# News Release

**Aviva plc**

Half Year Report 2014
7 August 2014

## Aviva plc

## 2014 Interim Results Announcement

### Mark Wilson, Group Chief Executive Officer, said:

"The half year results show that momentum in Aviva's turnaround continues. All of our key metrics have improved, operating earnings per share are up 16%, and book value has increased 7%.

"We have reduced our debt, decreased expenses and increased profit – this is just good business. Aviva remains a work in progress, and these results are a step in the right direction."

| | |
|---|---|
| **Cash flow** | ■ Cash remittances up 7% at £612 million *(HY13: £573 million)*<br>■ Operating capital generation[1] stable at £910 million *(HY13: £933 million[2])*<br>■ Interim dividend per share up 4.5% at 5.85p *(HY13: 5.60p)*. |
| **Profit** | ■ Operating profit[1] 4% higher at £1,052 million *(HY13: £1,008 million)*<br>■ Operating EPS[1] 16% higher at 23.6p *(HY13: 20.3p)*<br>■ IFRS profit after tax[1] up 113% at £863 million *(HY13: £406 million)* due to lower restructuring costs and positive investment variances |
| **Expenses** | ■ Operating expenses[1,3] £1,399 million, down £129 million *(HY13: £1,528 million)*<br>■ Expense reduction equivalent to £568 million annualised savings vs. £400 million target<br>■ Operating expense ratio[1] of 52.1% *(HY13: 54.8%)* |
| **Value of new business** | ■ Value of new business[4] up 9%[5] at £453 million *(HY13: £428 million[2])*<br>■ Poland, Turkey and Asia[4] grew 54%[5] and contributed 25% of Group VNB *(HY13: 19%)* |
| **Combined operating ratio** | ■ Combined operating ratio (COR) improved to 95.5% *(HY13: 96.2%)*<br>■ UK COR of 94.3%, best in 7 years |
| **Balance sheet** | ■ IFRS net asset value per share up 7% at 290p *(FY13: 270p)*<br>■ MCEV net asset value per share up 3% at 478p *(FY13: 463p[2])*<br>■ External leverage ratio 46%[6] of tangible capital *(FY13: 50%)*, 30% on S&P basis<br>■ Intercompany loan reduced to £3.6 billion at end of July 2014 *(Feb14: £4.1 billion)*<br>■ Economic capital surplus[7] £8.0 billion *(FY13: £8.3 billion)*, coverage ratio 180% |

1 On a continuing basis, excluding US Life.
2 Comparatives have been restated to reflect the changes in MCEV methodology. See F1 – MCEV Basis of Preparation for further details.
3 Operating expenses excludes integration and restructuring costs.
4 Poland includes Lithuania, Italy excludes Eurovita, Spain excludes Aseval and Asia excludes Malaysia.
5 On a constant currency basis.
6 External leverage ratio excludes the impact of the debt raised in July 2014.
7 The economic capital represents an estimated position. The economic 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.

# Key financial metrics

## Cash

| Continuing operations | Cash remitted to Group 6 months 2014 £m | 6 months 2013 £m | Sterling % change | Operating capital generation 6 months 2014 £m | Restated[1] 6 months 2013 £m | Sterling % change |
|---|---|---|---|---|---|---|
| United Kingdom & Ireland Life | **350** | 300 | 17% | **414** | 258 | 60% |
| United Kingdom & Ireland General Insurance & Health | **—** | — | — | **228** | 216 | 6% |
| Europe | **225** | 209 | 8% | **258** | 321 | (20)% |
| Canada | **—** | 63 | (100)% | **40** | 108 | (63)% |
| Asia and Other | **37** | 1 | — | **(30)** | 30 | (200)% |
| **Total** | **612** | 573 | 7% | **910** | 933 | (2)% |

## Operating profit before tax: IFRS basis

| Continuing operations | 6 months 2014 £m | 6 months 2013 £m | Sterling % change |
|---|---|---|---|
| Life business | **954** | 910 | 5% |
| General insurance and health | **403** | 428 | (6)% |
| Fund management | **48** | 42 | 14% |
| Other* | **(353)** | (372) | 5% |
| **Total** | **1,052** | 1,008 | 4% |

* Includes other operations, corporate centre costs and group debt and other interest costs.

## Expenses

| Continuing operations | 6 months 2014 £m | 6 months 2013 £m | Sterling % change |
|---|---|---|---|
| Operating expenses | **1,399** | 1,528 | (8)% |
| Integration & restructuring costs | **42** | 164 | (74)% |
| **Expense base** | **1,441** | 1,692 | (15)% |
| **Operating expense ratio** | **52.1%** | 54.8% | (2.7)pp |

## Value of new business

| Continuing operations | 6 months 2014 £m | Restated[1] 6 months 2013 £m | Sterling % change[2] | Constant currency % change[2] |
|---|---|---|---|---|
| United Kingdom & Ireland | **183** | 226 | (19)% | (19)% |
| France | **110** | 90 | 23% | 27% |
| Poland[3] | **34** | 21 | 58% | 64% |
| Italy[3], Spain[3], Turkey & Other | **58** | 50 | 16% | 30% |
| Asia[3] | **66** | 41 | 62% | 76% |
| Aviva Investors | **2** | — | — | — |
| **Value of new business – excluding Eurovita, Aseval & Malaysia** | **453** | 428 | 6% | 9% |
| Eurovita, Aseval & Malaysia | **(9)** | (2) | — | — |
| **Value of new business** | **444** | 426 | 4% | 7% |

## General insurance combined operating ratio

| Continuing operations | 6 months 2014 £m | 6 months 2013 £m | Change |
|---|---|---|---|
| United Kingdom & Ireland | **94.4%** | 96.9% | (2.5)pp |
| Europe | **96.4%** | 97.0% | (0.6)pp |
| Canada | **96.8%** | 92.4% | 4.4pp |
| **General insurance combined operating ratio** | **95.5%** | 96.2% | (0.7)pp |

## IFRS profit after tax

| | 6 months 2014 £m | 6 months 2013 £m | Sterling % change |
|---|---|---|---|
| IFRS profit after tax – continuing operations | **863** | 406 | 113% |
| IFRS profit after tax – total | **863** | 776 | 11% |

## Interim dividend

| | 6 months 2014 | 6 months 2013 | Sterling % change |
|---|---|---|---|
| Interim dividend per share | **5.85p** | 5.60p | 4.5% |

## Capital position

| | 30 June 2014 £bn | 31 December 2013 £bn | Sterling % change |
|---|---|---|---|
| Estimated economic capital surplus[4] | **8.0** | 8.3 | (4)% |
| Estimated IGD solvency surplus[4] | **3.3** | 3.6 | (8)% |
| IFRS net asset value per share | **290p** | 270p | 7% |
| MCEV net asset value per share (restated)[1,5] | **478p** | 463p | 3% |

1 Comparatives have been restated to reflect the changes in MCEV methodology. See F1 – MCEV Basis of Preparation for further details.
2 Currency movements are calculated using unrounded numbers so minor rounding differences may exist.
3 Poland includes Lithuania, Italy excludes Eurovita, Spain excludes Aseval and Asia excludes Malaysia.
4 The economic capital and IGD surpluses represent an estimated position. The economic 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.
5 In preparing the MCEV information, the directors have done so in accordance with the European Insurance CFO Forum MCEV Principles with the exception of stating held for sale operations as at 30 June 2013 and 31 December 2013 at their expected fair value, as represented by expected sale proceeds, less cost to sell at those dates.

# Group Chief Executive Officer's Report

## Overview

Progress has accelerated in 2014, and we are reporting improvement in all five of our key metrics, cash (+7%), operating profit (+4%), expenses (-8%), combined operating ratio (-0.7ppt) and value of new business[1,2] (+9%[3]). This is despite a number of challenges in the period including an overhaul of the UK annuity market, a particularly harsh winter in Canada, UK floods and a stronger Sterling.

We have been resolute in improving efficiency and our results are starting to reflect this. Operating expenses are £129 million lower, at £1,399 million *(HY13: £1,528 million)*. This implies an annualised expense reduction of £568 million by the end of 2014, ahead of the £400 million target set in 2012. "Below-the-line" integration and restructuring expenses of £42 million are 74% lower year-on-year *(HY13: £164 million)*. Higher profit and lower operating expenses have resulted in an operating expense ratio of 52.1% *(HY13: 54.8%)*. This is adequate progress towards our target of achieving an expense ratio of below 50% by the end of 2016.

IFRS book value per share has increased 7% to 290p per share. As a result, our external leverage ratio has improved to 46% *(FY13: 50%)* and 30% on an S&P basis. The intercompany loan balance is now £3.6 billion and we are on track to achieve our £2.2 billion target by the end of 2015. Economic capital surplus is £8.0 billion, implying a coverage ratio of 180% and holding company liquidity is £1.2 billion. With lower leverage, significantly improved economic capital and liquidity over the past 12 months, Aviva's financial strength is being restored. The interim dividend has increased 4.5% to 5.85p *(HY13: 5.60p)*, consistent with the growth in the 2013 final dividend.

While some macro-economic trends are encouraging, we are not waiting for the markets to spur improvement in results. We will drive our true customer composite and digital first strategy through our businesses, while remaining focused on markets in which we can win.

## Cash flow

- *Cash remitted to Group of £612 million up 7%*
- *Most businesses to pay dividends in 2H14.*

Cash flow remains an important metric. In HY14, the businesses remitted £612 million *(HY13: £573 million)* to Group, an increase of 7%. Most of our businesses pay a dividend in the second half of the year and so progress on cash remittances will not be known until our full year 2014 results. We remain focused on increasing the remittance ratio to above 80% *(FY13: 72%)*.

Operating capital generation (OCG[4]) reduced marginally to £910 million *(HY13: £933 million[1])* primarily due to weather losses in Canada and a lower investment return in UK GI due to a smaller inter-company loan. While the smaller intercompany loan has an impact on OCG, the cash impact is offset by lower Group interest costs.

## Operating profit[4]

- *Operating profit[4]: £1,052 million, up 4%*
- *IFRS profit after tax[4] up 113%.*
- *Operating EPS[4] up 16% to 23.6p.*

We are working to restore the link between operating profit, profit after tax and book value growth. During the half, we grew operating profit 4%, increased operating profit after restructuring costs 20% and IFRS profit after tax was 113% higher.

Operating profit increased 4% to £1,052 million *(HY13: £1,008 million)* despite the impact of lower annuity sales, higher weather losses, disposals and adverse foreign exchange movements. These negative items were more than offset by efficiency improvements and actions on our UK life back book, which generated approximately £100 million of net additional profit. We remain at a very early stage in our back book initiative.

Operating EPS[4] improved 16% to 23.6p and IFRS profit after tax[4] more than doubled to £863 million, as a result of significantly lower integration and restructuring expenses and positive investment variances.

1 Comparatives have been restated to reflect the changes in MCEV methodology. See F1 – MCEV Basis of Preparation for further details.
2 Poland includes Lithuania, Italy excludes Eurovita, Spain excludes Aseval and Asia excludes Malaysia.
3 On a constant currency basis.
4 On a continuing basis, excluding US Life.

## Expenses

- *Operating expenses down 8% to £1,399 million*

Operating expenses[4] were 8% lower at £1,399 million *(HY13: £1,528 million)*. This expense run rate implies a £568 million lower expense base compared to our baseline of 2011, on which the original £400 million expense target was set.

Historically, integration and restructuring expenses have been too high and have impaired our after tax profits and book value. In the first half, these "below the line" expenses declined 74% to £42 million *(HY13: £164 million)*.

We have subsequently shifted our expense focus away from an absolute reduction to one of improvement in our operating expense ratio. Each cell in every business must improve its operating expense ratio year after year. In HY14, our operating expense ratio reduced to 52.1% and we remain focused on achieving an operating expense ratio below 50% by the end of 2016.

## Value of new business[1,2]

- *VNB up 9%[3] to £453 million*
- *Growth markets contributed 25% of Group VNB (HY13: 19%)*

We measure our growth in life insurance by value of new business (VNB), which is a good proxy for future cash flows. In HY14, VNB increased 9%[3] to £453 million *(HY13: £428 million)* with highly satisfactory performances in our growth markets of Poland (+64%[3]) and Asia (+76%[3]). Together with Turkey, our growth markets contributed 25% of Group VNB (*HY13: 19%*).

Our turnaround markets of Italy and Spain grew VNB 49%[3] and 67%[3] respectively, although both remain far from their potential. France continued its strong trajectory with 27%[3] growth. VNB in UK Life declined 21% due to a 41% reduction in annuity VNB following the reforms announced in the 2014 Budget. We are supportive of the increased flexibility that the annuity reforms give our customers and with our broad range of products, including the recently launched Aviva Investors Multi Strategy fund range, we believe we are well placed for these changes.

## Combined operating ratio

- *COR improved to 95.5% (HY13: 96.2%)*

In general insurance, the combined operating ratio (COR) improved to 95.5% *(HY13: 96.2%)*. In the UK, the COR of 94.3% *(HY13: 96.3%)* is the lowest reported in seven years despite the floods in the early part of the year.

In Canada, adverse weather contributed to a 4.4ppt deterioration in the COR to 96.8% *(HY13: 92.4%)*, while in Europe the result was stable at 96.4% *(HY13: 97.0%)*.

Overall, reserve releases remain modest at £30 million *(HY13: £4 million)* and the acquisition and expense ratio has improved from 32.3% to 31.0%.

## Financial strength

- *IFRS NAV per share up 7% to 290p*

We continue to make progress on restoring Aviva's financial strength. IFRS net asset value per share increased 7% to 290p and MCEV net asset value per share increased 3%[1] to 478p.

With the growth in IFRS book value and repayment of £240 million of external debt, our HY14 external leverage ratio was 46%[5] *(HY13: 50%)* of tangible capital and 30% on an S&P basis, the latter broadly consistent with a AA rating. Our target of an external leverage ratio below 40% of tangible capital and below 30% on an S&P basis can be met over time and primarily through growth in our book value.

The inter-company loan is currently £3.6 billion *(Feb14: £4.1 billion)* and we remain on target to achieve the £2.2 billion loan balance by the end of 2015, as agreed with our regulator.

## People

In the second quarter, Chris Wei was appointed CEO of Global Life Insurance. Chris, as former CEO of Great Eastern Holdings Ltd in Singapore, has the strategic and financial acumen to make a difference to our life insurance business at this critical stage of development.

1 Comparatives have been restated to reflect the changes in MCEV methodology. See F1 – MCEV Basis of Preparation for further details.
2 Poland includes Lithuania, Italy excludes Eurovita, Spain excludes Aseval and Asia excludes Malaysia.
3 On a constant currency basis.
4 On a continuing basis, excluding US Life.
5 External leverage ratio excludes the impact of the debt raised in July 2014.

## Outlook

In summary, the half year results show that the momentum of Aviva's turnaround continues. All of our key metrics have improved and operating EPS[4] is up 16%.

As the largest general insurer and leading life insurer in the UK, we continue to campaign on major issues of importance to our customers such as motor insurance reform, insurance fraud and addressing the savings gap.

Our new set of targets to achieve an operating expense ratio of below 50% and double annual excess holding company cash flow to £0.8 billion focuses the Group on what is important; improving efficiency year after year and producing a significant uplift in unencumbered free cash flow that can be returned to shareholders.

We have reduced our debt, decreased expenses and increased profit – this is just good business. Aviva remains a work in progress, and these results are a step in the right direction.

**Mark Wilson,**
Group Chief Executive Officer

4 On a continuing basis, excluding US Life.

# Group Chief Financial Officer's Report

## Overview

Results in the first six months of 2014 showed resilience, despite the challenges presented to the Group. Operating profit increased 4% to £1,052 million, a 9% increase in constant currency, and operating EPS increased 16% to 23.6p.

We continue to focus on improving efficiency. The HY14 operating expense base is £129 million lower, which implies a run rate reduction of £568 million over the 2011 baseline. The operating expense ratio of 52.1% is improved from 54.8% a year ago.

Aviva's financial strength continues to improve. IFRS book value per share rose 7% to 290p *(FY13: 270p)*. Our economic capital surplus is £8.0 billion *(FY13: £8.3 billion)* and central liquidity remains adequate at £1.2 billion. The internal loan is now down to £3.6 billion *(Feb14: £4.1 billion)* and the external leverage ratio has improved to 46% *(FY13: 50%)*.

During the period we have increased cash remittances 7% to £612 million *(HY13: £573 million)*, with a number of our cash generators expected to pay dividends to Group in the second half of 2014.

Looking forward, our focus will shift from primarily balance sheet repair and capital conservation to cash flow and earnings growth.

## Business Unit Performance

Our UK life business grew life operating profit 8% and cash remittances 17%, while at the same time reducing operating expenses 11%. Operating profit included a net additional benefit to profit of around £100 million from actions on our back-book. Value of new business (VNB) declined 21% to £177 million *(HY13: £224 million[1])* primarily due to a 41% reduction in annuity VNB. We continue to see strong net inflows onto our IFA platform, with assets under management now exceeding £4 billion *(HY13: £1.9 billion)*. Protection VNB increased 25% to £45 million as some bancassurance partners reinvigorated sales of this product. In corporate pensions, our focus is on the SME segment, and we expect to see further benefit from auto enrolment schemes in the second half of the year.

Our UK general insurance business ("UK GI") grew its underwriting result 46% to £114 million *(HY13: £78 million)* and the combined ratio improved to 94.3% *(HY13: 96.3%)*. The UK results benefitted from expense savings and favourable prior year development partially offset by higher weather losses in the first quarter. A lower long-term investment return (LTIR) of 3.0% on average assets (*HY13: 3.1%*) resulted in UK GI operating profit only increasing by £12 million to £251 million *(HY13: £239 million)*. This lower investment return is due to a reduced balance on the inter-company loan, which although it impacts the results of the UK GI business, is eliminated on consolidation by lower interest costs at Group. In personal motor, we achieved a COR of 95% *(HY13: 96%)*, despite the rate environment. The homeowner COR of 95% *(HY13: 90%)* was impacted by the floods in the first quarter. Commercial lines reported significant improvement, with a COR of 92% *(HY13: 99%)*, partially due to the commercial motor reserve strengthening in HY 2013 that did not recur.

Our European businesses reported a 6% increase in operating profit to £498 million *(HY13: £472 million)*, a 9% increase in constant currency. Value of new business[1,2] was 25% higher with the developed European markets of France, Spain[2] and Italy[2] increasing VNB 29% to £154 million. Cash remittances grew 8% across Europe to £225 million while OCG[1] decreased 20% to £258 million. The decline in OCG was primarily due to a one-off benefit from management actions to reduce guarantees on minimum death benefits in France in the first half of 2013. Operating expenses were 8% lower at £306 million, a 4% improvement in constant currency. In Italy, the disposal of our stake in Eurovita and simplification of our joint ventures has improved economic capital and sharpened our strategic and product focus.

Operating profit in our Canadian general insurance business declined £64 million to £83 million *(HY13: £147 million)*. This was primarily due to higher weather losses of £40 million from the harsh winter and a weaker Canadian dollar, which impacted operating profit by £21 million. The Canadian dividend payment is expected in the second half of 2014, in contrast to 2013, when £63 million was received in the first half of the year. The combined operating ratio in Canada was 96.8% *(HY13: 92.4%)*.

1 Comparatives have been restated to reflect the changes in MCEV methodology. See F1 – MCEV Basis of Preparation for further details.
2 Poland includes Lithuania, Italy excludes Eurovita, Spain excludes Aseval and Asia excludes Malaysia.

In Asia, operating profit remained stable at £35 million *(HY13: £37 million),* value of new business[1,2] increased by 62% to £66 million *(HY13: £41 million)* and cash remitted to Group was £21 million *(HY13: nil)*.

The turnaround at Aviva Investors is, as previously communicated, likely to take time but the launch of the Aviva Investors Multi Strategy fund range is an important milestone. Operating profit increased 32% to £41 million *(HY13: £31 million)*, due to higher performance fees and the transfer of some of the retail fund management business from UK Life. The business had assets under management at HY14 of £234 billion, with £1.7 billion of net external outflows (excluding the impact of the River Road disposal) experienced in the period, primarily due to rotation out of global high yield, convertibles and emerging market debt.

## Capital and liquidity

Our HY14 economic capital surplus[3] is £8.0 billion *(1Q14: £7.8 billion[4])* with a coverage ratio of 180%. Economic capital is our preferred measure of capitalisation, especially in anticipation of a transition to Solvency II. Our IGD surplus has increased modestly to £3.3 billion *(1Q14: £3.2 billion)*.

Group centre liquidity currently stands at £1.2 billion *(1Q14: £1.5 billion)*. In accordance with our plans, liquidity has reduced over the quarter due to Group centre spend, repayment of hybrid debt and initial funding of our UK reinsurance subsidiary, offset by remittances from the businesses.

## Leverage

Since the FY13 results announcement we have called £240 million of expensive external leverage without refinancing and reduced internal leverage by £500 million. As a result of this external debt reduction and more importantly the increase in IFRS book value the external leverage ratio has improved to 46%[7] of tangible capital *(FY13: 50%)* and 30% on an S&P basis *(FY13: 32%)*. We remain committed to achieving a debt to tangible capital ratio of below 40% over the medium term, and below 30% on an S&P basis, consistent with a AA rating.

Our intercompany loan balance currently stands at £3.6 billion, down from the £4.1 billion balance reported in March and £5.8 billion reported in early 2013. This reduction has been achieved by a £150 million cash repayment and £360 million of non-cash actions related to the de-risking of the staff pension scheme.

## Net Asset Value

Our IFRS book value per share increased 7% to 290p (*FY13: 270p*), primarily due to operating earnings, positive investment variances and favourable IAS19 pension surplus movements. This has been partially offset by dividend payments and adverse foreign exchange movements. The MCEV[5] value per share increased by 3% to 478p *(FY13: 463p[1])* for similar reasons.

| Net asset value[6] | IFRS | MCEV[1] |
|---|---|---|
| **Opening NAV per share at 31 December 2013** | **270p** | **463p** |
| Operating profit | 24p | 31p |
| Dividends & appropriations | (9)p | (9)p |
| Investment variances | 4p | 3p |
| Pension scheme remeasurements | 11p | 11p |
| Integration and restructuring costs, goodwill impairment and other | (1)p | (8)p |
| Foreign exchange movements | (9)p | (13)p |
| **Closing NAV per share at 30 June 2014** | **290p** | **478p** |

**Thomas D. Stoddard,**
Group Chief Financial Officer

1 Comparatives have been restated to reflect the changes in MCEV methodology. See F1 – MCEV Basis of Preparation for further details.
2 Poland includes Lithuania, Italy excludes Eurovita, Spain excludes Aseval and Asia excludes Malaysia.
3 The economic capital represents an estimated position. The economic 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.
4 The pro forma economic capital surplus at 1Q14 included the benefit of completing the Eurovita, Turkey GI, River Road and South Korea transactions. The South Korea, River Road and Eurovita transactions have now completed at HY14.
5 In preparing the MCEV information, the directors have done so in accordance with the European Insurance CFO Forum MCEV Principles with the exception of stating held for sale operations as at 30 June 2013 and 31 December 2013 at their expected fair value, as represented by expected sale proceeds, less cost to sell at those dates.
6 Net of tax and controlling interests.
7 External leverage ratio excludes the impact of the debt raised in July 2014.

# Notes to editors

## Notes to editors

All comparators are for the 6 months to 30 June 2013 unless otherwise stated.

Income and expenses of foreign entities are translated at average exchange rates while their assets and liabilities are translated at the closing rates on 30 June 2014. The average rates employed in this announcement are 1 euro = £0.82 *(6 months to 30 June 2013: 1 euro = £0.85)* and CAD$1 = £0.55 *(6 months to 30 June 2013: CAD$1 = £0.64)*.

Growth rates in the press release have been provided in sterling terms unless stated otherwise. The following supplement presents this information on both a sterling and constant 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", "projects", "plans", "will," "seeks", "aims", "may", "could", "outlook", "likely", "target", "goal", "guidance", "trends", "future", "projects", "estimates", "potential" 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 document include, but are not limited to: the impact of conditions in the global financial markets and the economy generally, including exposure to financial and capital markets risks; the impact of simplifying our operating structure and activities; the impact of various local political, regulatory and economic conditions; market developments and government actions to address fiscal and budget constraints in the EU, UK and the US; 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 impact on our business and strategy due to proposed changes in UK tax law relating to annuities; 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 24 March 2014. 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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# Contacts

| Investor contacts | Media contacts | Timings |
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| Colin Simpson<br>+44 (0)20 7662 8115 | Nigel Prideaux<br>+44 (0)20 7662 0215 | Real time media conference call: 07:15 hrs BST<br>Analyst presentation: 08:15 hrs BST |
| David Elliot<br>+44 (0)20 7662 8048 | Andrew Reid<br>+44 (0)20 7662 3131 | Presentation slides<br>www.aviva.com<br>06:30 hrs BST |
| | Sarah Swailes<br>+44 (0)20 7662 6700 | Live webcast:<br>www.avivawebcast.com/interims2014/<br>08:15 hrs BST |

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# Group: key metrics

## Cash

| Continuing operations | Cash remitted to Group 6 months 2014 £m | 6 months 2013 £m | Sterling % change | Operating capital generation 6 months 2014 £m | Restated[1] 6 months 2013 £m | Sterling % change |
|---|---|---|---|---|---|---|
| United Kingdom & Ireland Life | **350** | 300 | 17% | **414** | 258 | 60% |
| United Kingdom & Ireland General Insurance & Health | **—** | — | — | **228** | 216 | 6% |
| Europe | **225** | 209 | 8% | **258** | 321 | (20)% |
| Canada | **—** | 63 | (100)% | **40** | 108 | (63)% |
| Asia and Other | **37** | 1 | — | **(30)** | 30 | (200)% |
| **Total** | **612** | 573 | 7% | **910** | 933 | (2)% |

## Operating profit before tax: IFRS basis

| Continuing operations | 6 months 2014 £m | 6 months 2013 £m | Sterling % change |
|---|---|---|---|
| Life business | **954** | 910 | 5% |
| General insurance and health | **403** | 428 | (6)% |
| Fund management | **48** | 42 | 14% |
| Other* | **(353)** | (372) | 5% |
| **Total** | **1,052** | 1,008 | 4% |

* Includes other operations, corporate centre costs and group debt and other interest costs.

## Expenses

| Continuing operations | 6 months 2014 £m | 6 months 2013 £m | Sterling % change |
|---|---|---|---|
| Operating expenses | **1,399** | 1,528 | (8)% |
| Integration & restructuring costs | **42** | 164 | (74)% |
| **Expense base** | **1,441** | 1,692 | (15)% |
| **Operating expense ratio** | **52.1%** | 54.8% | (2.7)pp |

## Value of new business

| Continuing operations | 6 months 2014 £m | Restated[1] 6 months 2013 £m | Sterling % change[2] | Constant currency % change[2] |
|---|---|---|---|---|
| United Kingdom & Ireland | **183** | 226 | (19)% | (19)% |
| France | **110** | 90 | 23% | 27% |
| Poland[3] | **34** | 21 | 58% | 64% |
| Italy[3], Spain[3], Turkey & Other | **58** | 50 | 16% | 30% |
| Asia[3] | **66** | 41 | 62% | 76% |
| Aviva Investors | **2** | — | — | — |
| **Value of new business – excluding Eurovita, Aseval & Malaysia** | **453** | 428 | 6% | 9% |
| Eurovita, Aseval & Malaysia | **(9)** | (2) | — | — |
| **Value of new business** | **444** | 426 | 4% | 7% |

## General insurance combined operating ratio

| Continuing operations | 6 months 2014 £m | 6 months 2013 £m | Change |
|---|---|---|---|
| United Kingdom & Ireland | **94.4%** | 96.9% | (2.5)pp |
| Europe | **96.4%** | 97.0% | (0.6)pp |
| Canada | **96.8%** | 92.4% | 4.4pp |
| **General insurance combined operating ratio** | **95.5%** | 96.2% | (0.7)pp |

## IFRS profit after tax

| | 6 months 2014 £m | 6 months 2013 £m | Sterling % change |
|---|---|---|---|
| IFRS profit after tax – continuing operations | **863** | 406 | 113% |
| IFRS profit after tax – total | **863** | 776 | 11% |

## Interim dividend

| | 6 months 2014 | 6 months 2013 | Sterling % change |
|---|---|---|---|
| Interim dividend per share | **5.85p** | 5.60p | 4.5% |

## Capital position

| | 30 June 2014 £bn | 31 December 2013 £bn | Sterling % change |
|---|---|---|---|
| Estimated economic capital surplus[4] | **8.0** | 8.3 | (4)% |
| Estimated IGD solvency surplus[4] | **3.3** | 3.6 | (8)% |
| IFRS net asset value per share | **290p** | 270p | 7% |
| MCEV net asset value per share (restated)[1,5] | **478p** | 463p | 3% |

1 Comparatives have been restated to reflect the changes in MCEV methodology. See note F1 – MCEV Basis of preparation for further details.
2 Currency movements are calculated using unrounded numbers so minor rounding differences may exist.
3 Poland includes Lithuania, Italy excludes Eurovita, Spain excludes Aseval and Asia excludes Malaysia.
4 The economic capital and IGD surpluses represent an estimated position. The economic 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.
5 In preparing the MCEV information, the directors have done so in accordance with the European Insurance CFO Forum MCEV Principles with the exception of stating held for sale operations as at 30 June 2013 and 31 December 2013 at their expected fair value, as represented by expected sale proceeds, less cost to sell at those dates.

# Cash



## 1.i – Cash remitted to Group

The flow of sustainable cash remittances from the Group's businesses is a key financial priority. The cash remittances for HY14 were £612 million *(HY13: £573 million)*.

| | **6 months 2014 £m** | 6 months 2013 £m | Full year 2013 £m |
|---|---|---|---|
| United Kingdom & Ireland life | **350** | 300 | 370 |
| United Kingdom & Ireland General Insurance & Health[1] | **—** | — | 347 |
| France | **90** | 103 | 235 |
| Poland | **99** | 83 | 85 |
| Italy | **—** | — | 12 |
| Spain | **33** | 17 | 51 |
| Other Europe | **3** | 6 | 5 |
| Europe | **225** | 209 | 388 |
| Canada | **—** | 63 | 130 |
| Asia | **21** | — | 20 |
| Aviva Investors | **16** | 1 | 14 |
| **Total** | **612** | 573 | 1,269 |

1 FY13 dividend from UKGI of £347 million was remitted to Group in January 2014.

The improvement in cash remitted to Group is primarily driven by increased remittances from our UK Life, Poland, Spain, Asia and Aviva Investors businesses. The expected timing of the dividend from Canada to Group has moved to the second half of the year.

## 1.ii – Operating capital generation

The active management of the generation and utilisation of capital is a primary Group focus, balancing new business investment and shareholder distribution to deliver our "Cash flow plus growth" investment thesis.

| | **6 months 2014 £m** | Restated[3] 6 months 2013 £m | Restated[3] Full year 2013 £m |
|---|---|---|---|
| **Operating capital generation[1]** | | | |
| Life in-force business[2] | **885** | 820 | 1,567 |
| General insurance, fund management and other operations | **272** | 297 | 545 |
| **Operating capital generated before investment in new business – continuing operations** | **1,157** | 1,117 | 2,112 |
| Capital invested in new business | **(247)** | (184) | (354) |
| **Operating capital generated after investment in new business – continuing operations** | **910** | 933 | 1,758 |
| United States | **—** | 83 | 195 |
| Group as reported | **910** | 1,016 | 1,953 |

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 other non-life businesses net of tax and non-controlling interests from non-covered business only, where non-covered business is that which is outside the scope of Life MCEV methodology.
– 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.
– The United States business (including its life, fund management and non-insurance segments whose sale was completed on 2 October 2013) has been included in OCG on an IFRS basis (net of taxation).
The amount of operating capital remitted to Group depends on a number of factors including non-operating items and local regulatory requirements.
2 An internal reinsurance arrangement was undertaken in the first half of 2014 to reinsure an additional 10% of UK Annuity business to Aviva International Insurance Limited which has had an adverse impact on Group MCEV free surplus of £105 million (MCEV Note F11). On an economic capital basis this transaction improves the UK Life position and as a result the adverse impact on MCEV has therefore been excluded from OCG to reflect the economic substance of the management action.
3 Comparatives have been restated to reflect the changes in MCEV methodology. See note F1 – MCEV Basis of preparation for further details.

## 1.ii – Operating capital generation continued

The analysis of OCG by market and product and service is set out below.

| **6 months 2014 £m** | **Life & Other Covered Business OCG** | | | | **Non-life OCG** | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Free surplus emergence** | **New business strain** | **Other/ management actions[1]** | **Life OCG** | **General insurance and health[2]** | **Fund management[2]** | **Non-insurance[2]** | **Non Life Usage[3]** | **Non-life OCG** | **Total OCG** |
| United Kingdom & Ireland Life | 237 | (52) | 232 | **417** | — | — | (3) | — | **(3)** | **414** |
| United Kingdom & Ireland General Insurance & Health | — | — | — | **—** | 208 | — | (2) | 22 | **228** | **228** |
| Europe | 380 | (153) | 7 | **234** | 35 | — | (4) | (7) | **24** | **258** |
| Canada | — | — | — | **—** | 60 | — | 1 | (21) | **40** | **40** |
| Asia | 49 | (32) | (22) | **(5)** | 1 | 1 | (10) | — | **(8)** | **(13)** |
| Fund Management | 2 | — | — | **2** | — | 7 | — | (8) | **(1)** | **1** |
| Other | — | — | — | **—** | (2) | — | (20) | 4 | **(18)** | **(18)** |
| **Total Group operating capital generation** | **668** | **(237)** | **217** | **648** | **302** | **8** | **(38)** | **(10)** | **262** | **910** |

| Restated[4] 6 months 2013 £m | Life & Other Covered Business OCG | | | | Non-life OCG | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Free surplus emergence | New business strain | Other/ management actions | Life OCG | General insurance and health[2] | Fund management[2] | Non-insurance[2] | Non Life Usage[3] | Non-life OCG | Total OCG |
| United Kingdom & Ireland Life | 225 | 1 | 43 | 269 | — | — | (12) | 1 | (11) | 258 |
| United Kingdom & Ireland General Insurance & Health | — | — | — | — | 195 | — | (3) | 24 | 216 | 216 |
| Europe | 369 | (146) | 74 | 297 | 32 | — | (2) | (6) | 24 | 321 |
| Canada | — | — | — | — | 111 | — | — | (3) | 108 | 108 |
| Asia | 46 | (35) | 63 | 74 | (1) | 1 | (8) | (3) | (11) | 63 |
| Fund Management | — | — | — | — | — | 14 | — | (2) | 12 | 12 |
| Other | — | — | — | — | (25) | — | (5) | (15) | (45) | (45) |
| **Total continuing operations** | 640 | (180) | 180 | 640 | 312 | 15 | (30) | (4) | 293 | 933 |
| United States | | | | | | | | | | 83 |
| Total Group operating capital generation | | | | | | | | | | 1,016 |

| Restated[4] Full year 2013 £m | Life & Other Covered Business OCG | | | | Non-life OCG | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Free surplus emergence | New business strain | Other/ management actions | Life OCG | General insurance and health[2] | Fund management[2] | Non-insurance[2] | Non Life Usage[3] | Non-life OCG | Total OCG |
| United Kingdom & Ireland Life | 461 | (13) | 148 | 596 | — | — | (10) | — | (10) | 586 |
| United Kingdom & Ireland General Insurance & Health | — | — | — | — | 360 | — | (5) | 19 | 374 | 374 |
| Europe | 705 | (272) | 72 | 505 | 67 | — | (5) | (9) | 53 | 558 |
| Canada | — | — | — | — | 182 | — | (2) | (3) | 177 | 177 |
| Asia | 105 | (68) | 73 | 110 | — | 2 | (13) | (7) | (18) | 92 |
| Fund Management | 3 | — | — | 3 | — | 18 | — | 2 | 20 | 23 |
| Other | — | — | — | — | (51) | — | 2 | (3) | (52) | (52) |
| **Total continuing operations** | 1,274 | (353) | 293 | 1,214 | 558 | 20 | (33) | (1) | 544 | 1,758 |
| United States | | | | | | | | | | 195 |
| Total Group operating capital generation | | | | | | | | | | 1,953 |

1 An internal reinsurance arrangement was undertaken in the first half of 2014 to reinsure an additional 10% of UK Annuity business to Aviva International Insurance Limited which has had an adverse impact on Group MCEV free surplus of £105 million (MCEV Note F11). On an economic capital basis this transaction improves the UK Life position and as a result the adverse impact on MCEV has therefore been excluded from OCG to reflect the economic substance of the management action.
2 Operating profit net of tax and non-controlling interests from uncovered businesses only, where non-covered business is that which is outside the scope of life MCEV methodology.
3 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.
4 Comparatives have been restated to reflect the changes in MCEV methodology. See note F1 – MCEV Basis of preparation for further details.

Operating capital generation (OCG) is £910 million, broadly in line with the prior year *(HY13: £933 million)*.

During the first half of 2014, UK Life has implemented a management action that enables certain shareholder assets to be reflected on the regulatory balance sheet and the economic risk to be hedged more efficiently. As a result of this action, future shareholder transfers that arise as bonuses are paid, will now emerge in the New With Profits Sub Fund rather than the Non Profit Sub Fund (NPSF). This reduces the present value of future profits and increases free surplus in the NPSF, and has benefitted OCG by £184 million in the period. This amount, together with the benefit of expense savings that reduce the current and future cost base partly offset by other items, make up total management actions of £232 million in this business.

New business strain in the UK of negative £52 million reflects lower volumes of individual annuities and reduced margins, compared with the prior year positive new business strain of £1 million which reflected the benefit of stronger annuity margins.

In Canada OCG has been impacted by the prolonged severe winter weather in the first quarter of 2014, and in Europe there is a lower level of benefits from management actions, particularly reducing guarantees in France in 2013. In Asia, 2013 benefitted from a financial reinsurance transaction in Singapore and in 2014 has been adversely impacted by an increase in required capital in the retail health business in Singapore. Adjusting for these items, OCG in Asia was stable.

The expected free surplus emergence (shown in note 1.iii) taken with the expected contribution from new life business and non-life business, demonstrates that the current level of OCG is expected to be sustainable and underpins our future dividend payments. OCG currently includes the surplus emerging under the Solvency I regime and will evolve with the implementation of Solvency II in 2016.

## 1.iii – Free surplus emergence

### Maturity profile of undiscounted free surplus emergence equivalent embedded value cash flows

**Total in-force business**

| Release of future profits and required capital | 30 June 2014 £m | Restated[2] 31 December 2013 £m |
|---|---|---|
| Year 1 | **1,171** | 1,278 |
| Year 2 | **1,101** | 1,189 |
| Year 3 | **1,254** | 1,133 |
| Year 4 | **1,296** | 1,100 |
| Year 5 | **1,209** | 1,197 |
| Year 6 | **1,120** | 1,151 |
| Year 7 | **1,018** | 1,069 |
| Year 8 | **1,000** | 1,051 |
| Year 9 | **954** | 963 |
| Year 10 | **922** | 940 |
| Years 11-15 | **4,179** | 4,292 |
| Years 16-20 | **3,612** | 3,758 |
| Years 20+ | **8,656** | 9,137 |
| **Total net of controlling interests[1]** | **27,492** | 28,258 |

1 Cash flow profiles exclude held for sale operations.
2 Comparatives have been restated to reflect the changes in MCEV methodology. See note F1 – MCEV Basis of preparation for further details.

The table above shows the expected future emergence of profits from the existing business implicit in the equivalent embedded value calculation for life covered in-force business. The cash flows have been split for the first ten years followed by five year tranches depending on the date when the profit is expected to emerge. These profits, which arise from the release of margins in the regulatory reserves as the business runs-off over time, are expected to emerge through operating capital generation (OCG) in future years. The cash flows are real world cash flows, i.e. they are based on the non-economic assumptions used in the MCEV and normalised investment returns. Normalised investment returns are equal to the MCEV risk free rates in addition to a risk premium to allow for the actual return expected to be achieved in the market.

For existing business, the cash flows will generally reduce over time due to lapses, maturities and other benefit payments. Each year new business will increase these profits, following the initial strain at point of sale. This table only includes the business currently in-force.

The expected free surplus emergence in the OCG of £668 million (see note 1.ii) is broadly equal to half of the year 1 cash flow from 31 December 2013 of £1,278 million. The 2014 total of £668 million includes the expected transfers from the value of in-force (VIF) and required capital to free surplus of £647 million (MCEV – Note F10) and also the free surplus component of the expected return on net worth which equals £21 million.

The total real world cash flows have decreased by £766 million over the first six months of 2014, largely reflecting the run off of existing business net of new business additions, lower real world returns in Europe, adverse foreign exchange movements, lower pensions contributions in Poland due to a lower take up rate and the impact of the cap on future UK pension charges.

The free surplus emergence in the table above only includes business written in the RIEESA when conditions for its release to shareholders are expected to have been met, which is currently in year 3. The 30 June 2014 cash flows reflect the capital management actions undertaken by the UK business in 2014, which have accelerated the release of the RIEESA.

# Operating profit: IFRS basis

## 2 – Operating Profit: IFRS basis

### Group operating profit before tax from continuing operations: IFRS basis

For the six month period ended 30 June 2014

| Continuing operations | **6 months 2014 £m** | 6 months 2013 £m | Full Year 2013 £m |
|---|---|---|---|
| **Operating profit before tax attributable to shareholders' profits** | | | |
| **Life business** | | | |
| United Kingdom & Ireland | **478** | 446 | 952 |
| France | **189** | 190 | 385 |
| Poland | **112** | 78 | 164 |
| Italy | **73** | 66 | 142 |
| Spain | **62** | 85 | 150 |
| Turkey | **5** | 4 | 8 |
| Other Europe | **—** | 2 | 2 |
| Europe | **441** | 425 | 851 |
| Asia | **34** | 38 | 96 |
| Other | **1** | 1 | 2 |
| **Total life business (note 7.i)** | **954** | 910 | 1,901 |
| **General insurance and health** | | | |
| United Kingdom & Ireland | **263** | 259 | 489 |
| Europe | **57** | 47 | 112 |
| Canada | **83** | 147 | 246 |
| Asia | **1** | (1) | 1 |
| Other | **(1)** | (24) | (51) |
| **Total general insurance and health (note 7.ii)** | **403** | 428 | 797 |
| **Fund management** | | | |
| Aviva Investors | **41** | 31 | 68 |
| United Kingdom | **6** | 10 | 23 |
| Asia | **1** | 1 | 2 |
| **Total fund management** | **48** | 42 | 93 |
| **Other** | | | |
| Other operations (note A1) | **(54)** | (49) | (90) |
| **Market operating profit** | **1,351** | 1,331 | 2,701 |
| Corporate centre (note A2) | **(64)** | (72) | (150) |
| Group debt costs and other interest (note A3) | **(235)** | (251) | (502) |
| **Operating profit before tax attributable to shareholders' profits** | **1,052** | 1,008 | 2,049 |

Overall, operating profit has increased by £44 million to £1,052 million *(HY13: £1,008 million)*, with the main movements being additional operating expense savings (on a constant currency basis) of £78 million, partly offset by an adverse foreign exchange impact of £39 million. In addition, the result includes a net additional benefit to profit of around £100 million in UK Life (including a reserve release arising as a result of reducing the current and long-term cost base) offset by the impact of reduced annuity trading following the UK Budget announcement in early 2014 and adverse weather in Canada.

Within the UK general insurance business, long term investment return has reduced by £24 million mainly reflecting the lower balance on the internal loan. The impact of this is neutral at a consolidated Group level.

## 3 – Expenses

### a) Expenses – continuing operations

| | 6 months 2014 £m | 6 months 2013 £m |
|---|---|---|
| United Kingdom & Ireland Life | **278** | 326 |
| United Kingdom & Ireland General Insurance & Health | **378** | 418 |
| Europe | **306** | 333 |
| Canada | **161** | 196 |
| Asia | **45** | 40 |
| Aviva Investors | **143** | 136 |
| Other Group activities | **88** | 79 |
| **Operating cost base – continuing operations** | **1,399** | 1,528 |
| Integration & restructuring costs | **42** | 164 |
| **Expense base** | **1,441** | 1,692 |

The table below shows the lines of the IFRS consolidated income statement in which operating expenses have been included:

| | 6 months 2014 £m | 6 months 2013 £m |
|---|---|---|
| Claims handling costs[1] | **175** | 186 |
| Non-commission acquisition costs[2] | **418** | 468 |
| Other expenses | **806** | 874 |
| **Operating cost base – continuing operations** | **1,399** | 1,528 |

1 As reported within net claims and benefits paid from continuing operations of £9,976 million *(HY13: £11,458 million)*.
2 As reported within fee and commission expense from continuing operations of £1,739 million *(HY13: £2,309 million)*.

Overall operating expenses for HY14 were £1,399 million (*HY13: £1,528 million*), a reduction of £129 million compared with prior year. Of this, £51 million is due to favourable foreign exchange movements giving an underlying reduction of £78 million. Comparing HY14 annualised operating expenses to the 2011 base-line for the Group wide expense reduction target of £3,366 million means that the £400 million expense saving target has been fully achieved.

Significant cost reductions have been made in the United Kingdom and Ireland. Both the life and general insurance businesses have achieved savings by reducing headcount for both permanent staff and contractor positions, lowering levels of property spend through renegotiation of leases or exiting property and reducing consultancy spend. In addition, the UK retail fund management business was transferred from UK Life to Aviva Investors in May 2014.

Total operating expenses of our European markets have reduced by 8% compared to prior year (4% on a constant currency basis) reflecting lower costs in France, Italy and Spain. This is partially offset by an increase in expenses in Poland as a result of higher investment in distribution channels. In Canada, operating expenses have reduced by 18% (5% on a constant currency basis). Total operating expenses for Asia have increased by 13% compared to prior year (26% on a constant currency basis) mainly as a result of developing our distribution network in Singapore. Aviva Investors operating expenses have increased by 5% compared to prior year (8% on a constant currency basis) mainly due to increased expenses incurred to support the further development of the business and inclusion of the UK retail fund management business (transferred from UK Life).

Other Group activities, which include Group centre costs, has increased by £9 million primarily due to the inclusion of Aviva staff pension scheme administration costs of £8 million, which were borne by our UK markets in 2013.

Integration and restructuring costs from continuing operations at HY14 were £42 million *(HY13: £164 million)* and mainly include expenses associated with the Solvency II programme. Compared to the prior period, integration and restructuring costs have reduced by £122 million, principally driven by a significant reduction in transformation spend.

### b) Operating expense ratios – continuing operations

| | 6 months 2014 | 6 months 2013 |
|---|---|---|
| Life[1] | **30.5%** | 35.2% |
| General insurance[2] | **14.6%** | 15.0% |
| Health[2] | **13.6%** | 13.9% |
| Fund management[3] | **12bps** | 11bps |
| **Group total[4]** | **52.1%** | 54.8% |

1 Life non-commission acquisition and administration expenses gross of DAC on new business expressed as a percentage of Life operating income.
2 Written expenses including claims handling costs expressed as a percentage of net written premiums.
3 Aviva Investors' operating expenses expressed as a percentage of average funds under management (excluding River Road).
4 Group operating expenses expressed as a percentage of operating profit before operating expenses and group debt costs.

# Value of new business

## 4 – Value of new business by market

| Gross of tax and non-controlling interests – continuing operations | **6 months 2014 £m** | Restated[1] 6 months 2013 £m | Restated[1] Full year 2013 £m |
|---|---|---|---|
| United Kingdom | **177** | 224 | 469 |
| Ireland | **6** | 2 | 8 |
| United Kingdom & Ireland | **183** | 226 | 477 |
| France | **110** | 90 | 172 |
| Poland | **34** | 21 | 51 |
| Italy – excluding Eurovita | **26** | 18 | 43 |
| Spain – excluding Aseval | **18** | 11 | 31 |
| Turkey | **14** | 20 | 37 |
| Other Europe | **—** | 1 | 1 |
| Europe | **202** | 161 | 335 |
| Asia – excluding Malaysia | **66** | 41 | 103 |
| Aviva Investors[2] | **2** | — | — |
| **Value of new business – excluding Eurovita, Aseval and Malaysia** | **453** | 428 | 915 |
| **Eurovita, Aseval and Malaysia** | **(9)** | (2) | (11) |
| **Total value of new business** | **444** | 426 | 904 |

1 The comparative periods have been restated. See note F1 – MCEV Basis of preparation for further details.
2 UK retail fund management business was transferred from UK Life to Aviva Investors on 9 May 2014 and hence is included in Aviva Investors from 9 May 2014 onwards.

Excluding Eurovita, Aseval and Malaysia, the Group's **value of new business[3]** (VNB) was £453 million *(HY13: £428 million)* an increase of 6% (9% in constant currency). The growth was driven by increases in Europe and Asia, partially offset by a reduction in the UK.

In the **UK**, individual annuity VNB declined as a result of announcements in the 2014 UK budget regarding annuity reform and a general market decline as increasingly customers are choosing to defer taking their pension. This decline was partially offset by an increase in sales of bulk purchase annuity business and improved margins on equity release and protection products. Pensions VNB in the UK remained stable, as a reduction following the Department for Work and Pensions' announcement to cap pension charges on auto-enrolment funds from 2015 was offset by an increase in volumes and lower expenses. Ireland's VNB improved reflecting a strategic focus on higher value products, in particular protection, and on-going expense efficiencies.

In **Europe** improvements in VNB were seen in most markets. In France VNB increased by 27%[4], driven by increased volumes and a continued shift in product mix towards more profitable unit-linked investments. Poland's VNB increased by 64%[4] including a one-off benefit from higher pension contributions in Lithuania as a result of regulatory changes. Excluding Eurovita, which was sold at the end of June 2014, Italy's VNB increased by 49%[4], due to a 24%[4] increase in volumes and improved margins on with-profits products following management actions including introduction of lower guarantee products. In Spain, excluding Aseval, VNB increased by 67%[4] due to expense reductions, improved margins and higher volumes of new with-profits business. VNB in Turkey decreased by 10%[4] reflecting lower sales of credit-linked protection products.

VNB in **Asia** (excluding Malaysia) increased by 76%[4] reflecting growth in volumes and a continued focus on sales of higher margin products, particularly protection products in China. Singapore VNB now includes the retail health business which is not included in the comparative for HY13. As a result the VNB growth rate in Asia is expected to moderate in the second half of 2014.

3 The trend analysis of VNB and present value of new business premiums (PVNBP) are included in Supplementary Information, Section E: VNB & sales analysis.
4 On a constant currency basis.

# Combined operating ratio



## 5 – General insurance combined operating ratio (COR)

| | Net written premiums | | | Claims ratio[2] | | | Commission and expense ratio[3] | | | Combined operating ratio[4] | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **6 months 2014 £m** | 6 months 2013 £m | Full Year 2013 £m | **6 months 2014 %** | 6 months 2013 % | Full Year 2013 % | **6 months 2014 %** | 6 months 2013 % | Full Year 2013 % | **6 months 2014 %** | 6 months 2013 % | Full Year 2013 % |
| United Kingdom[1] | **1,836** | 1,963 | 3,823 | **61.1** | 61.3 | 61.9 | **33.2** | 35.0 | 35.1 | **94.3** | 96.3 | 97.0 |
| Ireland | **136** | 146 | 278 | **67.4** | 70.3 | 64.1 | **29.2** | 33.7 | 35.1 | **96.6** | 104.0 | 99.2 |
| United Kingdom & Ireland | **1,972** | 2,109 | 4,101 | **61.5** | 62.0 | 62.1 | **32.9** | 34.9 | 35.1 | **94.4** | 96.9 | 97.2 |
| Europe | **747** | 764 | 1,360 | **69.6** | 70.5 | 69.6 | **26.8** | 26.5 | 28.5 | **96.4** | 97.0 | 98.1 |
| Canada | **1,026** | 1,126 | 2,250 | **66.4** | 60.8 | 63.2 | **30.4** | 31.6 | 31.4 | **96.8** | 92.4 | 94.6 |
| Asia | **7** | 7 | 14 | **72.1** | 94.4 | 76.3 | **27.5** | 25.5 | 31.8 | **99.6** | 119.9 | 108.1 |
| Other[5] | **5** | 20 | 33 | | | | | | | | | |
| **Total** | **3,757** | 4,026 | 7,758 | **64.5** | 63.9 | 64.5 | **31.0** | 32.3 | 32.8 | **95.5** | 96.2 | 97.3 |

1 United Kingdom excluding Aviva Re and agencies in run-off.
2 Claims ratio: Incurred claims expressed as a percentage of net earned premiums.
3 Commission and Expense ratio: Written commissions and expenses expressed as a percentage of net written premiums.
4 Combined operating ratio: Aggregate of claims ratio and commission and expense ratio.
5 Other includes Aviva Re.

Group **combined operating ratio** (COR) for the period is 95.5% *(HY13: 96.2%)* with improvements in the UK, Ireland and Europe more than offsetting the adverse movement in Canada.

In the **UK and Ireland**, GI COR has improved by 2.5pp to 94.4% *(HY13: 96.9%)*, mainly driven by improvements in the commission and expense ratio due to expense savings and lower profit share commission as a result of the less favourable weather in 2014. In the UK weather experience has been adverse to HY13 as a result of the flooding seen in 1Q14, but despite this the overall weather experience is marginally favourable to the long term average. The claims ratio is broadly stable compared with the prior year at 61.1% *(HY13: 61.3%)* with adverse weather experience compared with the previous year offset by favourable prior year development. In Ireland the COR has improved to 96.6% *(HY13: 104.0%)* due to improvements in the claims, commission and expense ratios. The claims ratio has improved by 2.9pp, with unfavourable weather experience being more than offset by positive prior year development. In addition the commission and expense ratio has improved by 4.5pp as cost savings are delivered.

**Europe's** GI COR has improved by 0.6pp to 96.4% *(HY13: 97.0%)* due to improvements in France, Italy and Poland partially offset by strengthening of prior year reserves in Turkey. Improvements in France and Poland are mainly driven by an improved claims ratio, while in Italy improvement is driven by a lower expense ratio. In Turkey, where the business is held for sale, prior year reserves have been strengthened following adverse claims experience, particularly on personal motor business.

In **Canada** GI COR has deteriorated by 4.4pp to 96.8% *(HY13: 92.4%)*, primarily driven by an increase in the claims ratio, but partly offset by improvements in the commission and expense ratio. The claims ratio has worsened by 5.6pp to 66.4% *(HY13: 60.8%)* due to adverse weather, large loss experience and lower prior year releases compared with 2013.

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. In HY14 we have had a positive prior year development in our GI & Health business, benefitting operating profit by £30 million *(HY13: £4 million benefit to operating profit)* mainly in the UK.

# Business unit performance

## 6.i – United Kingdom and Ireland Life

| | 6 months 2014 £m | 6 months 2013 £m | Full Year 2013 £m |
|---|---|---|---|
| **Cash remitted to Group** | **350** | 300 | 370 |
| **Operating capital generation**[1] | **414** | 258 | 586 |
| **Life Operating profit: IFRS basis** | **478** | 446 | 952 |
| **Expenses** | | | |
| Operating expenses | **278** | 326 | 607 |
| Integration and restructuring costs | **14** | 19 | 59 |
| | **292** | 345 | 666 |
| **Value of new business**[1] | **183** | 226 | 477 |

1 Comparatives have been restated to reflect the changes in MCEV methodology. See note F1 – MCEV Basis of preparation for further details.

### Cash

During the period the UK Life business paid a dividend of £350 million to the Group, an increase of £50 million from HY13.

### Operating Capital Generation

Operating Capital Generation (OCG) in the first half of 2014 is £414 million *(HY13: £258 million)*.

Within this total, OCG generated in the UK increased 61% to £408 million (*HY13: £254 million*). This includes the benefit of management actions taken during HY14 to enable certain shareholder assets to be reflected on the regulatory balance sheet and the economic risk to be hedged more efficiently and an expense reserve release (as a result of reducing the current and long-term cost base). This is partly offset by increased new business strain reflecting lower annuity volumes at reduced margins.

In Ireland, OCG increased to £6 million (*HY13: £4 million*).

### Operating profit: IFRS basis

UK & Ireland life operating profit for HY14 was £478 million *(HY13: £446 million)*, an increase of £32 million compared with the prior period.

UK Life operating profit increased by 8% to £472 million *(HY13: £438 million),* including a net additional benefit to profit of around £100 million (including a reserve release arising as a result of reducing the current and long-term cost base). Excluding this, profits have reduced by 15%, with the benefits of cost savings offset by the impact of reduced annuity trading, lower expected returns as a result of de-risking activity and a non-recurring release in HY13 of the cost of guarantees on a tranche of maturing bonds.

In Ireland life, operating profit reduced to £6 million *(HY13: £8 million)* largely due to the disposal of Ark Life in HY13.

### Expenses

UK operating expenses decreased 11% to £263 million *(HY13: £296 million)* reflecting cost savings within the business including reducing headcount and lower levels of property spend. UK integration and restructuring costs are £8 million *(HY13: £16 million)* and include the costs of Solvency II implementation.

Ireland operating expenses reduced 50% to £15 million *(HY13: £30 million)* reflecting cost savings initiatives implemented in 2013. Integration and restructuring costs have increased £3 million to £6 million *(HY13: £3 million)*.

### Value of new business

Value of new business (VNB) decreased 19% to £183 million *(HY13: £226 million)*. In the UK, VNB was down 21% to £177 million *(HY13: £224 million)* reflecting the impact of a significant reduction in individual annuities following the announcements made in the UK budget and a general market decline as increasingly customers are choosing to defer taking their pension. The decline was partially offset by an increase in sales of bulk purchase annuities in 2Q14 and improved margins on equity release and protection products. Pensions VNB remained stable as a fall in margin following the Department for Work and Pensions announcement to cap pension charges was offset by an increase in volumes and lower expenses.

In Ireland, VNB improved to £6 million *(HY13: £2 million)* as a result of a strategic shift in business mix to more profitable products and on-going expense efficiencies.

## 6.ii – United Kingdom and Ireland General Insurance & Health

| | **6 months 2014 £m** | 6 months 2013 £m | Full Year 2013 £m |
|---|---|---|---|
| **Cash remitted to Group[1]** | **—** | — | 347 |
| **Operating capital generation[2]** | **228** | 216 | 374 |
| **Operating profit: IFRS basis** | **263** | 259 | 489 |
| **Expenses** | | | |
| Operating expenses | **378** | 418 | 818 |
| Integration and restructuring costs | **5** | 12 | 24 |
| | **383** | 430 | 842 |
| **Combined operating ratio[3]** | **94.4%** | 96.9% | 97.2% |

1 FY13 cash remittances include amounts received from Aviva Insurance Limited in January 2014 in respect of 2013 activity.
2 This is the OCG of the UK & Ireland General Insurance operations and Ireland health only and does not contain the non-insurance units or the Agencies in run off.
3 General insurance business only.

### Cash
Dividends from the business are expected to be paid in Q4 2014.

### Operating Capital Generation
Operating capital generation (OCG) in the first half of 2014 was £228 million (*HY13: £216 million*). UK OCG increased 6% to £219 million *(HY13: £207 million)* reflecting an increase in UKGI operating profit compared with the previous year. Ireland OCG was stable at £9 million *(HY13: £9 million)*.

### Operating profit: IFRS basis
Operating profit increased to £263 million (*HY13: £259 million*). In UKGI operating profit increased 5% to £251 million *(HY13: £239 million)*. Within this, the underwriting result of £114 million (*HY13: £78 million*) improved by 46% and benefitted from expense savings and favourable prior year development of £33 million, partially offset by the less favourable weather experienced in HY14 than in the prior period. Our personal lines underwriting result declined to £60 million *(HY13: £72 million)* while the underwriting result in commercial lines has improved to £54 million *(HY13: £6 million)*.

In UKGI, longer term investment return declined by £24 million due to the reduction in the intercompany loan balance, partially offset by a change in investment portfolio mix. In UK Health, operating profit was down £6 million to £(1) million loss *(HY13: £5 million profit)* due to adverse claims experience. Over the six month period, net written premium (NWP) from UK general insurance declined 6% to £1,836 million (*HY13: £1,963 million*), mostly due to our disciplined underwriting approach in a continuing softening motor market and reduced exposure to unprofitable commercial motor business.

In Ireland, general insurance and health operating profit was down 13% to £13 million *(HY13: £15 million)* mainly due to higher claims costs in the health business. Ireland general insurance underwriting result was stable at £nil *(HY13: £(1) million loss)*. Longer term investment return in Ireland was broadly in line with the prior year.

### Expenses
UKGI operating expenses have reduced by 9% to £328 million (*HY13: £360 million*) and in Ireland, operating expenses reduced by 14% to £50 million *(HY13: £58 million)*, reflecting cost saving initiatives.

UK and Ireland's integration and restructuring costs reduced to £5 million *(HY13: £12 million)* as a result of lower transformation costs in Ireland partly offset by higher Solvency II spend in the UK.

### Combined operating ratio[4]

| | Claims ratio | | | Commission and expense ratio | | | Combined operating ratio | | |
|---|---|---|---|---|---|---|---|---|---|
| **United Kingdom & Ireland** | **6 months 2014 %** | 6 months 2013 % | Full Year 2013 % | **6 months 2014 %** | 6 months 2013 % | Full Year 2013 % | **6 months 2014 %** | 6 months 2013 % | Full Year 2013 % |
| Personal | **62.4** | 59.0 | 57.7 | **33.1** | 35.9 | 35.4 | **95.5** | 94.9 | 93.1 |
| Commercial | **60.3** | 65.9 | 68.2 | **32.5** | 33.5 | 34.8 | **92.8** | 99.4 | 103.0 |
| **Total** | **61.5** | 62.0 | 62.1 | **32.9** | 34.9 | 35.1 | **94.4** | 96.9 | 97.2 |

4 General insurance business only.

The combined operating ratio (COR) has improved by 2.5pp to 94.4% *(HY13: 96.9%)* mainly driven by improvements in the commission and expense ratio.

Profitability in personal lines has decreased due to higher weather related claims compared to the prior period, however, overall UK weather experience in HY14 remains marginally favourable to the long term average.

While conditions in commercial lines continue to be challenging, overall profitability has improved with a combined operating ratio of 92.8% (*HY13: 99.4%*). In the UK this is mainly driven by the improvement in the claims ratio reflecting the reserve strengthening in HY13 which was driven by adverse claims and large losses which has not repeated in HY14.

Overall UKGI COR improved to 94.3% (*HY13: 96.3%*) mainly driven by the improvement in the commission and expense ratio, due to cost savings, together with improved prior year development largely offsetting the less favourable weather experienced in HY14 than in the prior period.

Performance in Ireland has improved to 96.6% (*HY13: 104.0%*) due to improvements in both claims and the commission and expense ratio, with positive prior year development only partially offset by the unfavourable weather.

## 6.iii – Europe[1]

| | 6 months 2014 £m | 6 months 2013 £m | Full Year 2013 £m |
|---|---|---|---|
| **Cash remitted to Group** | **225** | 209 | 388 |
| **Operating capital generation[2]** | **258** | 321 | 558 |
| **Operating profit: IFRS basis** | | | |
| Life | **441** | 425 | 851 |
| General insurance & health | **57** | 47 | 112 |
| | **498** | 472 | 963 |
| **Expenses** | | | |
| Operating expenses | **306** | 333 | 644 |
| Integration and restructuring costs | **1** | 7 | 34 |
| | **307** | 340 | 678 |
| **Value of new business[2]** | | | |
| Value of new business – excluding Eurovita & Aseval | **202** | 161 | 335 |
| Effects of disposals/Assets held for sale (Eurovita & Aseval) | **(9)** | (3) | (12) |
| | **193** | 158 | 323 |
| **Combined operating ratio[3]** | **96.4%** | 97.0% | 98.1% |

1 Our European business includes life and general insurance business written in France, Poland, Italy, and Turkey, life business in Spain and health business in France.
2 Comparatives have been restated to reflect the changes in MCEV methodology. See note F1 – MCEV Basis of preparation for further details.
3 General insurance business only.

### Cash
Cash remitted to group during the first half of 2014 was £225 million *(HY13: £209 million)*, with remittances received from France, Poland, Spain and Turkey.

### Operating capital generation
Operating capital generation (OCG) has decreased by 20% to £258 million *(HY13: £321 million)*. OCG in France decreased 27% to £127 million *(HY13: £174 million),* as the prior year included benefit from management actions to reduce guarantees, not repeated in HY14. Poland reported an increase of 31% to £85 million *(HY13: £65 million)*, which includes the benefit of a £27 million (net of tax) one-off regulatory pensions change. There were also reductions in OCG in Italy and Spain, mostly relating to Eurovita and Aseval.

### Life operating profit: IFRS basis
Life operating profit increased 4% to £441 million (*HY13: £425 million*), a 7% increase on a constant currency basis. In France, life operating profit was £189 million *(HY13: £190 million)*. Excluding the impact from the reduction in the cost of guaranteed death benefits in HY13, operating profit was 11% higher largely driven by higher sales of unit-linked and protection products. Poland benefitted from a £39 million one-off regulatory pension change which gave rise to operating profits of £112 million *(HY13: £78 million)*. Excluding Eurovita, Italy's operating profit increased by 15% to £60 million *(HY13: £52 million)* due to higher sales and improved margins on with-profits savings products. In Spain, operating profit excluding Aseval was broadly stable at £62 million (*HY13: £63 million*).

### General insurance & health operating profit: IFRS basis
Operating profits were up 21% to £57 million (*HY13: £47 million*), a 22% improvement on a constant currency basis. In France, operating profit was £43 million (*HY13: £32 million*) largely reflecting an improvement in underlying motor claims and the benefit of rating actions. Operating profits in Poland and Italy were marginally higher at £6 million and £17 million respectively *(HY13: £5 million, £16 million)*, partly offset by operating losses in Turkey GI, which is currently held for sale.

### Expenses
Operating expenses improved by 8% to £306 million (*HY13: £333 million*), a 4% improvement on a constant currency basis, reflecting reductions across most markets. In Poland, expenses increased by £3 million due to higher investment in distribution channels.

### Value of new business
Excluding Eurovita and Aseval, there was a 25% growth in Europe's value of new business (VNB) to £202 million (*HY13: £161 million*). On a constant currency basis this was a 33% increase, reflecting improvements in all markets except Turkey. VNB in France increased 27%[5] due to volume growth of 6%[5] and a continued shift in product mix towards more profitable unit-linked investments. In Poland, VNB increased by 64%[5] including one-off benefit from higher pension contributions in Lithuania as a result of regulatory changes. In Italy (excluding Eurovita), VNB increased by 49%[5] with higher volumes (up 24%[5]), and improved margins on with-profits products following management actions including introduction of lower guarantee products. In Spain (excluding Aseval), VNB increased 67%[5] due to improved margins, higher volumes of new with-profits business and expense reductions. The 10%[5] decline in Turkey was mainly driven by a change in mix from higher margin credit-linked protection products to lower margin pension products.

### Combined operating ratio[4]

| | Claims ratio | | | Commission and expense ratio | | | Combined operating ratio | | |
|---|---|---|---|---|---|---|---|---|---|
| Europe | 6 months 2014 % | 6 months 2013 % | Full Year 2013 % | 6 months 2014 % | 6 months 2013 % | Full Year 2013 % | 6 months 2014 % | 6 months 2013 % | Full Year 2013 % |
| France | **68.7** | 71.1 | 69.5 | **25.7** | 24.9 | 27.6 | **94.4** | 96.0 | 97.1 |
| Poland | **55.4** | 62.7 | 61.9 | **34.8** | 31.7 | 33.3 | **90.2** | 94.4 | 95.2 |
| Italy | **68.5** | 68.3 | 67.6 | **26.7** | 27.7 | 27.6 | **95.2** | 96.0 | 95.2 |
| Turkey | **108.2** | 78.9 | 84.5 | **38.3** | 34.6 | 39.4 | **146.5** | 113.5 | 123.9 |
| **Total** | **69.6** | 70.5 | 69.6 | **26.8** | 26.5 | 28.5 | **96.4** | 97.0 | 98.1 |

4 General insurance business only.

Combined operating ratio (COR) has improved to 96.4% (*HY13: 97.0%*), reflecting the general insurance business performance as described above.

5 On a constant currency basis

## 6.iv – Canada

| | 6 months 2014 £m | 6 months 2013 £m | Full Year 2013 £m |
|---|---|---|---|
| **Cash remitted to Group** | **—** | 63 | 130 |
| **Operating capital generation** | **40** | 108 | 177 |
| **Operating profit: IFRS basis** | **83** | 147 | 246 |
| **Expenses** | | | |
| Operating expenses | **161** | 196 | 378 |
| Integration and restructuring costs | **1** | 4 | 9 |
| | **162** | 200 | 387 |
| **Combined operating ratio** | **96.8%** | 92.4% | 94.6% |

There has been a weakening of the Canadian dollar against sterling by 17% (average rate) over the period which has had a significant impact across a number of metrics.

### Cash
Cash paid during the period to Group was £nil *(HY13: £63 million)*, with the dividend to Group expected to be paid in the second half of the year.

### Operating capital generation
Operating capital generation in the first half of 2014 declined to £40 million *(HY13: £108 million)* due to lower operating profits and an increase in required capital as a result of the increased claims seen in 1Q14.

### Operating profit: IFRS basis
General insurance operating profit at HY14 was £83 million *(HY13: £147 million)*, a reduction of £64 million, with £21 million of this decrease a result of adverse foreign exchange movements in the period. Canada experienced severe weather in 1Q14 contributing to higher weather related claims frequency and year to date claims losses (compared with the impact of the Alberta floods in the prior year), higher large losses and lower prior year reserve releases. These adverse factors were partially offset by underwriting improvements in both personal and commercial lines but resulted in a lower underwriting result of £30 million *(HY13: £82 million)*. Longer term investment return reduced 19% to £56 million *(HY13: £69 million)*, down 6% on a constant currency basis.

Net written premium was 9% lower at £1,026 million *(HY13: £1,126 million)*, but up 6% on a constant currency basis. The increase reflects growth in Western Canada along with improved retention on personal lines and rating increases on commercial lines.

### Expenses
Operating expenses reduced by 18% to £161 million *(HY13: £196 million)*. On a constant currency basis, operating expenses reduced by 5%. Integration and restructuring costs were lower than prior year at £1 million *(HY13: £4 million)*.

### Combined operating ratio

| | Claims ratio | | | Commission and expense ratio | | | Combined operating ratio | | |
|---|---|---|---|---|---|---|---|---|---|
| **Canada** | **6 months 2014 %** | 6 months 2013 % | Full Year 2013 % | **6 months 2014 %** | 6 months 2013 % | Full Year 2013 % | **6 months 2014 %** | 6 months 2013 % | Full Year 2013 % |
| Personal | **68.6** | 60.6 | 64.0 | **27.9** | 29.1 | 29.3 | **96.5** | 89.7 | 93.3 |
| Commercial | **62.7** | 61.3 | 61.8 | **34.7** | 35.6 | 35.1 | **97.4** | 96.9 | 96.9 |
| **Total** | **66.4** | 60.8 | 63.2 | **30.4** | 31.6 | 31.4 | **96.8** | 92.4 | 94.6 |

Compared to HY13, combined operating ratio is higher at 96.8% *(HY13: 92.4%)*, driven primarily by the adverse impact of the severe winter weather.

## 6.v – Asia

| | 6 months 2014 £m | 6 months 2013 £m | Full Year 2013 £m |
|---|---|---|---|
| **Cash remitted to Group** | **21** | — | 20 |
| **Operating capital generation**[1] | **(13)** | 63 | 92 |
| **Operating profit: IFRS basis** | | | |
| Life | **34** | 38 | 96 |
| General insurance & health | **1** | (1) | 1 |
| | **35** | 37 | 97 |
| **Expenses** | | | |
| Operating expenses | **45** | 40 | 86 |
| Integration and restructuring costs | **—** | 3 | 7 |
| | **45** | 43 | 93 |
| **Value of new business**[1] | | | |
| Value of new business – excluding Malaysia | **66** | 41 | 103 |
| Effect of disposals (Malaysia) | **—** | 1 | 1 |
| | **66** | 42 | 104 |
| **Combined operating ratio**[2] | **99.6%** | 119.9% | 108.1% |

1 Comparatives have been restated to reflect the changes in MCEV methodology. See note F1 – MCEV Basis of preparation for further details.
2 General insurance business only.

### Cash
Cash remitted to Group was £21 million *(HY13: £nil)*, paid from the Singapore business.

### Operating Capital Generation
Operating capital generation (OCG) was lower in the first half of 2014 at £(13) million *(HY13: positive £63 million)*. This primarily reflects a one-off benefit from a reinsurance transaction in Singapore in HY13 and an increase in required capital in Singapore's retail health business in HY14. Adjusting for these items, OCG for Asia was stable compared with the previous year.

### Operating profit: IFRS basis
Overall operating profit remained stable at £35 million *(HY13: £37 million)*. Within total operating profit, life business profits reduced to £34 million *(HY13: £38 million)* as a result of adverse foreign exchange movements and the non-life business improved to £1 million *(HY13: £(1) million)*.

### Expenses
Operating expenses have increased 13% to £45 million *(HY13: £40 million)*, mainly due to investment in the Singapore distribution network.

### Value of New Business
Excluding Malaysia, value of new business (VNB) increased 62%[3] (76% in constant currency) to £66 million *(HY13: £41 million)*. Singapore's VNB increased £10 million to £37 million *(HY13: £27 million)* as a result of the inclusion of the retail health business as covered business (included from the second half of 2013). China's VNB increased £11 million to £20 million *(HY13: £9 million)* resulting from a shift towards higher margin protection products.

### Combined Operating Ratio
Overall COR for Asia improved to 99.6% *(HY13: 119.9%)*, with the prior year impacted by a one-off increase in reserve margin in Singapore. Overall net written premium for GI and Health business was up 9% on a constant currency basis reflecting growth in the Singapore health business.

3 Calculated using unrounded numbers so minor rounding differences may exist.

## 6.vi – Fund Management

| | **6 months 2014 £m** | 6 months 2013 £m | Full Year 2013 £m |
|---|---|---|---|
| **Cash remitted to Group**[1] | **16** | 1 | 14 |
| **Operating capital generation**[1] | **1** | 12 | 23 |
| **Operating profit: IFRS basis** | | | |
| Aviva Investors | **41** | 31 | 68 |
| United Kingdom | **6** | 10 | 23 |
| Asia | **1** | 1 | 2 |
| | **48** | 42 | 93 |
| **Aviva Investors: Operating profit: IFRS basis** | | | |
| Fund management | **41** | 31 | 68 |
| Other operations – client compensation costs | **—** | — | (96) |
| | **41** | 31 | (28) |
| **Expenses**[1] | | | |
| Operating expenses | **143** | 136 | 290 |
| Integration and restructuring costs | **(5)** | 15 | 41 |
| | **138** | 151 | 331 |

1 Only includes Aviva Investors.

### Cash
During the first half of 2014 a dividend of £16 million was paid to Group, reflecting acceleration of remittances to group compared to HY13.

### Operating Capital Generation
Operating capital generation for HY14 was £1 million *(HY13: £12 million)*. The decrease was mainly due to a higher capital requirement as a result of the transfer of the UK retail fund management business from UK Life effective from 9 May 2014.

### Operating profit: IFRS basis
Operating profit generated by Aviva Investors was £41 million (*HY13: £31 million*), an increase of £10 million compared with the prior year. This is mainly due to higher performance fees, as well as a £2 million contribution from the UK retail fund management business which has transferred to Aviva Investors from UK Life. These were partially offset by lower revenues as a result of SICAV and hedge fund closures in 4Q13 and higher operating expenses.

### Expenses
Overall operating expenses have increased by £7 million compared with the first half of 2013 partly due to the transfer of the UK retail fund management business (£4 million) and also due to an increase in expenses incurred to support the further development of the business.

### Net flows and funds under management – Aviva Investors

| | **Internal £m** | **External £m** | **Total £m** |
|---|---|---|---|
| **Aviva Investors** | | | |
| Funds under management at 1 January 2014 | 192,372 | 48,135 | 240,507 |
| Gross Sales | 8,495 | 4,106 | 12,601 |
| Gross claims/redemptions | (10,190) | (5,827) | (16,017) |
| Market movements and other | 1,234 | 807 | 2,041 |
| Disposal of River Road | — | (4,798) | (4,798) |
| **Funds under management at 30 June 2014** | **191,911** | **42,423** | **234,334** |

Aviva Investors funds under management have decreased by £6.2 billion to £234.3 billion *(FY13: £240.5 billion)* during the first half of the year. Excluding the impact of the River Road disposal, funds under management have decreased by £1.4 billion as positive market and other movements have been more than offset by net outflows.

# Profit drivers: IFRS basis

## 7.i – Life business profit drivers

Life business operating profit before shareholder tax for continuing operations increased by 5% to £954 million *(HY13: £910 million)*.

Total income reduced by 6% to £1,555 million *(HY13: £1,661 million)* while total expenses fell by 7% to £749 million *(HY13: £808 million)*.

| | United Kingdom & Ireland | | | Europe | | | Asia | | | Total Continuing Operations | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **6 months 2014 £m** | Restated 6 months 2013 £m | Restated Full Year 2013 £m | **6 months 2014 £m** | 6 months 2013 £m | Full Year 2013 £m | **6 months 2014 £m** | Restated 6 months 2013 £m | Full Year 2013 £m | **6 months 2014 £m** | Restated 6 months 2013 £m | Restated Full Year 2013 £m |
| New business income | **210** | 240 | 506 | **105** | 106 | 234 | **61** | 50 | 116 | **376** | 396 | 856 |
| Underwriting margin | **62** | 101 | 213 | **130** | 159 | 305 | **26** | 34 | 52 | **218** | 294 | 570 |
| Investment return | **381** | 376 | 762 | **551** | 570 | 1,101 | **29** | 25 | 63 | **961** | 971 | 1,926 |
| **Total Income** | **653** | 717 | 1,481 | **786** | 835 | 1,640 | **116** | 109 | 231 | **1,555** | 1,661 | 3,352 |
| Acquisition expenses | **(151)** | (171) | (284) | **(142)** | (152) | (300) | **(48)** | (46) | (94) | **(341)** | (369) | (678) |
| Administration expenses | **(162)** | (193) | (405) | **(225)** | (231) | (461) | **(21)** | (15) | (38) | **(408)** | (439) | (904) |
| **Total Expenses** | **(313)** | (364) | (689) | **(367)** | (383) | (761) | **(69)** | (61) | (132) | **(749)** | (808) | (1,582) |
| DAC, AVIF and other | **138** | 93 | 160 | **22** | (27) | (28) | **(13)** | (10) | (3) | **147** | 56 | 129 |
| | **478** | 446 | 952 | **441** | 425 | 851 | **34** | 38 | 96 | **953** | 909 | 1,899 |
| Other business[1] | | | | | | | | | | **1** | 1 | 2 |
| **Total – continuing operations** | | | | | | | | | | **954** | 910 | 1,901 |

1 Other business includes the total result for Aviva Investors Pooled Pensions and Aviva Life Reinsurance.

### Income: New business income and underwriting margin

| | United Kingdom & Ireland | | Europe | | Asia | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **6 months 2014 £m** | Restated 6 months 2013 £m | **6 months 2014 £m** | 6 months 2013 £m | **6 months 2014 £m** | Restated 6 months 2013 £m | **6 months 2014 £m** | Restated 6 months 2013 £m |
| **New business income (£m)** | **210** | 240 | **105** | 106 | **61** | 50 | **376** | 396 |
| APE (£m)[1] | **713** | 649 | **584** | 558 | **147** | 156 | **1,444** | 1,363 |
| As margin on APE (%) | **29%** | 37% | **18%** | 19% | **41%** | 32% | **26%** | 29% |
| **Underwriting margin (£m)** | **62** | 101 | **130** | 159 | **26** | 34 | **218** | 294 |
| Analysed by: | | | | | | | | |
| Expenses | **14** | 16 | **29** | 41 | **19** | 18 | **62** | 75 |
| Mortality and longevity | **50** | 60 | **89** | 105 | **4** | 14 | **143** | 179 |
| Persistency | **(2)** | 25 | **12** | 13 | **3** | 2 | **13** | 40 |

1 APE excludes UK Retail Fund Management and Health business in UK & Ireland and Asia.

#### (a) New business income

New business income reduced to £376 million *(HY13: £396 million)*, mainly due to the impact of lower annuity trading in the UK following the recent Budget announcement partly offset by an increase in Asia.

The net contribution from new business is the new business income less associated acquisition expenses (see (g) below). This increased to a profit of £35 million *(HY13: profit of £27 million)*.

In the UK & Ireland, net contribution from new business decreased to £59 million *(HY13: £69 million)*. Volumes based on APE increased by 10% largely due to an increase in pensions, protection and bulk purchase annuity business partly offset by a reduction in individual annuities. The reduction in margin on APE to 29% *(HY13: 37%)* is mainly as a result of the change in business mix.

In Europe, net contribution improved to a loss of £37 million *(HY13: loss of £46 million)*. Volumes based on APE increased by 5%, largely driven by higher sales in France and Italy. New business margin on APE remained relatively stable in Europe at 18% *(HY13: 19%)*.

In Asia, net contribution increased to a profit of £13 million *(HY13: profit of £4 million)* driven by a change in business mix to higher margin products.

#### (b) Underwriting margin

The underwriting margin reduced to £218 million *(HY13: £294 million)*. In the UK & Ireland, underwriting margin reduced to £62 million (*HY13: £101 million*) driven by lower positive mortality margins and a non-recurring release in HY13 of the cost of guarantees on a tranche of maturing bonds. In Europe, underwriting margin decreased to £130 million *(HY13: £159 million)*. In France, excluding a one-off benefit of £20 million in HY13 from management actions to reduce the cost of guaranteed death benefits, underwriting margin improved mainly relating to protection business. Underwriting margin in Spain decreased by £16 million mainly due to the sale of Aseval. In Asia, underwriting margin reduced to £26 million *(HY13: £34 million*) mainly due to less favourable mortality experience on protection business in Singapore.

## 7.i – Life business profit drivers continued

**Income: investment return**

| | United Kingdom & Ireland | | Europe | | Asia | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **6 months 2014 £m** | Restated 6 months 2013 £m | **6 months 2014 £m** | 6 months 2013 £m | **6 months 2014 £m** | Restated 6 months 2013 £m | **6 months 2014 £m** | Restated 6 months 2013 £m |
| **Unit-linked margin (£m)** | **225** | 208 | **219** | 227 | **7** | 11 | **451** | 446 |
| As Annual management charge on average reserves (bps) | **91** | 90 | **119** | 120 | **117** | 169 | **104** | 104 |
| Average reserves (£bn) | **49.2** | 46.5 | **36.7** | 37.8 | **1.2** | 1.3 | **87.1** | 85.6 |
| **Participating business (£m)** | **50** | 41 | **252** | 254 | **(4)** | (5) | **298** | 290 |
| As bonus on average reserves (bps) | **29** | 22 | **82** | 82 | **n/a** | n/a | **61** | 58 |
| Average reserves (£bn) | **34.5** | 37.3 | **61.6** | 61.9 | **1.6** | 1.5 | **97.7** | 100.7 |
| **Spread margin (£m)** | **61** | 60 | **13** | 18 | **20** | 13 | **94** | 91 |
| As spread margin on average reserves (bps) | **30** | 30 | **60** | 85 | **211** | 139 | **40** | 39 |
| Average reserves (£bn) | **40.9** | 40.5 | **4.3** | 4.3 | **1.9** | 1.9 | **47.1** | 46.7 |
| **Expected return on shareholder assets (£m)** | **45** | 67 | **67** | 71 | **6** | 6 | **118** | 144 |
| **Total (£m)** | **381** | 376 | **551** | 570 | **29** | 25 | **961** | 971 |

**(c) Unit-linked margin**

The unit-linked margin was stable at £451 million *(HY13: £446 million)*. The margin as a proportion of average unit-linked reserves was 104 bps *(HY13: 104 bps)*, on average reserves of £87 billion *(HY13: £86 billion)*.

This was driven by improved unit linked margin in the UK due to higher average reserves offset by lower margins in Europe (mainly due to the disposal of Aseval) and Asia.

**(d) Participating business**

Income from participating business increased to £298 million *(HY13: £290 million)*. In the UK & Ireland, the shareholder transfer from with-profit funds increased to £50 million *(HY13: £41 million)*, reflecting an increase in bonus rates. In Europe, income has remained relatively stable at £252 million *(HY13: £254 million)* in line with average reserves. The majority of participating business income is earned in France, where there is a fixed management charge of around 50bps on AFER business which is the largest single component of the business.

**(e) Spread margin**

Spread business income, which mainly relates to UK in-force immediate annuity and equity release business, was £94 million *(HY13: £91 million)*. The spread margin on average reserves remained stable at 40 bps *(HY13: 39 bps)*, on average reserves of £47 billion *(HY13: £47 billion)*. In Europe the spread margin reduced largely due to the sale of Aseval in Spain. In Asia, the majority of spread business income was generated in Korea which was sold on 27 June 2014.

**(f) Expected return on shareholder assets**

Expected returns, representing investment income on surplus funds, reduced to £118 million *(HY13: £144 million)*. The reduction in income mainly relates to the UK, reflecting lower expected returns principally as a result of de-risking activity.

## 7.i – Life business profit drivers continued

### Expenses

| | United Kingdom & Ireland | | Europe | | Asia | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **6 months 2014 £m** | 6 months 2013 £m | **6 months 2014 £m** | 6 months 2013 £m | **6 months 2014 £m** | 6 months 2013 £m | **6 months 2014 £m** | 6 months 2013 £m |
| **Acquisition expenses (£m)** | **(151)** | (171) | **(142)** | (152) | **(48)** | (46) | **(341)** | (369) |
| APE (£m)[1] | **713** | 649 | **584** | 558 | **147** | 156 | **1,444** | 1,363 |
| As acquisition expense ratio on APE (%) | **21%** | 26% | **24%** | 27% | **33%** | 29% | **24%** | 27% |
| **Administration expenses (£m)** | **(162)** | (193) | **(225)** | (231) | **(21)** | (15) | **(408)** | (439) |
| As existing business expense ratio on average reserves (bps) | **26** | 31 | **44** | 44 | **89** | 62 | **35** | 38 |
| Average reserves (£bn) | **124.6** | 124.3 | **102.6** | 104.0 | **4.7** | 4.7 | **231.9** | 233.0 |

1 APE excludes UK Retail Fund Management and Health business in UK & Ireland and Asia.

#### (g) Acquisition expenses

Acquisition expenses reduced to £341 million *(HY13: £369 million)* reflecting changes in business mix particularly in the UK. The overall group-wide ratio of acquisition expenses to APE improved to 24% *(HY13: 27%)*.

#### (h) Administration expenses

Administration expenses reduced to £408 million *(HY13: £439 million)*, driven by cost efficiencies across the UK & Ireland and Europe. The expense ratio was 35 bps *(HY13: 38 bps)* on average reserves of £232 billion *(HY13: £233 billion)*. The overall reduction in life business acquisition and administration expenses was £59 million.

#### (i) DAC, AVIF and other

DAC, AVIF and other items amounted to an overall positive contribution of £147 million *(HY13: £56 million)*. This was mainly due to a net additional benefit to profit of around £100 million in the UK (including a reserve release arising as a result of reducing the current and long-term cost base) partly offset by higher DAC amortisation charges. The movement in other items compared to HY13 also reflects a £39 million one-off benefit in HY14 in Poland from a regulatory pension change, offset by lower other one-off benefits in the UK.

## 7.ii – General insurance and health

| 6 months 2014 | UK Personal £m | UK Commercial £m | Total UK £m | Ireland £m | Total UK & Ireland £m | Canada Personal £m | Canada Commercial £m | Total Canada £m | Europe £m | Asia & Other[1] £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **General insurance** | | | | | | | | | | | |
| Gross written premiums | 1,088 | 900 | **1,988** | 143 | **2,131** | 659 | 403 | **1,062** | **784** | **9** | **3,986** |
| Net written premiums | 1,041 | 795 | **1,836** | 136 | **1,972** | 648 | 378 | **1,026** | **747** | **12** | **3,757** |
| **Net earned premiums** | 1,104 | 750 | **1,854** | 134 | **1,988** | 620 | 378 | **998** | **664** | **13** | **3,663** |
| **Net claims incurred** | (689) | (445) | **(1,134)** | (90) | **(1,224)** | (425) | (237) | **(662)** | **(462)** | **(13)** | **(2,361)** |
| *Of which claims handling costs* | | | ***(97)*** | *(4)* | ***(101)*** | | | ***(41)*** | ***(29)*** | **—** | ***(171)*** |
| **Written commission** | (267) | (164) | **(431)** | (18) | **(449)** | (123) | (75) | **(198)** | **(139)** | **(1)** | **(787)** |
| **Written expenses**[2] | (80) | (97) | **(177)** | (22) | **(199)** | (58) | (56) | **(114)** | **(61)** | **(3)** | **(377)** |
| Movement in DAC | (8) | 10 | **2** | (4) | **(2)** | 6 | — | **6** | **12** | **—** | **16** |
| **Underwriting result** | 60 | 54 | **114** | — | **114** | 20 | 10 | **30** | **14** | **(4)** | **154** |
| Longer-term investment return[3] | | | **139** | 9 | **148** | | | **56** | **37** | **3** | **244** |
| Other[4] | | | **(2)** | — | **(2)** | | | **(3)** | **—** | **—** | **(5)** |
| **Operating profit** | | | **251** | 9 | **260** | | | **83** | **51** | **(1)** | **393** |
| **Health insurance** | | | | | | | | | | | |
| Underwriting result | | | | | **1** | | | **—** | **5** | **—** | **6** |
| Longer-term investment return | | | | | **2** | | | **—** | **1** | **1** | **4** |
| **Operating profit** | | | | | **3** | | | **—** | **6** | **1** | **10** |
| **Total operating profit** | | | | | **263** | | | **83** | **57** | **—** | **403** |
| **General insurance combined operating ratio** | | | | | | | | | | | |
| Claims ratio | 62.3% | 59.3% | **61.1%** | 67.4% | **61.5%** | 68.6% | 62.7% | **66.4%** | **69.6%** | | **64.5%** |
| Commission ratio | 25.6% | 20.6% | **23.5%** | 13.3% | **22.8%** | 18.9% | 19.8% | **19.3%** | **18.7%** | | **21.0%** |
| Expense ratio | 7.8% | 12.1% | **9.7%** | 15.9% | **10.1%** | 9.0% | 14.9% | **11.1%** | **8.1%** | | **10.0%** |
| **Combined operating ratio**[5] | 95.7% | 92.0% | **94.3%** | 96.6% | **94.4%** | 96.5% | 97.4% | **96.8%** | **96.4%** | | **95.5%** |
| **Assets supporting general insurance and health business** | | | | | | | | | | | |
| Debt securities | | | **3,602** | 998 | **4,600** | | | **3,132** | **2,166** | **232** | **10,130** |
| Equity securities | | | **14** | — | **14** | | | **254** | **26** | **—** | **294** |
| Investment property | | | **1** | 6 | **7** | | | **—** | **128** | **—** | **135** |
| Cash and cash equivalents | | | **883** | 65 | **948** | | | **90** | **262** | **37** | **1,337** |
| Other[6] | | | **4,142** | 101 | **4,243** | | | **136** | **186** | **—** | **4,565** |
| **Assets at 30 June 2014** | | | **8,642** | 1,170 | **9,812** | | | **3,612** | **2,768** | **269** | **16,461** |
| Debt securities | | | **3,515** | 994 | **4,509** | | | **3,098** | **2,255** | **243** | **10,105** |
| Equity securities | | | **15** | — | **15** | | | **301** | **23** | **—** | **339** |
| Investment property | | | **1** | 6 | **7** | | | **—** | **133** | **—** | **140** |
| Cash and cash equivalents[7] | | | **1,490** | 194 | **1,684** | | | **95** | **152** | **51** | **1,982** |
| Other[6,7] | | | **5,088** | 109 | **5,197** | | | **79** | **159** | **—** | **5,435** |
| **Assets at 31 December 2013**[7] | | | **10,109** | 1,303 | **11,412** | | | **3,573** | **2,722** | **294** | **18,001** |
| **Average assets** | | | **9,375** | 1,237 | **10,612** | | | **3,592** | **2,745** | **282** | **17,231** |
| **LTIR as % of average assets** | | | **3.0%** | 1.5% | **2.8%** | | | **3.1%** | **2.8%** | **2.8%** | **2.9%** |

1 Asia & Other includes Aviva Re.
2 Operating expenses shown in note 3 includes claims handling costs and written expenses included in general insurance COR above, plus operating expenses of other non-insurance operations.
3 The UK LTIR includes £82 million *(HY13: £116 million)* relating to the internal loan. This is lower than 2013 primarily as a result of a reduction of this loan during 2013 and 2014.
4 Includes unwind of discount and pension scheme net finance costs.
5 COR is calculated as incurred claims expressed as a percentage of net earned premiums, plus written commissions and written expenses expressed as a percentage of net written premiums. COR is calculated using unrounded numbers so minor rounding differences may exist.
6 Includes loans and other financial investments.
7 Restated following the adoption of amendments to 'IAS 32: *Financial Instruments: Presentation*'. Refer to note B2 for further information.

## 7.ii – General insurance and health continued

| 6 months 2013 | UK Personal £m | UK Commercial £m | Total UK £m | Ireland £m | Total UK & Ireland £m | Canada Personal £m | Canada Commercial £m | Total Canada £m | Europe £m | Asia & Other[1] £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **General insurance** | | | | | | | | | | | |
| Gross written premiums | 1,185 | 929 | 2,114 | 152 | 2,266 | 719 | 443 | 1,162 | 805 | 16 | 4,249 |
| Net written premiums | 1,135 | 828 | 1,963 | 146 | 2,109 | 706 | 420 | 1,126 | 764 | 27 | 4,026 |
| **Net earned premiums** | 1,176 | 820 | 1,996 | 166 | 2,162 | 689 | 417 | 1,106 | 688 | 22 | 3,978 |
| **Net claims incurred** | (687) | (537) | (1,224) | (117) | (1,341) | (417) | (256) | (673) | (485) | (45) | (2,544) |
| *Of which claims handling costs* | | | *(100)* | *(3)* | *(103)* | | | *(47)* | *(34)* | — | *(184)* |
| **Written commission** | (315) | (176) | (491) | (21) | (512) | (139) | (85) | (224) | (139) | (1) | (876) |
| **Written expenses[2]** | (94) | (103) | (197) | (28) | (225) | (66) | (65) | (131) | (63) | (2) | (421) |
| Movement in DAC | (8) | (2) | (10) | (1) | (11) | 4 | — | 4 | 7 | 2 | 2 |
| Internal reallocation of result of UK run-off business | — | 4 | 4 | — | 4 | — | — | — | — | (4) | — |
| **Underwriting result** | 72 | 6 | 78 | (1) | 77 | 71 | 11 | 82 | 8 | (28) | 139 |
| Longer-term investment return[3] | | | 163 | 10 | 173 | | | 69 | 36 | 3 | 281 |
| Other[4] | | | (2) | — | (2) | | | (4) | — | — | (6) |
| **Operating profit** | | | 239 | 9 | 248 | | | 147 | 44 | (25) | 414 |
| **Health insurance** | | | | | | | | | | | |
| Underwriting result | | | | | 8 | | | — | 3 | — | 11 |
| Longer-term investment return | | | | | 3 | | | — | — | — | 3 |
| **Operating profit** | | | | | 11 | | | — | 3 | — | 14 |
| **Total operating profit** | | | | | 259 | | | 147 | 47 | (25) | 428 |
| **General insurance combined operating ratio** | | | | | | | | | | | |
| Claims ratio | 58.4% | 65.5% | 61.3% | 70.3% | 62.0% | 60.6% | 61.3% | 60.8% | 70.5% | | 63.9% |
| Commission ratio | 27.7% | 21.2% | 25.0% | 14.4% | 24.2% | 19.7% | 20.1% | 19.9% | 18.2% | | 21.8% |
| Expense ratio | 8.3% | 12.3% | 10.0% | 19.3% | 10.7% | 9.4% | 15.5% | 11.7% | 8.3% | | 10.5% |
| **Combined operating ratio[5]** | 94.4% | 99.0% | 96.3% | 104.0% | 96.9% | 89.7% | 96.9% | 92.4% | 97.0% | | 96.2% |
| **Assets supporting general insurance and health business** | | | | | | | | | | | |
| Debt securities | | | 2,958 | 997 | 3,955 | | | 3,352 | 2,293 | 334 | 9,934 |
| Equity securities | | | 20 | — | 20 | | | 348 | 21 | — | 389 |
| Investment property | | | 1 | 7 | 8 | | | — | 137 | — | 145 |
| Cash and cash equivalents[7] | | | 1,695 | 250 | 1,945 | | | 166 | 355 | 68 | 2,534 |
| Other[6,7] | | | 6,011 | 98 | 6,109 | | | 94 | 67 | — | 6,270 |
| **Assets at 30 June 2013[7]** | | | 10,685 | 1,352 | 12,037 | | | 3,960 | 2,873 | 402 | 19,272 |
| Debt securities | | | 2,765 | 814 | 3,579 | | | 3,410 | 2,168 | 140 | 9,297 |
| Equity securities | | | 415 | — | 415 | | | 343 | 16 | — | 774 |
| Investment property | | | 1 | 7 | 8 | | | — | 131 | — | 139 |
| Cash and cash equivalents[7] | | | 1,500 | 390 | 1,890 | | | 103 | 426 | 230 | 2,649 |
| Other[6,7] | | | 5,705 | 110 | 5,815 | | | 143 | 50 | — | 6,008 |
| **Assets at 31 December 2012[7]** | | | 10,386 | 1,321 | 11,707 | | | 3,999 | 2,791 | 370 | 18,867 |
| **Average assets** | | | 10,535 | 1,337 | 11,872 | | | 3,980 | 2,832 | 386 | 19,070 |
| **LTIR as % of average assets** | | | 3.1% | 1.5% | 3.0% | | | 3.5% | 2.5% | 1.6% | 3.0% |

1 Asia & Other includes Aviva Re.
2 Operating expenses shown in note 3 includes claims handling costs and written expenses included in general insurance COR above, plus operating expenses of other non-insurance operations.
3 The UK LTIR includes £116 million *(HY12: £146 million)* relating to the internal loan. This is lower than 2012 primarily as a result of a reorganisation of this loan during 2013.
4 Includes unwind of discount and pension scheme net finance costs.
5 COR is calculated as incurred claims expressed as a percentage of net earned premiums, plus written commissions and written expenses expressed as a percentage of net written premiums. COR is calculated using unrounded numbers so minor rounding differences may exist.
6 Includes loans and other financial investments.
7 Restated following the adoption of amendments to 'IAS 32: *Financial Instruments: Presentation*'. Refer to note B2 for further information..

## 7.ii – General insurance and health continued

| Full Year 2013 | UK Personal £m | UK Commercial £m | Total UK £m | Ireland £m | Total UK & Ireland £m | Canada Personal £m | Canada Commercial £m | Total Canada £m | Europe £m | Asia & Other[1] £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **General insurance** | | | | | | | | | | | |
| Gross written premiums | 2,375 | 1,717 | 4,092 | 290 | 4,382 | 1,418 | 900 | 2,318 | 1,442 | 23 | 8,165 |
| Net written premiums | 2,276 | 1,547 | 3,823 | 278 | 4,101 | 1,396 | 854 | 2,250 | 1,360 | 47 | 7,758 |
| **Net earned premiums** | 2,344 | 1,629 | 3,973 | 312 | 4,285 | 1,364 | 832 | 2,196 | 1,368 | 48 | 7,897 |
| **Net claims incurred** | (1,347) | (1,112) | (2,459) | (200) | (2,659) | (874) | (513) | (1,387) | (951) | (97) | (5,094) |
| *Of which claims handling costs* | | | *(200)* | *(6)* | *(206)* | | | *(88)* | *(49)* | — | *(343)* |
| **Written commission** | (631) | (333) | (964) | (42) | (1,006) | (283) | (170) | (453) | (256) | (1) | (1,716) |
| **Written expenses[2]** | (175) | (205) | (380) | (56) | (436) | (126) | (129) | (255) | (131) | (5) | (827) |
| Movement in DAC | (30) | (27) | (57) | (8) | (65) | 11 | 5 | 16 | (3) | — | (52) |
| Internal reallocation of result of UK run-off business | — | 4 | 4 | — | 4 | — | — | — | — | (4) | — |
| **Underwriting result** | 161 | (44) | 117 | 6 | 123 | 92 | 25 | 117 | 27 | (59) | 208 |
| Longer-term investment return[3] | | | 318 | 18 | 336 | | | 135 | 71 | 7 | 549 |
| Other[4] | | | (4) | — | (4) | | | (6) | — | — | (10) |
| **Operating profit** | | | 431 | 24 | 455 | | | 246 | 98 | (52) | 747 |
| **Health insurance** | | | | | | | | | | | |
| Underwriting result | | | | | 28 | | | — | 13 | 1 | 42 |
| Longer-term investment return | | | | | 6 | | | — | 1 | 1 | 8 |
| **Operating profit** | | | | | 34 | | | — | 14 | 2 | 50 |
| **Total operating profit** | | | | | 489 | | | 246 | 112 | (50) | 797 |
| **General insurance combined operating ratio** | | | | | | | | | | | |
| Claims ratio | 57.5% | 68.2% | 61.9% | 64.1% | 62.1% | 64.0% | 61.8% | 63.2% | 69.6% | | 64.5% |
| Commission ratio | 27.7% | 21.5% | 25.2% | 15.1% | 24.5% | 20.3% | 19.9% | 20.1% | 18.8% | | 22.1% |
| Expense ratio | 7.7% | 13.2% | 9.9% | 20.0% | 10.6% | 9.0% | 15.2% | 11.3% | 9.7% | | 10.7% |
| **Combined operating ratio[5]** | 92.9% | 102.9% | 97.0% | 99.2% | 97.2% | 93.3% | 96.9% | 94.6% | 98.1% | | 97.3% |
| **Assets supporting general insurance and health business** | | | | | | | | | | | |
| Debt securities | | | 3,515 | 994 | 4,509 | | | 3,098 | 2,255 | 243 | 10,105 |
| Equity securities | | | 15 | — | 15 | | | 301 | 23 | — | 339 |
| Investment property | | | 1 | 6 | 7 | | | — | 133 | — | 140 |
| Cash and cash equivalents[7] | | | 1,490 | 194 | 1,684 | | | 95 | 152 | 51 | 1,982 |
| Other[6,7] | | | 5,088 | 109 | 5,197 | | | 79 | 159 | — | 5,435 |
| **Assets at 31 December 2013[7]** | | | 10,109 | 1,303 | 11,412 | | | 3,573 | 2,722 | 294 | 18,001 |
| Debt securities | | | 2,765 | 814 | 3,579 | | | 3,410 | 2,168 | 140 | 9,297 |
| Equity securities | | | 415 | — | 415 | | | 343 | 16 | — | 774 |
| Investment property | | | 1 | 7 | 8 | | | — | 131 | — | 139 |
| Cash and cash equivalents[7] | | | 1,500 | 390 | 1,890 | | | 103 | 426 | 230 | 2,649 |
| Other[6,7] | | | 5,705 | 110 | 5,815 | | | 143 | 50 | — | 6,008 |
| **Assets at 31 December 2012[7]** | | | 10,386 | 1,321 | 11,707 | | | 3,999 | 2,791 | 370 | 18,867 |
| **Average assets** | | | 10,247 | 1,312 | 11,559 | | | 3,786 | 2,757 | 332 | 18,434 |
| **LTIR as % of average assets** | | | 3.2% | 1.4% | 3.0% | | | 3.5% | 2.7% | 2.4% | 3.0% |

1 Asia & Other includes Aviva Re.
2 Operating expenses shown in note 3 includes claims handling costs and written expenses included in general insurance COR above, plus operating expenses of other non-insurance operations.
3 The UK LTIR includes £221 million *(FY12: £299 million)* relating to the internal loan. This is lower than 2012 primarily as a result of a reorganisation of this loan during 2013.
4 Includes unwind of discount and pension scheme net finance costs.
5 COR is calculated as incurred claims expressed as a percentage of net earned premiums, plus written commissions and written expenses expressed as a percentage of net written premiums. COR is calculated using unrounded numbers so minor rounding differences may exist.
6 Includes loans and other financial investments.
7 Restated following the adoption of amendments to 'IAS 32: *Financial Instruments: Presentation*'. Refer to note B2 for further information..

## 7.iii – Fund flows

| | Restated[1] Managed assets at 1 January 2014 £m | Premiums and deposits, net of reinsurance £m | Claims and redemptions, net of reinsurance £m | Net flows[2] £m | Effect of disposals, market and other movements £m | Managed assets at 30 June 2014 £m |
|---|---|---|---|---|---|---|
| **Life and platform business** | | | | | | |
| UK – non-profit – platform | 2,815 | 1,149 | (125) | 1,024 | (119) | **3,720** |
| UK – non-profit – other | 78,882 | 2,758 | (3,671) | (913) | 2,088 | **80,057** |
| Ireland | 5,564 | 193 | (324) | (131) | 64 | **5,497** |
| United Kingdom & Ireland (excluding UK with-profits) | 87,261 | 4,100 | (4,120) | (20) | 2,033 | **89,274** |
| Europe | 99,312 | 4,691 | (3,953) | 738 | (2,077) | **97,973** |
| Asia | 3,723 | 412 | (245) | 167 | (70) | **3,820** |
| Other | 1,767 | 19 | (80) | (61) | 76 | **1,782** |
| | 192,063 | 9,222 | (8,398) | 824 | (38) | **192,849** |
| UK – with-profits and other | 45,720 | | | | | **43,341** |
| **Total life and platform business** | 237,783 | | | | | **236,190** |

1 Restated following the inclusion of UK and Asia platform business and the adoption of amendments to IAS 32: *Financial instruments: Presentation*'. Refer to note B2 for further information. Managed assets reflect financial investments, loans, investment property and cash and cash equivalents.
2 Life business net flows in the table above are net of reinsurance and exclude flows related to UK equity release products.

### United Kingdom & Ireland (excluding UK with-profits)

During the first half of 2014, net inflows in UK life (non-profit including platform) were £111 million. The UK Life platform managed assets increased by 32% over the period. Other non-profit outflows were £913 million which include a group personal pension transfer out of around £500 million.

In Ireland, net outflows were £131 million reflecting reduced new business inflows due to the strategic withdrawal from unprofitable product lines and the impact of surrenders on the unit linked pension business in the first half of 2014. In addition, claims exceed premiums in the Irish with-profit fund which is closed to new business.

### Europe

Net inflows were £738 million. In France, this reflects increased volumes of unit linked sales and lower levels of redemptions. In Italy, increased sales of with-profits products have benefitted net inflows. Other movements in Europe include the disposal of our Italian business, Eurovita, and unfavourable foreign exchange movements.

### Asia and other

Net inflows in Asia were £167 million arising mainly in Singapore reflecting the launch of a number of new products in 2014. Other business net outflows of £61 million primarily relate to Aviva Investors' Pooled Pensions business.

# Capital & assets summary



## 8.i – Summary of assets

The Group asset portfolio is invested to generate competitive investment returns for both policyholders and shareholders whilst remaining within the Group's appetite for market and credit risk.

The Group has a low appetite for interest rate risk and currency risk which means that the asset portfolios are well matched by duration and currency to the liabilities they cover. The Group also runs a low level of liquidity risk which results in a high proportion of income generating assets and a preference for more liquid assets where there is the potential need to realise those assets before maturity.

The Group seeks to diversify its asset portfolio in order to reduce risk and provide more attractive risk-adjusted returns. In order to achieve this there is a comprehensive risk limit framework in place. There is an allowance for diversification in our economic capital model, actions have been taken to reduce our exposure to the Eurozone periphery, and we are broadening the investment portfolio in individual businesses.

Asset allocation decisions are taken at legal entity level and in many cases by fund within a legal entity in order to reflect the nature of the liabilities, customer expectations, the local accounting and regulatory treatment, and any local constraints. These asset allocation decisions are made in accordance with a Group-wide framework that takes into account consensus investment views across the Group, prioritised Group objectives and metrics and Group risk limits and constraints. This framework is overseen by the Group ALCO (Asset Liability Committee) and facilitates a generally consistent approach to strategic asset allocation across the business units in line with Group risk appetite and shareholder objectives.

The asset allocation as at 30 June 2014 across the Group, split according to the type of liability the assets are covering, is shown in the table below. Further information on these assets is given in the analysis of assets section.

| | Shareholder business assets | | | Participating fund assets | | | | |
|---|---|---|---|---|---|---|---|---|
| 30 June 2014 £m | General Insurance & health & other[1] | Annuity and non-profit | Policyholder (unit linked assets) | UK style with profits | Continental European-style participating funds | Total assets analysed | Less assets of operation classified as held for sale | Carrying value in the statement of financial position |
| **Debt securities** | | | | | | | | |
| Government bonds | **6,897** | **8,423** | **5,358** | **14,928** | **27,046** | **62,652** | **—** | **62,652** |
| Corporate bonds | **3,826** | **12,917** | **5,342** | **7,236** | **26,008** | **55,329** | **—** | **55,329** |
| Other | **182** | **1,773** | **2,161** | **2,111** | **4,280** | **10,507** | **—** | **10,507** |
| | **10,905** | **23,113** | **12,861** | **24,275** | **57,334** | **128,488** | **—** | **128,488** |
| **Loans** | | | | | | | | |
| Mortgage loans | **78** | **17,327** | **—** | **722** | **1** | **18,128** | **—** | **18,128** |
| Other loans | **142** | **574** | **465** | **2,876** | **782** | **4,839** | **—** | **4,839** |
| | **220** | **17,901** | **465** | **3,598** | **783** | **22,967** | **—** | **22,967** |
| Equity securities | **476** | **488** | **25,992** | **7,005** | **2,517** | **36,478** | **—** | **36,478** |
| Investment property | **137** | **70** | **3,755** | **3,184** | **1,501** | **8,647** | **—** | **8,647** |
| Other investments | **317** | **1,031** | **26,957** | **2,507** | **1,852** | **32,664** | **(23)** | **32,641** |
| **Total as at 30 June 2014** | **12,055** | **42,603** | **70,030** | **40,569** | **63,987** | **229,244** | **(23)** | **229,221** |
| Total as at 31 December 2013 (restated)[2] | 11,843 | 42,097 | 69,294 | 42,364 | 64,434 | 230,032 | (2,675) | 227,357 |

1 Of the £12.1 billion of assets 8% relates to other shareholder business assets.
2 Restated following the adoption of amendments to IAS 32 *Financial Instruments: Presentation*. Refer to note B2 for further information.

There is an internal loan between Aviva Insurance Limited (AIL) and Aviva Group Holdings Limited (AGH) that has a net value of zero at a consolidated level.

### General insurance and health

All the investment risk is borne by shareholders and the portfolio held to cover these liabilities contains a high proportion of fixed and variable income securities, of which 85% are rated A or above. The assets are relatively short duration reflecting the short average duration of the liabilities. Liquidity, interest rate and foreign exchange risks are maintained at a low level.

### Annuity and other non-profit

All the investment risk is borne by shareholders. The annuity liabilities have a long duration but are also illiquid as customers cannot surrender their policies. The assets are chosen to provide stable income with a good cash flow, foreign exchange and interest rate match to the liabilities. We are able to invest part of the portfolio in less liquid assets in order to improve risk-adjusted returns given the illiquid nature of the liabilities. The asset portfolio is principally comprised of long maturity bonds and loans including a material book of commercial mortgage loans. As at 30 June 2014, unrealised losses and impairments on the bond portfolio of £23.1 billion amounted to £0.2 billion or 1% of the portfolio. The equivalent figure for 31 December 2013 was also 1%. Unrealised gains on the portfolio were £2.6 billion as at 30 June 2014 or 11% of the portfolio. The equivalent unrealised gains figure for 31 December 2013 was 10%. The other non-profit business assets are a smaller proportion of this portfolio and are generally shorter in duration and have a high proportion invested in fixed income.

## 8.i – Summary of assets continued

The current asset value of the commercial mortgage portfolio (including Healthcare and PFI mortgages) backing the UK Annuity book is £11.3 billion[1]. While these commercial mortgages are held at fair value on the asset side of the statement of financial position, we also carry an allowance against the risk of default on our riskier mortgages of £1.2 billion (*FY13: £1.3 billion)*. Since FY13, £0.2 billion of the allowance has been utilised to take action on certain riskier mortgages, offset by a £0.1 billion increase in the cost of replacing lost cash flows on future defaults, caused by lower interest rates and lower spreads on new commercial mortgages. The valuation allowance (including supplementary allowances) for commercial mortgages, including Healthcare and PFI mortgages of £1.2 billion equates to 109bps at 30 June 2014 (*FY13: 124bps*).

### Policyholder assets

These assets are invested in line with the fund choices made by our unit-linked policyholders and the investment risk is borne by the policyholder. This results in a high allocation to growth assets such as equity and property. Aviva's shareholder exposure to these assets arises from the fact that the income we receive is a proportion of the assets under management.

### UK style with - profits (WP)

UK style with profit funds hold relatively long term contracts with policyholders participating in pooled investment performance subject to some minimum guarantees. Smoothed returns are used to declare bonuses to policyholders which increase the level of the guarantees through time. The part of the portfolio to which policyholder bonuses are linked is invested in line with their expectations and includes growth assets such as equity and property as well as fixed income. The remainder of the portfolio is invested to mitigate the resultant shareholder risk. This leads us to an overall investment portfolio that holds a higher proportion of growth assets (such as equity and property) than our other business lines although there are still material allocations to fixed income assets.

### Continental European style participating funds

Continental European style participating funds hold relatively long term contracts with policyholders participating in pooled investment performance subject to some minimum guarantees. Smoothed returns are used to declare bonuses to policyholders which increase the level of the guarantees through time. There is less discretion in how guarantees increase through time compared to the UK style equivalent funds and more of the bonus accrues each year rather than being allocated at maturity. The investment portfolio holds a higher proportion of fixed income assets than the UK style equivalent. Fixed income assets also give rise to less volatility on the local statutory balance sheet than growth assets.

## 8.ii – External leverage

| Group capital | **30 June 2014 £m** | 31 December 2013 £m |
|---|---|---|
| Subordinated debt | **4,072** | 4,370 |
| External debt | **761** | 755 |
| DCI, fixed rate tier 1 notes and preference shares | **1,832** | 1,832 |
| External debt and preference shares | **6,665** | 6,957 |
| Total tangible capital employed[1] | **14,350** | 13,938 |
| **Tangible debt leverage** | **46%** | 50% |

1 Tangible capital employed is total IFRS equity (including DCI, fixed rate tier 1 notes, preference shares and non-controlling interests) and non equity items such as core structural borrowings.

Reducing the Group's leverage is a priority, with a medium term target leverage ratio of below 40% on a tangible debt leverage basis. At HY14 the tangible debt leverage ratio decreased to 46% *(FY13: 50%)* as a result of £200 million and €50 million subordinated debt redemptions at their first call dates in April 2014 and an increase in tangible capital employed.

On 3 July 2014 Aviva plc issued €700 million of subordinated debt at an issue price of 99.699% of the nominal amount and bearing interest at 3.875% per annum. The subordinated debt matures on 3 July 2044 but Aviva may, at its sole option, redeem all (but not part) of the debt on 3 July 2024 and on each interest payment date thereafter. The subordinated debt qualifies as tier 2 capital under current regulatory rules.

1 Some commercial mortgage loans with a value of £0.2 billion are held in other funds.

## 8.iii – Net asset value

At the end of HY14, IFRS net asset value per share was 290 pence *(FY13: 270 pence)*. This movement was driven by operating profits, positive investment variances and a benefit on remeasurement of the pension schemes, partially offset by payment of the final 2013 dividend to shareholders and adverse foreign exchange movements.

Total investment variances and economic assumption changes were £142 million positive. This included short-term fluctuations of £165 million in the non-life businesses, mainly due to a decrease in risk-free rates in France and Canada together with other market and foreign exchange movements benefitting group centre investments. Economic assumption changes on non-life business were £67 million adverse as a result of lower discount rates. In the life businesses, investment return variances were £44 million positive, reflecting narrowing credit spreads on corporate and government bonds in Italy and Spain partly offset by the adverse impact of falling reinvestment yields net of improved underlying property values on commercial mortgages in the UK.

The positive movement on the Group's staff pension schemes of £320 million post tax is principally due to employer contributions and positive asset performance driven by falls in interest rates. The adverse foreign exchange movement of £238 million is due to the strengthening of sterling, particularly compared with the Euro and Canadian dollar.

| IFRS | 30 June 2014 £m | pence per share[2] | 31 December 2013 £m | pence per share[2] |
|---|---|---|---|---|
| **Equity attributable to shareholders of Aviva plc at 1 January[1]** | **7,964** | **270p** | 8,204 | 278p |
| Operating profit – continuing operations | **1,052** | **35p** | 2,049 | 70p |
| Operating profit – discontinued operations | **—** | **—** | 290 | 10p |
| Investment return variances and economic assumption changes on life and non-life business | **142** | **5p** | 100 | 3p |
| Profit on the disposal and remeasurement of subsidiaries and associates | **51** | **2p** | 923 | 31p |
| Goodwill impairment and amortisation of intangibles | **(62)** | **(2)p** | (177) | (6)p |
| Integration and restructuring costs | **(42)** | **(1)p** | (366) | (12)p |
| Exceptional items | **—** | **—** | — | — |
| Tax on operating profit and on other activities | **(278)** | **(9)p** | (668) | (23)p |
| Non-controlling interests | **(108)** | **(4)p** | (143) | (5)p |
| **Profit after tax attributable to shareholders of Aviva plc** | **755** | **26p** | 2,008 | 68p |
| AFS securities (fair value) & other reserve movements | **28** | **1p** | (840) | (29)p |
| Ordinary dividends | **(277)** | **(9)p** | (429) | (15)p |
| Direct capital instruments and fixed rate tier 1 notes interest and preference share dividend | **(21)** | **(1)p** | (87) | (3)p |
| Foreign exchange rate movements | **(238)** | **(9)p** | (354) | (12)p |
| Remeasurements of pension schemes | **320** | **11p** | (549) | (19)p |
| Other net equity movements[3] | **26** | **1p** | 11 | 2p |
| **Equity attributable to shareholders of Aviva plc at 30 June / 31 December[1]** | **8,557** | **290p** | 7,964 | 270p |

1 Excluding preference shares.
2 Number of shares as at 30 June 2014: 2,948 million *(31 December 2013: 2,947 million)*.
3 Other net equity movements per share includes dilution effect of the increase in number of shares during the period.

MCEV net asset value per share increased to 478 pence *(FY13: 463 pence)*. This movement has been driven by operating profits, positive investment variances and a benefit on remeasurement of the pension schemes, largely offset by exceptional items, payment of the final 2013 dividend to shareholders and adverse foreign exchange movements.

Total MCEV investment variances were £211 million. This included a £113 million positive investment variance in the life business, mainly driven by narrowing credit spreads on corporate and government bonds in Spain and Italy, partly offset by a rise in the cost of guarantees in France and Asia.

| MCEV[4] | 30 June 2014 £m | pence per share[2] | Restated[5] 31 December 2013 £m | pence per share[2] |
|---|---|---|---|---|
| **Restated[5] equity attributable to shareholders of Aviva plc at 1 January[1]** | **13,643** | **463p** | 13,120 | 444p |
| Operating profit – continuing operations | **1,344** | **45p** | 2,337 | 79p |
| Operating profit – discontinued operations | **—** | **—** | 290 | 10p |
| Investment return variances and economic assumption changes on life and non-life business | **211** | **7p** | 1,776 | 60p |
| Profit on the disposal and remeasurement of subsidiaries and associates | **55** | **2p** | 963 | 33p |
| Goodwill impairment and amortisation of intangibles | **(61)** | **(2)p** | (194) | (7)p |
| Integration and restructuring costs | **(40)** | **(1)p** | (357) | (12)p |
| Exceptional items | **(236)** | **(8)p** | (242) | (8)p |
| Tax on operating profit and on other activities | **(363)** | **(12)p** | (1,340) | (45)p |
| Non-controlling interests | **(143)** | **(5)p** | (488) | (17)p |
| **Profit after tax attributable to shareholders of Aviva plc** | **767** | **26p** | 2,745 | 93p |
| AFS securities (fair value) & other reserve movements | **—** | **—** | (813) | (29)p |
| Ordinary dividends | **(277)** | **(9)p** | (429) | (15)p |
| Direct capital instruments and fixed rate tier 1 notes interest and preference share dividend | **(21)** | **(1)p** | (87) | (3)p |
| Foreign exchange rate movements | **(367)** | **(13)p** | (355) | (10)p |
| Remeasurements of pension schemes | **320** | **11p** | (549) | (19)p |
| Other net equity movements[3] | **26** | **1p** | 11 | 2p |
| **Equity attributable to shareholders of Aviva plc at 30 June / 31 December[1]** | **14,091** | **478p** | 13,643 | 463p |

1 Excluding preference shares.
2 Number of shares as at 30 June 2014: 2,948 million *(31 December 2013: 2,947 million)*.
3 Other net equity movements per share includes dilution effect of the increase in number of shares during the period.
4 In preparing the MCEV information, the directors have done so in accordance with the European Insurance CFO Forum MCEV Principles with the exception of stating held for sale operations as at 30 June 2013 and 31 December 2013 at their expected fair value, as represented by expected sale proceeds, less cost to sell at those dates.
5 Comparatives have been restated to reflect the changes in MCEV methodology. Impact on opening 2013 equity was an increase of £686 million and on 2014 opening equity, an increase of £534 million. See note F1 – MCEV Basis of preparation for further details.

## 8.iv – Return on equity

Return on equity shareholder funds is calculated as IFRS operating return net of tax expressed as a percentage of opening shareholders equity. The HY14 return on equity shareholders' funds is 17.4%, compared with 17.8% reported in FY13. Excluding the United States, the FY13 return on equity shareholders' funds was 15.3%.

The HY14 return on equity shareholders' funds has benefitted from a lower opening capital position by £240 million, as profits in 2013 were more than offset by other movements including the remeasurement of pension schemes and foreign exchange movements.

| | **6 months 2014 %** | Full Year 2013 % |
|---|---|---|
| United Kingdom & Ireland Life | **13.4%** | 16.0% |
| United Kingdom & Ireland General Insurance and Health | **9.3%** | 8.0% |
| Europe | **12.3%** | 10.9% |
| Canada | **13.2%** | 17.4% |
| Asia | **8.4%** | 10.1% |
| Fund management | **33.8%** | 32.1% |
| Corporate and Other Business | **n/a** | n/a |
| **Return on total capital employed (excluding United States)[1]** | **11.4%** | 11.0% |
| United States[1] | **—** | 56.5% |
| **Return on total capital employed** | **11.4%** | 12.0% |
| Subordinated debt | **5.1%** | 5.4% |
| External debt | **2.3%** | 2.2% |
| **Return on total equity** | **14.5%** | 15.2% |
| Less: Non-controlling interests | **11.4%** | 11.1% |
| Direct capital instruments and fixed rate tier 1 notes | **1.7%** | 5.1% |
| Preference capital | **9.0%** | 8.5% |
| **Return on equity shareholders' funds** | **17.4%** | 17.8% |
| **Return on equity shareholders' funds (excluding United States)[1]** | **17.4%** | 15.3% |

1 The sale of the United States business completed on 2 October 2013.

## 8.v – European Insurance Groups Directive (IGD)

| | UK Life funds £bn | Other business £bn | 30 June 2014 £bn | 31 December 2013 £bn |
|---|---|---|---|---|
| Insurance Groups Directive (IGD) capital resources | **5.3** | **8.3** | **13.6** | 14.4 |
| Less: capital resources requirement | **(5.3)** | **(5.0)** | **(10.3)** | (10.8) |
| Insurance Group Directive (IGD) excess solvency | **—** | **3.3** | **3.3** | 3.6 |
| Cover over EU minimum (calculated excluding UK life funds) | | | **1.7 times** | 1.7 times |

The EU Insurance Groups Directive (IGD) regulatory capital solvency surplus has decreased by £0.3 billion since FY13 to £3.3 billion. The key drivers of the reduction are the establishment of the group's internal reinsurance arrangement which has reduced IGD capital by £0.2 billion and the redemption of hybrid debt which has also reduced IGD capital by £0.2 billion.

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

| | £bn |
|---|---|
| **IGD solvency surplus at 31 December 2013** | **3.6** |
| Operating profits net of other income and expenses | **0.6** |
| Dividends and appropriations | **(0.3)** |
| Hybrid debt redemption | **(0.2)** |
| Internal reinsurance | **(0.2)** |
| Disposals | **0.1** |
| Increase in capital resources requirement | **(0.2)** |
| Other regulatory adjustments | **(0.1)** |
| **Estimated IGD solvency surplus at 30 June 2014** | **3.3** |

### Group IGD sensitivity

| | 30 June 2014 £bn | Equities down 10% | Interest rates up 1% |
|---|---|---|---|
| Sensitivities on IGD | **3.3** | **—** | **(0.1)** |

The Group proactively manages its balance sheet risk through monitoring, stress analysis and our hedging programme.

The Group's IGD surplus is resilient to global equity market falls or a 1% global interest rate rise. The Group's IGD surplus would be approximately £3.2 billion in the event of a 40% fall in equity markets from the 30 June 2014 position reflecting the hedging that the Group currently has in place.

The impact of a 1% rise in global interest rates is calculated with reference to the regulatory value of debt securities in continental Europe being capped to local minimum capital requirements in participating funds. This provides protection to the Group's IGD surplus from immediate market losses on debt securities.

## 8.vi – Economic capital

The estimated 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.

### Summary of estimated economic capital position

| | 30 June 2014 £bn | 31 December 2013 £bn |
|---|---|---|
| Available economic capital | **18.0** | 18.4 |
| Standalone required economic capital | **(15.5)** | (15.9) |
| Diversification benefit | **5.5** | 5.8 |
| Diversified required economic capital | **(10.0)** | (10.1) |
| **Estimated economic capital position at 30 June/31 December** | **8.0** | 8.3 |
| **Cover Ratio** | **180%** | 182% |

### Analysis of change in economic capital

| | 6 months 2014 £bn | Full year 2013 £bn |
|---|---|---|
| **Economic capital surplus position at 1 January** | **8.3** | 5.3 |
| MCEV operating earnings net of tax and non-controlling interests | **0.9** | 1.4 |
| Economic variances | **(0.1)** | 0.7 |
| Exceptional and other non-operating items | **(0.4)** | (0.9) |
| Dividends and appropriations | **(0.3)** | (0.5) |
| Repayment of subordinated debt | **(0.3)** | — |
| Liquidity premium | **(0.3)** | — |
| Available capital benefits from disposals | **—** | 1.3 |
| Economic Capital staff pension schemes | **0.4** | 0.3 |
| UK increase in commercial mortgage default allowance | **—** | (0.3) |
| Other | **(0.3)** | (0.2) |
| **Change in available economic capital** | **(0.4)** | 1.8 |
| Impact of trading operations and other | **0.2** | 0.7 |
| Economic Capital staff pension schemes | **0.1** | (0.7) |
| Impact of changes to Group hedging | **—** | (0.2) |
| Other changes in methodology | **(0.5)** | — |
| Capital requirement benefits from disposals | **0.3** | 1.4 |
| **Change in diversified required economic capital** | **0.1** | 1.2 |
| **Estimated economic capital surplus position at 30 June/31 December** | **8.0** | 8.3 |

The estimated economic capital position has decreased by £0.3 billion to £8.0 billion at 30 June 2014 with a corresponding decrease in cover ratio from 182% to 180%. The decrease in available economic capital during the period has been driven by dividend payment, subordinated debt repayment and other items, partly offset by underlying profits. The movement in required economic capital reflects changes in methodology offset by the disposals of Korea, Eurovita and River Road, and other items.

The impact of the internal reinsurance arrangement is neutral from a group economic capital perspective.

## 8.vi – Economic capital continued

### Summary analysis of diversified required economic capital

| | **30 June 2014 £bn** | 31 December 2013 £bn |
|---|---|---|
| Credit risk[1] | **2.8** | 2.5 |
| Equity risk[2] | **1.8** | 2.1 |
| Interest rate risk[3] | **0.4** | 0.2 |
| Other market risk[4] | **1.2** | 1.4 |
| Life insurance risk[5] | **1.1** | 1.0 |
| General insurance risk[6] | **0.8** | 0.8 |
| Other risk[7] | **1.9** | 2.1 |
| **Total** | **10.0** | **10.1** |

1 Capital held in respect of credit risk recognises the Group's shareholder exposure to changes in the market value of assets and defaults. A range of specific stresses are applied reflecting the difference in assumed risk relative to the investment grade and duration.
2 Capital held in respect of equity risk recognises the Group's shareholder exposure to changes in the market value of assets.
3 Capital held in respect of interest rate risk recognises the Group's shareholder exposure to changes in the market value of assets. A range of specific stresses are applied reflecting the difference in assumed risk relative to investment grade and duration.
4 Capital held in respect of other market risk recognises the Group's shareholder exposure to changes in the market value of commercial mortgages and property, but also captures risk in association with inflation and foreign exchange.
5 Capital held in respect of life insurance risk recognises the Group's shareholder exposure to life insurance specific risks, such as longevity and lapse.
6 Capital held in respect of general insurance risk recognises the Group's shareholder exposure to general insurance specific risks, such as claims volatility and catastrophe.
7 Capital held in respect of other risk recognises the Group's shareholder exposure to specific risks unique to particular business units and other items.

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# Supplementary information



## In this section

### A Income & expenses

# Income & expenses

## Reconciliation of Group operating profit to profit/(loss) after tax – IFRS basis

For the six month period ended 30 June 2014

| | **6 months 2014 £m** | 6 months 2013 £m | | Full Year 2013 £m | |
|---|---|---|---|---|---|
| | **Continuing Operations** | Continuing Operations | Discontinued Operations[1] | Continuing Operations | Discontinued Operations[1] |
| **Operating profit before tax attributable to shareholders' profits** | | | | | |
| **Life business** | | | | | |
| United Kingdom & Ireland | **478** | 446 | — | 952 | — |
| Europe | **441** | 425 | — | 851 | — |
| Asia | **34** | 38 | — | 96 | — |
| Other | **1** | 1 | 111 | 2 | 272 |
| **Total life business** | **954** | 910 | 111 | 1,901 | 272 |
| **General insurance and health** | | | | | |
| United Kingdom & Ireland | **263** | 259 | — | 489 | — |
| Europe | **57** | 47 | — | 112 | — |
| Canada | **83** | 147 | — | 246 | — |
| Asia | **1** | (1) | — | 1 | — |
| Other | **(1)** | (24) | — | (51) | — |
| **Total general insurance and health** | **403** | 428 | — | 797 | — |
| **Fund management** | | | | | |
| Aviva Investors | **41** | 31 | 22 | 68 | 31 |
| United Kingdom | **6** | 10 | — | 23 | — |
| Asia | **1** | 1 | — | 2 | — |
| **Total fund management** | **48** | 42 | 22 | 93 | 31 |
| **Other** | | | | | |
| Other operations (note A1) | **(54)** | (49) | (2) | (90) | (4) |
| **Market operating profit** | **1,351** | 1,331 | 131 | 2,701 | 299 |
| Corporate centre (note A2) | **(64)** | (72) | — | (150) | — |
| Group debt costs and other interest (note A3) | **(235)** | (251) | (6) | (502) | (9) |
| **Operating profit before tax attributable to shareholders' profits** | **1,052** | 1,008 | 125 | 2,049 | 290 |
| Integration and restructuring costs | **(42)** | (164) | (2) | (363) | (3) |
| **Operating profit before tax attributable to shareholders' profits after integration and restructuring costs** | **1,010** | 844 | 123 | 1,686 | 287 |
| Adjusted for the following: | | | | | |
| Investment return variances and economic assumption changes on long-term business (note A4) | **44** | (2) | 279 | (49) | 452 |
| Short-term fluctuation in return on investments backing non-long-term business (note A5) | **165** | (306) | — | (336) | — |
| Economic assumption changes on general insurance and health business (note A6) | **(67)** | 27 | — | 33 | — |
| Impairment of goodwill, joint ventures and associates and other amounts expensed (note A7) | **(24)** | (77) | — | (77) | — |
| Amortisation and impairment of intangibles | **(38)** | (43) | (6) | (91) | (9) |
| Profit on the disposal and remeasurement of subsidiaries, joint ventures and associates (note A8) | **51** | 180 | 91 | 115 | 808 |
| Exceptional items (note A9) | **—** | — | — | — | — |
| **Non-operating items before tax** | **131** | (221) | 364 | (405) | 1,251 |
| **Profit before tax attributable to shareholders' profits** | **1,141** | 623 | 487 | 1,281 | 1,538 |
| Tax on operating profit | **(253)** | (296) | (23) | (534) | (83) |
| Tax on other activities | **(25)** | 79 | (94) | 131 | (182) |
| | **(278)** | (217) | (117) | (403) | (265) |
| **Profit after tax** | **863** | 406 | 370 | 878 | 1,273 |
| **Profit from discontinued operations** | **—** | 370 | | 1,273 | |
| **Profit for the period** | **863** | 776 | | 2,151 | |

1 Discontinued operations represent the results of the US life and related internal asset management businesses (US Life) up until the date of disposal (2 October 2013).

## Other Group Operating Profit Items
## A1 – Other operations

| | 6 months 2014 £m | 6 months 2013 £m | Full Year 2013 £m |
|---|---|---|---|
| United Kingdom & Ireland Life | **(6)** | (19) | (14) |
| United Kingdom & Ireland General Insurance | **—** | (1) | (6) |
| Europe | **(12)** | (2) | (17) |
| Asia | **(10)** | (6) | (12) |
| Other Group operations[1] | **(26)** | (21) | (41) |
| **Total – continuing operations** | **(54)** | (49) | (90) |
| **Total – discontinued operations** | **—** | (2) | (4) |
| **Total** | **(54)** | (51) | (94) |

1 Other Group operations include Group and head office costs.

## A2 – Corporate centre

| | 6 months 2014 £m | 6 months 2013 £m | Full year 2013 £m |
|---|---|---|---|
| Project spend | **(5)** | (11) | (27) |
| Central spend and share award costs | **(59)** | (61) | (123) |
| **Total** | **(64)** | (72) | (150) |

## A3 – Group debt costs and other interest

| | 6 months 2014 £m | 6 months 2013 £m | Full Year 2013 £m |
|---|---|---|---|
| External debt | | | |
| Subordinated debt | **(142)** | (148) | (305) |
| Other | **(10)** | (12) | (23) |
| Total external debt | **(152)** | (160) | (328) |
| Internal lending arrangements | **(99)** | (119) | (231) |
| Net finance income on main UK pension scheme | **16** | 28 | 57 |
| **Total – continuing operations** | **(235)** | (251) | (502) |
| **Total – discontinued operations** | **—** | (6) | (9) |
| **Total** | **(235)** | (257) | (511) |

## Non-operating profit items

## A4 – Life Business: Investment return variances and economic assumption changes

### (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 2014 £m** | 6 months 2013 £m | Full Year 2013 £m |
|---|---|---|---|
| Investment variances and economic assumptions – continuing operations | **44** | (2) | (49) |
| Investment variances and economic assumptions – discontinued operations | **—** | 279 | 452 |
| **Investment variances and economic assumptions** | **44** | 277 | 403 |

For continuing operations, investment variances and economic assumption changes were £44 million positive *(HY13: £2 million negative; FY13: £49 million negative)*. Positive variances in Italy and Spain driven by narrowing spreads on government and corporate bonds were partly offset by the adverse impact of falling reinvestment yields net of improved underlying property values on commercial mortgages in the UK.

In 2013, for continuing operations, positive variances from narrowing spreads in Italy and Spain were offset by an increase in allowance for credit defaults in the UK.

Discontinued operations represent the US business disposed of in 2013, which benefitted from favourable equity market performance in 2013.

### (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 2014 %** | 6 months 2013 % | Full year 2013 % | **6 months 2014 %** | 6 months 2013 % | Full year 2013 % |
| United Kingdom | **6.6%** | 5.4% | 5.4% | **5.1%** | 3.9% | 3.9% |
| Eurozone | **5.7%** | 5.1% | 5.1% | **4.2%** | 3.6% | 3.6% |

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 risks; this includes an adjustment for credit risk on all Eurozone sovereign debt. Where such securities are classified as available for sale, the expected investment return comprises the expected interest or dividend payments and amortisation of the premium or discount at purchase.

## A5 – Non-life business: Short-term fluctuation in return on investments

| General Insurance and health – continuing operations | **6 months 2014 £m** | 6 months 2013 £m | Full Year 2013 £m |
|---|---|---|---|
| Analysis of investment income: | | | |
| – Net investment income | **363** | 125 | 349 |
| – Foreign exchange on unrealised gains/losses and other charges | **(15)** | (12) | (35) |
| | **348** | 113 | 314 |
| Analysed between: | | | |
| – Longer-term investment return, reported within operating profit | **248** | 284 | 557 |
| – Short-term fluctuations in investment return, reported outside operating profit | **100** | (171) | (243) |
| | **348** | 113 | 314 |
| Short-term fluctuations: | | | |
| – General insurance and health | **100** | (171) | (243) |
| – Other operations[1] | **65** | (135) | (93) |
| **Total short-term fluctuations** | **165** | (306) | (336) |

1 Represents assets backing non-life business in the France holding company and Group centre investments, including the centre hedging programme.

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 period. Actual income and longer-term investment return both contain the amortisation of the discounts/premium arising on the acquisition of fixed income securities.

Market value movements which give rise to variances between actual and longer-term investment returns are disclosed separately in short term fluctuations outside operating profit.

Following restructuring in 2013 the impact of realised and unrealised 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, is now included in short-term fluctuations on other operations.

The favourable movement in short-term fluctuations during the first half of 2014 compared with HY13 is mainly due to a decrease in risk free rates increasing fixed income security market values (resulting in realised and unrealised gains), positive equity market movements, and other market value and foreign exchange rate movements.

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

| | **30 June 2014 £m** | Restated[2] 30 June 2013 £m | Restated[2] 31 December 2013 £m |
|---|---|---|---|
| Debt securities | **10,130** | 9,934 | 10,105 |
| Equity securities | **294** | 389 | 339 |
| Properties | **135** | 145 | 140 |
| Cash and cash equivalents | **1,337** | 2,534 | 1,982 |
| Other | **4,565** | 6,270 | 5,435 |
| **Assets supporting general insurance and health business** | **16,461** | 19,272 | 18,001 |
| Assets supporting other non-life business[1] | **881** | 195 | 695 |
| **Total assets supporting non-life business** | **17,342** | 19,467 | 18,696 |

1 Represents assets backing non-life business in the France holding company and Group centre investments, including the centre hedging programme.
2 Restated following the adoption of amendments to 'IAS 32: *Financial Instruments: Presentation*'. Refer to note B2 for further information.

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

| | **Longer-term rates of return on equities** | | | **Longer-term rates of return on property** | | |
|---|---|---|---|---|---|---|
| | **6 months 2014 %** | 6 months 2013 % | Full year 2013 % | **6 months 2014 %** | 6 months 2013 % | Full year 2013 % |
| United Kingdom | **6.6%** | 5.4% | 5.4% | **5.1%** | 3.9% | 3.9% |
| Eurozone | **5.7%** | 5.1% | 5.1% | **4.2%** | 3.6% | 3.6% |
| Canada | **6.8%** | 5.8% | 5.8% | **5.3%** | 4.3% | 4.3% |

The underlying reference rates are in F19 within the MCEV financial supplement.

## A6 – General insurance and health business: economic assumption changes

Economic assumption changes of £67 million adverse *(HY13: £27 million favourable)* arise as a result of a decrease in the interest rates used to discount reserves for latent claims and periodic payment orders.

## A7 – Impairment of goodwill, associates, joint ventures and other amounts expensed

Impairment of goodwill, associates and joint ventures from continuing operations is a charge of £24 million *(HY13: £77 million charge)* as management determined that the goodwill in the associate in India is not recoverable.

## A8 – Profit/loss on the disposal and remeasurement of subsidiaries, joint ventures and associates

The total Group profit on disposal and remeasurement of subsidiaries, joint ventures and associates from continuing operations is £51 million (*HY13: £180 million profit*).

This includes profits on the disposals of US equity manager River Road Asset Management (£32 million) and the Group's South Korean joint venture (£2 million) with a loss on the disposal of Eurovita (£(6) million). Additionally, there was a gain on remeasurement of businesses including £9 million relating to the Turkey general insurance business which remains held for sale and a net gain of £14 million was recognised on remeasurement of other small operations. Further details are provided in note B4.

## A9 – Exceptional items

Exceptional items are those items that, in the Directors' view, are required to be separately disclosed by virtue of their nature or incidence to enable a full understanding of the Group's financial performance. There were no exceptional items in the first half of 2014 *(HY13: £nil)*.

# IFRS financial statements

## In this section

# IFRS condensed consolidated financial statements

## Condensed consolidated income statement

For the six month period ended 30 June 2014

| | Note | **Reviewed 6 months 2014 £m Continuing operations** | Reviewed 6 months 2013 £m Continuing operations | Reviewed 6 months 2013 £m Discontinued operations[1] | Audited Full Year 2013 £m Continuing operations | Audited Full Year 2013 £m Discontinued operations[1] |
|---|---|---|---|---|---|---|
| **Income** | | | | | | |
| Gross written premiums | | **11,366** | 11,451 | 1,103 | 22,035 | 1,589 |
| Premiums ceded to reinsurers | | **(805)** | (814) | (66) | (1,546) | (100) |
| Premiums written net of reinsurance | | **10,561** | 10,637 | 1,037 | 20,489 | 1,489 |
| Net change in provision for unearned premiums | | **(158)** | (89) | — | 134 | — |
| Net earned premiums | | **10,403** | 10,548 | 1,037 | 20,623 | 1,489 |
| Fee and commission income | | **639** | 667 | 5 | 1,279 | 28 |
| Net investment income | | **9,857** | 3,960 | 1,493 | 12,509 | 2,340 |
| Share of profit/(loss) after tax of joint ventures and associates | | **80** | (14) | — | 120 | — |
| Profit on the disposal and remeasurement of subsidiaries, joint ventures and associates | B4 | **51** | 180 | 91 | 115 | 808 |
| | | **21,030** | 15,341 | 2,626 | 34,646 | 4,665 |
| **Expenses** | | | | | | |
| Claims and benefits paid, net of recoveries from reinsurers | | **(9,976)** | (11,458) | (1,434) | (22,093) | (2,037) |
| Change in insurance liabilities, net of reinsurance | B9aii | **(1,533)** | 1,909 | (140) | 2,493 | (312) |
| Change in investment contract provisions | | **(2,821)** | (1,961) | (28) | (7,050) | (31) |
| Change in unallocated divisible surplus | | **(2,576)** | 585 | — | 280 | — |
| Fee and commission expense | | **(1,739)** | (2,309) | (335) | (3,975) | (438) |
| Other expenses | | **(887)** | (1,207) | (192) | (2,220) | (293) |
| Finance costs | | **(264)** | (295) | (10) | (609) | (16) |
| | | **(19,796)** | (14,736) | (2,139) | (33,174) | (3,127) |
| **Profit before tax** | | **1,234** | 605 | 487 | 1,472 | 1,538 |
| Tax attributable to policyholders' returns | B6 | **(93)** | 18 | — | (191) | — |
| **Profit before tax attributable to shareholders' profits** | | **1,141** | 623 | 487 | 1,281 | 1,538 |
| Tax expense | B6 | **(371)** | (199) | (117) | (594) | (265) |
| Less: tax attributable to policyholders' returns | B6 | **93** | (18) | — | 191 | — |
| Tax attributable to shareholders' profits | | **(278)** | (217) | (117) | (403) | (265) |
| **Profit after tax** | | **863** | 406 | 370 | 878 | 1,273 |
| **Profit from discontinued operations** | | **—** | 370 | | 1,273 | |
| **Profit for the period** | | **863** | 776 | | 2,151 | |
| Attributable to: | | | | | | |
| Equity shareholders of Aviva plc | | **755** | 693 | | 2,008 | |
| Non-controlling interests | | **108** | 83 | | 143 | |
| **Profit for the period** | | **863** | 776 | | 2,151 | |
| **Earnings per share** | B7 | | | | | |
| Basic (pence per share) | | **25.0p** | 22.8p | | 65.3p | |
| Diluted (pence per share) | | **24.6p** | 22.5p | | 64.5p | |
| Continuing operations – Basic (pence per share) | | **25.0p** | 10.2p | | 22.0p | |
| Continuing operations – Diluted (pence per share) | | **24.6p** | 10.1p | | 21.8p | |

1 Discontinued operations represents the results of the US life and related internal asset management businesses (US Life) up until the date of disposal (2 October 2013).

## Condensed consolidated statement of comprehensive income

For the six month period ended 30 June 2014

| | **Reviewed 6 months 2014 £m** | Reviewed 6 months 2013 £m | Audited Full year 2013 £m |
|---|---|---|---|
| **Profit for the period from continuing operations** | **863** | 406 | 878 |
| **Profit for the period from discontinued operations**[1] | **—** | 370 | 1,273 |
| **Total profit for the period** | **863** | 776 | 2,151 |
| **Other comprehensive income from continuing operations:** | | | |
| *Items that may be reclassified subsequently to income statement* | | | |
| Investments classified as available for sale | | | |
| Fair value gains/(losses) | **32** | (7) | 19 |
| Fair value gains/(losses) transferred to profit on disposals | **2** | (1) | 1 |
| Share of other comprehensive income of joint ventures and associates | **8** | (31) | (37) |
| Foreign exchange rate movements | **(280)** | 358 | (35) |
| Aggregate tax effect – shareholder tax on items that may be reclassified subsequently to the income statement | **(6)** | (17) | (14) |
| *Items that will not be reclassified subsequently to income statement* | | | |
| Owner occupied properties – fair value losses | **(1)** | — | (2) |
| Remeasurements of pension schemes | **387** | (294) | (674) |
| Aggregate tax effect – shareholder tax on items that will not be reclassified subsequently to the income statement | **(67)** | 65 | 125 |
| **Other comprehensive income, net of tax from continuing operations** | **75** | 73 | (617) |
| **Other comprehensive income, net of tax from discontinued operations**[1] | **—** | (206) | (319) |
| **Total other comprehensive income, net of tax** | **75** | (133) | (936) |
| **Total comprehensive income for the period from continuing operations** | **938** | 479 | 261 |
| **Total comprehensive income for the period from discontinued operations**[1] | **—** | 164 | 954 |
| **Total comprehensive income for the period** | **938** | 643 | 1,215 |
| Attributable to: | | | |
| Equity shareholders of Aviva plc | **876** | 489 | 1,038 |
| Non-controlling interests | **62** | 154 | 177 |
| | **938** | 643 | 1,215 |

1 Discontinued operations represents the results of the US life and related internal asset management businesses (US Life) up until the date of disposal (2 October 2013).

## Condensed consolidated statement of changes in equity

For the six month period ended 30 June 2014

| | **Reviewed 6 months 2014 £m** | Reviewed 6 months 2013 £m | Audited Full year 2013 £m |
|---|---|---|---|
| **Balance at 1 January** | **11,017** | 11,360 | 11,360 |
| Profit for the period | **863** | 776 | 2,151 |
| Other comprehensive income | **75** | (133) | (936) |
| **Total comprehensive income for the period** | **938** | 643 | 1,215 |
| Dividends and appropriations | **(302)** | (290) | (538) |
| Capital contributions from non-controlling interests | **—** | — | 1 |
| Non-controlling interests share of dividends declared in the period | **(96)** | (75) | (134) |
| Transfer to profit on disposal of subsidiaries, joint ventures and associates | **(10)** | (157) | (802) |
| Changes in non-controlling interests in subsidiaries | **(20)** | (147) | (147) |
| Shares acquired by employee trusts | **—** | — | (32) |
| Shares distributed by employee trusts | **1** | 3 | 5 |
| Reserves credit for equity compensation plans | **21** | 23 | 37 |
| Aggregate tax effect – shareholder tax | **4** | 4 | 52 |
| **Balance at 30 June/31 December** | **11,553** | 11,364 | 11,017 |

# Condensed consolidated statement of financial position

As at 30 June 2014

| | Note | Reviewed 30 June 2014 £m | Restated[1] Reviewed 30 June 2013 £m | Restated[1] Audited 31 December 2013 £m |
|---|---|---|---|---|
| **Assets** | | | | |
| Goodwill | | **1,364** | 1,504 | 1,476 |
| Acquired value of in-force business and intangible assets | | **965** | 1,095 | 1,068 |
| Interests in, and loans to, joint ventures | | **1,226** | 1,237 | 1,200 |
| Interests in, and loans to, associates | | **362** | 265 | 267 |
| Property and equipment | | **286** | 395 | 313 |
| Investment property | | **8,647** | 9,832 | 9,451 |
| Loans | | **22,967** | 24,225 | 23,879 |
| Financial investments | | **197,607** | 193,470 | 194,027 |
| Reinsurance assets | B11 | **7,551** | 6,907 | 7,220 |
| Deferred tax assets | | **112** | 234 | 244 |
| Current tax assets | | **117** | 89 | 76 |
| Receivables | | **7,526** | 8,477 | 7,476 |
| Deferred acquisition costs and other assets | | **3,677** | 3,417 | 3,051 |
| Prepayments and accrued income | | **2,721** | 2,826 | 2,635 |
| Cash and cash equivalents | | **23,584** | 27,662 | 26,131 |
| Assets of operations classified as held for sale | B4 | **149** | 41,712 | 3,113 |
| **Total assets** | | **278,861** | 323,347 | 281,627 |
| **Equity** | | | | |
| Capital | | | | |
| Ordinary share capital | | **736** | 736 | 736 |
| Preference share capital | | **200** | 200 | 200 |
| | | **936** | 936 | 936 |
| Capital reserves | | | | |
| Share premium | | **1,165** | 1,165 | 1,165 |
| Merger reserve | | **3,271** | 3,271 | 3,271 |
| | | **4,436** | 4,436 | 4,436 |
| Shares held by employee trusts | | **(11)** | (9) | (31) |
| Other reserves | | **258** | 1,532 | 475 |
| Retained earnings | | **3,138** | 1,581 | 2,348 |
| **Equity attributable to shareholders of Aviva plc** | | **8,757** | 8,476 | 8,164 |
| Direct capital instruments and fixed rate tier 1 notes | | **1,382** | 1,382 | 1,382 |
| Non-controlling interests | | **1,414** | 1,506 | 1,471 |
| **Total equity** | | **11,553** | 11,364 | 11,017 |
| **Liabilities** | | | | |
| Gross insurance liabilities | B9 | **110,980** | 113,060 | 110,555 |
| Gross liabilities for investment contracts | B10 | **115,563** | 113,285 | 116,058 |
| Unallocated divisible surplus | B13 | **8,923** | 6,569 | 6,713 |
| Net asset value attributable to unitholders | | **9,463** | 12,340 | 10,362 |
| Provisions | B15 | **871** | 1,079 | 984 |
| Deferred tax liabilities | | **624** | 551 | 563 |
| Current tax liabilities | | **54** | 130 | 116 |
| Borrowings | | **6,944** | 8,254 | 7,819 |
| Payables and other financial liabilities | | **11,418** | 13,769 | 11,945 |
| Other liabilities | | **2,329** | 1,826 | 2,472 |
| Liabilities of operations classified as held for sale | B4 | **139** | 41,120 | 3,023 |
| **Total liabilities** | | **267,308** | 311,983 | 270,610 |
| **Total equity and liabilities** | | **278,861** | 323,347 | 281,627 |

1 The statement of financial position has been restated following the adoption of amendments to 'IAS 32: *Financial Instruments: Presentation'*. Refer to note B2 for further information. There is no impact on the total equity for any period presented as a result of this restatement.

## Condensed consolidated statement of cash flows

For the six month period ended 30 June 2014

| | Note | Reviewed 6 months 2014 £m | Restated[2] Reviewed 6 months 2013 £m | Restated[2] Audited Full year 2013 £m |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Cash (used in)/generated from continuing operations | | **(1,257)** | 2,663 | 2,562 |
| Tax paid | | **(301)** | (215) | (463) |
| **Net cash (used in)/from operating activities – continuing operations** | | **(1,558)** | 2,448 | 2,099 |
| **Net cash from operating activities – discontinued operations[1]** | | **—** | 105 | 1,919 |
| **Total net cash (used in)/from operating activities** | | **(1,558)** | 2,553 | 4,018 |
| **Cash flows from investing activities** | | | | |
| Acquisitions of, and additions to, subsidiaries, joint ventures and associates, net of cash acquired | | **(74)** | (29) | (29) |
| Disposals of subsidiaries, joint ventures and associates, net of cash transferred | | **(41)** | 388 | 377 |
| New loans to joint ventures and associates | | **(41)** | (5) | (6) |
| Repayment of loans to joint ventures | | **2** | 5 | 25 |
| Net new loans to joint ventures and associates | | **(39)** | — | 19 |
| Purchases of property and equipment | | **(7)** | (36) | (30) |
| Proceeds on sale of property and equipment | | **16** | 10 | 56 |
| Other cash flow related to intangible assets | | **32** | (28) | (59) |
| **Net cash (used in)/from investing activities – continuing operations** | | **(113)** | 305 | 334 |
| **Net cash used in investing activities – discontinued operations[1]** | | **—** | — | (1,588) |
| **Total net cash (used in)/from investing activities** | | **(113)** | 305 | (1,254) |
| **Cash flows from financing activities** | | | | |
| Treasury shares purchased for employee trusts | | **—** | — | (32) |
| New borrowings drawn down, net of expenses | | **992** | 1,042 | 2,201 |
| Repayment of borrowings | | **(1,486)** | (871) | (2,441) |
| Net (repayment)/drawdown of borrowings | | **(494)** | 171 | (240) |
| Interest paid on borrowings | | **(256)** | (292) | (605) |
| Preference dividends paid | | **(9)** | (9) | (17) |
| Ordinary dividends paid | | **(277)** | (264) | (429) |
| Coupon payments on direct capital instruments and fixed rate tier 1 notes | | **(16)** | (17) | (92) |
| Capital contributions from non-controlling interests of subsidiaries | | **—** | — | 1 |
| Dividends paid to non-controlling interests of subsidiaries | | **(96)** | (75) | (134) |
| Changes in controlling interest in subsidiary | | **(6)** | — | — |
| **Net cash used in financing activities – continuing operations** | | **(1,154)** | (486) | (1,548) |
| **Net cash from financing activities – discontinued operations[1]** | | **—** | 15 | 19 |
| **Total net cash used in financing activities** | | **(1,154)** | (471) | (1,529) |
| **Total net (decrease)/increase in cash and cash equivalents** | | **(2,825)** | 2,387 | 1,235 |
| Cash and cash equivalents at 1 January | | **25,989** | 24,564 | 24,564 |
| Effect of exchange rate changes on cash and cash equivalents | | **(359)** | 674 | 190 |
| **Cash and cash equivalents at 30 June/31 December** | B19 | **22,805** | 27,625 | 25,989 |

1 Discontinued operations represents the results of the US life and related internal asset management businesses (US Life) up until the date of disposal (2 October 2013).
2 The statement of cash flows has been restated following the adoption of amendments to 'IAS 32: *Financial Instruments: Presentation*'. Refer to note B2 for further information.

The cash flows presented in this statement cover all the Group's activities and include flows from both policyholder and shareholder activities. Operating cash flows reflect the movement in both policyholder and shareholder controlled cash and cash equivalent balances.

During the period the net operating cash outflow reflects a number of factors, including the level of premium income, payments of claims, creditors and surrenders and purchases and sales of operating assets including financial investments. It also includes changes in the size and value of consolidated cash investment funds and changes in the Group participation in these funds.

# Notes to the condensed consolidated financial statements

## B1 – Basis of preparation

The condensed consolidated financial statements for the six months to 30 June 2014 have been prepared in accordance with IAS 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU), and the Disclosure and Transparency Rules of the Financial Conduct Authority.

The accounting policies applied in the condensed consolidated financial statements are the same as those applied in Aviva plc's 2013 Annual Report and Accounts, except for the adoption of new standards, interpretations and amendments to existing standards as detailed in Note B2.

The results for the six months to 30 June 2014 are unaudited but have been reviewed by the auditor, PricewaterhouseCoopers 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 2013 have been taken from the Group's 2013 Annual Report and Accounts and have been restated for the adoption of amendments to an existing accounting standard noted in Note B2. Therefore, these interim accounts should be read in conjunction with the 2013 Annual Report and Accounts that were prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and endorsed by the European Union. PricewaterhouseCoopers LLP reported on the 2013 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 2013 Annual 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.

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 pounds 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).

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. As a result, the Group focuses on an operating profit measure 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 impairment of goodwill, joint ventures and associates; amortisation and impairment of intangibles; the profit or loss on disposal and remeasurement of subsidiaries, joint ventures and associates; integration and restructuring costs; and exceptional items.

## B2 – New standards, interpretations and amendments to published standards that have been adopted by the Group

The Group has adopted amendments to IAS 32 *Financial Instruments: Presentation* that became effective as of 1 January 2014. These amendments clarify the meaning of 'currently legally enforceable right to set-off' to reinforce that a right to set-off must not be contingent on any future event, including counterparty default or bankruptcy. Additionally, IAS 32 clarified that a settlement mechanism must be in place to ensure settlement in practice that is either simultaneous or sufficient to result in insignificant credit and liquidity risk. The amendments to IAS 32 have been applied retrospectively in accordance with the transitional provisions of the standard. The primary impact of the application of the amendments has resulted in the grossing up of certain assets and liabilities related to derivatives and repurchase arrangements in the statement of financial position that were previously reported net. There is no impact on the profit or loss or equity for any period presented. The effect on the statement of financial position at 30 June 2013 and 31 December 2013 is set out in the table below.

### Impact of amendments to accounting standards on condensed consolidated statement of financial position

| | 30 June 2013 | | | 31 December 2013 | | |
|---|---|---|---|---|---|---|
| | As previously reported £m | Effect of amendments to IAS 32 £m | Restated £m | As reported £m | Effect of amendments to IAS 32 £m | Restated £m |
| **Total assets** | 319,342 | 4,005 | 323,347 | 278,876 | 2,751 | 281,627 |
| *Effect analysed as:* | | | | | | |
| Financial investments | 192,670 | 800 | 193,470 | 192,961 | 1,066 | 194,027 |
| Receivables | 7,981 | 496 | 8,477 | 7,060 | 416 | 7,476 |
| Prepayments and accrued income | 2,704 | 122 | 2,826 | 2,498 | 137 | 2,635 |
| Cash and cash equivalents | 25,075 | 2,587 | 27,662 | 24,999 | 1,132 | 26,131 |
| **Total equity and liabilities** | 319,342 | 4,005 | 323,347 | 278,876 | 2,751 | 281,627 |
| **Total liabilities** | 307,978 | 4,005 | 311,983 | 267,859 | 2,751 | 270,610 |
| *Effect analysed as:* | | | | | | |
| Payables and other financial liabilities | 9,764 | 4,005 | 13,769 | 9,194 | 2,751 | 11,945 |

The change in cash and cash equivalents of £2,587 million at 30 June 2013 *(31 December 2013: £1,132 million)* has been presented in the condensed consolidated statement of cash flows as an increase of opening cash and cash equivalents of £1,111 million as at 1 January 2013, an increase in net cash flows from operating activities for the six months then ended of £1,397 million *(year ended 31 December 2013: £8 million decrease)* and an increase in the effect of exchange rate changes of £79 million *(31 December 2013: £29 million)*. There is no impact from the adoption of these amendments on the condensed consolidated income statement, condensed consolidated statement of comprehensive income or condensed consolidated statement of changes in equity for the periods ended 30 June 2013 or 31 December 2013.

During the period ended 30 June 2014, the Group also adopted new amendments and interpretations to IFRSs that became effective on 1 January 2014 which had no effect on these interim consolidated financial statements.

## B3 – Exchange rates

The Group's principal overseas operations during the period were located within the Eurozone, Canada and Poland. 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 2014** | 6 months 2013 | Full Year 2013 |
|---|---|---|---|
| **Eurozone** | | | |
| Average rate (€1 equals) | **£0.82** | £0.85 | £0.85 |
| Period end rate (€1 equals) | **£0.80** | £0.86 | £0.83 |
| **Canada** | | | |
| Average rate ($CAD1 equals) | **£0.55** | £0.64 | £0.62 |
| Period end rate ($CAD1 equals) | **£0.55** | £0.62 | £0.57 |
| **Poland** | | | |
| Average rate (PLN1 equals) | **£0.20** | £0.20 | £0.20 |
| Period end rate (PLN1 equals) | **£0.19** | £0.20 | £0.20 |
| **United States** | | | |
| Average rate ($US1 equals) | **£0.60** | £0.65 | £0.64 |
| Period end rate ($US1 equals) | **£0.58** | £0.66 | £0.60 |

## B4 – Subsidiaries

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

There have been no material acquisitions during the period.

### (b) Disposal and re-measurements of subsidiaries, joint ventures and associates

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

| | **6 months 2014 £m** | 6 months 2013 £m | Full Year 2013 £m |
|---|---|---|---|
| Ireland – long-term business | **—** | 88 | 87 |
| Spain – long-term business | **—** | 197 | 197 |
| Malaysia | **—** | 39 | 39 |
| Russia | **—** | 1 | 1 |
| Czech Republic, Hungary and Romania | **—** | 1 | 1 |
| Italy – long-term business (see (iii) below) | **(6)** | (151) | (178) |
| Korea (see (ii) below) | **2** | — | (20) |
| Turkey – general insurance (see (c) below) | **9** | — | (9) |
| Aviva Investors (see (iv) below) | **32** | — | — |
| Poland | **—** | — | (4) |
| Indonesia (see (i) below) | **(3)** | — | — |
| Other small operations | **17** | 5 | 1 |
| **Profit on disposal and remeasurement from continuing operations** | **51** | 180 | 115 |
| **Profit on disposal and remeasurement from discontinued operations (see (v) below)** | **—** | 91 | 808 |
| **Total profit on disposal and remeasurement** | **51** | 271 | 923 |

**(i) Indonesia**

In the second half of 2013, management decided to restructure existing operations in Indonesia and establish a new joint venture. The Indonesian operations were classified as held for sale at 31 December 2013 as Aviva's holding was to change from a 60% controlling interest which was consolidated to a 50% joint venture accounted for using equity accounting. On 17 January 2014, Aviva and PT Astra International Tbk signed an agreement to form the 50-50 joint venture (Astra Aviva Life) which completed in May 2014. A net gain of £1 million was recognised during HY14. Recycling of currency translation and investment valuation reserves of £4 million on completion resulted in an overall net loss of £3 million.

**(ii) Korea**

In 2013, management determined that the value of our long-term business joint venture in South Korea, Woori Aviva Life Insurance Co. Ltd, would be principally recovered through sale and it was classified as held for sale and re-measured at fair value, based on expected sales proceeds less costs to sell of £19 million.

On 27 June 2014 the Group completed its disposal of the 47% interest for consideration of £17 million, after transaction costs. Net assets disposed of were £19 million resulting in a loss of £2 million (*FY13: £20 million loss on re-measurement*). Recycling of currency translation and investment valuation reserves of £4 million on completion resulted in an overall net gain during HY14 of £2 million.

## B4 – Subsidiaries continued

**(iii) Eurovita**

In the first half of 2013, the Italian long-term business Eurovita Assicurazioni S.p.A ("Eurovita") was classified as held for sale, as a result of management determining that the value of the business would be principally recovered through sale. Finoa Srl ("Finoa"), an Italian holding company in which Aviva owns a 50% share, owns a 77.55% share of Eurovita. Following classification as held for sale, Eurovita was re-measured at fair value based on expected sales proceeds less costs to sell of £39 million with a re-measurement loss of £178 million (Aviva share: £74 million loss) at FY13.

On 30 June 2014 Finoa disposed of its entire interest in Eurovita for gross cash consideration of £36 million. The overall loss on the sale of Finoa's 77.55% stake in Eurovita was £6 million analysed as:

| | 6 months 2014 £m |
|---|---|
| **Loss on disposal attributable to:** | |
| Aviva | **4** |
| Non-controlling interest | **(10)** |
| **Total loss on disposal** | **(6)** |

Aviva's £4 million gain was calculated as follows:

| | 6 months 2014 £m |
|---|---|
| **Assets** | |
| Financial Investments | **2,857** |
| Other assets | **4** |
| Cash and cash equivalents | **175** |
| **Total assets** | **3,036** |
| **Liabilities** | |
| Insurance liabilities | **103** |
| Liability for investment contracts | **2,687** |
| Unallocated divisible surplus | **123** |
| External borrowings | **28** |
| Other liabilities | **23** |
| **Total liabilities** | **2,964** |
| **Net assets** | **72** |
| **Non-controlling interests before disposal** | **(44)** |
| **Group's share of net assets disposed of** | **28** |
| Cash consideration received | **18** |
| Less: transaction costs attributable to Aviva | **(4)** |
| **Net cash consideration** | **14** |
| Loan settlement[1] | **9** |
| Currency translation reserve recycled to the income statement | **9** |
| **Profit on disposal** | **4** |

1 A loan between Aviva and Eurovita had been provided against in 2013 as its repayment was uncertain as of 31 December 2013. However, this provision was reversed in HY14 as the loan was repaid in full upon the closing of the sale.

**(iv) River Road**

On 28 March 2014 Aviva Investors announced its agreement to sell US equity manager River Road Asset Management, LLC ("River Road") to Affiliated Managers Group, Inc. The sale was completed on 30 June 2014 for consideration of £74 million, after transaction costs. Assets disposed of were £42 million, comprised of £38 million of goodwill and intangibles and £4 million of other investments, resulting in a £32 million gain on disposal.

**(v) Discontinued operations – US long term business**

The sale of the Aviva USA business completed on 2 October 2013 and the transaction proceeds received were based on the estimated earnings and other improvements in statutory surplus over the period from 30 June 2012 to 30 September 2013. The final purchase price is subject to customary completion adjustments. The process to agree completion adjustments is on-going and is expected to complete in the second half of 2014. Until the outcome of this process is known there remains uncertainty on the final determination of the completion adjustment. The transaction resulted in a profit on disposal of £808 million in 2013, reflecting management's best estimate of the completion adjustment.

## B4 – Subsidiaries continued

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

During 2014 it was determined that the value of the Group's Taiwan joint venture, First-Aviva Life Insurance Co. Ltd. ("Taiwan") , would no longer be recovered principally through a sale. As a result, the business was reclassified out of "Assets of operations held for sale" and into "Interests in, and loans to, joint ventures". As the recoverable amount at the date it ceased to be held for sale was lower than its carrying value when it was classified as held for sale, no re-measurement gain or loss was recorded following this reclassification.

The assets and liabilities of operations classified as held for sale as at 30 June 2014 are as follows:

| | **6 months 2014 Total £m** | 6 months 2013 Total £m | Full Year 2013 Total £m |
|---|---|---|---|
| **Assets** | | | |
| Goodwill | **—** | — | 4 |
| Acquired value of in-force business and intangible assets | **—** | 496 | — |
| Interests in, and loans to, joint ventures and associates | **—** | 13 | 29 |
| Property and equipment | **1** | — | — |
| Investment property | **—** | 6 | — |
| Loans | **—** | 3,784 | — |
| Financial investments | **23** | 34,884 | 2,675 |
| Reinsurance assets | **26** | 712 | 37 |
| Deferred acquisition costs | **6** | 2,342 | 6 |
| Other assets | **29** | 960 | 196 |
| Cash and cash equivalents | **64** | 965 | 351 |
| | **149** | 44,162 | 3,298 |
| Additional impairment to write down the disposal group to fair value less costs to sell | **—** | (2,450) | (185) |
| **Total assets** | **149** | 41,712 | 3,113 |
| **Liabilities** | | | |
| Insurance liabilities | **(134)** | (33,332) | (238) |
| Liability for investment contracts | **—** | (4,858) | (2,710) |
| Unallocated divisible surplus | **—** | 18 | 4 |
| Provisions | **—** | (177) | (3) |
| Deferred tax liabilities | **—** | (688) | (1) |
| Current tax liabilities | **—** | (19) | — |
| External borrowings | **—** | (212) | (29) |
| Other liabilities | **(5)** | (1,852) | (46) |
| **Total liabilities** | **(139)** | (41,120) | (3,023) |
| **Net assets** | **10** | 592 | 90 |

Assets held for sale as of 30 June 2014 relate to the general insurance operations in Turkey and other small operations. In the second half of 2013 management committed to sell the Turkey general insurance business. As of 31 December 2013 the business was re-measured at fair value based on an expected sales price less costs to sell of £2 million resulting in a loss on re-measurement of £9 million in FY13 following its classification as held for sale. At 30 June 2014, the business remains held for sale. In the first half of 2014, the underlying carrying value decreased from £11 million to £2 million while the fair value remained unchanged, resulting in a re-measurement gain of £9 million in HY14.

## B5 – Segmental information

The Group's results can be segmented, either by activity or by geography. Our primary reporting format is along 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.

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 CEO for the operating segment for which they are responsible.

**United Kingdom & Ireland**
The United Kingdom and Ireland comprises two operating segments – Life and General Insurance. The principal activities of our UK and Ireland Life operations are life insurance, long-term health (in the UK) 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. UK & Ireland General Insurance includes the results of our Ireland Health 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.

**Poland**
Activities in Poland comprise long-term business and general insurance operations.

**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 IFRS 8. This segment includes our operations in Italy and Spain (including Aseval up until the date of its disposal in April 2013 and Eurovita up until the date of its disposal in June 2014). The principal activities of our Italian operations are long-term business and general insurance. The long term business offers a range of long-term insurance and savings products, and 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. Our Other European operations include Turkey (both Life and General Insurance); the operations of Turkey General Insurance are classified as held for sale as at 30 June 2014. This segment also includes the results of our Russian and Romanian businesses until the date of their disposals in 2013.

**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 channels.

**Asia**
Our activities in Asia principally comprise our long-term business operations in China, India, Singapore, Hong Kong, Vietnam, Indonesia and Taiwan. This segment also includes the results of Malaysia and South Korea until the date of their disposals (in April 2013 and June 2014 respectively). Asia also includes general insurance operations in Singapore and health operations in Indonesia.

**Aviva Investors**
Aviva Investors operates in most of the markets in which the Group operates, in particular the UK, France 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. This segment also includes the results of River Road Asset Management LLC until the date of its disposal (in June 2014).

**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', along with central core structural borrowings and certain tax balances in the segmental statement of financial position. The results of our reinsurance operations are also included in this segment.

**Discontinued operations**
In October 2013, the Group sold its US Life and annuity business and associated investment management operations ('US Life') and therefore the results of US Life up to that date are presented as discontinued operations for the comparative periods in the financial statements.

**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 subject to 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.

## B5 – Segmental information continued

### (a) (i) Segmental income statement for the six month period ended 30 June 2014

| | United Kingdom & Ireland | | Europe | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Life[2] £m | GI £m | France £m | Poland £m | Italy, Spain and Other £m | Canada £m | Asia £m | Aviva Investors[2,3] £m | Other Group activities[4] £m | Total £m |
| Gross written premiums | 2,253 | 2,264 | 3,045 | 239 | 2,040 | 1,062 | 461 | — | 2 | 11,366 |
| Premiums ceded to reinsurers | (379) | (245) | (32) | (3) | (40) | (34) | (72) | — | — | (805) |
| Internal reinsurance revenue | (3) | — | (1) | — | (2) | (2) | — | — | 8 | — |
| Premiums written net of reinsurance | 1,871 | 2,019 | 3,012 | 236 | 1,998 | 1,026 | 389 | — | 10 | 10,561 |
| Net change in provision for unearned premiums | (36) | 17 | (97) | — | (5) | (28) | (9) | — | — | (158) |
| Net earned premiums | 1,835 | 2,036 | 2,915 | 236 | 1,993 | 998 | 380 | — | 10 | 10,403 |
| Fee and commission income | 194 | 89 | 105 | 69 | 42 | 7 | 6 | 127 | — | 639 |
| | 2,029 | 2,125 | 3,020 | 305 | 2,035 | 1,005 | 386 | 127 | 10 | 11,042 |
| Net investment income/(expense) | 4,331 | 165 | 3,519 | 73 | 1,534 | 100 | 82 | 93 | (40) | 9,857 |
| Inter-segment revenue | — | — | — | — | — | — | — | 67 | — | 67 |
| Share of profit/(loss) of joint ventures and associates | 80 | — | 5 | 2 | 4 | — | (11) | — | — | 80 |
| Profit on the disposal and remeasurement of subsidiaries, joint ventures and associates | — | — | — | — | 3 | 14 | 1 | 33 | — | 51 |
| **Segmental income[1]** | **6,440** | **2,290** | **6,544** | **380** | **3,576** | **1,119** | **458** | **320** | **(30)** | **21,097** |
| Claims and benefits paid, net of recoveries from reinsurers | (3,866) | (1,404) | (2,237) | (162) | (1,480) | (598) | (191) | — | (38) | (9,976) |
| Change in insurance liabilities, net of reinsurance | (514) | 80 | (776) | (23) | (102) | (65) | (160) | — | 27 | (1,533) |
| Change in investment contract provisions | (710) | — | (1,216) | 1 | (803) | — | — | (93) | — | (2,821) |
| Change in unallocated divisible surplus | (157) | — | (1,656) | (3) | (732) | — | (28) | — | — | (2,576) |
| Fee and commission expense | (254) | (645) | (309) | (36) | (145) | (275) | (35) | (8) | (32) | (1,739) |
| Other expenses | (291) | (121) | (119) | (29) | (59) | (44) | (33) | (144) | (47) | (887) |
| Inter-segment expenses | (60) | (2) | — | (3) | — | (2) | — | — | — | (67) |
| Finance costs | (90) | (2) | (2) | — | (1) | (2) | — | (2) | (165) | (264) |
| **Segmental expenses** | **(5,942)** | **(2,094)** | **(6,315)** | **(255)** | **(3,322)** | **(986)** | **(447)** | **(247)** | **(255)** | **(19,863)** |
| Profit/(loss) before tax | 498 | 196 | 229 | 125 | 254 | 133 | 11 | 73 | (285) | 1,234 |
| Tax attributable to policyholders' returns | (93) | — | — | — | — | — | — | — | — | (93) |
| **Profit/(loss) before tax attributable to shareholders' profits** | **405** | **196** | **229** | **125** | **254** | **133** | **11** | **73** | **(285)** | **1,141** |
| Adjusted for non-operating items: | | | | | | | | | | |
| Reclassification of corporate costs and unallocated interest | — | 4 | 8 | — | — | — | — | — | (12) | — |
| Investment return variances and economic assumption changes on long-term business | 45 | — | 28 | (5) | (104) | — | (8) | — | — | (44) |
| Short-term fluctuation in return on investments backing non-long-term business | — | (7) | (44) | — | (10) | (42) | — | — | (62) | (165) |
| Economic assumption changes on general insurance and health business | — | 66 | — | — | — | 1 | — | — | — | 67 |
| Impairment of goodwill, joint ventures and associates | — | — | — | — | — | — | 24 | — | — | 24 |
| Amortisation and impairment of intangibles | 13 | — | — | — | 7 | 4 | — | 7 | 7 | 38 |
| Profit on the disposal and remeasurement of subsidiaries, joint ventures and associates | — | — | — | — | (3) | (14) | (1) | (33) | — | (51) |
| Integration and restructuring costs | 14 | 5 | 1 | — | — | 1 | — | (5) | 26 | 42 |
| Exceptional items | — | — | — | — | — | — | — | — | — | — |
| **Operating profit/(loss) before tax attributable to shareholders** | **477** | **264** | **222** | **120** | **144** | **83** | **26** | **42** | **(326)** | **1,052** |

1 Total reported income, excluding inter-segment revenue, includes £8,228 million from the United Kingdom (Aviva plc's country of domicile). Income is attributed on the basis of geographical origin which does not differ materially from revenue by geographical destination, as most risks are located in the countries where the contracts were written.
2 UK and Ireland Life operating profit includes £6 million relating to the UK retail fund management business. This was transferred from UK Life to Aviva Investors in May 2014. Aviva Investors operating profit includes £2 million relating to this business post transfer.
3 Aviva Investors operating profit also includes £1 million profit relating to the Aviva Investors Pooled Pensions business.
4 Other group activities include Group Reinsurance.

## B5 – Segmental information continued

### (a) (ii) Segmental income statement for the six month period ended 30 June 2013

| | United Kingdom & Ireland | | Europe | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Life £m | GI £m | France £m | Poland £m | Italy, Spain and Other £m | Canada £m | Asia £m | Aviva Investors[2] £m | Other Group activities[3] £m | Continuing operations £m | Discontinued operations[4] £m | Total £m |
| Gross written premiums | 2,588 | 2,413 | 2,936 | 236 | 1,757 | 1,162 | 351 | — | 8 | 11,451 | 1,103 | 12,554 |
| Premiums ceded to reinsurers | (400) | (248) | (28) | (4) | (38) | (32) | (63) | — | (1) | (814) | (66) | (880) |
| Internal reinsurance revenue | — | (4) | (3) | (1) | (7) | (4) | — | — | 19 | — | — | — |
| Premiums written net of reinsurance | 2,188 | 2,161 | 2,905 | 231 | 1,712 | 1,126 | 288 | — | 26 | 10,637 | 1,037 | 11,674 |
| Net change in provision for unearned premiums | (20) | 50 | (92) | (5) | 3 | (20) | (1) | — | (4) | (89) | — | (89) |
| Net earned premiums | 2,168 | 2,211 | 2,813 | 226 | 1,715 | 1,106 | 287 | — | 22 | 10,548 | 1,037 | 11,585 |
| Fee and commission income | 234 | 100 | 90 | 27 | 60 | 21 | 10 | 126 | (1) | 667 | 5 | 672 |
| | 2,402 | 2,311 | 2,903 | 253 | 1,775 | 1,127 | 297 | 126 | 21 | 11,215 | 1,042 | 12,257 |
| Net investment income/(expense) | 2,468 | 131 | 400 | (1) | 629 | (6) | 32 | 70 | 237 | 3,960 | 1,493 | 5,453 |
| Inter-segment revenue | — | — | — | — | — | — | — | 55 | — | 55 | 33 | 88 |
| Share of (loss)/profit of joint ventures and associates | (29) | — | 4 | 1 | 3 | — | 7 | — | — | (14) | — | (14) |
| Profit on the disposal and remeasurement of subsidiaries, joint ventures and associates | 88 | — | — | — | 53 | — | 39 | — | — | 180 | 91 | 271 |
| **Segmental income[1]** | 4,929 | 2,442 | 3,307 | 253 | 2,460 | 1,121 | 375 | 251 | 258 | 15,396 | 2,659 | 18,055 |
| Claims and benefits paid, net of recoveries from reinsurers | (4,550) | (1,440) | (2,344) | (180) | (2,030) | (639) | (258) | — | (17) | (11,458) | (1,434) | (12,892) |
| Change in insurance liabilities, net of reinsurance | 2,381 | 92 | (810) | 45 | 252 | (34) | 10 | — | (27) | 1,909 | (140) | 1,769 |
| Change in investment contract provisions | (1,505) | — | (410) | 3 | 21 | — | — | (70) | — | (1,961) | (28) | (1,989) |
| Change in unallocated divisible surplus | (288) | — | 883 | 20 | (34) | — | 4 | — | — | 585 | — | 585 |
| Fee and commission expense | (343) | (733) | (276) | (28) | (154) | (313) | (47) | (12) | (403) | (2,309) | (335) | (2,644) |
| Other expenses | (290) | (138) | (121) | (24) | (139) | (69) | (33) | (160) | (233) | (1,207) | (192) | (1,399) |
| Inter-segment expenses | (48) | (2) | — | (3) | — | (2) | — | — | — | (55) | (33) | (88) |
| Finance costs | (104) | (4) | (4) | — | (2) | (4) | — | (3) | (174) | (295) | (10) | (305) |
| **Segmental expenses** | (4,747) | (2,225) | (3,082) | (167) | (2,086) | (1,061) | (324) | (245) | (854) | (14,791) | (2,172) | (16,963) |
| Profit/(loss) before tax | 182 | 217 | 225 | 86 | 374 | 60 | 51 | 6 | (596) | 605 | 487 | 1,092 |
| Tax attributable to policyholders' returns | 7 | — | — | — | — | — | 11 | — | — | 18 | — | 18 |
| **Profit/(loss) before tax attributable to shareholders' profits** | 189 | 217 | 225 | 86 | 374 | 60 | 62 | 6 | (596) | 623 | 487 | 1,110 |
| Adjusted for non-operating items: | | | | | | | | | | | | |
| Reclassification of corporate costs and unallocated interest | 1 | 3 | 11 | — | — | — | — | — | (15) | — | — | — |
| Investment return variances and economic assumption changes on long-term business | 312 | — | (58) | 2 | (230) | — | (24) | — | — | 2 | (279) | (277) |
| Short-term fluctuation in return on investments backing non-long-term business | — | 47 | 36 | — | 13 | 77 | — | — | 133 | 306 | — | 306 |
| Economic assumption changes on general insurance and health business | — | (26) | — | — | — | — | — | — | (1) | (27) | — | (27) |
| Impairment of goodwill, joint ventures and associates | — | — | — | — | 48 | — | 29 | — | — | 77 | — | 77 |
| Amortisation and impairment of intangibles | 9 | — | — | — | 9 | 6 | 1 | 11 | 7 | 43 | 6 | 49 |
| Profit on the disposal and remeasurement of subsidiaries, joint ventures and associates | (88) | — | — | — | (53) | — | (39) | — | — | (180) | (91) | (271) |
| Integration and restructuring costs | 19 | 12 | 2 | 1 | 4 | 4 | 3 | 15 | 104 | 164 | 2 | 166 |
| **Operating profit/(loss) before tax attributable to shareholders** | 442 | 253 | 216 | 89 | 165 | 147 | 32 | 32 | (368) | 1,008 | 125 | 1,133 |

1 Total reported income, excluding inter-segment revenue, includes £7,012 million from the United Kingdom (Aviva plc's country of domicile). Income is attributed on the basis of geographical origin which does not differ materially from revenue by geographical destination, as most risks are located in the countries where the contracts were written.
2 Aviva Investors operating profit includes £1 million profit relating to the Aviva Investors Pooled Pensions business.
3 Other group activities include Group Reinsurance.
4 Discontinued operations represent the results of the US life and related internal asset management businesses (US Life) until the date of disposal (2 October 2013).

## B5 – Segmental information continued

### (a) (iii) Segmental income statement for the year ended 31 December 2013

| | United Kingdom & Ireland | | Europe | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Life £m | GI £m | France £m | Poland £m | Italy, Spain and Other £m | Canada £m | Asia £m | Aviva Investors[2] £m | Other Group activities[3] £m | Continuing operations £m | Discontinued operations[4] £m | Total £m |
| Gross written premiums | 4,971 | 4,664 | 5,634 | 484 | 3,277 | 2,318 | 678 | — | 9 | 22,035 | 1,589 | 23,624 |
| Premiums ceded to reinsurers | (743) | (455) | (63) | (6) | (79) | (60) | (146) | — | 6 | (1,546) | (100) | (1,646) |
| Internal reinsurance revenue | — | (9) | (6) | (3) | (5) | (8) | — | — | 31 | — | — | — |
| Premiums written net of reinsurance | 4,228 | 4,200 | 5,565 | 475 | 3,193 | 2,250 | 532 | — | 46 | 20,489 | 1,489 | 21,978 |
| Net change in provision for unearned premiums | (9) | 185 | (25) | (2) | 31 | (54) | 8 | — | — | 134 | — | 134 |
| Net earned premiums | 4,219 | 4,385 | 5,540 | 473 | 3,224 | 2,196 | 540 | — | 46 | 20,623 | 1,489 | 22,112 |
| Fee and commission income | 424 | 198 | 190 | 60 | 115 | 40 | 14 | 238 | — | 1,279 | 28 | 1,307 |
| | 4,643 | 4,583 | 5,730 | 533 | 3,339 | 2,236 | 554 | 238 | 46 | 21,902 | 1,517 | 23,419 |
| Net investment income/(expense) | 6,898 | 293 | 3,332 | 180 | 1,628 | 17 | 40 | 148 | (27) | 12,509 | 2,340 | 14,849 |
| Inter-segment revenue | — | — | — | — | — | — | — | 143 | — | 143 | 49 | 192 |
| Share of profit of joint ventures and associates | 88 | — | 8 | 3 | 6 | — | 15 | — | — | 120 | — | 120 |
| Profit/(loss) on the disposal and remeasurement of subsidiaries, joint ventures and associates | 87 | — | — | (4) | 13 | — | 19 | — | — | 115 | 808 | 923 |
| **Segmental income[1]** | 11,716 | 4,876 | 9,070 | 712 | 4,986 | 2,253 | 628 | 529 | 19 | 34,789 | 4,714 | 39,503 |
| Claims and benefits paid, net of recoveries from reinsurers | (8,960) | (2,818) | (4,858) | (363) | (3,222) | (1,342) | (489) | — | (41) | (22,093) | (2,037) | (24,130) |
| Change in insurance liabilities, net of reinsurance | 4,102 | 119 | (1,618) | (103) | (2) | (42) | 92 | — | (55) | 2,493 | (312) | 2,181 |
| Change in investment contract provisions | (4,829) | — | (1,725) | 34 | (386) | — | — | (144) | — | (7,050) | (31) | (7,081) |
| Change in unallocated divisible surplus | 199 | — | 426 | 16 | (363) | — | 2 | — | — | 280 | — | 280 |
| Fee and commission expense | (598) | (1,479) | (554) | (60) | (286) | (620) | (61) | (23) | (294) | (3,975) | (438) | (4,413) |
| Other expenses | (370) | (301) | (280) | (51) | (214) | (136) | (73) | (446) | (349) | (2,220) | (293) | (2,513) |
| Inter-segment expenses | (129) | (4) | — | (7) | — | (3) | — | — | — | (143) | (49) | (192) |
| Finance costs | (224) | (6) | (4) | — | (4) | (6) | — | (5) | (360) | (609) | (16) | (625) |
| **Segmental expenses** | (10,809) | (4,489) | (8,613) | (534) | (4,477) | (2,149) | (529) | (618) | (1,099) | (33,317) | (3,176) | (36,493) |
| Profit/(loss) before tax | 907 | 387 | 457 | 178 | 509 | 104 | 99 | (89) | (1,080) | 1,472 | 1,538 | 3,010 |
| Tax attributable to policyholders' returns | (190) | — | — | — | — | — | (1) | — | — | (191) | — | (191) |
| **Profit/(loss) before tax attributable to shareholders' profits** | 717 | 387 | 457 | 178 | 509 | 104 | 98 | (89) | (1,080) | 1,281 | 1,538 | 2,819 |
| Adjusted for non-operating items: | | | | | | | | | | | | |
| Reclassification of corporate costs and unallocated interest | — | 7 | 21 | — | — | — | — | — | (28) | — | — | — |
| Investment return variances and economic assumption changes on long-term business | 414 | — | (70) | 1 | (267) | — | (29) | — | — | 49 | (452) | (403) |
| Short-term fluctuation in return on investments backing non-long-term business | — | 74 | 15 | — | 12 | 122 | — | — | 113 | 336 | — | 336 |
| Economic assumption changes on general insurance and health business | — | (28) | — | — | — | (4) | — | — | (1) | (33) | — | (33) |
| Impairment of goodwill, joint ventures and associates | — | — | — | — | 48 | — | 29 | — | — | 77 | — | 77 |
| Amortisation and impairment of intangibles | 21 | 1 | — | — | 17 | 15 | 1 | 22 | 14 | 91 | 9 | 100 |
| (Profit)/loss on the disposal and remeasurement of subsidiaries, joint ventures and associates | (87) | — | — | 4 | (13) | — | (19) | — | — | (115) | (808) | (923) |
| Integration and restructuring costs | 59 | 24 | 25 | 1 | 8 | 9 | 7 | 41 | 189 | 363 | 3 | 366 |
| **Operating profit/(loss) before tax attributable to shareholders** | 1,124 | 465 | 448 | 184 | 314 | 246 | 87 | (26) | (793) | 2,049 | 290 | 2,339 |

1 Total reported income, excluding inter-segment revenue, includes £15,862 million from the United Kingdom (Aviva plc's country of domicile). Income is attributed on the basis of geographical origin which does not differ materially from revenue by geographical destination, as most risks are located in the countries where the contracts were written.
2 Aviva Investors operating profit includes £2 million profit relating to the Aviva Investors Pooled Pensions business.
3 Other group activities include Group Reinsurance.
4 Discontinued operations represent the results of the US life and related internal asset management businesses (US Life) until the date of disposal (2 October 2013).

## B5 – Segmental information continued

### (a) (iv) Segmental statement of financial position as at 30 June 2014

| | United Kingdom & Ireland | | Europe | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Life £m | GI £m | France £m | Poland £m | Italy, Spain and Other £m | Canada £m | Asia £m | Aviva Investors £m | Other Group activities £m | Total £m |
| Goodwill | — | 1,034 | — | 8 | 254 | 20 | 48 | — | — | 1,364 |
| Acquired value of in-force business and intangible assets | 130 | 2 | 108 | 7 | 605 | 43 | 2 | 31 | 37 | 965 |
| Interests in, and loans to, joint ventures and associates | 1,006 | — | 148 | 10 | 97 | 14 | 313 | — | — | 1,588 |
| Property and equipment | 12 | 20 | 220 | 3 | 5 | 10 | 3 | 1 | 12 | 286 |
| Investment property | 5,530 | 7 | 1,629 | — | 2 | — | — | 1,021 | 458 | 8,647 |
| Loans | 21,917 | 86 | 791 | — | 11 | 134 | 28 | — | — | 22,967 |
| Financial investments | 91,484 | 4,749 | 67,221 | 2,866 | 20,689 | 3,388 | 2,843 | 683 | 3,684 | 197,607 |
| Deferred acquisition costs | 1,305 | 451 | 233 | 24 | 92 | 265 | 5 | 9 | — | 2,384 |
| Other assets | 19,691 | 4,036 | 11,073 | 298 | 1,929 | 974 | 390 | 634 | 3,879 | 42,904 |
| Assets of operations classified as held for sale | — | — | — | — | 140 | — | — | — | 9 | 149 |
| **Total assets** | **141,075** | **10,385** | **81,423** | **3,216** | **23,824** | **4,848** | **3,632** | **2,379** | **8,079** | **278,861** |
| Insurance liabilities | | | | | | | | | | |
| Long-term business and outstanding claims provisions | 68,093 | 5,521 | 16,339 | 2,553 | 9,287 | 2,328 | 2,294 | — | 39 | 106,454 |
| Unearned premiums | 284 | 2,064 | 483 | 41 | 293 | 1,082 | 54 | — | 1 | 4,302 |
| Other insurance liabilities | — | 83 | 47 | — | 1 | 91 | — | — | 2 | 224 |
| Liability for investment contracts | 54,830 | — | 49,172 | 13 | 9,767 | — | — | 1,781 | — | 115,563 |
| Unallocated divisible surplus | 2,008 | — | 5,749 | 73 | 918 | — | 175 | — | — | 8,923 |
| Net asset value attributable to unitholders | 87 | — | 3,073 | — | 317 | — | — | — | 5,986 | 9,463 |
| External borrowings | 2,054 | — | — | — | 56 | — | — | — | 4,834 | 6,944 |
| Other liabilities, including inter-segment liabilities | 7,639 | (2,640) | 4,396 | 129 | 794 | 308 | 343 | 327 | 4,000 | 15,296 |
| Liabilities of operations classified as held for sale | — | — | — | — | 138 | — | — | — | 1 | 139 |
| **Total liabilities** | **134,995** | **5,028** | **79,259** | **2,809** | **21,571** | **3,809** | **2,866** | **2,108** | **14,863** | **267,308** |
| **Total equity** | | | | | | | | | | **11,553** |
| **Total equity and liabilities** | | | | | | | | | | **278,861** |

## B5 – Segmental information continued

### (a) (v) Segmental statement of financial position as at 30 June 2013 – (Restated)

| | United Kingdom & Ireland | | Europe | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Life[1] £m | GI[1] £m | France[1] £m | Poland £m | Italy, Spain and Other £m | Canada[1] £m | Asia[1] £m | Aviva Investors £m | United States £m | Other Group activities £m | Total £m |
| Goodwill | — | 1,043 | — | 9 | 314 | 51 | 58 | 29 | — | — | 1,504 |
| Acquired value of in-force business and intangible assets | 125 | 3 | 131 | 9 | 661 | 56 | 4 | 57 | — | 49 | 1,095 |
| Interests in, and loans to, joint ventures and associates | 957 | — | 158 | 11 | 112 | — | 260 | 4 | — | — | 1,502 |
| Property and equipment | 84 | 21 | 232 | 2 | 7 | 21 | 5 | 1 | — | 22 | 395 |
| Investment property | 6,629 | 8 | 1,531 | — | 2 | — | — | 1,016 | — | 646 | 9,832 |
| Loans | 22,871 | 343 | 869 | — | 25 | 86 | 31 | — | — | — | 24,225 |
| Financial investments | 90,929 | 4,211 | 64,579 | 2,817 | 20,431 | 3,709 | 2,970 | 774 | — | 3,050 | 193,470 |
| Deferred acquisition costs | 1,317 | 511 | 234 | 21 | 118 | 282 | 5 | — | — | — | 2,488 |
| Other assets | 17,506 | 5,013 | 14,983 | 223 | 2,131 | 1,205 | 404 | 530 | — | 5,129 | 47,124 |
| Assets of operations classified as held for sale | — | — | — | — | 2,882 | — | 13 | — | 38,808 | 9 | 41,712 |
| **Total assets** | 140,418 | 11,153 | 82,717 | 3,092 | 26,683 | 5,410 | 3,750 | 2,411 | 38,808 | 8,905 | 323,347 |
| Insurance liabilities | | | | | | | | | | | |
| Long-term business and outstanding claims provisions | 69,335 | 5,751 | 15,829 | 2,466 | 9,792 | 2,598 | 2,384 | — | — | 46 | 108,201 |
| Unearned premiums | 259 | 2,240 | 483 | 46 | 344 | 1,163 | 70 | — | — | 5 | 4,610 |
| Other insurance liabilities | — | 87 | 60 | — | 1 | 99 | — | — | — | 2 | 249 |
| Liability for investment contracts | 51,386 | — | 50,031 | 44 | 9,953 | — | — | 1,871 | — | — | 113,285 |
| Unallocated divisible surplus | 2,347 | — | 3,959 | 67 | 34 | — | 162 | — | — | — | 6,569 |
| Net asset value attributable to unitholders | 320 | — | 4,506 | — | 341 | — | — | — | — | 7,173 | 12,340 |
| External borrowings | 2,720 | — | — | — | 71 | — | — | — | — | 5,463 | 8,254 |
| Other liabilities, including inter-segment liabilities | 7,786 | (3,762) | 5,607 | 113 | 868 | 413 | 321 | 304 | — | 5,705 | 17,355 |
| Liabilities of operations classified as held for sale | — | — | — | — | 2,834 | — | — | — | 38,285 | 1 | 41,120 |
| **Total liabilities** | 134,153 | 4,316 | 80,475 | 2,736 | 24,238 | 4,273 | 2,937 | 2,175 | 38,285 | 18,395 | 311,983 |
| **Total equity** | | | | | | | | | | | 11,364 |
| **Total equity and liabilities** | | | | | | | | | | | 323,347 |

1 The statement of financial position has been restated following the adoption of amendments to 'IAS 32: *Financial Instruments: Presentation*'. Refer to note B2 for further information.

## B5 – Segmental information continued

### (a) (vi) Segmental statement of financial position as at 31 December 2013 – (Restated)

| | United Kingdom & Ireland | | Europe | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Life[1] £m | GI[1] £m | France[1] £m | Poland £m | Italy, Spain and Other £m | Canada[1] £m | Asia[1] £m | Aviva Investors £m | Other Group activities £m | Total £m |
| Goodwill | — | 1,039 | — | 9 | 303 | 49 | 49 | 27 | — | 1,476 |
| Acquired value of in-force business and intangible assets | 148 | 2 | 122 | 8 | 637 | 58 | 2 | 48 | 43 | 1,068 |
| Interests in, and loans to, joint ventures and associates | 1,001 | — | 153 | 9 | 94 | — | 210 | — | — | 1,467 |
| Property and equipment | 22 | 20 | 229 | 2 | 5 | 12 | 4 | 1 | 18 | 313 |
| Investment property | 6,364 | 7 | 1,545 | — | 2 | — | — | 982 | 551 | 9,451 |
| Loans | 22,629 | 270 | 852 | — | 23 | 76 | 29 | — | — | 23,879 |
| Financial investments | 90,646 | 4,696 | 65,601 | 3,045 | 20,469 | 3,402 | 2,756 | 687 | 2,725 | 194,027 |
| Deferred acquisition costs | 1,316 | 456 | 229 | 23 | 100 | 268 | 4 | — | 1 | 2,397 |
| Other assets | 19,620 | 4,167 | 11,051 | 220 | 1,967 | 1,081 | 343 | 532 | 5,455 | 44,436 |
| Assets of operations classified as held for sale | — | — | — | — | 3,042 | — | 62 | — | 9 | 3,113 |
| **Total assets** | 141,746 | 10,657 | 79,782 | 3,316 | 26,642 | 4,946 | 3,459 | 2,277 | 8,802 | 281,627 |
| Insurance liabilities | | | | | | | | | | |
| Long-term business and outstanding claims provisions | 67,484 | 5,657 | 16,185 | 2,640 | 9,575 | 2,372 | 2,142 | — | 45 | 106,100 |
| Unearned premiums | 248 | 2,094 | 404 | 43 | 298 | 1,088 | 50 | — | 1 | 4,226 |
| Other insurance liabilities | — | 84 | 50 | — | 1 | 92 | — | — | 2 | 229 |
| Liability for investment contracts | 54,679 | — | 49,856 | 14 | 9,750 | — | — | 1,759 | — | 116,058 |
| Unallocated divisible surplus | 1,857 | — | 4,292 | 72 | 342 | — | 150 | — | — | 6,713 |
| Net asset value attributable to unitholders | 287 | — | 3,032 | — | 324 | — | — | — | 6,719 | 10,362 |
| External borrowings | 2,620 | — | — | — | 72 | — | — | — | 5,127 | 7,819 |
| Other liabilities, including inter-segment liabilities | 8,489 | (3,337) | 3,782 | 114 | 963 | 411 | 354 | 272 | 5,032 | 16,080 |
| Liabilities of operations classified as held for sale | — | — | — | — | 3,003 | — | 20 | — | — | 3,023 |
| **Total liabilities** | 135,664 | 4,498 | 77,601 | 2,883 | 24,328 | 3,963 | 2,716 | 2,031 | 16,926 | 270,610 |
| **Total equity** | | | | | | | | | | 11,017 |
| **Total equity and liabilities** | | | | | | | | | | 281,627 |

1 The statement of financial position has been restated following the adoption of amendments to 'IAS 32: *Financial Instruments: Presentation*'. Refer to note B2 for further information.

### (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 service companies, head office expenses, such as Group treasury and finance functions, and certain financing costs and taxes not allocated to business segments.

## B5 – Segmental information continued

### (b) (i) Segmental income statement – products and services for the six month period ended 30 June 2014

| | Long-term business £m | General insurance and health[2] £m | Fund management £m | Other £m | Total £m |
|---|---|---|---|---|---|
| Gross written premiums[1] | 6,734 | 4,632 | — | — | 11,366 |
| Premiums ceded to reinsurers | (462) | (343) | — | — | (805) |
| Premiums written net of reinsurance | 6,272 | 4,289 | — | — | 10,561 |
| Net change in provision for unearned premiums | — | (158) | — | — | (158) |
| Net earned premiums | 6,272 | 4,131 | — | — | 10,403 |
| Fee and commission income | 348 | 35 | 144 | 112 | 639 |
| | 6,620 | 4,166 | 144 | 112 | 11,042 |
| Net investment income/(expense) | 9,546 | 363 | 2 | (54) | 9,857 |
| Inter-segment revenue | — | — | 66 | — | 66 |
| Share of profit of joint ventures and associates | 79 | 1 | — | — | 80 |
| (Loss)/profit on the disposal and remeasurement of subsidiaries, joint ventures and associates | (5) | 9 | 33 | 14 | 51 |
| **Segmental income** | 16,240 | 4,539 | 245 | 72 | 21,096 |
| Claims and benefits paid, net of recoveries from reinsurers | (7,172) | (2,804) | — | — | (9,976) |
| Change in insurance liabilities, net of reinsurance | (1,543) | 10 | — | — | (1,533) |
| Change in investment contract provisions | (2,821) | — | — | — | (2,821) |
| Change in unallocated divisible surplus | (2,576) | — | — | — | (2,576) |
| Fee and commission expense | (543) | (1,116) | (10) | (70) | (1,739) |
| Other expenses | (410) | (209) | (153) | (115) | (887) |
| Inter-segment expenses | (60) | (6) | — | — | (66) |
| Finance costs | (89) | (5) | (2) | (168) | (264) |
| **Segmental expenses** | (15,214) | (4,130) | (165) | (353) | (19,862) |
| Profit/(loss) before tax from continuing operations | 1,026 | 409 | 80 | (281) | 1,234 |
| Tax attributable to policyholder returns | (93) | — | — | — | (93) |
| Profit/(loss) before tax attributable to shareholders' profits | 933 | 409 | 80 | (281) | 1,141 |
| Adjusted for: | | | | | |
| Non-operating items from continuing operations | 21 | (6) | (32) | (72) | (89) |
| **Operating profit/(loss) before tax attributable to shareholders' profits from continuing operations** | 954 | 403 | 48 | (353) | 1,052 |
| **Operating profit/(loss) before tax attributable to shareholders' profits from discontinued operations** | — | — | — | — | — |
| **Operating profit/(loss) before tax attributable to shareholders' profits** | 954 | 403 | 48 | (353) | 1,052 |

1 Gross written premiums include inward reinsurance premiums assumed from other companies amounting to £102 million, of which £62 million relates to property and liability insurance and £40 million relates to long-term business.
2 General insurance and health business segment includes gross written premiums of £646 million relating to health business. The remaining business relates to property and liability insurance.

## B5 – Segmental information continued

### (b) (ii) Segmental income statement – products and services for the six month period ended 30 June 2013

| | Long-term business £m | General insurance and health[2] £m | Fund management £m | Other £m | Total £m |
|---|---|---|---|---|---|
| Gross written premiums[1] | 6,553 | 4,898 | — | — | 11,451 |
| Premiums ceded to reinsurers | (465) | (349) | — | — | (814) |
| Premiums written net of reinsurance | 6,088 | 4,549 | — | — | 10,637 |
| Net change in provision for unearned premiums | — | (89) | — | — | (89) |
| Net earned premiums | 6,088 | 4,460 | — | — | 10,548 |
| Fee and commission income | 338 | 41 | 159 | 129 | 667 |
| | 6,426 | 4,501 | 159 | 129 | 11,215 |
| Net investment income/(expense) | 3,615 | 125 | 2 | 218 | 3,960 |
| Inter-segment revenue | — | — | 48 | — | 48 |
| Share of (loss)/profit of joint ventures and associates | (15) | 1 | — | — | (14) |
| Profit on the disposal and remeasurement of subsidiaries, joint ventures and associates | 175 | — | — | 5 | 180 |
| **Segmental income** | 10,201 | 4,627 | 209 | 352 | 15,389 |
| Claims and benefits paid, net of recoveries from reinsurers | (8,573) | (2,885) | — | — | (11,458) |
| Change in insurance liabilities, net of reinsurance | 1,917 | (8) | — | — | 1,909 |
| Change in investment contract provisions | (1,961) | — | — | — | (1,961) |
| Change in unallocated divisible surplus | 585 | — | — | — | 585 |
| Fee and commission expense | (620) | (1,251) | (22) | (416) | (2,309) |
| Other expenses | (451) | (215) | (169) | (372) | (1,207) |
| Inter-segment expenses | (44) | (4) | — | — | (48) |
| Finance costs | (102) | (6) | (2) | (185) | (295) |
| **Segmental expenses** | (9,249) | (4,369) | (193) | (973) | (14,784) |
| Profit/(loss) before tax from continuing operations | 952 | 258 | 16 | (621) | 605 |
| Tax attributable to policyholder returns | 18 | — | — | — | 18 |
| Profit/(loss) before tax attributable to shareholders' profits | 970 | 258 | 16 | (621) | 623 |
| Adjusted for: | | | | | |
| Non-operating items from continuing operations | (60) | 170 | 26 | 249 | 385 |
| **Operating profit/(loss) before tax attributable to shareholders' profits from continuing operations** | 910 | 428 | 42 | (372) | 1,008 |
| **Operating profit/(loss) before tax attributable to shareholders' profits from discontinued operations[3]** | 111 | — | 22 | (8) | 125 |
| **Operating profit/(loss) before tax attributable to shareholders' profits** | 1,021 | 428 | 64 | (380) | 1,133 |

1 Gross written premiums include inward reinsurance premiums assumed from other companies amounting to £85 million, of which £30 million relates to property and liability insurance and £55 million relates to long-term business.
2 General insurance and health business segment includes gross written premiums of £650 million relating to health business. The remaining business relates to property and liability insurance.
3 Discontinued operations represent the results of the US life and related internal asset management businesses (US Life) until the date of disposal (2 October 2013).

## B5 – Segmental information continued

### (b) (iii) Segmental income statement – products and services for the year ended 31 December 2013

| | Long-term business £m | General insurance and health[2] £m | Fund management £m | Other £m | Total £m |
|---|---|---|---|---|---|
| Gross written premiums[1] | 12,674 | 9,361 | — | — | 22,035 |
| Premiums ceded to reinsurers | (905) | (641) | — | — | (1,546) |
| Premiums written net of reinsurance | 11,769 | 8,720 | — | — | 20,489 |
| Net change in provision for unearned premiums | — | 134 | — | — | 134 |
| Net earned premiums | 11,769 | 8,854 | — | — | 20,623 |
| Fee and commission income | 656 | 80 | 292 | 251 | 1,279 |
| | 12,425 | 8,934 | 292 | 251 | 21,902 |
| Net investment income/(expense) | 12,184 | 349 | 3 | (27) | 12,509 |
| Inter-segment revenue | — | — | 143 | — | 143 |
| Share of profit of joint ventures and associates | 117 | 3 | — | — | 120 |
| Profit/(loss) on the disposal and remeasurement of subsidiaries, joint ventures and associates | 125 | (10) | — | — | 115 |
| **Segmental income** | 24,851 | 9,276 | 438 | 224 | 34,789 |
| Claims and benefits paid, net of recoveries from reinsurers | (16,333) | (5,760) | — | — | (22,093) |
| Change in insurance liabilities, net of reinsurance | 2,519 | (26) | — | — | 2,493 |
| Change in investment contract provisions | (7,050) | — | — | — | (7,050) |
| Change in unallocated divisible surplus | 280 | — | — | — | 280 |
| Fee and commission expense | (1,078) | (2,492) | (34) | (371) | (3,975) |
| Other expenses | (764) | (495) | (369) | (592) | (2,220) |
| Inter-segment expenses | (134) | (9) | — | — | (143) |
| Finance costs | (219) | (11) | (4) | (375) | (609) |
| **Segmental expenses** | (22,779) | (8,793) | (407) | (1,338) | (33,317) |
| Profit/(loss) before tax from continuing operations | 2,072 | 483 | 31 | (1,114) | 1,472 |
| Tax attributable to policyholder returns | (191) | — | — | — | (191) |
| Profit/(loss) before tax attributable to shareholders' profits | 1,881 | 483 | 31 | (1,114) | 1,281 |
| Adjusted for: | | | | | |
| Non-operating items from continuing operations | 20 | 314 | 62 | 372 | 768 |
| **Operating profit/(loss) before tax attributable to shareholders' profits from continuing operations** | 1,901 | 797 | 93 | (742) | 2,049 |
| **Operating profit/(loss) before tax attributable to shareholders' profits from discontinued operations[3]** | 272 | — | 31 | (13) | 290 |
| **Operating profit/(loss) before tax attributable to shareholders' profits** | 2,173 | 797 | 124 | (755) | 2,339 |

1 Gross written premiums include inward reinsurance premiums assumed from other companies amounting to £246 million, of which £142 million relates to property and liability insurance and £104 million relates to long-term business.
2 General insurance and health business segment includes gross written premiums of £1,196 million relating to health business. The remaining business relates to property and liability insurance.
3 Discontinued operations represent the results of the US life and related internal asset management businesses (US Life) until the date of disposal (2 October 2013).

## B5 – Segmental information continued

### (c) (i) Segmental statement of financial position – products and services as at 30 June 2014

| | Long-term business £m | General insurance and health £m | Fund management £m | Other £m | Total £m |
|---|---|---|---|---|---|
| Goodwill | 277 | 1,044 | — | 43 | 1,364 |
| Acquired value of in-force business and intangible assets | 731 | 155 | 31 | 48 | 965 |
| Interests in, and loans to, joint ventures and associates | 1,560 | 15 | — | 13 | 1,588 |
| Property and equipment | 172 | 89 | 1 | 24 | 286 |
| Investment property | 8,057 | 135 | — | 455 | 8,647 |
| Loans | 22,746 | 221 | — | — | 22,967 |
| Financial investments | 183,329 | 10,724 | 34 | 3,520 | 197,607 |
| Deferred acquisition costs | 1,510 | 865 | 9 | — | 2,384 |
| Other assets | 31,193 | 5,963 | 502 | 5,246 | 42,904 |
| Assets of operations classified as held for sale | — | 149 | — | — | 149 |
| **Total assets** | **249,575** | **19,360** | **577** | **9,349** | **278,861** |
| Gross insurance liabilities | 96,740 | 14,240 | — | — | 110,980 |
| Gross liabilities for investment contracts | 115,563 | — | — | — | 115,563 |
| Unallocated divisible surplus | 8,923 | — | — | — | 8,923 |
| Net asset value attributable to unitholders | 3,477 | — | — | 5,986 | 9,463 |
| External borrowings | 2,110 | — | — | 4,834 | 6,944 |
| Other liabilities, including inter-segment liabilities | 11,559 | (1,776) | 315 | 5,198 | 15,296 |
| Liabilities of operations classified as held for sale | — | 139 | — | — | 139 |
| **Total liabilities** | **238,372** | **12,603** | **315** | **16,018** | **267,308** |
| **Total equity** | | | | | **11,553** |
| **Total equity and liabilities** | | | | | **278,861** |

### (c) (ii) Segmental statement of financial position – products and services as at 30 June 2013 – (Restated[1])

| | Long-term business £m | General insurance and health £m | Fund management £m | Other £m | Total £m |
|---|---|---|---|---|---|
| Goodwill | 341 | 1,060 | 29 | 74 | 1,504 |
| Acquired value of in-force business and intangible assets | 802 | 158 | 57 | 78 | 1,095 |
| Interests in, and loans to, joint ventures and associates | 1,492 | 6 | 4 | — | 1,502 |
| Property and equipment | 253 | 105 | 1 | 36 | 395 |
| Investment property | 9,041 | 145 | — | 646 | 9,832 |
| Loans | 23,785 | 429 | — | 11 | 24,225 |
| Financial investments | 179,880 | 10,634 | 29 | 2,927 | 193,470 |
| Deferred acquisition costs | 1,521 | 955 | 12 | — | 2,488 |
| Other assets | 32,489 | 5,790 | 505 | 8,340 | 47,124 |
| Assets of operations classified as held for sale | 41,665 | 9 | 38 | — | 41,712 |
| **Total assets** | 291,269 | 19,291 | 675 | 12,112 | 323,347 |
| Gross insurance liabilities | 97,754 | 15,306 | — | — | 113,060 |
| Gross liabilities for investment contracts | 113,285 | — | — | — | 113,285 |
| Unallocated divisible surplus | 6,569 | — | — | — | 6,569 |
| Net asset value attributable to unitholders | 5,167 | — | — | 7,173 | 12,340 |
| External borrowings | 2,776 | — | — | 5,478 | 8,254 |
| Other liabilities, including inter-segment liabilities | 12,653 | (2,988) | 382 | 7,308 | 17,355 |
| Liabilities of operations classified as held for sale | 40,912 | 1 | 13 | 194 | 41,120 |
| **Total liabilities** | 279,116 | 12,319 | 395 | 20,153 | 311,983 |
| **Total equity** | | | | | 11,364 |
| **Total equity and liabilities** | | | | | 323,347 |

1 The statement of financial position has been restated following the adoption of amendments to 'IAS 32: *Financial Instruments: Presentation*'. Refer to note B2 for further information.

## B5 – Segmental information continued

### (c) (iii) Segmental statement of financial position – products and services as at 31 December 2013 – (Restated[1])

| | Long-term business £m | General insurance and health £m | Fund management £m | Other £m | Total £m |
|---|---|---|---|---|---|
| Goodwill | 328 | 1,048 | 27 | 73 | 1,476 |
| Acquired value of in-force business and intangible assets | 791 | 160 | 48 | 69 | 1,068 |
| Interests in, and loans to, joint ventures and associates | 1,462 | 5 | — | — | 1,467 |
| Property and equipment | 187 | 91 | 1 | 34 | 313 |
| Investment property | 8,760 | 140 | — | 551 | 9,451 |
| Loans | 23,523 | 346 | — | 10 | 23,879 |
| Financial investments | 180,694 | 10,742 | 35 | 2,556 | 194,027 |
| Deferred acquisition costs | 1,525 | 862 | 10 | — | 2,397 |
| Other assets | 31,328 | 4,845 | 459 | 7,804 | 44,436 |
| Assets of operations classified as held for sale | 2,949 | 164 | — | — | 3,113 |
| **Total assets** | 251,547 | 18,403 | 580 | 11,097 | 281,627 |
| Gross insurance liabilities | 96,153 | 14,402 | — | — | 110,555 |
| Gross liabilities for investment contracts | 116,058 | — | — | — | 116,058 |
| Unallocated divisible surplus | 6,713 | — | — | — | 6,713 |
| Net asset value attributable to unitholders | 3,643 | — | — | 6,719 | 10,362 |
| External borrowings | 2,678 | — | — | 5,141 | 7,819 |
| Other liabilities, including inter-segment liabilities | 12,019 | (2,574) | 346 | 6,289 | 16,080 |
| Liabilities of operations classified as held for sale | 2,881 | 142 | — | — | 3,023 |
| **Total liabilities** | 240,145 | 11,970 | 346 | 18,149 | 270,610 |
| **Total equity** | | | | | 11,017 |
| **Total equity and liabilities** | | | | | 281,627 |

1 The statement of financial position has been restated following the adoption of amendments to 'IAS 32: *Financial Instruments: Presentation*'. Refer to note B2 for further information.

## B6 – 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 comprises:

| | 6 months 2014 £m | 6 months 2013 £m | Full Year 2013 £m |
|---|---|---|---|
| **Current tax** | | | |
| For the period | **270** | 212 | 517 |
| Prior period adjustments | **—** | (2) | 13 |
| **Total current tax from continuing operations** | **270** | 210 | 530 |
| **Deferred tax** | | | |
| Origination and reversal of temporary differences | **115** | (13) | 63 |
| Changes in tax rates or tax laws | **(3)** | — | (13) |
| Write-(back)/down of deferred tax assets | **(11)** | 2 | 14 |
| **Total deferred tax from continuing operations** | **101** | (11) | 64 |
| **Total tax charged to income statement from continuing operations** | **371** | 199 | 594 |
| **Total tax charged to income statement from discontinued operations** | **—** | 117 | 265 |
| **Total tax charged to income statement** | **371** | 316 | 859 |

(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 £93 million *(HY13: £18 million credit; FY13: £191 million charge).*

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

| | 6 months 2014 £m | 6 months 2013 £m | Full Year 2013 £m |
|---|---|---|---|
| UK tax | **131** | (57) | 76 |
| Overseas tax | **240** | 373 | 783 |
| | **371** | 316 | 859 |

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

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

| | 6 months 2014 £m | 6 months 2013 £m | Full Year 2013 £m |
|---|---|---|---|
| Current tax from continuing operations | | | |
| In respect of pensions and other post-retirement obligations | **(38)** | (7) | (15) |
| In respect of foreign exchange movements | **(7)** | 20 | 6 |
| | **(45)** | 13 | (9) |
| Deferred tax from continuing operations | | | |
| In respect of pensions and other post-retirement obligations | **105** | (58) | (110) |
| In respect of fair value gains on owner-occupied properties | **—** | — | — |
| In respect of unrealised gains on investments | **13** | (3) | 8 |
| | **118** | (61) | (102) |
| **Tax charged/(credited) to other comprehensive income arising from continuing operations** | **73** | (48) | (111) |
| **Tax credited to other comprehensive income arising from discontinued operations** | **—** | (126) | (169) |
| **Total tax charged/(credited) to other comprehensive income** | **73** | (174) | (280) |

## B6 – Tax continued

### (c) Tax credited to equity

Tax credited directly to equity in the period in respect of coupon payments on direct capital instruments and fixed rate tier 1 notes amounted to £4 million *(HY13: £4 million; FY13: £22 million)*. In addition, at 31 December 2013, tax of £30 million was credited to equity in respect of the recycling of the currency translation reserve to the income statement on the sale of Aviva USA Corporation.

### (d) Tax reconciliation

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

| | **Shareholder £m** | **Policyholder £m** | **6 months 2014 £m** | Shareholder £m | Policyholder £m | 6 months 2013 £m | Shareholder £m | Policyholder £m | Full Year 2013 £m |
|---|---|---|---|---|---|---|---|---|---|
| **Total profit/(loss) before tax** | **1,141** | **93** | **1,234** | 1,110 | (18) | 1,092 | 2,819 | 191 | 3,010 |
| Tax calculated at standard UK corporation tax rate of 21.5% (2013: 23.25%) | **245** | **20** | **265** | 258 | (4) | 254 | 656 | 44 | 700 |
| Reconciling items | | | | | | | | | |
| Different basis of tax – policyholders | **—** | **73** | **73** | — | (14) | (14) | — | 147 | 147 |
| Adjustment to tax charge in respect of prior periods | **(16)** | **—** | **(16)** | 1 | — | 1 | (18) | — | (18) |
| Non-assessable income and items not taxed at the full statutory rate | **(25)** | **—** | **(25)** | (38) | — | (38) | (54) | — | (54) |
| Non-taxable loss/(profit) on sale of subsidiaries and associates | **3** | **—** | **3** | (64) | — | (64) | (154) | — | (154) |
| Disallowable expenses | **25** | **—** | **25** | 55 | — | 55 | 98 | — | 98 |
| Different local basis of tax on overseas profits | **77** | **—** | **77** | 110 | — | 110 | 184 | — | 184 |
| Change in future local statutory tax rates | **(3)** | **—** | **(3)** | — | — | — | (9) | — | (9) |
| Movement in deferred tax not recognised | **(22)** | **—** | **(22)** | 21 | — | 21 | (21) | — | (21) |
| Tax effect of profit from joint ventures and associates | **(4)** | **—** | **(4)** | (9) | — | (9) | (10) | — | (10) |
| Other | **(2)** | **—** | **(2)** | — | — | — | (4) | — | (4) |
| **Total tax charged/(credited) to income statement** | **278** | **93** | **371** | 334 | (18) | 316 | 668 | 191 | 859 |

The tax charge/(credit) attributable to policyholders' returns is removed from the Group's total profit before tax in arriving at the Group's profit before tax attributable to shareholders' profits. As the net of tax profit 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. 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 2014 £m** | 6 months 2013 £m | Full Year 2013 £m |
|---|---|---|---|
| Tax attributable to policyholder returns | **93** | (18) | 191 |
| UK corporation tax at a rate of 21.5% (*2013: 23.25%*) in respect of the policyholder tax deduction | **(20)** | 4 | (44) |
| Different basis of tax - policyholders per tax reconciliation | **73** | (14) | 147 |

Legislation was substantively enacted in July 2013 to reduce the main rate of UK corporation tax to 21% from 1 April 2014, with a further reduction to 20% from 1 April 2015. The 20% rate has been used in the calculation of the UK's deferred tax assets and liabilities as at 30 June 2014.

## B7 – Earnings per share

### (a) Basic earnings per share

(i) The profit/(loss) attributable to ordinary shareholders is:

| | 6 months 2014 | | | 6 months 2013 | | | Full Year 2013 | | |
|---|---|---|---|---|---|---|---|---|---|
| **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 | **1,052** | **89** | **1,141** | 1,008 | (385) | 623 | 2,049 | (768) | 1,281 |
| Tax attributable to shareholders' profit/(loss) | **(253)** | **(25)** | **(278)** | (296) | 79 | (217) | (534) | 131 | (403) |
| Profit/(loss) for the period | **799** | **64** | **863** | 712 | (306) | 406 | 1,515 | (637) | 878 |
| Amount attributable to non-controlling interests | **(84)** | **(24)** | **(108)** | (93) | 10 | (83) | (174) | 31 | (143) |
| 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) | **(12)** | **—** | **(12)** | (13) | — | (13) | (70) | — | (70) |
| **Profit attributable to ordinary shareholders from continuing operations** | **694** | **40** | **734** | 597 | (296) | 301 | 1,254 | (606) | 648 |
| **Profit attributable to ordinary shareholders from discontinued operations** | **—** | **—** | **—** | 102 | 268 | 370 | 207 | 1,066 | 1,273 |
| **Profit/(loss) attributable to ordinary shareholders** | **694** | **40** | **734** | 699 | (28) | 671 | 1,461 | 460 | 1,921 |

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

| | 6 months 2014 | | | 6 months 2013 | | | Full Year 2013 | | |
|---|---|---|---|---|---|---|---|---|---|
| **Continuing operations** | **Before tax £m** | **Net of tax, non-controlling interests, preference dividends and DCI[1] £m** | **Per share p** | Before tax £m | Net of tax, non-controlling interests, preference dividends and DCI[1] £m | Per share p | Before tax £m | Net of tax, non-controlling interests, preference dividends and DCI[1] £m | Per share p |
| Operating profit attributable to ordinary shareholders | **1,052** | **694** | **23.6** | 1,008 | 597 | 20.3 | 2,049 | 1,254 | 42.6 |
| Non-operating items: | | | | | | | | | |
| Investment return variances and economic assumption changes on long-term business | **44** | **—** | **—** | (2) | (115) | (3.9) | (49) | (142) | (4.8) |
| Short-term fluctuation in return on investments backing non-long-term business | **165** | **119** | **4.0** | (306) | (227) | (7.7) | (336) | (254) | (8.6) |
| Economic assumption changes on general insurance and health business | **(67)** | **(52)** | **(1.8)** | 27 | 21 | 0.7 | 33 | 27 | 0.9 |
| Impairment of goodwill, joint ventures and associates and other amounts expensed | **(24)** | **(24)** | **(0.8)** | (77) | (77) | (2.6) | (77) | (77) | (2.6) |
| Amortisation and impairment of intangibles | **(38)** | **(27)** | **(0.9)** | (43) | (31) | (1.1) | (91) | (65) | (2.2) |
| Profit on disposal and remeasurement of subsidiaries, joint ventures and associates | **51** | **47** | **1.6** | 180 | 270 | 9.2 | 115 | 220 | 7.4 |
| Integration and restructuring costs and exceptional items | **(42)** | **(23)** | **(0.7)** | (164) | (137) | (4.7) | (363) | (315) | (10.7) |
| **Profit attributable to ordinary shareholders from continuing operations** | **1,141** | **734** | **25.0** | 623 | 301 | 10.2 | 1,281 | 648 | 22.0 |
| **Profit attributable to ordinary shareholders from discontinued operations** | **—** | **—** | **—** | 487 | 370 | 12.6 | 1,538 | 1,273 | 43.3 |
| **Profit attributable to ordinary shareholders** | **1,141** | **734** | **25.0** | 1,110 | 671 | 22.8 | 2,819 | 1,921 | 65.3 |

1 DCI includes direct capital instruments and fixed rate tier 1 notes.

(iii) The calculation of basic earnings per share uses a weighted average of 2,941 million *(HY13: 2,942 million; FY13: 2,940 million)* ordinary shares in issue, after deducting shares owned by the employee share trusts. The actual number of shares in issue at 30 June 2014 was 2,948 million *(HY13: 2,947 million; FY13: 2,947 million)* and 2,945 million *(HY13: 2,944 million; FY13: 2,938 million)* excluding shares owned by the employee share trusts.

## B7 – Earnings per share continued

### (b) Diluted earnings per share

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

| | 6 months 2014 | | | 6 months 2013 | | | Full Year 2013 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total £m | Weighted average number of shares million | Per share p | Total £m | Weighted average number of shares million | Per share p | Total £m | Weighted average number of shares million | Per share p |
| Profit attributable to ordinary shareholders | **734** | **2,941** | **25.0** | 301 | 2,942 | 10.2 | 648 | 2,940 | 22.0 |
| Dilutive effect of share awards and options | **—** | **40** | **(0.4)** | — | 42 | (0.1) | — | 39 | (0.2) |
| **Diluted earnings per share from continuing operations** | **734** | **2,981** | **24.6** | 301 | 2,984 | 10.1 | 648 | 2,979 | 21.8 |
| Profit attributable to ordinary shareholders | **—** | **2,941** | **—** | 370 | 2,942 | 12.6 | 1,273 | 2,940 | 43.3 |
| Dilutive effect of share awards and options | **—** | **40** | **—** | — | 42 | (0.2) | — | 39 | (0.6) |
| **Diluted earnings per share from discontinued operations** | **—** | **2,981** | **—** | 370 | 2,984 | 12.4 | 1,273 | 2,979 | 42.7 |
| **Diluted earnings per share** | **734** | **2,981** | **24.6** | 671 | 2,984 | 22.5 | 1,921 | 2,979 | 64.5 |

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

| | 6 months 2014 | | | 6 months 2013 | | | Full Year 2013 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total £m | Weighted average number of shares million | Per share p | Total £m | Weighted average number of shares million | Per share p | Total £m | Weighted average number of shares million | Per share p |
| Operating profit attributable to ordinary shareholders | **694** | **2,941** | **23.6** | 597 | 2,942 | 20.3 | 1,254 | 2,940 | 42.6 |
| Dilutive effect of share awards and options | **—** | **40** | **(0.3)** | — | 42 | (0.3) | — | 39 | (0.5) |
| **Diluted operating profit per share from continuing operations** | **694** | **2,981** | **23.3** | 597 | 2,984 | 20.0 | 1,254 | 2,979 | 42.1 |
| Operating profit attributable to ordinary shareholders | **—** | **2,941** | **—** | 102 | 2,942 | 3.5 | 207 | 2,940 | 7.0 |
| Dilutive effect of share awards and options | **—** | **40** | **—** | — | 42 | (0.1) | — | 39 | (0.1) |
| **Diluted operating profit per share from discontinued operations** | **—** | **2,981** | **—** | 102 | 2,984 | 3.4 | 207 | 2,979 | 6.9 |
| **Diluted operating profit per share** | **694** | **2,981** | **23.3** | 699 | 2,984 | 23.4 | 1,461 | 2,979 | 49.0 |

## B8 – Dividends and appropriations

| | **6 months 2014 £m** | 6 months 2013 £m | Full Year 2013 £m |
|---|---|---|---|
| Ordinary dividends declared and charged to equity in the period | | | |
| Final 2013 – 9.40 pence per share, paid on 16 May 2014 | **277** | — | — |
| Final 2012 – 9.00 pence per share, paid on 17 May 2013 | **—** | 264 | 264 |
| Interim 2013 – 5.60 pence per share, paid on 15 November 2013 | **—** | — | 165 |
| | **277** | 264 | 429 |
| Preference dividends declared and charged to equity in the period | **9** | 9 | 17 |
| Coupon payments on direct capital instruments and fixed rate tier 1 notes | **16** | 17 | 92 |
| | **302** | 290 | 538 |

Subsequent to 30 June 2014, the directors declared an interim dividend for 2014 of 5.85 pence per ordinary share *(HY13: 5.60 pence)*, amounting to £172 million *(HY13: £165 million)* in total. The dividend will be paid on 17 November and will be accounted for as an appropriation of retained earnings in the year ending 31 December 2014.

Interest on the direct capital instruments issued in November 2004 and the fixed rate tier 1 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 21.5% *(2013: 23.25%)*.

# B9 – Insurance liabilities

## (a) Carrying amount

### (i) Insurance liabilities (gross of reinsurance) at 30 June/31 December comprise:

| | 30 June 2014 | | | 30 June 2013 | | | 31 December 2013 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **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 | **44,248** | **—** | **44,248** | 49,037 | — | 49,037 | 45,098 | — | 45,098 |
| Unit-linked non-participating | **8,424** | **—** | **8,424** | 8,225 | — | 8,225 | 8,714 | — | 8,714 |
| Other non-participating | **42,697** | **—** | **42,697** | 72,368 | — | 72,368 | 41,160 | — | 41,160 |
| | **95,369** | **—** | **95,369** | 129,630 | — | 129,630 | 94,972 | — | 94,972 |
| Outstanding claims provisions | **1,371** | **7,529** | **8,900** | 1,455 | 7,866 | 9,321 | 1,287 | 7,730 | 9,017 |
| Provision for claims incurred but not reported | **—** | **2,533** | **2,533** | — | 2,820 | 2,820 | — | 2,568 | 2,568 |
| | **1,371** | **10,062** | **11,433** | 1,455 | 10,686 | 12,141 | 1,287 | 10,298 | 11,585 |
| Provision for unearned premiums | **—** | **4,302** | **4,302** | — | 4,610 | 4,610 | — | 4,226 | 4,226 |
| Provision arising from liability adequacy tests | **—** | **10** | **10** | — | 11 | 11 | — | 10 | 10 |
| Other technical provisions | **—** | **—** | **—** | — | — | — | — | — | — |
| **Total** | **96,740** | **14,374** | **111,114** | 131,085 | 15,307 | 146,392 | 96,259 | 14,534 | 110,793 |
| Less: Amounts classified as held for sale | **—** | **(134)** | **(134)** | (33,331) | (1) | (33,332) | (106) | (132) | (238) |
| | **96,740** | **14,240** | **110,980** | 97,754 | 15,306 | 113,060 | 96,153 | 14,402 | 110,555 |

### (ii) Change in insurance liabilities recognised as an expense

The purpose of the following table is to reconcile the change in insurance liabilities, net of reinsurance, shown on the income statement, to the change in insurance liabilities recognised as an expense in the relevant movement tables in this note. The components of the reconciliation are the change in provision for outstanding claims on long-term business (which is not included in a separate movement table), and the unwind of discounting on GI reserves (which is included within finance costs within the income statement). For general insurance and health business, the change in the provision for unearned premiums is not included in the reconciliation as, within the income statement, this is included within earned premiums.

| | | | **Total** |
|---|---|---|---|
| **30 June 2014** | **Gross £m** | **Reinsurance £m** | **Net £m** |
| **Long-term business** | | | |
| Change in long-term business provisions (note B9(b)) | **1,630** | **(202)** | **1,428** |
| Change in provision for outstanding claims | **117** | **(2)** | **115** |
| | **1,747** | **(204)** | **1,543** |
| **General insurance and health** | | | |
| Change in insurance liabilities (note B9(c)) | **(37)** | **30** | **(7)** |
| Less: Unwind of discount on GI reserves and other | **(9)** | **6** | **(3)** |
| | **(46)** | **36** | **(10)** |
| **Total change in insurance liabilities** | **1,701** | **(168)** | **1,533** |

| | Continuing Operations | | | Discontinued Operations | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| **30 June 2013** | Gross £m | Reinsurance £m | Net £m | Gross £m | Reinsurance £m | Net £m | Gross £m | Reinsurance £m | Net £m |
| **Long term business** | | | | | | | | | |
| Change in long term business provisions (note B9(b)) | (1,842) | (220) | (2,062) | 146 | (14) | 132 | (1,696) | (234) | (1,930) |
| Change in provision for outstanding claims | 142 | 3 | 145 | 6 | 2 | 8 | 148 | 5 | 153 |
| | (1,700) | (217) | (1,917) | 152 | (12) | 140 | (1,548) | (229) | (1,777) |
| **General insurance and health** | | | | | | | | | |
| Change in insurance liabilities (note B9(c)) | (70) | 80 | 10 | — | — | — | (70) | 80 | 10 |
| Less: Unwind of discount on GI reserves and other | (9) | 7 | (2) | — | — | — | (9) | 7 | (2) |
| | (79) | 87 | 8 | — | — | — | (79) | 87 | 8 |
| **Total change in insurance liabilities** | (1,779) | (130) | (1,909) | 152 | (12) | 140 | (1,627) | (142) | (1,769) |

## B9 – Insurance liabilities continued

| 31 December 2013 | Continuing Operations Gross £m | Continuing Operations Reinsurance £m | Continuing Operations Net £m | Discontinued Operations Gross £m | Discontinued Operations Reinsurance £m | Discontinued Operations Net £m | Total Gross £m | Total Reinsurance £m | Total Net £m |
|---|---|---|---|---|---|---|---|---|---|
| **Long term business** | | | | | | | | | |
| Change in long term business provisions (note B9(b)) | (2,423) | (164) | (2,587) | 331 | (19) | 312 | (2,092) | (183) | (2,275) |
| Change in provision for outstanding claims | 75 | (7) | 68 | (11) | 11 | — | 64 | 4 | 68 |
| | (2,348) | (171) | (2,519) | 320 | (8) | 312 | (2,028) | (179) | (2,207) |
| **General insurance and health** | | | | | | | | | |
| Change in insurance liabilities (note B9(c)) | (33) | 64 | 31 | — | — | — | (33) | 64 | 31 |
| Less: Unwind of discount on GI reserves and other | (15) | 10 | (5) | — | — | — | (15) | 10 | (5) |
| | (48) | 74 | 26 | — | — | — | (48) | 74 | 26 |
| **Total change in insurance liabilities** | (2,396) | (97) | (2,493) | 320 | (8) | 312 | (2,076) | (105) | (2,181) |

### (b) Movements in long-term business liabilities

The following movements have occurred in the long-term business provisions (gross of reinsurance) during the period:

| | **6 months 2014 £m** | 6 months 2013 £m | Full year 2013 £m |
|---|---|---|---|
| **Carrying amount at 1 January** | **94,972** | 131,190 | 131,190 |
| Provisions in respect of new business | **2,408** | 2,973 | 5,671 |
| Expected change in existing business provisions | **(2,500)** | (3,672) | (8,015) |
| Variance between actual and expected experience | **355** | 764 | 2,871 |
| Impact of operating assumption changes | **(170)** | 36 | 428 |
| Impact of economic assumption changes | **1,630** | (1,740) | (2,812) |
| Other movements | **(93)** | (57) | (235) |
| Change in liability recognised as an expense | **1,630** | (1,696) | (2,092) |
| Effect of portfolio transfers, acquisitions and disposals[1] | **(109)** | (3,244) | (34,441) |
| Foreign exchange rate movements | **(1,125)** | 3,572 | 509 |
| Other movements | **1** | (192) | (194) |
| **Carrying amount at 30 June/31 December** | **95,369** | 129,630 | 94,972 |

1 The movement during HY14 includes £103 million related to the disposal of Eurovita and £6 million related to the restructuring of our operations in Indonesia.

### (c) Movements in general insurance and health liabilities

The following changes have occurred in the general insurance and health claims provisions (gross of reinsurance) during the period:

| | **6 months 2014 £m** | 6 months 2013 £m | Full year 2013 £m |
|---|---|---|---|
| **Carrying amount at 1 January** | **10,298** | 10,554 | 10,554 |
| Impact of changes in assumptions | **91** | (48) | (80) |
| Claim losses and expenses incurred in the current period | **2,938** | 3,123 | 6,337 |
| Decrease in estimated claim losses and expenses incurred in prior periods | **(124)** | (136) | (237) |
| Incurred claims losses and expenses | **2,905** | 2,939 | 6,020 |
| Less: | | | |
| Payments made on claims incurred in the current period | **(1,342)** | (1,362) | (3,352) |
| Payments made on claims incurred in prior periods | **(1,729)** | (1,764) | (3,001) |
| Recoveries on claim payments | **120** | 108 | 285 |
| Claims payments made in the period, net of recoveries | **(2,951)** | (3,018) | (6,068) |
| Unwind of discounting | **9** | 9 | 15 |
| Changes in claims reserve recognised as an expense | **(37)** | (70) | (33) |
| Effect of portfolio transfers, acquisitions and disposals | **(3)** | (9) | (44) |
| Foreign exchange rate movements | **(195)** | 212 | (178) |
| Other movements | **(1)** | (1) | (1) |
| **Carrying amount at 30 June/31 December** | **10,062** | 10,686 | 10,298 |

# B10 – Liability for investment contracts

## (a) Carrying amount

The liability for investment contracts (gross of reinsurance) at 30 June/31 December comprised:

| | 30 June 2014 £m | 30 June 2013 £m | 31 December 2013 £m |
|---|---|---|---|
| **Long-term business** | | | |
| Participating contracts | **67,512** | 70,249 | 70,628 |
| Non-participating contracts at fair value | **48,051** | 46,501 | 48,140 |
| Non-participating contracts at amortised cost | **—** | 1,393 | — |
| | **48,051** | 47,894 | 48,140 |
| | **115,563** | 118,143 | 118,768 |
| Less: Amount classified as held for sale | **—** | (4,858) | (2,710) |
| **Total** | **115,563** | 113,285 | 116,058 |

## (b) Movements in participating investment contracts

The following movements have occurred in the provisions (gross of reinsurance) during the period:

| | 6 months 2014 £m | 6 months 2013 £m | Full year 2013 £m |
|---|---|---|---|
| **Carrying amount at 1 January** | **70,628** | 66,849 | 66,849 |
| Provisions in respect of new business | **2,319** | 1,686 | 3,421 |
| Expected change in existing business provisions | **(882)** | (1,100) | (2,243) |
| Variance between actual and expected experience | **317** | (401) | 1,085 |
| Impact of operating assumption changes | **4** | (2) | 329 |
| Impact of economic assumption changes | **30** | (61) | (301) |
| Other movements | **(2)** | 7 | (47) |
| Change in liability recognised as an expense | **1,786** | 129 | 2,244 |
| Effect of portfolio transfers, acquisitions and disposals[1] | **(2,671)** | (39) | (39) |
| Foreign exchange rate movements | **(2,231)** | 3,117 | 1,380 |
| Other movements | **—** | 193 | 194 |
| **Carrying amount at 30 June/31 December** | **67,512** | 70,249 | 70,628 |

1 The movement during HY14 relates to the disposal of Eurovita.

## (c) Movements in non-participating investment contracts

The following movements have occurred in the provisions (gross of reinsurance) during the period:

| | 6 months 2014 £m | 6 months 2013 £m | Full year 2013 £m |
|---|---|---|---|
| **Carrying amount at 1 January** | **48,140** | 47,699 | 47,699 |
| Provisions in respect of new business | **1,248** | 1,805 | 3,386 |
| Expected change in existing business provisions | **(1,130)** | (1,687) | (2,698) |
| Variance between actual and expected experience | **129** | 1,374 | 3,122 |
| Impact of operating assumption changes | **(1)** | 5 | 4 |
| Impact of economic assumption changes | **2** | (46) | 1 |
| Other movements | **(24)** | (31) | 46 |
| Change in liability | **224** | 1,420 | 3,861 |
| Effect of portfolio transfers, acquisitions and disposals[1] | **(16)** | (1,909) | (3,785) |
| Foreign exchange rate movements | **(297)** | 684 | 365 |
| Other movements | **—** | — | — |
| **Carrying amount at 30 June/31 December** | **48,051** | 47,894 | 48,140 |

1 The movement during HY14 relates to the disposal of Eurovita.

## B11 – Reinsurance assets

The reinsurance assets at 30 June/31 December comprised:

| | **30 June 2014 £m** | 30 June 2013 £m | 31 December 2013 £m |
|---|---|---|---|
| **Long-term business** | | | |
| Insurance contracts | **3,881** | 4,402 | 3,734 |
| Participating investment contracts | **2** | 3 | 2 |
| Non-participating investment contracts[1] | **2,279** | 1,657 | 2,048 |
| | **6,162** | 6,062 | 5,784 |
| Outstanding claims provisions | **50** | 76 | 53 |
| | **6,212** | 6,138 | 5,837 |
| **General insurance and health** | | | |
| Outstanding claims provisions | **771** | 868 | 849 |
| Provisions for claims incurred but not reported | **341** | 344 | 315 |
| | **1,112** | 1,212 | 1,164 |
| Provisions for unearned premiums | **253** | 269 | 256 |
| | **1,365** | 1,481 | 1,420 |
| | **7,577** | 7,619 | 7,257 |
| Less: Amounts classified as held for sale | **(26)** | (712) | (37) |
| **Total** | **7,551** | 6,907 | 7,220 |

1 Balances in respect of all reinsurance treaties are included under reinsurance assets, regardless of whether they transfer significant insurance risk. The reinsurance assets classified as non-participating investment contracts are financial instruments measured at fair value through profit and loss. The only exception is at 30 June 2013 where there are £101 million of reinsurance assets measured at amortised cost in US Life which was disposed on 2 October 2013.

## B12 – 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 2014 £m** | Effect on profit 6 months 2013 £m | Effect on profit Full year 2013 £m |
|---|---|---|---|
| **Assumptions** | | | |
| **Long-term insurance business** | | | |
| Interest rates | **(777)** | 1,190 | 1,389 |
| Expenses | **100** | (16) | 3 |
| Persistency rates | **—** | — | (1) |
| Mortality for assurance contracts | **—** | — | 8 |
| Mortality for annuity contracts | **70** | — | 85 |
| Tax and other assumptions | **(11)** | (214) | 20 |
| **Investment contracts** | | | |
| Interest rates | **(1)** | — | — |
| Expenses | **—** | — | — |
| Persistency rates | **—** | — | — |
| Tax and other assumptions | **—** | — | — |
| **General insurance and health business** | | | |
| Change in loss ratio assumptions | **—** | 1 | 3 |
| Change in discount rate assumptions | **(67)** | 27 | 33 |
| Change in expense ratio and other assumptions | **—** | — | — |
| **Total** | **(686)** | 988 | 1,540 |

The impact of interest rates on long-term business relates primarily to UK annuities (including any change in credit default provisions), where a reduction in the valuation interest rates has increased liabilities. The overall impact on profit also depends on movements in the value of assets backing the liabilities, which is not included in this disclosure. There has been a release of expense reserves for UK annuities of £100 million as a result of continuing restructuring and process improvements, reducing the current and long-term cost base. IFRS margins in annuity reserves have been amended to ensure consistency across the business, leading to a release of reserves.

## B13 – 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 at the reporting date. This note shows the movements in the UDS during the period.

| | **6 months 2014 £m** | 6 months 2013 £m | Full year 2013 £m |
|---|---|---|---|
| **Carrying amount at 1 January** | **6,709** | 6,986 | 6,986 |
| Change in participating contract assets | **2,482** | (810) | (262) |
| Change in participating contract liabilities | **89** | 222 | (22) |
| Other movements | **6** | 3 | 4 |
| Change in liability recognised as an expense | **2,577** | (585) | (280) |
| Effect of portfolio transfers, acquisition and disposals | **(123)** | (115) | (115) |
| Foreign exchange rate movements | **(239)** | 265 | 118 |
| Other movements | **(1)** | — | — |
| **Carrying amount at 30 June/31 December** | **8,923** | 6,551 | 6,709 |
| Less: Amounts classified as held for sale | **—** | 18 | 4 |
| | **8,923** | 6,569 | 6,713 |

The amount of UDS has increased significantly at 30 June 2014 driven primarily by positive investment market movements in Continental Europe. These have been caused by the significant appreciation of assets due to the fall in Eurozone government (and corporate) bond yields.

Negative UDS balances result from an accounting mismatch between participating assets carried at market value and participating liabilities measured using local practice. Any negative balances are tested for recoverability using embedded value methodology and in line with local accounting practice. Testing is conducted at a participating fund-level within each life entity.

Following the reversal of previous losses, all Italian participating funds at 30 June 2014 had positive UDS balances with the exception of some very small funds. The method for estimation of the recoverable negative UDS balance uses a real-world embedded value method, with a risk-discount rate of 6.10% *(HY13: 6.65%, FY13: 6.60%)*. The embedded value method includes an implicit allowance for the time value of options and guarantees. The negative UDS balances in Italy were tested for recoverability and £1 million of negative UDS was considered irrecoverable (*HY13: £105 million, of which £95 million was for Eurovita; FY13: £42 million, of which £39 million was for Eurovita).* The remaining carrying value of negative UDS is £nil. The total UDS balance in Italy was £708 million positive at 30 June 2014 (*HY13: £46 million negative, FY13: £205 million positive).*

In Spain, all participating funds had positive UDS balances at 30 June 2014, and consequently testing of negative UDS was not required. The carrying value of UDS was £209 million positive (*HY13: £62 million positive, FY13: £132 million positive).*

## B14 – Borrowings

In April 2014 Aviva redeemed £200 million and €50 million Subordinated Notes due in 2019 at their first call dates.

On 3 July 2014 Aviva plc issued €700 million of subordinated debt at an issue price of 99.699% of the nominal amount and bearing interest at 3.875% per annum. This subordinated debt matures on 3 July 2044 but the Company may, at its sole option, redeem all (but not part) of the debt on 3 July 2024 and on each interest payment date thereafter. The subordinated debt qualifies as tier 2 capital under current regulatory rules.

## B15 – Pension obligations and other provisions

### (a) Carrying amounts

**(i) Provisions in the 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 2014 £m | 30 June 2013 £m | 31 December 2013 £m |
|---|---|---|---|
| Deficits in the main staff pension schemes | **372** | 582 | 367 |
| Deficits in other staff pension schemes | **42** | 94 | 43 |
| Deficits in staff pension schemes | **414** | 676 | 410 |
| Restructuring provisions | **88** | 184 | 140 |
| Other provisions | **369** | 396 | 437 |
| **Total** | **871** | 1,256 | 987 |
| Less: Amounts classified as held for sale | **—** | (177) | (3) |
| | **871** | 1,079 | 984 |

**(ii) Pension obligations**

The assets and liabilities of the Group's material defined benefit schemes as at 30 June /31 December are shown below.

| | 30 June 2014 £m | 30 June 2013 £m | 31 December 2013 £m |
|---|---|---|---|
| Total fair value of assets | **13,176** | 12,385 | 12,398 |
| Present value of scheme liabilities | **(12,287)** | (12,009) | (12,159) |
| **Net surplus in the schemes** | **889** | 376 | 239 |
| Surplus included in other assets | **1,261** | 958 | 606 |
| Deficits included in provisions | **(372)** | (582) | (367) |
| **Net surplus in the schemes** | **889** | 376 | 239 |

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

Movements in the pension schemes' surpluses and deficits comprise:

| | 6 months 2014 £m | 6 months 2013 £m | Full Year 2013 £m |
|---|---|---|---|
| **Net surplus in the schemes at 1 January** | **239** | 606 | 606 |
| Current service costs | — | (3) | (4) |
| Past service costs – amendments | **—** | (4) | 142 |
| Past service costs – curtailment gain | **—** | 4 | 5 |
| Administrative expenses[1] | **(11)** | (9) | (18) |
| Total pension cost (charged)/credited to expenses | **(11)** | (12) | 125 |
| Net interest credited/(charged) to investment income/(finance costs)[2] | **9** | 16 | 37 |
| **Total recognised in the income statement from continuing operations** | **(2)** | 4 | 162 |
| **Remeasurements:** | | | |
| Actual return on these assets | **748** | 185 | 366 |
| Less: Interest income on scheme assets | **(272)** | (272) | (543) |
| Return on scheme assets excluding amounts in interest income | **476** | (87) | (177) |
| Losses from change in financial assumptions | **(103)** | (165) | (730) |
| Gains/(losses) from change in demographic assumptions | **2** | (51) | 186 |
| Experience gains | **12** | 9 | 47 |
| **Total remeasurements recognised in other comprehensive income from continuing operations** | **387** | (294) | (674) |
| Employer contributions | **253** | 83 | 149 |
| Foreign exchange rate movements | **12** | (23) | (4) |
| **Net surplus in the schemes at 30 June / 31 December** | **889** | 376 | 239 |

1 Administrative expenses are expensed as incurred.
2 Net interest income of £16 million has been credited to investment income and net interest expense of £7 million has been charged to finance costs in HY14.

The increase in the surplus is primarily due to employer contributions and positive asset performance driven by falls in interest rates.

## B16 – Related party transactions

During the period, there have been no changes in the nature of the related party transactions from those described in the Group's annual report and accounts for the year ended 31 December 2013. There were no transactions with related parties that had a material effect on the result for the period ended 30 June 2014, 30 June 2013 or 31 December 2013.

## B17 – Fair value

This note explains the methodology for valuing our assets and liabilities measured at fair value, and for fair value disclosures. It also provides an analysis of these according to a 'fair value hierarchy', determined by the market observability of valuation inputs.

### (a) Basis for determining fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the 'fair value hierarchy' described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

**Level 1**

Inputs to Level 1 fair values are quoted prices (unadjusted) in active markets for identical assets and liabilities that the entity can access at the measurement date.

**Level 2**

Inputs to Level 2 fair values are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the instrument. Level 2 inputs include the following:

- Quoted prices for similar assets and liabilities in active markets.
- Quoted prices for identical or similar assets and liabilities in markets that are not active, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly.
- Inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, implied volatilities, and credit spreads).
- Market-corroborated inputs.

Where we use broker quotes and no information as to the observability of inputs is provided by the broker, the investments are classified as follows:

- Where the broker price is validated by using internal models with market observable inputs and the values are similar, we classify the investment as Level 2.
- In circumstances where internal models are not used to validate broker prices, or the observability of inputs used by brokers is unavailable, the investment is classified as Level 3.

**Level 3**

Inputs to Level 3 fair values are unobservable inputs for the asset or liability. 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 or liability at the measurement date. However, the fair value measurement objective remains the same, i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Therefore, unobservable inputs reflect the assumptions the business unit considers that market participants would use in pricing the asset or liability. Examples are investment properties, certain private equity investments and private placements.

The majority of the Group's assets and liabilities measured at fair value are based on quoted market information or observable market data. 15.9% of assets and 1.6% of liabilities measured at fair value are based on estimates and recorded as 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. Third-party valuations using significant unobservable inputs validated against Level 2 internally modelled valuations are classified as Level 3, where there is a significant difference between the third-party price and the internally modelled value. Where the difference is insignificant, the instrument would be classified as Level 2.

### (b) Changes to valuation technique

There were no changes in the valuation techniques during the period compared to those described in the 2013 annual consolidated financial statements, other than those noted below.

# B17 – Fair value continued

## (c) Comparison of the carrying amount and fair values of financial instruments

Set out below is a comparison of the carrying amounts and fair values of financial assets and liabilities, excluding those classified as held for sale.

| | 30 June 2014 | | Restated[1] 30 June 2013 | | Restated[1] 31 December 2013 | |
|---|---|---|---|---|---|---|
| | **Fair value £m** | **Carrying amount £m** | Fair value £m | Carrying amount £m | Fair value £m | Carrying amount £m |
| **Financial assets** | | | | | | |
| Loans[2] | **22,830** | **22,967** | 25,008 | 24,225 | 23,811 | 23,879 |
| Financial Investments | **197,607** | **197,607** | 193,470 | 193,470 | 194,027 | 194,027 |
| Fixed maturity securities | **128,488** | **128,488** | 128,389 | 128,389 | 124,385 | 124,385 |
| Equity securities | **36,478** | **36,478** | 34,564 | 34,564 | 37,326 | 37,326 |
| Other investments (including derivatives)[1] | **32,641** | **32,641** | 30,517 | 30,517 | 32,316 | 32,316 |
| **Financial liabilities** | | | | | | |
| Non-participating investment contracts[3] | **48,051** | **48,051** | 45,722 | 45,722 | 48,140 | 48,140 |
| Net asset value attributable to unitholders | **9,463** | **9,463** | 12,340 | 12,340 | 10,362 | 10,362 |
| Borrowings[2] | **7,459** | **6,944** | 8,288 | 8,254 | 8,222 | 7,819 |
| Derivative liabilities[1,4] | **2,263** | **2,263** | 2,616 | 2,616 | 2,251 | 2,251 |

1 Restated following the adoption of amendments to IAS 32 *'Financial Instruments: Presentation'* – see note B2 for details.
2 Within total fair value, the estimated fair value has been provided for the portion of loans and borrowings that are carried at amortised cost as disclosed in B17(d).
3 Non-participating investment contracts are included within gross liabilities for investment contracts on the condensed statement of financial position and disclosed in note B10. At 30 June 2013, liabilities classified as held for sale of £779 million are excluded above.
4 Derivative liabilities are included within payables and other financial liabilities on the condensed consolidated statement of financial position.

Fair value of the following assets and liabilities approximate to their carrying amounts:

- Receivables
- Cash and cash equivalents
- Payables and other financial liabilities
- The equivalent assets to those above, which are classified as held for sale

## (d) Fair value hierarchy analysis

An analysis of assets and liabilities measured at amortised cost and fair value categorised by fair value hierarchy is given below. Financial instruments relating to operations classified as held for sale have been excluded from the individual asset and liability line items and have been disclosed separately.

| | Fair value hierarchy | | | | | |
|---|---|---|---|---|---|---|
| **At 30 June 2014** | **Level 1 £m** | **Level 2 £m** | **Level 3 £m** | **Sub-total fair value £m** | **Amortised cost £m** | **Total carrying value £m** |
| **Recurring fair value measurements** | | | | | | |
| Investment Property | **—** | **—** | **8,647** | **8,647** | **—** | **8,647** |
| Loans | **—** | **3,258** | **15,340** | **18,598** | **4,369** | **22,967** |
| Financial investments measured at fair value | | | | | | |
| Fixed maturity securities | **75,121** | **45,078** | **8,289** | **128,488** | **—** | **128,488** |
| Equity securities | **35,919** | **110** | **449** | **36,478** | **—** | **36,478** |
| Other investments (including derivatives) | **24,367** | **5,243** | **3,031** | **32,641** | **—** | **32,641** |
| Financial assets of operations classified as held for sale | **23** | **—** | **—** | **23** | **—** | **23** |
| **Total** | **135,430** | **53,689** | **35,756** | **224,875** | **4,369** | **229,244** |
| Financial liabilities measured at fair value | | | | | | |
| Non-participating investment contracts[1] | **47,807** | **244** | **—** | **48,051** | **—** | **48,051** |
| Net asset value attributable to unit holders | **9,376** | **—** | **87** | **9,463** | **—** | **9,463** |
| Borrowings | **—** | **852** | **494** | **1,346** | **5,598** | **6,944** |
| Derivative liabilities[2] | **250** | **1,635** | **378** | **2,263** | **—** | **2,263** |
| Financial liabilities of operations classified as held for sale | **—** | **—** | **—** | **—** | **—** | **—** |
| **Total** | **57,433** | **2,731** | **959** | **61,123** | **5,598** | **66,721** |

1 In addition to the balances in this table, included within reinsurance assets in the statement of financial position and note B11 are £2,279 million of non-participating investment contracts, which are legally reinsurance but do not meet the definition of a reinsurance contract under IFRS. These assets are financial instruments measured at fair value through profit and loss and are classified as Level 1 assets.
2 Derivative liabilities are included within payables and other financial liabilities on the condensed consolidated statement of financial position.

| | Fair value hierarchy | | | |
|---|---|---|---|---|
| **At 30 June 2014** | **Level 1 £m** | **Level 2 £m** | **Level 3 £m** | **Total fair value £m** |
| **Non-recurring fair value measurements[1]** | | | | |
| Properties occupied by group companies | **—** | **—** | **246** | **246** |
| **Total** | **—** | **—** | **246** | **246** |

1 Non-recurring fair value measurements are defined in IFRS 13 and are those that are required or permitted by other IFRS to be measured at fair value in the statement of financial position in particular circumstances. Owner occupied property is revalued in accordance with IAS 16.

## B17 – Fair value continued

| At 30 June 2013 (Restated[3]) | Fair value hierarchy Level 1 £m | Level 2 £m | Level 3 £m | Sub-total fair value £m | Amortised cost £m | Total carrying value £m |
|---|---|---|---|---|---|---|
| **Recurring fair value measurements** | | | | | | |
| Investment Property | — | 9,832 | — | 9,832 | — | 9,832 |
| Loans | — | 18,431 | — | 18,431 | 5,794 | 24,225 |
| Financial investments measured at fair value | | | | | | |
| Fixed maturity securities | 108,451 | 10,679 | 9,259 | 128,389 | — | 128,389 |
| Equity securities | 34,062 | 19 | 483 | 34,564 | — | 34,564 |
| Other investments (including derivatives)[3] | 22,631 | 5,553 | 2,333 | 30,517 | — | 30,517 |
| Financial assets of operations classified as held for sale | 2,231 | 31,884 | 833 | 34,948 | 3,726 | 38,674 |
| **Total** | **167,375** | **76,398** | **12,908** | **256,681** | **9,520** | **266,201** |
| Financial liabilities measured at fair value | | | | | | |
| Non-participating investment contracts[1] | 45,225 | 298 | 199 | 45,722 | — | 45,722 |
| Net asset value attributable to unit holders | 12,340 | — | — | 12,340 | — | 12,340 |
| Borrowings | — | 1,284 | — | 1,284 | 6,970 | 8,254 |
| Derivative liabilities[2,3] | 147 | 2,049 | 420 | 2,616 | — | 2,616 |
| Financial liabilities of operations classified as held for sale | — | 612 | 299 | 911 | 1,605 | 2,516 |
| **Total** | **57,712** | **4,243** | **918** | **62,873** | **8,575** | **71,448** |

1 In addition to the balances in this table, included within reinsurance assets in the statement of financial position and note B11 are non-participating investment contracts, which are legally reinsurance but do not meet the definition of a reinsurance contract under IFRS. £1,556 million are financial instruments measured at fair value through profit and loss and are classified as Level 1 assets.
2 Derivative liabilities are included within payables and other financial liabilities on the condensed consolidated statement of financial position.
3 Restated following the adoption of amendments to IAS 32 *'Financial Instruments: Presentation'* – see note B2 for details.

| At 30 June 2013 | Fair value hierarchy Level 1 £m | Level 2 £m | Level 3 £m | Total fair value £m |
|---|---|---|---|---|
| **Non-recurring fair value measurements[1]** | | | | |
| Properties occupied by group companies | — | 261 | — | 261 |
| **Total** | — | 261 | — | 261 |

1 Non-recurring fair value measurements are defined in IFRS 13 and are those that are required or permitted by other IFRS to be measured at fair value in the statement of financial position in particular circumstances. Owner occupied property is revalued in accordance with IAS 16.

| At 31 December 2013 (Restated[3]) | Fair value hierarchy Level 1 £m | Level 2 £m | Level 3 £m | Sub-total fair value £m | Amortised cost £m | Total carrying value £m |
|---|---|---|---|---|---|---|
| **Recurring fair value measurements** | | | | | | |
| Investment Property | — | — | 9,451 | 9,451 | — | 9,451 |
| Loans | — | 3,115 | 15,362 | 18,477 | 5,402 | 23,879 |
| Financial investments measured at fair value | | | | | | |
| Fixed maturity securities | 74,904 | 40,602 | 8,879 | 124,385 | — | 124,385 |
| Equity securities | 36,783 | 102 | 441 | 37,326 | — | 37,326 |
| Other investments (including derivatives)[3] | 24,129 | 5,170 | 3,017 | 32,316 | — | 32,316 |
| Financial assets of operations classified as held for sale | 2,245 | 282 | 148 | 2,675 | — | 2,675 |
| **Total** | **138,061** | **49,271** | **37,298** | **224,630** | **5,402** | **230,032** |
| Financial liabilities measured at fair value | | | | | | |
| Non-participating investment contracts[1] | 47,889 | 251 | — | 48,140 | — | 48,140 |
| Net asset value attributable to unit holders | 10,183 | 179 | — | 10,362 | — | 10,362 |
| Borrowings | — | 831 | 482 | 1,313 | 6,506 | 7,819 |
| Derivative liabilities[2,3] | 220 | 1,830 | 201 | 2,251 | — | 2,251 |
| Financial liabilities of operations classified as held for sale | — | — | — | — | 29 | 29 |
| **Total** | **58,292** | **3,091** | **683** | **62,066** | **6,535** | **68,601** |

1 In addition to the balances in this table, included within reinsurance assets in the statement of financial position and note B11 are £2,048 million of non-participating investment contracts, which are legally reinsurance but do not meet the definition of a reinsurance contract under IFRS. These assets are financial instruments measured at fair value through profit and loss and are classified as Level 1 assets.
2 Derivative liabilities are included within payables and other financial liabilities on the condensed consolidated statement of financial position.
3 Restated following the adoption of amendments to IAS 32 *'Financial Instruments: Presentation'* – see note B2 for details.

| At 31 December 2013 | Fair value hierarchy Level 1 £m | Level 2 £m | Level 3 £m | Total fair value £m |
|---|---|---|---|---|
| **Non-recurring fair value measurements[1]** | | | | |
| Properties occupied by group companies | — | — | 257 | 257 |
| **Total** | — | — | 257 | 257 |

1 Non-recurring fair value measurements are defined in IFRS 13 and are those that are required or permitted by other IFRS to be measured at fair value in the statement of financial position in particular circumstances. Owner occupied property is revalued in accordance with IAS 16.

# B17 – Fair value continued

## (e) Transfers between Levels of the fair value hierarchy

For financial instruments that are recognised at fair value on a recurring basis, the Group determines whether transfers have occurred between levels of the fair value hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of the reporting period.

### Transfers between Level 1 and Level 2

During the six month period ended 30 June 2014, transfers of financial assets from fair value hierarchy Level 1 to Level 2 amounted to £3.1 billion. These principally arose in the UK and Ireland as a result of the enhanced understanding of pricing vendor methodologies for the fair value hierarchy classification of certain debt securities.

Transfers from Level 2 to Level 1 amounted to £0.2 billion and arose in Spain as a result in changes in the level of market activity for those debt securities.

### Transfers to/from Level 3

Transfers out of Level 3 of £287 million relate principally to improvements in the market liquidity of debt securities held by our business in France, which were transferred to Level 1 where quoted market prices became available from an active market, or to Level 2 where valuations based on observable inputs became available.

Transfers into Level 3 relate principally to debt securities held in the UK which were transferred from Level 2 due to the unavailability of market observable prices.

## (f) Further information on Level 3 assets and liabilities:

The table below shows movement in the Level 3 assets and liabilities measured at fair value:

| | Assets | | | | | | Liabilities | | |
|---|---|---|---|---|---|---|---|---|---|
| At 30 June 2014 | Investment Property £m | Loans £m | Debt securities £m | Equity securities £m | Other investments (including derivatives)[1] £m | Financial assets of operations classified as held for sale £m | Net asset value attributable to unitholders £m | Derivative liabilities[1] £m | Borrowings £m |
| **Opening balance at 1 January 2014** | **9,451** | **15,362** | **8,879** | **441** | **3,017** | **148** | **—** | **(201)** | **(482)** |
| Total net (losses)/gains recognised in the income statement | **270** | **217** | **98** | **16** | **(47)** | **—** | **—** | **(26)** | **(7)** |
| Additions | **331** | **586** | **266** | **13** | **689** | **—** | **—** | **(74)** | **—** |
| Disposals | **(1,340)** | **(825)** | **(679)** | **(5)** | **(577)** | **(148)** | **—** | **—** | **—** |
| Transfers into Level 3 | **—** | **—** | **303** | **—** | **17** | **—** | **(87)** | **(77)** | **(5)** |
| Transfers out of Level 3 | **—** | **—** | **(287)** | **—** | **—** | **—** | **—** | **—** | **—** |
| Foreign exchange movements | **(65)** | **—** | **(291)** | **(16)** | **(68)** | **—** | **—** | **—** | **—** |
| **Balance at 30 June 2014** | **8,647** | **15,340** | **8,289** | **449** | **3,031** | **—** | **(87)** | **(378)** | **(494)** |

1 Restated following the adoption of amendments to IAS 32 '*Financial Instruments: Presentation*' – see note B2 for details.

Total net gains recognised in the income statement in the six-month period ended 30 June 2014 in respect of Level 3 assets measured at fair value amounted to £554 million with net losses in respect of liabilities of £33 million. Included in this balance are £497 million of net gains attributable to those assets and £32 million net losses attributable to those liabilities still held at the end of the period.

The principal assets classified as Level 3, and the valuation techniques applied to them, are:

- Commercial mortgage loans held by our UK Life business amounting to £9.7 billion *(FY13: £9.9 billion)*, valued using a Portfolio Credit Risk Model (PCRM). This model calculates a Credit Risk Adjusted Value (CRAV) for each mortgage. The risk adjusted cash flows are discounted using a yield curve, taking into account the term dependent gilt yield curve, and global assumptions for the liquidity premium. The mortgage loans have been classified as Level 3 as the liquidity premium is not deemed to be market observable.
- Equity release mortgage loans held by our UK Life business amounting to £5.1 billion *(FY13: £4.7 billion)*, valued using a Discounted Cash Flow model (DCF). Cash flows are adjusted for credit risk and discounted using a yield curve and global assumptions for the liquidity premium. The mortgage loans have been classified as Level 3 as assumptions used to derive the credit risk, liquidity premium and property risk are not deemed to be market observable.
- Investment property amounting to £8.6 billion (*FY13: £9.5 billion*). In the UK, investment property is valued at least annually by external chartered surveyors in accordance with guidance issued by The Royal Institution of Chartered Surveyors, and using estimates during the intervening period. Outside the UK, valuations are produced by local qualified staff of the Group or external qualified professional valuers in the countries concerned. Fair values are determined using an income method, by which own lease agreement cash-flows are adjusted for anticipated uplifts, and discounted by rates implied by recent market transactions for similar properties where available. These inputs are deemed unobservable.
- Structured bond-type and non-standard debt products held by our business in France amounting to £6.4 billion (*FY13: £7.1 billion*), for which there is no active market. These bonds are valued either using counterparty or broker quotes. These bonds are validated against internal or third-party models. These bonds have been classified as Level 3 because either (i) the third-party models included a significant unobservable liquidity adjustment or (ii) differences between the valuation provided by the counterparty and broker quotes and the validation model were sufficiently significant to result in a Level 3 classification. The values reported in respect of these products were the lower of counterparty and broker quotes and internally modelled valuations.

## B17 – Fair value continued

- Private equity investment funds amounting to £1.0 billion (*FY13: £1.1 billion*), together with external hedge funds held principally by businesses in the UK and France amounting to £1.1 billion (*FY13: £1.1 billion*), and property funds amounting to £0.6 billion (*FY13: £0.5 billion*) are valued based on external reports received from the fund manager. Where these valuations are at a date other than balance sheet date, as in the case of some private equity funds, we make adjustments for items such as subsequent draw-downs and distributions and the fund manager's carried interest.
- Level 3 investments including a collateralised loan obligation of £0.4 billion (*FY13: £0.4 billion*) and UK non-recourse loans of £0.5 billion (*FY13: £0.8 billion*) have been valued using internally developed discounted cash flow models.
- Investments including debt securities held by our French business of £0.7 billion (*FY13: £0.7 billion*) and notes issued by loan partnerships held by our UK Life business amounting to £0.2 billion (*FY13: £0.3 billion*) have been valued using third party or counterparty valuations.
- Other Level 3 investments amount to £1.5 billion (*restated FY13: £1.2 billion*) and relate to a diverse range of different types of securities held by a number of businesses throughout the Group.

Where possible, the Group tests the sensitivity of the fair values of Level 3 investments to changes in unobservable inputs to reasonable alternatives. Valuations for Level 3 investments are sourced from independent third parties when available and, where appropriate, validated against internally-modelled valuations, third-party models or broker quotes. Where third-party pricing sources are unwilling to provide a sensitivity analysis for their valuations, the Group undertakes, where feasible, sensitivity analysis on the following basis:

- For third-party valuations validated against internally-modelled valuations using significant unobservable inputs, the sensitivity of the internally modelled valuation to changes in unobservable inputs to a reasonable alternative is determined.
- For third-party valuations either not validated or validated against a third-party model or broker quote, the third-party valuation in its entirety is considered an unobservable input. Sensitivities are determined by flexing inputs of internal models to a reasonable alternative, including the yield, NAV multiple, IRR or other suitable valuation multiples of the financial instrument implied by the third-party valuation. For example, for a fixed income security the implied yield would be the rate of return which discounts the security's contractual cash flows to equal the third-party valuation.

On the basis of the methodology outlined above, the Group is able to perform sensitivity analysis for £35.0 billion of the Group's Level 3 assets. For these Level 3 investments, changing unobservable valuation inputs to a reasonable alternative would result in a change in fair value by ± £1.7 billion. Of the £0.8 billion Level 3 investments for which sensitivity analysis is not provided, it is estimated that a 10% change in valuation downwards of these investments would result in a change in fair value of £80 million.

The principal liabilities classified as Level 3, and the valuation techniques applied to them, are:

- Securitised mortgage loan notes of £0.5 billion *(FY13: £0.5 billion)*. These are valued using a similar technique to the related Level 3 equity release mortgage loans described above.
- Derivative liabilities of £0.4 billion (*restated FY13: £0.2 billion*) represent exposures to over the counter derivatives such as credit default swaps and inflation swaps. These swaps are valued using either a DCF model or other valuation models. Cash flows within these models may be adjusted based on assumptions reflecting the underlying credit risk and liquidity risk and these assumptions are deemed to be not market observable.
- Net asset value attributable to unitholders of £0.1 billion (*FY13: £nil*) relates to minority interests in consolidated investment funds that are priced based on unobservable inputs.

Where possible, the Group tests the sensitivity of the fair values of Level 3 liabilities to changes in unobservable inputs to reasonable alternatives. Sensitivities are determined by flexing inputs of internal models to a reasonable alternative, including the yield, NAV multiple, IRR or other suitable valuation multiples of the financial instrument.

The Group is able to perform sensitivity analysis for £0.8 billion of the Group's Level 3 liabilities. For these Level 3 liabilities, changing unobservable valuation inputs to a reasonable alternative would result in a change in fair value by ± £40 million. Of the £0.2 billion Level 3 liabilities for which sensitivity analysis is not provided it is estimated that a 10% change in valuation downwards of these liabilities would result in a change in fair value of £20 million.

## B18 – 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.

Our sustainability and financial strength are underpinned by an effective risk management process which helps us identify major risks to which we may be exposed, establish appropriate controls and take mitigating actions for the benefit of our customers and investors. 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-adjusted basis; and
- Meet the expectations of our customers, investors and regulators that we will maintain sufficient capital surpluses to meet our liabilities even if a number of extreme risks materialise.

Aviva's risk management framework has been designed and implemented to support these objectives. The key elements of our risk management framework comprise our risk appetite; risk governance, including risk policies and business standards, risk oversight committees and roles & responsibilities; and the processes we use to identify, measure, manage, monitor and report (IMMMR) risks, including the use of our risk models and stress and scenario testing.

### Risk environment

The first six months of 2014 have seen continued strengthening of the financial markets with monetary policies and emerging economic growth in the US, Europe and Japan helping to bolster this position. Global equities have remained stable at or close to all-time highs and corporate credit spreads have continued their decline to levels not seen since before the 2008 financial crisis. Eurozone sovereign bonds have also benefitted from the increased liquidity in the system provided by the ECB, with yields registering the lowest levels seen to date, while UK gilt and US treasury long term yields have begun to pick-up with the prospect of interest rate rises in the near to medium term future. Currencies have been relatively stable during the first half of 2014 with pound sterling continuing to strengthen against the US dollar and Euro.

The Omnibus II Directive (the amendments to the Solvency II Directive) has reached the final stage of formal adoption by member states and transposition into national law. However, while consultation over implementing technical standards and supervisory guidelines continues, there remains some uncertainty over the detailed requirements, in particular their interpretation, and impact of the new European prudential regime, which will be effective from 1 January 2016. Aviva continues to actively participate in the development of Solvency II through key European industry working groups.

The Group is designated as being a Global Systemically Important Insurer (G-SII), bringing it within the scope of the G-SII policy requirements of the International Association of Insurance Supervisors (IAIS). Requirements include developing a Systemic Risk Management Plan, recovery and resolution plans and a liquidity risk management plan. New basic capital requirements (BCR) are currently in field-testing and will be privately reported to supervisors from 2015. The BCR will form the basis for yet to be developed higher loss absorbency capital requirements, which will apply from January 2019, if the Group remains a G-SII.

### Risk profile

We continue to manage our risk profile to reflect Aviva's objective of maintaining financial strength and reducing capital volatility. During the first half of 2014 we announced disposals of our US asset management boutique River Road, South Korean joint venture and Turkish general insurance business as well as a significant restructure of our Italian business. As described below, a number of foreign exchange rate, credit and equity hedges are in place and restrictions on non-domestic investment in sovereign and corporate debt from Greece, Italy, Portugal and Spain remain in place.

Going forward, the Group's focus will continue to be on building the balance sheet and cash-flow position, and decreasing the balance sheet volatility and internal and external leverage.

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.

### Material risks and uncertainties

In accordance with the requirements of the FCA Handbook (DTR 4.2.7) we provide an update here on the material risks and uncertainties facing the Group. The types of risks to which the Group is exposed have not changed significantly over the half-year to 30 June 2014 and remain credit, market, life insurance, general insurance, liquidity, asset management, operational and reputational risks. These risks are described below. Further detail on these risks is given within note 58 of the Aviva plc Annual Report and Accounts 2013.

### (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. During the first half of 2014 we continued to limit our sovereign and corporate debt exposure to Greece, Italy, Portugal and Spain, which has benefitted from an increase in market values. The completion of the disposal of the Group's interest in Eurovita has resulted in a significant reduction to Italian sovereign and corporate debt. In light of the improving economic situation in Ireland, we have made a modest increase in our exposure to Irish sovereign debt during the first six months of 2014. 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 enable the early identification of potential issues. Refer to section D.3.3.5 of this report for details of our sovereign exposures to Greece, Ireland, Portugal, Spain and Italy.

During the first half of 2014 the credit rating profile of our debt securities portfolio has remained strong, and the average rating has risen slightly in line with the general market's rating agency upgrades. At 30 June 2014, the proportion of our shareholder debt securities that are investment grade has increased slightly to 90.7% (*31 December 2013: 90.2%*).

## B18 – Risk management continued

The Group has in place a series of macro credit hedges to reduce the overall credit risk exposure. The notional size of these long-term hedges remained at approximately £4 billion during the first half of 2014.

### (b) Market risk

We continue to limit our direct equity exposure. A rolling central equity hedging strategy remains in place to help control the Group's overall direct and indirect exposure to equities. At 30 June 2014 the Group's shareholder funds held £1.5 billion notional of equity hedge put spreads, with nine months to maturity and an average strike of 78%-65% of the prevailing market levels on 30 June 2014.

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. In particular, a key objective is to match the duration of our annuity liabilities with assets of the same duration. These assets include corporate bonds, residential mortgages and commercial mortgages. Should they default before maturity, it is assumed that the Group can reinvest in assets of a similar risk and return profile, which is subject to market conditions. Interest rate hedges are used to manage asymmetric interest rate exposures in some of our life insurance businesses as well as an efficient way to manage cash flow and duration matching (the most material examples relate to guaranteed annuity exposures in both 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.

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. Hedges have also been used to protect the Group's capital against a significant depreciation in local currency versus sterling. At 30 June 2014 the Group had in place Euro hedges with notional values of £3.5 billion.

### (c) Liquidity risk

Liquidity risk is the risk of not being able to make payments as they become due because there are insufficient assets in cash form or that can easily be turned into cash.

The relatively illiquid nature of insurance liabilities is a potential source of additional investment return by allowing us to invest in higher yielding, but less liquid assets such as commercial mortgages. The Group seeks to ensure that it maintains sufficient liquid financial resources to meet its obligations as they fall due through the application of a Group liquidity risk policy and business standard. At Group and business unit level, there is a liquidity risk appetite which requires that sufficient liquid resources be maintained to cover net outflows in a stress scenario. The Company's main sources of liquidity are liquid assets held within the Company and Aviva Group Holdings Limited (AGH), and dividends received from the Group's insurance and asset management businesses. Sources of liquidity in normal markets also include a variety of short and long-term instruments including commercial papers and medium and long-term debt. In addition to the existing liquid resources and expected inflows, the Group and Company maintain significant undrawn committed borrowing facilities (30 June 2014: £1.4 billion) from a range of leading international banks to further mitigate this risk.

### (d) Life insurance risk

The profile of most of our life insurance risks, primarily persistency, mortality and expense risk, has remained stable in the first half of 2014. Our economic exposure to longevity risk has decreased as a result of the Aviva Staff Pension Scheme entering into a longevity swap covering £5 billion of pensioner in payment scheme liabilities on 5 March 2014, while any significant reduction in individual annuity new business volumes as a result of the UK budget changes to compulsory annuitisation will also reduce our longevity risks exposure over the longer term to the extent not offset by increased bulk purchase annuity volumes. Despite this longevity risk remains the Group's most significant life insurance risk due to the Group's existing annuity portfolio. Persistency risk remains significant and continues to have a volatile outlook, with underlying performance linked to economic conditions. Businesses across the Group mitigate this risk through a range of customer retention activities. The Group has continued to write substantial volumes of life protection business, and to utilise reinsurance to reduce exposure to potential mortality losses. All life insurance risks benefit from significant diversification against other risks in the portfolio, limiting the impact on the Group's aggregate risk profile.

Provisions made for insurance liabilities are inherently uncertain. Due to this uncertainty, life insurance reserves are regularly reviewed by qualified and experienced actuaries at the business unit and Group level in accordance with the Group's reserving framework. This and other risks are subject to an overarching risk management framework and various mechanisms to govern and control our risks and exposures.

## B18 – Risk management continued

### General insurance risk

The Group writes a balanced portfolio of general insurance risk (including personal motor; household; commercial motor; property and liability) across a geographically diversified spread of markets including UK; Ireland; Canada; France; Italy; Turkey and Poland. This risk is taken on, in line with our underwriting and pricing expertise, to provide an appropriate level of return for an acceptable level of risk. Underwriting discipline and a robust governance process is at the core of the Group's underwriting strategy.

Provisions made for insurance liabilities are inherently uncertain. Due to this uncertainty, general insurance reserves are regularly reviewed by qualified and experienced actuaries at the business unit and Group level in accordance with the Group's reserving framework. These and other key risks, including the occurrence of unexpected claims from a single source or cause and inadequate reinsurance protection/risk transfer, are subject to an overarching risk management framework and various mechanisms to govern and control our risks and exposures.

During the first half of 2014, Aviva's general insurance risk profile has remained stable. As with life insurance risks, general insurance risks also benefit from the significant diversification that arises from being part of a large and diverse portfolio, limiting the impact on the Group's aggregate risk profile.

Aviva successfully completed the renewal of its group-wide catastrophe protection on 1 April 2014. Aviva has chosen to reduce the level of risk it retains through the purchase of additional reinsurance protection including a new groupwide aggregate protection. Processes are in place to manage catastrophe risk in individual business units and at a group level.

### (e) Asset management risk

Asset management risk arises through exposure to negative investment performance, fund liquidity, and factors that influence franchise value such as product development appropriateness and capability, and client retention.

Aviva is directly exposed to the risks associated with operating an asset management business through its ownership of Aviva Investors. The underlying risk profile of our asset management risk is derived from investment performance, specialist investment professionals and leadership, product development capabilities, fund liquidity, margin, client retention, regulatory developments, fiduciary and contractual responsibilities. These key risks are monitored on an on-going basis with issues escalated to the appropriate governance committee.

### (f) Operational risk

The Group continues to operate, validate and enhance its key operational controls and purchase insurance to minimise losses arising from inadequate or ineffective internal processes, 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 to Solvency II and prepare for the necessary business changes. Similarly, we are monitoring the development of IFRS 4 Phase 2 and will 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.

## B19 – Cash and cash equivalents

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

| | **30 June 2014 £m** | Restated[1] 30 June 2013 £m | Restated[1] 31 December 2013 £m |
|---|---|---|---|
| Cash and cash equivalents | **23,584** | 27,662 | 26,131 |
| Cash and cash equivalents of operations classified as held for sale | **64** | 965 | 351 |
| Bank overdrafts | **(843)** | (1,002) | (493) |
| **Net cash and cash equivalents at 30 June/31 December** | **22,805** | 27,625 | 25,989 |

1 The statement of cash flows and the statement of financial position have been restated following the adoption of amendments to 'IAS 32: *Financial Instruments: Presentation*'. Refer to note B2 for further information.

## B20 – Contingent liabilities and other risk factors

During the period, there have been no material changes in the nature of the contingent liabilities and other risk factors from those described in note 53 of the Group's 2013 Annual report and accounts.

# Directors' responsibility statement

## Directors' responsibility statement

The directors' confirm that these condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and as issued by the IASB and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

Information on the current directors responsible for providing this statement can be found on the Company's website at: http://www.aviva.com/investor-relations/corporate-governance/board-of-directors/

By order of the Board

**Mark Wilson**
**Group chief executive officer**
6 August 2014

**Thomas D. Stoddard**
**Chief financial officer**

# Independent review report to Aviva plc

## Report on the condensed consolidated interim financial statements

### Our conclusion

We have reviewed the condensed consolidated interim financial statements, defined below, in the half year report of Aviva plc for the six months ended 30 June 2014. Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and as issued by the International Accounting Standards Board, and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

This conclusion is to be read in the context of what we say in the remainder of this report.

### What we have reviewed

The condensed consolidated interim financial statements, which are prepared by Aviva plc, comprise:

- the condensed consolidated statement of financial position as at 30 June 2014;
- the condensed consolidated income statement and statement of comprehensive income for the period then ended;
- the condensed consolidated statement of cash flows for the period then ended;
- the condensed consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the condensed consolidated interim financial statements.

As disclosed in note B1, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as issued by the International Accounting Standards Board.

The condensed consolidated interim financial statements included in the half year report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

### What a review of condensed consolidated financial statements involves

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.

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 interim financial statements.

## Responsibilities for the condensed consolidated interim financial statements and the review

### Our responsibilities and those of the directors

The half year report, including the condensed consolidated interim financial statements, 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 Conduct Authority.

Our responsibility is to express to the company a conclusion on the condensed consolidated interim 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 complying with the Disclosure and Transparency Rules of the Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, 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.

**PricewaterhouseCoopers LLP**
Chartered Accountants
6 August 2014
London

**Notes:**

(a) The 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 financial statements since they were initially presented on the website.

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

# Capital & assets

# Capital and liquidity

## C1 – Capital performance

### (a) Capital generation and utilisation

| | 6 months 2014 £m | Restated[1] 6 months 2013 £m | Restated[1] Full year 2013 £m |
|---|---|---|---|
| Group operating capital generated after investment in new business | **910** | 1,016 | 1,953 |
| Interest, corporate and other costs | **(235)** | (271) | (621) |
| External dividends and appropriations | **(309)** | (297) | (537) |
| **Net operating capital generation after financing** | **366** | 448 | 795 |

1 Comparatives have been restated to reflect the changes in MCEV methodology. See note F1 – MCEV Basis of preparation for further details.

### (b) Capital required to write new business, internal rate of return and payback period

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 set-up costs and capital requirements.

The internal rate of return (IRR) is a measure of the shareholder return expected on this capital investment. It is equivalent to the discount rate at which the present value of the post-tax cash flows expected to be earned over the life time of the business written, including allowance for the time value of options and guarantees, is equal to the total invested capital to support the writing of the business. The capital included in the calculation of the IRR is the initial capital required to pay acquisition costs and set up statutory reserves in excess of premiums received ('initial capital'), plus required capital at the same level as for the calculation of the value of new business.

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

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

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

| | 6 months 2014 | | | Restated[1] 6 months 2013 | | | Restated[1] Full year 2013 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Internal rate of return[2] %** | **New business impact on free surplus[3] £m** | **Payback period years[2]** | Internal rate of return[2] % | New business impact on free surplus[3] £m | Payback period years[2] | Internal rate of return[2] % | New business impact on free surplus[3] £m | Payback period years[2] |
| United Kingdom[4] | **13%** | **35** | **7** | 23% | (17) | 5 | 19% | (17) | 6 |
| Ireland | **5%** | **17** | **11** | 4% | 16 | 19 | 5% | 30 | 13 |
| United Kingdom & Ireland | **12%** | **52** | **8** | 20% | (1) | 7 | 17% | 13 | 7 |
| France | **12%** | **77** | **8** | 12% | 73 | 8 | 11% | 148 | 9 |
| Poland | **23%** | **15** | **4** | 19% | 14 | 5 | 22% | 25 | 4 |
| Italy | **13%** | **34** | **6** | 12% | 27 | 6 | 14% | 46 | 6 |
| Spain | **13%** | **17** | **5** | 18% | 19 | 4 | 17% | 33 | 4 |
| Other Europe | **45%** | **10** | **2** | 32% | 13 | 3 | 32% | 20 | 3 |
| Europe | **15%** | **153** | **6** | 15% | 146 | 6 | 15% | 272 | 7 |
| Asia | **20%** | **32** | **8** | 14% | 35 | 11 | 16% | 68 | 10 |
| **Total** | **14.6%** | **237** | **7** | 16.2% | 180 | 7 | 15.6% | 353 | 7 |

1 The comparative periods have been restated. See note F1 – MCEV Basis of preparation for further details.
2 Gross of non-controlling interests.
3 Net of non-controlling interests.
4 IRR has fallen since HY13 reflecting a shift in business mix due to reduced volumes of individual annuities and a higher IRR in the prior period due to stronger annuity margins in the UK.

## C1 – Capital performance continued

### (c) Analysis of return on equity – IFRS basis

| 6 months 2014 | Operating return[1] Before tax £m | Operating return[1] After tax £m | Opening Shareholders' funds including non-controlling interests £m | Return on equity % |
|---|---|---|---|---|
| United Kingdom & Ireland Life | 478 | 392 | 5,832 | 13.4% |
| United Kingdom & Ireland General Insurance and Health[2] | 244 | 193 | 4,146 | 9.3% |
| Europe | 498 | 344 | 5,598 | 12.3% |
| Canada | 83 | 61 | 925 | 13.2% |
| Asia | 35 | 30 | 709 | 8.4% |
| Fund management | 48 | 40 | 237 | 33.8% |
| Corporate and Other Business[3] | (182) | (141) | (1,305) | n/a |
| **Return on total capital employed** | **1,204** | **919** | **16,142** | **11.4%** |
| Subordinated debt | (142) | (111) | (4,370) | 5.1% |
| External debt | (10) | (9) | (755) | 2.3% |
| **Return on total equity** | **1,052** | **799** | **11,017** | **14.5%** |
| Less: Non-controlling interests | | (84) | (1,471) | 11.4% |
| Direct capital instruments and fixed rate tier 1 notes | | (12) | (1,382) | 1.7% |
| Preference capital | | (9) | (200) | 9.0% |
| **Return on equity shareholders' funds** | | **694** | **7,964** | **17.4%** |

1 The operating return is based upon Group adjusted operating profit, which is stated before integration and restructuring costs, impairment of goodwill, amortisation of intangibles, exceptional items and investment variances.
2 The operating return for United Kingdom & Ireland general insurance and health is presented net of £19 million of investment return, which is allocated to Corporate and Other Business. The £19 million represents the return on capital supporting Pillar II ICA risks deemed not to be supporting the ongoing general insurance operation.
3 The 'Corporate' and 'Other Business' loss before tax of £182 million comprises corporate costs of £64 million, interest on internal lending arrangements of £99 million, other business operating loss (net of investment return) of £35 million, partly offset by finance income on the main UK pension scheme of £16 million.

| Full Year 2013 | Operating return[1] Before tax £m | Operating return[1] After tax £m | Opening shareholders' funds including non-controlling interests £m | Return on equity % |
|---|---|---|---|---|
| United Kingdom & Ireland Life | 952 | 904 | 5,646 | 16.0% |
| United Kingdom & Ireland General Insurance and Health[2] | 410 | 319 | 4,008 | 8.0% |
| Europe | 963 | 636 | 5,860 | 10.9% |
| Canada | 246 | 180 | 1,039 | 17.4% |
| Asia | 97 | 84 | 825 | 10.1% |
| Fund management | 93 | 72 | 225 | 32.1% |
| Corporate and Other Business[3] | (384) | (428) | (1,471) | n/a |
| **Return on total capital employed (excluding United States)** | 2,377 | 1,767 | 16,132 | 11.0% |
| United States | 290 | 207 | 367 | 56.5% |
| **Return on total capital employed (including United States)** | 2,667 | 1,974 | 16,499 | 12.0% |
| Subordinated debt | (305) | (234) | (4,337) | 5.4% |
| External debt | (23) | (18) | (802) | 2.2% |
| **Return on total equity** | 2,339 | 1,722 | 11,360 | 15.2% |
| Less: Non-controlling interests | | (174) | (1,574) | 11.1% |
| Direct capital instruments and fixed rate tier 1 notes | | (70) | (1,382) | 5.1% |
| Preference capital | | (17) | (200) | 8.5% |
| **Return on equity shareholders' funds** | | 1,461 | 8,204 | 17.8% |
| **Return on equity shareholders' funds (excluding United States operating return)** | | 1,254 | 8,204 | 15.3% |

1 The operating return is based upon Group adjusted operating profit, which is stated before integration and restructuring costs, impairment of goodwill, amortisation of intangibles, exceptional items and investment variances.
2 The operating return for United Kingdom & Ireland general insurance and health is presented net of £79 million of investment return, which is allocated to Corporate and Other Business. The £79 million represents the return on capital supporting Pillar II ICA risks deemed not to be supporting the ongoing general insurance operation.
3 The 'Corporate' and 'Other Business' loss before tax of £384 million comprises corporate costs of £150 million, interest on internal lending arrangements of £231 million, other business operating loss (net of investment return) of £60 million, partly offset by finance income on the main UK pension scheme of £57 million.

## C1 – Capital performance continued

### (d) Group capital structure

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

| | 30 June 2014 Capital employed IFRS basis £m | Internally generated AVIF £m | MCEV[5] basis £m | 31 December 2013 Capital employed IFRS basis £m | Restated Internally generated AVIF[4] £m | MCEV[4,5] basis £m |
|---|---|---|---|---|---|---|
| **Life business** | | | | | | |
| United Kingdom | **5,197** | **2,552** | **7,749** | 5,237 | 2,742 | 7,979 |
| Ireland | **579** | **93** | **672** | 595 | 81 | 676 |
| United Kingdom & Ireland | **5,776** | **2,645** | **8,421** | 5,832 | 2,823 | 8,655 |
| France | **2,176** | **1,698** | **3,874** | 2,366 | 1,677 | 4,043 |
| Poland | **347** | **989** | **1,336** | 380 | 1,075 | 1,455 |
| Italy | **1,024** | **430** | **1,454** | 1,108 | 471 | 1,579 |
| Spain | **725** | **266** | **991** | 769 | 232 | 1,001 |
| Other Europe | **96** | **85** | **181** | 93 | 84 | 177 |
| Europe | **4,368** | **3,468** | **7,836** | 4,716 | 3,539 | 8,255 |
| Asia | **710** | **276** | **986** | 676 | 270 | 946 |
| | **10,854** | **6,389** | **17,243** | 11,224 | 6,632 | 17,856 |
| **General insurance & health** | | | | | | |
| United Kingdom | **3,645** | **(182)** | **3,463** | 3,725 | (184) | 3,541 |
| Ireland | **458** | **—** | **458** | 421 | — | 421 |
| United Kingdom & Ireland | **4,103** | **(182)** | **3,921** | 4,146 | (184) | 3,962 |
| France | **553** | **—** | **553** | 570 | — | 570 |
| Italy | **275** | **—** | **275** | 269 | — | 269 |
| Other Europe | **38** | **—** | **38** | 43 | — | 43 |
| Europe | **866** | **—** | **866** | 882 | — | 882 |
| Canada | **1,005** | **—** | **1,005** | 925 | — | 925 |
| Asia | **30** | **—** | **30** | 33 | (2) | 31 |
| | **6,004** | **(182)** | **5,822** | 5,986 | (186) | 5,800 |
| **Fund Management** | **232** | **(24)** | **208** | 237 | (37) | 200 |
| **Corporate & Other Business[1]** | **(704)** | **61** | **(643)** | (1,305) | 2 | (1,303) |
| **Total capital employed** | **16,386** | **6,244** | **22,630** | 16,142 | 6,411 | 22,553 |
| Financed by | | | | | | |
| Equity shareholders' funds | **8,557** | **5,534** | **14,091** | 7,964 | 5,679 | 13,643 |
| Non-controlling interests | **1,414** | **710** | **2,124** | 1,471 | 732 | 2,203 |
| Direct capital instruments & fixed rate tier 1 notes | **1,382** | **—** | **1,382** | 1,382 | — | 1,382 |
| Preference shares | **200** | **—** | **200** | 200 | — | 200 |
| Subordinated debt | **4,072** | **—** | **4,072** | 4,370 | — | 4,370 |
| External debt | **761** | **—** | **761** | 755 | — | 755 |
| **Total capital employed** | **16,386** | **6,244** | **22,630** | 16,142 | 6,411 | 22,553 |
| Less: Goodwill & other intangibles (net of tax & non-controlling interests)[2] | **(2,036)** | | **(1,925)** | (2,204) | | (2,088) |
| **Total tangible capital employed** | **14,350** | | **20,705** | 13,938 | | 20,465 |
| **Total debt[3]** | **6,665** | | **6,665** | 6,957 | | 6,957 |
| **Tangible debt leverage** | **46%** | | **32%** | 50% | | 34% |

1 'Corporate' and 'other Business' includes centrally held tangible net assets, the main UK staff pension scheme surplus and also reflects internal lending arrangements. These internal lending arrangements, which net out on consolidation, include the formal loan arrangement between Aviva Group Holdings Limited and Aviva Insurance Limited (AIL). Internal capital management in place allocated a majority of the total capital of AIL to the UK general insurance operations with the remaining capital deemed to be supporting residual (non-operational) Pillar II ICA risks.
2 Goodwill and intangibles comprise £1,364 million (*FY13: £1,480 million*) of goodwill in subsidiaries, £964 million (*FY13: £1,068 million*) of intangibles in subsidiaries and £99 million (*FY13: £60 million*) of goodwill and intangibles in joint ventures, net of deferred tax liabilities of £184 million (*FY13: £189 million*) and the non-controlling interest share of intangibles of £207 million (*FY13: £215 million*). Under MCEV the goodwill has been further impaired by £111 million (*FY13: £116 million*) which has been reflected in the additional value of in-force long-term business in the MCEV balance sheet.
3 Total debt comprises direct capital instruments and fixed rate tier 1 notes, Aviva Plc preference share capital and core structural borrowings. In addition preference share capital of GA plc of £250 million within non-controlling interests has been included.
4 Following a change in MCEV methodology highlighted in section F1, the UK Retail Fund Management business in Aviva Investors, the UK Health business and Singapore Guaranteed Renewable Health business are now treated as life covered business. Comparatives have been restated to reflect the changes in MCEV methodology.
5 In preparing the MCEV information, the directors have done so in accordance with the European Insurance CFO Forum MCEV Principles with the exception of stating held for sale operations as at 30 June 2013 and 31 December 2013 at the expected fair value, as represented by expected sale proceeds less cost to sell at those dates.

Total capital employed is financed by a combination of equity shareholders' funds, preference capital, subordinated debt and borrowings. At HY14 we had £16.4 billion (*FY13: £16.1 billion*) of total capital employed in our businesses measured on an IFRS basis and £22.6 billion (*FY13: £22.6 billion*) of total capital employed on an MCEV basis. Financial leverage, the ratio of external senior and subordinated debt to IFRS tangible capital employed, was 46% *(FY13: 50%)*.

At HY14 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 interests, of £250 million), and direct capital instruments and fixed rate tier 1 notes was £7,486 million (*FY13: £7,573 million*), with a weighted average cost, post tax, of 3.2% (*FY13: 3.8%*). The Group Weighted Average Cost of Capital (WACC) is 6.1% (*FY13: 6.6%*) 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 HY14 was 7.6% (*FY13: 8.3%*) based on a risk free rate of 2.7% (*FY13: 3.0%*), an equity risk premium of 4.0% (*FY13: 4.0%*) and a market beta of 1.23 (*FY13: 1.30*).

## C1 – Capital performance continued

### (e) Equity sensitivity analysis

The sensitivity of the group's total equity on an IFRS basis and MCEV basis at 30 June 2014 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 2013 £bn | IFRS basis | 30 June 2014 £bn | Equities down 10% £bn | Interest rates up 1% £bn | 0.5% increased credit spread £bn |
|---|---|---|---|---|---|
| 11.2 | Long-term savings | **10.9** | **—** | **(0.3)** | **(0.1)** |
| 4.9 | General insurance and other | **5.5** | **(0.1)** | **(0.5)** | **0.4** |
| (5.1) | Borrowings | **(4.8)** | **—** | **—** | **—** |
| 11.0 | **Total equity** | **11.6** | **(0.1)** | **(0.8)** | **0.3** |

| Restated[1] 31 December 2013 £bn | MCEV basis | 30 June 2014 £bn | Equities down 10% | | Interest rates up 1% £bn | 0.5% increased credit spread £bn |
|---|---|---|---|---|---|---|
| | | | Direct £bn | Indirect £bn | | |
| 17.9 | Long-term savings | **17.2** | **—** | **(0.4)** | **(0.3)** | **(0.9)** |
| 4.7 | General insurance and other | **5.4** | **(0.1)** | **—** | **(0.5)** | **0.4** |
| (5.1) | Borrowings | **(4.8)** | **—** | **—** | **—** | **—** |
| 17.5 | **Total equity** | **17.8** | **(0.1)** | **(0.4)** | **(0.8)** | **(0.5)** |

1 Comparatives have been restated to reflect the change in MCEV methodology. See note F1 – MCEV Basis of preparation for further details.

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 in the main UK pension scheme by £1.6 billion (before any associated tax impact).

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.

## C2 – Regulatory capital

Individual regulated subsidiaries measure and report solvency based on applicable local regulations, including in the UK the regulations established by the Prudential Regulatory Authority (PRA). 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 businesses in Canada a risk charge on assets and liabilities approach is used.

Based on individual guidance from the PRA we recognise surpluses of the non-profit funds of our UK Life and pensions businesses which are available for transfer to shareholders. These have decreased to £nil as at 30 June 2014 *(FY13: £0.1 billion)*.

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

| | UK Life funds £bn | Other business £bn | 30 June 2014 £bn | 31 December 2013 £bn |
|---|---|---|---|---|
| Insurance Groups Directive (IGD) capital resources | **5.3** | **8.3** | **13.6** | 14.4 |
| Less: capital resources requirement | **(5.3)** | **(5.0)** | **(10.3)** | (10.8) |
| Insurance Group Directive (IGD) excess solvency | **—** | **3.3** | **3.3** | 3.6 |
| Cover over EU minimum (calculated excluding UK life funds) | | | **1.7 times** | 1.7 times |

The EU Insurance Groups Directive (IGD) regulatory capital solvency surplus has decreased by £0.3 billion since FY13 to £3.3 billion. The key drivers of the reduction are the establishment of the group's internal reinsurance arrangement which has reduced IGD capital by £0.2 billion and the redemption of hybrid debt which has also reduced IGD capital by £0.2 billion.

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

| | £bn |
|---|---|
| **IGD solvency surplus at 31 December 2013** | **3.6** |
| Operating profits net of other income and expenses | **0.6** |
| Dividends and appropriations | **(0.3)** |
| Hybrid debt redemption | **(0.2)** |
| Internal reinsurance | **(0.2)** |
| Disposals | **0.1** |
| Increase in capital resources requirement | **(0.2)** |
| Other regulatory adjustments | **(0.1)** |
| **Estimated IGD solvency surplus at 30 June 2014** | **3.3** |

## C2 – Regulatory capital continued

### (b) 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: New With-Profit Sub Fund (NWPSF), Old With-Profit Sub Fund (OWPSF) 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 Group's IFRS statement of financial position at 30 June 2014 and 31 December 2013.

| | 30 June 2014 | | | | | | 31 December 2013 |
|---|---|---|---|---|---|---|---|
| | **Estimated realistic assets £bn** | **Estimated realistic liabilities[1] £bn** | **Estimated realistic inherited estate[2] £bn** | **Capital support arrangement[3] £bn** | **Estimated risk capital margin £bn** | **Estimated excess available capital £bn** | Estimated excess available capital £bn |
| NWPSF | **14.8** | **(14.8)** | **—** | **2.2** | **(0.2)** | **2.0** | 0.9 |
| OWPSF | **2.8** | **(2.5)** | **0.3** | **—** | **—** | **0.3** | 0.3 |
| WPSF[4] | **16.6** | **(15.0)** | **1.6** | **—** | **(0.3)** | **1.3** | 1.2 |
| **Aggregate** | **34.2** | **(32.3)** | **1.9** | **2.2** | **(0.5)** | **3.6** | 2.4 |

1 These realistic liabilities include the shareholders' share of accrued bonuses of £(0.1) billion *(FY13: £0.1 billion)*. Realistic liabilities adjusted to eliminate the shareholders' share of accrued bonuses are £32.4 billion *(FY13: £33.4 billion)*. These realistic liabilities make provision for guarantees, options and promises on a market consistent stochastic basis. The value of the provision included within realistic liabilities is £1.3 billion, £0.2 billion and £2.6 billion for NWPSF, OWPSF and WPSF respectively *(FY13: £1.4 billion, £0.2 billion and £2.5 billion for NWPSF, OWPSF and WPSF respectively)*.
2 Estimated realistic inherited estate at FY13 was £nil, £0.4 billion and £1.5 billion for NWPSF, OWPSF and WPSF respectively.
3 The support arrangement represents the reattributed estate (RIEESA) of £2.2 billion at 30 June 2014 *(FY13: £1.1 billion)*. The increase arises mainly from the transfer of non-profit business from RIEESA to NWPSF which enabled the economic value of this business to be recognised in the RIEESA.
4 The WPSF fund includes the Provident Mutual (PM) fund which has realistic assets and realistic liabilities of £1.5 billion and therefore does not contribute to the realistic inherited estate.

### (c) Investment mix

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

| | **30 June 2014 %** | 31 December 2013 % |
|---|---|---|
| Equity | **28%** | 29% |
| Property | **12%** | 12% |
| Fixed interest | **54%** | 49% |
| Other | **6%** | 10% |

The equity backing ratios, including property, supporting with-profit asset shares are 71% in NWPSF and OWPSF, and 74% in WPSF.

## C3 – 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 section F of this report.

### (a) 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.

### (b) 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.

### (c) 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. |
| Credit Spreads | The impact of a 0.5% increase in credit spreads over risk-free interest rates on corporate bonds and other non-sovereign credit assets. The test allows for any consequential impact on liability valuations. |
| 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%. |

### (d) Long-term businesses

| 30 June 2014<br>Impact on profit before tax<br>£m | Interest rates +1% | Interest rates -1% | Credit spreads +0.5% | Equity/ property +10% | Equity/ property -10% | Expenses +10% | Assurance mortality +5% | Annuitant mortality -5% |
|---|---|---|---|---|---|---|---|---|
| Insurance participating | **(50)** | **20** | **(35)** | **(135)** | **100** | **(25)** | **(5)** | **(40)** |
| Insurance non-participating | **(65)** | **20** | **(325)** | **20** | **(20)** | **(80)** | **(60)** | **(435)** |
| Investment participating | **(10)** | **5** | **(5)** | **—** | **—** | **(5)** | **—** | **—** |
| Investment non-participating | **(20)** | **20** | **(5)** | **10** | **(10)** | **(15)** | **—** | **—** |
| Assets backing life shareholders' funds | **(35)** | **50** | **(25)** | **15** | **(15)** | **—** | **—** | **—** |
| **Total** | **(180)** | **115** | **(395)** | **(90)** | **55** | **(125)** | **(65)** | **(475)** |

| 30 June 2014<br>Impact on shareholders' equity before tax<br>£m | Interest rates +1% | Interest rates -1% | Credit spreads +0.5% | Equity/ property +10% | Equity/ property -10% | Expenses +10% | Assurance mortality +5% | Annuitant mortality -5% |
|---|---|---|---|---|---|---|---|---|
| Insurance participating | **(50)** | **20** | **(35)** | **(135)** | **100** | **(25)** | **(5)** | **(40)** |
| Insurance non-participating | **(65)** | **20** | **(330)** | **20** | **(20)** | **(80)** | **(60)** | **(435)** |
| Investment participating | **(10)** | **5** | **(5)** | **—** | **—** | **(5)** | **—** | **—** |
| Investment non-participating | **(20)** | **20** | **(5)** | **10** | **(10)** | **(15)** | **—** | **—** |
| Assets backing life shareholders' funds | **(75)** | **95** | **(35)** | **25** | **(25)** | **—** | **—** | **—** |
| **Total** | **(220)** | **160** | **(410)** | **(80)** | **45** | **(125)** | **(65)** | **(475)** |

## C3 – IFRS Sensitivity analysis continued

### (e) Long-term businesses continued

| 31 December 2013 Impact on profit before tax £m | Interest rates +1% | Interest rates -1% | Credit spreads +0.5% | Equity/ property +10% | Equity/ property -10% | Expenses +10% | Assurance mortality +5% | Annuitant mortality -5% |
|---|---|---|---|---|---|---|---|---|
| Insurance participating | (45) | — | (60) | (10) | (20) | (30) | (5) | (40) |
| Insurance non-participating | (145) | 140 | (415) | (5) | 10 | (80) | (60) | (450) |
| Investment participating | (10) | 5 | (5) | 5 | (5) | (10) | — | — |
| Investment non-participating | (20) | 20 | (5) | 5 | (5) | (15) | — | — |
| Assets backing life shareholders' funds | (35) | 55 | (25) | 40 | (45) | — | — | — |
| **Total** | (255) | 220 | (510) | 35 | (65) | (135) | (65) | (490) |

| 31 December 2013 Impact on shareholders' equity before tax £m | Interest rates +1% | Interest rates -1% | Credit spreads +0.5% | Equity/ property +10% | Equity/ property -10% | Expenses +10% | Assurance mortality +5% | Annuitant mortality -5% |
|---|---|---|---|---|---|---|---|---|
| Insurance participating | (45) | — | (60) | (10) | (20) | (30) | (5) | (40) |
| Insurance non-participating | (145) | 140 | (415) | (5) | 10 | (80) | (60) | (450) |
| Investment participating | (10) | 5 | (5) | 5 | (5) | (10) | — | — |
| Investment non-participating | (20) | 20 | (5) | 5 | (5) | (15) | — | — |
| Assets backing life shareholders' funds | (75) | 100 | (35) | 45 | (45) | — | — | — |
| **Total** | (295) | 265 | (520) | 40 | (65) | (135) | (65) | (490) |

Changes in sensitivities between HY14 and FY13 reflect movements in market interest rates, portfolio growth, changes to asset mix and the relative durations of assets and liabilities and asset liability management actions. The sensitivities to economic movements relate mainly to business in the UK. In general, a fall in market interest rates has a beneficial impact on non-participating business, due to the increase in market value of fixed interest securities and the relative durations of assets and liabilities; similarly a rise in interest rates has a negative impact. Mortality and expense sensitivities also relate primarily to the UK.

### (f) General insurance and health businesses

| **30 June 2014 Impact on profit before tax £m** | **Interest rates +1%** | **Interest rates -1%** | **Credit spreads +0.5%** | **Equity/ property +10%** | **Equity/ property -10%** | **Expenses +10%** | **Gross loss ratios +5%** |
|---|---|---|---|---|---|---|---|
| **Gross of reinsurance** | **(275)** | **265** | **(135)** | **45** | **(45)** | **(65)** | **(145)** |
| **Net of reinsurance** | **(325)** | **325** | **(135)** | **45** | **(45)** | **(65)** | **(135)** |

| **30 June 2014 Impact on shareholders' equity before tax £m** | **Interest rates +1%** | **Interest rates -1%** | **Credit spreads +0.5%** | **Equity/ property +10%** | **Equity/ property -10%** | **Expenses +10%** | **Gross loss ratios +5%** |
|---|---|---|---|---|---|---|---|
| **Gross of reinsurance** | **(275)** | **265** | **(135)** | **45** | **(45)** | **(20)** | **(145)** |
| **Net of reinsurance** | **(325)** | **325** | **(135)** | **45** | **(45)** | **(20)** | **(135)** |

| 31 December 2013 Impact on profit before tax £m | Interest rates +1% | Interest rates -1% | Credit spreads +0.5% | Equity/ property +10% | Equity/ property -10% | Expenses +10% | Gross loss ratios +5% |
|---|---|---|---|---|---|---|---|
| Gross of reinsurance | (245) | 235 | (125) | 50 | (50) | (110) | (300) |
| Net of reinsurance | (295) | 295 | (125) | 50 | (50) | (110) | (285) |

| 31 December 2013 Impact on shareholders' equity before tax £m | Interest rates +1% | Interest rates -1% | Credit spreads +0.5% | Equity/ property +10% | Equity/ property -10% | Expenses +10% | Gross loss ratios +5% |
|---|---|---|---|---|---|---|---|
| Gross of reinsurance | (245) | 235 | (125) | 50 | (50) | (25) | (300) |
| Net of reinsurance | (295) | 295 | (125) | 50 | (50) | (25) | (285) |

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.

## C3 – IFRS Sensitivity analysis continued

### (g) Fund management and other operations businesses

| 30 June 2014 Impact on profit before tax £m | Interest rates +1% | Interest rates -1% | Credit spreads +0.5% | Equity/ property +10% | Equity/ property -10% |
|---|---|---|---|---|---|
| **Total** | **—** | **—** | **—** | **5** | **5** |

| 30 June 2014 Impact on shareholders' equity before tax £m | Interest rates +1% | Interest rates -1% | Credit spreads +0.5% | Equity/ property +10% | Equity/ property -10% |
|---|---|---|---|---|---|
| **Total** | **—** | **—** | **—** | **5** | **5** |

| 31 December 2013 Impact on profit before tax £m | Interest rates +1% | Interest rates -1% | Credit spreads +0.5% | Equity/ property +10% | Equity/ property -10% |
|---|---|---|---|---|---|
| Total | — | — | 20 | (5) | 15 |

| 31 December 2013 Impact on shareholders' equity before tax £m | Interest rates +1% | Interest rates -1% | Credit spreads +0.5% | Equity/ property +10% | Equity/ property -10% |
|---|---|---|---|---|---|
| Total | — | — | 20 | (5) | 15 |

### (h) 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

## 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 any residual mis-match risk that is outside of Group's risk appetite.

| 30 June 2014 | 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 | **—** | **—** | **2,329** | **2,329** | **—** | **2,329** |
| Interests in joint ventures and associates | **142** | **1,033** | **413** | **1,588** | **—** | **1,588** |
| Property and equipment | **—** | **129** | **158** | **287** | **(1)** | **286** |
| Investment property | **3,755** | **4,685** | **207** | **8,647** | **—** | **8,647** |
| Loans | **465** | **4,381** | **18,121** | **22,967** | **—** | **22,967** |
| Financial investments | | | | | | |
| Debt securities | **12,861** | **81,609** | **34,018** | **128,488** | **—** | **128,488** |
| Equity securities | **25,992** | **9,522** | **964** | **36,478** | **—** | **36,478** |
| Other investments | **26,957** | **4,359** | **1,348** | **32,664** | **(23)** | **32,641** |
| Reinsurance assets | **2,273** | **1,359** | **3,945** | **7,577** | **(26)** | **7,551** |
| Deferred tax assets | **—** | **—** | **119** | **119** | **(7)** | **112** |
| Current tax assets | **—** | **—** | **117** | **117** | **—** | **117** |
| Receivables and other financial assets | **784** | **2,320** | **4,442** | **7,546** | **(20)** | **7,526** |
| Deferred acquisition costs and other assets | **21** | **391** | **3,271** | **3,683** | **(6)** | **3,677** |
| Prepayments and accrued income | **143** | **1,222** | **1,358** | **2,723** | **(2)** | **2,721** |
| Cash and cash equivalents | **3,823** | **12,178** | **7,647** | **23,648** | **(64)** | **23,584** |
| Assets of operations classified as held for sale | **—** | **—** | **—** | **—** | **149** | **149** |
| **Total** | **77,216** | **123,188** | **78,457** | **278,861** | **—** | **278,861** |
| **Total %** | **27.7%** | **44.2%** | **28.1%** | **100.0%** | **—** | **100.0%** |
| FY13 Restated | 76,639 | 125,990 | 78,998 | 281,627 | — | 281,627 |
| FY13 Total % Restated | 27.2% | 44.7% | 28.1% | 100.0% | — | 100.0% |

As at 30 June 2014, 28.1% of Aviva's total asset base was shareholder assets, 44.2% participating assets where Aviva shareholders have partial exposure, and 27.7% policyholder assets where Aviva shareholders have no exposure. Of the total assets (excluding assets held for sale), investment property, loans and financial investments comprise £229.2 billion *(FY13: £227.4 billion restated)*.

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

| Total assets – 30 June 2014 | 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 | — | 2,329 | — | 2,329 |
| Interests in joint ventures and associates | — | — | 1,588 | 1,588 |
| Property and equipment | 246 | 41 | — | 287 |
| Investment property | 8,647 | — | — | 8,647 |
| Loans | 18,598 | 4,369 | — | 22,967 |
| Financial investments | | | | |
| Debt securities | 128,488 | — | — | 128,488 |
| Equity securities | 36,478 | — | — | 36,478 |
| Other investments | 32,664 | — | — | 32,664 |
| Reinsurance assets | 2,279 | 5,298 | — | 7,577 |
| Deferred tax assets | — | — | 119 | 119 |
| Current tax assets | — | — | 117 | 117 |
| Receivables and other financial assets | — | 7,546 | — | 7,546 |
| Deferred acquisition costs and other assets | — | 3,683 | — | 3,683 |
| Prepayments and accrued income | — | 2,723 | — | 2,723 |
| Cash and cash equivalents | 23,648 | — | — | 23,648 |
| **Total** | **251,048** | **25,989** | **1,824** | **278,861** |
| **Total %** | **90.0%** | **9.3%** | **0.7%** | **100.0%** |
| Assets of operations classified as held for sale | 87 | 55 | 7 | 149 |
| **Total (excluding assets held for sale)** | **250,961** | **25,934** | **1,817** | **278,712** |
| **Total % (excluding assets held for sale)** | **90.0%** | **9.3%** | **0.7%** | **100.0%** |
| **FY13 Total Restated** | 253,970 | 25,823 | 1,834 | 281,627 |
| FY13 Total % Restated | 90.2% | 9.2% | 0.6% | 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 items within the analysis of the Group's assets.

| Total assets – Policyholder assets 30 June 2014 | 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 | — | — | 142 | 142 |
| Property and equipment | — | — | — | — |
| Investment property | 3,755 | — | — | 3,755 |
| Loans | — | 465 | — | 465 |
| Financial investments | | | | |
| Debt securities | 12,861 | — | — | 12,861 |
| Equity securities | 25,992 | — | — | 25,992 |
| Other investments | 26,957 | — | — | 26,957 |
| Reinsurance assets | 2,267 | 6 | — | 2,273 |
| Deferred tax assets | — | — | — | — |
| Current tax assets | — | — | — | — |
| Receivables and other financial assets | — | 784 | — | 784 |
| Deferred acquisition costs and other assets | — | 21 | — | 21 |
| Prepayments and accrued income | — | 143 | — | 143 |
| Cash and cash equivalents | 3,823 | — | — | 3,823 |
| **Total** | **75,655** | **1,419** | **142** | **77,216** |
| **Total %** | **98.0%** | **1.8%** | **0.2%** | **100.0%** |
| Assets of operations classified as held for sale | — | — | — | — |
| **Total (excluding assets held for sale)** | **75,655** | **1,419** | **142** | **77,216** |
| **Total % (excluding assets held for sale)** | **98.0%** | **1.8%** | **0.2%** | **100.0%** |
| FY13 Total Restated | 75,588 | 832 | 219 | 76,639 |
| FY13 Total % Restated | 98.6% | 1.1% | 0.3% | 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 items within the analysis of the Group's assets.

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

| Total assets – Participating fund assets 30 June 2014 | 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 | — | — | 1,033 | 1,033 |
| Property and equipment | 127 | 2 | — | 129 |
| Investment property | 4,685 | — | — | 4,685 |
| Loans | 723 | 3,658 | — | 4,381 |
| Financial investments | | | | |
| Debt securities | 81,609 | — | — | 81,609 |
| Equity securities | 9,522 | — | — | 9,522 |
| Other investments | 4,359 | — | — | 4,359 |
| Reinsurance assets | 3 | 1,356 | — | 1,359 |
| Deferred tax assets | — | — | — | — |
| Current tax assets | — | — | — | — |
| Receivables and other financial assets | — | 2,320 | — | 2,320 |
| Deferred acquisition costs and other assets | — | 391 | — | 391 |
| Prepayments and accrued income | — | 1,222 | — | 1,222 |
| Cash and cash equivalents | 12,178 | — | — | 12,178 |
| **Total** | **113,206** | **8,949** | **1,033** | **123,188** |
| **Total %** | **91.9%** | **7.3%** | **0.8%** | **100.0%** |
| Assets of operations classified as held for sale | — | — | — | — |
| **Total (excluding assets held for sale)** | **113,206** | **8,949** | **1,033** | **123,188** |
| **Total % (excluding assets held for sale)** | **91.9%** | **7.3%** | **0.8%** | **100.0%** |
| FY13 Total Restated | 116,176 | 8,914 | 900 | 125,990 |
| FY13 Total % Restated | 92.2% | 7.1% | 0.7% | 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 items within the analysis of the Group's assets.

| Total assets – Shareholders assets 30 June 2014 | 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 | — | 2,329 | — | 2,329 |
| Interests in joint ventures and associates | — | — | 413 | 413 |
| Property and equipment | 119 | 39 | — | 158 |
| Investment property | 207 | — | — | 207 |
| Loans | 17,875 | 246 | — | 18,121 |
| Financial investments | | | | |
| Debt securities | 34,018 | — | — | 34,018 |
| Equity securities | 964 | — | — | 964 |
| Other investments | 1,348 | — | — | 1,348 |
| Reinsurance assets | 9 | 3,936 | — | 3,945 |
| Deferred tax assets | — | — | 119 | 119 |
| Current tax assets | — | — | 117 | 117 |
| Receivables and other financial assets | — | 4,442 | — | 4,442 |
| Deferred acquisition costs and other assets | — | 3,271 | — | 3,271 |
| Prepayments and accrued income | — | 1,358 | — | 1,358 |
| Cash and cash equivalents | 7,647 | — | — | 7,647 |
| **Total** | **62,187** | **15,621** | **649** | **78,457** |
| **Total %** | **79.3%** | **19.9%** | **0.8%** | **100.0%** |
| Assets of operations classified as held for sale | 87 | 55 | 7 | 149 |
| **Total (excluding assets held for sale)** | **62,100** | **15,566** | **642** | **78,308** |
| **Total % (excluding assets held for sale)** | **79.3%** | **19.9%** | **0.8%** | **100.0%** |
| FY13 Total Restated | 62,206 | 16,077 | 715 | 78,998 |
| FY13 Total % Restated | 78.7% | 20.4% | 0.9% | 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 items within the analysis of the Group's assets.

Overview
Income & expenses
IFRS
Capital & liquidity
Analysis of assets
VNB & sales analysis
MCEV
Other information

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

### Financial instruments (including derivatives and loans) - fair value hierarchy

The table below categorises the measurement basis for assets carried at fair value into a 'fair value hierarchy' in accordance with fair value methodology disclosed in Note B17 in the condensed consolidated financial statements (IFRS section).

The amounts in individual line items may differ from those in the IFRS section as financial assets of operations classified as held for sale have been analysed by underlying assets in the following table.

| Investment property and financial assets – Total 30 June 2014 | 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 property | **—** | **—** | **8,647** | **8,647** | **—** | **—** | **8,647** |
| Loans | **—** | **3,258** | **15,340** | **18,598** | **4,369** | **—** | **22,967** |
| Debt securities | **75,121** | **45,078** | **8,289** | **128,488** | **—** | **—** | **128,488** |
| Equity securities | **35,919** | **110** | **449** | **36,478** | **—** | **—** | **36,478** |
| Other investments (including derivatives) | **24,390** | **5,243** | **3,031** | **32,664** | **—** | **(23)** | **32,641** |
| Assets of operations classified as held for sale | **—** | **—** | **—** | **—** | **—** | **23** | **23** |
| **Total** | **135,430** | **53,689** | **35,756** | **224,875** | **4,369** | **—** | **229,244** |
| **Total %** | **59.1%** | **23.4%** | **15.6%** | **98.1%** | **1.9%** | **—** | **100.0%** |
| Assets of operations classified as held for sale | **23** | **—** | **—** | **23** | **—** | **—** | **23** |
| **Total (excluding assets held for sale)** | **135,407** | **53,689** | **35,756** | **224,852** | **4,369** | **—** | **229,221** |
| **Total % (excluding assets held for sale)** | **59.1%** | **23.4%** | **15.6%** | **98.1%** | **1.9%** | — | **100.0%** |
| FY13 Total Restated | 138,061 | 49,271 | 37,298 | 224,630 | 5,402 | — | 230,032 |
| FY13 Total % Restated | 60.1% | 21.4% | 16.2% | 97.7% | 2.3% | — | 100.0% |

At 30 June 2014, the proportion of total financial investments and loans classified as Level 1 in the fair value hierarchy was 59.1% *(FY13: 60.1%)*. The proportion of Level 2 financial investments has increased to 23.4% *(FY13: 21.4%),* while those classified as Level 3 were 15.6% *(FY13: 16.2%)*. These movements reflect an increase in debt securities held within Level 2, including the reclassification of certain debt securities from Level 1 to Level 2.

## D3 – Analysis of asset quality

The analysis of assets that follows provides information about the assets held by the Group. The amounts in individual line items below may differ from those presented in the IFRS section of this document, as they include assets which are held for sale.

### D3.1 – Investment property

| | **30 June 2014** | | | | 31 December 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | **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 |
| Lease to third parties under operating leases | **—** | **—** | **207** | **207** | — | — | 239 | 239 |
| Vacant investment property/held for capital appreciation | **—** | **—** | **—** | **—** | — | — | — | — |
| **Total** | **—** | **—** | **207** | **207** | — | — | 239 | 239 |
| **Total %** | **—** | **—** | **100.0%** | **100.0%** | — | — | 100.0% | 100.0% |
| Assets of operations classified as held for sale | **—** | **—** | **—** | **—** | — | — | — | — |
| **Total (excluding assets held for sale)** | **—** | **—** | **207** | **207** | — | — | 239 | 239 |
| **Total % (excluding assets held for sale)** | **—** | **—** | **100.0%** | **100.0%** | — | — | 100.0% | 100.0% |

97.6% *(FY13: 97.5%)* of total investment properties by value are held in unit-linked or participating funds. Shareholder exposure to investment properties is principally through investments in French commercial property.

Investment properties are stated at their market values as assessed by qualified external independent valuers or by local qualified staff of the Group, 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 further 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 where available.

100% *(FY13: 100%)* of shareholder exposure to investment properties are leased to third parties under operating leases.

## D3 – Analysis of asset quality continued

### D3.2 – 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 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. The mortgage loans are not traded in active markets. These investments are classified as level 3 as the assumptions used to derive the credit risk, liquidity premium and property risk are not deemed to be market observable.

| Loans – Total 30 June 2014 | United Kingdom & Ireland £m | Europe £m | Canada £m | Asia £m | Total £m |
|---|---|---|---|---|---|
| Policy loans | **21** | **791** | **—** | **28** | **840** |
| Loans and advances to banks | **3,793** | **—** | **—** | **—** | **3,793** |
| Mortgage loans | **18,127** | **1** | **—** | **—** | **18,128** |
| Other loans | **62** | **10** | **134** | **—** | **206** |
| **Total** | **22,003** | **802** | **134** | **28** | **22,967** |
| **Total %** | **95.8%** | **3.5%** | **0.6%** | **0.1%** | **100.0%** |
| Assets of operations classified as held for sale | **—** | **—** | **—** | **—** | **—** |
| **Total (excluding assets held for sale)** | **22,003** | **802** | **134** | **28** | **22,967** |
| **Total % (excluding assets held for sale)** | **95.8%** | **3.5%** | **0.6%** | **0.1%** | **100.0%** |
| FY13 Total | 22,899 | 875 | 76 | 29 | 23,879 |
| FY13 Total % | 95.9% | 3.7% | 0.3% | 0.1% | 100.0% |

| Loans – Shareholder assets 30 June 2014 | United Kingdom & Ireland £m | Europe £m | Canada £m | Asia £m | Total £m |
|---|---|---|---|---|---|
| Policy loans | **5** | **9** | **—** | **2** | **16** |
| Loans and advances to banks | **549** | **—** | **—** | **—** | **549** |
| Mortgage loans | **17,405** | **—** | **—** | **—** | **17,405** |
| Other loans | **8** | **9** | **134** | **—** | **151** |
| **Total** | **17,967** | **18** | **134** | **2** | **18,121** |
| **Total %** | **99.2%** | **0.1%** | **0.7%** | **—** | **100.0%** |
| Assets of operations classified as held for sale | **—** | **—** | **—** | **—** | **—** |
| **Total (excluding assets held for sale)** | **17,967** | **18** | **134** | **2** | **18,121** |
| **Total % (excluding assets held for sale)** | **99.2%** | **0.1%** | **0.7%** | **—** | **100.0%** |
| FY13 Total | 17,763 | 31 | 76 | 3 | 17,873 |
| FY13 Total % | 99.4% | 0.2% | 0.4% | — | 100.0% |

The value of the Group's loan portfolio (including Policyholder, Participating Fund and Shareholder assets), at 30 June 2014 stood at £23.0 billion *(FY13: £23.9 billion)*, a decrease of £0.9 billion.

The total shareholder exposure to loans increased to £18.1 billion *(FY13: £17.9 billion)*, and represented 79% of the total loan portfolio, with the remaining 21% split between participating funds £4.4 billion *(FY13: £5.5 billion)* and policyholder assets £0.5 billion *(FY13: £0.5 billion)*.

Of the Group's total loan portfolio (including Policyholder, Participating Fund and Shareholder assets), 79% *(FY13: 75%)* is invested in mortgage loans.

# D3 – Analysis of asset quality continued

## D3.2 – Loans continued

### Mortgage loans – Shareholder assets

| 30 June 2014 | Total £m |
|---|---|
| Non-securitised mortgage loans | |
| – Residential (Equity release) | **3,423** |
| – Commercial | **7,594** |
| – Healthcare | **4,185** |
| | **15,202** |
| Securitised mortgage loans | **2,203** |
| **Total** | **17,405** |
| Assets of operations classified as held for sale | — |
| **Total (excluding assets held for sale)** | **17,405** |
| FY13 Total | 17,125 |

The Group's mortgage loan portfolio is mainly focused in the UK, across various sectors, including residential loans, commercial loans and government supported healthcare loans. Aviva's shareholder exposure to mortgage loans accounts for 96% 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 £3.4 billion *(FY13: £3.1 billion)*. The movement from the prior year is due to £0.2 billion of new loans and accrued interest, £0.2 billion of fair value gains and £0.1 billion of redemptions. These mortgages are all in the form of equity release, whereby homeowners mortgage their property to release cash equity. Due to the structure of equity release mortgages, whereby interest amounts due are not paid in cash but instead rolled into the amount outstanding, they predominantly have a current Loan to Value ("LTV") of below 70%. The average LTV across the portfolio is 28.9% *(FY13: 29.3%).*

**Healthcare**
Primary Healthcare & PFI businesses loans included within shareholder assets are £4.2 billion *(FY13: £4.1 billion)* and are secured against primary health care (including General Practitioner surgeries), education and emergency services related premises. 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 88% *(FY13: 89%)*, 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 lower risk.

**Commercial**
Gross exposure by loan to value and arrears is shown in the table below.

*Shareholder assets*

| 30 June 2014 | >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 | **74** | **9** | **52** | **70** | **455** | **642** | **593** | **844** | **1,423** | **1,924** | **6,086** |
| 0 – 3 months | — | — | — | — | **49** | **36** | — | — | **30** | **1** | **116** |
| 3 – 6 months | — | — | — | — | — | **670** | — | — | — | — | **670** |
| 6 – 12 months | — | — | — | — | — | **11** | — | — | — | — | **11** |
| > 12 months | — | — | — | — | — | **711** | — | — | — | — | **711** |
| **Total** | **74** | **9** | **52** | **70** | **504** | **2,070** | **593** | **844** | **1,453** | **1,925** | **7,594** |

Of the total £7.6 billion of UK non-securitised commercial mortgage loans in the shareholder fund, £7.5 billion are held by our UK Life business, of which £7.1 billion back annuity liabilities, and are stated on a fair value basis. Aviva UK General Insurance hold the remaining £0.1 billion 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. 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.

## D3 – Analysis of asset quality continued

### D3.2 – Loans continued

For the commercial mortgages held by the UK Life and UK General Insurance businesses, loan service collection ratios, a key indicator of mortgage portfolio performance, remained at 1.20x *(FY13: 1.20x)*. 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, was broadly flat at 1.39x *(FY13: 1.40x)*. Mortgage LTVs decreased by 2% during the period to 81% (CRAV basis) largely due to property values increasing c0.8% in the period together with new business (£330 million with an average LTV of c58%), being offset by the decrease in swap spot rates (on average 17 bps).

All loans in arrears have been assessed for impairment. Of the £1,508 million *(FY13: £1,583 million)* value of loans in arrears included within our shareholder assets, the interest and capital amount in arrears is £78 million.

While these commercial mortgages are held at fair value on the asset side of the statement of financial position, we also carry an allowance within liabilities against the risk of default on our riskier mortgages of £1.2 billion (*FY13: £1.3 billion)*. Since FY13, £0.2 billion of the allowance within liabilities has been utilised to take action on certain riskier mortgages, offset by a £0.1 billion increase in the cost of replacing lost cash flows on any future defaults, caused by lower interest rates and lower spreads on new commercial mortgages.

Of the £7.1 billion mortgages backing annuity liabilities, £0.6 billion have been treated as property on a look-though basis in arriving at an appropriate valuation discount rate. For the remaining commercial mortgages, and the £4.2 billion of Healthcare and PFI mortgages, held by Aviva Annuity UK Limited, the valuation allowance (including supplementary allowances) of £1.2 billion equates to 109 bps at 30 June 2014 *(FY13: 124 bps)*. The total valuation allowance held by Aviva Annuity UK Limited in respect of corporate bonds and mortgages, including Healthcare and PFI mortgages is £1.9 billion *(FY13: £2.0 billion)* over the remaining term of the UK Life corporate bond and mortgage portfolio. In addition, we hold £70 million (*FY13: £148 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 benefitting 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**

Funding for the securitised residential mortgage assets of £2.2 billion *(FY13: £2.2 billion)* was obtained by issuing loan note securities. Of these loan notes approximately £213 million *(FY13: £180 million)* are held by group companies. The remainder is held by third parties external to Aviva. As any cash shortfall arising once all mortgages have redeemed is borne by the loan note holders, the majority of the credit risk of these mortgages is borne by third parties. Securitised residential mortgages held are predominantly issued through vehicles in the UK.

## D3 – Analysis of asset quality continued

### D3.3 – Financial investments

| Financial Investments – Total | 30 June 2014 Cost/ amortised cost £m | Unrealised gains £m | Impairment and unrealised losses £m | Fair value £m | Restated[1] 31 December 2013 Cost/ amortised cost £m | Unrealised gains £m | Impairment and unrealised losses £m | Fair value £m |
|---|---|---|---|---|---|---|---|---|
| Debt securities | **118,696** | **10,613** | **(821)** | **128,488** | 120,316 | 8,164 | (1,675) | 126,805 |
| Equity securities | **30,945** | **6,864** | **(1,331)** | **36,478** | 31,164 | 7,775 | (1,559) | 37,380 |
| Other investments | **29,841** | **3,342** | **(519)** | **32,664** | 29,573 | 3,653 | (709) | 32,517 |
| **Total** | **179,482** | **20,819** | **(2,671)** | **197,630** | 181,053 | 19,592 | (3,943) | 196,702 |
| Assets of operations classified as held for sale | **23** | **—** | **—** | **23** | 2,705 | 92 | (122) | 2,675 |
| **Total (excluding assets held for sale)** | **179,459** | **20,819** | **(2,671)** | **197,607** | 178,348 | 19,500 | (3,821) | 194,027 |

1 The statement of financial position has been restated following the adoption of amendments to 'IAS 32: *Financial Instruments: Presentation*'. Refer to note B2 for further information.

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.

#### D3.3.1 – Debt securities

| Debt securities – Shareholder assets 30 June 2014 | Fair value hierarchy Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
|---|---|---|---|---|
| UK Government | **4,469** | **626** | **44** | **5,139** |
| Non-UK Government | **3,324** | **6,657** | **200** | **10,181** |
| Europe | **3,294** | **3,794** | **200** | **7,288** |
| North America | **24** | **2,519** | **—** | **2,543** |
| Asia Pacific & Other | **6** | **344** | **—** | **350** |
| Corporate bonds – Public utilities | **201** | **3,459** | **54** | **3,714** |
| Corporate convertible bonds | **—** | **—** | **53** | **53** |
| Other corporate bonds | **1,432** | **11,286** | **258** | **12,976** |
| Other | **585** | **1,231** | **139** | **1,955** |
| **Total** | **10,011** | **23,259** | **748** | **34,018** |
| **Total %** | **29.4%** | **68.4%** | **2.2%** | **100.0%** |
| Assets of operations classified as held for sale | **—** | **—** | **—** | **—** |
| **Total (excluding assets held for sale)** | **10,011** | **23,259** | **748** | **34,018** |
| **Total % (excluding assets held for sale)** | **29.4%** | **68.4%** | **2.2%** | **100.0%** |
| FY13 | 12,753 | 19,996 | 611 | 33,360 |
| FY13 % | 38.2% | 59.9% | 1.9% | 100.0% |

2.2% *(FY13: 1.9%)* 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.

29.4% *(FY13: 38.2%)* of shareholder exposure to debt securities is based on quoted prices in an active market and are therefore classified as Fair Value Level 1. This has decreased due to the reclassification of certain debt securities to Level 2 as a result of the enhanced understanding of pricing vendor methodologies for the fair value classification.

# D3 – Analysis of asset quality continued

## D3.3 – Financial investments continued

### D3.3.1 – Debt securities continued

| Debt securities – Shareholder assets 30 June 2014 | AAA £m | AA £m | A £m | BBB £m | Less than BBB £m | Non-rated £m | Total £m |
|---|---|---|---|---|---|---|---|
| | External ratings | | | | | | |
| **Government** | | | | | | | |
| UK Government | — | 5,006 | 47 | — | — | 69 | 5,122 |
| UK local authorities | — | — | — | — | — | 17 | 17 |
| Non-UK Government | 4,377 | 3,488 | 684 | 1,627 | 3 | 2 | 10,181 |
| | 4,377 | 8,494 | 731 | 1,627 | 3 | 88 | 15,320 |
| **Corporate** | | | | | | | |
| Public utilities | 2 | 33 | 2,360 | 1,063 | — | 256 | 3,714 |
| Convertibles and bonds with warrants | — | — | — | — | — | 53 | 53 |
| Other corporate bonds | 1,056 | 1,417 | 5,047 | 3,156 | 74 | 2,226 | 12,976 |
| | 1,058 | 1,450 | 7,407 | 4,219 | 74 | 2,535 | 16,743 |
| **Certificates of deposits** | — | 15 | 3 | 6 | 215 | — | 239 |
| **Structured** | | | | | | | |
| RMBS[1] non-agency ALT A | — | — | — | — | — | — | — |
| RMBS[1] non-agency prime | 67 | 23 | 5 | — | — | — | 95 |
| RMBS[1] agency | — | — | — | — | — | — | — |
| | 67 | 23 | 5 | — | — | — | 95 |
| CMBS[2] | 110 | 53 | 21 | — | — | 1 | 185 |
| ABS[3] | 21 | 300 | 107 | 8 | 68 | 10 | 514 |
| CDO (including CLO)[4] | — | — | — | — | — | — | — |
| ABCP[5] | 10 | — | — | — | — | 4 | 14 |
| | 141 | 353 | 128 | 8 | 68 | 15 | 713 |
| Wrapped credit | — | 5 | 253 | 63 | 36 | 46 | 403 |
| Other | 30 | 21 | 140 | 217 | 62 | 35 | 505 |
| **Total** | 5,673 | 10,361 | 8,667 | 6,140 | 458 | 2,719 | 34,018 |
| **Total %** | 16.7% | 30.5% | 25.5% | 18.0% | 1.3% | 8.0% | 100.0% |
| Assets of operations classified as held for sale | — | — | — | — | — | — | — |
| **Total (excluding assets held for sale)** | 5,673 | 10,361 | 8,667 | 6,140 | 458 | 2,719 | 34,018 |
| **Total % (excluding assets held for sale)** | 16.7% | 30.5% | 25.5% | 18.0% | 1.3% | 8.0% | 100.0% |
| FY13 | 5,551 | 9,633 | 8,842 | 6,074 | 472 | 2,788 | 33,360 |
| FY13 % | 16.6% | 28.9% | 26.5% | 18.2% | 1.4% | 8.4% | 100.0% |

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

The overall quality of the book remains strong. 45% of shareholder exposure to debt securities is in government holdings *(FY13: 44%)*. Our corporate debt securities portfolio represents 49% *(FY13: 51%)* of total shareholder debt securities.

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

At 30 June 2014, the proportion of our shareholder debt securities that are investment grade remained stable at 90.7% *(FY13: 90.2%)*. The remaining 9.3% of shareholder debt securities that do not have an external rating of BBB or higher can be split as follows:

- 1.3% are debt securities that are rated as below investment grade;
- 8.0% are not rated by the major rating agencies.

Of the securities not rated by an external agency 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.

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

Asset backed securities (ABS) are held primarily by our UK Life business (£501 million). 84.8% 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 0.2% of shareholder exposure to debt securities.

## D3 – Analysis of asset quality continued

### D3.3.2 – Equity securities

| Equity securities – Shareholder assets | 30 June 2014 Fair value hierarchy Level 1 £m | Level 2 £m | Level 3 £m | Total £m | 31 December 2013 Fair value hierarchy Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
|---|---|---|---|---|---|---|---|---|
| Public utilities | **4** | **—** | **—** | **4** | 4 | — | — | 4 |
| Banks, trusts and insurance companies | **183** | **1** | **299** | **483** | 162 | 1 | 294 | 457 |
| Industrial miscellaneous and all other | **235** | **—** | **10** | **245** | 242 | — | 14 | 256 |
| Non-redeemable preferred shares | **232** | **—** | **—** | **232** | 283 | — | — | 283 |
| **Total** | **654** | **1** | **309** | **964** | 691 | 1 | 308 | 1,000 |
| **Total %** | **67.8%** | **0.1%** | **32.1%** | **100.0%** | 69.1% | 0.1% | 30.8% | 100.0% |
| Assets of operations classified as held for sale | **—** | **—** | **—** | **—** | 1 | — | 2 | 3 |
| **Total (excluding assets held for sale)** | **654** | **1** | **309** | **964** | 690 | 1 | 306 | 997 |
| **Total % (excluding assets held for sale)** | **67.8%** | **0.1%** | **32.1%** | **100.0%** | 69.2% | 0.1% | 30.7% | 100.0% |

67.8% of our shareholder exposure to equity securities is based on quoted prices in an active market and as such is classified as Level 1 *(FY13: 69.1%)*.

Shareholder investments include a strategic holding in Italian banks of £262 million (£134 million, net of non-controlling interest share in the Group companies that own the investments).

### D3.3.3 – Other investments

| Other investments – Shareholders assets | 30 June 2014 Fair value hierarchy Level 1 £m | Level 2 £m | Level 3 £m | Total £m | Restated 31 December 2013 Fair value hierarchy Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
|---|---|---|---|---|---|---|---|---|
| Unit trusts and other investment vehicles | **234** | **23** | **128** | **385** | 225 | 13 | 133 | 371 |
| Derivative financial instruments | **5** | **618** | **51** | **674** | 22 | 762 | 23 | 807 |
| Deposits with credit institutions | **128** | **11** | **—** | **139** | 149 | 11 | — | 160 |
| Minority holdings in property management undertakings | **1** | **29** | **112** | **142** | — | 14 | 103 | 117 |
| Other | **6** | **—** | **2** | **8** | 10 | — | 3 | 13 |
| **Total** | **374** | **681** | **293** | **1,348** | 406 | 800 | 262 | 1,468 |
| **Total %** | **27.8%** | **50.5%** | **21.7%** | **100.0%** | 27.7% | 54.5% | 17.8% | 100.0% |
| Assets of operations classified as held for sale | **23** | **—** | **—** | **23** | 37 | — | 22 | 59 |
| **Total (excluding assets held for sale)** | **351** | **681** | **293** | **1,325** | 369 | 800 | 240 | 1,409 |
| **Total % (excluding assets held for sale)** | **26.5%** | **51.4%** | **22.1%** | **100.0%** | 26.2% | 56.8% | 17.0% | 100.0% |

In total 78.3% *(FY13: 82.2%)* 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.

**D3.3.4 – Available for sale investments – Impairments and duration and amount of unrealised losses**

There was no impairment expense for the six months to 30 June 2014 for AFS debt securities *(HY13: £7 million)*.

Total unrealised losses on AFS debt securities, equity securities and other investments at 30 June 2014 were £2 million *(HY13: £1,175 million),* £nil *(HY13: £3 million)* and £nil *(HY13: £12 million)* respectively. The decrease in unrealised losses on debt securities follows the disposal of the Group's US operations which included an unrealised loss on debt securities of £1,169 million at 30 June 2013.

# D3 – Analysis of asset quality continued

## D3.3 – Financial investments continued

### D3.3.5 – 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 statement of financial position 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 £4.1 billion *(FY13: £4.9 billion)*. Gross of non-controlling interests, 95% of our shareholder asset exposure to Italy arises from the investment exposure of our Italian business.

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

| | Participating | | Shareholder | | Total | |
|---|---|---|---|---|---|---|
| | **30 June 2014 £bn** | 31 December 2013 £bn | **30 June 2014 £bn** | 31 December 2013 £bn | **30 June 2014 £bn** | 31 December 2013 £bn |
| Greece | **—** | — | **—** | — | **—** | — |
| Ireland | **0.6** | 0.4 | **0.1** | — | **0.7** | 0.4 |
| Portugal | **0.2** | 0.2 | **—** | — | **0.2** | 0.2 |
| Italy | **3.8** | 4.5 | **0.3** | 0.4 | **4.1** | 4.9 |
| Spain | **0.9** | 0.9 | **0.6** | 0.5 | **1.5** | 1.4 |
| **Total Greece, Ireland, Portugal, Italy and Spain** | **5.5** | 6.0 | **1.0** | 0.9 | **6.5** | 6.9 |

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

| | Participating | | Shareholder | | Total | |
|---|---|---|---|---|---|---|
| | **30 June 2014 £bn** | 31 December 2013 £bn | **30 June 2014 £bn** | 31 December 2013 £bn | **30 June 2014 £bn** | 31 December 2013 £bn |
| Greece | **—** | — | **—** | — | **—** | — |
| Ireland | **0.6** | 0.4 | **0.1** | — | **0.7** | 0.4 |
| Portugal | **0.2** | 0.2 | **—** | — | **0.2** | 0.2 |
| Italy | **6.9** | 8.5 | **0.4** | 0.6 | **7.3** | 9.1 |
| Spain | **1.3** | 1.4 | **1.0** | 0.9 | **2.3** | 2.3 |
| **Total Greece, Ireland, Portugal, Italy and Spain** | **9.0** | 10.5 | **1.5** | 1.5 | **10.5** | 12.0 |

# D3 – Analysis of asset quality continued
## D3.3 – Financial investments continued
### D3.3.6 – Non UK Government debt securities (gross of non-controlling interests)

| Non UK Government Debt Securities | Policyholder 30 June 2014 £m | Policyholder 31 December 2013 £m | Participating 30 June 2014 £m | Participating 31 December 2013 £m | Shareholder 30 June 2014 £m | Shareholder 31 December 2013 £m | Total 30 June 2014 £m | Total 31 December 2013 £m |
|---|---|---|---|---|---|---|---|---|
| Austria | **19** | 9 | **665** | 636 | **132** | 133 | **816** | 778 |
| Belgium | **24** | 29 | **1,407** | 1,475 | **156** | 154 | **1,587** | 1,658 |
| France | **106** | 108 | **11,094** | 9,714 | **1,969** | 1,909 | **13,169** | 11,731 |
| Germany | **145** | 146 | **1,827** | 1,922 | **685** | 763 | **2,657** | 2,831 |
| Greece | **—** | — | **14** | 1 | **—** | — | **14** | 1 |
| Ireland | **20** | 21 | **588** | 364 | **138** | 28 | **746** | 413 |
| Italy | **250** | 255 | **6,884** | 8,458 | **425** | 628 | **7,559** | 9,341 |
| Netherlands | **44** | 43 | **1,255** | 1,222 | **388** | 399 | **1,687** | 1,664 |
| Poland | **615** | 649 | **799** | 885 | **398** | 490 | **1,812** | 2,024 |
| Portugal | **—** | — | **194** | 187 | **—** | — | **194** | 187 |
| Spain | **110** | 101 | **1,304** | 1,355 | **978** | 930 | **2,392** | 2,386 |
| European Supranational debt | **73** | 89 | **2,673** | 2,612 | **1,615** | 1,583 | **4,361** | 4,284 |
| Other European countries | **104** | 91 | **708** | 587 | **404** | 359 | **1,216** | 1,037 |
| **Europe** | **1,510** | 1,541 | **29,412** | 29,418 | **7,288** | 7,376 | **38,210** | 38,335 |
| Canada | **17** | 7 | **168** | 171 | **2,232** | 2,198 | **2,417** | 2,376 |
| United States | **96** | 112 | **128** | 32 | **311** | 280 | **535** | 424 |
| **North America** | **113** | 119 | **296** | 203 | **2,543** | 2,478 | **2,952** | 2,800 |
| Singapore | **9** | 8 | **527** | 450 | **298** | 288 | **834** | 746 |
| Sri Lanka | **2** | 1 | **19** | 7 | **—** | — | **21** | 8 |
| Other | **417** | 329 | **1,626** | 1,616 | **52** | 60 | **2,095** | 2,005 |
| **Asia Pacific and other** | **428** | 338 | **2,172** | 2,073 | **350** | 348 | **2,950** | 2,759 |
| **Total** | **2,051** | 1,998 | **31,880** | 31,694 | **10,181** | 10,202 | **44,112** | 43,894 |
| Less: assets of operations classified as held for sale | **—** | 13 | **—** | 1,649 | **—** | 201 | **—** | 1,863 |
| **Total (excluding assets held for sale)** | **2,051** | 1,985 | **31,880** | 30,045 | **10,181** | 10,001 | **44,112** | 42,031 |

At 30 June 2014, the Group's total non-UK government debt securities stood at £44.1 billion *(FY13: £43.9 billion)*. 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 non-UK government debt securities amounts to £10.2 billion *(FY13: £10.2 billion)*. The primary exposures, relative to total shareholder non-UK government debt exposure, are to Canadian (22%), French (19%), Spanish (10%), German (7%), and Italian (4%) government debt securities.

The participating funds exposure to non-UK government debt amounts to £31.9 billion *(FY13: £31.7 billion)*. The primary exposures, relative to total non-UK government debt exposures included within our participating funds, are to the government debt securities of France (35%), Italy (22%), Germany (6%), Belgium (4%), Spain (4%) and Netherlands (4%).

# D3 – Analysis of asset quality continued

## D3.3 – Financial investments continued

### D3.3.7 – Exposure to worldwide bank debt securities

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

| | Shareholder assets | | | Participating fund assets | | |
|---|---|---|---|---|---|---|
| 30 June 2014 | Total senior debt £bn | Total subordinated debt £bn | Total debt £bn | Total senior debt £bn | Total subordinated debt £bn | Total debt £bn |
| Austria | — | — | — | 0.1 | — | 0.1 |
| France | 0.2 | — | 0.2 | 3.2 | 0.8 | 4.0 |
| Germany | — | — | — | 0.6 | 0.4 | 1.0 |
| Ireland | — | — | — | — | — | — |
| Italy | — | 0.1 | 0.1 | 0.3 | — | 0.3 |
| Netherlands | 0.2 | 0.2 | 0.4 | 1.5 | 0.2 | 1.7 |
| Spain | 0.5 | — | 0.5 | 0.8 | 0.1 | 0.9 |
| United Kingdom | 0.8 | 0.3 | 1.1 | 0.8 | 0.8 | 1.6 |
| United States | 0.5 | 0.1 | 0.6 | 0.9 | 0.1 | 1.0 |
| Other | 0.4 | 0.2 | 0.6 | 1.8 | 0.5 | 2.3 |
| **Total** | **2.6** | **0.9** | **3.5** | **10.0** | **2.9** | **12.9** |
| Less: assets of operations classified as held for sale | — | — | — | — | — | — |
| **Total (excluding assets held for sale)** | **2.6** | **0.9** | **3.5** | **10.0** | **2.9** | **12.9** |
| FY13 Total | 2.8 | 1.1 | 3.9 | 10.5 | 3.2 | 13.7 |

Net of non-controlling interests, our direct shareholder assets exposure to worldwide bank debt securities is £3.5 billion. The majority of our holding (74%) is in senior debt. The primary exposures are to UK (31%), US (17%) and Spanish (14%) banks.

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 £12.9 billion. The majority of the exposure (78%) is in senior debt. Participating funds are the most exposed to French (31%), Dutch (13%) and UK (12%) banks.

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

| | Shareholder assets | | | Participating fund assets | | |
|---|---|---|---|---|---|---|
| 30 June 2014 | Total senior debt £bn | Total subordinated debt £bn | Total debt £bn | Total senior debt £bn | Total subordinated debt £bn | Total debt £bn |
| Austria | — | — | — | 0.1 | — | 0.1 |
| France | 0.2 | — | 0.2 | 3.5 | 0.9 | 4.4 |
| Germany | — | — | — | 0.6 | 0.4 | 1.0 |
| Ireland | — | — | — | — | — | — |
| Italy | 0.1 | 0.1 | 0.2 | 0.5 | — | 0.5 |
| Netherlands | 0.2 | 0.2 | 0.4 | 1.6 | 0.2 | 1.8 |
| Spain | 0.8 | — | 0.8 | 1.0 | 0.1 | 1.1 |
| United Kingdom | 0.8 | 0.3 | 1.1 | 0.9 | 0.8 | 1.7 |
| United States | 0.5 | 0.2 | 0.7 | 0.9 | 0.1 | 1.0 |
| Other | 0.4 | 0.2 | 0.6 | 2.0 | 0.6 | 2.6 |
| **Total** | **3.0** | **1.0** | **4.0** | **11.1** | **3.1** | **14.2** |
| Less: assets of operations classified as held for sale | — | — | — | — | — | — |
| **Total (excluding assets held for sale)** | **3.0** | **1.0** | **4.0** | **11.1** | **3.1** | **14.2** |
| FY13 Total | 3.3 | 1.2 | 4.5 | 12.1 | 3.5 | 15.6 |

Gross of non-controlling interests, our direct shareholder assets exposure to worldwide bank debt securities is £4.0 billion. The majority of our holding (75%) is in senior debt. The primary exposures are to UK (28%), Spanish (20%) and US (18%) banks.

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 £14.2 billion. The majority of the exposure (78%) is in senior debt. Participating funds are the most exposed to French (31%), Dutch (13%) and UK (12%) banks.

## D4 – Pension fund assets

In addition to the assets recognised directly on the Group's statement of financial position outlined in the disclosures above, the Group is also exposed to the ''Scheme 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. Refer to Note B15 for details on the schemes' surpluses and deficits.

Scheme assets are stated at their fair values. Total scheme assets are comprised in the UK, Ireland and Canada as follows:

| | 30 June 2014 | | | | 31 December 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | **UK £m** | **Ireland £m** | **Canada £m** | **Total £m** | UK £m | Ireland £m | Canada £m | Total £m |
| Bonds | | | | | | | | |
| Fixed interest[1] | **5,066** | **158** | **116** | **5,340** | 4,022 | 149 | 106 | 4,277 |
| Index-linked | **4,103** | **115** | **—** | **4,218** | 4,502 | 112 | — | 4,614 |
| Equities[1] | **282** | **95** | **—** | **377** | 291 | 63 | 81 | 435 |
| Property[1] | **312** | **7** | **—** | **319** | 305 | 7 | — | 312 |
| Pooled investment vehicles[1] | **1,567** | **17** | **105** | **1,689** | 1,632 | 42 | 23 | 1,697 |
| Derivatives | **529** | **59** | **—** | **588** | 225 | 55 | — | 280 |
| Cash and other[2] | **624** | **(1)** | **22** | **645** | 757 | 3 | 23 | 783 |
| **Total fair value of assets** | **12,483** | **450** | **243** | **13,176** | 11,734 | 431 | 233 | 12,398 |

Total scheme assets are analysed by those that have a quoted market price in an active market and those that do not as follows:

| | 30 June 2014 | | | 31 December 2013 | | |
|---|---|---|---|---|---|---|
| | **Total Quoted £m** | **Total Unquoted £m** | **Total £m** | Total Quoted £m | Total Unquoted £m | Total £m |
| Bonds | | | | | | |
| Fixed interest[1] | **2,499** | **2,841** | **5,340** | 818 | 3,459 | 4,277 |
| Index-linked | **3,799** | **419** | **4,218** | 3,864 | 750 | 4,614 |
| Equities[1] | **344** | **33** | **377** | 378 | 57 | 435 |
| Property[1] | **—** | **319** | **319** | — | 312 | 312 |
| Pooled investment vehicles[1] | **3** | **1,686** | **1,689** | 31 | 1,666 | 1,697 |
| Derivatives | **57** | **531** | **588** | 88 | 192 | 280 |
| Cash and other[2] | **406** | **239** | **645** | 540 | 243 | 783 |
| **Total fair value of assets** | **7,108** | **6,068** | **13,176** | 5,719 | 6,679 | 12,398 |

1 For 2013, a total of £1,697 million, which was previously disclosed as £277 million of fixed interest bonds, £645 million of equities, and £775 million of property has been reclassified to pooled investment vehicles.
2 Cash and other assets comprise cash at bank, insurance policies, receivables and payables.

### 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 portfolio, consisting in the UK primarily (approximately 73%) of debt securities. The investment strategy will continue to evolve over time and is expected to match to the liability profile increasingly closely.

### Main UK Scheme

The Company works closely with the trustee, who is required to consult it on the investment strategy.

Interest rate and inflation risks are managed using a combination of liability-matching assets and swaps. Exposure to equity risk has been reducing over time and credit risk is managed within risk appetite. Currency risk is relatively small and is largely hedged. The other principal risk is longevity risk. On 5 March 2014, the Aviva Staff Pension Scheme entered into a longevity swap covering approximately £5 billion of pensioner in payment scheme liabilities transferring longevity risk to three external reinsurers.

### 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 undrawn committed central borrowing facilities with various highly rated banks, £0.75 billion of which is allocated to support the credit ratings of Aviva plc's commercial paper programmes. As at 30 June 2014 £1.4 billion of committed facilities were in place with an additional £100 million signed on 16 July 2014. The expiry profile of the undrawn committed central borrowing facilities is as follows:

| 30 June 2014 | £m |
|---|---|
| Expiring within one year | **275** |
| Expiring beyond one year | **1,125** |
| **Total** | **1,400** |

## 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).

# VNB & sales analysis

## In this section

# VNB and sales analysis

## E1 – Trend analysis of VNB (continuing operations[1]) – cumulative

| Gross of tax and non-controlling interests | Restated[2] 1Q13 YTD £m | Restated[2] 2Q13 YTD £m | Restated[2] 3Q13 YTD £m | Restated[2] 4Q13 YTD £m | 1Q14 YTD £m | **2Q14 YTD £m** | **Growth[3] on 2Q13 Sterling %** | **Growth[3] on 2Q13 Constant currency %** |
|---|---|---|---|---|---|---|---|---|
| United Kingdom | 114 | 224 | 326 | 469 | 89 | **177** | **(21)%** | **(21)%** |
| Ireland | — | 2 | 4 | 8 | 3 | **6** | **211%** | **222%** |
| United Kingdom & Ireland | 114 | 226 | 330 | 477 | 92 | **183** | **(19)%** | **(19)%** |
| France | 41 | 90 | 118 | 172 | 54 | **110** | **23%** | **27%** |
| Poland[4] | 10 | 21 | 34 | 51 | 21 | **34** | **58%** | **64%** |
| Italy – excluding Eurovita | 10 | 18 | 25 | 43 | 15 | **26** | **44%** | **49%** |
| Spain – excluding Aseval | 3 | 11 | 17 | 31 | 8 | **18** | **61%** | **67%** |
| Turkey | 10 | 20 | 28 | 37 | 6 | **14** | **(30)%** | **(10)%** |
| Other Europe | 1 | 1 | 1 | 1 | — | **—** | **(100)%** | **(100)%** |
| Europe | 75 | 161 | 223 | 335 | 104 | **202** | **25%** | **33%** |
| Asia – excluding Malaysia | 19 | 41 | 71 | 103 | 32 | **66** | **62%** | **76%** |
| Aviva Investors[5] | — | — | — | — | — | **2** | **—** | **—** |
| **Value of new business – excluding Eurovita, Aseval & Malaysia** | 208 | 428 | 624 | 915 | 228 | **453** | **6%** | **9%** |
| Eurovita, Aseval & Malaysia | 1 | (2) | (5) | (11) | (4) | **(9)** | **—** | **—** |
| **Total value of new business** | 209 | 426 | 619 | 904 | 224 | **444** | **4%** | **7%** |

1 Following the announced disposal of US Life in Q4 2012, it was no longer managed on a MCEV basis and it was no longer included in covered business. The sale of US Life was completed on 2 October 2013.
2 Comparatives have been restated to reflect the changes in MCEV methodology. See note F1 – MCEV Basis of preparation for further details.
3 Currency movements are calculated using unrounded numbers so minor rounding differences may exist.
4 Poland includes Lithuania.
5 The UK Retail Fund Management business was transferred from UK Life to Aviva Investors on 9 May 2014.

## E2 – Trend analysis of VNB (continuing operations[1]) – discrete

| Gross of tax and non-controlling interests | Restated[2] 1Q13 Discrete £m | Restated[2] 2Q13 Discrete £m | Restated[2] 3Q13 Discrete £m | Restated[2] 4Q13 Discrete £m | 1Q14 Discrete £m | **2Q14 Discrete £m** | **Growth[3] on 2Q13 Sterling %** | **Growth[3] on 2Q13 Constant currency %** |
|---|---|---|---|---|---|---|---|---|
| United Kingdom | 114 | 110 | 102 | 143 | 89 | **88** | **(20)%** | **(20)%** |
| Ireland | — | 2 | 2 | 4 | 3 | **3** | **95%** | **102%** |
| United Kingdom & Ireland | 114 | 112 | 104 | 147 | 92 | **91** | **(18)%** | **(18)%** |
| France | 41 | 49 | 28 | 54 | 54 | **56** | **16%** | **20%** |
| Poland[4] | 10 | 11 | 13 | 17 | 21 | **13** | **17%** | **21%** |
| Italy – excluding Eurovita | 10 | 8 | 7 | 18 | 15 | **11** | **33%** | **37%** |
| Spain – excluding Aseval | 3 | 8 | 6 | 14 | 8 | **10** | **33%** | **38%** |
| Turkey | 10 | 10 | 8 | 9 | 6 | **8** | **(21)%** | **1%** |
| Other Europe | 1 | — | — | — | — | **—** | **—** | **—** |
| Europe | 75 | 86 | 62 | 112 | 104 | **98** | **15%** | **21%** |
| Asia – excluding Malaysia | 19 | 22 | 30 | 32 | 32 | **34** | **48%** | **60%** |
| Aviva Investors[5] | — | — | — | — | — | **2** | **—** | **—** |
| **Value of new business – excluding Eurovita, Aseval & Malaysia** | 208 | 220 | 196 | 291 | 228 | **225** | **2%** | **5%** |
| Eurovita, Aseval & Malaysia | 1 | (3) | (3) | (6) | (4) | **(5)** | **—** | **—** |
| **Total value of new business** | 209 | 217 | 193 | 285 | 224 | **220** | **1%** | **4%** |

1 Following the announced disposal of US Life in Q4 2012, it was no longer managed on a MCEV basis and it was no longer included in covered business. The sale of US Life was completed on 2 October 2013.
2 Comparatives have been restated to reflect the changes in MCEV methodology. See note F1 – MCEV Basis of preparation for further details.
3 Currency movements are calculated using unrounded numbers so minor rounding differences may exist.
4 Poland includes Lithuania.
5 The UK Retail Fund Management business was transferred from UK Life to Aviva Investors on 9 May 2014.

## E3 – Trend analysis of PVNBP (continuing operations[1]) – cumulative

| Present value of new business premiums[2] | Restated[3] 1Q13 YTD £m | Restated[3] 2Q13 YTD £m | Restated[3] 3Q13 YTD £m | Restated[3] 4Q13 YTD £m | 1Q14 YTD £m | **2Q14 YTD £m** | **Growth[4] on 2Q13 Sterling %** | **Growth[4] on 2Q13 Constant currency %** |
|---|---|---|---|---|---|---|---|---|
| United Kingdom | 2,779 | 5,560 | 8,556 | 11,924 | 2,931 | **6,052** | **9%** | **9%** |
| Ireland | 117 | 225 | 338 | 469 | 105 | **196** | **(13)%** | **(10)%** |
| United Kingdom & Ireland | 2,896 | 5,785 | 8,894 | 12,393 | 3,036 | **6,248** | **8%** | **8%** |
| France | 1,243 | 2,363 | 3,367 | 4,498 | 1,310 | **2,427** | **3%** | **6%** |
| Poland[5] | 123 | 227 | 358 | 486 | 234 | **332** | **46%** | **51%** |
| Italy – excluding Eurovita | 563 | 1,198 | 1,591 | 1,975 | 698 | **1,440** | **20%** | **24%** |
| Spain – excluding Aseval | 301 | 547 | 719 | 1,130 | 283 | **562** | **3%** | **6%** |
| Turkey | 135 | 253 | 341 | 524 | 110 | **231** | **(9)%** | **17%** |
| Other Europe | 20 | 20 | 20 | 20 | — | **—** | **(100)%** | **(100)%** |
| Europe | 2,385 | 4,608 | 6,396 | 8,633 | 2,635 | **4,992** | **8%** | **13%** |
| Asia – excluding Malaysia | 472 | 845 | 1,290 | 1,724 | 471 | **964** | **14%** | **23%** |
| Aviva Investors[6] | 4 | 7 | 28 | 58 | 5 | **257** | **—** | **—** |
| **Total – excluding Eurovita, Aseval & Malaysia** | 5,757 | 11,245 | 16,608 | 22,808 | 6,147 | **12,461** | **11%** | **14%** |
| Eurovita, Aseval & Malaysia | 141 | 217 | 269 | 369 | 73 | **169** | **(22)%** | **(19)%** |
| **Total** | 5,898 | 11,462 | 16,877 | 23,177 | 6,220 | **12,630** | **10%** | **13%** |

1 Following the announced disposal of US Life in Q4 2012, it was no longer managed on a MCEV basis and it was no longer included in covered business. The sale of US Life was completed on 2 October 2013.
2 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.
3 Comparatives have been restated to reflect the changes in MCEV methodology. See note F1 – MCEV Basis of preparation for further details.
4 Currency movements are calculated using unrounded numbers so minor rounding differences may exist.
5 Poland includes Lithuania.
6 The UK Retail Fund Management business was transferred from UK Life to Aviva Investors on 9 May 2014.

## E4 – Trend analysis of PVNBP (continuing operations[1]) – discrete

| Present value of new business premiums[2] | Restated[3] 1Q13 Discrete £m | Restated[3] 2Q13 Discrete £m | Restated[3] 3Q13 Discrete £m | Restated[3] 4Q13 Discrete £m | 1Q14 Discrete £m | **2Q14 Discrete £m** | **Growth[4] on 2Q13 Sterling %** | **Growth[4] on 2Q13 Constant currency %** |
|---|---|---|---|---|---|---|---|---|
| United Kingdom | 2,779 | 2,781 | 2,996 | 3,368 | 2,931 | **3,121** | **12%** | **12%** |
| Ireland | 117 | 108 | 113 | 131 | 105 | **91** | **(17)%** | **(14)%** |
| United Kingdom & Ireland | 2,896 | 2,889 | 3,109 | 3,499 | 3,036 | **3,212** | **11%** | **11%** |
| France | 1,243 | 1,120 | 1,004 | 1,131 | 1,310 | **1,117** | **—** | **3%** |
| Poland[5] | 123 | 104 | 131 | 128 | 234 | **98** | **(6)%** | **(3)%** |
| Italy – excluding Eurovita | 563 | 635 | 393 | 384 | 698 | **742** | **17%** | **21%** |
| Spain – excluding Aseval | 301 | 246 | 172 | 411 | 283 | **279** | **13%** | **17%** |
| Turkey | 135 | 118 | 88 | 183 | 110 | **121** | **2%** | **30%** |
| Other Europe | 20 | — | — | — | — | **—** | **—** | **—** |
| Europe | 2,385 | 2,223 | 1,788 | 2,237 | 2,635 | **2,357** | **6%** | **11%** |
| Asia – excluding Malaysia | 472 | 373 | 445 | 434 | 471 | **493** | **32%** | **43%** |
| Aviva Investors[6] | 4 | 3 | 21 | 30 | 5 | **252** | **—** | **—** |
| **Total – excluding Eurovita, Aseval & Malaysia** | 5,757 | 5,488 | 5,363 | 6,200 | 6,147 | **6,314** | **15%** | **18%** |
| Eurovita, Aseval & Malaysia | 141 | 76 | 52 | 100 | 73 | **96** | **26%** | **31%** |
| **Total** | 5,898 | 5,564 | 5,415 | 6,300 | 6,220 | **6,410** | **15%** | **18%** |

1 Following the announced disposal of US Life in Q4 2012, it was no longer managed on a MCEV basis and it was no longer included in covered business. The sale of US Life was completed on 2 October 2013.
2 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.
3 Comparatives have been restated to reflect the changes in MCEV methodology. See note F1 – MCEV Basis of preparation for further details.
4 Currency movements are calculated using unrounded numbers so minor rounding differences may exist.
5 Poland includes Lithuania.
6 The UK Retail Fund Management business was transferred from UK Life to Aviva Investors on 9 May 2014.

## E5 – Trend analysis of PVNBP by product (continuing operations[1]) – cumulative

| Present value of new business premiums[2] | Restated[3] 1Q13 YTD £m | Restated[3] 2Q13 YTD £m | Restated[3] 3Q13 YTD £m | Restated[3] 4Q13 YTD £m | 1Q14 YTD £m | **2Q14 YTD £m** | Growth[4] on 2Q13 Sterling % | Growth[4] on 2Q13 Constant currency % |
|---|---|---|---|---|---|---|---|---|
| Pensions | 1,322 | 2,479 | 3,818 | 5,476 | 1,328 | **2,794** | **13%** | **13%** |
| Annuities | 630 | 1,217 | 1,664 | 2,327 | 500 | **935** | **(23)%** | **(23)%** |
| Bonds | 33 | 59 | 97 | 183 | 45 | **87** | **47%** | **47%** |
| Protection | 253 | 504 | 781 | 992 | 297 | **568** | **13%** | **13%** |
| Equity release | 98 | 182 | 297 | 401 | 117 | **257** | **41%** | **41%** |
| Other[5] | 443 | 1,119 | 1,899 | 2,545 | 644 | **1,411** | **26%** | **26%** |
| United Kingdom | 2,779 | 5,560 | 8,556 | 11,924 | 2,931 | **6,052** | **9%** | **9%** |
| Ireland | 117 | 225 | 338 | 469 | 105 | **196** | **(13)%** | **(10)%** |
| **United Kingdom & Ireland** | 2,896 | 5,785 | 8,894 | 12,393 | 3,036 | **6,248** | **8%** | **8%** |
| Savings | 1,173 | 2,229 | 3,197 | 4,278 | 1,232 | **2,278** | **2%** | **6%** |
| Protection | 70 | 134 | 170 | 220 | 78 | **149** | **11%** | **15%** |
| **France** | 1,243 | 2,363 | 3,367 | 4,498 | 1,310 | **2,427** | **3%** | **6%** |
| Pensions | 224 | 385 | 549 | 881 | 308 | **476** | **24%** | **45%** |
| Savings | 769 | 1,560 | 2,069 | 2,702 | 893 | **1,826** | **17%** | **21%** |
| Annuities | 6 | 11 | 14 | 23 | 2 | **2** | **(78)%** | **(77)%** |
| Protection[6] | 143 | 289 | 397 | 529 | 122 | **261** | **(10)%** | **(4)%** |
| **Poland[7], Italy[7], Spain[7] and Other** | 1,142 | 2,245 | 3,029 | 4,135 | 1,325 | **2,565** | **14%** | **21%** |
| **Europe** | 2,385 | 4,608 | 6,396 | 8,633 | 2,635 | **4,992** | **8%** | **13%** |
| **Asia – excluding Malaysia** | 472 | 845 | 1,290 | 1,724 | 471 | **964** | **14%** | **23%** |
| **Aviva Investors[8]** | 4 | 7 | 28 | 58 | 5 | **257** | **—** | **—** |
| **Total – excluding Eurovita, Aseval & Malaysia** | 5,757 | 11,245 | 16,608 | 22,808 | 6,147 | **12,461** | **11%** | **14%** |
| Eurovita, Aseval & Malaysia | 141 | 217 | 269 | 369 | 73 | **169** | **(22)%** | **(19)%** |
| **Total** | 5,898 | 11,462 | 16,877 | 23,177 | 6,220 | **12,630** | **10%** | **13%** |

1 Following the announced disposal of US Life in Q4 2012, it was no longer managed on a MCEV basis and it was no longer included in covered business. The sale of US Life was completed on 2 October 2013.
2 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.
3 Comparatives have been restated to reflect the changes in MCEV methodology. See note F1 – MCEV Basis of preparation for further details.
4 Currency movements are calculated using unrounded numbers so minor rounding differences may exist.
5 Other business includes UK Health business and UK Retail Fund Management business. UK Retail Fund Management business was transferred from UK Life to Aviva Investors on 9 May 2014.
6 Subsequent to FY13 a whole of life unit-linked protection product in Poland was reclassified from savings to protection business. As a result, protection PVNBP has increased £25 million in 1Q13, £52 million in 2Q13, £77 million in 3Q13 and £114 million in 4Q13. There is no change in total PVNBP.
7 Poland includes Lithuania, Italy excludes Eurovita, Spain excludes Aseval.
8 The UK Retail Fund Management business was transferred from UK Life to Aviva Investors on 9 May 2014.

## E6 – Trend analysis of PVNBP by product (continuing operations[1]) – discrete

| Present value of new business premiums[2] | Restated[3] 1Q13 Discrete £m | Restated[3] 2Q13 Discrete £m | Restated[3] 3Q13 Discrete £m | Restated[3] 4Q13 Discrete £m | 1Q14 Discrete £m | **2Q14 Discrete £m** | Growth[4] on 2Q13 Sterling % | Growth[4] on 2Q13 Constant currency % |
|---|---|---|---|---|---|---|---|---|
| Pensions | 1,322 | 1,157 | 1,339 | 1,658 | 1,328 | **1,466** | **27%** | **27%** |
| Annuities | 630 | 587 | 447 | 663 | 500 | **435** | **(26)%** | **(26)%** |
| Bonds | 33 | 26 | 38 | 86 | 45 | **42** | **65%** | **65%** |
| Protection | 253 | 251 | 277 | 211 | 297 | **271** | **8%** | **8%** |
| Equity release | 98 | 84 | 115 | 104 | 117 | **140** | **66%** | **66%** |
| Other[5] | 443 | 676 | 780 | 646 | 644 | **767** | **13%** | **13%** |
| United Kingdom | 2,779 | 2,781 | 2,996 | 3,368 | 2,931 | **3,121** | **12%** | **12%** |
| Ireland | 117 | 108 | 113 | 131 | 105 | **91** | **(17)%** | **(14)%** |
| **United Kingdom & Ireland** | 2,896 | 2,889 | 3,109 | 3,499 | 3,036 | **3,212** | **11%** | **11%** |
| Savings | 1,173 | 1,056 | 968 | 1,081 | 1,232 | **1,046** | **(1)%** | **2%** |
| Protection | 70 | 64 | 36 | 50 | 78 | **71** | **12%** | **15%** |
| **France** | 1,243 | 1,120 | 1,004 | 1,131 | 1,310 | **1,117** | **—** | **3%** |
| Pensions | 224 | 161 | 164 | 332 | 308 | **168** | **5%** | **23%** |
| Savings | 769 | 791 | 509 | 633 | 893 | **933** | **18%** | **22%** |
| Annuities | 6 | 5 | 3 | 9 | 2 | **—** | **(80)%** | **(79)%** |
| Protection[6] | 143 | 146 | 108 | 132 | 122 | **139** | **(5)%** | **—** |
| **Poland[7], Italy[7], Spain[7] and Other** | 1,142 | 1,103 | 784 | 1,106 | 1,325 | **1,240** | **13%** | **19%** |
| **Europe** | 2,385 | 2,223 | 1,788 | 2,237 | 2,635 | **2,357** | **6%** | **11%** |
| **Asia – excluding Malaysia** | 472 | 373 | 445 | 434 | 471 | **493** | **32%** | **43%** |
| **Aviva Investors[8]** | 4 | 3 | 21 | 30 | 5 | **252** | **—** | **—** |
| **Total – excluding Eurovita, Aseval & Malaysia** | 5,757 | 5,488 | 5,363 | 6,200 | 6,147 | **6,314** | **15%** | **18%** |
| Eurovita, Aseval & Malaysia | 141 | 76 | 52 | 100 | 73 | **96** | **26%** | **31%** |
| **Total** | 5,898 | 5,564 | 5,415 | 6,300 | 6,220 | **6,410** | **15%** | **18%** |

1 Following the announced disposal of US Life in Q4 2012, it was no longer managed on a MCEV basis and it was no longer included in covered business. The sale of US Life was completed on 2 October 2013.
2 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.
3 Comparatives have been restated to reflect the changes in MCEV methodology. See note F1 – MCEV Basis of preparation for further details.
4 Currency movements are calculated using unrounded numbers so minor rounding differences may exist.
5 Other business includes UK Health business and UK Retail Fund Management business. UK Retail Fund Management business was transferred from UK Life to Aviva Investors on 9 May 2014.
6 Subsequent to FY13 a whole of life unit-linked protection product in Poland was reclassified from savings to protection business. As a result, protection PVNBP has increased £25 million in 1Q13, £27 million in 2Q13, £25 million in 3Q13 and £37 million in 4Q13. There is no change in total PVNBP.
7 Poland includes Lithuania, Italy excludes Eurovita, Spain excludes Aseval.
8 The UK Retail Fund Management business was transferred from UK Life to Aviva Investors on 9 May 2014.

## E7 – Geographical analysis of regular and single premiums (continuing operations[1])

| | Regular premiums | | | | | | | Single premiums | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **6 months 2014 £m** | **Constant currency growth[2]** | **WACF** | **Present value £m** | Restated[3] 6 months 2013 £m | WACF | Present value £m | **6 months 2014 £m** | Restated[3] 6 months 2013 £m | **Constant currency growth[2]** |
| United Kingdom | **499** | **27%** | **5.0** | **2,513** | 395 | 5.0 | 1,969 | **3,539** | 3,591 | **(1)%** |
| Ireland | **13** | **4%** | **5.2** | **67** | 13 | 4.2 | 55 | **129** | 170 | **(22)%** |
| United Kingdom & Ireland | **512** | **26%** | **5.0** | **2,580** | 408 | 5.0 | 2,024 | **3,668** | 3,761 | **(2)%** |
| France | **47** | **—** | **8.1** | **383** | 49 | 8.1 | 397 | **2,044** | 1,966 | **8%** |
| Poland[4] | **29** | **33%** | **9.5** | **275** | 23 | 7.5 | 173 | **57** | 54 | **10%** |
| Italy – excluding Eurovita | **27** | **(10)%** | **5.3** | **143** | 31 | 5.7 | 176 | **1,297** | 1,022 | **31%** |
| Spain – excluding Aseval | **22** | **(4)%** | **5.6** | **123** | 24 | 6.0 | 144 | **439** | 403 | **13%** |
| Turkey | **54** | **30%** | **3.7** | **201** | 53 | 4.2 | 220 | **30** | 33 | **14%** |
| Other Europe | **—** | **(100)%** | **—** | **—** | 5 | 1.0 | 5 | **—** | 15 | **(100)%** |
| Europe | **179** | **7%** | **6.3** | **1,125** | 185 | 6.0 | 1,115 | **3,867** | 3,493 | **15%** |
| Asia – excluding Malaysia | **133** | **(2)%** | **6.0** | **796** | 147 | 5.3 | 778 | **168** | 67 | **175%** |
| Aviva Investors[5] | **—** | **—** | **—** | **—** | — | — | — | **257** | 7 | **—** |
| **Total – excluding Eurovita, Aseval & Malaysia** | **824** | **16%** | **5.5** | **4,501** | 740 | 5.3 | 3,917 | **7,960** | 7,328 | **11%** |
| Eurovita, Aseval & Malaysia | **3** | **(74)%** | **5.7** | **17** | 11 | 4.6 | 51 | **152** | 166 | **(5)%** |
| **Total** | **827** | **15%** | **5.5** | **4,518** | 751 | 5.3 | 3,968 | **8,112** | 7,494 | **10%** |

1 Following the announced disposal of US Life in Q4 2012, it was no longer managed on a MCEV basis and it was no longer included in covered business. The sale of US Life was completed on 2 October 2013.
2 Currency movements are calculated using unrounded numbers so minor rounding differences may exist.
3 Comparatives have been restated to reflect the changes in MCEV methodology. See note F1 – MCEV Basis of preparation for further details.
4 Poland includes Lithuania.
5 The UK Retail Fund Management business was transferred from UK Life to Aviva Investors on 9 May 2014.

## E8 – Trend analysis of investment sales – cumulative

| | | | | | | | Growth[3] on 2Q13 | |
|---|---|---|---|---|---|---|---|---|
| **Investment sales[1]** | 1Q13 YTD £m | 2Q13 YTD £m | 3Q13 YTD £m | 4Q13 YTD £m | 1Q14 YTD £m | **2Q14 YTD £m** | **Sterling %** | **Constant currency %** |
| United Kingdom & Ireland[2] | 305 | 841 | 1,494 | 2,040 | 486 | **1,043** | **24%** | **24%** |
| Aviva Investors[4] | 787 | 1,563 | 2,100 | 2,683 | 730 | **1,616** | **3%** | **8%** |
| Asia | 42 | 94 | 124 | 152 | 36 | **75** | **(21)%** | **(13)%** |
| **Total investment sales** | 1,134 | 2,498 | 3,718 | 4,875 | 1,252 | **2,734** | **9%** | **13%** |

1 Investment sales are calculated as new single premiums plus the annualised value of new regular premiums.
2 UK & Ireland investment sales are also reported in UK Life PVNBP following the extension of MCEV covered business. See note F1 – MCEV Basis of preparation for further details.
3 Currency movements are calculated using unrounded numbers so minor rounding differences may exist.
4 The UK Retail Fund Management business was transferred from UK Life to Aviva Investors on 9 May 2014. £250 million of Aviva Investors 2Q14 investment sales are also included in Aviva Investors' PVNBP following the extension of MCEV covered business. See note F1 – MCEV Basis of preparation for further details.

## E9 – Trend analysis of investment sales – discrete

| | | | | | | | Growth[3] on 2Q13 | |
|---|---|---|---|---|---|---|---|---|
| **Investment sales[1]** | 1Q13 Discrete £m | 2Q13 Discrete £m | 3Q13 Discrete £m | 4Q13 Discrete £m | 1Q14 Discrete £m | **2Q14 Discrete £m** | **Sterling %** | **Constant currency %** |
| United Kingdom & Ireland[2] | 305 | 536 | 653 | 546 | 486 | **557** | **4%** | **4%** |
| Aviva Investors[4] | 787 | 776 | 537 | 583 | 730 | **886** | **14%** | **19%** |
| Asia | 42 | 52 | 30 | 28 | 36 | **39** | **(25)%** | **(18)%** |
| **Total investment sales** | 1,134 | 1,364 | 1,220 | 1,157 | 1,252 | **1,482** | **9%** | **12%** |

1 Investment sales are calculated as new single premiums plus the annualised value of new regular premiums.
2. UK & Ireland investment sales are also reported in UK Life PVNBP following the extension of MCEV covered business. See note F1 – MCEV Basis of preparation for further details.
3 Currency movements are calculated using unrounded numbers so minor rounding differences may exist.
4 The UK Retail Fund Management business was transferred from UK Life to Aviva Investors on 9 May 2014. £250 million of Aviva Investors 2Q14 investment sales are also included in Aviva Investors' PVNBP following the extension of MCEV covered business. See note F1 – MCEV Basis of preparation for further details.

## E10 – Geographical analysis of regular and single premiums – investment sales

| | Regular | | | Single | | | PVNBP |
|---|---|---|---|---|---|---|---|
| **Investment sales[1]** | **6 months 2014 £m** | 6 months 2013 £m | Constant currency growth[3] | **6 months 2014 £m** | 6 months 2013 £m | Constant currency growth[3] | Constant currency growth[3] |
| United Kingdom & Ireland[2] | **12** | 10 | **28%** | **1,031** | 831 | **24%** | **24%** |
| Aviva Investors[4] | **3** | 2 | **22%** | **1,613** | 1,561 | **8%** | **8%** |
| Asia | **—** | — | **—** | **75** | 94 | **(13)%** | **(13)%** |
| **Total investment sales** | **15** | 12 | **27%** | **2,719** | 2,486 | **13%** | **13%** |

1 Investment sales are calculated as new single premiums plus the annualised value of new regular premiums.
2 UK & Ireland investment sales are also reported in UK Life PVNBP following the extension of MCEV covered business. See note F1 – MCEV Basis of preparation for further details.
3 Currency movements are calculated using unrounded numbers so minor rounding differences may exist.
4 The UK Retail Fund Management business was transferred from UK Life to Aviva Investors on 9 May 2014. £250 million of Aviva Investors 2Q14 investment sales are also included in Aviva Investors' PVNBP following the extension of MCEV covered business. See note F1 – MCEV Basis of preparation for further details.

## E11 – Trend analysis of general insurance and health net written premiums – cumulative

| | 1Q13 YTD £m | 2Q13 YTD £m | 3Q13 YTD £m | 4Q13 YTD £m | 1Q14 YTD £m | **2Q14 YTD £m** | Growth[3] on 2Q13 Sterling % | Growth[3] on 2Q13 Constant currency % |
|---|---|---|---|---|---|---|---|---|
| **General insurance** | | | | | | | | |
| United Kingdom | 923 | 1,963 | 2,904 | 3,823 | 845 | **1,836** | **(6)%** | **(6)%** |
| Ireland | 71 | 146 | 215 | 278 | 65 | **136** | **(7)%** | **(4)%** |
| United Kingdom & Ireland | 994 | 2,109 | 3,119 | 4,101 | 910 | **1,972** | **(7)%** | **(6)%** |
| Europe | 435 | 764 | 1,033 | 1,360 | 440 | **747** | **(2)%** | **2%** |
| Canada | 470 | 1,126 | 1,718 | 2,250 | 426 | **1,026** | **(9)%** | **6%** |
| Asia | 3 | 7 | 11 | 14 | 3 | **7** | **(9)%** | **—** |
| Other | 20 | 20 | 21 | 33 | 4 | **5** | **(77)%** | **(77)%** |
| | 1,922 | 4,026 | 5,902 | 7,758 | 1,783 | **3,757** | **(7)%** | **(2)%** |
| **Health insurance** | | | | | | | | |
| United Kingdom[1] | 138 | 289 | 383 | 536 | 144 | **302** | **5%** | **5%** |
| Ireland | 36 | 52 | 71 | 99 | 33 | **47** | **(10)%** | **(7)%** |
| United Kingdom & Ireland | 174 | 341 | 454 | 635 | 177 | **349** | **2%** | **3%** |
| Europe | 89 | 135 | 179 | 241 | 94 | **138** | **2%** | **6%** |
| Asia[2] | 35 | 47 | 69 | 86 | 29 | **45** | **(3)%** | **11%** |
| | 298 | 523 | 702 | 962 | 300 | **532** | **2%** | **4%** |
| **Total** | 2,220 | 4,549 | 6,604 | 8,720 | 2,083 | **4,289** | **(6)%** | **(1)%** |

1 These premiums are also reported in UK Life PVNBP following the extension of MCEV covered business (see note F1 – MCEV Basis of preparation for further details). 1Q13 NWP of £138 million, 2Q13 YTD NWP of £289 million, 3Q13 YTD NWP of £383 million, 4Q13 YTD NWP of £536 million, 1Q14 NWP of £144 million and 2Q14 YTD NWP of £302 million are respectively equivalent to £138 million, £278 million, £405 million, £505 million, £158 million and £368 million on a PVNBP basis.
2 Singapore long - term health business is also reported in Asia PVNBP following the extension of MCEV covered business (see note F1 – MCEV Basis of preparation for further details). For Singapore long - term health business, 3Q13 YTD NWP of £5 million, 4Q13 YTD NWP of £11 million, 1Q14 NWP of £5 million and 2Q14 YTD NWP of £9 million are respectively equivalent to £47 million, £97 million, £37 million and £87 million on a PVNBP basis.
3 Currency movements are calculated using unrounded numbers so minor rounding differences may exist.

## E12 – Trend analysis of general insurance and health net written premiums – discrete

| | 1Q13 Discrete £m | 2Q13 Discrete £m | 3Q13 Discrete £m | 4Q13 Discrete £m | 1Q14 Discrete £m | **2Q14 Discrete £m** | Growth[3] on 2Q13 Sterling % | Growth[3] on 2Q13 Constant currency % |
|---|---|---|---|---|---|---|---|---|
| **General insurance** | | | | | | | | |
| United Kingdom | 923 | 1,040 | 941 | 919 | 845 | **991** | **(5)%** | **(5)%** |
| Ireland | 71 | 75 | 69 | 63 | 65 | **71** | **(5)%** | **(1)%** |
| United Kingdom & Ireland | 994 | 1,115 | 1,010 | 982 | 910 | **1,062** | **(5)%** | **(5)%** |
| Europe | 435 | 329 | 269 | 327 | 440 | **307** | **(7)%** | **(3)%** |
| Canada | 470 | 656 | 592 | 532 | 426 | **600** | **(9)%** | **7%** |
| Asia | 3 | 4 | 4 | 3 | 3 | **4** | **(13)%** | **(5)%** |
| Other | 20 | — | 1 | 12 | 4 | **1** | **—** | **—** |
| | 1,922 | 2,104 | 1,876 | 1,856 | 1,783 | **1,974** | **(6)%** | **(1)%** |
| **Health insurance** | | | | | | | | |
| United Kingdom[1] | 138 | 151 | 94 | 153 | 144 | **158** | **5%** | **5%** |
| Ireland | 36 | 16 | 19 | 28 | 33 | **14** | **(19)%** | **(16)%** |
| United Kingdom & Ireland | 174 | 167 | 113 | 181 | 177 | **172** | **3%** | **3%** |
| Europe | 89 | 46 | 44 | 62 | 94 | **44** | **(5)%** | **(2)%** |
| Asia[2] | 35 | 12 | 22 | 17 | 29 | **16** | **41%** | **61%** |
| | 298 | 225 | 179 | 260 | 300 | **232** | **3%** | **5%** |
| **Total** | 2,220 | 2,329 | 2,055 | 2,116 | 2,083 | **2,206** | **(5)%** | **—** |

1 These premiums are also reported in UK Life PVNBP following the extension of MCEV covered business (see note F1 – MCEV Basis of preparation for further details). 1Q13 NWP of £138 million, 2Q13 NWP of £151 million, 3Q13 NWP of £94 million, 4Q13 NWP of £153 million, 1Q14 NWP of £144 million and 2Q14 NWP of £158 million are respectively equivalent to £138 million, £140 million, £127 million, £100 million, £158 million and £210 million on a PVNBP basis.
2 Singapore long - term health business is also reported in Asia PVNBP following the extension of MCEV covered business (see note F1 – MCEV Basis of preparation for further details). For Singapore long - term health business, 3Q13 NWP of £5 million, 4Q13 NWP of £6 million, 1Q14 NWP of £5 million and 2Q14 NWP of £4 million are respectively equivalent to £47 million, £50 million, £37 million and £50 million on a PVNBP basis.
3 Currency movements are calculated using unrounded numbers so minor rounding differences may exist.

# MCEV financial statements

# MCEV financial statements

## Consolidated income statement – MCEV basis

For the six month period ended 30 June 2014

| | Reviewed 6 months 2014 £m | Restated[1] Reviewed 6 months 2013 £m Continuing Operations | Restated[1] Reviewed 6 months 2013 £m Discontinued Operations[2] | Restated[1] Audited Full Year 2013 £m Continuing Operations | Restated[1] Audited Full Year 2013 £m Discontinued Operations[2] |
|---|---|---|---|---|---|
| **Operating profit/(loss) before tax attributable to shareholders' profits** | | | | | |
| United Kingdom & Ireland | **545** | 475 | — | 921 | — |
| Europe | **608** | 598 | — | 1,088 | — |
| Asia | **117** | 69 | — | 252 | — |
| Other[3] | **2** | — | — | (2) | — |
| **Long-term business from continuing operations (note F3)** | **1,272** | 1,142 | — | 2,259 | — |
| United States[2] | **—** | — | 111 | — | 272 |
| General insurance and health (note F5)[4] | **405** | 423 | — | 777 | — |
| Fund management (note F6)[5] | **12** | 15 | 22 | 29 | 31 |
| Other operations (note F7)[6] | **(46)** | (40) | (2) | (76) | (4) |
| **Market operating profit/(loss)** | **1,643** | 1,540 | 131 | 2,989 | 299 |
| Corporate centre | **(64)** | (72) | — | (150) | — |
| Group debt costs and other interest | **(235)** | (251) | (6) | (502) | (9) |
| **Operating profit/(loss) before tax attributable to shareholders' profits** | **1,344** | 1,217 | 125 | 2,337 | 290 |
| Integration and restructuring costs (note F8) | **(40)** | (163) | (2) | (354) | (3) |
| **Operating profit/(loss) before tax attributable to shareholders' profits after integration and restructuring costs** | **1,304** | 1,054 | 123 | 1,983 | 287 |
| Adjusted for the following: | | | | | |
| Economic variances on long-term business | **113** | 590 | 279 | 1,627 | 452 |
| Short-term fluctuation in return on investments on non-long-term business | **165** | (306) | — | (336) | — |
| Economic assumption changes on general insurance and health business | **(67)** | 27 | — | 33 | — |
| Impairment of goodwill | **(24)** | (86) | — | (86) | — |
| Amortisation and impairment of intangibles | **(37)** | (46) | (6) | (99) | (9) |
| Profit on the disposal and remeasurement of subsidiaries; joint ventures and associates[7] | **55** | 164 | 91 | 155 | 808 |
| Exceptional items (note F9) | **(236)** | — | — | (242) | — |
| **Non-operating items before tax** | **(31)** | 343 | 364 | 1,052 | 1,251 |
| **Profit/(loss) before tax attributable to shareholders' profits** | **1,273** | 1,397 | 487 | 3,035 | 1,538 |
| Tax on operating profit | **(344)** | (386) | (23) | (778) | (83) |
| Tax on other activities | **(19)** | (66) | (94) | (297) | (182) |
| | **(363)** | (452) | (117) | (1,075) | (265) |
| **Profit/(loss) after tax** | **910** | 945 | 370 | 1,960 | 1,273 |
| Profit/(loss) from discontinued operations | **—** | 370 | | 1,273 | |
| **Profit/(loss) for the period** | **910** | 1,315 | | 3,233 | |
| Attributable to: | | | | | |
| Equity shareholders' of Aviva plc | **767** | 1,036 | | 2,745 | |
| Non-controlling Interest | **143** | 279 | | 488 | |
| | **910** | 1,315 | | 3,233 | |
| **Earnings/(loss) per share** | | | | | |
| Basic (pence per share) | **25.4p** | 34.5p | | 90.4p | |
| Diluted (pence per share) | **25.0p** | 34.0p | | 89.3p | |
| Continuing operations – Basic (pence per share) | **25.4p** | 21.9p | | 47.1p | |
| Continuing operations – Diluted (pence per share) | **25.0p** | 21.6p | | 46.6p | |

1 The income statement and other primary MCEV financial statements have been restated as set out in note F1 - Basis of preparation.
2 Discontinued operations represent the results of the US Life and related internal asset management business (US Life) until the date of disposal (2 October 2013). From 1 January 2013, the US Life operations were reported within non-covered business on an IFRS basis. For further details, see note F1 – Basis of preparation
3 Includes UK retail fund management business, which transferred from UK Life to Aviva Investors on 9 May 2014. In comparative periods this was included in UK Life.
4 Excludes the results of the UK and Singapore health businesses now included in covered business. These results are included within the long-term MCEV operating earnings consistent with the MCEV methodology.
5 Excludes the proportion of the results of Aviva Investors fund management businesses and other fund management operations within the Group that arise from the provision of fund management services to our life businesses. These results, in the current period and for continuing operations in the comparative periods, are included within the long-term business MCEV operating earnings consistent with the MCEV methodology. Operating earnings for US fund management, in the comparative periods as part of discontinued operations, are included in this line item.
6 Excludes the proportion of the results of subsidiaries providing services to the long-term business as well as the retail fund management business in the UK. These results are included within the long-term MCEV operating earnings consistent with the MCEV methodology.
7 Includes profit or loss in respect of both re-measurement of held for sale operations to expected fair value less cost to sell; and completion of the disposal of held for sale operations. The current period included profit or loss on completion of the sale of Eurovita and Korea. The comparative period includes the profit or loss on completion of the sale of the US business, Aseval, Ark Life, Russia, Romanian pensions and Malaysia; and the held for sale re-measurement of Eurovita and Korea.

## Consolidated statement of comprehensive income – MCEV basis

For the six month period ended 30 June 2014

| | Reviewed 6 months 2014 £m | Restated[1] Reviewed 6 months 2013 £m | Restated[1] Audited Full Year 2013 £m |
|---|---|---|---|
| **Profit for the period from continuing operations** | **910** | 945 | 1,960 |
| **Profit/(loss) for the period from discontinued operations[2]** | **—** | 370 | 1,273 |
| **Total profit for the period** | **910** | 1,315 | 3,233 |
| **Other comprehensive income from continuing operations:** | | | |
| *Items that may be reclassified subsequently to income statement* | | | |
| Foreign exchange rate movements | **(424)** | 485 | (4) |
| Aggregate tax effect – shareholders tax on items that may be reclassified subsequently to the income statement | **7** | (20) | (6) |
| *Items that will not be reclassified to income statement* | | | |
| Remeasurement of pension schemes | **387** | (294) | (674) |
| Aggregate tax effect – shareholders tax on items that will not be reclassified subsequently to the income statement | **(67)** | 65 | 125 |
| **Other comprehensive income, net of tax from continuing operations** | **(97)** | 236 | (559) |
| **Other comprehensive income, net of tax from discontinued operations[2]** | **—** | (206) | (319) |
| **Total other comprehensive income, net of tax** | **(97)** | 30 | (878) |
| **Total comprehensive income for the period from continuing operations** | **813** | 1,181 | 1,401 |
| **Total comprehensive income for the period from discontinued operations[2]** | **—** | 164 | 954 |
| **Total comprehensive income for the period** | **813** | 1,345 | 2,355 |
| Attributable to: | | | |
| Equity shareholders of Aviva plc | **737** | 970 | 1,819 |
| Non-controlling Interests | **76** | 375 | 536 |
| | **813** | 1,345 | 2,355 |

1 The income statement and other primary MCEV financial statements have been restated as set out in note F1 - Basis of preparation.
2 Discontinued operations represent the results of the US Life and related internal asset management business (US Life) until the date of disposal (2 October 2013). From 1 January 2013, the US Life operations were reported within non-covered business on an IFRS basis. For further details, see note F1 – Basis of preparation

## Consolidated statement of changes in equity – MCEV basis

For the six month period ended 30 June 2014

| | Reviewed 6 months 2014 £m | Restated[1] Reviewed 6 months 2013 £m | Restated[1] Audited Full Year 2013 £m |
|---|---|---|---|
| **Balance at 1 January** | **17,428** | 16,999 | 16,999 |
| Total comprehensive income for the period | **813** | 1,345 | 2,355 |
| Dividends and appropriations | **(302)** | (290) | (538) |
| Capital contributions from non-controlling interests | **—** | — | 1 |
| Share of dividends declared in the period applicable to non-controlling interests | **(96)** | (75) | (134) |
| Transfer to (loss)/profit on disposal of subsidiaries, joint ventures and associates | **(16)** | (175) | (820) |
| Non-controlling interest in (disposed)/acquired subsidiaries | **(56)** | (497) | (497) |
| Shares acquired by employee trusts | **—** | — | (32) |
| Shares distributed by employee trusts | **1** | 3 | 5 |
| Reserves credit for equity compensation plans | **21** | 23 | 37 |
| Aggregate tax effect – shareholder tax | **4** | 4 | 52 |
| **Total equity** | **17,797** | 17,337 | 17,428 |
| Non-controlling interests | **(2,124)** | (2,100) | (2,203) |
| **Balance at 30 June / 31 December** | **15,673** | 15,237 | 15,225 |

1 The income statement and other primary MCEV financial statements have been restated as set out in note F1 - Basis of preparation.

## Consolidated statement of financial position – MCEV basis

As at 30 June 2014

| | Reviewed 30 June 2014 £m | Restated[1] Reviewed 30 June 2013 £m | Restated[1] Audited 31 December 2013 £m |
|---|---|---|---|
| **Assets** | | | |
| Goodwill | **1,364** | 1,504 | 1,476 |
| Acquired value of in-force business and other intangible assets | **965** | 1,095 | 1,068 |
| Additional value of in-force long-term business[2] | **6,244** | 5,973 | 6,411 |
| Interest in, and loans to, joint ventures | **1,226** | 1,237 | 1,200 |
| Interest in, and loans to, associates | **362** | 265 | 267 |
| Property and equipment | **286** | 395 | 313 |
| Investment property | **8,647** | 9,832 | 9,451 |
| Loans | **22,967** | 24,225 | 23,879 |
| Financial investments | **197,607** | 193,470 | 194,027 |
| Reinsurance assets | **7,551** | 6,907 | 7,220 |
| Deferred tax assets | **112** | 234 | 244 |
| Current tax assets | **117** | 89 | 76 |
| Receivables | **7,526** | 8,477 | 7,476 |
| Deferred acquisition costs and other assets | **3,677** | 3,417 | 3,051 |
| Prepayments and accrued income | **2,721** | 2,826 | 2,635 |
| Cash and cash equivalents | **23,584** | 27,662 | 26,131 |
| Assets of operations classified as held for sale | **149** | 41,712 | 3,113 |
| **Total assets** | **285,105** | 329,320 | 288,038 |
| **Equity[3]** | | | |
| Capital | | | |
| Ordinary share capital | **736** | 736 | 736 |
| Preference share capital | **200** | 200 | 200 |
| | **936** | 936 | 936 |
| Capital reserves | | | |
| Share premium | **1,165** | 1,165 | 1,165 |
| Merger reserve | **3,271** | 3,271 | 3,271 |
| | **4,436** | 4,436 | 4,436 |
| Shares held by employee trusts | **(11)** | (9) | (31) |
| Other reserves[2] | **127** | 1,437 | 371 |
| Retained earnings | **3,138** | 1,581 | 2,348 |
| Additional retained earnings on an MCEV basis[2] | **5,665** | 5,474 | 5,783 |
| **Equity attributable to shareholders of Aviva plc[3]** | **14,291** | 13,855 | 13,843 |
| Direct capital instruments and fixed rate tier 1 notes | **1,382** | 1,382 | 1,382 |
| Non-controlling interests[2] | **2,124** | 2,100 | 2,203 |
| **Total equity** | **17,797** | 17,337 | 17,428 |
| **Liabilities** | | | |
| Gross insurance liabilities | **110,980** | 113,060 | 110,555 |
| Gross liabilities for investment contracts | **115,563** | 113,285 | 116,058 |
| Unallocated divisible surplus | **8,923** | 6,569 | 6,713 |
| Net asset value attributable to unitholders | **9,463** | 12,340 | 10,362 |
| Provisions | **871** | 1,079 | 984 |
| Deferred tax liabilities | **624** | 551 | 563 |
| Current tax liabilities | **54** | 130 | 116 |
| Borrowings | **6,944** | 8,254 | 7,819 |
| Payables and other financial liabilities | **11,418** | 13,769 | 11,945 |
| Other liabilities | **2,329** | 1,826 | 2,472 |
| Liabilities of operations classified as held for sale | **139** | 41,120 | 3,023 |
| **Total liabilities** | **267,308** | 311,983 | 270,610 |
| **Total equity and liabilities** | **285,105** | 329,320 | 288,038 |

1 The income statement and other primary MCEV financial statements have been restated as set out in note F1 - Basis of preparation. The statement of financial position has been restated following the adoption of amendments to 'IAS32: *Financial Instruments: Presentation*'. Refer to notes B2 and F1 for further information. There is no impact on the total equity for any period presented herein as a result of the IAS32 restatement.
2 The summarised consolidated statement of financial position presented above is unaltered from the corresponding IFRS summarised consolidated statement of financial position with the exception of the following: Adding the excess of the Life MCEV, including non-controlling interests, over the corresponding Life IFRS net assets represented as the additional value of in-force long-term business; and reflecting this excess within equity as additional retained profit on an MCEV basis and other reserves, with corresponding adjustments to non-controlling interest.
3 The presentation of equity has changed compared to that published in the MCEV disclosures at HY13. The new presentation is consistent with that used in the IFRS financial statements. This line now represents equity attributable to all shareholders, including preference shareholders.

## Reconciliation of shareholders' equity on IFRS and MCEV bases

As at 30 June 2014

| | | | Reviewed 6 months 2014 £m | | | Restated[1] Reviewed 6 months 2013 £m | | | Restated[1] Audited Full Year 2013 £m |
|---|---|---|---|---|---|---|---|---|---|
| | **IFRS** | **Adjustment** | **MCEV** | IFRS | Adjustment | MCEV | IFRS | Adjustment | MCEV |
| Share capital[2] | **936** | **—** | **936** | 936 | — | 936 | 936 | — | 936 |
| Capital reserves | **4,436** | **—** | **4,436** | 4,436 | — | 4,436 | 4,436 | — | 4,436 |
| Shares held by employee trusts | **(11)** | **—** | **(11)** | (9) | — | (9) | (31) | — | (31) |
| Other reserves[3] | **258** | **(131)** | **127** | 1,532 | (95) | 1,437 | 475 | (104) | 371 |
| Retained earnings | **3,138** | **—** | **3,138** | 1,581 | — | 1,581 | 2,348 | — | 2,348 |
| Additional retained earnings on an MCEV basis | **—** | **5,665** | **5,665** | — | 5,474 | 5,474 | — | 5,783 | 5,783 |
| **Equity attributable to shareholders of Aviva plc[2]** | **8,757** | **5,534** | **14,291** | 8,476 | 5,379 | 13,855 | 8,164 | 5,679 | 13,843 |
| Direct capital instruments and fixed rate tier 1 notes | **1,382** | **—** | **1,382** | 1,382 | — | 1,382 | 1,382 | — | 1,382 |
| Non-controlling Interests | **1,414** | **710** | **2,124** | 1,506 | 594 | 2,100 | 1,471 | 732 | 2,203 |
| **Total equity** | **11,553** | **6,244** | **17,797** | 11,364 | 5,973 | 17,337 | 11,017 | 6,411 | 17,428 |

1 The income statement and other primary MCEV financial statements have been restated as set out in note F1 - Basis of preparation.
2 The presentation of equity has changed compared to that published in the MCEV disclosures at HY13. The new presentation is consistent with that used in the IFRS financial statements. This line now represents equity attributable to all shareholders, including preference shareholders.
3 The adjustment to "Other reserves" relates to the movement in AFS securities.

## Reconciliation of IFRS total equity to Life MCEV

As at 30 June 2014

| | | | Reviewed 6 months 2014 £m | | | Restated[1] Reviewed 6 months 2013 £m | | | Restated[1] Audited Full Year 2013 £m |
|---|---|---|---|---|---|---|---|---|---|
| | **Life and related businesses** | **General business and other** | **Group** | Life and related businesses | General business and other | Group | Life and related businesses | General business and other | Group |
| **Total assets included in the IFRS statement of financial position** | **249,575** | **29,286** | **278,861** | 291,269 | 32,078 | 323,347 | 251,547 | 30,080 | 281,627 |
| Liabilities of the long-term business | **(238,372)** | **—** | **(238,372)** | (279,116) | — | (279,116) | (240,145) | — | (240,145) |
| Liabilities of the general insurance and other businesses | **—** | **(28,936)** | **(28,936)** | — | (32,867) | (32,867) | — | (30,465) | (30,465) |
| **Total equity on an IFRS basis** | **11,203** | **350** | **11,553** | 12,153 | (789) | 11,364 | 11,402 | (385) | 11,017 |
| Equity of general insurance and other businesses included in Life MCEV[2] | **218** | **(218)** | **—** | 207 | (207) | — | 232 | (232) | — |
| Additional value of in-force long-term business | **6,244** | **—** | **6,244** | 5,973 | — | 5,973 | 6,411 | — | 6,411 |
| **Total equity on a MCEV basis** | **17,665** | **132** | **17,797** | 18,333 | (996) | 17,337 | 18,045 | (617) | 17,428 |
| Notional allocation of IAS 19 pension fund surplus to long-term business[3] | **(338)** | | | (258) | | | (170) | | |
| Life net assets on IFRS basis[4] | **—** | | | (1,288) | | | — | | |
| Goodwill and intangible assets allocated to long-term business[5] | **(561)** | | | (631) | | | (581) | | |
| **Life MCEV (gross of non-controlling interests)** | **16,766** | | | 16,156 | | | 17,294 | | |
| Non-controlling interests | **(1,457)** | | | (1,424) | | | (1,538) | | |
| **Life MCEV (net of non-controlling interests)** | **15,309** | | | 14,732 | | | 15,756 | | |

1 The income statement and other primary MCEV financial statements have been restated as set out in note F1 - Basis of preparation.
2 Refers to the IFRS equity of the UK and Singapore health businesses now included in covered business.
3 The value of the Aviva Staff Pension Scheme surplus has been notionally allocated between segments, based on current funding. Within the long-term business net assets on an MCEV basis, the Life proportion has been included. The pension fund surplus notionally allocated to long-term business is net of the agreed funding borne by the UK with-profit funds.
4 At HY13 this represents the results of the US Life and related internal asset management business (US Life) until the date of disposal (2 October 2013). From 1 January 2013, the US Life operations were reported within non-covered business on an IFRS basis. For further details, see note F1 – Basis of preparation.
5 Goodwill and intangible assets includes amounts related to associated undertakings and joint ventures and are after adjustments reflected in the additional value of in-force long-term business in the consolidated statement of financial position. At HY14, there is no adjustment to impair goodwill and intangible assets compared to IFRS (*HY13: £13 million, FY13: £28 million*). In aggregate, the goodwill and intangibles on an MCEV basis is £120 million (*HY13: £113 million, FY13: £125 million*) lower than on an IFRS basis, allowing for exchange rate movements. Refer to the next table for goodwill allocated to long-term business on an IFRS basis.

## Reconciliation of IFRS total equity to MCEV net worth

As at 30 June 2014

| | Reviewed 30 June 2014 £m | Restated[1] Reviewed 30 June 2013 £m | Restated[1] Audited 31 December 2013 £m |
|---|---|---|---|
| **Net assets on a statutory IFRS net basis** | **11,553** | 11,364 | 11,017 |
| Adjusting for general business and other net assets on a statutory IFRS net basis | **(350)** | 789 | 385 |
| **Life and related businesses net assets on a statutory IFRS net basis** | **11,203** | 12,153 | 11,402 |
| Adjustment for Life net assets on an IFRS basis | **—** | (1,288) | — |
| Equity of general insurance and other businesses included in Life MCEV | **218** | 207 | 232 |
| Goodwill and other intangibles | **(681)** | (744) | (706) |
| Acquired value of in-force business | **(112)** | (155) | (132) |
| Adjustment for share of joint ventures and associates | **13** | (7) | (7) |
| Adjustment for assets to regulatory value net of tax | **(446)** | 125 | (52) |
| Adjustment for DAC and DIR net of tax | **(1,091)** | (1,051) | (1,069) |
| Adjustment for differences in technical provisions | **41** | (694) | (335) |
| Other accounting and tax differences | **1,246** | 442 | 825 |
| **MCEV net worth (gross of non-controlling interests)** | **10,391** | 8,988 | 10,158 |
| MCEV value of in-force (gross of non-controlling interests)[2] | **6,375** | 7,168 | 7,136 |
| **MCEV (gross of non-controlling interests)** | **16,766** | 16,156 | 17,294 |
| Non-controlling interests | **(1,457)** | (1,424) | (1,538) |
| **MCEV (net of non-controlling interests)** | **15,309** | 14,732 | 15,756 |

1 The income statement and other primary MCEV financial statements have been restated as set out in note F1 - Basis of preparation.
2 Comprises PVFP of £8,949 million (*30 June 2013: £9,752 million; 31 December 2013: £9,595 million*), FC of £(566) million (*30 June 2013: £(509) million; 31 December 2013: £(532) million*), CNHR of £(972) million (*30 June 2013: £(1,171) million; 31 December 2013: £(1,021) million*) and TVOG of £(1,036) million (*30 June 2013: £(904) million; 31 December 2013: £(906) million*).

For 30 June 2013, the adjustment for life net assets on an IFRS basis reflects the inclusion of the US operations on an IFRS basis within non-covered but related to life business.

# Group MCEV analysis of earnings

For the six month period ended 30 June 2014

| Net of tax & non-controlling interests Reviewed 30 June 2014 | Covered business[1,4] £m A | Non-covered but related to life business[2] £m B | Total life business[3] £m A+B | Non-covered relating to non-life £m C | Total non-covered business[4] £m B+C | Total £m A+B+C |
|---|---|---|---|---|---|---|
| Opening Group MCEV | **14,990** | **599** | **15,589** | **(898)** | **(299)** | **14,691** |
| Opening Adjustments[5] | **766** | **—** | **766** | **(232)** | **(232)** | **534** |
| Adjusted opening Group MCEV | **15,756** | **599** | **16,355** | **(1,130)** | **(531)** | **15,225** |
| Operating MCEV earnings | **880** | **—** | **880** | **5** | **5** | **885** |
| Non-operating MCEV earnings | **(192)** | **(27)** | **(219)** | **101** | **74** | **(118)** |
| **Total MCEV earnings** | **688** | **(27)** | **661** | **106** | **79** | **767** |
| Other movements in IFRS net equity | **—** | **168** | **168** | **159** | **327** | **327** |
| Capital and dividend flows | **(818)** | **—** | **(818)** | **526** | **526** | **(292)** |
| Foreign exchange variances | **(281)** | **(13)** | **(294)** | **(63)** | **(76)** | **(357)** |
| Acquired/divested business | **(36)** | **26** | **(10)** | **13** | **39** | **3** |
| **Closing Group MCEV** | **15,309** | **753** | **16,062** | **(389)** | **364** | **15,673** |
| Direct capital instruments and fixed rate tier 1 notes | | | | | | **(1,382)** |
| **Equity attributable to shareholders of Aviva plc on an MCEV basis** | | | | | | **14,291** |

1 Covered business represents the business that the MCEV calculations cover, as detailed in note F1 - Basis of preparation. The embedded value is presented net of non-controlling interests and tax.
2 Non-covered but related to life business represents the adjustments to the MCEV, including goodwill, to calculate the long-term business net assets on an MCEV basis. An analysis of net assets on an MCEV basis gross of non-controlling interests is provided in the table "Reconciliation of IFRS total equity to Life MCEV" above.
3 Net assets for the total life businesses on an MCEV basis presented net of non-controlling interests.
4 Covered business includes an adjustment for held for sale and disposed operations through the acquired/divested business line which is reflected as non-operating earnings for non-covered business, consistent with where the profit would arise on completion of the sale.
5 Represents the restatement as explained in note F1 - Basis of preparation.

| Net of tax & non-controlling interests Restated[1] Reviewed 30 June 2013 | Covered business[2,5] £m A | Non-covered but related to life business[3] £m B | Total life business[4] £m A+B | Non-covered relating to non-life £m C | Total non-covered business[5] £m B+C | Total £m A+B+C |
|---|---|---|---|---|---|---|
| Opening Group MCEV | 14,941 | 1,175 | 16,116 | (2,100) | (925) | 14,016 |
| Opening Adjustments[6] | (162) | 1,058 | 896 | (210) | 848 | 686 |
| Adjusted opening Group MCEV | 14,779 | 2,233 | 17,012 | (2,310) | (77) | 14,702 |
| Operating MCEV earnings | 744 | 94 | 838 | (6) | 88 | 832 |
| Non-operating MCEV earnings | 209 | 186 | 395 | (191) | (5) | 204 |
| **Total MCEV earnings** | 953 | 280 | 1,233 | (197) | 83 | 1,036 |
| Other movements in IFRS net equity | — | (417) | (417) | (67) | (484) | (484) |
| Capital and dividend flows | (774) | 23 | (751) | 316 | 339 | (435) |
| Foreign exchange variances | 337 | 108 | 445 | (27) | 81 | 418 |
| Acquired/divested business | (563) | (217) | (780) | 780 | 563 | — |
| **Closing Group MCEV** | 14,732 | 2,010 | 16,742 | (1,505) | 505 | 15,237 |
| Direct capital instruments and fixed rate tier 1 notes | | | | | | (1,382) |
| **Equity attributable to shareholders of Aviva plc on an MCEV basis[7]** | | | | | | 13,855 |

1 The income statement and other primary MCEV financial statements have been restated as set out in note F1 - Basis of preparation.
2 Covered business represents the business that the MCEV calculations cover, as detailed in note F1 – Basis of preparation. The embedded value is presented net of non-controlling interests and tax.
3 Non-covered but related to life business represents the adjustments to the MCEV, including goodwill, to calculate the long-term business net assets on an MCEV basis. An analysis of net assets on an MCEV basis gross of non-controlling interests is provided in the table "Reconciliation of IFRS total equity to Life MCEV" above. Note that US Life disposed in 2013, was part of non-covered but related to life business with effect from 1 January 2013.
4 Net assets for the total life businesses on an MCEV basis presented net of non-controlling interests.
5 Covered business includes an adjustment for held for sale and disposed operations through the acquired/divested business line which is reflected as non-operating earnings for non-covered business, consistent with where the profit would arise on completion of the sale.
6 For covered business and non-covered relating to non-life business, this represents the restatement as explained in F1 - Basis of preparation. For non-covered but related to life business, this represents the transfer of the held for sale US life operations from covered business to non-covered business.
7 The presentation of equity has changed compared to that published in the MCEV disclosures at HY13. The new presentation is consistent with that used in the IFRS financial statements. This line now represents equity attributable to all shareholders, including preference shareholders.

| Net of tax & non-controlling interests Restated[1] Audited 31 December 2013 | Covered business[2,5] £m A | Non-covered but related to life business[3] £m B | Total life business[4] £m A+B | Non-covered relating to non-life £m C | Total non-covered business[5] £m B+C | Total £m A+B+C |
|---|---|---|---|---|---|---|
| Opening Group MCEV | 14,941 | 1,175 | 16,116 | (2,100) | (925) | 14,016 |
| Opening Adjustments[6] | (162) | 1,058 | 896 | (210) | 848 | 686 |
| Adjusted opening Group MCEV | 14,779 | 2,233 | 17,012 | (2,310) | (77) | 14,702 |
| Operating MCEV earnings | 1,525 | 195 | 1,720 | (115) | 80 | 1,605 |
| Non-operating MCEV earnings | 533 | 149 | 682 | 458 | 607 | 1,140 |
| **Total MCEV earnings** | 2,058 | 344 | 2,402 | 343 | 687 | 2,745 |
| Other movements in IFRS net equity | — | (585) | (585) | (285) | (870) | (870) |
| Capital and dividend flows | (614) | 16 | (598) | (698) | (682) | (1,296) |
| Foreign exchange variances | 90 | 1 | 91 | (147) | (146) | (56) |
| Acquired/divested business | (557) | (1,410) | (1,967) | 1,967 | 557 | — |
| **Closing Group MCEV** | 15,756 | 599 | 16,355 | (1,130) | (531) | 15,225 |
| Direct capital instruments and fixed rate tier 1 notes | | | | | | (1,382) |
| **Equity attributable to shareholders of Aviva plc on an MCEV basis[7]** | | | | | | 13,843 |

1 The income statement and other primary MCEV financial statements have been restated as set out in note F1 - Basis of preparation.
2 Covered business represents the business that the MCEV calculations cover, as detailed in note F1 - Basis of preparation. The embedded value is presented net of non-controlling interests and tax.
3 Non-covered but related to life business represents the adjustments to the MCEV, including goodwill, to calculate the long-term business net assets on an MCEV basis. An analysis of net assets on an MCEV basis gross of non-controlling interests is provided in the table "Reconciliation of IFRS total equity to Life MCEV" above. Note that US Life, disposed in 2013, was part of non-covered but related to life business with effect from 1 January 2013.
4 Net assets for the total life businesses on an MCEV basis presented net of non-controlling interests.
5 Covered business includes an adjustment for held for sale and disposed operations through the acquired/divested business line which is reflected as non-operating earnings for non-covered business, consistent with where the profit would arise on completion of the sale.
6 For covered business and non-covered relating to non-life business, this represents the restatement as explained in note F1 - Basis of preparation. For non-covered but related to life business, this represents the transfer of the held for sale US life operations from covered business to non-covered business.
7 The presentation of equity has changed compared to that published in the MCEV disclosures at HY13. The new presentation is consistent with that used in the IFRS financial statements. This line now represents equity attributable to all shareholders, including preference shareholders.

## F1 – Basis of preparation

The consolidated income statement and consolidated statement of financial position on pages 114 to 117 present the Group's results and financial position for the covered life and related businesses on the Market Consistent Embedded Value (MCEV) basis and for its non-covered businesses and non-covered but related to life businesses on the International Financial Reporting Standards (IFRS) basis.

The MCEV methodology adopted is in accordance with the MCEV Principles© published by the CFO Forum in October 2009 with the exception of stating held for sale operations at their expected fair value, as represented by expected sale proceeds, less cost to sell.

The CFO Forum MCEV Guidance is not adopted in a number of respects:

- Guidance 2.1 requires that covered business includes contracts regarded as long-term life insurance business. However, for the comparative periods the US operations are not included in the covered business from 1 January 2013 as, from this date MCEV was not used to manage the business due to the planned sale of the operation, which was completed on 2 October 2013.
- Guidance 17.3.29 indicates that changes to models to reflect improvements or rectify errors should be included in the 'other operating variances' line in the analysis of earnings. Where possible, such model refinements have been reported in the analysis of earnings on the line where the impact would have occurred in order to provide better information when considering assumption changes/experience variances over multiple reporting periods.
- Guidance 17.3.32 and 17.3.47 indicates that, when a company has more than one geographical area of operation, the business classifications disclosed should be consistent with those used for the IFRS financial statements. While MCEV results have been aligned with Aviva's management structure the classifications have been presented at a more aggregated level than those segments presented in the Group's IFRS financial statements.

The directors consider that the MCEV methodology gives useful insight into the drivers of financial performance of the Group's life and related businesses. This basis values future cash flows from assets consistently with market prices, including explicit allowance for the impact of uncertainty in future investment returns and other risks. Embedded value is also consistent with the way pricing is assessed and the business is managed.

The results for our half year report have been reviewed by our auditors, PricewaterhouseCoopers LLP. The PricewaterhouseCoopers LLP report in respect of the half-year can be found on page 156.



### MCEV restatement and methodology changes

During 2013 Aviva underwent a review of its interpretation of the MCEV Principles, to ensure its on-going relevance as a key metric in both external reporting and in management decision making, and to ensure that Aviva's MCEV results are reported consistently with the way that the business is managed. Input from a wide variety of different sources, including competitors, our external actuarial consultants and individual business units, were used in this review. This review suggested two areas where it would be appropriate to change Aviva's current practice; the extension of covered business and changes to the derivation and application of the liquidity premium. These changes have been introduced from 1 January 2014 onwards. The effect of these changes have been applied to prior periods and therefore comparatives have been restated accordingly.

### Extension of Covered Business

It is appropriate for covered business to include short term life insurance, long term accident and health insurance as well as any mutual fund and short term healthcare, where these contracts are managed on a long-term basis. Therefore the definition of covered business has been extended to include the following product lines:

- UK retail fund management business;
- UK health business; and
- Singapore guaranteed renewable health business.

As these product lines remain classified as short-term business under IFRS:

- Investment sales for UK retail fund management are now included in both investment sales (see note E8) and MCEV PVNBP; and
- Premiums for health business in the UK and Singapore are now included in both IFRS Net Written Premium (see note E11) and MCEV PVNBP.

We note that comparatives for Singapore are not affected until the second half of 2013 when the product terms and conditions were changed, resulting in new business or business renewing after 1 July 2013 to be included as covered business.

## F1 – Basis of preparation continued

### Liquidity Premium

The CEIOPS (now EIOPA) Task Force on Liquidity Premium issued a set of Principles dated 1 March 2010 on the application of the liquidity premium. Principle 2 states that "The liquidity premium should be independent of the investment strategy followed by the company". In agreement with this, Aviva has removed the requirement for the liquidity premium to only apply to those liabilities backed by corporate bonds or certain illiquid non-traded assets (notably UK commercial mortgages). As a consequence an optimised notional portfolio is assumed which can include the actual assets backing the liabilities.

The approach to estimating the market level of liquidity premium is set out in F19. For assets valued on a marked to model basis (notably UK commercial mortgages) the liquidity premium continues to be estimated consistently with the underlying valuation model. For all other assets, the formula structure proposed by the CFO / CRO Forum and adopted in the Solvency II Fifth Quantitative Impact Study (QIS 5) is adopted.

The application of the liquidity premium has also been extended to apply to participating business, and the adjustment to annuity type contracts exposed to some lapse risk (15% reduction to the market level of liquidity premium) has been removed. An adjustment factor is now applied to the market level of liquidity premium to reflect the degree to which the liabilities are illiquid. The adjustment applied to various product lines is as follows:

- 100% of full liquidity premium applied to Immediate Annuities, UK Bulk Purchase Annuities and Spanish cash flow matched business such as Financial Annuities;
- 75% of full liquidity premium applied to participating contracts (both UK and Continental European types) and deferred annuities; and
- 0% of full liquidity premium applied to all other products.

### Restatement Impacts

The impact of both the extension of scope and liquidity premium change on the key metrics is shown in the table below.

| | Restated Half year 2013 | | Restated Full year 2013 | |
|---|---|---|---|---|
| £m | Extension of scope | Liquidity Premium Change | Extension of scope | Liquidity Premium Change |
| **Gross of tax and non-controlling interests** | | | | |
| Value of New Business | 13.1 | 11.9 | 45.3 | 20.7 |
| MCEV Operating Earnings | 30.2 | (89.5) | 70.0 | (127.3) |
| MCEV Total Earnings | 41.6 | (65.8) | 110.2 | (346.4) |
| **Net of tax and non-controlling interests** | | | | |
| Operating Capital Generation | 5.8 | — | 5.1 | — |
| Opening MCEV | 373 | 523 | 373 | 523 |
| MCEV Operating Earnings | 23.3 | (20.5) | 57.3 | (32.4) |
| MCEV Total Earnings | 32.0 | (42.1) | 88.3 | (201.7) |
| Closing MCEV | 393.1 | 470.7 | 445.9 | 319.6 |

### IFRS Restatement of prior period figures

Restatements of IFRS financial statements have been consistently reflected in Group MCEV financial statements. These reflect:

- The Group has adopted amendments to IAS 32 *Financial Instruments: Presentation* that became effective as of 1 January 2014. These amendments clarify the meaning of 'current legally enforceable right to set-off' and 'simultaneous realisation and settlement' in assessing whether related financial assets and liabilities should be offset and presented net in the statement of financial position. The application of the amendments has resulted in the grossing up of certain financial assets and financial liabilities in the statement of financial position that were previously reported net. The amendments to IAS 32 have been applied retrospectively in accordance with the transitional provisions of the standard. There is no impact on the profit or loss and equity for any periods presented. For further information, see note B2 of the IFRS financial statements at 30 June 2014.

### Covered business

The MCEV calculations cover the following lines of business unless specifically noted below:

- Life insurance;
- Long-term health and accident insurance;
- Short-term health business in the UK and Singapore managed on a long-term basis (introduced 1 January 2014);
- Savings and annuity business;
- Managed pension fund business;
- Equity release business in the UK; and
- UK retail fund management business (introduced 1 January 2014).

From 1 January 2014, health business managed as long term business in the UK and Singapore and retail fund management business in the UK are classified as long-term covered business under MCEV. In the IFRS financial statements, however, these contracts remain classified as short-term business. Guaranteed renewable health business in Singapore remains to be treated as long term business locally.

Effective 9 May 2014, the UK's retail fund management business was sold to Aviva Investors by UK Life. As this business is now also included within covered business, the MCEV balance sheet value of this business at 30 June 2014 is disclosed in the "Other" operating segment (where Aviva Investors is presented) while remaining in the "United Kingdom and Ireland" operating segment for the comparative periods. In the consolidated income statement, the first 4 months profit or loss is included in the "United Kingdom and Ireland" operating segment with the remaining 2 months in the "Other" operating segment.

## F1 – Basis of preparation continued

Covered business includes that written by the Group's life insurance subsidiaries as well as the Group's share of certain life and related business written in our associated undertakings and joint ventures, including India, China, Turkey, Malaysia (until disposal in April 2013), Taiwan and South Korea (until disposal in June 2014). In addition, the results of Group companies providing significant administration, fund management and other services and of Group holding companies have been included to the extent that they relate to covered business. Together these businesses are referred to as "Life and related businesses". For Group MCEV reporting, which includes general insurance and other non-covered business, US operations were included on an IFRS basis for the comparative period.

### Held for Sale operations

Aviva's methodology adopts the MCEV Principles published by the CFO Forum in October 2009 with the exception of stating held for sale operations at their expected fair value less cost to sell in the consolidated statement of financial position.

It is considered that the CFO Forum MCEV Principles were designed to define the approach to valuing covered business on an ongoing basis and do not explicitly define the appropriate treatment of covered business operations that are held for sale. For these operations, where a sale price is known with relative certainty, the directors believe it is reasonable to value the shareholders' interest as the expected fair value less cost to sell thus reflecting the expected value upon completion of the transaction.

There are no held for sale operations included in life covered business at 30 June 2014. Certain life covered operations classified as held for sale in the comparative periods, consistent with the IFRS classification, were sold or reclassified during 2014, as detailed in note F19. In the comparative periods, the life covered MCEV for the held for sale operations was adjusted within the value of in force business and this adjustment was reported in the analysis of earnings through the acquired/divested business line *(31 December 2013: £35 million, 30 June 2013: £25 million*). Comparative periods have been adjusted to allow for the impact of the MCEV restatement on the held for sale values. The adjustment reflects the amount needed to align the contribution to shareholder equity with the expected fair value less cost to sell, and there was no impact to the life and related business MCEV operating profits and total earnings.

In line with the preparation of the consolidated statement of financial position - MCEV basis, the assets and liabilities of held for sale operations are stated at the IFRS values with any differences in measurement on an MCEV basis reflected in the additional value of in-force long term business.

Within other disclosures where applicable, held for sale operations in the comparative periods are excluded, reflecting that these operations are stated at expected fair value less cost to sell. Further details are provided against each applicable disclosure.

### Treatment of US Operations

Following the classification of the United States business as held for sale on 21 December 2012, the US was re-measured to expected fair value less cost to sell, in line with treatment of other Held for Sale businesses, as described above. This resulted in an increase to the closing life MCEV at 31 December 2012 of £1,095 million to £1,058 million. This adjustment was reported in the analysis of earnings through the acquired/divested line, and hence there was no impact to the life and related business MCEV operating profits and total earnings.  No adjustment has been made to the closing life MCEV at 31 December 2012 in relation to the MCEV restatement.

From 1 January 2013 the results for the held for sale operations in the US were not included within the covered business as MCEV was not used to manage this business.  For Group MCEV reporting, which includes general insurance and other non-covered business, the US operations were included prior to sale on an IFRS basis within non-covered but related to life business. The transfer to non-covered but related to life business was reported as an 'opening adjustment' in both the Group MCEV and covered business analysis of earnings.  There was no impact to the total earnings from the transfer as the US operations were reported on both an IFRS and MCEV basis at the sale price less cost to sell. The sale of the Aviva US business completed on 2 October 2013 and the transaction proceeds received were based on the estimated earnings and other improvements in statutory surplus over the period from 30 June 2012 to 30 September 2013. The final purchase price is subject to customary completion adjustments. The process to agree completion adjustments is on-going and is expected to complete in the second half of 2014. Until the outcome of this process is known there remains uncertainty on the final determination of the completion adjustment. The transaction resulted in a profit on disposal of £808 million in 2013, reflecting management's best estimate of the completion adjustment.

### New business premiums

New business premiums include:

- premiums arising from the sale of new contracts during the period;
- non-contractual additional premiums; and
- expected renewals on new contracts and expected future contractual alterations to new contracts.

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

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

## F1 – Basis of preparation continued

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

### Life and pensions operating earnings

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

The normalised investment return on equities and property has been calculated by reference to the ten-year swap rate in the relevant currency plus an appropriate risk premium. The expected return on bonds has been calculated by reference to the swap rate consistent with the duration of the backing assets in the relevant currency plus an appropriate risk margin (expected return is equivalent to the gross redemption yield less an allowance for defaults).

The expected existing business contribution (in excess of reference rate) is calculated using the start of period implied discount rate (IDR), which itself is based on the normalised investment returns. The methodology applies the IDR to the Value of In Force (VIF) and Required Capital (RC) components of the MCEV and adds to this the total expected return for Free Surplus (FS) to derive the total expected return, in a manner consistent with that previously used under European Embedded Value reporting. This total is presented as the expected existing business contribution (reference rate), expected existing business contribution (in excess of reference rate) and expected return on shareholders' net worth (grossed up for tax for pre-tax presentation), with only the excess contribution being impacted by the approach. For businesses where the IDR is unpublished, the expected return in excess of the reference rate is calculated as the excess of the real world equivalent embedded value (EqEV) over the MCEV amortised over the average duration of the portfolio. The approach to expected return has no impact on total return or on the closing balance sheet.

### MCEV methodology

**Overview**

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

**Calculation of the embedded value**

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

The embedded value is calculated on an after-tax basis applying current legislation and practice together with future known changes. Consistent with CFO Forum guidance issued in 2012, no explicit allowance has been made for the developing European regulation regime (Solvency II) and associated consequences. Where gross results are presented, these have been calculated by grossing up post-tax results at the full rate of corporation tax for each country based on opening period tax rates, apart from the UK, where a 20% tax rate was used for 2014 for grossing up (*2013: 23%; 2012: 24%*).

**Net worth**

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

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

- The level of capital at which the local regulator is empowered to take action;
- The capital requirement of the business unit under the Group's economic capital requirements; and
- The target capital level of the business unit;

where "highest of" is assessed as the basis yielding the lowest level of free assets.

This methodology reflects the level of capital considered by the directors to be appropriate to manage the business, and includes any additional shareholder funds not available for distribution, such as the reattributed inherited estate in the UK. The same definition of required capital is used for both existing and new business except in certain entities in Italy and Spain where new business reflects the targeted capital level which better reflects the capital requirements of the new business. The total required capital for the entities in question is still based on the overall biting constraint. There is a true-up within economic variances for the difference between calculating the new business required capital on a target rather than economic capital basis, where the latter is the biting constraint.

The level of required capital across the business units expressed as a percentage of EU minimum solvency margin (or equivalent) can be found in note F19.

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

## F1 – Basis of preparation continued

### Value of in-force covered business (VIF)

The value of in-force covered business consists of the following components:

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

### Present value of future profits (PVFP)

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

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

Future profits are projected using best estimate non-economic assumptions and market consistent economic assumptions. In principle, each cash flow is discounted at a rate that appropriately reflects the riskiness of that cash flow, so higher risk cash flows are discounted at higher rates. In practice, the PVFP is calculated using the "certainty equivalent" approach, under which the reference rate is used for both the investment return and the discount rate. This approach ensures that asset cash flows are valued consistently with the market prices of assets without options and guarantees. Further information on the risk-free rates is given in note F19.

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

### Time value of financial options and guarantees (TVOG)

The PVFP calculation is based on a single (base) economic scenario; however, a single scenario cannot appropriately allow for the effect of certain product features. If an option or guarantee affects shareholder cash flows in the base scenario, the impact is included in the PVFP and is referred to as the intrinsic value of the option or guarantee; however, future investment returns are uncertain and the actual impact on shareholder profits may be higher or lower. The value of in-force business needs to be adjusted for the impact of the range of potential future outcomes. Stochastic modelling techniques can be used to assess the impact of potential future outcomes, and the difference between the intrinsic value and the total stochastic value is referred to as the time value of the option or guarantee.

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

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

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

### Frictional costs of required capital

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

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

### Cost of residual non-hedgeable risks (CNHR)

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

Asymmetric risks allowed for in the TVOG or PVFP are described earlier in the basis of preparation. No allowance has been made within the cost of non-hedgeable risk for symmetrical risks as these are diversifiable by investors.

## F1 – Basis of preparation continued

### New business tax

Where the present value of future profits is negative, tax on new business is applied at the full corporation rate and consequential movements in the value of any associated deferred tax asset is included as a variance within existing business operating return. This treatment, in both the current and comparative periods, only applied to certain entities in Italy.

### Participating business

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

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

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

### Consolidation adjustments

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

During 2014, UK Annuities (UKA) and UK General Insurance (UK GI) have entered into a quota share reinsurance arrangement with Aviva International Insurance Limited (AII). Both treaties have an effective date of 1 January 2014 covering 10% of the UKA business and 5% of the UK GI business. The impact of this arrangement has been reflected within the Group MCEV results.

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

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

The assessments of goodwill, intangibles and pension schemes relating to life insurance business utilise the IFRS measurement basis with any required adjustment reflected in the additional value of the in force long-term business in the consolidated statement of financial position.

### Exchange rates

The Group's principal overseas operations during the period were located within the Eurozone and Poland.

The results and cash flows of these operations have been translated at the average rates for that period and the assets and liabilities have been translated at the period end rates. Please refer to note F19.

## F2 – Development of MCEV

The life covered MCEV (net of tax and minority interest) is £15,309 million, a decrease of £447 million in the period from the restated opening MCEV of £15,756 million. This movement comprises operating earnings of £880 million in the six months, economic variances of £4 million and exceptional items of £(196) million, resulting in total MCEV earnings of £688 million. Dividends and other capital flows from the covered business reduce MCEV by £818 million and a reduction in acquired/divested business of £36 million, primarily due to the sale of Eurovita in Italy and Woori Aviva Life in South Korea. Exchange rate impacts also reduce closing MCEV by £281 million.

| | **6 months 2014 £m** | Restated[1] Reviewed 6 months 2013 £m | Restated[1] Audited Full year 2013 £m |
|---|---|---|---|
| Present value of new business premiums (gross of tax & non-controlling interests) | **12,630** | 11,462 | 23,177 |
| New business margins (gross of tax & non-controlling interests) | **3.5%** | 3.7% | 3.9% |
| Value of new business | **444** | 426 | 904 |
| Expected returns | **632** | 651 | 1,291 |
| Experience variances | **6** | (28) | 75 |
| Operating assumption changes | **109** | (8) | (142) |
| Other operating variances | **81** | 101 | 131 |
| **Operating earnings (gross of tax & non-controlling interests)** | **1,272** | 1,142 | 2,259 |
| Economic variances | **113** | 590 | 1,627 |
| Other non-operating variances | **(248)** | (21) | (308) |
| **Non-operating earnings (gross of tax & non-controlling interests)** | **(135)** | 569 | 1,319 |

1 The comparative periods have been restated as set out in note F1 - Basis of preparation.

Please note that all comparative figures quoted in this note relate to restated results for continuing operations only.

### Profitability (gross of tax and non-controlling interests)

Operating earnings at HY14 are £1,272 million *(HY13: £1,142 million)* and total MCEV earnings are £1,137 million *(HY13: £1,711 million)*

**New Business**

VNB has increased by 4% to £444 million *(HY13: £426 million)* primarily driven by increases in Asia and Europe which more than offset the lower VNB in the UK. In Asia increases are due to increased sales in protection business in China and the extension of covered business to include Singapore's healthcare business. The increase in France reflects higher volumes and a shift in product mix towards higher margin unit-linked products, and in Poland, is primarily due to increased sales of higher margin unit-linked protection business and the one-off impact of higher volume of Lithuanian pension business, due to regulatory changes. In the UK, the reduction in VNB is driven by difficult trading in the individual annuity market due to recent Budget announcements which is partially offset by an increase in volumes of bulk purchase annuities and increased volumes and margins on equity release and protection. New business volumes increased by 10% to £12,630 million *(HY13: £11,462 million)* on a PVNBP basis, principally driven by higher volumes across most European businesses and products (other than individual annuities in the UK) due to the improved economic environment. Margins have fallen slightly as the increase in margin on European business is more than offset by the falling margin on UK annuities.

**Expected Return**

The total expected return has fallen to £632 million *(HY13: £651 million)*. Expected return from existing business was £521 million *(HY13: £544 million)* and expected return on shareholders' net worth was £111 million *(HY13: £107 million)*. The reduction from HY13 is principally driven by a fall in the expected return in Italy and Spain, partially offset by an increase in France and UK. In Italy and Spain expected return includes an anticipated release of allowances for guarantees in the opening MCEV. This allowance was significantly lower at the start of 2014 than at the start of 2013, reflecting the narrowing of credit spreads over 2013, and therefore reduces expected return. There is an increase in the expected return in the UK as the opening MCEV at the start of 2014 is higher than the start of 2013 due to a higher volume of business in force. In France the increased expected return in 2014 is driven by a higher opening MCEV value at the start of 2014 and higher earnings over 2013.

**Experience Variances, Operating Assumption Changes and Other Operating Variances**

Experience variances and operating assumption changes total £115 million *(HY13: £(36) million)*. The increase in operating assumption changes is driven by expense savings in the UK as a result of continuing restructuring and process improvements, reducing the current and long-term cost base. Experience variances are minimal at HY14. During the first half of 2013 negative experience variances and operating assumption changes reflected the strengthening of persistency assumptions in Spain following the poor short-term experience in our joint ventures.

Other operating variances of £81 million *(HY13: £101 million)* primarily reflect the change in terms and conditions on some of Asia's healthcare business in Singapore, so that it is now included as covered business and, the impact of prior period adjustments in Asia and France.

## F2 – Development of MCEV continued

**Non-operating earnings**

Non-operating earnings in the period were £(135) million *( HY13: £569 million)*

Economic variances of £113 million *(HY13: £590 million)* occurred due to benefits in the Eurozone and Poland, offset by negative economic impacts in Asia, and to a lesser extent, in the UK. In the Eurozone, investment gains driven by falling yields are more than offsetting any increase in the cost of guarantees. Falling interest rates in Poland have increased unit-linked assets under management and therefore future fund management fees. In Asia, falling risk-free rates are increasing the cost of guarantees in China and Korea (prior to sale) while in the UK, the benefit of falling risk-free rates and narrowing spreads on the annuity book has been more than offset by the decrease in liquidity premium.

Other non-operating variances are £(248) million *(HY13: £(21) million)* primarily driven by the UK where pension legislation changes have resulted in lower future management charges levied on auto-enrolment pension funds, and Poland, due to a reduction in expected future pension contributions receivable following legislation changes.

## F3 – Geographical analysis of life MCEV operating earnings

The table below presents the components of the life and pensions MCEV earnings. These components are calculated using the economic assumptions as at the start of the year (in-force business) or start of the quarter or more frequently (new business) and operating (demographic and expenses) assumptions as at the end of the period.

| Gross of tax and non-controlling interests 6 months 2014 | UK & Ireland £m | Europe £m | Asia £m | Other £m | Total £m |
|---|---|---|---|---|---|
| Value of new business | 183 | 193 | 66 | 2 | 444 |
| Earnings from existing business | | | | | |
| – expected existing business contribution (reference rate) | 91 | 70 | 10 | — | 171 |
| – expected existing business contribution (in excess of reference rate) | 154 | 183 | 13 | — | 350 |
| | 245 | 253 | 23 | — | 521 |
| Experience Variances | | | | | |
| – maintenance expense | 11 | 2 | (1) | — | 12 |
| – project and other related expenses | (28) | — | (1) | — | (29) |
| – mortality/morbidity | (9) | 6 | (2) | — | (5) |
| – lapses | (16) | 4 | — | — | (12) |
| – other | 33 | 4 | 4 | (1) | 40 |
| | (9) | 16 | — | (1) | 6 |
| Operating assumption changes: | | | | | |
| – maintenance expense | 100 | 6 | 3 | — | 109 |
| – project and other related expenses | — | — | — | — | — |
| – mortality/morbidity | — | 1 | — | — | 1 |
| – lapses | — | 4 | — | — | 4 |
| – other | (5) | — | — | — | (5) |
| | 95 | 11 | 3 | — | 109 |
| Expected return on shareholders' net worth | 35 | 70 | 5 | 1 | 111 |
| Other operating variances | (4) | 65 | 20 | — | 81 |
| **Operating earnings before tax and non-controlling interests** | 545 | 608 | 117 | 2 | 1,272 |
| Economic variances | | | | | 113 |
| Other non-operating variances | | | | | (248) |
| **Earnings before tax and non-controlling interests** | | | | | 1,137 |
| Tax on operating earnings | | | | | (320) |
| Tax on other activities | | | | | 10 |
| **Earnings after tax and before non-controlling interests** | | | | | 827 |

Please refer to F2 for analysis of the components of MCEV earnings.

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## F3 – Geographical analysis of life MCEV operating earnings continued

| Gross of tax and non-controlling interests Restated[1] 6 months 2013 | UK & Ireland £m | Europe £m | Asia £m | Other £m | Total £m |
|---|---|---|---|---|---|
| Value of new business | 226 | 158 | 42 | — | 426 |
| Earnings from existing business | | | | | |
| – expected existing business contribution (reference rate) | 110 | 63 | 10 | — | 183 |
| – expected existing business contribution (in excess of reference rate) | 114 | 241 | 6 | — | 361 |
| | 224 | 304 | 16 | — | 544 |
| Experience Variances | | | | | |
| – maintenance expense | 7 | (6) | (2) | — | (1) |
| – project and other related expenses[2] | (25) | (1) | (7) | — | (33) |
| – mortality/morbidity | 2 | 5 | 1 | — | 8 |
| – lapses[3] | (17) | 3 | (1) | (1) | (16) |
| – other | 10 | 2 | 2 | — | 14 |
| | (23) | 3 | (7) | (1) | (28) |
| Operating assumption changes: | | | | | |
| – maintenance expense | (1) | — | — | — | (1) |
| – project and other related expenses | — | — | — | — | — |
| – mortality/morbidity[4] | (3) | 1 | 12 | — | 10 |
| – lapses[5] | — | (25) | 1 | — | (24) |
| – other | 7 | — | — | — | 7 |
| | 3 | (24) | 13 | — | (8) |
| Expected return on shareholders' net worth | 37 | 62 | 7 | 1 | 107 |
| Other operating variances[6] | 8 | 95 | (2) | — | 101 |
| **Operating earnings before tax and non-controlling interests** | 475 | 598 | 69 | — | 1,142 |
| Economic variances | | | | | 590 |
| Other non-operating variances | | | | | (21) |
| **Earnings before tax and non-controlling interests** | | | | | 1,711 |
| Tax on operating earnings | | | | | (309) |
| Tax on other activities | | | | | (179) |
| **Earnings after tax and non-controlling interests** | | | | | 1,223 |

1 The comparative periods have been restated as set out in note F1 - Basis of preparation.
2 Within the UK project and other related expenses reflect higher than expected expenditure on development of systems and processes.
3 At HY13 persistency experience remained volatile across most of our business, in part reflecting the wider economic circumstances. Positive lapse variance in Europe reflected increased lapses on businesses with guarantees in Italy.
4 Morbidity assumptions were updated in Korea.
5 Persistency assumptions include an additional short term provision in Spain reflecting adverse experience in the joint ventures.
6 Other operating variances reflect management actions taken to reduce guarantees on existing business in Italy and France.

## F3 – Geographical analysis of life MCEV operating earnings continued

| Gross of tax and non-controlling interests Restated[1] Full Year 2013 | UK & Ireland £m | Europe £m | Asia £m | Other £m | Total £m |
|---|---|---|---|---|---|
| Value of new business | 477 | 323 | 104 | — | 904 |
| Earnings from existing business: | | | | | |
| – expected existing business contribution (reference rate) | 190 | 128 | 19 | — | 337 |
| – expected existing business contribution (in excess of reference rate) | 246 | 462 | 22 | — | 730 |
| | 436 | 590 | 41 | — | 1,067 |
| Experience Variances | | | | | |
| – maintenance expense | 17 | (16) | — | 1 | 2 |
| – project and other related expenses[2] | (84) | (7) | 4 | — | (87) |
| – mortality/morbidity | 35 | 6 | 9 | 1 | 51 |
| – lapses[3] | 27 | 43 | (5) | — | 65 |
| – other | 32 | 5 | 7 | — | 44 |
| | 27 | 31 | 15 | 2 | 75 |
| Operating assumption changes: | | | | | |
| – maintenance expense[4] | 120 | (127) | 27 | (4) | 16 |
| – project and other related expenses | 16 | — | — | — | 16 |
| – mortality/morbidity[5] | 35 | 20 | 12 | (1) | 66 |
| – lapses[6] | (125) | (75) | (2) | — | (202) |
| – other[7] | (73) | 36 | (1) | — | (38) |
| | (27) | (146) | 36 | (5) | (142) |
| Expected return on shareholders' net worth | 87 | 122 | 14 | 1 | 224 |
| Other operating variances[8] | (79) | 168 | 42 | — | 131 |
| **Operating earnings before tax and non-controlling interests** | 921 | 1,088 | 252 | (2) | 2,259 |
| Economic variances[9] | | | | | 1,627 |
| Other non-operating variances[10] | | | | | (308) |
| **Earnings before tax and non-controlling interests** | | | | | 3,578 |
| Tax on operating earnings | | | | | (599) |
| Tax on other activities | | | | | (446) |
| **Earnings after tax and before non-controlling interests** | | | | | 2,533 |

1 The comparative periods have been restated as set out in note F1 - Basis of preparation.
2 Within the UK project and other related expenses reflect higher than expected expenditure on development of systems and processes.
3 Persistency experience saw an improvement at FY13 in most of our businesses reflecting a more stable economic outlook.
4 UK maintenance expense assumption change is primarily driven by the capitalisation of the benefit of recent expense reductions. In Europe the negative impact of expense assumption change relates primarily to France, following a review of expense allocation.
5 Positive mortality/morbidity operating assumption changes primarily reflect a change to annuitant assumptions in the UK.
6 Despite the positive experience variances due to short term provision releases in the UK, there is a negative impact from lapse assumptions changes, primarily due to the strengthening of the assumptions on early retirement. The negative impact in Europe is a result of strengthening of long - term persistency assumptions primarily in Poland.
7 Other UK assumption changes reflect the change in the assumed level of non-hedgeable risks. In Europe other assumption changes relate to a reduction in the guaranteed annuity take up rate in Italy.
8 Other operating variances include management actions taken to reduce guarantees on existing business in Italy and France. In the UK and Ireland this is due to management actions enhancing benefits to with-profits policyholders.
9 Favourable economic variances are mainly driven by narrowing credit spreads in UK and across European markets.
10 Other non-operating variances include the pension legislation change in Poland, dividend tax in France, offset by change of corporate tax in UK.

## F3 – Geographical analysis of life MCEV operating earnings continued

| Net of tax and non-controlling interests 6 months 2014 | UK & Ireland £m | Europe £m | Asia £m | Other £m | Total £m |
|---|---|---|---|---|---|
| Value of new business | 147 | 112 | 53 | 1 | 313 |
| Earnings from existing business | | | | | |
| – expected existing business contribution (reference rate) | 73 | 44 | 8 | — | 125 |
| – expected existing business contribution (in excess of reference rate)[1] | 123 | 105 | 10 | — | 238 |
| | 196 | 149 | 18 | — | 363 |
| Experience variances | | | | | |
| – maintenance expense | 9 | 2 | (1) | — | 10 |
| – project and other related expenses[2] | (23) | — | — | — | (23) |
| – mortality/morbidity | (7) | 3 | (2) | — | (6) |
| – lapses | (13) | 2 | — | — | (11) |
| – other[3] | 27 | 1 | 3 | (1) | 30 |
| | (7) | 8 | — | (1) | — |
| Operating assumption changes: | | | | | |
| – maintenance expense[4] | 80 | 5 | 2 | — | 87 |
| – project and other related expenses | — | — | — | — | — |
| – mortality/morbidity | — | 1 | — | — | 1 |
| – lapses | — | 3 | — | — | 3 |
| – other | (4) | — | — | — | (4) |
| | 76 | 9 | 2 | — | 87 |
| Expected return on shareholders' net worth | 28 | 36 | 4 | 1 | 69 |
| Other operating variances[5] | (3) | 34 | 17 | — | 48 |
| **Operating earnings after tax and non-controlling interests** | **437** | **348** | **94** | **1** | **880** |
| Economic variances[6] | | | | | 4 |
| Other non-operating variances[7] | | | | | (196) |
| **Earnings after tax and non-controlling interests** | | | | | **688** |

1 The expected existing business contribution (in excess of the reference rate) for Europe is lower at HY14 compared to HY13 as the release of the allowance for guarantees in Italy is lower.
2 Within the UK, project and other related expenses reflect higher than expected expenditure on development of systems and processes.
3 There are a number of items impacting other experience variances in the UK, most notably a reduction in reserves arising from a review of systems and processes.
4 Positive maintenance expense operating assumption changes in the UK are driven by continuing restructuring and process improvements, reducing the current and long-term cost base.
5 Other operating variances include management actions taken to change terms and conditions on some of Asia's healthcare business in Singapore. In Europe, other operating variances are driven by prior period adjustments in France.
6 Economic variances, driven by overall favourable impacts in the Eurozone and Poland offset by negative impacts in Asia, and to a lesser extent, UK.
7 Other non-operating variances are driven by the impact of pension legislation changes in the UK, resulting in lower future management charges levied on auto-enrolment pension funds, and legislation changes in Poland, due to a reduction in expected future pension contributions received following legislation changes.

| Net of tax and non-controlling interests Restated[1] 6 months 2013 | UK & Ireland £m | Europe £m | Asia £m | Other £m | Total £m |
|---|---|---|---|---|---|
| Value of new business | 174 | 91 | 35 | — | 300 |
| Earnings from existing business | | | | | |
| – expected existing business contribution (reference rate) | 84 | 43 | 8 | — | 135 |
| – expected existing business contribution (in excess of reference rate) | 88 | 122 | 5 | — | 215 |
| | 172 | 165 | 13 | — | 350 |
| Experience variances | | | | | |
| – maintenance expense | 6 | (2) | (1) | — | 3 |
| – project and other related expenses[2] | (19) | (1) | (6) | — | (26) |
| – mortality/morbidity | 2 | 3 | 1 | — | 6 |
| – lapses[3] | (13) | 2 | (1) | — | (12) |
| – other | 7 | 2 | 1 | — | 10 |
| | (17) | 4 | (6) | — | (19) |
| Operating assumption changes: | | | | | |
| – maintenance expenses | (1) | — | — | — | (1) |
| – project and other related expenses | — | — | — | — | — |
| – mortality/morbidity[4] | (2) | — | 10 | — | 8 |
| – lapses[5] | — | (9) | 1 | — | (8) |
| – other | 6 | — | — | — | 6 |
| | 3 | (9) | 11 | — | 5 |
| Expected return on shareholders' net worth | 30 | 29 | 6 | — | 65 |
| Other operating variances[6] | 6 | 39 | (2) | — | 43 |
| **Operating earnings after tax and non-controlling interests** | 368 | 319 | 57 | — | 744 |
| Economic variances | | | | | 225 |
| Other non-operating variances | | | | | (16) |
| **Earnings after tax and before non-controlling interests** | | | | | 953 |

1 The comparative periods have been restated as set out in note F1 - Basis of preparation.
2 Within the UK project and other related expenses reflect higher than expected expenditure on development of systems and processes.
3 At HY13 persistency experience remained volatile across most of our business, in part reflecting the wider economic circumstances. Positive lapse variance in Europe reflected increased lapses on businesses with guarantees in Italy.
4 Morbidity assumptions were updated in Korea.
5 Persistency assumptions include an additional short term provision in Spain reflecting adverse experience in the joint ventures.
6 Other operating variances reflect management actions taken to reduce guarantees on existing business in Italy and France.

## F3 – Geographical analysis of life MCEV operating earnings continued

| Net of tax and non-controlling interests Restated[1] Full Year 2013 | UK & Ireland £m | Europe £m | Asia £m | Other £m | Total £m |
|---|---|---|---|---|---|
| Value of new business | 368 | 183 | 85 | — | 636 |
| Earnings from existing business | | | | | |
| – expected existing business contribution (reference rate) | 148 | 85 | 15 | — | 248 |
| – expected existing business contribution (in excess of reference rate) | 189 | 235 | 17 | — | 441 |
| | 337 | 320 | 32 | — | 689 |
| Experience variances | | | | | |
| – maintenance expense | 13 | (6) | — | 1 | 8 |
| – project and other related expenses[2] | (65) | (4) | 3 | — | (66) |
| – mortality/morbidity | 27 | 4 | 7 | — | 38 |
| – lapses[3] | 21 | 25 | (4) | — | 42 |
| – other | 25 | 6 | 6 | — | 37 |
| | 21 | 25 | 12 | 1 | 59 |
| Operating assumption changes: | | | | | |
| – maintenance expenses[4] | 93 | (74) | 24 | (2) | 41 |
| – project and other related expenses | 12 | — | — | — | 12 |
| – mortality/morbidity[5] | 27 | 14 | 9 | (1) | 49 |
| – lapses[6] | (96) | (44) | (2) | — | (142) |
| – other[7] | (55) | 17 | (1) | — | (39) |
| | (19) | (87) | 30 | (3) | (79) |
| Expected return on shareholders' net worth | 67 | 58 | 11 | 1 | 137 |
| Other operating variances[8] | (64) | 111 | 36 | — | 83 |
| **Operating earnings after tax and non-controlling interests** | 710 | 610 | 206 | (1) | 1,525 |
| Economic variances[9] | | | | | 718 |
| Other non-operating variances[10] | | | | | (185) |
| **Earnings after tax and non-controlling interests** | | | | | 2,058 |

1 The comparative periods have been restated as set out in note F1 - Basis of preparation.
2 Within the UK project and other related expenses reflect higher than expected expenditure on development of systems and processes.
3 Persistency experience saw an improvement at FY13 in most of our businesses reflecting a more stable economic outlook.
4 UK maintenance expense assumption change is primarily driven by the capitalisation of the benefit of recent expense reductions. In Europe the negative impact of expense assumption change relates primarily to France, following a review of expense allocation.
5 Positive mortality/morbidity operating assumption changes primarily reflect change to annuitant assumption in the UK.
6 Despite the positive experience variances due to short term provision releases in the UK, there is a negative impact from lapse assumptions changes, primarily due to the strengthening of the assumptions on early retirement. The negative impact in Europe is a result of strengthening of long term persistency assumptions primarily in Poland.
7 Other UK assumption changes reflect the change in the assumed level of non-hedgeable risks. In Europe other assumption changes relate to a reduction in the guaranteed annuity take up rate in Italy.
8 Other operating variances include management actions taken to reduce guarantees on existing business in Italy and France. In the UK and Ireland this is due to management actions enhancing benefits to with-profits policyholders.
9 Favourable economic variances are mainly driven by narrowing credit spreads in UK and across European markets.
10 Other non-operating variances include the pension legislation change in Poland, dividend tax in France, offset by change of corporate tax in UK.

## F4 – Earnings per share

### (a) Basic earnings per share

(i) The profit/(loss) attributable to ordinary shareholders is:

| Continuing operations | **6 months 2014** Operating profit £m | Non-operating items £m | Total £m | Restated[1] 6 months 2013 Operating profit £m | Non-operating items £m | Total £m | Restated[1] Full Year 2013 Operating profit £m | Non-operating items £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|
| Profit/(loss) before tax attributable to shareholders' profits | **1,344** | **(71)** | **1,273** | 1,217 | 180 | 1,397 | 2,337 | 698 | 3,035 |
| Tax attributable to shareholders' profit/(loss) | **(344)** | **(19)** | **(363)** | (386) | (66) | (452) | (778) | (297) | (1,075) |
| Profit/(loss) for the year | **1,000** | **(90)** | **910** | 831 | 114 | 945 | 1,559 | 401 | 1,960 |
| Amount attributable to non-controlling interests | **(86)** | **(57)** | **(143)** | (101) | (178) | (279) | (160) | (328) | (488) |
| Cumulative preference dividends for the year | **(9)** | **—** | **(9)** | (9) | — | (9) | (17) | — | (17) |
| Coupon payments in respect of direct capital instruments (DCI) and fixed rate tier 1 notes (net of tax) | **(12)** | **—** | **(12)** | (13) | — | (13) | (70) | — | (70) |
| **Profit/(loss) attributable to ordinary shareholders from continuing operations** | **893** | **(147)** | **746** | 708 | (64) | 644 | 1,312 | 73 | 1,385 |
| **Profit/(loss) attributable to ordinary shareholders from discontinued operations** | **—** | **—** | **—** | 102 | 268 | 370 | 207 | 1,066 | 1,273 |
| **Profit/(loss) attributable to ordinary shareholders** | **893** | **(147)** | **746** | 810 | 204 | 1,014 | 1,519 | 1,139 | 2,658 |

1 The comparative periods have been restated as set out in note F1 – Basis of preparation.

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

| Continuing operations | **6 months 2014** Before tax £m | Net of tax, non-controlling interests, preference dividends and DCI[2] £m | Per share p | Restated[1] 6 months 2013 Before tax £m | Net of tax, non-controlling interests, preference dividends and DCI[2] £m | Per share p | Restated[1] Full Year 2013 Before tax £m | Net of tax, non-controlling interests, preference dividends and DCI[2] £m | Per share p |
|---|---|---|---|---|---|---|---|---|---|
| Operating profit attributable to ordinary shareholders | **1,344** | **893** | **30.4** | 1,217 | 708 | 24.1 | 2,337 | 1,312 | 44.6 |
| Non-operating items: | | | | | | | | | |
| Economic variance on long-term business | **113** | **3** | **0.1** | 590 | 225 | 7.6 | 1,627 | 719 | 24.5 |
| Short-term fluctuation in return on investments backing non-long-term business | **165** | **119** | **4.0** | (306) | (227) | (7.7) | (336) | (255) | (8.7) |
| Economic assumption changes on general insurance and health business | **(67)** | **(52)** | **(1.8)** | 27 | 21 | 0.7 | 33 | 27 | 0.9 |
| Impairment of goodwill | **(24)** | **(24)** | **(0.8)** | (86) | (86) | (2.9) | (86) | (86) | (2.9) |
| Amortisation and impairment of intangibles | **(37)** | **(27)** | **(0.9)** | (46) | (33) | (1.1) | (99) | (59) | (2.0) |
| Profit/(loss) on disposal and remeasurement of subsidiaries, joint ventures and associates | **55** | **51** | **1.7** | 164 | 168 | 5.7 | 155 | 157 | 5.3 |
| Integration and restructuring costs and exceptional items | **(276)** | **(217)** | **(7.3)** | (163) | (132) | (4.5) | (596) | (430) | (14.6) |
| **Profit/(loss) attributable to ordinary shareholders from continuing operations** | **1,273** | **746** | **25.4** | 1,397 | 644 | 21.9 | 3,035 | 1,385 | 47.1 |
| **Profit/(loss) attributable to ordinary shareholders from discontinued operations** | **—** | **—** | **—** | 487 | 370 | 12.6 | 1,538 | 1,273 | 43.3 |
| **Profit/(loss) attributable to ordinary shareholders** | **1,273** | **746** | **25.4** | 1,884 | 1,014 | 34.5 | 4,573 | 2,658 | 90.4 |

1 The comparative periods have been restated as set out in note F1 – Basis of preparation.
2 DCI includes direct capital instruments and fixed rate tier 1 notes.

(iii) The calculation of basic earnings per share uses a weighted average of 2,941 million *(HY13: 2,942 million; FY13: 2,940 million)* ordinary shares in issue, after deducting shares owned by the employee share trusts. The actual number of shares in issue at 30 June 2014 was 2,948 million *(HY13: 2,947 million; FY13: 2,947 million)* and 2,945 million *(HY13: 2,944 million; FY13: 2,938 million)* excluding shares owned by the employee share trusts.

## F4 – Earnings per share continued

### (b) Diluted earnings per share

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

| | 6 months 2014 | | | Restated[1] 6 months 2013 | | | Restated[1] Full Year 2013 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total £m | Weighted average number of shares million | Per share p | Total £m | Weighted average number of shares million | Per share p | Total £m | Weighted average number of shares million | Per share p |
| Profit/(loss) attributable to ordinary shareholders | 746 | 2,941 | 25.4 | 644 | 2,942 | 21.9 | 1,385 | 2,940 | 47.1 |
| Dilutive effect of share awards and options | — | 40 | (0.4) | — | 42 | (0.3) | — | 39 | (0.5) |
| **Diluted earnings/(loss) per share from continuing operations** | 746 | 2,981 | 25.0 | 644 | 2,984 | 21.6 | 1,385 | 2,979 | 46.6 |
| Profit/(loss) attributable to ordinary shareholders | — | 2,941 | — | 370 | 2,942 | 12.6 | 1,273 | 2,940 | 43.3 |
| Dilutive effect of share awards and options | — | 40 | — | — | 42 | (0.2) | — | 39 | (0.6) |
| **Diluted earnings/(loss) per share from discontinued operations** | — | 2,981 | — | 370 | 2,984 | 12.4 | 1,273 | 2,979 | 42.7 |
| **Diluted earnings/(loss) per share** | 746 | 2,981 | 25.0 | 1,014 | 2,984 | 34.0 | 2,658 | 2,979 | 89.3 |

1 The comparative periods have been restated as set out in note F1 – Basis of preparation.

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

| | 6 months 2014 | | | Restated[1] 6 months 2013 | | | Restated[1] Full Year 2013 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total £m | Weighted average number of shares million | Per share p | Total £m | Weighted average number of shares million | Per share p | Total £m | Weighted average number of shares million | Per share p |
| Operating profit attributable to ordinary shareholders | 893 | 2,941 | 30.4 | 708 | 2,942 | 24.1 | 1,312 | 2,940 | 44.6 |
| Dilutive effect of share awards and options | — | 40 | (0.4) | — | 42 | (0.4) | — | 39 | (0.6) |
| **Diluted operating profit per share from continuing operations** | 893 | 2,981 | 30.0 | 708 | 2,984 | 23.7 | 1,312 | 2,979 | 44.0 |
| Operating profit attributable to ordinary shareholders | — | 2,941 | — | 102 | 2,942 | 3.5 | 207 | 2,940 | 7.0 |
| Dilutive effect of share awards and options | — | 40 | — | — | 42 | (0.1) | — | 39 | (0.1) |
| **Diluted operating profit per share from discontinued operations** | — | 2,981 | — | 102 | 2,984 | 3.4 | 207 | 2,979 | 6.9 |
| **Diluted operating profit per share** | 893 | 2,981 | 30.0 | 810 | 2,984 | 27.1 | 1,519 | 2,979 | 50.9 |

1 The comparative periods have been restated as set out in note F1 – Basis of preparation.

## F5 – Geographical analysis of general insurance and health operating earnings

The consolidated income statement on an MCEV basis includes earnings from the Group's general insurance and health insurances business (managed on a short-term basis). These results for non-covered business are included within MCEV operating earnings on an IFRS basis as analysed below.

| | 6 months 2014 £m | Restated[1] 6 months 2013 £m | Restated[1] Full Year 2013 £m |
|---|---|---|---|
| **General insurance** | | | |
| United Kingdom & Ireland | 260 | 248 | 455 |
| Canada | 83 | 147 | 246 |
| Europe | 51 | 44 | 98 |
| Asia & Other | (1) | (25) | (52) |
| **Operating profit – general insurance** | 393 | 414 | 747 |
| **Health insurance** | | | |
| United Kingdom & Ireland | 4 | 6 | 16 |
| Europe | 6 | 3 | 14 |
| Asia & Other | 2 | — | — |
| **Operating profit – health insurance** | 12 | 9 | 30 |
| **Total operating profit** | 405 | 423 | 777 |

1 The comparative periods have been restated as set out in note F1 - Basis of preparation.

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## F6 – Geographical analysis of fund management operating earnings

The consolidated income statement on an MCEV basis includes earnings from the Group's fund management operations. These results are included within MCEV operating profit on an IFRS basis as analysed below. This excludes the proportion of the results of Aviva Investors fund management businesses and other fund management operations within the Group that arise from the provision of fund management services to our Life business.

| | **Reviewed 6 months 2014 £m** | Restated[1] 6 months 2013 £m | Restated[1] Full Year 2013 £m |
|---|---|---|---|
| Aviva Investors | **11** | 14 | 27 |
| Asia | **1** | 1 | 2 |
| **Total – continuing operations** | **12** | 15 | 29 |
| **Total – discontinued operations[2]** | **—** | 22 | 31 |
| **Total operating profit** | **12** | 37 | 60 |

1 The comparative periods have been restated as set out in note F1 - Basis of preparation.
2 Discontinued operations represent the results of the US operations on an IFRS basis.

## F7 – Other operations

Where subsidiaries provide services to our life business, the MCEV value associated with that activity is included within the Life MCEV operating earnings. Other activities undertaken by such subsidiaries are included in the MCEV Consolidated income statement on an IFRS basis as analysed below.

| | **6 months 2014 £m** | Restated[1] 6 months 2013 £m | Restated[1] Full Year 2013 £m |
|---|---|---|---|
| United Kingdom & Ireland | **(3)** | (16) | (16) |
| Europe | **(7)** | 3 | (7) |
| Asia | **(10)** | (6) | (12) |
| Other operations[2] | **(26)** | (21) | (41) |
| **Total – continuing operations** | **(46)** | (40) | (76) |
| **Total – discontinued operations[3]** | **—** | (2) | (4) |
| **Total operating profit** | **(46)** | (42) | (80) |

1 The comparative periods have been restated as set out in note F1 - Basis of preparation.
2 Other operations include Group and head office costs.
3 Discontinued operations represent the results of the US operations on an IFRS basis.

## F8 – Integration and restructuring costs

Integration and restructuring costs during 2014 were £40 million *(HY13: £163 million for continuing business)* and mainly include expenses associated with the Group's Solvency II programme. Integration and Restructuring costs have reduced significantly compared to the prior period, principally driven by the reduction in the Group's transformation programme spend.

## F9 – Exceptional items

Exceptional items are those items that, in the Directors' view, are required to be separately disclosed by virtue of their nature or incidence to enable a full understanding of the Group's financial performance. Exceptional items are £(236) million (*HY13: £nil*) on a gross of tax gross of non-controlling interest basis. This is driven by pension legislation changes in the UK reducing future management charges levied on auto-enrolment default funds, with an impact of £(188) million and a reduction in future contributions receivable in Poland following regulation change with an impact of £(55) million. This is partially offset by the benefit from a reduction in corporation tax in Italy of £7 million.

## F10 – Analysis of life and pension earnings

The following table provides an analysis of the movement in embedded value for covered business. The analysis is shown separately for free surplus, required capital and the value of in-force covered business, and includes amounts transferred between these categories. During the first half of 2014, UK Life implemented two capital management actions that enable certain shareholder assets to be reflected on the regulatory balance sheet and the economic risk to be hedged more efficiently. The first involved the transfer of certain assets and associated liabilities from the RIEESA to the New With Profits Sub Fund (NWPSF). This action reduced the present value of in-force covered business by £864 million and increased required capital by the same amount. The second capital management action results in future shareholder transfers (that arise as bonuses are paid to policyholders) emerging in the NWPSF rather than the NPSF and this reduces the present value of in-force covered business by £233 million and increased required capital by £49 million and increases free surplus by £184 million. These effects are presented within 'Other operating variances' in the table below.

| **Net of tax and non-controlling interests<br>30 June 2014** | **Free surplus £m** | **Required capital[1] £m** | **VIF £m** | **Total MCEV £m** |
|---|---|---|---|---|
| **Opening MCEV** | **2,310** | **6,551** | **6,129** | **14,990** |
| Opening Adjustments[2] | **125** | **107** | **534** | **766** |
| Adjusted Opening MCEV | **2,435** | **6,658** | **6,663** | **15,756** |
| New business value | **(237)** | **58** | **492** | **313** |
| Expected existing business contribution (reference rate) | **—** | **—** | **125** | **125** |
| Expected existing business contribution (in excess of reference rate) | **—** | **—** | **238** | **238** |
| Expected return on shareholders' net worth | **21** | **48** | **—** | **69** |
| Transfers from VIF and required capital to the free surplus | **647** | **(115)** | **(532)** | **—** |
| Experience variances | **(48)** | **(11)** | **59** | **—** |
| Assumption changes[3] | **87** | **(3)** | **3** | **87** |
| Other operating variances[4] | **73** | **1,049** | **(1,074)** | **48** |
| | **112** | **1,035** | **(1,012)** | **135** |
| Operating MCEV earnings[5] | **543** | **1,026** | **(689)** | **880** |
| Economic variances | **(4)** | **45** | **(37)** | **4** |
| Other non-operating variances[6] | **(10)** | **—** | **(186)** | **(196)** |
| **Total MCEV earnings** | **529** | **1,071** | **(912)** | **688** |
| Capital & dividend flows[7] | **(818)** | **—** | **—** | **(818)** |
| Foreign exchange variances | **(28)** | **(122)** | **(131)** | **(281)** |
| Acquired/divested business[8] | **31** | **(194)** | **127** | **(36)** |
| **Closing MCEV** | **2,149** | **7,413** | **5,747** | **15,309** |

1 Required capital is shown net of implicit items permitted by local regulators to cover minimum solvency margins.
2 Represents the impact of the MCEV restatement as set out in note F1 - Basis of preparation.
3 Assumption changes include maintenance expense assumption changes in the UK, driven by continuing restructuring and process improvements, reducing the current and long-term cost base.
4 Other operating variances include prior period adjustments in France.
5 An internal reinsurance arrangement was undertaken in the first half of 2014 to reinsure an additional 10% of UK Annuity business to Aviva International Insurance Limited which has had an adverse impact on Group MCEV free surplus of £105 million (MCEV Note F11). On an economic capital basis this transaction improves the UK Life position and as a result the adverse impact on MCEV has therefore been excluded from OCG to reflect the economic substance of the management action.
6 Other non-operating variances include pension legislation changes in UK and Poland and a change in tax rate in Italy.
7 Included within capital and dividend flows is the transfer to Life and related businesses from other segments consisting of service company profits and losses during the reported period that have emerged from the value of in-force. Since the 'look through' into service companies includes only future profits and losses, these amounts must be eliminated from the closing embedded value.
8 Acquired/divested business includes any adjustment for held for sale operations and disposal of Eurovita and Korea.

| Net of tax and non-controlling interests<br>Restated[1]<br>30 June 2013 | Free surplus £m | Required capital[2] £m | VIF £m | Total MCEV £m |
|---|---|---|---|---|
| **Opening MCEV[3]** | 1,951 | 6,417 | 6,411 | 14,779 |
| New business value | (180) | 91 | 389 | 300 |
| Expected existing business contribution (reference rate) | — | — | 135 | 135 |
| Expected existing business contribution (in excess of reference rate) | — | — | 215 | 215 |
| Expected return on shareholders' net worth | 10 | 55 | — | 65 |
| Transfers from VIF and required capital to the free surplus | 630 | (161) | (469) | — |
| Experience variances | (13) | 54 | (60) | (19) |
| Assumption changes | 5 | 6 | (6) | 5 |
| Other operating variances | 188 | (14) | (131) | 43 |
| | 180 | 46 | (197) | 29 |
| Operating MCEV earnings | 640 | 31 | 73 | 744 |
| Economic variances | (139) | (91) | 455 | 225 |
| Other non-operating variances[4] | (17) | — | 1 | (16) |
| **Total MCEV earnings** | 484 | (60) | 529 | 953 |
| Capital & dividend flows[5] | (774) | — | — | (774) |
| Foreign exchange variance | 23 | 199 | 115 | 337 |
| Acquired/divested business[6] | (159) | (165) | (239) | (563) |
| **Closing MCEV** | 1,525 | 6,391 | 6,816 | 14,732 |

1 The comparative periods have been restated as set out in note F1 - Basis of preparation.
2 Required capital is shown net of implicit items permitted by local regulators to cover minimum solvency margins.
3 Opening MCEV includes the adjustments related to the removal of US Life held for sale operations from covered business on 1 January 2013 and the adjustment for the MCEV restatement. Details of both are set out in note F1 – Basis of preparation.
4 Other non-operating variances relate to costs for Solvency II implementation and other restructuring exercises.
5 Included within capital and dividend flows is the transfer to Life and related businesses from other segments consisting of service company profits and losses during the reported period that have emerged from the value of in-force. Since the 'look through' into service companies includes only future profits and losses, these amounts must be eliminated from the closing embedded value.
6 Acquired/divested business includes the adjustment for held for sale operations and disposal of Aseval, Ark Life, Malaysia, Russia and Romania pensions.

## F10 – Analysis of life and pension earnings continued

| Net of tax and non-controlling interests<br>Restated[1]<br>Full Year 2013 | Free surplus £m | Required capital[2] £m | VIF £m | Total MCEV £m |
|---|---|---|---|---|
| **Opening MCEV[3]** | 1,951 | 6,417 | 6,411 | 14,779 |
| New business value | (353) | 172 | 817 | 636 |
| Expected existing business contribution (reference rate) | — | — | 248 | 248 |
| Expected existing business contribution (in excess of reference rate) | — | — | 441 | 441 |
| Expected return on shareholders' net worth | 18 | 119 | — | 137 |
| Transfers from VIF and required capital to the free surplus | 1,256 | (345) | (911) | — |
| Experience variances | (92) | 131 | 20 | 59 |
| Assumption changes | 126 | 27 | (232) | (79) |
| Other operating variances | 259 | 213 | (389) | 83 |
| | 293 | 371 | (601) | 63 |
| Operating MCEV earnings | 1,214 | 317 | (6) | 1,525 |
| Economic variances | (77) | 11 | 784 | 718 |
| Other non-operating variances[4] | 119 | — | (304) | (185) |
| **Total MCEV earnings** | 1,256 | 328 | 474 | 2,058 |
| Capital & dividend flows[5] | (610) | (4) | — | (614) |
| Foreign exchange variance | (2) | 83 | 9 | 90 |
| Acquired/divested business[6] | (160) | (166) | (231) | (557) |
| **Closing MCEV** | 2,435 | 6,658 | 6,663 | 15,756 |

1 The comparative periods have been restated as set out in note F1 - Basis of preparation.
2 Required capital is shown net of implicit items permitted by local regulators to cover minimum solvency margins.
3 Opening MCEV includes the adjustment related to the removal of US Life held for sale operations from covered business on 1 January 2013 and the adjustment for the MCEV restatement. Details of both are set out in note F1 – Basis of preparation.
4 Other non-operating variances are primarily driven by the impact of pension legislation change in Poland as well as the impact of tax changes in France and the UK.
5 Included within capital and dividend flows is the transfer to Life and related businesses from other segments consisting of service company profits and losses during the reported period that have emerged from the value of in-force. Since the 'look through' into service companies includes only future profits and losses, these amounts must be eliminated from the closing embedded value.
6 Acquired/divested business includes the adjustment for held for sale operations and disposal of Aseval, Ark Life, Malaysia, Russia and Romania pensions.

## F11 – MCEV Free Surplus Emergence

The table below shows the free surplus generation of existing and new business. Total free surplus generation of £543 million in the current period includes the impact of an internal reinsurance arrangement to reinsure an additional 10% on UK Annuity business to Aviva International Insurance Limited which has had an adverse impact on Group MCEV free surplus of £105 million. On an economic capital basis this transaction improves the UK Life position and as a result the adverse impact on MCEV has therefore been excluded from OCG to reflect the economic substance of the management action.

| **Net of tax and non-controlling interests<br>6 months 2014** | **United Kingdom & Ireland[1]<br>£m** | **Europe<br>£m** | **Asia & Other[2]<br>£m** | **Total<br>£m** |
|---|---|---|---|---|
| **Existing business** | | | | |
| Transfer from VIF to net worth | **235** | **259** | **38** | **532** |
| Return on net worth | **28** | **36** | **5** | **69** |
| Impact of experience variances and assumption changes on net worth | **1,139** | **13** | **(5)** | **1,147** |
| Release of required capital to free surplus | **(1,038)** | **79** | **(9)** | **(968)** |
| **Total existing business free surplus generation** | **364** | **387** | **29** | **780** |
| **New business** | | | | |
| Impact on net worth | **(104)** | **(53)** | **(22)** | **(179)** |
| Reduction in free surplus from required capital | **52** | **(100)** | **(10)** | **(58)** |
| **Total new business free surplus generation** | **(52)** | **(153)** | **(32)** | **(237)** |
| **Total free surplus generation** | **312** | **234** | **(3)** | **543** |

1 In the UK the release of required capital to free surplus and the impact of experience variances primarily reflect capital management actions, see F10 for further details.
2 The introduction of a reinsurance arrangement in Asia during 2013 had a positive impact on both HY13 and FY13 free surplus emergence which is not repeated at HY14.

| Net of tax and non-controlling interests<br>Restated [1]<br>6 months 2013 | United Kingdom & Ireland<br>£m | Europe<br>£m | Asia & Other<br>£m | Total<br>£m |
|---|---|---|---|---|
| **Existing business** | | | | |
| Transfer from VIF to net worth | 191 | 241 | 37 | 469 |
| Return on net worth | 30 | 29 | 6 | 65 |
| Impact of experience variances and assumption changes on net worth | 119 | 52 | 55 | 226 |
| Release of required capital to free surplus | (72) | 121 | 11 | 60 |
| **Total existing business surplus generation** | 268 | 443 | 109 | 820 |
| **New business** | | | | |
| Impact on net worth | (17) | (48) | (24) | (89) |
| Reduction in free surplus from required capital | 18 | (98) | (11) | (91) |
| **Total new business surplus generation** | 1 | (146) | (35) | (180) |
| **Total free surplus generation** | 269 | 297 | 74 | 640 |

1 The comparative periods have been restated as set out in note F1 - Basis of preparation.

| Net of tax and non-controlling interests<br>Restated [1]<br>Full Year 2013 | United Kingdom & Ireland<br>£m | Europe<br>£m | Asia & Other<br>£m | Total<br>£m |
|---|---|---|---|---|
| **Existing business** | | | | |
| Transfer from VIF to net worth | 386 | 448 | 77 | 911 |
| Return on net worth | 67 | 58 | 12 | 137 |
| Impact of experience variances and assumption changes on net worth | 529 | 61 | 74 | 664 |
| Release of required capital to free surplus | (373) | 210 | 18 | (145) |
| **Total existing business free surplus generation** | 609 | 777 | 181 | 1,567 |
| **New business** | | | | |
| Impact on net worth | (45) | (90) | (46) | (181) |
| Reduction in free surplus from required capital | 32 | (182) | (22) | (172) |
| **Total new business free surplus generation** | (13) | (272) | (68) | (353) |
| **Total free surplus generation** | 596 | 505 | 113 | 1,214 |

1 The comparative periods have been restated as set out in note F1 - Basis of preparation.

## F12 – Segmental analysis of life and related business embedded value

| Net of tax and non-controlling interests 6 months 2014 | Free surplus £m | Required Capital[1] £m | VIF £m | Total MCEV £m |
|---|---|---|---|---|
| United Kingdom[2,3] | **1,333** | **4,316** | **2,100** | **7,749** |
| Ireland | **126** | **160** | **386** | **672** |
| United Kingdom & Ireland | **1,459** | **4,476** | **2,486** | **8,421** |
| France | **146** | **2,152** | **1,284** | **3,582** |
| Poland | **176** | **107** | **896** | **1,179** |
| Italy[4] | **148** | **248** | **213** | **609** |
| Spain[5] | **35** | **194** | **178** | **407** |
| Other Europe | **4** | **13** | **114** | **131** |
| Europe | **509** | **2,714** | **2,685** | **5,908** |
| Asia | **156** | **213** | **527** | **896** |
| Other | **25** | **10** | **49** | **84** |
| **Total** | **2,149** | **7,413** | **5,747** | **15,309** |

1 Required capital is shown net of implicit items permitted by local regulators to cover minimum solvency margins.
2 In the UK, the reduction in VIF is offset by an increase in required capital and free surplus as a result of capital management transactions, see F10 for further details. Free surplus in the UK also benefits from expense savings.
3 An internal reinsurance arrangement was undertaken in the first half of 2014 to reinsure an additional 10% of UK Annuity business to Aviva International Insurance Limited which has had an adverse impact on Group MCEV free surplus of £105 million (MCEV Note F11). On an economic capital basis this transaction improves the UK Life position and as a result the adverse impact on MCEV has therefore been excluded from OCG to reflect the economic substance of the management action.
4 The significant increase in free surplus and VIF in Italy compared to HY13 is driven by the sale of Eurovita (see F19 for further information).
5 Required capital in Spain reflects the current economic environment and is in excess of regulatory requirements.

| Net of tax and non-controlling interests Restated[1] 6 months 2013 | Free surplus £m | Required Capital[2] £m | VIF £m | Total MCEV £m |
|---|---|---|---|---|
| United Kingdom | 1,023 | 2,765 | 3,462 | 7,250 |
| Ireland | 107 | 188 | 494 | 789 |
| United Kingdom & Ireland | 1,130 | 2,953 | 3,956 | 8,039 |
| France[3] | (2) | 2,235 | 1,193 | 3,426 |
| Poland | 137 | 110 | 1,208 | 1,455 |
| Italy[3,4] | (27) | 576 | (4) | 545 |
| Spain[3,4] | — | 244 | 93 | 337 |
| Other Europe | 8 | 19 | 114 | 141 |
| Europe | 116 | 3,184 | 2,604 | 5,904 |
| Asia | 239 | 244 | 244 | 727 |
| Other | 40 | 10 | 12 | 62 |
| **Total** | 1,525 | 6,391 | 6,816 | 14,732 |

1 The comparative periods have been restated as set out in note F1 - Basis of preparation.
2 Required capital is shown net of implicit items permitted by local regulators to cover minimum solvency margins.
3 France, Italy and Spain have a positive surplus on a statutory basis.
4 Required capital in Italy and Spain reflects the current economic environment and is in excess of regulatory requirements.

| Net of tax and non-controlling interests Restated[1] Full Year 2013 | Free surplus £m | Required Capital[2] £m | VIF £m | Total MCEV £m |
|---|---|---|---|---|
| United Kingdom | 1,581 | 3,225 | 3,173 | 7,979 |
| Ireland | 131 | 165 | 380 | 676 |
| United Kingdom & Ireland | 1,712 | 3,390 | 3,553 | 8,655 |
| France | 227 | 2,213 | 1,318 | 3,758 |
| Poland | 202 | 111 | 969 | 1,282 |
| Italy [3] | 62 | 484 | 92 | 638 |
| Spain[3] | 32 | 204 | 146 | 382 |
| Other Europe | 10 | 15 | 102 | 127 |
| Europe | 533 | 3,027 | 2,627 | 6,187 |
| Asia | 185 | 236 | 473 | 894 |
| Other | 5 | 5 | 10 | 20 |
| **Total** | 2,435 | 6,658 | 6,663 | 15,756 |

1 The comparative periods have been restated as set out in note F1 - Basis of preparation.
2 Required capital is shown net of implicit items permitted by local regulators to cover minimum solvency margins.
3 Required capital in Italy and Spain reflects the current economic environment and is in excess of regulatory requirements.

The required capital across our life businesses varies between 100% and 200% of EU minimum or equivalent (*100% to 222% at HY13)*. The weighted average level of required capital for our life business expressed as a percentage of EU minimum (or equivalent) solvency margin is 109% *(HY13: 120%).* These levels of required capital are used in the calculation of the Group's embedded value to evaluate the cost of locked in capital. At 30 June 2014 the aggregate regulatory requirements based on the EU minimum test amounted to £6.8 billion (*HY13: £5.5 billion*). At this date, the actual net worth held in our long-term business, was £9.6 billion (*HY13: £7.9 billion*) which represents 142% (*HY13: 145%*) of these minimum requirements.

## F13 – Present value of life new business premiums

The tables below set out the present value of new business premiums (PVNBP) written by the life and related businesses, gross of tax and non-controlling interests. The PVNBP calculation is equal to total single premium sales received in the period plus the discounted value of regular premiums expected to be received over the term of the new contracts, and is expressed at the point of sale.

The premium volumes and projection assumptions used to calculate the present value of regular premiums for each product are the same as those used to calculate the value of new business, so the components of the new business margin are on a consistent basis.

The weighted average capitalisation factor (WACF) is the multiple of the annualised regular premium which gives the present value at point of sale of the regular premiums.

| **Gross of tax and non-controlling interests<br>6 months 2014** | **Regular premiums £m** | **WACF** | **Present value of regular premiums £m** | **Single premiums £m** | **Present value of new business premiums £m** |
|---|---|---|---|---|---|
| United Kingdom | **499** | **5.0** | **2,513** | **3,539** | **6,052** |
| Ireland | **13** | **5.2** | **67** | **129** | **196** |
| United Kingdom & Ireland | **512** | **5.0** | **2,580** | **3,668** | **6,248** |
| France | **47** | **8.1** | **383** | **2,044** | **2,427** |
| Poland[1] | **29** | **9.5** | **275** | **57** | **332** |
| Italy | **30** | **5.3** | **160** | **1,449** | **1,609** |
| Spain | **22** | **5.6** | **123** | **439** | **562** |
| Other Europe | **54** | **3.7** | **201** | **30** | **231** |
| Europe | **182** | **6.3** | **1,142** | **4,019** | **5,161** |
| Asia[2] | **133** | **6.0** | **796** | **168** | **964** |
| Other | **—** | **—** | **—** | **257** | **257** |
| **Total life and pensions** | **827** | **5.5** | **4,518** | **8,112** | **12,630** |

1 WACF increases in Poland reflect higher volume of regular premium Lithuanian pension business.
2 Increase in WACF in Asia relates to the longer term healthcare business included as covered business at HY14 but not at HY13.

| Gross of non-controlling interests<br>Restated[1]<br>6 months 2013 | Regular premiums £m | WACF | Present value of regular premiums £m | Single premiums £m | Present value of new business premiums £m |
|---|---|---|---|---|---|
| United Kingdom | 395 | 5.0 | 1,969 | 3,591 | 5,560 |
| Ireland | 13 | 4.2 | 55 | 170 | 225 |
| United Kingdom & Ireland | 408 | 5.0 | 2,024 | 3,761 | 5,785 |
| France | 49 | 8.1 | 397 | 1,966 | 2,363 |
| Poland | 23 | 7.5 | 173 | 54 | 227 |
| Italy | 33 | 5.7 | 188 | 1,117 | 1,305 |
| Spain | 31 | 5.6 | 175 | 466 | 641 |
| Other Europe | 58 | 3.9 | 225 | 48 | 273 |
| Europe | 194 | 6.0 | 1,158 | 3,651 | 4,809 |
| Asia | 149 | 5.3 | 786 | 75 | 861 |
| Other | — | — | — | 7 | 7 |
| **Total life and pensions** | 751 | 5.3 | 3,968 | 7,494 | 11,462 |

1 The comparative periods have been restated as set out in note F1 - Basis of preparation.

| Gross of tax and non-controlling interests<br>Restated[1]<br>Full Year 2013 | Regular premiums £m | WACF | Present value of regular premiums £m | Single premiums £m | Present value of new business premiums £m |
|---|---|---|---|---|---|
| United Kingdom | 878 | 5.1 | 4,443 | 7,481 | 11,924 |
| Ireland | 26 | 4.4 | 114 | 355 | 469 |
| United Kingdom & Ireland | 904 | 5.0 | 4,557 | 7,836 | 12,393 |
| France | 89 | 8.0 | 712 | 3,786 | 4,498 |
| Poland | 38 | 9.0 | 341 | 145 | 486 |
| Italy | 51 | 5.5 | 279 | 1,955 | 2,234 |
| Spain | 52 | 5.6 | 290 | 934 | 1,224 |
| Other Europe | 103 | 4.6 | 473 | 71 | 544 |
| Europe | 333 | 6.3 | 2,095 | 6,891 | 8,986 |
| Asia | 290 | 5.6 | 1,632 | 108 | 1,740 |
| Other | — | — | — | 58 | 58 |
| **Total life and pensions** | 1,527 | 5.4 | 8,284 | 14,893 | 23,177 |

1 The comparative periods have been restated as set out in note F1 - Basis of preparation.

## F14 – Geographical analysis of value of new business

The tables below set out the present value of new business premiums (PVNBP) written by the life and related businesses, the value of the new business and the resulting margin, firstly gross and then net of tax and non-controlling interests. The value generated by new business written during the period is the present value of the projected stream of after-tax distributable profit from that business, including expected profit between point of sale and the valuation date. It reflects the additional value to shareholders created through the activity of writing new business including the impacts of interactions between in force and new business with the exception of tax as noted in the basis of preparation. The value of new business has been calculated using economic assumptions at the point of sale which have been implemented with the assumptions being taken as those appropriate to the start of each quarter. For contracts that are re-priced more frequently, weekly or monthly economic assumptions have been used. The operating assumptions are consistent with those used to determine the embedded value. The value of new business is shown after the effect of the frictional costs of holding required capital, and after the effect of the costs of residual non-hedgeable risks on the same basis as for the in-force covered business.

| | Present value of new business premiums | | | Value of new business | | | New business margin | | |
|---|---|---|---|---|---|---|---|---|---|
| **Gross of tax and non-controlling interests** | **6 months 2014 £m** | Restated[1] 6 months 2013 £m | Restated[1] Full Year 2013 £m | **6 months 2014 £m** | Restated[1] 6 months 2013 £m | Restated[1] Full Year 2013 £m | **6 months 2014 %** | Restated[1] 6 months 2013 % | Restated[1] Full Year 2013 % |
| United Kingdom | **6,052** | 5,560 | 11,924 | **177** | 224 | 469 | **2.9%** | 4.0% | 3.9% |
| Ireland | **196** | 225 | 469 | **6** | 2 | 8 | **3.1%** | 0.9% | 1.7% |
| United Kingdom & Ireland | **6,248** | 5,785 | 12,393 | **183** | 226 | 477 | **2.9%** | 3.9% | 3.8% |
| France | **2,427** | 2,363 | 4,498 | **110** | 90 | 172 | **4.5%** | 3.8% | 3.8% |
| Poland | **332** | 227 | 486 | **34** | 21 | 51 | **10.2%** | 9.3% | 10.5% |
| Italy | **1,609** | 1,305 | 2,234 | **17** | 11 | 27 | **1.1%** | 0.8% | 1.2% |
| Spain | **562** | 641 | 1,224 | **18** | 15 | 35 | **3.2%** | 2.3% | 2.9% |
| Other Europe | **231** | 273 | 544 | **14** | 21 | 38 | **6.1%** | 7.7% | 7.0% |
| Europe | **5,161** | 4,809 | 8,986 | **193** | 158 | 323 | **3.7%** | 3.3% | 3.6% |
| Asia | **964** | 861 | 1,740 | **66** | 42 | 104 | **6.8%** | 4.9% | 6.0% |
| Other | **257** | 7 | 58 | **2** | — | — | **0.8%** | — | — |
| **Total life and pensions** | **12,630** | 11,462 | 23,177 | **444** | 426 | 904 | **3.5%** | 3.7% | 3.9% |

1 The comparative periods have been restated as set out in note F1 - Basis of preparation.

| | Present value of new business premiums | | | Value of new business | | | New business margin | | |
|---|---|---|---|---|---|---|---|---|---|
| **Net of tax and non-controlling interests** | **6 months 2014 £m** | Restated[1] 6 months 2013 £m | Restated[1] Full Year 2013 £m | **6 months 2014 £m** | Restated[1] 6 months 2013 £m | Restated[1] Full Year 2013 £m | **6 months 2014 %** | Restated[1] 6 months 2013 % | Restated[1] Full Year 2013 % |
| United Kingdom | **6,052** | 5,560 | 11,924 | **141** | 172 | 361 | **2.3%** | 3.1% | 3.0% |
| Ireland | **196** | 205 | 448 | **6** | 2 | 7 | **3.1%** | 1.0% | 1.6% |
| United Kingdom & Ireland | **6,248** | 5,765 | 12,372 | **147** | 174 | 368 | **2.4%** | 3.0% | 3.0% |
| France | **2,023** | 1,970 | 3,779 | **66** | 52 | 99 | **3.3%** | 2.6% | 2.6% |
| Poland | **300** | 205 | 440 | **25** | 16 | 38 | **8.3%** | 7.8% | 8.6% |
| Italy | **662** | 546 | 932 | **4** | 3 | 7 | **0.6%** | 0.5% | 0.8% |
| Spain | **323** | 357 | 689 | **6** | 3 | 9 | **1.9%** | 0.8% | 1.3% |
| Other Europe | **231** | 273 | 544 | **11** | 17 | 30 | **4.8%** | 6.2% | 5.5% |
| Europe | **3,539** | 3,351 | 6,384 | **112** | 91 | 183 | **3.2%** | 2.7% | 2.9% |
| Asia | **964** | 860 | 1,739 | **53** | 35 | 85 | **5.5%** | 4.1% | 4.9% |
| Other | **257** | 7 | 58 | **1** | — | — | **0.4%** | — | — |
| **Total life and pensions** | **11,008** | 9,983 | 20,553 | **313** | 300 | 636 | **2.8%** | 3.0% | 3.1% |

1 The comparative periods have been restated as set out in note F1 - Basis of preparation.

## F15 – Maturity profile of business

### (a) Total in-force business

To show the profile of the VIF emergence, the value of VIF in the statement of financial position has been split into five-year tranches depending on the date when the profit is expected to emerge.

| Net of non-controlling interests 30 June 2014 £m | 0-5 | 6-10 | 11-15 | 16-20 | 20+ | Total |
|---|---|---|---|---|---|---|
| United Kingdom & Ireland[1] | **488** | **533** | **418** | **255** | **792** | **2,486** |
| Europe | **1,125** | **706** | **410** | **224** | **220** | **2,685** |
| Asia and Other | **277** | **105** | **84** | **30** | **80** | **576** |
| **Total** | **1,890** | **1,344** | **912** | **509** | **1,092** | **5,747** |

1 The large reduction in UK VIF relates to capital management transactions which result in an offsetting increase in Required Capital and Free Surplus.

| Net of non-controlling interests Restated[1] 30 June 2013 £m | 0-5[2] | 6-10 | 11-15 | 16-20 | 20+ | Total |
|---|---|---|---|---|---|---|
| United Kingdom & Ireland | 769 | 1,113 | 787 | 386 | 901 | 3,956 |
| Europe | 918 | 651 | 399 | 247 | 389 | 2,604 |
| Asia and Other | 160 | 143 | 38 | 5 | (90) | 256 |
| **Total** | 1,847 | 1,907 | 1,224 | 638 | 1,200 | 6,816 |

1 The comparative periods have been restated as set out in note F1 - Basis of preparation.
2 For held for sale operations, the VIF emergence is reported in the 0-5 column.

| Net of non-controlling interests Restated[1] 31 December 2013 £m | 0-5[2] | 6-10 | 11-15 | 16-20 | 20+ | Total |
|---|---|---|---|---|---|---|
| United Kingdom & Ireland | 735 | 974 | 675 | 317 | 852 | 3,553 |
| Europe | 1,012 | 702 | 420 | 236 | 257 | 2,627 |
| Asia and Other | 217 | 97 | 78 | 36 | 55 | 483 |
| **Total** | 1,964 | 1,773 | 1,173 | 589 | 1,164 | 6,663 |

1 The comparative periods have been restated as set out in note F1 - Basis of preparation.
2 For held for sale operations, the VIF emergence is reported in the 0-5 column.

### (b) New business

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

| Net of non-controlling interests 30 June 2014 £m | 0-5 | 6-10 | 11-15 | 16-20 | 20+ | Total |
|---|---|---|---|---|---|---|
| United Kingdom & Ireland | **65** | **51** | **36** | **26** | **73** | **251** |
| Europe | **67** | **42** | **23** | **15** | **18** | **165** |
| Asia and Other | **39** | **15** | **8** | **5** | **9** | **76** |
| **Total** | **171** | **108** | **67** | **46** | **100** | **492** |

| Net of non-controlling interests Restated[1] 30 June 2013 £m | 0-5[2] | 6-10 | 11-15 | 16-20 | 20+ | Total |
|---|---|---|---|---|---|---|
| United Kingdom & Ireland | 75 | 36 | 16 | 9 | 55 | 191 |
| Europe | 58 | 32 | 22 | 13 | 14 | 139 |
| Asia and Other | 25 | 17 | 9 | 6 | 2 | 59 |
| **Total** | 158 | 85 | 47 | 28 | 71 | 389 |

1 The comparative periods have been restated as set out in note F1 - Basis of preparation.
2 For held for sale operations, the VIF emergence is reported in the 0-5 column.

| Net of non-controlling interests Restated[1] 31 December 2013 £m | 0-5[2] | 6-10 | 11-15 | 16-20 | 20+ | Total |
|---|---|---|---|---|---|---|
| United Kingdom & Ireland | 116 | 77 | 49 | 34 | 137 | 413 |
| Europe | 99 | 70 | 42 | 28 | 32 | 271 |
| Asia and Other | 75 | 27 | 14 | 6 | 11 | 133 |
| **Total** | 290 | 174 | 105 | 68 | 180 | 817 |

1 The comparative periods have been restated as set out in note F1 - Basis of preparation.
2 For held for sale operations, the VIF emergence is reported in the 0-5 column.

## F16 – Risk allowance within present value of in-force (VIF)

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

| Net of non-controlling interests<br>30 June 2014 | PVFP<br>£m | Frictional costs<br>£m | Non-hedgeable risks<br>£m | Time value of financial options and guarantees<br>£m | VIF<br>£m |
|---|---|---|---|---|---|
| United Kingdom | 3,049 | (378) | (492) | (79) | 2,100 |
| Ireland | 411 | (7) | (18) | — | 386 |
| United Kingdom & Ireland | 3,460 | (385) | (510) | (79) | 2,486 |
| France | 2,391 | (106) | (219) | (782) | 1,284 |
| Poland | 1,043 | (8) | (88) | (51) | 896 |
| Italy | 246 | (8) | (7) | (18) | 213 |
| Spain | 214 | (7) | (25) | (4) | 178 |
| Other Europe | 117 | (2) | (1) | — | 114 |
| Europe | 4,011 | (131) | (340) | (855) | 2,685 |
| Asia | 649 | (29) | (79) | (14) | 527 |
| Other | 50 | — | (1) | — | 49 |
| **Total** | **8,170** | **(545)** | **(930)** | **(948)** | **5,747** |

Total risk allowances have increased compared to HY13:

- Frictional costs have increased by £65 million principally driven by the UK where capital transactions have increased required capital and therefore frictional costs. This is somewhat offset by France where frictional costs have fallen due to economic movements.
- The allowance for non-hedgeable risks has decreased by £141 million, primarily in Poland where legislation changes have reduced the allowance for future legislation risk, given the lower value now at risk.
- The allowance for Time Value of Options and Guarantees has increased by £126 million primarily due to the increase in the cost of guarantees in France as a result of falling interest rates and the impact of the pension legislation changes in Poland, which increases the volatility of future management charges. This is somewhat offset by a reduction in Asia driven by the sale of Korea.

| Net of non-controlling interests<br>Restated[1]<br>30 June 2013 | PVFP<br>£m | Frictional costs<br>£m | Non-hedgeable risks<br>£m | Time value of financial options and guarantees<br>£m | VIF<br>£m |
|---|---|---|---|---|---|
| United Kingdom | 4,182 | (245) | (441) | (34) | 3,462 |
| Ireland | 525 | (9) | (22) | — | 494 |
| United Kingdom & Ireland | 4,707 | (254) | (463) | (34) | 3,956 |
| France | 2,282 | (162) | (238) | (689) | 1,193 |
| Poland | 1,454 | (10) | (226) | (10) | 1,208 |
| Italy | 65 | (12) | (30) | (27) | (4) |
| Spain | 145 | (10) | (27) | (15) | 93 |
| Other Europe | 117 | (1) | (2) | — | 114 |
| Europe | 4,063 | (195) | (523) | (741) | 2,604 |
| Asia | 406 | (31) | (84) | (47) | 244 |
| Other | 13 | — | (1) | — | 12 |
| **Total** | 9,189 | (480) | (1,071) | (822) | 6,816 |

1 The comparative periods have been restated as set out in note F1 - Basis of preparation.

| Net of non-controlling interests<br>Restated[1]<br>31 December 2013 | PVFP<br>£m | Frictional costs<br>£m | Non-hedgeable risks<br>£m | Time value of financial options and guarantees<br>£m | VIF<br>£m |
|---|---|---|---|---|---|
| United Kingdom | 3,952 | (255) | (468) | (56) | 3,173 |
| Ireland | 405 | (8) | (17) | — | 380 |
| United Kingdom & Ireland | 4,357 | (263) | (485) | (56) | 3,553 |
| France | 2,341 | (175) | (213) | (635) | 1,318 |
| Poland | 1,150 | (9) | (111) | (61) | 969 |
| Italy | 158 | (11) | (30) | (25) | 92 |
| Spain | 185 | (9) | (25) | (5) | 146 |
| Other Europe | 104 | (1) | (1) | — | 102 |
| Europe | 3,938 | (205) | (380) | (726) | 2,627 |
| Asia | 614 | (33) | (79) | (29) | 473 |
| Other | 11 | — | (1) | — | 10 |
| **Total** | 8,920 | (501) | (945) | (811) | 6,663 |

1 The comparative periods have been restated as set out in note F1 - Basis of preparation.

## F17 – Implied discount rates (IDR)

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

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

Average derived risk discount rates are shown below for the embedded value.

| | **30 June 2014 %** | Restated[1] 30 June 2013 % | Restated[1] 31 December 2013 % |
|---|---|---|---|
| United Kingdom | **6.6%** | 6.3% | 6.4% |
| Ireland[2] | **1.7%** | 1.3% | 1.7% |
| United Kingdom & Ireland | **6.2%** | 5.8% | 6.0% |
| France | **6.6%** | 6.5% | 6.7% |
| Poland | **5.8%** | 5.8% | 6.3% |
| Italy[2,3] | **3.8%** | 7.5% | 3.7% |
| Spain[2,3] | **5.4%** | 10.2% | 7.8% |
| Other Europe[2] | **9.3%** | 6.3% | 9.8% |
| Europe | **6.0%** | 6.8% | 6.2% |
| Asia[2] | **4.6%** | 5.4% | 3.6% |
| Other | **5.3%** | — | — |
| **Total** | **6.0%** | 6.3% | 6.0% |

1 The comparative periods have been restated as set out in note F1 - Basis of preparation.
2 IDRs have been calculated excluding held for sale operations, reflecting that they are stated at expected fair value less cost to sell.
3 The IDRs in Italy and Spain have decreased since HY13 following a significant narrowing of government bond spreads, which has reduced substantially the difference between the risk-free and real-world returns.

As part of the MCEV restatement described in Note F1, 31 December 2012 IDRs were restated for UK, France, Italy, Spain and Ireland to 6.6%, 6.2%, 8.8%, 11.3% and 1.5% respectively. The 31 December 2012 IDR determines the expected existing business contributions for the restated 30 June 2013 and 31 December 2013 analysis of earnings (notes F3 and F10). Singapore's FY12 IDR, a component of the "Asia" operating segment IDR, remains unchanged following the restatement because the region's healthcare business did not become covered business until the second half of 2013.

## F18 – Summary of non-controlling interest in life and related businesses' MCEV results

| **30 June 2014** | **France £m** | **Spain £m** | **Italy £m** | **Poland £m** | **Asia £m** | **Total £m** | **Share-holders' Interest £m** | **Group £m** |
|---|---|---|---|---|---|---|---|---|
| Value of new business after tax | **7** | **7** | **7** | **3** | **—** | **24** | **313** | **337** |
| Life MCEV operating earnings/(loss) after tax | **21** | **17** | **27** | **7** | **—** | **72** | **880** | **952** |
| Life MCEV earnings/(loss) after tax | **19** | **63** | **54** | **3** | **—** | **139** | **688** | **827** |
| Closing covered businesses' embedded value | **293** | **335** | **679** | **150** | **—** | **1,457** | **15,309** | **16,766** |

| Restated[1] 30 June 2013 | France £m | Spain £m | Italy £m | Poland £m | Asia £m | Total £m | Share-holders' Interest £m | Group £m |
|---|---|---|---|---|---|---|---|---|
| Value of new business after tax | 7 | 7 | 4 | 1 | — | 19 | 300 | 319 |
| Life MCEV operating earnings after tax | 14 | 11 | 57 | 7 | — | 89 | 744 | 833 |
| Life MCEV earnings after tax | 8 | 93 | 172 | (3) | — | 270 | 953 | 1,223 |
| Closing covered businesses' embedded value | 309 | 305 | 608 | 199 | 3 | 1,424 | 14,732 | 16,156 |

1 The comparative periods have been restated as set out in note F1 - Basis of preparation.

| Restated[1] 31 December 2013 | France £m | Spain £m | Italy £m | Poland £m | Asia £m | Total £m | Share-holders' Interest £m | Group £m |
|---|---|---|---|---|---|---|---|---|
| Value of new business after tax | 13 | 15 | 10 | 4 | — | 42 | 636 | 678 |
| Life MCEV operating earnings after tax | (2) | 24 | 99 | 14 | — | 135 | 1,525 | 1,660 |
| Life MCEV earnings after tax | (7) | 146 | 375 | (39) | — | 475 | 2,058 | 2,533 |
| Closing covered businesses' embedded value | 284 | 316 | 770 | 166 | 2 | 1,538 | 15,756 | 17,294 |

1 The comparative periods have been restated as set out in note F1 - Basis of preparation.

Non-controlling interest in life and related businesses is not impacted by the treatment of held for sale operations. There are no non-controlling interests in the United Kingdom. For comparative figures, non-controlling interest in Ireland was assumed to be 0% throughout the period on the grounds of materiality; no such approximation is required for the closing embedded value.

# F19 – Principal assumptions

## (a) Economic assumptions – Deterministic calculations

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

In setting the risk-free rate we have, wherever possible, used the mid-price swap yield curve for an AA-rated bank. The curve is extrapolated beyond the last available market data point to an ultimate forward rate using the Nelson-Siegel functional form if necessary. For markets in which there is no reliable swap yield curve, the relevant government bond yields are used. For certain business, swap rates are adjusted for a 'liquidity premium' in deriving the risk free rates, and these adjustments are shown below the reference rate table.

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

The principal economic assumptions used are as follows:

### Reference rate (spot, swap rates) and expense inflation

| United Kingdom | **30 June 2014** | 30 June 2013 | Full Year 2013 | Full Year 2012 |
|---|---|---|---|---|
| Reference Rate | | | | |
| 1 year | **0.8%** | 0.6% | 0.6% | 0.6% |
| 5 years | **2.2%** | 1.6% | 2.2% | 1.0% |
| 10 years | **2.9%** | 2.7% | 3.1% | 1.9% |
| 15 years | **3.2%** | 3.2% | 3.5% | 2.6% |
| 20 years | **3.3%** | 3.4% | 3.6% | 2.9% |
| Expense inflation | **3.3%** | 3.1% | 3.4% | 2.8% |

| Eurozone | **30 June 2014** | 30 June 2013 | Full Year 2013 | Full Year 2012 |
|---|---|---|---|---|
| Reference Rate | | | | |
| 1 year | **0.3%** | 0.4% | 0.4% | 0.3% |
| 5 years | **0.7%** | 1.2% | 1.3% | 0.8% |
| 10 years | **1.5%** | 2.1% | 2.2% | 1.6% |
| 15 years | **2.0%** | 2.5% | 2.7% | 2.1% |
| 20 years | **2.2%** | 2.6% | 2.9% | 2.3% |
| Expense inflation[1] | **2.5%** | 2.5% | 2.5% | 2.5% |

1 Based on France, the largest Eurozone business

| Poland | **30 June 2014** | 30 June 2013 | Full Year 2013 | Full Year 2012 |
|---|---|---|---|---|
| Reference Rate | | | | |
| 1 year | **2.4%** | 2.8% | 2.7% | 3.4% |
| 5 years | **2.9%** | 3.8% | 3.7% | 3.4% |
| 10 years | **3.4%** | 4.2% | 4.3% | 3.5% |
| 15 years | **3.6%** | 4.2% | 4.4% | 3.4% |
| 20 years | **3.7%** | 4.1% | 4.3% | 3.2% |
| Expense inflation | **1.9%** | 2.6% | 3.8% | 2.1% |

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

The following liquidity premium adjustments are made to the swap rate for certain immediate annuity and participating type contracts. The risk-free rate is taken as the swap yield curve for the currency of the liability, adjusted by adding the following to each swap rate:

| | New business | | | | | | Embedded value | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2Q 2014** | **1Q 2014** | Restated[1] 4Q 2013 | Restated[1] 3Q 2013 | Restated[1] 2Q 2013 | Restated[1] 1Q 2013 | **30 June 2014** | Restated[1] Full Year 2012 | Restated[1] 30 June 2013 | Restated[1] Full Year 2013 |
| UK immediate annuities[2,3] | **0.98%** | **1.05%** | 1.06% | 1.17% | 1.21% | 1.24% | **1.01%** | 1.30% | 1.22% | 1.10% |
| UK bulk purchase annuities[2,3] | **0.98%** | **1.05%** | 1.06% | 1.17% | 1.21% | 1.24% | **1.01%** | 1.30% | 1.22% | 1.10% |
| UK participating business | **0.40%** | **0.39%** | 0.44% | 0.55% | 0.53% | 0.58% | **0.35%** | 0.58% | 0.55% | 0.39% |
| Ireland immediate annuities | **0.24%** | **0.28%** | 0.32% | 0.38% | 0.39% | 0.44% | **0.21%** | 0.44% | 0.38% | 0.28% |
| France annuities | **0.24%** | **0.28%** | 0.32% | 0.38% | 0.39% | 0.44% | **0.21%** | 0.44% | 0.38% | 0.28% |
| France participating business | **0.18%** | **0.21%** | 0.24% | 0.29% | 0.30% | 0.33% | **0.16%** | 0.33% | 0.29% | 0.21% |
| Italy participating business | **0.18%** | **0.21%** | 0.24% | 0.29% | 0.30% | 0.33% | **0.16%** | 0.33% | 0.29% | 0.21% |
| Spain annuities | **0.24%** | **0.28%** | 0.32% | 0.38% | 0.39% | 0.44% | **0.21%** | 0.44% | 0.38% | 0.28% |
| Spain participating business | **0.18%** | **0.21%** | 0.24% | 0.29% | 0.30% | 0.33% | **0.16%** | 0.33% | 0.29% | 0.21% |

1 The comparative periods have been restated as set out in note F1 - Basis of preparation.
2 An additional provision of £230 million (*HY13: £150 million*) has been set aside by the UK due to the uncertainty in their estimation of future liquidity premium on mark to model assets (commercial, healthcare and equity release mortgages). This additional provision reduces total MCEV only.
3 The approach to estimating the liquidity premium on new business in the UK has been revised during 2014, with an immaterial impact at both 30 June 2014 and the comparative periods.

The approach to estimating the market level of liquidity premium is consistent with the formula structure proposed by CFO/CRO Forum and adopted in the Solvency II Fifth Quantitative Impact Study (QIS5).

## F19 – Principal assumptions continued

### (a) Economic assumptions – Deterministic calculations continued

The formula for the liquidity premium is:

United Kingdom/Europe: 50% of (iBoxx Corporate bond spread – 40bp)

The CEIOPS (now EIOPA) Task Force on Liquidity Premium issued a set of Principles dated 1 March 2010 on the application of the liquidity premium. Principle 2 states that "The liquidity premium should be independent of the investment strategy followed by the company". In agreement with this, Aviva has removed the requirement for the liquidity premium to only apply to those liabilities backed by corporate bonds or certain illiquid non-traded assets (notably UK commercial mortgages). As a consequence an optimised notional portfolio is assumed which can include the actual assets backing the liabilities.

For assets valued on a marked to model basis (notably UK commercial mortgages) the liquidity premium continues to be estimated consistently with the underlying valuation model. For all other assets, the formula stated above is adopted.

The application of the liquidity premium has also been extended to apply to participating business, and the adjustment to annuity type contracts exposed to some lapse risk (15% reduction to the market level of liquidity premium) has been removed. An adjustment factor is now applied to the market level of liquidity premium to reflect the degree to which the liabilities are illiquid. The adjustment applied to various product lines is as follows:

- 100% of full liquidity premium applied to Immediate Annuities, UK Bulk Purchase Annuities and Spanish cash flow matched business such as Financial Annuities;
- 75% of full liquidity premium applied to participating contracts (both UK and Continental European types) and deferred annuities; and
- 0% of full liquidity premium applied to all other products

The liquidity premium is applied to all components of the MCEV with the exception of the adjustment for the "look-through" into service company expenses. There is no term structure for the liquidity premium.

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

For life and pensions operating earnings, Aviva uses normalised investment returns. The normalised investment returns are expressed as a swap rate based on the typical duration of the assets held plus an asset risk premium. More detail is given in note F1 – Basis of preparation.

The use of asset risk premia only impacts operating earnings as expected returns reflect management's long-term expectations of asset returns in excess of the reference rate from investing in different asset classes. This assumption does not impact the embedded value or value of new business as asset risk premia are not recognised until earned. The asset risk premia set out in the table below are added to the ten year swap rate to calculate expected returns.

| All territories | **30 June 2014** | 30 June 2013 | Full Year 2013 | Full Year 2012 |
|---|---|---|---|---|
| Equity risk premium | **3.5%** | 3.5% | 3.5% | 3.5% |
| Property risk premium | **2.0%** | 2.0% | 2.0% | 2.0% |

Future returns on fixed interest investments are calculated from prospective yields less an adjustment for credit risk; this includes an adjustment for credit risk on all Eurozone sovereign debt.

### Required capital and tax

| | Tax rates[1] | | | | Required capital (% EU minimum or equivalent) | | |
|---|---|---|---|---|---|---|---|
| | **30 June 2014** | 30 June 2013 | Full Year 2013 | Full Year 2012 | **30 June 2014** | 30 June 2013 | Full Year 2013 |
| United Kingdom[2] | **20.0%** | 20.0% | 20.0% | 23.0% | **100%/200%** | 100%/200% | 100%/200% |
| Ireland | **12.5%** | 12.5% | 12.5% | 12.5% | **180%** | 180.0% | 180.0% |
| France | **34.4%** | 34.4% | 34.4% | 34.4% | **107.5%** | 107.5% | 107.5% |
| Spain[3] | **30.0%** | 30.0% | 30.0% | 30.0% | **192.4%** | 197.0% | 188.1% |
| Italy[4] | **33.7%** | 34.3% | 34.3% | 34.3% | **115.7%** | 222.0% | 191.7% |
| Poland | **19.0%** | 19.0% | 19.0% | 19.0% | **125.5%** | 125.5% | 125.5% |

1 Current tax legislation and rates have been assumed to continue unaltered except where changes in future tax rates have been substantively enacted.
2 The required capital in the United Kingdom under MCEV is 100% for unit-linked and other non-participating business and annuity business with 200% for BPA business. In addition, the reattribution of the inherited estate has led to additional capital being locked in to support the with-profit business, and this has been included within required capital.
3 This is the aggregate required capital for in force business in Spain. New business metrics continue to use management target levels of required capital (123% - 134% of EU minimum), which better reflects the capital requirements of the new business.
4 This is the aggregate required capital level for in force business in Italy and reflects the current economic environment. Higher percentages in comparative periods reflect the inclusion of Eurovita at that time.

The main rate of UK Corporation tax was reduced to 21% from 1 April 2014, with a further reduction to 20% from 1 April 2015. This reduction to 20% is considered a known future change for MCEV purposes and has been reflected in the Group's MCEV net assets as at 30 June 2014.

## F19 – Principal assumptions continued

Following the inclusion of the 3% dividend distribution tax in the France MCEV at 31 December 2013, Aviva has undertaken a review to ensure that dividend withholding taxes across the territories in which it does business are consistently treated in its results. As a result, the MCEV of Aviva's Turkish joint venture business has been adjusted to reflect the 15% withholding tax payable on distribution of profits to its Aviva Group UK shareholder. As this adjustment is a model refinement it has been made to the opening MCEV with an impact of £(19) million (net of tax and minority interest) presented within economic variances in note F3 and F10. Furthermore all components of MCEV profit during 2014 have also been adjusted to reflect the additional withholding tax due, which has had an impact of £(4) million (net of tax and minority interest) in the first six months of 2014.

There has been a reduction in the tax rate in Italy from 34.3% to 33.7%, following the reduction in the regional tax on productive activities (IRAP) from 6.82% to 6.22%, with effect from 1 January 2014. The reduced rate has been used in the calculation of the MCEV results for the period ended 30 June 2014 with an impact of £2 million (net of tax and minority interests).

**Other economic assumptions**

Required capital relating to with-profit business is generally assumed to be covered by the surplus within the with-profit funds and no effect has been attributed to shareholders. Where the fund is insufficient and additional shareholder support is required, this is included within required capital, including the RIEESA in the UK. Bonus rates on participating business have been set at levels consistent with the economic assumptions. The distribution of profit between policyholders and shareholders within the with-profit funds assumes that the shareholder interest in conventional with-profit business in the UK and Ireland continues at the current rate of one-ninth of the cost of bonus. In the UK, two capital management actions have been taken that enable certain shareholder assets to be reflected on the regulatory balance sheet and the economic risk to be hedged more efficiently. The first involved the transfer of certain assets and associated liabilities from the RIEESA to the New With Profits Sub Fund (NWPSF). The second capital management action results in future shareholder transfers (that arise as bonuses are paid to policyholders) emerging in the NWPSF rather than the NPSF and this reduces the present value of in-force covered business with an offsetting increase in required capital and free surplus. These effects are presented within 'Other operating variances' in note F10.

### (b) Economic assumptions – Stochastic calculations

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

**Model – United Kingdom**

Swap rates are generated by a model, the LIBOR Market Model Plus (LMM+), which projects a full swap curve at monthly intervals. Forward rates are assumed to have a distribution that lies between the log-normal and normal distributions. Although this no longer guarantees non-negative interest rates, it maintains interest rates within a more plausible range than the standard Libor Market Model, and gives a better fit to certain swaption volatility surfaces. The model is calibrated to volatilities for swaptions for ten year swaps for a range of option terms and strike rates. Swaption volatilities are taken from SuperDerivatives. Tests have been performed to ensure that sufficient scenarios have been used that the result converges to the stochastic value of the business being valued.

The total annual return on equities is calculated as the return on one-year swaps plus an excess return. A stochastic volatility jump defusion model is used, which allows for varying levels of volatility over time and across strike prices. Option volatilities are taken from Markit.

The model also generates property total returns and real yield curves, which are significant asset classes for the UK. In the absence of liquid market data, the property volatilities are based on historic data.

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

**Model – Europe and Asia**

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

The total annual return on equities is calculated as the return on one-year swaps plus a liquidity premium, where applicable, plus an excess return. This excess return is generally modelled using a log-normal model where volatility varies by time horizon. This allows the model to capture the term structure of implied volatilities. For most business, the model is calibrated to at-the-money options for a variety of terms; the exception is the model in Poland which uses a fixed volatility based on historic data, given the lack of a deep and liquid market for options in Poland. Option volatilities are taken from Markit.

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

**Asset classes**

The significant asset classes for UK participating business are equities, property and long-term fixed rate bonds. The most significant assumptions are the distribution of future long-term interest rates (nominal and real) and swaption implied volatilities.

For many businesses, including France, the most important assets are fixed rate bonds of various durations. For Poland the most significant asset class is equity.

# F19 – Principal assumptions continued

## Summary statistics

### Swaption implied volatilities

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

| | 30 June 2014 Swap length | | | | 30 June 2013 Swap length | | | | 31 December 2013 Swap length | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Option length** | **10 years** | **15 years** | **20 years** | **25 years** | 10 years | 15 years | 20 years | 25 years | 10 years | 15 years | 20 years | 25 years |
| **UK Sterling** | | | | | | | | | | | | |
| 10 years | **18.3%** | **17.5%** | **16.8%** | **16.3%** | 17.8% | 17.4% | 17.0% | 16.7% | 16.3% | 16.0% | 15.5% | 15.2% |
| 15 years | **16.7%** | **15.9%** | **15.2%** | **14.7%** | 16.3% | 15.9% | 15.4% | 15.1% | 15.4% | 14.9% | 14.2% | 13.8% |
| 20 years | **16.1%** | **15.1%** | **14.2%** | **13.5%** | 15.9% | 15.3% | 14.6% | 14.2% | 15.1% | 14.3% | 13.5% | 13.0% |
| 25 years | **15.6%** | **14.6%** | **13.5%** | **12.7%** | 15.8% | 15.1% | 14.5% | 14.0% | 14.9% | 14.2% | 13.2% | 12.5% |
| **Euro** | | | | | | | | | | | | |
| 10 years | **24.0%** | **22.6%** | **21.8%** | **21.2%** | 23.8% | 23.1% | 22.4% | 21.9% | 23.3% | 22.3% | 21.7% | 21.1% |
| 15 years | **23.4%** | **21.6%** | **20.1%** | **19.4%** | 24.8% | 23.4% | 21.7% | 20.9% | 23.3% | 21.5% | 20.2% | 19.3% |
| 20 years | **23.3%** | **20.7%** | **18.7%** | **18.0%** | 24.7% | 22.0% | 19.6% | 18.6% | 23.0% | 20.3% | 18.4% | 17.5% |
| 25 years | **22.5%** | **19.4%** | **17.4%** | **16.7%** | 23.0% | 19.8% | 18.2% | 17.1% | 21.8% | 18.7% | 16.9% | 15.9% |
| **Poland Zloty**[1] | | | | | | | | | | | | |
| 10 years | **21.3%** | **20.7%** | **20.0%** | **19.3%** | n/a | n/a | n/a | n/a | 19.2% | 19.0% | 18.6% | 18.1% |
| 15 years | **18.5%** | **17.8%** | **17.1%** | **16.3%** | n/a | n/a | n/a | n/a | 16.6% | 16.3% | 15.8% | 15.2% |
| 20 years | **16.7%** | **16.0%** | **15.3%** | **14.6%** | n/a | n/a | n/a | n/a | 15.1% | 14.7% | 14.2% | 13.6% |
| 25 years | **15.1%** | **14.4%** | **13.7%** | **13.1%** | n/a | n/a | n/a | n/a | 13.8% | 13.3% | 12.8% | 12.3% |

1 Based on implied volatilities from modelled returns.

### Equity implied volatilities

The implied volatility is that determined by the Black-Scholes formula to reproduce the market price of the option, except for Poland as noted above. The following table sets out the equity implied volatilities.

| | | | | | | **30 June 2014** |
|---|---|---|---|---|---|---|
| **Option length** | **UK** | **Ireland** | **France** | **Spain** | **Italy** | **Poland** |
| 5 years | **17.8%** | **19.7%** | **19.7%** | **21.6%** | **19.7%** | **30.0%** |
| 10 years | **20.4%** | **20.7%** | **20.7%** | **22.6%** | **20.7%** | **30.0%** |
| 15 years | **20.8%** | **21.2%** | **21.2%** | **23.0%** | **21.2%** | **30.0%** |

| | | | | | | 30 June 2013 |
|---|---|---|---|---|---|---|
| Option length | UK | Ireland | France | Spain | Italy | Poland |
| 5 years | 21.7% | 22.5% | 22.5% | 26.3% | 22.5% | n/a |
| 10 years | 25.0% | 23.1% | 23.1% | 27.0% | 23.1% | n/a |
| 15 years | 26.9% | 23.4% | 23.4% | 27.2% | 23.4% | n/a |

| | | | | | | 31 December 2013 |
|---|---|---|---|---|---|---|
| Option length | UK | Ireland | France | Spain | Italy | Poland |
| 5 years | 18.9% | 20.1% | 20.1% | 23.4% | 20.1% | 30.0% |
| 10 years | 22.1% | 20.6% | 20.6% | 24.1% | 20.6% | 30.0% |
| 15 years | 22.4% | 21.4% | 21.4% | 24.7% | 21.4% | 30.0% |

### Property implied volatilities

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

For the UK, model property implied volatility is 15% for 30 June 2014 (*30 June 2013: 15%; 31 December 2013: 15%*).

## (c) Non-economic assumptions

### Demographic assumptions

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

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

For example, surrender and option take up rate assumptions that vary according to the investment scenario under consideration have been used in the calculation of the time value of options and guarantees, based on our assessment of likely policyholder behaviour in different investment scenarios.

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

## F19 – Principal assumptions continued

**Expense assumptions**

Management expenses and operating expenses of holding companies attributed to life and related businesses have been included in the MCEV calculations and split between expenses relating to the acquisition of new business, the maintenance of business in-force and project expenses. Future expense assumptions include an allowance for maintenance expenses and a proportion of recurring project expenses. Certain expenses of an exceptional nature, when they occur, are identified separately and are generally charged as incurred. No future productivity gains have been anticipated, although in a number of start-up operations an allowance is made for the spreading of fixed costs over a larger volume of business. In the UK maintenance expense assumption changes in the current period are driven by expense savings as a result of continuing restructuring and process improvements, reducing the current and long-term cost base.

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

**Poland Pensions potential legislation change**

During 2013 a review of the Pillar II Pensions system (OFE) was carried out and on 4 September 2013, the Polish government announced a preferred option to change the system, with the draft law being published on 10 October 2013. The changes are significant and in summary involved the transfer of over 50% of existing pensions assets to the state system along with an additional gradual transfer 10 years before retirement; in addition new premiums will be credited to the state system unless pension scheme members specifically state otherwise.

The document enacting the law was signed by the President on 27 December 2013 and became law on 1 February 2014. Given the scale of the changes, the impact on the value of the Poland pensions business at 31 December 2013 was significant, reducing the value in force by £236 million (net of tax and minority interests), based on an assumption of 70% of existing customers directing future premiums to the state system. This has been revised to 97% at 30 June 2014 following experience during the first half of the year. The impact of this at 30 June 2014 has been to further reduce the value in force by £38 million (net of tax and minority interests).

**UK budget announcement on annuity reform**

On 19 March 2014, the UK Chancellor of the Exchequer announced new legislation that removes the requirement for people who are retiring to take their defined contribution pension as an annuity. From April 2015 anyone who is aged 55 or over will be able to take their entire pension fund as cash, although only the first 25% will be tax-free. The remaining 75% of the fund will be taxed at the saver's marginal rate.

Following the announcement, Aviva has experienced decreased demand for annuities in the UK, although the average size of annuities has increased and annuities still play a central role in post-retirement financial planning as a tax efficient method of securing a guaranteed lifetime income. The reforms are expected to have an influence on policyholder behaviour, however the impact is uncertain given the recent timing of the announcement, and consequently no adjustment has been made to any assumption at HY14.

**UK pension scheme charge caps and commission**

On 27 March 2014 the Pensions Minister announced that fees on default funds in auto-enrolment schemes would be capped at 0.75% p.a. from April 2015; and both active member discounts and commission payments will not be permitted from April 2016. Further clarification on certain aspects of the announcement is expected in the second half of 2014. Based on the available information, Aviva's response has been to:

- Apply a cap on annual management charges on default funds of 0.75% p.a.
- Set the active charge equal to the scheme annual management charge where an active member discount has previously been applied
- Remove commission and fund based consultancy charges
- Reduce annual management charges to allow for the removal of commission.

The expected impact on MCEV has been estimated as £150 million and this amount has been deducted from the value-in-force at HY14, thereby reducing the closing MCEV.

**Non-hedgeable risk**

For the balance sheet and operating profit, a charge of 3.9% (*HY13: 3.6%; FY13: 3.9%*) has been applied to the group-diversified capital required on a 1-in-200 one-year basis over the remaining lifetime of in-force business. The charge is set so as to give an aggregate allowance that is in excess of the expected operational risk costs arising from the in-force covered business over its remaining lifetime. The increase in the charge since HY13 results from a reassessment of the group diversification benefit.

The capital levels used are projected to be sufficient to cover non-hedgeable risks at the 99.5% confidence level one-year after the valuation date. The capital is equal to the capital from the ICA results for those risks considered including allowance for management actions consistent with the base MCEV. Diversification benefits are included between non-hedgeable risks of the covered business. No diversification benefit is assumed with hedgeable risks of the covered business or with non-covered business in general. The capital has been projected as running off over the remaining life of the in-force portfolio in line with the drivers of the capital requirement.

In addition to the operational risk allowance, financial non-hedgeable risks and other product level asymmetries have been allowed for. These allowances are not material as significant financial non-hedgeable risks and product level asymmetries are either modelled explicitly and included in the TVOG or are included in the PVFP through the use of appropriate best estimate assumptions.

**Other**

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

## F19 – Principal assumptions continued

### (d) Held for sale operations, sold operations and other disposals

During the first half of 2014, certain life covered operations were either sold or re-classified from held for sale (consistent with the IFRS classification).

**US long - term business**

On 21 December 2012 the Group announced that it had agreed to sell the US life operations, consisting of Aviva Life and Annuity Company and the associated internal asset management operations of Aviva Investors North America, Inc, to Athene Holding Ltd for consideration of £1.0 billion including the shareholder loan (£1.1 billion including repayment of external loan) and these operations were classified as held for sale.

The sale of the Aviva US business completed on 2 October 2013 and the transaction proceeds received were based on the estimated earnings and other improvements in the statutory surplus over the period from 30 June 2012 to 30 September 2013. The final purchase price is subject to customary completion adjustments. The process to agree completion adjustments is on-going and is expected to complete in the second half of 2014. Until the outcome of this process is known there remains uncertainty on the final determination of the completion adjustment. The transaction resulted in a profit on disposal of £808 million in 2013, reflecting management's best estimate of the completion adjustments.

**Italian long – term business – Eurovita**

During 2013 the Italian long-term business Eurovita Assicurazioni S.p.A ("Eurovita") was classified as held for sale, as a result of management determining that the value of this business will principally be recovered through sale. Following classification as held for sale, Eurovita, included with the "Europe" operating segment, was re-measured to fair value less cost to sell resulting in a decrease to the closing MCEV at 31 December 2013 of £17 million. This figure has increased since FY13 due to the MCEV restatement, which increased the MCEV of Eurovita but had no impact on the sale price. The disposal completed on 30 June 2014 with net proceeds of £32 million and loss on sale of £3 million.

**Korean long – term business**

During 2013, the Group's Korean joint venture business, Woori Aviva Life Insurance ("WALI"), was classified as held for sale following the decision of management to seek to dispose of the business. Following classification as held for sale, WALI, included within the "Asia" operating segment, was re-measured to fair value less cost to sell, resulting in an increase to the closing MCEV at 31 December 2013 of £48 million. The disposal completed on 27 June 2014 with net proceeds of £17 million and profit on sale of £6 million.

**Indonesian long – term business**

During 2013, the Group's 60% stake in the Indonesian business "Aviva Indonesia" was classified as held for sale following the intention to structure the business as a joint venture where Aviva's ownership is 50%. Following classification as held for sale, Aviva Indonesia was re-measured to fair value less cost to sell, resulting in an increase to the closing MCEV at 31 December 2013 of £4 million.

The restructure completed on 26 May 2014 with a loss of £6 million and this business is included in the consolidated statement of financial position at its closing MCEV.

**Other held for sale operations**

During 2014 it was determined that the value of the Group's Taiwan joint venture, First - Aviva Life Insurance Co Ltd would no longer be recovered principally through a sale. As a result, the business was reclassified out of 'assets of operations held for sale'. Consequently, this business is included in the consolidated statement of financial position at its closing MCEV.

**Held for sale operations in the comparative periods**

During 2013 several additional operations were held for sale which have now been sold. Details are as follows:

- Aseval Aseguradora Valenciana, Sociedad Anonima de Seguros y Reaseguros ("Aseval") was sold to Bankia SA ("Bankia") on 24 April 2013.
- Aviva Life Holdings Ireland Limited ("ALHI") sold Ark Life Assurance Company ("Ark Life") to Allied Irish Bank ("AIB") on 8 March 2013.
- The Group's Malaysian joint ventures were sold to Sun Life Assurance Company of Canada on 12 April 2013
- Aviva Russia was sold to Blagosostoyanie on 8 April 2013
- The Group's Romanian pensions business was sold on 7 May 2013
- Aviva transferred 16% of its holdings in its Polish joint venture business to Bank Zachodni WBK S.A., its partner in these operations, on 20 December 2013

## F19 – Principal assumptions continued

### (e) Other assumptions

**Valuation of debt**

Borrowings in the MCEV consolidated statement of financial position are valued on an IFRS basis, consistent with the IFRS primary financial statements. At 30 June 2014 the market value of the Group's external debt, subordinated debt, preference shares including General Accident plc preference shares of £250 million (classified as non-controlling interests) and direct capital instrument was £7,486 million (*30 June 2013: £7,499 million; 31 December 2013: £7,573 million*).

| | 6 months 2014 £m | 6 months 2013 £m | Full Year 2013 £m |
|---|---|---|---|
| **Borrowings per summarised consolidated statement of financial position – MCEV basis** | **6,944** | 8,254 | 7,819 |
| Add: Amount included in held for sale | **—** | 212 | 29 |
| Less: Securitised mortgage funding | **(1,340)** | (1,284) | (1,313) |
| Borrowings excluding non-recourse funding – MCEV basis | **5,604** | 7,182 | 6,535 |
| Less: Operational financing by businesses | **(771)** | (1,721) | (1,410) |
| External debt and subordinated debt – MCEV basis | **4,833** | 5,461 | 5,125 |
| Add: Preference shares (including General Accident plc), direct capital instrument and fixed rate tier 1 notes | **1,832** | 1,832 | 1,832 |
| External debt, subordinated debt, preference shares, direct capital instrument and fixed tier 1 notes – MCEV basis | **6,665** | 7,293 | 6,957 |
| Effect of marking these instruments to market | **821** | 206 | 616 |
| **Market value of external debt, subordinated debt, preference shares, direct capital instrument and fixed rate tier 1 notes** | **7,486** | 7,499 | 7,573 |

**Exchange rates**

The Group's principal overseas operations during the period were located within the Eurozone and Poland. 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 2014 | 6 months 2013 | Full Year 2013 |
|---|---|---|---|
| **Eurozone** | | | |
| Average rate (€1 equals) | **£0.82** | £0.85 | £0.85 |
| Period end rate (€1 equals) | **£0.80** | £0.86 | £0.83 |
| **Canada** | | | |
| Average rate ($CAD1 equals) | **£0.55** | £0.64 | £0.62 |
| Period end rate ($CAD1 equals) | **£0.55** | £0.62 | £0.57 |
| **Poland** | | | |
| Average rate (PLN1 equals) | **£0.20** | £0.20 | £0.20 |
| Period end rate (PLN1 equals) | **£0.19** | £0.20 | £0.20 |
| **United States** | | | |
| Average rate ($US1 equals) | **£0.60** | £0.65 | £0.64 |
| Period end rate ($US1 equals) | **£0.58** | £0.66 | £0.60 |

## F20 – Sensitivity analysis

### (a) Economic assumptions

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

- 10 basis point increase in the liquidity premium adjustment, where applicable;
- one percentage point increase and decrease in the risk-free rate with a floor of 0%, including all consequential changes (including assumed investment returns for all asset classes, market values of fixed interest assets, risk discount rates);
- 10% increase and decrease in market values of equity and property assets;
- 25% multiplicative increase in equity, property and swaption volatilities;
- 50 basis point increase and decrease in credit spreads with no change to liquidity premium; and
- decrease in the level of required capital to 100% EU minimum (or equivalent).

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

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

In general, the magnitude of the sensitivities will reflect the size of the embedded values, though this will vary as the sensitivities have different impacts on the different components of the embedded value. In addition, other factors can have a material impact, such as the nature of the options and guarantees, as well as the types of investments held.

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

Sensitivities will also vary according to the current economic assumptions, mainly due to the impact of changes to both the intrinsic cost and time value of options and guarantees. Options and guarantees are the main reason for the asymmetry of the sensitivities where the guarantee impacts to different extents under the different scenarios.

### Life and related business embedded value

| 30 June 2014 Embedded value (net of non-controlling interests) | As reported in F12 £m | 10bp increase in adjustment to risk-free rates £m | Interest rates 1% increase £m | Interest rates 1% decrease £m | 25% increase in swaption implied volatilities £m |
|---|---|---|---|---|---|
| United Kingdom & Ireland | **8,421** | **270** | **(160)** | **125** | **(5)** |
| France | **3,582** | **60** | **85** | **(285)** | **(160)** |
| Poland, Italy, Spain and Other Europe | **2,326** | **5** | **(55)** | **65** | **—** |
| Asia and Other | **980** | **—** | **25** | **(55)** | **(5)** |
| **Total** | **15,309** | **335** | **(105)** | **(150)** | **(170)** |

| 30 June 2014 Embedded value (net of non-controlling interests) | As reported in F12 £m | Equity/property 10% increase in market values £m | Equity/property 10% decrease in market values £m | Equity/property 25% increase in volatility £m | Credit spread 50bps increase £m | Credit spread 50bps decrease £m | EU minimum capital or equivalent £m |
|---|---|---|---|---|---|---|---|
| United Kingdom & Ireland | **8,421** | **125** | **(145)** | **(110)** | **(1,015)** | **1,095** | **—** |
| France | **3,582** | **270** | **(275)** | **(145)** | **(40)** | **40** | **25** |
| Poland, Italy, Spain and Other Europe | **2,326** | **35** | **(35)** | **(15)** | **(25)** | **25** | **5** |
| Asia and Other | **980** | **15** | **(15)** | **(5)** | **(20)** | **20** | **15** |
| **Total** | **15,309** | **445** | **(470)** | **(275)** | **(1,100)** | **1,180** | **45** |

## F20 – Sensitivity analysis continued

### New business

| 30 June 2014 Value of new business (net of tax and non-controlling interests) | As reported in F14 £m | 10bp increase in adjustment to risk-free rates £m | Interest rates 1% increase £m | Interest rates 1% decrease £m | 25% increase in swaption implied volatilities £m |
|---|---|---|---|---|---|
| United Kingdom & Ireland | 147 | 4 | (4) | 5 | — |
| France | 66 | — | 3 | (9) | (3) |
| Poland, Italy, Spain and Other Europe | 46 | — | (3) | 2 | — |
| Asia and Other | 54 | — | 5 | (7) | — |
| **Total** | **313** | **4** | **1** | **(9)** | **(3)** |

| 30 June 2014 Value of new business (net of tax and non-controlling interests) | As reported in F14 £m | Equity/property 10% increase in market values £m | Equity/property 10% decrease in market values £m | Equity/property 25% increase in volatility £m | Credit spread 50bps increase £m | Credit spread 50bps decrease £m | EU minimum capital or equivalent £m |
|---|---|---|---|---|---|---|---|
| United Kingdom & Ireland | 147 | — | — | — | (17) | 18 | — |
| France | 66 | 5 | (3) | (1) | (2) | 1 | — |
| Poland, Italy, Spain and Other Europe | 46 | — | — | — | — | — | — |
| Asia and Other | 54 | — | — | — | — | — | 1 |
| **Total** | **313** | **5** | **(3)** | **(1)** | **(19)** | **19** | **1** |

### (b) Non-economic assumptions

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

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

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

### Life and related business embedded value

| 30 June 2014 Embedded value (net of non-controlling interests) | As reported in F12 £m | 10% decrease in maintenance expenses £m | 10% decrease in lapse rates £m | 5% decrease in mortality/ morbidity rates - life assurance £m | 5% decrease in mortality/ morbidity rates - annuity business £m |
|---|---|---|---|---|---|
| United Kingdom & Ireland | 8,421 | 220 | 90 | 195 | (380) |
| France | 3,582 | 110 | 40 | 25 | (25) |
| Poland, Italy, Spain and Other Europe | 2,326 | 40 | 95 | 25 | — |
| Asia and Other | 980 | 35 | 30 | 25 | — |
| **Total** | **15,309** | **405** | **255** | **270** | **(405)** |

### New business

| 30 June 2014 Value of new business (net of tax and non-controlling interests) | As reported in F14 £m | 10% decrease in maintenance expenses £m | 10% decrease in lapse rates £m | 5% decrease in mortality/ morbidity rates - life assurance £m | 5% decrease in mortality/ morbidity rates - annuity business £m |
|---|---|---|---|---|---|
| United Kingdom & Ireland | 147 | 16 | 6 | 19 | (3) |
| France | 66 | 2 | 2 | 1 | — |
| Poland, Italy, Spain and Other Europe | 46 | 3 | 6 | 1 | — |
| Asia and Other | 54 | 3 | 2 | 1 | — |
| **Total** | **313** | **24** | **16** | **22** | **(3)** |

# Directors' responsibility statement

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

When compliance with the European Insurance CFO Forum Market Consistent Embedded Value Principles (MCEV Principles), published in October 2009, is stated, those principles require the directors to prepare supplementary information in accordance with the methodology contained in the MCEV Principles and to disclose and explain any non-compliance with the guidance included in the MCEV Principles.

In preparing this supplementary information, the directors have done so in accordance with these MCEV principles with the exception of stating held for sale operations as at 30 June 2013 and 31 December 2013 at their expected fair value, as represented by expected sales proceeds, less cost to sell at those dates and have also complied with the guidance as set out in the basis of preparation. Specifically the directors have:

- determined assumptions on a realistic basis, having regard to past, current and expected future experience and to relevant external data, and then applied them consistently;
- made estimates that are reasonable and consistent; and,
- provided additional disclosures when compliance with the specific requirements of the MCEV Principles is insufficient to enable users to understand the impact of particular transactions, other events and conditions and the Group's financial position and financial performance.

Information on the current directors responsible for providing this statement can be found on the Company's website http://www.aviva.com/investor-relations/corporate-governance/board-of-directors/

By order of the Board

**Thomas D. Stoddard**
**Chief financial officer**
6 August 2014

# Independent review report to Aviva plc

## Report on the consolidated MCEV financial statements

### Our qualified conclusion

We have reviewed the consolidated MCEV financial statements, defined below, in the half year report of Aviva Plc ("the half year report") for the six months ended 30 June 2014. Based on our review, except for the effects of the matter described in the 'Basis for qualified conclusion' paragraph below, nothing has come to our attention that causes us to believe that the consolidated MCEV financial statements are not prepared, in all material respects, in accordance with the European Insurance CFO Forum MCEV Principles issued in June 2008 and as amended in October 2009 ("CFO Forum Principles") and the Basis of Preparation set out on pages 121 to 126.

This conclusion is to be read in the context of what we say in the remainder of this report.

### Basis for qualified conclusion

Our qualified conclusion is in relation to the preparation of the consolidated MCEV financial statements for the half year ended 30 June 2013 and year ended 31 December 2013 and the related impacts on the comparability of the financial information in the current period with these prior periods.

As explained in Note F1 - Basis of Preparation to the consolidated MCEV financial statements, the net assets of held for sale operations were stated at their expected fair value less costs to sell from the year ended 31 December 2012 until their disposal in the year ended 31 December 2013 because the directors believed this to be a better assessment of the value to shareholders' from these operations. At 1 January 2013, the carrying value of the held for sale operations was £1,264 million in excess of their MCEV. Following the disposal of the held for sale operations during the year ended 31 December 2013, the profit on disposal and remeasurement of subsidiaries and associates was calculated as the difference between the expected fair value less costs to sell at 1 January 2013 and the actual fair value of the consideration received less transaction costs. By stating the held for sale operations at a value in excess of their MCEV up to the date of disposal the consolidated MCEV financial statements did not comply with the CFO Forum Principles in the comparative periods. If the consolidated MCEV financial statements had been prepared in accordance with the CFO Forum Principles the profit for the year ended 31 December 2013 would have increased by £1,264 million to £4,497 million. It is not practicable for us to quantify the effect of the non-compliance for the half year ended 30 June 2013.

### What we have reviewed

The consolidated MCEV financial statements, which are prepared by Aviva plc, comprise:

- the consolidated income statement – MCEV basis for the six months ended 30 June 2014;
- the consolidated statement of comprehensive income – MCEV Basis for the six months ended 30 June 2014;
- the consolidated statement of changes in equity – MCEV basis for the six months ended 30 June 2014;
- the consolidated statement of financial position – MCEV basis as at 30 June 2014;
- the reconciliation of shareholders' equity on IFRS and MCEV bases as at 30 June 2014;
- the reconciliation of IFRS total equity to Life MCEV as at 30 June 2014;
- the reconciliation of IFRS total equity to Life MCEV net worth as at 30 June 2014;
- the group MCEV analysis of earnings for the six months ended 30 June 2014; and
- the explanatory notes to the consolidated MCEV financial statements.

We have reported separately on the condensed consolidated financial statements of Aviva plc prepared on an IFRS basis for the six months ended 30 June 2014. The information contained in the consolidated MCEV financial statements should be read in conjunction with the condensed consolidated financial statements prepared on an IFRS basis, included within the half year report. The consolidated MCEV financial statements included in the half year report have been prepared in accordance with the CFO Forum Principles and the Basis of Preparation set out on pages 121 to 126.

### What a review of consolidated MCEV financial statements involves

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.

We have read the other information contained in the half year report of Aviva plc for the six months ended 30 June 2014 and considered whether it contains any apparent misstatements or material inconsistencies with the information in the consolidated MCEV financial statements.

## Responsibilities for the consolidated MCEV financial statements and the review

### Our responsibilities and those of the directors

The half year report, including the consolidated MCEV financial statements, 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 Conduct Authority, and for preparing the consolidated MCEV financial statements in accordance with the CFO Forum Principles and the Basis of Preparation set out on pages 121 to 126.

Our responsibility is to express to the company a conclusion on the consolidated MCEV 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 complying with the CFO Forum Principles and the Basis of Preparation set out on pages 121 to 126 and for no other purpose. We do not, in giving this conclusion, 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.

**PricewaterhouseCoopers LLP**
Chartered Accountants
London
6 August 2014

**Notes:**

(a) The 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 financial statements since they were initially presented on the website.

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

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# Other information

**In this section**

# 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. Annuities 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.

### Critical illness cover
Pays out a lump sum if the insured person is diagnosed with a serious illness that meets the plan definition.

### 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.

### 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.

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

### Health insurance
Provides cover against loss from illness or bodily injury. Can pay for medicine, visits to the doctor, hospital stays, other medical expenses and loss of earnings, depending on the conditions covered and the benefits and choices of treatment available on the policy.

### 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.

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

### Individual savings account (ISAs)
Tax-efficient plans for investing in stocks and shares, cash deposits or life insurance investment funds, subject to certain limits.

### 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.

### Open ended investment company (OEIC)
A collective investment fund structured as a limited company in which investors can buy and sell shares.

### Pension
A means of providing income in retirement for an individual and possibly his/her dependants.

### Personal pension
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.

### 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.

### Collective investment scheme (SICAVs)
This is an open-ended investment fund, structured as a legally independent joint stock company, whose units are issued in the form of shares.

### 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.

### 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.

### Whole life
A protection policy that remains in force for the insured's whole life; a lump sum will be paid out on death. 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.

## General terms

### Annual premium equivalent (APE)
Used as a measure of annual sales, taking the annual premium of regular premium contract plus 10% of single premium contract.

### 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)
A major trade association for UK insurance companies, established in July 1985.

**Acquired value of in force (AVIF)**
The present value of future profits on a portfolio of long-term insurance and investment contracts, acquired either directly or through the purchase of a subsidiary.

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

**Combined operating ratio (COR)**
General insurance COR is calculated as incurred claims expressed as a percentage of net earned premiums, plus written commissions and written expenses expressed as a percentage of net written premiums.

**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 would be received to sell or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price).

**Financial Conduct Authority (FCA)**
Is one of the two bodies (along with the PRA) which replaced the Financial Services Authority from the 1 April 2013. The FCA is a company limited by guarantee and is independent of the Bank of England. It is responsible for the conduct business regulation of all firms (including those firms subject to prudential regulation by the PRA) and the prudential regulation of firms not regulated by the PRA. The FCA has three statutory objectives: securing an appropriate degree of protection for consumers, protecting and enhancing the integrity of the UK financial system and promoting effective competition in the interests of consumers.

**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.

**Independent Financial Advisers (IFAs)**
A person or organisation, authorised under the FCA, to give independent advice on financial matters.

**Internal rate of return (IRR)**
A discount rate used to measure profitability. The rate used is that which will bring a series of cash flows to a net present value of nil.

**International financial reporting standards (IFRS)**
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.

**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.

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

**New business strain (NBS)**
The name given to an initial impact on shareholders' net assets when an insurance contract is sold. This "strain" arises because, in addition to meeting costs associated with the sale of contracts, insurance companies must meet capital and reserving requirements at the outset of a contract that are often significantly higher than the premiums received.

**Operating expense ratio**
The Group operating expense ratio is calculated as the Group's operating expenses from continuing operations expressed as a percentage of the Group's operating profit from continuing operations before Group debt costs and operating expenses.

**Operating profit**
This is a non-GAAP financial performance measure also referred to as adjusted operating profit or operating profit (IFRS basis). It is based on expected investment returns and stated before tax and before non-operating items including impairment of goodwill, exceptional and other items.

**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.

**Prudential Regulatory Authority (PRA)**
Is one of the two bodies (along with the FCA) which replaced the Financial Services Authority from the 1 April 2013. The PRA is a part of the Bank of England and is responsible for the prudential regulation of deposit taking institutions, insurers and major investment firms. The PRA has two statutory objectives: to promote the safety and soundness of these firms and, specifically for insurers, to contribute to the securing of an appropriate degree of protection for policyholders.

**Solvency II**
These are insurance regulations designed to harmonise EU insurance regulation. Primarily this concerns the amount of capital that European insurance companies must hold under a measure of capital and risk. Solvency II is due to become effective from 1 January 2016.

### UK Corporate Governance Code
The code sets out guidance in the form of principles and provisions on how companies should be directed and controlled to follow good governance practice.

### Value of new business (VNB)
VNB is the present value of future profits from new business written at the point of sale. It is calculated on a market consistent basis using economic assumptions set at the start of each quarter and the same operating assumptions as those used to determine the embedded value at the end of the reporting period and is stated after the effect of any frictional costs. Unless otherwise stated, it is quoted net of tax and non-controlling interests.

## 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 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.

### 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.

### 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 of covered business as at the reporting date.

### Liquidity premium
An addition to the risk-free rate used when projecting investment returns and discounting cash flows on certain types of contracts where the liabilities are illiquid and have cash flows that are predictable.

### Look-through basis
Inclusion of the capitalised value of profits and losses arising from subsidiary companies providing administration, investment management and other services to the extent that they relate to covered business.

### Market consistent embedded value (MCEV)
A measure of the value of a life business to its shareholders. It is the sum of shareholders net assets and today’s value of the future profits that are expected to emerge from business already written, where the assumptions used to calculate future profits are consistent 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.

### 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.

### Real world equivalent Embedded Value (EqEV)
As for other embedded value measures, EqEV is a way of measuring the current value to shareholders of the in-force portfolio of a life and pensions business. EqEV includes the value of future profits and uses a set of realistic assumptions, including real world expected investment returns, allowing for the impact of the uncertainty in these returns in the risk discount rate.

### Required capital
The amount of assets, over and above the value placed on liabilities in respect of covered business, whose distribution to shareholders is restricted.

### Service companies
Companies providing administration or fund management services to the covered business.

### Solvency cover
The excess of the regulatory value of total assets over total liabilities, divided by the regulatory value of the required minimum solvency margin.

### Statutory basis
The valuation basis and approach used for reporting financial statements to local regulators.

### Stochastic techniques
Techniques that allow for 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.

# Shareholder services

## 2014 financial calendar

| | |
|---|---|
| Announcement of third quarter Interim Management Statement | 30 October 2014 |

## Annual General Meeting (AGM)

- The voting results for the 2014 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

## 2014 interim dividend dates – ordinary shares

| | |
|---|---|
| Ex-dividend date* | 9 October 2014 |
| Record date | 10 October 2014 |
| Dividend payment date * | 17 November 2014 |
| Last day for Dividend Reinvestment Plan election | 27 October 2014 |

* Please note that the ADR ex-dividend date will be 8 October 2014. The ADR dividend payment date will be 21 November 2014.

- Dividends on ordinary shares are normally paid in May and November - please see the table above for the key dates in respect of the 2014 interim dividend.
- Dividends on 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.

### Direct credit of dividend payments

- If you would like to have your cash dividends paid directly into your bank or building society account, please visit www.aviva.com/dividendmandate for more information or contact the Company's Registrar, Computershare Investor Services Plc (Computershare), using the contact details overleaf.

### Overseas global dividend service

- 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. For further details and fees for this service please visit www.investorcentre.co.uk/faq and select the Dividends and Payments tab, followed by Global Payment Service.

### Dividend Reinvestment Plan

- Computershare operates a Dividend Reinvestment Plan where you can choose to have the cash dividends paid on your Aviva ordinary shares used to purchase additional shares. Full details can be found at www.aviva.com/dividends or by contacting Computershare (contact details overleaf)

## Online Shareholder Services

### View and manage your holdings online

Aviva ordinary shareholders, preference shareholders and ADR holders can view, find general information and manage their shareholding online by visiting www.aviva.com/investor-relations/shareholder-services

To register you will require your Shareholder Reference Number (11 digit number beginning with a C, I, or G) which you will find on your latest dividend stationery or any share certificate issued since 4 July 2011.

On the site, you can:

- View your shareholding;
- Change your personal details;
- Switch to electronic communications;
- View your transaction and payment history;
- View your dividend election;
- Arrange direct credit of dividend payments; and
- Access a guide for shareholders (which includes: frequently asked questions, information about the Aviva Share Account, current and historic ordinary share and ADR prices, dividend dates, share dealing information and, when available, presentations from Aviva's senior management).
- View recent Company reports

## ShareGift

Small parcels of shares, which may be uneconomic to sell on their own, can be donated to ShareGift - the share donation charity (Registered Charity number 1052686). ShareGift transfers these holdings into their name, aggregates them, and uses the proceeds to support a wide range of UK registered charities based on donor suggestion. They can also accept larger donations of shares.

If you would like further details about ShareGift, please visit www.sharegift.org or telephone them on +44 (0)20 7930 3737.

### Be on your guard – beware of fraudsters!

Please 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. Boiler rooms use increasingly sophisticated means to approach investors and often leave their victims out of pocket. The Financial Conduct Authority (FCA) has found that most share fraud victims are experienced investors who lose an average of £20,000. The FCA has provided tips on how to protect your savings which you can find at www.fca.org.uk/scams.

- Remember: if it sounds too good to be true, it probably is!
- Keep in mind that firms authorised by the FCA are unlikely to call you out of the blue with an offer to buy or sell shares.
- Do not get into conversation, note the name and firm contacting you and hang up.

For more information please visit the warning to shareholders page at www.aviva.com/investor-relations/shareholder-services/ordinary-shareholders

## Contact details

### Ordinary and preference shares – Computershare Investor Services Plc

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

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

**By email:** avivaSHARES@computershare.co.uk

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

### American Depositary Receipts (ADRs) – Citibank

For any queries regarding Aviva ADRs, please contact Citibank Shareholder Services (Citibank):

**By telephone:** 1 877 248 4237 (1 877-CITI-ADR), or +1 781 575 4555 if you are calling from outside the US. (Lines are open from 8.30am to 6.00pm, Monday to Friday US Eastern Standard Time).

**By email:** citibank@shareholders-online.com

**In writing:** Citibank Shareholder Services, PO Box 43077, Providence, Rhode Island 02940-3077 USA

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

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

**By telephone:** +44 (0)20 7283 2000

## Useful links for shareholders

**Online Shareholder Services Centre**
www.aviva.com/shareholders

**Dividend information for ordinary shares**
www.aviva.com/dividends

**Annual General Meeting information**
www.aviva.com/agm

**Aviva share price**
www.aviva.com/shareprice

**ADR holders**
www.aviva.com/adr

**Aviva preference shareholders**
www.aviva.com/preferenceshares

**Aviva preference share price**
www.londonstockexchange.com

**Aviva reports information**
(Annual report and accounts; Strategic Report; 20F)
www.aviva.com/reports

### 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.