**	**7,758**	**23,689**	**13,745**	**6,698**	**20,443**

IFRS net assets have been restated to reflect the impact of change in general insurance reserves of £105 million, £107 million and £112 million offset by the consolidation of funds adjustments of £(838) million, £(758) million and £(431) million and change in shares held by employee trusts of £(10) million, £(10) million and nil at 30 June 2008, 31 December 2007 and 31 December 2006 respectively. Details are on page 26.

14 – Return on capital employed continued

Analysis of return on capital employed

The analysis of return on equity shareholders' funds set out below incorporates the impact of the change to MCEV as well as the revision to the general insurance reserving policy. In addition to these accounting changes, the presentation format has also been revised to show returns on equity shareholders' funds at business level excluding goodwill and intangibles, with the impact of these items on Group return on equity shareholders' funds shown separately. This presentational change allows for returns on capital at the operational level to be based on the tangible capital employed at business level (including value of in-force business), whilst still retaining accountability at an aggregate group level for the requirement to generate returns on capital invested in goodwill and intangibles.

Reviewed 30 June 2008	Operating return Before tax £m	Operating return After tax £m	Opening shareholders' funds (including goodwill and intangibles) £m	Opening shareholders' funds (excluding goodwill and intangibles) £m	Annualised return on capital %
Life and pensions					
United Kingdom	**417**	**300**	**7,154**	**6,888**	**8.7%**
France	241	158	2,770	2,770	11.4%
Ireland	40	34	1,229	1,091	6.2%
Italy	101	69	1,258	1,040	13.3%
Netherlands (including Belgium and Germany)	35	25	3,944	3,939	1.3%
Poland	114	93	1,202	1,197	15.5%
Spain	173	121	1,746	1,042	23.2%
Other Europe	24	20	278	177	22.6%
Europe	**728**	**520**	**12,427**	**11,256**	**9.2%**
North America	**74**	**48**	**1,975**	**1,206**	**8.0%**
Asia Pacific	**61**	**47**	**841**	**688**	**13.7%**
	1,280	**915**	**22,397**	**20,038**	**9.1%**
General insurance and health					
United Kingdom	**271**	**190**	**3,049**	**2,557**	**14.9%**
France	30	19	301	301	12.6%
Ireland	41	36	435	353	20.4%
Netherlands	44	32	756	734	8.7%
Other Europe	22	15	295	187	16.0%
Europe	**137**	**102**	**1,787**	**1,575**	**13.0%**
North America	**77**	**50**	**732**	**729**	**13.7%**
Asia Pacific	**(1)**	**(1)**	**26**	**26**	**(7.7)%**
	484	**341**	**5,594**	**4,887**	**14.0%**
Fund management	30	21	355	305	13.8%
Other business	(57)	(40)	831	(595)	13.4%
Corporate	(49)	(54)	(31)	(31)	348.4%
Subordinated debt	(94)	(67)	(3,054)	(3,054)	4.4%
External debt	(34)	(24)	(1,257)	(1,257)	3.8%
Net internal debt	(51)	(36)	(1,146)	(1,146)	6.3%
	1,509	**1,056**	**23,689**	**19,147**	**11.0%**
Less:					
Minority interest		(156)	(2,501)	(2,501)	12.5%
Direct capital instruments		–	(990)	(990)	–
Preference capital		(9)	(200)	(200)	8.6%
Operating return		**891**	**19,998**	**15,456**	**11.5%**
Goodwill and intangibles[1]				4,542	
Operating return (including goodwill and intangibles)		**891**	**19,998**	**19,998**	**8.9%**

1. Goodwill and intangibles comprises £3,082 million of goodwill in subsidiaries, £1,407 million of intangibles in subsidiaries, £197 million of goodwill and intangibles in joint ventures and £310 million of goodwill in associates, net of associated deferred tax liabilities of £454 million.

14 – Return on capital employed continued

Analysis of return on capital employed continued

Audited 31 December 2007	Operating return Before tax £m	Operating return After tax £m	Opening shareholders' funds (including goodwill and intangibles) £m	Opening shareholders' funds (excluding goodwill and intangibles) £m	Return on capital %
Life and pensions					
United Kingdom	**822**	**575**	**6,629**	**6,394**	**9.0%**
France	568	373	2,355	2,355	15.8%
Ireland	85	74	1,103	977	7.6%
Italy	137	84	852	841	10.0%
Netherlands (including Belgium and Germany)	316	236	3,514	3,508	6.7%
Poland	181	147	946	946	15.5%
Spain	233	163	1,412	894	18.2%
Other Europe	(17)	(12)	132	132	(9.1)%
Europe	**1,503**	**1,065**	**10,314**	**9,653**	**11.0%**
North America	**124**	**80**	**2,078**	**1,267**	**6.3%**
Asia Pacific	**95**	**70**	**575**	**511**	**13.7%**
	2,544	**1,790**	**19,596**	**17,825**	**10.0%**
General insurance and health					
United Kingdom	**294**	**206**	**2,984**	**2,487**	**8.3%**
France	70	45	333	333	13.5%
Ireland	162	142	434	359	39.6%
Netherlands	169	123	684	682	18.0%
Other Europe	41	29	161	161	18.0%
Europe	**442**	**339**	**1,612**	**1,535**	**22.1%**
North America	**154**	**101**	**670**	**667**	**15.1%**
Asia Pacific	**4**	**3**	**22**	**22**	**13.6%**
	894	**649**	**5,288**	**4,711**	**13.8%**
Fund management	90	63	305	243	25.9%
Other business	(70)	(49)	874	(458)	10.7%
Corporate	(82)	(95)	(19)	(19)	500.0%
Subordinated debt	(179)	(125)	(2,937)	(2,937)	4.3%
External debt	(79)	(55)	(1,258)	(1,258)	4.4%
Net internal debt	(53)	(37)	(1,406)	(1,406)	2.6%
	3,065	**2,141**	**20,443**	**16,701**	**12.8%**
Less:					
Minority interest		(265)	(1,817)	(1,817)	14.6%
Direct capital instruments		(37)	(990)	(990)	3.7%
Preference capital		(17)	(200)	(200)	8.5%
Operating return		**1,822**	**17,436**	**13,694**	**13.3%**
Goodwill and intangibles[1]				3,742	
Operating return (including goodwill and intangibles)		**1,822**	**17,436**	**17,436**	**10.4%**

1. Goodwill and intangibles comprises £2,910 million of goodwill in subsidiaries, £830 million of intangibles in subsidiaries and £280 million of goodwill in associates, net of associated deferred tax liabilities of £278 million.

Statistical supplement: First time adoption

Financial impact of adopting MCEV methodology

The Group is replacing the EEV basis with the MCEV basis of reporting as its main measure of performance for life and related businesses. The basis of preparation and methodology adopted in compiling restated Group results and balance sheet for 2007 and the six months to 30 June 2008 is given on pages 22 to 26 of this announcement.

Reconciliation of segmental analysis of embedded value – EEV basis to MCEV basis

Embedded value Reviewed 30 June 2008	EEV basis as reported[1] £m	Operational assumption changes £m	Economic changes £m	Changes to required capital £m	Cost of Non Hedgeable Risk £m	Other impact £m	MCEV basis[1] £m	Less minority interest £m	MCEV basis £m
United Kingdom	**6,547**	**(134)**	**(407)**	**(8)**	**(155)**	**(67)**	**5,776**	**–**	**5,776**
France	2,602	–	178	9	(145)	(64)	2,580	(243)	2,337
Ireland	1,036	(2)	121	–	(23)	10	1,142	(279)	863
Italy	1,171	–	88	(10)	(15)	(13)	1,221	(620)	601
Netherlands (including Belgium and Germany)	3,759	(6)	(133)	(45)	(81)	2	3,496	(159)	3,337
Poland	1,014	165	223	–	(80)	(17)	1,305	(169)	1,136
Spain	1,182	(36)	58	–	(48)	(2)	1,154	(520)	634
Other Europe	185	–	29	–	(4)	1	211	–	211
Europe	**10,949**	**121**	**564**	**(46)**	**(396)**	**(83)**	**11,109**	**(1,990)**	**9,119**
North America	**1,714**	**(70)**	**(622)**	**(32)**	**(28)**	**12**	**974**	**–**	**974**
Asia	358	(10)	77	–	(7)	(2)	416	(12)	404
Australia	299	–	23	–	(18)	–	304	–	304
Asia Pacific	**657**	**(10)**	**100**	**–**	**(25)**	**(2)**	**720**	**(12)**	**708**
Total	**19,867**	**(93)**	**(365)**	**(86)**	**(604)**	**(140)**	**18,579**	**(2,002)**	**16,577**

Embedded value Audited 31 December 2007	EEV basis as reported[1] £m	Operational assumption changes £m	Economic changes £m	Changes to required capital £m	Cost of Non Hedgeable Risk £m	Other impact £m	MCEV basis[1] £m	Less minority interest £m	MCEV basis £m
United Kingdom	**7,106**	**(142)**	**183**	**(10)**	**(153)**	**(73)**	**6,911**	**–**	**6,911**
France	2,660	–	208	12	(137)	28	2,771	(235)	2,536
Ireland	999	(2)	114	–	(21)	1	1,091	(266)	825
Italy	1,007	–	66	(9)	(22)	(2)	1,040	(551)	489
Netherlands (including Belgium and Germany)	4,176	(21)	(122)	(35)	(73)	49	3,974	(158)	3,816
Poland	942	143	191	–	(70)	(9)	1,197	(154)	1,043
Spain	1,048	(33)	72	–	(41)	(4)	1,042	(472)	570
Other Europe	156	–	23	–	(2)	1	178	–	178
Europe	**10,988**	**87**	**552**	**(32)**	**(366)**	**64**	**11,293**	**(1,836)**	**9,457**
North America	**1,588**	**(69)**	**(308)**	**(27)**	**(27)**	**49**	**1,206**	**–**	**1,206**
Asia	337	(10)	71	–	(6)	(13)	379	(12)	367
Australia	300	–	23	–	(16)	–	307	–	307
Asia Pacific	**637**	**(10)**	**94**	**–**	**(22)**	**(13)**	**686**	**(12)**	**674**
Total	**20,319**	**(134)**	**521**	**(69)**	**(568)**	**27**	**20,096**	**(1,848)**	**18,248**

Embedded value Audited 31 December 2006	EEV basis as reported[1] £m	Operational assumption changes £m	Economic changes £m	Changes to required capital £m	Cost of Non Hedgeable Risk £m	Other impact £m	MCEV basis[1] £m	Less minority interest £m	MCEV basis £m
United Kingdom	**6,636**	**(201)**	**278**	**37**	**(145)**	**(70)**	**6,535**	**–**	**6,535**
France	2,291	–	168	10	(125)	11	2,355	(180)	2,175
Ireland	892	(2)	100	–	(19)	5	976	(237)	739
Italy	792	–	63	–	(12)	(3)	840	(441)	399
Netherlands (including Belgium and Germany)	3,867	–	(304)	(25)	(67)	75	3,546	(125)	3,421
Poland	719	143	141	–	(52)	(4)	947	(122)	825
Spain	857	(30)	100	–	(34)	1	894	(383)	511
Other Europe	106	–	28	–	(2)	–	132	–	132
Europe	**9,524**	**111**	**296**	**(15)**	**(311)**	**85**	**9,690**	**(1,488)**	**8,202**
North America	**1,478**	**(62)**	**(6)**	**(28)**	**(20)**	**(94)**	**1,268**	**–**	**1,268**
Asia	209	(3)	34	–	(3)	13	250	(10)	240
Australia	251	–	22	–	(12)	–	261	–	261
Asia Pacific	**460**	**(3)**	**56**	**–**	**(15)**	**13**	**511**	**(10)**	**501**
Total	**18,098**	**(155)**	**624**	**(6)**	**(491)**	**(66)**	**18,004**	**(1,498)**	**16,506**

1. Gross of minority interests

Reconciliation of segmental analysis of Group operating earnings – EEV basis to MCEV basis

Group operating earnings Reviewed 6 months 2008	EEV basis as reported[1] £m	Operational assumption changes £m	Economic changes £m	Changes to required capital £m	Cost of Non Hedgeable Risk £m	Other impact £m	MCEV basis[1] £m	Less tax and minority interest £m	MCEV basis[2] £m
United Kingdom[3]	**471**	**18**	**(80)**	**2**	**(16)**	**22**	**417**	**(117)**	**300**
France	297	–	(70)	–	–	14	241	(97)	144
Ireland	30	–	13	–	–	(3)	40	(15)	25
Italy	89	–	3	–	11	(2)	101	(67)	34
Netherlands (including Belgium and Germany)	139	42	(162)	(3)	(1)	20	35	(20)	15
Poland	103	5	15	–	(3)	(6)	114	(33)	81
Spain	157	1	22	–	(5)	(2)	173	(113)	60
Other Europe	8	–	12	–	–	4	24	(4)	20
Europe	**823**	**48**	**(167)**	**(3)**	**2**	**25**	**728**	**(349)**	**379**
North America	**139**	**(10)**	**(56)**	**(7)**	**2**	**6**	**74**	**(26)**	**48**
Asia	23	(12)	29	–	–	(6)	34	(6)	28
Australia	24	–	6	–	(2)	(1)	27	(8)	19
Asia Pacific	**47**	**(12)**	**35**	**–**	**(2)**	**(7)**	**61**	**(14)**	**47**
Total	**1,480**	**44**	**(268)**	**(8)**	**(14)**	**46**	**1,280**	**(506)**	**774**

1. Gross of tax and minority interests
2. Net of tax and minority interests

Group operating earnings Audited Full year 2007	EEV basis as reported[1] £m	Operational assumption changes £m	Economic changes £m	Changes to required capital £m	Cost of Non Hedgeable Risk £m	Other impact £m	MCEV basis[1] £m	Less tax and minority interest £m	MCEV basis[2] £m
United Kingdom	**864**	**81**	**(26)**	**(67)**	**(9)**	**(21)**	**822**	**(247)**	**575**
France	537	–	2	1	–	28	568	(227)	341
Ireland	77	–	10	–	(2)	–	85	(30)	55
Italy	137	–	5	(7)	(11)	13	137	(99)	38
Netherlands (including Belgium and Germany)	352	–	(20)	(3)	(2)	(11)	316	(99)	217
Poland	206	–	(25)	–	–	–	181	(52)	129
Spain	239	(7)	8	1	(7)	(1)	233	(158)	75
Other Europe	(5)	(16)	8	(2)	(1)	(1)	(17)	5	(12)
Europe	**1,543**	**(23)**	**(12)**	**(10)**	**(23)**	**28**	**1,503**	**(660)**	**843**
North America	**255**	**–**	**(103)**	**(11)**	**(12)**	**(5)**	**124**	**(44)**	**80**
Asia	43	(12)	3	1	(2)	12	45	(11)	34
Australia	48	–	5	1	(3)	(1)	50	(15)	35
Asia Pacific	**91**	**(12)**	**8**	**2**	**(5)**	**11**	**95**	**(26)**	**69**
Total	**2,753**	**46**	**(133)**	**(86)**	**(49)**	**13**	**2,544**	**(977)**	**1,567**

1. Gross of tax and minority interests
2. Net of tax and minority interests

Statistical supplement: First time adoption continued

Reconciliation of segmental analysis of life and pensions present value of new business premiums (PVNBP) – EEV basis to MCEV basis

PVNBP Reviewed 6 months 2008	EEV basis as reported[1] £m	Economic changes £m	Other changes £m	MCEV basis[1] £m	Less minority interest £m	MCEV basis[2] £m
United Kingdom	**5,863**	**160**	**(13)**	**6,010**	**–**	**6,010**
France	2,010	57	(5)	2,062	(370)	1,692
Ireland	648	27	24	699	(175)	524
Italy	1,275	31	(1)	1,305	(656)	649
Netherlands (including Belgium and Germany)	1,991	226	(132)	2,085	(120)	1,965
Poland	739	97	115	951	(124)	827
Spain	1,259	73	(20)	1,312	(599)	713
Other Europe	509	157	–	667	–	667
Europe	**8,431**	**668**	**(19)**	**9,081**	**(2,044)**	**7,037**
North America	**2,205**	**22**	**–**	**2,227**	**–**	**2,227**
Asia	580	139	(34)	684	(4)	680
Australia	204	8	–	212	–	212
Asia Pacific	**784**	**147**	**(34)**	**896**	**(4)**	**892**
Total	**17,283**	**997**	**(66)**	**18,214**	**(2,048)**	**16,166**

PVNBP Audited Full year 2007	EEV basis as reported[1] £m	Economic changes £m	Other changes £m	MCEV basis[1] £m	Less minority interest £m	MCEV basis[2] £m
United Kingdom	**11,655**	**170**	**(28)**	**11,797**	**–**	**11,797**
France	3,662	128	–	3,790	(633)	3,157
Ireland	1,730	49	1	1,780	(445)	1,335
Italy	2,924	51	–	2,975	(1,691)	1,284
Netherlands (including Belgium and Germany)	2,944	185	4	3,133	(192)	2,941
Poland	844	124	151	1,120	(154)	966
Spain	2,392	77	(35)	2,433	(1,210)	1,223
Other Europe	418	35	–	453	–	453
Europe	**14,914**	**649**	**121**	**15,684**	**(4,325)**	**11,359**
North America	**3,602**	**44**	**–**	**3,646**	**–**	**3,646**
Asia	990	92	59	1,141	(8)	1,133
Australia	439	15	–	454	–	454
Asia Pacific	**1,429**	**107**	**59**	**1,595**	**(8)**	**1,587**
Total	**31,600**	**970**	**152**	**32,722**	**(4,333)**	**28,389**

1. Gross of minority interests
2. Net of minority interests

Reconciliation of segmental analysis of value of new business – EEV basis to MCEV basis

Value of new business Reviewed 6 months 2008	EEV basis as reported[1] £m	Operational assumption changes £m	Economic changes £m	Changes to required capital £m	Cost of non-hedgeable risk £m	Other impact £m	MCEV basis[1] £m	Less tax and minority interest £m	MCEV basis[2] £m
United Kingdom[3]	**154**	**(1)**	**(77)**	**(1)**	**(15)**	**13**	**73**	**(20)**	**53**
France	52	–	25	1	(10)	1	69	(31)	38
Ireland	2	–	8	–	(2)	–	8	(2)	6
Italy	29	–	8	(1)	–	(1)	35	(23)	12
Netherlands (including Belgium and Germany)	15	4	(33)	(6)	(9)	(8)	(37)	6	(31)
Poland	18	6	11	–	(3)	(1)	31	(9)	22
Spain	124	(7)	24	–	(10)	(1)	130	(87)	43
Other Europe	5	–	15	–	(1)	–	19	(3)	16
Europe	**245**	**3**	**58**	**(6)**	**(35)**	**(10)**	**255**	**(149)**	**106**
North America	**68**	**–**	**(71)**	**(4)**	**(5)**	**4**	**(8)**	**3**	**(5)**
Asia	15	–	20	–	(1)	(8)	26	(5)	21
Australia	6	–	3	–	(3)	–	6	(2)	4
Asia Pacific	**21**	**–**	**23**	**–**	**(4)**	**(8)**	**32**	**(7)**	**25**
Total	**488**	**2**	**(67)**	**(11)**	**(59)**	**(1)**	**352**	**(173)**	**179**

1. Gross of tax and minority interests
2. Net of tax and minority interests

Value of new business Audited 31 December 2007	EEV basis as reported[1] £m	Operational assumption changes £m	Economic changes £m	Changes to required capital £m	Cost of non-hedgeable risk £m	Other impact £m	MCEV basis[1] £m	Less tax and minority interest £m	MCEV basis[2] £m
United Kingdom[3]	**305**	**(27)**	**7**	**(3)**	**(26)**	**22**	**278**	**(83)**	**195**
France	117	–	54	1	(19)	(8)	145	(64)	81
Ireland	25	–	15	–	(3)	–	37	(11)	26
Italy	61	–	19	–	(3)	–	77	(57)	20
Netherlands (including Belgium and Germany)	53	(1)	(22)	(6)	(9)	(7)	8	(5)	3
Poland	32	6	15	–	(5)	–	48	(14)	34
Spain	173	(13)	37	–	(12)	(4)	181	(124)	57
Other Europe	(5)	–	15	–	–	(4)	6	(2)	4
Europe	**456**	**(8)**	**133**	**(5)**	**(51)**	**(23)**	**502**	**(277)**	**225**
North America	**108**	**–**	**(38)**	**(8)**	**(6)**	**(4)**	**52**	**(18)**	**34**
Asia	27	–	32	–	(4)	(6)	49	(10)	39
Australia	16	–	4	–	(4)	–	16	(5)	11
Asia Pacific	**43**	**–**	**36**	**–**	**(8)**	**(6)**	**65**	**(15)**	**50**
Total	**912**	**(35)**	**138**	**(16)**	**(91)**	**(11)**	**897**	**(393)**	**504**

1. Gross of tax and minority interests
2. Net of tax and minority interests

Statistical supplement: First time adoption continued

New business premiums and analysis of PVNBP

	Reviewed 30 June 2008				
	Regular premiums £m	Weighted average capitalisation factor	Present value of regular premiums £m	Single premiums £m	Present value of new business premiums (PVNBP) £m
United Kingdom					
– Individual pensions	218	4.4	970	1,068	2,038
– Group pensions	40	4.2	170	202	372
– Annuities	–	–	–	1,286	1,286
– Bonds	–	–	–	1,628	1,628
– Protection	80	6.8	545	61	606
– Equity release	–	–	–	80	80
United Kingdom Total	**338**	**5.0**	**1,685**	**4,325**	**6,010**
Europe					
France					
– Eurofunds	13	6.4	83	1,291	1,374
– Unit-linked funds	23	6.6	152	435	587
– Protection business	14	7.1	99	2	101
	50	6.7	334	1,728	2,062
Ireland					
– Life and savings	19	5.5	105	201	306
– Pensions	46	4.6	210	183	393
	65	4.8	315	384	699
Italy					
– Life and pensions	58	6.0	346	959	1,305
	58	6.0	346	959	1,305
Netherlands (including Belgium and Germany)					
– Life	34	8.1	275	255	530
– Pensions	45	9.2	416	1,139	1,555
	79	8.8	691	1,394	2,085
Poland					
– Life and savings	23	6.5	149	323	472
– Pensions	26	15.3	398	81	479
	49	11.2	547	404	951
Spain					
– Life and savings	61	5.7	350	541	891
– Pensions	36	6.3	227	194	421
	97	5.9	577	735	1,312
Other Europe					
– Life and pensions	64	9.3	598	69	667
	64	9.3	598	69	667
Europe Total	**462**	**7.4**	**3,408**	**5,673**	**9,081**
North America					
– Life	30	8.7	261	12	273
– Annuities	–	–	–	1,579	1,579
– Funding agreements	–	–	–	375	375
North America Total	**30**	**8.7**	**261**	**1,966**	**2,227**
Asia Pacific					
Asia					
– Life and pensions	69	6.3	434	250	684
	69	6.3	434	250	684
Australia					
– Life and pensions	32	3.5	111	101	212
	32	3.5	111	101	212
Asia Pacific Total	**101**	**5.4**	**545**	**351**	**896**
Total	**931**	**6.3**	**5,899**	**12,315**	**18,214**

New business premiums and analysis of PVNBP continued

	Audited 12 months 2007				
	Regular premiums £m	Weighted average capitalisation factor	Present value of regular premiums £m	Single premiums £m	Present value of new business premiums (PVNBP) £m
United Kingdom					
– Individual pensions	389	4.3	1,653	1,717	3,370
– Group pensions	83	2.1	171	615	786
– Annuities	–	–	–	1,965	1,965
– Bonds	–	–	–	4,192	4,192
– Protection	131	7.9	1,028	213	1,241
– Equity release	–	–	–	243	243
United Kingdom Total	**603**	**4.7**	**2,852**	**8,945**	**11,797**
Europe					
France					
– Eurofunds	17	7.0	119	1,930	2,049
– Unit-linked funds	53	6.8	361	1,225	1,586
– Protection business	20	7.6	152	3	155
	90	7.0	632	3,158	3,790
Ireland					
– Life and savings	40	5.1	203	627	830
– Pensions	99	4.2	412	538	950
	139	4.4	615	1,165	1,780
Italy					
– Life and pensions	107	5.7	608	2,367	2,975
	107	5.7	608	2,367	2,975
Netherlands (including Belgium and Germany)					
– Life	68	8.0	544	434	978
– Pensions	92	9.1	834	1,321	2,155
	160	8.6	1,378	1,755	3,133
Poland					
– Life and savings	28	6.3	177	264	441
– Pensions	35	15.1	530	149	679
	63	11.2	707	413	1,120
Spain					
– Life and savings	80	5.7	457	1,192	1,649
– Pensions	34	6.2	215	569	784
	114	5.9	672	1,761	2,433
Other Europe					
– Life and pensions	73	4.4	318	135	453
	73	4.4	318	135	453
Europe Total	**746**	**6.6**	**4,930**	**10,754**	**15,684**
North America					
– Life	70	8.2	575	42	617
– Annuities	1	4.0	4	2,596	2,600
– Funding agreements	–	–	–	429	429
North America Total	**71**	**8.2**	**579**	**3,067**	**3,646**
Asia Pacific					
Asia					
– Life and pensions	114	6.0	683	458	1,141
	114	6.0	683	458	1,141
Australia					
– Life and pensions	54	3.5	191	263	454
	54	3.5	191	263	454
Asia Pacific Total	**168**	**5.2**	**874**	**721**	**1,595**
Total	**1,588**	**5.8**	**9,235**	**23,487**	**32,722**

Statement of Directors' responsibilities in respect of the Market Consistent Embedded Value (MCEV) basis

When compliance with the European Insurance CFO Forum Market Consistent Embedded Value Principles (MCEV Principles), published in June 2008, is stated, those principles require the directors to prepare supplementary information in accordance with the methodology contained in the MCEV Principles and to disclose and explain any non-compliance with the guidance included in the MCEV Principles.

In preparing this supplementary information, the directors have done so in accordance with these MCEV Principles and have also fully complied with all the guidance included therein, with the exception of the use of an adjusted risk-free yield due to current market conditions for immediate annuities in the UK and Netherlands and immediate annuities, deferred annuities and other US contracts. Specifically, the directors have:

– determined assumptions on a realistic basis, having regard to past, current and expected future experience and to relevant external data, and then applied them consistently;

– made estimates that are reasonable and consistent; and,

– provided additional disclosures when compliance with the specific requirements of the MCEV Principles is insufficient to enable users to understand the impact of particular transactions, other events and conditions and the Group's financial position and financial performance.

By order of the Board

Philip Scott
Chief Financial Officer

Date: 3 February 2009

Independent auditors' report to the directors of Aviva plc on the consolidated Market Consistent Embedded Value financial statements for the year ended 31 December 2007

We have audited the consolidated Aviva MCEV financial statements of the Group for the year ended 31 December 2007 which comprises the Summarised Consolidated Income Statement, the Consolidated Statement of Recognised Income and Expense, and the Group MCEV Analysis of Earnings for the year ended 31 December 2007; the Reconciliation of Movements in Consolidated Shareholders' Equity, the Summarised Consolidated Balance Sheet, the Reconciliation between Shareholder's equity on an IFRS basis and an MCEV basis and the Segmentation of summarised consolidated balance sheet as at 31 December 2007 together with the related notes on pages 22 to 53; and the sections on adoption of Aviva market consistent embedded value methodology and impact on results on pages 2 to 14 and the statistical supplement on pages 54 to 59. The consolidated Aviva MCEV financial statements have been prepared in accordance with the basis of preparation set out on pages 22 to 26.

We have reported separately on the statutory Group financial statements of Aviva plc for the year ended 31 December 2006 and the year ended 31 December 2007. The information contained in the consolidated Aviva MCEV financial statements should be read in conjunction with the financial statements prepared on an IFRS basis. This information is described within the consolidated Aviva MCEV financial statements as having being audited.

This report is made solely to the Company in accordance with our engagement letter dated 23 January 2008. Our audit work has been undertaken so that we might state to the Company those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility or liability to anyone other than the Company for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the consolidated Aviva MCEV financial statements under the basis of preparation as set out on pages 22 to 26.

Our responsibilities, as independent auditors, in relation to the consolidated Aviva MCEV financial statements are set out in our engagement letter dated 23 January 2008. We report to you our opinion as to whether the consolidated Aviva MCEV financial statements have been properly prepared in all material respects in accordance with the basis of preparation set out on pages 22 to 26. We also report to you if we have not received all the information and explanations we require for our audit of the consolidated Aviva MCEV financial statements.

We read other information contained in the Aviva MCEV announcement and consider whether it is consistent with the consolidated Aviva MCEV financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated Aviva MCEV financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated Aviva MCEV financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the consolidated Aviva MCEV financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of the consolidated Aviva MCEV financial statements.

Opinion

In our opinion the consolidated Aviva MCEV financial statements. for the year ended 31 December 2007 have been properly prepared, in all material respects, in accordance with the basis of preparation set out on pages 22 to 26.

Ernst & Young LLP
London

Date: 3 February 2009

Independent auditors' report to the directors of Aviva plc on the consolidated Market Consistent Embedded Value financial statements for the six months ended 30 June 2008

We have been engaged by the Company to review the half-yearly consolidated Aviva MCEV financial statements for the six months ended 30 June 2008 which comprises the Summarised Consolidated Income Statement, the Consolidated Statement of Recognised Income and Expense, and the Group MCEV Analysis of Earnings for the six months ended 30 June 2008; the Reconciliation of Movements in Consolidated Shareholders' Equity, the Summarised Consolidated Balance Sheet, the Reconciliation between Shareholder's equity on an IFRS basis and an MCEV basis and the Segmentation of summarised consolidated balance sheet as at 30 June 2008 together with the related notes on pages 22 to 53; and the sections on adoption of Aviva market consistent embedded value methodology and impact on results on pages 2 to 14 and the statistical supplement on pages 54 to 59. The half-yearly consolidated Aviva MCEV financial statements have been prepared in accordance with the basis of preparation set out on pages 22 to 26.

We have reported separately on the condensed financial statements of Aviva plc for the six months ended 30 June 2008. The information contained in the consolidated Aviva MCEV financial statements should be read in conjunction with the financial statements prepared on an IFRS basis. This information is described within the half-yearly consolidated Aviva MCEV financial statements as having being reviewed.

This report is made solely to the Company in accordance with guidance contained in ISRE 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practice Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly consolidated Aviva MCEV financial statements are the responsibility of, and have been approved by, the directors. The Directors are responsible for preparing the half-yearly consolidated Aviva MCEV financial statements in accordance with the basis of preparation set out on pages 22 to 26.

Our Responsibility

Our responsibilities, as independent auditors, in relation to the half-yearly consolidated Aviva MCEV financial statements are set out in our engagement letter with you dated 23 January 2008. We report to you our opinion as to whether the half-yearly consolidated Aviva MCEV financial statements have been properly prepared, in all material respects, in accordance with the basis of preparation set out on pages 22 to 26.

We read other information contained in the Aviva MCEV announcement and consider whether it is consistent with the consolidated Aviva MCEV financial statements.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review consists of making enquiries, primarily with Group management and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the half-yearly consolidated Aviva MCEV financial statements for the six months ended 30 June 2008 are not prepared, in all material respects, in accordance with the basis of preparation set out on pages 22 to 26.

Ernst & Young LLP
London

Date: 3 February 2009

Glossary

Definitions of Group key performance indicators and other terms

Asymmetric risk	Risks that will cause shareholder profits to vary where the variation above and below the average are not equal in distribution.
CFO Forum	The CFO Forum www.cfoforum.nl is a high-level group formed by the Chief Financial Officers of major European listed and non-listed insurance companies. Its aim is to discuss issues relating to proposed new accounting regulations for their businesses and how they can create greater transparency for investors. The Forum was created in 2002, the Market Consistent Embedded Value principles were launched in June 2008 and CFO Forum members across Europe have agreed to adopt these for their 2009 published accounts. The principles are a further development of the European Embedded Value principles first launched in May 2004.
Cost of non-hedgeable risks	This is the cost of undert aking those risks for which a deep and liquid market in which to hedge that risk does not exist. This can include both financial risks and non-financial risks such as mortality, persistency and expense.
Covered business	The contracts to which the MCEV methodology has 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 Group's Directive rules.
Financial options and guarantees	Features of the cove red 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.
Frictional costs	The additional taxation and investment costs incurred by shareholders through investing the Required Capital in the Company rather than directly.
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.
Group MCEV	A measure of the total consolidated value of the Group with covered life business included on an MCEV basis and non-covered business (including pension schemes and goodwill) included on an IFRS basis.
Gross risk-free yields	Gross of tax yields on risk-free fixed interest investments, generally swap rates under MCEV.
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 business	Subsidiaries selling life and pensions contracts that are classified as covered business under MCEV.
Life MCEV	The MCEV balance sheet value of covered business as at the reporting date. Excludes non-covered business including pension schemes and goodwill.
Life MCEV operating earnings	Operating earnings on the MCEV 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 MCEV earnings	Total earnings on the MCEV 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.

Market consistent	A measurement approach where economic assumptions are such that projected asset cashflows are valued consistently with current market prices for traded assets.
MCEV	Aviva's Market Consistent Embedded Value methodology which is in accordance with the MCEV Principles published by the CFO Forum in June 2008 with the exception of the use of an adjusted risk-free yield due to current market conditions for immediate annuities in the UK and the Netherlands and for immediate annuity, deferred annuity and other contracts in the US.
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.
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 value of new business divided by the present value of new business premiums (PVNBP), and expressed as a percentage.
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 the value of new business.
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.
Risk-free rate (reference rate in CFO Forum terminology)	The risk-free return that can be earned on investments in the currency of the liability being valued. In stable markets, including the period from 31 December 2006 to 30 June 2007, the risk-free rate is taken as the swap curve yield. In current markets, including the period from 1st July 2007, the risk-free rate is taken as swaps except for UK and Netherlands immediate annuities and immediate annuities, deferred annuities and other US contracts. The adjusted risk-free rate is taken as swaps plus the additional return available for products and where backing asset portfolios can be held to maturity.
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.
Spread business	Contracts where a significant source of shareholder profits is the taking of credit spread risk that is not passed on to policyholders. The most significant spread business in Aviva are immediate annuities and US deferred annuities and life business.
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.
Symmetric risks	Risks that will cause shareholder profits to vary where the variation above and below the average are equal and opposite. Financial theory says that investors do not require compensation for non-market risks that are symmetrical as the risks can be diversified away by investors.
Time value and intrinsic value	A financial option or guara ntee 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.
Value of new business	Is calculated using economic assumptions set at the start of each quarter and the same operating assumptions as those used to determine the embedded values at the end of the reporting period and is stated after the effect of any frictional costs. Unless otherwise stated, it is also quoted net of tax and minority interests.

Presentation slides