News Release

Aviva plc half year report for the six months ended 30 June 2009

AVIVA REPORTS £747 MILLION PROFIT, BUILDS CAPITAL STRENGTH AND ANNOUNCES NEW PLANS FOR DELTA LLOYD

Management actions deliver encouraging results	– IFRS profit after tax £747 million (HY08: £84 million loss) – IFRS operating profit £1,049 million (HY08: £1,223 million) – MCEV operating profit £1,685 million (HY08: £1,509 million) – Margin increased, with life and pensions sales down 4% – Combined operating ratio ahead of target at 97% (HY08: 97%) – IGD solvency surplus increased to £3.2 billion (31 December 2008: £2.0 billion)
Action on dividend reflects strategy, earnings and outlook	– Interim dividend reduced by 31% to 9 pence – Lower earnings drives dividend adjustment – Provides additional financial flexibility to create long-term value
Strategic actions create financial flexibility to exploit market opportunities	– Plans for partial IPO of Delta Lloyd on Euronext Amsterdam – Sale of Aviva Australia will complete in the third quarter – Overwhelming customer support for reattribution of inherited estate which will generate customer and shareholder value – 9% reduction (£0.5 billion annualised) in group's operating cost base

Andrew Moss, group chief executive, commented:

"In a challenging economic environment Aviva has returned to profit: life and pensions margins have improved, the general insurance business has beaten our targets and our regulatory capital position has strengthened significantly. The diversity of our business and innovative products and services have served our shareholders and customers well in difficult economic times.

"Our overriding priority now is to continue to build a position of strength from which Aviva can exploit market opportunities. In this context we have decided to reduce our interim dividend to 9p per share in line with lower investment earnings in 2009.

"We continue to transform Aviva for the future. We are today announcing plans for a partial IPO of Delta Lloyd when market conditions allow. This will enable Aviva to free up capital for use elsewhere and will allow Delta Lloyd to pursue its ambitions in the Benelux region.

"These actions, together with ongoing focus on cost management and the sale of Aviva Australia, will significantly increase our strategic flexibility. In the long term interest of our shareholders we are determined that Aviva should be in the best possible shape to seize opportunities to grow and add value."

Investor contacts

Andrew Moss
+44 (0)20 7662 2286

Philip Scott
+44 (0)20 7662 2264

Charles Barrows
+44 (0)20 7662 8115

Jessie Burrows
+44 (0)20 7662 2111

Media contacts

Hayley Stimpson
+44 (0)20 7662 7544

Sue Winston
+44 (0)20 7662 8221

Andrew Reid
+44 (0)20 7662 3131

Ed Simpkins/
Conor McClafferty
+44 (0)20 7251 3801

Timings

Newswire conference call
0745 BST

Analyst presentation
0845 BST

Live webcast
www.aviva.com

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Half year 2009 key financial highlights

	IFRS			MCEV		
	6 months 2009 £m	Restated 6 months 2008 £m	Growth %	**6 months 2009 £m**	Restated 6 months 2008 £m	Growth %
Life MCEV operating return/ IFRS long-term business profit	**940**	958	(2)%	**1,607**	1,280	26%
General insurance and health	**545**	528	3%	**545**	528	3%
Fund management	**35**	75	(53)%	**(4)**	30	(113)%
Other:						
Other operations and regional costs	**(107)**	(66)	(62)%	**(99)**	(57)	(74)%
Corporate centre	**(46)**	(71)	35%	**(46)**	(71)	35%
Group debt and other interest costs	**(318)**	(201)	(58)%	**(318)**	(201)	(58)%
Operating profit before tax	**1,049**	1,223	(14)%	**1,685**	1,509	12 %
Profit/(loss) after tax	**747**	(84)		**1,084**	(2,361)	
Total dividend per share	**9.0p**	13.09p		**n/a**	n/a	
Net asset value per share	**349p**	437p		**416p**	660p	
Diluted earnings per share	**24.8p**	(4.0)p		**38.9p**	(91.6)p	
Equity shareholders' funds	**£9,549m**	£11,625m		**£11,399m**	£17,541m	
Return on equity shareholders' funds				**16.5%**	11.0%[1]	

1. As at 31 December 2008

Life and pensions new business

	Present value of new business premiums		Value of new business		New business margin	
	6 months 2009 £m	Restated 6 months 2008 £m	**6 months 2009 £m**	Restated 6 months 2008 £m	**6 months 2009 £m**	Restated 6 months 2008 £m
United Kingdom	**4,735**	6,010	**101**	73	**2.1%**	1.2%
Europe	**8,851**	9,064	**234**	249	**2.6%**	2.7%
North America	**3,189**	2,227	**16**	(8)	**0.5%**	(0.4)%
Asia Pacific	**698**	896	**16**	32	**2.3%**	3.6%
Total life and pensions	**17,473**	18,197	**367**	346	**2.1%**	1.9%

General insurance and health

	Net written premiums	
	6 months 2009 £m	Restated 6 months 2008 £m
United Kingdom	**2,298**	2,832
Europe	**1,738**	2,183
North America	**889**	771
Asia Pacific	**22**	14
Total general insurance and health	**4,947**	5,800

Chief executive's statement

A clear strategy in challenging markets

The first six months of 2009 continued to be challenging for the insurance industry. Highly volatile financial markets in the first quarter and new lows in consumer confidence in the real economy are challenging for all businesses and this continues to suggest that a cautious stance is required. It is therefore encouraging to see Aviva return to profit.

Against this backdrop we have continued to execute our strategy to reshape and transform Aviva. Our overriding priority is to build a position of strength from which Aviva can exploit global market opportunities. This will enable us to seek out and be responsive to opportunities that bring competitive advantage and drive long term shareholder value.

Sound financial performance

Lower financial markets at the end of 2008 have put predictable downward pressure on our operating earnings but we have been able to counteract that to a significant degree through the action we have taken to make Aviva's business more resilient by reducing costs and operating more efficiently. The diversity of our business has again been a strength through our range of geographies, products and distribution. On an IFRS basis we have reported a return to profit after tax of £747 million. Operating profit before tax was lower by 14% on an IFRS basis at £1,049 million and up 12% on an MCEV basis to £1,685 million.

Our general insurance business and in-force life book are sizeable and resilient contributors to earnings, together accounting for about 80% of our operating profits. Our 'One Aviva' strategy has also delivered a good contribution to operating profits through significant cost and efficiency initiatives, making our cost base more flexible. As a result, we have reduced our underlying cost base by 9% over the last 12 months and are ahead of our plan to deliver £500 million of cost savings by 2010.

We are reporting a net asset value per share of 349 pence on an IFRS basis. On an MCEV basis the net asset value per share is 416 pence after marking all financial investments to fair value, with a 16.5% return on equity shareholders funds. The fall in net asset value is due to foreign exchange movements and the marking of our pension fund liabilities to market, both as a result of the ongoing economic volatility.

Strong capital position backed by a sound balance sheet

Throughout the last eighteen months we have focussed on maintaining a strong capital position in the face of the volatile external environment. We have been successful in achieving this objective and in the first half of 2009 the IGD capital surplus of the group increased substantially from £2.0 billion to £3.2 billion. The sale of our Australian life business will contribute a further £0.4 billion to this measure when it completes later this year.

The sensitivity of our IGD capital position to downward market movements is relatively low with a 40% fall in equities reducing the surplus by just £0.3 billion at 30 June 2009, while a 40% rise would increase the surplus by £0.7 billion. The liquidity position of the group remains strong with £1.1 billion of liquidity held at the centre of the group.

Our capital surplus allows for defaults from UK corporate bonds and commercial mortgages and we remain comfortable with the provisions we have in place. Our commercial mortgage portfolio is well diversified and there have been no new defaults in the first half of 2009. Actual defaults against our corporate debt portfolio remain low. Last year the level of unrealised losses was reflective of exceptional market conditions and some of these have started to reverse.

Strategic action creates financial flexibility to exploit market opportunities

We have made two strategic moves this year to optimise capital allocation and reshape Aviva to give us enhanced financial flexibility for the future. In Australia we announced the sale of our life business to National Australia Bank for £452 million, a return of 16 times 2008 IFRS earnings. This is a good price for us for a business which did not have the scale to compete in a consolidating market driven by local players.

In the UK the reattribution of the inherited estate will make better use of our capital. It will also generate cash payments for eligible customers who vote in favour of the deal; to date approximately 70% of policyholders have already voted, 96% of whom have voted in favour of the deal.

We are also announcing today new plans in respect of our Dutch business, Delta Lloyd. We believe the IPO of a minority of our shareholding in Delta Lloyd would be in the best interests of both our shareholders and Delta Lloyd. For Aviva, an IPO would bring the flexibility to reallocate capital to other profitable opportunities or to pursue balance sheet restructuring opportunities. Aviva would also benefit from the enhanced value and liquidity of our retained stake. Delta Lloyd would benefit from a new shareholder base supportive of the company's growth ambitions in the Benelux region, and a public listing would help to better position Delta Lloyd ahead of anticipated consolidation in the Netherlands. The IPO preparations have started and the IPO would take place when market conditions and other factors allow.

These actions, together with our focus on costs and the dividend reduction, will significantly increase our strategic flexibility and allow us to consider growth opportunities over the coming year, which will create long-term value for all our shareholders.

We have also continued to make good progress on our global finance programme, which will bring with it Sarbanes-Oxley compliance. This would enable us to consider a listing of our shares in the US if we choose to do so. Over 20% of our shareholders are in the US.

Action on dividend reflects strategy, earnings and outlook

The interim dividend for 2009 will be 9 pence, which is a reduction of 31% from 2008. Our dividend is set by reference to IFRS operating earnings after tax. The board has considered three key factors in coming to this decision:

- the reduction in 2009 IFRS operating earnings driven by lower markets;
- the ongoing weakness in the real economy; and
- the additional financial flexibility that can be created to exploit market opportunities.

The interim dividend on a proforma basis will be at the top end of the 1.5 to 2.0 times range. Our dividend policy remains unchanged basing the dividend on IFRS operating earnings after tax within a cover range of 1.5 to 2.0 times.

Delivering competitive advantage in long-term savings

The long-term savings market remains challenging but with significant long-term potential. Consumers are currently more cautious and are seeking out brands they can trust. We have gained competitive advantage in a number of countries where we have held or improved market share against the backdrop of a short-term contraction in the market. In the UK, for example, we have increased our market share from 11% to 12%, while increasing margins significantly.

We have successfully managed our new business margins which increased to 2.1% as a result of pricing actions, commission reductions and cost control. Aviva's worldwide sales reduced 6% to £19.4 billion, with life and pensions sales 4% lower on a sterling basis and 15% lower in local currency terms.

The breadth of our long-term savings business, across a range of products, geographies and multiple distribution channels is a real strength. Sales in Europe were particularly resilient where our footprint across 15 markets at differing stages of maturity works well for us and underpins a strong profit stream. Bancassurance also remains a significant contributor, accounting for almost a third of our global life and pensions sales. We increased sales through banks by 5% to £5,369 million this year. This reflects an increasing focus on insurance earnings by banks as an important contributor to their results.

A focus on profit in general insurance

Our general insurance business continues to generate good returns, with profits up 3% to £545 million. This earnings stream provides important cash and capital to invest across our global operations.

Sales are down 15% (20% in local currency) due to market conditions, but also from deliberate action to withdraw from less profitable distribution channels in our largest general insurance business in the UK.

I am pleased to report a group combined operating ratio (COR) of 97%, ahead of the full year 2008 COR of 98% and beating our 98% 'meet or beat' worldwide COR target. We have retained a firm focus on improving profitability, particularly as we transform our largest general insurance businesses in the UK and Canada. We have taken action to reduce our costs and operate more efficiently, which is already delivering results.

Delivering on 'One Aviva, twice the value'

We remain committed to our strategy to realise the full potential of the group by operating as united businesses across the world. The most visible manifestation of this has been the creation of a single global brand. Our strategy to build the Aviva brand globally has served us well and positioned us at the forefront of our customers' minds. In the UK, Norwich Union became Aviva on 1 June. Behind the change is a fundamental transformation which will enable us to build our business around our customers. We have seized the opportunity of the name change to build new products, systems and processes which focus on the needs of customers into the future. Our free life cover for all new parents and new online self-service capabilities are good examples of these changes. This transformation continues with the aim of bringing us long term competitive advantage.

Outlook

While the economic environment continues to be uncertain, and sales volumes will continue to be subdued, there will be opportunities from which strong companies like Aviva will benefit. We will continue to transform Aviva at pace to optimise our performance through a clear focus on profitability. Our increasing financial flexibility will strengthen Aviva's position, enabling us to seize new opportunities as they arise and generate long term value for shareholders.

Andrew Moss
Group Chief Executive

Regional performance

United Kingdom

- Life and pension sales of £4,735 million (30 June 2008: £6,010 million)
- Life new business gross margin up to 2.1% (30 June 2008: 1.2%)
- Life IFRS operating profit of £368 million (30 June 2008: £428 million)
- UK general insurance result of £284 million (30 June 2008: £316 million) and general insurance COR of 99%

UK Life: Gaining competitive advantage through operational excellence
In a challenging market our UK life business is gaining competitive advantage. Our market share increased to 12% in the first quarter, from 11% last year, at an increased margin. Life and pensions sales were down 21% from a combination of our action to manage product mix, pricing and costs, and the effect of the economic downturn. We have remained focused on our strategy to transform the business to become a modern low-cost and dynamic organisation. Since outlining this strategy three years ago we have made significant progress in simplifying the business, reducing costs and improving profitability. This has positioned us well for the current testing market environment, where customers want to invest with brands they can trust.

We are on track to reduce costs by £100 million by the end of 2009. Our moves to simplify the business have been at the heart of this, with three million policies moving to new administration arrangements with outsourced partners. At the same time we have improved service to our customers and our customer recommendation ratings have increased significantly over the past year.

A significant milestone in the first half of the year was our agreement with the policyholder advocate to proceed with the reattribution of the inherited estate. This is now well underway with eligible customers voting on whether they wish to participate. We believe it was the right thing to do to give almost one million customers the choice to participate and so far approximately 70% have voted, 96% of whom have voted in favour. Customers have been asked to vote by 21 August. Following High Court approval we will be able to make payments to customers. Shareholders will also benefit from the increased capital efficiency this transaction will bring.

UK General Insurance: Material progress on transformation
We are delivering on the strategy we set out two years ago to achieve competitive advantage by reshaping the book for sustainable profit, focusing on our core insurance capabilities and delivering scale benefits.

We have made significant progress against this transformational agenda and recognise that these strategic choices will have an impact on volumes in the short term. We have exited partnerships which do not match our long-term strategy and withdrawn from managing general agents. The current economic environment has also had an impact due to fewer commercial business start-ups and more business failures. However, strengthening our pricing and risk selection to attract the right customers is beginning to deliver as we are seeing an improvement in underwriting margins on our business with less reliance on prior year savings (H1 2009: £88 million; H1 2008: £153 million).

We have made considerable progress in reducing our costs as we simplify and reshape the business with today's customer in mind through fewer service centres and streamlined products and processes. These changes have delivered £200 million annualised savings in phase one in 2008 and are ahead of plan to deliver further annualised savings of £150 million by 2010 in the second phase.

When added to lower negotiated commissions, this has improved our distribution ratio from 40% in 2007 and 37% in 2008 to 34% for the first half of 2009. Throughout this transformation customer service has remained consistent and as we complete this phase we will focus on further improving our service to customers.

Europe: Resilient results and transformation underway
- IFRS operating profit of £607 million (30 June 2008: £614 million)
- Life and pension sales of £8,851 million (30 June 2008: £9,064 million)
- Life new business gross margin 2.6% (30 June 2008: 2.7%)
- General insurance COR of 96%

Aviva Europe represents 51% of Aviva's life and pension sales. Its diversity of products and distribution channels across fifteen countries means that we have some in-built resilience to the strong contribution Europe makes to Aviva's results, even in today's turbulent markets. The nature of the downturn varies considerably in different markets, with countries such as Ireland and Hungary anticipating a significant and extended slowdown, while others such as Poland and France are expected to experience a shallower recession and to bounce back more quickly. The lower margin reflects a one-off portfolio transfer in 2008 and remains well above the group average.

We have continued to expand our distribution capability in the region. As the leading bancassurer in Europe we have benefited again from banks seeking to maximise their insurance earnings. In the first half of 2009 sales were up 13% through this important channel, with particularly good results seen in Italy and France.

Andrea Moneta joined the group last summer as CEO for the region and has appointed a new leadership team to exploit the significant value of the region. Our plans to undertake a partial IPO of Delta Lloyd when market conditions allow will exploit the potential value from Delta Lloyd's position in the Dutch market. The reorganisation to realise the full potential of Aviva's unique positioning and footprint in other key western and central European markets has already started. We will give more details on 22 October when we hold a presentation on our plans.

North America: Focus on greater capital efficiency

- IFRS operating profit of £103 million (30 June 2008: £102 million)
- Life and pensions sales of £3,189 million (30 June 2008: £2,227 million)
- Life new business gross margin up to 0.5% (30 June 2008: (0.4)%)
- General insurance COR of 97%

Our business in North America comprises the leading indexed annuity and indexed life business in the US and the second largest general insurer in Canada.

In the US sales demand for our indexed annuities remains high given the attractive guarantees they offer to customers in these uncertain times. Having achieved our target to double the scale of our business a year ahead of schedule we now have a sustainable footprint in the US market. Our strategy now is to focus on greater capital efficiency by moderating the pace of growth in indexed annuities. This is in line with our initiatives to change the business mix and grow our life insurance business. We were one of the few life companies to grow our life business in the first quarter and are pursuing new distribution opportunities to accelerate life insurance sales.

In Canada we have delivered another good performance, growing both premiums and profits this year to date. We have undertaken significant changes to the business to improve the efficiency of our operations, reduce costs and improve service and have delivered a combined operating ratio ahead of the group target.

Asia Pacific: Reshaping the portfolio and extending customer reach

- IFRS operating profit of £63 million (30 June 2008: £15 million)
- Life and pension sales of £698 million (30 June 2008: £896 million)
- Life new business gross margin 2.3% (30 June 2008: 3.6%)

In Asia Pacific we have taken action to reshape the portfolio and extend customer reach in the first half of the year against a backdrop of challenging markets. These moves will position us well for future growth once a recovery begins.

The sale of our Australian business supports our strategy of focusing on the key growth markets in the region where leading positions can be achieved. Our view was that it would be challenging to reach a leading position in the foreseeable future in an increasingly consolidated market where we were ranked ninth in the life market and our wealth management platform was ranked eighth. On completion the sale will give us greater financial flexibility to redeploy the capital to other markets which we believe will deliver better returns to shareholders over the next few years.

We have recently extended our bancassurance partnership with DBS, one of the largest financial services groups in Asia, to cover five markets in the region over the next six years. In addition to our existing relationship in Singapore and Hong Kong, this new agreement will extend our partnership to India, China and Taiwan over time. In China we are a leading foreign life insurer and we recently extended our reach further by opening our tenth province. We now operate in 40 cities across China giving us access to 630 million potential customers.

Korea has become an increasingly important market for us. In the first quarter it generated our highest level of sales in the region. We have moved from 22nd to 12th in the market in just one year and have recently opened five new branches around Seoul as part of our bancassurance partnership with Woori Bank.

Aviva Investors: A new global business

- IFRS operating profit of £36 million (30 June 2008: £61 million)
- Group funds under management at 30 June 2009 were £352 billion (31 December 2008: £379 billion)
- Funds managed by Aviva Investors at 30 June 2009 at £222 billion (31 December 2008: £236 billion)
- Net new business flows of £3 billion

Aviva Investors is an example of the long-term potential we are creating in a 'One Aviva' approach to our business. We have created a single globally integrated fund management business from disparate operations in 15 countries. Aviva Investors was launched in September 2008 at the height of the turmoil in investment markets and is now ranked the 18th largest institutional fund manager in the world. Market conditions have remained tough. The significant decline across all major equity markets in the second half of 2008, together with continued falls in real estate capital values, has led to a reduction in funds under management this year and this has had a corresponding impact on management fees and profit.

Meanwhile we have made early in-roads into our long-term objectives to increase third party business and cross border sales. The success of our Absolute Tactical Asset Allocation fund is a good example. The £570 million fund has recently been ranked by Bloomberg in the top percentile of best performing active funds in the world. Through the Aviva Investors' franchise it has attracted global interest with new investments from Europe and it will shortly be available in the US. A further success is our Global High Yield Bond fund which is managed in Chicago and for which we recently won a significant mandate in Taiwan.

We have continued selectively to invest in our business, both in terms of people and operating processes, while containing costs. This investment is an important part of our transformation and we are pleased to report net new business flows of £3 billion with £2 billion from third party clients and strong pipelines of interest across the world.

Information

Newswires:

There will be a conference call today for real time media at 0745 hours (BST) on +44 (0)20 7162 0025. Quote: Aviva, Andrew Moss.

Analysts:

A presentation to investors and analysts will take place at 0845 hours (BST) at St Helens, 1 Undershaft, London EC3P 3DQ. The investors and analysts presentation is being filmed for live webcast and can be viewed on the Group's website www.aviva.com or on www.cantos.com. In addition a replay will be available on these websites later today.

There will also be a live teleconference link to the investor and analyst meeting on +44(0)20 7806 1961. A replay facility will be available until 12 August 2009 on +44 (0)20 7806 1970. The pass code is 3248685# for the whole presentation including Question & Answer session or 4596675# for Question & Answer session only.

The presentation slides will be available on the group's website, www.aviva.com/investor-relations/presentations/ from 0845 hours (BST).

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 pension products in 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 2008.
- Aviva's principal business activities are long-term savings, fund management and general insurance, with worldwide total sales* of £24.4 billion at 30 June 2009 and funds under management of £352 billion at 30 June 2009.

  * Based on life and pensions PVNBP, total investment sales, including share of associates' premiums, and general insurance and health net written premiums.
- Income statements and cash flows of foreign entities are translated at average exchange rates while their balance sheets are translated at the closing exchange rates on 30 June 2009.
- The present value of new business premiums (PVNBP) is equal to total single premium sales received in the year plus the discounted value of annual premiums expected to be received over the term of the new contracts, and is expressed at the point of sale.
- This preliminary announcement may include oral and written "forward-looking statements" with respect to certain of Aviva's plans and its current goals and expectations relating to its future financial condition, performance and results. These forward-looking statements sometimes use words such as "anticipate", "target", "expect", "estimate", "intend", "plan", "goal", "believe" or other words of similar meaning. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which may be beyond Aviva's control, including, among other things, UK domestic and global economic and business conditions, market-related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory authorities, the impact of competition, the possible effects of inflation or deflation, the timing impact and other uncertainties relating to acquisitions by the Aviva group and relating to other future acquisitions or combinations within relevant industries, the impact of tax and other legislation and regulations in the jurisdictions in which Aviva and its affiliates operate, as well as the other risks and uncertainties set forth in our 2008 Annual Report to Shareholders. As a result, Aviva's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in Aviva's forward-looking statements, and persons receiving this announcement should not place undue reliance on forward-looking statements.
- Aviva undertakes no obligation to update the forward-looking statements made in this announcement or any other forward-looking statements we may make. Forward-looking statements made in this announcement are current only as of the date on which such statements are made.

Half Year Report 2009

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Group performance

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Corporate centre	**(46)**	(71)	35 %	**(46)**	(71)	35 %
Group debt and other interest costs	**(318)**	(201)	(58)%	**(318)**	(201)	(58)%
Operating profit before tax	**1,049**	1,223	(14)%	**1,685**	1,509	12 %
Profit/(loss) after tax	**747**	(84)		**1,084**	(2,361)	
Total dividend per share	**9.0p**	13.09p		**n/a**	n/a	
Net asset value per share	**349p**	437p		**416p**	660p	
Diluted earnings per share	**24.8p**	(4.0)p		**38.9p**	(91.6)p	
Equity shareholders' funds	**£9,549m**	£11,625m		**£11,399m**	£17,541m	
Return on equity shareholders' funds				**16.5%**	11.0%[1]	

1. As at 31 December 2008

IFRS profit after tax of £747 million

- Strong improvement in profit after tax benefiting from resilient operating result and improved market conditions.
- Change in longer-term investment return (LTIR) rate basis contributed £129 million to operating profit.
- Diluted earnings per share on an IFRS basis increased to 24.8 pence.

IFRS long-term business operating profit down 2% to £940 million

- Result impacted by the prevailing economic climate with lower expected returns, resulting from decreased asset values following falls in financial markets and lower interest rates.
- UK Life result includes impact of reduced with-profit special distribution bonus of £86 million (H1 2008: £124 million).
- Asia Pacific benefited from a £58 million one-off release from reserves following an actuarial review of risk margins.

General insurance and health operating profit up 3% to £545 million

- General insurance and health operating profit increased by 3% (H1 2008: £528 million).
- Group underwriting result of £118 million, a strong increase on prior period (H1 2008: £52 million).
- Reserve releases of £190 million (H1 2008: £230 million), net of reinsurance, from previous accident year and prior.
- Longer-term investment return down 9% to £436 million driven by lower asset values and lower interest rates when compared to the prior period.
- Net written premiums down 15% to £4,947 million (down 4% adjusted for the sale of Delta Lloyd Healthcare), with reductions in the UK partially offset by increases in other regions.
- COR of 97% in line with H1 2008 and consistent with overall 98% 'meet or beat' target, with improvements in expense and distribution ratios offset by increase in claims costs.

Fund management down to £35 million on an IFRS basis

- Operating profit decrease to £35 million reflecting decline in management fee income.
- Reduction due to significant falls across all major equity markets during the second half of 2008, together with the continued fall in real estate capital values, leading to a reduction in average funds under management for the period compared to the first half of 2008.
- Net new business flows of £3 billion, with £2 billion of this from third party clients.

Underlying costs down by 9%

- Underlying cost base, excluding foreign exchange and restructuring costs, reduced by 9% over the last 12 months and ahead of our plan to deliver £500 million of cost savings by 2010.

Net asset value of 349 pence per share on an IFRS basis

- Reduction in NAV to 349 pence for H1 2009 (FY 2008: 416 pence; H1 2008: 437 pence) impacted by exchange movements of £1,476 million and pension schemes deficit increase of £1,380 million, primarily driven by changes in discount rates and increases in long term inflation assumptions.

Group performance continued

New business sales

- Worldwide long-term new business sales, including investment products of £19,421 million 6% down compared with H1 2008 (down 16% in local currency).
- Life and pension sales down 4% to £17,473 million (down 15% in local currency) with higher sales in North America more than offset by reductions across all regions.
- Bancassurance remains a significant contributor, accounting for almost a third of our global life and pensions sales. Sales through bancassurance channels were £5.4 billion for H1 2009.
- Overall new business margin of 2.1%, in line with FY08 and a 0.2% increase on H1 2008.
- IRR on life and pension new business for the group was 9.5% (H1 2008: 12.9%)

MCEV operating profit up 12% to £1,685 million

- Life MCEV operating earnings up by 26% to £1,607 million.
- Unfavourable movement in experience variance is driven predominately by adverse persistency experience in a number of businesses.
- Change in LTIR rate basis contributed £350 million to operating profit.

Net asset value of 416 pence per share on an MCEV basis

- Net asset value impacted by increase in pension schemes deficit of £1,380 million and unfavourable exchange movements of £1,746 million.
- Impact of marking own debt to market would add 67 pence to MCEV net asset value.

Increase in IGD solvency to £3.2 billion

- Strong growth reflects a combination of operating and market performance as well as the benefit of capital management initiatives.
- Initiatives in the period include the issue of £0.2 billion of hybrid capital, issuance of hybrid debt in the Netherlands of £0.4 billion and a £0.1 billion benefit from the disposal of the Dutch healthcare business.
- 40% fall in equities would reduce IGD surplus by £0.3 billion; 40% rise would improve IGD surplus by £0.7 billion.

Liquidity

- Strong liquidity position with direct access to £1.1 billion of liquid assets.
- £2.1 billion of undrawn committed credit facilities provided by a range of leading international banks.

Interim dividend of 9 pence

- Interim dividend for 2009 of 9 pence, a reduction of 31% from 2008.

Group's rating from Standard and Poors is AA- ("very strong")

- Group's rating from Standard and Poors is AA- ("very strong") with a Negative outlook, and A ("excellent") from A M Best with a Stable outlook.
- Moody's group rating at Aa3 ("excellent") reaffirmed in May 2009, with a Negative outlook in line with the UK sector.
- Ratings continue to reflect our strong competitive position, positive strategic management, strong and diversified underlying earnings profile, and robust liquidity.

Sale announced of Australian business for £452 million

- Sale of Australian life business for £452 million expected in Q3 2009, a return of 16 times 2008 IFRS earnings. This transaction is expected to contribute around £0.4 billion to IGD surplus on completion.

US listing

- Continued to make good progress on our global finance programme, which will bring with it Sarbanes-Oxley compliance. This would enable us to consider a listing of our shares in the US if we choose to do so. Over 20% of our shareholders are in the US.

Asset quality

- Quality of Aviva's asset base continues to be strong.
- No material deterioration since end 2008 in either credit quality or the proportion of assets which are valued either based on quoted prices in an active market or using models with significant observable market parameters.
- 94.8% of total debt securities are investment grade, with 1.6% below investment grade and 3.6% not rated.
- Total corporate debt defaults in H1 2009 of only £15 million and impairments of approximately £50 million (FY 2008: £140 million and £260 million).
- UK commercial mortgage interest cover constant at 1.3 times.
- No defaults recorded on bonds and commercial mortgages backing the UK annuity book.
- Very limited exposure to RMBS (Sub prime, Alt A), ABS, wrapped credit, CDOs and CLOs; these investments represent less than 1.0% of total balance sheet assets.

Proforma reconciliation of group operating profit to profit after tax – IFRS

For the six month period to 30 June 2009

	6 months 2009 £m	Restated 6 months 2008 £m	Full year 2008 £m
Operating profit before tax attributable to shareholders' profits			
Long-term business			
United Kingdom	**368**	428	751
Europe	**478**	486	881
North America	**24**	30	16
Asia Pacific	**70**	14	46
Total long-term business *(note 1)*	**940**	958	1,694
General insurance and health			
United Kingdom	**284**	316	656
Europe	**167**	137	397
North America	**87**	76	145
Asia Pacific	**7**	(1)	–
Total general insurance and health *(note 2)*	**545**	528	1,198
Fund management			
United Kingdom	**2**	20	46
Europe	**25**	33	49
North America	**8**	13	14
Asia Pacific	**–**	9	14
Total fund management *(note 3)*	**35**	75	123
Other:			
Other operations and regional costs *(note 4)*	**(107)**	(66)	(198)
Corporate centre *(note 5)*	**(46)**	(71)	(141)
Group debt costs and other interest *(note 6)*	**(318)**	(201)	(379)
Operating profit before tax attributable to shareholders'	**1,049**	1,223	2,297
Adjusted for the following:			
Investment return variances and economic assumption changes on long-term business *(note 7)*	**155**	(636)	(1,631)
Short-term fluctuation in return on investments on non-long-term business *(note 8)*	**(125)**	(314)	(819)
Economic assumption changes on general insurance and health business	**52**	6	(94)
Impairment of goodwill	**(5)**	(42)	(66)
Amortisation and impairment of intangibles	**(58)**	(51)	(117)
Profit on the disposal of subsidiaries and associates	**20**	9	7
Integration and restructuring costs *(note 9)*	**(148)**	(132)	(326)
Exceptional items	**–**	(84)	(551)
Profit/(loss) before tax	**940**	(21)	(1,300)
Tax on operating profit	**(235)**	(351)	(487)
Tax on other activities	**42**	288	902
	(193)	(63)	415
Profit/(loss) for the period	**747**	(84)	(885)

The six months to 30 June 2008 have been restated to reflect the restatements for the consolidation of managed funds and to reflect the change in accounting policy for latent reserves. More detail is included in the Financial Supplement - A1 Basis of Preparation.

Group operating profit – IFRS continued

1 – Geographical analysis of long-term business IFRS operating profit

	6 months 2009 £m	Restated 6 months 2008 £m	Full year 2008 £m
With-profit	**137**	202	289
Non-profit	**231**	226	462
United Kingdom	**368**	428	751
France	**122**	145	275
Ireland	**29**	28	61
Italy	**37**	37	48
Netherlands (including Belgium and Germany)	**148**	134	196
Poland	**72**	76	162
Spain	**71**	74	155
Other Europe	**(1)**	(8)	(16)
Europe	**478**	486	881
North America[1]	**24**	30	16
Asia	**48**	(7)	2
Australia	**22**	21	44
Asia Pacific	**70**	14	46
Total	**940**	958	1,694

1. Following the establishment of Aviva Investors, the fund management portion of the US business has been separately identified and transferred to fund management. This has reduced the half year 2008 life IFRS operating profit by £12 million.

IFRS long-term business operating profit before shareholder tax was £940 million (six months to 30 June 2008: £958 million), a decrease of 2% on the prior period.

United Kingdom
IFRS operating profit was 14% lower at £368 million (six months to 30 June 2008: £428 million) driven by the fall in asset market values which have resulted in a lower shareholders' share of the with-profit special distribution bonus at £86 million (six months to 30 June 2008: £124 million). This has been compounded by reduced regular and terminal bonus payments.

Despite reduced annual management income, the non-profit result increased by 2% to £231 million (six months to 30 June 2008: £226 million) as we start to see the benefits of our successful operational efficiency initiatives.

Europe
In Europe, operating profit was £478 million (six months to 30 June 2008: £486 million), a 2% decrease on the prior period reflecting reduced management fees earned on unit-linked business and lower expected returns on assets under management. Offsetting these factors we have benefited from foreign exchange strengthening, principally on the euro.

In Italy, an increase in profits from existing business offset the increase in new business strain arising from sales growth of 45% in constant currency. This performance reflects a £2 million contribution from Aviva Assicurazioni Vita (formally UBI Vita) which was acquired in June 2008.

The Netherlands result increased by 10% to £148 million (six months to 30 June 2008: £134 million) reflecting currency strengthening and lower new business strain driven by a decrease in corporate pension sales offset by lower return on opening assets values.

North America
Life operating profit decreased by 20% to £24 million (six months to 30 June 2008: £30 million). The favourable impact of new business and the actions management has taken to improve life and annuity profitability was offset by margin compression, including higher option costs, and the impact of higher lapse experience.

Asia Pacific
Life operating profit increased to £70 million (six months to 30 June 2008: £14 million). The result benefited from a one-off release of reserves in Singapore of £58 million following an actuarial review of risk margins.

2 – Analysis of general insurance and health

	Underwriting result			Longer-term investment return			Operating profit[2]		
	6 months 2009 £m	6 months 2008 £m	Full year 2008 £m	**6 months 2009 £m**	6 months 2008 £m	Full year 2008 £m	**6 months 2009 £m**	Restated 6 months 2008 £m	Full year 2008 £m
General insurance									
United Kingdom[1,2]	**63**	32	70	**227**	286	579	**282**	314	642
France	**7**	2	28	**24**	23	53	**31**	25	81
Ireland	**15**	8	(3)	**33**	33	67	**47**	41	63
Netherlands	**6**	18	54	**53**	39	92	**59**	56	146
Other	**1**	5	–	**23**	17	45	**24**	22	45
Europe	**29**	33	79	**133**	112	257	**161**	144	335
North America	**21**	15	21	**66**	61	124	**87**	76	145
Asia Pacific	**–**	(2)	(5)	**1**	–	1	**1**	(2)	(4)
	113	78	165	**427**	459	961	**531**	532	1,118
Health insurance									
United Kingdom	**–**	(1)	8	**2**	3	6	**2**	2	14
France	**(2)**	(1)	11	**7**	6	15	**5**	5	26
Ireland	**1**	–	4	**–**	–	1	**1**	–	5
Netherlands[3]	**–**	(25)	(11)	**–**	12	42	**–**	(12)	31
Europe	**(1)**	(26)	4	**7**	18	58	**6**	(7)	62
Asia Pacific	**6**	1	4	**–**	–	–	**6**	1	4
	5	(26)	16	**9**	21	64	**14**	(4)	80
Total	**118**	52	181	**436**	480	1,025	**545**	528	1,198

1. United Kingdom includes Aviva Re and agencies in run-off.
2. Operating profit includes an unfavourable impact of £9 million resulting from unwind of discount (30 June 2008: £4 million; 31 December 2008: £8 million).
3. Prior period results include Delta Lloyd health which was sold 1 January 2009.

Group operating profit from general insurance and health businesses increased by 3% to £545 million (six months to 30 June 2008 restated: £528 million). The general insurance and health underwriting result increased to £118 million (six months to 30 June 2008: £52 million).

We continue to apply our reserving policy consistently and the reserves in the group are set conservatively with the aim to protect against adverse future claims experience and development. Our business is predominantly short tail in nature and loss development experience is generally stable. As a result of the conservatism applied in setting the reserves, there are releases of £190 million, net of reinsurance, in 2009 which reflect releases from the 2008 accident year and prior (six months to 30 June 2008: £230 million).

The worldwide general insurance combined operating ratio (COR) was 97% (six months to 30 June 2008: 97%) in line with the group's 'meet or beat' target. The worldwide GI expense ratio has decreased to 12.3% (six months to 30 June 2008: 12.7%) reflecting cost savings from our efficiency programmes and actions taken across the group to manage the cost base.

The longer term investment return (LTIR) on general insurance and health business assets was lower at £436 million (six months to 30 June 2008: £480 million).

United Kingdom
The results for the United Kingdom include our general insurer Aviva General Insurance UK, our group captive reinsurer Aviva Re and agencies in run-off. Operating profit of £282 million (six months to 30 June 2008 restated: £314 million) includes a contribution of £35 million (six months to 30 June 2008: £19 million) from Aviva Re.

Aviva General Insurance UK operating profit for the first half of 2009 has reduced by 16% to £247 million (six months to 30 June 2008 restated: £295 million). The result includes savings on prior year claims development of £88 million (six months to 30 June 2008 restated: £153 million) and a reduction in investment returns to £217 million (six months to 30 June 2008: £273 million) due to a combination of lower interest rates, investment mix and lower asset value at the beginning of the year. The combined operating ratio is 99% (six months to 30 June 2008: 98%).

Within the combined operating ratio, the focus we have placed on controlling distribution costs has resulted in a reduction in commission and expense ratios when compared with the first half of 2008. The commission ratio has improved to 22% (six months to 30 June 2008: 25%), reflecting our work to reshape the book so that the business we write through brokers and partners is on more acceptable terms, as well as a reduction in creditor business. The expense ratio has fallen to 11.7% (six months to 30 June 2008: 12.8%) as we continue to realise the benefits from our transformation programmes in Operations and IT, together with actions undertaken to manage the cost base to an appropriate level in the light of lower net written premiums. This means that our distribution ratio (commissions and expenses) has improved from 40% in 2007 and 37% in 2008 to 34% for the half year 2009.

Group operating profit – IFRS continued

2 – Analysis of general insurance and health continued

We are making excellent progress on the second phase of our transformation programme announced in June 2008. The current phase includes the consolidation of the business into nine modern insurance "centres of excellence", an exercise that is running ahead of plan and we are already undertaking over 60% of our business within these centres. In addition, we anticipate that re-engineering will reduce the number of processes by half across all locations and products. The overall programme remains on track to deliver annualised savings of £150 million by 2010, with further savings of £30 million realised in the first half of 2009 in addition to the £27 million already recognised in 2008.

The improvement in the commission and expense ratios has been offset by deterioration in the claims ratio in the first half of 2009, reflecting the lower levels of prior year savings and increased creditor claims. The actions we have initiated on delivering insurance excellence by reshaping the book, introducing sophisticated pricing techniques and enhanced risk selection are already benefiting underlying performance and we are confident this will translate into a lower claims ratio in the near future.

The first half of 2009 saw rate increases above the level of claims inflation in all major classes for the first time in around five years. Our rating action within personal lines in the first half of the year has been broadly consistent with that of the market as a whole. As a result we are achieving an average premium increase of 6% in personal motor and 5% in homeowner. The commercial lines market appears to be hardening slowly and remains price competitive. We are maintaining our pricing discipline across new business and renewals and we continue to carry positive rate increases across the whole of our commercial portfolio, achieving an overall average increase of 5% in the first half of the year. This increase together with indexation mean that for the first time in five years premium adequacy levels are improving and are growing above claims inflation.

Europe

Aviva Europe's general insurance and health business continues to perform well against a backdrop of increasing price competition across a number of countries. Net written premiums for the region were £1,738 million (six months to 30 June 2008: £2,183 million). Adjusting for the sale of Delta Lloyd health (six months to 30 June 2008: £671 million), net written premiums, on an underlying basis, are flat with the exception of Ireland, as a result of the continuation of aggressive competition and difficult trading conditions dominating the Irish general insurance market.

General insurance and health operating profit was £167 million, up 22% (six months to 30 June 2008 restated: £137 million) with the result including the beneficial impact of the euro strengthening. Underwriting result for the region was up against the prior period to £28 million (six months to 30 June 2008: £7 million) with the impact of bad weather in France offset by reserve margin releases. In addition we have seen lower large claims experience which has been offset partly by volume impacts. Longer-term investment return was up 8% to £140 million (six months to 30 June 2008: £130 million) reflecting currency strengthening. On an underlying basis, return was down due to a reduced asset base and lower interest rates.

Our combined operating ratio of 96% is within the group's 'meet or beat' target (six months to 30 June 2008: 95%).

In the Netherlands, net written premiums reduced to £677 million (six months to 30 June 2008: £1,231 million) following the sale of the health business to OWM CZ Groep Zorgverkeraar on 1 January 2009. Operating profit increased to £59 million (six months to 30 June 2008: £44 million) reflecting the £12 million loss incurred by the health business in the prior period. The general insurance COR worsened to 97% (six months to 30 June 2008: 92%) due to pressure on motor premium rates and a deterioration in claims experience.

North America

Net written premiums of our Canadian business increased by 15% to £889 million (six months to 30 June 2008: £771 million), underlying increase of 4%. Commercial lines premiums continue to show growth in a competitive market with limited opportunities for rate increases. Personal line premiums grew 2% in local currency, primarily on better homeowner retention. Personal auto premiums were flat as we maintained our focus on profit over volume.

The underwriting result was higher at £21 million (six months to 30 June 2008: £15 million) with a combined operating ratio of 97% (six months to 30 June 2008: 98%). Our claims ratio increased slightly, driven by higher loss severity and reduced favourable prior year development but this was more than offset by actions to reduce commissions and expense levels.

Operating profit increased to £87 million (six months to 30 June 2008: £76 million) reflecting increased sales volumes, the improvement in our underwriting result and foreign exchange movements.

Asia Pacific

Net written premiums in the general insurance and health businesses increased to £22 million (six months to 30 June 2008: £14 million), primarily due to new business initiatives in Singapore.

Total operating profit improved to £7 million (six months to 30 June 2008: £1 million loss). This result mainly reflected a £5 million benefit from a one-off release of reserves following a review of risk margins in the health business in Singapore and better claims performance in Malaysia following the exit from unprofitable business lines.

2 – Analysis of general insurance and health continued

Combined operating ratios – general insurance business only

	Claims ratio			Expense ratio			Combined operating ratio		
	6 months 2009 £m	6 months 2008 £m	Full year 2008 £m	**6 months 2009 £m**	6 months 2008 £m	Full year 2008 £m	**6 months 2009 £m**	6 months 2008 £m	Full year 2008 £m
United Kingdom[1]	**65.8%**	60.2%	62.0%	**11.7%**	12.8%	12.1%	**99%**	98%	99%
France	**68.4%**	70.0%	68.2%	**9.5%**	8.7%	9.7%	**96%**	96%	96%
Ireland	**65.1%**	71.2%	74.3%	**18.2%**	15.2%	16.9%	**94%**	98%	103%
Netherlands	**66.2%**	60.3%	57.2%	**12.5%**	14.7%	18.2%	**97%**	92%	94%
Europe	**65.8%**	66.3%	64.0%	**12.6%**	12.3%	15.1%	**96%**	95%	97%
North America	**65.2%**	64.7%	64.4%	**13.7%**	14.2%	15.0%	**97%**	98%	99%
Total	**65.3%**	62.5%	62.6%	**12.3%**	12.7%	13.4%	**97%**	97%	98%

1 United Kingdom excluding Aviva Re and agencies in run-off.

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

Definitions:

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

3 – Geographical analysis of fund management operating profit

	6 months 2009 £m	Restated 6 months 2008[2] £m	Full year 2008 £m
United Kingdom	**14**	28	64
Europe	**15**	20	35
North America	**8**	13	14
Asia Pacific	**(1)**	–	1
Aviva Investors[1]	**36**	61	114
United Kingdom	**(12)**	(8)	(18)
Netherlands	**9**	10	10
Other Europe	**1**	3	4
Europe	**10**	13	14
Asia Pacific	**1**	9	13
Total	**35**	75	123

1. Half year 2008 has been restated to reflect the new management structure of Aviva Investors to include France, USA and Canada. Aviva's retail investment business and the collective investment business with RBSG do not form part of Aviva Investors UK operations.
2. Following the establishment of Aviva Investors, the fund management portion of the US business, previously recognised in long-term business, has been separately identified and transferred to fund management. This has increased the half year 2008 life IFRS operating profit by £12 million.

Our worldwide fund management operating profit decreased to £35 million (six months to 30 June 2008: £75 million) on an IFRS basis.

Aviva Investors

Operating profit reduced to £36 million (six months to 30 June 2008 restated: £61 million) reflecting the significant decline in management fees seen in the period. The decline in fees can be attributed to the decrease across all major equity markets during the second half of 2008 and the continued fall in real estate capital values, resulting in a reduction in average funds under management when compared to the prior period.

Other fund management businesses

United Kingdom operating loss of £12 million comprises £1 million loss (six months to 30 June 2008: £2 million loss) from our Aviva UK retail investment business and £11 million loss (six months to 30 June 2008: £6 million loss) from our collective investment business with Royal Bank of Scotland Group due to a decline in sales.

Europe operating profit of £10 million (six months to 30 June 2008: £13 million) reflected lower investment management fees from funds under management due to volatile stock markets.

Asia Pacific, comprising our Navigator business in Australia and Singapore, contributed £1 million (six months to 30 June 2008: £9 million).

Group operating profit – IFRS continued

3 – Geographical analysis of fund management continued

Total funds under management at 30 June 2009 decreased by 7% to £352 billion (31 December 2008: £379 billion).

	30 June 2009			Restated 31 December 2008
	Life and related businesses £m	General business and other £m	Total £m	Total £m
Total IFRS assets included in the balance sheet	**288,657**	**42,835**	**331,492**	354,562
Third party funds under management:				
Unit trusts, OEICs, PEPs and ISAs			**19,250**	20,876
Segregated funds			**42,878**	48,104
			393,620	423,542
Non-managed assets			**(41,720)**	(44,176)
Funds under management			**351,900**	379,366
Managed by:				
Aviva Investors			**222,120**	236,178
Other Aviva managers			**106,580**	118,314
Total funds managed by Aviva			**328,700**	354,492
External fund managers			**23,200**	24,874
Funds under management			**351,900**	379,366

Funds managed by Aviva Investors were £222 billion (31 December 2008 £236 billion). The decrease reflects the decline across all major equity markets during the second half of 2008 and in property capital values.

4 – Analysis of other operations and regional costs

	6 months 2009			6 months 2008			Full year 2008		
	Regional Costs £m	Other Operat-ions £m	Total £m	Regional Costs £m	Other Operat-ions £m	Total £m	Regional Costs £m	Other Operat-ions £m	Total £m
United Kingdom	**–**	**(36)**	**(36)**	–	(33)	(33)	–	(12)	(12)
Europe	**(11)**	**(37)**	**(48)**	(12)	(10)	(22)	(28)	(123)	(151)
North America	**(9)**	**1**	**(8)**	(5)	1	(4)	(14)	2	(12)
Asia Pacific	**(15)**	**–**	**(15)**	(7)	–	(7)	(23)	–	(23)
Total	**(35)**	**(72)**	**(107)**	(24)	(42)	(66)	(65)	(133)	(198)

Other operations and regional costs increased to £107 million (six months to 30 June 2008: £66 million) driven by the loss in the Netherlands of £23 million relating to the banking and retail mortgage operations, in line with the second half of 2008. The increases in regional costs for North America and Asia Pacific are driven by foreign exchange movements and increases in headcount and property expenses.

5 – Corporate centre

	6 months 2009 £m	6 months 2008 £m	Full year 2008 £m
Project spend	**(2)**	(20)	(34)
Share awards and other incentive schemes	**(6)**	(8)	(10)
Central spend	**(38)**	(43)	(97)
Total	**(46)**	(71)	(141)

The corporate centre costs for the period reduced to £46 million (six months to 30 June 2008: £71 million) due to lower central spend resulting from the implementation of costs saving initiatives and reduced project spend.

6 – Group debt costs and other interest

	6 months 2009 £m	6 months 2008 £m	Full year 2008 £m
External			
Subordinated debt	**(139)**	(94)	(229)
Other	**(26)**	(34)	(57)
Internal	**(121)**	(95)	(197)
Net finance (charge)/income on UK pension schemes	**(32)**	22	104
Total	**(318)**	(201)	(379)

Group debt costs and other interest of £318 million (six months to 30 June 2008: £201 million) comprise internal and external interest on borrowings, subordinated debt and intra-group loans not allocated to local business operations. External interest costs increased to £165 million (six months to 30 June 2008: £128 million) reflecting higher interest on subordinated debt, due to the hybrid debt issued in 2008 and 2009, offset by lower commercial paper interest as proceeds from the issue were used to repay some commercial paper. Internal interest costs increased to £121 million (six months to 30 June 2008: £95 million) driven by changes to our internal loan balances.

The UK pension scheme net charge which represents the difference between the expected return on pension scheme assets and the interest charged on pension scheme liabilities. The net pension charge increased to £32 million (six months to 30 June 2008: £22 million income) reflecting lower rates of return on asset values offset by higher discount rates on liabilities.

7 – Long-term business investment return variances and economic assumption changes

(a) Definitions

Operating profit for long-term business is based on expected investment returns on financial investments backing shareholder and policyholder funds over the period, with consistent allowance for the corresponding expected movements in liabilities. Operating profit includes the effect of variance in experience for non-economic items, such as mortality, persistency and expenses, and the effect of changes in non-economic assumptions. Changes due to economic items, such as market value movement and interest rate changes, which give rise to variances between actual and expected investment returns, and the impact of changes in economic assumptions on liabilities, are disclosed separately outside operating profit.

(b) Economic volatility

The investment variances and economic assumption changes excluded from the long-term business operating profit were as follows:

	Long-term business		
	6 months 2009 £m	6 months 2008 £m	Full year 2008 £m
Investment variances and economic assumptions	**155**	(636)	(1,631)

(c) Assumptions

The expected rate of investment return is determined using consistent assumptions between operations, having regard to local economic and market forecasts of investment return and asset classification under IFRS.

Within the 2008 results, the expected rate of investment return was calculated by reference to the one year swap rate in the relevant currency plus an appropriate risk premium for equities and properties. For 2009, the group considers that the return over the typical duration of the assets held is more appropriate and is more consistent with the group's expectation of long term rates of return. Therefore, the expected return on equities and properties has been calculated by reference to the 10 year swap rate in the relevant currency plus an appropriate risk premium.

If the IFRS operating profit had been calculated by reference to the one year swap rate, IFRS operating profit would have been £120 million lower. There is no impact on IFRS profit before tax.

The principal assumptions underlying the calculation of the expected investment return for equities and property are:

	Equities			Properties		
	6 months 2009 %	6 months 2008 %	Full year 2008 %	**6 months 2009 %**	6 months 2008 %	Full year 2008 %
United Kingdom	**7.0%**	7.6%	9.2%	**5.5%**	6.6%	7.7%
Eurozone	**7.3%**	7.4%	8.3%	**5.8%**	6.4%	6.8%

For fixed interest securities classified as fair value through profit and loss, the expected investment returns are based on average prospective yields for the actual assets held. Where fixed interest securities are classified as available for sale, such as in the United States, the expected investment return comprises the expected interest or dividend payments and amortisation of the premium or discount at purchase.

Group operating profit – IFRS continued

8 – Non-long-term business economic volatility

	Non-long-term business		
	6 months 2009 £m	6 months 2008 £m	Full year 2008 £m
Net investment income	**497**	239	522
Internal charges included under other headings	**(116)**	31	(73)
	381	270	449
Analysed between:			
Longer term investment return, reported within operating profit	**506**	584	1,268
Short-term fluctuations in investment return, reported outside operating profit	**(125)**	(314)	(819)
	381	270	449

The longer-term investment return is calculated separately for each principal non long-term business unit. In respect of equities and properties, the return is calculated by multiplying the opening market value of the investments, adjusted for sales and purchases during the year, by the longer-term rate of investment return. The longer-term rate of investment return is determined using consistent assumptions between operations, having regard to local economic and market forecasts of investment return. The allocated longer-term return for other investments is the actual income receivable for the period. Actual income and longer-term investment return both contain the amortisation of the discount/premium arising on the acquisition of fixed income securities.

For the general insurance, health and other businesses, we have calculated the longer-term investment return using the revised economic assumptions for equities and properties as noted above. The change in the underlying reference rate results in a £9 million increase to operating profit. There is no impact on IFRS profit before tax.

For other operations, the longer-term investment return mainly reflects net interest income earned in the Netherlands bank and retail mortgage divisions.

The total assets supporting the general insurance and health business, which contribute towards the longer-term return are:

	30 June 2009	30 June 2008	31 December 2008
Debt securities	**9,975**	10,578	11,275
Equity securities	**1,104**	1,130	993
Properties	**234**	294	278
Cash and cash equivalents	**2,393**	3,354	3,407
Other	**3,864**	3,023	3,623
Total	**17,570**	18,379	19,576

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

	Longer term rates of return equities			Longer term rates of return property		
	6 months 2009 %	6 months 2008 %	Full year 2008 %	**6 months 2009 %**	6 months 2008 %	Full year 2008 %
United Kingdom	**7.0%**	7.6%	9.2%	**5.5%**	6.6%	7.7%
France	**7.3%**	7.4%	8.3%	**5.8%**	6.4%	6.8%
Ireland	**7.3%**	7.4%	8.3%	**5.8%**	6.4%	6.8%
Netherlands	**7.3%**	7.4%	8.3%	**5.8%**	6.4%	6.8%
Canada	**6.1%**	7.6%	7.7%	**4.6%**	6.6%	6.2%

The underlying reference rates are at B12 within the MCEV financial supplement.

9 – Integration and restructuring costs

Integration and restructuring costs were £148 million (six months to 30 June 2008: £132 million) and represents expenditure related to cost saving programmes announced in prior years and further integration and restructuring projects across the Group.

New business

Life and pensions (gross of tax and minority interest)	Present value of new business premiums			Value of new business			New business margin		
	6 months 2009 £m	Restated 6 months 2008 £m	Restated Full year 2008 £m	**6 months 2009 £m**	Restated 6 months 2008 £m	Restated Full year 2008 £m	**6 months 2009 %**	Restated 6 months 2008 %	Restated Full year 2008 %
United Kingdom	**4,735**	6,010	11,858	**101**	73	204	**2.1%**	1.2%	1.7%
France	**2,440**	2,062	3,880	**72**	69	135	**3.0%**	3.4%	3.5%
Ireland	**426**	699	1,299	**4**	8	15	**0.9%**	1.2%	1.2%
Italy	**2,198**	1,305	2,331	**81**	35	71	**3.7%**	2.7%	3.0%
Netherlands (including Belgium and Germany)	**1,780**	2,085	4,097	**(34)**	(29)	(47)	**(1.9)%**	(1.4)%	(1.1)%
Poland	**554**	951	1,842	**27**	31	65	**4.9%**	3.3%	3.5%
Spain	**1,245**	1,295	2,489	**78**	116	202	**6.3%**	9.0%	8.1%
Other Europe	**208**	667	1,014	**6**	19	29	**2.9%**	2.8%	2.9%
Europe	**8,851**	9,064	16,952	**234**	249	470	**2.6%**	2.7%	2.8%
North America	**3,189**	2,227	5,715	**16**	(8)	55	**0.5%**	(0.4)%	1.0%
Asia	**532**	684	1,351	**6**	26	30	**1.1%**	3.8%	2.2%
Australia	**166**	212	369	**10**	6	13	**6.0%**	3.0%	3.5%
Asia Pacific	**698**	896	1,720	**16**	32	43	**2.3%**	3.6%	2.5%
Total life and pensions	**17,473**	18,197	36,245	**367**	346	772	**2.1%**	1.9%	2.1%

Life and pensions (net of tax and minority interest)	Present value of new business premiums			Value of new business			New business margin		
	6 months 2009 £m	Restated 6 months 2008 £m	Restated Full year 2008 £m	**6 months 2009 £m**	Restated 6 months 2008 £m	Restated Full year 2008 £m	**6 months 2009 %**	Restated 6 months 2008 %	Restated Full year 2008 %
United Kingdom	**4,735**	6,010	11,858	**72**	53	147	**1.5%**	0.9%	1.2%
France	**2,019**	1,692	3,281	**40**	38	79	**2.0%**	2.2%	2.4%
Ireland	**320**	524	974	**3**	6	10	**0.9%**	1.1%	1.0%
Italy	**994**	649	980	**25**	12	21	**2.5%**	1.8%	2.1%
Netherlands (including Belgium and Germany)	**1,661**	1,965	3,868	**(28)**	(25)	(48)	**(1.7)%**	(1.3)%	(1.2)%
Poland	**480**	827	1,604	**19**	22	46	**4.0%**	2.7%	2.9%
Spain	**676**	705	1,357	**26**	38	68	**3.8%**	5.4%	5.0%
Other Europe	**208**	667	1,014	**5**	16	24	**2.4%**	2.4%	2.4%
Europe	**6,358**	7,029	13,078	**90**	107	200	**1.4%**	1.5%	1.5%
North America	**3,189**	2,227	5,715	**16**	(5)	36	**0.5%**	(0.2)%	0.6%
Asia	**528**	680	1,344	**5**	21	24	**0.9%**	3.1%	1.8%
Australia	**166**	212	369	**7**	4	9	**4.2%**	1.9%	2.4%
Asia Pacific	**694**	892	1,713	**12**	25	33	**1.7%**	2.8%	1.9%
Total life and pensions	**14,976**	16,158	32,364	**190**	180	416	**1.3%**	1.1%	1.3%

United Kingdom

Against the backdrop of sustained challenging market conditions, the UK life business has continued to manage for value with a focus on capital discipline and reducing the operating cost base.

The successful rebrand of Norwich Union to Aviva took place on 1 June 2009. Alongside this, and as part of our simplification agenda and commitment to deliver service excellence, we launched two new online services, Aviva for Advisers and the Customer Portal. Both portals make it easier to interact with us, giving customers and advisers more information and control over their products.

Life and pension sales were 21% lower at £4,735 million compared to the first half of 2008 (six months to 30 June 2008: £6,010 million), with collective investments sales of £418 million (six months to 30 June 2008: £840 million). Despite lower sales our first quarter life and pension market share increased to 11.9%[1] (Q1 2008: 11.0%) demonstrating that in a market that has contracted by 32%[1] since the second quarter of 2008, a flight to quality is taking place reflecting our customer focus and understanding, financial strength, diversified product offering and wide distribution reach.

[1] Source: Quarter 1 2009 ABI data

New business continued

Our joint venture with the Royal Bank of Scotland continued to deliver a strong performance, with life and pension sales increasing by 9% to £692 million (six months to 30 June 2008: £635 million) driven by an almost 50% growth in pension sales.

Commission reductions across individual pensions, group pensions and bonds, and a change in business mix have all contributed to a strengthening of margin over the 2008 year-end position by 0.4% to 2.1%. Following the trend seen in the first quarter, the amount of capital[2] we consumed during the first half of the year was £136 million (six months to 30 June 2008: £210 million) equating to 2.9% of PVNBP (six months to 30 June 2008: 3.5%). Through our business simplification initiatives we remain on track to eliminate the expense overrun by the end of 2009 despite the reduction in volumes.

Total pension sales were £2,089 million (six months to 30 June 2008: £2,410 million), with the slowdown in salary increases as a result of the recession having a particular impact on incremental business. However, we are seeing real momentum following the launch of our market-leading Pension Tracker. We have increased the number of Employee Benefit Consultants, from 17 to 22, who have included us on their panel of providers with whom they will place new business and we have secured 170 new group pension plan schemes during the first half of 2009 including the largest scheme yet written at £90 million PVNBP.

Overall protection sales were £461 million (six months to 30 June 2008: £606 million), down 24% mainly due to regulatory changes significantly impacting creditor sales. Protection sales excluding creditor were £441 million (six months to 30 June 2008: £467 million). Our on-line Simplified Life proposition continues to differentiate us in this market, generating on average over 1,600 applications per week, an increase of 80% over 2008. The recently launched free life cover for new parents, raising awareness of the need to plan financial protection, clearly demonstrates how our new brand is delivering on its promise of building financial services around the needs of our customers.

Total annuity sales were £833 million (six months to 30 June 2008: £1,286 million). Our focus on driving greater value led to a reduction in individual annuity sales to £750 million, 14% lower than the equivalent period in 2008. In addition, our continued discipline of not pursuing business falling below our minimum level of return has resulted in reduced bulk purchase annuities sales of £83 million (six months to 30 June 2008: £418 million).

In line with our stance on profitability, bond sales reduced to £1,219 million (six months to 30 June 2008: £1,628 million). We remain committed to writing business at acceptable levels of return in this market which has experienced a contraction of 55%[1] since the second quarter of 2008.

Sales of equity release have grown to £133 million (six months to 30 June 2008: £80 million) as a result of a higher sales through penetration of the IFA market and proposition enhancements.

The economic environment has remained volatile in the first half of 2009 and we expect this to persist throughout the remainder of the year. We will continue to build on the momentum established through our well-defined strategy, and focus further on generating greater value through enhanced interactions with our existing customers, reshaping our distribution relationships, and driving significant profitable growth in the corporate sector and our risk business.

Europe

In Europe, life and pensions sales were £8,851 million (six months to 30 June 2008: £9,064 million) across our broad geographical portfolio. Excluding the one-off sales in the prior year, this is a strong performance set against the continuing economic uncertainty. The result has been achieved through the strength and diversity of our businesses, with the bancassurance channel selling particularly well in Italy and France. Margin decreased to 2.6% (six months to 30 June 2008: 2.7%) principally reflecting the impact of a one-off portfolio transfer in the prior period. Excluding Delta Lloyd, the margin was 3.8% (six months to 30 June 2008: 4.0%)

In France sales were up 18% as a result of the strengthened euro. On a local currency basis, sales increased by 2% despite lower unit-linked sales which continue to be affected by uncertainties in the financial markets. We have seen higher sales of guaranteed products with many of our customers selecting these products as an attractive and safe investment. The value of new business rose to at £72 million (six months to 30 June 2008: £69 million) with a margin of 3.0% (six months to 30 June 2008: 3.4%) driven by the current change in the market away from unit-linked volumes.

In Ireland, sales were down 47% on a local currency basis reflecting the sharp decline in the life and pensions market attributable to the current recession. There is lower demand across both retail and bancassurance channels with consumers being influenced by volatile equity markets, the slowdown in economic growth and property market uncertainty. Value of new business was £4 million (six months to 30 June 2008: £8 million) and margin was reduced to 0.9% (six months to 30 June 2008: 1.2%).

In Italy, sales increased by 68% to £2,198 million (six months to 30 June 2008: £1,305 million). This was a 48% increase on a local curreny basis. This significant increase reflects strong sales of protection products and also the high demand for our profit sharing products offering attractive guarantees sold through UniCredit. Aviva Assicurazioni Vita (formally UBI Vita), acquired in June 2008, contributed sales of £359 million. The increase in protection sales and overall increase in volumes led to an improved value of new business of £81 million (six months to 30 June 2008: £35 million) with the margin rising to 3.7% (six months to 30 June 2008: 2.7%).

[1] Source: Quarter 1 2009 ABI data

[2] Initial capital and associated required capital

In Spain, sales decreased by 4%, down 17% on a local currency basis, to £1,245 million (six months to 30 June 2008: £1,295 million) reflecting lower protection and pension sales and the inclusion in the prior period of a one-off transfer of £151 million as a result of the distribution agreement entered into with Caja Murcia. Adjusting for this, savings sales were slightly ahead of the prior year reflecting the attractive returns on offer, which offset lower pension and protection sales driven by adverse economic conditions. Value of new business was down to £78 million (six months to 30 June 2008: £116 million) with a reduction in margin to 6.3% (six months to 30 June 2008: 8.8%) as 2008 included the one-off transfers from Caja Murcia.

In Poland, life and pension sales were 42% lower than half year 2008, down 37% on a local currency basis. The prior year included a special promotion through Deutsche Bank for short-term endowment policies which attracted significant volumes but on a comparatively lower margin. This change in business mix, coupled with the move towards regular premiums resulted in an improvement in the margin to 4.9% (six months to 30 June 2008: 3.3%) despite the value of new business falling slightly to £27 million (six months to 30 June 2008: £31 million).

Other Europe includes a number of markets which, although currently experiencing challenging conditions, have high potential for future growth. Sales in these markets were down 69% on a local currency basis with the largest reduction in Romania, where the prior period included £410 million of initial contributions from the launch of compulsory pensions. Sales in Turkey were slightly higher reflecting both an increase in policies sold and a focus on higher premium business. Across the rest of the markets volumes declined reflecting difficult market conditions. The value of new business was £6 million (six months to 30 June 2008: £18 million), however, the margin increased slightly to 2.9% (six months to 30 June 2008: 2.8%).

Sales through Delta Lloyd were 15% down on the prior year reflecting the challenging market conditions whilst the prior period included £758 million of corporate pension scheme sales. In addition, there has been continued strong competition from the banking sector particularly on annuity products. Swiss Life Belgium, acquired in June 2008, contributed sales of £241 million, whilst the prior period included £758 million of one-off corporate pension scheme sales. The value of new business was a loss of £34 million (six months to 30 June 2008: £29 million loss) resulting in a margin of (1.9)% (six months to 30 June 2008: (1.3%)).

North America

Aviva USA reported an increase of 43% in new business sales to £3,189 million (six months to 30 June 2008: £2,227 million) on a sterling basis and on a local currency basis growth was 8%. While sales for the first half of the year remained strong, as customers seek products with guarantees during the current economic turbulence and recognise Aviva as one of the stronger market participants, compared to the second half of 2008 sales were down 8% on a sterling basis. We expect this trend to continue in the second half of the year consistent with our strategic goals to manage our production levels by changing our overall business mix to moderate annuity sales and grow our life insurance business.

Sales of annuities increased by 78% to £2,815 million (six months to 30 June 2008: £1,579 million). Demand has exceeded our desired production and, as a result, we have taken a number of actions to ensure we manage the business mix for the year. Re-pricing, commission reductions and production limits, as well as the elimination of non-core distribution relationships should have a positive effect on our new business margins for the full year 2009.

Life product sales, which mainly include indexed universal life and term assurance products, were £374 million for the first half of 2009 (six months to 30 June 2008: £273 million). Life product sales were up 3% on a local currency basis compared to the second half of 2008, although there is a trend of reduced life sales in the overall market due to the economic decline. Despite the current trends, we are optimistic that the steps we are taking now will position us for future growth. These steps include expanding into the brokerage general agency market and our CPA Wealthstar Initiative. We continue to evaluate funding agreement sale opportunities against our overall strategy on a case-by-case basis, and as a result there were no funding agreement sales in the first half of 2009 (six months to 30 June 2008: £375 million).

New business contribution has improved to £16 million (six months to 30 June 2008: £8 million loss) and overall margin was 0.5% (six months to 30 June 2008: (0.4)%) in part driven by the annuity actions taken by management set out above.

Asia Pacific

Life and pension sales across the Asia Pacific region were 22% below the prior year at £698 million (six months to 30 June 2008: £896 million). This mainly reflects the uncertainty associated with the current economic conditions across the region. Customers remain cautious about investing in unit-linked savings products and in the low interest rate environment bank deposits are comparatively more attractive, especially where guaranteed by governments, than insurance savings products. The reduction has been offset by sales from the South Korea joint venture which first reported in the second half of 2008 and now represents 18% of life and pension sales in the region. The value of new business fell 50% to £16 million (six months to 30 June 2008: £32 million), resulting in a new business margin of 2.3% (six months to 30 June 2008: 3.6%).

Within the overall regional total, sales of life and pension products in Asia fell by 22% to £532 million (six months to 30 June 2008: £684 million) with new business margin down to 1.1% (six months to 30 June 2008: 3.8%). This has mainly been driven by change in the projection term assumptions for Hong Kong, China, India and Singapore. Reduced sales volumes also reflect the scaling back of capital intensive products in Hong Kong, Taiwan and Malaysia, offset by new sales from the South Korea joint venture.

In Australia, life and pension sales in the first six months of the year were down by 22% to £166 million (six months to 30 June 2008: £212 million) due to the closure of a capital protection product at the end of 2008 and lower superannuation and group risk sales resulting from less fluidity in the employment market. This was partly offset by an increase in higher margin protection sales which improved the overall margin to 6.0% (six months to 30 June 2008: 3.0%).

New business continued

Geographical analysis of life, pension and investment sales

	Present value of new business premiums			
	6 months 2009 £m	Restated 6 months 2008 £m	Sterling growth %	Local currency growth %
Life and pensions				
Individual pensions	**1,918**	2.038	**(6)%**	**(6)%**
Group pensions	**171**	372	**(54)%**	**(54)%**
Annuities	**833**	1,286	**(35)%**	**(35)%**
Bonds	**1,219**	1,628	**(27)%**	**(27)%**
Protection	**461**	606	**(24)%**	**(24)%**
Equity release	**133**	80	**66%**	**66%**
United Kingdom	**4,735**	6,010	**(21)%**	**(21)%**
Euro funds	**1,986**	1,374	**45%**	**25%**
Unit-linked funds	**338**	587	**(42)%**	**(50)%**
Protection business	**116**	101	**15%**	**(1)%**
France	**2,440**	2,062	**18%**	**2%**
Life and savings	**160**	306	**(48)%**	**(55)%**
Pensions	**266**	393	**(32)%**	**(42)%**
Ireland	**426**	699	**(39)%**	**(48)%**
Italy	**2,198**	1,305	**68%**	**45%**
Life	**369**	530	**(30)%**	**(40)%**
Pensions	**1,411**	1,555	**(9)%**	**(22)%**
Netherlands (including Belgium and Germany)	**1,780**	2,085	**(15)%**	**(26)%**
Life and savings	**168**	472	**(64)%**	**(63)%**
Pensions	**386**	479	**(19)%**	**(12)%**
Poland	**554**	951	**(42)%**	**(37)%**
Life and savings	**997**	874	**14%**	**(2)%**
Pensions	**248**	421	**(41)%**	**(49)%**
Spain	**1,245**	1,295	**(4)%**	**(17)%**
Other Europe	**208**	667	**(69)%**	**(69)%**
Europe	**8,851**	9,064	**(2)%**	**(13)%**
Life	**374**	273	**37%**	**3%**
Annuities	**2,815**	1,579	**78%**	**34%**
Funding agreements	**–**	375	**(100)%**	**(100)%**
North America	**3,189**	2,227	**43%**	**8%**
Australia	**166**	212	**(22)%**	**(23)%**
Singapore	**90**	168	**(46)%**	**(57)%**
Hong Kong	**52**	164	**(68)%**	**(76)%**
India	**43**	119	**(64)%**	**(67)%**
China	**167**	162	**3%**	**(25)%**
South Korea	**127**	–	**100%**	**100%**
Other Asia	**53**	71	**(25)%**	**(39)%**
Asia Pacific	**698**	896	**(22)%**	**(32)%**
Total life and pensions	**17,473**	18,197	**(4)%**	**(15)%**

Geographical analysis of life, pension and investment sales continued

	6 months 2009 £m	Restated 6 months 2008 £m	Sterling growth %	Local currency growth %
Investment sales				
United Kingdom[1]	**418**	840	**(50)%**	**(50)%**
Netherlands	**357**	221	**62%**	**39%**
Poland	**23**	46	**(50)%**	**(46)%**
Other business	**400**	259	**54%**	**33%**
Europe	**780**	526	**48%**	**29%**
Australia	**518**	840	**(38)%**	**(39)%**
Singapore	**232**	211	**10%**	**(12)%**
Asia Pacific	**750**	1,051	**(29)%**	**(34)%**
Total investment sales	**1,948**	2,417	**(19)%**	**(26)%**
Total long-term savings sales	**19,421**	20,614	**(6)%**	**(16)%**

1. UK regular premium investment sales include SIPP products. These are similar in nature to pension products and their payment pattern is stable and predictable and accordingly they have been capitalised. Regular premium SIPP sales for the 6 months to 30 June 2009 totalled £2.3 million (2008: £15.7 million) and have been capitalised using a weighted average capitalisation factor of 5.0 (2008: 5.0). As such, regular premium SIPP sales have produced an overall contribution to investment sales of £11.5 million (2008: £78 million) out of the UK investment sales of £418 million (2008: £840 million).

Analysis of sales via bancassurance channels

	Present value of new business premiums			
	6 months 2009 £m	Restated 6 months 2008 £m	Sterling growth %	Local currency growth %
Life and pensions				
United Kingdom	**692**	635	**9%**	**9%**
France	**647**	495	**31%**	**13%**
Ireland	**195**	365	**(47)%**	**(54)%**
UniCredit Group	**1,094**	589	**86%**	**60%**
Banca Popolare	**51**	128	**(60)%**	**(66)%**
Banca delle Marche	**4**	14	**(71)%**	**(79)%**
Eurovita	**695**	540	**29%**	**11%**
Unione di Banche	**261**	–	**100%**	**100%**
Italy	**2,105**	1,271	**66%**	**43%**
Netherlands	**243**	244	**0%**	**(14)%**
Poland	**15**	292	**(95)%**	**(95)%**
Bancaja	**264**	309	**(16)%**	**(26)%**
Caixa Galicia	**105**	140	**(26)%**	**(35)%**
Unicaja	**486**	330	**45%**	**27%**
Caja España	**152**	119	**27%**	**10%**
Caja de Granada	**47**	56	**(18)%**	**(28)%**
Cajamurcia	**59**	200	**(71)%**	**(75)%**
Spain	**1,113**	1,154	**(4)%**	**(17)%**
Other Europe	**18**	28	**(36)%**	**(36)%**
Europe	**4,336**	3,849	**13%**	**(3)%**
North America	**–**	6	**(100)%**	**(100)%**
Asia Pacific	**253**	357	**(29)%**	**(40)%**
Total life and pensions	**5,281**	4,847	**9%**	**(4)%**
Investment sales				
United Kingdom	**88**	242	**(64)%**	**(64)%**
Total bancassurance sales	**5,369**	5,089	**5%**	**(7)%**

New business continued

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

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 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 9.5% (30 June 2008: 12.9%; 31 December 2008: 11.4%)

30 June 2009	Internal rate of return %	Initial capital £m	Required capital £m	Total invested capital £m
United Kingdom	**13%**	**77**	**59**	**136**
France	**10%**	**17**	**84**	**101**
Ireland	**5%**	**26**	**12**	**38**
Italy	**10%**	**14**	**93**	**107**
Netherlands (including Belgium and Germany)	**5%**	**59**	**51**	**110**
Poland	**23%**	**10**	**4**	**14**
Spain	**27%**	**13**	**41**	**54**
Other Europe	**14%**	**19**	**3**	**22**
Europe	**11%**	**158**	**288**	**446**
North America	**7%**	**139**	**285**	**424**
Asia	**5%**	**31**	**12**	**43**
Australia	**11%**	**1**	**18**	**19**
Asia Pacific	**7%**	**32**	**30**	**62**
Total	**9.5%**	**406**	**662**	**1,068**

Restated 30 June 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

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

31 December 2008	Internal rate of return %	Initial capital £m	Required capital £m	Total invested capital £m
United Kingdom	14%	157	136	293
France	9%	35	118	153
Ireland	8%	53	24	77
Italy	14%	9	48	57
Netherlands (including Belgium and Germany)	5%	277	244	521
Poland	21%	31	12	43
Spain	37%	28	75	103
Other Europe	13%	57	9	66
Europe	11%	490	530	1,020
North America	11%	124	489	613
Asia	13%	64	23	87
Australia	12%	3	30	33
Asia Pacific	12%	67	53	120
Total	11.4%	838	1,208	2,046

Proforma reconciliation of group operating profit to profit after tax– MCEV basis

For the six month period to 30 June 2009

	6 months 2009 £m	Restated 6 months 2008 £m	Restated Full year 2008 £m
Operating profit before tax attributable to shareholders' profits			
Long-term business			
United Kingdom	**345**	417	883
Europe	**1,105**	728	1,647
North America	**120**	74	201
Asia Pacific	**37**	61	79
	1,607	1,280	2,810
General insurance and health	**545**	528	1,198
Fund management[1]	**(4)**	30	42
Other:			
Other operations and regional costs[2]	**(99)**	(57)	(163)
Corporate centre	**(46)**	(71)	(141)
Group debt costs and other interest	**(318)**	(201)	(379)
Operating profit before tax attributable to shareholders' profits	**1,685**	1,509	3,367
Adjusted for the following:			
Economic variances on long-term business	**(29)**	(4,086)	(12,058)
Short-term fluctuation in return on investments on non-long-term business	**(125)**	(314)	(819)
Economic assumption changes on general insurance and health business	**52**	6	(94)
Impairment of goodwill	**(5)**	(42)	(66)
Amortisation and impairment of intangibles	**(52)**	(44)	(108)
Profit on the disposal of subsidiaries and associates	**20**	9	7
Integration and restructuring costs	**(148)**	(132)	(326)
Exceptional items[3]	**(218)**	(155)	(754)
Profit/(loss) before tax	**1,180**	(3,249)	(10,851)
Tax on operating profit	**(416)**	(453)	(841)
Tax on other activities	**320**	1,341	4,252
	(96)	888	3,411
Profit/(loss) for the period	**1,084**	(2,361)	(7,440)

The six months to 30 June 2008 and full year 2008 results have been restated for the adjustment to reflect the reclassification of premium increases on Spanish Annual Renewable Term (ART) business and for the extension of the liquidity premium to additional businesses. More detail is included in the Financial Supplement - B1 Basis of Preparation.

1. 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 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.
3. Exceptional item of £218 million for the six month period to 30 June 2009 is in relation to legislation changes on pensions in Poland.

Total MCEV operating profit before shareholder tax was £1,685 million (six months to 30 June 2008: £1,509 million), an increase of 12%. Within this total the long-term business operating profit before shareholder tax was £1,607 million (six months to 30 June 2008: £1,280 million), an increase of 26%. This includes the impact, reported through expected returns, of a change in the basis of setting normalised investment returns consistently with IFRS. If the previous basis, which referenced the one year swap rate, had been used the total expected return would have been around £350 million lower. There is no impact on MCEV profit before tax.

Within the 2008 results, the expected rate of investment return was calculated by reference to the one year swap rate in the relevant currency plus an appropriate risk premium for equities and properties. For 2009, the group considers that the return over the typical duration of the assets held is more appropriate and is more consistent with the group's expectation of long term rates of return. Therefore, the expected return on equities and properties has been calculated by reference to the ten year swap rate in the relevant currency plus an appropriate risk premium. For fixed interest investments a similar change has been made to reflect the actual duration of the assets held.

This mainly impacts Aviva UK and the Netherlands, where the additional investment earnings on assets backing the policyholder liabilities flow straight to shareholders. In the US, the assumed return on bonds net of defaults, includes a partial recovery of the unrealised losses reported in previous periods through expected returns on existing business and on shareholders' net worth of £134 million.

Proforma reconciliation of group operating profit to profit after tax – MCEV basis continued

Economic variances in 2009 of £29 million reflect the large benefit from the reduction in credit spreads on corporate bonds, offset by the reduction in the adjustment to risk free rates and adverse experience on equities and property of approximately £4 billion, £3 billion adverse and £1 billion adverse respectively. In 2008, the loss of £12,058 million was driven by bond yields falling in the United Kingdom and Eurozone, significant falls in equity markets down between 30% and 50% and credit spreads widening significantly in the final quarter of 2008.

10 – Life MCEV operating 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	**6 months 2009 £m**	Restated 6 months 2008 £m	Full year 2008 £m
Value of new business	**367**	346	772
Earnings from existing business			
– expected returns at the reference rate	**300**	464	992
– expected returns in excess of the reference rate	**601**	219	429
– expected returns	**901**	683	1,421
– experience variances	**(175)**	44	(224)
– operating assumption changes	**86**	(97)	(165)
– other operating variances	**173**	(5)	305
Expected return on shareholders' net worth	**255**	309	701
Life and pensions operating earnings before tax	**1,607**	1,280	2,810
Economic variances	**(29)**	(4,086)	(12,058)
Other non-operating variances[1]	**(218)**	(71)	(329)
Life and pensions earnings/(loss) before tax	**1,360**	(2,877)	(9,577)
Tax on operating earnings	**(435)**	(365)	(823)
Tax on other activities	**145**	1,206	3,678
Life and pensions earnings/(loss) after tax	**1,070**	(2,036)	(6,722)

1. Exceptional item of £218 million for the six month period to 30 June 2009 is in relation to legislation changes on pensions in Poland

United Kingdom

MCEV operating earnings are 17% lower at £345 million (six months to 30 June 2008: £417 million).

Value of New Business is £101 million (six months to 30 June 2008: £73 million), an increase of 38%, driven by a number of factors including reduced commission and sales expenses and a change in business mix to higher margin annuity business.

Expected return is £194 million (six months to 30 June 2008: £240 million), with the reduction driven by lower real world returns and lower opening assets compared to 2008.

Variances and assumption changes on existing business were £18 million unfavourable (six months to 30 June 2008: £26 million favourable). The 2009 negative result is primarily driven by an adverse persistency variance of £17m in respect of the loss of a single corporate contract. The positive variance in 2008 includes the benefit of the special distribution to with-profit policyholders of £22 million.

Expected returns on shareholders' net worth were £68 million (six months to 30 June 2008: £78 million), a reduction of 13% as a result of lower real world returns.

Europe

Total regional operating return has increased to £1,105 million (six months to 30 June 2008: £729 million), an increase of 52% with the strengthening of the euro contributing around one third of the improvement.

Value of New Business was £234 million (six months to 30 June 2008: £249 million), a reduction of 6%, with the decrease largely driven by a reduction in sales volumes. Increased contributions from Italian protection and profit sharing products has been more than offset by decreases in Spain and Other Europe where, in 2008, there were one off positive contributions from Caja Murcia and Romanian pensions business respectively.

10 – Life MCEV operating earnings continued

Expected returns were £542 million (six months to 30 June 2008: £353 million). After allowing for movements in currency this increase is largely explained by the expected reduction in the allowance for short term investment guarantees that is included in the MCEV balance sheet in France of £130 million. This allowance is expected to be released evenly through 2009.

Variances and assumption changes on existing business were £196 million (six months to 30 June 2008: £65 million adverse). In 2009 positive variances from modelling refinements in France and the Netherlands (£120 million), assumption changes in the Netherlands to reflect revisions to investment and bonus strategies in Germany as this business is repositioned (£116 million) and continued positive mortality experience across the region (£18 million) have been partially offset by negative lapse experience, mainly in Spain, Ireland and France (£86 million in total) driven by the general economic downturn. A number of customer retention initiatives are being put in place to address this issue.

Expected returns on shareholders net worth were £133 million (six months to 30 June 2008: £192 million), a reduction of 31%. This a result of lower real world returns and lower opening shareholder assets compared to 2008.

North America
Operating earnings have increased to £120 million (six months to 30 June 2008: £73 million), a growth of 64%, with the strengthening of the US dollar contributing around half of this improvement.

Value of new business was £16 million (six months to 30 June 2008: £8 million loss), with the improvement driven by management action on pricing and commission during the period.

Expected return was £147 million (six months to 30 June 2008: £67 million). Within this total, default assumptions have been strengthened, reducing expected return by approximately £60 million but this has been more than offset by the recognition of £134 million of expected reduction, in line with the assumed investment return, of unrealised losses on corporate bonds backing policyholder liabilities which are being held to maturity.

Variances and assumption changes on existing business were £90 million unfavourable (six months to 30 June 2008: £14 million unfavourable), with the deterioration principally driven by spread compression in the current economic environment (£74 million unfavourable) and negative lapse experience (£8 million unfavourable).

Expected returns on shareholders net worth were £47 million (six months to 30 June 2008: £28 million) being impacted in the same way as expected returns.

Asia Pacific
Operating earnings have decreased to £37 million (six months to 30 June 2008: £61 million), a reduction of 39%.

Value of new business was £16 million (six months to 30 June 2008: £32 million), a reduction of 50%, driven by lower sales volumes and changed policy duration assumptions in Hong Kong, China, India and Singapore.

Expected returns were £18 million (six months to 30 June 2008: £23 million), a reduction of 22% on lower opening assets.

Variances and assumption changes on existing business were £4 million adverse (six months to 30 June 2008: £5 million adverse), largely reflecting the negative lapse variances across the region of £24 million which were partially offset by positive modelling variances of £17 million.

Expected returns on shareholders net worth was £7 million (six months to 30 June 2008: £11 million) with the change the result of lower real world returns.

11 – Analysis of life and pensions earnings

The following table provides an analysis of the movement in embedded value for covered business. 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.

30 June 2009	Free surplus £m	Required capital[1] £m	VIF £m	Total MCEV £m
Opening MCEV	**1,348**	**8,148**	**5,060**	**14,556**
New business value	**(990)**	**562**	**618**	**190**
Expected existing business contribution (reference rate)	**–**	**–**	**207**	**207**
Expected existing business contribution (in excess of reference rate)	**–**	**–**	**427**	**427**
Transfers from VIF and required capital to the free surplus	**884**	**(344)**	**(540)**	–
Experience variances	**110**	**(5)**	**(238)**	**(133)**
Assumption changes	**16**	**(17)**	**60**	**59**
Expected return on shareholders' net worth	**110**	**63**	–	**173**
Other operating variance	**(26)**	**(31)**	**164**	**107**
Operating MCEV earnings	**104**	**228**	**698**	**1,030**
Economic variances	**863**	**(438)**	**(258)**	**167**
Other non-operating variances	**(1)**	–	**(149)**	**(150)**
Total MCEV earnings/(loss)	**966**	**(210)**	**291**	**1,047**
Capital and dividend flows	**(48)**	–	–	**(48)**
Foreign exchange variance	**(51)**	**(788)**	**(455)**	**(1,294)**
Acquired/divested business	**2**	–	–	**2**
Closing MCEV	**2,217**	**7,150**	**4,896**	**14,263**

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

Restated 30 June 2008	Free surplus £m	Required capital[1] £m	VIF £m	Total MCEV £m
Opening MCEV	3,204	6,240	8,945	18,389
New business value	(905)	511	574	180
Expected existing business contribution (reference rate)	–	–	306	306
Expected existing business contribution (in excess of reference rate)	–	–	149	149
Transfers from VIF and required capital to the free surplus	949	(308)	(641)	–
Experience variances	65	17	(58)	24
Assumption changes	182	(109)	(150)	(77)
Expected return on shareholders' net worth	111	88	–	199
Other operating variance	9	(27)	11	(7)
Operating MCEV earnings	411	172	191	774
Economic variances	(1,450)	(97)	(1,243)	(2,790)
Other non-operating variances	3	(4)	(45)	(46)
Total MCEV (loss)/ earnings	(1,036)	71	(1,097)	(2,062)
Capital and dividend flows	(599)	–	–	(599)
Foreign exchange variance	123	325	363	811
Acquired/divested business	79	58	53	190
Closing MCEV	1,771	6,694	8,264	16,729

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

11 – Analysis of life and pensions earnings continued

31 December 2008	Free surplus £m	Required capital[1] £m	VIF £m	Total MCEV £m
Opening MCEV	3,204	6,240	8,945	18,389
New business value	(1,867)	1,109	1,174	416
Expected existing business contribution (reference rate)	–	–	654	654
Expected existing business contribution (in excess of reference rate)	–	–	291	291
Transfers from VIF and required capital to the free surplus	1,926	(637)	(1,289)	–
Experience variances	154	3	(284)	(127)
Assumption changes	563	(114)	(584)	(135)
Expected return on shareholders' net worth	270	182	–	452
Other operating variance	44	(29)	194	209
Operating MCEV earnings	1,090	514	156	1,760
Economic variances	(3,140)	(433)	(4,606)	(8,179)
Other non-operating variances	(104)	19	(147)	(232)
Total MCEV (loss)/earnings	(2,154)	100	(4,597)	(6,651)
Capital and dividend flows	(63)	–	–	(63)
Foreign exchange variance	459	1,597	738	2,794
Acquired/divested business	(98)	211	(26)	87
Closing MCEV	1,348	8,148	5,060	14,556

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

Capital management

Capital management objectives

Aviva's capital management philosophy is focused on capital efficiency and effective risk management to support the dividend policy and earnings per share growth. Overall capital risk appetite is set and managed with reference to the requirements of a range of different stakeholders including shareholders, policyholders, regulators and rating agencies. In managing capital we seek to:

- maintain sufficient, but not excessive, financial strength to support new business growth and satisfy the requirements of our regulators and other stakeholders and thus give both our customers and shareholders assurance of our financial strength;
- optimise our overall debt to equity structure to enhance our returns to shareholders, subject to our capital risk appetite and balancing the requirements of the range of stakeholders;
- retain financial flexibility by maintaining strong liquidity, including significant unutilised committed credit facilities and access to a range of capital markets;
- allocate capital rigorously across the group, to drive value adding growth in accordance with risk appetite; and
- declare dividends on a basis judged prudent, while retaining capital to support future business growth, using dividend cover on an IFRS operating earnings after tax basis in the 1.5 to 2.0 times range as a guide.

Targets are established in relation to regulatory solvency, ratings, liquidity and dividend capacity and are a key tool in managing capital in accordance with our risk appetite and the requirements of our various stakeholders.

Capital employed by segment

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

	30 June 2009 £m	Restated 31 December 2008 £m
Long-term savings	**18,812**	19,784
General insurance and health	**4,404**	5,516
Fund management	**261**	340
Other business	**5**	(326)
Corporate[1]	**(33)**	(30)
Total capital employed	**23,449**	25,284
Financed by		
Equity shareholders' funds	**11,399**	13,379
Minority interests	**2,719**	3,080
Direct capital instrument	**990**	990
Preference shares	**200**	200
Subordinated debt	**4,541**	4,606
External debt	**1,283**	919
Net internal debt[2]	**2,317**	2,110
Total capital employed	**23,449**	25,284

1. The "corporate" net liabilities represent the element of the pension scheme deficit held centrally.

2. In addition to our external funding sources, we have certain internal borrowing arrangements in place which allow some of the assets that support technical liabilities to be invested in a pool of central assets for use across the group. These internal debt balances allow for the capital allocated to business operations to exceed the externally sourced capital resources of the group. Net internal debt represents the balance of the amounts due from corporate and holding entities, less the tangible net assets held by these entities. Although intra-group in nature, they are included as part of the capital base for the purpose of capital management. These arrangements arise in relation to the following:

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

Total capital employed is financed by a combination of equity shareholders' funds, preference capital, subordinated debt and borrowings (including internal borrowings as described in footnote 2 above).

Capital management continued

Capital employed by segment continued

At 30 June 2009 we had £23.4 billion (31 December 2008: £25.3 billion) of total capital employed in our trading operations, measured on an MCEV basis. The decrease over the period is driven by the impact of foreign exchange rate losses and actuarial losses on the staff pension schemes, which have more than offset the benefit of operating earnings and market gains.

In April 2009 we issued a private placement of £245 million equivalent of Lower Tier 2 hybrid in a dual tranche transaction (£200 million on 1 April 2009 and a further €50 million on 30 April 2009). These transactions had a positive impact on group IGD solvency and economic capital measures.

Financial leverage, the ratio of external senior and subordinated debt to MCEV capital and reserves, was 41.3% (31 December 2008: 33.6%). Fixed charge cover, which measures the extent to which external interest costs, including subordinated debt interest and preference dividends, are covered by MCEV operating profit was 9.6 times (31 December 2008: 9.2 times).

At 30 June 2009 the market value of our external debt, subordinated debt, preference shares (including both Aviva plc preference shares and General Accident plc preference shares of £250 million, within minority interest), and direct capital instrument was £5,422 million (31 December 2008: £4,911 million), with a weighted average cost of 8.2% (31 December 2008: 8.8%). The group Weighted Average Cost of Capital (WACC) is 8.9% (31 December 2008: 8.3%) and has been calculated by reference to the cost of equity and the cost of debt at the relevant date. The cost of equity at 30 June 2009 was 9.3% based on a risk free rate of 3.7%, an equity risk premium of 4.0% and a market beta of 1.4.

Regulatory capital

Individual regulated subsidiaries measure and report solvency based on applicable local regulations, including in the UK the regulations established by the Financial Services Authority (FSA). These measures are also consolidated under the European Insurance Groups Directive (IGD) to calculate regulatory capital adequacy at an aggregate group level, where we have a regulatory obligation to have a positive position at all times. This measure represents the excess of the aggregate value of regulatory capital employed in our business over the aggregate minimum solvency requirements imposed by local regulators, excluding the surplus held in the UK and Ireland with-profit life funds. The minimum solvency requirement for our European businesses is based on the Solvency 1 Directive. In broad terms, for EU operations, this is set at 4% and 1% of non-linked and unit-linked life reserves respectively and for our general insurance portfolio of business is the higher of 18% of gross premiums or 26% of gross claims, in both cases adjusted to reflect the level of reinsurance recoveries. For our major non-European businesses (the US, Australia and Canada) a risk charge on assets and liabilities approach is used.

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

	UK life funds £bn	Other business £bn	**30 June 2009 £bn**	31 December 2008 £bn
Insurance Groups Directive (IGD) capital resources	3.6	10.2	**13.8**	15.5
Less: capital resource requirement	(3.6)	(7.0)	**(10.6)**	(13.5)
Insurance Group Directive (IGD) excess solvency	–	3.2	**3.2**	2.0
Cover over EU minimum (calculated excluding UK life funds)			**1.5 times**	1.3 times

The EU Insurance Groups Directive (IGD) regulatory capital solvency surplus has increased by £1.2 billion since 31 December 2008 to £3.2 billion. This increase reflects a combination of operating and market performance as well as the benefit of a number of capital management initiatives, which demonstrate the considerable levers available to the group to manage the IGD position. Following individual guidance from the FSA we now recognise surpluses in the non-profit funds of our UK life and pensions business which is available for transfer to shareholders of £0.4 billion (31 December 2008 £0.4 billion). The IGD is a pure aggregation test with no credit given for the considerable diversification benefits of Aviva.

The key movements over the period are set out in the following table:

	£bn
IGD solvency surplus at 31 December 2008	**2.0**
Operating profit and other income	**0.5**
Market movements	**0.2**
2008 final dividend net of scrip	**(0.3)**
Hybrid debt	**0.2**
Issuance of hybrid debt in the Netherlands	**0.4**
Sale of Dutch healthcare business	**0.1**
Recognition of non-regulated entities	**0.5**
Loss of implicit items	**(0.1)**
Increase in CRR	**(0.1)**
Other	**(0.2)**
Estimated IGD solvency surplus at 30 June 2009	**3.2**

Regulatory capital continued

Initiatives in the period include the issue of £0.2 billion of hybrid capital, issuance of hybrid debt in the Netherlands of £0.4 billion and a £0.1 billion benefit from the disposal of the Dutch healthcare business. The change in the value of non-regulated entities includes the recognition of intellectual property rights and movements in the value of distribution companies. The introduction of the scrip scheme with the 2008 full year dividend, allowing investors the option of receiving dividends in the form of new Aviva shares, also provided a capital benefit of nearly £0.2 billion with a take up rate of 35%. While not reflected in the half year numbers, the recently announced sale of the Australian Life business will deliver a £0.4 billion IGD contribution on completion.

IGD Levers

As outlined in March this year, and as demonstrated above, the group has a number of ongoing options available to increase the IGD surplus. These include underlying operational levers and various innovative capital raising options. Driving increased capital generation from underlying earnings improvements through, for example, productivity and cost saving initiatives is a primary focus. We also manage growth driven capital consumption through absolute volume levels and product mix decisions, where we are able to direct growth to the most capital efficient products. Asset liability management and hedging strategies are used to manage volatility, and there is scope to further increase protection through additional hedging activity should this be required. Reinsurance is another mechanism available through which risk exposures and capital requirements can be managed. The value represented by the life in-force book continues to represent a significant source of value against which further securitisation transactions could be undertaken.

Regulatory capital – Long-term businesses

For our non-participating worldwide life assurance businesses, our capital requirements, expressed as a percentage of the EU minimum, are set for each business unit as 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.

The required capital across our life businesses varies between 100% and 325% of EU minimum or equivalent. The weighted average level of required capital for our non-participating life business, expressed as a percentage of the EU minimum (or equivalent) solvency margin has decreased to 133% (31 December 2008: 142%).

These levels of required capital are used in the calculation of the group’s embedded value to evaluate the cost of locked in capital. At 30 June 2009 the aggregate regulatory requirements based on the EU minimum test amounted to £5.7 billion (31 December 2008: £6.0 billion). At this date, the actual net worth held in our long-term business was £9.4 billion (31 December 2008: £9.5 billion) which represents 165% (31 December 2008: 157%) of these minimum requirements.

Regulatory capital – UK Life with-profits funds

The available capital of the with-profit funds is represented by the realistic inherited estate. The estate represents the assets of the long-term with-profit funds less the realistic liabilities for non-profit policies within the funds, less asset shares aggregated across the with-profit policies and any additional amounts expected at the valuation date to be paid to in-force policyholders in the future in respect of smoothing costs, guarantees and promises. Realistic balance sheet information is shown below for the three main UK with-profit funds: CGNU Life, Commercial Union Life Assurance Company (CULAC) and Aviva Life & Pensions (UKL&P) (formerly known as (Norwich Union Life & Pensions (NUL&P)). These realistic liabilities have been included within the long-term business provision and the liability for insurance and investment contracts on the consolidated IFRS balance sheet at 30 June 2009 and 31 December 2008.

					30 June 2009	31 December 2008
	Estimated realistic assets £bn	**Realistic liabilities[1] £bn**	**Estimated realistic inherited estate[2] £bn**	**Estimated risk capital margin[3] £bn**	**Estimated excess £bn**	Estimated excess £bn
CGNU Life	**11.9**	**(11.4)**	**0.5**	**(0.3)**	**0.2**	0.3
CULAC	**11.8**	**(11.1)**	**0.7**	**(0.3)**	**0.4**	0.3
UKL&P[4]	**19.4**	**(18.0)**	**1.4**	**(0.4)**	**1.0**	0.5
Aggregate	**43.1**	**(40.5)**	**2.6**	**(1.0)**	**1.6**	1.1

1. These realistic liabilities include the shareholders’ share of future bonuses of £0.5 billion (31 December 2008: £0.8 billion). Realistic liabilities adjusted to eliminate the shareholders’ share of future bonuses are £40.0 billion (31 December 2008: £43.2 billion). These realistic liabilities make provision for guarantees, options and promises on a market consistent stochastic basis. The value of the provision included within realistic liabilities is £1.4 billion, £1.5 billion and £3.5 billion for CGNU Life, CULAC and UKL&P respectively (31 December 2008: £1.4 billion, £1.5 billion and £4.1 billion).
2. Estimated realistic inherited estate at 31 December 2008 was £0.7 billion, £0.7 billion and £1.2 billion for CGNU Life, CULAC and UKL&P respectively.
3. The risk capital margin (RCM) is 2.6 times covered by the inherited estate (31 December 2008: 1.8 times).
4. The UKL&P fund includes the Provident Mutual (PM) fund which has realistic assets and liabilities of £1.6 billion, and therefore does not impact the realistic inherited estate.

Capital management continued

Regulatory capital continued

Investment mix

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

	30 June 2009 %	31 December 2008 %
Equity	**14%**	24%
Property	**10%**	12%
Fixed interest	**66%**	56%
Other	**10%**	8%

The equity backing ratios, including property, supporting with-profit asset shares are 50% in CGNU Life, CULAC and 43% in UKL&P. With-profit new business is mainly written through CGNU Life.

UK Life reattribution

In May 2009, following discussions with the Policyholder Advocate, we announced a new offer to almost one million eligible policyholders. The new offer is more flexible, with future changes in the value of the estate being reflected in the payouts customers elect to receive. Final payments will be based on the average valuation of the estate from June to August, and we expect to start making payments in November, following High Court approval. The estimated estate value at the end of June was £1.2 billion. If policyholders choose not to accept the payment, they will continue to receive normal bonuses and it will have no impact on the security or performance of their investments.

To date approximately 70 percent of policyholders have responded to the offer with 96 percent accepting. Based on this response we are confident that in the remaining 6-8 weeks before the court process begins we will achieve our targeted 80 percent acceptance.

Rating agency capital

Agency ratings are an important indicator of financial strength and support access to debt markets as well as providing assurance to business partners and policyholders over our ability to service contractual obligations. In recognition of this we have solicited relationships with a number of rating agencies. Rating agencies generally assign ratings based on an assessment of a range of financial (e.g. capital strength, gearing, liquidity and fixed charge cover ratios) and non financial (e.g. competitive position and quality of management) factors.

As a part of this, certain rating agencies have proprietary capital models which they use to assess available capital resources against capital requirements as a component of their overall criteria for assigning ratings. Managing our capital and liquidity position in accordance with our target rating levels is a core consideration in all material capital management and capital allocation decisions.

The group's overall financial strength is reflected in our ratings. In May 2009 Moody's reaffirmed the group's rating at Aa3 ("excellent") with a Negative outlook, in line with the UK sector. The group's rating from Standard and Poors is AA- ("very strong") with a Negative outlook, and A ("excellent") from A M Best with a Stable outlook. These ratings continue to reflect our strong competitive position, positive strategic management, strong and diversified underlying earnings profile and robust liquidity position.

Economic capital

We use a risk-based capital model to assess economic capital requirements and to aid in risk and capital management across the group. The model is based on a framework for identifying the risks to which business units, and the group as a whole, are exposed. A mixture of scenario based approaches and stochastic models are used to capture market risk, credit risk, insurance risk and operational risk. Scenarios are specified centrally to provide consistency across businesses and to achieve a minimum standard. Where appropriate, businesses also supplement these with additional risk models specific to their own risk profile. When aggregating capital requirements at business unit and group level, we allow for diversification benefits between risks and between businesses, with restrictions to allow for non-fungibility of capital when appropriate. This means that the aggregate capital requirement is less than the sum of capital required to cover all of the individual risks.

This model is used to support our Individual Capital Assessments (ICA) which are reported to the FSA for all our UK regulated insurance businesses. The FSA uses the results of our ICA process when setting target levels of capital for our UK regulated insurance businesses. In line with FSA requirements, the ICA estimates the capital required to mitigate the risk of insolvency to a 99.5% confidence level over a one year time horizon (equivalent to events occurring in 1 out of 200 years) against financial and non-financial tests.

The financial modelling techniques employed in economic capital enhance our practice of risk and capital management. They enable understanding of the impact of the interaction of different risks allowing us to direct risk management activities appropriately. These same techniques are employed to enhance product pricing and capital allocation processes. Unlike more traditional regulatory capital measures, economic capital also recognises the value of longer term profits emerging from in-force and new business, allowing for consideration of longer term value emergence as well as shorter term net worth volatility in our risk and capital management processes. We continue to develop our economic capital modelling capability for all our businesses as part of our development programme to increase the focus on economic capital management. Further developments are planned to meet the emerging requirements of the Solvency II framework and external agencies.

Solvency II

Solvency II represents new EU legislation which totally redefines prudential supervision of EU insurers. It aims to establish a new economic risk sensitive approach to capital and solvency calculation and a new harmonised EU supervisory regime which places importance on effective internal governance and risk management practices, which Aviva supports as offering a blueprint for industry best practice. To that end, we continue to be an active participant in the key European industry working groups who provide the voice of industry in ongoing negotiations in Brussels. The first stage of the Solvency II project reached a conclusion in May 2009, with the "Level 1 Framework Directive" formally adopted by the European Parliament. Full implementation of Solvency II will be required in October 2012.

Financial flexibility

The group's borrowings are comprised primarily of long dated hybrid instruments with maturities spread over many years, minimising refinancing risk. In addition to central liquid asset holdings of £1.1 billion, the group also has access to unutilised committed credit facilities of £2.1 billion provided by a range of leading international banks. Many of the IGD levers discussed above also support broader financial flexibility where, for example, securitisation transactions can be structured to provide liquidity as well as solvency capital benefits.

Capital generation and utilisation

As part of our capital management processes, we regularly review the generation and deployment of capital. The table below demonstrates the net capital generation of the group based on MCEV net worth before and after investment variances.

	30 June 2009 £bn	Restated 30 June 2008[1] £bn	Restated 31 December 2008[1] £bn
Operational capital generation:			
Life in-force profits	**0.8**	1.0	2.4
New business strain	**(0.4)**	(0.4)	(0.8)
Non-life profits	**0.3**	0.3	0.8
Operational capital generated	**0.7**	0.9	2.4
Increase in capital requirements	**(0.2)**	(0.4)	(0.8)
Free operational capital generated	**0.5**	0.5	1.6
Interest cost	**(0.2)**	(0.1)	(0.3)
External dividend	**(0.5)**	(0.6)	(1.0)
Scrip dividend	**0.2**	0.2	0.2
Capital generation after financing	**–**	–	0.5
Capital released from disposals	**0.1**	–	–
Capital raising	**0.2**	0.8	1.0
Issuance of hybrid debt in the Netherlands	**0.4**	–	–
Cost of acquisitions	**–**	(0.3)	(0.3)
Qualifying assets acquired net of capital requirements	**–**	0.1	0.1
Pension funding, restructuring costs and exceptional items	**(0.1)**	(0.4)	(0.9)
Foreign exchange impact on surplus capital	**(0.2)**	0.1	0.2
Other	**–**	(0.1)	0.1
Net capital generated before investment return and economic variances	**0.4**	0.2	0.7
Investment return variances and economic variances	**0.8**	(1.7)	(3.9)
Net capital generated/(consumed) after investment return and economic variances	**1.2**	(1.5)	(3.2)

1. In prior periods the effect of economic variances on life required capital has been included within the "increase in capital requirements" line in determining "free operational capital generated". We have revised this approach, and have restated prior periods accordingly, to transfer the effect of economic variances on required capital to the "investment return variances and economic variances" line. This has the effect of decreasing "free operational capital generated" by £0.1 billion and £0.4 billion in the period to 30 June 2008 and 31 December 2008 respectively. The 30 June 2008 comparatives have been restated to reflect the move to MCEV from EEV, including presentation of numbers on a net of minorities' basis.

Free operational capital generated represents the net of the following:

- Operating profits emerging in net worth for the life in-force business, net of new business strain, and IFRS operating profits earned by non-life businesses.
- The increase in capital requirements of ongoing businesses. Capital requirements represent target operating capital levels rather than regulatory minimum levels as this is considered a better reflection of capital utilised in the business. For the life businesses this is the capital used in the calculation of embedded value to evaluate the cost of locked in capital. For general insurance businesses we have calculated target capital based on two times the regulatory minimum. Where appropriate, the increase in capital requirements shown has been adjusted for the impact of foreign exchange movements, economic variances and other one off changes to required capital.

Capital management continued

Sensitivity analysis

The sensitivity of the group's total equity on an MCEV basis and IFRS basis at 30 June 2009 to a 10% fall in global equity markets, a rise of 1% in global interest rates or a 0.5% increase in credit spreads is as follows:

MCEV basis			Equities down 10%			
Restated 31 December 2008 £bn		30 June 2009 £bn	Direct £bn	Indirect £bn	Interest rates up 1% £bn	0.5% increased credit spread £bn
19.8	Long-term savings[1]	**18.8**	**(0.3)**	**(0.4)**	**(0.3)**	**(1.4)**
5.5	General insurance and other	**4.6**	**(0.3)**	**–**	**(0.5)**	**0.4**
(7.6)	Borrowings[2]	**(8.1)**	**–**	**–**	**–**	**–**
17.7	**Total equity**	**15.3**	**(0.6)**	**(0.4)**	**(0.8)**	**(1.0)**

IFRS basis					
31 December 2008 £bn		30 June 2009 £bn	Equities down 10%	Interest rates up 1% £bn	0.5% increased credit spread £bn
16.6	Long-term savings	**16.2**	**(0.3)**	**(0.8)**	**(0.4)**
5.5	General insurance and other	**4.6**	**(0.3)**	**(0.5)**	**0.4**
(7.6)	Borrowings[2]	**(8.1)**	**–**	**–**	**–**
14.5	**Total equity**	**12.7**	**(0.6)**	**(1.3)**	**–**

1. Assumes MCEV assumptions adjusted to reflect revised bond yields.
2. Comprising internal, external and subordinated debt, net of corporate tangible net assets.

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

The tables above incorporates the effect on the value of the pension scheme assets and liabilities of a 10% decrease in equity markets, a 1% increase in fixed income bond yields and a 0.5% increase in credit spreads.

The interest rate 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 has the effect of reducing the pension scheme liability by £1.6 billion.

The 0.5% increased credit spread sensitivities for MCEV and IFRS do not make an allowance for any adjustment to risk-free interest rates. MCEV sensitivities assume that the credit spread movement relates to credit risk and not liquidity risk; in practice, credit spread movements may be partially offset due to changes in liquidity risk. Life IFRS sensitivities provide for any impact of credit spread movements on liability valuations. The MCEV and IFRS sensitivities also include the allocation of staff pension scheme sensitivities, which assume inflation rates and government bond yields remain constant. In practice, the sensitivity of the business to changes in credit spreads is subject to a number of complex interactions. The impact of the credit spread movements will be related to individual portfolio composition and may be driven by changes in credit or liquidity risk; hence, the actual impact may differ substantially from applying spread movements implied by various published credit spread indices to these sensitivities.

Group IGD

The sensitivity of the group's IGD surplus reflects the impact of the hedges we have put in place as part of our long-term strategy to protect the group from extreme market movements. At 30 June 2009 the sensitivity to a 10% fall in global equity markets or a rise of 1% in global interest rates is as follows:

	30 June 2009 £bn	Equities down 10% £bn	Interest rates up 1% £bn
IGD Group surplus	3.2	(0.1)	(0.5)

We continue to actively manage our exposure to further market volatility, with ongoing hedging strategies in place. Protection against equity market falls has been increased further from year end levels, and a 40% fall in equity markets at 30 June 2009 would reduce IGD by only £0.3 billion. By contrast, we have retained upside exposure and a 40% rise in equity markets would improve IGD by £0.7 billion.

	£bn
Equities down 10%	(0.1)
Equities down 20%	(0.2)
Equities down 30%	(0.3)
Equities down 40%	(0.3)
Equities up 40%	0.7

Risk management

Equity hedging

Our risk management processes ensure close and ongoing monitoring of all our capital measures. The following table shows the material equity derivatives within the group's shareholder funds at 30 June 2009 that are used as part of a long-term strategy to manage equity risk. It excludes derivatives used for portfolio management purposes:

Derivative	Notional £bn[1]	Market fall below protection level %[2,4]	Market fall required before protection starts %[3,4]	Outstanding duration
(a)	2.5	–	19%	< 6 months
(b)	6.1	–	27%	6-11 months
(c)	0.5	–	12%	12 months

1. The notional represents the notional amount of hedging as at 30 June 2009.
2. The "Market fall below protection level" shows the percentage the market has fallen below the protection level as at 30 June 2009.
3. The "Market fall required before protection starts" shows the percentage the market would have to fall from the 30 June 2009 position before the derivative moves into the money.
4. Derivatives (a), (b) and (c) each represent a collection of derivatives with different strike prices. The strike prices used in the above calculations are the weighted average strikes of the derivatives in each bucket.

Interest rate hedging

Interest rate hedges are used widely to manage asymmetric interest rate exposures across our life insurance businesses as well as an efficient way to manage cash flow and duration matching. The most material examples of uses to hedge guarantees relate to minimum interest rate guarantees in the Netherlands, and also guaranteed annuity exposures in both the UK and Ireland. These hedges are used to protect against interest rate falls and are sufficient in scale to materially reduce the Group's interest rate exposure

Operational cost base

The Aviva operating cost base is calculated from reported IFRS expenses as set out in the table below:

	6 months 2009 £m	Restated 6 months 2008 £m
Other expenses (as reported)	**2,245**	2,234
Less:		
Non operating items included above (amortisation and impairments)	**(730)**	(596)
Add:		
Claims handling costs[1]	**340**	370
Non commission acquisition costs[2]	**638**	614
Operating cost base	**2,493**	2,622

1. As reported within Claims and benefits paid of £14,142 million (2008: £14,136 million)
2. As reported within Fee and commissions expense of £1,909 million (2008: £ 2,276 million)

During H1 2009, the operating cost base decreased 5% to £2,493 million (six months to 30 June 2008: £2,622 million). The table and notes below set out and explain the methodology and inherent assumptions used for the calculation of the like-for-like adjustments and different components which have driven the decrease in the operating cost base. These adjustments account for the impact of foreign exchange, impact of businesses acquired/disposed of during the year and adjustments to eliminate the impact of one-off restructuring and integration spend from the cost base in both years. After adjustments, the operating cost base decreased by 9% to £2,345 million compared with a 30 June 2008 like-for-like cost base of £2,584 million.

Movement in operating costs base

	£m
Total operating cost base 30 June 2008	**2,622**
Less: restructuring and integration spend for the six months to 30 June 2008	**(132)**
Impact of acquisitions and disposals[1]	**(92)**
Foreign exchange	**186**
30 June 2008 like-for-like operating cost base	**2,584**
Inflation[2]	**72**
UK Life[3]	**(80)**
UK General Insurance[3]	**(118)**
Europe[3]	**(75)**
Other businesses (including group)[3]	**(38)**
30 June 2009 like-for-like operating cost base	**2,345**
Restructuring and integration spend 30 June 2009	**148**
Total operating cost base 30 June 2009	**2,493**

1 Impact of acquisitions & disposals – Represents the disposal of Autowindscreens, BSM and HPI in the UK and healthcare business in the Netherlands. .

2 Inflation - Notional level of Inflation that would have impacted the operating cost base during the period. This is calculated using the Consumer Price Index for individual countries, applied to operating expenditure i.e. excluding restructuring & integration costs (but including adjustments for acquisitions & disposals). The overall weighted average is calculated at 2.8%

3 Regional operating costs reduction – Includes realised savings from cost initiatives (cost savings achieved during H1 2009 as well as cost savings achieved during the second half of 2008 which represent a decrease on the H1 2009 versus H1 2008 position) and productivity and other savings (decrease in the cost base driven by the revenue fall in the business as well as by saving initiatives not attributable to the specific initiatives linked to the cost savings committed externally).

Analysis of assets

Total assets – Shareholder/policyholder exposure to risk

	Policyholder assets £m	Participating fund assets £m	Shareholder assets £m	Total assets analysed £m	Less assets of operations classified as held for sale £m	Balance sheet total £m
Assets						
Goodwill and acquired value of in-force business and intangible assets	**–**	**–**	**6,631**	**6,631**	**(1)**	**6,630**
Interests in joint ventures and associates	**8**	**569**	**1,916**	**2,493**	**(33)**	**2,460**
Property and equipment	**–**	**74**	**841**	**915**	**(110)**	**805**
Investment property	**3,413**	**6,517**	**2,288**	**12,218**	**–**	**12,218**
Loans	**1,621**	**8,760**	**29,353**	**39,734**	**(16)**	**39,718**
Financial investments						
Debt securities	**18,533**	**79,802**	**48,511**	**146,846**	**(878)**	**145,968**
Equity securities	**23,481**	**7,701**	**5,322**	**36,504**	**(379)**	**36,125**
Other investments	**20,843**	**6,661**	**2,179**	**29,683**	**(748)**	**28,935**
Reinsurance assets	**1,524**	**1,046**	**4,446**	**7,016**	**(11)**	**7,005**
Deferred tax assets	**–**	**–**	**2,533**	**2,533**	**(31)**	**2,502**
Current tax assets	**–**	**–**	**444**	**444**	**–**	**444**
Receivables and other financial assets	**660**	**2,471**	**7,658**	**10,789**	**(24)**	**10,765**
Deferred acquisition costs and other assets	**198**	**781**	**5,283**	**6,262**	**(18)**	**6,244**
Prepayments and accrued income	**130**	**1,371**	**2,183**	**3,684**	**(10)**	**3,674**
Cash and cash equivalents	**4,076**	**11,927**	**9,737**	**25,740**	**(192)**	**25,548**
Assets of operations classified as held for sale	**–**	**–**	**–**	**–**	**2,451**	**2,451**
Total	**74,487**	**127,680**	**129,325**	**331,492**	**–**	**331,492**
Total %	**22.5%**	**38.5%**	**39.0%**			
FY 2008	79,893	134,665	140,004	354,562	–	354,562
FY 2008 %	22.5%	38.0%	39.5%			

The quality of our asset base continues to be strong and shows no material deterioration since the end of 2008 in either its credit quality or the proportion of assets which are valued based on either quoted prices in an active market or using models with significant observable market parameters.

82% of assets (including 100% of financial investments) are measured at fair value of which the principle asset classes are loans, debt securities, equity securities and other financial investments. Of total debt securities, 94.8% are investment grade with 1.6% below investment grade and 3.6% not rated.

The group has very limited exposure to RMBS (Sub prime, Alt A), ABS, Wrapped Credit, CDOs and CLOs; these investments represent less than 1.0% of total balance sheet assets.

As at 30 June 2009, shareholder exposure to total loans and financial investments represented £85,365 million. The fall when compared to 31 December 2008 is predominantly driven by the movement in the Euro and the US dollar.

We report all of our financial investments, including our £147 billion debt securities portfolio, at market value. The unrealised losses of the debt securities portfolio on our balance sheet equate to 6% as at 30 June 2009, a significant reduction over the period (31 December 2008: 8%). Actual defaults in the period were minimal at £15 million (31 December 2008: £140 million). The total loss over the last 18 months represents just 0.2% of our total corporate debt portfolio. In addition, we have made impairment charges of £50 million (31 December 2008: £260 million).

Our UK Life commercial mortgage portfolio remains strong with no defaults recorded in the period. The portfolio is well diversified by sector and location with over 20% of the portfolio related to healthcare businesses which are effectively government backed. Interest service cover remains strong and unchanged at 1.3 times and over 96% of mortgages are neither past due nor impaired.

The provision we made of £550 million for short term default provisions in the UK for corporate bonds and commercial mortgages remain unutilised. Together with our long-term default assumptions, this equates to a provision of £1.1 billion for the life of the corporate bond and commercial mortgage portfolio and creates a strong buffer against potential future losses.

We have made further provisions of £42 million (31 December 2008: £26 million) on the UK General Insurance mortgage portfolio, bringing the total to £68m, of which £16m (31 December 2008: £nil) is against specific mortgage loans.

Analysis of assets continued

Total assets – Shareholder/policyholder exposure to risk continued

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

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

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

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

Shareholder assets
Assets held within long-term businesses that are not backing unit-linked liabilities or participating funds, directly expose the shareholders to market and credit risks. Likewise, assets held within general insurance and health, fund management and non-insurance businesses also expose our shareholders to market and credit risks. We have established comprehensive risk management policies to monitor and mitigate these risks.

Total assets – Valuation bases/fair value hierarchy

Valuation bases
The valuation of the group's assets can be categorised into the following major categories:

(i) *Fair value* – Fair value is the amount for which an asset can be exchanged between knowledgeable, willing parties in an arm's length transaction;

(ii) *Cost/Amortised cost* – The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition less principal repayments, plus or minus the cumulative amortisation (using the effective interest method) of any difference between the initial amount and the maturity amount, and less any reduction for impairment or uncollectibility. The cost/amortised cost of a non-financial asset is the amount at which the asset is initially recognised less any cumulative amortisation/depreciation (if applicable), and less any reduction for impairment;

(iii) *Equity accounted and tax assets* – Investments in associates and joint ventures are accounted for using the equity method of accounting. Under this method, the cost of the investment in a given associate or joint venture, together with the group's share of that entity's post-acquisition changes to shareholders' funds, is included as an asset in the consolidated statement of financial position. The group's share of their post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. Distributions received from the investee reduce the group's carrying amount of the investment; and

(iv) Within the group's statement of financial position, assets are recognised for deferred tax and current tax. The valuation basis of these assets does not directly fall within any of the categories outlined above. As such, these assets have been reported together with Equity accounted within the analysis of the group's assets in the table below.

Total assets – Valuation bases/fair value hierarchy continued

	Fair value £m	Amortised cost £m	Equity accounted/ tax assets £m	Total £m
Assets				
Goodwill and acquired value of in-force business and intangible assets	**–**	**6,631**	**–**	**6,631**
Interests in joint ventures and associates	**–**	**–**	**2,493**	**2,493**
Property and equipment	**446**	**469**	**–**	**915**
Investment property	**12,218**	**–**	**–**	**12,218**
Loans	**19,556**	**20,178**	**–**	**39,734**
Financial investments				
Debt securities	**146,846**	**–**	**–**	**146,846**
Equity securities	**36,504**	**–**	**–**	**36,504**
Other investments	**29,683**	**–**	**–**	**29,683**
Reinsurance assets	**–**	**7,016**	**–**	**7,016**
Deferred tax assets	**–**	**–**	**2,533**	**2,533**
Current tax assets	**–**	**–**	**444**	**444**
Receivables and other financial assets	**–**	**10,789**	**–**	**10,789**
Deferred acquisition costs and other assets	**–**	**6,262**	**–**	**6,262**
Prepayments and accrued income	**–**	**3,684**	**–**	**3,684**
Cash and cash equivalents	**25,740**	**–**	**–**	**25,740**
Total	**270,993**	**55,029**	**5,470**	**331,492**
Total %	**81.7%**	**16.6%**	**1.7%**	
FY 2008	291,252	57,063	6,247	354,562
FY 2008 %	82.1%	16.1%	1.8%	

Assets have been valued with 82% of assets (including 100% of financial investments) measured at fair value.

With such a significant portion of the group's total assets carried at fair value, the impact of market risks and credit risks of these assets has been fully reflected within the group's reported 30 June 2009 financial position. Furthermore, all other assets have been tested for impairment and, in the case of financial assets (which includes loans, receivables and cash) carried at amortised cost, this has included a specific analysis of the recoverability of the assets by reference to the credit risk of the counterparty. The carrying values of assets on the different valuation bases are analysed in the tables below between Policyholder, Participating fund and Shareholder assets respectively.

Analysis of assets continued

Total assets – Valuation bases/fair value hierarchy continued

	Fair value £m	Amortised cost £m	Equity accounted/ tax assets £m	Total £m
Assets – Policyholder assets				
Goodwill and acquired value of in-force business and intangible assets	–	–	–	–
Interests in joint ventures and associates	–	–	8	8
Property and equipment	–	–	–	–
Investment property	3,413	–	–	3,413
Loans	150	1,471	–	1,621
Financial investments				
Debt securities	18,533	–	–	18,533
Equity securities	23,481	–	–	23,481
Other investments	20,843	–	–	20,843
Reinsurance assets	–	1,524	–	1,524
Deferred tax assets	–	–	–	–
Current tax assets	–	–	–	–
Receivables and other financial assets	–	660	–	660
Deferred acquisition costs and other assets	–	198	–	198
Prepayments and accrued income	–	130	–	130
Cash and cash equivalents	4,076	–	–	4,076
Total	**70,496**	**3,983**	**8**	**74,487**
Total %	**94.6%**	**5.4%**	**0.0%**	
FY 2008	75,391	4,308	194	79,893
FY 2008 %	94.4%	5.4%	0.2%	

	Fair value £m	Amortised cost £m	Equity accounted/ tax assets £m	Total £m
Assets – Participating fund assets				
Goodwill and acquired value of in-force business and intangible assets	–	–	–	–
Interests in joint ventures and associates	–	–	569	569
Property and equipment	52	22	–	74
Investment property	6,517	–	–	6,517
Loans	1,073	7,687	–	8,760
Financial investments				
Debt securities	79,802	–	–	79,802
Equity securities	7,701	–	–	7,701
Other investments	6,661	–	–	6,661
Reinsurance assets	–	1,046	–	1,046
Deferred tax assets	–	–	–	–
Current tax assets	–	–	–	–
Receivables and other financial assets	–	2,471	–	2,471
Deferred acquisition costs and other assets	–	781	–	781
Prepayments and accrued income	–	1,371	–	1,371
Cash and cash equivalents	11,927	–	–	11,927
Total	**113,733**	**13,378**	**569**	**127,680**
Total %	**89.1%**	**10.5%**	**0.4%**	
FY 2008	120,945	12,770	950	134,665
FY 2008 %	89.8%	9.5%	0.7%	

Total assets – Valuation bases/fair value hierarchy continued

	Fair value £m	Amortised cost £m	Equity accounted/ tax assets £m	Total £m
Assets – Shareholder assets				
Goodwill and acquired value of in-force business and intangible assets	**–**	**6,631**	**–**	**6,631**
Interests in joint ventures and associates	**–**	**–**	**1,916**	**1,916**
Property and equipment	**394**	**447**	**–**	**841**
Investment property	**2,288**	**–**	**–**	**2,288**
Loans	**18,333**	**11,020**	**–**	**29,353**
Financial investments				
Debt securities	**48,511**	**–**	**–**	**48,511**
Equity securities	**5,322**	**–**	**–**	**5,322**
Other investments	**2,179**	**–**	**–**	**2,179**
Reinsurance assets	**–**	**4,446**	**–**	**4,446**
Deferred tax assets	**–**	**–**	**2,533**	**2,533**
Current tax assets	**–**	**–**	**444**	**444**
Receivables and other financial assets	**–**	**7,658**	**–**	**7,658**
Deferred acquisition costs and other assets	**–**	**5,283**	**–**	**5,283**
Prepayments and accrued income	**–**	**2,183**	**–**	**2,183**
Cash and cash equivalents	**9,737**	**–**	**–**	**9,737**
Total	**86,764**	**37,668**	**4,893**	**129,325**
Total %	**67.1%**	**29.1%**	**3.8%**	
FY 2008	94,916	39,985	5,103	140,004
FY 2008 %	67.8%	28.6%	3.6%	

Fair value hierarchy
To provide further information on the valuation techniques used to measure assets carried at fair value, this disclosure categorises the measurement basis for assets carried at fair value into a ''fair value hierarchy'' as follows:

Quoted market prices in active markets – (''Level 1'')
Inputs to Level 1 fair values are quoted prices (unadjusted) in active markets for identical assets. An active market is a market in which transactions for the asset occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Examples are listed equities in active markets, listed debt securities in active markets and quoted unit trusts in active markets.

Valued using models with significant observable market parameters – (''Level 2'')
Inputs to Level 2 fair values are inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. If the asset has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset. Level 2 inputs include the following:

- Quoted prices for similar (i.e. not identical) assets in active markets;
- Quoted prices for identical or similar assets in markets that are not active, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly;
- Inputs other than quoted prices that are observable for the asset (for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates); and
- Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means (market-corroborated inputs).

Examples are securities measured using discounted cash flow models based on market observable swap yields, investment property measured using market observable information and listed debt or equity securities in a market that is inactive.

Analysis of assets continued

Total assets – Valuation bases/fair value hierarchy continued

Valued using models with significant unobservable market parameters – (''Level 3'')

Inputs to Level 3 fair values are unobservable inputs for the asset. Unobservable inputs may have been used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset at the measurement date (or market information for the inputs to any valuation models). As such, unobservable inputs reflect the business unit's own assumptions about the inputs that market participants would use in pricing the asset.

Examples are certain private equity investments and private placements.

1.1. Loans

The value of the group's loan portfolio at 30 June 2009 stood at £39,734 million compared to £42,237 million at year end 2008, representing a total decrease of £2,503 million. Policyholder and participating fund assets experienced only slight movements, and the primary source of this decline was from shareholder assets, due to the dominance of mortgage loans in the portfolio, which decreased by £2,383 million to £29,353 million. Within shareholder assets, the mortgage loan portfolio decreased from a year end 2008 position of £27,046 million to a half year 2009 position of £25,147 million.

The key drivers for these reductions were a combination of increased risks due to falling property values, increasing gilt yields and exchange rate movements for the USD and EUR currencies. However, most of these reductions are offset through corresponding reductions in the liability valuations, thereby resulting in minimal impact on the net balance sheet or income.

The group loan portfolio is principally made up of:

- Policy loans which are generally collateralised by a lien or charge over the underlying policy
- Loans and advances to banks which primarily relate to loans of cash collateral received in stock lending transactions. These loans are fully collateralised by other securities;
- Mortgage loans collateralised by property assets; and
- Other loans which include loans and advances to customers of our banking business and brokers and intermediaries

Loans with fixed maturities, including policy loans, mortgage loans (at amortised cost) and loans and advances to banks, are recognised when cash is advanced to borrowers. These loans are carried at their unpaid principal balances and adjusted for amortisation of premium or discount, non-refundable loan fees and related direct costs. These amounts are deferred and amortised over the life of the loan as an adjustment to loan yield using the effective interest rate method.

For certain mortgage loans, the group has taken advantage of the revised fair value option under IAS 39 to present the mortgages, associated borrowings, other liabilities and derivative financial instruments at fair value, since they are managed together on a fair value basis. Due to the illiquid nature of these assets, where fair value accounting is applied, it is done so on a Level 2 basis.

Shareholder assets

	UK £m	Delta Lloyd £m	North America £m	Europe (excl. DL) £m	Asia £m	Total £m
Policy loans	–	270	209	12	12	503
Loans and advances to banks	846	275	–	–	–	1,121
Mortgages	14,059	9,675	1,399	1	13	25,147
Other loans	33	2,460	82	3	4	2,582
Total	**14,938**	**12,680**	**1,690**	**16**	**29**	**29,353**

Mortgage loans

Of the group's total loan portfolio (including Policyholder, Participating Fund and Shareholder assets), 71% is invested in mortgage loans. Market developments over the past 2 years have led to an increased focus on this asset class. The group's mortgage loan portfolio spans several business units, primarily UK, Delta Lloyd and USA, and across various sectors, including residential loans, commercial loans and government supported healthcare loans.

Aviva shareholders are exposed predominantly to mortgage loans. These exposures are complex with several levels of protection for the shareholder. This section focuses on explaining the residual shareholder risk within these exposures.

Total assets – Valuation bases/fair value hierarchy continued

Mortgage loans – Shareholder assets

	UK £m	Delta Lloyd £m	North America £m	Europe (excl. DL) £m	Asia £m	Total £m
Total securitised mortgage loans	**1,756**	**5,381**	**–**	**–**	**–**	**7,137**
Non-securitised mortgage loans – residential	**–**	**4,274**	**–**	**1**	**–**	**4,275**
Non-securitised mortgage loans – equity release	**1,243**	**–**	**–**	**–**	**–**	**1,243**
Non-securitised mortgage loans – commercial	**8,445**	**20**	**1,399**	**–**	**13**	**9,877**
Non-securitised mortgage loans – healthcare	**2,615**	**–**	**–**	**–**	**–**	**2,615**
Total non-securitised mortgage loans	**12,303**	**4,294**	**1,399**	**1**	**13**	**18,010**
Total mortgage loans	**14,059**	**9,675**	**1,399**	**1**	**13**	**25,147**

Securitised mortgage loans comprise 28% of total Shareholder mortgage loan assets. They are secured through non-recourse borrowings in our UK Life and Dutch businesses, and comprise primarily of residential assets, including equity release in the UK.

Shareholder exposure to non-securitised mortgage loans is predominantly to commercial, rather than residential, mortgages. These are typically held to back annuity liabilities. Historical data has shown the portfolio to be of very high quality, with minimal realised losses incurred on the large UK portfolio in the last 15 years. With the economic climate deteriorating significantly over the last year, the level of specific bad debt provision has risen modestly and is expected to continue to rise, although general provisions have already been established to cover these.

In addition to commercial mortgages of £9,877 million (predominantly held in the UK and US), Aviva also holds £2,615 million of mortgage loans made to UK healthcare related businesses, which receive significant support from the National Health Service ("NHS").

Of a total of £25,147 million of shareholder asset gross mortgage loan exposure (including securitised), a combined 99.9% is based within the UK, Delta Lloyd and USA business units. The analysis following therefore focuses on these three business units only.

Securitised mortgage loans (UK, Delta Lloyd, Shareholder assets only)

Of a total of £7,137 million of securitised residential mortgages, approximately £1 billion of securities are still held by Aviva. The remaining securities have been sold to third parties, and therefore present no credit risk to Aviva.

Securitised residential mortgages held are predominantly issued through vehicles in the Delta Lloyd and in the UK.

Non-securitised mortgage loans (Shareholder assets only)

UK commercial

Gross Exposures by Loan to Value and Arrears (£m)

	Loan to value										
	>120%	115%–120%	110%–115%	105%–110%	100%–105%	95%–100%	90%–95%	80%–90%	70%–80%	<70%	Total
Neither past due nor impaired	**1,138**	**507**	**699**	**1,607**	**743**	**946**	**1,049**	**599**	**492**	**333**	**8,113**
0–3 months	**291**	**–**	**–**	**–**	**–**	**13**	**–**	**–**	**–**	**–**	**304**
3–6 months	**–**	**3**	**–**	**–**	**–**	**20**	**–**	**–**	**–**	**–**	**23**
6–12 months	**–**	**–**	**–**	**–**	**–**	**5**	**–**	**–**	**–**	**–**	**5**
> 12 months	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**1,429**	**510**	**699**	**1,607**	**743**	**984**	**1,049**	**599**	**492**	**333**	**8,445**

Analysis of assets continued

Total assets – Valuation bases/fair value hierarchy continued

Of the £8,445 million of UK Commercial loans, £7,845 million are held by Aviva UK Life to back annuity liabilities, and stated above on a fair value basis. The remaining £600 million of loans are held by Aviva UK General Insurance and stated on an amortised cost basis. The loan exposures for the UK Life business are calculated on a discounted cash flow basis, and include a risk adjustment through the use of Credit Risk Adjusted Value ("CRAV") methods. For the UK General Insurance business, mortgages are held at amortised cost, and subject to impairment review, using a fair value methodology calibrated to the UK Life approach, adjusted for specific portfolio characteristics.

The UK portfolio is well diversified in terms of property type, location and tenants as well as the spread of loans written over time. The UK portfolio has had an excellent track record with minimal defaults in the last 15 years, although the recent economic climate is expected to result in some losses. The risks in commercial mortgages are addressed through several layers of protection. The mortgages risk profile is primarily driven by the ability of the underlying tenant rental income to cover loan interest and amortisation (where applicable). Should any single tenant default on their rental payment, rental from other tenants backing the same loan often ensures the loan interest cover does not fall below 1.0x. Loan interest cover ("LIC") is defined as the annual net rental income (including rental deposits and less ground rent) divided by the annual loan interest service. The average LIC is 1.3x. Where there are multiple loans to a single borrower further protection may be achieved through cross-charging and loans to a single borrower may be pooled so that any single loan is also supported by payments on the other pool loans. Additionally, there may be support provided by the borrower of the loan itself and further loss mitigation from the general floating charges held over other assets within the borrower companies.

If the LIC cover falls below 1.0x and the borrower defaults then Aviva still retains the option of selling the security or restructuring the loans and benefiting from the protection of the collateral. A combination of these benefits and the high recovery levels afforded by property collateral (compared to corporate debt or other uncollateralised credit exposures) results in the economic exposure being significantly lower than the gross exposure reported above.

All loans in arrears have been assessed for impairment and specific provisions. Of the £332 million exposure in arrears, the interest amount in arrears is only £5.8 million. In addition to £29 million of specific provisions relating to defaults made in 2008, Aviva UK Life have provisioned for a further £3 million and Aviva UK General Insurance have made specific provisions of £16 million for defaults for the six month period to 30 June 2009. These are in addition to the general provisions made for longer term expectations of losses.

Of the £4,988 million of loans with LTV above 100%, the amount of exposure uncovered by the underlying security is £805 million. The combined impact of increasing risk, as property values continue to fall, and rising long-term gilt yields have led to a reduction in risk adjusted loan values since year end 2008. This has resulted in LTVs increasing only modestly as the effect of falling property values has been offset by falling loan values. However, loan interest cover has remained stable due to low levels of material tenant defaults.

UK Healthcare

Of the total non-securitised mortgage loans of £12,303 million, £2,615 million relate to healthcare businesses and are secured against General Practitioner premises or other health related premises leased to NHS trusts or Primary Care Trusts. For all such loans, Government support is provided through reimbursement of rental payments to the tenants to meet income service and provide for the debt to be reduced substantially over the term of the loan. Although the loan principal is not Government guaranteed, the nature of these businesses and premises provides considerable comfort of an ongoing business model and low risk of default.

On a market value basis, we estimate the average LTV of these mortgages to be 111%, although as explained above, we do not consider this to be a key risk driver. Income support from the National Health Service and stability of the sector provide sustained income stability. Aviva therefore considers these loans to be low risk and uncorrelated with the strength of the UK or global economy.

UK Residential

The UK Non-securitised residential mortgage portfolio has a total current value of £1,243 million. These mortgages are all in the form of equity release, whereby homeowners that usually own a fully paid up property will mortgage it to release cash equity. Due to the low relative levels of equity released in each property, they all currently have LTV of below 80%, and the average LTV across the portfolio is approximately 30-35%. We therefore consider these mortgages to be low risk.

Delta Lloyd Commercial

Delta Lloyd currently holds a total of £430 million of commercial mortgages. However, of these, shareholders are exposed to only £19 million. The remaining assets are held in the Policyholder and Participating Funds of Delta Lloyd's German subsidiaries.

Total assets – Valuation bases/fair value hierarchy continued

Delta Lloyd residential

	Loan to value										
	>120% £m	115%–120% £m	110%–115% £m	105%–110% £m	100%–105% £m	95%–100% £m	90%–95% £m	80%–90% £m	70%–80% £m	<70% £m	Total £m
Exposures by mortgage type											
Government guaranteed residential	370	63	48	33	28	93	23	34	31	68	791
Non-Government guaranteed residential	560	148	135	121	404	370	372	374	407	592	3,483
Total	930	211	183	154	432	463	395	408	438	660	4,274
Exposures by interest payment arrears											
0–3 months	30	5	10	10	1	10	22	1	2	4	95
3–6 months	2	–	1	2	4	4	1	2	6	–	22
6–12 months	–	–	–	–	–	–	–	–	–	–	–
> 12 months	–	–	–	–	2	2	2	1	2	2	11
Total	32	5	11	12	7	16	25	4	10	6	128

The total exposure to non-securitised residential loans in the Netherlands is £4,274 million. However, of these, £791 million are Government guaranteed, and so present minimal risk to Aviva shareholders. Of the £4,274 million of residential loans, £3,645 million are measured on a fair value basis, and the remaining on amortised cost basis.

The Government guarantees were introduced in the Netherlands to encourage homeownership, and apply to home mortgages of up to €350,000 (this threshold was raised, from €265,000 at 31 December 2008, due to the impact of the financial crisis). The guarantees are implemented through the National Mortgage Guarantee Scheme, and ensure that, should the homeowner be forced to sell, and cannot make the repayment on the mortgage, then the residual will be provided for by the Homeownership Guarantee Fund, which in turn is funded by the Government and municipalities through agreements for interest free loans.

In addition to government guarantees, the Dutch residential mortgage market also benefits from the ability for borrowers to deduct mortgage interest payments for tax purpose, thereby helping to reduce arrears or default.

The total amount of loans for which interest payments are past due is £128 million (down from £282 at 31 December 2008). However, the actual amount of missed payments is £6.8 million. Delta Lloyd has currently not made any additional provisions for these loans as it does not consider the amount of potential loss to be significant.

U.S. commercial

Gross exposures by loan to value and arrears

	Loan to value										
	>120% £m	115%–120% £m	110%–115% £m	105%–110% £m	100%–105% £m	95%–100% £m	90%–95% £m	80%–90% £m	70%–80% £m	<70% £m	Total £m
30 June 2009	9	2	2	6	8	38	46	243	304	741	1,399

Aviva USA currently holds £1,399 million of commercial mortgages under Shareholder Assets. Of these, 53% (31 December 2008: 55%) still have LTV of below 70%, and 92% (31 December 2008: 94%) have LTVs of below 90%. However, the mortgage portfolio does currently have a total of £27 million (2% of portfolio) in principal balances where the LTV exceeds 100%. Although declining property prices have had a negative impact, the mortgages continue to perform well, reflective of:

– low underwriting LTVs (shall not exceed 80% at the time of issuance), and consequently a portfolio with an average LTV of 61% at 31 December 2008, and 65% at 30 June 2009;

– A highly diversified portfolio across USA, with strong volumes in many states with more stable economies and related real estate values, such as Washington, Texas and Minnesota; and

– Strong LIC ratios, with 96% of the loans having and LIC above 1.4xm, and less than 1% with LIC below 1.0x

As at 30 June 2009, only £1 million of loans was in arrears. Aviva USA holds mortgage loans at an amortised cost value, and conducts a regular impairment review process. As at 30 June 2009, there were no provisions applied to the Aviva USA's commercial mortgage portfolio.

Analysis of assets continued

Total assets – Valuation bases/fair value hierarchy continued

1.2. Financial investments

Financial investments are an integral element of an insurance business.

Aviva holds large quantities of high quality bonds, primarily to match our liability to make guaranteed payments to policyholders. Some credit risk is taken, partly to boost returns to policyholders and partly to optimise the risk/return profile for shareholders. The risks are consistent with the products we offer and the related investment mandates, and are in line with our risk appetite.

The group also holds significant quantities of equities. Many of these are held in participating funds or unit linked funds, where they form an integral part of the investment expectations of policyholders and follow well-defined investment mandates. Some equities are also held in shareholder funds and the staff pension schemes, where the holdings are designed to maximise long-term returns with an acceptable level of risk. The vast majority of equity investments are valued at quoted market prices.

The group's credit risk policy restricts the exposure to individual counterparties across all types of risk.

The fair values of investments are based on quoted bid prices or amounts derived from cash flow models. Fair values for unlisted equity securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Securities, for which fair values cannot be measured reliably, are recognised at cost less impairment.

Where it is determined that the market in which a price is quoted has become inactive, the quoted price is assessed against either independent valuations or internally modelled valuations which take into account other market observable information. Where the quoted price differs sufficiently from these reassessed prices, the fair value recognised on the balance sheet is based on this adjusted valuation. However, if these reassessed prices confirm that the quoted price remains appropriate, then the fair value recognised on the balance sheet continues to be the quoted price.

The group classifies its investments as either financial assets at fair value through profit or loss (FV) or financial assets available for sale (AFS). The classification depends on the purpose for which the investments were acquired, and is determined by local management at initial recognition. In general, the FV category is used as, in most cases, the group's investment or risk management strategy is to manage its financial investments on a fair value basis. The AFS category is used where the relevant long-term business liability (including shareholders funds) is passively managed.

Investments classified as FV and AFS are subsequently carried at fair value. Changes in the fair value of FV investments are included in the income statement in the period in which they arise. Changes in the fair value of securities classified as AFS, except for impairment losses, are recorded in a separate investment valuation reserve in equity. Where investments classified as AFS are sold or impaired, the accumulated fair value adjustments are transferred out of the investment valuation reserve and into the income statement.

To test for impairment, the group reviews the carrying value of its investments on a regular basis. If the carrying value of an investment is greater than the recoverable amount, the carrying value is reduced through a charge to the income statement in the period of impairment.

For listed investments classified as AFS, the group performs an objective review of the current financial position and prospects of the issuer on a regular basis, to identify whether any impairment provision is required. For unlisted investments classified as AFS, the group considers the current financial position of the issuer and the future prospects in identifying the requirement for an impairment provision. For both listed and unlisted AFS securities identified as being impaired, the cumulative unrealised net loss previously recognised within the AFS reserve is transferred to realised losses for the year.

Cost, unrealised gains and fair value

The following is a summary of the cost/amortised cost, gross unrealised gains and losses and fair value of financial investments:

	30 June 2009			
	Cost/ amortised cost £m	Unrealised gains £m	Impairment and unrealised losses £m	Fair value £m
Debt securities	**151,528**	**4,051**	**(8,733)**	**146,846**
Equity securities	**44,092**	**2,319**	**(9,907)**	**36,504**
Other investments	**29,274**	**2,092**	**(1,683)**	**29,683**
	224,894	**8,462**	**(20,323)**	**213,033**

Total assets – Valuation bases/fair value hierarchy continued

	31 December 2008			
	Cost/ amortised cost £m	Unrealised gains £m	Impairment and Unrealised losses £m	Fair value Restated £m
Debt securities	156,097	7,634	(13,140)	150,591
Equity securities	54,518	2,685	(13,792)	43,411
Other investments	34,692	4,243	(2,819)	36,116
	245,307	14,562	(29,751)	230,118

1.2.1. Debt instruments

	Fair value hierarchy			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**
Debt securities – Shareholder assets				
UK Government	**1,224**	**–**	**–**	**1,224**
Non-UK Government	**10,391**	**2,312**	**121**	**824**
Corporate bonds – Public utilities	**1,204**	**1,144**	**50**	**2,398**
Corporate convertible bonds	**10**	**273**	**–**	**283**
Other corporate bonds	**7,841**	**15,667**	**372**	**23,880**
Other	**2,470**	**5,044**	**388**	**7,902**
Total	**23,140**	**24,440**	**931**	**48,511**
Total %	**47.7%**	**50.4%**	**1.9%**	
FY 2008	26,134	24,469	834	51,437
FY 2008 %	50.8%	47.6%	1.6%	

Only 3.3% of shareholder exposure to financial investments (2.1% of shareholder assets recorded at fair value) is fair valued using models with significant unobservable market parameters. Where estimates are used these are based on a combination of independent third party evidence and internally developed models, calibrated to market observable data where possible. Whilst such valuations are sensitive to estimates it is believed that changing one or more of the assumptions for reasonably possible alternative assumptions would not change the fair value significantly.

The majority of the debt instruments held by our North American businesses are valued by independent pricing firms in accordance with usual market practice in that region.

48% of shareholder exposure to debt securities is based on quoted prices in an active market. The continuing trend of reduced liquidity due to the ongoing uncertainty in the international financial markets contributes to the relatively high proportion of debt securities that is based on quoted prices in markets that are not active or where the prices are less current.

Analysis of assets continued

Total assets – Valuation bases/fair value hierarchy continued

	Ratings						
	AAA £m	AA £m	A £m	BBB £m	Less than BBB £m	Non-rated £m	Total £m
Debt securities – Shareholder assets							
Government							
UK Government	**1,212**	**–**	**–**	**–**	**–**	**–**	**1,212**
UK local authorities	**3**	**9**	**–**	**–**	**–**	**–**	**12**
Non-UK Government	**7,399**	**2,409**	**2,310**	**47**	**58**	**601**	**12,824**
	8,614	**2,418**	**2,310**	**47**	**58**	**601**	**14,048**
Corporate							
Public utilities	**105**	**132**	**1,308**	**755**	**59**	**39**	**2,398**
Convertibles and bonds with warrants	**–**	**21**	**110**	**124**	**27**	**1**	**283**
Other corporate bonds	**1,938**	**3,200**	**9,603**	**6,265**	**1,091**	**1,783**	**23,880**
	2,043	**3,353**	**11,021**	**7,144**	**1,177**	**1,823**	**26,561**
Certificates of deposits	**191**	**4**	**–**	**1**	**–**	**11**	**207**
Structured							
RMBS non-agency sub-prime	**2**	**–**	**1**	**2**	**1**	**–**	**6**
RMBS non-agency ALT A	**129**	**4**	**–**	**–**	**12**	**–**	**145**
RMBS non-agency prime	**279**	**12**	**24**	**28**	**1**	**277**	**621**
RMBS agency	**2,458**	**–**	**–**	**–**	**–**	**–**	**2,458**
	2,868	**16**	**25**	**30**	**14**	**277**	**3,230**
CMBS	**1,368**	**59**	**30**	**36**	**14**	**–**	**1,507**
ABS	**856**	**121**	**164**	**86**	**5**	**271**	**1,503**
CDO (including CLO)	**77**	**10**	**68**	**8**	**18**	**50**	**231**
ABCP	**175**	**–**	**–**	**–**	**–**	**–**	**175**
ABFRN	**1**	**–**	**–**	**1**	**–**	**–**	**2**
	2,477	**190**	**262**	**131**	**37**	**321**	**3,418**
Wrapped credit	**141**	**51**	**95**	**79**	**–**	**6**	**372**
Other	**75**	**7**	**305**	**42**	**5**	**241**	**675**
Total	**16,409**	**6,039**	**14,018**	**7,474**	**1,291**	**3,280**	**48,511**
Total %	**33.8%**	**12.4%**	**28.9%**	**15.4%**	**2.7%**	**6.8%**	
FY 2008	19,021	7,414	13,608	6,536	1,185	3,673	51,437
FY 2008 %	37.0%	14.4%	26.5%	12.7%	2.3%	7.1%	

The overall quality of the book is strong and has been maintained, despite the continuing downgrade activity by the major rating agencies during the first half of 2009, by taking opportunities to move into higher quality assets. Nearly 30% of shareholder exposure to debt security holdings is in government bonds. A further 55% of holdings are in corporate bonds with an average rating of A.

The majority of the Residential Mortgage-Backed Securities (RMBS) are US investments and over 75% of the shareholder exposure is backed by one of the US Government Sponsored Entities (GSEs) including Fannie Mae and Freddie Mac which, under the conservatorship arrangements implemented in September 2008, are now backed by the full faith and credit of the US Government. The majority of the remaining US RMBS is backed by fixed rate loans originated in 2005 or before.

The Group has extremely limited exposure to 'Sub-prime' debt securities and also limited exposure to CDOs and CLOs. Investments in structured assets, excluding agency RMBS which is backed by GSEs, represent less than 10% of debt securities to which the shareholder has exposure.

The vast majority of the corporate bonds that are not rated represent private placements. The private placements are US investments which are not rated by the major rating agencies but which are rated an average equivalent of between A and BBB by the Securities Valuation Office of the National Association of Insurance Commissioners (NAIC), a US national regulatory agency.

Excluding the private placements that are rated by the NAIC, the exposure that is not rated by a major rating agency reduces to less than 4% of debt securities to which the shareholder has exposure.

Total assets – Valuation bases/fair value hierarchy continued

1.2.2 Equity securities

Fair value measurement

	Fair value hierarchy			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Equity securities – Shareholder assets				
Public utilities	**86**	**–**	**–**	**86**
Banks, trusts and insurance companies	**405**	**135**	**637**	**1,177**
Industrial miscellaneous and all other	**2,022**	**1,621**	**223**	**3,866**
Non-redeemable preferred shares	**103**	**86**	**4**	**193**
Total	**2,616**	**1,842**	**864**	**5,322**
Total %	**49.2%**	**34.6%**	**16.2%**	
FY 2008	2,700	2,131	923	5,754
FY 2008 %	46.9%	37.1%	16.0%	

Almost 50% of shareholder exposure to equity securities is based on quoted prices in an active market. Similar to the fixed income markets, continuing reduced liquidity in equity markets during the first half of 2009 means that there continues to be a proportion of equities that is based on quoted prices in markets that are not active or where the prices are less current, although this position is improving slightly. Also subject to Level 2 valuation are unlisted securities.

Shareholder investments include a strategic holding in Unicredito and other Italian banks of £979 million (£791 million net of minority interest share).

1.2.3. Other investments

Fair value measurement

	Fair value hierarchy			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Other investments – Shareholder assets				
Unit trusts and other investment vehicles	**500**	**56**	**4**	**560**
Derivative financial instruments	**41**	**999**	**25**	**1,065**
Deposits and credit institutions	**29**	**395**	**–**	**424**
Minority holdings in property management undertakings	**–**	**51**	**–**	**51**
Other	**12**	**63**	**4**	**79**
Total	**582**	**1,564**	**33**	**2,179**
Total %	**26.7%**	**71.8%**	**1.5%**	
FY 2008	626	2,491	29	3,146
FY 2008 %	19.9%	79.2%	0.9%	

The majority of other investments is fair valued with reference to quoted prices in an active market or using market observable information. The unit trusts and other investment vehicles invest in a variety of assets with the majority of the value being invested in Property and Equity securities with a smaller portion being invested in Debt Securities.

Pension fund assets

In addition to the assets recognised directly on the group's balance sheet outlined in the disclosures above, the group is also exposed to the ''Plan assets'' that are shown net of the present value of scheme liabilities within the IAS 19 net pension deficit. The net pension deficit is recognised within provisions on the group's statement of financial position.

Plan assets include investments in group-managed funds of £139 million in the UK scheme, and insurance policies of £157 million and £1,217 million in the UK and Dutch schemes respectively. Where the investment and insurance policies are in segregated funds with specific asset allocations, they are included in the appropriate lines in the table below, otherwise they appear in "Other". The Dutch insurance policies are considered non-transferable under the terms of IAS 19 and so have been excluded as assets of the relevant scheme in this table.

Analysis of assets continued

Total assets – Valuation bases/fair value hierarchy continued

The total IAS 19 assets (i.e. excluding the non-transferable insurance policies) of the schemes are analysed as follows:

	United Kingdom £m	Delta Lloyd £m	Canada £m	Ireland £m	Total £m
Equities	**2,288**	**–**	**70**	**47**	**2,405**
Bonds	**3,948**	**–**	**96**	**149**	**4,193**
Property	**346**	**–**	**–**	**20**	**366**
Other	**415**	**6**	**10**	**166**	**597**
Total fair value of assets	**6,997**	**6**	**176**	**382**	**7,561**

Risk management and asset allocation strategy

The long-term investment objectives of the trustees and the employers are to limit the risk of the assets failing to meet the liabilities of the schemes over the long term, and to maximise returns consistent with an acceptable level of risk so as to control the long-term costs of these schemes. To meet these objectives, each scheme's assets are invested in a diversified portfolio, consisting primarily of equity and debt securities. These reflect the current long-term asset allocation ranges chosen, having regard to the structure of liabilities within the schemes.

Main UK scheme

Both the group and the trustees regularly review the asset/liability management of the main UK scheme. It is fully understood that, whilst the current asset mix is designed to produce appropriate long-term returns, this introduces a material risk of volatility in the scheme's surplus or deficit of assets compared with its liabilities. The principal asset risks to which the scheme is exposed are:

- Equity market risk – the effect of equity market falls on the value of plan assets;
- Inflation risk – the effect of inflation rising faster than expected on the value of the plan liabilities; and
- Interest rate risk – falling interest rates leading to an increase in liabilities significantly exceeding the increase in the value of assets.

The trustees have taken measures to partially mitigate inflation and interest rate risks, including entering into inflation and interest rate swaps.

There is also an exposure to currency risk where assets are not denominated in the same currency as the liabilities. The majority of this exposure has been removed by the use of hedging instruments.

During 2008, there was a reduction in the proportion of assets invested in equities, thereby mitigating the equity risk

Other schemes

The other schemes are considerably less material but their risks are managed in a similar way to those in the main UK scheme.

Available funds

To ensure access to liquidity as and when needed, the group maintains over £2 billion of undrawn committed central borrowing facilities with various highly rated banks. £1 billion of this is allocated to support the credit rating of Aviva plc's £2 billion commercial paper programme. The expiry profile of the undrawn committed central borrowing facilities is as follows:

	£m
Expiring in one year	**815**
Expiring beyond one year	**1,285**
	2,100

Guarantees

As a normal part of their operating activities, various group companies have given guarantees and options, including investment return guarantees, in respect of certain long-term insurance and fund management products.

For the UK Life with-profit business, provisions in respect of these guarantees and options are calculated on a market consistent basis, in which stochastic models are used to evaluate the level of risk (and additional cost) under a number of economic scenarios, which allow for the impact of volatility in both interest rates and equity prices. For UK Life non-profit business, provisions do not materially differ from those determined on a market consistent basis.

In all other Businesses, provisions for guarantees and options are calculated on a local basis with sensitivity analysis undertaken where appropriate to assess the impact on provisioning levels of a movement in interest rates and equity levels (typically a 1% increase in interest rates and 10% decline in equity markets).

Financial supplement

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IFRS condensed financial statements

Consolidated income statement

For the six month period ended 30 June 2009

6 months 2009 €m		6 months 2009 £m	Restated 6 months 2008 £m	Full year 2008 £m
	Income			
21,191	Gross written premiums	**18,860**	17,928	36,206
(1,070)	Premiums ceded to reinsurers	**(952)**	(882)	(1,841)
20,121	Premiums written net of reinsurance	**17,908**	17,046	34,365
37	Net change in provision for unearned premiums	**33**	(190)	277
20,158	Net earned premiums	**17,941**	16,856	34,642
900	Fee and commission income	**801**	950	1,885
3,056	Net investment income/(expense)	**2,720**	(9,581)	(16,043)
(614)	Share of loss of joint ventures and associates	**(547)**	(344)	(1,128)
22	Profit on the disposal of subsidiaries and associates	**20**	9	7
23,522		**20,935**	7,890	19,363
	Expenses			
(15,890)	Claims and benefits paid, net of recoveries from reinsurers	**(14,142)**	(14,136)	(29,353)
(213)	Change in insurance liabilities, net of reinsurance	**(190)**	3,471	3,885
(1,089)	Change in investment contract provisions	**(969)**	4,554	10,629
(100)	Change in unallocated divisible surplus	**(89)**	2,746	4,482
(2,145)	Fee and commission expense	**(1,909)**	(2,276)	(4,411)
(2,522)	Other expenses	**(2,245)**	(2,234)	(5,416)
(803)	Finance costs	**(715)**	(708)	(1,547)
(22,762)		**(20,259)**	(8,583)	(21,731)
760	**Profit/(loss) before tax**	**676**	(693)	(2,368)
296	Tax attributable to policyholders' returns	**264**	672	1,068
1,056	**Profit/(loss) before tax attributable to shareholders' profits**	**940**	(21)	(1,300)
	Tax expense			
530	United Kingdom tax	**472**	640	1,482
(451)	Overseas tax	**(401)**	(31)	1
79		**71**	609	1,483
(296)	Less: tax attributable to policyholders' returns	**(264)**	(672)	(1,068)
(217)	Tax attributable to shareholders' profits	**(193)**	(63)	415
839	**Profit/(loss) for the period**	**747**	(84)	(885)
	Attributable to:			
758	Equity shareholders of Aviva plc	**675**	(97)	(915)
81	Minority interests	**72**	13	30
839		**747**	(84)	(885)
	Earnings per share			
28.0c	Basic (pence per share)	**24.9p**	(4.0)p	(36.8)p
27.9c	Diluted (pence per share)	**24.8p**	(4.0)p	(36.8)p

IFRS condensed financial statements continued

Condensed statement of comprehensive income

For the six month period ended 30 June 2009

6 months 2009 €m		6 months 2009 £m	Restated 6 months 2008 £m	Full year 2008 £m
839	**Profit/(loss) for the period**	**747**	(84)	(885)
	Other comprehensive income			
397	Fair value gains/(losses) on AFS securities, owner-occupied properties and hedging instruments	**352**	(847)	(2,381)
(15)	Fair value gains transferred to profit	**(13)**	(136)	(126)
428	Impairment losses on revalued assets	**381**	148	830
48	Share of fair value changes in joint ventures and associates taken to equity	**43**	(8)	(93)
(1,551)	Actuarial losses on pension schemes	**(1,380)**	(690)	(929)
166	Actuarial losses on pension schemes transferred to unallocated divisible surplus	**148**	71	78
(1,658)	Foreign exchange rate movements	**(1,476)**	610	2,653
(163)	Aggregate tax effect – shareholder tax	**(145)**	101	235
(2,348)	**Other comprehensive income for the period, net of tax**	**(2,090)**	(751)	267
(1,509)	**Total comprehensive income for the period**	**(1,343)**	(835)	(618)
	Attributable to:			
(1,316)	Equity shareholders of Aviva plc	**(1,171)**	(986)	(1,119)
(193)	Minority interests	**(172)**	151	501
(1,509)		**(1,343)**	(835)	(618)

Condensed statement of changes in equity

For the six month period ended 30 June 2009

6 months 2009 €m		6 months 2009 £m	Restated 6 months 2008 £m	Full year 2008 £m
16,995	**Balance at 1 January as published**	**14,446**	16,592	15,931
–	Prior year adjustment	**–**	(661)	–
16,995	**Balance at 1 January restated**	**14,446**	15,931	15,931
(1,581)	Total comprehensive income for the period	**(1,343)**	(835)	(618)
(631)	Dividends and appropriations	**(536)**	(563)	(975)
–	Issues of share capital	**–**	31	20
216	Shares issued in lieu of dividends	**184**	170	170
7	Capital contributions from minority shareholders	**6**	7	36
(42)	Minority share of dividends declared in the period	**(36)**	(75)	(106)
(2)	Minority interest in (disposed)/ acquired subsidiaries	**(2)**	59	43
–	Changes in minority interest in existing subsidiaries	**–**	(78)	(65)
–	Shares acquired by employee trusts	**–**	–	(29)
24	Reserves credit for equity compensation plans	**20**	27	39
14,986	**Balance at 30 June/31 December**	**12,739**	14,674	14,446

Condensed consolidated statement of financial position

As at 30 June 2009

30 June 2009 €m		30 June 2009 £m	Restated 30 June 2008 £m	31 December 2008 £m
	Assets			
3,954	Goodwill	**3,361**	3,048	3,578
3,846	Acquired value of in-force business and intangible assets	**3,269**	3,170	4,038
1,612	Interests in, and loans to, joint ventures	**1,370**	2,588	1,737
1,282	Interests in, and loans to, associates	**1,090**	1,211	1,246
947	Property and equipment	**805**	996	964
14,374	Investment property	**12,218**	15,048	14,426
46,727	Loans	**39,718**	37,387	42,237
	Financial investments			
171,727	Debt securities	**145,968**	125,661	150,255
42,500	Equity securities	**36,125**	51,027	43,351
34,041	Other investments	**28,935**	34,510	36,116
248,268		**211,028**	211,198	229,722
8,241	Reinsurance assets	**7,005**	8,273	7,894
2,944	Deferred tax assets	**2,502**	249	2,642
522	Current tax assets	**444**	534	622
12,666	Receivables and other financial assets	**10,765**	10,750	9,816
7,346	Deferred acquisition costs and other assets	**6,244**	5,074	6,147
4,322	Prepayments and accrued income	**3,674**	3,183	3,762
30,056	Cash and cash equivalents	**25,548**	18,783	24,181
2,884	Assets of operations classified as held for sale	**2,451**	6,643	1,550
389,991	**Total assets**	**331,492**	328,135	354,562
	Equity			
806	Ordinary share capital	**685**	664	664
5,275	Capital reserves	**4,484**	4,516	4,505
(39)	Shares held by employee trusts	**(33)**	(10)	(33)
1,750	Other reserves	**1,487**	1,211	2,110
3,442	Retained earnings	**2,926**	5,244	3,806
11,234	**Equity attributable to ordinary shareholders of Aviva plc**	**9,549**	11,625	11,052
1,400	Preference share capital and direct capital instrument	**1,190**	1,190	1,190
2,353	Minority interests	**2,000**	1,859	2,204
14,987	**Total equity**	**12,739**	14,674	14,446
	Liabilities			
190,324	Gross insurance liabilities	**161,775**	154,593	174,850
114,754	Gross liabilities for investment contracts	**97,541**	98,627	107,559
2,686	Unallocated divisible surplus	**2,283**	4,065	2,325
9,380	Net asset value attributable to unit holders	**7,973**	7,861	6,918
4,653	Provisions	**3,955**	2,398	2,984
3,236	Deferred tax liabilities	**2,751**	1,257	3,020
445	Current tax liabilities	**378**	1,125	642
16,853	Borrowings	**14,325**	13,373	15,201
24,834	Payables and other financial liabilities	**21,109**	19,720	20,840
5,504	Other liabilities	**4,678**	4,537	4,556
2,335	Liabilities of operations classified as held for sale	**1,985**	5,905	1,221
375,004	**Total liabilities**	**318,753**	313,461	340,116
389,991	**Total equity and liabilities**	**331,492**	328,135	354,562

IFRS condensed financial statements continued

Condensed consolidated statement of cash flows

For the six month period ended 30 June 2009

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

			6 months 2009	Restated 6 months 2008	Full year 2008
	Long-term business operations £m	Non-long-term business operations £m	Group total £m	Group total £m	Group total £m
Cash flows from operating activities					
Cash-generated from operations*	**4,199**	**(241)**	**3,958**	3,743	8,795
Tax paid	**(280)**	**59**	**(221)**	(434)	(642)
Net cash from operating activities	**3,919**	**(182)**	**3,737**	3,309	8,153
Cash flows from investing activities					
Acquisitions of subsidiaries, joint ventures and associates, net of cash acquired	**(193)**	**(30)**	**(223)**	(317)	(336)
Disposals of subsidiaries, joint ventures and associates, net of cash transferred	**–**	**(239)**	**(239)**	65	353
Purchase of minority interest in subsidiary	**–**	**–**	**–**	(81)	(65)
New loans to joint ventures and associates	**(3)**	**–**	**(3)**	–	(182)
Repayment of loans to joint ventures and associates	**3**	**–**	**3**	–	52
Net repayment of loans to joint ventures and associates	**–**	**–**	**–**	–	(130)
Purchases of property and equipment	**(39)**	**(34)**	**(73)**	(90)	(216)
Proceeds on sale of property and equipment	**25**	**1**	**26**	6	59
Purchases of intangible assets	**(6)**	**(1)**	**(7)**	–	(60)
Net cash used in investing activities	**(213)**	**(303)**	**(516)**	(417)	(395)
Cash flows from financing activities					
Proceeds from issue of ordinary shares, net of transaction costs	**–**	**–**	**–**	31	20
Treasury shares purchased for employee trusts	**–**	**–**	**–**	–	(29)
New borrowings drawn down, net expenses	**413**	**252**	**665**	2,974	5,515
Repayment of borrowings	**(330)**	**(223)**	**(553)**	(2,893)	(5,217)
Net drawdown of borrowings	**83**	**29**	**112**	81	298
Interest paid on borrowings	**(232)**	**(473)**	**(705)**	(704)	(1,537)
Preference dividends paid	**–**	**(9)**	**(9)**	(9)	(17)
Ordinary dividends paid	**–**	**(343)**	**(343)**	(385)	(732)
Coupon payments on direct capital instrument	**–**	**–**	**–**	–	(56)
Finance lease payments	**–**	**–**	**–**	(1)	(14)
Capital contributions from minority shareholders	**5**	**1**	**6**	7	36
Dividends paid to minority interests of subsidiaries	**(24)**	**(12)**	**(36)**	(75)	(106)
Non-trading cash flows between operations	**(261)**	**261**	**–**	–	–
Net cash used in financing activities	**(429)**	**(546)**	**(975)**	(1,055)	(2,137)
Net increase/(decrease) in cash and cash equivalents	**3,277**	**(1,031)**	**2,246**	1,837	5,621
Cash and cash equivalents at 1 January	**20,141**	**3,928**	**24,069**	15,564	15,564
Effect of exchange rate changes on cash and cash equivalents	**(1,511)**	**(209)**	**(1,720)**	520	2,884
Cash and cash equivalents at 30 June/31 December	**21,907**	**2,688**	**24,595**	17,921	24,069

* Cash generated from operations is stated after net purchases/sales of investment property, loans and financial investments

Of the total cash and cash equivalents, £192 million (30 June 2008: £411 million; 31 December 2008: £493 million) was classified as held for sale (see note A3 c (ii)).

Cash and cash equivalents in long-term business operations of £21,907 million (30 June 2008: £12,716 million; 31 December 2008: £20,141 million) are primarily held for the benefit of policyholders and so are generally not available for use by the group.

A1 – Basis of preparation

(a) The condensed financial statements for the six months to 30 June 2009 have been prepared using International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU). These include IAS 34, Interim Financial Reporting, which specifically addresses the contents of interim condensed financial statements. The results apply the accounting policies set out in Aviva plc's 2008 Annual Report and Accounts, except as below.

During 2007 and 2008, the IASB issued IAS 1, Presentation of Financial Statements : A Revised Presentation, and amendments to IFRS 1, First Time Adoption of IFRS, IFRS 2, Share-Based Payment, IAS 23, Borrowing Costs, IAS 27, Consolidated and Separate Financial Statements, and IAS 32, Financial Instruments : Presentation, and the results of its annual improvements project. IFRIC interpretation 13, Customer Loyalty Programmes, and IFRIC interpretation 16, Hedges of a Net Investment in a Foreign Operation have also been endorsed by the EU. These are all applicable for the current accounting period and are now reflected in the group's financial reporting, with no material impact.

The results for the six months to 30 June 2009 and 2008 are unaudited but have been reviewed by the auditor, Ernst & Young LLP. The interim results do not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. The results for the full year 2008 have been taken from the group's 2008 Annual Report and Accounts and do not in themselves constitute statutory accounts. The auditor has reported on the 2008 financial statements and the report was unqualified and did not contain a Statement under section 237(2) or (3) of the Companies Act 1985. The group's 2008 Report and Accounts have been filed with the Registrar of Companies.

After making enquiries, the directors have a reasonable expectation that the company and the group as a whole have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

(b) Items included in the financial statements of each of the group's entities are measured in the currency of the primary economic environment in which that entity operates (the "functional currency"). The consolidated financial statements are stated in sterling, which is the Company's functional and presentational currency. Unless otherwise noted, the amounts shown in the financial statements are in millions of pounds sterling (£m). As supplementary information, consolidated financial information is also presented in euros.

(c) Restatement of prior period figures

The following restatements were actioned in the group's 2008 financial statements. As these restatements took place in the second half of the year, the comparative figures for the six months to 30 June 2008 are now restated in this report.

Consolidation of managed funds

The group manages a number of specialised investment vehicles around the world, in which our insurance and investment funds have invested. The group's percentage ownership in these vehicles can fluctuate from day to day according to the group's and third party participation in them, and control is determined based on an analysis of the guidance in IAS 27. During 2008, we identified that certain such vehicles required consolidation in accordance with IAS 27 which therefore results in grossing up assets and liabilities for the effect of the third party participation.

The impact on the income statement for the six month period to 30 June 2008 has been to restate net investment income and fee and commission expense, reducing both by £57 million. None of these adjustments has any impact on profit for the period, operating profit, earnings per share or retained earnings for the six month period to 30 June 2008.

In addition, certain property investment vehicles, which were consolidated in accordance with IAS 27, required restatement in the period ended 30 June 2008 to reanalyse amounts previously classified as minority interests to net asset value attributable to unit holders. This change recognises that the property investment vehicles are unit trusts and, as a result, the third party holding should have been recognised as a liability rather than as a non-controlling interest. Prior period comparatives have been restated with a reduction in minority interests and an increase in amounts due to unit holders of £838 million at 30 June 2008.

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 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. This approach also improves consistency with the reporting of other long-tail classes of business which are already being discounted, namely certain London Market latent claims and our Dutch Permanent Health and Injury Business.

The application of discounting to our latent claims reserves represents a change in accounting policy and has therefore been applied retrospectively. The cumulative impact of discounting on our opening reserves as at 1 January 2008 is to reduce insurance liabilities by £201 million and reinsurance assets by £55 million, and to increase retained earnings by £105 million. These have been treated as prior year adjustments in these financial statements.

IFRS condensed financial statements continued

A1 – Basis of preparation continued

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, 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 statement of financial position. 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 figures accordingly.

A2 – Exchange rates

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 the period and the assets and liabilities have been translated at the period end rates as follows:

	6 months 2009	6 months 2008	Full year 2008
Eurozone			
– Average rate (€1 equals)	**£0.89**	£0.77	£0.80
– Period end rate (€1 equals)	**£0.85**	£0.79	£0.97
United States			
– Average rate ($US1 equals)	**£0.67**	£0.51	£0.54
– Period end rate ($US1 equals)	**£0.61**	£0.50	£0.69

A3 – Subsidiaries

(a) Acquisitions
There were no material acquisitions in the six months ended 30 June 2009.

(i) Other goodwill arising
As disclosed in the 2008 financial statements, on 30 June 2008 the Group acquired Swiss Life Belgium ('SLB'). At 30 June 2009, the fair values of the assets and liabilities have been updated from their provisional values to reflect a decrease in the value of acquired inforce (AVIF). This has given rise to an increase of goodwill of €72 million (£64 million) to €132 million (£118 million).

(b) Disposal of subsidiaries, joint ventures and associates

(i) The profit/(loss) on the disposal of subsidiaries, joint ventures and associates comprises:

	6 months 2009 £m	6 months 2008 £m	Full year 2008 £m
United Kingdom	**–**	–	(38)
Netherlands (see (ii) below)	**20**	–	15
Offshore operations	**–**	–	14
Other small operations	**–**	9	16
Profit on disposal before tax	**20**	9	7
Tax on profit on disposal	**–**	–	–
Profit on disposal after tax	**20**	9	7

A3 – Subsidiaries continued

(ii) Assets and liabilities of operations sold in the six month period ended 30 June 2009
The operations sold in the period relate to our Dutch health insurance business. The profit on disposal was £20 million, calculated as follows:

	£m
Assets	
Investments and property and equipment	396
Receivables and other financial assets	390
Deferred acquisition costs and other assets	1
Prepayments and accrued income	158
Cash and cash equivalents	486
Total assets	**1,431**
Liabilities	
Gross insurance liabilities	(709)
Payables and financial liabilities	(15)
Pension obligations and other provisions	(13)
Other liabilities	(481)
Total liabilities	**(1,218)**
Net assets disposed of	**213**
Cash consideration	235
Less: transaction costs	(2)
Total consideration	**233**
Profit on disposal	**20**

(iii) Dutch health insurance business
On 1 January 2009, the group's Dutch subsidiary, Delta Lloyd Group ("DL"), sold its health insurance business to OWM CZ Groep Zorgverkeraar UA ("CZ"), a mutual health insurer, for £231 million, realising a profit of £20 million. Under the terms of the agreement, CZ purchased the DL health insurance business and took on its underwriting risk and policy administration. DL continues to market and distribute health insurance products from CZ to its existing customers and continues to provide asset management for the transferred business. DL also has exclusive rights to market life, general insurance and income protection products to CZ's customers.

(iv) UK non-core operations
On 11 February 2009, the group sold The British School of Motoring Limited and its subsidiaries to Arques Consulting GmbH for a consideration of £4 million. The resultant loss on disposal of £9 million was provided for in the 2008 financial statements.

IFRS condensed financial statements continued

A3 – Subsidiaries continued

(c) Operations and assets classified as held for sale

Assets held for sale as at 30 June 2009 comprise:

	6 months 2009 £m	6 months 2008 £m	Full year 2008 £m
Property and equipment held for sale (see (i) below)	**106**	–	102
Assets of operations classified as held for sale (see (ii) below)	**2,345**	6,643	1,448
Total assets classified as held for sale	**2,451**	6,643	1,550

(i) Property and equipment held for sale

As part of the restructuring of the UK businesses, the UK data centres, which were owned and managed by Aviva Central Services UK Limited, were classified as held for sale at 31 December 2008 at their fair value of £102 million. In remeasuring the data centres at their fair value at 30 June 2009, a reversal of an impairment charge of £4 million has been recognised in the income statement. The sale was completed on 1 July 2009 at the fair value above.

(ii) Assets of operations classified as held for sale

On 21 June 2009, the group announced the sale of its Australian life and pensions business and wealth management platform to National Australia Bank for cash of A$825 million (£403 million), plus an adjustment to reflect the performance of the businesses from 31 December 2008 to the date of completion forecast to be A$60 million(£30 million). In addition, the group will receive dividends of A$40 million (£20 million). The sale is subject to regulatory approval and is expected to complete later in 2009. The relevant assets and liabilities of these businesses have been classified as held for sale, at their carrying values, in the consolidated statement of financial position as at 30 June 2009 and are as follows:

	6 months 2009 £m	6 months 2008 £m	Full year 2008 £m
Assets			
Goodwill and intangible assets	**1**	260	14
Investments and property and equipment	**2,058**	5,072	396
Receivables and other financial assets	**36**	587	386
Deferred acquisition costs and other assets	**18**	57	1
Prepayments and accrued income	**40**	247	158
Tax assets	**–**	9	–
Cash and cash equivalents	**192**	411	493
Total assets	**2,345**	6,643	1,448
Liabilities			
Gross insurance liabilities and liabilities for investment contracts	**1,718**	5,253	709
Borrowings	**–**	13	–
Payables and financial liabilities	**26**	197	22
Other liabilities	**21**	369	478
Tax liabilities and other provisions	**220**	73	12
Total liabilities	**1,985**	5,905	1,221
Net assets	**360**	738	227

The group has hedged its exposure to A$822 million of the sale proceeds through the purchase of foreign currency forward contracts.

The operations disclosed as held for sale at 31 December 2008 comprised the Dutch health insurance business and certain UK non-core operations, both of which were sold in the six month period ended 30 June 2009. Details are given in section (b) above. Operations disclosed as held for sale at 30 June 2008 comprised these same businesses, certain other UK non-core operations which were sold in the second half of 2008, and the Dutch bancassurance business with ABN AMRO. Following the change in control of ABN AMRO Bank Netherlands, we considered at that time that the existing agreement would be terminated but, in December 2008, both parties agreed that continuation of the partnership was the preferred and most sustainable option.

A4 – Segmental information

(a) Operating segments

The group has determined its operating segments along regional lines. These reflect the management structure whereby a member of the Executive Management team is accountable to the Group Chief Executive for the operating segment for which they are responsible. The activities of each operating segment are described below:

United Kingdom

The United Kingdom comprises two operating segments – UK Life and UK General Insurance (UK GI). The principal activities of UK Life are life insurance, long-term health and accident insurance, savings, pensions and annuity business, whilst UK GI provides insurance cover to individuals and to small and medium-sized businesses, for risks associated mainly with motor vehicles, property and liability, such as employers' liability and professional indemnity liability, and medical expenses. UK GI also includes the RAC motor recovery business, the group reinsurance result and the results of run off business.

Europe

Activities reported in the Europe operating segment exclude operations in the UK and include those in Russia and Turkey. Principal activities are long-term business in France, the Netherlands, Ireland, Italy, Poland and Spain, and general insurance in France, the Netherlands, Ireland and Italy, as well as the fund management activity of Delta Lloyd.

North America

Our activities in North America principally comprise our long-term business operations in the USA and general insurance business operations in Canada.

Asia Pacific

Our activities in Asia Pacific principally comprise our long-term business operations in Australia, China, India, Singapore, Hong Kong, Sri Lanka, Taiwan, Malaysia, and South Korea.

Aviva Investors

Aviva Investors operates in most of the regions in which the group operates, in particular the UK, France, the United States and Canada and other international businesses, managing policyholders' and shareholders' invested funds, providing investment management services for institutional pension fund mandates and managing a range of retail investment products, including investment funds, unit trusts, OEICs and ISAs. Fund management activities of Delta Lloyd are included in the Europe operating segment.

Other group activities

Investment return on centrally held assets and head office expenses, such as group treasury and finance functions, together with certain taxes and financing costs arising on central borrowings are included in "Other group activities". Similarly, central core structural borrowings and certain tax balances are included in "Other group activities" in the segmental balance sheet. Also included here are consolidation and elimination adjustments.

Measurement basis

The accounting policies of the segments are the same as those for the group as a whole. Any transactions between the business segments are on normal commercial terms and market conditions. The group evaluates performance of operating segments on the basis of:

(i) profit or loss from operations before tax attributable to shareholders.

(ii) profit or loss from operations before tax attributable to shareholders, adjusted for non-operating items outside the segment management's control, including investment market performance and fiscal policy changes.

IFRS condensed financial statements continued

A4 – Segmental information continued

(i) Segmental income statement for the six month period ended 30 June 2009

	United Kingdom Life £m	United Kingdom GI# £m	Europe £m	North America £m	Asia Pacific £m	Aviva Investors† £m	Other Group activities £m	Total £m
Gross written premiums	2,898	2,247	9,165	4,272	278	–	–	18,860
Premiums ceded to reinsurers	(330)	(184)	(275)	(120)	(43)	–	–	(952)
Internal reinsurance revenue	–	28	(21)	(6)	(1)	–	–	–
Net written premiums	2,568	2,091	8,869	4,146	234	–	–	17,908
Net change in provision for unearned premiums	(12)	252	(180)	(24)	(3)	–	–	33
Net earned premiums	2,556	2,343	8,689	4,122	231	–	–	17,941
Fee and commission income	119	117	349	27	72	117	–	801
	2,675	2,460	9,038	4,149	303	117	–	18,742
Net investment income	(2,027)	178	3,586	916	172	(88)	(17)	2,720
Inter-segment revenue	–	–	–	–	–	93	–	93
Share of loss of joint ventures and associates	(537)	–	(10)	–	–	–	–	(547)
Profit on the disposal of subsidiaries and associates	–	–	20	–	–	–	–	20
Segmental income*	111	2,638	12,634	5,065	475	122	(17)	21,028
Claims and benefits paid, net of recoveries from reinsurers	(3,689)	(1,700)	(6,351)	(2,256)	(146)	–	–	(14,142)
Change in insurance liabilities, net of reinsurance	2,701	229	(635)	(2,462)	(23)	–	–	(190)
Change in investment contract provisions	1,169	–	(2,116)	(76)	(7)	61	–	(969)
Change in unallocated divisible surplus	312	–	(370)	–	(31)	–	–	(89)
Amortisation of deferred acquisition costs and acquired value of in-force business	–	–	(24)	(27)	(2)	–	–	(53)
Depreciation and other amortisation expense	(6)	(39)	(36)	(35)	(4)	(3)	–	(123)
Other operating expenses	(527)	(942)	(1,520)	(33)	(149)	(152)	(191)	(3,514)
Impairment losses**	–	(42)	(366)	(56)	–	–	–	(464)
Inter-segment expenses	(54)	(2)	(7)	(30)	(1)	1	–	(93)
Finance costs	(144)	(9)	(377)	(12)	–	–	(173)	(715)
Segmental expenses	(238)	(2,505)	(11,802)	(4,987)	(363)	(93)	(364)	(20,352)
Profit/(loss) before tax	(127)	133	832	78	112	29	(381)	676
Tax attributable to policyholders' returns	301	–	(34)	–	(3)	–	–	264
Profit/(loss) before tax attributable to shareholders	174	133	798	78	109	29	(381)	940

* Total reported income, excluding inter-segment revenue, is split United Kingdom £2,749 million, France £5,030 million, Netherlands £2,733 million, USA £4,074 million and Rest of the World £6,349 million. Income is attributed on the basis of geographical origin which does not materially differ from revenue by geographical destination, as most risks are located in the countries where the contracts were written.

** Impairment losses recognised directly in equity were £422 million.

† Aviva Investors comprises the Aviva Investors UK, France, the United States, Canada and International fund management businesses.

\# United Kingdom GI includes the group reinsurance business, agency run off business and the non-insurance business for the RAC.

A4 – Segmental information continued

	United Kingdom Life £m	United Kingdom GI# £m	Europe £m	North America £m	Asia Pacific £m	Aviva Investors† £m	Other Group activities £m	Total £m
Profit/(loss) before tax attributable to shareholders	**174**	**133**	**798**	**78**	**109**	**29**	**(381)**	**940**
Adjusted for non-operating items:								
Reclassification of corporate costs and unallocated interest	**–**	**9**	**27**	**8**	**–**	**1**	**(45)**	**–**
Investment return variances and economic assumption changes on long-term business	**124**	**–**	**(261)**	**30**	**(48)**	**–**	**–**	**(155)**
Short-term fluctuation in return on investments backing non-long-term business	**–**	**90**	**28**	**(41)**	**–**	**–**	**48**	**125**
Economic assumption changes on general insurance and health business	**–**	**(54)**	**2**	**–**	**–**	**–**	**–**	**(52)**
Impairment of goodwill	**5**	**–**	**–**	**–**	**–**	**–**	**–**	**5**
Amortisation and impairment of intangibles	**1**	**9**	**17**	**28**	**2**	**1**	**–**	**58**
Profit on the disposal of subsidiaries and associates	**–**	**–**	**(20)**	**–**	**–**	**–**	**–**	**(20)**
Integration and restructuring costs	**46**	**76**	**16**	**–**	**–**	**5**	**5**	**148**
Operating profit/(loss) before tax attributable to shareholders	**350**	**263**	**607**	**103**	**63**	**36**	**(373)**	**1,049**

† Aviva Investors comprises the Aviva Investors UK, France, the United States, Canada and International fund management businesses.

United Kingdom GI includes the group reinsurance business, agency run off business and the non-insurance business for the RAC.

IFRS condensed financial statements continued

A4 – Segmental information continued

(ii) Segmental income statement for the six month period ended 30 June 2008 restated

	United Kingdom Life £m	United Kingdom GI# £m	Europe £m	North America £m	Asia Pacific £m	Aviva Investors† £m	Other Group activities £m	Restated Total £m
Gross written premiums	3,801	2,867	8,272	2,662	326	–	–	17,928
Premiums ceded to reinsurers	(252)	(265)	(229)	(101)	(35)	–	–	(882)
Internal reinsurance revenue	–	26	(21)	(4)	(1)	–	–	–
Net written premiums	3,549	2,628	8,022	2,557	290	–	–	17,046
Net change in provision for unearned premiums	(3)	75	(244)	(17)	(1)	–	–	(190)
Net earned premiums	3,546	2,703	7,778	2,540	289	–	–	16,856
Fee and commission income	158	178	349	17	90	160	(2)	950
	3,704	2,881	8,127	2,557	379	160	(2)	17,806
Net investment income	(5,886)	246	(3,841)	370	(134)	(142)	(194)	(9,581)
Inter-segment revenue	–	–	–	(20)	–	88	–	68
Share of loss of joint ventures and associates	(326)	–	(3)	–	(15)	–	–	(344)
Profit on the disposal of subsidiaries and associates	–	–	9	–	–	–	–	9
Segmental income*	(2,508)	3,127	4,292	2,907	230	106	(196)	7,958
Claims and benefits paid, net of recoveries from reinsurers	(4,263)	(1,971)	(6,292)	(1,306)	(304)	–	–	(14,136)
Change in insurance liabilities, net of reinsurance	3,035	348	1,165	(1,170)	93	–	–	3,471
Change in investment contract provisions	3,354	–	1,018	(50)	123	109	–	4,554
Change in unallocated divisible surplus	883	–	1,863	–	–	–	–	2,746
Amortisation of deferred acquisition costs and acquired value of in-force business	–	–	(18)	(74)	(2)	–	–	(94)
Depreciation and other amortisation expense	(60)	(43)	(70)	(22)	(2)	(2)	–	(199)
Other operating expenses	(768)	(1,422)	(1,392)	(251)	(145)	(162)	94	(4,046)
Impairment losses**	–	–	(155)	(16)	–	–	–	(171)
Inter-segment expenses	(55)	(2)	(9)	–	(2)	–	–	(68)
Finance costs	(233)	(4)	(329)	(9)	–	–	(133)	(708)
Segmental expenses	1,893	(3,094)	(4,219)	(2,898)	(239)	(55)	(39)	(8,651)
(Loss)/profit before tax	(615)	33	73	9	(9)	51	(235)	(693)
Tax attributable to policyholders' returns	651	–	14	–	7	–	–	672
(Loss)/profit before tax attributable to shareholders	36	33	87	9	(2)	51	(235)	(21)

* Total reported income, excluding inter-segment revenue, is split United Kingdom £619 million, France £99 million, Netherlands £3,802 million, USA £2,096 million and Rest of the World £1,274 million. Income is attributed on the basis of geographical origin which does not materially differ from revenue by geographical destination, as most risks are located in the countries where the contracts were written.

** Impairment losses, and reversal of such losses, recognised directly in equity were £148 million and £1 million.

† Aviva Investors comprises the Aviva Investors UK, France, the United States, Canada and International fund management businesses.

\# United Kingdom GI includes the group reinsurance business, agency run off business and the non-insurance business for the RAC.

A4 – Segmental information continued

	United Kingdom Life £m	United Kingdom GI# £m	Europe £m	North America £m	Asia Pacific £m	Aviva Investors† £m	Other Group activities £m	Restated Total £m
(Loss)/profit before tax attributable to shareholders	36	33	87	9	(2)	51	(235)	(21)
Adjusted for non-operating items:								
Reclassification of corporate costs and unallocated interest	8	8	26	8	–	–	(50)	–
Investment return variances and economic assumption changes on long-term business	264	–	288	68	16	–	–	636
Short-term fluctuation in return on investments backing non-long-term business	–	115	157	(4)	–	–	46	314
Economic assumption changes on general insurance and health business	–	(6)	–	–	–	–	–	(6)
Impairment of goodwill	–	–	42	–	–	–	–	42
Amortisation and impairment of intangibles	1	13	14	21	1	1	–	51
Profit on the disposal of subsidiaries and associates	–	–	(9)	–	–	–	–	(9)
Exceptional items	84	–	–	–	–	–	–	84
Integration and restructuring costs	7	107	9	–	–	9	–	132
Operating profit/(loss) before tax attributable to shareholders	400	270	614	102	15	61	(239)	1,223

† Aviva Investors comprises the Aviva Investors UK, France, the United States, Canada and International fund management businesses.

United Kingdom GI includes the group reinsurance business, agency run off business and the non-insurance business for the RAC.

IFRS condensed financial statements continued

A4 – Segmental information continued

(iii) Segmental income statement for the year ended 31 December 2008

	United Kingdom Life £m	United Kingdom GI# £m	Europe £m	North America £m	Asia Pacific £m	Aviva Investors† £m	Other Group activities £m	Total £m
Gross written premiums	8,108	5,496	15,529	6,486	587	–	–	36,206
Premiums ceded to reinsurers	(612)	(498)	(442)	(214)	(75)	–	–	(1,841)
Internal reinsurance revenue	–	26	(21)	(4)	(1)	–	–	–
Net written premiums	7,496	5,024	15,066	6,268	511	–	–	34,365
Net change in provision for unearned premiums	6	344	(21)	(50)	(2)	–	–	277
Net earned premiums	7,502	5,368	15,045	6,218	509	–	–	34,642
Fee and commission income	310	362	711	40	168	294	–	1,885
	7,812	5,730	15,756	6,258	677	294	–	36,527
Net investment income	(8,844)	222	(6,168)	444	(626)	(407)	(664)	(16,043)
Inter-segment revenue	–	–	–	–	–	203	–	203
Share of loss of joint ventures and associates	(1,058)	–	(38)	–	(32)	–	–	(1,128)
Profit/(loss) on the disposal of subsidiaries and associates	–	(38)	24	–	–	–	21	7
Segmental income*	(2,090)	5,914	9,574	6,702	19	90	(643)	19,566
Claims and benefits paid, net of recoveries from reinsurers	(8,620)	(3,944)	(13,411)	(2,912)	(464)	–	(2)	(29,353)
Change in insurance liabilities, net of reinsurance	2,674	280	3,409	(2,774)	296	–	–	3,885
Change in investment contract provisions	7,240	–	2,765	(126)	401	349	–	10,629
Change in unallocated divisible surplus	2,151	–	2,331	–	–	–	–	4,482
Amortisation of deferred acquisition costs and acquired value of in-force business	–	–	(44)	(285)	(4)	–	–	(333)
Depreciation and other amortisation expense	(70)	(108)	(120)	(51)	(5)	(5)	–	(359)
Other operating expenses	(1,787)	(2,599)	(2,970)	(633)	(296)	(362)	552	(8,095)
Impairment losses**	–	(26)	(814)	(200)	–	–	–	(1,040)
Inter-segment expenses	(137)	(2)	(18)	(42)	(3)	–	(1)	(203)
Finance costs	(541)	(10)	(703)	(17)	–	–	(276)	(1,547)
Segmental expenses	910	(6,409)	(9,575)	(7,040)	(75)	(18)	273	(21,934)
(Loss)/profit before tax	(1,180)	(495)	(1)	(338)	(56)	72	(370)	(2,368)
Tax attributable to policyholders' returns	1,031	–	49	–	(12)	–	–	1,068
(Loss)/profit before tax attributable to shareholders	(149)	(495)	48	(338)	(68)	72	(370)	(1,300)

* Total reported income, excluding inter-segment revenue, is split United Kingdom £3,928 million, France £1,005 million, Netherlands £6,759 million, USA £4,954 million and Rest of the World £2,717 million. Income is attributed on the basis of geographical origin which does not materially differ from revenue by geographical destination, as most risks are located in the countries where the contracts were written.

** Impairment losses, and reversal of such losses, recognised directly in equity were £830 million and £nil.

† Aviva Investors comprises the Aviva Investors UK, France, the United States, Canada and International fund management businesses.

United Kingdom GI includes the group reinsurance business, agency run off business and the non-insurance business for the RAC.

A4 – Segmental information continued

	United Kingdom							
	Life £m	GI[#] £m	Europe £m	North America £m	Asia Pacific £m	Aviva Investors[†] £m	Other Group activities £m	Total £m
(Loss)/profit before tax attributable to shareholders	(149)	(495)	48	(338)	(68)	72	(370)	(1,300)
Adjusted for non-operating items:								
Reclassification of corporate costs and unallocated interest	7	33	54	15	–	–	(109)	–
Investment return variances and economic assumption changes on long-term business	694	–	400	433	104	–	–	1,631
Short-term fluctuation in return on investments backing non-long-term business	–	334	389	(47)	–	–	143	819
Economic assumption changes on general insurance and health business	–	91	3	–	–	–	–	94
Impairment of goodwill	–	–	66	–	–	–	–	66
Amortisation and impairment of intangibles	3	33	34	44	–	3	–	117
(Profit)/loss on the disposal of subsidiaries and associates	–	38	(24)	–	–	–	(21)	(7)
Exceptional items	108	312	133	42	–	6	(50)	551
Integration and restructuring costs	60	195	38	–	–	33	–	326
Operating profit/(loss) before tax attributable to shareholders	723	541	1,141	149	36	114	(407)	2,297

† Aviva Investors comprises the Aviva Investors UK, France, the United States, Canada and International fund management businesses.

United Kingdom GI includes the group reinsurance business, agency run off business and the non-insurance business for the RAC.

IFRS condensed financial statements continued

A4 – Segmental information continued

(iv) Segmental statement of financial position as at 30 June 2009

	United Kingdom Life £m	United Kingdom GI[#] £m	Europe £m	North America £m	Asia Pacific £m	Aviva Investors[†] £m	Other Group activities £m	Total £m
Goodwill	**52**	**1,209**	**1,246**	**804**	**48**	**2**	**–**	**3,361**
Acquired value of in-force business and intangible assets	**63**	**256**	**1,225**	**1,692**	**21**	**12**	**–**	**3,269**
Interests in, and loans to, joint ventures and associates	**1,634**	**–**	**552**	**1**	**258**	**15**	**–**	**2,460**
Property and equipment	**99**	**152**	**408**	**110**	**25**	**10**	**1**	**805**
Investment property	**7,416**	**128**	**3,397**	**6**	**18**	**571**	**682**	**12,218**
Loans	**19,433**	**770**	**17,564**	**1,916**	**33**	**2**	**–**	**39,718**
Financial investments	**65,080**	**2,491**	**111,859**	**24,789**	**1,810**	**1,390**	**3,609**	**211,028**
Deferred acquisition costs	**1,255**	**916**	**915**	**2,794**	**12**	**–**	**–**	**5,892**
Other assets	**17,143**	**4,671**	**22,854**	**4,775**	**2,670**	**609**	**19**	**52,741**
Total assets	**112,175**	**10,593**	**160,020**	**36,887**	**4,895**	**2,611**	**4,311**	**331,492**
Gross insurance liabilities	**59,570**	**8,598**	**64,627**	**27,175**	**1,805**	**–**	**–**	**161,775**
Gross liabilities for investment contracts	**34,072**	**–**	**58,383**	**2,963**	**–**	**2,123**	**–**	**97,541**
Unallocated divisible surplus	**2,269**	**–**	**(23)**	**–**	**37**	**–**	**–**	**2,283**
Net asset value attributable to unit holders	**833**	**–**	**4,469**	**–**	**–**	**–**	**2,671**	**7,973**
Borrowings	**2,485**	**10**	**6,409**	**183**	**–**	**–**	**5,238**	**14,325**
Other liabilities, including inter-segment liabilities	**9,616**	**352**	**16,297**	**3,745**	**2,110**	**345**	**2,391**	**34,856**
Total liabilities	**108,845**	**8,960**	**150,162**	**34,066**	**3,952**	**2,468**	**10,300**	**318,753**
Total equity								**12,739**
Total equity and liabilities								**331,492**
Capital expenditure (excluding business combinations)	**–**	**13**	**22**	**41**	**3**	**2**	**–**	**81**

External borrowings by holding companies within the group which are not allocated to operating companies are included in "Other Group activities".

† Aviva Investors comprises the Aviva Investors UK, France, the United States, Canada and International fund management businesses.

United Kingdom GI includes the group reinsurance business, agency run off business and the non-insurance business for the RAC.

A4 – Segmental information continued

(v) Segmental statement of financial position as at 30 June 2008 restated

	United Kingdom							
	Life £m	GI# £m	Europe £m	North America £m	Asia Pacific £m	Aviva Investors† £m	Other Group activities £m	Restated Total £m
Goodwill	51	1,166	1,121	668	42	–	–	3,048
Acquired value of in-force business and intangible assets	53	284	1,174	1,621	25	13	–	3,170
Interests in, and loans to, joint ventures and associates	2,888	–	645	1	265	–	–	3,799
Property and equipment	167	318	424	39	39	7	2	996
Investment property	9,868	181	3,315	5	27	841	811	15,048
Loans	19,881	899	15,172	1,392	43	–	–	37,387
Financial investments	76,125	3,389	105,828	18,442	3,951	1,644	1,819	211,198
Deferred acquisition costs	1,488	1,152	839	1,278	40	3	(1)	4,799
Other assets	11,654	5,098	24,429	2,632	574	673	3,630	48,690
Total assets	122,175	12,487	152,947	26,078	5,006	3,181	6,261	328,135
Gross insurance liabilities	62,139	9,396	61,477	19,729	1,852	–	–	154,593
Gross liabilities for investment contracts	39,114	–	52,692	2,110	1,966	2,745	–	98,627
Unallocated divisible surplus	3,994	–	68	–	3	–	–	4,065
Net asset value attributable to unit holders	837	–	3,450	–	210	–	3,364	7,861
Borrowings	2,171	11	6,612	109	–	6	4,464	13,373
Other liabilities, including inter-segment liabilities	10,113	(297)	19,352	1,567	188	268	3,751	34,942
Total liabilities	118,368	9,110	143,651	23,515	4,219	3,019	11,579	313,461
Total equity								14,674
Total equity and liabilities								328,135
Capital expenditure (excluding business combinations)	27	48	18	15	2	1	–	111

External borrowings by holding companies within the group which are not allocated to operating companies are included in "Other Group activities".

† Aviva Investors comprises the Aviva Investors UK, France, the United States, Canada and International fund management businesses.

United Kingdom GI includes the group reinsurance business, agency run off business and the non-insurance business for the RAC.

IFRS condensed financial statements continued

A4 – Segmental information continued

(vi) Segmental statement of financial position as at 31 December 2008

	United Kingdom							
	Life £m	GI# £m	Europe £m	North America £m	Asia Pacific £m	Aviva Investors† £m	Other Group activities £m	Total £m
Goodwill	52	1,208	1,357	903	55	3	–	3,578
Acquired value of in-force business and intangible assets	65	265	1,470	2,196	28	14	–	4,038
Interests in, and loans to, joint ventures and associates	2,080	–	604	2	296	–	1	2,983
Property and equipment	123	173	519	106	32	10	1	964
Investment property	8,872	148	3,920	7	21	655	803	14,426
Loans	20,156	833	19,061	2,130	56	1	–	42,237
Financial investments	69,052	2,482	125,329	24,621	3,865	1,454	2,919	229,722
Deferred acquisition costs	1,221	994	1,080	2,626	40	3	1	5,965
Other assets	13,933	4,975	24,041	5,538	630	661	871	50,649
Total assets	115,554	11,078	177,381	38,129	5,023	2,801	4,596	354,562
Gross insurance liabilities	62,243	9,160	73,316	27,990	2,141	–	–	174,850
Gross liabilities for investment contracts	35,109	–	65,106	3,403	1,643	2,298	–	107,559
Unallocated divisible surplus	2,727	–	(405)	–	3	–	–	2,325
Net asset value attributable to unit holders	986	–	3,304	–	175	–	2,453	6,918
Borrowings	2,716	11	6,970	163	–	–	5,341	15,201
Other liabilities, including inter-segment liabilities	8,164	(972)	18,635	4,041	190	324	2,881	33,263
Total liabilities	111,945	8,199	166,926	35,597	4,152	2,622	10,675	340,116
Total equity								14,446
Total equity and liabilities								354,562
Capital expenditure (excluding business combinations)	36	93	72	70	4	5	–	280

External borrowings by holding companies within the group which are not allocated to operating companies are included in “Other group activities”.

† Aviva Investors comprises the Aviva Investors UK, France, the United States, Canada and International fund management businesses.

United Kingdom GI includes the group reinsurance business, agency run off business and the non-insurance business for the RAC.

(b) Further analysis by products and services

The group’s results can be further analysed by products and services which comprise long-term business, general insurance and health, fund management and non-insurance activities.

Long-term business

Our long-term business comprises life insurance, long-term health and accident insurance, savings, pensions and annuity business written by our life insurance subsidiaries, including managed pension fund business and our share of the other life and related business written in our associates and joint ventures, as well as the Lifetime mortgage business written in the UK.

General insurance and health

Our general insurance and health business provides insurance cover to individuals and to small and medium sized businesses, for risks associated mainly with motor vehicles, property and liability, such as employers’ liability and professional indemnity liability, and medical expenses.

Fund management

Our fund management business invests policyholders’ and shareholders’ funds, provides investment management services for institutional pension fund mandates and manages a range of retail investment products, including investment funds, unit trusts, OEICs and ISAs. Clients include Aviva group businesses and third-party financial institutions, pension funds, public sector organisations, investment professionals and private investors.

Other

Non-insurance includes the RAC non-insurance operations, our banking businesses, service companies, head office expenses, such as group treasury and finance functions, and certain financing costs and taxes not allocated to business segments.

A4 – Segmental information continued

(i) Segmental income statement – products and services for the six month period ended 30 June 2009

	Long-term business £m	General Insurance and health** £m	Fund management £m	Other† £m	Total £m
Gross written premiums*	**13,540**	**5,320**	**–**	**–**	**18,860**
Premiums ceded to reinsurers	**(579)**	**(373)**	**–**	**–**	**(952)**
Net written premiums	**12,961**	**4,947**	**–**	**–**	**17,908**
Net change in provision for unearned premiums	**–**	**33**	**–**	**–**	**33**
Net earned premiums	**12,961**	**4,980**	**–**	**–**	**17,941**
Fee and commission income	**314**	**78**	**238**	**171**	**801**
	13,275	**5,058**	**238**	**171**	**18,742**
Net investment income	**1,956**	**498**	**1**	**265**	**2,720**
Inter-segment revenue	**–**	**–**	**86**	**–**	**86**
Share of (loss)/profit of joint ventures and associates	**(534)**	**1**	**(12)**	**(2)**	**(547)**
Profit on the disposal of subsidiaries and associates	**–**	**–**	**–**	**20**	**20**
Segmental income	**14,697**	**5,557**	**313**	**454**	**21,021**
Claims and benefits paid, net of recoveries from reinsurers	**(10,641)**	**(3,501)**	**–**	**–**	**(14,142)**
Change in insurance liabilities, net of reinsurance	**(454)**	**264**	**–**	**–**	**(190)**
Change in investment contract provisions	**(969)**	**–**	**–**	**–**	**(969)**
Change in unallocated divisible surplus	**(89)**	**–**	**–**	**–**	**(89)**
Amortisation of deferred acquisition costs and acquired value of in-force business	**(53)**	**–**	**–**	**–**	**(53)**
Depreciation and other amortisation expense	**(58)**	**(21)**	**(3)**	**(41)**	**(123)**
Other operating expenses	**(1,066)**	**(1,760)**	**(257)**	**(431)**	**(3,514)**
Impairment losses	**(365)**	**(83)**	**–**	**(16)**	**(464)**
Inter-segment expenses	**(81)**	**(5)**	**–**	**–**	**(86)**
Finance costs	**(183)**	**(11)**	**(26)**	**(495)**	**(715)**
Segmental expenses	**(13,959)**	**(5,117)**	**(286)**	**(983)**	**(20,345)**
Tax attributable to policyholder returns	**264**	**–**	**–**	**–**	**264**
Profit/(loss) before tax attributable to shareholders	**1,002**	**440**	**27**	**(529)**	**940**
Adjusted for non-operating items	**(62)**	**105**	**8**	**58**	**109**
Operating profit/(loss) before tax attributable to shareholders' profits	**940**	**545**	**35**	**(471)**	**1,049**

* Gross written premiums includes inward reinsurance premiums assumed from other companies amounting to £91 million, of which £16 million relates to property and liability insurance £75 million to long-term business.

** General insurance and health business segment includes gross written premiums of £441 million relating to health business. The remaining business relates to property and liability insurance.

† Other includes the RAC non-insurance operations, our banking business, head office expenses, such as group treasury and finance functions, and certain financing costs and taxes not allocated to business segments.

IFRS condensed financial statements continued

A4 – Segmental information continued

(ii) Segmental income statement – products and services for the six month period ended 30 June 2008 restated

	Long-term business £m	General Insurance and health** £m	Fund management £m	Other† £m	Restated Total £m
Gross written premiums*	11,735	6,193	–	–	17,928
Premiums ceded to reinsurers	(489)	(393)	–	–	(882)
Net written premiums	11,246	5,800	–	–	17,046
Net change in provision for unearned premiums	(2)	(188)	–	–	(190)
Net earned premiums	11,244	5,612	–	–	16,856
Fee and commission income	413	61	262	214	950
	11,657	5,673	262	214	17,806
Net investment income	(10,018)	157	65	215	(9,581)
Inter-segment revenue	–	–	61	–	61
Share of loss of joint ventures and associates	(329)	(2)	(6)	(7)	(344)
Profit on the disposal of subsidiaries and associates	–	–	–	9	9
Segmental income	1,310	5,828	382	431	7,951
Claims and benefits paid, net of recoveries from reinsurers	(10,097)	(4,039)	–	–	(14,136)
Change in insurance liabilities, net of reinsurance	3,192	279	–	–	3,471
Change in investment contract provisions	4,554	–	–	–	4,554
Change in unallocated divisible surplus	2,746	–	–	–	2,746
Amortisation of deferred acquisition costs and acquired value of in-force business	(94)	–	–	–	(94)
Depreciation and other amortisation expense	(49)	(17)	(2)	(131)	(199)
Other operating expenses	(1,455)	(1,927)	(315)	(349)	(4,046)
Impairment losses	(168)	(1)	–	(2)	(171)
Inter-segment expenses	(56)	(5)	–	–	(61)
Finance costs	(279)	(1)	–	(428)	(708)
Segmental expenses	(1,706)	(5,711)	(317)	(910)	(8,644)
Tax attributable to policyholder returns	672	–	–	–	672
(Loss)/profit before tax attributable to shareholders	276	117	65	(479)	(21)
Adjusted for non-operating items	682	411	10	141	1,244
Operating profit/(loss) before tax attributable to shareholders' profits	958	528	75	(338)	1,223

* Gross written premiums includes inward reinsurance premiums assumed from other companies amounting to £105 million, of which £97 million relates to property and liability insurance £8 million to long-term business.

** General insurance and health business segment includes gross written premiums of £991 million and premiums ceded to other companies of £8 million relating to health business. The remaining business relates to property and liability insurance.

† Other includes the RAC non-insurance operations, our banking business, head office expenses, such as group treasury and finance functions, and certain financing costs and taxes not allocated to business segments.

A4 – Segmental information continued

(iii) Segmental income statement – products and services for the year ended 31 December 2008

	Long-term business £m	General Insurance and health** £m	Fund management £m	Other† £m	Total £m
Gross written premiums*	24,272	11,934	–	–	36,206
Premiums ceded to reinsurers	(1,044)	(797)	–	–	(1,841)
Net written premiums	23,228	11,137	–	–	34,365
Net change in provision for unearned premiums	–	277	–	–	277
Net earned premiums	23,228	11,414	–	–	34,642
Fee and commission income	753	160	567	405	1,885
	23,981	11,574	567	405	36,527
Net investment (expense)/income	(16,671)	425	3	200	(16,043)
Inter-segment revenue	–	–	185	–	185
Share of loss of joint ventures and associates	(1,089)	(5)	(12)	(22)	(1,128)
Profit on the disposal of subsidiaries and associates	–	–	–	7	7
Segmental income	6,221	11,994	743	590	19,548
Claims and benefits paid, net of recoveries from reinsurers	(21,024)	(8,329)	–	–	(29,353)
Change in insurance liabilities, net of reinsurance	3,560	325	–	–	3,885
Change in investment contract provisions	10,629	–	–	–	10,629
Change in unallocated divisible surplus	4,482	–	–	–	4,482
Amortisation of deferred acquisition costs and acquired value of in-force business	(333)	–	–	–	(333)
Depreciation and other amortisation expense	(159)	(49)	(6)	(145)	(359)
Other operating expenses	(3,194)	(3,914)	(599)	(388)	(8,095)
Impairment losses	(796)	(123)	–	(121)	(1,040)
Inter-segment expenses	(167)	(8)	–	(10)	(185)
Finance costs	(530)	(2)	(57)	(958)	(1,547)
Segmental expenses	(7,532)	(12,100)	(662)	(1,622)	(21,916)
Tax attributable to policyholder returns	1,068	–	–	–	1,068
(Loss)/profit before tax attributable to shareholders	(243)	(106)	81	(1,032)	(1,300)
Adjusted for non-operating items	1,937	1,304	42	314	3,597
Operating profit/(loss) before tax attributable to shareholders' profits	1,694	1,198	123	(718)	2,297

* Gross written premiums includes inward reinsurance premiums assumed from other companies amounting to £225 million, of which £189million relates to property and liability insurance £131 million to long-term business.

** General insurance and health business segment includes gross written premiums of £1,945 million and premiums ceded to other companies of £35 million relating to health business. The remaining business relates to property and liability insurance.

† Other includes the RAC non-insurance operations, our banking business, head office expenses, such as group treasury and finance functions, and certain financing costs and taxes not allocated to business segments.

IFRS condensed financial statements continued

A4 – Segmental information continued

(iv) Segmental statement of financial position – products and services as at 30 June 2009

	Long-term business £m	General insurance and health £m	Fund management £m	Other £m	Total £m
Goodwill	**1,602**	**458**	**2**	**1,299**	**3,361**
Acquired value of in-force business and intangible assets	**2,806**	**366**	**12**	**85**	**3,269**
Interests in, and loans to, joint ventures and associates	**2,333**	**4**	**46**	**77**	**2,460**
Property and equipment	**403**	**111**	**12**	**279**	**805**
Investment property	**10,957**	**234**	**–**	**1,027**	**12,218**
Loans	**27,362**	**932**	**2**	**11,422**	**39,718**
Financial investments	**194,783**	**10,656**	**75**	**5,514**	**211,028**
Deferred acquisition costs	**4,478**	**1,394**	**16**	**4**	**5,892**
Other assets	**43,933**	**8,386**	**508**	**(86)**	**52,741**
Total assets	**288,657**	**22,541**	**673**	**19,621**	**331,492**
Gross insurance liabilities	**143,886**	**17,889**	**–**	**–**	**161,775**
Gross liabilities for investment contracts	**97,541**	**–**	**–**	**–**	**97,541**
Unallocated divisible surplus	**2,283**	**–**	**–**	**–**	**2,283**
Net asset value attributable to unit holders	**5,290**	**12**	**–**	**2,671**	**7,973**
Borrowings	**4,148**	**85**	**–**	**10,092**	**14,325**
Other liabilities, including inter-segment liabilities	**19,605**	**113**	**412**	**14,726**	**34,856**
Total liabilities	**272,753**	**18,099**	**412**	**27,488**	**318,753**
Total equity					**12,739**
Total equity and liabilities					**331,492**

(v) Segmental statement of financial position – products and services as at 30 June 2008 restated

	Long-term business £m	General insurance and health £m	Fund management £m	Other £m	Total £m
Goodwill	1,485	448	3	1,112	3,048
Acquired value of in-force business and intangible assets	2,726	370	12	62	3,170
Interests in, and loans to, joint ventures and associates	3,639	7	45	108	3,799
Property and equipment	479	81	9	427	996
Investment property	14,132	294	–	622	15,048
Loans	26,785	979	–	9,623	37,387
Financial investments	196,593	10,371	29	4,205	211,198
Deferred acquisition costs	3,183	1,592	21	3	4,799
Other assets	35,549	10,045	501	2,595	48,690
Total assets	284,571	24,187	620	18,757	328,135
Gross insurance liabilities	136,925	17,668	–	–	154,593
Gross liabilities for investment contracts	98,627	–	–	–	98,627
Unallocated divisible surplus	4,065	–	–	–	4,065
Net asset value attributable to unit holders	5,501	45	–	2,315	7,861
Borrowings	4,065	–	–	9,308	13,373
Other liabilities, including inter-segment liabilities	20,996	978	308	12,660	34,942
Total liabilities	270,179	18,691	308	24,283	313,461
Total equity					14,674
Total equity and liabilities					328,135

A4 – Segmental information continued

(vi) Segmental statement of financial position – products and services as at 31 December 2008

	Long-term business £m	General insurance and health £m	Fund management £m	Other £m	Total £m
Goodwill	1,827	477	3	1,271	3,578
Acquired value of in-force business and intangible assets	3,542	402	14	80	4,038
Interests in, and loans to, joint ventures and associates	2,810	4	44	125	2,983
Property and equipment	507	118	13	326	964
Investment property	12,953	278	–	1,195	14,426
Loans	28,916	914	1	12,406	42,237
Financial investments	212,985	11,604	73	5,060	229,722
Deferred acquisition costs	4,455	1,489	21	–	5,965
Other assets	39,933	9,904	563	249	50,649
Total assets	307,928	25,190	732	20,712	354,562
Gross insurance liabilities	155,693	19,157	–	–	174,850
Gross liabilities for investment contracts	107,559	–	–	–	107,559
Unallocated divisible surplus	2,325	–	–	–	2,325
Net asset value attributable to unit holders	4,449	16	–	2,453	6,918
Borrowings	4,368	–	–	10,833	15,201
Other liabilities, including inter-segment liabilities	16,953	379	392	15,539	33,263
Total liabilities	291,347	19,552	392	28,825	340,116
Total equity					14,446
Total equity and liabilities					354,562

A5 – Tax

(a) Tax (credited)/charged to the income statement

(i) The total tax credit comprises:

	6 months 2009 £m	Restated 6 months 2008 £m	Full year 2008 £m
Current tax			
For this period	**157**	285	527
Prior year adjustments	**(88)**	(67)	(284)
Total current tax	**69**	218	243
Deferred tax			
Origination and reversal of temporary differences	**(153)**	(827)	(1,814)
Changes in tax rates or tax laws	**1**	–	(7)
Write-down of deferred tax assets	**12**	–	95
Total deferred tax	**(140)**	(827)	(1,726)
Total tax credited to income statement	**(71)**	(609)	(1,483)

(ii) The group, as a proxy for policyholders in the UK, Ireland, Singapore and Australia, is required to record taxes on investment income and gains each year. Accordingly, the tax benefit or expense attributable to UK, Irish, Singapore and Australian life insurance policyholder returns is included in the tax charge. The tax credit attributable to policyholders' returns included in the credit above is £264 million (30 June 2008: £672 million credit; 31 December 2008: £1,068 million credit).

IFRS condensed financial statements continued

A5 – Tax continued

(b) Tax charged/(credited) to equity

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

	6 months 2009 £m	Restated 6 months 2008 £m	**Full year 2008 £m**
Current tax	**–**	–	(16)
Deferred tax			
In respect of pensions and other post-retirement obligations	**(13)**	–	(15)
In respect of unrealised gains/(losses) on investments	**158**	(101)	(204)
	145	(101)	(219)
Total tax charged/(credited) to equity	**145**	(101)	(235)

(ii) The tax credit attributable to policyholders' returns included above is £nil (30 June 2008: £nil; 31 December 2008: £nil).

(c) Tax reconciliation

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

	6 months 2009 £m	Restated 6 months 2008 £m	Full year 2008 £m
Profit/(loss) before tax	**676**	(693)	(2,368)
Tax calculated at standard UK corporation tax rate of 28.0% (2008: 28.5%)	**189**	(198)	(675)
Different basis of tax – policyholders	**(214)**	(465)	(767)
Adjustment to tax charge in respect of prior years	**(42)**	(55)	(283)
Non-assessable income	**(30)**	(19)	(94)
Non-taxable profit on sale of subsidiaries and associates	**(6)**	(3)	(2)
Disallowable expenses	**24**	26	95
Different local basis of tax on overseas profits	**6**	95	(61)
Impact of increase in statutory local rates	**3**	–	–
(Recognition)/non-recognition of deferred tax	**14**	17	292
Other	**(15)**	(7)	12
Total tax credited to income statement	**(71)**	(609)	(1,483)

A6 – Earnings per share

(a) Basic earnings per share

(i) The profit attributable to ordinary shareholders is:

	6 months 2009			Restated 6 months 2008			Full year 2008		
	Operating profit £m	**Adjusting items £m**	**Total £m**	Operating profit £m	Adjusting items £m	Total £m	Operating profit £m	Adjusting items £m	Total £m
Profit/(loss) before tax attributable to shareholders' profits	**1,049**	**(109)**	**940**	1,223	(1,244)	(21)	2,297	(3,597)	(1,300)
Tax attributable to shareholders' profit/(loss)	**(235)**	**42**	**(193)**	(351)	288	(63)	(487)	902	415
Profit/(loss) for the year	**814**	**(67)**	**747**	872	(956)	(84)	1,810	(2,695)	(885)
Amount attributable to minority interests	**(87)**	**15**	**(72)**	(78)	65	(13)	(91)	61	(30)
Cumulative preference dividends for the year	**(9)**	**–**	**(9)**	(9)	–	(9)	(17)	–	(17)
Coupon payments in respect of direct capital instruments (DCI) (net of tax)	**–**	**–**	**–**	–	–	–	(40)	–	(40)
Profit/(loss) attributable to ordinary shareholders	**718**	**(52)**	**666**	785	(891)	(106)	1,662	(2,634)	(972)

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

	6 months 2009			Restated 6 months 2008			Full year 2008		
	Before tax £m	**Net of tax, minorities, preference dividends and DCI £m**	**Per share p**	Before tax £m	Net of tax, minorities, preference dividends and DCI £m	Per share p	Before tax £m	Net of tax, minorities, preference dividends and DCI £m	Per share p
Operating profit attributable to ordinary shareholders	**1,049**	**718**	**26.9**	1,223	785	29.9	2,297	1,662	62.9
Non-operating items:									
Investment return variances and economic assumption changes on long-term business	**155**	**36**	**1.3**	(636)	(426)	(16.2)	(1,631)	(1,280)	(48.4)
Short-term fluctuation in return on investments non-long-term business	**(125)**	**(34)**	**(1.3)**	(314)	(235)	(9.0)	(819)	(553)	(20.9)
Economic assumption changes on general insurance and health business	**52**	**37**	**1.4**	6	4	0.2	(94)	(67)	(2.5)
Impairment of goodwill	**(5)**	**(5)**	**(0.2)**	(42)	(38)	(1.4)	(66)	(66)	(2.5)
Amortisation and net impairment of intangibles	**(58)**	**11**	**0.4**	(51)	(36)	(1.4)	(117)	(89)	(3.4)
Profit on the disposal of subsidiaries and associates	**20**	**20**	**0.7**	9	9	0.3	7	7	0.3
Integration and restructuring costs and exceptional items	**(148)**	**(117)**	**(4.3)**	(216)	(169)	(6.4)	(877)	(586)	(22.3)
Profit/(loss) attributable to ordinary shareholders	**940**	**666**	**24.9**	(21)	(106)	(4.0)	(1,300)	(972)	(36.8)

(iii) The calculation of basic earnings per share uses a weighted average of 2,672 million (30 June 2008: 2,632 million; 31 December 2008: 2,643 million) ordinary shares in issue, after deducting shares owned by the employee share trusts. The actual number of shares in issue at 30 June 2009 was 2,739 million (30 June 2008: 2,658 million; 31 December 2008: 2,658 million).

IFRS condensed financial statements continued

A6 – Earnings per share continued

(b) Diluted earnings per share

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

	6 months 2009			Restated 6 months 2008			Full year 2008		
	Total £m	**Weighted average number of shares m**	**Per share p**	Total £m	Weighted average number of shares m	Per share p	Total £m	Weighted average number of shares m	Per share p
Profit/(loss) attributable to ordinary shareholders	**666**	**2,672**	**24.9**	(106)	2,632	(4.0)	(972)	2,643	(36.8)
Dilutive effect of share awards and options	**–**	**14**	**(0.1)**	–	21	–	–	24	–
Diluted earnings/(loss) per share	**666**	**2,686**	**24.8**	(106)	2,653	(4.0)	(972)	2,667	(36.8)

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

	6 months 2009			Restated 6 months 2008			Full year 2008		
	Total £m	**Weighted average number of shares m**	**Per share p**	Total £m	Weighted average number of shares m	Per share p	Total £m	Weighted average number of shares m	Per share p
Operating profit attributable to ordinary shareholders	**718**	**2,672**	**26.9**	785	2,632	29.9	1,662	2,643	62.9
Dilutive effect of share awards and options	**–**	**14**	**(0.2)**	–	21	(0.3)	–	24	(0.6)
Diluted earnings per share	**718**	**2,686**	**26.7**	785	2,653	29.6	1,662	2,667	62.3

A7 – Dividends and appropriations

	6 months 2009 £m	6 months 2008 £m	Full year 2008 £m
Ordinary dividends declared and charged to equity in the year			
Final 2007 – 21.10 pence per share, paid on 16 May 2008	**–**	554	554
Interim 2008 – 13.09 pence per share, paid on 17 November 2008	**–**	–	348
Final 2008 – 19.91 pence per share, paid on 15 May 2009	**527**	–	–
	527	554	902
Preference dividends declared and charged to equity in the year	**9**	9	17
Coupon payments on direct capital instrument	**–**	–	56
	536	563	975

Subsequent to 30 June 2009, the directors proposed an interim dividend for 2009 of 9.0 pence per ordinary share (six months to 30 June 2008: 13.09 pence), amounting to £247 million (six months to 30 June 2008: £348 million) in total. The dividend will be paid on 17 November 2009 and will be accounted for as an appropriation of retained earnings in the year ending 31 December 2009.

Interest on the direct capital instrument issued in November 2004 is treated as an appropriation of retained profits and, accordingly, it is accounted for when paid. Tax relief is obtained at a rate of 28.0% (2008: 28.5%).

A8 – Insurance liabilities

(a) Carrying amount

Insurance liabilities at 30 June/31 December comprise:

	30 June 2009			30 June 2008			31 December 2008		
	Long-term business £m	**General insurance and health £m**	**Total £m**	Long-term business £m	General insurance and health £m	Total £m	Long-term business £m	General insurance and health £m	Total £m
Long-term business provisions									
Participating	**61,230**	**–**	**61,230**	64,563	–	64,563	66,863	–	66,863
Unit-linked non-participating	**20,284**	**–**	**20,284**	21,948	–	21,948	22,060	–	22,060
Other non-participating	**62,586**	**–**	**62,586**	52,266	–	52,266	67,265	–	67,265
	144,100	**–**	**144,100**	138,777	–	138,777	156,188	–	156,188
Outstanding claims provisions	**1,105**	**9,948**	**11,053**	916	10,778	11,694	907	11,842	12,749
Provision for claims incurred but not reported	**–**	**2,710**	**2,710**	–	2,043	2,043	–	2,518	2,518
	1,105	**12,658**	**13,763**	916	12,821	13,737	907	14,360	15,267
Provision for unearned premiums	**–**	**5,220**	**5,220**	–	5,760	5,760	–	5,493	5,493
Provision arising from liability adequacy tests	**–**	**11**	**11**	–	33	33	–	13	13
Other technical provisions	**–**	**–**	**–**	2,195	8	2,203	–	–	–
Total	**145,205**	**17,889**	**163,094**	141,888	18,622	160,510	157,095	19,866	176,961
Less: Obligations to staff pension schemes transferred to provisions	**(1,234)**	**–**	**(1,234)**	(1,109)	–	(1,109)	(1,402)	–	(1,402)
Amounts classified as held for sale	**(85)**	**–**	**(85)**	(3,854)	(954)	(4,808)	–	(709)	(709)
	143,886	**17,889**	**161,775**	136,925	17,668	154,593	155,693	19,157	174,850

(b) Movements in long-term business liabilities

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

	6 months 2009 £m	6 months 2008 £m	Full year 2008 £m
Carrying amount at 1 January	**156,188**	135,312	135,312
Provisions in respect of new business	**6,425**	6,288	13,414
Expected change in existing business provisions	**(3,268)**	(2,920)	(6,423)
Variance between actual and expected experience	**(765)**	(4,918)	(9,401)
Effect of adjusting to PS06/14 realistic basis	**–**	–	(40)
Impact of other operating assumption changes	**(128)**	23	(812)
Impact of economic assumption changes	**(2,562)**	(1,607)	(604)
Other movements	**228**	(157)	(527)
Change in liability recognised as an expense	**(70)**	(3,291)	(4,393)
Effect of portfolio transfers, acquisitions and disposals	**35**	2,129	1,872
Foreign exchange rate movements	**(12,053)**	4,627	23,397
Carrying amount at 30 June/31 December	**144,100**	138,777	156,188

A8 – Insurance liabilities continued

(b) Movements in general insurance and health liabilities

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

	6 months 2009 £m	Restated 6 months 2008 £m	Full year 2008 £m
Carrying amount at 1 January – reported	**14,360**	13,142	12,941
Prior year adjustment – impact of discounting on latent claims	**–**	(201)	–
Carrying amount at 1 January – restated	**14,360**	12,941	12,941
Impact of changes in assumptions	**(72)**	(5)	120
Claim losses and expenses incurred in the current year	**3,689**	4,188	8,721
Decrease in estimated claim losses and expenses incurred in prior years	**(303)**	(470)	(828)
Exceptional strengthening of general insurance latent claims provisions	**–**	–	356
Incurred claims losses and expenses	**3,314**	3,713	8,369
Less:			
Payments made on claims incurred in the current year	**(1,511)**	(1,684)	(4,682)
Payments made on claims incurred in prior years	**(2,254)**	(2,627)	(4,307)
Recoveries on claim payments	**132**	163	293
Claims payments made in the year, net of recoveries	**(3,633)**	(4,148)	(8,696)
Unwind of discounting	**20**	16	32
Other movements in the claims provisions	**6**	–	(27)
Changes in claims reserve recognised as an expense	**(293)**	(419)	(322)
Effect of portfolio transfers, acquisitions and disposals	**(655)**	16	128
Foreign exchange rate movements	**(754)**	283	1,613
Carrying amount at 30 June/31 December	**12,658**	12,821	14,360

(c) Movements in unearned premiums

The following changes have occurred in the provision for unearned premiums (UPR) during the period:

	6 months 2009 £m	6 months 2008 £m	**Full year 2008 £m**
Carrying amount at 1 January	**5,493**	5,484	5,484
Premiums written during the year	**5,320**	6,193	11,934
Less: premiums earned during the year	**(5,366)**	(6,017)	(12,322)
Changes in UPR recognised as (income)/expense	**(46)**	176	(388)
Gross portfolio transfers and acquisitions	**–**	34	(11)
Foreign exchange rate movements	**(227)**	66	408
Carrying amount at 30 June/31 December	**5,220**	5,760	5,493

A9 – Liability for investment contracts

(a) Carrying amount

	30 June 2009 £m	30 June 2008 £m	**31 December 2008 £m**
Long-term business			
Participating contracts	**59,604**	54,979	65,278
Non-participating contracts at fair value	**37,291**	42,480	39,509
Non-participating contracts at amortised costs	**2,279**	1,614	2,772
	39,570	44,094	42,281
	99,174	99,073	107,559
Less: Amounts classified as held for sale	**(1,633)**	(446)	–
	97,541	98,627	107,559

A9 – Liability for investment contracts continued

(b) Movements in participating investment contracts

	6 months 2009 £m	6 months 2008 £m	Full year 2008 £m
Carrying amount at 1 January	**65,278**	53,609	53,609
Provisions in respect of new business	**2,906**	1,801	3,391
Expected change in existing business provisions	**(2,071)**	(946)	(1,909)
Variance between actual and expected experience	**489**	(2,258)	(4,661)
Impact of operating assumption changes	**(16)**	–	(166)
Impact of economic assumption changes	**(156)**	(88)	244
Other movements	**(177)**	(14)	13
Change in liability recognised as an expense/(income)	**975**	(1,505)	(3,088)
Effect of portfolio transfers, acquisitions and disposals	**14**	–	2,181
Foreign exchange rate movements	**(6,663)**	2,875	12,576
Carrying amount at 30 June/31 December	**59,604**	54,979	65,278

(c) Movements in non-participating investment contracts

	6 months 2009 £m	6 months 2008 £m	Full year 2008 £m
Carrying amount at 1 January	**42,281**	44,635	44,635
Provisions in respect of new business	**1,029**	2,987	5,314
Expected change in existing business provisions	**(1,096)**	(835)	(2,273)
Variance between actual and expected experience	**(377)**	(2,868)	(9,503)
Impact of operating assumption changes	**–**	–	(28)
Impact of economic assumption changes	**9**	(120)	5
Other movements	**(234)**	(1,078)	(169)
Change in liability	**(669)**	(1,914)	(6,654)
Effect of portfolio transfers, acquisitions and disposals	**–**	277	(14)
Foreign exchange rate movements	**(2,042)**	1,096	4,314
Carrying amount at 30 June/31 December	**39,570**	44,094	42,281

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A10 – Reinsurance assets

(a) Carrying amounts

The reinsurance assets at 30 June/31 December comprised:

	30 June 2009 £m	30 June 2008 £m	31 December 2008 £m
Long-term business			
Insurance contracts	**3,804**	4,622	4,466
Participating investment contracts	**45**	23	52
Non-participating investment contracts	**954**	1,400	1,047
Outstanding claims provisions	**134**	117	145
Less: Amounts classified as held for sale	**(11)**	(4)	–
	4,926	6,158	5,710
General insurance and health			
Outstanding claims provisions	**1,572**	1,553	1,737
Provisions for claims incurred but not reported	**108**	–	29
	1,680	1,553	1,766
Provision for unearned premiums	**393**	556	418
Other technical provisions	**6**	19	–
Less: Amounts classified as held for sale	**–**	(13)	–
	2,079	2,115	2,184
Total	**7,005**	8,273	7,894

(b) Movements in respect of long-term business provisions

	6 months 2009 £m	6 months 2008 £m	Full year 2008 £m
Carrying amount at 1 January	**5,565**	5,781	5,781
Asset in respect of new business	**107**	143	235
Expected change in existing business asset	**(58)**	52	243
Variance between actual and expected experience	**(37)**	(140)	(1,141)
Impact of other operating assumption changes	**8**	(38)	(761)
Impact of economic assumption changes	**(274)**	(131)	306
Other movements	**(52)**	28	(231)
Change in asset	**(306)**	(86)	(1,349)
Effect of portfolio transfers, acquisitions and disposals	**–**	123	140
Foreign exchange rate movements	**(456)**	227	993
Carrying amount at 30 June/31 December	**4,803**	6,045	5,565

A10 – Reinsurance assets continued

(c) Movements in respect of general insurance and health outstanding claims provisions and IBNR

	6 months 2009 £m	Restated 6 months 2008 £m	Full year 2008 £m
Carrying amount at 1 January – reported	**1,766**	1,718	1,663
Prior year adjustment – impact of discounting on latent claims	**–**	(55)	–
Carrying amount at 1 January – restated	**1,766**	1,663	1,663
Impact of changes in assumptions	**(15)**	(3)	21
Exceptional strengthening of latent claims provisions	**–**	–	52
Reinsurers' share of claim losses and expenses			
Incurred in current year	**120**	78	228
Incurred in prior years	**(22)**	(102)	12
Reinsurers' share of incurred claim losses and expenses	**98**	(24)	240
Less:			
Reinsurance recoveries received on claims			
Incurred in current year	**(23)**	(31)	(107)
Incurred in prior years	**(109)**	(87)	(257)
Reinsurance recoveries received in the year	**(132)**	(118)	(364)
Unwind of discounting	**11**	12	24
Change in reinsurance asset recognised as income	**(38)**	(133)	(27)
Effect of portfolio transfers, acquisitions and disposals	**–**	8	27
Foreign exchange rate movements	**(48)**	15	105
Other movements	**–**	–	(2)
Carrying amount at 30 June/31 December	**1,680**	1,553	1,766

(d) Reinsurers' share of the provision for unearned premiums (UPR)

	6 months 2009 £m	6 months 2008 £m	Full year 2008 £m
Carrying amount at 1 January	**418**	511	511
Premiums ceded to reinsurers in the year	**373**	393	797
Less: Reinsurers' share of premiums earned during the year	**(386)**	(405)	(908)
Changes in reinsurance asset recognised as income	**(13)**	(12)	(111)
Reinsurers' share of portfolio transfers and acquisitions	**–**	54	8
Foreign exchange rate movements	**(12)**	3	10
Carrying amount at 30 June/31 December	**393**	556	418

A11 – Effect of changes in assumptions and estimates during the period

This disclosure only allows for the impact on liabilities and related assets, such as reinsurance, deferred acquisition costs and AVIF, and does not allow for offsetting movements in the value of backing financial assets.

	Effect on profit six month 2009 £m	Effect on profit six month 2008 £m	Effect on profit full year 2008 £m
Assumptions			
Long-term insurance business			
Interest rates	**1,876**	1,136	(521)
Expenses	**–**	–	24
Persistency rates	**10**	–	2
Mortality for assurance contracts	**–**	–	44
Mortality for annuity contracts	**6**	–	26
Tax and other assumptions	**(1)**	(58)	93
Investment contracts			
Interest rates	**(158)**	(1)	(75)
Expenses	**–**	–	(27)
Persistency rates	**–**	–	2
Other assumptions	**–**	–	36
General insurance and health business			
Change in loss ratio assumptions	**4**	(2)	(1)
Change in discount rate assumptions	**54**	–	(94)
Change in expense ratio assumptions	**(1)**	(1)	–
Total	**1,790**	1,074	(491)

The impact of interest rates for long-term business relates primarily to the UK, Ireland and the Netherlands, driven by the market level of risk-free rates. Higher valuation interest rates in 2009 had the effect of reducing liabilities for traditional business and hence a positive impact on profit. This follows a reduction in market interest rates in 2008 which had the reverse effect. The overall impact on profit also depends on movements in the value of assets backing the liabilities, which is not included in this disclosure.

A12 – Borrowings

On 27 February 2009, Delta Lloyd issued subordinated debt of €500 million at a fixed rate of 10.4% maturing 27 February 2019. On 31 March 2009, Aviva plc issued subordinated debt of £200 million at a fixed rate of 10.8% maturing on 31 March 2019. In addition, on 30 April 2009, Aviva plc issued subordinated €50 million at a fixed rate of 10.5% maturing on 30 April 2019.

A13 – Unallocated divisible surplus

The following movements have occurred in the period:

	30 June 2009 £m	30 June 2008 £m	31 December 2008 £m
Carrying amount at 1 January	**2,325**	6,785	6,785
Change in participating contract assets	**(2,695)**	(6,935)	(12,022)
Change in participating contract liabilities	**2,796**	4,245	7,699
Effect of special bonus to with-profit policyholders	**–**	–	(89)
Other movements	**(12)**	(56)	(70)
Change in liability recognised as an expense/(income)	**89**	(2,746)	(4,482)
Movement in respect of change in pension scheme deficit	**(148)**	(71)	(78)
Foreign exchange rate movements	**10**	97	88
Other movements	**10**	–	12
	2,286	4,065	2,325
Less: amounts classified as held for sale	**(3)**	–	–
Carrying amount at 30 June/31 December	**2,283**	4,065	2,325

A14 – Pension schemes

(a) Pension scheme deficits in condensed consolidated statement of financial position

On the condensed consolidated statement of financial position, the amount described as provisions includes the pension scheme deficit and comprises:

	30 June 2009 £m	30 June 2008 £m	31 December 2008 £m
Deficits in the staff pension schemes	**1,988**	543	613
Other obligations to staff pension schemes – insurance policies issued by group companies[1]	**1,234**	1,109	1,402
Total IAS 19 obligations to staff pension schemes	**3,222**	1,652	2,015
Restructuring provisions	**208**	182	253
Other provisions	**542**	578	722
Less: amounts classified as held for sale	**(17)**	(14)	(6)
Total provisions	**3,955**	2,398	2,984

1. Pension assets in our Dutch pension schemes include insurance policies which are non-transferable under the terms of IAS 19 so have been treated as other obligations to staff pension schemes within provisions above.

(b) Movements in the scheme deficits and surpluses

Movements in the pension schemes' deficits and surpluses comprise:

	30 June 2009 £m	31 December 2008 £m
Net deficits in the schemes at 1 January	**(613)**	(178)
Employer contributions	**186**	620
Current and past service cost (see (c) below)	**(80)**	(163)
Losses on curtailments (see (c) below)	**13**	(3)
(Charge)/credit to investment income (see (c) below)	**(59)**	121
Other actuarial losses (see (c) below)	**(1,456)**	(987)
Exchange rate movements on foreign plans	**21**	(23)
Net deficits in the schemes at 30 June	**(1,988)**	(613)

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A14 – Pension scheme continued

(c) Pension expense

(i) Recognised in the income statement

	30 June 2009 £m	30 June 2008 £m	31 December 2008 £m
Current service cost	**(65)**	(83)	(162)
Past service cost	**(15)**	–	(1)
Gains/(losses) on curtailments	**13**	(1)	(3)
Total pension cost charged to net operating expenses	**(67)**	(84)	(166)
Expected return on scheme assets	**238**	315	706
Less: Income on insurance policy assets accounted for elsewhere (see (iii) above)	**(29)**	(30)	(64)
	209	285	642
Interest charge on scheme liabilities	**(297)**	(288)	(585)
(Charge)/credit to investment income	**(88)**	(3)	57
Total charge to income	**(155)**	(87)	(109)

(ii) Recognised in the statement of comprehensive income

	30 June 2009 £m	30 June 2008 £m	31 December 2008 £m
Expected return on scheme assets	**(238)**	(315)	(706)
Actual negative return on these assets	**(318)**	(683)	(1,245)
Actuarial losses on scheme assets	**(556)**	(998)	(1,951)
Less: losses on insurance policy assets accounted for elsewhere	**76**	78	58
Actuarial losses on admissible assets	**(480)**	(920)	(1,893)
Experience gains arising on scheme liabilities	**1**	66	105
Changes in assumptions underlying the present value of the scheme liabilities	**(901)**	164	859
Actuarial losses recognised in the statement of comprehensive income	**(1,380)**	(690)	(929)

A15 – Cash and cash equivalents in the statement of cash flows

	30 June 2009 £m	30 June 2008 £m	31 December 2008 £m
Cash at bank and in hand	**14,440**	8,832	11,249
Cash equivalents	**11,300**	10,362	13,425
	25,740	19,194	24,674
Bank overdrafts	**(1,145)**	(1,273)	(605)
	24,595	17,921	24,069

Of the total cash and cash equivalents shown above, £192 million has been classified as held for sale (30 June 2008: £411 million; 31 December 2008: £493 million).

A16 – Related parties

The group received income from related parties from transactions made in the normal course of business. Loans to related parties are made on normal arm's-length commercial terms.

	30 June 2009		30 June 2008		31 December 2008	
	Income earned in period £m	**Receivable at end of period £m**	Income earned in period £m	Receivable at end of period £m	Income earned in year £m	Receivable at end of year £m
Associates	**22**	**3**	29	2	61	3
Joint ventures	**9**	**299**	11	198	20	300
Employee pension schemes	**15**	**4**	18	4	24	6
	46	**306**	58	204	105	309

The related parties' receivables are not secured and no guarantees were received in respect thereof. The receivables will be settled in accordance with normal credit terms.

A17 – Risk management

Risk management

As a global company, we face a large and diverse number of risks. Each of these risks has the potential to impact our financial performance or hinder the achievement of our strategic objectives.

To ensure that risks are effectively identified and assessed and that appropriate controls and responses are in place, the Chief Risk Officer co-ordinates all group-wide risk management activities supported by local chief risk officers in each of our regions. A full description of our approach and management of risks is set out in the 2008 Annual Report and Accounts.

In accordance with the requirements of the Transparency Directive (DTR 4.2.7) we provide an update here on the material risks and uncertainties facing the group for the next six months.

Market risk

The world-wide economic backdrop to this half year report remains negative. Even though some indicators are beginning to show a positive trend there is a risk that recovery could be delayed, or in a worst case reverse. As a result we expect to continue to see heightened levels of market volatility in respect of interest rates, asset values and foreign exchange rates.

Aviva regularly monitors its investment holdings and asset-liability matching and we continue to explore new ways of mitigating the risks we are exposed to. We actively manage our equity exposures and have purchased additional protection in the half year to June 2009. Equity markets have demonstrated significant liquidity despite adverse economic conditions. We consider equity hedging to continue to be appropriate to protect the Group's statement of financial position against a general decline in the economic position.

Credit risk

Credit spreads have reduced in recent months reflecting some return of confidence to the market and the removal of some forms of hybrid capital from the market indices. However default experience will tend to lag the financial markets.

Aviva has taken a prudent approach to its overall credit risk exposure including a reduction in some counter party credit limits and through increased monitoring of exposures. A new credit risk management information system has been introduced which improves the timeliness of information to support the management and optimisation of our credit risk.

Liquidity risk

We need to ensure that we maintain sufficient liquid assets to meet our cash flow obligations as they fall due. All our businesses identify their sources of liquidity risk and monitor the potential exposures.

At a group level we maintain a prudent level of liquidity by maintaining a buffer of liquid assets to cover unforeseen circumstances. In addition, the group maintains significant committed undrawn borrowing facilities from a range of leading international banks.

Foreign exchange risk

As an international business we are exposed to fluctuations in exchange rates; these affect the value of shareholder funds which are expressed in sterling. Generally we don't hedge these currency risks as profits are retained to support growth in the business units. However significant declared dividends from overseas businesses or other material transaction exposure risks such as mergers and acquisitions are hedged.

We centrally monitor against limits the amount of foreign exchange risk to our group regulatory capital positions. We use currency borrowings and derivatives when necessary to keep currency exposures within these limits.

Insurance risk

We continue to monitor our insurance risks, particularly those most affected by the economic crisis, such as customer retention, creditor insurance and general insurance claims. Where appropriate we take steps to address emerging trends via underwriting or rating changes in order to ensure we deliver the right level of profit from our insurance business.

A17 – Risk management continued

Regulatory risk
The financial crisis is driving increased regulatory scrutiny of the group's business; however we continue to maintain constructive relationships with our regulators around the globe. We face substantial change in the regulatory framework driven by the implementation of the Solvency II Directive in Europe as well as national, European and global regulatory reform proposals in response to the financial crisis.

We are actively involved in the consultation exercises on these new regulatory proposals both through direct lobbying activity and via influencing the input of UK, European and international bodies representing the financial services industry. In this way we are seeking to ensure effective but proportionate regulation is applied.

Regulatory changes will also influence future distribution opportunities for our products and services. In the USA, there is a significant likelihood that distribution of equity indexed annuity products will be subject to regulation by the SEC rather than by state insurance departments by 2011. In the UK, the Retail Distribution Review, which is scheduled for implementation in 2012, is expected to significantly change the landscape for the distribution of life and pensions contracts. We continue to influence these developments and prepare for the business changes each will necessitate.

Other risks
We have noted no material changes to the other risks identified in the 2008 Annual Report and Accounts.

A18 – Subsequent events

At the Board meeting on 5th of August, the Directors approved the commencement of a process to initiate an initial public offering for a minority stake in the Delta Lloyd Group.

A19 – Analysis of general insurance and health

	Net written premiums			Underwriting result			Longer-term investment return			Operating profit		
	6 months 2009 £m	6 months 2008 £m	Full year 2008 £m	**6 months 2009 £m**	6 months 2008 £m	Full year 2008 £m	**6 months 2009 £m**	6 months 2008 £m	Full year 2008 £m	**6 months 2009 £m**	6 months 2008 £m	Full year 2008 £m
General insurance												
United Kingdom[1,2]	**2,091**	2,628	5,024	**63**	32	70	**227**	286	579	**282**	314	642
France	**434**	386	678	**7**	2	28	**24**	23	53	**31**	25	81
Ireland	**240**	262	494	**15**	8	(3)	**33**	33	67	**47**	41	63
Netherlands	**677**	562	1,028	**6**	18	54	**53**	39	92	**59**	56	146
Other	**234**	199	417	**1**	5	–	**23**	17	45	**24**	22	45
Europe	**1,585**	1,409	2,617	**29**	33	79	**133**	112	257	**161**	144	335
North America	**889**	771	1,601	**21**	15	21	**66**	61	124	**87**	76	145
Asia Pacific	**4**	3	6	**–**	(2)	(5)	**1**	–	1	**1**	(2)	(4)
	4,569	4,811	9,248	**113**	78	165	**427**	459	961	**531**	532	1,118
Health insurance												
United Kingdom	**207**	204	389	**–**	(1)	8	**2**	3	6	**2**	2	14
France	**130**	99	204	**(2)**	(1)	11	**7**	6	15	**5**	5	26
Ireland	**23**	4	19	**1**	–	4	**–**	–	1	**1**	–	5
Netherlands[3]	**–**	671	1,250	**–**	(25)	(11)	**–**	12	42	**–**	(12)	31
Europe	**153**	774	1,473	**(1)**	(26)	4	**7**	18	58	**6**	(7)	62
Asia Pacific	**18**	11	27	**6**	1	4	**–**	–	–	**6**	1	4
	378	989	1,889	**5**	(26)	16	**9**	21	64	**14**	(4)	80
Total	**4,947**	5,800	11,137	**118**	52	181	**436**	480	1,025	**545**	528	1,198

1. United Kingdom includes Aviva Re and agencies in run-off.
2. Operating profit includes an unfavourable impact of £9 million resulting from unwind of discount (30 June 2008: £4 million; 31 December 2008: £8 million).
3. Delta Lloyd health was sold 1 January 2009.

(i) United Kingdom (excluding group reinsurance and agencies in run-off)

	Net written premium			Underwriting result			Combined operating ratio		
	6 months 2009 £m	6 months 2008 £m	Full year 2008 £m	**6 months 2009 £m**	6 months 2008 £m	Full year 2008 £m	**6 months 2009 %**	6 months 2008 %	Full year 2008 %
Personal									
Motor	**541**	693	1,329	**4**	(18)	(37)	**101%**	102%	103%
Homeowner	**517**	585	1,188	**15**	(27)	(57)	**98%**	105%	104%
Other	**199**	301	602	**(41)**	(8)	4	**117%**	107%	103%
	1,257	1,579	3,119	**(22)**	(53)	(90)	**104%**	103%	103%
Commercial									
Motor	**252**	330	577	**14**	22	28	**96%**	92%	95%
Property	**335**	418	774	**10**	(9)	(6)	**97%**	99%	100%
Other	**205**	262	511	**37**	64	92	**86%**	77%	85%
	792	1,010	1,862	**61**	77	114	**94%**	91%	94%
Total	**2,049**	2,589	4,981	**39**	24	24	**99%**	98%	99%

(ii) France

	Net written premium			Underwriting result			Combined operating ratio		
	6 months 2009 £m	6 months 2008 £m	Full year 2008 £m	**6 months 2009 £m**	6 months 2008 £m	Full year 2008 £m	**6 months 2009 %**	6 months 2008 %	Full year 2008 %
Motor	**187**	164	290	**(4)**	(3)	–	**101%**	100%	100%
Property and other	**247**	222	388	**11**	5	28	**92%**	93%	93%
Total	**434**	386	678	**7**	2	28	**96%**	96%	96%

IFRS condensed financial statements continued

A19 – Analysis of general insurance and health continued

(iii) Ireland

	Net written premium			Underwriting result			Combined operating ratio		
	6 months 2009 £m	6 months 2008 £m	Full year 2008 £m	**6 months 2009 £m**	6 months 2008 £m	Full year 2008 £m	**6 months 2009 %**	6 months 2008 %	Full year 2008 %
Motor	**117**	131	243	**23**	(1)	9	**81%**	101%	99%
Property and other	**123**	132	251	**(8)**	9	(12)	**106%**	95%	107%
Total	**240**	263	494	**15**	8	(3)	**94%**	98%	103%

(iv) Netherlands

	Net written premium			Underwriting result			Combined operating ratio		
	6 months 2009 £m	6 months 2008 £m	Full year 2008 £m	**6 months 2009 £m**	6 months 2008 £m	Full year 2008 £m	**6 months 2009 %**	6 months 2008 %	Full year 2008 %
Motor	**174**	150	323	**1**	(7)	8	**100%**	105%	98%
Property	**218**	174	343	**9**	(5)	(2)	**97%**	98%	98%
Liability	**55**	50	78	**(1)**	(2)	14	**98%**	97%	81%
Other	**230**	188	284	**(3)**	32	34	**95%**	73%	87%
Total	**677**	562	1,028	**6**	18	54	**97%**	92%	94%

(v) Canada

	Net written premium			Underwriting result			Combined operating ratio		
	6 months 2009 £m	6 months 2008 £m	Full year 2008 £m	**6 months 2009 £m**	6 months 2008 £m	Full year 2008 £m	**6 months 2009 %**	6 months 2008 %	Full year 2008 %
Motor	**506**	450	880	**24**	37	47	**93%**	91%	95%
Property	**274**	229	512	**(19)**	(25)	(50)	**110%**	112%	110%
Liability	**92**	79	166	**14**	(2)	15	**86%**	101%	90%
Other	**17**	13	43	**2**	5	9	**69%**	58%	73%
Total	**889**	771	1,601	**21**	15	21	**97%**	98%	99%

A20 – Margin on assets

This disclosure presents the operating profit from the long-term business as if generated by a margin on the income-bearing assets supporting that business, expressed in basis points (bps).

	30 June 2009		30 June 2008		31 December 2008	
	Average assets £bn	**Operating profit bps**	Average assets £bn	Operating profit bps	Average assets £bn	Operating profit bps
UK	**111.3**	**33**	124.2	35	119.4	63
France	**62.5**	**20**	53.2	27	58.4	47
Ireland	**9.2**	**32**	9.6	29	9.8	63
Italy	**16.7**	**22**	14.1	26	15.1	31
Netherlands (including Belgium and Germany)	**38.7**	**39**	33.0	41	35.9	55
Poland	**10.5**	**69**	11.1	68	10.9	148
Spain	**12.1**	**58**	10.5	70	11.5	135
Other Europe	**0.6**	**(16)**	0.6	(130)	0.7	(267)
Europe	**150.3**	**32**	132.1	36	142.3	62
North America	**26.6**	**9**	17.9	17	22.1	7
Asia	**2.3**	**214**	1.9	(37)	2.4	8
Australia	**2.2**	**99**	2.6	83	2.5	185
Asia Pacific	**4.5**	**157**	4.5	31	4.9	94
Total	**292.7**	**32**	278.7	34	288.7	59

The above tables are based on the IFRS income statement and statement of financial position for the long-term business segment: average assets is the arithmetic average of the opening and closing value of assets, together with non-consolidated funds under management and excluding certain non-financial assets; excluded assets are goodwill, acquired value of in-force business (AVIF) and other intangibles, reinsurance assets, deferred acquisition costs and other assets, and prepayments and accrued income.

The total operating profit margin on assets for the 2009 half year was 32 bps (six months to 30 June 2008: 34 bps). The slight reduction in margin reflects the lower operating profit and higher average assets under management. On an annualised basis this equates to 64 bps, an increase of 5 bps on the 2008 full year margin of 59 bps. The margin fell in all regions except for Asia Pacific, which benefited from the effect of reserving changes in Singapore.

For the United Kingdom business, the operating profit margin reduced to 33 bps from 35 bps in the prior period. The United Kingdom margin on assets is a blended figure combining our participating (with-profits) and non-profit business. The reduced overall margin reflects the lower with-profits result due to lower special distribution bonus and other shareholder transfers, while the non-profit result improved.

The operating profit margin for the Europe region was 32 bps compared to 36 bps for the prior period.

The margin in France was adversely affected by a lower result from distribution companies due to reduced activity. In Italy, new business strain increased from changes in business mix. High margins on protection business portfolios were maintained in Poland and Spain, with lower investment margins in Spain. There was an improvement in margins for the newer smaller operations in Europe.

In the Netherlands, improved new business strain on lower volumes was offset by a lower expected return on shareholders' funds.

The North America operating margin reduced to 9 bps from 17 bps in the prior period, with adverse economic conditions leading to investment margin compression and associated higher DAC amortisation.

IFRS condensed financial statements continued

A21 – Cost savings commitments for targets announced since October 2007

This note provides details of the group's published commitments to deliver cost savings, and represents an update on the information provided at full year 2008.

Movement in cost savings target (recurring, annualised savings)	Cost savings targets b/fwd £m	New targets announced in year £m	Less: Cost savings achieved £m	Changes to the phasing of saving £m	Savings over/ (under) delivered £m	Impact of economic changes on targets c/fwd £m	Cost savings targets c/fwd £m
Savings expected to be achieved in:							
Six months ended 30 June 2009	90	–	(89)	–	(2)	1	–
Six months ended 31 December 2009	62	–	–	–	3	1	66
Year ended 31 December 2010	55	–	–	–	1	1	57
Savings to be achieved	207	–	(89)	–	2	3	123
Savings achieved in prior years:	340						429
Total savings	547						552

Targets brought forward include £123 million for Aviva UK General Insurance, £65 million for Aviva UK Life and £19 million for Europe.

Movement in initial costs to deliver Cost savings targets (total expenses incurred)	Costs to deliver b/fwd £m	Cost of delivery of new targets in year £m	Less: Costs incurred in year £m	Changes to the phasing of costs £m	Change in costs of delivery £m	Impact of economic changes on targets c/fwd £m	Costs to deliver c/fwd £m
Costs expected to be incurred in:							
Six months ended 30 June 2009	111	–	(76)	(26)	(10)	1	–
Six months ended 31 December 2009	108	–	–	17	3	–	128
Year ended 31 December 2010	33	–	–	9	(13)	2	31
Costs to be incurred	252	–	(76)	–	(20)	3	159
Costs incurred in prior years:	369						445
Total costs	621						604

All £76 million of costs incurred in the year were classified as restructuring costs in the income statement.

1. Cost savings initiatives included in this note are supported by detailed operational implementation plans, which identify the activities, timeframe and expected costs of delivering the planned initiatives.
2. Cost savings targets brought forward represent commitments made in prior years that are due to be delivered in 2009 or future periods. Cost savings targets brought forward were measured at the value of the relevant recurring costs in the period ended 30 June 2009. All cost saving targets carried forward have been restated to the value of the relevant recurring costs in the period ended 30 June 2009. For half year 2009, this reflects the effect of exchange rates on European targets.
3. Cost savings ''achieved'' are the annualised, recurring costs delivered in the period ended 30 June 2009.
4. Initial costs to deliver cost savings targets are the total one-off costs that will be required to complete and deliver announced cost savings programmes. They are measured at the real value of the initial costs expected to be incurred.

Directors' responsibility statement

The half yearly report includes the regulated information required to be made public under DTR 4.2.2, as defined in DTR 6.3.5 of the Transparency Directive.

The directors confirm that, to the best of each person's knowledge:

(a) the group condensed financial statements in this report, which have been prepared in accordance with IFRS as adopted by the EU, IFRIC interpretation and those parts of the Companies Act 1985 applicable to companies reporting under IFRS, give a true and fair view of the assets, liabilities, financial position and results of the group taken as a whole;

(b) the commentary contained in this report includes a fair review of the development and performance of the business and the position of the group taken as a whole, together with a description of the principal risks and uncertainties that they face; and

(c) the interim report includes a fair review of the information required on material transactions with related parties and changes since the last annual report.

Information on the directors can be found on page 84 of Aviva plc's 2008 Annual Report and Accounts.

By order of the board

Andrew Moss	Philip Scott
Group Chief Executive	Chief Financial Officer

5 August 2009

Independent review report to Aviva plc

Introduction
We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2009 which comprises the Consolidated Income Statement, the Condensed Statement of Comprehensive Income, the Condensed Statement of Changes in Equity, the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Statement of Cash Flows and the related notes A1 to A18 on pages 49 to 84. Our review did not extend to the information disclosed in notes A19 to A21. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with guidance contained in International Standards 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 (ISRE 2410). 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 financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note A1, the annual financial statements of the group are prepared in accordance with IFRS as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility
Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review
We conducted our review in accordance with ISRE 2410. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, 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 condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2009 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Services Authority.

Ernst & Young LLP

London

5 August 2009

Aviva MCEV condensed financial statements

Condensed consolidated income statement – MCEV basis

For the six month period ended 30 June 2009

6 months 2009 €m		6 months 2009 £m	Restated 6 months 2008 £m	Restated full year 2008 £m
	Operating profit before tax attributable to shareholders' profits			
1,806	Long-term business	**1,607**	1,280	2,810
612	General insurance and health	**545**	528	1,198
(5)	Fund management[1]	**(4)**	30	42
	Other:			
(111)	Other operations and regional costs[2]	**(99)**	(57)	(163)
(52)	Corporate centre	**(46)**	(71)	(141)
(357)	Group debt costs and other interest	**(318)**	(201)	(379)
1,893	**Operating profit before tax attributable to shareholders' profits**	**1,685**	1,509	3,367
	Adjusted for the following:			
(32)	Economic variances on long-term business	**(29)**	(4,086)	(12,058)
(140)	Short-term fluctuation in return on investments on non-long-term business	**(125)**	(314)	(819)
58	Economic assumption changes on general insurance and health business	**52**	6	(94)
(6)	Impairment of goodwill	**(5)**	(42)	(66)
(58)	Amortisation and impairment of intangibles	**(52)**	(44)	(108)
22	Profit on the disposal of subsidiaries and associates	**20**	9	7
(166)	Integration and restructuring costs	**(148)**	(132)	(326)
(245)	Exceptional items[3]	**(218)**	(155)	(754)
1,326	**Profit/(loss) before tax**	**1,180**	(3,249)	(10,851)
(467)	Tax on operating profit	**(416)**	(453)	(841)
359	Tax on other activities	**320**	1,341	4,252
(108)		**(96)**	888	3,411
1,218	**Profit/(loss) for the period**	**1,084**	(2,361)	(7,440)

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 consistent with Aviva's MCEV methodology.
3. Exceptional item of £218 million for the six month period to 30 June 2009 is in relation to legislation changes on pensions in Poland.

Earnings per share – MCEV basis

6 months 2009		6 months 2009	Restated 6 months 2008	Restated full year 2008
	Operating earnings per share on an MCEV basis after tax, attributable to ordinary shareholders of Aviva plc			
46.6c	Basic (pence per share)	**41.4p**	33.9p	83.4p
46.3c	Diluted (pence per share)	**41.2p**	33.6p	82.7p
	Earnings after tax on an MCEV basis, attributable to ordinary shareholders of Aviva plc			
43.9c	Basic (pence per share)	**39.1p**	(91.6)p	(272.5)p
43.7c	Diluted (pence per share)	**38.9p**	(91.6)p	(272.5)p

Condensed statement of comprehensive income – MCEV basis

For the six month period ended 30 June 2009

6 months 2009 €m		6 months 2009 £m	Restated 6 months 2008 £m	Restated Full year 2008 £m
1,218	**Profit/(loss) for the period**	**1,084**	(2,361)	(7,440)
	Other comprehensive income			
(134)	Fair value losses on AFS securities, owner-occupied properties and hedging instruments	**(121)**	(130)	(278)
(6)	Fair value gains transferred to profit	**(5)**	(10)	(8)
(1,551)	Actuarial losses on pension schemes	**(1,380)**	(690)	(929)
166	Actuarial gains on pension schemes transferred to unallocated divisible surplus and other movements	**148**	71	78
17	Impairment losses	**15**	74	81
(1,962)	Foreign exchange rate movements	**(1,746)**	997	3,098
30	Aggregate tax effect – shareholder tax	**27**	11	66
(3,440)	**Other comprehensive income for the period, net tax**	**(3,062)**	323	2,108
(2,222)	**Total comprehensive (expense)/income for the period**	**(1,978)**	(2,038)	(5,332)
	Attributable to:			
(1,851)	Equity shareholders of Aviva plc	**(1,648)**	(2,263)	(5,985)
(371)	Minority interests	**(330)**	225	653
(2,222)		**(1,978)**	(2,038)	(5,332)

Condensed statement of changes in equity – MCEV basis

For the six month period ended 30 June 2009

30 June 2009 €m		30 June 2009 £m	Restated 6 months 2008 £m	Restated 31 December 2008 £m
20,765	**Balance at 1 January**	**17,650**	23,848	23,848
(2,328)	Total comprehensive (expense)/income for the period	**(1,978)**	(2,038)	(5,332)
(631)	Dividends and appropriations	**(536)**	(563)	(975)
–	Issues of share capital	**–**	31	20
216	Shares issued in lieu of dividends	**184**	170	170
7	Capital contributions from minority shareholders	**6**	7	36
(42)	Minority share of dividends declared in the year	**(36)**	(75)	(106)
(2)	Minority interest in (disposed)/acquired subsidiaries	**(2)**	59	43
–	Changes in minority interest in existing subsidiaries	**–**	(78)	(65)
–	Shares acquired by employee trusts	**–**	–	(29)
24	Reserves credit for equity compensation plans	**20**	27	39
18,009	**Total equity**	**15,308**	21,388	17,649
(3,198)	Minority interests	**(2,719)**	(2,657)	(3,080)
14,811	**Balance at 30 June/31 December**	**12,589**	18,731	14,569

Condensed consolidated statement of financial position – MCEV basis

As at 30 June 2009

30 June 2009 €m		30 June 2009 £m	Restated 30 June 2008 £m	Restated 31 December 2008 £m
	Assets			
3,954	Goodwill	**3,361**	3,048	3,578
3,846	Acquired value of in-force business and intangible assets	**3,269**	3,170	4,038
2,941	Additional value of in-force long-term business[1]	**2,500**	6,714	3,203
1,612	Interests in, and loans to, joint ventures	**1,370**	2,588	1,737
1,282	Interests in, and loans to, associates	**1,090**	1,211	1,246
947	Property and equipment	**805**	996	964
14,374	Investment property	**12,218**	15,048	14,426
46,727	Loans	**39,718**	37,387	42,237
	Financial investments			
171,727	Debt securities	**145,968**	125,661	150,255
42,500	Equity securities	**36,125**	51,027	43,351
34,041	Other investments	**28,935**	34,510	36,116
8,241	Reinsurance assets	**7,005**	8,273	7,894
2,944	Deferred tax assets	**2,502**	249	2,642
522	Current tax assets	**444**	534	622
12,666	Receivables and other financial assets	**10,765**	10,750	9,816
7,346	Deferred acquisition costs and other assets	**6,244**	5,074	6,147
4,322	Prepayments and accrued income	**3,674**	3,183	3,762
30,056	Cash and cash equivalents	**25,548**	18,783	24,181
2,965	Assets of operations classified as held for sale[2]	**2,520**	6,643	1,550
393,013	**Total assets**	**334,061**	334,849	357,765
	Equity			
806	Ordinary share capital	**685**	664	664
5,275	Capital reserves	**4,484**	4,516	4,505
2,391	Other reserves	**2,032**	1,601	3,539
(39)	Shares held by employee trusts	**(33)**	(10)	(33)
3,442	Retained earnings	**2,926**	5,244	3,806
1,536	Additional retained earnings on an MCEV basis[1]	**1,305**	5,526	898
13,411	**Equity attributable to ordinary shareholders of Aviva plc**	**11,399**	17,541	13,379
1,400	Preference share capital and direct capital instruments	**1,190**	1,190	1,190
3,198	Minority interests[1]	**2,719**	2,657	3,080
18,009	**Total equity**	**15,308**	21,388	17,649
	Liabilities			
190,324	Gross insurance liabilities	**161,775**	154,593	174,850
114,754	Gross liabilities for investment contracts	**97,541**	98,627	107,559
2,686	Unallocated divisible surplus	**2,283**	4,065	2,325
9,380	Net asset value attributable to unitholders	**7,973**	7,861	6,918
4,653	Provisions	**3,955**	2,398	2,984
3,236	Deferred tax liabilities	**2,751**	1,257	3,020
445	Current tax liabilities	**378**	1,125	642
16,853	Borrowings	**14,325**	13,373	15,201
24,834	Payables and other financial liabilities	**21,109**	19,720	20,840
5,504	Other liabilities	**4,678**	4,537	4,556
2,335	Liabilities of operations classified as held for sale	**1,985**	5,905	1,221
375,004	**Total liabilities**	**318,753**	313,461	340,116
393,013	**Total equity and liabilities**	**334,061**	334,849	357,765

The summarised consolidated statement of financial position presented above is unaltered from the corresponding IFRS summarised consolidated statement of financial position 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; corresponding item within equity represented by the additional retained profit on an MCEV basis; and, corresponding adjustments to minority interests.
2. Assets of operations classified as held for sale per IFRS note A3 c (ii) has been increased by £69 million (30 June 2008: £nil; 31 December 2008: £nil) to reflect the additional value of in-force long-term business included in these operations.

Aviva MCEV condensed financial statements continued

Reconciliation of shareholders' equity on IFRS and MCEV bases

For the six month period to 30 June 2009

30 June 2009	IFRS £m	Adjustment £m	MCEV £m
Ordinary share capital	**685**	**–**	**685**
Capital reserves	**4,484**	**–**	**4,484**
Other reserves	**1,487**	**545**	**2,032**
Shares held by employee trusts	**(33)**	**–**	**(33)**
Retained earnings	**2,926**	**–**	**2,926**
Additional retained earnings on an MCEV basis	**–**	**1,305**	**1,305**
Equity attributable to ordinary shareholders of Aviva plc	**9,549**	**1,850**	**11,399**
Preference share capital	**200**	**–**	**200**
Direct capital instruments	**990**	**–**	**990**
Minority interests	**2,000**	**719**	**2,719**
Total equity	**12,739**	**2,569**	**15,308**

Restated 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	–	5,526	5,526
Equity attributable to ordinary shareholders of Aviva plc	11,625	5,916	17,541
Preference share capital	200	–	200
Direct capital instruments	990	–	990
Minority interests	1,859	798	2,657
Total equity	14,674	6,714	21,388

Restated 31 December 2008	IFRS £m	Adjustment £m	MCEV £m
Ordinary share capital	664	–	664
Capital reserves	4,505	–	4,505
Other reserves	2,110	1,429	3,539
Shares held by employee trusts	(33)	–	(33)
Retained earnings	3,806	–	3,806
Additional retained earnings on an MCEV basis	–	898	898
Equity attributable to ordinary shareholders of Aviva plc	11,052	2,327	13,379
Preference share capital	200	–	200
Direct capital instruments	990	–	990
Minority interests	2,204	876	3,080
Total equity	14,446	3,203	17,649

Reconciliation of IFRS total equity to MCEV net worth

For the six month period to 30 June 2009

	30 June 2009 £m	Restated 30 June 2008 £m	Restated 31 December 2008 £m
Net assets on a statutory IFRS net basis	**12,739**	14,674	14,446
Adjusting for general business and other net assets on a statutory IFRS net basis	**3,165**	(282)	2,135
Life and related businesses net assets on a statutory IFRS net basis	**15,904**	14,392	16,581
Goodwill and other intangibles	**(2,579)**	(2,495)	(2,947)
Acquired value of in-force business	**(1,913)**	(1,834)	(2,490)
Adjustment for share of joint ventures and associates	**(389)**	(433)	(472)
Adjustment for assets to regulatory value net of tax	**740**	563	1,474
Adjustment for DAC and DIR net of tax	**(2,918)**	(2,018)	(2,680)
Adjustment for differences in technical provisions	**1,275**	781	406
Other accounting and tax differences	**474**	545	937
MCEV net worth	**10,594**	9,501	10,809
MCEV value of in-force	**5,759**	9,250	6,114
MCEV[1]	**16,353**	18,751	16,923

1. Comprises embedded value of £14,263 million (30 June 2008: £16,729 million; 31 December 2008: £14,556 million) and minority interest in long-term business assets of £2,090 million (30 June 2008: £2,022 million; 31 December 2008: £2,367 million).

Group MCEV analysis of earnings

30 June 2009 (net of tax and minority interests)	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
Opening group MCEV	**14,556**	**2,639**	**17,195**	**(2,626)**	**13**	**14,569**
Opening adjustments	**–**	**–**	**–**	**–**	**–**	**–**
Adjusted opening group MCEV	**14,556**	**2,639**	**17,195**	**(2,626)**	**13**	**14,569**
Operating MCEV earnings	**1,030**	**–**	**1,030**	**86**	**86**	**1,116**
Non-operating MCEV earnings	**17**	**(29)**	**(12)**	**(51)**	**(80)**	**(63)**
Total MCEV earnings	**1,047**	**(29)**	**1,018**	**35**	**6**	**1,053**
Other movements in IFRS net equity	**–**	**(373)**	**(373)**	**(943)**	**(1,316)**	**(1,316)**
Capital and dividend flows	**(48)**	**–**	**(48)**	**(284)**	**(284)**	**(332)**
Foreign exchange variances	**(1,294)**	**(281)**	**(1,575)**	**190**	**(91)**	**(1,385)**
Acquired/divested businesses	**2**	**(29)**	**(27)**	**27**	**(2)**	**–**
Closing group MCEV	**14,263**	**1,927**	**16,190**	**(3,601)**	**(1,674)**	**12,589**
Preference share capital and direct capital instruments						**(1,190)**
Equity attributable to ordinary shareholders of Aviva plc on an MCEV basis						**11,399**

Aviva MCEV condensed financial statements continued

Group MCEV analysis of earnings continued

Restated 30 June 2008 (net of tax and minority interests)	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
Opening group MCEV	18,389	2,059	20,448	881	2,940	21,329
Opening adjustments	–	–	–	–	–	–
Adjusted opening group MCEV	18,389	2,059	20,448	881	2,940	21,329
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	811	102	913	(13)	89	900
Acquired/divested businesses	190	117	307	(307)	(190)	–
Closing group MCEV	16,729	2,171	18,900	(169)	2,002	18,731
Preference share capital and direct capital instruments						(1,190)
Equity attributable to ordinary shareholders of Aviva plc on an MCEV basis						17,541

Restated 31 December 2008 (net of tax and minority interests)	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
Opening group MCEV	18,389	2,059	20,448	881	2,940	21,329
Opening adjustments	–	–	–	–	–	–
Adjusted opening group MCEV	18,389	2,059	20,448	881	2,940	21,329
Operating MCEV earnings	1,760	–	1,760	535	535	2,295
Non-operating MCEV earnings	(8,411)	(53)	(8,464)	(1,229)	(1,282)	(9,693)
Total MCEV earnings	(6,651)	(53)	(6,704)	(694)	(747)	(7,398)
Other movements in IFRS net equity	–	(28)	(28)	(994)	(1,022)	(1,022)
Capital and dividend flows	(63)	–	(63)	(712)	(712)	(775)
Foreign exchange variances	2,794	567	3,361	(926)	(359)	2,435
Acquired/divested businesses	87	94	181	(181)	(87)	–
Closing group MCEV	14,556	2,639	17,195	(2,626)	13	14,569
Preference share capital and direct capital instruments						(1,190)
Equity attributable to ordinary shareholders of Aviva plc on an MCEV basis						13,379

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 108.
3. Net assets for the total life businesses on an MCEV basis presented net of minority interests.

B1 – Basis of preparation

The consolidated income statement and condensed consolidated statement of financial position on pages 91 to 93 present the Group's results and financial position for the life and related businesses on Aviva's 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 all contracts that contain features similar to immediate annuities and are backed by appropriate assets, including paid up group deferred annuities in the Netherlands, and deferred annuities and all 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. On the 22 May 2009, the CFO Forum announced that it was continuing work to seek to improve the consistency in the adjustments made for liquidity premium and volatilities. The CFO Forum stated that a further update will be provided later in 2009

The directors consider that Aviva's MCEV methodology gives useful insight into the drivers of financial performance of the group's life and related businesses. 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 our half year report have been reviewed by our auditors, Ernst & Young LLP. Their report in respect of the half year report can be found on page 125.

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, fund 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
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). Aviva's MCEV methodology for the 2008 Annual Report and Accounts adopted the CFO Forum Principles and Guidance with the exception of the use of an adjusted risk-free yield due to market conditions for UK and Netherlands immediate annuities and for immediate annuities, deferred annuities and all other contracts in the US.

Following a review, the scope of business using adjusted swap rates has been increased to cover all contracts that contain features similar to immediate annuity contracts. Prior period results have been restated to include the effect of adjusting the risk free rates on paid-up and single premium group deferred annuity business in the Netherlands and immediate annuities in France and Spain. At 31 December 2008, this increased the embedded value by £467 million (30 June 2008: £152 million; 31 December 2007: £141 million), and increased total earnings by £234 million in 2008 (six months to 30 June 2008: £nil). The impact of these changes by country at 31 December 2008 was the Netherlands (£352 million), France (£48 million) and Spain (£67 million).

The reference rate for these products has been increased above the swap curve to estimate the additional returns available through replicating portfolios where backing assets can be held to maturity in the current market. Due to the limited availability of CDS assets, particularly at the long durations, this is a material area of judgement and sensitivity analysis has been provided on page 120 on the additions to the swap curves.

Further details regarding the adjustments can be found on page 115.

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.

Aviva MCEV condensed financial statements continued

B1 – Basis of preparation continued

The 2008 figures for present value of new business premiums and value of new business have been restated to reclassify premium increases on Spanish Annual Renewable Term (ART) business as other operating variances rather than new business. There is no impact on profit.

Life and pensions operating earnings
For life and pensions operating earnings, Aviva uses normalised investment returns. The use of asset risk premia reflects management's long-term expectations of asset returns in excess of the swap yield from investing in different asset classes.

Within the 2008 results, the normalised investment returns were calculated by reference to the one year swap rate in the relevant currency plus an appropriate risk premium for bonds, equities and properties. For 2009, the group considers that the return over the typical duration of the assets held is more appropriate and is more consistent with the group's expectation of long-term rates of return.

Therefore, the expected return on equities and properties has been calculated by reference to the 10 year swap rate in the relevant currency plus an appropriate risk premium. The expected return on bonds has been calculated by reference to the swap rate consistent to the duration of the backing assets in the relevant currency plus an appropriate risk premium.

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, apart from the US, where a nil tax rate has been used in the post-tax results, and consequently for 'grossing up'.

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 level of required capital across the business units expressed as a percentage of the EU minimum solvency margin (or equivalent) can be found on page 116.

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.

B1 – Basis of preparation continued

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 note B12.

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 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.

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. No allowance has been made within the cost of non-hedgeable risk for symmetrical risks as these are diversifiable by investors.

B1 – Basis of preparation continued

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 statement of financial positions, 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.

Exchange rates

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. Please refer to note A2 on page 54.

B2 – Geographical analysis of MCEV operating earnings

Gross of tax and minority interests 30 June 2009	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	**101**	**72**	**4**	**81**	**(34)**	**27**	**78**	**6**	**234**	**16**	**6**	**10**	**16**	**367**
Earnings from existing business														
– expected existing business contribution (reference rate)	**41**	**81**	**12**	**6**	**43**	**33**	**22**	**10**	**207**	**36**	**8**	**8**	**16**	**300**
– expected existing business contribution (in excess of reference rate)	**153**	**153**	**5**	**4**	**116**	**3**	**55**	**(1)**	**335**	**111**	**2**	**–**	**2**	**601**
Experience variances														
– maintenance expense[1]	**25**	**1**	**2**	**(3)**	**16**	**3**	**(1)**	**3**	**21**	**–**	**2**	**1**	**3**	**49**
– project and other related expenses	**(36)**	**(3)**	**(4)**	**(2)**	**(2)**	**(1)**	**(3)**	**(2)**	**(17)**	**(5)**	**1**	**–**	**1**	**(57)**
– mortality/morbidity[2]	**6**	**10**	**8**	**–**	**(6)**	**9**	**(4)**	**1**	**18**	**(4)**	**4**	**4**	**8**	**28**
– lapses[3]	**(17)**	**(18)**	**(22)**	**(3)**	**(6)**	**8**	**(35)**	**(10)**	**(86)**	**(8)**	**(24)**	**–**	**(24)**	**(135)**
– other[4]	**(5)**	**(13)**	**(5)**	**11**	**21**	**5**	**1**	**–**	**20**	**(74)**	**1**	**(2)**	**(1)**	**(60)**
	(27)	**(23)**	**(21)**	**3**	**23**	**24**	**(42)**	**(8)**	**(44)**	**(91)**	**(16)**	**3**	**(13)**	**(175)**
Operating assumption changes:														
– maintenance expense	**2**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**4**	**4**	**6**
– project and other related expenses	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– mortality/morbidity	**(1)**	**–**	**6**	**–**	**1**	**–**	**–**	**–**	**7**	**–**	**(2)**	**–**	**(2)**	**4**
– lapses[5]	**1**	**–**	**–**	**–**	**(31)**	**–**	**–**	**–**	**(31)**	**–**	**(11)**	**–**	**(11)**	**(41)**
– other[6]	**–**	**–**	**(2)**	**–**	**116**	**–**	**–**	**1**	**115**	**–**	**2**	**–**	**2**	**117**
	2	**–**	**4**	**–**	**86**	**–**	**–**	**1**	**91**	**–**	**(11)**	**4**	**(7)**	**86**
Expected return on shareholders' net worth	**68**	**34**	**9**	**29**	**39**	**5**	**13**	**4**	**133**	**47**	**4**	**3**	**7**	**255**
Other operating variances[7]	**7**	**60**	**5**	**(3)**	**56**	**–**	**28**	**3**	**149**	**1**	**17**	**(1)**	**16**	**173**
Earnings before tax and minority interests	**345**	**377**	**18**	**120**	**329**	**92**	**154**	**15**	**1,105**	**120**	**10**	**27**	**37**	**1,607**

1. Maintenance expense experience in the UK and Netherlands relates to profits from existing business administration and cost savings, respectively. Project and other related expenses in the UK reflect project costs associated with strategic initiatives, including developments designed to offer a wider range of products to customers, and the simplification of systems and processes.
2. Mortality experience continues to be better than the assumptions set across a number of our businesses.
3. Lapse experience has been volatile, in part reflecting wider economic volatility. In Poland, lapse experience continued to be better than the long-term assumptions for both Life and Pension products.
4. In the Netherlands, favourable other experience variances arise from policy alterations on group business. In the USA, other experience reflects the cost of enhancing policyholder crediting rates.
5. In the Netherlands, adverse lapse assumption changes have been made in the German business.
6. Favourable other assumption changes in the Netherlands are in respect of revisions to investment and bonus strategies in Germany as this business is repositioned.
7. Other operating variances in France and the Netherlands relate to modelling refinements. In Spain, these reflect the impact of re-pricing actions on risk products.

Aviva MCEV condensed financial statements continued

B2 – Geographical analysis of MCEV operating earnings continued

Gross of tax and minority interests Restated 30 June 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	73	69	8	35	(29)	31	116	19	249	(8)	26	6	32	346
Earnings from existing business														
– expected existing business contribution (reference rate)	158	77	19	13	53	42	30	9	243	43	7	13	20	464
– expected existing business contribution (in excess of reference rate)	82	19	3	2	68	4	14	–	110	24	1	2	3	219
Experience variances														
– maintenance expense	–	(1)	(4)	(1)	3	3	(1)	(4)	(5)	–	2	(1)	1	(4)
– project and other related expenses[1]	(27)	–	(5)	–	(1)	–	(1)	(3)	(10)	(1)	(1)	(1)	(2)	(40)
– mortality/morbidity[2]	11	17	2	1	(15)	10	(2)	1	14	1	2	2	4	30
– lapses[3]	(12)	5	–	(1)	18	14	(5)	(2)	29	(1)	(9)	1	(8)	8
– other[4]	33	13	(9)	11	2	2	2	1	22	(6)	–	1	1	50
	5	34	(16)	10	7	29	(7)	(7)	50	(7)	(6)	2	(4)	44
Operating assumption changes:														
– maintenance expense	–	–	(1)	–	(10)	–	–	–	(11)	(7)	(1)	–	(1)	(19)
– mortality/morbidity[5]	–	–	–	–	(120)	–	(2)	–	(122)	–	–	–	–	(122)
– lapses	–	–	–	–	18	–	–	–	18	–	–	–	–	18
– other[6]	22	(5)	–	12	(3)	–	–	–	4	–	–	–	–	26
	22	(5)	(1)	12	(115)	–	(2)	–	(111)	(7)	(1)	–	(1)	(97)
Expected return on shareholders' net worth	78	51	15	30	74	8	11	3	192	28	7	4	11	309
Other operating variances[7]	(1)	(4)	12	(1)	(23)	–	11	–	(5)	1	–	–	–	(5)
Earnings before tax and minority interests	417	241	40	101	35	114	173	24	728	74	34	27	61	1,280

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. In Spain, these reflect the impact of re-pricing actions on risk products.

B2 – Geographical analysis of MCEV operating earnings continued

Gross of tax and minority interests Restated 31 December 2008	UK £m	France £m	Ireland £m	Italy £m	Nether-lands £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	204	135	15	71	(47)	65	202	29	470	55	30	13	43	772
Earnings from existing business														
– expected existing business contribution (reference rate)	338	188	39	30	107	91	60	19	534	86	9	25	34	992
– expected existing business contribution (in excess of reference rate)	210	38	8	6	78	8	22	–	160	53	4	2	6	429
Experience variances														
– maintenance expense	20	2	(2)	(6)	(35)	6	(1)	(1)	(37)	–	(2)	–	(2)	(19)
– project and other related expenses[1]	(62)	(10)	(7)	–	(26)	–	(6)	(6)	(55)	(14)	–	–	–	(131)
– mortality/morbidity[2]	18	42	2	2	19	20	4	1	90	–	5	2	7	115
– lapses[3]	(23)	(8)	(7)	(15)	(11)	26	(24)	(10)	(49)	(5)	(4)	3	(1)	(78)
– other[4]	7	(45)	(42)	(15)	34	(8)	2	(1)	(75)	(31)	(1)	(11)	(12)	(111)
	(40)	(19)	(56)	(34)	(19)	44	(25)	(17)	(126)	(50)	(2)	(6)	(8)	(224)
Operating assumption changes:														
– maintenance expense[5]	(15)	(12)	(2)	(9)	(167)	4	–	(12)	(198)	(5)	(3)	–	(3)	(221)
– project and other related expenses	13	–	–	–	9	–	–	–	9	–	–	–	–	22
– mortality/morbidity[6]	54	–	25	11	(79)	4	(1)	–	(40)	–	1	(1)	–	14
– lapses[7]	(73)	108	7	(9)	–	(10)	(19)	(20)	57	–	(12)	1	(11)	(27)
– other[8]	16	(1)	23	3	(28)	24	–	13	34	1	(10)	6	(4)	47
	(5)	95	53	(4)	(265)	22	(20)	(19)	(138)	(4)	(24)	6	(18)	(165)
Expected return on shareholders' net worth	166	107	34	63	204	13	23	8	452	61	14	8	22	701
Other operating variances[9]	10	148	(15)	(1)	138	(2)	24	3	295	–	–	–	–	305
Earnings before tax and minority interests	883	692	78	131	196	241	286	23	1,647	201	31	48	79	2,810

1. Project and other related expenses in the UK reflect project costs associated with strategic initiatives, including developments designed to offer a wider range of products to customers, and the simplification of systems and processes. Expenses in the Netherlands reflect an overrun in Belgium following the acquisition of Swiss Life Belgium, and restructuring within the intermediary division.
2. Mortality experience continues to be better than the assumptions set across a number of our businesses.
3. Lapse experience has been volatile, in part reflecting wider economic volatility. In Poland, lapse experience continued to be better than the long-term assumptions for both life and pension products.
4. In France, other experience profits include the reduction in value arising from reductions in fees and commissions received. In Ireland, certain statutory provisions were increased following a review. The movement in the Netherlands reflects changes on group pension scheme contribution. In the USA, other experience reflects the cost of enhancing policyholder crediting rates.
5. In the Netherlands, expense assumptions have been updated following a review of expense allocations.
6. In UK, favourable mortality assumption changes are in respect of mortality and morbidity changes across a range of products. In the Netherlands, mortality assumption changes reflect the impact of using a new industry mortality basis.
7. In the UK, an additional lapse provision has been set up in anticipation of higher short-term recession related withdrawals (pre tax £50 million) and higher mortgage and income protection claims (pre tax £20 million) to reflect rising unemployment. In France, persistency assumptions have been weakened following continual favourable experience on AFER products.
8. In the UK, other operating assumption changes include the impact of the with-profit special distribution. In Ireland, other assumption changes reflect a reduction in the assumed future tax charges. In Poland, other assumptions reflect a change in the pattern of future mortality charging structure.
9. Other operating variances in France are mainly in respect of the impact of the mutualisation of funds following the merger of two legal entities. In the Netherlands, changes are mainly in respect of aligning the profit sharing policy for existing group business in Belgium, following the acquisition of Swiss Life Belgium.

Aviva MCEV condensed financial statements continued

B2 – Geographical analysis of MCEV operating earnings continued

Net of tax and minority interests 30 June 2009	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	72	40	3	25	(28)	19	26	5	90	16	5	7	12	190
Earnings from existing business														
– expected existing business contribution (reference rate)	30	50	8	2	31	23	9	8	131	36	5	5	10	207
– expected existing business contribution (in excess of reference rate)	110	93	3	1	85	2	21	–	205	111	1	–	1	427
Experience variances														
– maintenance expense[1]	18	1	1	(1)	14	2	(1)	3	19	–	2	–	2	39
– project and other related expenses	(26)	(2)	(3)	(1)	(2)	–	(2)	(2)	(12)	(5)	1	–	1	(42)
– mortality/ morbidity[2]	4	6	5	–	(7)	6	(1)	2	11	(4)	3	3	6	17
– lapses[3]	(13)	(11)	(16)	(1)	(4)	6	(12)	(8)	(46)	(8)	(19)	–	(19)	(86)
– other[4]	(3)	(8)	(3)	6	18	4	1	(1)	17	(74)	–	(1)	(1)	(61)
	(20)	(14)	(16)	3	19	18	(15)	(6)	(11)	(91)	(13)	2	(11)	(133)
Operating assumption changes:														
– maintenance expense	2	–	–	–	–	–	–	–	–	–	(1)	3	2	4
– project and other related expenses	–	–	–	–	–	–	–	–	–	–	–	–	–	–
– mortality/morbidity	(1)	–	4	–	–	–	–	–	4	–	–	–	–	3
– lapses[5]	1	–	–	–	(22)	–	–	–	(22)	–	(10)	–	(10)	(31)
– other[6]	–	–	(1)	–	82	–	–	–	81	–	2	–	2	83
	2	–	3	–	60	–	–	–	63	–	(9)	3	(6)	59
Expected return on shareholders' net worth	49	19	6	10	27	4	5	2	73	47	2	2	4	173
Other operating variances[7]	6	36	4	(1)	40	(1)	8	4	90	1	9	1	10	107
Earnings after tax and minority interests	**249**	**224**	**11**	**40**	**234**	**65**	**54**	**13**	**641**	**120**	**–**	**20**	**20**	**1,030**

1. Maintenance expense experience in the UK and Netherlands relates to profits from existing business administration and cost savings, respectively. Project and other related expenses in the UK reflect project costs associated with strategic initiatives, including developments designed to offer a wider range of products to customers, and the simplification of systems and processes.
2. Mortality experience continues to be better than the assumptions set across a number of our businesses.
3. Lapse experience has been volatile, in part reflecting wider economic volatility. In Poland lapse experience continued to be better than the long-term assumptions for both Life and Pension products.
4. In the Netherlands, favourable other experience variances arise from policy alterations on group business. In the USA, other experience reflects the cost of enhancing policyholder crediting rates.
5. In the Netherlands, adverse lapse assumption changes have been made in the German business.
6. Favourable other assumption changes in the Netherlands are in respect of revisions to investment and bonus strategies in Germany as this business is repositioned.
7. Other operating variances in France and the Netherlands relate to modelling refinements. In Spain, these reflect the impact of re-pricing actions on risk products.

B2 – Geographical analysis of MCEV operating earnings continued

Net of tax and minority interests Restated 30 June 2008	UK £m	France £m	Ireland £m	Italy £m	Nether-lands £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	(25)	22	38	16	107	(5)	21	4	25	180
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	48	3	6	–	72	16	1	1	2	149
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
	3	20	(11)	4	7	21	(5)	(7)	29	(4)	(5)	1	(4)	24
Operating assumption changes:														
– maintenance expense	–	–	(1)	–	(4)	–	–	–	(5)	(5)	–	–	–	(10)
– mortality/morbidity[5]	–	–	–	–	(89)	–	(1)	–	(90)	–	–	–	–	(90)
– lapses	–	–	–	–	7	–	–	–	7	–	–	–	–	7
– other[6]	16	(3)	–	4	(1)	–	–	–	–	–	–	–	–	16
	16	(3)	(1)	4	(87)	–	(1)	–	(88)	(5)	–	–	–	(77)
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)	–	5	–	(7)	–	1	–	1	(7)
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. In Spain, these reflect the impact of re-pricing actions on risk products.

Aviva MCEV condensed financial statements continued

B2 – Geographical analysis of MCEV operating earnings continued

Net of tax and minority interests Restated 31 December 2008	UK £m	France £m	Ireland £m	Italy £m	Nether-lands £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	147	79	10	21	(48)	46	68	24	200	36	24	9	33	416
Earnings from existing business														
– expected existing business contribution (reference rate)	244	115	26	9	74	64	23	15	326	56	10	18	28	654
– expected existing business contribution (in excess of reference rate)	151	24	5	2	56	6	9	–	102	35	2	1	3	291
Experience variances														
– maintenance expense	15	1	(1)	(2)	(22)	4	–	(1)	(21)	–	(3)	–	(3)	(9)
– project and other related expenses[1]	(45)	(7)	(5)	–	(18)	–	(4)	(5)	(39)	(9)	–	–	–	(93)
– mortality/morbidity[2]	13	26	1	1	12	15	–	1	56	–	4	1	5	74
– lapses[3]	(17)	(4)	(5)	(5)	(1)	18	(10)	(9)	(16)	(2)	(3)	2	(1)	(36)
– other[4]	5	(29)	(27)	(6)	29	(6)	1	(1)	(39)	(20)	(1)	(8)	(9)	(63)
	(29)	(13)	(37)	(12)	–	31	(13)	(15)	(59)	(31)	(3)	(5)	(8)	(127)
Operating assumption changes:														
– maintenance expense[5]	(11)	(8)	(1)	(3)	(109)	3	–	(10)	(128)	(3)	(3)	–	(3)	(145)
– project and other related expenses	9	–	–	–	4	–	–	–	4	–	–	–	–	13
– mortality/morbidity[6]	39	–	16	4	(77)	3	(1)	–	(55)	–	1	(1)	–	(16)
– lapses[7]	(53)	65	4	(3)	–	(8)	(7)	(16)	35	–	(10)	1	(9)	(27)
– other[8]	12	–	15	1	(13)	18	–	11	32	–	(8)	4	(4)	40
	(4)	57	34	(1)	(195)	16	(8)	(15)	(112)	(3)	(20)	4	(16)	(135)
Expected return on shareholders' net worth	119	66	23	20	145	10	10	6	280	39	8	6	14	452
Other operating variances[9]	7	98	(11)	(1)	104	(1)	8	2	199	–	3	–	3	209
Earnings after tax and minority interests	635	426	50	38	136	172	97	17	936	132	24	33	57	1,760

1. Project and other related expenses in the UK reflect project costs associated with strategic initiatives, including developments designed to offer a wider range of products to customers, and the simplification of systems and processes. Expenses in the Netherlands reflect an overrun in Belgium following the acquisition of Swiss Life Belgium, and restructuring within the intermediary division.
2. Mortality experience continues to be better than the assumptions set across a number of our businesses.
3. Lapse experience has been volatile, in part reflecting wider economic volatility. In Poland, lapse experience continued to be better than the long-term assumptions for both life and pension products.
4. In France, other experience profits include the reduction in value arising from reductions in fees and commissions received. In Ireland, certain statutory provisions were increased following a review. The movement in the Netherlands reflects changes on group pension scheme contribution. In the USA, other experience reflects the cost of enhancing policyholder crediting rates.
5. In the Netherlands, expense assumptions have been updated following a review of expense allocations.
6. In the UK, favourable mortality assumption changes are in respect of mortality and morbidity changes across a range of products. In the Netherlands, mortality assumption changes reflect the impact of using a new industry mortality basis.
7. In the UK, an additional lapse provision has been set up in anticipation of higher short-term recession related withdrawals (pre tax £50 million) and higher mortgage and income protection claims (pre tax £20 million) to reflect rising unemployment. In France, persistency assumptions have been weakened following continual favourable experience on AFER products.
8. In the UK, other operating assumption changes include the impact of the with-profit special distribution. In Ireland, other assumption changes reflect a reduction in the assumed future tax charges. In Poland, other assumptions reflect a change in the pattern of future mortality charging structure.
9. Other operating variances in France are mainly in respect of the impact of the mutualisation of funds following the merger of two legal entities. In the Netherlands, changes are mainly in respect of aligning the profit sharing policy for existing group business in Belgium, following the acquisition of Swiss Life Belgium.

B3 – Geographical analysis of fund management operating earnings

The summarised consolidated income statement – MCEV basis, includes earnings from the group's fund management operations as analysed below. As explained in note B10, 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.

	6 months 2009 £m	Restated 6 months 2008 £m	Full year 2008 £m
United Kingdom	**1**	13	34
Europe	**5**	6	9
North America	**(5)**	1	(3)
Asia Pacific	**(1)**	–	1
Aviva Investors	**–**	20	41
United Kingdom	**(12)**	(8)	(18)
Netherlands	**6**	6	2
Other Europe	**1**	3	4
Asia Pacific	**1**	9	13
Total	**(4)**	30	42

B4 – Analysis of other operations and regional costs

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

	6 months 2009			Restated 6 months 2008			Full year 2008		
	Regional costs £m	**Other operations £m**	**Total £m**	Regional costs £m	Other operations £m	Total £m	Regional costs £m	Other operations £m	Total £m
United Kingdom	**–**	**(36)**	**(36)**	–	(33)	(33)	–	(12)	(12)
Europe	**(11)**	**(29)**	**(40)**	(12)	(1)	(13)	(28)	(88)	(116)
North America	**(9)**	**1**	**(8)**	(5)	1	(4)	(14)	2	(12)
Asia Pacific	**(15)**	**–**	**(15)**	(9)	2	(7)	(23)	–	(23)
Total	**(35)**	**(64)**	**(99)**	(26)	(31)	(57)	(65)	(98)	(163)

Aviva MCEV condensed financial statements continued

B5 – Segmentation of condensed consolidated statement of financial position

	30 June 2009			Restated 30 June 2008			Restated 31 December 2008		
	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	**286,846**	**42,835**	**329,681**	282,765	43,564	326,329	305,562	46,634	352,196
Acquired additional value of in-force long-term business	**1,811**	**–**	**1,811**	1,806	–	1,806	2,366	–	2,366
Total assets included in the IFRS statement of financial position	**288,657**	**42,835**	**331,492**	284,571	43,564	328,135	307,928	46,634	354,562
Liabilities of the long-term business	**(272,753)**	**–**	**(272,753)**	(270,179)	–	(270,179)	(291,347)	–	(291,347)
Liabilities of the general insurance and other businesses	**–**	**(46,000)**	**(46,000)**	–	(43,282)	(43,282)	–	(48,769)	(48,769)
Net assets on a statutory IFRS basis	**15,904**	**(3,165)**	**12,739**	14,392	282	14,674	16,581	(2,135)	14,446
Additional value of in-force long-term business[1]	**2,569**	**–**	**2,569**	6,714	–	6,714	3,203	–	3,203
Net assets on an MCEV basis[2]	**18,473**	**(3,165)**	**15,308**	21,106	282	21,388	19,784	(2,135)	17,649
Equity capital, capital reserves, shares held by employee trusts and other reserves			**7,168**			6,771			8,675
IFRS basis retained earnings			**2,926**			5,244			3,806
Additional MCEV basis retained earnings			**1,305**			5,526			898
Equity attributable to ordinary shareholders of Aviva plc on an MCEV basis			**11,399**			17,541			13,379
Preference share capital and direct capital instruments			**1,190**			1,190			1,190
Minority interests			**2,719**			2,657			3,080
MCEV basis total equity			**15,308**			21,388			17,649

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

	30 June 2009	31 December 2008	Movement in period
Group's share included in shareholders' funds	1,305	898	407
Minority interests' share	719	876	(157)
Movements in AFS securities	545	1,429	(884)
Additional value of in-force long-term business	2,569	3,203	(634)

Additional value of in-force long-term business includes £69 million (30 June 2008: £nil; 31 December 2008: £nil) of assets classified as held for sale in the condensed consolidated statement of financial position – MCEV basis.

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

	30 June 2009	Restated 30 June 2008	31 December 2008
Embedded value	14,263	16,729	14,556
Minority interests	2,090	2,022	2,367
	16,353	18,751	16,923
Goodwill and intangible assets allocated to long-term business[3]	2,579	2,495	2,947
Notional allocation of IAS19 pension fund deficit to long-term business[4]	(459)	(140)	(86)
Long-term business net assets on an MCEV basis	18,473	21,106	19,784

3. Goodwill and intangible assets includes amounts related to associated undertakings and joint ventures.

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

B6 – Free surplus emergence

	Existing business					New business			Total business
30 June 2009	**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	**76**	**49**	**180**	**3**	**308**	**(77)**	**(62)**	**(139)**	**169**
Europe	**319**	**73**	**(76)**	**143**	**459**	**(130)**	**(193)**	**(323)**	**136**
North America	**99**	**47**	**(75)**	**170**	**241**	**(191)**	**(277)**	**(468)**	**(227)**
Asia Pacific	**46**	**4**	**18**	**18**	**86**	**(30)**	**(30)**	**(60)**	**26**
Total	**540**	**173**	**47**	**334**	**1,094**	**(428)**	**(562)**	**(990)**	**104**

	Existing business					New business			Total business
Restated 30 June 2008	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	208	56	125	29	418	(135)	(81)	(216)	202
Europe	284	118	17	221	640	(175)	(230)	(405)	235
North America	109	18	(1)	90	216	(53)	(174)	(227)	(11)
Asia Pacific	40	7	(4)	(1)	42	(31)	(26)	(57)	(15)
Total	641	199	137	339	1,316	(394)	(511)	(905)	411

	Existing business					New business			Total business
31 December 2008	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	403	119	736	85	1,343	(147)	(159)	(306)	1,037
Europe	619	280	(92)	325	1,132	(438)	(422)	(860)	272
North America	194	39	(24)	197	406	(118)	(475)	(593)	(187)
Asia Pacific	73	14	1	(12)	76	(55)	(53)	(108)	(32)
Total	1,289	452	621	595	2,957	(758)	(1,109)	(1,867)	1,090

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B7 – Segmental analysis of life and related business embedded value

30 June 2009	Net worth – Free surplus £m	Net worth – Required capital[1] £m	VIF £m	Total Embedded value £m
United Kingdom	**1,401**	**1,546**	**2,090**	**5,037**
France[2]	**(195)**	**1,449**	**1,106**	**2,360**
Ireland	**125**	**218**	**486**	**829**
Italy	**231**	**230**	**148**	**609**
Netherlands (including Belgium and Germany)	**679**	**1,580**	**66**	**2,325**
Poland	**138**	**109**	**617**	**864**
Spain	**120**	**203**	**305**	**628**
Other Europe	**42**	**25**	**151**	**218**
Europe	**1,140**	**3,814**	**2,879**	**7,833**
North America[3]	**(455)**	**1,376**	**(358)**	**563**
Asia	**105**	**156**	**216**	**477**
Australia	**26**	**258**	**69**	**353**
Asia Pacific	**131**	**414**	**285**	**830**
Total	**2,217**	**7,150**	**4,896**	**14,263**

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

2. France and USA have a positive surplus on a statutory basis.

3. Aviva USA's holding company debt amounting to £819 million at 30 June 2009 has been included within non-covered business.

Restated 30 June 2008	Net worth – Free surplus £m	Net worth – Required capital[1] £m	VIF £m	Total Embedded value £m
United Kingdom	931	1,395	3,450	5,776
France[2]	(58)	1,260	1,149	2,351
Ireland	156	205	502	863
Italy	217	227	157	601
Netherlands (including Belgium and Germany)	516	1,936	1,004	3,456
Poland	69	134	933	1,136
Spain	83	191	379	653
Other Europe	35	26	150	211
Europe	1,018	3,979	4,274	9,271
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	8,264	16,729

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

2. France and USA have 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.

B7 – Segmental analysis of life and related business embedded value continued

Restated 31 December 2008	Free surplus £m	Required capital[1] £m	VIF £m	Total Embedded value £m
United Kingdom	1,357	1,477	2,053	4,887
France[2]	(92)	1,567	1,092	2,567
Ireland	135	252	603	990
Italy	261	235	149	645
Netherlands (including Belgium and Germany)[2]	(333)	2,284	511	2,462
Poland	115	134	979	1,228
Spain	143	225	354	722
Other Europe	43	34	159	236
Europe	272	4,731	3,847	8,850
North America[2,3]	(362)	1,528	(1,102)	64
Asia	72	159	193	424
Australia	9	253	69	331
Asia Pacific	81	412	262	755
Total	1,348	8,148	5,060	14,556

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

2. France, Netherlands and Aviva USA have a positive surplus on a statutory basis.

3. Aviva USA's holding company debt amounting to £1,128 million at 31 December 2008 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.

B8 – Risk allowance within present value of in-force (VIF)

Within the VIF in the tables on page 110, there are additional allowances for risks not included within the basic present value of future profits calculation.

30 June 2009	**PVFP £m**	**Frictional costs £m**	**Non-hedgeable risks £m**	**Time value of financial options and guarantees £m**	**VIF £m**
United Kingdom	**2,518**	**(197)**	**(157)**	**(74)**	**2,090**
France	**1,775**	**(170)**	**(124)**	**(375)**	**1,106**
Ireland	**516**	**(11)**	**(19)**	**–**	**486**
Italy	**195**	**(22)**	**(10)**	**(15)**	**148**
Netherlands (including Belgium and Germany)	**710**	**(175)**	**(167)**	**(302)**	**66**
Poland	**689**	**(17)**	**(46)**	**(9)**	**617**
Spain	**368**	**(16)**	**(30)**	**(17)**	**305**
Other Europe	**159**	**(3)**	**(3)**	**(2)**	**151**
Europe	**4,412**	**(414)**	**(399)**	**(720)**	**2,879**
North America	**105**	**(8)**	**(33)**	**(422)**	**(358)**
Asia	**289**	**(17)**	**(27)**	**(29)**	**216**
Australia	**135**	**(31)**	**(24)**	**(11)**	**69**
Asia Pacific	**424**	**(48)**	**(51)**	**(40)**	**285**
Total	**7,459**	**(667)**	**(640)**	**(1,256)**	**4,896**

Aviva MCEV condensed financial statements continued

B8 – Risk allowance within present value of in-force (VIF) continued

Restated 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	1,726	(150)	(133)	(294)	1,149
Ireland	530	(10)	(17)	(1)	502
Italy	200	(24)	(7)	(12)	157
Netherlands (including Belgium and Germany)	1,669	(306)	(76)	(283)	1,004
Poland	1,029	(19)	(69)	(8)	933
Spain	430	(20)	(26)	(5)	379
Other Europe	158	(4)	(3)	(1)	150
Europe	5,742	(533)	(331)	(604)	4,274
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	10,537	(887)	(539)	(847)	8,264

Restated 31 December 2008	PVFP £m	Frictional costs £m	Non-hedgeable risks £m	Time value of financial options and guarantees £m	VIF £m
United Kingdom	2,470	(176)	(165)	(76)	2,053
France	1,827	(174)	(147)	(414)	1,092
Ireland	637	(10)	(24)	–	603
Italy	196	(22)	(12)	(13)	149
Netherlands (including Belgium and Germany)	1,208	(246)	(132)	(319)	511
Poland	1,074	(14)	(73)	(8)	979
Spain	422	(18)	(32)	(18)	354
Other Europe	169	(4)	(4)	(2)	159
Europe	5,533	(488)	(424)	(774)	3,847
North America	(864)	(15)	(43)	(180)	(1,102)
Asia	262	(20)	(23)	(26)	193
Australia	132	(27)	(26)	(10)	69
Asia Pacific	394	(47)	(49)	(36)	262
Total	7,533	(726)	(681)	(1,066)	5,060

B9 – Implied discount rates (IDR)

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 cash flows projected are the expected future cash flows including expected investment cash flows from equities, bonds 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.

30 June 2009	Total in-force business %
United Kingdom	6.2%
France	7.0%
Ireland	4.7%
Italy	4.9%
Netherlands (including Belgium and Germany)	13.5%
Poland	7.5%
Spain	5.3%
Other Europe	11.7%
Europe	8.2%
North America	21.4%
Asia	7.3%
Australia	8.8%
Asia Pacific	8.1%
Total	8.6%

B10 – Analysis of fund management and service company business within embedded value

Aviva's MCEV methodology incorporates the impact of earnings arising from subsidiary undertakings providing administration, fund management and other services where these arise in relation to covered business. The principal subsidiaries of the Aviva group providing such services include Aviva Life Services Limited (UK) and Aviva Investors. The following table provides an analysis of the elements within the life and other related business embedded value:

			6 months 2009	Restated 6 months 2008	Full year 2008
	Fund management £m	**Other operations £m**	**Total £m**	Total £m	Total £m
United Kingdom	**150**	**(153)**	**(3)**	(2)	(8)
France	**151**	**63**	**214**	170	212
Netherlands	**114**	**(135)**	**(21)**	38	(23)
United States[1]	**195**	**–**	**195**	91	209
Other	**53**	**–**	**53**	39	69
Total	**663**	**(225)**	**438**	336	459

1. Following the establishment of Aviva Investors the fund management portion of the US business has been separately identified.

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.

In the United Kingdom, Aviva Life Services Limited (UK) (ALS) is the main provider of administration services to the UK Life business. ALS 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).

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B11 – Summary of minority interest in life and related businesses' MCEV results

30 June 2009	France £m	Ireland £m	Italy £m	Nether-lands £m	Poland £m	Spain £m	Europe £m	Asia Pacific £m	Total £m	Share-holders' interest £m	Group £m
Value of new business, net of tax	**7**	**1**	**29**	**6**	**3**	**28**	**74**	**–**	**74**	**190**	**264**
Life MCEV operating earnings after tax	**22**	**5**	**41**	**10**	**9**	**54**	**141**	**1**	**142**	**1,030**	**1,172**
Life MCEV (loss)/ earnings after tax	**14**	**(11)**	**40**	**(1)**	**(24)**	**1**	**19**	**4**	**23**	**1,047**	**1,070**
Closing covered businesses' embedded value	**270**	**271**	**697**	**178**	**119**	**539**	**2,074**	**16**	**2,090**	**14,263**	**16,353**

Restated 30 June 2008	France £m	Ireland £m	Italy £m	Nether-lands £m	Poland £m	Spain £m	Europe £m	Asia Pacific £m	Total £m	Share-holders' interest £m	Group £m
Value of new business, net of tax	7	1	12	3	3	43	69	–	69	180	249
Life MCEV operating earnings after tax	14	9	35	10	12	66	146	–	146	774	920
Life MCEV (loss)/ 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	540	2,010	12	2,022	16,729	18,751

Restated 31 December 2008	France £m	Ireland £m	Italy £m	Nether-lands £m	Poland £m	Spain £m	Europe £m	Asia Pacific £m	Total £m	Share-holders' interest £m	Group £m
Value of new business, net of tax	9	3	27	12	7	73	131	–	131	416	547
Life MCEV operating earnings after tax	29	17	50	5	24	102	227	–	227	1,760	1,987
Life MCEV (loss)/ earnings after tax	18	(21)	(30)	(22)	20	(36)	(71)	–	(71)	(6,651)	(6,722)
Closing covered businesses' embedded value	304	323	727	204	177	617	2,352	15	2,367	14,556	16,923

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

B12 – Principal economic assumptions

(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 immediate annuity type contracts and all US contracts 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 2009	30 June 2008	31 December 2008	31 December 2007	**30 June 2009**	30 June 2008	31 December 2008	31 December 2007
Reference rate – term 1 year	**1.6%**	6.4%	2.8%	5.7%	**1.4%**	5.4%	2.5%	4.8%
Reference rate – term 5 years	**3.8%**	6.1%	3.2%	5.1%	**2.9%**	5.1%	3.3%	4.6%
Reference rate – term 10 years	**4.3%**	5.7%	3.5%	5.0%	**3.7%**	5.1%	3.8%	4.7%
Reference rate – term 15 years	**4.6%**	5.3%	3.8%	4.9%	**4.2%**	5.1%	3.9%	4.9%
Reference rate – term 20 years	**4.6%**	5.0%	3.8%	4.8%	**4.2%**	5.1%	3.9%	4.9%
Expense inflation	**3.4%**	4.4%	2.4%	3.6%	**2.1%**	2.9%	2.1%	2.9%

B12 – Principal economic assumptions continued

	Netherlands[1]				Poland			
	30 June 2009	30 June 2008	31 December 2008	31 December 2007	**30 June 2009**	30 June 2008	31 December 2008	31 December 2007
Reference rate – term 1 year	**1.4%**	5.1%	2.5%	4.7%	**4.5%**	6.9%	4.4%	6.2%
Reference rate – term 5 years	**2.9%**	4.7%	3.3%	4.6%	**5.5%**	6.4%	4.3%	5.8%
Reference rate – term 10 years	**3.7%**	4.8%	3.8%	4.7%	**5.6%**	5.9%	4.2%	5.5%
Reference rate – term 15 years	**4.1%**	5.0%	4.0%	4.9%	**5.5%**	5.7%	4.1%	5.4%
Reference rate – term 20 years	**4.3%**	5.1%	3.9%	5.0%	**5.4%**	5.7%	4.0%	5.4%
Expense inflation	**2.5%**	2.9%	2.5%	3.0%	**3.2%**	5.9%	2.9%	4.7%

	United States			
	30 June 2009	30 June 2008	31 December 2008	31 December 2007
Reference rate – term 1 year	**1.6%**	3.0%	1.3%	4.2%
Reference rate – term 5 years	**3.0%**	4.0%	2.2%	4.2%
Reference rate – term 10 years	**3.8%**	4.6%	2.6%	4.7%
Reference rate – term 15 years	**4.1%**	4.8%	2.9%	4.9%
Reference rate – term 20 years	**4.1%**	5.0%	2.9%	5.0%
Expense inflation	**3.0%**	3.0%	3.0%	3.5%

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 immediate annuity type contracts and all US contracts. The risk-free rate is taken as the swap yield curve for the currency of the liability, adjusted by:

	New business				Embedded value		
	First half 2009	First half 2008	Third quarter 2008	Fourth quarter 2008	**30 June 2009**	30 June 2008	31 December 2008
UK	**1.50%**	0.55%	0.85%	1.45%	**1.25%**	0.50%	1.50%
France	**n/a**	n/a	n/a	n/a	**0.50%**	0.35%	1.00%
Netherlands	**1.50%**	0.30%	0.45%	0.75%	**0.40%**	0.25%	0.80%
Spain	**1.00%**	0.35%	0.55%	0.95%	**0.50%**	0.35%	1.00%
US immediate annuities	**3.00%**	0.55%	0.65%	2.00%	**1.50%**	0.50%	3.00%
US deferred annuities and all other contracts	**2.50%**	0.55%	0.65%	1.50%	**1.25%**	0.50%	2.50%

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. For 2008, the normalised investment returns were expressed as one year swap returns plus an asset risk premium. For 2009, the normalised investment returns are expressed as a swap rate based on the typical duration of the assets held plus an asset risk premium. More detail is given in Note B1 - Basis of Preparation.

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 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 ten year swap rate to calculate expected returns.

	All territories			
	30 June 2009	30 June 2008	31 December 2008	31 December 2007
Equity risk premium	**3.5%**	3.5%	3.5%	3.5%
Property risk premium	**2.0%**	2.0%	2.0%	2.0%

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

Aviva MCEV condensed financial statements continued

B12 – Principal economic assumptions continued

Required capital and tax

	Tax rates[1]				Required capital (% EU minimum or equivalent)		
	30 June 2009	30 June 2008	31 December 2008	31 December 2007	**30 June 2009**	30 June 2008	31 December 2008
United Kingdom	**28.0%**	28.0%	28.0%	28.0%	**100%/110%**	100%/110%	100%/110%
France	**34.4%**	34.4%	34.4%	34.4%	**110%**	110%	110%
Ireland	**12.5%**	12.5%	12.5%	12.5%	**150%**	150%	150%
Italy	**32.4%**	32.4%	32.4%	32.4%	**115%/184%**	115%/184%	115%/184%
Netherlands	**25.5%**	25.5%	25.5%	25.5%	**132%**	193%	168%
Poland	**19.0%**	19.0%	19.0%	19.0%	**150%**	150%	150%
Spain	**30.0%**	30.0%	30.0%	30.0%	**110%/125%**	110%/125%	110%/125%
United States	**0.0%**	35.0%	0.0%	35.0%	**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 132%. 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 115% for bancassurance companies.
5. Current tax legislation and rates have been assumed to continue unaltered except where changes in future tax rates have been announced.

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 Bloomberg. 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.

B12 – Principal economic assumptions continued

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.

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.

Summary statistics

Swaption implied volatilities

The implied volatility is that determined by Black-Scholes' formula to reproduce the market price of the option. The following table sets out the model swaption implied volatilities.

	30 June 2009[1] Swap length				30 June 2008 Swap length				31 December 2008 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	11.8%	n/a	n/a	n/a	11.8%	n/a
15 years	**n/a**	**n/a**	**11.9%**	**n/a**	n/a	n/a	11.9%	n/a	n/a	n/a	11.9%	n/a
20 years	**n/a**	**n/a**	**12.1%**	**n/a**	n/a	n/a	12.1%	n/a	n/a	n/a	12.1%	n/a
25 years	**n/a**	**n/a**	**12.4%**	**n/a**	n/a	n/a	12.4%	n/a	n/a	n/a	12.4%	n/a
Euro												
10 years	**11.7%**	**11.7%**	**11.7%**	**11.8%**	11.3%	11.0%	10.5%	10.1%	11.7%	11.7%	11.7%	11.8%
15 years	**10.9%**	**10.9%**	**10.4%**	**10.9%**	10.8%	10.7%	10.3%	9.9%	10.9%	10.9%	10.4%	10.9%
20 years	**10.5%**	**10.4%**	**10.4%**	**10.3%**	10.4%	9.9%	9.5%	9.2%	10.5%	10.4%	10.4%	10.3%
25 years	**10.0%**	**10.0%**	**9.9%**	**9.5%**	9.9%	9.4%	9.1%	8.8%	10.0%	10.0%	9.9%	9.5%
Netherlands												
10 years	**11.6%**	**11.6%**	**11.7%**	**11.7%**	11.3%	11.2%	11.3%	11.4%	11.6%	11.6%	11.7%	11.7%
15 years	**10.8%**	**10.7%**	**10.6%**	**10.8%**	10.8%	10.6%	10.7%	10.8%	10.8%	10.7%	10.6%	10.8%
20 years	**10.5%**	**10.3%**	**10.2%**	**10.3%**	10.8%	10.5%	10.4%	10.5%	10.5%	10.3%	10.2%	10.3%
25 years	**10.0%**	**9.8%**	**9.8%**	**9.7%**	10.1%	10.3%	10.1%	10.2%	10.0%	9.8%	9.8%	9.7%
US dollar												
10 years	**15.2%**	**14.4%**	**14.0%**	**14.0%**	18.3%	15.7%	13.6%	11.9%	15.2%	14.4%	14.0%	14.0%
15 years	**13.9%**	**13.0%**	**12.8%**	**12.7%**	15.7%	13.2%	11.3%	9.8%	13.9%	13.0%	12.8%	12.7%
20 years	**13.3%**	**12.4%**	**12.1%**	**12.1%**	13.4%	11.3%	9.6%	8.4%	13.3%	12.4%	12.1%	12.1%
25 years	**12.9%**	**11.9%**	**11.6%**	**11.7%**	12.0%	10.2%	8.8%	8.0%	12.9%	11.9%	11.6%	11.7%

1. Volatilities are calibrated to end August 2008.

Aviva MCEV condensed financial statements continued

B12 – Principal economic assumptions continued

Equity implied volatilities

The implied volatility is that determined by the Black-Scholes' formula to reproduce the market price of the option. The following tables set out the model equity implied volatilities.

30 June 2009							Country
Option length	**UK**	**France**	**Italy**	**Ireland**	**Netherlands**	**Spain**	**US**
5 years	**25.8%**	**24.9%**	**24.4%**	**24.5%**	**26.1%**	**26.3%**	**24.6%**
10 years	**27.2%**	**26.3%**	**n/a**	**26.2%**	**26.8%**	**28.8%**	**27.3%**
15 years	**27.7%**	**n/a**	**n/a**	**27.0%**	**27.1%**	**n/a**	**28.9%**

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%

30 December 2008							Country
Option length	UK	France	Italy	Ireland	Netherlands	Spain	US
5 years	25.8%	24.9%	24.4%	24.5%	26.1%	26.3%	24.6%
10 years	27.2%	26.3%	n/a	26.2%	26.8%	28.8%	27.3%
15 years	27.7%	n/a	n/a	27.0%	27.1%	n/a	28.9%

1. Volatilities are calibrated to end August 2008.

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 30 June 2009 (30 June 2008: 15%).

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, eg we have allowed for improvements in future policyholder longevity.

We have set the assumptions based on a best estimate of shareholder outcomes. In particular, where the policyholder behaviour varies with economic experience, we have set assumptions which are dynamic, ie 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.

B12 – Principal economic assumptions continued

(c) Other assumptions

Valuation of debt

Borrowings in the MCEV consolidated statement of financial position are valued on an IFRS basis, consistent with the primary financial statements. At 30 June 2009 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 £5,422 million (30 June 2008: £5,753 million; 31 December 2008: £4,911 million).

	30 June 2009	Restated 30 June 2008	31 December 2008
Borrowings per summarised consolidated statement of financial positon – MCEV basis	**14,325**	13,373	15,201
Add: amount included within held for sale	**–**	13	–
Less: Securitised mortgage funding	**(6,807)**	(7,620)	(7,785)
Borrowings excluding non-recourse funding – MCEV basis	**7,518**	5,766	7,416
Less: Operational financing by businesses	**(1,694)**	(1,134)	(1,891)
External debt and subordinated debt – MCEV basis	**5,824**	4,632	5,525
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	**7,264**	6,072	6,965
Effect of marking these instruments to market	**(1,842)**	(319)	(2,054)
Market value of external debt, subordinated debt, preference shares and direct capital instrument	**5,422**	5,753	4,911

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.

B13 – Sensitivity analysis

(a) Economic assumptions

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

- 50 basis point reduction in the adjustment to risk free rates for immediate annuity type contract and all US contracts;
- 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).

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.

The credit spread sensitivities assume that the change relates to credit risk and not liquidity risk; in practice, credit spread movements may be partially offset due to changes in liquidity risk.

Aviva MCEV condensed financial statements continued

B13 – Sensitivity analysis continued

Sensitivities will also vary according to the current economic assumptions, mainly due to the impact of changes to both the intrinsic cost and time value of options and guarantees. Options and guarantees are the main reason for the asymmetry of the sensitivities where the guarantee impacts to different extents under the different scenarios. This can be seen in the sensitivity of a 1%–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

30 June 2009 Embedded value (net of tax and minority interest)	As reported on page 110 £m	50bp reduction in adjustment to risk-free rates* £m	Interest Rates 1% increase £m	1% decrease £m	2% increase £m	2% decrease £m
United Kingdom	**5,037**	**(588)**	**(145)**	**160**	**(300)**	**325**
France	**2,360**	**(21)**	**(55)**	**(30)**	**(190)**	**(245)**
Ireland	**829**	**–**	**(30)**	**35**	**(55)**	**45**
Italy	**609**	**–**	**15**	**(30)**	**15**	**(100)**
Netherlands (including Belgium and Germany)	**2,325**	**(280)**	**85**	**(480)**	**5**	**(1,245)**
Poland	**864**	**–**	**(30)**	**40**	**(55)**	**85**
Spain	**628**	**(34)**	**(15)**	**15**	**(30)**	**30**
Other Europe	**218**	**–**	**(5)**	**5**	**(10)**	**10**
Europe	**7,833**	**(335)**	**(35)**	**(445)**	**(320)**	**(1,420)**
North America	**563**	**(695)**	**–**	**(125)**	**(35)**	**(475)**
Asia	**477**	**–**	**10**	**(35)**	**20**	**(80)**
Australia	**353**	**–**	**(10)**	**10**	**(20)**	**20**
Asia Pacific	**830**	**–**	**–**	**(25)**	**–**	**(60)**
Total	**14,263**	**(1,618)**	**(180)**	**(435)**	**(655)**	**(1,630)**

*40bps in respect of the Netherlands

The sensitivity to adjusting risk-free rates by 50bp only reflects a reduction in future investment returns and discount rates. The interest rate sensitivities include consequential impacts such as the change in market values of fixed assets as well as the change in future investment returns and discount rates.

30 June 2009 Embedded value (net of tax and minority interest)	Equity/property As reported on page 110 £m	Market values 10% increase £m	Market values 10% decrease £m	Volatility 25% increase £m
United Kingdom	**5,037**	**295**	**(290)**	**(25)**
France	**2,360**	**135**	**(140)**	**(120)**
Ireland	**829**	**10**	**(10)**	**–**
Italy	**609**	**5**	**(5)**	**(5)**
Netherlands (including Belgium and Germany)	**2,325**	**375**	**(375)**	**(50)**
Poland	**864**	**10**	**(10)**	**–**
Spain	**628**	**10**	**(10)**	**(5)**
Other Europe	**218**	**–**	**–**	**–**
Europe	**7,833**	**545**	**(550)**	**(180)**
North America	**563**	**–**	**–**	**–**
Asia	**477**	**10**	**(10)**	**–**
Australia	**353**	**5**	**(5)**	**–**
Asia Pacific	**830**	**15**	**(15)**	**–**
Total	**14,263**	**855**	**(855)**	**(205)**

B13 – Sensitivity analysis continued

30 June 2009 Embedded value (net of tax and minority interest)	As reported on page 110 £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	**5,037**	**–**	**(605)**	**655**	**10**
France	**2,360**	**(100)**	**(135)**	**135**	**15**
Ireland	**829**	**–**	**–**	**–**	**5**
Italy	**609**	**(5)**	**–**	**–**	**5**
Netherlands (including Belgium and Germany)	**2,325**	**(40)**	**(120)**	**135**	**15**
Poland	**864**	**–**	**–**	**–**	**5**
Spain	**628**	**–**	**(55)**	**60**	**–**
Other Europe	**218**	**–**	**–**	**–**	**–**
Europe	**7,833**	**(145)**	**(310)**	**330**	**45**
North America	**563**	**(145)**	**(510)**	**475**	**5**
Asia	**477**	**–**	**(10)**	**10**	**10**
Australia	**353**	**–**	**(5)**	**5**	**5**
Asia Pacific	**830**	**–**	**(15)**	**15**	**15**
Total	**14,263**	**(290)**	**(1,440)**	**1,475**	**75**

Value of new business

30 June 2009 Value of new business (net of tax and minority interest)	As reported on page 104 £m	50bp reduction in adjustment to risk-free rates £m	Risk free rates 1% increase £m	Risk free rates 1% decrease £m	Risk free rates 2% increase £m	Risk free rates 2% decrease £m
United Kingdom	**72**	**(34)**	**(4)**	**4**	**(8)**	**7**
France	**40**	**–**	**1**	**(4)**	**6**	**(8)**
Ireland	**3**	**–**	**–**	**–**	**–**	**–**
Italy	**25**	**–**	**(2)**	**2**	**(4)**	**2**
Netherlands (including Belgium and Germany)	**(28)**	**(6)**	**38**	**(49)**	**52**	**(111)**
Poland	**19**	**–**	**(1)**	**1**	**(2)**	**3**
Spain	**26**	**(1)**	**(1)**	**1**	**(2)**	**2**
Other Europe	**5**	**–**	**(1)**	**1**	**–**	**(1)**
Europe	**90**	**(7)**	**34**	**(48)**	**50**	**(113)**
North America	**16**	**(98)**	**(22)**	**13**	**(47)**	**5**
Asia	**5**	**–**	**3**	**(5)**	**6**	**(12)**
Australia	**7**	**–**	**(1)**	**1**	**(2)**	**2**
Asia Pacific	**12**	**–**	**2**	**(4)**	**4**	**(10)**
Total	**190**	**(139)**	**10**	**(35)**	**(1)**	**(111)**

Aviva MCEV condensed financial statements continued

B13 – Sensitivity analysis continued

30 June 2009 Value of new business (net of tax and minority interest)	As reported on page 104 £m	Equity/property Market values 10% increase £m	 10% decrease £m	 Volatility 25% increase £m
United Kingdom	72	2	(3)	(2)
France	40	3	(2)	(2)
Ireland	3	–	–	–
Italy	25	–	–	–
Netherlands (including Belgium and Germany)	(28)	–	–	(2)
Poland	19	–	–	–
Spain	26	–	–	–
Other Europe	5	–	–	–
Europe	90	3	(2)	(4)
North America	16	–	–	–
Asia	5	–	–	–
Australia	7	–	–	–
Asia Pacific	12	–	–	–
Total	190	5	(5)	(6)

30 June 2009 Value of new business (net of tax and minority interest)	As reported on page 104 £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	72	–	(15)	17	–
France	40	–	(9)	8	–
Ireland	3	–	–	–	–
Italy	25	–	–	–	1
Netherlands (including Belgium and Germany)	(28)	–	–	–	–
Poland	19	–	–	–	–
Spain	26	–	(3)	3	–
Other Europe	5	–	–	(1)	1
Europe	90	–	(12)	10	2
North America	16	(4)	(38)	25	1
Asia	5	–	–	–	1
Australia	7	–	–	–	–
Asia Pacific	12	–	–	–	1
Total	190	(4)	(65)	52	4

(b) Non-economic assumptions
The following tables 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 pa would represent an expense assumption of £9 pa). Where there is a "look through" into service company expenses the fee charged by the service company is unchanged while the underlying expense decreases;
- 10% decrease in lapse rates (a 10% sensitivity on a base assumption of 5% pa would represent a lapse rate of 4.5% pa); 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.

B13 – Sensitivity analysis continued

Embedded value

30 June 2009 Embedded value (net of tax)	As reported on page 110 £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	5,037	170	100	65	(195)
France	2,360	40	35	25	–
Ireland	829	15	25	5	(5)
Italy	609	5	–	–	–
Netherlands (including Belgium and Germany)	2,325	150	–	35	(90)
Poland	864	25	35	10	–
Spain	628	10	45	15	(5)
Other Europe	218	5	15	–	–
Europe	7,833	250	155	90	(100)
North America	563	55	90	50	(10)
Asia	477	15	5	10	–
Australia	353	5	15	15	–
Asia Pacific	830	20	20	25	–
Total	14,263	495	365	230	(305)

Value of new business

30 June 2009 Value of new business (net of tax)	As reported on page 104 £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	72	10	8	4	(5)
France	40	1	2	1	–
Ireland	3	–	1	–	–
Italy	25	1	1	1	–
Netherlands (including Belgium and Germany)	(28)	9	3	1	(1)
Poland	19	1	2	1	–
Spain	26	1	4	1	–
Other Europe	5	1	2	–	–
Europe	90	14	15	5	(1)
North America	16	5	4	6	–
Asia	5	4	1	2	–
Australia	7	–	1	1	–
Asia Pacific	12	4	2	3	–
Total	190	33	29	18	(6)

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 all contracts that contain features similar to immediate annuities and are backed by appropriate assets, including paid up group deferred annuities in the Netherlands, and deferred annuities and all other contracts in the US. 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.

Information on the directors can be found on page 84 of Aviva plc's 2008 Annual Report and Accounts.

By order of the Board

Philip Scott

Chief Financial Officer

5 August 2009

Independent review report to Aviva plc

Introduction
We have been engaged by the Company to review the Aviva MCEV condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2009 which comprises the Condensed Consolidated Income Statement – MCEV Basis, the Condensed Statement of Comprehensive Income – MCEV Basis, the Condensed Statement of Changes in Equity – MCEV Basis, the Condensed Consolidated Statement of Financial Position – MCEV Basis, the Reconciliation of Shareholders' Equity on IFRS and MCEV bases, the Reconciliation of IFRS Total Equity to MCEV Net Worth, the Group MCEV Analysis of Earnings and the related notes B1 to B13 on pages 91 to 123; and Analysis of Life and Pension Earnings on pages 23 to 24. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the Aviva MCEV condensed set of financial statements.

We have reported separately on the condensed financial statements of Aviva plc for the six months ended 30 June 2009. The information contained in the Aviva MCEV condensed set of financial statements should be read in conjunction with the condensed set of financial statements prepared on an IFRS basis. This information is described within the Aviva MCEV condensed set of financial statements in the half-yearly financial report as having being reviewed.

This report is made solely to the Company in accordance with guidance contained in International Standards 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 (ISRE 2410). 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 Aviva MCEV condensed set of financial statements in the half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Aviva MCEV condensed set of financial statements in the half-yearly financial report in accordance with the Basis of Preparation set out on pages 97 to 100.

Our Responsibility
Our responsibilities, as independent auditors, in relation to the Aviva MCEV condensed set of financial statements in the half-yearly financial report are set out in our engagement letter with you dated 5 August 2009. We report to you our opinion as to whether the Aviva MCEV condensed set of financial statements in the half-yearly financial report have been properly prepared, in all material respects, in accordance with the Basis of Preparation set out on pages 97 to 100.

Scope of Review
We conducted our review in accordance with ISRE 2410. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, 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 Aviva MCEV condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2009 is not prepared, in all material respects, in accordance with the Basis of Preparation set out on pages 97 to 100.

Ernst & Young LLP

London

5 August 2009

MCEV 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 undertaking 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 worldwide 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 covered business conferring potentially valuable guarantees underlying, or options to change, the level or nature of policyholder benefits and exercisable at the discretion of the policyholder, whose potential value is impacted by the behaviour of financial variables.
Free surplus	The amount of any capital and surplus allocated to, but not required to support, the in-force covered business.
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.

Long-term savings	Includes life and pension sales calculated under MCEV and retail investment sales.
Market consistent	A measurement approach where economic assumptions are such that projected asset cash flows 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 all contracts that contain features similar to immediate annuities and are backed by appropriate assets, including paid up group deferred annuities in the Netherlands, and deferred annuities and all 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 1 July 2007, the risk-free rate is taken as swaps except for all contracts that contain features similar to immediate annuities and are backed by appropriate assets, including paid up group deferred annuities in the Netherlands, and deferred annuities and all other contracts in the US. 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 guarantee has two elements of value, the time value and intrinsic value. The intrinsic value is the discounted value of the option or guarantee at expiry, assuming that future economic conditions follow best estimate assumptions. The time value is the additional value arising from uncertainty about future economic conditions.
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.

Long-term savings new business

C1 – Analysis of regular and single premiums

	Regular premiums							Single premiums		
	6 months 2009 £m	**Local CCY growth**	**WACF**	**Present value £m**	6 months 2008 £m	WACF	Present value £m	**6 months 2009 £m**	Restated 6 months 2008 £m	**Local CCY growth**
Individual pensions	**212**	**–**	**4.8**	**1,027**	218	4.4	970	**891**	1,068	**(17)%**
Group pensions	**13**	**(68)%**	**5.2**	**68**	40	4.2	170	**103**	202	**(49)%**
Annuities	**–**	**–**	**–**	**–**	–	–	–	**833**	1,286	**(35)%**
Bonds	**–**	**–**	**–**	**–**	–	–	–	**1,219**	1,628	**(25)%**
Protection	**73**	**(9)%**	**6.2**	**452**	80	6.8	545	**9**	61	**(85)%**
Equity release	**–**	**–**	**–**	**–**	–	–	–	**133**	80	**(66)%**
United Kingdom	**298**	**(12)%**	**5.2**	**1,547**	338	5.0	1,685	**3,188**	4,325	**(26)%**
Euro funds	**16**	**8%**	**6.9**	**110**	13	6.4	83	**1,876**	1,291	**25%**
Unit-linked funds	**17**	**(35)%**	**5.8**	**98**	23	6.6	152	**240**	435	**(52)%**
Protection business	**14**	**(14)%**	**8.1**	**113**	14	7.1	99	**3**	2	**50%**
France	**47**	**(18)%**	**6.8**	**321**	50	6.7	334	**2,119**	1,728	**6%**
Life and savings	**14**	**(37)%**	**5.4**	**76**	19	5.5	105	**84**	201	**(64)%**
Pensions	**24**	**(54)%**	**4.2**	**100**	46	4.6	210	**166**	183	**(22)%**
Ireland	**38**	**(49)%**	**4.6**	**176**	65	4.8	315	**250**	384	**(44)%**
Italy	**78**	**16%**	**6.7**	**519**	58	6.0	346	**1,679**	959	**51%**
Life	**24**	**(38)%**	**8.4**	**201**	34	8.1	275	**168**	255	**(43)%**
Pensions	**78**	**49%**	**9.9**	**771**	45	9.2	416	**640**	1,139	**(52)%**
Netherlands (incl Belgium and Germany)	**102**	**11%**	**9.5**	**972**	79	8.8	691	**808**	1,394	**(50)%**
Life and savings	**19**	**(9)%**	**7.5**	**142**	23	6.5	149	**26**	323	**(91)%**
Pensions	**22**	**(8)%**	**14.8**	**325**	26	15.3	398	**61**	81	**(17)%**
Poland	**41**	**(8)%**	**11.4**	**467**	49	11.2	547	**87**	404	**(77)%**
Life and savings	**48**	**(33)%**	**6.0**	**290**	61	5.7	350	**707**	524	**16%**
Pensions	**17**	**(58)%**	**5.2**	**89**	36	6.3	227	**159**	194	**(29)%**
Spain	**65**	**(42)%**	**5.8**	**379**	97	5.9	577	**866**	718	**4%**
Other Europe	**42**	**(34)%**	**4.4**	**185**	64	9.3	598	**23**	69	**(67)%**
Europe	**413**	**(19)%**	**7.3**	**3,019**	462	7.4	3,408	**5,832**	5,656	**(11)%**
Life	**42**	**7%**	**8.8**	**370**	30	8.7	261	**4**	12	**(77)%**
Annuities	**–**	**–**	**–**	**–**	–	–	–	**2,815**	1,579	**34%**
Funding agreements	**–**	**–**	**–**	**–**	–	–	–	**–**	375	**(100)%**
North America	**42**	**7%**	**8.8**	**370**	30	8.7	261	**2,819**	1,966	**8%**
Asia	**92**	**19%**	**4.3**	**399**	69	6.3	434	**133**	250	**(58)%**
Australia	**30**	**(9)%**	**4.1**	**124**	32	3.5	111	**42**	101	**(59)%**
Asia Pacific	**122**	**10%**	**4.3**	**523**	101	5.4	545	**175**	351	**(58)%**
Total life and pensions	**875**	**(13)%**	**6.2**	**5,459**	931	6.3	5,899	**12,014**	12,298	**(15)%**

C2 – Detailed worldwide investment sales

	Regular			Single			PVNBP
	6 months 2009 £m	6 months 2008 £m	Local CCY growth	6 months 2009 £m	6 months 2008 £m	Local CCY growth	Local CCY growth
United Kingdom[1]	**34**	44	**(23)%**	**374**	732	**(49)%**	**(50)%**
Netherlands (incl Belgium and Germany)	**–**	–	**–**	**357**	221	**39%**	**39%**
Poland	**3**	3	**–**	**20**	43	**(49)%**	**(46)%**
Other Europe	**–**	–	**–**	**400**	259	**33%**	**33%**
Europe	**3**	3	**–**	**777**	523	**29%**	**29%**
Australia	**–**	–	**–**	**518**	840	**(39)%**	**(39)%**
Singapore	**–**	–	**–**	**232**	211	**(12)%**	**(12)%**
Asia Pacific	**–**	–	**–**	**750**	1,051	**(34)%**	**(34)%**
Total investment sales	**37**	47	**(21)%**	**1,901**	2,306	**(24)%**	**(26)%**

1. UK regular premium investment sales include SIPP products. These are similar in nature to pension products and their payment pattern is stable and predictable and accordingly they have been capitalised. Regular premium SIPP sales for the 6 months to 30 June 2009 totalled £2.3 million (2008: £15.7 million) and have been capitalised using a weighted average capitalisation factor of 5.0 (2008: 5.0). As such, regular premium SIPP sales have produced an overall contribution to investment sales of £11.5 million (2008: £78 million) out of the UK investment sales of £418 million (2008: £698 million).

Long-term savings new business continued

C3 – Trend analysis of PVNBP – Cumulative

	Present value of new business premiums					
	Restated Q108 YTD	Restated Q208 YTD	Restated Q308 YTD	Restated Q408 YTD	Q109 YTD	Q209 YTD
Life and pensions business						
Individual pensions	945	2,038	2,946	3,722	900	1,918
Group pensions	171	372	552	1,031	89	171
Annuities	518	1,286	1,920	2,433	475	833
Bonds	849	1,628	2,399	3,296	713	1,219
Protection	323	606	872	1,126	245	461
Equity release	44	80	156	250	83	133
United Kingdom	2,850	6,010	8,845	11,858	2,505	4,735
Euro funds	682	1,374	1,987	2,689	1,027	1,986
Unit-linked funds	322	587	777	1,013	179	338
Protection business	57	101	131	178	64	116
France	1,061	2,062	2,895	3,880	1,270	2,440
Life and savings	152	306	427	512	61	160
Pensions	178	393	551	787	126	266
Ireland	330	699	978	1,299	187	426
Italy	678	1,305	1,811	2,331	1,136	2,198
Life	331	530	808	899	191	369
Pensions	543	1,555	2,382	3,198	751	1,411
Netherlands (including Belgium and Germany)	874	2,085	3,190	4,097	942	1,780
Life and savings	254	472	703	779	79	168
Pensions	315	479	801	1,063	272	386
Poland	569	951	1,504	1,842	351	554
Life and savings	454	874	1,221	1,712	594	997
Pensions	174	421	562	777	143	248
Spain	628	1,295	1,783	2,489	737	1,245
Other Europe	130	667	859	1,014	112	208
Europe	4,270	9,064	13,020	16,952	4,735	8,851
Life	132	273	453	623	177	374
Annuities	694	1,579	2,736	4,244	1,752	2,815
Funding agreements	222	375	621	848	–	–
North America	1,048	2,227	3,810	5,715	1,929	3,189
Asia	338	684	1,053	1,351	325	532
Australia	99	212	286	369	75	166
Asia Pacific	437	896	1,339	1,720	400	698
Total life and pensions	8,605	18,197	27,014	36,245	9,569	17,473

C4 – Trend analysis of PVNBP – Discrete

					Present value of new business premiums	
	Restated Q108	Restated Q208	Restated Q308	Restated Q408	Q109	Q209
Life and pensions business						
Individual pensions	945	1,093	908	776	900	1,018
Group pensions	171	201	180	479	89	82
Annuities	518	768	634	513	475	358
Bonds	849	779	771	897	713	506
Protection	323	283	266	254	245	216
Equity release	44	36	76	94	83	50
United Kingdom	2,850	3,160	2,835	3,013	2,505	2,230
Euro funds	682	692	613	702	1,027	959
Unit-linked funds	322	265	190	236	179	159
Protection business	57	44	30	47	64	52
France	1,061	1,001	833	985	1,270	1,170
Life and savings	152	154	121	85	61	99
Pensions	178	215	158	236	126	140
Ireland	330	369	279	321	187	239
Italy	678	627	506	520	1,136	1,062
Life	331	199	278	91	191	178
Pensions	543	1,012	827	816	751	660
Netherlands (including Belgium and Germany)	874	1,211	1,105	907	942	838
Life and savings	254	218	231	76	79	89
Pensions	315	164	322	262	272	114
Poland	569	382	553	338	351	203
Life and savings	454	420	347	491	594	403
Pensions	174	247	141	215	143	105
Spain	628	667	488	706	737	508
Other Europe	130	537	192	155	112	96
Europe	4,270	4,794	3,956	3,932	4,735	4,116
Life	132	141	180	170	177	197
Annuities	694	885	1,157	1,508	1,752	1,063
Funding agreements	222	153	246	227	–	–
North America	1,048	1,179	1,583	1,905	1,929	1,260
Asia	338	346	369	298	325	207
Australia	99	113	74	83	75	91
Asia Pacific	437	459	443	381	400	298
Total life and pensions	8,605	9,592	8,817	9,231	9,569	7,904

Capital management

D1 – Group capital structure

Shareholders' funds, including minority interest

	30 June 2009 Closing shareholders' funds			Restated 31 December 2008 Closing shareholders' funds		
	IFRS net asset £m	Internally generated AVIF £m	Total Equity £m	IFRS net asset £m	Internally generated AVIF £m	Total Equity £m
Life assurance						
United Kingdom	**3,402**	**1,436**	**4,838**	3,649	1,420	5,069
France	**1,525**	**1,106**	**2,631**	1,854	1,018	2,872
Ireland	**1,068**	**189**	**1,257**	1,212	280	1,492
Italy	**1,269**	**298**	**1,567**	1,407	264	1,671
Netherlands (including Belgium and Germany)	**3,656**	**(814)**	**2,842**	2,979	(313)	2,666
Poland	**302**	**689**	**991**	310	1,105	1,415
Spain	**1,237**	**661**	**1,898**	1,373	816	2,189
Other Europe	**316**	**(8)**	**308**	369	(34)	335
Europe	**9,373**	**2,121**	**11,494**	9,504	3,136	12,640
North America	**2,653**	**(1,197)**	**1,456**	2,693	(1,599)	1,094
Asia Pacific	**815**	**209**	**1,024**	735	246	981
	16,243	**2,569**	**18,812**	16,581	3,203	19,784
General insurance and health						
United Kingdom	**1,828**	**–**	**1,828**	2,592	–	2,592
France	**322**	**–**	**322**	400	–	400
Ireland	**516**	**–**	**516**	545	–	545
Netherlands	**484**	**–**	**484**	705	–	705
Other Europe	**331**	**–**	**331**	377	–	377
Europe	**1,653**	**–**	**1,653**	2,027	–	2,027
North America	**899**	**–**	**899**	878	–	878
Asia Pacific	**24**	**–**	**24**	19	–	19
	4,404	**–**	**4,404**	5,516	–	5,516
Fund management	**261**	**–**	**261**	340	–	340
Other business	**5**	**–**	**5**	(326)	–	(326)
Corporate	**(33)**	**–**	**(33)**	(30)	–	(30)
Subordinated debt	**(4,541)**	**–**	**(4,541)**	(4,606)	–	(4,606)
External debt	**(1,283)**	**–**	**(1,283)**	(919)	–	(919)
Internal debt	**(2,317)**	**–**	**(2,317)**	(2,110)	–	(2,110)
	(7,908)	**–**	**(7,908)**	(7,651)	–	(7,651)
Shareholders' funds, including minority interests	**12,739**	**2,569**	**15,308**	14,446	3,203	17,649
Less:						
Minority interests			**(2,719)**			(3,080)
Direct capital instruments			**(990)**			(990)
Preference capital			**(200)**			(200)
Equity shareholders' funds			**11,399**			13,379
Less: goodwill and intangibles[1]			**(4,513)**			(4,944)
Equity shareholders funds' excluding goodwill and intangibles			**6,886**			8,435

1. Goodwill and intangibles comprise £3,361 million (31 December 2008:£3,583 million) of goodwill in subsidiaries, £1,279 million (31 December 2008: £1,557 million) of intangibles in subsidiaries, £148 million (31 December 2008: £163 million) of goodwill and intangibles in joint ventures and £329 million (31 December 2008: £335 million) of goodwill in associates, net of associated deferred tax liabilities of £372 million (31 December 2008: £423 million) and the minority share of intangibles of £229 million (31 December 2008: £271 million).

D2 – Analysis of return on capital employed

				30 June 2009
	Operating return[1]		Restated Opening shareholders' funds including minority interests	Annualised return on capital
	Before tax £m	After tax £m	£m	%
Life assurance				
United Kingdom	**345**	**249**	**5,069**	**9.8%**
France	**377**	**246**	**2,872**	**17.1%**
Ireland	**18**	**16**	**1,492**	**2.1%**
Italy	**120**	**81**	**1,671**	**9.7%**
Netherlands (including Belgium and Germany)	**329**	**244**	**2,666**	**18.3%**
Poland	**92**	**74**	**1,415**	**10.5%**
Spain	**154**	**108**	**2,189**	**9.9%**
Other Europe	**15**	**13**	**335**	**7.8%**
Europe	**1,105**	**782**	**12,640**	**12.4%**
North America	**120**	**120**	**1,094**	**21.9%**
Asia Pacific	**37**	**21**	**981**	**4.3%**
	1,607	**1,172**	**19,784**	**11.8%**
General insurance and health				
United Kingdom	**264**	**189**	**2,592**	**14.6%**
France	**36**	**23**	**400**	**11.5%**
Ireland	**48**	**42**	**545**	**15.4%**
Netherlands	**59**	**43**	**705**	**12.2%**
Other Europe	**24**	**17**	**377**	**9.0%**
Europe	**167**	**125**	**2,027**	**12.3%**
North America	**87**	**57**	**878**	**13.0%**
Asia Pacific	**7**	**5**	**19**	**52.6%**
	525	**376**	**5,516**	**13.6%**
Fund management	**(4)**	**(3)**	**340**	**(1.8)%**
Other business	**(99)**	**(69)**	**(326)**	**42.3%**
Corporate	**(78)**	**(17)**	**(30)**	**113.3%**
Subordinated debt	**(139)**	**(99)**	**(4,606)**	**4.3%**
External debt	**(26)**	**(19)**	**(919)**	**4.1%**
Net internal debt[2]	**(101)**	**(72)**	**(2,110)**	**6.8%**
	1,685	**1,269**	**17,649**	**14.4%**
Less: Minority interests		**(153)**	**(3,080)**	**9.9%**
Direct capital instrument		**–**	**(990)**	**–**
Preference capital		**(9)**	**(200)**	**8.6%**
Return on equity shareholders' funds		**1,107**	**13,379**	**16.5%**

1. The operating return is based upon group MCEV operating profit, which is stated before impairment of goodwill, amortisation of intangibles, exceptional items and investment variance.

2. The net internal debt return loss before tax of £101 million comprises investment return of £20 million offset by group internal debt costs and other interest of £121 million.

Capital management continued

D2 – Analysis of return on capital employed continued

	Restated 31 December 2008			
	Operating return[1]		Opening shareholders' funds including goodwill and intangibles	Return on capital
	Before tax £m	After tax £m	£m	%
Life assurance				
United Kingdom	883	635	7,154	8.9%
France	692	455	2,783	16.3%
Ireland	78	67	1,229	5.5%
Italy	131	88	1,258	7.0%
Netherlands (including Belgium and Germany)	196	141	4,054	3.5%
Poland	241	196	1,202	16.3%
Spain	286	199	1,782	11.2%
Other Europe	23	17	278	6.1%
Europe	1,647	1,163	12,586	9.2%
North America	201	132	1,975	6.7%
Asia Pacific	79	57	841	6.8%
	2,810	1,987	22,556	8.8%
General insurance and health				
United Kingdom	557	398	3,049	13.1%
France	107	70	301	23.3%
Ireland	68	59	435	13.6%
Netherlands	177	129	756	17.1%
Other Europe	45	31	295	10.5%
Europe	397	289	1,787	16.2%
North America	145	94	732	12.8%
Asia Pacific	–	–	26	–
	1,099	781	5,594	14.0%
Fund management	42	29	355	8.2%
Other business	(163)	(114)	831	(13.7)%
Corporate	(37)	118	(31)	(380.6)%
Subordinated debt	(229)	(164)	(3,054)	5.4%
External debt	(57)	(41)	(1,257)	3.3%
Net internal debt[2]	(98)	(70)	(1,146)	6.1%
	3,367	2,526	23,848	10.6%
Less: Minority interests		(257)	(2,519)	10.2%
Direct capital instrument		(40)	(990)	4.0%
Preference capital		(17)	(200)	8.5%
Return on equity shareholders' funds		2,212	20,139	11.0%

1. The operating return is based upon group MCEV operating profit, which is stated before impairment of goodwill, amortisation of intangibles, exceptional items and investment variance.
2. The net internal debt return loss before tax of £98 million comprises investment return of £99 million offset by group internal debt costs and other interest of £197 million.

D3 – Sensitivity analysis

The group uses a number of sensitivity test-based risk management tools to understand the volatility of earnings, the volatility of its capital requirements, and to manage its capital more efficiently. Primarily MCEV, Financial Condition Reporting (a medium-term projection of the financial health of the business under a variety of economic and operating scenarios), and increasingly Individual Capital Assessment (ICA) are used. Sensitivities to economic and operating experience are regularly produced on all of our financial performance measurements as part of our decision-making and planning process, and as part of the framework for identifying and quantifying the risks that each of its business units, and the group as a whole are exposed to.

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

Life insurance and investment contracts
The nature of long-term business is such that a number of assumptions are made in compiling the financial statements. Assumptions are made about investment returns, expenses, mortality rates, and persistency in connection with the in-force policies for each business unit. Assumptions are best estimates based on historic and expected experience of the business.

General insurance and health business
General insurance and health claim liabilities are estimated by using standard actuarial claims projection techniques. These methods extrapolate the claims development for each accident year based on the observed development of earlier years. In most cases, no explicit assumptions are made as projections are based on assumptions implicit in the historic claims development on which the projections are based. As such, in the analysis below, the sensitivity of general insurance claim liabilities is primarily based on the financial impact of changes to the reported loss ratio.

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

Sensitivity factor	Description of sensitivity factor applied
Interest rate and investment return	The impact of a change in market interest rates by a 1% increase or decrease. The test allows consistently for similar changes to investment returns and movements in the market value of backing fixed interest securities.
Equity/property market values	The impact of a change in equity/property market values by ± 10%.
Expenses	The impact of an increase in maintenance expenses by 10%.
Assurance mortality/morbidity (life insurance only)	The impact of an increase in mortality/morbidity rates for assurance contracts by 5%.
Annuitant mortality (life insurance only)	The impact of a reduction in mortality rates for annuity contracts by 5%.
Gross loss ratios (non-life insurance only)	The impact of an increase in gross loss ratios for general insurance and health business by 5%.

Capital management continued

D3 – Sensitivity analysis continued

Long-term businesses

30 June 2009

Impact on profit before tax £m	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Assurance mortality +5%	Annuitant mortality +5%
Insurance participating	(115)	(55)	65	(60)	(15)	(10)	10
Insurance non-participating	(450)	445	(20)	45	(20)	(45)	(270)
Investment participating	(125)	50	45	(25)	–	–	–
Investment non-participating	20	(25)	20	(20)	(5)	–	–
Assets backing life shareholders' funds	(10)	10	160	(155)	–	–	–
Total	**(680)**	**425**	**270**	**(215)**	**(40)**	**(55)**	**(260)**

30 June 2009

Impact on shareholders' equity before tax £m	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Assurance mortality +5%	Annuitant mortality +5%
Insurance participating	(130)	(35)	65	(60)	(15)	(10)	10
Insurance non-participating	(570)	735	245	(230)	(20)	(45)	(270)
Investment participating	(125)	50	45	(25)	–	–	–
Investment non-participating	(110)	125	20	(20)	(5)	–	–
Assets backing life shareholders' funds	(55)	60	170	(175)	–	–	–
Total	**(990)**	**935**	**545**	**(510)**	**(40)**	**(55)**	**(260)**

31 December 2008

Impact on profit before tax £m	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Assurance mortality +5%	Annuitant mortality +5%
Insurance participating	(10)	(165)	85	(90)	(20)	(5)	(10)
Insurance non-participating	(25)	135	90	(90)	(20)	(25)	(310)
Investment participating	(35)	(55)	25	(20)	–	–	–
Investment non-participating	(10)	10	20	(20)	(5)	–	–
Assets backing life shareholders' funds	(20)	30	180	(180)	–	–	–
Total	(100)	(45)	400	(400)	(45)	(30)	(320)

31 December 2008

Impact on shareholders' equity before tax £m	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Assurance mortality +5%	Annuitant mortality +5%
Insurance participating	(30)	(135)	85	(90)	(20)	(5)	(10)
Insurance non-participating	(185)	270	110	(105)	(20)	(25)	(310)
Investment participating	(50)	(40)	30	(25)	–	–	–
Investment non-participating	(210)	230	20	(20)	(5)	–	–
Assets backing life shareholders' funds	(80)	95	190	(190)	–	–	–
Total	(555)	420	435	(430)	(45)	(30)	(320)

The increased sensitivity to interest rates at 30 June 2009 relates mainly to changes in market rates, derivatives and hedging policy in the Netherlands.

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

D3 – Sensitivity analysis continued

General insurance and health businesses

Impact on profit before tax £m	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Gross loss ratios +5%
						30 June 2009
Net of reinsurance	**(340)**	**340**	**95**	**(150)**	**(95)**	**(155)**

Impact on shareholders' equity before tax £m	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Gross loss ratios +5%
						30 June 2009
Net of reinsurance	**(340)**	**340**	**95**	**(150)**	**(35)**	**(155)**

Impact on profit before tax £m	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Gross loss ratios +5%
						31 December 2008
Net of reinsurance	(360)	360	90	(90)	(170)	(425)

Impact on shareholders' equity before tax £m	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Gross loss ratios +5%
						31 December 2008
Net of reinsurance	(360)	360	90	(90)	(40)	(425)

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

Fund management and non-insurance businesses

Impact on profit before tax £m	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%
				30 June 2009
Total	**10**	**(20)**	**55**	**(5)**

Impact on shareholders' equity before tax £m	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%
				30 June 2009
Total	**(5)**	**(5)**	**110**	**(60)**

Impact on profit before tax £m	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%
				31 December 2008
Total	15	(20)	50	(50)

Impact on shareholders' equity before tax £m	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%
				31 December 2008
Total	–	(10)	130	(130)

Capital management continued

D3 – Sensitivity analysis continued

Limitations of sensitivity analysis

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

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

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

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

Shareholder services

Managing your shareholding

Our Registrar, Equiniti, maintains the Company's Register of Members and if you have any queries in respect of your shareholding, please contact them directly using the contact details provided on page 140. In addition to assisting with general queries, Equiniti can also help with the following:

Amalgamating your shareholding

If you receive more than one copy of our communications, it could be because you have more than one record on the share register. To avoid duplicate mailings, Equiniti can arrange for your accounts to be amalgamated.

Dividend payments direct to your bank account

Instead of having your dividends paid by cheque, you can, if you wish, have them credited directly into your bank or building society account on the dividend payment date. This reduces the risk of cheques getting lost in the post and is also quicker and more convenient as payment is credited automatically on the payment date. Your tax voucher will be sent to your registered address as usual. If you would like to set up a dividend mandate, you can do so via our website **www.aviva.com/dividendmandate** or by contacting Equiniti to request a mandate form.

Consolidated tax vouchers

If you are a private shareholder who is currently receiving dividends paid directly into your bank or building society account, you will receive one consolidated tax voucher each year instead of a voucher with each dividend payment, unless you request otherwise.

If you live overseas, an **Overseas Payment Service** is available for certain countries, which may allow you to receive your dividends directly in your bank account in your local currency.*

* Please note that a payment charge will be deducted from each dividend payment before conversion into your chosen currency.

Scrip Dividend Scheme

The Aviva Scrip Dividend Scheme gives you the opportunity to increase your shareholding in the Company by choosing to receive your dividends in the form of new ordinary shares instead of cash. If you have not yet joined the Scrip Dividend Scheme but would like to do so, please contact Equiniti and request a mandate form. You should ensure that your completed mandate form is received by Equiniti no later than 20 October 2009 in order to be effective for the 2009 interim dividend. Further details of the Aviva Scrip Dividend Scheme are included on the Company's website **www.aviva.com/dividend**

ID fraud/unsolicited mail

Share-related fraud and identity theft still affects many shareholders and we urge you to continue to be vigilant. If you receive any unsolicited mail offering advice, you should inform Equiniti immediately. More information on this can be found on our website at **www.aviva.com/shareholderupdates**

Corporate nominee

We offer a corporate nominee service, the Aviva Share Account, for shareholders who prefer not to appear on the share register. If you choose to join the nominee account, your personal details will not be entered on our share register but you will have the same rights as registered shareholders and will receive the same shareholder communications. To join the Aviva Share Account or to find out about the terms and conditions, please contact Equiniti.

Our website – www.aviva.com

Visit **www.aviva.com/shareholders** for up-to-date investor information including our latest financial results and key dates. An electronic copy of current and past Annual and Interim Reports can be downloaded from the website. You can also find our current and historic share prices, sharedealing information, news, updates and when available, presentations from the Group Chief Executive. You can also register to receive future shareholder communications electronically.

A range of frequently asked shareholder questions including practical help on transferring shares and updating personal details is available online at **www.aviva.com/shareholderguide**

Electronic communications

We have embraced the changes brought about by the Companies Act 2006 which recognises the growing importance of electronic communications. We therefore provide documentation and communications to you via our website unless you have specifically elected to receive a hard copy.

Using electronic communications enables fast receipt of documents, reduces our printing, paper and postage costs and has a positive impact on the environment.

ShareGift

The Orr Mackintosh Foundation operates a purely voluntary charity share donation scheme for shareholders who wish to dispose of small numbers of shares when the dealing costs or minimum fee makes it uneconomical to sell them. Details of the scheme are available from ShareGift at **www.sharegift.org** or can be obtained from Equiniti.

Shareholder services continued

Share dealing

We have arranged the following services that can be used to buy or sell Aviva shares which you may find useful.

	Available to shareholders in	If you hold a share certificate	If your shares are held in the Aviva Share Account
Equiniti Financial Services Limited*	UK only	www.shareview.co.uk/dealing Telephone: 08456 037 037	www.shareview.co.uk/dealing Telephone: 08456 037 037
NatWest Stockbrokers Limited**	UK only	Freephone: 0808 208 4411	Freephone: 0808 208 4422
Barclays Stockbrokers Limited†	UK and overseas	UK shareholders: Telephone: 0870 549 3002† For postal applications: 0870 514 3263† Overseas shareholders: Telephone: +44 (0)141 352 3959‡	UK shareholders: Telephone: 0870 549 3001† Overseas shareholders: Telephone: +44 (0)141 352 3959‡
WH Ireland Limited#	UK and overseas	UK shareholders: Telephone: 0845 603 1470 Email: CSOS@WH-ireland.co.uk Overseas shareholders: Telephone: +44 113 244 2710 Email: CSOS@WH-ireland.co.uk	Not available

Alternatively, if you hold a share certificate, you can also use any bank, building society or stockbroker offering share dealing facilities to buy or sell shares. If you are in any doubt about buying or selling shares, you should seek professional financial advice.

* Equiniti Financial Services Limited is authorised and regulated by the Financial Services Authority of 25 The North Colonnade, Canary Wharf, London E14 5HS (FSA reference 468631). Registered in England and Wales, number 6208699.

** Natwest Stockbrokers Limited (NWS) is a member of the London Stock Exchange and PLUS. NWS is authorised and regulated by the Financial Services Authority registered number 124395. Registered Office: Waterhouse Square, 138-142 Holborn, London EC1N 2TH. Registered in England and Wales, registered number 1959479. NWS is operated by a joint venture between The Royal Bank of Scotland Group plc and The Toronto-Dominion Bank.

† Barclays Stockbrokers is the group name for the businesses of: Barclays Stockbrokers Limited, a member of the London Stock Exchange and PLUS. Registered No. 1986161; Barclays Sharedealing, Registered No. 2092410 and Barclays Bank Trust Company Limited, Registered No. 920880. All companies are registered in England and the registered address is: 1 Churchill Place, London E14 5HP. All companies are authorised and regulated by the Financial Services Authority.

Calls made to 0870 numbers will cost no more than 8p per minute, plus 6p call set-up fee for BT residential customers. The price on non-BT phone lines may be different. You can only use these numbers if you are calling from within the UK. Calls may be recorded to monitor the quality of service, to check instructions and for security purposes.

‡ If you are not UK resident, you will need to provide various documents to Barclays Stockbrokers Limited in order to use this service and details will be provided on registration. Please note that regulations prevent this service from being offered to US, Canadian and Australian residents. Settlement proceeds will be sent to either a UK sterling bank account or by sterling cheque.

WH Ireland Limited is a member of the London Stock Exchange and is authorised and regulated by the Financial Services Authority, registered in England No. 02002044.

Share price

You can access the current price of Aviva plc ordinary shares at **www.aviva.com/investors**

or by calling FT Cityline on 09058 171 690. Calls are currently charged at 75 pence per minute from a BT landline. Other telephony provider costs may vary. The average time to access the share price is approximately one minute.

If you would like to find out the price of Aviva preference shares, please follow the link on the Aviva website to the London Stock Exchange.

2009 Annual General Meeting – voting results

The voting results, including proxy votes and votes withheld, from Aviva's Annual General Meeting held on 29 April 2009 can be viewed on the Company's website at **www.aviva.com/shareholders**

In addition, you will also find the Chairman's and Chief Executive's 2009 presentation and a webcast of the formal business of the meeting. Information relating to previous Annual General Meetings since 2002 is also included.

Group financial calendar for 2009

Announcement of unaudited six months' interim results	6 August
Announcement of third quarter interim management statement	4 November

Ordinary shares – 2009 Interim Dividend

Ex-dividend date	23 September
Record date	25 September
Last date for Scrip forms to be received in order to be effective for 2009 interim dividend	20 October
Dividend payment date	17 November

Preference shares

First dividend payment for 8⅜% cumulative irredeemable preference shares	31 March
First dividend payment for 8¾% cumulative irredeemable preference shares	30 June
Second dividend payment for 8⅜% cumulative irredeemable preference shares	30 September
Second dividend payment for 8¾% cumulative irredeemable preference shares	31 December

Useful contact details

Detailed below are the contact details that shareholders may find useful. Please quote Aviva plc as well as the name and address in which the shares are held in all correspondence. Please quote your shareholder reference number as well, which you will find on your latest dividend stationery.

General shareholding, administration and Aviva Share Account queries
Equiniti
Aspect House
Spencer Road, Lancing, West Sussex BN99 6DA

e-mail: aviva@equiniti.com | Telephone 0871 384 2953*

* Calls to this number are charged at 8p per minute from a BT landline. Other telephony provider costs may vary.

Aviva plc details

Registered in England
Number: 2468686

Registered Office:
St Helen's, 1 Undershaft,
London EC3P 3DQ

Telephone
+44 (0)20 7283 2000

www.aviva.com

Internet sites

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

Aviva Group
www.aviva.com

UK Long-term savings and general insurance
www.aviva.co.uk

Asset management
www.avivainvestors.com

Aviva worldwide internet sites
www.aviva.com/websites

Other useful links for shareholders:

Dividend information
www.aviva.com/dividend

General shareholder information
www.aviva.com/shareholders

Annual General Meeting information
www.aviva.com/agm

Electronic voting for Annual General Meeting
www.aviva.com/agm