News Release

Aviva plc Interim Results Statement

6 months to 30 June 2012

9 August 2012

- **Interim operating profit before restructuring costs down 2%**
- **Interim operating profit after restructuring costs down 10%**
    - *Impact of restructuring costs, foreign exchange, UK weather*
- **£876 million writedown of US goodwill**
- **Dividend held at 10p per share**

Dear shareholders,

Aviva plc today announced its interim results for the first half of 2012.

Operating profit (including restructuring costs) was down 10% to £935 million[1] *(HY11 £1,035 million)* as a result of the sale of RAC, adverse foreign exchange movements, the adverse impact of recent UK weather and higher restructuring costs as we implement the strategic plan. Interim operating profit before restructuring costs was down 2% to £1,121 million.

There was a net loss after tax of £681 million (*HY11 profit after tax: £465 million*). At the half year we concluded that it was necessary to write down £876 million of goodwill and intangibles in our US business.

The interim dividend is held at 10p per share.

General insurance operating profit has marginally improved with a combined operating ratio of 95.5%. Life insurance operating profit was lower overall, with stable operating profits in the UK, our largest market, offset by lower profits from overseas, mainly from the eurozone.

Aviva's capital position is ahead of full year 2011. At 30 June 2012 our group economic capital surplus was £4.5 billion (ratio: c.140%) and the IGD solvency surplus was £3.1 billion (ratio: c.150%).

In July, we announced our revised strategic plan and execution is on track. The first priority remains to build Aviva's financial strength. In the second quarter we reduced our Italian sovereign bond holdings by just under €2 billion[2]. In July we sold 21% of Delta Lloyd, bringing our holding below 20%. We expect to announce further progress in the delivery of our plan in the second half of the year.

We have also committed to reduce the cost base by £400 million. We have already removed the regional layer of our structure, reduced the number of management layers and have made substantive changes to promote a sharper performance ethic across the group.

While this has been a challenging first half, we are taking the necessary actions to improve our position going forward. This environment is likely to continue and therefore we expect second half performance trends to be broadly similar to the first six months, but with higher restructuring costs as we implement our strategic plan.

John McFarlane, Chairman

1 All numbers are on a continuing basis, which for the comparative period excludes Delta Lloyd as a discontinued operation.
2 This is equivalent to a reduction in shareholder exposure in participating and shareholder funds, net of minority interests and market movements of just under £1 billion.

Key financial highlights

Key financial highlights

IFRS basis	6 months 2012 £m	6 months 2011 £m	Sterling % change
Life business	**1,010**	1,082	(7)%
General insurance and health	**461**	455	1%
Fund management	**38**	42	(10)%
Other operations	**(102)**	(81)	(26)%
Corporate centre	**(64)**	(66)	3%
Group debt and other interest costs	**(334)**	(321)	(4)%
Operating profit before tax (excluding Delta Lloyd as an associate) – continuing operations	**1,009**	1,111	(9)%
Share of operating profit (before tax) of Delta Lloyd, as an associate	**112**	35	220%
Operating profit before tax – continuing operations	**1,121**	1,146	(2)%
Operating profit before tax – discontinued operations	**—**	191	(100)%
Operating profit before tax	**1,121**	1,337	
Operating profit before tax (after restructuring costs) – continuing operations	**935**	1,035	(10)%
(Loss)/profit after tax – continuing operations	**(681)**	465	
(Losses) / earnings per share	**(26.0p)**	4.1p	
Operating profit per share – continuing operations	**23.4p**	25.8p	(9)%
Interim dividend per share	**10.0p**	10.0p	
Operating capital generated	**0.9bn**	0.8bn	13%

	30 June 2012	31 December 2011	Sterling % change
Estimated IGD solvency surplus	**3.1bn**	2.2bn	41%
IFRS net asset value per share	**395p**	435p	(9)%
MCEV net asset value per share	**421p**	441p	(5)%
Estimated economic capital surplus*	**4.5bn**	3.6bn	25%
Return on equity	**10.7%**	12.0%	(1.3pp)

	Operating profit		
Life business (continuing operations)	**6 months 2012 £m**	6 months 2011 £m	Sterling% change
United Kingdom	**469**	460	2%
Ireland	**8**	32	(75)%
France	**151**	166	(9)%
United States	**113**	109	4%
Spain	**94**	109	(14)%
Italy	**70**	72	(3)%
Other	**(1)**	3	(133)%
Poland	**74**	90	(18)%
Asia and other	**32**	41	(22)%
Total life operating profit	**1,010**	1,082	(7)%

	Operating profit		GI COR	
General Insurance and Health (continuing operations)	**6 months 2012 £m**	6 months 2011 £m	**6 months 2012 %**	6 months 2011 %
United Kingdom & Ireland	**234**	280	**98%**	97%
France	**43**	50	**92%**	92%
Canada	**173**	118	**90%**	96%
Italy and Other	**19**	14		
Higher Growth markets	**(8)**	(7)	**115%**	108%
Total general insurance and health (continuing operations)	**461**	455	**95.5%**	96.3%

* The economic capital surplus represents an estimated unaudited position. The capital requirement is based on Aviva's own internal assessment and capital management policies. The term 'economic capital' does not imply capital as required by regulators or other third parties. Pension scheme risk is allowed for through five years of stressed contributions.

Chief financial officer's review

Focus, strengthen, perform

Operating profit (including restructuring costs) was down 10% in the first six months of 2012. Whilst general insurance and health operating profits are marginally up, this has been offset by lower returns from life insurance.

In July we set out our strategic priorities and we are delivering against them: narrowing the scope of our business, building financial strength and improving financial performance.

The interim dividend is held at 10p per share.

Operating profit down…

Operating profit was £1,121 million *(HY11: £1,337 million)*. Within this total Delta Lloyd accounted for £112 million. Operating profit on a continuing basis[3], including £186 million of restructuring costs *(HY11: £111 million)*, was down 10% at £935 million *(HY11: £1,035 million)*.

The reduction in operating profit was driven by higher restructuring costs, a lower result from life business and adverse foreign exchange movements. This was partially offset by increased profit in general insurance and health, which improved despite the sale of RAC and higher weather related claims. The table below details the operating profit reconciliation (on a continuing basis) between half year 2011 and half year 2012.

	£m
IFRS basis operating profit after restructuring costs HY11	1,035
6 months of Delta Lloyd as an associate in 2012 vs. 2 months in 2011	77
RAC disposal	(49)
Weather (compared to 2011)	(62)
Foreign exchange movements	(33)
Profit increase	42
Increased restructuring costs	(75)
Operating profit after restructuring costs HY12	935

The annualised return on equity was 10.7% *(FY11: 12.0%)* driven by lower profit over the reporting period.

…with operating capital generation on track

In the first half of 2012 Aviva generated £0.9 billion of operating capital (HY11: £0.8 billion). Operating capital generation from the in-force life portfolio was stable at £1.0 billion and general insurance contributed £0.3 billion. This was offset by capital investment in new business of £0.4 billion (*HY11: £0.5 billion*), which was lower than the prior year due to a reduction in life new business volumes.

Life insurance profit lower…

Operating profit from our life insurance business was down 7% to £1,010 million *(HY11: £1,082 million)*. The fall in operating profit was driven by adverse foreign exchange movements and by lower returns in the eurozone as a result of challenging trading conditions.

There are a number of components to the reduction in life operating profit. Overall IFRS income for our life business was down 1% while expenses fell 3% giving a small improvement in overall net income. Offsetting this there has been an increase in other items including higher deferred acquisition costs (DAC) amortisation particularly in the US.

Within total income the most significant component is investment return at £1,322 million *(HY11: £1,299 million)*. Lower unit-linked margins, driven by lower average reserves have been more than offset by increases in spread margins.

Underwriting margin fell by 6% to £359 million *(HY11: £381 million).* New business income contributed £457 million *(HY11: £471 million)* with a small improvement in profitability offset by a reduction in business volumes.

There were outflows for life business of £3.1 billion, two thirds of which reflected the maturing of the UK with-profits portfolio. This was more than offset by positive market and other movements to give an overall positive movement of £1.0 billion.

The life new business IRR was 13.6% *(HY11: 14.3%)*. There have been reductions in some developed markets, particularly Ireland and Spain, while the IRR for higher growth markets has been stable.

In the **UK** life insurance business, operating profit increased 2% to £469 million. Excluding one-off items of £74 million, underlying profits of £395 million were in line with HY11 *(HY11: £390 million, excluding £70 million of one-off items)*. Operating capital generation improved to £381 million *(HY11: £187 million)* reflecting profits in the reporting period and the benefit from a reinsurance transaction. Annualised return on capital employed declined to 16.1% *(FY11: 17.3%).*

We continue to build our customer franchise in the UK. In the first six months we reinforced our position as a leading UK provider of life insurance products by signing an exclusive five year distribution agreement with Tesco Bank for the sale of protection products.

In **Ireland** life operating profit fell from £32 million to £8 million impacted by the closure to new business of our joint venture with AIB on 31 March 2012 and adverse market and economic conditions.

As expected, our businesses in the eurozone have experienced difficult trading conditions due to the economic environment. This, and the decline in value of the euro, has impacted profitability across the markets.

In **France** life operating profit was down 9% to £151 million. This fall was driven by the weaker euro, lower income from our wealth management business, reflecting the impact of adverse market movements in 2011 on opening funds under management, and lower sales in our two non-life subsidiary companies. Annualised return on capital employed declined to 10.6% *(FY11: 12.4%).*

In **Spain** we have a good business operating in a difficult economy. Operating profit fell by 14% to £94 million as a result of subdued market conditions, the weaker euro and a favourable reserving release in the prior period. The underlying performance remained broadly stable as lower expenses offset a fall in sales. Annualised return on capital employed declined slightly to 11.4% *(FY11: 11.5%)*. In response to the difficult market conditions we have been diversifying our product mix and during the first six months of 2012 we became market leader in the individual protection market.

In **Italy**, where we are focusing on improving financial performance in difficult trading conditions, life operating profit was broadly static at £70 million, as lower new business expenses offset the impact of lower sales, which partially reflects ongoing actions to reduce the sales of capital intensive products. Annualised return on capital employed improved to 7.6% *(FY11: 5.9%)*.

3 From this point, all comparative data is shown for continuing operations.

In the **US** operating profit increased 4% to £113 million, as increased spread earnings in 2012 have more than offset the impact of increased DAC amortisation and a beneficial one-off DAC adjustment in 2011. Annualised return on capital employed improved to 3.8% *(FY11: 2.0%)*.

In **Poland** life operating profit was down by 18% to £74 million due to weakening of the Polish zloty and lower unit-linked income as a result of legislative changes to pensions business. Annualised return on capital employed was 45.5% (*FY11: 48.8%)*. We have focused the sales force on more profitable unit-linked and protection business which has resulted in a positive movement in mix.

In our higher growth markets in Asia, life operating profit fell 21% to £30 million, particularly driven by China where there was a one-off charge in the year. There was growth in our life business in **Singapore** but this was more than offset by the impact of lower profits in other markets.

...partly offset by higher general insurance profit

General insurance and health operating profit increased marginally by 1% to £461 million *(HY11: £455 million)*. Excluding RAC, profit was up 14%. This is a result of good performances in both the UK and Canada driven by the continued progress we have made in underwriting, claims and cost management. The combined operating ratio (COR) improved to 95.5% *(HY11: 96.3%)*.

In the **UK general insurance** business, excluding RAC, operating profit increased on a like-for-like basis by 17% and includes £40 million of weather-related claims costs in June. This improvement was due to our continued focus on pricing and cost management and the benefits of the action we took last year to exit poorly performing business lines, particularly in commercial motor. The combined operating ratio was 97% *(HY11: 96%; 98% excluding RAC)*. Total net written premiums were down 6% to £2,087 million and up 5% on an underlying basis when the contributions from RAC and a one-off corporate partner deal are excluded from half year 2011. Personal motor premiums excluding RAC have grown 13% as a result of new initiatives such as Quotemehappy and MultiCar insurance. In **Ireland** operating profit fell from £24 million to £3 million, reflecting adverse weather claims, increased costs and difficult economic conditions.

In **Canada** sophisticated pricing and underwriting combined with the benefits of benign weather led to a particularly strong performance during the first six months of 2012. Operating profit increased 47% to £173 million and the combined operating ratio improved by 6pp to 90%. Net written premiums increased 5% to £1,081 million reflecting rate increases, higher retention and new business wins. Our business remains strong - we have more than 3 million customers and we have grown our customer numbers by 45,000 since HY11.

In **France** general insurance and health operating profit decreased 14% to £43 million, mainly as a result of adverse weather in February 2012, partly offset by favourable claims experience. This contributed to a marginal deterioration in the combined operating ratio to 92.4%. Net written premiums were broadly level at £581 million.

In some of our smaller general insurance markets operating performance was weak and we remain focused on improving their financial performance.

Fund management

Total funds under management were £342 billion *(FY11: £337 billion)*.

Aviva Investors' fund management operating profit fell to £34 million *(HY11: £39 million)*. Aviva Investors won mandates in the UK, Middle East and North America, generating net funded external sales of £1.6 billion *(HY11: £2.5 billion)* after redemptions of £0.5 billion following Aviva Investors' decision to reduce focus on the Financial Institutions sector. A programme is underway to improve the financial performance of this business.

Loss after tax

There was a loss after tax of £681 million *(HY11 profit after tax: £465 million)*. Included in this amount is operating profit of £1,121 million *(HY11: £1,146 million)*. The largest drivers of the overall loss were the impairment of goodwill and intangibles of £876 million related to our US business, adverse non-operating items in Delta Lloyd of £523 million (principally relating to movements in the Delta Lloyd Group (DLG) curve), adverse life investment variances of £212 million and integration and restructuring costs, partly offset by the reversal of impairments recognised at FY11 on our investment in Delta Lloyd.

The loss per share was 26.0p *(HY11: Earnings per share: 4.1p)*.

Net asset value

IFRS NAV per share was 395p *(FY11: 435p)* reflecting the loss after tax, payment of the final dividend and adverse foreign exchange movements.

The MCEV NAV was 421p *(FY11: 441p)* impacted by similar factors.

Capital management

One of Aviva's strategic priorities is to build the company's financial strength and we have a new target economic capital level* of 160% - 175% of required capital. This will be achieved through disposals, reallocating capital to businesses with higher returns and a number of risk management actions including hedging, reinsurance and reduced product guarantees.

The estimated economic capital surplus* at 30 June 2012 was £4.5 billion (*FY11: £3.6 billion*), with coverage of c140% (FY11:130%).

On a pro forma basis, the estimated economic capital surplus* (including the contribution from the disposal of 21% of Delta Lloyd on 6 July 2012) is £4.7 billion, with coverage of 142% (*FY11: £3.6 billion, ratio c130%*).

The group estimated IGD solvency surplus was £3.1 billion at 30 June 2012 *(FY11: £2.2 billion*) with the improvement mainly as a result of market movements.

In early July we sold a further 21% of our stake in Delta Lloyd for net cash proceeds of £313 million. This takes Aviva's total shareholding to just under 20%. The partial disposal strengthens our balance sheet and also improves our economic capital and IGD solvency coverage ratios.

Group liquidity includes direct access to £1.4 billion of liquid assets *(FY11: £1.5 billion)* and we continue to have £2.1 billion of undrawn committed credit facilities provided by a range of leading international banks.

Sovereign portfolio

Our direct shareholder exposure (net of non-controlling interests) to the debt securities of the governments of Greece, Portugal, Ireland, Italy and Spain (including local authorities and government agencies) has reduced to £1.0 billion *(FY11: £1.3 billion)*.

Focus, strengthen, perform

In July we outlined our revised strategic plan and we are on track with its implementation. Our strategic priorities are to narrow Aviva's focus, build financial strength and improve financial performance.

We are focusing on those business segments where we can deliver attractive returns. We are reducing the cost base by £400 million and have already removed the regional layer of Aviva's structure, reduced the number of management layers and have taken steps to develop a sharper performance ethic across the group.

Although trading conditions in a number of our major markets will continue to be challenging throughout 2012 we have a clear strategy which we are delivering against. We are confident we will succeed.

Patrick Regan
Chief financial officer

* The economic capital surplus represents an estimated unaudited position. The capital requirement is based on Aviva's own internal assessment and capital management policies. The term 'economic capital' does not imply capital as required by regulators or other third parties. Pension scheme risk is allowed for through five years of stressed contributions.

Notes to editors

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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 2012, 2011 and 31 December 2011 respectively. The average rates employed in this announcement are 1 euro = £0.82 (6 months to 30 June 2011:
1 euro = £0.87, 12 months to 31 December 2011 euro = £0.87) and US$1 = £0.63 (6 months to 30 June 2011: US$1 = £0.62, 12 months to 31 December 2011: US$1 = £0.63).

Growth rates in the press release have been provided in sterling terms unless stated otherwise. The supplements following present this information on both a sterling and local currency basis.

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 announcement 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", "will," "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 factors that could cause actual results to differ materially from those indicated in forward-looking statements in the presentation include, but are not limited to: the impact of ongoing difficult conditions in the global financial markets and the economy generally; the impact of various local political, regulatory and economic conditions; market developments and government actions regarding the sovereign debt crisis in Europe; the effect of credit spread volatility on the net unrealised value of the investment portfolio; the effect of losses due to defaults by counterparties, including potential sovereign debt defaults or restructurings, on the value of our investments; changes in interest rates that may cause policyholders to surrender their contracts, reduce the value of our portfolio and impact our asset and liability matching; the impact of changes in equity or property prices on our investment portfolio; fluctuations in currency exchange rates; the effect of market fluctuations on the value of options and guarantees embedded in some of our life insurance products and the value of the assets backing their reserves; the amount of allowances and impairments taken on our investments; the effect of adverse capital and credit market conditions on our ability to meet liquidity needs and our access to capital; a cyclical downturn of the insurance industry; changes in or inaccuracy of 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; the impact of catastrophic events on our business activities and results of operations; the inability of reinsurers to meet obligations or unavailability of reinsurance coverage; increased competition in the UK and in other countries where we have significant operations; the effect of the European Union's "Solvency II" rules on our regulatory capital requirements; the impact of actual experience differing from estimates used in valuing and amortising deferred acquisition costs ("DAC") and acquired value of in-force business ("AVIF"); 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 legal proceedings and regulatory investigations; the impact of operational risks, including inadequate or failed internal and external processes, systems and human error or from external events; risks associated with arrangements with third parties, including joint ventures; funding risks associated with our participation in defined benefit staff pension schemes; the failure to attract or retain the necessary key personnel; the effect of systems errors or regulatory changes on the calculation of unit prices or deduction of charges for our unit-linked products that may require retrospective compensation to our customers; the effect of a decline in any of our ratings by rating agencies on our standing among customers, broker-dealers, agents, wholesalers and other distributors of our products and services; changes to our brand and reputation; changes in government regulations or tax laws in jurisdictions where we conduct business; the inability to protect our intellectual property; 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 3d, "Risk Factors", and Item 5, "Operating and Financial Review and Prospects" in Aviva's Annual Report Form 20-F as filed with the SEC on 21 March 2012. 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 presentation are current only as of the date on which such statements are made.

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Charles Barrows +44 (0)20 7662 8115	Andrew Reid +44 (0)20 7662 3131	Analyst presentation 0930 hrs BST
David Elliot +44 (0)207 662 8048	Sue Winston +44 (0)20 7662 8221	Presentation slides available at www.aviva.com from 0700 hrs BST
		Live webcast www.aviva.com

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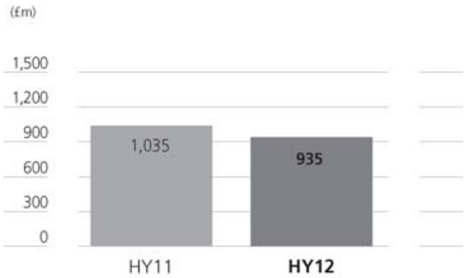
MCEV Financial Statements
The MCEV supplement is published as a separate report

Key financial highlights

Overall Performance

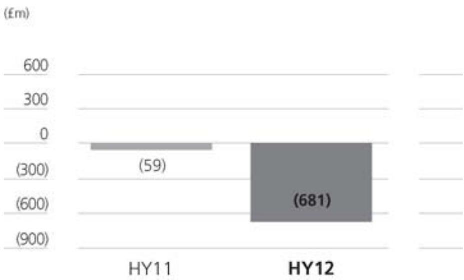
Adjusted operating profit before tax and after integration and restructuring costs



Adjusted operating profit before tax and after integration and restructuring costs
- Adjusted operating profit (after restructuring costs) was £935 million (*HY11: £1,035 million, continuing operations*).
- Restructuring costs in HY 2012 are £186 million (*HY11: £111 million)* with the increase driven by costs associated with Solvency II implementation, the costs of merging the UK and Ireland businesses and additional restructuring costs around the group.

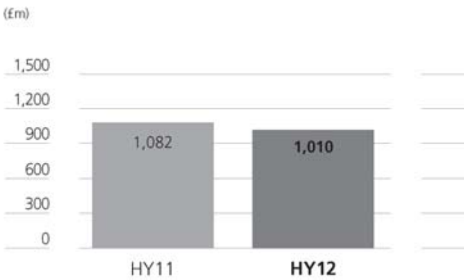
Adjusted operating profit before tax
- Adjusted operating profit* before tax for HY 2012 was £1,121 million *(HY11: £1,146 million, on a continuing basis)*. The reduction of 2% was driven by a lower result from life business partially offset by a small increase in general insurance and health profits.
- Within the operating profit number, there is an adverse impact of £45 million from foreign exchange movements in the period.

Loss after tax



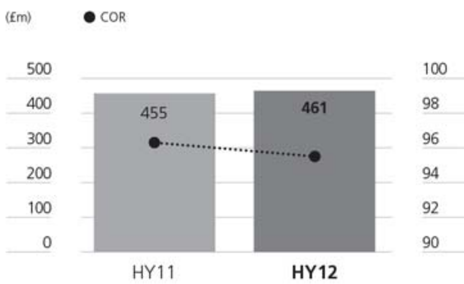
- IFRS loss after tax for HY 2012 was £681 million (*HY11: £59 million loss)*. Included in this amount is operating profit of £1,121 million *(HY11: £1,337 million)*.
- The largest drivers of the overall loss are the impairment of goodwill and intangibles of £876 million, related to our US business, adverse non-operating items in Delta Lloyd of £523 million (principally relating to movements in the DLG curve), adverse life investment variances of £212 million and integration and restructuring costs partly offset by a reversal of the impairment recognised at FY11 on our investment in Delta Lloyd.
- The effective tax rate for the period was (43)% *(HY11: 13%)* driven mainly by the impairment of goodwill in our US business.

Life business



- Life business adjusted operating profit before shareholder tax was £1,010 million *(HY11: £1,082 million, continuing operations)*, a reduction of 7% on the prior period.
- The fall in operating profit was principally driven by lower expected investment returns on shareholder assets, weakening of the Euro against Sterling and higher DAC amortisation particularly in the US.
- New business income reduced to £457 million *(HY11: £471 million)* with the adverse impact of a reduction in new business volumes more than offsetting an improvement in profitability.
- Overall income has reduced by 1% (with growth in spread earnings more than offset by reductions in other areas), while costs have reduced by 3% compared with the prior year. The net positive impact of these movements has been more than offset by an increase in DAC and AVIF amortisation and other charges compared with the previous year.

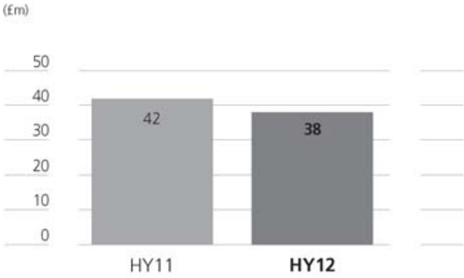
General insurance and health



- General insurance and health adjusted operating profit increased to £461 million *(HY11: £455 million, continuing operations)* with an improved underwriting result partially offset by lower LTIR income.
- The underwriting result was £123 million *(HY11: £119 million)*, with improving profitability in the UK (on an underlying basis, excluding RAC) and Canada offsetting poorer performance in Ireland.
- We continue to apply our reserving policy consistently and operating profit in the period has benefitted from £37 million of prior year reserve releases.
- The combined operating ratio (COR) improved to 95.5% *(HY11: 96.3%)* driven by a 2 percentage point improvement in the overall claims ratio.
- Net written premiums decreased to £4,615 million (HY11: £4,708 million), reflecting the sale of RAC in September 2011. Excluding the RAC, net written premiums increased by 2%.

* The group's accounting policy for operating profit (also referred to as Adjusted operating profit) remains consistent with prior periods and is set out in the basis of preparation.

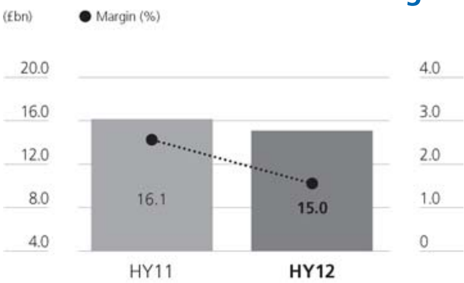
Fund management



- Fund management adjusted operating profit decreased to £38 million *(HY11: £42 million, continuing operations)*.
- Total funds under management are £342 billion *(FY11: £337 billion)*. Funds managed by Aviva Investors were up 4% to £274 billion *(FY11: £263 billion)*, with assets managed for external clients increasing 6% to £55 billion *(FY11: £52 billion)*.
- Life business net flows were negative at £3.1 billion driven by outflows in our UK with-profits business and eurozone markets, offset by inflows in our US business. The net outflows were offset by market and other movements of £4.1 billion, with adverse foreign exchange movements offset by gains as credit spreads narrowed in France and Italy.

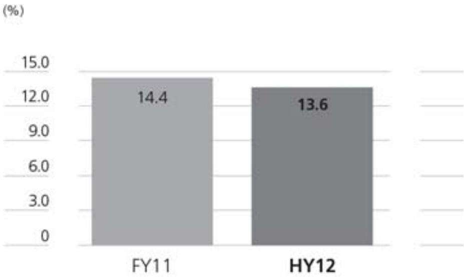
New business

New business and MCEV margin



- Worldwide long term savings sales (including investment products), were £15.0 billion *(HY11: £16.1 billion, continuing operations)*, a reduction of 7%, with increases in the US and Aviva Investors offset by falls in other markets. On a local currency basis, sales decreased by 5%.
- Within this total, life and pensions sales were £13.1 billion *(HY11: £14.3 billion)*, a decrease of 8% and investment sales were £1.9 billion (*HY11: £1.8 billion*), an increase of 6%. New business margin is 1.6% *(HY11: 2.6%)* with the reduction driven by falls in the US and developed European markets (Spain, Italy and France) reflecting economic conditions and changes in business mix.

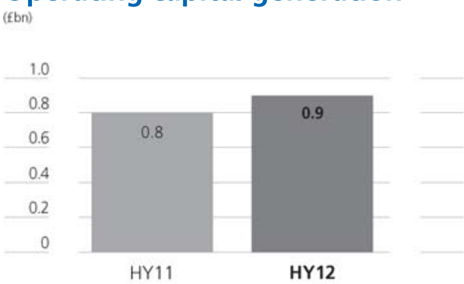
Internal Rate of Return



- Overall group IRR was 13.6% *(FY11: 14.4%)*. There have been reductions in some developed markets, particularly Ireland and Spain, while the IRR for higher growth markets has been stable overall.
- Overall payback period has been maintained at 7 years, in line with FY 2011.

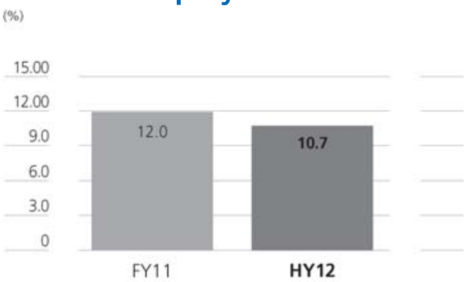
Group performance

Operating capital generation



- Operating capital generation (OCG) is £0.9 billion *(HY11: £0.8 billion)*. Capital generated from existing business was £1.3 billion *(HY11: £1.3 billion)* offset by capital investment in new business of £0.4 billion *(HY11: £0.5 billion)*.
- Within the £0.4 billion of capital investment in new business *(HY11: £0.5 billion)*, the life component has reduced slightly compared with HY11 driven by improved efficiency of new business and some reduction in new business volumes. The capital investment in non-life business in the period is broadly neutral compared to HY11.

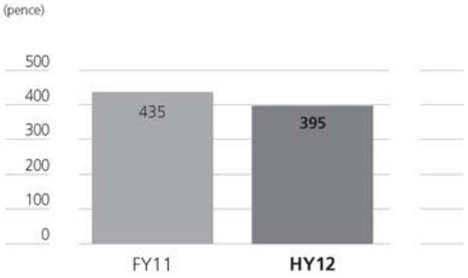
Return on equity – IFRS basis



- IFRS RoE is 10.7% *(FY11: 12.0%)*. This change is driven by the overall reduction in operating profit for the period with opening shareholder's funds broadly stable compared with the prior year.

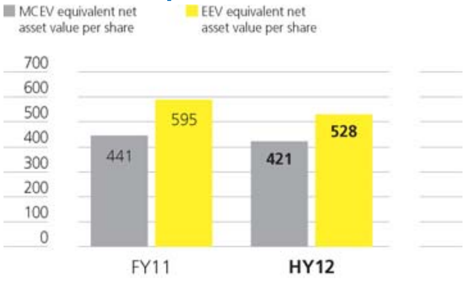
Balance sheet

IFRS net asset value per share



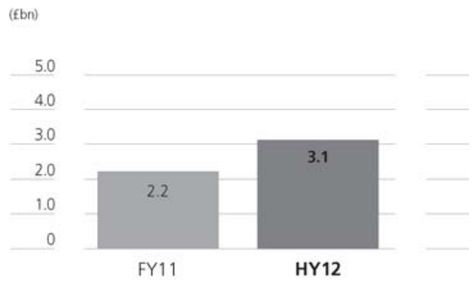
- IFRS net asset value per share (NAV) is 395 pence *(FY11: 435 pence)*.
- Adjusted operating profit for the period has been more than offset by adverse non-operating items, payment of the final dividend and adverse foreign exchange movements.
- Non-operating items include impairments of goodwill and intangibles in our US business, adverse investment variances and an adverse movement in Delta Lloyd.

MCEV and EEV equivalent net asset value per share



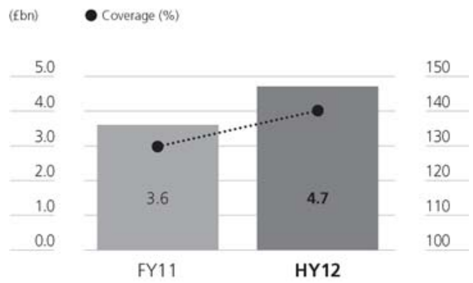
- The MCEV NAV per share has decreased to 421 pence *(FY11: 441 pence)*. Adjusted operating profit for the period has been more than offset by adverse non-operating items, payment of the final dividend and adverse foreign exchange movements.
- Non-operating items include impairments of goodwill and intangibles in our US business, adverse investment variances and an adverse movement in Delta Lloyd.
- The EEV equivalent NAV per share was 528 pence at 30 June 2012 *(FY11: 595 pence)*. The fall in NAV has been driven by the same factors as MCEV NAV.

IGD Solvency



- The IGD solvency surplus at 30 June 2012 is £3.1 billion *(FY11: £2.2 billion)*.
- This increase is primarily driven by operating profit and positive market movements offset by payment of the dividend.
- At 30 June 2012 the IGD cover is 1.5 times *(FY11: 1.3 times)*.

Economic capital – pro forma



- The estimated economic capital surplus at 30 June 2012 is £4.5 billion* *(FY11: £3.6 billion)*, with coverage of c140% *(FY11: 130%)*.
- The increase is primarily driven by market movements and management actions.
- At 30 June 2012, the estimated economic capital surplus on a pro forma basis is £4.7 billion (including the contribution from the disposal of 21% of Delta Lloyd on 6 July 2012).

* The economic capital surplus represents an estimated unaudited position. The capital requirement is based on Aviva's own internal assessment and capital management policies. The term "economic capital" does not imply capital as required by regulators or other third parties. Pensions scheme risk is allowed for through five years of stressed contributions.

Other

Interim dividend of 10 pence	■ Interim dividend of 10 pence in line with 2011 interim dividend.
Asset quality	■ The majority of assets are fully marked-to-market and therefore both the balance sheet and income statement fully reflect the market positions at 30 June 2012. ■ Net of non-controlling interests, our exposure within shareholder funds to the governments (and local authorities and agencies) of Greece, Ireland, Portugal, Italy and Spain has reduced from £1.3 billion as at 31 December 2011 to £1.0 billion.
Liquidity	■ Liquidity position - direct access to £1.4 billion of liquid assets *(FY11: £1.5 billion).* ■ £2.1 billion of undrawn committed credit facilities provided by a range of leading international banks *(FY11: £2.1 billion)*. ■ Net hybrid debt issuance contributed £0.2 billion to centre liquidity during the period.
Group's rating from Standard and Poor's is AA- ("very strong")	■ The Group's rating from Standard and Poor's is AA- ("very strong") with an outlook of "Creditwatch Negative"; Aa3 ("excellent") with a negative outlook from Moody's; and A ("excellent") from A.M. Best. The outlook on the Group's rating from A.M. Best is "Under review with Negative Implications".
Underlying costs	■ Total expenses have increased by 1% from £1,978 million to £2,007 million. On a like-for-like basis (excluding costs relating to RAC, integration and restructuring costs and foreign exchange) costs were broadly stable.
Pension schemes	■ At the end of the first half of 2012, the net surplus in the Group's pension schemes had increased from £1.26 billion to £1.42 billion, mainly as a result of changes in economic assumptions affecting liabilities.
Impact of foreign exchange	■ Foreign exchange movements led to an impact on operating profit of £45 million.
Risk profile	■ The types of risk to which the Group is exposed have not changed significantly over the half-year to 30 June 2012. ■ The reduction of the shareholding in Delta Lloyd in July will further decrease the Group's overall risk profile.

Key financial highlights

IFRS basis	6 months 2012 £m Continuing Operations	6 months 2011 £m Continuing Operations	Discontinued Operations	Total	Total Change %
Life business	**1,010**	1,082	185	1,267	(20)%
General insurance and health	**461**	455	1	456	1%
Fund management	**38**	42	11	53	(28)%
Other operations	**(102)**	(81)	(2)	(83)	(23)%
Corporate centre	**(64)**	(66)	—	(66)	3%
Group debt and other interest costs	**(334)**	(321)	(4)	(325)	(3)%
Operating profit before tax (excluding Delta Lloyd as an associate)	**1,009**	1,111	191	1,302	(23)%
Share of operating profit (before tax) of Delta Lloyd as an associate	**112**	35	—	35	220%
Operating profit before tax attributable to shareholders' profits	**1,121**	1,146	191	1,337	(16)%
Operating profit before tax attributable to shareholders' profits after restructuring and integration costs	**935**	1,035	191	1,226	(24)%
(Loss)/profit after tax	**(681)**	465	(524)	(59)	
Operating capital generated	**0.9bn**			0.8bn	
IRR	**13.6%**	14.3%			
Combined operating ratio	**95.5%**	96.3%			
(Losses)/earnings per share	**(26.0)p**	15.4p	(11.3)p	4.1p	
Operating profit per share	**23.4p**	25.8p	3.3p	29.1p	
Interim dividend per share	**10p**			10.0p	
Net asset value per share	**395p**			435p[1]	
Equity attributable to the ordinary shareholders of Aviva plc	**11,524**			12,643[1]	
Return on equity shareholders' funds	**10.7%**			12%[1]	

1 Comparatives are for FY11.

Group performance – IFRS basis

Reconciliation of Group operating profit to profit after tax – IFRS basis

For the six month period ended 30 June 2012

	6 months 2012 £m	6 months 2011 £m			Full year 2011 £m		
	Continuing Operations	Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
Operating profit before tax attributable to shareholders' profits							
Life business							
United Kingdom & Ireland	**477**	492	—	492	964	—	964
France	**151**	166	—	166	323	—	323
United States	**113**	109	—	109	197	—	197
Italy, Spain and Other	**163**	184	185	369	360	185	545
Higher Growth markets	**106**	131	—	131	279	—	279
Total life business (note 1)	**1,010**	1,082	185	1,267	2,123	185	2,308
General insurance and health							
United Kingdom & Ireland	**234**	280	—	280	564	—	564
France	**43**	50	—	50	144	—	144
Canada	**173**	118	—	118	254	—	254
Italy and Other	**19**	14	1	15	(2)	1	(1)
Higher Growth markets	**(8)**	(7)	—	(7)	(25)	—	(25)
Total general insurance and health (note 3)	**461**	455	1	456	935	1	936
Fund management							
Aviva Investors	**34**	39	—	39	88	—	88
United Kingdom	**4**	3	—	3	11	—	11
Other Developed markets	**—**	—	11	11	—	11	11
Total fund management (note 4)	**38**	42	11	53	99	11	110
Other							
Other operations (note 5)	**(102)**	(81)	(2)	(83)	(207)	(2)	(209)
Market operating profit	**1,407**	1,498	195	1,693	2,950	195	3,145
Corporate centre (note 6)	**(64)**	(66)	—	(66)	(138)	—	(138)
Group debt costs and other interest (note 7)	**(334)**	(321)	(4)	(325)	(657)	(4)	(661)
Operating profit before tax attributable to shareholders' profits (excluding Delta Lloyd as an associate)	**1,009**	1,111	191	1,302	2,155	191	2,346
Share of operating profit (before tax) of Delta Lloyd as an associate	**112**	35	—	35	157	—	157
Operating profit before tax attributable to shareholders' profits	**1,121**	1,146	191	1,337	2,312	191	2,503
Integration and restructuring costs (note 8)	**(186)**	(111)	—	(111)	(268)	—	(268)
Operating profit before tax attributable to shareholders' profits after integration and restructuring costs	**935**	1,035	191	1,226	2,044	191	2,235
Adjusted for the following:							
Investment return variances and economic assumption changes on life business (note 9)	**(212)**	(187)	(820)	(1,007)	(796)	(820)	(1,616)
Short-term fluctuation in return on investments on non-life business (note 10)	**31**	(80)	(60)	(140)	(266)	(60)	(326)
Economic assumption changes on general insurance and health business (note 11)	**(18)**	(8)	—	(8)	(90)	—	(90)
Impairment of goodwill, associates and joint ventures and other amounts expensed (note 12)	**(603)**	(20)	—	(20)	(392)	—	(392)
Amortisation and impairment of intangibles	**(164)**	(56)	(5)	(61)	(171)	(5)	(176)
(Loss)/profit on the disposal of subsidiaries and associates (note 13)	**(30)**	(11)	(32)	(43)	565	(32)	533
Exceptional items (note 14)	**—**	—	—	—	(57)	—	(57)
Non-operating items before tax (excluding Delta Lloyd as an associate and integration and restructuring costs)	**(996)**	(362)	(917)	(1,279)	(1,207)	(917)	(2,124)
Share of Delta Lloyd's non-operating items (before tax) as an associate (note 15)	**(523)**	(8)	—	(8)	10	—	10
Non-operating items before tax	**(1,519)**	(370)	(917)	(1,287)	(1,197)	(917)	(2,114)
Share of Delta Lloyd's tax expense, as an associate	**107**	(7)	—	(7)	(34)	—	(34)
(Loss)/Profit before tax attributable to shareholders' profits	**(477)**	658	(726)	(68)	813	(726)	87
Tax on operating profit	**(316)**	(292)	(25)	(317)	(625)	(25)	(650)
Tax on non-operating items	**112**	99	227	326	396	227	623
	(204)	(193)	202	9	(229)	202	(27)
(Loss)/Profit for the period	**(681)**	465	(524)	(59)	584	(524)	60

Earnings per share – IFRS basis

	6 months 2012 £m	6 months 2011 £m			Full year 2011 £m		
	Continuing Operations	Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
Operating profit per share on an IFRS basis after tax, attributable to ordinary shareholders of Aviva plc							
Basic (pence per share)	**23.4p**	25.8p	3.3p	29.1p	50.5p	3.3p	53.8p
Diluted (pence per share)	**23.0p**	25.4p	3.2p	28.6p	49.7p	3.2p	52.9p
(Losses)/earnings after tax on an IFRS basis, attributable to ordinary shareholders of Aviva plc							
Basic (pence per share)	**(26.0)p**	15.4p	(11.3)p	4.1p	17.0p	(11.2p)	5.8p
Diluted (pence per share)[1]	**(26.0)p**	15.1p	(11.1)p	4.0p	16.7p	(11.2p)	5.7p

1 Losses have an anti-dilutive effect. Therefore the basic and diluted earnings have remained the same.

1 – Life business - Adjusted operating profit

	6 months 2012 £m	6 months 2011 £m	Full year 2011 £m
United Kingdom	**469**	460	917
Ireland	**8**	32	47
United Kingdom & Ireland	**477**	492	964
France	**151**	166	323
United States	**113**	109	197
Spain	**94**	109	216
Italy	**70**	72	140
Other	**(1)**	3	4
Developed markets	**904**	951	1,844
Poland	**74**	90	167
Asia	**30**	38	108
Other	**2**	3	4
Higher Growth markets	**106**	131	279
Total – continuing operations	**1,010**	1,082	2,123
Total – discontinued operations	**—**	185	185
Total	**1,010**	1,267	2,308

Life business adjusted operating profit before shareholder tax for continuing operations was £1,010 million *(HY11: £1,082 million)*, a reduction of 7% on the prior period. The fall in operating profit was primarily driven by lower expected investment returns on shareholder assets, reduced new business volumes and weakening of the Euro and Zloty against Sterling. Underlying operating performance has been broadly stable in all major markets, despite the challenging economic, and market conditions.

Developed markets

Life adjusted operating profit for our **United Kingdom & Ireland** business was £477 million *(HY11: £492 million).*

The UK result increased to £469 million (HY11: £ 460 million) including non-recurring items of £74 million *(HY11: £70 million).* These items include the release of a longevity transaction reserve no longer required, and the impact of other capital management actions *(HY11: one-off provision releases of £70 million, including a £30 million benefit relating to the release of tax provisions associated with the reattribution of the inherited estate)*. Excluding these one-offs, underlying profit was broadly in line with HY11.

In **Ireland** life adjusted operating profit was £8 million *(HY11: £32 million)*, impacted by the closure to new business of our joint venture with AIB on 31 March 2012 and adverse assumption changes reflecting market and economic conditions.

In **France**, life adjusted operating profit was £151 million *(HY11: £166 million).* The reduction was driven by lower unit-linked management charges reflecting the impact of adverse market movements in 2011 on opening funds under management, reduced distribution profits due to lower sales volumes and the effect of the weaker Euro in the current period, partly offset by higher income from participating business.

In the **United States**, life adjusted operating profit was £113 million *(HY11: £109 million).* The US business has continued to focus on profitable growth combined with pricing discipline. Overall operating profit has remained stable as increased spread earnings in 2012 have offset the impact of a beneficial one-off DAC adjustment in 2011.

In **Spain**, life adjusted operating profit fell to £94 million *(HY11: £109 million),* due mainly to favourable reserving releases in the prior period and the weaker Euro in the current period. Although sales were lower in the period, reflecting difficult market conditions, the underlying performance remained stable due to lower expenses. For our operations in **Italy**, life operating profit was £70 million *(HY11: £72 million*). Despite lower sales across all products, operating profit has benefitted from reduced new business strain on capital-intensive products, offset by the impact of the weaker Euro.

Higher Growth markets

In **Poland**, life adjusted operating profit was £74 million *(HY11: £90 million*), with the reduction mainly driven by lower charges from unit-linked funds as a consequence of legislative changes to pensions business and adverse foreign exchange movements.

For our markets in **Asia**, life adjusted operating profit was £30 million *(HY11: £38 million)* adversely impacted by one-off items in China. In **Singapore**, profit increased to £24 million *(HY11: £21 million),* driven by the increased scale and profitability of the business and robust bancassurance sales.

Discontinued operations – Delta Lloyd

Following the deconsolidation of Delta Lloyd as a subsidiary, the life business operating profit for Delta Lloyd is excluded from the Group life business total. In the prior period, life business operating profit of £185 million for Delta Lloyd was included in the Group total which represented 100% of Delta Lloyd's result as a subsidiary up to 6 May 2011.

2 – Life business profit driver analysis

	Note	6 months 2012 United Kingdom & Ireland £m	Developed markets excluding UK & Ireland £m	Higher Growth markets £m	Total £m
New business income	a	**266**	**120**	**71**	**457**
Underwriting margin	b	**108**	**192**	**59**	**359**
Unit-linked margin	c	**212**	**118**	**109**	**439**
Participating business	d	**34**	**232**	**—**	**266**
Spread margin	e	**87**	**327**	**25**	**439**
Expected return	f	**79**	**82**	**17**	**178**
Investment return		**412**	**759**	**151**	**1,322**
Income		**786**	**1,071**	**281**	**2,138**
Acquisition expenses	g	**(225)**	**(161)**	**(87)**	**(473)**
Administration expenses	h	**(205)**	**(267)**	**(64)**	**(536)**
Expenses		**(430)**	**(428)**	**(151)**	**(1,009)**
DAC/AVIF amortisation and other		**121**	**(216)**	**(24)**	**(119)**
Life business operating profit – continuing operations		**477**	**427**	**106**	**1,010**

	Note	Restated 6 months 2011[1] United Kingdom & Ireland £m	Developed markets excluding UK & Ireland £m	Higher Growth markets £m	Total £m	Full year 2011 Total £m
New business income	a	258	150	63	471	1,037
Underwriting margin	b	108	210	63	381	815
Unit-linked margin	c	226	135	125	486	976
Participating business	d	21	244	1	266	556
Spread margin	e	80	263	5	348	813
Expected return	f	105	78	16	199	415
Investment return		432	720	147	1,299	2,760
Income		798	1,080	273	2,151	4,612
Acquisition expenses	g	(204)	(205)	(83)	(492)	(995)
Administration expenses	h	(213)	(273)	(60)	(546)	(1,123)
Expenses		(417)	(478)	(143)	(1,038)	(2,118)
DAC/AVIF amortisation and other		111	(143)	1	(31)	(371)
Life business operating profit – continuing operations		492	459	131	1,082	2,123
Life business operating profit – discontinued operations		—	185	—	185	185
Life business operating profit		492	644	131	1,267	2,308

1. In the UK certain items were re-classified between expected return, administration expenses and other items following a methodology change.

Overview
IFRS
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2 – Life business profit driver analysis continued

	6 months 2012				Restated 6 months 2011				Full year 2011
	United Kingdom & Ireland £m	**Developed markets excluding UK & Ireland £m**	**Higher Growth markets £m**	**Total £m**	United Kingdom & Ireland £m	Developed markets excluding UK & Ireland £m	Higher Growth markets £m	Total £m	Total £m
Note (a)									
New business income (£m)	**266**	**120**	**71**	**457**	258	150	63	471	1,037
APE (£m)	**772**	**652**	**232**	**1,656**	841	750	242	1,833	3,519
As margin on APE (%)	**34%**	**18%**	**31%**	**28%**	31%	20%	26%	26%	29%

New business income reflects premiums less initial reserves.

Note (b)									
Underwriting margin (£m)	**108**	**192**	**59**	**359**	108	210	63	381	815
Analysed by:									
Expenses (£m)	**32**	**135**	**22**	**189**	57	138	17	212	447
Mortality and longevity (£m)	**37**	**54**	**35**	**126**	15	67	39	121	262
Persistency (£m)	**39**	**3**	**2**	**44**	36	5	7	48	106

Expense margin represents unwind of annual expense allowance on risk business and assumption changes. Mortality and persistency margins reflect conservative reserving for unit-linked, risk and spread business.

Note (c)									
Unit-linked margin (£m)	**212**	**118**	**109**	**439**	226	135	125	486	976
As annual management charge on average reserves (bps)	**96**	**96**	**161**	**107**	98	91	158	106	109
Average reserves (£bn)	**44.2**	**24.4**	**13.5**	**82.1**	46.0	29.6	15.8	91.4	89.6

Unit-linked margin represents the return made on unit-linked business. Average reserves include managed pension fund assets not consolidated in the IFRS balance sheet.

Note (d)									
Participating business (£m)	**34**	**232**	**—**	**266**	21	244	1	266	556
As bonus on average reserves (bps)	**17**	**75**	**—**	**51**	10	75	9	48	51
Average reserves (£bn)	**40.6**	**62.3**	**2.1**	**105.0**	43.1	65.3	2.2	110.6	109.8

Participating business is shareholders' share of the bonus to policyholders on with-profit and other participating business.

Note (e)									
Spread margin (£m)	**87**	**327**	**25**	**439**	80	263	5	348	813
As spread margin on average reserves (bps)	**46**	**178**	**263**	**115**	49	154	56	101	116
Average reserves (£bn)	**38.0**	**36.6**	**1.9**	**76.5**	32.6	34.3	1.8	68.7	70.0

Spread margin represents the return made on annuity and other non-linked business.

Note (f)									
Expected return on shareholder assets (£m)	**79**	**82**	**17**	**178**	105	78	16	199	415
Equity (%)	**5.8%**	**5.8%**	**n/a**	**5.8%**	7.2%	6.9%	n/a	6.9%	6.9%
Property (%)	**4.3%**	**4.4%**	**n/a**	**4.3%**	5.7%	5.4%	n/a	5.6%	5.6%
Bonds (%)	**4.0%**	**3.8%**	**4.7%**	**3.9%**	5.5%	4.3%	4.3%	4.9%	4.9%

Expected return being the return made on shareholder net assets.

Note (g)									
Acquisition expenses (£m)	**(225)**	**(161)**	**(87)**	**(473)**	(204)	(205)	(83)	(492)	(995)
APE (£m)	**772**	**652**	**232**	**1,656**	841	750	242	1,833	3,519
As acquisition expense ratio on APE (%)	**29%**	**25%**	**37%**	**29%**	24%	27%	34%	27%	28%

Acquisition expenses include commission incurred in writing new business less deferred costs.

Note (h)									
Administrative expenses (£m)	**(205)**	**(267)**	**(64)**	**(536)**	(213)	(273)	(60)	(546)	(1,123)
As existing business expense ratio on average reserves (bps)	**33**	**43**	**73**	**41**	35	43	61	40	42
Average reserves (£bn)	**122.8**	**123.3**	**17.5**	**263.6**	121.7	129.2	19.8	270.7	269.4

Administrative expenses comprise expenses and renewal commissions incurred in managing the existing book.

2 – Life business profit driver analysis continued

(a) New business income

New business income reduced 3% to £457 million *(HY11: £471 million).* This reduction was driven by a 10% reduction in sales volumes (on an APE basis) offset by an improvement in new business income margin to 28% *(HY11: 26%).*

In the UK & Ireland, volumes reduced significantly as a result of the closure of our joint venture with Allied Irish Bank ('AIB') in Ireland, but the impact of this was more than offset by the improved margin. The margin benefitted from the continuing focus on writing profitable new business and changes in the product mix.

New business volumes fell overall in the Developed markets, with growth in the US more than offset by reductions in European markets and margin also deteriorated, principally as a result of changes in product mix. In Higher Growth markets, the increase in new business income was driven by improvements in profitability offsetting a small reduction in sales volumes.

(b) Underwriting margin

The underwriting margin reduced to £359 million *(HY11: £381 million)*. The reduction is mainly due to reallocation of part of the mortality margin to new business income, following a methodology change in France, and lower persistency margins in the Higher Growth Markets.

(c) Unit-linked margin

The unit-linked margin fell to £439 million *(HY11: £486 million).* The margin declined due to lower opening funds under management compared to the prior period, following adverse market movements in the second half of 2011. The margin as a proportion of average reserves increased to 107 bps *(HY11: 106 bps).* Average unit-linked reserves for HY 2012 were £82 billion *(HY11: £91 billion).*

(d) Participating business

Income from participating business was stable at £266 million *(HY11: £266 million).* The shareholder transfer from UK & Ireland with-profit funds increased to £34 million *(HY11: £21 million),* reflecting terminal bonuses on a higher level of outflows. This increase was offset by reduced income in other Developed markets of £232 million *(HY11: £244 million),* mainly due to lower returns in Italy. Participating business income relates primarily to France, which includes a fixed management charge of around 50bps on AFER business.

(e) Spread margin

Spread business income grew strongly to £439 million *(HY11: £348 million)* with growth in reserves of 11% and an improved spread margin on average reserves of 115 bps *(HY11: 101 bps).* Spread margins relate mainly to US equity indexed deferred annuity and life business and UK annuity business. The increase in income is driven by growth in existing business and higher margins in the US.

(f) Expected return on shareholder assets

Expected returns were £178 million *(HY11: £199 million)*, representing investment income on surplus funds. The reduction in income relates to the UK, due to lower expected earnings on the reattributed estate and other surplus assets, and Ireland, reflecting a change in asset mix and a higher loan interest expense.

(g) Acquisition expenses

Acquisition expenses reduced to £473 million *(HY11: £492 million),* driven by lower acquisition costs in developed European markets, mainly Italy, driven by the reduction in sales volumes. This was partly offset by higher costs in the UK, reflecting the changes in business mix. The ratio of acquisition expenses to APE was 29% *(HY11: 27%).*

(h) Administration expenses

Administration expenses reduced to £536 million (*HY11: £546 million)* reflecting the continued focus on costs across the Group. The expense ratio on average reserves was 41 bps *(HY11: 40 bps),* on lower average reserves of £264 billion *(HY11: £271 billion).*

(i) DAC, AVIF and other

DAC, AVIF and other items amounted to a charge of £119 million *(HY11: £31 million charge).* DAC amortisation charges were higher in the US, as a result of the increased spread margin noted above. In other markets, a number of items contributed to the increase in the charge, including lower distribution company profits in France, prior period reserve releases in Spain and current period one off items in China.

3 – General insurance and health

	Underwriting result			Longer-term investment return			Operating profit[1]		
	6 months 2012 £m	6 months 2011 £m	Full year 2011 £m	**6 months 2012 £m**	6 months 2011 £m	Full year 2011 £m	**6 months 2012 £m**	6 months 2011 £m	Full year 2011 £m
General insurance – continuing operations									
United Kingdom[1, 4]	**28**	55	110	**208**	203	425	**226**	242	508
Ireland[1]	**(12)**	4	(5)	**16**	20	38	**3**	24	32
United Kingdom & Ireland	**16**	59	105	**224**	223	463	**229**	266	540
France	**19**	21	70	**25**	28	62	**44**	49	132
Canada[1]	**105**	46	97	**73**	78	168	**173**	118	254
Italy and Other[2]	**—**	(4)	(36)	**19**	18	34	**19**	14	(2)
Developed markets	**140**	122	236	**341**	347	727	**465**	447	924
Higher Growth markets	**(13)**	(9)	(29)	**7**	6	12	**(6)**	(3)	(17)
	127	113	207	**348**	353	739	**459**	444	907
Health insurance – continuing operations									
United Kingdom	**—**	1	4	**4**	4	8	**4**	5	12
Ireland	**—**	8	10	**1**	1	2	**1**	9	12
United Kingdom & Ireland	**—**	9	14	**5**	5	10	**5**	14	24
France	**(2)**	1	11	**1**	—	1	**(1)**	1	12
Developed markets	**(2)**	10	25	**6**	5	11	**4**	15	36
Higher Growth markets	**(2)**	(4)	(8)	**—**	—	—	**(2)**	(4)	(8)
	(4)	6	17	**6**	5	11	**2**	11	28
Total – continuing operations	**123**	119	224	**354**	358	750	**461**	455	935
Total – discontinued operations[3]	**—**	(28)	(28)	**—**	34	34	**—**	1	1
Total	**123**	91	196	**354**	392	784	**461**	456	936

1. Continuing operating profit includes an unfavourable impact of £16 million resulting from a combination of unwind of discount and pension scheme net finance costs *(HY11: £22 million, FY11: £44 million)*. £10 million unfavourable impact relates to UKGI *(HY11: £16 million, FY11: £27 million)*, £1 million relating to Ireland *(HY11: £1 million, FY11: £1 million)*, £5 million unfavourable impact relates to Canada *(HY11: £6 million, FY11: £11 million)*, £nil relating to Delta Lloyd *(HY11: £nil, FY11: £5 million)*.
2. Other includes Aviva Re and agencies in run-off.
3. Discontinued operations relate to the activities of Delta Lloyd prior to its disposal on 6 May 2011.
4. Prior period United Kingdom General Insurance results included RAC.

	Net written premiums		
	6 months 2012 £m	6 months 2011 £m	Full year 2011 £m
General insurance – continuing operations			
United Kingdom	**2,087**	2,222	4,371
Ireland	**174**	200	367
United Kingdom & Ireland	**2,261**	2,422	4,738
France	**458**	456	789
Canada	**1,081**	1,025	2,083
Italy and Other[1]	**237**	248	484
Developed markets	**4,037**	4,151	8,094
Higher Growth markets	**93**	89	181
	4,130	4,240	8,275
Health insurance – continuing operations			
United Kingdom	**255**	245	473
Ireland	**57**	57	104
United Kingdom & Ireland	**312**	302	577
France	**123**	128	227
Developed markets	**435**	430	804
Higher Growth markets	**50**	38	83
	485	468	887
Total – continuing operations	**4,615**	4,708	9,162
Total – discontinued operations[2]	**—**	557	557
Total	**4,615**	5,265	9,719

1. Other includes Aviva Re and agencies in run-off.
2. Discontinued operations relate to the activities of Delta Lloyd prior to its disposal on 6 May 2011.

3 – General insurance and health continued

Combined operating ratios – general insurance business only

	Claims ratio			Expense ratio			Combined operating ratio		
	6 months 2012 %	6 months 2011 %	Full year 2011 %	**6 months 2012 %**	6 months 2011 %	Full year 2011 %	**6 months 2012 %**	6 months 2011 %	Full year 2011 %
United Kingdom[1]	**61.5%**	62.5%	62.1%	**10.3%**	10.5%	10.3%	**97%**	96%	96%
Ireland	**71.9%**	68.5%	70.7%	**23.3%**	19.0%	21.1%	**106%**	98%	102%
United Kingdom & Ireland	**62.3%**	63.0%	62.8%	**11.3%**	11.2%	11.1%	**98%**	97%	97%
France	**65.2%**	65.0%	61.2%	**9.4%**	8.7%	11.1%	**92%**	92%	90%
Canada	**57.9%**	64.9%	64.1%	**12.4%**	12.0%	11.9%	**90%**	96%	95%
Developed markets	**62.1%**	64.3%	64.1%	**11.0%**	10.8%	11.0%	**95%**	96%	96%
Higher Growth markets	**76.8%**	71.4%	77.9%	**21.5%**	20.0%	22.9%	**115%**	108%	117%
Total – continuing operations	**62.4%**	64.4%	64.4%	**11.3%**	11.0%	11.3%	**95.5%**	96.3%	96.8%

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

Detailed analysis is given within the IFRS supplement, note A20.

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.
Combined operating ratio	Aggregate of claims ratio, expense ratio and commission ratio.
Commission ratio	Written commissions expressed as a percentage of net written premiums.

Group operating profit from continuing general insurance and health operations for the period was £461 million *(HY11: £455 million)*, driven by good performance in the UK, absorbing the impact of the disposal of RAC last year, and Canada.

We continue to apply our reserving policy consistently and to focus on understanding the true cost of claims to ensure that reserves are maintained at a robust level. Prior year reserve movements will vary year to year but our business is predominantly short tail in nature and the loss development experience is generally stable. Over the first half of 2012, we have had prior year releases benefiting operating profit by £37 million.

The worldwide general insurance combined operating ratio (COR) improved slightly to 95.5% *(HY11: 96.3%)*. The worldwide GI expense ratio is in line with the prior year at 11.3% *(HY11: 11.0%)*.

The longer term investment return (LTIR) on continuing general insurance and health business assets was lower at £354 million *(HY11: £358 million)* reflecting lower investment yields compared with the prior period.

United Kingdom & Ireland

Operating profit for our general insurance and health business in the UK and Ireland of £234 million *(HY11: £280 million)* comprises:

- £226 million from UK general insurance (*HY11: £242 million*), the comparative period includes RAC which was sold in September 2011 and does not form part of the results for this year;
- a contribution of £3 million (*HY11: £24 million*) from Ireland general insurance; and,
- £5 million from our UK and Ireland health businesses (*HY11: £14 million*).

All subsequent commentary relates to our general insurance businesses.

In the **United Kingdom** for the first six months of the year total **operating profit** was £226 million *(HY11: £242 million)*. Excluding the RAC contribution of £49 million in 2011, this represented a like-for-like increase of 17% as we continued to deliver profitable growth through a focus on underwriting, claims and cost management. The action we took last year to exit poor performing business lines has also had a positive effect, particularly in commercial motor where we have seen a 12 percentage point improvement in the combined operating ratio compared to FY11. The result includes an estimated £40 million of weather-related claims costs in June. The overall weather impact was only marginally adverse to the long-term average for the period due to benign weather for the first five months of the period. The result also includes a release of £12 million from prior year claims reserves *(HY11: £12 million strengthening)* and a small increase in investment return to £208 million *(HY11: £203 million)*.

Our **combined operating ratio** was 97% *(HY11: 96%)*, with the improvement in underlying underwriting performance offset by the adverse weather and loss of RAC contribution. The expense ratio has improved to 10.3% *(HY11: 10.5%)*, reflecting our continued focus on efficiency.

Total **net written premiums** of £2,087 million *(HY11: £2,222 million)* are 5% higher on an underlying basis when the contributions from RAC and a one-off corporate partner deal are excluded from HY11. The underlying rise in premiums reflects our focus on the areas we believe provide the most opportunity for profitable growth.

Personal motor has seen a 13% increase in premiums, excluding RAC, and a **combined operating ratio** of 96%. We now have 2.4 million personal motor customers, an increase of 185,000 since the start of 2012, fuelled by new initiatives such as Quotemehappy and Multicar. Since the start of 2012, 120,000 new customers joined Quotemehappy. We have also seen like-for-like (excluding the one off corporate partner deal) growth in personal and commercial speciality lines of 7% compared to the first half of 2011. Corporate and Speciality Risks continue to perform well as we grow steadily in line with our risk appetite.

3 – General insurance and health continued

We have continued to see good profitability in personal lines, with broadly neutral year-on-year personal motor rating in line with the slowdown in the market, and an increase of 3% applied in homeowner. Whilst conditions in commercial lines remain challenging, the management action we took to exit poor performing accounts last year has resulted in an improvement in profitability. We have applied rating increases of 6% in motor, 2% in property and 3% in liability.

In **Ireland, operating profit** has fallen to £3 million *(HY11: £24 million)* reflecting materially adverse weather claims from June flooding in Cork of £11 million and the difficult economic conditions which have impacted volumes. As a result, the **combined operating ratio** has risen to 106% *(HY11: 98%)*. We are confident that the restructuring of the business we are undertaking will reduce costs and significantly improve profitability in the future.

France

General insurance and health **net written premiums** were broadly level at £581 million (*HY11: £584 million*). This is a 6% increase on a local currency basis, of which 4% was for rate increases and 2% for volume increases.

General insurance and health **operating profit** decreased 14% to £43 million (*HY11: £50 million*) mainly as a result of adverse weather in February 2012, compared with favourable weather in the first half of 2011, partly offset by favourable large and other claim developments. This also contributed to a slight increase in the **combined operating ratio** to 92.4% (*HY11: 91.8%*).

Canada

Net written premiums of £1,081 million (*HY11: £1,025 million*) have increased 5% on HY11 on a sterling basis and 6% on a local currency basis. Sales continue to increase in both personal and commercial lines, this is a reflection of rate increases as well as high retention and new business wins. We now have over 2.4 million policies which is up 45,000 from the same period last year.

The **underwriting result** was £105 million (*HY11: £46 million*), showing the benefits of benign weather, sophisticated pricing and underwriting discipline which delivered good operating results in the first half of the year. The results also benefited from favourable prior year development largely as a result of the Ontario Auto reform. The organisation remains focused on profitable growth, generating **operating profit** that is up 47% to £173 million *(HY11: £118 million).* Overall **combined operating ratio** of 90% (*HY11: 96%*) also benefited from the improvements in claims ratio reflecting a decrease in both the frequency and severity of claims from HY11.

Italy and Other

Total net written premiums for Italy and Other was £237 million (*HY11: £248 million*).

In **Italy** general insurance **net written premiums** are 9% lower at £186 million (*HY11: £205 million*), a decrease of 4% on a local currency basis. This was predominantly driven by a significant decrease in the personal creditor book, partially offset by premium increases on other lines of business.

Higher Growth markets

Overall **net written premiums** in the general insurance and health business rose to £143 million *(HY11: £127 million)*. The **combined operating ratio** for higher growth markets was 115% *(HY11: 108%)*, due to higher claims costs especially in Turkey which has more than offset improvements in Poland.

In **Poland**, general insurance net written premiums were in line at £32 million (*HY11: £33 million*), (up 10% on a local currency basis) due to a 10% rate increase for commercial property and volume increases across the portfolio.

In **Asia**, net written premiums in the general insurance and health business rose to £61 million (*HY11: £50 million*) due to strong business growth in **Singapore** and **Indonesia**. The **operating loss** reduced to £1 million (*HY11: £4 million*).

In **Turkey** general insurance net written premiums have increased by 7% to £50 million (*HY11: £45 million*), a 25% increase on a local currency basis, driven by volume increases and also by rating actions across the portfolio during 2012.

4 – Fund management

Geographical analysis of fund management adjusted operating profits

	6 months 2012 £m	6 months 2011 £m	Full year 2011 £m
Aviva Investors[1]	**34**	39	88
United Kingdom	**4**	3	11
Total – continuing operations	**38**	42	99
Total – discontinued operations	**—**	11	11
Total	**38**	53	110

1. Aviva Investors total operating profit of £35 million *(HY11: £41 million, FY11: £91 million)* also includes profit from the Aviva Investors pooled pensions business of £1 million *(HY11: £2 million; FY11: £3 million)*, which is included in the life segment.

Worldwide fund management operating profit for continuing operations decreased to £38 million *(HY11: £42 million)*.

Aviva Investors

Operating profit was lower at £34 million for the first half of 2012 *(HY11: £39 million)*. The reduction in profits was as a result of lower performance fees and the sale of Aviva Investors Australia in Q3 2011, partially offset by higher management fee income and lower operating expenditure driven by cost savings.

During the first half of 2012, investment performance was robust with 64% of funds ahead of benchmark on a weighted 1 and 3 year basis. Net funded external sales (excluding liquidity funds) in the first half were £1.6 billion against £2.5 billion for HY11, a decrease of 36%. This sales total includes around £0.5 billion of redemptions in HY12 following our decision to scale back our presence in the European financial institutions sector.

United Kingdom

United Kingdom operating profit of £4 million relates solely to the Aviva UK investment business *(HY11: £3 million)*. The increase in operating profit is a result of increased funds under management resulting in higher income.

Funds under management

Funds under management at 30 June 2012 were £342 billion *(FY 11: £337 billion)*.

	30 June 2012			31 December 2011		
	Aviva Investors £m	**Other Aviva and external managers £m**	**Total £m**	Aviva Investors £m	Other Aviva and external managers £m	Total £m
Internal funds under management	**218,712**	**51,611**	**270,323**	210,341	58,663	269,004
Third party funds under management	**55,274**	**16,316**	**71,590**	52,165	15,392	67,557
Funds under management	**273,986**	**67,927**	**341,913**	262,506	74,055	336,561

Funds managed by Aviva Investors were up 4% to £274 billion *(FY11: £263 billion)*, with assets managed for external clients increasing 6% to £55 billion *(FY11: £52 billion)*. The growth in funds under management was due to positive net flows and capital appreciation.

Further analysis is given within the IFRS supplement, note A21.

4 – Fund management continued

Net flows

	Funds under management at 1 Jan 2012 £m	Premiums and deposits, net of reinsurance £m	Claims and redemptions, net of reinsurance £m	Net flows £m	Market and other movements £m	Funds under management at 30 June 2012 £m
Life business						
United Kingdom – non profit	75,540	3,011	(2,898)	113	697	76,350
United Kingdom – with-profits	46,178	441	(2,477)	(2,036)	68	44,210
Ireland	8,861	350	(578)	(228)	110	8,743
United Kingdom & Ireland	130,579	3,802	(5,953)	(2,151)	875	129,303
France	62,654	1,952	(2,462)	(510)	1,819	63,963
United States	34,256	2,005	(1,622)	383	1,003	35,642
Italy, Spain and Other	26,246	1,941	(2,924)	(983)	301	25,564
Developed markets	253,735	9,700	(12,961)	(3,261)	3,998	254,472
Higher Growth markets	5,446	461	(327)	134	113	5,693
Life business – continuing operations	259,181	10,161	(13,288)	(3,127)	4,111	260,165
Other funds under management included within consolidated IFRS assets	21,637					21,300
Third party funds under management not included within consolidated IFRS assets	55,743					60,448
Funds under management	336,561					341,913

Life business

United Kingdom and Ireland

During the first half of 2012, the net inflows of £0.1 billion for the UK non-profit business were mainly the result of sales of group personal pensions and individual annuities, offset by lower sales and withdrawals from unit-linked bond products. Net outflows from the with-profits book and Ireland amounted to £2.0 billion and £0.2 billion respectively.

France

Life business net outflows of £0.5 billion are mainly driven by lower sales of savings products and higher redemptions compared to HY11. Other movements reflect adverse foreign exchange movements, driven by the weakening of the Euro against Sterling, which were more than offset by positive market movements.

Italy, Spain and Other

Net outflows of £1.0 billion are primarily driven by Italy (lower savings and protection sales) and Spain (lower savings and protection sales and higher redemptions), reflecting the challenging market and economic conditions across the eurozone. Other movements reflect adverse foreign exchange movements, driven by the weakening of the Euro against Sterling, which were offset by net positive market movements.

United States

Net inflows in our US business are driven by the continued growth of our protection and annuity portfolios. Other movements reflect favourable market movements partly offset by unfavourable foreign exchange impacts.

5 – Other operations

	6 months 2012 Total £m	6 months 2011 Total £m	Full year 2011 Total £m
Developed markets	**(26)**	(17)	(49)
Higher Growth markets	**(7)**	(14)	(25)
Other operations	**(69)**	(50)	(133)
Total – continuing operations	**(102)**	(81)	(207)
Total – discontinued operations	**—**	(2)	(2)
Total	**(102)**	(83)	(209)

Other operations costs have increased to £102 million *(HY11: £83 million)*. Within the £26 million total for Developed markets in half year 2012, £11 million relates to expenses incurred in the transfer of the RAC pension scheme. Within the total for other operations, £35 million relates to the running costs of the Aviva Europe and North America regional offices for the first half of the year. Subsequently the North America regional office has closed. The balance is incurred in the Group Centre.

Note A22 in the IFRS supplement gives further information on the operational cost base.

6 – Corporate centre

	6 months 2012 £m	6 months 2011 £m	Full year 2011 £m
Project spend	**(9)**	(11)	(19)
Share awards and other incentive schemes	**(4)**	(7)	(16)
Central spend	**(51)**	(48)	(103)
Total	**(64)**	(66)	(138)

Corporate Centre costs decreased to £64 million *(HY11: £66 million)* driven mainly by a small reduction in project spend. Share award costs were lower driven by staff leavers and a revaluation of the scheme. These reductions were partly offset by higher central spend.

7 – Group debt costs and other interest

	6 months 2012 £m	6 months 2011 £m	Full year 2011 £m
External debt			
Subordinated debt	**(146)**	(147)	(302)
Other	**(12)**	(13)	(22)
Total external debt	**(158)**	(160)	(324)
Internal lending arrangements	**(158)**	(134)	(287)
Net finance charge on main UK pension scheme	**(18)**	(27)	(46)
Total – continuing operations	**(334)**	(321)	(657)
Total – discontinued operations	**—**	(4)	(4)
Total	**(334)**	(325)	(661)

Group debt costs and other interest for continuing operations of £334 million *(HY11: £321 million)* include external interest on borrowings (mainly subordinated debt), internal lending arrangements and the net finance charge on the main UK pension scheme. External interest costs remained consistent at £158 million *(HY11: £160 million)* and interest costs on internal lending arrangements increased to £158 million *(HY11: £134 million)* due to changes in internal debt balances through the period.

The UK pension scheme net charge represents the difference between the expected return on pension scheme assets and the interest charged on pension scheme liabilities. The net pension charge reduced to £18 million *(HY11: £27 million)* mostly due to the reduction in the discount rate.

8 – Integration and restructuring costs

The integration and restructuring costs totalled £186 million (*HY11: £111 million*). This includes costs associated with preparing the businesses for Solvency II implementation of £72 million, a £44 million charge relating to the merging of the UK and Ireland businesses and a £17 million expense associated with the transformation of Aviva Investors. Expenditure relating to other restructuring exercises across the Group is £53 million.

9 – Investment return variances and economic assumption changes on life business

(a) Definitions

Operating profit for life 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, where not treated as exceptional. 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 life operating profit are as follows:

	Life business		
	6 months 2012 £m	6 months 2011 £m	Full year 2011 £m
Investment variances and economic assumptions – continuing operations	**(212)**	(187)	(796)
Investment variances and economic assumptions – discontinued operations	**—**	(820)	(820)
Investment variances and economic assumptions	**(212)**	(1,007)	(1,616)

For continuing operations, negative investment variances of £212 million *(HY11: £187 million negative)* mainly reflect the impact of ongoing volatility of asset values in our Developed markets. The majority of this variance relates to the UK, where the allowance for credit defaults on UK commercial mortgages has increased reflecting up-to-date market information, and there have also been adverse market movements on other assets. Elsewhere, positive variances in the US, Italy and France have been offset by the adverse impact of widening credit spreads on Spanish assets. In the prior period, the negative variance related primarily to the impact of increased credit spreads on assets in Italy and Ireland.

The variance for discontinued operations in the prior period refers to the result for Delta Lloyd up to the partial disposal on 6 May 2011. Liabilities in Delta Lloyd are discounted using a yield curve based on a fully collateralised AAA bond portfolio. Over the period up to the partial disposal, the AAA collateralised bond credit spread narrowed by about 80bps as a result of changes in the underlying bond index, which was the main driver of the negative variance of £820 million.

(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.

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

	Equities			Properties		
	6 months 2012 %	6 months 2011 %	Full year 2011 %	**6 months 2012 %**	6 months 2011 %	Full year 2011 %
United Kingdom	**5.8%**	7.2%	7.2%	**4.3%**	5.7%	5.7%
Eurozone	**5.9%**	6.9%	6.9%	**4.4%**	5.4%	5.4%

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 margin. These are the same assumptions as are used under MCEV principles to calculate the longer-term investment return for the Group's life business.

For fixed interest securities classified as fair value through profit or loss, the expected investment returns are based on average prospective yields for the actual assets held less an adjustment for credit risk. Where such 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.

10 – Short-term fluctuation in return on investments on general insurance and health business

Continuing operations	General insurance and health 6 months 2012 £m	6 months 2011 £m	Full year 2011 £m
Net investment income	**422**	369	725
Foreign exchange on unrealised gains/losses and other charges	**(11)**	(91)	(99)
	411	278	626
Analysed between:			
Longer-term investment return, reported within operating profit	**354**	358	750
Short-term fluctuations in investment return, reported outside operating profit	**57**	(80)	(124)
	411	278	626
Short-term fluctuations on general insurance and health	**57**	(80)	(124)
Short-term fluctuations on other operations[1]	**(26)**	—	(142)
Total short-term fluctuations as per Group operating profit – continuing operations	**31**	(80)	(266)
Total short-term fluctuations as per Group operating profit – discontinued operations	**—**	(60)	(60)
Total short-term fluctuations as per Group operating profit	**31**	(140)	(326)

1 Represents assets backing non-life business in France holding company.

The longer-term investment return is calculated separately for each principal non-life 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 year. Actual income and longer-term investment return both contain the amortisation of the discounts/premium arising on the acquisition of fixed income securities.

General insurance and health includes the impact of the unrealised and realised gains on Group centre investments, including the centre hedging programme which is designed to economically protect the total Group's capital against adverse equity and foreign exchange movements.

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

	30 June 2012 £m	Restated 30 June 2011 £m	Restated 31 December 2011 £m
Debt securities	**9,515**	10,059	9,371
Equity securities	**450**	419	551
Properties	**144**	129	152
Cash and cash equivalents	**2,327**	2,605	2,315
Other	**6,193**	5,005	6,476
Assets supporting general insurance and health business	**18,629**	18,217	18,865
Assets supporting other non-life business[1]	**233**	385	268
Total assets supporting non-life business	**18,862**	18,602	19,133

1 Represents assets in France holding company backing non-life business.

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 2012 %	6 months 2011 %	Full year 2011 %	**6 months 2012 %**	6 months 2011 %	Full year 2011 %
United Kingdom	**5.8%**	7.2%	7.2%	**4.3%**	5.7%	5.7%
Ireland	**5.9%**	6.9%	6.9%	**4.4%**	5.4%	5.4%
France	**5.9%**	6.9%	6.9%	**4.4%**	5.4%	5.4%
Canada	**5.8%**	7.0%	7.0%	**4.3%**	5.5%	5.5%
Netherlands – Discontinued	**5.9%**	6.9%	6.9%	**4.4%**	5.4%	5.4%

The underlying reference rates are at E15 within the MCEV financial supplement.

11 – Economic assumption changes on general insurance and health business

Economic assumption changes of £18 million adverse *(HY11: £8 million adverse)* arise as a result of the reduction in the swap rate used to discount latent claims reserves.

12 – Impairment of goodwill, associates, joint ventures and other amounts expensed

Impairment of goodwill, associates and joint ventures is a charge of £603 million *(HY11: £20 million charge)*. This was driven by an impairment of £787 million in relation to goodwill on the US business following a business review and a small write down in Italy. These write offs were partly offset by a reversal of the impairment recognised in FY11 in respect of our investment in Delta Lloyd of £205 million. The total writedown relating to US goodwill and intangibles is £876 million, with the balance of £89 million included within amortisation and impairment of intangibles.

13 – Loss on the disposal of subsidiaries and associates

The total Group loss on disposal of subsidiaries and associates was £30 million *(HY11: £43 million loss)*. This includes £21 million arising from residual costs related to the sale of RAC in September 2011.

14 – Exceptional items

Exceptional items are those items that do not form part of other disclosures and in the Directors' view are required to be separately disclosed by virtue of their size or incidence to enable a full understanding of the Group's financial performance. There were no exceptional items during the first half of 2012 *(HY11: £nil)*.

15 – Share of the results of Delta Lloyd as an associate

The Group's share of the results of its associate interest in Delta Lloyd for the period was an expense of £304 million. This included operating profit of £112 million, a non-operating charge of £523 million (which primarily reflects the adverse impact of investment variances relating to differing movements in the asset and liability yield curves used by Delta Lloyd) and a tax credit of £107 million. In addition, as described in note 12 above, an amount previously recognised in FY11 as an impairment of £205 million has been reversed during the current period.

New business

16 – Life and pensions sales

Life and pensions (gross of tax and non controlling interests)	Present value of new business premiums 6 months 2012 £m	6 months 2011 £m	Full year 2011 £m	Value of new business 6 months 2012 £m	6 months 2011 £m	Full year 2011 £m	New business margin 6 months 2012 %	6 months 2011 %	Full year 2011 %
United Kingdom	**5,387**	5,434	11,254	**182**	190	380	**3.4%**	3.5%	3.4%
Ireland	**342**	553	917	**(6)**	2	(4)	**(1.8)%**	0.4%	(0.4)%
United Kingdom & Ireland	**5,729**	5,987	12,171	**176**	192	376	**3.1%**	3.2%	3.1%
France	**1,944**	2,345	4,047	**62**	97	142	**3.2%**	4.1%	3.5%
United States	**2,073**	1,658	3,932	**(138)**	(86)	(131)	**(6.7)%**	(5.2)%	(3.3)%
Italy	**1,259**	1,778	2,993	**14**	50	75	**1.1%**	2.8%	2.5%
Spain	**705**	1,015	1,926	**21**	49	86	**3.1%**	4.8%	4.5%
Other	**98**	155	262	**—**	3	5	**—**	1.9%	1.9%
Developed markets	**11,808**	12,938	25,331	**135**	305	553	**1.1%**	2.4%	2.2%
Poland	**201**	305	487	**18**	20	45	**9.0%**	6.6%	9.2%
Asia	**913**	902	1,782	**37**	34	71	**4.1%**	3.8%	4.0%
Other	**181**	172	320	**15**	10	20	**8.3%**	5.8%	6.3%
Higher Growth markets	**1,295**	1,379	2,589	**70**	64	136	**5.4%**	4.6%	5.3%
Total life and pensions – continuing operations	**13,103**	14,317	27,920	**205**	369	689	**1.6%**	2.6%	2.5%
Total life and pensions – discontinued operations[1]	**—**	1,085	1,085	**—**	1	1	**—**	0.1%	0.1%
Total life and pensions	**13,103**	15,402	29,005	**205**	370	690	**1.6%**	2.4%	2.4%

1. Prior period discontinued operations represent the results of Delta Lloyd up to 6 May 2011 only.

See New Business section for further analysis of sales volumes. New business internal rates of return are included in the Capital Management section.

Developed Markets
United Kingdom & Ireland

In the **United Kingdom** total life and pensions sales were broadly flat at £5,387 million (*HY11: £5,434 million)* as we concentrated on maintaining a disciplined approach to pricing and capital usage in a difficult market. Excluding Bulk Purchase Annuities, (where we are focused on writing smaller, more profitable deals), sales were up 4%.

Overall new business IRR was 15% which was in line with year-end but down on prior year (*HY11: 16%*).

Pensions sales were up 2% to £2,762 million (*HY11: £2,708 million*). Within this, Group Personal Pensions sales were £1,661 million, 17% higher than HY11 *(£1,420 million*) as we continued our move into the larger scheme, 'free of commission' market in the run up to the implementation of the Retail Distribution Review. Individual Pensions (including SIPP) sales were up 5% to £1,009 million (*HY11: £965 million*), including 80% growth in SIPP sales to £144 million (*HY11: £80 million*). Corporate Pensions were down to £91 million (*HY11: £323 million*).

Sales of **Annuities** were down 3% to £1,555 million (*HY11: £1,610 million*) reflecting our focus on smaller, more profitable BPA schemes. Individual Annuities sales were £1,492m, up 14% on prior year (*HY11: £1,305 million*) and we remain market leader[3]. Sales of Bulk Purchase Annuities were £63 million (*HY11: £305 million*). Sales of **Equity Release** were £209 million (*HY11: £160 million*); up 31% as we deployed risk based pricing expertise, developed in the annuities market, to this product.

Protection sales were 24% higher than HY11 at £608 million *(HY11: £490 million)*. We were also pleased to recently announce a further strategic partnership for the sale of protection products with Tesco and we anticipate reporting volumes from this deal in the fourth quarter of 2012.

Sales of **Bonds** continue to be impacted by the change in distribution in advance of the Retail Distribution Review. Sales were down 46% to £253 million (*HY11: £466 million*) and we expect this trend to continue in the second half of the year.

Our business in **Ireland** saw sales down 38% to £342 million with a reduced IRR and margin. The main driver of the decrease was the closure to new business of our joint venture with Allied Irish Bank ('AIB') from April 2012. Our non AIB business produced sales of £251 million (*HY11: £278 million*). This is a decrease of 4% on a local currency basis and is a reflection of wider market falls in Ireland.

3 Based on ABI Q1 data

16 – Life and pensions sales continued

France

Market uncertainties have led to a 17% decrease in **life and pensions sales** to £1,944 million (*HY11: £2,345 million*), a decrease of 12% on a local currency basis with sales of both the AFER product and those through Credit du Nord declining. This level nevertheless outperforms the French market which declined by 17%[4]. Sales of the AFER product have recovered slightly since the deterioration in the first quarter as the annual rate announcement has supported consumer confidence. Investment market conditions have impacted the margin on participating business leading to an overall decline in the French margin which is now 3.2% *(HY11: 4.1%)*. In spite of difficult market conditions the IRR was up at 11.1% *(HY11: 10.8%)*.

United States

Total **life and pension sales** increased 25% to £2,073 million (*HY11: £1,658 million*) pricing discipline has been maintained and the increase partly reflects the low comparator for HY11. We continue to focus on growth of our life business with life sales now accounting for 30% of total sales (*HY11: 28%)*. Individually, life sales grew 34% to £613 million (H*Y11: £456 million*) and annuity sales increased 21% to £1,460 million (*HY11: £1,202 million*).

As we enter the second half of the year, we expect annuity sales to be relatively flat in comparison to 2011 due to the current low interest rate environment in the US and as we focus on value over volume. The life new business IRR remains stable at 14% (*HY11: 14%*).

Italy

In Italy the ongoing tough economic environment has led to a 29% deterioration in **life and pensions sales** at £1,259 million (*HY11: £1,778 million*), with a 49% fall in protection as demand for mortgages continues to be weak combined with reduced consumer appetite for unit-linked products. Investment market conditions have particularly affected the profitability of with profits products leading to a decreased margin of 1.1% (*HY11: 2.8%*) whilst IRR remains at 12% (*HY11: 12%*). In Italy we are focused on improving financial performance in difficult trading conditions, reducing the capital intensity of new business and securing a more profitable product mix.

Spain

The challenges facing the economy continue to impact Spain's results with **life and pensions sales** decreasing by 31% to £705 million *(HY11: £1,015 million)*. Protection sales have decreased 26% against a backdrop of a 45%[5] fall in mortgages; we are now the market leader in individual protection sales[6].

The reduction in absolute volume of protection sales has caused a fall in the overall margin from 4.8% to 3.1%.

Higher Growth Markets

Poland

Life and pensions sales are down 34% to £201 million (*HY11: £305 million*), a reduction of 26% on a local currency basis. We have been successful in increasing margin to 9% and IRR to 22% (*HY11: 6.6%; 20%* respectively) which reflects the repositioning of the sales force and a positive movement in mix. There have been several factors contributing to the decline in sales including the change in regulation to prevent the proactive marketing of pension products and a large group protection scheme sold in HY11.

Asia

Singapore continued to show strong growth with a 27% increase in life and pension sales to £309 million (*HY11: £244 million*), driven by robust bancassurance sales performance with the Development Bank of Singapore.

In **China**, industry growth has slowed with the economic downturn and the impact of prior year changes to bancassurance regulations. Attractive bank deposit rates have further reduced demand for longer term insurance savings plans. Life and pension sales decreased by 22% to £161 million (*HY11: £207 million*). We continue to shift our focus from investment-oriented products to protection products and to build our customer base in the high net worth segment of the market in the face of heightened competition across all distribution channels.

In **India**, life and pension sales increased by 12% to £56 million (*HY11: £50 million*), 27% on local currency basis, as we strengthened our distribution network and focussed on traditional business in line with industry trends following changes to market regulation.

In other markets, life and pension sales decreased by 3% to £387 million (*HY11: £401 million*). **Korea** life and pensions sales were down 3%, while **Malaysia's** life and pension sales increased by 48% driven by the success of marketing campaigns. **Hong Kong's** life and pension sales decreased by 24% mainly in unit-linked products, as we continue to face a challenging economic environment, and strong competition from the industry.

Other higher growth markets

Life and pensions sales in **Turkey** have increased by 13% to £141 million (*HY11: £125 million*), with strong sales of pensions maintaining our position as second in this market[7].

Life and pensions sales in **Russia** have decreased by 15% to £40 million (*HY11: £47 million*).

4. FFSA or Fédération Française des Sociétés d'Assurances as at June 2012.
5. The Instituto Nacional de Estadistica (INE) based on a 45% decrease in household mortgage approvals by value from the 12 months to May 2011 to the 12 months to May 2012.
6. Investigación Cooperativa entre Entidades Aseguradores as at 31 March 2012.
7. Turkish Pensions - Monitoring Centre (www.egm.org.tr).

17 – Investment sales

	6 months 2012 £m	6 months 2011 £m	Full year 2011 £m
United Kingdom & Ireland	**823**	782	1,689
Aviva Investors	**1,043**	931	1,583
Higher Growth markets	**68**	117	201
Total investment sales – continuing operations	**1,934**	1,830	3,473
Total investment sales – discontinued operations[1]	**—**	170	170
Total investment sales	**1,934**	2,000	3,643

1. Prior period discontinued operations represent the results of Delta Lloyd up to 6 May 2011 only.

Total **investment sales** from continuing operations of £1,934 million were 6% higher than the same period last year *(HY11: £1,830 million)*.

UK & Ireland investment sales (Collectives Investments) increased to £823 million *(HY11: £782 million)* in difficult trading conditions, supported by good growth in sales through our wrap platform, up 66% to £92 million.

Aviva Investors investment sales increased by 12% to £1,043 million *(HY11: £931 million)* reflecting continued strong inflows into the Global High Yield and the Emerging Market Bond & Equity funds (which account for 60% of sales) as well as new mandates in Taiwan.

Investment sales in **Higher Growth markets** were 42% lower at £68 million *(HY11: £117 million)* reflecting continued challenging market conditions in Singapore.

Capital performance

18 – Capital generation and utilisation

The active management of the generation and utilisation of capital is a primary Group focus, with the balancing of new business investment and shareholder distribution with operating capital generation a key financial priority.

The half-year 2012 result of £0.9 billion reinforces our confidence in the capital generation position of the Group. Profits from existing life business remain strong, generating £1.0 billion of capital *(HY11: £1.0 billion)*, with a further £0.3 billion *(HY11: £0.3 billion)* generated by the general insurance and fund management business and other operations businesses. Capital invested in new business was £0.4 billion *(HY11: £0.5 billion)*, and continues to benefit from management actions to improve capital efficiency. The £0.4 billion of capital investment is mostly life new business with the impact of capital investment in non-life business broadly neutral over the period.

	6 months 2012 £bn	6 months 2011 £bn	Full year 2011 £bn
Operating capital generation:			
Life in-force profits	**1.0**	1.0	2.3
General insurance, fund management and other operations profits	**0.3**	0.3	0.6
Operating capital generated before investment in new business	**1.3**	1.3	2.9
Capital invested in new business	**(0.4)**	(0.5)	(0.8)
Operating capital generated after investment in new business	**0.9**	0.8	2.1

Operating capital generation comprises the following components:
- Operating Free surplus emergence, including release of required capital, for the life in-force business (net of tax and minorities);
- Operating profits for the general insurance and non-life businesses (net of tax and minorities);
- Capital invested in new business. For life business this is the impact of initial and required capital on free surplus. For general insurance business this reflects the movement in required capital, which has been assumed to equal the regulatory minimum multiplied by the local management target level. Where appropriate movements in capital requirements exclude the impact of foreign exchange and other movements deemed to be non-operating in nature
- Post deconsolidation on 6 May 2011, all Delta Lloyd capital generation, including life business, has been included within general insurance, fund management and other operations profits on an IFRS basis.

The amount of operating capital remitted to Group is dependent upon a number of factors including non-operating items and local regulatory requirements.

19 – Internal rate of return and payback period

As set out above, the Group generates a significant amount of capital each year. This capital generation supports both shareholder distribution and reinvestment in new business. The internal rates of return on new business written during the period are set out below. We manage new business against a target IRR of 13% or above and a target payback of 10 years or less.

	6 months 2012 IRR %	6 months 2011 IRR %	Full year 2011 IRR %	**6 months 2012 Payback period years**	6 months 2011 Payback period years	Full year 2011 Payback period years
United Kingdom	**15%**	16%	15%	**7**	7	7
Ireland	**2%**	8%	6%	**20**	8	12
United Kingdom & Ireland	**13%**	15%	14%	**9**	7	8
France	**11%**	11%	11%	**8**	8	8
United States	**14%**	14%	14%	**5**	5	5
Spain	**16%**	23%	23%	**4**	4	4
Italy	**12%**	12%	12%	**6**	6	6
Other	**8%**	8%	9%	**10**	9	8
Developed markets	**13%**	14%	14%	**7**	6	6
Poland	**22%**	20%	24%	**4**	5	4
Asia	**12%**	13%	13%	**11**	12	12
Other	**29%**	23%	22%	**3**	3	4
Higher Growth markets	**17%**	17%	17%	**8**	8	9
Total excluding Delta Lloyd	**13.6%**	14.3%	14.4%	**7**	6	7
Delta Lloyd[1]	**—**	10%	10%	**—**	10	10
Total	**13.6%**	13.9%	14.3%	**7**	7	7

1. Comparative periods include the results of Delta Lloyd up to 6 May 2011.

20 – Return on equity

On an IFRS basis return on equity shareholders' funds is 10.7% *(FY11: 12.0%)* falling as a result of lower operating return.

	IFRS basis	
	Annualised 30 June 2012 %	31 December 2011 %
Life assurance	**10.2%**	10.7%
General insurance and health	**11.4%**	13.8%
Fund management	**24.8%**	32.1%
Other business	**13.1%**	124.4%
Corporate	**217.5%**	39.5%
Return on total capital employed (excluding Delta Lloyd)	**8.2%**	9.4%
Delta Lloyd	**21.6%**	5.7%
Return on total capital employed	**8.7%**	8.6%
Subordinated debt	**4.8%**	4.9%
External debt	**2.6%**	1.3%
Return on total equity	**10.1%**	10.2%
Less: Non-controlling interests	**11.8%**	6.0%
Direct capital instruments and fixed rate Tier 1 notes	**—**	4.3%
Preference capital	**8.5%**	8.5%
Return on equity shareholders' funds	**10.7%**	12.0%

21 – Net asset value

At 30 June 2012 IFRS net asset value per share was 395 pence *(FY11: 435 pence)*, the decrease driven by investment losses, impairment of goodwill and intangible assets in the US, losses in Delta Lloyd (principally driven by movements in the DLG curve), and the payment of the 2011 final dividend. MCEV net asset value per share was 421 pence *(FY11: 441 pence)* decreasing due to similar factors.

	IFRS			MCEV		
	30 June 2012 £m	30 June 2011 £m	31 December 2011 £m	**30 June 2012 £m**	Restated 30 June 2011 £m	31 December 2011 £m
Total equity at 1 January	**15,363**	17,725	17,725	**15,495**	20,205	20,205
Movement in Delta Lloyd equity to 6 May 2011						
(Loss)/profit after tax recognised in the income statement, excluding loss on disposal	**—**	(492)	(492)	**—**	(74)	(74)
Other comprehensive income, net of tax	**—**	82	82	**—**	131	131
Other net equity movements	**—**	(10)	(10)	**—**	(41)	(41)
	—	(420)	(420)	**—**	16	16
Deconsolidation of Delta Lloyd:						
Movement in ordinary shareholders' equity	**—**	(632)	(632)	**—**	(157)	(157)
Movement in non-controlling interests	**—**	(1,770)	(1,770)	**—**	(1,484)	(1,484)
	15,363	14,903	14,903	**15,495**	18,580	18,580
Operating profit after tax	**777**	845	1,648	**872**	938	2,241
Non-operating items after tax	**(1,458)**	(380)	(1,064)	**(492)**	(186)	(5,027)
Actuarial gains/(losses) on pension schemes	**123**	(8)	974	**123**	(8)	974
Foreign exchange rate movements	**(226)**	209	(254)	**(202)**	400	(461)
Other comprehensive income, net of tax	**105**	(54)	(106)	**(48)**	(71)	(310)
Dividends and appropriations net of scrip	**(436)**	(276)	(506)	**(436)**	(276)	(506)
Other net equity movements	**357**	(34)	(232)	**357**	(3)	4
Total equity at 30 June/31 December	**14,605**	15,205	15,363	**15,669**	19,374	15,495
Preference share capital,direct capital instruments and fixed rate tier 1 notes	**(1,582)**	(1,190)	(1,190)	**(1,582)**	(1,190)	(1,190)
Non-controlling interests	**(1,499)**	(1,844)	(1,530)	**(1,808)**	(2,580)	(1,476)
Net assets attributable to Ordinary shareholders of Aviva plc at 30 June/31 December (excluding preference shares)	**11,524**	12,171	12,643	**12,279**	15,604	12,829
Number of shares	**2,918**	2,863	2,906	**2,918**	2,863	2,906
Net asset value per share	**395p**	425p	435p	**421p**	545p	441p

22 – European Insurance Groups Directive (IGD)

	UK life funds £bn	Other business £bn	30 June 2012 £bn	31 December 2011 £bn
Insurance Groups Directive (IGD) capital resources	**6.6**	**9.3**	**15.9**	14.1
Less: capital resources requirement (CRR)	**(6.6)**	**(6.2)**	**(12.8)**	(11.9)
Insurance Group Directive (IGD) excess solvency	**—**	**3.1**	**3.1**	2.2
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 £0.9 billion since 31 December 2011 to £3.1 billion. The key movements over the period are set out in the following table:

	£bn
IGD solvency surplus at 31 December 2011	**2.2**
Operating profits net of other income and expenses	**0.4**
Dividends net of scrip	**(0.4)**
Market movements including foreign exchange[1]	**0.6**
Movement in hybrid debt	**0.2**
UK reinsurance transactions	**0.1**
Increase in Capital Resources Requirement	**(0.1)**
Other regulatory adjustments	**0.1**
Estimated IGD solvency surplus at 30 June 2012	**3.1**

1. Market movements include the impact of equity, credit spread, interest rate and foreign exchange movements net of the effect of hedging instruments.

23 – Sensitivity analysis

The sensitivity of the group's total equity, excluding Delta Lloyd, on an IFRS basis and MCEV basis at 30 June 2012 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:

31 December 2011 £bn	IFRS basis	30 June 2012 £bn	Equities down 10% £bn	Interest rates up 1% £bn	0.5% increased credit spread £bn
15.1	Life savings	**14.2**	**(0.2)**	**(0.8)**	**(0.5)**
5.6	General insurance and other	**5.4**	**—**	**(0.3)**	**0.4**
(5.3)	Borrowings[2]	**(5.0)**	**—**	**—**	**—**
15.4	**Total equity**	**14.6**	**(0.2)**	**(1.1)**	**(0.1)**

			Equities down 10%			
31 December 2011 £bn	MCEV basis	30 June 2012 £bn	Direct £bn	Indirect £bn	Interest rates up 1% £bn	0.5% increased credit spread £bn
15.2	Life savings[1]	**15.3**	**(0.2)**	**(0.3)**	**0.2**	**(2.3)**
5.6	General insurance and other	**5.4**	**—**	**—**	**(0.3)**	**0.4**
(5.3)	Borrowings[2]	**(5.0)**	**—**	**—**	**—**	**—**
15.5	**Total equity**	**15.7**	**(0.2)**	**(0.3)**	**(0.1)**	**(1.9)**

1. Assumes MCEV assumptions adjusted to reflect revised bond yields.
2. Comprising external and subordinated debt.

23 – Sensitivity analysis continued

These sensitivities assume a full tax charge/credit on market value assumptions. 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 £1.3 billion.

The 0.5% increased credit spread sensitivities for IFRS and MCEV 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 IFRS and MCEV 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. We continue to actively manage our exposures to further market volatility, with ongoing hedging strategies in place. The impact of further equity market falls on the Group's IGD surplus, after allowing for the impact of the partial disposal of Delta Lloyd in July, is as follows:

	£bn
Equities down 10%	**(0.1)**
Equities down 20%	**(0.3)**
Equities down 30%	**(0.4)**
Equities down 40%	**(0.6)**

The Group's IGD exposure to a global increase in interest rates has increased during the half year, in line with improvements in the regulatory value of debt securities in continental Europe. We continue to monitor our IGD exposure to debt securities in continental Europe with reference to local regulatory requirements and the matching of asset and liability cash flows.

24 – Financial flexibility

The Group's borrowings are primarily comprised of long dated hybrid instruments with maturities spread over many years, minimising refinancing risk. In addition to central liquid asset holdings of £1.4 billion, the Group also has access to unutilised committed credit facilities of £2.1 billion provided by a range of leading international banks.

25 – Risk management

As a global insurance group, risk management is at the heart of what we do and is the source of value creation as well as a vital form of control. It is an integral part of managing and maintaining financial strength and stability for our customers, shareholders and other stakeholders. The Group's risk strategy is to invest its available capital to optimise the balance between return and risk while maintaining an appropriate level of economic (i.e. risk-based) capital and regulatory capital. Consequently, our risk management goals are to:

- Embed rigorous risk management throughout the business, based on setting clear risk appetites and staying within these;
- Allocate capital where it will make the highest returns on a risk-weighted basis; and
- Meet the expectations of our customers, investors and regulators that we will maintain capital surpluses to ensure we can meet our liabilities even if a number of extreme risks materialise.

The risk management framework (RMF) in Aviva forms an integral part of the management and Board processes and underpins decision-making across the group. The key elements of our RMF comprise risk appetite, risk modelling, roles and responsibilities, risk policies and business standards, risk governance and oversight. The group's approach to risk management enables us to actively identify, measure, manage, monitor and report significant existing or emerging risks on a continuous basis.

For the purposes of risk identification and measurement, risks are usually grouped by risk type: credit, market, liquidity, general insurance, life insurance and operational risk.

25 – Risk management continued

Risk environment

The first six months of 2012 have seen continued volatility in the financial markets. Weak economic data and the absence of decisive political action have unwound early first quarter gains, with credit spreads remaining wider than historical levels and peripheral European equities, (particularly financials) remaining volatile. The threat of further adverse developments in the Eurozone persists and, in the more extreme scenarios, could cause contagion across the financial markets and economies.

As discussions on the Omnibus II Directive (the amendments to the Solvency II Directive) and technical standards continue, there is still significant uncertainty over the detailed requirements of the new prudential regime. Aviva continues to actively participate in the development of Solvency II through key European industry working groups.

Risk profile

The types of risk to which the Group is exposed have not changed significantly over the half-year to 30 June 2012 or as a result of the revised strategic plan and remain credit (including exposure to sovereign debt), market, life insurance, general insurance, liquidity, operational and reputational risks.

Reflecting Aviva's objective of building financial strength and reducing capital volatility, the Group has taken steps to amend its risk profile. These include a sell down of approximately €2 billion[8] (gross of minority interests) Italian government bonds and a reduction in credit exposure to European financial institutions. As described below, a number of foreign exchange rate, credit and equity hedges are also in place. Restrictions on non-domestic investment in sovereign and corporate debt from Greece, Ireland, Italy, Portugal and Spain remain in place and balance sheet volatility will be further reduced following the 21% sell down of Delta Lloyd in July 2012. The reduction in credit and equity exposure noted above also reflects a broader move towards a more balanced risk profile.

Going forward, the Group's focus will be on fewer businesses and the resulting exit of non-core businesses will reduce the amount of Group capital employed in less economically profitable segments, decrease balance sheet volatility and required capital, and will allow capital to be re-employed in segments that optimise the return on risk based capital.

We provide more detail on the risk profile and the management of material risks and uncertainties in note A17 – Risk Management. Our risk management processes enable us to monitor all our capital measures and to identify and manage mismatches between our assets and liabilities. These processes include the use of derivative hedges which are described in more detail below.

Equity hedging

Alongside use of derivatives for portfolio management and the local management of equity risk within each business unit, the Group has maintained a long-term strategy to manage its residual overall equity risk through the use of derivatives. As at 30 June 2012 the Group's shareholder funds held approximately £3 billion notional of equity hedges, with up to a year to maturity.

Credit hedging

In late 2011 the Group implemented the first of a series of macro credit hedges to reduce the overall credit risk exposure. The Group has increased the notional size of these long-term hedges during the first half of 2012 to £4 billion.

Interest rate hedging

Interest rate hedges are used widely to manage asymmetric interest rate exposures across our life insurance businesses as well as being an efficient way to manage cash flow and duration matching. The most material examples relate to 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.

Currency hedging

At a Group level we actively seek to manage foreign currency risk primarily by matching assets and liabilities in functional currencies at the business unit level. Foreign currency dividends from subsidiaries are hedged using foreign exchange forward contracts to provide certainty regarding the sterling value to be received by Group. Derivatives have also been used to reduce foreign exchange balance sheet translation risk. At 30 June 2012 the Group had in place zero cost collar Euro and Canadian Dollar hedges with notional values of £2.0 billion and £0.3 billion respectively. These hedges are used to protect the Group's capital against a significant depreciation in the local currency versus sterling.

8. This is equivalent to a reduction in shareholder exposure in participating and shareholder funds, net of minority interests and market movements of just under £1 billion.

26 – EEV equivalent embedded value

The embedded value of Aviva shown below is based on the projected future profits allowing for expected investment returns in excess of risk-free, and discounts those profits at a risk-discount rate. This result is deemed more comparable to other UK insurers who publish European Embedded Value (EEV) than market consistent embedded value.

The expected release of future profits and required capital is shown in five-year groups. Projected cash flows are those used for Implied Discount Rate (IDR) calculations for in-force business.

The discount rate applied is 7.1% *(FY11: 7.05%)*, based on a risk-free rate of 2%, a risk margin of 4.7% and an allowance for the time value of options and guarantees of 0.4%.

The new business margin on continuing operations (net of tax and non-controlling interests) for business written during the period to 30 June 2012 is 2.1% *(MCEV: 1.2%)*.

Segmental analysis of life and related business EEV equivalent embedded value

	Net worth			VIF on traditional embedded value			Embedded value		
	30 June 2012 £bn	30 June 2011 £bn	31 December 2011 £bn	**30 June 2012 £bn**	30 June 2011 £bn	31 December 2011 £bn	**30 June 2012 £bn**	30 June 2011 £bn	31 December 2011 £bn
United Kingdom & Ireland	**4.2**	4.4	4.3	**3.4**	3.6	3.6	**7.6**	8.0	7.9
Developed markets excluding United Kingdom & Ireland	**4.3**	4.0	4.3	**2.2**	3.3	2.6	**6.5**	7.3	6.9
Developed markets	**8.5**	8.4	8.6	**5.6**	6.9	6.2	**14.1**	15.3	14.8
Higher Growth markets	**0.7**	0.6	0.7	**1.2**	1.4	1.3	**1.9**	2.0	2.0
Total covered business	**9.2**	9.0	9.3	**6.8**	8.3	7.5	**16.0**	17.3	16.8
Non-covered business							**1.0**	1.5	1.7
Total Group EV							**17.0**	18.8	18.5
Less preference share capital, direct capital instruments and fixed rate tier 1 notes							**(1.6)**	(1.2)	(1.2)
Equity attributable to ordinary shareholders on an EV basis							**15.4**	17.6	17.3

Maturity profile of undiscounted EEV equivalent embedded value cash flows

Total in-force business

To show the profile of the free surplus emergence implicit in the traditional embedded value calculation for in-force business, the cash flows have been split into five year tranches depending on the date when the profit is expected to emerge.

30 June 2012		Release of future profits and required capital					
£bn	**Free surplus**	**0–5**	**6–10**	**11–15**	**16–20**	**20+**	**Total net of non-controlling interest**
United Kingdom & Ireland	**1.1**	**2.8**	**2.9**	**2.5**	**2.1**	**4.5**	**14.8**
Developed markets excluding United Kingdom & Ireland	**(0.3)**	**4.0**	**2.5**	**2.0**	**1.5**	**3.7**	**13.7**
Developed markets	**0.8**	**6.8**	**5.4**	**4.5**	**3.6**	**8.2**	**28.5**
Higher Growth markets	**0.3**	**1.0**	**0.6**	**0.4**	**0.4**	**1.1**	**3.5**
Total	**1.1**	**7.8**	**6.0**	**4.9**	**4.0**	**9.3**	**32.0**

31 December 2011		Release of future profits and required capital					
£bn	Free surplus	0–5	6–10	11–15	16–20	20+	Total net of non-controlling interest
United Kingdom & Ireland	1.0	3.0	3.1	2.6	2.0	4.5	15.2
Developed markets excluding United Kingdom & Ireland	0.0	4.0	2.6	2.0	1.7	4.0	14.3
Developed markets	1.0	7.0	5.7	4.6	3.7	8.5	29.5
Higher Growth markets	0.3	1.0	0.6	0.4	0.4	1.1	3.5
Total	1.3	8.0	6.3	5.0	4.1	9.6	33.0

Analysis of assets

As an insurance business, the Group holds a variety of assets to match the characteristics and duration of its insurance liabilities. Appropriate and effective asset liability matching (on an economic basis) is the principal way in which Aviva manages its investments. In addition, to support this, Aviva also uses a variety of hedging and other risk management strategies to diversify away residual mis-match risk that is outside of the Group's risk appetite.

27 – Total assets

30 June 2012	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
Loans	**481**	**5,907**	**20,530**	**26,918**	**—**	**26,918**
Financial investments						
Debt securities	**14,659**	**80,083**	**59,975**	**154,717**	**(1,441)**	**153,276**
Equity securities	**20,807**	**9,571**	**1,076**	**31,454**	**(1,248)**	**30,206**
Other investments	**23,141**	**4,468**	**2,529**	**30,138**	**(350)**	**29,788**
Total loans and financial investments	**59,088**	**100,029**	**84,110**	**243,227**	**(3,039)**	**240,188**
Cash and cash equivalents	**4,442**	**12,285**	**8,933**	**25,660**	**(409)**	**25,251**
Other assets	**6,159**	**12,410**	**25,153**	**43,722**	**(514)**	**43,208**
Assets of operations classified as held for sale	**—**	**—**	**—**	**—**	**3,962**	**3,962**
Total	**69,689**	**124,724**	**118,196**	**312,609**	**—**	**312,609**
Total %	**22.3%**	**39.9%**	**37.8%**	**100.0%**	**0.0%**	**100.0%**
FY11 as reported	70,367	124,631	117,378	312,376	—	312,376
FY11 Total %	22.5%	39.9%	37.6%	100.0%	0.0%	100.0%

Details of the assets and liabilities of operations classified as held for sale as at 30 June 2012 are given in note A3.

27 – Total assets continued

Total assets – Valuation bases

	30 June 2012 Fair value £m	Amortised cost £m	Equity accounted/ tax assets £m	Total £m	31 December 2011 Fair value £m	Amortised cost £m	Equity accounted/ tax assets £m	Total £m
Policyholder assets	**66,891**	**2,561**	**237**	**69,689**	67,310	2,804	253	70,367
Participating fund assets	**113,685**	**9,910**	**1,129**	**124,724**	113,287	9,884	1,460	124,631
Shareholder assets	**90,787**	**25,757**	**1,652**	**118,196**	89,215	26,668	1,495	117,378
Total	**271,363**	**38,228**	**3,018**	**312,609**	269,812	39,356	3,208	312,376
Total %	**86.8%**	**12.2%**	**1.0%**	**100.0%**	86.4%	12.6%	1.0%	100.0%

The proportion of total assets measured at fair value (which includes 100% of financial investments) has remained stable at 86.8% *(FY11: 86.4%)*. Section D2 provides further details for total assets by valuation bases.

Total assets – financial investments

	30 June 2012 Cost/ amortised cost £m	Unrealised gain £m	Unrealised losses and impairments £m	Fair value £m	31 December 2011 Cost/ amortised cost £m	Unrealised gain £m	Unrealised losses and impairments £m	Fair value £m
Debt securities	**145,509**	**13,319**	**(4,111)**	**154,717**	147,537	12,395	(6,587)	153,345
Equity securities	**30,857**	**4,316**	**(3,719)**	**31,454**	33,055	3,637	(4,009)	32,683
Other investments	**29,624**	**2,153**	**(1,639)**	**30,138**	30,362	553	(538)	30,377
Total[1]	**205,990**	**19,788**	**(9,469)**	**216,309**	210,954	16,585	(11,134)	216,405

1. Includes assets classified as held for sale.

All unrealised losses on financial investments have been recognised in the income statement, except unrealised losses on those financial investments classified as available-for-sale (AFS). Unrealised losses on AFS financial investments are recognised in the income statement on disposal or in the event of impairment. Total unrealised losses on available for sale debt securities at 30 June 2012 were £157 million *(FY11: £229 million)*.

The total impairment expense for the six months to 30 June 2012 for AFS debt securities was £8 million *(FY 2011: £19 million)* The total AFS impairment expense relates to our US business, of which £4 million relates to corporate bonds and £4 million relates to commercial mortgage backed securities that are not yet in default but showed continued deterioration in market value from the previous impairment value.

28 – Shareholders' assets

As at 30 June 2012, total shareholder investments in loans and financial investments included within shareholder assets was £84.1 billion *(FY11: £82.7 billion)*, including loans of £20.5 billion, debt securities of £60.0 billion, equity securities of £1.1 billion and other investments of £2.5 billion.

Shareholders' assets – loans

30 June 2012	United Kingdom & Ireland £m	France £m	United States £m	Canada £m	Italy, Spain and other £m	Higher Growth markets £m	Total £m
Policy loans	**7**	**—**	**230**	**—**	**12**	**15**	**264**
Loans and advances to banks	**125**	**—**	**—**	**—**	**—**	**—**	**125**
Mortgage loans – securitised	**2,005**	**—**	**—**	**—**	**—**	**—**	**2,005**
Mortgage loans – non-securitised	**15,384**	**—**	**2,631**	**—**	**—**	**—**	**18,015**
Other loans	**31**	**—**	**5**	**81**	**3**	**1**	**121**
Total	**17,552**	**—**	**2,866**	**81**	**15**	**16**	**20,530**
Total %	**85.4%**	**0.0%**	**14.0%**	**0.4%**	**0.1%**	**0.1%**	**100.0%**
FY11 Total	17,849	1	2,743	80	16	39	20,728
FY11 Total %	86.1%	0.0%	13.2%	0.4%	0.1%	0.2%	100.0%

Our well diversified UK commercial mortgage portfolio remains of high quality and capital and expected bad debt losses continue to be within expectations. Loan Interest Cover (LIC) remains strong at 1.36 times and over 95.7% of mortgages are neither in arrears nor otherwise impaired. Mortgage LTVs decreased during the period to 97% (*FY11: 103%)* partly due to increasing gilt yields which decreased loan values and new business completing with low LTVs (property values have remained broadly stable during the period).

The valuation allowance (including supplementary allowances) made in the UK Life for corporate bonds and commercial mortgages carried at fair value equates to 57 bps and 123 bps respectively at 30 June 2012 *(FY11: 60bps and 92bps respectively)*. The total valuation allowance in respect of corporate bonds and mortgages, including healthcare mortgages, is £1.7 billion *(FY11: £1.6 billion)* over the remaining term of the UK Life corporate bond and commercial mortgage portfolio. The increase is driven by an increase in the long-term commercial mortgage allowances to reflect up-to-date market information, partially offset by a reduction in the supplementary allowances for credit risk for corporate bonds as bond spreads have narrowed.

In addition, we hold £94 million *(FY11: £84 million)* of impairment provisions in our UK General Insurance mortgage portfolio, which is carried at amortised cost.

28 – Shareholders' assets continued

Shareholders' assets – financial investments

	30 June 2012				31 December 2011			
	Fair value hierarchy				Fair value hierarchy			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Debt securities	**23,442**	**36,033**	**500**	**59,975**	23,038	35,001	561	58,600
Equity securities	**297**	**436**	**343**	**1,076**	477	472	344	1,293
Other investments	**724**	**1,116**	**689**	**2,529**	586	936	544	2,066
Total	**24,463**	**37,585**	**1,532**	**63,580**	24,101	36,409	1,449	61,959
Total %	**38.5%**	**59.1%**	**2.4%**	**100.0%**	38.9%	58.8%	2.3%	100.0%

The proportion of financial investments classified as "Level 1", which means that they are valued using quoted prices in active markets, has remained stable at 38.5% *(FY11: 38.9%)*.

The majority of the debt instruments in Level 2 are held by our US and Canadian businesses. These debt instruments are valued by independent pricing firms in accordance with usual market practice and consistent with other companies operating in these markets. Excluding our US and Canadian businesses, the proportion of shareholder debt securities classified as Level 1 in the Fair Value hierarchy would be 84.5% *(FY11: 84.1%)*.

Shareholders' assets – debt securities

	Rating						
30 June 2012	AAA £m	AA £m	A £m	BBB £m	Less than BBB £m	Not rated £m	Total £m
Government	**8,351**	**2,057**	**1,928**	**980**	**172**	**239**	**13,727**
Corporate	**1,240**	**3,939**	**16,613**	**12,008**	**1,584**	**4,681**	**40,065**
Certificates of deposits	**1**	**86**	**158**	**92**	**97**	**21**	**455**
Structured	**3,561**	**566**	**716**	**284**	**516**	**85**	**5,728**
Total	**13,153**	**6,648**	**19,415**	**13,364**	**2,369**	**5,026**	**59,975**
Total %	**21.9%**	**11.1%**	**32.4%**	**22.3%**	**3.9%**	**8.4%**	**100.0%**
FY11 Total	13,011	7,831	17,903	12,101	2,416	5,338	58,600
FY11 %	22.2%	13.4%	30.6%	20.7%	4.1%	9.0%	100.0%

We grade debt securities according to external credit ratings issued at the balance sheet date. The credit rating used for each individual security is the median rating of the available ratings from the major rating agencies. If a credit rating is available from only one of these rating agencies then this rating is used. If an individual security has not been given a credit rating by any of the major rating agencies, the security is classified as "not rated".

For the table above we have expressed our rating using a rating scale whereby investment grade debt securities are classified within the range of AAA (extremely strong) to BBB (good) ratings, with AAA being the highest possible rating. Debt securities which fall outside this range are classified as less than BBB. This rating scale is analogous with that used by major rating agencies.

At 30 June 2012, the proportion of our shareholder debt securities that are investment grade increased slightly to 87.7% *(FY11: 86.9%)*. The remaining 12.3% of shareholder debt securities that do not have an external rating of BBB or higher can be split as follows:

- 3.9% are debt securities that are rated as below investment grade;
- 3.5% are US private placements which are not rated by the major rating agencies, but are rated as investment grade by the Securities Valuation Office of the National Association of Insurance Commissioners (NAIC), a US national regulatory agency; and,
- 4.9% are not rated by the major rating agencies or the NAIC.

28 – Shareholders' assets continued

Of the securities not rated by an external agency or NAIC most are allocated an internal rating using a methodology largely consistent with that adopted by an external rating agency, and are considered to be of investment grade credit quality; these include £2.5 billion of debt securities held in our UK Life business, predominantly made up of private placements and other corporate bonds, which have been internally rated as investment grade.

Gross of non-controlling interests, £1.6 billion *(FY 2011: £1.9 billion)* of shareholder holdings in debt securities represent exposures to the governments (and local authorities and agencies) of Greece, Ireland, Portugal, Italy and Spain. This corresponds to 0.5% of total balance sheet assets at 30 June 2012. Net of non-controlling interests, our exposure to these governments is reduced to £1.0 billion *(FY 2011: £1.3 billion)*. Net of non-controlling interests, our shareholder exposure to Greece and Portugal amounts to £1.0 million (*FY 2011: £10 million)*.

A further £10.4 billion *(FY 2011: £11.3 billion)* of exposures to the governments (and local authorities and agencies) of Greece, Ireland, Portugal, Italy and Spain, are held in participating fund assets (£6.1 billion net of non-controlling interests). Shareholder market risk exposure to these assets is governed by the nature and extent of shareholder participation in these funds. All of these bonds are valued on a mark to market basis under IAS 39, and therefore our balance sheet and income statement already reflect any reduction in value between the date of purchase and the balance sheet date.

Within structured assets, the group continues to have very limited exposure (2.7% of total balance sheet assets) to sub-prime and Alt A RMBS, CMBS, ABS, Wrapped Credit, CDOs and CLOs. Of our remaining exposures to RMBS, the majority are backed by US Government Sponsored Entities, and so are considered to have minimal credit risk.

IFRS condensed consolidated financial statements

In this section

Notes to the condensed financial statements

Condensed consolidated income statement

For the six month period ended 30 June 2012

	Note	Reviewed 6 months 2012 £m	Reviewed[1] 6 months 2011 £m		Audited Full year 2011 £m	
		Continuing operations	Continuing operations	Discontinued operations	Continuing operations	Discontinued operations
Income						
Gross written premiums		**13,765**	15,398	2,118	30,000	2,118
Premiums ceded to reinsurers		**(903)**	(940)	(75)	(1,673)	(75)
Premiums written net of reinsurance		**12,862**	14,458	2,043	28,327	2,043
Net change in provision for unearned premiums		**(212)**	(290)	(56)	(236)	(56)
Net earned premiums		**12,650**	14,168	1,987	28,091	1,987
Fee and commission income		**632**	719	97	1,479	97
Net investment income		**8,687**	5,787	436	5,991	436
Share of (loss)/profit after tax of joint ventures and associates		**(76)**	152	28	(123)	28
(Loss)/ profit on the disposal and re-measurement of subsidiaries and associates		**(30)**	(11)	(32)	565	(32)
		21,863	20,815	2,516	36,003	2,516
Expenses						
Claims and benefits paid, net of recoveries from reinsurers		**(13,646)**	(13,063)	(1,475)	(26,934)	(1,475)
Change in insurance liabilities, net of reinsurance		**186**	(1,139)	(909)	(3,730)	(909)
Change in investment contract provisions		**(1,210)**	(1,957)	(94)	1,224	(94)
Change in unallocated divisible surplus		**(2,506)**	101	(19)	2,721	(19)
Fee and commission expense		**(2,389)**	(2,341)	(192)	(4,554)	(192)
Other expenses		**(2,394)**	(1,422)	(291)	(3,297)	(291)
Finance costs		**(360)**	(339)	(262)	(798)	(262)
		(22,319)	(20,160)	(3,242)	(35,368)	(3,242)
(Loss)/profit before tax		**(456)**	655	(726)	635	(726)
Tax attributable to policyholders' returns	A5	**(21)**	3	—	178	—
(Loss)/profit before tax attributable to shareholders' profits		**(477)**	658	(726)	813	(726)
Tax (expense)/credit	A5	**(225)**	(190)	202	(51)	202
Less: tax attributable to policyholders' returns	A5	**21**	(3)	—	(178)	—
Tax attributable to shareholders' profits		**(204)**	(193)	202	(229)	202
(Loss)/profit after tax		**(681)**	465	(524)	584	(524)
(Loss)/profit from discontinued operations		**—**	(524)		(524)	
(Loss)/profit for the period		**(681)**	(59)		60	
Attributable to:						
Equity shareholders of Aviva plc		**(745)**	125		225	
Non-controlling interests		**64**	(184)		(165)	
		(681)	(59)		60	
Earnings per share	A6					
Basic (pence per share)		**(26.0)p**	4.1p		5.8p	
Diluted (pence per share)		**(26.0)p**	4.0p		5.7p	
Continuing operations – Basic (pence per share)		**(26.0)p**	15.4p		17.0p	
Continuing operations – Diluted (pence per share)		**(26.0)p**	15.1p		16.7p	

1. Statements have been prepared in accordance with the Basis of Preparation

Condensed consolidated statement of comprehensive income

For the six month period ended 30 June 2012

	Reviewed 6 months 2012 £m	Reviewed 6 months 2011 £m	Audited Full year 2011 £m
(Loss)/profit for the period from continuing operations	**(681)**	465	584
(Loss) for the period from discontinued operations	**—**	(524)	(524)
Total (loss)/profit for the period	**(681)**	(59)	60
Other comprehensive income from continuing operations:			
Investments classified as available for sale			
Fair value gains	**261**	56	414
Fair value gains transferred to profit on disposals	**(50)**	(38)	(148)
Impairment losses on assets previously revalued through other comprehensive income now taken to the income statement	**8**	8	21
Owner-occupied properties			
Fair value (losses)/gains	**(1)**	1	2
Share of other comprehensive income of joint ventures and associates	**5**	(60)	(134)
Actuarial gains/(losses) on pension schemes	**123**	22	996
Other pension scheme movements	**—**	(30)	(22)
Foreign exchange rate movements	**(226)**	209	(254)
Aggregate tax effect – shareholder tax	**(118)**	(21)	(261)
Other comprehensive income, net of tax from continuing operations	**2**	147	614
Other comprehensive income, net of tax from discontinued operations	**—**	82	82
Total other comprehensive income, net of tax	**2**	229	696
Total comprehensive income for the period from continuing operations	**(679)**	612	1,198
Total comprehensive income for the period from discontinued operations	**—**	(442)	(442)
Total comprehensive income for the period	**(679)**	170	756
Attributable to:			
Equity shareholders of Aviva plc	**(703)**	234	923
Non-controlling interests	**24**	(64)	(167)
	(679)	170	756

Condensed consolidated statement of changes in equity

For the six month period ended 30 June 2012

	Reviewed 6 months 2012 £m	Reviewed 6 months 2011 £m	Audited Full year 2011 £m
Balance at 1 January	**15,363**	17,725	17,725
(Loss)/profit for the period	**(681)**	(59)	60
Other comprehensive income	**2**	229	696
Total comprehensive income for the period	**(679)**	170	756
Dividends and appropriations	**(474)**	(460)	(813)
Shares issued in lieu of dividends	**38**	184	307
Capital contributions from non-controlling interests	**6**	25	68
Effect of deconsolidation of Delta Lloyd	**—**	(2,370)	(2,370)
Non-controlling interests share of dividends declared in the period	**(66)**	(76)	(126)
Transfer to profit on disposal of subsidiaries	**—**	—	(3)
Non controlling interests in (disposal)/acquired subsidiaries	**5**	—	—
Changes in non-controlling interest in existing subsidiaries	**—**	(11)	(11)
Shares acquired by employee trusts	**(3)**	—	(29)
Reserves credit for equity compensation plans	**23**	18	48
Reclassification to financial liabilities	**—**	—	(205)
Aggregate tax effect – shareholder tax	**—**	—	16
Issue of fixed rate tier 1 notes	**392**	—	—
Balance at 30 June/31 December	**14,605**	15,205	15,363

Condensed consolidated statement of financial position

As at 30 June 2012

	Note	Reviewed 30 June 2012 £m	Reviewed 30 June 2011 £m	Audited 31 December 2011 £m
Assets				
Goodwill		**1,794**	2,823	2,640
Acquired value of in-force business and intangible assets		**1,649**	2,396	2,021
Interests in, and loans to, joint ventures		**1,689**	2,154	1,700
Interests in, and loans to, associates		**979**	1,427	1,118
Property and equipment		**445**	467	510
Investment property		**11,001**	11,236	11,638
Loans		**26,918**	24,828	28,116
Financial investments		**213,270**	228,006	216,058
Reinsurance assets	A10	**7,239**	6,570	7,112
Deferred tax assets		**262**	136	238
Current tax assets		**74**	112	140
Receivables		**8,456**	9,271	7,937
Deferred acquisition costs and other assets		**6,444**	5,956	6,444
Prepayments and accrued income		**3,176**	3,390	3,235
Cash and cash equivalents	A15	**25,251**	23,106	23,043
Assets of operations classified as held for sale		**3,962**	728	426
Total assets		**312,609**	322,606	312,376
Equity				
Capital				
Ordinary share capital		**729**	716	726
Preference share capital		**200**	200	200
		929	916	926
Capital reserves				
Share premium		**1,170**	1,184	1,173
Merger reserve		**3,271**	3,271	3,271
		4,441	4,455	4,444
Shares held by employee trusts		**(14)**	(32)	(43)
Other reserves		**1,514**	1,729	1,562
Retained earnings		**4,854**	5,303	5,954
Equity attributable to shareholders of Aviva plc		**11,724**	12,371	12,843
Direct capital instruments and fixed rate tier 1 notes		**1,382**	990	990
Non-controlling interests		**1,499**	1,844	1,530
Total equity		**14,605**	15,205	15,363
Liabilities				
Gross insurance liabilities	A8	**148,003**	149,515	150,101
Gross liabilities for investment contracts	A9	**107,386**	119,284	110,644
Unallocated divisible surplus	A12	**3,162**	3,273	650
Net asset value attributable to unitholders		**11,138**	8,735	10,352
Provisions	A14	**1,097**	1,103	992
Deferred tax liabilities		**1,324**	1,166	1,171
Current tax liabilities		**200**	249	232
Borrowings	A13	**8,071**	8,882	8,450
Payables and other financial liabilities		**11,061**	12,029	11,230
Other liabilities		**2,927**	2,822	2,828
Liabilities of operations classified as held for sale		**3,635**	343	363
Total liabilities		**298,004**	307,401	297,013
Total equity and liabilities		**312,609**	322,606	312,376

Condensed consolidated statement of cash flows

For the six month period ended 30 June 2012

The cash flows presented in this statement cover all the Group's activities and include flows from both policyholder and shareholder activities. All cash and cash equivalents are available for use by the Group.

	Reviewed 6 months 2012 £m	Reviewed 6 months 2011 £m	Audited Full Year 2011 £m
Cash flows from operating activities			
Cash generated from continuing operations	**3,693**	(1,425)	107
Tax paid	**(90)**	(198)	(434)
Net cash from/(used in) operating activities – continuing operations	**3,603**	(1,623)	(327)
Net cash (used in)/fromoperating activities – discontinued operations	**—**	(15)	(15)
Total net cash from/(used in) operating activities	**3,603**	(1,638)	(342)
Cash flows from investing activities			
Acquisitions of, and additions to subsidiaries, joint ventures and associates, net of cash acquired	**(43)**	(119)	(114)
Disposals of subsidiaries, joint ventures and associates, net of cash transferred	**54**	51	877
New loans to joint ventures and associates	**(3)**	(19)	(18)
Repayment of loans to joint ventures and associates	**—**	1	17
Net new loans to joint ventures and associates	**(3)**	(18)	(1)
Purchases of property and equipment	**(30)**	(39)	(97)
Proceeds on sale of property and equipment	**11**	34	48
Purchases of intangible assets	**(53)**	(29)	(123)
Net cash (used in)/from investing activities – continuing operations	**(64)**	(120)	590
Net cash (used in)/from investing activities – discontinued operations	**—**	(512)	(512)
Total net cash (used in)/from investing activities	**(64)**	(632)	78
Cash flows from financing activities			
Proceeds from issue of ordinary shares and fixed rate tier 1 notes, net of transaction costs	**392**	—	—
Treasury shares purchased for employee trusts	**(3)**	—	(29)
New borrowings drawn down, net expenses	**1,192**	718	3,646
Repayment of borrowings	**(1,373)**	(254)	(3,602)
Net drawdown/(repayment) of borrowings	**(181)**	464	44
Interest paid on borrowings	**(318)**	(290)	(708)
Preference dividends paid	**(9)**	(9)	(17)
Ordinary dividends paid	**(427)**	(267)	(431)
Coupon payments on direct capital instruments	**—**	—	(58)
Capital contributions from non-controlling interests	**6**	25	68
Dividends paid to non-controlling interests of subsidiaries	**(66)**	(76)	(126)
Changes in controlling interest in subsidiary	**(1)**	—	—
Net cash (used in)/from financing activities – continuing operations	**(607)**	(153)	(1,257)
Net cash from/(used in) financing activities – discontinued operations	**—**	(516)	(516)
Total net cash (used in)/from financing activities	**(607)**	(669)	(1,773)
Total net increase/(decrease) in cash and cash equivalents	**2,932**	(2,939)	(2,037)
Cash and cash equivalents at 1 January	**22,401**	24,695	24,695
Effect of exchange rate changes on cash and cash equivalents	**(338)**	504	(257)
Cash and cash equivalents at 30 June/31 December	**24,995**	22,260	22,401

Further detail on cash and cash equivalents is provided in note A15.

Notes to the condensed consolidated financial statements

A1 – Basis of preparation

(a) The condensed consolidated financial statements for the six months to 30 June 2012 have been prepared in accordance with the disclosure and transparency rules of the Financial Services Authority and 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 2011 Annual Report and Accounts and these interim accounts should be read in conjunction with the financial statements therein.

In 2010, the IASB issued an amendment to IFRS 7, *Financial Instruments – Disclosures*, relating to the transfer of financial assets, which has been endorsed by the EU. It is applicable for the first time in the current accounting period and is reflected in the Group's financial reporting, with no material impact.

The results for the six months to 30 June 2012 are unaudited but have been reviewed by the auditor, PricewaterhouseCoopers LLP. The comparative results for the six months to 30 June 2011 are also unaudited but were reviewed by the previous auditor, Ernst & Young LLP. The interim results do not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The results for the full year 2011 have been taken from the Group's 2011 Annual Report and Accounts and do not in themselves constitute statutory accounts. Ernst & Young LLP reported on the 2011 financial statements and their report was unqualified and did not contain a Statement under section 498 (2) or (3) of the Companies Act 2006. The Group's 2011 Report and Accounts has 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 interim 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).

(c) The long-term nature of much of the Group's operations means that, for management's decision-making and internal performance management, short-term realised and unrealised investment gains and losses are treated as non-operating items. The Group focuses instead on an operating profit measure (also referred to as adjusted operating profit) that incorporates an expected return on investments supporting its long-term and non-long-term businesses. Operating profit for long-term business is based on expected investment returns on financial investments backing shareholder and policyholder funds over the reporting period, with allowance for the corresponding expected movements in liabilities. Variances between actual and expected investment returns, and the impact of changes in economic assumptions on liabilities, are disclosed separately outside operating profit. For non-long-term business, the total investment income, including realised and unrealised gains, is analysed between that calculated using a longer-term return and short-term fluctuations from that level. Operating profit also excludes amortisation and impairment of goodwill and intangibles; the profit or loss on disposal of subsidiaries, joint ventures and associates; integration and restructuring costs; and exceptional items.

(d) On 19 April 2012, the Company announced a restructuring of the organisation into two distinct areas - Developed Markets and Higher Growth Markets. As a result, the operating segments in our reported results were reviewed to ensure that they remained consistent with the new organisational reporting structure. This has resulted in changes to the operating segments as described in note A4.

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 into sterling at the average rates for the period and the assets and liabilities have been translated at the period end rates as follows:

	6 months 2012	6 months 2011	Full year 2011
Eurozone			
– Average rate (€1 equals)	£0.82	£0.87	£0.87
– Period end rate (€1 equals)	£0.81	£0.90	£0.84
United States			
– Average rate ($US1 equals)	£0.63	£0.62	£0.63
– Period end rate ($US1 equals)	£0.64	£0.62	£0.65

Total foreign currency movements during the period relating to the translation by businesses of transactions not denominated in their local reporting currency resulted in a gain recognised in the income statement of £50 million *(HY11: £61 million gain; FY11: £35 million loss)*.

A3 – Subsidiaries, joint ventures and associates

This note provides details of the acquisitions and disposals of subsidiaries, joint ventures and associates that the Group has made during the period, together with details of businesses held for sale at the period end.

(a) Acquisitions

Pelayo Vida

On 17 January 2012, the Group acquired 50% of Pelayo Mondiale Vida de Seguros y Reaseguros SA ("PMV"), which writes long-term insurance business in Spain, for £7 million. The Group also entered into an exclusive distribution agreement with Grupo Pelayo to expand its national life and pensions distribution capability through Pelayo's network of branches and agents. PMV was subsequently renamed Pelayo Vida de Seguros y Reaseguros SA ("PV"). As the Group has management control of PV, this company has been treated as a subsidiary since acquisition.

The estimated book and fair values of PV's assets and liabilities at the acquisition date are shown below. The acquisition has given rise to goodwill of £1 million, calculated as follows:

	Book value and fair value £m
Assets	
Financial investments	**79**
Reinsurance assets	**59**
Other assets	**6**
Total assets	**144**
Liabilities	
Insurance liabilities	**(130)**
Other liabilities	**(2)**
Total liabilities	**(132)**
Total net assets	**12**
Net assets acquired (50%)	**6**
Cash consideration	**7**
Goodwill arising on acquisition of this holding	**1**

(b) Disposal of subsidiaries, joint ventures and associates

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

	6 months 2012 £m	6 months 2011 £m	Full Year 2011 £m
Continuing operations			
United Kingdom			
RAC Limited	**(21)**	—	532
Non-core operations	**—**	(3)	—
Australia	**—**	—	23
Other small operations	**(9)**	(8)	10
(Loss)/profit on disposal from continuing operations	**(30)**	(11)	565
Loss on disposal from discontinued operations	**—**	(32)	(32)
Total (loss)/profit on disposal	**(30)**	(43)	533

The loss in respect of RAC Limited in the current period arises from residual costs related to the sale of that company in September 2011.

A3 – Subsidiaries, joint ventures and associates continued

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

The assets and liabilities of operations classified as held for sale as at 30 June 2012 relate to subsidiaries in Ireland, the Czech Republic, Hungary and Romania, and a joint venture in Taiwan, and are as follows:

	30 June 2012 £m	30 June 2011 £m	31 December 2011 £m
Assets			
Goodwill	**—**	284	—
Intangible assets	**108**	229	1
Interests in, and loans to, joint ventures and associates	**14**	14	12
Property and equipment	**—**	31	1
Investment property	**26**	—	—
Financial Investments	**3,039**	3	347
Receivables and other financial assets	**765**	158	62
Prepayments and accrued income	**10**	9	3
Total assets	**3,962**	728	426
Liabilities			
Insurance liabilities	**(1,633)**	(149)	(344)
Liability for investment contracts	**(1,798)**	—	—
Other liabilities	**(204)**	(194)	(19)
Total liabilities	**(3,635)**	(343)	(363)
Net assets	**327**	385	63

(i) Irish long-term business

Our Irish long-term business is carried out through a subsidiary, Aviva Life Holdings Ireland Limited ("ALHI"), which is 75% owned by Aviva and 25% owned by Allied Irish Bank ("AIB"). ALHI holds four subsidiaries, one of which is Ark Life Assurance Company Limited ("Ark Life") which carries out bancassurance business via a distribution agreement with AIB. The original distribution agreement was renewable in 2011 but, on 15 December 2011, AIB notified us that they did not wish to renew it and the existing shareholders' agreement governing ALHI was terminated. The termination of this agreement triggered the ability for both parties to exercise put and call options that will result in the unwind of the original structure such that the Ark Life business returns 100% to AIB and the Group will purchase the 25% minority stake in ALHI. The formal exercise of these options was approved on 17 January 2012 and, as a result, the Ark Life business became held for sale on that date. Any change in that company's ownership is subject to regulatory approval in Ireland, and completion is not expected until later in 2012.

The shareholders' agreement with AIB specifies that calculation of the Ark Life exit value should be based on the embedded value of the business at 31 December 2011. This is estimated as £262 million, which is lower than its carrying value following impairments charged in 2011. As a result, a further charge to profit of £91 million has been recognised in the six months ended 30 June 2012, after exchange movements on the opening balance of £7 million.

The exercise of the put options in January 2012 over AIB's minority share in ALHI led to our reclassifying £205 million from non-controlling interests within equity to financial liabilities as at 31 December 2011. Our current estimate of the liability as at 30 June 2012 is £110 million, resulting in a credit to the income statement of £89 million after exchange movements on the opening balance of £6 million.

The net impact of these two movements is a charge to profit of £2 million, before exchange movements. Finalisation of the exit value for Ark Life and the purchase value for the minority share in ALHI is subject to the conclusion of discussions with AIB.

(ii) Czech Republic, Hungary and Romania

During 2011, the Group decided to sell, and was actively marketing, its operations in the Czech Republic, Hungary and Romania. On 30 January 2012, we announced the sale of these businesses to MetLife, Inc. The sale of our businesses in the Czech Republic and Hungary, and of our Romania life operation, completed on 31 July 2012. The sale of our Romania pensions business is still subject to regulatory approval and is expected to complete later in 2012. The assets and liabilities of all these businesses have therefore been classified as held for sale at their expected disposal proceeds in the consolidated statement of financial position at 30 June 2012.

(iii) Revised strategic plan

On 5 July 2012, we announced a revised strategic plan which included a review of all the Group's businesses into those that are performing, improving or non-core. Although the review may lead to future disposals of some of the non-core businesses, no firm decisions have been made in this respect and the criteria required by IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations,* to classify any such businesses as held for sale as at 30 June 2012, apart from those in the table above, had not been met.

A3 – Subsidiaries, joint ventures and associates continued

(d) Subsequent event – Delta Lloyd

On 5 July 2012, the Group sold 37.2 million shares in Delta Lloyd N.V. ("Delta Lloyd") (the Group's Dutch long-term insurance, general insurance and fund management associate) for £313 million (net of costs), reducing our holding to 19.8% of Delta Lloyd's ordinary share capital, representing 18.6% of shareholder voting rights. As the Group no longer has significant influence over Delta Lloyd, we have ceased to account for that company as an associate from 5 July 2012. From that date, our holding is now classified as a financial investment, held at fair value through profit and loss.

The recoverable amount of Delta Lloyd at 30 June 2012 has been determined on the basis of fair value less costs to sell. The fair value at that date has been calculated based on the price achieved in the transaction described above for the shares sold on 5 July and, for the continuing shareholding, on the market price of Delta Lloyd's ordinary shares quoted on NYSE Euronext Amsterdam as at 30 June 2012.

No impairment has been recognised because the carrying value of the associate is less than its recoverable amount. During the period, the Group's share of Delta Lloyd's net asset value declined to a value below its quoted market value and therefore the impairment recognised in 2011 to reduce the carrying value of the associate to the quoted market value was redundant and no longer required. The amount previously recognised as an impairment of £205 million has therefore been reversed during the current period, after exchange movements on the opening balance of £12 million.

(e) Impairment of goodwill and other intangibles – United States

Following the business review, the Directors have concluded that the goodwill and other intangible assets associated with the US long-term cash generating unit and associated investment management business are no longer recoverable. As a result, impairments of £787 million in relation to goodwill and £89 million in relation to other intangibles have been recognised during the period, reducing the carrying value of goodwill and other intangibles to £nil.

A4 – Segmental information

The Group's results can be segmented, either by activity or by geography. Our primary reporting format is on market reporting lines, with supplementary information being given by business activity. This note provides segmental information on the condensed consolidated income statement and condensed consolidated statement of financial position.

(a) Operating segments

Following the announcement in Q2 2012 relating to the restructuring of the Group, the Group's operating segments were changed to align them with the new organisational reporting structure. The new segments are set out below. Results for prior periods have been restated to facilitate comparison with this new structure. The Group has determined its operating segments along market reporting lines. These reflect the management structure whereby a member of the Executive Management team is accountable to the Group Executive Chairman for the operating segment for which they are responsible.
The activities of each operating segment are described below:

United Kingdom and Ireland

The United Kingdom and Ireland comprises two operating segments – Life and General Insurance. In October 2011 it was announced that management control of the Irish life and general insurance businesses was being transferred from Aviva Europe to the UK, with the UK Life and General Insurance businesses taking control of the respective components.

The principal activities of our UK and Ireland Life operations are life insurance, long-term health and accident insurance, savings, pensions and annuity business, whilst UK and Ireland General Insurance provides insurance cover to individuals and businesses, for risks associated mainly with motor vehicles, property and liability (such as employers' liability and professional indemnity liability) and medical expenses. For the period to its disposal on 30 September 2011, UK and Ireland General Insurance also includes the RAC motor recovery business.

France

The principal activities of our French operations are long-term business and general insurance. The long-term business offers a range of long-term insurance and savings products, primarily for individuals, with a focus on the unit-linked market. The general insurance business predominantly sells personal and small commercial lines insurance products through agents and a direct insurer.

United States

The principal activity of the United States operations is long-term business, providing fixed life insurance and fixed annuities with a focus on index products, through more than 50 key distribution partners.

Canada

The principal activity of the Canadian operation is general insurance. In particular it provides personal and commercial lines insurance products through a range of distribution partners.

Italy, Spain and Other

These countries are not individually significant at a group level, so have been aggregated into a single reporting segment in line with IFRS8. This segment includes our operations in other developed markets including Italy and Spain. It also includes our Czech, Hungarian and Romanian businesses which are held for sale as well as our Reinsurance and Run Off businesses. The principal activities of our Italian operations are long-term business and general insurance. The life business offers a range of long-term insurance and savings products. The general insurance business provides motor and home insurance products to individuals, as well as small commercial risk insurance to businesses. The principal activity of the Spanish operation is the sale of long-term business, accident and health insurance and a selection of savings products.

Higher Growth markets

Activities reported in the higher growth markets operating segment include our businesses in Asia, Poland, Turkey and Russia. Our activities in Asia principally comprise our long-term business operations in China, India, Singapore, Hong Kong, Sri Lanka, Taiwan, Malaysia, South Korea, Vietnam and Indonesia, as well as our General Insurance operations in Singapore and Indonesia. Our activities in Poland and Turkey comprise both long-term business and General Insurance operations, while in Russia they comprise long-term business operations.

Aviva Investors

Aviva Investors operates in most of the markets in which the Group operates, in particular the UK, France, the US 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.

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 statement of financial position. Also included here are consolidation and elimination adjustments and the Group's continuing interest in Delta Lloyd as an associate.

Discontinued operations

On 6 May 2011 the Group ceased to hold a majority of the shareholder voting rights in Delta Lloyd and therefore the results of Delta Lloyd up to 6 May 2011 are presented as discontinued operations for the comparative periods. After this date, the Group ceased to consolidate Delta Lloyd.

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.

A4 – Segmental information continued

(i) Segmental income statement for the six month period ended 30 June 2012

	Developed Markets									
	United Kingdom & Ireland									
	Life £m	GI £m	France £m	United States £m	Canada £m	Italy, Spain and other** £m	Higher Growth markets £m	Aviva Investors† £m	Other Group activities# £m	Total £m
Gross written premiums	3,246	2,408	2,562	1,955	1,121	1,804	669	—	—	13,765
Premiums ceded to reinsurers	(512)	(140)	(26)	(64)	(36)	(55)	(70)	—	—	(903)
Internal reinsurance revenue	(3)	(7)	(2)	—	(4)	20	(4)	—	—	—
Net written premiums	2,731	2,261	2,534	1,891	1,081	1,769	595	—	—	12,862
Net change in provision for unearned premiums	(18)	(42)	(85)	—	(26)	(30)	(11)	—	—	(212)
Net earned premiums	2,713	2,219	2,449	1,891	1,055	1,739	584	—	—	12,650
Fee and commission income	236	75	63	3	19	61	34	141	—	632
	2,949	2,294	2,512	1,894	1,074	1,800	618	141	—	13,282
Net investment income	2,923	256	2,996	1,093	78	1,149	242	(2)	(48)	8,687
Inter-segment revenue	—	—	—	—	—	—	—	89	—	89
Share of profit of joint ventures and associates	11	—	4	—	—	—	6	2	(99)	(76)
Loss on the disposal of subsidiaries and associates	—	(21)	—	—	—	(4)	—	—	(5)	(30)
Segmental income	**5,883**	**2,529**	**5,512**	**2,987**	**1,152**	**2,945**	**866**	**230**	**(152)**	**21,952**
Claims and benefits paid, net of recoveries from reinsurers	(4,781)	(1,448)	(2,785)	(1,356)	(608)	(2,266)	(402)	—	—	(13,646)
Change in insurance liabilities, net of reinsurance	1,151	49	(375)	(1,044)	(2)	564	(157)	—	—	186
Change in investment contract provisions	(681)	—	(168)	(46)	—	(302)	10	(23)	—	(1,210)
Change in unallocated divisible surplus	(355)	—	(1,537)	—	—	(577)	(37)	—	—	(2,506)
Amortisation of acquired value of in-force business	(7)	—	(9)	(72)	—	(5)	(2)	—	—	(95)
Impairment of goodwill and other intangibles, depreciation and other amortisation expense	(41)	(29)	(1)	(901)	(9)	(34)	(4)	(10)	(2)	(1,031)
Other operating expenses	(813)	(935)	(382)	(215)	(361)	(228)	(177)	(189)	(316)	(3,616)
Impairment losses on AVIF and tangible assets*	(22)	(10)	—	(10)	—	1	—	—	—	(41)
Inter-segment expenses	(46)	(2)	—	(37)	(2)	—	(2)	—	—	(89)
Finance costs	(107)	(29)	(2)	(10)	(5)	(1)	—	(3)	(203)	(360)
Segmental expenses	**(5,702)**	**(2,404)**	**(5,259)**	**(3,691)**	**(987)**	**(2,848)**	**(771)**	**(225)**	**(521)**	**(22,408)**
Profit/(loss) before tax	181	125	253	(704)	165	97	95	5	(673)	(456)
Tax attributable to policyholders' returns	(20)	—	—	—	—	—	(1)	—	—	(21)
Profit/(loss) before tax attributable to shareholders	**161**	**125**	**253**	**(704)**	**165**	**97**	**94**	**5**	**(673)**	**(477)**
Adjusted for non-operating items:										
Reclassification of corporate costs and unallocated interest	—	4	13	6	—	2	—	1	(26)	—
Investment return variances and economic assumption changes on long-term business	301	—	(44)	(92)	—	56	(9)	—	—	212
Short-term fluctuation in return on investments backing non-long-term business	—	(36)	(33)	—	(3)	(14)	—	—	55	(31)
Economic assumption changes on general insurance and health business	—	18	—	—	(1)	1	—	—	—	18
Impairment of goodwill, associates and joint ventures	—	—	—	787	—	21	—	—	(205)	603
Amortisation and impairment of intangibles	9	21	—	112	6	6	2	8	—	164
(Profit)/loss on the disposal of subsidiaries and associates	—	21	—	—	—	4	—	—	5	30
Integration and restructuring costs	12	54	6	2	6	2	4	21	79	186
Exceptional items	—	—	—	—	—	—	—	—	—	—
Share of Delta Lloyd's non-operating items (before tax), as an associate	—	—	—	—	—	—	—	—	523	523
Share of Delta Lloyd's tax expense, as an associate	—	—	—	—	—	—	—	—	(107)	(107)
Operating profit/(loss) before tax attributable to shareholders	**483**	**207**	**195**	**111**	**173**	**175**	**91**	**35**	**(349)**	**1,121**

* Impairment losses, and reversal of such losses, recognised directly in other comprehensive income were £8 million and £nil respectively.
** Other developed markets include Czech Republic, Romania, Hungary, Group Reinsurance and agencies in runoff.
† Aviva Investors operating profit includes £1 million profit relating to the Aviva Investors Pooled Pension business.
# Other group activities include Delta Lloyd as an associate.

A4 – Segmental information continued

(ii) Segmental income statement for the six month period ended 30 June 2011

	United Kingdom & Ireland		Developed Markets									
	Life £m	GI £m	France £m	United States £m	Canada £m	Italy, Spain and other** £m	Higher Growth markets £m	Aviva Investors† £m	Other Group activities# £m	Continuing operations £m	Discontinued operations £m	Total £m
Gross written premiums	4,111	2,502	3,075	1,607	1,068	2,345	690	—	—	15,398	2,118	17,516
Premiums ceded to reinsurers	(619)	(78)	(25)	(62)	(39)	(67)	(52)	—	—	(942)	(73)	(1,015)
Internal reinsurance revenue	—	(2)	(4)	—	(4)	13	(1)	—	—	2	(2)	—
Net written premiums	3,492	2,422	3,046	1,545	1,025	2,291	637	—	—	14,458	2,043	16,501
Net change in provision for unearned premiums	(42)	(107)	(82)	—	(18)	(30)	(11)	—	—	(290)	(56)	(346)
Net earned premiums	3,450	2,315	2,964	1,545	1,007	2,261	626	—	—	14,168	1,987	16,155
Fee and commission income	232	92	75	—	16	84	45	175	—	719	97	816
	3,682	2,407	3,039	1,545	1,023	2,345	671	175	—	14,887	2,084	16,971
Net investment income	2,759	195	935	1,062	103	314	202	28	189	5,787	436	6,223
Inter-segment revenue	—	—	—	—	—	—	—	89	—	89	—	89
Share of profit of joint ventures and associates	112	—	3	—	—	—	15	2	20	152	28	180
Loss on the disposal of subsidiaries and associates	—	(3)	(8)	—	—	—	—	—	—	(11)	(32)	(43)
Segmental income	6,553	2,599	3,969	2,607	1,126	2,659	888	294	209	20,904	2,516	23,420
Claims and benefits paid, net of recoveries from reinsurers	(4,655)	(1,638)	(2,432)	(1,269)	(623)	(2,034)	(412)	—	—	(13,063)	(1,475)	(14,538)
Change in insurance liabilities, net of reinsurance	170	170	(380)	(929)	(30)	13	(153)	—	—	(1,139)	(909)	(2,048)
Change in investment contract provisions	(741)	—	(904)	(43)	—	(221)	11	(59)	—	(1,957)	(94)	(2,051)
Change in unallocated divisible surplus	(102)	—	388	—	—	(150)	(35)	—	—	101	(19)	82
Amortisation of acquired value of in-force business	(6)	—	(10)	(74)	—	(4)	(4)	—	—	(98)	(1)	(99)
Impairment of goodwill and other intangibles, depreciation and other amortisation expense	(40)	(15)	(1)	(27)	(8)	(8)	(6)	(7)	—	(112)	(9)	(121)
Other operating expenses	(629)	(895)	(429)	(122)	(328)	(304)	(174)	(199)	(433)	(3,513)	(471)	(3,984)
Impairment losses on AVIF and tangible assets*	—	(30)	1	(9)	—	—	(2)	—	—	(40)	(2)	(42)
Inter-segment expenses	(49)	(1)	—	(34)	(2)	—	(3)	—	—	(89)	—	(89)
Finance costs	(92)	(26)	(3)	(8)	(6)	(1)	—	(2)	(201)	(339)	(262)	(601)
Segmental expenses	(6,144)	(2,435)	(3,770)	(2,515)	(997)	(2,709)	(778)	(267)	(634)	(20,249)	(3,242)	(23,491)
Profit/(loss) before tax	409	164	199	92	129	(50)	110	27	(425)	655	(726)	(71)
Tax attributable to policyholders' returns	5	—	—	—	—	—	(2)	—	—	3	—	3
Profit/(loss) before tax attributable to shareholders	414	164	199	92	129	(50)	108	27	(425)	658	(726)	(68)
Adjusted for non-operating items:												
Reclassification of corporate costs and unallocated interest	—	(1)	8	2	—	—	—	—	(9)	—	—	—
Investment return variances and economic assumption changes on long-term business	23	—	(20)	(16)	—	203	(3)	—	—	187	820	1,007
Short-term fluctuation in return on investments backing non-long-term business	—	54	4	—	(22)	28	1	—	15	80	60	140
Economic assumption changes on general insurance and health business	—	8	—	—	—	—	—	—	—	8	—	8
Impairment of goodwill	20	—	—	—	—	—	—	—	—	20	—	20
Amortisation and impairment of intangibles	12	3	—	26	5	5	2	3	—	56	5	61
(Profit)/loss on the disposal of subsidiaries and associates	—	3	8	—	—	—	—	—	—	11	32	43
Integration and restructuring costs	35	13	16	3	6	5	2	11	20	111	—	111
Exceptional items	—	—	—	—	—	—	—	—	—	—	—	—
Share of Delta Lloyd's non-operating items (before tax), as an associate	—	—	—	—	—	—	—	—	8	8	—	8
Share of Delta Lloyd's tax expense, as an associate	—	—	—	—	—	—	—	—	7	7	—	7
Operating profit/(loss) before tax attributable to shareholders	504	244	215	107	118	191	110	41	(384)	1,146	191	1,337

* Impairment losses, and reversal of such losses, recognised directly in other comprehensive income were £8 million and £nil respectively.
** Other developed markets include Czech Republic, Romania, Hungary, Group Reinsurance and agencies in runoff.
† Aviva Investors operating profit includes £2 million profit relating to the Aviva Investors Pooled Pension business.
\# Other group activities include Delta Lloyd as an associate.

A4 – Segmental information continued

(iii) Segmental income statement for the year ended 31 December 2011

	United Kingdom & Ireland Life £m	United Kingdom & Ireland GI £m	France £m	United States £m	Canada £m	Italy, Spain and other** £m	Higher Growth markets £m	Aviva Investors† £m	Other Group activities# £m	Continuing operations £m	Discontinued operations £m	Total £m
	Developed Markets											
Gross written premiums	7,925	4,941	5,305	3,745	2,164	4,586	1,334	—	—	30,000	2,118	32,118
Premiums ceded to reinsurers	(999)	(192)	(66)	(125)	(70)	(108)	(115)	—	—	(1,675)	(73)	(1,748)
Internal reinsurance revenue	—	(11)	(6)	—	(11)	34	(4)	—	—	2	(2)	—
Net written premiums	6,926	4,738	5,233	3,620	2,083	4,512	1,215	—	—	28,327	2,043	30,370
Net change in provision for unearned premiums	(57)	(60)	(22)	—	(46)	(25)	(26)	—	—	(236)	(56)	(292)
Net earned premiums	6,869	4,678	5,211	3,620	2,037	4,487	1,189	—	—	28,091	1,987	30,078
Fee and commission income	503	199	147	10	38	174	80	328	—	1,479	97	1,576
	7,372	4,877	5,358	3,630	2,075	4,661	1,269	328	—	29,570	2,084	31,654
Net investment income	5,497	449	(896)	1,650	236	(747)	(158)	79	(119)	5,991	436	6,427
Inter-segment revenue	—	—	—	—	—	—	—	219	—	219	—	219
Share of profit/(loss) of joint ventures and associates	(41)	—	9	—	—	(12)	1	4	(84)	(123)	28	(95)
Profit/(loss) on the disposal of subsidiaries and associates	—	528	37	—	—	—	—	23	(23)	565	(32)	533
Segmental income	12,828	5,854	4,508	5,280	2,311	3,902	1,112	653	(226)	36,222	2,516	38,738
Claims and benefits paid, net of recoveries from reinsurers	(9,647)	(3,159)	(5,366)	(2,554)	(1,308)	(4,118)	(782)	—	—	(26,934)	(1,475)	(28,409)
Change in insurance liabilities, net of reinsurance	(2,383)	99	62	(1,614)	(1)	(115)	222	—	—	(3,730)	(909)	(4,639)
Change in investment contract provisions	949	—	583	(86)	—	(131)	46	(137)	—	1,224	(94)	1,130
Change in unallocated divisible surplus	358	—	1,334	—	—	1,053	(24)	—	—	2,721	(19)	2,702
Amortisation of acquired value of in-force business	(35)	—	(19)	(199)	—	(11)	(5)	—	—	(269)	(1)	(270)
Impairment of goodwill and other intangibles, depreciation and other amortisation expense	(260)	(36)	(7)	(55)	(18)	(28)	(8)	(17)	(2)	(431)	(9)	(440)
Other operating expenses	(1,423)	(1,846)	(806)	(421)	(673)	(567)	(369)	(424)	(495)	(7,024)	(471)	(7,495)
Impairment losses on AVIF and tangible assets*	—	(60)	(4)	(31)	—	(31)	—	(1)	—	(127)	(2)	(129)
Inter-segment expenses	(133)	(6)	—	(71)	(3)	—	(6)	—	—	(219)	—	(219)
Finance costs	(277)	(52)	(18)	(22)	(11)	(2)	—	(3)	(413)	(798)	(262)	(1,060)
Segmental expenses	(12,851)	(5,060)	(4,241)	(5,053)	(2,014)	(3,950)	(926)	(582)	(910)	(35,587)	(3,242)	(38,829)
Profit/(loss) before tax	(23)	794	267	227	297	(48)	186	71	(1,136)	635	(726)	(91)
Tax attributable to policyholders' returns	186	—	—	—	—	—	(8)	—	—	178	—	178
Profit/(loss) before tax attributable to shareholders	163	794	267	227	297	(48)	178	71	(1,136)	813	(726)	87
Adjusted for non-operating items:												
Reclassification of corporate costs and unallocated interest	—	2	20	8	—	2	—	2	(34)	—	—	—
Investment return variances and economic assumption changes on long-term business	543	—	47	(101)	—	285	22	—	—	796	820	1,616
Short-term fluctuation in return on investments backing non-long-term business	—	54	140	—	(64)	62	—	—	74	266	60	326
Economic assumption changes on general insurance and health business	—	86	—	—	4	—	—	—	—	90	—	90
Impairment of goodwill, associates and joint ventures	149	—	—	—	—	11	15	—	217	392	—	392
Amortisation and impairment of intangibles	66	9	4	54	11	12	5	10	—	171	5	176
(Profit)/loss on the disposal of subsidiaries and associates	—	(528)	(37)	—	—	—	—	(23)	23	(565)	32	(533)
Integration and restructuring costs	46	37	30	6	6	10	9	31	93	268	—	268
Exceptional items	22	35	—	—	—	—	—	—	—	57	—	57
Share of Delta Lloyd's non-operating items (before tax), as an associate	—	—	—	—	—	—	—	—	(10)	(10)	—	(10)
Share of Delta Lloyd's tax expense, as an associate	—	—	—	—	—	—	—	—	34	34	—	34
Operating profit/(loss) before tax attributable to shareholders	989	489	471	194	254	334	229	91	(739)	2,312	191	2,503

* Impairment losses, and reversal of such losses, recognised directly in other comprehensive income were £21 million and £nil respectively.
** Other developed markets include Czech Republic, Romania, Hungary, Group Reinsurance and agencies in runoff.
† Aviva Investors operating profit includes £3 million profit relating to the Aviva Investors Pooled Pension business.
\# Other group activities include Delta Lloyd as an associate.

A4 – Segmental information continued

(iv) Segmental statement of financial position as at 30 June 2012

	Developed Markets									
	United Kingdom & Ireland									
	Life £m	GI £m	France £m	United States £m	Canada £m	Italy, Spain and other £m	Higher Growth markets £m	Aviva Investors £m	Other Group activities# £m	Total £m
Goodwill	23	1,013	—	—	50	609	71	28	—	1,794
Acquired value of in-force business and intangible assets	177	52	141	526	44	644	21	44	—	1,649
Interests in, and loans to, joint ventures and associates	1,257	—	148	1	—	—	646	7	609	2,668
Property and equipment	174	40	48	116	18	18	13	12	6	445
Investment property	7,798	17	1,270	6	—	2	—	1,153	755	11,001
Loans	22,281	341	844	3,192	81	15	39	—	125	26,918
Financial investments	86,868	3,059	55,455	31,731	3,789	23,269	5,587	739	2,773	213,270
Deferred acquisition costs	1,472	551	207	1,839	277	125	35	—	—	4,506
Other assets	21,966	4,143	13,213	1,873	1,118	3,050	732	602	3,661	50,358
Total assets	142,016	9,216	71,326	39,284	5,377	27,732	7,144	2,585	7,929	312,609
Insurance liabilities										
Long-term business and outstanding claims provisions	70,509	5,641	13,636	31,573	2,502	14,278	4,923	—	—	143,062
Unearned premiums	377	2,245	426	—	1,140	320	168	—	—	4,676
Other insurance liabilities	—	94	72	—	97	2	—	—	—	265
Liability for investment contracts	47,085	—	46,026	2,699	—	9,524	51	2,001	—	107,386
Unallocated divisible surplus	2,063	—	1,759	—	—	(823)	163	—	—	3,162
Net asset value attributable to unitholders	1,389	—	4,640	—	—	19	—	—	5,090	11,138
External borrowings	2,771	2	—	166	—	89	—	—	5,043	8,071
Other liabilities, including inter-segment liabilities	11,496	(2,835)	2,648	2,385	412	1,577	349	289	3,923	20,244
Total liabilities	135,690	5,147	69,207	36,823	4,151	24,986	5,654	2,290	14,056	298,004
Total equity										14,605
Total equity and liabilities	135,690	5,147	69,207	36,823	4,151	24,986	5,654	2,290	14,056	312,609
Capital expenditure (excluding business combinations)	36	13	1	8	5	5	4	9	—	81

Other group activities include Delta Lloyd as an associate.

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

A4 – Segmental information continued

(v) Segmental statement of financial position as at 30 June 2011

	Developed Markets									
	United Kingdom & Ireland									
	Life £m	GI £m	France £m	United States £m	Canada £m	Italy, Spain and other £m	Higher Growth markets £m	Aviva Investors £m	Other Group activities# £m	Total £m
Goodwill	159	1,024	—	774	51	715	72	28	—	2,823
Acquired value of in-force business and intangible assets	447	20	155	916	48	741	30	39	—	2,396
Interests in, and loans to, joint ventures and associates	1,737	—	163	1	—	12	591	16	1,061	3,581
Property and equipment	174	54	51	106	28	22	11	18	3	467
Investment property	8,427	27	1,204	6	—	1	—	1,078	493	11,236
Loans	20,510	566	972	2,626	97	17	40	—	—	24,828
Financial investments	91,053	3,588	63,335	28,039	3,753	28,050	6,081	1,001	3,106	228,006
Deferred acquisition costs	1,666	606	244	2,320	278	172	37	—	—	5,323
Other assets	18,011	3,761	12,445	1,894	1,200	2,299	766	516	3,054	43,946
Total assets	142,184	9,646	78,569	36,682	5,455	32,029	7,628	2,696	7,717	322,606
Insurance liabilities										
Long-term business and outstanding claims provisions	69,879	5,662	15,236	28,870	2,634	16,597	5,503	—	—	144,381
Unearned premiums	354	2,443	443	—	1,118	338	151	—	—	4,847
Other insurance liabilities	—	84	99	—	102	2	—	—	—	287
Liability for investment contracts	50,430	—	52,735	2,806	—	11,027	100	2,186	—	119,284
Unallocated divisible surplus	2,177	—	1,253	—	—	(303)	146	—	—	3,273
Net asset value attributable to unitholders	1,040	—	3,587	—	—	25	—	—	4,083	8,735
External borrowings	2,799	—	—	151	—	99	—	—	5,833	8,882
Other liabilities, including inter segment liabilities	9,064	(1,656)	3,034	2,071	423	1,067	345	309	3,055	17,712
Total liabilities	135,743	6,533	76,387	33,898	4,277	28,852	6,245	2,495	12,971	307,401
Total equity										15,205
Total equity and liabilities	135,743	6,533	76,387	33,898	4,277	28,852	6,245	2,495	12,971	322,606
Capital expenditure (excluding business combinations)	22	20	—	12	2	2	4	8	—	70

Other group activities include Delta Lloyd as an associate.

A4 – Segmental information continued

(vi) Segmental statement of financial position as at 31 December 2011

	Developed Markets									
	United Kingdom & Ireland									
	Life £m	GI £m	France £m	United States £m	Canada £m	Italy, Spain and other £m	Higher Growth markets £m	Aviva Investors £m	Other Group activities# £m	Total £m
Goodwill	24	1,016	—	800	50	650	71	29	—	2,640
Acquired value of in-force business and intangible assets	326	67	155	681	47	678	23	44	—	2,021
Interests in, and loans to, joint ventures and associates	1,274	—	152	1	—	—	600	15	776	2,818
Property and equipment	229	44	50	113	19	18	13	16	8	510
Investment property	8,431	20	1,246	6	—	2	—	1,133	800	11,638
Loans	23,440	524	949	3,067	80	16	40	—	—	28,116
Financial investments	90,262	3,171	55,074	30,613	3,683	23,895	5,398	884	3,078	216,058
Deferred acquisition costs	1,594	566	207	1,950	274	129	35	—	—	4,755
Other assets	17,144	3,548	11,856	1,752	1,183	2,780	519	579	4,459	43,820
Total assets	142,724	8,956	69,689	38,983	5,336	28,168	6,699	2,700	9,121	312,376
Insurance liabilities										
Long-term business and outstanding claims provisions	72,704	5,857	13,679	30,697	2,538	15,130	4,732	—	—	145,337
Unearned premiums	350	2,209	353	—	1,122	296	153	—	—	4,483
Other insurance liabilities	—	95	85	—	100	1	—	—	—	281
Liability for investment contracts	48,456	—	47,346	2,833	—	9,821	51	2,137	—	110,644
Unallocated divisible surplus	1,712	—	249	—	—	(1,435)	124	—	—	650
Net asset value attributable to unitholders	1,279	—	3,362	—	—	18	—	—	5,693	10,352
Borrowings	2,945	2	—	159	—	89	—	—	5,255	8,450
Other liabilities, including inter-segment liabilities	8,983	(3,434)	2,538	2,188	456	1,422	232	309	4,122	16,816
Total liabilities	136,429	4,729	67,612	35,877	4,216	25,342	5,292	2,446	15,070	297,013
Total equity										15,363
Total equity and liabilities	136,429	4,729	67,612	35,877	4,216	25,342	5,292	2,446	15,070	312,376
Capital expenditure (excluding business combinations)	55	79	5	21	8	17	9	20	—	214

\# Other group activities include Delta Lloyd as an associate.

(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 other 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 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

Other includes the RAC non-insurance operations (up to the disposal date of 30 September 2011), service companies, head office expenses, such as Group treasury and finance functions, and certain financing costs and taxes not allocated to business segments.

Delta Lloyd

In the products and services analysis, the results of Delta Lloyd up to 6 May 2011 are presented as discontinued operations. After this date, the Group's share of the results of its retained interest in Delta Lloyd as an associate are shown only within other activities within continuing operations.

A4 – Segmental information continued

(i) Segmental income statement – products and services for the six month period ended 30 June 2012

	Long-term business £m	General insurance and health** £m	Fund management £m	Other† £m	Total £m
Gross written premiums*	8,810	4,955	—	—	13,765
Premiums ceded to reinsurers	(563)	(340)	—	—	(903)
Net written premiums	8,247	4,615	—	—	12,862
Net change in provision for unearned premiums	—	(212)	—	—	(212)
Net earned premiums	8,247	4,403	—	—	12,650
Fee and commission income	305	30	174	123	632
	8,552	4,433	174	123	13,282
Net investment income	8,314	422	2	(51)	8,687
Inter-segment revenue	—	—	84	—	84
Share of profit of joint ventures and associates	22	1	—	(99)	(76)
Loss on the disposal of subsidiaries and associates	—	(21)	—	(9)	(30)
Segmental income	**16,888**	**4,835**	**260**	**(36)**	**21,947**
Claims and benefits paid, net of recoveries from reinsurers	(10,799)	(2,847)	—	—	(13,646)
Change in insurance liabilities, net of reinsurance	175	11	—	—	186
Change in investment contract provisions	(1,210)	—	—	—	(1,210)
Change in unallocated divisible surplus	(2,506)	—	—	—	(2,506)
Amortisation of acquired value of in-force business	(95)	—	—	—	(95)
Depreciation and other amortisation expense	(975)	(12)	(10)	(34)	(1,031)
Other operating expenses	(1,413)	(1,557)	(213)	(433)	(3,616)
Impairment losses	(31)	(10)	—	—	(41)
Inter-segment expenses	(81)	(3)	—	—	(84)
Finance costs	(90)	(14)	(29)	(227)	(360)
Segmental expenses	**(17,025)**	**(4,432)**	**(252)**	**(694)**	**(22,403)**
Profit/(loss) before tax from continuing operations	(137)	403	8	(730)	(456)
Tax attributable to policyholder returns	(21)	—	—	—	(21)
Profit/(loss) before tax attributable to shareholders	(158)	403	8	(730)	(477)
Adjusted for:					
Non-operating items from continuing operations (excluding Delta Lloyd as an associate)	1,168	58	30	(74)	1,182
Share of Delta Lloyd's non-operating items (before tax), as an associate	—	—	—	523	523
Share of Delta Lloyd's tax expense, as an associate	—	—	—	(107)	(107)
Operating profit/(loss) before tax attributable to shareholders' profits from continuing operations	**1,010**	**461**	**38**	**(388)**	**1,121**
Operating profit/(loss) before tax attributable to shareholders' profits from discontinued operations	—	—	—	—	—
Operating profit/(loss) before tax attributable to shareholders' profits	**1,010**	**461**	**38**	**(388)**	**1,121**

* Gross written premiums includes inward reinsurance premiums assumed from other companies amounting to £137 million, of which £83 million relates to property and liability insurance and £54 million relates to long-term business.
** General insurance and health business segment includes gross written premiums of £610 million relating to health business. The remaining business relates to property and liability insurance.
† Other includes Delta Lloyd as an associate, 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

(ii) Segmental income statement – products and services for the six month period ended 30 June 2011

	Long-term business £m	General insurance and health** £m	Fund management £m	Other† £m	Total £m
Gross written premiums*	10,404	4,994	—	—	15,398
Premiums ceded to reinsurers	(654)	(286)	—	—	(940)
Net written premiums	9,750	4,708	—	—	14,458
Net change in provision for unearned premiums	—	(290)	—	—	(290)
Net earned premiums	9,750	4,418	—	—	14,168
Fee and commission income	322	8	207	182	719
	10,072	4,426	207	182	14,887
Net investment income	5,244	369	4	170	5,787
Inter-segment revenue	—	—	94	—	94
Share of profit of joint ventures and associates	132	—	—	20	152
Loss on the disposal of subsidiaries and associates	—	—	—	(11)	(11)
Segmental income	15,448	4,795	305	361	20,909
Claims and benefits paid, net of recoveries from reinsurers	(10,106)	(2,957)	—	—	(13,063)
Change in insurance liabilities, net of reinsurance	(1,195)	56	—	—	(1,139)
Change in investment contract provisions	(1,957)	—	—	—	(1,957)
Change in unallocated divisible surplus	101	—	—	—	101
Amortisation of acquired value of in-force business	(98)	—	—	—	(98)
Depreciation and other amortisation expense	(78)	(9)	(6)	(19)	(112)
Other operating expenses	(1,206)	(1,462)	(250)	(595)	(3,513)
Impairment losses	(6)	(31)	—	(3)	(40)
Inter-segment expenses	(89)	(4)	—	(1)	(94)
Finance costs	(36)	(19)	(22)	(262)	(339)
Segmental expenses	(14,670)	(4,426)	(278)	(880)	(20,254)
Profit/(loss) before tax from continuing operations	778	369	27	(519)	655
Tax attributable to policyholder returns	3	—	—	—	3
Profit/(loss) before tax attributable to shareholders	781	369	27	(519)	658
Adjusted for:					
Non-operating items from continuing operations (excluding Delta Lloyd as an associate)	301	86	15	71	473
Share of Delta Lloyd's non-operating items (before tax), as an associate	—	—	—	8	8
Share of Delta Lloyd's tax expense, as an associate	—	—	—	7	7
Operating profit/(loss) before tax attributable to shareholders' profits from continuing operations	1,082	455	42	(433)	1,146
Operating profit/(loss) before tax attributable to shareholders' profits from discontinued operations	185	1	11	(6)	191
Operating profit/(loss) before tax attributable to shareholders' profits	1,267	456	53	(439)	1,337

* Gross written premiums includes inward reinsurance premiums assumed from other companies amounting to £110 million, of which £49 million relates to property and liability insurance and £61 million relates to long-term business.
** General insurance and health business segment includes gross written premiums of £589 million relating to health business. The remaining business relates to property and liability insurance.
† Other includes the RAC, up to the date of disposal, 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 2011

	Long-term business £m	General insurance and health** £m	Fund management £m	Other† £m	Total £m
Gross written premiums*	20,250	9,750	—	—	30,000
Premiums ceded to reinsurers	(1,085)	(588)	—	—	(1,673)
Net written premiums	19,165	9,162	—	—	28,327
Net change in provision for unearned premiums	—	(236)	—	—	(236)
Net earned premiums	19,165	8,926	—	—	28,091
Fee and commission income	715	54	377	333	1,479
	19,880	8,980	377	333	29,570
Net investment income/(expense)	5,469	725	4	(207)	5,991
Inter-segment revenue	—	—	227	—	227
Share of (loss) of joint ventures and associates	(10)	—	(2)	(111)	(123)
Profit/(loss) on the disposal of subsidiaries and associates	—	(28)	24	569	565
Segmental income	25,339	9,677	630	584	36,230
Claims and benefits paid, net of recoveries from reinsurers	(20,989)	(5,945)	—	—	(26,934)
Change in insurance liabilities, net of reinsurance	(3,727)	(3)	—	—	(3,730)
Change in investment contract provisions	1,224	—	—	—	1,224
Change in unallocated divisible surplus	2,721	—	—	—	2,721
Amortisation of acquired value of in-force business on insurance contracts	(269)	—	—	—	(269)
Depreciation and other amortisation expense	(332)	(19)	(16)	(64)	(431)
Other operating expenses	(2,714)	(2,994)	(483)	(833)	(7,024)
Impairment losses	(48)	(60)	—	(19)	(127)
Inter-segment expenses	(216)	(11)	—	—	(227)
Finance costs	(224)	(36)	(51)	(487)	(798)
Segmental expenses	(24,574)	(9,068)	(550)	(1,403)	(35,595)
Profit/(loss) before tax from continuing operations	765	609	80	(819)	635
Tax attributable to policyholder returns	178	—	—	—	178
Profit/(loss) before tax attributable to shareholders from continuing operations	943	609	80	(819)	813
Adjusted for:					
Non-operating items from continuing operations (excluding Delta Lloyd as an associate)	1,180	326	19	(50)	1,475
Share of Delta Lloyd's non-operating items (before tax), as an associate	—	—	—	(10)	(10)
Share of Delta Lloyd's tax expense, as an associate	—	—	—	34	34
Operating profit/(loss) before tax attributable to shareholders' profits from continuing operations	2,123	935	99	(845)	2,312
Operating profit/(loss) before tax attributable to shareholders' profits from discontinued operations	185	1	11	(6)	191
Operating profit/(loss) before tax attributable to shareholders' profits	2,308	936	110	(851)	2,503

* Gross written premiums includes inward reinsurance premiums assumed from other companies amounting to £243 million, of which £110 million relates to property and liability insurance and £133 million relates to long-term business.
** General insurance and health business segment includes gross written premiums of £1,107 million relating to health business. The remaining business relates to property and liability insurance.
† Other includes the RAC, up to the date of disposal, head office expenses, such as group treasury and finance functions, and certain financing costs and taxes not allocated to business segments.

(iv) Segmental statement of financial position – products and services as at 30 June 2012

	Long-term business £m	General insurance and health £m	Fund management £m	Other* £m	Total £m
Goodwill	**627**	**1,066**	**28**	**73**	**1,794**
Acquired value of in-force business and intangible assets	**1,390**	**137**	**45**	**77**	**1,649**
Interests in, and loans to, joint ventures and associates	**2,052**	**6**	**—**	**610**	**2,668**
Property and equipment	**343**	**35**	**12**	**55**	**445**
Investment property	**10,102**	**144**	**—**	**755**	**11,001**
Loans	**26,370**	**423**	**—**	**125**	**26,918**
Financial investments	**200,683**	**9,516**	**45**	**3,026**	**213,270**
Deferred acquisition costs	**3,502**	**991**	**13**	**—**	**4,506**
Other assets	**37,823**	**7,456**	**540**	**4,539**	**50,358**
Total assets	**282,892**	**19,774**	**683**	**9,260**	**312,609**
Gross insurance liabilities	**132,823**	**15,180**	**—**	**—**	**148,003**
Gross liabilities for investment contracts	**107,386**	**—**	**—**	**—**	**107,386**
Unallocated divisible surplus	**3,162**	**—**	**—**	**—**	**3,162**
Net asset value attributable to unitholders	**6,048**	**—**	**—**	**5,090**	**11,138**
Borrowings	**2,840**	**—**	**—**	**5,231**	**8,071**
Other liabilities, including inter-segment liabilities	**15,737**	**(2,827)**	**383**	**6,951**	**20,244**
Total liabilities	**267,996**	**12,353**	**383**	**17,272**	**298,004**
Total equity					**14,605**
Total equity and liabilities					**312,609**

* Aviva's continuing associate interest in Delta Lloyd is included within other.

A4 – Segmental information continued

(v) Segmental statement of financial position – products and services as at 30 June 2011

	Long-term business £m	General insurance and health £m	Fund management £m	Other* £m	Total £m
Goodwill	1,615	308	28	872	2,823
Acquired value of in-force business and intangible assets	2,161	151	39	45	2,396
Interests in, and loans to, joint ventures and associates	2,513	6	1	1,061	3,581
Property and equipment	337	44	18	68	467
Investment property	10,614	129	—	493	11,236
Loans	24,165	663	—	—	24,828
Financial investments	214,421	9,978	81	3,526	228,006
Deferred acquisition costs	4,270	1,040	13	—	5,323
Other assets	32,630	7,122	461	3,733	43,946
Total assets	292,726	19,441	641	9,798	322,606
Gross insurance liabilities	133,901	15,614	—	—	149,515
Gross liabilities for investment contracts	119,284	—	—	—	119,284
Unallocated divisible surplus	3,273	—	—	—	3,273
Net asset value attributable to unit holders	4,653	—	—	4,082	8,735
Borrowings	2,879	—	—	6,003	8,882
Other liabilities, including inter-segment liabilities	13,181	(1,595)	414	5,712	17,712
Total liabilities	277,171	14,019	414	15,797	307,401
Total equity					15,205
Total equity and liabilities					322,606

* Aviva's continuing associate interest in Delta Lloyd is included within other.

(vi) Segmental statement of financial position – products and services as at 31 December 2011

	Long-term business £m	General insurance and health £m	Fund management £m	Other* £m	Total £m
Goodwill	1,466	1,067	29	78	2,640
Acquired value of in-force business and intangible assets	1,742	145	44	90	2,021
Interests in, and loans to, joint ventures and associates	2,035	5	—	778	2,818
Property and equipment	395	34	16	65	510
Investment property	10,686	152	—	800	11,638
Loans	27,511	605	—	—	28,116
Financial investments	203,247	9,391	43	3,377	216,058
Deferred acquisition costs	3,755	986	14	—	4,755
Other assets	31,449	6,717	495	5,159	43,820
Total assets	282,286	19,102	641	10,347	312,376
Gross insurance liabilities	134,860	15,241	—	—	150,101
Gross liabilities for investment contracts	110,644	—	—	—	110,644
Unallocated divisible surplus	650	—	—	—	650
Net asset value attributable to unitholders	4,659	—	—	5,693	10,352
Borrowings	3,016	—	—	5,434	8,450
Other liabilities, including inter-segment liabilities	12,793	(3,170)	374	6,819	16,816
Total liabilities	266,622	12,071	374	17,946	297,013
Total equity					15,363
Total equity and liabilities					312,376

* Aviva's continuing associate interest in Delta Lloyd is included within other.

A5 – Tax

This note analyses the tax charge for the period and explains the factors that affect it.

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

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

	6 months 2012 £m	6 months 2011 £m	Full year 2011 £m
Current tax			
For this year	**214**	249	539
Prior year adjustments	**(10)**	(1)	(16)
Total current tax from continuing operations	**204**	248	523
Deferred tax			
Origination and reversal of temporary differences	**31**	(67)	(514)
Changes in tax rates or tax laws	**(18)**	(29)	(28)
Write-down of deferred tax assets	**8**	38	70
Total deferred tax from continuing operations	**21**	(58)	(472)
Total tax charged to income statement from continuing operations	**225**	190	51
Total tax credited to income statement from discontinued operations	**—**	(202)	(202)
Total tax charged/(credited) to income statement	**225**	(12)	(151)

(ii) The Group, as a proxy for policyholders in the UK, Ireland and Singapore, is required to record taxes on investment income and gains each year. Accordingly, the tax benefit or expense attributable to UK, Ireland and Singapore insurance policyholder returns is included in the tax charge. The tax charge attributable to policyholders' returns included in the charge above is £21 million *(HY2011: £3 million credit; FY 2011: £178 million credit).*

(iii) The tax charge/(credit) can be analysed as follows:

	6 months 2012 £m	6 month 2011 £m	Full year 2011 £m
UK tax	**10**	74	(304)
Overseas tax	**215**	(86)	153
	225	(12)	(151)

(b) Tax charged/(credited) to other comprehensive income

(i) The total tax charge comprises:

	6 months 2012 £m	6 months 2011 £m	Full year 2011 £m
Current tax from continuing operations			
In respect of pensions and other post-retirement obligations	**(1)**	(28)	(88)
In respect of foreign exchange movements	**(10)**	11	(8)
	(11)	(17)	(96)
Deferred tax from continuing operations			
In respect of pensions and other post-retirement obligations	**52**	29	260
In respect of fair value gains on owner-occupied properties	**—**	—	(1)
In respect of unrealised gains on investments	**77**	9	98
	129	38	357
Tax charged to other comprehensive income arising from continuing operations	**118**	21	261
Tax credited to other comprehensive income arising from discontinued operations	**—**	(3)	(3)
Total tax charged to other comprehensive income	**118**	18	258

(c) Tax credited to equity

Tax credited directly to equity in the period amounted to £nil *(HY 2011: £nil; FY 2011: £16 million)*. The FY 2011 amount of £16 million was wholly in respect of coupon payments on direct capital instruments.

A5 – Tax continued

(d) Tax reconciliation

The tax on the Group's loss 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 2012 Shareholder £m	Policy-holder £m	Total £m
Total (loss)/profit before tax	**(477)**	**21**	**(456)**
Tax calculated at standard UK corporation tax rate of 24.5%	**(117)**	**5**	**(112)**
Reconciling items			
Different basis of tax – policyholders	**—**	**17**	**17**
Adjustment to tax charge in respect of prior years	**2**	**—**	**2**
Non-assessable income	**(63)**	**—**	**(63)**
Non-taxable loss on sale of subsidiaries and associates	**6**	**—**	**6**
Disallowable expenses	**327**	**—**	**327**
Different local basis of tax on overseas profits	**(33)**	**(1)**	**(34)**
Change in future local statutory tax rates	**(18)**	**—**	**(18)**
Movement in deferred tax not recognised	**31**	**—**	**31**
Tax effect of loss from associates and joint ventures	**71**	**—**	**71**
Other	**(2)**	**—**	**(2)**
Total tax charged to income statement	**204**	**21**	**225**

	6 months 2011 Shareholder £m	Policy-holder £m	Total £m
Total loss before tax	(68)	(3)	(71)
Tax calculated at standard UK corporation tax rate of 26.5%	(18)	(1)	(19)
Reconciling items	—	—	—
Different basis of tax – policyholders	—	(27)	(27)
Adjustment to tax charge in respect of prior years	(18)	—	(18)
Non-assessable income	(34)	—	(34)
Non-taxable loss on sale of subsidiaries and associates	14	—	14
Disallowable expenses	37	—	37
Different local basis of tax on overseas profits	32	2	34
Change in future local statutory tax rates	(27)	—	(27)
Movement in deferred tax not recognised	34	—	34
Tax effect of profit from associates and joint ventures	(11)	—	(11)
Other	(18)	23	5
Total tax credited to income statement	(9)	(3)	(12)

	Full Year 2011 Shareholder £m	Policy-holder £m	Total £m
Total profit/(loss) before tax	87	(178)	(91)
Tax calculated at standard UK corporation tax rate of 26.5%	23	(47)	(24)
Reconciling items			
Different basis of tax – policyholders	—	(129)	(129)
Adjustment to tax charge in respect of prior years	(25)	—	(25)
Non-assessable income	(60)	—	(60)
Non-taxable profit on sale of subsidiaries and associates	(135)	—	(135)
Disallowable expenses	215	—	215
Different local basis of tax on overseas profits	84	(2)	82
Change in future local statutory tax rates	(32)	—	(32)
Movement in deferred tax not recognised	(5)	—	(5)
Tax effect of profit from associates and joint ventures	(41)	—	(41)
Other	3	—	3
Total tax charged/(credited) to income statement	27	(178)	(151)

A5 – Tax continued

The tax charge/(credit) attributable to policyholders' returns is removed from the Group's total (loss)/profit before tax in arriving at the Group's (losses)/profits before tax attributable to shareholders' profits. As the net of tax profits attributable to with-profit and unit-linked policyholders is zero, the Group's pre-tax profit/(loss) attributable to policyholders is an amount equal and opposite to the tax charge/(credit) attributable to policyholders included in the total tax charge/(credit). The difference between the policyholder tax charge/(credit) and the impact of this item in the tax reconciliation can be explained as follows:

	6 months 2012 £m	6 months 2011 £m	Full Year 2011 £m
Tax attributable to policyholder returns	**21**	(3)	(178)
UK corporation tax at a rate of 24.5% (2011: 26.5%) in respect of the policyholder tax deduction	**(5)**	1	47
Different local basis of tax on overseas profits	**1**	(2)	2
Other life insurance regime impacts	**—**	(23)	—
Different basis of tax – policyholders per tax reconciliation	**17**	(27)	(129)

The UK corporation tax rate reduced to 24% from 1 April 2012. This rate, as substantively enacted by 30 June 2012, has been used in the calculation of the UK's deferred tax assets and liabilities for the period. A subsequent reduction in the UK corporation tax rate to 23% was substantively enacted in July 2012 and will apply from 1 April 2013. As announced in the 2012 Budget, the rate is expected to reduce further to 22% from 1 April 2014. The aggregate impact of the reductions in rate from 24% to 22% would reduce the deferred tax assets and liabilities and increase IFRS net assets by approximately £65 million and will be recognised when the legislation is substantively enacted.

Finance Act 2012 included initial legislation introducing considerable changes to the regime for taxing UK life insurance companies applicable from 1 January 2013. The impact of this legislation will be included in the results of the Group for the year ending 31 December 2012. It is not expected that these changes will have a material detrimental impact on the Group's deferred tax assets and liabilities.

A6 – Earnings per share

(a) Basic earnings per share

(i) The profit attributable to ordinary shareholders is:

	6 months 2012			6 months 2011			Full year 2011		
Continuing operations	**Operating profit £m**	**Non-operating items £m**	**Total £m**	Operating profit £m	Non-operating items £m	Total £m	Operating profit £m	Non-operating items £m	Total £m
Profit /(loss) before tax attributable to shareholders' profits	**1,121**	**(1,705)**	**(584)**	1,146	(481)	665	2,312	(1,465)	847
Share of Delta Lloyd's tax expense as an associate	**(28)**	**135**	**107**	(9)	2	(7)	(39)	5	(34)
Profit/(loss) before tax	**1,093**	**(1,570)**	**(477)**	1,137	(479)	658	2,273	(1,460)	813
Tax attributable to shareholders' profits	**(316)**	**112**	**(204)**	(292)	99	(193)	(625)	396	(229)
Profit/(loss) for the period	**777**	**(1,458)**	**(681)**	845	(380)	465	1,648	(1,064)	584
Amount attributable to non-controlling interests	**(90)**	**26**	**(64)**	(107)	85	(22)	(150)	109	(41)
Cumulative preference dividends for the period	**(9)**	**—**	**(9)**	(9)	—	(9)	(17)	—	(17)
Coupon payments in respect of direct capital instruments (DCI) and fixed rate tier 1 notes (net of tax)	**—**	**—**	**—**	—	—	—	(43)	—	(43)
Profit/(loss) attributable to ordinary shareholders from continuing operations	**678**	**(1,432)**	**(754)**	729	(295)	434	1,438	(955)	483
Profit/(loss) attributable to ordinary shareholders from discontinued operations	**—**	**—**	**—**	93	(411)	(318)	93	(411)	(318)
Profit/(loss) attributable to ordinary shareholders	**678**	**(1,432)**	**(754)**	822	(706)	116	1,531	(1,366)	165

A6 – Earnings per share continued

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

Continuing operations	6 months 2012 Before tax £m	6 months 2012 Net of tax, non-controlling interests, preference dividends and DCI £m	6 months 2012 Per share p	6 months 2011 Before tax £m	6 months 2011 Net of tax, non-controlling interests, preference dividends and DCI £m	6 months 2011 Per share p	Full year 2011 Before tax £m	Full year 2011 Net of tax, non-controlling interests, preference dividends and DCI £m	Full year 2011 Per share p
Operating profit attributable to ordinary shareholders	**1,121**	**678**	**23.4**	1,146	729	25.8	2,312	1,438	50.5
Non-operating items:									
Investment return variances and economic assumption changes on long-term business	**(212)**	**(150)**	**(5.2)**	(187)	2	0.1	(796)	(476)	(16.7)
Short-term fluctuation in return on investments backing non-long-term business	**31**	**16**	**0.5**	(80)	(53)	(1.9)	(266)	(198)	(7.0)
Economic assumption changes on general insurance and health business	**(18)**	**(14)**	**(0.5)**	(8)	(6)	(0.2)	(90)	(67)	(2.4)
Impairment of goodwill, associates and joint ventures	**(603)**	**(603)**	**(20.8)**	(20)	(20)	(0.7)	(392)	(359)	(12.6)
Amortisation and net impairment of intangibles	**(164)**	**(115)**	**(3.9)**	(56)	(101)	(3.6)	(171)	(178)	(6.3)
(Loss)/profit on the disposal of subsidiaries and associates	**(30)**	**(29)**	**(1.0)**	(11)	(14)	(0.5)	565	552	19.5
Integration and restructuring costs and exceptional items	**(186)**	**(149)**	**(5.1)**	(111)	(97)	(3.4)	(325)	(244)	(8.5)
Share of Delta Lloyd's non-operating items (before tax) as an associate	**(523)**	**(388)**	**(13.4)**	(8)	(6)	(0.2)	10	15	0.5
Share of Delta Lloyd's tax expense, as an associate	**107**	**—**	**—**	(7)	—	—	(34)	—	—
(Loss)/profit attributable to ordinary shareholders from continuing operations	**(477)**	**(754)**	**(26.0)**	658	434	15.4	813	483	17.0
(Loss)/profit attributable to ordinary shareholders from discontinued operations	**—**	**—**	**—**	(726)	(318)	(11.3)	(726)	(318)	(11.2)
(Loss)/profit attributable to ordinary shareholders	**(477)**	**(754)**	**(26.0)**	(68)	116	4.1	87	165	5.8

(iii) The calculation of basic earnings per share uses a weighted average of 2,902 million *(HY11: 2,825 million; FY11: 2,845 million)* ordinary shares in issue, after deducting shares owned by the employee share trusts. The actual number of shares in issue at 30 June 2012 was 2,918 million *(HY11: 2,863 million; FY11: 2,906 million)* and 2,878 million *(HY11: 2,859 million; FY11: 2,892 million)* excluding shares owned by the employee share trusts.

A6 – Earnings per share continued

(b) Diluted earnings per share

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

	6 months 2012			6 months 2011			Full year 2011		
	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
(Loss)/profit attributable to ordinary shareholders	**(754)**	**2,902**	**(26.0)**	434	2,825	15.4	483	2,845	17.0
Dilutive effect of share awards and options	**—**	**41**	**—**	—	48	(0.3)	—	50	(0.3)
Diluted earnings per share from continuing operations[1]	**(754)**	**2,943**	**(26.0)**	434	2,873	15.1	483	2,895	16.7
(Loss)/profit attributable to ordinary shareholders	—	—	—	(318)	2,825	(11.3)	(318)	2,845	(11.2)
Dilutive effect of share awards and options	—	—	—	—	48	0.2	—	50	—
Diluted earnings per share from discontinued operations[1]	—	—	—	(318)	2,873	(11.1)	(318)	2,895	(11.2)
Diluted earnings per share	**(754)**	**2,943**	**(26.0)**	116	2,873	4.0	165	2,895	5.7

1 Losses have an anti-dilutive effect. Therefore the basic and diluted earnings have remained the same.

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

	6 months 2012			6 months 2011			Full year 2011		
	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	**678**	**2,902**	**23.4**	729	2,825	25.8	1,438	2,845	50.5
Dilutive effect of share awards and options	**—**	**41**	**(0.4)**	—	48	(0.4)	—	50	(0.8)
Diluted operating profit per share from continuing operations	**678**	**2,943**	**23.0**	729	2,873	25.4	1,438	2,895	49.7
Operating profit attributable to ordinary shareholders	—	—	—	93	2,825	3.3	93	2,845	3.3
Dilutive effect of share awards and options	—	—	—	—	48	(0.1)	—	50	(0.1)
Diluted operating profit per share from discontinued operations	—	—	—	93	2,873	3.2	93	2,895	3.2
Diluted operating profit per share	**678**	**2,943**	**23.0**	822	2,873	28.6	1,531	2,895	52.9

A7 – Dividends and appropriations

	6 months 2012 £m	6 months 2011 £m	Full year 2011 £m
Ordinary dividends declared and charged to equity in the period			
Final 2011 – 16.00 pence per share, paid on 17 May 2012	**465**	—	—
Interim 2011 – 10.00 pence per share, paid on 17 November 2011	—	—	287
Final 2010 – 16.00 pence per share, paid on 17 May 2011	—	451	451
	465	451	738
Preference dividends declared and charged to equity in the year	**9**	9	17
Coupon payments on direct capital instruments and fixed rate tier 1 notes	**—**	—	58
	474	460	813

Subsequent to 30 June 2012, the directors proposed an interim dividend for 2012 of 10 pence per ordinary share *(HY11: 10 pence)*, amounting to £292 million *(HY11: £287 million)* in total. The dividend will be paid on 16 November and will be accounted for as an appropriation of retained earnings in the year ending 31 December 2012.

Interest on the direct capital instruments issued in November 2004 and the fixed rate notes issued in May 2012 is treated as an appropriation of retained profits and, accordingly, is accounted for when paid. Tax relief is obtained at a rate of 24.5% *(2011: 26.5%)*.

A8 – Insurance liabilities

(a) Carrying amount

Insurance liabilities at 30 June/31 December comprise:

	30 June 2012			30 June 2011			31 December 2011		
	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	**52,905**	**—**	**52,905**	59,084	—	59,084	55,594	—	55,594
Unit-linked non-participating	**10,065**	**—**	**10,065**	11,027	—	11,027	10,168	—	10,168
Other non-participating	**70,182**	**—**	**70,182**	62,517	—	62,517	68,131	—	68,131
	133,152	**—**	**133,152**	132,628	—	132,628	133,893	—	133,893
Outstanding claims provisions	**1,304**	**7,805**	**9,109**	1,273	8,398	9,671	1,311	8,099	9,410
Provision for claims incurred but not reported	**—**	**2,687**	**2,687**	—	2,518	2,518	—	2,646	2,646
	1,304	**10,492**	**11,796**	1,273	10,916	12,189	1,311	10,745	12,056
Provision for unearned premiums	**—**	**4,676**	**4,676**	—	4,847	4,847	—	4,483	4,483
Provision arising from liability adequacy tests	**—**	**12**	**12**	—	—	—	—	13	13
Other technical provisions	**—**	**—**	**—**	—	—	—	—	—	—
Total	**134,456**	**15,180**	**149,636**	133,901	15,763	149,664	135,204	15,241	150,445
Less:									
Obligations to staff pension schemes transferred to provisions	**—**	**—**	**—**	—	—	—	—	—	—
Amounts classified as held for sale	**(1,633)**	**—**	**(1,633)**	—	(149)	(149)	(344)	—	(344)
	132,823	**15,180**	**148,003**	133,901	15,614	149,515	134,860	15,241	150,101

A8 – Insurance liabilities continued

(b) Movements in long-term business liabilities

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

	6 months 2012 £m	6 months 2011 £m	Full year 2011 £m
Carrying amount at 1 January	**133,893**	160,946	160,946
Provisions in respect of new business	**4,317**	5,289	11,149
Expected change in existing business provisions	**(4,080)**	(4,166)	(8,964)
Variance between actual and expected experience	**138**	(172)	(2,279)
Impact of operating assumption changes	**(40)**	(20)	(61)
Impact of economic assumption changes	**(377)**	1,023	5,663
Other movements	**103**	(90)	(623)
Change in liability recognised as an expense	**61**	1,864	4,885
Effect of portfolio transfers, acquisitions and disposals	**272**	(6)	(6)
Deconsolidation of Delta Lloyd	**—**	(32,159)	(32,159)
Foreign exchange rate movements	**(1,074)**	1,983	227
Carrying amount at 30 June/31 December	**133,152**	132,628	133,893

(c) 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 2012 £m	6 months 2011 £m	Full year 2011 £m
Carrying amount at 1 January	**10,745**	12,263	12,263
Impact of changes in assumptions	**50**	3	149
Claim losses and expenses incurred in the current year	**3,021**	3,366	6,520
Decrease in estimated claim losses and expenses incurred in prior years	**(125)**	(19)	(140)
Exceptional strengthening of general insurance latent claims provisions	**—**	—	45
Incurred claims losses and expenses	**2,946**	3,350	6,574
Less:			
Payments made on claims incurred in the current year	**(1,264)**	(1,450)	(3,393)
Payments made on claims incurred in prior years	**(1,838)**	(2,149)	(3,514)
Recoveries on claim payments	**142**	135	313
Claims payments made in the year, net of recoveries	**(2,960)**	(3,464)	(6,594)
Unwind of discounting	**17**	26	47
Other movements in the claims provisions	**(2)**	(6)	(12)
Change in claims reserve recognised as an expense	**1**	(94)	15
Effect of portfolio transfers, acquisitions and disposals	**(149)**	—	—
Deconsolidation of Delta Lloyd	**—**	(1,445)	(1,445)
Foreign exchange rate movements	**(112)**	187	(87)
Other movements	**7**	5	(1)
Carrying amount at 30 June/31 December	**10,492**	10,916	10,745

(d) Movements in unearned premiums

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

	6 months 2012 £m	6 months 2011 £m	Full year 2011 £m
Carrying amount at 1 January	**4,483**	4,855	4,855
Premiums written during the period	**4,955**	5,612	10,364
Less: Premiums earned during the period	**(4,718)**	(5,265)	(10,099)
Change in UPR recognised as income	**237**	347	265
Gross portfolio transfers and acquisitions	**—**	—	(161)
Deconsolidation of Delta Lloyd	**—**	(424)	(424)
Foreign exchange rate movements	**(43)**	69	(52)
Other	**(1)**	—	—
Carrying amount at 30 June/31 December	**4,676**	4,847	4,483

A9 – Liability for investment contracts

(a) Carrying amount

The liability for investment contracts at 30 June/31 December comprised:

	30 June 2012 £m	30 June 2011 £m	31 December 2011 £m
Long-term business			
Participating contracts	**63,426**	71,253	64,985
Non-participating contracts at fair value	**44,130**	46,391	43,990
Non-participating contracts at amortised cost	**1,628**	1,640	1,669
	45,758	48,031	45,659
Less: Amounts classified as held for sale	**(1,798)**	—	—
Total	**107,386**	119,284	110,644

(b) Movements in participating investment contracts

The following movements have occurred in the year:

	6 months 2012 £m	6 months 2011 £m	Full year 2011 £m
Carrying amount at 1 January	**64,985**	69,482	69,482
Provisions in respect of new business	**1,544**	2,169	3,433
Expected change in existing business provisions	**(1,185)**	(1,288)	(2,195)
Variance between actual and expected experience	**(136)**	339	(2,708)
Impact of operating assumption changes	**(4)**	(27)	(72)
Impact of economic assumption changes	**(46)**	45	631
Other movements	**(75)**	(2)	211
Change in liability recognised as an expense	**98**	1,236	(700)
Deconsolidation of Delta Lloyd	**—**	(2,523)	(2,523)
Foreign exchange rate movements	**(1,657)**	3,049	(1,284)
Other movements	**—**	9	10
Carrying amount at 30 June/31 December	**63,426**	71,253	64,985

(c) Movements in non-participating investment contracts

	6 months 2012 £m	6 months 2011 £m	Full year 2011 £m
Carrying amount at 1 January	**45,659**	48,305	48,305
Provisions in respect of new business	**1,905**	2,253	3,863
Expected change in existing business provisions	**(1,455)**	(1,689)	(2,558)
Variance between actual and expected experience	**(17)**	(488)	(2,796)
Impact of operating assumption changes	**1**	1	1
Impact of economic assumption changes	**(1)**	1	7
Other movements	**17**	(78)	(123)
Change in liability	**450**	—	(1,606)
Deconsolidation of Delta Lloyd	**—**	(832)	(832)
Foreign exchange rate movements	**(340)**	558	(206)
Other movements	**(11)**	—	(2)
Carrying amount at 30 June/31 December	**45,758**	48,031	45,659

A10 – Reinsurance assets

(a) Carrying amounts

The reinsurance assets at 30 June/31 December comprised:

	30 June 2012 £m	30 June 2011 £m	31 December 2011 £m
Long-term business			
Insurance contracts	**4,152**	3,280	3,747
Participating investment contracts	**3**	2	—
Non-participating investment contracts[1]	**1,707**	1,556	1,626
	5,862	4,838	5,373
Outstanding claims provisions	**134**	127	125
	5,996	4,965	5,498
Less: Amounts classified as held for sale	**(244)**	—	—
	5,752	4,965	5,498
General insurance and health			
Outstanding claims provisions	**818**	929	974
Provisions for claims incurred but not reported	**405**	392	395
	1,223	1,321	1,369
Provision for unearned premiums	**264**	284	245
	1,487	1,605	1,614
Total	**7,239**	6,570	7,112

1 Balances in respect of all reinsurance treaties are included under reinsurance assets, regardless of whether they transfer significant insurance risk.

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

The following movements have occurred in the reinsurance asset during the period:

	6 months 2012 £m	6 months 2011 £m	31 December 2011 £m
Carrying amount at 1 January	**5,373**	5,115	5,115
Asset in respect of new business	**94**	296	187
Expected change in existing business asset	**(37)**	(141)	7
Variance between actual and expected experience	**104**	5	290
Impact of other operating assumption changes	**3**	3	(9)
Impact of economic assumption changes	**13**	4	433
Other movements	**143**	(149)	(260)
Change in asset	**320**	18	648
Effect of portfolio transfers, acquisitions and disposals	**201**	(1)	(2)
Deconsolidation of Delta Lloyd	**—**	(375)	(375)
Foreign exchange rate movements	**(32)**	81	(13)
Carrying amount at 30 June/31 December	**5,862**	4,838	5,373

A10 – Reinsurance assets continued

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

	6 months 2012 £m	6 months 2011 £m	Full year 2011 £m
Carrying amount at 1 January	**1,369**	1,558	1,558
Impact of changes in assumptions	**26**	17	87
Reinsurers' share of claim losses and expenses			
Incurred in current period	**105**	115	247
Incurred in prior periods	**(17)**	(44)	(84)
Exceptional strengthening of general insurance latent claims provisions	**—**	—	10
Reinsurers' share of incurred claim losses and expenses	**88**	71	173
Less:			
Reinsurance recoveries received on claims			
Incurred in current period	**(38)**	(42)	(138)
Incurred in prior periods	**(83)**	(148)	(196)
Reinsurance recoveries received in the period	**(121)**	(190)	(334)
Unwind of discounting	**6**	9	19
Other movements	**—**	—	(1)
Change in reinsurance asset recognised as income	**(1)**	(93)	(56)
Effect of portfolio transfers, acquisitions and disposals	**(143)**	5	28
Deconsolidation of Delta Lloyd	**—**	(153)	(153)
Foreign exchange rate movements	**(5)**	(1)	(2)
Other movements	**3**	5	(6)
Carrying amount at 30 June/31 December	**1,223**	1,321	1,369

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

	6 months 2012 £m	6 months 2011 £m	Full year 2011 £m
Carrying amount at 1 January	**245**	307	307
Premiums ceded to reinsurers in the period	**340**	345	650
Less: Reinsurers' share of premiums earned during the period	**(315)**	(344)	(678)
Change in reinsurance asset recognised as income	**25**	1	(28)
Reinsurers' share of portfolio transfers and acquisitions	**—**	1	—
Deconsolidation of Delta Lloyd	**—**	(30)	(30)
Foreign exchange rate movements	**(4)**	5	(4)
Other movements	**(2)**	—	—
Carrying amount at 30 June/31 December	**264**	284	245

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 unallocated divisible surplus, reinsurance, deferred acquisition costs and AVIF, and does not allow for offsetting movements in the value of backing financial assets.

	Effect on profit 6 months 2012 £m	Effect on profit 6 months 2011 £m	Effect on profit Full year 2011 £m
Assumptions			
Long-term insurance business			
Interest rates	**271**	(897)	(2,403)
Expenses	**(3)**	(3)	5
Persistency rates	**19**	—	(4)
Mortality for assurance contracts	**—**	—	35
Mortality for annuity contracts	**90**	—	(21)
Tax and other assumptions	**(3)**	31	99
Investment contracts			
Interest rates	**(2)**	(79)	(82)
Expenses	**—**	—	—
Persistency rates	**—**	—	—
Tax and other assumptions	**—**	28	28
General insurance and health business			
Change in loss ratio assumptions	**(3)**	5	5
Change in discount rate assumptions	**(18)**	(8)	(90)
Change in expense ratio and other assumptions	**(4)**	15	22
Total	**347**	(908)	(2,406)

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

The impact of interest rates for long-term business relates primarily to the UK, driven by an increase in the valuation interest rates for annuity business. This had the effect of reducing liabilities and hence a positive impact on profit. In the prior period a reduction in valuation interest rates had the reverse effect. The mortality for annuity contracts impact in the current period relates to the release of a longevity transaction provision in the UK. 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 – Unallocated divisible surplus

An unallocated divisible surplus (UDS) is established where the nature of policy benefits is such that the division between shareholder reserves and policyholder liabilities is uncertain. This note shows the movements in this surplus during the period.

The following movements have occurred in the period:

	6 months 2012 £m	6 months 2011 £m	Full year 2011 £m
Carrying amount at 1 January	**650**	3,428	3,428
Change in participating contract assets	**2,269**	(183)	(3,016)
Change in participating contract liabilities	**203**	101	244
Other movements	**34**	—	70
Change in liability recognised as an expense	**2,506**	(82)	(2,702)
Effect of portfolio transfers, acquisitions and disposals	**—**	—	—
Deconsolidation of Delta Lloyd	**—**	(144)	(144)
Foreign exchange rate movements	**10**	57	60
Other movements	**(4)**	(14)	8
Carrying amount at 30 June/31 December	**3,162**	3,273	650

In Italy, the UDS balance was £834 million negative at 30 June 2012 *(FY11: £1,449 million negative, HY11: £283 million negative)*. In Spain, certain participating funds had negative UDS balances at 30 June 2012, although in aggregate the UDS balance was £12 million positive *(FY11: £13 million positive, HY11: £20 million negative)*.

Negative UDS balances result from an accounting mismatch between participating assets carried at market value and participating liabilities measured using local practice. The negative balances were tested for recoverability using embedded value methodology and in line with local accounting practice. The negative balances are considered to be recoverable from margins in the existing participating business liabilities.

In Italy, there was a reversal of £31 million of previous losses for negative UDS considered irrecoverable *(FY11: £17 million loss)*, and in Spain a further loss of £35 million was incurred *(FY11: £49 million loss)*.

In Italy the method for estimation of the recoverable negative UDS balance uses a real-world embedded value method, with a risk-discount rate of 7.10% *(FY11: 7.05%)*. The risk-discount rate includes implicit allowance for the time value of options and guarantees. If the risk-discount rate were increased by 1% is it estimated that the recoverable negative UDS balance would reduce by £30 million.

A13 – Borrowings

On 19 June 2012, Aviva plc called floating rate subordinated debt of US$300 million maturing on 19 June 2017.

A14 – Pension obligations and other provisions

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

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

	30 June 2012 £m	30 June 2011 £m	31 December 2011 £m
Deficits in the main staff pension schemes	**497**	483	406
Deficits in other staff pension schemes	**84**	75	86
Total obligations to staff pension schemes	**581**	558	492
Restructuring provisions	**147**	83	106
Other provisions	**376**	479	398
Total	**1,104**	1,120	996
Less: amounts classified as held for sale	**(7)**	(17)	(4)
	1,097	1,103	992

(b) Movements in the main schemes' surpluses and deficits

Movements in the main pension schemes' surpluses and deficits comprise:

	6 months 2012 Pension scheme surpluses/ (deficits) £m	6 months 2011 Pension scheme surpluses/ (deficits) £m	Full year 2011 Pension scheme surpluses/ (deficits) £m
Net surpluses/(deficits) in the schemes at 1 January	**1,264**	(3)	(3)
Employer contributions	**80**	240	452
Current and past service cost	**(11)**	(43)	(58)
Gains on curtailments and settlements	**1**	—	—
Charge to finance costs	**(42)**	(60)	(100)
Actuarial gains	**123**	17	991
Disposals	**—**	—	7
Deconsolidation of Delta Lloyd	**—**	(31)	(31)
Exchange rate movements on foreign plans	**8**	(8)	6
Net surpluses in the schemes at 30 June/31 December	**1,423**	112	1,264
Comprising:			
Surpluses	**1,920**	595	1,670
Deficits	**(497)**	(483)	(406)
	1,423	112	1,264

A14 – Pension obligations and other provisions continued

(c) Pension expense

The total pension expense for these schemes comprises:

(i) Recognised in the income statement

	6 months 2012 £m	6 months 2011 £m	Full year 2011 £m
Continuing operations			
Current service cost	**(11)**	(36)	(51)
Gains on curtailments	**1**	—	—
Total pension cost from continuing operations	**(10)**	(36)	(51)
Total pension cost from discontinued operations	**—**	(7)	(7)
Total pension cost charged to net operating expenses	**(10)**	(43)	(58)
Expected return on scheme assets	**215**	224	452
Interest charge on scheme liabilities	**(257)**	(271)	(539)
Charge to finance costs from continuing operations	**(42)**	(47)	(87)
Charge to finance costs from discontinued operations	**—**	(26)	(26)
Total charge to finance costs	**(42)**	(73)	(113)
Total charge to income arising from continuing operations	**(52)**	(83)	(138)
Total charge to income arising from discontinued operations	**—**	(33)	(33)
Total charge to income	**(52)**	(116)	(171)

(ii) Recognised in the statement of comprehensive income

	6 months 2012 £m	6 months 2011 £m	Full year 2011 £m
Continuing operations			
Expected return on scheme assets	**(215)**	(224)	(452)
Actual return on these assets	**151**	192	1,815
Actuarial (losses)/gains on scheme assets	**(64)**	(32)	1,363
Experience gains/(losses) arising on scheme liabilities	**16**	(40)	(46)
Changes in assumptions underlying the present value of scheme liabilities	**171**	94	(321)
Actuarial gains from continuing operations	**123**	22	996
Actuarial gains from discontinued operations	**—**	11	11
Total actuarial gains recognised in other comprehensive income	**123**	33	1,007
Attributable to equity shareholders of Aviva plc	**123**	28	1,002
Attributable to non-controlling interests	**—**	5	5
	123	33	1,007

A15 – Cash and cash equivalents

Cash and cash equivalents in the statement of cash flows at 30 June/31 December comprised:

	30 June 2012 £m	30 June 2011 £m	31 December 2011 £m
Cash at bank and in hand	**10,967**	10,158	8,854
Cash equivalents	**14,693**	12,988	14,215
	25,660	23,146	23,069
Bank overdrafts	**(665)**	(886)	(668)
	24,995	22,260	22,401

Of the total cash and cash equivalents shown above, £409 million has been classified as held for sale *(HY11: £40 million; FY11: £26 million)*.

Operating cashflows in the Group cash flow statement reflect the movement in both policyholder and shareholder controlled cash and cash equivalent balances. Around two thirds of the Group's balances relate to unit-linked or participating policyholder funds. As such, the asset mix and the level of cash held by these funds are determined from a policyholder perspective and can move significantly from one period to another. Shareholder cash has increased to £8.9 billion *(FY11: £8.6 billion, HY11: £8.6 billion)*.

Purchases and sales of operating assets including financial investments are included within operating cash flows as the purchases are funded from cash flows associated with the origination of insurance and investment contracts, net of payments of related benefits and claims.

A16 – Related party transactions

The Group undertakes transactions with related parties in the normal course of business. Loans to related parties are made on normal arm's-length commercial terms.

All transactions between key management personnel and the Group are on commercial terms which are equivalent to those available to all employees of the Group.

This note gives details of the transactions between Group companies and related parties which comprise our joint ventures, associates and staff pension schemes.

Services provided to and by related parties

	6 months 2012				6 months 2011				Full year 2011			
	Income earned in period £m	**Expenses incurred in period £m**	**Payable at period end £m**	**Receivable at period end £m**	Income earned in period £m	Expenses incurred in period £m	Payable at period end £m	Receivable at period end £m	Income earned in year £m	Expenses incurred in year £m	Payable at year end £m	Receivable at year end £m
Associates	**—**	**(1)**	**(48)**	**—**	—	(1)	(54)	—	—	(3)	(49)	—
Joint ventures	**11**	**(1)**	**—**	**161**	10	—	—	404	23	—	—	125
Employee pension schemes	**6**	**—**	**—**	**9**	5	—	—	8	13	—	—	9
	17	**(2)**	**(48)**	**170**	15	(1)	(54)	412	36	(3)	(49)	134

Transactions with joint ventures in the UK relate to the property management undertakings. At 30 June 2012, our interest in these joint ventures comprises a mix of equity and loans, together with the provision of administration services and financial management to many of them. Our UK life insurance companies earn interest on loans advanced to these entities. Our fund management companies also charge fees to these joint ventures for administration services and for arranging external finance.

Our UK fund management companies manage most of the assets held by the Group's main UK staff pension scheme, for which they charge fees based on the level of funds under management. The main UK scheme holds investments in Group-managed funds and insurance policies with other Group companies.

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.

Transactions with joint ventures in Asia relate to life businesses in India, Malaysia, Korea, Taiwan, China and Vietnam.

A17 – Risk management

Risk profile

In accordance with the requirements of the FSA Handbook (DTR 4.2.7) we provide an update here on the material risks and uncertainties facing the Group for the next six months. The types of risk to which the Group is exposed have not changed significantly over the half-year to 30 June 2012 or as a result of the recent revision to the strategic plan, and remain credit (including sovereign debt), market, life insurance, general insurance, liquidity, operational and reputational risks.

(a) Credit risk

Aviva has a strong record of managing credit risk and we see credit as an area where we can make a good return for the benefit of both our policyholders and shareholders. We have broad ranging investment restrictions in place on sovereign and corporate debt exposure to Greece, Ireland, Italy, Portugal and Spain and have actively reduced our exposure to the most vulnerable countries. We have in place a comprehensive group-wide reporting system that consolidates credit exposures across geographies, business lines and exposure types. We have a robust framework of limits and controls to diversify the portfolio and the early identification of potential issues.

During the first half of 2012 the credit rating profile of our debt securities portfolio has remained strong, although the average rating has fallen slightly in line with the general market's rating agency downgrades. The proportion of our shareholder debt securities that are investment grade have increased slightly to 87.7% *(FY11: 86.9%)*.

(b) Market risk

We continue to limit our direct equity exposure. As discussed in note 25, a rolling central equity hedging strategy remains in place to help control the Group's overall direct and indirect exposure to equities.

We have a limited appetite for interest rate risk as we do not believe it is adequately rewarded. Our conservative and disciplined approach to asset and liability management and pricing limit our exposure to interest rate and guarantee risk. Asset and liability durations across the Group are generally well matched and actions have been taken to manage guarantee risk in the current low interest rate environment. 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. These hedges are used to protect against interest rate falls and are sufficient in scale to materially reduce the Group's interest rate exposure.

At a Group level we actively seek to manage currency risk primarily by matching assets and liabilities in functional currencies at the business unit level. Foreign currency dividends from subsidiaries are hedged using foreign exchange forwards to provide certainty regarding the sterling value to be received by the Group. As described in note 25, hedges have also been used to protect the Group's capital against a significant depreciation in local currency versus sterling.

(c) Liquidity risk

The way we run our business is aimed at ensuring we have a strong liquidity position. We have in place a comprehensive monitoring and reporting process covering extreme scenarios along with appropriate contingency plans. At a Group level we maintain a prudent level of liquidity by holding a buffer of liquid assets to cover unforeseen circumstances. In addition, the Group has maintained £2.1 billion of un-drawn committed borrowing facilities from a range of leading international banks.

A17 – Risk management continued

(d) Life insurance risk

The profile of our life insurance risks, primarily persistency, mortality and expense risk have remained stable in the first half of 2012. Our economic exposure to longevity risk has increased as interest rates have fallen reducing the discount rate used for future liabilities. Persistency risk remains significant and continues to have a volatile outlook, with underlying performance linked to economic conditions. However, businesses across the Group continue to make progress with a range of customer retention activities. The Group continues to write strong volumes of individual annuity new business in the UK adding to an already significant in force portfolio. The Group has continued to write substantial volumes of life protection business, and to utilise reinsurance to reduce exposure to potential losses. All life insurance risks benefit from a significant diversification against other risks in the portfolio, limiting the impact on the Group's aggregate risk profile.

(e) General insurance risk

The Group writes a balanced portfolio of general insurance risk: personal motor, household, commercial motor, property and liability, across a geographically diversified spread of markets: UK, Ireland, Canada, France, Italy, Turkey and Poland.

General insurance risk is managed primarily at individual market level. Each market develops mechanisms to identify, quantify and manage the accumulated exposures in order to contain them within the risk appetite set. All general insurance markets undertake a quarterly review of their insurance risks. This review includes an assessment of changes in the general insurance risk profile of business written; the impact of the underwriting cycle on premium rating strength and adequacy; customer, competitor and distributor behaviour; exposure to natural catastrophe events and the impact of broader economic conditions on overall performance.

Aviva has not suffered any material catastrophe losses during the first half of 2012 and successfully completed the renewal of its group-wide catastrophe protection on 1 April 2012. Processes are in place to manage catastrophe risk in individual business units and at a group level. The group cedes much of its worldwide catastrophe risk to third-party reinsurers but retains a pooled element for its own account gaining diversification benefit.

(f) Operational risk

The group continues to operate, validate and enhance its key operational controls to minimise losses arising from inadequate or failed internal processes, from people and systems or from external events. The group maintains constructive relationships with its regulators around the world and developments in relation to key regulatory changes such as Solvency II are monitored closely. We continue to work with regulatory bodies to help deliver an appropriate outcome from an insurance industry perspective and prepare for the necessary business changes.

(g) Brand and reputation risk

Our success and results are, to a certain extent, dependent on the strength of our brands, the brands of our partners and our reputation with customers, agents, regulators, rating agencies, investors and analysts. While we are well recognised, we are vulnerable to adverse market and customer perception. Any of our brands or our reputation could also be affected if products or services recommended by us or any of our intermediaries do not perform as expected whether or not the expectations are founded, or the customer's expectations for the product have changed. We monitor this risk and have controls in place to limit our exposure.

A18 – Subsequent events

Sale of shares in Delta Lloyd

On 5 July 2012, the Group sold 37.2 million shares in Delta Lloyd N.V. ("Delta Lloyd") (the Group's Dutch long-term insurance, general insurance and fund management associate) for £313 million (net of costs), reducing our holding to 19.8% of Delta Lloyd's ordinary share capital, representing 18.6% of shareholder voting rights. For more information refer to note A3.

Announcement of revised strategic plan

On 5 July 2012, we announced a revised strategic plan which included a review of all the Group's businesses. Although the review may lead to future disposals of some of the non-core businesses, at the date of this report no firm decisions have been made in this respect and the criteria required by IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, to classify the affected businesses as held for sale as at 30 June 2012 apart from those identified in note A3 have not been met.

Completion of sale of smaller European life businesses

On 31 July 2012, the Group completed the sale of its life businesses in the Czech Republic, Hungary and Romania to MetLife Inc. As described in note A3, the assets and liabilities of these businesses were held for sale in the condensed consolidated statement of financial position on 30 June 2012.

A19 – Fixed rate tier 1 notes

On 3 May 2012 Aviva plc issued US$650 million of fixed rate tier 1 notes bearing interest at 8.25% per annum. The Notes are perpetual but the Company may, at its sole option, redeem all (but not part) of the Notes at their principal amounts on 3 November 2017 and on each interest payment date thereafter. The Notes qualify as Innovative tier 1 capital under current regulatory rules. The issuance has been accounted for as equity in accordance with IAS 32 'Financial instruments: Presentation'.

A20 – Analysis of general insurance

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

	Net written premiums			Underwriting result			Combined operating ratio		
	6 months 2012 £m	6 months 2011 £m	Full year 2011 £m	**6 months 2012 £m**	6 months 2011 £m	Full year 2011 £m	**6 months 2012 %**	6 months 2011 %	Full year 2011 %
Personal									
Motor	**611**	705	1,387	**22**	38	58	**96%**	94%	96%
Homeowner	**376**	396	797	**26**	20	87	**95%**	96%	89%
Other	**239**	278	510	**9**	9	39	**96%**	97%	93%
	1,226	1,379	2,694	**57**	67	184	**95%**	94%	91%
Commercial									
Motor	**313**	303	618	**(11)**	(18)	(76)	**101%**	106%	113%
Property	**333**	340	640	**(20)**	4	11	**103%**	98%	99%
Other	**215**	200	419	**2**	2	(9)	**97%**	99%	102%
	861	843	1,677	**(29)**	(12)	(74)	**101%**	101%	105%
Total	**2,087**	2,222	4,371	**28**	55	110	**97%**	96%	96%

(ii) France

	Net written premiums			Underwriting result			Combined operating ratio		
	6 months 2012 £m	6 months 2011 £m	Full year 2011 £m	**6 months 2012 £m**	6 months 2011 £m	Full year 2011 £m	**6 months 2012 %**	6 months 2011 %	Full year 2011 %
Motor	**200**	193	347	**23**	4	(14)	**84%**	95%	104%
Property and other	**258**	263	442	**(4)**	17	84	**99%**	89%	80%
Total	**458**	456	789	**19**	21	70	**92%**	92%	90%

(iii) Ireland

	Net written premiums			Underwriting result			Combined operating ratio		
	6 months 2012 £m	6 months 2011 £m	Full year 2011 £m	**6 months 2012 £m**	6 months 2011 £m	Full year 2011 £m	**6 months 2012 %**	6 months 2011 %	Full year 2011 %
Motor	**88**	98	179	**(18)**	15	14	**119%**	85%	93%
Property and other	**86**	102	188	**6**	(11)	(19)	**95%**	111%	111%
Total	**174**	200	367	**(12)**	4	(5)	**106%**	98%	102%

(iv) Canada

	Net written premiums			Underwriting result			Combined operating ratio		
	6 months 2012 £m	6 months 2011 £m	Full year 2011 £m	**6 months 2012 £m**	6 months 2011 £m	Full year 2011 £m	**6 months 2012 %**	6 months 2011 %	Full year 2011 %
Motor	**602**	579	1,130	**76**	60	89	**86%**	91%	92%
Property	**349**	322	701	**18**	(8)	(14)	**95%**	101%	102%
Liability	**101**	99	204	**4**	(7)	9	**97%**	106%	96%
Other	**29**	25	48	**7**	1	13	**75%**	89%	67%
Total	**1,081**	1,025	2,083	**105**	46	97	**90%**	96%	95%

A21 – Funds under management

	30 June 2012			31 December 2011
	Life and related businesses £m	General insurance and other £m	Total £m	Total £m
Total IFRS assets included in the consolidated statement of financial position	**282,892**	**29,717**	**312,609**	312,376
Less: third party funds included within consolidated IFRS assets	**—**	**(11,142)**	**(11,142)**	(11,814)
	282,892	**18,575**	**301,467**	300,562
Third party funds under management			**71,590**	67,557
			373,057	368,119
Non-managed assets			**(31,144)**	(31,558)
Funds under management			**341,913**	336,561

A22 – Operational cost base

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

	6 months 2012 £m	6 months 2011 £m
Other expenses (as reported) [1]	**2,394**	1,422
Less: Non-operating items included above (amortisation and impairments)	**(1,170)**	(334)
Add: Claims handling costs[1 & 2]	**189**	306
Non-commission acquisition costs[3]	**594**	584
Operating cost base from continuing operations	**2,007**	1,978
Operating cost base from discontinued operations	**—**	362
Operating cost base	**2,007**	2,340

1. 2011 includes RAC Limited ("RAC"), disposed on 30 September 2011.
2. As reported within Claims and benefits paid of £13,646 million *(HY 2011: £14,538 million)*.
3. As reported within Fee and commissions expense of £2,389 million *(HY2011: £2,533 million)*.

During HY12, the operating cost base from continuing operations increased by 1% to £2,007 million *(HY11: £1,978 million)*. The like-for-like cost base presented below is adjusted for the impact in both years of foreign exchange, businesses acquired or disposed, the impact of European levies, Solvency II costs and elimination of one-off restructuring and integration spend. On a like-for-like basis the cost base is broadly flat at £1,786 million compared with a 30 June 2011 like-for-like cost base of £1,776 million.

Movement in operating cost base

	£m
Total operating cost base 30 June 2011	**2,340**
Delta Lloyd costs from 1 January 2011 to 6 May 2011[1]	**(362)**
Total operating cost base from continuing operations 30 June 2011	**1,978**
Less: restructuring and integration costs for the six months to 30 June 2011	**(81)**
European levies[2]	**(32)**
Impact of acquisitions/disposals[3]	**(62)**
Foreign exchange	**(27)**
30 June 2011 like-for-like operating cost base	**1,776**
Inflation[4]	**46**
UK & Ireland	**(51)**
France	**(18)**
USA	**11**
Other Developed Markets	**9**
Developed Markets	**(49)**
Higher Growth Markets	**(1)**
Other businesses (including Aviva Investors and Group centre)	**14**
30 June 2012 like-for-like operating cost base	**1,786**
Restructuring and integration costs for the six months to 30 June 2012	**186**
European levies[2]	**35**
Total operating cost base 30 June 2012	**2,007**

1. Delta Lloyd associate status effective from 7 May 2011 onwards.
2. Levies and sales taxes charged to European Businesses.
3. Impact of acquisitions/disposals – restatement of the HY 2011 cost base for the impact of acquisitions and disposals in both 2011 and 2012 (including the RAC disposal) to achieve a cost base on a like-for-like basis.
4. Inflation – Notional level of Inflation that would have impacted the operating cost base during the period. This is calculated at an individual country level, and applied to operating expenditure i.e. excluding restructuring and integration costs (but including adjustments for acquisitions and disposals). The overall weighted average is calculated at 2.5%.

Directors' responsibility statement

Directors' responsibility statement pursuant to Disclosure and Transparency Rule 4.2.10

Each of the directors confirms that, to the best of their knowledge:

(a) the Group condensed consolidated financial statements in this report, which have been prepared in accordance with the disclosure and transparency rules of the FSA and IFRS as adopted by the EU, IFRIC interpretation and those parts of the Companies Act 2006 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 half year 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 current directors responsible for providing this statement can be found below.

By order of the Board

John McFarlane
Chairman
8 August 2012

Patrick Regan
Chief financial officer

Directors

The following persons served as directors of the company during the year and, unless otherwise indicated, up to the date of this report:

John McFarlane OBE
Andrew Moss (resigned – 8 May 2012)
Euleen Goh
Gay Huey Evans
Glyn Barker (appointed 27 February 2012)
Igal Mayer (resigned – 19 April 2012)
Leslie Van de Walle (resigned – 2 May 2012)
Lord Sharman of Redlynch OBE (resigned – 30 June 2012)
Mary Francis CBE
Michael Hawker AM
Patrick Regan
Richard Karl Goeltz
Russell Walls
Scott Wheway
Trevor Matthews

The biography details of persons currently serving as directors appears on the company's website.

Independent review report to Aviva plc

INDEPENDENT REVIEW REPORT TO AVIVA plc

Introduction
We have been engaged by the company to review the Condensed consolidated set of financial statements in the half year report for the six months ended 30 June 2012, which comprises the Condensed consolidated income statement, the Condensed consolidated statement of comprehensive income, the Condensed consolidated statement of changes in equity, the Condensed consolidated statement of financial position, the Condensed consolidated statement of cash flow, and related notes A1 to A19 on pages 43 to 74. Our review did not extend to the information disclosed in notes A20 to A22 on pages 75 to 76. We have read the other information contained in the half year report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the Condensed consolidated set of financial statements.

Directors' responsibilities
The half year report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half year report in accordance with the Disclosure 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 IFRSs as adopted by the European Union. The Condensed consolidated set of financial statements included in this half year 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 consolidated set of financial statements in the half year report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of review
We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review 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 consolidated set of financial statements in
the half year report for the six months ended 30 June 2012 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

PricewaterhouseCoopers LLP
Chartered Accountants
London
8 August 2012

1) Maintenance and integrity of the Aviva plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Condensed consolidated financial statements since they were initially presented on the website.

2) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

New business

In this section

New business

B1 – Geographical analysis of life, pension and investment sales

	Present value of new business premiums[1]			
			% Growth	
	6 months 2012 £m	6 months 2011 £m	Sterling	Local currency[2]
Life and pensions business				
United Kingdom	**5,387**	5,434	(1)%	(1)%
Ireland	**342**	553	(38)%	(34)%
United Kingdom and Ireland	**5,729**	5,987	(4)%	(4)%
France	**1,944**	2,345	(17)%	(12)%
United States	**2,073**	1,658	25%	22%
Spain	**705**	1,015	(31)%	(26)%
Italy	**1,259**	1,778	(29)%	(25)%
Other	**98**	155	(37)%	(31)%
Developed markets	**11,808**	12,938	(9)%	(7)%
Poland	**201**	305	(34)%	(26)%
China	**161**	207	(22)%	(27)%
Hong Kong	**63**	83	(24)%	(26)%
India	**56**	50	12%	27%
Singapore	**309**	244	27%	24%
South Korea	**235**	242	(3)%	(2)%
Other	**270**	248	9%	17%
Higher growth markets	**1,295**	1,379	(6)%	(3)%
Total life and pensions – continuing operations	**13,103**	14,317	(8)%	(6)%
Total life and pensions – discontinued operations[4]	**—**	1,085	(100)%	(100)%
Total life and pensions	**13,103**	15,402	(15)%	(13)%
Investment sales[3]				
United Kingdom & Ireland	**823**	782	5%	5%
Aviva Investors	**1,043**	931	12%	18%
Higher growth markets	**68**	117	(42)%	(43)%
Total investment sales – continuing operations	**1,934**	1,830	6%	8%
Total investment sales – discontinued operations[4]	**—**	170	(100)%	(100)%
Total investment sales	**1,934**	2,000	(3)%	(1)%
Total long-term savings sales – continuing operations	**15,037**	16,147	(7)%	(5)%
Total long-term savings sales – discontinued operations[4]	**—**	1,255	(100)%	(100)%
Total long-term savings sales	**15,037**	17,402	(14)%	(11)%

1. Present value of new business premiums (PVNBP) is the 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.
2. Growth rates are calculated based on constant rates of exchange.
3. Investment sales are calculated as new single premiums plus the annualised value of new regular premiums.
4. Prior period discontinued operations represent the results of Delta Lloyd up to 6 May 2011 only.

B2 – Product analysis of life and pensions sales

	Present value of new business premiums[1]			
			% Growth	
	6 months 2012 £m	6 months 2011 £m	Sterling	Local currency[2]
Life and pensions business				
Pensions	**2,762**	2,708	2%	2%
Annuities	**1,555**	1,610	(3)%	(3)%
Bonds	**253**	466	(46)%	(46)%
Protection	**608**	490	24%	24%
Equity release	**209**	160	31%	31%
United Kingdom	**5,387**	5,434	(1)%	(1)%
Ireland	**342**	553	(38)%	(34)%
United Kingdom and Ireland	**5,729**	5,987	(4)%	(4)%
Savings	**1,842**	2,244	(18)%	(13)%
Protection	**102**	101	1%	7%
France	**1,944**	2,345	(17)%	(12)%
Life	**613**	456	34%	31%
Annuities	**1,460**	1,202	21%	19%
United States	**2,073**	1,658	25%	22%
Pensions	**170**	272	(38)%	(34)%
Savings	**1,688**	2,346	(28)%	(24)%
Annuities	**19**	22	(14)%	(10)%
Protection	**185**	308	(40)%	(36)%
Italy, Spain and Other	**2,062**	2,948	(30)%	(26)%
Developed markets	**11,808**	12,938	(9)%	(7)%
Higher growth markets	**1,295**	1,379	(6)%	(3)%
Total life and pensions sales – continuing operations	**13,103**	14,317	(8)%	(6)%
Total life and pensions sales – discontinued operations[3]	**—**	1,085	(100)%	(100)%
Total life and pensions sales	**13,103**	15,402	(15)%	(13)%

1. Present value of new business premiums (PVNBP) is the 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.
2. Growth rates are calculated based on constant rates of exchange.
3. Prior period discontinued operations represent the results of Delta Lloyd up to 6 May 2011 only.

B3 – Trend analysis of PVNBP – cumulative

	1Q11 YTD £m	2Q11 YTD £m	3Q11 YTD £m	4Q11 YTD £m	1Q12 YTD £m	2Q12 YTD £m	% Growth on 2Q11 YTD
Life and pensions business – Present value of new business premiums[1]							
Pensions	1,105	2,708	3,963	5,279	1,251	2,762	2%
Annuities	785	1,610	2,434	3,832	662	1,555	(3)%
Bonds	271	466	638	801	128	253	(46)%
Protection	250	490	749	1,025	300	608	24%
Equity release	83	160	234	317	89	209	31%
United Kingdom	2,494	5,434	8,018	11,254	2,430	5,387	(1)%
Ireland	280	553	757	917	199	342	(38)%
United Kingdom and Ireland	2,774	5,987	8,775	12,171	2,629	5,729	(4)%
France	1,271	2,345	3,224	4,047	1,092	1,944	(17)%
United States	786	1,658	2,796	3,932	1,034	2,073	25%
Spain	524	1,015	1,425	1,926	402	705	(31)%
Italy	874	1,778	2,517	2,993	673	1,259	(29)%
Other	79	155	228	262	50	98	(37)%
Developed markets	6,308	12,938	18,965	25,331	5,880	11,808	(9)%
Poland	149	305	403	487	107	201	(34)%
Asia	426	902	1,343	1,782	442	913	1%
Other	91	172	237	320	87	181	5%
Higher growth markets	666	1,379	1,983	2,589	636	1,295	(6)%
Total life and pensions	6,974	14,317	20,948	27,920	6,516	13,103	(8)%
Investment sales[2]	869	1,830	2,682	3,473	949	1,934	6%
Total long term saving sales – continuing operations	7,843	16,147	23,630	31,393	7,465	15,037	(7)%
Total long term saving sales – discontinued operations[3]	921	1,255	1,255	1,255	—	—	(100)%
Total long term saving sales	8,764	17,402	24,885	32,648	7,465	15,037	(14)%

1. Present value of new business premiums (PVNBP) is the 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.
2. Investment sales are calculated as new single premiums plus the annualised value of new regular premiums.
3. Prior period discontinued operations represent the results of Delta Lloyd up to 6 May 2011 only.

B4 – Trend analysis of PVNBP – discrete

	1Q11 £m	2Q11 £m	3Q11 £m	4Q11 £m	1Q12 £m	2Q12 £m	% Growth on 1Q12 Sterling
Life and pensions business – Present value of new business premiums[1]							
Pensions	1,105	1,603	1,255	1,316	1,251	1,511	21%
Annuities	785	825	824	1,398	662	893	35%
Bonds	271	195	172	163	128	125	(2)%
Protection	250	240	259	276	300	308	3%
Equity release	83	77	74	83	89	120	35%
United Kingdom	2,494	2,940	2,584	3,236	2,430	2,957	22%
Ireland	280	273	204	160	199	143	(28)%
United Kingdom and Ireland	2,774	3,213	2,788	3,396	2,629	3,100	18%
France	1,271	1,074	879	823	1,092	852	(22)%
United States	786	872	1,138	1,136	1,034	1,039	—
Spain	524	491	410	501	402	303	(25)%
Italy	874	904	739	476	673	586	(13)%
Other	79	76	73	34	50	48	(4)%
Developed markets	6,308	6,630	6,027	6,366	5,880	5,928	1%
Poland	149	156	98	84	107	94	(12)%
Asia	426	476	441	439	442	471	7%
Other	91	81	65	83	87	94	8%
Higher growth Markets	666	713	604	606	636	659	4%
Total life and pensions	6,974	7,343	6,631	6,972	6,516	6,587	1%
Investment sales[2]	869	961	852	791	949	985	4%
Total long term saving sales – continuing operations	7,843	8,304	7,483	7,763	7,465	7,572	1%
Total long term saving sales – discontinued operations[3]	921	334	—	—	—	—	—
Total long term saving sales	8,764	8,638	7,483	7,763	7,465	7,572	1%

1. Present value of new business premiums (PVNBP) is the 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.
2. Investment sales are calculated as new single premiums plus the annualised value of new regular premiums.
3. Prior period discontinued operations represent the results of Delta Lloyd up to 6 May 2011 only.

B5 – Geographical analysis of regular and single premiums – life and pensions sales

	Regular premiums								Single premiums		
	6 months 2012 £m	**Local currency growth**	**WACF**	**Present value £m**	6 months 2011 £m	Local currency growth	WACF	Present value £m	**6 months 2012 £m**	6 months 2011 £m	Local currency growth
Pensions	**302**	**(13)%**	**4.7**	**1,425**	346	66%	4.5	1,562	**1,337**	1,146	17%
Annuities	**—**	**—**	**—**	**—**	—	—	—	—	**1,555**	1,610	(3)%
Bonds	**—**	**—**	**—**	**—**	—	—	—	—	**253**	466	(46)%
Protection	**88**	**13%**	**6.9**	**608**	78	(1)%	6.3	490	**—**	—	—
Equity release	**—**	**—**	**—**	**—**	—	—	—	—	**209**	160	31%
United Kingdom	**390**	**(8)%**	**5.2**	**2,033**	424	48%	4.8	2,052	**3,354**	3,382	(1)%
Ireland	**20**	**(33)%**	**4.0**	**80**	32	(11)%	3.9	125	**262**	428	(35)%
United Kingdom and Ireland	**410**	**(10)%**	**5.2**	**2,113**	456	41%	4.8	2,177	**3,616**	3,810	(4)%
France	**40**	**(9)%**	**7.0**	**280**	47	(13)%	6.6	308	**1,664**	2,037	(13)%
United States	**59**	**23%**	**10.3**	**608**	47	2%	9.6	453	**1,465**	1,205	19%
Spain	**36**	**(28)%**	**5.5**	**199**	53	(10)%	5.7	300	**506**	715	(25)%
Italy	**39**	**5%**	**5.4**	**210**	39	5%	5.5	215	**1,049**	1,563	(29)%
Other	**7**	**(30)%**	**8.9**	**62**	11	(21)%	9.2	101	**36**	54	(31)%
Developed markets	**591**	**(8)%**	**5.9**	**3,472**	653	23%	5.4	3,554	**8,336**	9,384	(9)%
Poland	**18**	**(31)%**	**7.6**	**137**	29	—	7.6	219	**64**	86	(16)%
Asia	**155**	**11%**	**5.0**	**780**	139	17%	4.9	678	**133**	224	(42)%
Other	**34**	**(6)%**	**4.1**	**138**	39	44%	3.4	133	**43**	39	19%
Higher growth markets	**207**	**2%**	**5.1**	**1,055**	207	18%	5.0	1,030	**240**	349	(30)%
Total life and pensions sales – continuing operations	**798**	**(6)%**	**5.7**	**4,527**	860	21%	5.3	4,584	**8,576**	9,733	(10)%
Total life and pensions sales – discontinued operations[1]	**—**	**(100)%**	**—**	**—**	73	(16)%	9.1	663	**—**	422	(100)%
Total life and pensions	**798**	**(13)%**	**5.7**	**4,527**	933	17%	5.6	5,247	**8,576**	10,155	(13)%

1. Prior period discontinued operations represent the results of Delta Lloyd up to 6 May 2011 only.

B6 – Geographical analysis of regular and single premiums – investment sales

	Regular			Single			PVNBP
Investment sales	**6 months 2012 £m**	6 months 2011 £m	Local currency growth	**6 months 2012 £m**	6 months 2011 £m	Local currency growth	Local currency growth
United Kingdom & Ireland	**4**	—	—	**819**	782	5%	5%
Aviva Investors	**3**	3	—	**1,040**	928	18%	18%
Higher growth markets	**—**	—	—	**68**	117	(43)%	(43)%
Total investment sales – continuing operations	**7**	3	133%	**1,927**	1,827	8%	8%
Total investment sales – discontinued operations[1]	**—**	—	—	**—**	170	(100)%	(100)%
Total investment sales	**7**	3	133%	**1,927**	1,997	(1)%	(1)%

1. Prior period discontinued operations represent the results of Delta Lloyd up to 6 May 2011 only.

B7 – Life and pensions new business – net of tax and non-controlling interests

Life and pensions (net of tax and non-controlling interests)	Present value of new business premiums			Value of new business			New business margin		
	6 months 2012 £m	6 months 2011 £m	Full year 2011 £m	**6 months 2012 £m**	6 months 2011 £m	Full year 2011 £m	**6 months 2012 %**	6 months 2011 %	Full year 2011 %
United Kingdom	**5,387**	5,434	11,254	**138**	140	281	**2.6%**	2.6%	2.5%
Ireland	**256**	415	688	**(3)**	1	(3)	**(1.2)%**	0.2%	(0.4)%
United Kingdom and Ireland	**5,643**	5,849	11,942	**135**	141	278	**2.4%**	2.4%	2.3%
France	**1,588**	1,947	3,376	**35**	53	79	**2.2%**	2.7%	2.3%
United States	**2,073**	1,658	3,932	**(90)**	(55)	(85)	**(4.3)%**	(3.3)%	(2.2)%
Spain	**391**	555	1,054	**4**	17	28	**1.0%**	3.1%	2.7%
Italy	**549**	792	1,336	**4**	15	23	**0.7%**	1.9%	1.7%
Other	**98**	155	262	**(1)**	2	4	**(1.0)%**	1.3%	1.5%
Developed markets	**10,342**	10,956	21,902	**87**	173	327	**0.8%**	1.6%	1.5%
Poland	**183**	276	440	**13**	14	34	**7.1%**	5.1%	7.7%
Asia	**903**	889	1,756	**29**	27	55	**3.2%**	3.0%	3.1%
Other	**181**	172	320	**12**	9	16	**6.6%**	5.2%	5.0%
Higher growth markets	**1,267**	1,337	2,516	**54**	50	105	**4.3%**	3.7%	4.2%
Total life and pensions sales – continuing operations	**11,609**	12,293	24,418	**141**	223	432	**1.2%**	1.8%	1.8%
Total life and pensions sales – discontinued operations[1]	**—**	599	599	**—**	—	—	**—**	—	—
Total life and pensions	**11,609**	12,892	25,017	**141**	223	432	**1.2%**	1.7%	1.7%

1. Prior period discontinued operations represent the results of Delta Lloyd up to 6 May 2011 only.

Capital management

In this section

Capital management

C1 – Capital management

C1i – Capital Management objectives and approach

The primary objective of capital management is to optimise the balance between return and risk, whilst maintaining economic and regulatory capital in accordance with risk appetite. Aviva's capital and risk management objectives are closely interlinked, and support the dividend policy and earnings per share growth, whilst also recognising the critical importance of protecting policyholder and other stakeholder interests.

Overall capital risk appetite, which is reviewed and approved by the Aviva board, is set and managed with reference to the requirements of a range of different stakeholders including shareholders, policyholders, regulators and rating agencies. Risk appetite is expressed in relation to a number of key capital and risk measures, and includes an economic capital risk appetite of holding sufficient capital resources to enable the Group to meet its liabilities in extreme adverse scenarios, on an ongoing basis, calibrated consistently with the Group's strategic target of maintaining credit ratings in the AA range.

In managing capital we seek to:

- maintain sufficient, but not excessive, financial strength in accordance with risk appetite, to support new business growth and satisfy the requirements of our regulators and other stakeholders giving 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 through optimizing risk and return; and
- declare dividends on a basis judged prudent, while retaining capital to support future business growth, using dividend cover on an operating earnings after tax basis[1] in the 1.5 to 2.0 times range as a guide.

In line with these objectives, the capital generated and invested by the Group's businesses is a key management focus. Operating capital generation, which measures net capital generated after taking into account capital invested in new business (before the impact of non-operating items) is a core regulatory capital based management performance metric used across the Group. This is embedded in the Group business planning process and other primary internal performance and management information processes.

Capital is measured and managed on a number of different bases. These are discussed further in the following sections.

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 and Canada) a risk charge on assets and liabilities approach is used.

Rating agency capital

Credit 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. The agencies generally assign ratings based on an assessment of a range of financial factors (e.g. capital strength, gearing, liquidity and fixed charge cover ratios) and non financial factors (e.g. strategy, competitive position, and risk management).

Certain rating agencies have proprietary capital models which they use to assess available capital resources against capital requirements as a component in 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 credit ratings. The Group's rating from Standard and Poors is AA- ("very strong") with an outlook of "Creditwatch Negative; Aa3 ("excellent") with a Negative outlook from Moody's; and A ("excellent") from A M Best. The outlook on the Group's rating from AM Best is "Under review with Negative Implications".

1 The Group's accounting policy for operating profit (also referred to as Group adjusted operating profit) remains consistent with prior periods and is set out in note A1.

C1 – Capital management objectives and approach continued

C1 ii 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. Where appropriate, businesses also supplement these with additional risk models and stressed scenarios 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 where appropriate. This means that the aggregate capital requirement is less than the sum of capital required to cover all of the individual risks. The capital requirement reflects the cost of mitigating 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 and meeting the emerging requirements of the Solvency II framework and external agencies.

Capital Management

The economic capital surplus represents the excess of Available Economic Capital over Required Economic Capital. Available Economic Capital is based on MCEV net assets, adjusted for items to convert to an economic basis. Required Economic Capital is based on Aviva's own internal assessment and capital management policies. The term 'economic capital' does not imply capital as required by regulators or other third parties.

The economic capital surplus on a proforma basis (including the contribution from the disposal of 21% of Delta Lloyd on 6 July 2012) has increased during the period to £4.7 billion *(FY11: £3.6 billion)*. The key movements in the period are set out in the following table:

	£bn
FY 2011 Economic Capital Position	3.6
Adjusted MCEV Movement[1]	0.3
Net impact of fixed rate note issuance / call	0.2
Impact of credit hedging	0.2
Capital requirement benefits of Delta Lloyd sell-down	0.2
Other items	0.2
Proforma HY 2012 Estimated Economic Capital Position	**4.7**

1. The adjusted MCEV movement reflects changes in MCEV attributable to ordinary shareholders during the year (£0.5 billion adverse) adjusted for items which do not impact the economic capital position such as the impairment of goodwill and intangibles (£0.8 billion) and movements in IFRS pension scheme valuations.

Solvency II

The development of Solvency II continues in 2012. The European Commission is focused on concluding the development of the Level 2 implementing measures that will establish the technical requirements governing the practical application of Solvency II, a draft of which was published in 2011. The implementation date continues to be discussed in the context of the on-going draft Omnibus II directive deliberations. Aviva continues to actively participate in these developments through the key European industry working groups and engaging with the FSA and HM Treasury to inform the on-going negotiations in Brussels.

C2 Capital performance

C2 i – Capital generation and utilisation

The active management of the generation and utilisation of capital is a primary Group focus, with the balancing of new business investment and shareholder distribution with operating capital generation a key financial priority.

The half-year 2012 result of £0.9 billion reinforces our confidence in the capital generation position of the Group. Profits from existing life business remain strong, generating £1.0 billion of capital *(HY11: £1.0 billion)*, with a further £0.3 billion *(HY11: £0.3 billion)* generated by the general insurance, and fund management and businesses and other operations. Capital invested in new business was £0.4 billion *(HY11: £0.5 billion)*, and continues to benefit from management actions to improve capital efficiency. The £0.4 billion of capital investment is mostly life new business with the impact of capital investment in non-life business broadly neutral over the period.

	6 months 2012 £bn	6 months 2011 £bn	Full year 2011 £bn
Operating capital generation:			
Life in-force profits	**1.0**	1.0	2.3
General insurance, fund management and other operations profits	**0.3**	0.3	0.6
Operating capital generated before investment in new business	**1.3**	1.3	2.9
Capital invested in new business	**(0.4)**	(0.5)	(0.8)
Operating capital generated after investment in new business	**0.9**	0.8	2.1

Operating capital generation comprises the following components:
- Operating Free surplus emergence, including release of required capital, for the life in-force business (net of tax and non-controlling interests);
- Operating profits for the general insurance and non-life businesses (net of tax and non-controlling interests);
- Capital invested in new business. For life business this is the impact of initial and required capital on free surplus. For general insurance business this reflects the movement in required capital, which has been assumed to equal the regulatory minimum multiplied by the local management target level. Where appropriate movements in capital requirements exclude the impact of foreign exchange and other movements deemed to be non-operating in nature.
- Post deconsolidation on 6 May 2011, all Delta Lloyd capital generation, including life business, has been included within general insurance, fund management and other operations profits on an IFRS basis.

The amount of operating capital remitted to Group is dependent upon a number of factors including non-operating items and local regulatory requirements.

As well as financing new business investment, the operating capital generated is used to finance corporate costs, service the Group's debt capital and to finance shareholder dividend distributions. After taking these items into account the net operating capital generation after financing is £0.1 billion.

	6 months 2012 £bn	6 months 2011 £bn	Full year 2011 £bn
Operating capital generated after investment in new business	**0.9**	0.8	2.1
Interest, corporate and other costs	**(0.4)**	(0.4)	(0.6)
External dividend net of scrip	**(0.4)**	(0.3)	(0.5)
Net operating capital generation after financing	**0.1**	0.1	1.0

C2 ii – Capital required to write new business, internal rate of return and payback period

As set out in C2i, the Group generates a significant amount of capital each year. This capital generation supports both shareholder distribution and reinvestment in 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 payback period shows how quickly shareholders can expect the total capital to be repaid. The payback period has been calculated based on undiscounted cash flows and allows for the initial and required capital.

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

C2 – Capital performance continued

C2 ii – Capital required to write new business, internal rate of return and payback period continued

The internal rates of return on new business written during the period are set out below.

30 June 2012	Initial capital £m	Required capital £m	Total invested capital £m	IRR %	Payback period years
United Kingdom	80	75	155	15%	7
Ireland	15	6	21	2%	20
United Kingdom & Ireland	95	81	176	13%	9
France	20	62	82	11%	8
United States	42	156	198	14%	5
Spain	14	25	39	16%	4
Italy	13	47	60	12%	6
Other	11	—	11	8%	10
Developed markets	195	371	566	13%	7
Poland	12	4	16	22%	4
Asia	28	16	44	12%	11
Other	8	7	15	29%	3
Higher Growth markets	48	27	75	17%	8
Total	243	398	641	13.6%	7

30 June 2011	Initial capital £m	Required capital £m	Total invested capital £m	IRR %	Payback period years
United Kingdom	41	80	121	16%	7
Ireland	13	15	28	8%	8
United Kingdom & Ireland	54	95	149	15%	7
France	22	76	98	11%	8
United States	36	127	163	14%	5
Spain	12	41	53	23%	4
Italy	20	63	83	12%	6
Other	13	1	14	8%	9
Developed markets	157	403	560	14%	6
Poland	15	5	20	20%	5
Asia	27	16	43	13%	12
Other	8	8	16	23%	3
Higher Growth markets	50	29	79	17%	8
Total excluding Delta Lloyd	207	432	639	14.3%	6
Delta Lloyd[1]	26	27	53	10%	10
Total	233	459	692	13.9%	7

31 December 2011	Initial capital £m	Required capital £m	Total invested capital £m	IRR %	Payback period years
United Kingdom	155	187	342	15%	7
Ireland	27	22	49	6%	12
United Kingdom & Ireland	182	209	391	14%	8
France	45	127	172	11%	8
United States	27	301	328	14%	5
Spain	25	70	95	23%	4
Italy	24	117	141	12%	6
Other	25	1	26	9%	8
Developed markets	328	825	1,153	14%	6
Poland	25	9	34	24%	4
Asia	56	31	87	13%	12
Other	15	12	27	22%	4
Higher Growth markets	96	52	148	17%	9
Total excluding Delta Lloyd	424	877	1,301	14.4%	7
Delta Lloyd[1]	26	27	53	10%	10
Total	450	904	1,354	14.3%	7

1. Comparative periods include the results of Delta Lloyd up to 6 May 2011.

C2 – Capital performance continued

C2 ii – Capital required to write new business, internal rate of return and payback period continued

The capital invested data above is stated gross of non-controlling interests and valued on a point of sale basis. This differs from the analysis of life and pensions earnings in notes E7* and E9* which is stated net of non-controlling interests, valued on a year-end basis and benefits from the writing of new business in the UK Life RIEESA. The reconciliation is as follows:

6 months 2012	£m
Total capital invested	**641**
Non-controlling interests	**(70)**
Benefit of RIEESA on new business funding	**(99)**
Timing differences (point of sale versus year end basis)	**(23)**
New business impact on free surplus	**449**

C2 iii – Analysis of IFRS basis return on equity

				30 June 2012
	Operating return[1]			
	Before tax £m	After tax £m	Opening shareholders' funds including non-controlling interests £m	Return on capital %
Life assurance	**1,010**	**769**	**15,079**	**10.2%**
General insurance and health	**455**	**335**	**5,875**	**11.4%**
Fund management	**38**	**27**	**218**	**24.8%**
Other business	**(102)**	**(72)**	**(1,102)**	**13.1%**
Corporate[2]	**(234)**	**(248)**	**(228)**	**217.5%**
Return on total capital employed (excluding Delta Lloyd)	**1,167**	**811**	**19,842**	**8.2%**
Delta Lloyd	**112**	**84**	**776**	**21.6%**
Return on total capital employed (including Delta Lloyd)	**1,279**	**895**	**20,618**	**8.7%**
Subordinated debt	**(146)**	**(109)**	**(4,550)**	**4.8%**
External debt	**(12)**	**(9)**	**(705)**	**2.6%**
Return on total equity	**1,121**	**777**	**15,363**	**10.1%**
Less: Non-controlling interests		**(90)**	**(1,530)**	**11.8%**
Direct capital instruments and fixed rate tier 1 notes		**—**	**(990)**	**—%**
Preference capital		**(9)**	**(200)**	**8.5%**
Return on equity shareholders' funds		**678**	**12,643**	**10.7%**

1 The operating return is based upon Group adjusted operating profit, which is stated before impairment of goodwill, amortisation of intangibles, exceptional items and investment variance.
2 The 'Corporate' loss before tax of £234 million comprises costs of £64 million, net finance charge on the main UK pension scheme of £18 million and interest on internal lending arrangements of £158 million offset by investment return of £6 million.

				31 December 2011
	Operating return[1]			
	Before tax £m	After tax £m	Opening shareholders' funds including non-controlling interests £m	Return on capital %
Life assurance	2,123	1,583	14,856	10.7%
General insurance and health	903	657	4,747	13.8%
Fund management	99	69	215	32.1%
Other business	(207)	(148)	(119)	124.4%
Corporate[2]	(439)	(394)	(997)	39.5%
Return on total capital employed (excluding Delta Lloyd)	2,479	1,767	18,702	9.4%
Delta Lloyd	352	288	5,089	5.7%
Return on total capital employed (including Delta Lloyd)	2,831	2,055	23,791	8.6%
Subordinated debt	(302)	(222)	(4,572)	4.9%
External debt	(26)	(19)	(1,494)	1.3%
Return on total equity	2,503	1,814	17,725	10.2%
Less: Non-controlling interests		(223)	(3,741)	6.0%
Direct capital instruments		(43)	(990)	4.3%
Preference capital		(17)	(200)	8.5%
Return on equity shareholders' funds		1,531	12,794	12.0%

1 The operating return is based upon Group adjusted operating profit, which is stated before impairment of goodwill, amortisation of intangibles, exceptional items and investment variance.
2 The 'Corporate' loss before tax of £439 million comprises costs of £138 million, net finance charge on the main UK pension scheme of £46 million and interest on internal lending arrangements of £287 million offset by investment return of £32 million.

* Notes E7 and E9 are included in Supplement 2 – MCEV financial statements.

C2 Capital performance continued

C2 iv – Analysis of MCEV basis return on equity

	Operating return[1] Before tax £m	Operating return[1] After tax £m	Opening shareholders' funds including non-controlling interests £m	Return on equity %
				30 June 2012
Life assurance	**1,228**	**881**	**15,211**	**11.6%**
General insurance and health	**455**	**335**	**5,875**	**11.4%**
Fund management	**7**	**5**	**218**	**4.6%**
Other business	**(96)**	**(67)**	**(1,102)**	**12.2%**
Corporate[2]	**(234)**	**(248)**	**(228)**	**217.5%**
Return on total capital employed (excluding Delta Lloyd)	**1,360**	**906**	**19,974**	**9.1%**
Delta Lloyd	**112**	**84**	**776**	**21.6%**
Return on total capital employed (including Delta Lloyd)	**1,472**	**990**	**20,750**	**9.5%**
Subordinated debt	**(146)**	**(109)**	**(4,550)**	**4.8%**
External debt	**(12)**	**(9)**	**(705)**	**2.6%**
Return on total equity	**1,314**	**872**	**15,495**	**11.2%**
Less: Non-controlling interests		**(146)**	**(1,476)**	**19.8%**
Direct capital instruments and fixed rate tier 1 notes		**—**	**(990)**	**—%**
Preference capital		**(9)**	**(200)**	**8.5%**
Return on equity shareholders' funds		**717**	**12,829**	**11.2%**

1 The operating return is based upon Group adjusted operating profit, which is stated before impairment of goodwill, amortisation of intangibles, exceptional items and investment variance.
2 The 'Corporate' loss before tax of £234 million comprises costs of £64 million, net finance charge on the main UK pension scheme of £18 million and interest on internal lending arrangements of £158 million offset by investment return of £6 million.

	Operating return[1] Before tax £m	Operating return[1] After tax £m	Restated Opening shareholders' funds including non-controlling interests £m	Return on equity %
				31 December 2011
Life assurance	3,129	2,219	18,533	12.0%
General insurance and health	903	657	4,747	13.8%
Fund management	32	22	215	10.2%
Other business	(204)	(144)	(119)	121.0%
Corporate[2]	(439)	(394)	(997)	39.5%
Return on total capital employed (excluding Delta Lloyd)	3,421	2,360	22,379	10.5%
Delta Lloyd	444	331	3,892	8.5%
Return on total capital employed (including Delta Lloyd)	3,865	2,691	26,271	10.2%
Subordinated debt	(302)	(222)	(4,572)	4.9%
External debt	(26)	(19)	(1,494)	1.3%
Return on total equity	3,537	2,450	20,205	12.1%
Less: Non-controlling interests		(253)	(3,977)	6.4%
Direct capital instruments		(43)	(990)	4.3%
Preference capital		(17)	(200)	8.5%
Return on equity shareholders' funds		2,137	15,038	14.2%

1 The operating return is based upon Group adjusted operating profit, which is stated before impairment of goodwill, amortisation of intangibles, exceptional items and investment variance.
2 The 'Corporate' loss before tax of £439 million comprises costs of £138 million, net finance charge on the main UK pension scheme of £46 million and interest on internal lending arrangements of £287 million offset by investment return of £32 million.

C3 – Group capital structure

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

	30 June 2012 £m	31 December 2011 £m
Long-term savings	**15,288**	15,211
General insurance and health	**6,111**	5,875
Fund management	**243**	218
Other business	**(1,408)**	(1,102)
Corporate[1]	**(132)**	(228)
Delta Lloyd	**609**	776
Total capital employed	**20,711**	20,750
Financed by		
Equity shareholders' funds	**12,279**	12,829
Non-controlling interests	**1,808**	1,476
Direct capital instruments and fixed rate tier 1 notes	**1,382**	990
Preference shares	**200**	200
Subordinated debt	**4,340**	4,550
External debt	**702**	705
Total capital employed	**20,711**	20,750

1. "Corporate" includes centrally held tangible net assets, the staff pension scheme surplus and also reflects internal lending arrangements. These internal lending arrangements, which net out on consolidation, arise in relation to the following:
– Aviva Insurance Limited (AI) 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, giving rise to notional lending between the general insurance and holding company activities. These mechanisms also allow for some of the assets of the general insurance business to be made available for use across the Group.
– Certain subsidiaries, subject to continuing to satisfy stand alone capital and liquidity requirements, loan funds to corporate and holding entities. These loans satisfy arm's-length criteria and all interest payments are made when due.

Total capital employed is financed by a combination of equity shareholders' funds, preference capital, subordinated debt and borrowings.

At 30 June 2012 we had £20.7 billion *(31 December 2011: £20.8 billion)* of total capital employed in our trading operations, measured on an MCEV basis.

In May 2012 we issued US$650 million of hybrid Tier 1 Notes. The Notes are perpetual and may be called from November 2017. The Notes qualify as Innovative Tier 1 capital under current regulatory rules and are expected to be treated as hybrid Tier 1 capital under Solvency II transitional rules. The transaction had a positive impact on Group IGD solvency and Economic Capital measures. In June 2012 US$300m of Lower Tier 2 floating rate notes were redeemed at first call.

Financial leverage, the ratio of external senior and subordinated debt to MCEV capital and reserves, was 35.8% *(31 December 2011: 36.7%)*. 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 8.0 times *(31 December 2011: 8.9 times)*.

At 30 June 2012 the market value of our external debt, subordinated debt, preference shares (including both Aviva plc preference shares of £200 million and General Accident plc preference shares, within non-controlling interest, of £250 million), and direct capital instruments and fixed rate tier 1 notes was £5,895 million *(31 December 2011: £5,782 million)*, with a weighted average cost, post tax, of 7.0% *(31 December 2011: 6.6%)*. The Group Weighted Average Cost of Capital (WACC) is 7.1% *(31 December 2011: 7.1%)* 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 2012 was 7.2% *(31 December 2011: 7.4%)* based on a risk free rate of 1.7% *(31 December 2011: 2.0%)*, an equity risk premium of 4.0% *(31 December 2011: 4.0%)* and a market beta of 1.4 *(31 December 2011: 1.3)*.

C3 – Group capital structure continued

Shareholders' funds, including non-controlling interests

	30 June 2012 Closing shareholders' funds			31 December 2011 Closing shareholders' funds		
	IFRS net assets £m	Internally generated AVIF £m	Total Equity £m	IFRS net assets £m	Internally generated AVIF £m	Total Equity £m
Life assurance						
United Kingdom	**4,732**	**1,654**	**6,386**	4,794	1,421	6,215
Ireland	**628**	**394**	**1,022**	684	365	1,049
United Kingdom & Ireland	**5,360**	**2,048**	**7,408**	5,478	1,786	7,264
France	**1,740**	**1,233**	**2,973**	1,825	1,091	2,916
United States	**3,211**	**(2,885)**	**326**	3,842	(2,779)	1,063
Spain	**1,035**	**337**	**1,372**	1,160	384	1,544
Italy	**1,316**	**(729)**	**587**	1,266	(1,405)	(139)
Other	**232**	**(135)**	**97**	238	(140)	98
Developed markets	**12,894**	**(131)**	**12,763**	13,809	(1,063)	12,746
Poland	**251**	**1,059**	**1,310**	263	1,063	1,326
Asia	**939**	**46**	**985**	865	58	923
Other	**140**	**90**	**230**	142	74	216
Higher Growth markets	**1,330**	**1,195**	**2,525**	1,270	1,195	2,465
	14,224	**1,064**	**15,288**	15,079	132	15,211
General insurance and health						
United Kingdom	**3,492**	**—**	**3,492**	3,394	—	3,394
Ireland	**378**	**—**	**378**	408	—	408
United Kingdom & Ireland	**3,870**	**—**	**3,870**	3,802	—	3,802
France	**486**	**—**	**486**	480	—	480
Canada	**1,149**	**—**	**1,149**	1,034	—	1,034
Other	**505**	**—**	**505**	468	—	468
Developed markets	**6,010**	**—**	**6,010**	5,784	—	5,784
Higher Growth markets	**101**	**—**	**101**	91	—	91
	6,111	**—**	**6,111**	5,875	—	5,875
Fund management	**243**	**—**	**243**	218	—	218
Other business	**(1,408)**	**—**	**(1,408)**	(1,102)	—	(1,102)
Corporate	**(132)**	**—**	**(132)**	(228)	—	(228)
Total capital employed (excluding Delta Lloyd)	**19,038**	**1,064**	**20,102**	19,842	132	19,974
Delta Lloyd	**609**	**—**	**609**	776	—	776
Total capital employed	**19,647**	**1,064**	**20,711**	20,618	132	20,750
Subordinated debt	**(4,340)**	**—**	**(4,340)**	(4,550)	—	(4,550)
External debt	**(702)**	**—**	**(702)**	(705)	—	(705)
Total equity	**14,605**	**1,064**	**15,669**	15,363	132	15,495
Less:						
Non-controlling interests			**(1,808)**			(1,476)
Direct capital instruments and fixed rate tier 1 notes			**(1,382)**			(990)
Preference capital			**(200)**			(200)
Equity shareholders' funds			**12,279**			12,829
Less: goodwill and intangibles[1]			**(2,616)**			(3,479)
Equity shareholders funds' excluding goodwill and intangibles			**9,663**			9,350

1. Goodwill and intangibles comprise £1,794 million *(FY 2011: £2,640 million)* of goodwill in subsidiaries, £927 million *(FY 2011: £1,062 million)* of intangibles in subsidiaries, £131 million *(FY 2011: £131 million)* of goodwill and intangibles in joint ventures and £148 million *(FY 2011: £115 million)* of goodwill in associates, net of associated deferred tax liabilities of £165 million *(FY 2011: £(241) million)* and the non controlling interests share of intangibles of £219 million *(FY 2011: £(228) million)*.

C4 – 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 Aviva has 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 and Canada) a risk charge on assets and liabilities approach is used.

Based on individual guidance from the FSA we recognise surpluses of £0.3 billion as at 30 June 2012 *(FY 2011: £0.2 billion)* in the non-profit funds of our UK Life and pensions businesses which is available for transfer to shareholders.

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

	UK life funds £bn	Other business £bn	30 June 2012 £bn	31 December 2011 £bn
Insurance Groups Directive (IGD) capital resources	**6.6**	**9.3**	**15.9**	14.1
Less: capital resource requirement	**(6.6)**	**(6.2)**	**(12.8)**	(11.9)
Insurance Group Directive (IGD) excess solvency	**—**	**3.1**	**3.1**	2.2
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 £0.9 billion since 31 December 2011 to £3.1 billion. The key movements over the period are set out in the following table:

	£bn
IGD solvency surplus at 31 December 2011	**2.2**
Operating profits net of other income and expenses	**0.4**
Dividends net of scrip	**(0.4)**
Market movements including foreign exchange[1]	**0.6**
Movement in hybrid debt	**0.2**
UK reinsurance transactions	**0.1**
Increase in Capital Resources Requirement	**(0.1)**
Other regulatory adjustments	**0.1**
Estimated IGD solvency surplus at 30 June 2012	**3.1**

1 Market movements include the impact of equity, credit spread, interest rate and foreign exchange movements net of the effect of hedging instruments.

C4 – Regulatory capital continued

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: Old With-Profit Sub Fund (OWPSF), New With-Profit Sub Fund (NWPSF) and With-Profit Sub-Fund (WPSF). These realistic liabilities have been included within the long-term business provision and the liability for insurance and investment contracts on the consolidated IFRS statement of financial position at 30 June 2012 and 31 December 2011.

	30 June 2012						31 December 2011
	Estimated realistic assets £bn	Realistic liabilities[1] £bn	Estimated realistic inherited estate[2] £bn	Support Arrange-ment[3] £bn	Estimated risk Capital Margin[5] £bn	Estimated excess £bn	Estimated excess £bn
NWPSF	**17.8**	**(17.8)**	**—**	**1.3**	**(0.3)**	**1.0**	0.7
OWPSF	**2.9**	**(2.6)**	**0.3**	**—**	**(0.1)**	**0.2**	0.2
WPSF[4]	**19.0**	**(17.0)**	**2.0**	**—**	**(0.6)**	**1.4**	1.0
Aggregate	**39.7**	**(37.4)**	**2.3**	**1.3**	**(1.0)**	**2.6**	1.9

1 These realistic liabilities include the shareholders' share of future bonuses of £0.4 billion *(FY 2011: £0.3 billion)*. Realistic liabilities adjusted to eliminate the shareholders' share of future bonuses are £37.0 billion *(FY 2011: £38.8 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 £2.0 billion, £0.3 billion and £3.7 billion for NWPSF, OWPSF and WPSF respectively *(FY 2011: £1.9 billion, £0.3 billion and £3.1 billion)*.
2 Estimated realistic inherited estate at 31 December 2011 was £nil, £0.3billion and £1.6 billion for NWPSF, OWPSF and WPSF respectively.
3 The support arrangement represents the reattributed estate (RIEESA) of £1.3 billion at 30 June 2012 *(FY 2011: £1.1 billion)*.
4 The WPSF fund includes the Provident Mutual (PM) fund which has realistic assets of £1.7 billion and realistic liabilities of £1.7 billion and therefore does not contribute to the realistic inherited estate.
5 The risk capital margin (RCM) is 3.6 times covered by the inherited estate and support arrangement *FY 2011: 2.7 times)*.

Investment mix

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

	30 June 2012 %	31 December 2011 %
Equity	**20%**	22%
Property	**15%**	17%
Fixed interest	**51%**	54%
Other	**14%**	7%

The equity backing ratios, including property, supporting with-profit asset shares are 69% in NWPSF and OWPSF, and 65% in WPSF.

C5 – IFRS 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, ICA, and scenario analysis are used. Sensitivities to economic and operating experience are regularly produced on all of the Group's financial performance measurements to inform the Group's decision making and planning processes, 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 on an MCEV basis in the supplementary section of this report.

Life insurance and investment contracts

The nature of long-term business is such that a number of assumptions are made in compiling these 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. A number of the key assumptions for the Group's central scenario are disclosed elsewhere in these statements for both IFRS reporting and reporting under the MCEV methodology.

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.

Sensitivity test results

Illustrative results of sensitivity testing for long-term business, general insurance and health and fund management business and other operations are set out below. For each sensitivity test the impact of a reasonably possible 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%.

Long-term businesses

	30 June 2012						
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	**—**	**(120)**	**70**	**(90)**	**(30)**	**5**	**(40)**
Insurance non-participating	**(110)**	**90**	**20**	**(55)**	**(70)**	**(55)**	**(465)**
Investment participating	**(25)**	**20**	**15**	**(45)**	**(10)**	**—**	**—**
Investment non-participating	**(10)**	**10**	**15**	**(20)**	**(15)**	**—**	**—**
Assets backing life shareholders' funds	**35**	**(40)**	**45**	**(45)**	**—**	**—**	**—**
Total excluding Delta Lloyd	**(110)**	**(40)**	**165**	**(255)**	**(125)**	**(50)**	**(505)**

	30 June 2012						
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)**	**30**	**70**	**(90)**	**(30)**	**5**	**(40)**
Insurance non-participating	**(785)**	**575**	**20**	**(55)**	**(70)**	**(55)**	**(465)**
Investment participating	**(25)**	**20**	**15**	**(45)**	**(10)**	**—**	**—**
Investment non-participating	**(100)**	**20**	**15**	**(20)**	**(15)**	**—**	**—**
Assets backing life shareholders' funds	**(50)**	**35**	**45**	**(45)**	**—**	**—**	**—**
Total excluding Delta Lloyd	**(1,090)**	**680**	**165**	**(255)**	**(125)**	**(50)**	**(505)**

C5 – IFRS Sensitivity analysis continued

Long-term businesses continued

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%
	31 December 2011						
Insurance participating	(45)	(155)	5	(95)	(45)	(10)	(50)
Insurance non-participating	(135)	85	55	(45)	(75)	(60)	(470)
Investment participating	(35)	40	50	(75)	(10)	—	—
Investment non-participating	(15)	15	15	(15)	(20)	—	—
Assets backing life shareholders' funds	135	(15)	35	(35)	—	—	—
Total excluding Delta Lloyd	(95)	(30)	160	(265)	(150)	(70)	(520)

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%
	31 December 2011						
Insurance participating	(80)	(115)	5	(95)	(45)	(10)	(50)
Insurance non-participating	(500)	455	55	(45)	(75)	(60)	(470)
Investment participating	(35)	40	50	(75)	(10)	—	—
Investment non-participating	(110)	25	15	(15)	(20)	—	—
Assets backing life shareholders' funds	35	85	40	(40)	—	—	—
Total excluding Delta Lloyd	(690)	490	165	(270)	(150)	(70)	(520)

The different impacts of the economic sensitivities on profit and shareholders' equity arise from classification of certain assets as AFS in some business units, for which movements in unrealised gains or losses would be taken directly to shareholders' equity.

The sensitivities to interest rates relate mainly to the US. In general a fall in market interest rates has a beneficial impact on non-participating business and shareholders' funds due to the increase in market value of fixed interest securities; similarly a rise in interest rates has a negative impact. In the US, most debt securities are classified as AFS, which limits the overall sensitivity of IFRS profit to interest rate movements. The mortality sensitivities relate primarily to the UK.

Changes in sensitivities between 30 June 2012 and 31 December 2011 reflect the movements in market interest rates, portfolio growth, changes to asset mix and relative durations of assets and liabilities and asset liability management actions.

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.

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 2012					
Gross of reinsurance excluding Delta Lloyd	**(250)**	**245**	**40**	**(45)**	**(75)**	**(140)**
Net of reinsurance excluding Delta Lloyd	**(305)**	**310**	**40**	**(45)**	**(75)**	**(140)**

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 2012					
Gross of reinsurance excluding Delta Lloyd	**(250)**	**245**	**40**	**(45)**	**(25)**	**(140)**
Net of reinsurance excluding Delta Lloyd	**(305)**	**310**	**40**	**(45)**	**(25)**	**(140)**

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 2011					
Gross of reinsurance excluding Delta Lloyd	(205)	180	50	(55)	(130)	(300)
Net of reinsurance excluding Delta Lloyd	(275)	275	50	(55)	(130)	(290)

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 2011					
Gross of reinsurance excluding Delta Lloyd	(205)	180	50	(55)	(30)	(300)
Net of reinsurance excluding Delta Lloyd	(275)	275	50	(55)	(30)	(290)

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.

C5 – IFRS Sensitivity analysis continued

Fund management and other operations businesses

Impact on profit before tax £m	Interest rates +1%	Interest rates –1%	Equity/ property +10%	Equity/ property –10%
	30 June 2012			
Total excluding Delta Lloyd	(15)	15	(65)	110

Impact on shareholders' equity before tax £m	Interest rates +1%	Interest rates –1%	Equity/ property +10%	Equity/ property –10%
	30 June 2012			
Total excluding Delta Lloyd	(15)	15	(65)	110

Impact on profit before tax £m	Interest rates +1%	Interest rates –1%	Equity/ property +10%	Equity/ property –10%
	31 December 2011			
Total excluding Delta Lloyd	(10)	10	(40)	75

Impact on shareholders' equity before tax £m	Interest rates +1%	Interest rates –1%	Equity/ property +10%	Equity/ property –10%
	31 December 2011			
Total excluding Delta Lloyd	(10)	10	(40)	75

Delta Lloyd

The half-year 2012 sensitivities contained in the above tables exclude any contribution from Delta Lloyd following deconsolidation of this business.

Limitations of sensitivity analysis

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

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations.

As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation, adjusting bonuses credited to policyholders, and taking other protective action.

A number of the business units use passive assumptions to calculate their long-term business liabilities. Consequently, a change in the underlying assumptions may not have any impact on the liabilities, whereas assets held at market value in the statement of financial position will be affected. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholders' 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.

Analysis of assets

In this section

Analysis of assets

D1 – Total assets

As an insurance business, Aviva Group holds a variety of assets to match the characteristics and duration of its insurance liabilities. Appropriate and effective asset liability matching (on an economic basis) is the principal way in which Aviva manages its investments. In addition, to support this, Aviva also uses a variety of hedging and other risk management strategies to diversify away residual mis-match risk that is outside of the Group's risk appetite.

30 June 2012	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
Goodwill and acquired value of in-force business and intangible assets	—	—	**3,551**	**3,551**	**(108)**	**3,443**
Interests in joint ventures and associates	**237**	**1,129**	**1,316**	**2,682**	**(14)**	**2,668**
Property and equipment	**42**	**131**	**272**	**445**	—	**445**
Investment property	**3,813**	**6,248**	**966**	**11,027**	**(26)**	**11,001**
Loans	**481**	**5,907**	**20,530**	**26,918**	—	**26,918**
Financial investments						
Debt securities	**14,659**	**80,083**	**59,975**	**154,717**	**(1,441)**	**153,276**
Equity securities	**20,807**	**9,571**	**1,076**	**31,454**	**(1,248)**	**30,206**
Other investments	**23,141**	**4,468**	**2,529**	**30,138**	**(350)**	**29,788**
Reinsurance assets	**1,548**	**554**	**5,381**	**7,483**	**(244)**	**7,239**
Deferred tax assets	—	—	**262**	**262**	—	**262**
Current tax assets	—	—	**74**	**74**	—	**74**
Receivables and other financial assets	**372**	**2,861**	**5,244**	**8,477**	**(21)**	**8,456**
Deferred acquisition costs and other assets	**1**	**97**	**6,437**	**6,535**	**(91)**	**6,444**
Prepayments and accrued income	**146**	**1,390**	**1,650**	**3,186**	**(10)**	**3,176**
Cash and cash equivalents	**4,442**	**12,285**	**8,933**	**25,660**	**(409)**	**25,251**
Assets of operations classified as held for sale	—	—	—	—	**3,962**	**3,962**
Total	**69,689**	**124,724**	**118,196**	**312,609**	—	**312,609**
Total %	**22.3%**	**39.9%**	**37.8%**	**100.0%**	**0.0%**	**100.0%**
FY11 as reported	70,367	124,631	117,378	312,376	—	312,376
FY11 Total %	22.5%	39.9%	37.6%	100.0%	0.0%	100.0%

As at 30 June 2012, 37.8% of Aviva's total asset base was shareholder assets, 39.9% participating assets where Aviva shareholders have partial exposure, and 22.3% policyholder assets where Aviva shareholders have no exposure. Of the total assets, investment property, loans and financial investments comprised £251.2 billion, compared to £255.8 billion at 31 December 2011.

D2 – Total assets – Valuation bases/fair value hierarchy

Total assets – 30 June 2012	Fair value £m	Amortised cost £m	Equity accounted/ tax assets[1] £m	Total £m
Goodwill and acquired value of in-force business and intangible assets	—	**3,551**	—	**3,551**
Interests in joint ventures and associates	—	—	**2,682**	**2,682**
Property and equipment	**208**	**237**	—	**445**
Investment property	**11,027**	—	—	**11,027**
Loans	**18,159**	**8,759**	—	**26,918**
Financial investments				
Debt securities	**154,717**	—	—	**154,717**
Equity securities	**31,454**	—	—	**31,454**
Other investments	**30,138**	—	—	**30,138**
Reinsurance assets	—	**7,483**	—	**7,483**
Deferred tax assets	—	—	**262**	**262**
Current tax assets	—	—	**74**	**74**
Receivables and other financial assets	—	**8,477**	—	**8,477**
Deferred acquisition costs and other assets	—	**6,535**	—	**6,535**
Prepayments and accrued income	—	**3,186**	—	**3,186**
Cash and cash equivalents	**25,660**	—	—	**25,660**
Total	**271,363**	**38,228**	**3,018**	**312,609**
Total %	**86.8%**	**12.2%**	**1.0%**	**100.0%**
FY11 Total	269,812	39,356	3,208	312,376
FY11 Total %	86.4%	12.6%	1.0%	100.0%

1. 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.

Total assets – Policyholder assets 30 June 2012	Fair value £m	Amortised cost £m	Equity accounted/ tax assets[1] £m	Total £m
Goodwill and acquired value of in-force business and intangible assets	—	—	—	—
Interests in joint ventures and associates	—	—	**237**	**237**
Property and equipment	**29**	**13**	—	**42**
Investment property	**3,813**	—	—	**3,813**
Loans	—	**481**	—	**481**
Financial investments				
Debt securities	**14,659**	—	—	**14,659**
Equity securities	**20,807**	—	—	**20,807**
Other investments	**23,141**	—	—	**23,141**
Reinsurance assets	—	**1,548**	—	**1,548**
Deferred tax assets	—	—	—	—
Current tax assets	—	—	—	—
Receivables and other financial assets	—	**372**	—	**372**
Deferred acquisition costs and other assets	—	**1**	—	**1**
Prepayments and accrued income	—	**146**	—	**146**
Cash and cash equivalents	**4,442**	—	—	**4,442**
Total	**66,891**	**2,561**	**237**	**69,689**
Total %	**96.0%**	**3.7%**	**0.3%**	**100.0%**
FY11 Total	67,310	2,804	253	70,367
FY11 Total %	95.6%	4.0%	0.4%	100.0%

1. 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.

D2 – Total assets – Valuation bases/fair value hierarchy continued

Total assets – Participating fund assets 30 June 2012	Fair value £m	Amortised cost £m	Equity accounted/ tax assets[1] £m	Total £m
Goodwill and acquired value of in-force business and intangible assets	—	—	—	—
Interests in joint ventures and associates	—	—	1,129	1,129
Property and equipment	19	112	—	131
Investment property	6,248	—	—	6,248
Loans	1,011	4,896	—	5,907
Financial investments				
Debt securities	80,083	—	—	80,083
Equity securities	9,571	—	—	9,571
Other investments	4,468	—	—	4,468
Reinsurance assets	—	554	—	554
Deferred tax assets	—	—	—	—
Current tax assets	—	—	—	—
Receivables and other financial assets	—	2,861	—	2,861
Deferred acquisition costs and other assets	—	97	—	97
Prepayments and accrued income	—	1,390	—	1,390
Cash and cash equivalents	12,285	—	—	12,285
Total	**113,685**	**9,910**	**1,129**	**124,724**
Total %	**91.1%**	**7.9%**	**1.0%**	**100.0%**
FY11 Total	113,287	9,884	1,460	124,631
FY11 Total %	90.9%	7.9%	1.2%	100.0%

1. 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.

Total assets – Shareholder assets 30 June 2012	Fair value £m	Amortised cost £m	Equity accounted/ tax assets[1] £m	Total £m
Goodwill and acquired value of in-force business and intangible assets	—	3,551	—	3,551
Interests in joint ventures and associates	—	—	1,316	1,316
Property and equipment	160	112	—	272
Investment property	966	—	—	966
Loans	17,148	3,382	—	20,530
Financial investments				
Debt securities	59,975	—	—	59,975
Equity securities	1,076	—	—	1,076
Other investments	2,529	—	—	2,529
Reinsurance assets	—	5,381	—	5,381
Deferred tax assets	—	—	262	262
Current tax assets	—	—	74	74
Receivables and other financial assets	—	5,244	—	5,244
Deferred acquisition costs and other assets	—	6,437	—	6,437
Prepayments and accrued income	—	1,650	—	1,650
Cash and cash equivalents	8,933	—	—	8,933
Total	**90,787**	**25,757**	**1,652**	**118,196**
Total %	**76.8%**	**21.8%**	**1.4%**	**100.0%**
FY11 Total	89,215	26,668	1,495	117,378
FY11 Total %	76.0%	22.7%	1.3%	100.0%

1. 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.

D2 – Total assets – Valuation bases/fair value hierarchy continued

Financial instruments (including derivatives and loans)

The Group classifies its investments as either financial assets at fair value through profit or loss (FV) or financial assets available for sale (AFS). The classification depends on the purpose for which the investments were acquired, and is determined by local management at initial recognition. The FV category has two subcategories – those that meet the definition as being held for trading and those the Group chooses to designate as FV (referred to in this section as 'other than trading').

In general, the FV category is used as, in most cases, our investment or risk management strategy is to manage our financial investments on a fair value basis. All securities in the FV category are classified as other than trading, except for non-hedge derivatives and a small amount of debt and equity securities, bought with the intention to resell in the short term, which are classified as trading. The AFS category is used where the relevant long-term business liability (including shareholders' funds) is passively managed.

Loans are carried at amortised cost, except for certain mortgage loans, where we have taken advantage of the 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. We believe this presentation provides more relevant information and eliminates any accounting mismatch that would otherwise arise from using different measurement bases for these four items.

Fair value hierarchy

To provide further information on the valuation techniques we use to measure assets carried at fair value, we have categorised the measurement basis for assets carried at fair value into a 'fair value hierarchy' in accordance with the valuation inputs and consistent with IFRS7 *Financial Instruments: Disclosures*.

- Inputs to Level 1 fair values are quoted prices (unadjusted) in active markets for identical assets.
- 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.
- 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 assumptions the business unit considers that market participants would use in pricing the asset. Examples are certain private equity investments and private placements.

Fair values sourced from internal models are Level 2 only if substantially all the inputs are market observable. Otherwise fair values sourced from internal models are classified as Level 3.

	Fair value hierarchy						
Total assets 30 June 2012	Level 1 £m	Level 2 £m	Level 3 £m	Sub-total fair value £m	Amortised cost £m	Less: Assets of operations classified as held for sale £m	Balance sheet total £m
Investment properties	**—**	**11,027**	**—**	**11,027**	**—**	**(26)**	**11,001**
Loans	**—**	**18,159**	**—**	**18,159**	**8,759**	**—**	**26,918**
Debt securities	**102,793**	**43,327**	**8,597**	**154,717**	**—**	**(1,441)**	**153,276**
Equity securities	**30,381**	**585**	**488**	**31,454**	**—**	**(1,248)**	**30,206**
Other investments (including derivatives)	**22,345**	**5,020**	**2,773**	**30,138**	**—**	**(350)**	**29,788**
Total	**155,519**	**78,118**	**11,858**	**245,495**	**8,759**	**(3,065)**	**251,189**
Total %	**61.9%**	**31.1%**	**4.7%**	**97.7%**	**3.5%**	**(1.2)%**	**100.0%**
FY11 Total	156,641	78,520	11,368	246,529	9,630	(347)	255,812
FY11 Total %	61.2%	30.7%	4.4%	96.3%	3.8%	(0.1)%	100.0%

At 30 June 2012, the proportion of total financial investments, loans and investment properties classified as Level 1 in the fair value hierarchy has remained stable at 61.9% (*FY2011: 61.2%)*. Level 2 and Level 3 financial investments, loans and investment properties have also remained relatively stable at 31.1% *(FY2011: 30.7%)* and 4.7% *(FY 2011: 4.4%),* respectively.

D3 – Analysis of asset quality

D3.1 – Goodwill, Acquired value of in-force business and intangible assets

The Group's goodwill, acquired value of in-force business and the majority of other intangible assets have arisen from the Group's business combinations. These business combinations include several bancassurance arrangements, which have resulted in £598 million of the total £1,794 million of goodwill and £693 million of the total £1,757 million of other intangible assets. These balances primarily represent the value of bancassurance distribution agreements acquired in these business combinations and are before the deduction of goodwill and other intangibles held for sale. The Group's total goodwill and intangible balances at HY12 noted above are after the impairment of £876 million in relation to our US business and a small impairment in Italy.

D3.2 – Investment property

	30 June 2012				31 December 2011			
	Fair value hierarchy				Fair value hierarchy			
Investment property – Total	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Leased to third parties under operating leases	**—**	**11,005**	**—**	**11,005**	—	11,552	—	11,552
Vacant investment property/held for capital appreciation	**—**	**22**	**—**	**22**	—	86	—	86
Total	**—**	**11,027**	**—**	**11,027**	—	11,638	—	11,638
Total %	**—**	**100.0%**	**—**	**100.0%**	—	100.0%	—	100.0%

	30 June 2012				31 December 2011			
	Fair value hierarchy				Fair value hierarchy			
Investment property – Shareholder assets	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Leased to third parties under operating leases	**—**	**947**	**—**	**947**	—	1,076	—	1,076
Vacant investment property/held for capital appreciation	**—**	**19**	**—**	**19**	—	10	—	10
Total	**—**	**966**	**—**	**966**	—	1,086	—	1,086
Total %	**—**	**100.0%**	**—**	**100.0%**	—	100.0%	—	100.0%

Shareholder exposure to investment properties is principally through investments in Property Limited Partnerships (PLPs). Depending on the Group's interest in these PLPs, its investments are classified as either interests in joint ventures, unit trusts or consolidated as a subsidiary, in which case the underlying investment properties held by the PLP are included on the balance sheet. The decrease in shareholder exposure to investment properties is mainly a result of disposals and declines in property values at 30 June 2012 compared to 31 December 2011, partly offset by new acquisitions.

Investment properties are stated at their market values as assessed by qualified external independent valuers or by local qualified staff of the Group in overseas operations, all with recent relevant experience. Values are calculated using a discounted cash flow approach and are based on current rental income plus anticipated uplifts at the next rent review, lease expiry or break option taking into consideration lease incentives, assuming no future growth in the estimated rental value of the property. This uplift and the discount rate are derived from rates implied by recent market transactions on similar properties. The basis of valuation therefore naturally falls to be classified as Level 2. Valuations are typically undertaken on a quarterly (and in some cases monthly) basis.

99.8% *(FY 2011: 99.3%)* of investment properties by value are leased to third parties under operating leases, with the remainder either being vacant or held for capital appreciation.

D3 – Analysis of asset quality continued

D3.3 – Loans

The Group loan portfolio is principally made up of:

- Policy loans which are generally collateralised by a lien or charge over the underlying policy;
- Loans and advances to banks, 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 to 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.

Loans – Total assets 30 June 2012	**United Kingdom & Ireland £m**	**France £m**	**United States £m**	**Canada £m**	**Italy, Spain and other £m**	**Higher Growth markets £m**	**Total £m**
Policy loans	**35**	**835**	**427**	**—**	**12**	**38**	**1,347**
Loans and advances to banks	**4,284**	**—**	**—**	**—**	**—**	**—**	**4,284**
Mortgage loans	**18,397**	**1**	**2,760**	**—**	**—**	**—**	**21,158**
Other loans	**31**	**8**	**5**	**81**	**3**	**1**	**129**
Total	**22,747**	**844**	**3,192**	**81**	**15**	**39**	**26,918**
Total %	**84.5%**	**3.1%**	**11.9%**	**0.3%**	**0.1%**	**0.1%**	**100.0%**
FY11 Total	23,964	949	3,067	80	16	40	28,116
FY11 Total %	85.2%	3.4%	10.9%	0.3%	0.1%	0.1%	100.0%

Loans – Total shareholder assets 30 June 2012	**United Kingdom & Ireland £m**	**France £m**	**United States £m**	**Canada £m**	**Italy, Spain and other £m**	**Higher Growth markets £m**	**Total £m**
Policy loans	**7**	**—**	**230**	**—**	**12**	**15**	**264**
Loans and advances to banks	**125**	**—**	**—**	**—**	**—**	**—**	**125**
Mortgage loans	**17,389**	**—**	**2,631**	**—**	**—**	**—**	**20,020**
Other loans	**31**	**—**	**5**	**81**	**3**	**1**	**121**
Total	**17,552**	**—**	**2,866**	**81**	**15**	**16**	**20,530**
Total %	**85.4%**	**0.0%**	**14.0%**	**0.4%**	**0.1%**	**0.1%**	**100.0%**
FY11 Total	17,849	1	2,743	80	16	39	20,728
FY11 Total %	86.1%	0.0%	13.2%	0.4%	0.1%	0.2%	100.0%

The value of the group's loan portfolio (including Policyholder, Participating Fund and Shareholder assets), at 30 June 2012 stood at £26.9 billion *(FY2011: £28.1 billion),* a decrease of £1.2 billion.

The total shareholder exposure to loans decreased to £20.5 billion *(FY 2011: £20.7 billion)*, and represented 76.3% of the total loan portfolio, with the remaining 23.7% split between participating funds *(£5.9 billion)* and policyholder assets (£0.5 billion).

Of the Group's total loan portfolio (including Policyholder, Participating Fund and Shareholder assets), 79% *(FY 2011: 76%)* is invested in mortgage loans.

D3 – Analysis of asset quality continued

D3.3 – Loans continued

Mortgage loans – Shareholder assets

30 June 2012	United Kingdom & Ireland £m	United States £m	Total £m
Non-securitised mortgage loans			
– Residential (Equity release)	**2,677**	**—**	**2,677**
– Healthcare	**3,977**	**—**	**3,977**
– Commercial	**8,730**	**2,631**	**11,361**
	15,384	**2,631**	**18,015**
Securitised mortgage loans	**2,005**	**—**	**2,005**
Total	**17,389**	**2,631**	**20,020**
FY11 Total	17,668	2,507	20,175

The Group's mortgage loan portfolio spans several business units, primarily in the UK and USA, and across various sectors, including residential loans, commercial loans and government supported healthcare loans. Aviva's shareholder exposure to mortgage loans accounts for 97.5% of total shareholder asset loans. This section focuses on explaining the shareholder risk within these exposures.

United Kingdom & Ireland
(Non-securitised mortgage loans)

Residential

The UK non-securitised residential mortgage portfolio has a total current value of £2.7 billion *(FY 2011: £2.7 billion)*. The balance over this period remained unchanged as a result of the offset between new loans and accrued interest of £185 million and fair value losses and redemptions of £154 million and £32 million, respectively. These mortgages are all in the form of equity release, whereby homeowners mortgage their property to release cash equity. Due to the low relative levels of equity released in each property, they predominantly have a Loan to Value ("LTV") of below 70%, and the average LTV across the portfolio is approximately 24.8% *(FY 2011: 26.5%)*.

Healthcare

Primary Healthcare & PFI businesses loans included within shareholder assets are £4.0 billion *(FY 2011: £3.7 billion)* and are secured against General Practitioner premises, other primary health related premises or schools leased to Government bodies. For all such loans, Government support is provided through either direct funding or 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 100%, although as explained above, we do not consider this to be a key risk indicator. Income support from the Government bodies and the social need for these premises provide sustained income stability. Aviva therefore considers these loans to be low risk and uncorrelated with the strength of the UK or global economy.

Commercial

Gross exposure by loan to value and arrears

Shareholder assets

30 June 2012	>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
Not in arrears	**345**	**237**	**827**	**1,389**	**1,412**	**1,005**	**711**	**1,115**	**559**	**756**	**8,356**
0 – 3 months	**9**	**—**	**—**	**5**	**—**	**31**	**3**	**—**	**—**	**—**	**48**
3 – 6 months	**12**	**—**	**—**	**3**	**—**	**21**	**—**	**—**	**—**	**—**	**36**
6 – 12 months	**—**	**—**	**—**	**—**	**104**	**64**	**—**	**—**	**—**	**1**	**169**
> 12 months	**6**	**—**	**—**	**—**	**7**	**108**	**—**	**—**	**—**	**—**	**121**
Total	**372**	**237**	**827**	**1,397**	**1,523**	**1,229**	**714**	**1,115**	**559**	**757**	**8,730**

Of the total £8.7 billion of UK non-securitised commercial mortgage loans, held in the shareholder fund, £8.3 billion are held by our UK Life business to back annuity liabilities, and are stated on a fair value basis. The loan exposures for our 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. Aviva UK General Insurance hold the remaining £0.4 billion (gross of provisions) of loans which are stated on an amortised cost basis and are subject to impairment review, using a fair value methodology calibrated to the UK Life approach, adjusted for specific portfolio characteristics.

D3 – Analysis of asset quality continued

D3.3 – Loans continued

For the commercial mortgages held by the UK Life and UK General Insurance business, loan service collection ratios, a key indicator of mortgage portfolio performance, remained high during the period. Loan Interest Cover ("LIC"), which is defined as the annual net rental income (including rental deposits and less ground rent) divided by the annual loan interest service, increased to 1.36x *(FY2011: 1.32x)* due to new business being completed with strong cover. Mortgage LTV's decreased during the period from 103% to 97% partly due to increasing gilt yields which decreased loan values and new business completing with low LTV's (property values remained broadly stable during the period).

All loans in arrears have been assessed for impairment. Of the £374 million *(FY 2011: £418 million)* value of loans in arrears included within our shareholder assets, the interest and capital amount in arrears is only £24.7 million.

The valuation allowance (including supplementary allowances) made in the UK Life for corporate bonds and commercial mortgages carried at fair value equates to 57 bps and 123 bps respectively at 30 June 2012 *(FY 2011: 60bps and 92bps respectively)*. The total valuation allowance in respect of corporate bonds and mortgages, including healthcare mortgages, is £1.7 billion *(FY 2011: £1.6 billion)* over the remaining term of the UK Life corporate bond and commercial mortgage portfolio. The increase is driven by an increase in the long-term commercial mortgage allowances to reflect up-to-date market information, partially offset by a reduction in the supplementary allowances for credit risk for corporate bonds as bond spreads have narrowed.

In addition, we hold £94 million *(FY 2011: £84 million)* of impairment provisions in our UK General Insurance mortgage portfolio, which is carried at amortised cost.

The UK portfolio remains well diversified in terms of property type, location and tenants as well as the spread of loans written over time. The risks in commercial mortgages are addressed through several layers of protection with the mortgage risk profile being primarily driven by the ability of the underlying tenant rental income to cover loan interest and amortisation. 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. Where there are multiple loans to a single borrower further protection may be achieved through cross-charging (or pooling) such that any single loan is also supported by rents received within other pool loans. Additionally, there may be support provided by the borrower of the loan itself and further loss mitigation from any general floating charge held over 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.

Securitised mortgage loans

Of the total securitised residential mortgages (£2.0 billion), approximately £232 million of securities are still held by Aviva shareholder funds. The remaining securities have been sold to third parties, and therefore present little credit risk to Aviva. Securitised residential mortgages held are predominantly issued through vehicles in the UK.

United States
(Non-securitised mortgage loans)

Commercial

Gross exposure by loan to value and arrears

Shareholder assets

30 June 2012	>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
Neither past due nor impaired	2	8	1	4	14	25	30	172	453	1,897	2,606
0 – 3 months	—	—	—	—	—	—	—	3	—	—	3
3 – 6 months	—	—	—	—	—	—	—	—	—	—	—
6 – 12 months	5	—	—	—	—	—	—	—	—	—	5
> 12 months	—	—	—	—	17	—	—	—	—	—	17
Total	7	8	1	4	31	25	30	175	453	1,897	2,631
Total %	0.3%	0.3%	0.0%	0.2%	1.2%	1.0%	1.1%	6.7%	17.2%	72.0%	100.0%

Aviva USA currently holds £2.6 billion *(FY 2011: £2.5 billion)* of commercial mortgages included within shareholder assets. These mortgages continue to perform well, reflecting:

- Low underwriting LTVs (shall not exceed 80% at the time of issuance), and consequently a portfolio with an average LTV of 63% *(FY 2011: 64%)*;
- A highly diversified portfolio, with strong volumes in many states with more stable economies and related real estate values; and
- Strong LIC ratios, with 96% of the loans having an LIC above 1.4x, and 1.5% with LIC below 1.0x.

As at 30 June 2012, the actual amount of interest payment in arrears was £2.3 million.

D3 – Analysis of asset quality continued

D3.4 – Financial investments

Total Assets	30 June 2012 Cost/ amortised cost £m	30 June 2012 Unrealised gains £m	30 June 2012 Impairment and Unrealised losses £m	30 June 2012 Fair value £m	31 December 2011 Cost/ amortised cost £m	31 December 2011 Unrealised gains £m	31 December 2011 Impairment and Unrealised losses £m	31 December 2011 Fair value £m
Debt securities	**145,509**	**13,319**	**(4,111)**	**154,717**	147,537	12,395	(6,587)	153,345
Equity securities	**30,857**	**4,316**	**(3,719)**	**31,454**	33,055	3,637	(4,009)	32,683
Other investments	**29,624**	**2,153**	**(1,639)**	**30,138**	30,362	553	(538)	30,377
Total	**205,990**	**19,788**	**(9,469)**	**216,309**	210,954	16,585	(11,134)	216,405

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 increase 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 equities, the majority of which are held in participating funds and policyholder 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. The vast majority of equity investments are valued at quoted market prices.

D3.4.1 – Debt securities

Debt securities – Shareholder assets	Fair value hierarchy Level 1 £m	Fair value hierarchy Level 2 £m	Fair value hierarchy Level 3 £m	30 June 2012 Total £m
UK Government	**2,471**	**119**	**—**	**2,590**
Non-UK Government	**6,787**	**4,278**	**72**	**11,137**
Europe	**5,986**	**286**	**41**	**6,313**
North America	**520**	**3,646**	**—**	**4,166**
Asia Pacific & Other	**281**	**346**	**31**	**658**
Corporate bonds – Public utilities	**2,982**	**3,102**	**16**	**6,100**
Corporate convertible bonds	**7**	**105**	**28**	**140**
Other corporate bonds	**9,555**	**23,947**	**323**	**33,825**
Other	**1,640**	**4,482**	**61**	**6,183**
Total	**23,442**	**36,033**	**500**	**59,975**
Total %	**39.1%**	**60.1%**	**0.8%**	**100.0%**
FY11	23,038	35,001	561	58,600
FY11 %	39.3%	59.7%	1.0%	100.0%

0.8% *(FY 2011: 1.0%)* of shareholder exposure to debt securities is fair valued using models with significant unobservable market parameters (classified as Fair Value Level 3). 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.

39.1% *(FY 2011: 39.3%)* of shareholder exposure to debt securities is based on quoted prices in an active market and are therefore classified as Fair Value Level 1. The majority of the debt instruments in Level 2 are held by our US and Canadian businesses. These debt instruments are valued by independent pricing firms in accordance with usual market practice in that region and consistent with other companies operating in the region are classified as Level 2 in the Fair Value hierarchy. Excluding our US and Canadian businesses, the proportion of shareholder debt securities classified as Level 1 in the Fair Value hierarchy would be 84.5% *(FY 2011: 84.1%)*.

D3 – Analysis of asset quality continued

D3.4 – Financial investments continued

D3.4.1 – Debt securities continued

Debt securities – Shareholder assets 30 June 2012	External ratings AAA £m	AA £m	A £m	BBB £m	Less than BBB £m	Non-rated £m	Total £m
Government							
UK Government	**2,389**	**36**	**—**	**—**	**—**	**138**	**2,563**
UK local authorities	**—**	**—**	**—**	**—**	**—**	**27**	**27**
Non-UK Government	**5,962**	**2,021**	**1,928**	**980**	**172**	**74**	**11,137**
	8,351	**2,057**	**1,928**	**980**	**172**	**239**	**13,727**
Corporate							
Public utilities	**23**	**335**	**3,809**	**1,719**	**74**	**140**	**6,100**
Convertibles and bonds with warrants	**8**	**—**	**43**	**60**	**—**	**29**	**140**
Other corporate bonds	**1,209**	**3,604**	**12,761**	**10,229**	**1,510**	**4,512**	**33,825**
	1,240	**3,939**	**16,613**	**12,008**	**1,584**	**4,681**	**40,065**
Certificates of deposits	**1**	**86**	**158**	**92**	**97**	**21**	**455**
Structured							
RMBS[1] non-agency ALT A[2]	**3**	**3**	**3**	**19**	**122**	**—**	**150**
RMBS[1] non-agency prime	**104**	**24**	**—**	**—**	**31**	**—**	**159**
RMBS[1] agency	**1,174**	**—**	**—**	**—**	**—**	**—**	**1,174**
	1,281	**27**	**3**	**19**	**153**	**—**	**1,483**
CMBS[3]	**1,511**	**140**	**373**	**90**	**167**	**—**	**2,281**
ABS[4]	**710**	**163**	**157**	**56**	**63**	**24**	**1,173**
CDO (including CLO)[5]	**—**	**—**	**—**	**—**	**58**	**—**	**58**
ABCP[6]	**—**	**27**	**7**	**—**	**—**	**—**	**34**
	2,221	**330**	**537**	**146**	**288**	**24**	**3,546**
Wrapped credit	**—**	**195**	**110**	**84**	**44**	**56**	**489**
Other	**59**	**14**	**66**	**35**	**31**	**5**	**210**
Total	**13,153**	**6,648**	**19,415**	**13,364**	**2,369**	**5,026**	**59,975**
Total %	**21.9%**	**11.1%**	**32.4%**	**22.3%**	**3.9%**	**8.4%**	**100.0%**
FY11	13,011	7,831	17,903	12,101	2,416	5,338	58,600
FY11 %	22.2%	13.4%	30.6%	20.7%	4.1%	9.0%	100.0%

1. RMBS – Residential Mortgage Backed Security.
2. ALT A – Alternative A – paper.
3. CMBS – Commercial Mortgage Backed Security.
4. ABS – Asset Backed Security.
5. CDO – Collateralised Debt Obligation, CLO – Collateralised Loan Obligation.
6. ABCP – Asset Backed Commercial Paper.

The overall quality of the book remains strong, despite the continuing downgrade activity by the major rating agencies during the first two quarters of 2012. 23% of shareholder exposure to debt securities is in government holdings (*FY 2011: 23%)*. Our corporate debt securities portfolio represents 67% *(FY 2011: 67%)* of total shareholder debt securities.

The majority of non-rated corporate bonds are held by our businesses in the US and UK.

At 30 June 2012, the proportion of our shareholder debt securities that are investment grade increased slightly to 87.7% *(FY 2011: 86.9%)*. The remaining 12.3% of shareholder debt securities that do not have an external rating of BBB or higher can be split as follows:

- 3.9 % are debt securities that are rated as below investment grade;
- 3.5% are US private placements which are not rated by the major rating agencies, but are rated as investment grade by the Securities Valuation Office of the National Association of Insurance Commissioners (NAIC), a US national regulatory agency; and,
- 4.9% are not rated by the major rating agencies or the NAIC.

Of the securities not rated by an external agency or NAIC most are allocated an internal rating using a methodology largely consistent with that adopted by an external rating agency, and are considered to be of investment grade credit quality; these include £2.5 billion of debt securities held in our UK Life business, predominantly made up of private placements and other corporate bonds, which have been internally rated as investment grade.

D3 – Analysis of asset quality continued

D3.4 – Financial investments continued

The majority of the Residential Mortgage-Backed Securities (RMBS) are U.S. investments and over 79% of this exposure is backed by one of the U.S. Government Sponsored Entities (GSEs) including Fannie Mae and Freddie Mac which, under the conservatorship arrangements implemented in September 2008, have an implicit guarantee, although they are not expressly backed by the full faith and credit of the U.S. Government.

The Group has extremely limited exposure to CDOs, CLOs and 'Sub-prime' debt securities.

Asset backed securities (ABS) are held primarily by our US and UK businesses. 92.6% of the Group's shareholder holdings in ABS are investment grade. ABS that either have a rating below BBB or are not rated represent approximately 0.1% of shareholder exposure to debt securities.

D3.4.2 – Equity securities

	30 June 2012				31 December 2011			
	Fair value hierarchy				Fair value hierarchy			
Equity securities – Shareholder assets	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Public utilities	**11**	**—**	**1**	**12**	36	—	1	37
Banks, trusts and insurance companies	**75**	**86**	**330**	**491**	166	99	333	598
Industrial miscellaneous and all other	**211**	**—**	**12**	**223**	275	2	10	287
Non-redeemable preferred shares	**—**	**350**	**—**	**350**	—	371	—	371
Total	**297**	**436**	**343**	**1,076**	477	472	344	1,293
Total %	**27.6%**	**40.5%**	**31.9%**	**100.0%**	36.9%	36.5%	26.6%	100.0%

27.6% of our shareholder exposure to equity securities is based on quoted prices in an active market and as such is classified as Level 1 *(FY 2011: 36.9%)*.

Shareholder investments include a strategic holding in UniCredit and other Italian banks of £357 million (£212 million net of non-controlling interest share).

D3.4.3 – Other investments

	30 June 2012				31 December 2011			
	Fair value hierarchy				Fair value hierarchy			
Other investments – Shareholder assets	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Unit trusts and other investment vehicles	**328**	**—**	**516**	**844**	141	100	453	694
Derivative financial instruments	**204**	**1,091**	**94**	**1,389**	253	820	14	1,087
Deposits with credit institutions	**184**	**9**	**25**	**218**	184	—	24	208
Minority holdings in property management undertakings	**—**	**16**	**—**	**16**	—	16	—	16
Other	**8**	**—**	**54**	**62**	8	—	53	61
Total	**724**	**1,116**	**689**	**2,529**	586	936	544	2,066
Total %	**28.6%**	**44.1%**	**27.3%**	**100.0%**	28.4%	45.3%	26.3%	100.0%

In total 72.7% *(FY 2011: 73.7%)* of shareholder other investments, are classified as Level 1 or 2 in the fair value hierarchy. The unit trusts and other investment vehicles invest in a variety of assets, which can include cash equivalents, debt, equity and property securities.

D3.4.4 – Available for sale investments – Impairments and duration and amount of unrealised losses

The total impairment expense for the six months to 30 June 2012 for AFS debt securities was £8 million *(FY 2011: £19 million)*. The total AFS impairment expense relates to our US business, of which £4 million relates to corporate bonds and £4 million relates to commercial mortgage backed securities that are not yet in default but showed continued deterioration in market value from the previous impairment value.

Total unrealised losses on AFS debt securities and other investments at 30 June 2012 were £157 million *(FY 2011: £229 million)* and £7 million *(FY 2011: £10 million)*, respectively.

D3 – Analysis of asset quality continued

D3.4 – Financial investments continued

D3.4.5 – Exposures to peripheral European countries

Included in our debt securities and other financial assets are exposures to peripheral European countries. All of these assets are valued on a mark to market basis under IAS 39, and therefore our balance sheet and income statement already reflect any reduction in value between the date of purchase and the balance sheet date. The significant majority of these holdings are within our participating funds where the risk to our shareholders is governed by the nature and extent of our participation within those funds.

Net of non-controlling interests, our direct shareholder and participating fund asset exposure to the government (and local authorities and agencies) of Italy is £5.5 billion *(FY11: £6.4 billion)*, a decrease of £0.9 billion. Gross of non controlling interests, 86% of our shareholder asset exposure to Italy arises from investment exposure of our Italian business.

Direct sovereign exposures to Greece, Ireland, Portugal, Italy and Spain (net of non-controlling interests, excluding policyholder assets)

30 June 2012	Participating fund assets £billion	Shareholder assets £billion	Total £billion
Greece	—	—	—
Ireland	**0.3**	**0.1**	**0.4**
Portugal	**0.2**	—	**0.2**
Italy	**4.9**	**0.6**	**5.5**
Spain	**0.7**	**0.3**	**1.0**
Total Greece, Ireland, Portugal, Italy and Spain	**6.1**	**1.0**	**7.1**
FY11 Greece, Ireland, Portugal, Italy and Spain	6.9	1.3	8.2

Direct sovereign exposures to Greece, Ireland, Portugal, Italy and Spain (gross of non-controlling interests, excluding policyholder assets)

30 June 2012	Participating fund assets £billion	Shareholder assets £billion	Total £billion
Greece	—	—	—
Ireland	**0.3**	**0.1**	**0.4**
Portugal	**0.3**	—	**0.3**
Italy	**8.8**	**0.9**	**9.7**
Spain	**1.0**	**0.6**	**1.6**
Total Greece, Ireland, Portugal, Italy and Spain	**10.4**	**1.6**	**12.0**
FY11 Greece, Ireland, Portugal, Italy and Spain	11.3	1.9	13.2

D3 – Analysis of asset quality continued

D3.4 – Financial investments continued

D3.4.6 – Non UK Government Debt Securities (gross of non-controlling interests)

The following is a summary of non UK government debt by issuer as at 30 June 2012 analysed by policyholder, participating and shareholder funds.

Non UK Government Debt Securities	Policyholder		Participating		Shareholder		Total	
	30 June 2012 £m	31 December 2011 £m	**30 June 2012 £m**	31 December 2011 £m	**30 June 2012 £m**	31 December 2011 £m	**30 June 2012 £m**	31 December 2011 £m
Austria	**28**	28	**649**	512	**86**	58	**763**	598
Belgium	**41**	30	**1,184**	1,029	**132**	176	**1,357**	1,235
France	**200**	215	**8,491**	7,529	**1,756**	1,634	**10,447**	9,378
Germany	**214**	239	**1,958**	1,751	**954**	792	**3,126**	2,782
Greece	**—**	—	**6**	46	**4**	2	**10**	48
Ireland	**37**	33	**328**	378	**89**	216	**454**	627
Italy	**287**	273	**8,794**	9,670	**853**	1,056	**9,934**	10,999
Netherlands	**51**	63	**1,446**	1,284	**199**	136	**1,696**	1,483
Poland	**589**	509	**819**	720	**361**	329	**1,769**	1,558
Portugal	**—**	—	**251**	204	**—**	8	**251**	212
Spain	**45**	46	**966**	1,046	**637**	639	**1,648**	1,731
European Supranational debt	**134**	114	**3,030**	2,376	**1,063**	856	**4,227**	3,346
Other European countries	**223**	125	**593**	410	**179**	91	**995**	626
Europe	**1,849**	1,675	**28,515**	26,955	**6,313**	5,993	**36,677**	34,623
Canada	**20**	18	**195**	195	**2,392**	2,342	**2,607**	2,555
United States	**131**	129	**71**	66	**1,774**	1,631	**1,976**	1,826
North America	**151**	147	**266**	261	**4,166**	3,973	**4,583**	4,381
Singapore	**7**	8	**287**	309	**158**	211	**452**	528
Sri Lanka	**21**	21	**2**	2	**108**	139	**131**	162
Other	**384**	391	**1,057**	1,262	**392**	227	**1,833**	1,880
Asia Pacific and other	**412**	420	**1,346**	1,573	**658**	577	**2,416**	2,570
Total	**2,412**	2,242	**30,127**	28,789	**11,137**	10,543	**43,676**	41,574

At 30 June 2012, the Group's total government (non-UK) debt securities stood at £43.7 billion *(FY 2011: £41.6 billion)*, an increase of 5.1%. The significant majority of these holdings are within our participating funds where the risk to our shareholders is governed by the nature and extent of our participation within those funds.

Our direct shareholder asset exposure to government (non-UK) debt securities amounts to £11.1 billion *(FY 2011: £10.5 billion)*. The primary exposures, relative to total shareholder (non-UK) government debt exposure, are to French (15.8%), German (8.6%) and Italian (7.7%) (non-UK) government debt securities.

The participating funds exposure to (non-UK) government debt amounts to £30.1 billion (*FY 2011: £28.8 billion)*, an increase of £1.3 billion. The primary exposures, relative to total (non-UK) government debt exposures included within our participating funds, are to the (non-UK) government debt securities of Italy (29.2%), France (28.2%), Germany (6.5%), the Netherlands (4.8%), Belgium (3.9%) and Spain (3.2%).

D3 – Analysis of asset quality continued

D3.4 – Financial investments continued

D3.4.7 – Exposure to worldwide bank debts

Direct shareholder and participating fund assets exposures to worldwide bank debts (net of non-controlling interests, excluding policyholder assets)

30 June 2012	Shareholder assets			Participating fund assets		
Debt securities	Total senior debt £bn	Total subordinated debt £bn	Total debt £bn	Total senior debt £bn	Total subordinated debt £bn	Total debt £bn
Austria	—	—	—	**0.2**	—	**0.2**
France	**0.1**	—	**0.1**	**3.2**	**0.9**	**4.1**
Germany	**0.1**	**0.1**	**0.2**	**0.5**	**0.7**	**1.2**
Ireland	**0.1**	—	**0.1**	—	—	—
Italy	—	—	—	**0.3**	**0.1**	**0.4**
Netherlands	**0.5**	**0.2**	**0.7**	**1.5**	**0.3**	**1.8**
Portugal	—	—	—	**0.1**	—	**0.1**
Spain	**0.5**	**0.1**	**0.6**	**0.8**	**0.2**	**1.0**
United Kingdom	**0.8**	**0.6**	**1.4**	**0.8**	**1.3**	**2.1**
United States	**1.3**	**0.9**	**2.2**	**0.9**	**0.1**	**1.0**
Other	**0.8**	**0.3**	**1.1**	**2.0**	**0.6**	**2.6**
Total	**4.2**	**2.2**	**6.4**	**10.3**	**4.2**	**14.5**
FY11 Total	3.7	2.2	5.9	10.6	3.6	14.2

Net of non-controlling interests, our direct shareholder assets exposure to worldwide bank debt securities is £6.4 billion. The majority of our holding (66%) is in senior debt. The primary exposures are to United States (34%) and United Kingdom (22%) banks. Net of non-controlling interests, our direct shareholder asset exposure to worldwide bank equity securities is £0.4 billion. Our holdings include strategic holdings in Unicredit and other Italian banks of £212 million.

Net of non-controlling interests, the participating fund exposures to worldwide bank debt securities, where the risk to our shareholders is governed by the nature and extent of our participation within those funds, is £14.5 billion. The majority of the exposure (71%) is in senior debt. Participating funds are the most exposed to France (28%) and United Kingdom (14%) banks.

Direct shareholder and participating fund assets exposures to worldwide bank debts (gross of non-controlling interests, excluding policyholder assets)

30 June 2012	Shareholder assets			Participating fund assets		
Debt securities	Total senior debt £bn	Total subordinated debt £bn	Total debt £bn	Total senior debt £bn	Total subordinated debt £bn	Total debt £bn
Austria	—	—	—	**0.2**	—	**0.2**
France	**0.1**	—	**0.1**	**3.6**	**0.9**	**4.5**
Germany	**0.1**	**0.1**	**0.2**	**0.5**	**0.7**	**1.2**
Ireland	**0.1**	—	**0.1**	—	—	—
Italy	**0.1**	**0.1**	**0.2**	**0.5**	**0.2**	**0.7**
Netherlands	**0.5**	**0.2**	**0.7**	**1.6**	**0.3**	**1.9**
Portugal	—	—	—	**0.1**	—	**0.1**
Spain	**0.9**	**0.2**	**1.1**	**1.2**	**0.3**	**1.5**
United Kingdom	**0.8**	**0.7**	**1.5**	**1.0**	**1.3**	**2.3**
United States	**1.3**	**0.9**	**2.2**	**1.1**	**0.1**	**1.2**
Other	**0.9**	**0.3**	**1.2**	**2.3**	**0.7**	**3.0**
Total	**4.8**	**2.5**	**7.3**	**12.1**	**4.5**	**16.6**
FY11 Total	4.3	2.3	6.6	12.0	3.9	15.9

Gross of non-controlling interests, our direct shareholder assets exposure to worldwide bank debt securities is £7.3 billion. The majority of our holding (66%) is in senior debt. The primary exposures are to United States (30%) and United Kingdom (21%) banks. Gross of non-controlling interests, our direct shareholder asset exposure to worldwide bank equity securities is £0.6 billion. Our holdings include strategic holdings in Unicredit and other Italian banks of £357 million.

Gross of non-controlling interests, the participating fund exposures to worldwide bank debt securities, where the risk to our shareholders is governed by the nature and extent of our participation within those funds, is £16.6 billion. The majority of the exposure (73%) is in senior debt. Participating funds are the most exposed to France (27%) and United Kingdom (14%) banks.

D4 – 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 surplus. Pension surpluses are included within other assets and pension deficits are recognised within provisions in the Group's consolidated statement of financial position.

Plan assets comprise:

	30 June 2012				31 December 2011			
	United Kingdom £m	**Ireland £m**	**Canada £m**	**Total £m**	United Kingdom £m	Ireland £m	Canada £m	Total £m
Equities	**664**	**44**	**88**	**796**	735	46	76	857
Bonds	**8,671**	**237**	**123**	**9,031**	8,663	233	129	9,025
Property	**834**	**16**	**—**	**850**	657	13	—	670
Other	**1,051**	**86**	**13**	**1,150**	1,135	90	14	1,239
Total	**11,220**	**383**	**224**	**11,827**	11,190	382	219	11,791

Risk management and asset allocation strategy

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

Main UK scheme

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

The principal asset risks to which the scheme is exposed are:

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

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.

In 2012, there has been a further reduction in the proportion of assets invested in equities, thereby mitigating the equity risk above. In addition, the trustees have taken further measures to partially mitigate inflation and interest rate risks.

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.

D5 – 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, £0.75 billion of which 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:

30 June 2012	**£m**
Expiring in one year	635
Expiring beyond one year	1,480
Total	2,115

D6 – 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% decrease in interest rates and 10% decline in equity markets).

Glossary

Product definitions

Annuities
A type of policy that pays out regular amounts of benefit, either immediately and for the remainder of a person's lifetime, or deferred to commence from a future date. Immediate annuities may be purchased for an individual and his or her dependants or on a bulk purchase basis for groups of people. Deferred annuities are accumulation contracts, which may be used to provide benefits in retirement, and may be guaranteed, unit-linked or index-linked.

Bonds and savings
These are accumulation products with single or regular premiums and unit-linked or guaranteed investment returns. Our product ranges include single premium investment bonds, regular premium savings plans and mortgage endowment products.

Critical illness cover
Critical illness cover pays out a lump sum if the insured person is diagnosed with a serious illness that meets the plan definition. The cover is often provided in conjunction with other benefits under a protection contract.

Deferred annuities
An annuity (or pension) due to be paid from a future date or when the policyholder reaches a specified age. A deferred annuity may be funded by a policyholder by payment of a series of regular contributions or by a capital sum (the latter often provided from a pension fund).

Group pensions
A pension plan that covers a group of people, which is typically purchased by a company and offered to their employees.

Guaranteed annuities
A policy that pays out a fixed regular amount of benefit for a defined period.

Income drawdown
The policyholder can transfer money from any pension fund to an income drawdown plan from which they receive an income. The remainder of the pension fund continues to be invested, giving it the potential for growth.

Index linked annuities
An index linked annuity is a type of deferred annuity whose credited interest is linked to an equity index. It guarantees a minimum interest rate and protects against a loss of principal.

Investment sales
Comprise retail sales of mutual fund-type products such as unit trusts, individual savings accounts (ISAs) and open ended investment companies (OEICs).

ISAs
Individual savings accounts – Tax-efficient plans for investing in stocks and shares, cash deposits or life insurance investment funds, subject to certain limits. Introduced in the UK in 1999.

Monolines
Financial companies specialising in a single line of products such as credit cards, mortgages or home equity loans.

Mortgage endowment
An insurance contract combining savings and protection elements which is designed to repay the principal of a loan or mortgage.

Mortgage life insurance
A protection contract designed to pay off the outstanding amount of a mortgage or loan in the event of death of the insured.

Non profits
Long-term savings and insurance products sold in the UK other than "With profits" (see definition below) products.

OEIC
An Open Ended Investment Company is a collective investment fund structured as a limited company in which investors can buy and sell shares.

Pensions
A means of providing income in retirement for an individual and possibly his/her dependants. Our pensions products include personal and group pensions, stakeholder pensions and income drawdown.

Personal pensions
A pension plan tailored to the individual policyholder, which includes the options to stop, start or change their payments.

Protection
An insurance contract that protects the policyholder or his/her dependants against financial loss on death or ill-health. Our product ranges include term assurance, mortgage life insurance, flexible whole life and critical illness cover.

Regular premium
A series of payments are made by the policyholder, typically monthly or annually, for part of or all of the duration of the contract.

SICAVs
Société d'investissement à capital variable (variable capital investment company). This is an open-ended investment fund, structured as a legally independent joint stock company, whose units are issued in the form of shares.

Product definitions cont.

Single premium
A single lump sum is paid by the policyholder at commencement of the contract.

Stakeholder pensions
Low cost and flexible pension plans available in the UK, governed by specific regulations.

Takaful
Insurance products that observe the rules and regulations of Islamic law.

Term assurance
A simple form of life insurance, offering cover over a fixed number of years during which a lump sum will be paid out if the life insured dies.

Unit trusts
A form of open ended collective investment constituted under a trust deed, in which investors can buy and sell units.

Unit-linked annuities
A unit-linked annuity is a type of deferred annuity which is invested in units of investment funds, whose value depends directly on the market value of assets in those funds.

Whole life
Whole life insurance is a protection policy that remains in force for the insured's whole life. Traditional whole life contracts have fixed premium payments that typically cannot be missed without lapsing the policy. Flexible whole life contracts allow the policyholder to vary the premium and/or amount of life cover, within certain limits.

With-profits
A type of long-term savings and insurance product sold in the UK under with profits policies premiums are paid into a separate fund. Policyholders receive a return on their policies through bonuses, which "smooth" the investment return from the assets which premiums are invested in. Bonuses are declared on an annual and terminal basis. Shareholders have a participating interest in the with-profit funds and any declared bonuses. Generally, policyholder and shareholder participation in with-profit funds in the UK is split 90:10.

Wrap investments
An account in which a broker or fund manager executes investment decisions on behalf of a client in exchange for a single quarterly or annual fee, usually based on the total assets in the account rather than the number of transactions.

General terms

Available for sale (AFS)
Securities that have been acquired neither for short-term sale nor to be held to maturity. These are shown at fair value on the statement of financial position and changes in value are taken straight to equity instead of the income statement.

Association of British Insurers (ABI)
Association of British Insurers – A major trade association for UK insurance companies, established in July 1985.

Acquired value of in force (AVIF)
An estimate of future profits that will emerge over the remaining term of all existing life and pensions policies for which premiums are being paid or have been paid at the statement of financial position date.

Bancassurance
An arrangement whereby banks and building societies sell insurance and investment products to their customers on behalf of other financial providers.

UK Corporate Governance Code
The UK Corporate Governance Code sets out guidance in the form of principles and provisions on how companies should be directed and controlled to follow good governance practice. The Financial Services Authority (FSA) requires companies with a UK Premium listing to disclose, in relation to the UK Corporate Governance Code, how they have applied its principles and whether they have complied with its provisions throughout the accounting year. Where the provisions have not been complied with, companies must provide an explanation for this.

Deferred acquisition costs (DAC)
The costs directly attributable to the acquisition of new business for insurance and investment contracts may be deferred to the extent that they are expected to be recoverable out of future margins in revenue on these contracts.

Fair value
The price that a reasonable buyer would be willing to pay and a reasonable seller would be willing to accept for a product on the open market.

FSA
The UK's Financial Services Authority – Main regulatory body appointed by the government to oversee the financial services industry in the UK. Since December 2001 it has been the single statutory regulator responsible for the savings, insurance and investment business.

General terms cont.

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.

General insurance
Also known as non-life or property and casualty insurance. Property insurance covers loss or damage through fire, theft, flood, storms and other specified risks. Casualty insurance primarily covers losses arising from accidents that cause injury to other people or damage the property of others.

Gross written premiums
The total earnings or revenue generated by sales of insurance products, before any reinsurance is taken into account. Not all premiums written will necessarily be treated as income in the current financial year, because some of them could relate to insurance cover for a subsequent period.

'Hard' insurance market
A term used to describe the state of the general insurance market. A "hard" insurance market is characterised by high levels of underwriting profits and the ability of insurers to charge high premium rates. Hard insurance markets generally occur when capital is scarce and are the opposite of "soft" insurance markets.

Independent Financial Advisers (IFAs)
A person or organisation authorised to give advice on financial matters and to sell the products of all financial service providers. In the UK they are legally obliged to offer the product that best suits their clients' needs. Outside the UK IFAs may be referred to by other names.

IFRS
International Financial Reporting Standards. These are accounting regulations designed to ensure comparable statement of financial position preparation and disclosure, and are the standards that all publicly listed companies in the European Union are required to use.

Operating profit
From operations on an IFRS basis, stated before tax attributable to shareholders' profits, impairment of goodwill and exceptional items.

Inherited estate
In the UK, the assets of the long-term with-profit funds less the realistic reserves for non-profit policies written within the with-profit 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 and guarantees.

Long-term and savings business
Collective term for life insurance, pensions, savings, investments and related business.

Market Consistent Embedded Value
Aviva's Market Consistent Embedded Value (MCEV) methodology which is in accordance with the MCEV Principles published by the CFO Forum in June 2008 as amended in October 2009.

Net written premiums
Total gross written premiums for the given period, minus premiums paid over or 'ceded' to reinsurers.

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.

Present value of new business (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 under Market Consistent Embedded Value (MCEV) principles published by the CFO Forum.

'Soft' insurance market
A term used to describe the state of the general insurance market. A "soft" insurance market is characterised by low levels of profitability and market competition driving premium rates lower. Soft insurance markets generally occur when there is excess capital and are the opposite of "hard" insurance markets.

Turnbull Guidance on Internal Control
The Turnbull Guidance sets out best practice on internal controls for UK listed companies, and provides additional guidance in applying certain sections of the UK Corporate Governance.

Market Consistent Embedded Value (MCEV) 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. 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 Groups Directive rules.

Financial options and guarantees
Features of the covered business conferring potentially valuable guarantees underlying, or options to change, the level or nature of policyholder benefits and exercisable at the discretion of the policyholder, whose potential value is impacted by the behaviour of financial variables.

Free surplus
The amount of any capital and surplus allocated to, but not required to support, the in-force covered business.

Frictional costs
The additional taxation and investment costs incurred by shareholders through investing the Required Capital in the Company rather than directly.

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.

Implicit items
Amounts allowed by local regulators to be deducted from capital amounts when determining the EU required minimum margin.

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.

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.

Market Consistent Embedded Value (MCEV) terms cont.

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)
The 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 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 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.

Shareholder services

2012 financial calendar

Announcement of third quarter Interim Management Statement	8 November 2012

Annual General Meeting (AGM)

The voting results of the 2012 AGM, including proxy votes and votes withheld, can be viewed on our website at www.aviva.com/agm. There you will also find a webcast of the formal business of the meeting and information relating to Aviva's annual general meetings since 2002.

Dividends

Ordinary shares – 2012 interim dividend

Ex-dividend date	19 September 2012
Record date	21 September 2012
Scrip dividend price announcement date	26 September 2012
Last date for receipt of Scrip elections	19 October 2012
Dividend payment date*	16 November 2012

* Please note that the ADR local payment date will be approximately 5 business days after the proposed dividend date for ordinary shares.

- Dividends on Aviva ordinary shares are normally paid in May and November; please see the table above for the key dates in respect of the 2012 interim dividend.
- Dividends paid on Aviva preference shares are normally paid in March, June, September and December; please visit www.aviva.com/preferenceshares for the latest dividend payment dates.
- Holders of ordinary and preference shares will receive any dividends payable in sterling and holders of ADRs will receive any dividends payable in US dollars.

Aviva Scrip Dividend Scheme

If you would like to receive your dividends on ordinary shares in the form of new ordinary shares instead of cash, you can choose to join the Aviva Scrip Dividend Scheme. Please contact the Company's Registrar, Computershare, on the telephone number listed overleaf to acquire a personalised application form and a copy of the terms and conditions or, alternatively, you may visit www.aviva.com/ecomms for more information on how to make this election online.

Aviva ADR holders are not eligible to join the Aviva Scrip Dividend Scheme at this time and will receive any dividends payable in cash in US Dollars.

Direct credit of dividend payments

If you would like to have your cash dividends paid directly into your UK bank or building society account, please visit www.aviva.com/dividendmandate for more information or contact Computershare on the number listed overleaf.

International shareholders

The Global Payments Service provided by Computershare enables shareholders living overseas to elect to receive their dividends in a choice of over 65 international currencies. The service provides faster access to funds as proceeds are converted and paid directly into your bank account in your local currency. For further details and fees for this service please visit www.investorcentre.co.uk/faq and select the Dividends & Payments tab followed by the Global Payment Service tab.

Online Shareholder Services Centre – www.aviva.com/shareholderservices

The online shareholder services centre has been designed to provide useful information for holders of Aviva ordinary shares, preference shares and ADRs, and includes features to allow shareholders to manage their Aviva shareholdings easily and efficiently.

Within the online centre you will be able to find a shareholders' guide, current and historic ordinary share and ADR prices, share dealing information, news, updates and, when available, presentations from Aviva's senior management. You will also be able to download an electronic copy of recent Company reports.

The Shareholders' Guide contains answers to a range of frequently asked questions on holding shares in Aviva.

Manage your holdings online

You can view and manage your shareholding online by visiting www.aviva.com/ecomms. To log in you will require your 11 digit Shareholder Reference Number (SRN), which you will find on your latest dividend stationery, or any share certificate issued since 4 July 2011.

You can:

- Access details of your shareholding;
- Change your details;
- Switch to electronic communications;
- View your transaction and payment history;
- View your dividend election;
- Arrange direct credit of dividend payments; and
- Download useful forms

Aviva Share Price Information

- For ordinary shares and ADRs, please visit www.aviva.com/shareprice
- For preference shares, please visit www.londonstockexchange.com

ShareGift

If you have a small number of shares which you consider uneconomical to sell, you may wish to consider donating them to ShareGift (Registered Charity: 1052686), a charity that specialises in accepting such unwanted small shareholdings. Donated shares are aggregated and sold, with the proceeds being used to support a wide range of UK registered charities.

You can find out more about ShareGift by visiting www.sharegift.org or by calling them on +44 (0)20 7930 3737. If you would like to donate your shares to ShareGift, please contact Computershare.

Do you receive duplicate documents?

A number of shareholders still receive duplicate documentation and split dividend payments as a result of having more than one account on the Aviva Register of Members. If you think you fall into this group and would like to combine your accounts, please contact Computershare on the telephone number listed overleaf.

Contact details

Ordinary and preference shares – Computershare

For any queries regarding your shareholding, or to advise of changes to your personal details, please contact Computershare:

Via the internet: www.investorcentre.co.uk/contactus

By email: avivaSHARES@computershare.co.uk

By telephone: 0871 495 0105
Lines are open from 8.30am to 5pm (UK time), Monday to Friday. Please call +44 117 378 8361 if calling from outside of the UK.

In writing: Computershare Investor Services PLC
The Pavilions, Bridgwater Road, Bristol BS99 6ZZ

American Depositary Receipts (ADRs) – Citibank

Aviva has a sponsored ADR facility administered by Citibank, NA. Any queries regarding Aviva ADRs can be directed to Citibank:

By email: citibank@shareholders-online.com

By telephone: 1 877 248 4237
Lines are open from 8.30am to 6.00pm (US Eastern Standard Time), Monday to Friday. Please call +1 781 575 4555 if calling from outside of the US.

In writing: Citibank Shareholder Services
PO Box 43077, Providence, Rhode Island USA
02940-5000

Please visit www.citi.com/dr for further information about Aviva's ADR programme.

Group Company Secretary

Shareholders may contact the Group Company Secretary as follows:

By email: aviva.shareholders@aviva.com

By telephone: +44 (0)20 7283 2000

In writing: Kirstine Cooper, Group Company Secretary
St Helen's, 1 Undershaft, London EC3P 3DQ

Form 20-F

Aviva is a foreign private issuer in the United States of America and is subject to certain reporting requirements of the Securities Exchange Commission (SEC). Aviva files its Form 20-F with the SEC, copies of which can be found at www.aviva.com/reports.

Be on your guard – beware of fraudsters!

Shareholders are advised to be very wary of any unsolicited telephone calls or correspondence offering to buy shares at a discount or offering free financial advice or company reports.
If you receive any unsolicited calls or advice:

- Make sure you get the correct name of the person and organisation;
- Check that they are properly authorised by the Financial Services Authority (FSA) by visiting www.fsa.gov.uk/register/;
- Call the FSA Consumer Helpline on 0845 606 1234 if there are no contact details on the Register;
- If the calls persist, hang up; and
- You should also report suspected boiler room fraud to the police.

For more information please visit the 'warning to shareholders' page at: www.aviva.com/shareholderservices.

Useful links for shareholders

Aviva shareholder services centre
www.aviva.com/shareholderservices

Register for electronic communications
www.aviva.com/ecomms

Dividend information for ordinary shares
www.aviva.com/dividends

Aviva preference shareholders
www.aviva.com/preferenceshares

ADR holders
www.aviva.com/adr

Aviva share price
www.aviva.com/shareprice

Annual General Meeting information
www.aviva.com/agm