Further information on the movement in MCEV economic variances on long-term business

Supplemental information

Investment variances and economic assumption changes on long-term business reported under MCEV amounted to a loss of £12.5 billion in 2008 and a gain of £0.8 billion in 2009 within the MCEV profit before tax equating to a £8.4 billion loss and £1.0 billion gain respectively, net of tax and minority interests within the net asset value.

The analysis below has been provided net of tax and minority interests:

		Economic variances		Within expected returns (in operating profit)	Cumulative
	Note	2008 £bn	**2009 £bn**	**2009 £bn**	**2009 & 2008 £bn**
Defaults and impairment charges on debt securities	1	(0.4)	**(0.1)**		**(0.5)**
Equities net of hedges	2	(2.7)	**0.7**		**(2.0)**
Property and other assets	3	(0.5)	**(0.5)**		**(1.0)**
Liquidity premium	4	4.5	**(4.8)**		**(0.3)**
Credit spreads and risk free rates that returned	5	(5.7)	**5.7**		**-**
Credit spreads and risk free rates yet to return	6,7,8	(3.6)	**-**	**0.4**	**(3.2)**
Total life and pensions		(8.4)	**1.0**	**0.4**	**(7.0)**

Notes:

1. £0.5 billion of defaults and impairment charges on debt securities. These losses are not expected to be recovered.
2. Net adverse equity variance of £2.7 billion in 2008 partially reversed in 2009. Equity markets, particularly in the Netherlands, have not recovered to end 2007 levels.
3. £1.0 billion of adverse variances relating to property and other assets in 2008 and 2009. As valuations improve the majority of these would be expected to be recovered.
4. The movements in liquidity premium adjustments over 2008 and 2009 broadly offset.
5. Widening credit spreads and movements in risk free rates resulted in £9.3 billion of adverse variances in 2008 of which £5.7 billion returned during 2009. This was partially offset by the liquidity premium adjustments in 2008 and 2009.
6. 'Return' means credit spreads and risk-free rates return to end-2007 levels.
7. The remaining £3.6 billion of adverse variances in 2008 reflect the mechanics of the MCEV calculations. Under MCEV, the level of assumed investment return is dependent on the risk-free yield curve which is the swap curve plus, for certain contracts, a liquidity premium.

   The swap curve reduced significantly over 2008 and the risk-free rate (swap rate plus any liquidity premium) continues to be lower than the guarantees on certain spread products. Current market yields are sufficient to cover these guarantees and the majority of the £3.2 billion is expected to return through either:

   i) economic variances if the swap curve moves back to the 2007 shape and level or

   ii) through the expected return over the life of the in-force contracts.
8. £0.4 billion of the losses in 2008 reversed in 2009 through expected returns within operating profit. This related to certain guarantees in the US and France which unwound in 2009.

9. Cautionary statements:

This should be read in conjunction with the documents filed by Aviva plc (the “Company” or “Aviva”) with the United States Securities and Exchange Commission (“SEC”).

This supplemental information contains, and we may make verbal statements containing, “forward-looking statements” with respect to certain of Aviva’s plans and current goals and expectations relating to future financial condition, performance, results, strategic initiatives and objectives. Statements containing the words “believes”, “intends”, “expects”, “plans”, “seeks”, “aims”, “may”, “could”, “outlook”, “estimates” and “anticipates”, and words of similar meaning, are forward-looking. By their nature, all forward-looking statements involve risk and uncertainty. Accordingly, there are or will be important factors that could cause actual results to differ materially from those indicated in these statements. Aviva believes these factors include, but are not limited to: the impact of difficult conditions in the global capital markets and the economy generally; the impact of new government initiatives related to the financial crisis; defaults in our bond, mortgage and structured credit portfolios; the impact of volatility in the equity, capital and credit markets on our profitability and ability to access capital and credit; changes in general economic conditions, including foreign currency exchange rates, interest rates and other factors that could affect our profitability; risks associated with arrangements with third parties, including joint ventures; inability of reinsurers to meet obligations or unavailability of reinsurance coverage; a decline in our ratings with Standard & Poor’s, Moody’s, Fitch and A.M. Best; increased competition in the U.K. and in other countries where we have significant operations; changes in assumptions in pricing and reserving for insurance business (particularly with regard to mortality and morbidity trends, lapse rates and policy renewal rates), longevity and endowments; a cyclical downturn of the insurance industry; changes in local political, regulatory and economic conditions, business risks and challenges which may impact demand for our products, our investment portfolio and credit quality of counterparties; the impact of actual experience differing from estimates on amortisation of deferred acquisition costs and acquired value of in-force business; the impact of recognising an impairment of our goodwill or intangibles with indefinite lives; changes in valuation methodologies, estimates and assumptions used in the valuation of investment securities; the effect of various legal proceedings and regulatory investigations; the impact of operational risks; the loss of key personnel; the impact of catastrophic events on our results; changes in government regulations or tax laws in jurisdictions where we conduct business; funding risks associated with our pension schemes; the effect of undisclosed liabilities, integration issues and other risks associated with our acquisitions; and the timing impact and other uncertainties relating to acquisitions and disposals and relating to other future acquisitions, combinations or disposals within relevant industries.

For a more detailed description of these risks, uncertainties and other factors, please see Item 3, “Risk Factors”, and Item 5, “Operating and Financial Review and Prospects” in Aviva’s registration statement on Form 20-F as filed with the SEC on 7 October 2009. Aviva undertakes no obligation to update the forward-looking statements in this announcement or any other forward-looking statements we may make. Forward-looking statements in this announcement are current only as of the date on which such statements are made.