News Release

Aviva plc half year report for the six months ended 30 June 2010

5th August 2010

Strong growth in profits and capital generation

Strong growth in profits…	– IFRS operating profit up 21% to £1,270 million (HY 2009: £1,049 million) – General insurance COR of 97%, beating 98% 'meet or beat' target – Interim dividend per share up 6% to 9.5 pence
…and powerful capital generation…	– £0.9 billion net capital generated in HY 2010 (HY 2009: £0.5 billion) and full year guidance increased from £1.3 billion to £1.5 billion – Improved capital efficiency: sales increased and capital invested in new business reduced to £0.5 billion (HY 2009: £0.9 billion)
…in the world's largest life and pensions markets	– Long-term savings sales up 4% on HY 2009 to over £20 billion – Good profit growth in the UK and Europe driven by a leading position in the world's largest life and pensions markets, offering the greatest absolute growth over the next five years – Major new UK bancassurance partnership with Santander announced this week. In Europe bancassurance sales up by 20%
Performance demonstrates building momentum	– Continued focus on profitable growth: group IRR on new business increased to 12% (HY 2009: 9.5%) – Focus on cost reduction has driven costs down a further 4% – Significant progress in the US: IRRs improved to 14%

Andrew Moss, group chief executive, commented:

"This was a good half year for Aviva. We achieved a 21% increase in operating profits, grew sales for the third consecutive quarter and improved the group's margin.

"At a time when predictability of cashflows and capital strength are crucial, Aviva's capital generation stands out, and allows us to invest in the profitable growth of the business and increase the dividend.

"Our first half earnings are tangible evidence of the progress we've made in the last few years - but there's more to do. We will continue to focus on customers and on the disciplined allocation of capital to ensure we grow Aviva profitably. While we remain alert to the macroeconomic environment and risks in financial markets, Aviva has excellent franchises in proven growth markets and we are confident about the future."

Key financial highlights

	IFRS			MCEV		
	6 months 2010 £m	6 months 2009 £m	Change %	**6 months 2010 £m**	6 months 2009 £m	Change %
Long-term business IFRS profit	**1,128**	940	20%	**1,918**	1,607	19%
General insurance and health	**525**	545	(4)%	**525**	545	(4)%
Fund management	**56**	35	60%	**13**	(4)	425%
Other operations and regional costs	**(47)**	(107)	56%	**(33)**	(99)	67%
Corporate centre	**(54)**	(46)	(17)%	**(54)**	(46)	(17)%
Group debt and other interest costs	**(338)**	(318)	(6)%	**(338)**	(318)	(6)%
Operating profit before tax	**1,270**	1,049	21%	**2,031**	1,685	21%
Profit after tax	**1,505**	747	101%	**896**	919	(3)%
Net operating capital generated	**£0.9bn**	£0.5bn				
Interim dividend per share	**9.5p**	9.0p		**n/a**	n/a	
Net asset value per share	**394p**	353p		**461p**	404p	
Earnings per share	**38.8p**	24.9p		**28.5p**	32.9p	
Equity shareholders' funds	**£11,051m**	£9,660m		**£12,921m**	£11,057m	
Return on equity shareholders' funds	**14.6%**	12.8%		**17.5%**	16.8%	

Long term business

	Present value of new business premiums		IRR	
	6 months 2010 £m	6 months 2009 £m	**6 months 2010 %**	6 months 2009 %
United Kingdom	**5,194**	4,735	**15%**	13%
Aviva Europe	**7,992**	7,071	**12%**	13%
Delta Lloyd	**1,732**	1,780	**5%**	5%
North America	**2,334**	3,189	**14%**	7%
Asia Pacific	**794**	698	**10%**	7%
Total life and pensions	**18,046**	17,473	**12.0%**	9.5%
Investment sales	**2,192**	1,948		
Long term savings sales	**20,238**	19,421		

General insurance and health

	Net written premiums		Operating profit		GI COR	
	6 months 2010 £m	6 months 2009 £m	**6 months 2010 £m**	6 months 2009 £m	**6 months 2010 %**	6 months 2009 %
United Kingdom	**2,241**	2,298	**268**	284	**98%**	99%
Aviva Europe	**1,068**	1,061	**46**	108	**102%**	96%
Delta Lloyd	**707**	677	**81**	59	**93%**	97%
North America	**996**	889	**132**	87	**96%**	97%
Asia Pacific	**32**	22	**(2)**	7	**n/a**	n/a
Total general insurance and health	**5,044**	4,947	**525**	545	**97%**	97%

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Timings

Newswire conference call
0730 hrs BST

Analyst presentation
0830 hrs BST

Live webcast
www.aviva.com

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Strong growth in profits and capital generation

Results reflect the success of management actions and strategy implementation.

I am pleased to report that Aviva has delivered a positive set of results for the first six months of 2010. We have increased IFRS operating profits by 21%, grown long-term savings new business sales by 4%, increased the group's internal rate of return (IRR) to 12%, reduced costs by 4%, improved the efficiency of our general insurance business and generated £0.9 billion of net capital.

This performance is testament to the progress we have made, implementing our One Aviva strategy and the decisive management actions that we have taken across the group to drive income up and expenses down.

The combination of our leading positions in life and non-life insurance has proved of great benefit yet again. The composite model makes the most efficient use of our capital and also generates significant and resilient cashflows to support a sustainable dividend and to reinvest in the profitable growth of the business.

In the first six months of this year, we have delivered good profit growth in the UK and Europe, which account for more than 80% of Aviva's regional operating profit. Together, these two regions comprise the world's largest life and pensions markets, and are predicted to provide the greatest absolute growth in life and pensions sales over the next five years. We are ideally placed to benefit from this growth.

Excellent customer franchise...

At the heart of Aviva's success lies our commitment to our 53 million existing customers, and a focus on retaining and growing our customer base. Against an uncertain economic backdrop, it is clear that customers are turning to Aviva for their financial security.

Aviva's customer focus is creating value for shareholders and the benefits of our migration to a single, global brand are already emerging. Our global research, which measures customers' likelihood to recommend Aviva, has improved significantly relative to our competitors which is a key driver of the profitable growth of our business.

...generating strong sales growth across the group...

Our long-term savings new business sales increased by 4% to £20,238 million (HY 2009: £19,421 million), with significant contributions across all of our regions.

In the UK, we saw a strong performance in the annuity and protection markets as we achieved growth in life and pension sales for the third consecutive quarter, with sales of £5,194 million up 10% on HY 2009.

Consumers in Europe continue to show a desire to save and we have responded to their preference for products which offer lower risk and an element of guarantee. This resulted in us increasing our life and pensions sales in Europe, excluding Delta Lloyd, by 13% to £7,992 million (HY 2009: £7,071 million) in the first six months, a 15% increase on a local currency basis.

With more than 50 partnerships in place Aviva continues to be a bancassurance leader in Europe and this expertise enabled us to deliver a 20% increase in sales through banks, to £4,916 million (HY 2009: £4,093 million). This week we announced an exclusive five-year distribution agreement with Santander in the UK. This is further evidence of Aviva's bancassurance capability and the strength of our composite model. From the summer of 2011 we will offer a range of life protection products through 1,300 UK branches.

General insurance and health net written premiums increased by 2%. In UK general insurance we have returned to growth and saw net written premiums increase by 7% over the second half of 2009. Our improved pricing techniques and 'Aviva deal' advertising campaign increased our competitiveness and 100,000 more customers now hold direct motor insurance policies with Aviva than at the end of 2009.

In Canada, where we are the second largest general insurer, we struck a good balance between volume growth and rating, with premiums held at prior year levels in a competitive market environment.

...combined with increased profitability...

At the same time as increasing Aviva's sales we have also improved the profitability of new business. The group's IRR on new business sales, including investment products, has increased to 12% (FY 2009: 10% and HY 2009: 9.5%), as a result of our disciplined focus on writing more profitable business. The group's margin improved to 2.4% (FY 2009: 2.2% and HY 2009: 2.1%), largely driven by improvements in the UK.

...and further cost reductions...

We continue to focus on improving productivity. We reached our £500 million cost savings target one year ahead of schedule last year. In the first half of 2010 costs were 4% lower than the same period last year and the benefits of this are now flowing through to operating profit.

...we achieved strong growth in profits.

Aviva's IFRS operating profits rose to £1,270 million, up 21% (HY 2009: £1,049 million). This result was supported by good performances from Aviva's composite portfolio, including sustainable earnings from our substantial life businesses in the UK and Europe, and improved results in our fund management and non-insurance businesses.

In the **UK**, life IFRS operating profit was 26% higher at £463 million (HY 2009: £368 million). The UK business continues to benefit from scale, the strength of our brand, our focus on operating more efficiently, and the simplification of our customer service. In addition, the successful reattribution of the inherited estate in the UK improved IFRS profits by approximately £80 million in the first half of the year.

In **Europe,** excluding Delta Lloyd, life IFRS operating profit increased by 29% to £425 million (HY 2009: £330 million) driven by a strong performance in our major markets. We are gaining momentum on our Quantum Leap transformation having made significant progress in simplifying our product suite, delivering further cost reductions and receiving regulatory approval for our pan-European life and pensions carrier in Ireland. Aviva's total operating profit in Europe increased by 5%, despite challenging economic conditions in some of our markets. The lower margin on new business at 3.6% reflects the change in product mix, as savings products have become more popular with our customers.

In its first half year subsequent to listing **Delta Lloyd** delivered a 22% increase in operating profits to £235 million (HY 2009: £192 million). Delta Lloyd is focused on simplifying its organisation and improving efficiency and has today committed to further cost savings in 2011 and 2012.

North American life IFRS operating profit increased by 258% to £86 million (HY 2009: £24 million), as a result of our actions to improve the profitability of the business and greater capital discipline. This performance reflects decisive management action to enhance profitability and improve product mix, combined with improved economic conditions. Our focus on capital efficient products, the pricing actions taken and the benefits of a capital solution supporting certain life business in the US, has seen an improvement in the IRR on new business to 14% compared to 7% reported for the full year 2009.

In **Asia Pacific**, underlying profits increased, supported by strong economic growth, lower new business strain and increased profitability of our existing business. IRRs on new business increased to 10%. However, life operating profit reduced to £35 million (HY 2009: £70 million) as last year's result included both a one-off £58 million release of life insurance reserves in Singapore and a £22 million contribution from the Australian life business which we sold on 1 October 2009.

The **worldwide general insurance** combined operating ratio (COR) in HY 2010 was 97%, beating the group's 'meet or beat' target of 98%. This includes lower prior year reserve releases. In UK general insurance current year operating profits increased by 24% to £197 million in the first half of the year (HY09: £159 million) as a result of our disciplined approach to underwriting and sophisticated pricing across the business. In Canada our general insurance operating profit increased by 52% to £132 million (HY09: £87 million) reflecting our focus on underwriting and operational effectiveness and favourable weather experience.

The worldwide general insurance expense ratio improved to 11.8% (HY 2009: 12.3%), reflecting cost savings from our efficiency programmes and the actions we have taken across the group to manage our cost base. However, the combination of high levels of claims following adverse weather in some countries and lower levels of reserve releases meant that the group's general insurance and health operating profit was lower at £525 million (HY 2009: £545 million).

Our global asset management business, **Aviva Investors**, delivered a significantly higher operating profit at £42 million (HY 2009: £36 million), up 17%. The business benefitted from a combination of improved equity and real estate markets, positive net client flows and higher fee rates on new external business.

Our capital generation is a clear differentiator...

In July, we showed our commitment to bringing greater clarity to how Aviva generates capital, how that is turned into cash and what we do with that cash.

These results underline the strong and resilient capital generating capability of the group. In the first six months of 2010 Aviva delivered £0.9 billion of capital and we are on track to generate £1.5 billion by the end of the year – an increase of 50% on 2009 and ahead of our previously announced £1.3 billion guidance.

....supporting disciplined reinvestment driving profitable growth...

Aviva's strong capital generation enables us to drive future profitable growth through focused reinvestment in our businesses. Our composite model continues to deliver strategic benefits for Aviva, with the general insurance business generating cash for investment in the profitable growth of our life businesses.

We apply two criteria when evaluating new business opportunities: an IRR of at least 12% and payback in less than 10 years. We are now achieving this in our core markets of the UK and Europe, excluding Delta Lloyd, and in North America. In Asia Pacific, where we are still developing our franchise in a number of markets, we increased our IRR to 10%.

...and a sustainable and growing dividend.

The combination of the resilient capital generation from the significant scale of our life in-force book and the earnings stream from our general insurance business provides a powerful base from which we pay sustainable dividends. We have therefore announced a 6% increase in the interim dividend to 9.5 pence.

Our balance sheet remains robust and...

Our balance sheet remains very strong. The IGD surplus is robust at £3.8 billion and remains well above the levels before the global financial crisis. In addition, the provisions of £1.1 billion against our corporate bond and commercial mortgages portfolios in the UK remain untouched. We have further protection against market volatility in the form of equity and Euro FX hedge contracts, and our exposure to sovereign debt is well within the group's risk appetite and held for the long-term.

...we are taking action to limit our pension liabilities.

Our proposal to close the UK final salary pension scheme to future accrual and remove the link to final salary is currently in consultation. This will limit the pension fund liability, reduce future costs and provide a more equitable arrangement for our UK staff. This was a difficult decision but is another example of taking action today to put the business on a firm long term footing.

We have further strengthened the leadership team

As always, these results must be attributed to the hard work, dedication and talent of all of our employees.

During the last six months we have further strengthened our senior management team and these changes are already having a positive impact on our performance. Pat Regan joined in February as our new Chief Financial Officer from Willis and at the start of the year, Igal Mayer was appointed Chief Executive of our North American business. Robin Spencer was appointed to the role of Chief Risk Officer in January and Jason Windsor will be joining Aviva from Morgan Stanley as Strategy Director in August. Aviva's ability to attract and retain the best talent brings us continuing and sustainable competitive advantage.

Looking ahead

Our overriding objective is to increase the profits and value from our existing businesses. In Europe and the UK we stand to benefit from the $1.7 trillion estimated to be invested in life and pensions in the next five years. In North America we will continue to improve the profitability of the business and will require it to fund its own growth. In Asia we will develop the value of our franchise organically, taking advantage of the region's attractive growth potential. At Aviva Investors we will continue to grow third party assets under management.

We remain alert to the macroeconomic environment and risks in financial markets but we will retain our focus on our customers and with excellent franchises in proven growth markets we are confident about our future.

Andrew Moss

Group chief executive

Regional performance

United Kingdom

— IFRS operating profit £728million (HY 2009: £604million)
— Life and pension sales £5,194million (HY 2009: £4,735million)
— Life new business gross margin up to 3.4% (HY 2009: 2.1%)
— IRR 15% (HY 2009: 13%)
— General Insurance COR of 98% (HY 2009: 99%)

A very strong performance across profits, sales, service and efficiency…

- Record profits in UK life business
- Significant progress in bringing UK businesses closer together and both voted UK's top insurer this year by insurance intermediaries
- Excellent operational capital generation, up 17% at £484 million, through continued disciplined approach to capital management
- Aviva is unique as the only major composite UK insurer bringing customers greater choice and supporting the group's diversified earnings stream.

…as we see the results of the transformation of our UK life business…

- £463 million IFRS life operating profit is a record result, an increase of 26% on the same period last year and more than the full year result in 2005 when we began the transformation
- Our unlevered IRR increased to 15% (HY 2009: 13%), 36% higher than the 2005 level, with a reduced payback to seven years
- Third consecutive quarter of life sales growth with life margin doubling to 3.4% over the last 18 months through disciplined management of business mix, expenses and capital
- Clear focus on new business capital efficiency with life new business strain at 3% (HY 2009:3%)
- Life customer and distributor satisfaction levels at highest level yet.

…with general insurance returning to growth and meeting our profitability targets…

- Benefits of ongoing transformation coming through with COR on target and continuing underlying improvement in current year profitability
- We have returned to growth compared to second half of 2009 with strong direct sales and through RAC panel
- Increased competitiveness through improved pricing techniques and our 'Aviva deal' advertising campaign
- 100,000 more customers now hold direct motor insurance policies with Aviva than at the end of 2009
- Strong retention rates across all classes of business
- RAC remains top breakdown service provider
- Aviva's service rated best in class by brokers for commercial lines and number two for personal lines.

…and significant management actions to transform the UK business.

- Further efficiency improvements with operating costs down by 12% in the half year (in total, operating costs in the UK business have reduced by 25% since HY 2007 when general insurance transformation began)
- Outsourcing of almost two million life policies to Swiss Re is nearing completion and has delivered annual cost savings of £37million and capital benefits
- Significant reduction in general insurance expense ratio as a result of reshaping of general insurance portfolio and supporting operations. (Reduced to 11.5% in HY 2010 from 11.7% in HY 2009 and 13.9% in FY 2007)
- Proposal to close final salary pension scheme is out to consultation. Current proposal is to close to future accrual and remove final salary link. Our aim is to limit the size of the pension fund deficit, reduce future costs and provide a more equitable arrangement for UK staff
- The successful reattribution of the inherited estate has improved half year IFRS operating profits by approximately £80 million, of which £60 million is a recurring benefit from the expected return on the reattributed assets and the time-value unwind of guarantee costs. A further £20 million reflects policyholder behaviour.

Continue to benefit from our unique composite model and growing customer franchise.

- Investment in the brand clearly paying off with awareness and consideration at highest levels yet, driving customer interest and sales
- Enhanced competitive position demonstrated through our new exclusive distribution agreement with Santander for protection products over five years, building on our existing general insurance partnership
- Heads of terms agreed to renew our successful strategic partnership with Royal Bank of Scotland with a new, exclusive seven year distribution agreement for the sale of life, protection and pension products from 2011. Under the agreement we will take full ownership of the jointly-owned life companies. Group net asset value is expected to increase by around £130 million and the quality of capital will improve as goodwill is converted into net assets and value of in force profits
- Strong performance in our risk business with annuity sales almost doubling through market leading postcode pricing adopted from our general insurance business
- Protection sales growing by 10% and 3600 average weekly applications for our simplified life product of which 80% are through 'one stop' electronic processing.

Outlook

- Diversified and sustainable income and profit streams means we are well positioned to build on the momentum of the first half of 2010 in the UK despite an uncertain economic climate
- As we continue to transform our business we will maintain our focus on maximising profitability and prudently deploying capital as we grow
- Our composite business model gives us significant opportunity to extract further value as we bring our businesses closer together and deliver benefit for customers, business partners and shareholders. In particular, we see opportunities in distribution, customer service and cost management.

Europe

Aviva Europe

— IFRS operating profit of £434 million (HY 2009: £415million)
— Life and pension sales of £7,992 million (HY 2009: £7,071million)
— Life new business gross margin 3.6% (HY 2009: 3.8%)
— IRR 12% (HY 2009: 13%)
— General insurance COR of 102% (HY 2009: 96%)

A strong result...

- Delivering sustainable profit growth underpinned by our Quantum Leap transformation
- 29% growth in life IFRS operating profit driven by strong performance across France, Italy and Spain, and change in reserving practices for protection business to a realistic basis in Ireland
- Life and pensions sales increased by 13% (15% on a local currency basis) to £7,992 million as Aviva responded to customers' demand for savings products with guarantees whilst maintaining underlying product margins
- General insurance: profits were down (HY2010: £46 million; HY2009: £108 million) affected by a second year of adverse weather in France and Ireland, and lower levels of reserve releases.

...across bancassurance and retail...

- Clear leader in bancassurance with 51 agreements driving strong sales growth, up 20% (23% on a local currency basis)
- 3% growth in retail sales (4% on a local currency basis) driven by a strong performance in France as a result of the continued strength of our partnership with AFER, France's largest savings association.

...as Quantum Leap transformation delivers...

- Transformation programme, integrating operations of 12 separate businesses into one single organisation bringing customer and cost benefits
- Further progress on simplifying product suite to meet customers' needs with 300 products removed to date
- Focus on productivity and expense management led to a 5% cost reduction compared to the first half of 2009
- Irish regulatory approval granted for pan-European life and pensions carrier and creation of branches in a number of countries subject to local regulatory consent.

...and significantly strengthens our customer franchise.

- Operating under a single brand in 12 markets, following successful brand transition in Ireland and Poland
- Delivering for our customers: rapid and effective response to French customers hit by winter storms supported by a simplified claims payment process
- Piloted a cross-selling model which will target seven million customers across Europe by end of 2010.

Outlook

- Our channel and market diversity makes us uniquely placed to take advantage of the growth opportunity in Europe
- We are developing capital efficient, pan-European products which meet customers' needs and improve returns to shareholders
- We are capitalising on our claims transformation centre of excellence to maximise our general insurance result

Delta Lloyd

— IFRS operating profit of £235 million (HY 2009: £192million)
— Life and pensions sales of £1,732 million (HY 2009: £1,780million)
— Life new business gross margin at 3.3% (HY 2009: 1.9%)
— IRR 5% (HY 2009: 5%)
— General insurance COR of 93% (HY 2009: 97%)

Strong growth in profit...

- Operating profit of £235 million, a 22% increase
- Life insurance: operating profit decreased due to lower expected investment returns
- General insurance: operating profit and COR stronger, with positive development in disability business offsetting the claims impact of adverse weather.

...reflects actions taken to focus on core activities and reduce exposures...

- Progress being made in closing the German operation to new business
- Delta Lloyd Bank Nederland has transferred its private banking activities to the Amsterdam-based Bank ten Cate & Cie with effect from 9 July 2010
- Exposure to Southern Europe & Ireland sovereign and sub-sovereign debt more than halved since December 2009
- Restructuring and simplification of organisation announced to enhance efficiency and deliver further cost savings of €100 million by 2012.

...and significantly strengthens our customer offer.

- Launch of a joint venture with BinckBank in January 2011 which will offer defined contribution group pension schemes, taking advantage of new legislation
- Successful Delta Deelnemingen Fund now managed solely by Delta Lloyd
- In line with industry-wide initiatives, Delta Lloyd has announced its proposed compensation for clients in group defined contribution pension schemes.

Outlook

- We view the group pension scheme transfer market as an area of continued growth
- We see indications of a hardening of general insurance rates in the medium term.

North America

- — IFRS operating profit £209 million (HY 2009: £103 million)
- — Life and pension sales £2,334 million (HY 2009: £3,189 million)
- — Life new business gross margin 0.2% (HY 2009: 0.5%)
- — IRR 14% (HY 2009: 7%)
- — General insurance COR 96% (HY 2009: 97%)

Strong momentum across North America...

- Doubling of IFRS profits in a challenging economic environment reflects decisive management actions in the US, to enhance profitability and strengthen successful distribution relationships combined with strong general insurance result in Canada
- Major improvement in new business profitability in US with 14% unlevered IRR on new business and a payback of four years, compared to 7% IRR and 14 years payback for the full year 2009
- Strong performance in Canada with operating profit up 52% to £132 million (HY 2009: £87million) largely as a result of focus on operational and underwriting effectiveness, and relatively benign weather in the first half of the year.

...with very healthy profit growth in the US...

- Successful efforts to rebalance the book and greater focus on profitable life protection business and disciplined spread management led to significant growth in life operating profit, up 258% to £86 million (HY 2009: £24 million)
- Sales were down 27% compared to the first half of 2009, as annuity growth was deliberately moderated and management focused on profitability and capital efficiency.

...and positive general insurance result in Canada.

- Actions to improve underwriting and pricing combined with favourable weather conditions in the first half of 2010 contributed to an improvement in the COR to 96% (HY09: 97%)
- Good balance struck between volume growth and rating, with premiums held at prior year levels in a competitive market environment (net written premiums were broadly the same as the first half of 2009 on a local currency basis and up 12% on a sterling basis).

Outlook

- In the US – we expect continuing earnings momentum into the second half of the year combined with maintaining our focus on self-funded profitable growth
- In Canada – we are executing our strategy to further enhance our sophisticated pricing and underwriting, while benefitting from the expected improvements in the personal lines rating environment.

Asia Pacific

- — IFRS operating profit £14million (HY 2009: £63 million)
- — Life and pensions sales £794million (HY 2009: £532 million*)
- — IRR 10% (HY 2009: 7%)
- — Life new business gross margin 2.3% (HY 2009: 1.1%*)

*Excluding Australia

Growing attractive Asian franchise organically for the longer term.

- Well positioned across nine markets to benefit from the region's long-term growth potential.

Delivered substantial profit growth...

- Underlying profits strengthened against first half of 2009*, driven by actions to manage new business costs and increase profits flowing from existing business
- Improvement in new business profitability, with margins increased from 1.1% in HY 2009 to 2.3% this half year as a result of disciplined cost management, increased scale and focus on product profitability.

...as sales picked up significantly...

- Life and pensions sales increased by 49% to £794 million reflecting an improving economic environment and confidence in investment markets.

...especially in key markets of India and China.

- Key markets of India and China, which will be a major part of Aviva's future growth in the region, delivered a 40% increase in life and pensions sales in the first half of 2010 compared to the same period a year ago.

Outlook

- We expect the region's long term potential to offer opportunities to further deepen our footprint in Asian markets
- Our strong distribution partnerships and regional operating model are a strong platform from which to build further scale and sell profitable business to grow our franchise value.

* excluding a one-off release of reserves in Singapore of £58million and £22million for the Australian life business sold on 1 October 2009

Aviva Investors

— IFRS operating profit £42 million (HY 2009: £36 million)
— Of the total £380 billion funds under management, Aviva Investors managed £200 billion of internal funds and £48 billion of external funds
— Net funded new business flows of £0.5 billion (HY 2009: £2.8 billion), comprising third party inflows of £0.8 billion (HY 2009: £1.7 billion) and Aviva group outflows of £0.3 billion (HY 2009: inflows of £1.1 billion)

Positive investment performance...

- Across the business where clients have specific performance benchmarks Aviva Investors has met or exceeded 80% of these over one year and 60% over three years
- We continue to be a market leader in the UK in Fixed Income and see significant opportunities for growth in this space, with a highly experienced team and fixed income assets under management globally making up 60% of our £248 billion assets under management (as at 30 June 2010).
- We have received recognition of improved investment performance from investment consultants and independent industry observers such as Morningstar.

...and continuing development of our global infrastructure and operating platforms

- Global business development, sales processes and client service infrastructure in place
- More than 75%.of external sales classified as cross border (i.e. sold in a jurisdiction where they are not manufactured)
- Successful integration of River Road following its acquisition by Aviva Investors in early 2010
- Leading position in UK real estate underlined by recent agreement to take over the management of Henderson's International Property Fund (with effect from August 2010).

... helps to drive third party sales and profits...

- Net funded inflows from third party clients of £0.8 billion and a further £0.5 billion of unfunded sales, lower than H1 2009 but generating significantly higher annualised revenues, which increased by 67% compared to the first half of 2009
- Average fee rates on gross funded third party sales were 56% higher than full year 2009
- Significant mandates from new clients made up around £1 billion of inflows for the half year
- These developments, coupled with higher market values for Equity and Real Estate assets, have helped to increase operating profit by 17% to £42 million.

...and material contribution to group profitability...

- Investment return is a major driver of Aviva's profitability and outperformance of benchmarks by Aviva Investors helped to deliver the significant investment return earned by the group in first half of 2010
- Strong investment performance supports retention of life back book and is instrumental to group's future capital generation.

Outlook

- We will leverage investment in systems and processes to deliver further growth of third party sales in our priority areas of fixed income, real estate, retirement solutions and selectively in equities.

Notes to Editors

Notes to editors

Aviva is a leading provider of life and pension products in Europe (including the UK) with substantial positions in other markets around the world, making it the world's sixth largest insurance group based on gross worldwide premiums at 31 December 2009.

Aviva's principal business activities are long-term savings, fund management and general insurance, with worldwide total sales* of £45.1 billion and funds under management of £379 billion at 31 December 2009.

* Based on 2009 published life and pensions PVNBP on an MCEV basis, total investment sales and general insurance and health net written premiums, including share of associates' premiums.

The Aviva media centre at www.aviva.com/media includes images, company and product information and a news release archive.

All figures have been translated at average exchange rates applying for the period. The average rates employed in this announcement are 1 euro = £0.87 (6 months to 30 June 2009: 1 euro = £0.89) and £1 = US$1.53 (6 months to 30 June 2009: £1 = US$1.49).

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

Definition: Present value of new business premiums (PVNBP)

PVNBP is derived from the single and regular premiums of the products sold during the financial period and are expressed at the point of sale. 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. The discount rate used reflects the appropriate risk-free rate for the country and duration of business. The projection assumptions used to calculate PVNBP for each product are the same as those used to calculate new business contribution. The discounted value of regular premiums is also expressed as annualised regular premiums multiplied by a Weighted Average Capitalisation Factor (WACF). The WACF will vary over time depending on the mix of new products sold, the average outstanding term of the new contracts and the projection assumptions.

Cautionary statements:

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

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

For a more detailed description of these risks, uncertainties and other factors, please see Item 3, "Risk Factors", and Item 5, "Operating and Financial Review and Prospects" in Aviva's Annual Report on Form 20-F as filed with the SEC on 30 March 2010. Aviva undertakes no obligation to update the forward-looking statements in this announcement or any other forward-looking statements we may make. Forward-looking statements in this announcement are current only as of the date on which such statements are made.

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Key financial highlights

	IFRS			MCEV		
	6 months 2010 £m	6 months 2009 £m	Change %	**6 months 2010 £m**	6 months 2009 £m	Change %
Long-term business IFRS profit / MCEV earnings	**1,128**	940	20%	**1,918**	1,607	19%
General insurance and health	**525**	545	(4)%	**525**	545	(4)%
Fund management	**56**	35	60%	**13**	(4)	425%
Other operations and regional costs	**(47)**	(107)	56%	**(33)**	(99)	67%
Corporate centre	**(54)**	(46)	(17)%	**(54)**	(46)	(17)%
Group debt and other interest costs	**(338)**	(318)	(6)%	**(338)**	(318)	(6)%
Operating profit before tax	**1,270**	1,049	21%	**2,031**	1,685	21%
Profit after tax	**1,505**	747	101%	**896**	919	(3)%
IFRS total return	**1,072**	666	61%			
Net operational capital generated	**£0.9bn**	£0.5bn		**n/a**	n/a	
MCEV new business margin	**n/a**	n/a		**2.4%**	2.1%	
Combined operating ratio	**97%**	97%		**n/a**	n/a	
Long term savings sales	**n/a**	n/a		**20,238**	19,421	
Interim dividend per share	**9.5p**	9.0p		**n/a**	n/a	
Net asset value per share	**394p**	353p		**461p**	404p	
Earnings per share	**38.8p**	24.9p		**28.5p**	32.9p	
Equity shareholder's funds	**11,051**	9,660		**12,921**	11,057	
Return on equity shareholders' funds	**14.6%**	12.8%		**17.5%**	16.8%	

Focus on capital, cash and profits

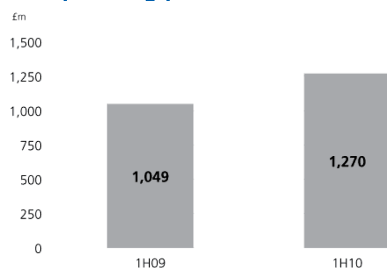
— IFRS operating profit of £1,270 million was 21% up on the previous period.

— Net operating capital generated in the period was £0.9 billion, strong progress towards our expectation of £1.5 billion for the year.

— Interim dividend per share of 9.5 pence (HY09: 9 pence)

— IFRS net asset value per share of 394 pence (HY09: 353 pence)

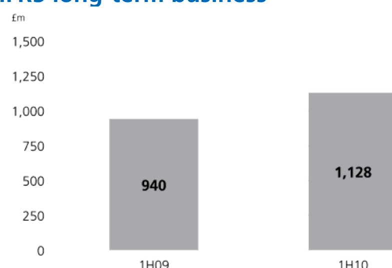
IFRS operating profit



— IFRS operating profit increased to £1,270 million for the half-year (HY09: £1,049 million) driven by strong growth in UK, European and US life results.

— IFRS profit after tax increased to £1,505 million (HY09: £747 million) driven by positive investment variances of £1,062 million of which around £600 million relates to differing movements in asset and liability yield curves used by Delta Lloyd. This has been partially offset by one-off exceptional items in that business and reduced restructuring costs which were £72 million (HY09: £148 million).

IFRS long-term business



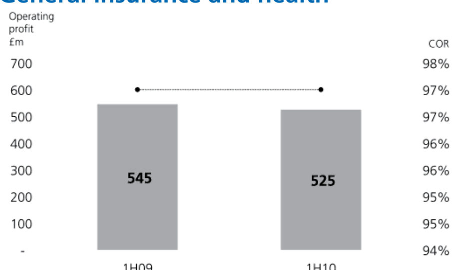
— Long-term business operating profit increased 20% to £1,128 million (HY09: £940 million) driven by returns on UK reattributed inherited estate, increased spread profits in the US and stronger existing business returns in Europe.

— IFRS new business income improved to £465 million (HY09: £379 million) driven by increased volumes and improved profitability of annuity sales in UK and increased European sales volumes.

— Overall investment returns increased to £1,663 million (HY09: £1,376 million) – key components of this growth were increased annual management charges on unit-linked contracts in all regions, higher spread profits in the US and returns on the UK reattributed inherited estate.

— Expenses increased to £1,180 million (HY09: £1,129 million) partially as a result of higher initial and renewal commissions in Europe as a result of increased business volumes.

General insurance and health



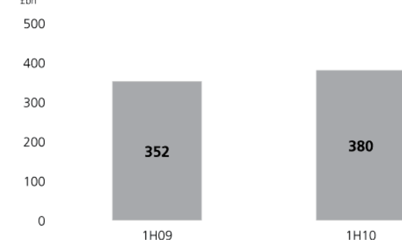
— General insurance and health operating profit reduced to £525 million (HY09: £545 million). Lower prior year development and adverse weather experience have more than offset a strong improvement in underlying profitability. Combined operating ratio is 97% (HY09: 97%).

— Reserve releases in HY10 were £56 million compared with £190 million in HY09.

— Net written premiums increased to £5,044 million (HY09: £4,947 million) primarily in Canada (as a result of foreign exchange movements) and across our health insurance business.

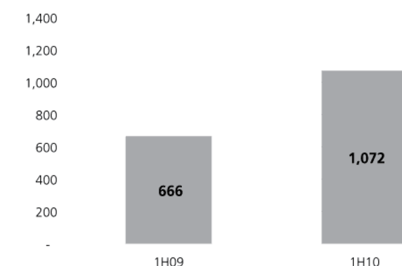
— In the UK, premiums have reduced, with the adverse impact of previous actions to improve the profitability of the portfolio offsetting growth in other areas.

Fund management



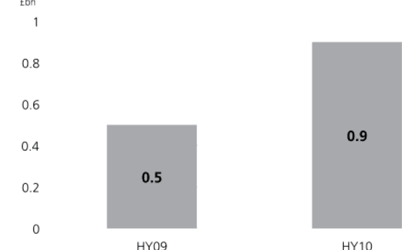
- Operating profit increased to £56 million (HY09: £35 million) reflecting increased funds under management and higher average fees.
- Total funds under management are £380 billion (HY09: £352 billion).
- Net funded flows from third party clients were £0.8 billion, with a further £0.5 billion of unfunded sales.

IFRS total return



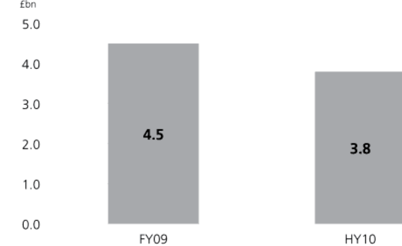
- Total return increased to £1,072 million (HY09: £666 million). Within this amount (which is net of tax and minority interest) investment variances on long term business contributed £541 million.
- The impact of minority interests has increased as a result of the IPO of Delta Lloyd in October 2009. We now own 58%.
- The effective tax rate for the period was 27% (HY09 21%).

Net operational capital generated



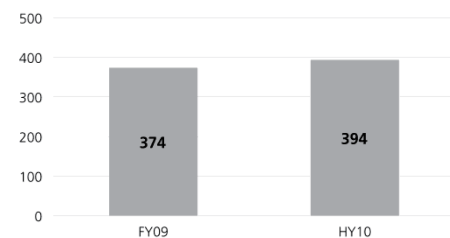
- Net operational capital generated in the first 6 months of 2010 was £0.9 billion (HY09: £0.5 billion). Capital generated from existing business was £1.4 billion offset by capital investment in new business of £0.5 billion.
- Overall group IRR increased to 12.0% from 9.5% in the first half of 2009 and 10.0% for full year 2009. Compared with FY09 there have been increases in UK, US and Asia Pacific offsetting a small reduction in Europe driven primarily by changes in product mix.
- Payback periods have reduced overall from 14 years for FY09 to 8 years at HY10.
- The US IRR has improved from 7% to 14%, driven by broadly equal impacts of the AXXX capital solution and management actions.

IGD solvency



- IGD solvency surplus is £3.8 billion (FY09: £4.5 billion). This reduction reflects the payment of the final 2009 dividend of £0.3 billion, increased contributions to the Group pension scheme of £0.5 billion and adverse market movements in the first half of 2010 which have been more than offset by the positive contribution from profits made in the period.
- A 40% fall in equities would reduce IGD surplus by £0.5 billion.
- At 30 June 2010 IGD cover is 1.6 times (FY09: 1.7 times)

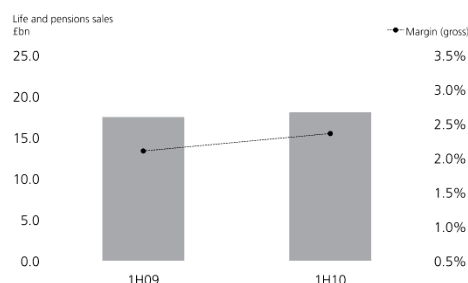
IFRS net asset value per share



- IFRS NAV has increased to 394 pence (FY09: 374 pence) driven by strong operating profit and positive investment variances. These have been partially offset by the adverse impact of movements in FX rates, an increase in the pension scheme deficit and payment of the final dividend for 2009.

Key financial highlights continued

New business



- Worldwide long term business sales (including investment products) were £20.2 billion (HY09: £19.4 billion) an increase of 4% with significant increases in Europe, UK and Asia Pacific. On a local currency basis, sales increased by 5%.
- Within this total life and pensions sales were £18.0 billion (HY09: £17.5 billion) an increase of 3%.
- New business margin is 2.4% (HY09: 2.1%) driven primarily by improvements in the UK where the margin increased from 2.1% to 3.4%.

Underlying costs

- Total expenses have reduced by 4% from £2,493 million in HY09 to £2,403 million in HY10. On a like for like basis (excluding the impact of foreign exchange, restructuring and acquisitions and disposals) costs remain broadly flat at £2,331 million (HY09: £2,307 million) with the impact of inflation offset by cost savings.

MCEV result

- MCEV operating profit increased by 21% to £2,031 million (HY09: £1,685 million).
- Life MCEV operating earnings were £1,918 million (HY09: £1,607 million) an increase of 19%. Within this total, expected return is now calculated based on implied discount rates (IDRs) to improve the predictability of the operating result.
- The value of new business (VNB) increased to £425 million from £367 million in the first half of 2009 driven by increases in volume and margin primarily in the UK and France.
- MCEV profit after tax is £896 million (HY09: £919 million) with the higher operating profit offset by increased tax charge.
- MCEV NAV was 461 pence (FY09: 471 pence). The decrease is the result of adverse movements in foreign exchange rates, an increase in the pension scheme deficit and payment of the final dividend for 2009.

Liquidity

- Strong liquidity position with direct access to £1.8 billion of liquid assets (30 June 2009: £1.1 billion, 31 December 2009: £2.2 billion).
- £2.1 billion of undrawn committed credit facilities provided by a range of leading international banks.

Interim dividend of 9.5 pence

- Interim dividend for 2010 of 9.5 pence is an increase of 6% on the 2009 interim dividend.

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

- The group's rating from Standard and Poors is AA- ("very strong") with a Negative outlook; Aa3 ("excellent") with a Stable outlook from Moody's; and A ("excellent") with a Stable outlook from A M Best.
- The Group's financial strength ratings continue to reflect our strong competitive position and diversified underlying earnings profile, positive strategic management and substantial liquid assets.

Asset quality

- The asset portfolio remains of high quality.
- Aviva's exposure to sovereign debt is well within our risk appetite. We hold these assets for the long term and believe that the risk of European countries defaulting on their sovereign debt is low.

Impact of foreign exchange

- Total foreign currency movements during HY10 resulted in a loss recognised in profit before tax of £22 million (HY09: £111 million gain)

Group performance – IFRS

Pro forma reconciliation of group operating profit to profit after tax – IFRS basis

For the six month period to 30 June 2010

	6 months 2010 £m	6 months 2009 £m	Full year 2009 £m
Operating profit before tax attributable to shareholders' profits			
Long-term business			
United Kingdom	**463**	368	672
Europe	**544**	478	1,038
North America	**86**	24	85
Asia Pacific	**35**	70	92
Total long-term business (note 1)	**1,128**	940	1,887
General insurance and health			
United Kingdom	**268**	284	535
Europe	**127**	167	275
North America	**132**	87	144
Asia Pacific	**(2)**	7	6
Total general insurance and health (note 3)	**525**	545	960
Fund management			
Aviva Investors	**42**	36	115
United Kingdom	**(2)**	(12)	(14)
Europe	**17**	10	31
Asia Pacific	**(1)**	1	1
Total fund management (note 4)	**56**	35	133
Other:			
Other operations and regional costs (note 5)	**(47)**	(107)	(214)
Regional operating profit	**1,662**	1,413	2,766
Corporate centre (note 6)	**(54)**	(46)	(108)
Group debt costs and other interest (note 7)	**(338)**	(318)	(636)
Operating profit before tax attributable to shareholders' profits	**1,270**	1,049	2,022
Adjusted for the following:			
Investment return variances and economic assumption changes on long-term business (note 8)	**1,062**	155	(75)
Short-term fluctuation in return on investments on non-long-term business (note 9)	**6**	(125)	95
Economic assumption changes on general insurance and health business (note 10)	**(64)**	52	57
Impairment of goodwill and other amounts expensed	**(2)**	(5)	(62)
Amortisation and impairment of intangibles	**(60)**	(58)	(144)
Profit on the disposal of subsidiaries and associates (note 11)	**28**	20	153
Integration and restructuring costs (note 12)	**(72)**	(148)	(286)
Exceptional items (note 13)	**(117)**	–	45
Profit before tax attributable to shareholders' profits	**2,051**	940	1,805
Tax on operating profit	**(310)**	(235)	(547)
Tax on other activities	**(236)**	42	57
	(546)	(193)	(490)
Profit for the period	**1,505**	747	1,315

Earnings per share – IFRS basis

	6 months 2010	6 months 2009	Full year 2009
Operating earnings per share on an IFRS basis after tax, attributable to ordinary shareholders of Aviva plc			
Basic (pence per share)	**27.4**	26.9	45.1
Diluted (pence per share)	**27.0**	26.7	44.8
Earnings after tax on an IFRS basis, attributable to ordinary shareholders of Aviva plc			
Basic (pence per share)	**38.8**	24.9	37.8
Diluted (pence per share)	**38.2**	24.8	37.5

1 – Long-term business IFRS operating profit

	6 months 2010 £m	6 months 2009 £m	Full year 2009 £m
With-profit	**110**	137	177
Non-profit	**353**	231	495
United Kingdom	**463**	368	672
France	**132**	122	272
Ireland	**86**	29	50
Italy	**49**	37	128
Poland	**78**	72	152
Spain	**79**	71	160
Other Europe	**1**	(1)	(1)
Aviva Europe	**425**	330	761
Delta Lloyd	**119**	148	277
Europe	**544**	478	1,038
North America	**86**	24	85
Asia Pacific	**35**	70	92
Total	**1,128**	940	1,887

IFRS long-term business operating profit before shareholder tax was £1,128 million (HY09: £940 million), an increase of 20% on the prior period.

United Kingdom
IFRS operating profit was 26% higher at £463 million (HY09: £368 million) driven by strong growth in the non-profit result.

The non-profit result increased to £353 million (HY09: £231 million) from good new annuity business margins, increased annual management charges and earnings related to the reattributed estate. Investment return on reattributed assets (RIEESA), the un-wind of guarantee costs and the impact of policyholder behaviour contributed operating profits of £82 million (HY09: nil). £60 million of this is expected to recur.

This was partly offset by a lower with-profit result of £110 million (HY09: £137 million), reflecting the shareholders' share of reduced regular and terminal bonus payments. The with-profit result includes the final tranche of special bonus distribution of £84 million (HY09: £86 million).

Aviva Europe
Aviva Europe's life operating profit was £425 million (HY09: £330 million), a 29% increase on the prior period. This reflects growth in profits from existing business in France, Italy and Spain, partly offset by increased new business strain mainly due to sales growth in Italy. The current year result includes £55 million from release of reserves for protection business following adoption of realistic reserving in Ireland.

Delta Lloyd
Life operating profit for Delta Lloyd group reduced to £119 million (HY09: £148 million) due to lower interest rates and higher expenses.

North America
Life operating profit increased to £86 million (HY09: £24 million), as a result of our actions to improve the profitability of the business. This performance reflects disciplined spread management combined with growth in the in-force business.

Asia Pacific
Life operating profit reduced to £35 million (HY09: £70 million). The prior year result included a one-off release of reserves in Singapore of £58 million, and £22 million for the Australian life business sold on 1 October 2009. On an underlying basis, profits from the Asia region increased strongly, driven by lower new business strain and increased profit emergence from existing business.

2 – Long-term business IFRS profit driver analysis

	Note	United Kingdom £m	Aviva Europe £m	Rest of the world £m	Total £m
					6 months 2010
New business income	a	**230**	**179**	**56**	**465**
Underwriting margin	b	**88**	**157**	**124**	**369**
Unit-linked margin	c	**177**	**310**	**51**	**538**
Participating business	d	**109**	**191**	**70**	**370**
Spread margin	e	**82**	**26**	**365**	**473**
Expected return	f	**98**	**66**	**118**	**282**
Investment return		**466**	**593**	**604**	**1,663**
Income		**784**	**929**	**784**	**2,497**
Acquisition expenses	g	**(183)**	**(275)**	**(90)**	**(548)**
Administration expenses	h	**(178)**	**(240)**	**(214)**	**(632)**
Expenses		**(361)**	**(515)**	**(304)**	**(1,180)**
DAC/AVIF amortisation and other	i	**40**	**11**	**(240)**	**(189)**
IFRS operating profit		**463**	**425**	**240**	**1,128**

'Rest of the world' includes Delta Lloyd, North America and Asia Pacific

	Note	United Kingdom £m	Aviva Europe £m	Rest of the world £m	Total £m	Total £m
					6 months 2009	Full year 2009
New business income	a	179	149	33	361	792
Underwriting margin	b	63	161	128	352	683
Unit-linked margin	c	147	289	26	462	1,021
Participating business	d	137	158	78	373	573
Spread margin	e	80	25	229	334	863
Expected return	f	48	60	99	207	492
Investment return		412	532	432	1,376	2,949
Income		654	842	593	2,089	4,424
Acquisition expenses	g	(187)	(212)	(101)	(500)	(950)
Administration expenses	h	(177)	(238)	(214)	(629)	(1,350)
Expenses		(364)	(450)	(315)	(1,129)	(2,300)
DAC/AVIF amortisation and other	i	78	(62)	(36)	(20)	(237)
IFRS operating profit		368	330	242	940	1,887

Detailed analysis of the above is given within the IFRS supplement, note A19, page 55.

(a) New business income
New business income increased 29% to £465 million as the new business income (as a percentage of APE sales) increased to 22% (HY09:18%) and sales increased 3%. This was primarily driven by annuity volumes and profit growth in the UK. In addition within the UK, the benefit of a 25% growth in protection volumes was offset by decreased creditor business.

In Aviva Europe, new business income increased to 20% (HY09:18%) reflecting geographical mix from growth in with-profit business in Italy and France.

In the Rest of the World, new business income includes the ongoing effect of the reserving changes made in 2009 in Asia Pacific.

(b) Underwriting margin
The underwriting margin increased to £369 million (HY09: £352 million). This increase reflects a benefit of £22 million in the UK from policyholder behaviour following the reattribution of the inherited estate in October 2009. The underwriting result in Aviva Europe and the Rest of the World remained broadly stable.

(c) Unit-linked margin
The unit-linked margin grew from £462 million to £538 million as improved market conditions resulted in higher average unit-linked reserves of £90 billion (HY09: £82 billion). Additionally the annual management charge as a percentage of reserves increased slightly to 119bps partly due to product mix. The majority of this unit-linked income comes from the UK and Aviva Europe which primarily relates to unit-linked business in France, Poland and Spain.

(d) Participating business
Income from participating business remained stable at £370 million (HY09: £373 million). Whilst the special distribution of £84 million (HY09: £86 million) was in line with prior year, the reduction in bonus rates lowered shareholder income in the UK. This was offset by an increase in Aviva Europe's result within which France is the main contributor reflecting a fixed management charge of circa 50bps on AFER business.

(e) Spread margin
Spread income increased 42% to £473 million as the spread margin increased to 134 bps (HY09: 98bps) driven by our US business where the benefits of management actions to improve profitability are coming through.

(f) Expected return on shareholder assets
Expected returns increased to £282 million (HY09: £207 million) due to a £60 million contribution in the UK following the reattribution of the inherited estate. Of this, £28 million were earnings on the reattributed estate with £32 million from the unwind of guarantees. This is expected to recur in the second half. The increase in Rest of the World is driven by higher shareholders' funds in Delta Lloyd.

(g) Acquisition expenses
Acquisition expenses have increased to £548 million (HY09: £500 million) due to higher initial commissions as single premium with-profit sales grew in France and Italy.

(h) Administration expenses
Administration expenses were broadly in line across all regions and at the group level at £632 million (HY09: £629 million).

(i) DAC, AVIF and other
DAC, AVIF and other amounted to £189 million (HY09: £20 million) as the prior year included a significant number of one-off positives including one-off reserve releases in Singapore of £58 million and £22 million contribution from the Australian life business sold in October 2009. In the first six months of 2010, there was a £55 million one-off release in Ireland as a result of moving to a realistic reserving basis. In addition, there were additional one-off charges of £35 million in Delta Lloyd.

DAC and AVIF amortisation increased by around £100 million principally driven by improved profitability in our US business.

The ongoing charge for these items is expected to be around £400 million for the full year.

3 – General insurance and health

	Underwriting result			Longer-term investment return			Operating profit[2]		
	6 months 2010 £m	6 months 2009 £m	Full year 2009 £m	**6 months 2010 £m**	6 months 2009 £m	Full year 2009 £m	**6 months 2010 £m**	6 months 2009 £m	Full year 2009 £m
General insurance									
United Kingdom[1,2]	**56**	63	98	**223**	227	439	**269**	282	520
France	**(18)**	7	15	**23**	24	55	**5**	31	70
Ireland[2]	**(12)**	15	(11)	**29**	33	62	**16**	47	49
Other	**(6)**	1	(62)	**17**	23	40	**11**	24	(22)
Aviva Europe	**(36)**	23	(58)	**69**	80	157	**32**	102	97
Delta Lloyd	**31**	6	38	**50**	53	105	**81**	59	143
Europe	**(5)**	29	(20)	**119**	133	262	**113**	161	240
North America	**43**	21	(4)	**89**	66	148	**132**	87	144
Asia Pacific	**(3)**	—	—	**1**	1	1	**(2)**	1	1
	91	113	74	**432**	427	850	**512**	531	905
Health insurance									
United Kingdom	**(4)**	—	8	**3**	2	7	**(1)**	2	15
France	**(2)**	(2)	10	**8**	7	17	**6**	5	27
Ireland	**7**	1	7	**1**	—	1	**8**	1	8
Aviva Europe	**5**	(1)	17	**9**	7	18	**14**	6	35
Asia Pacific	**—**	6	5	**—**	—	—	**—**	6	5
	1	5	30	**12**	9	25	**13**	14	55
Total	**92**	118	104	**444**	436	875	**525**	545	960

1. United Kingdom includes Aviva Re and agencies in run-off.
2. Group operating profit includes an unfavourable impact of £11 million resulting from unwind of discount (HY09: £9 million; FY09: £19 million). £10 million relating to UKGI (HY09: £8 million, FY09: £17 million)) and £1 million relating to Ireland (HY09: £1 million, FY09: £2 million)

	Net written premiums		
	6 months 2010 £m	6 months 2009 £m	Full year 2009 £m
General insurance			
United Kingdom[1]	**2,018**	2,091	3,911
France	**429**	434	729
Ireland	**212**	240	422
Other	**260**	234	457
Aviva Europe	**901**	908	1,608
Delta Lloyd	**707**	677	1,163
Europe	**1,608**	1,585	2,771
North America	**996**	889	1,800
Asia Pacific	**8**	4	10
	4,630	4,569	8,492
Health insurance			
United Kingdom	**223**	207	387
France	**135**	130	223
Ireland	**32**	23	52
Aviva Europe	**167**	153	275
Asia Pacific	**24**	18	39
	414	378	701
Total	**5,044**	4,947	9,193

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

Combined operating ratios – general insurance business only	Claims ratio			Expense ratio			Combined operating ratio		
	6 months 2010 %	6 months 2009 %	Full year 2009 %	**6 months 2010 %**	6 months 2009 %	Full year 2009 %	**6 months 2010 %**	6 months 2009 %	Full year 2009 %
United Kingdom[1]	**64.8%**	65.8%	66.2%	**11.5%**	11.7%	11.5%	**98%**	99%	99%
France	**76.3%**	68.4%	68.1%	**8.6%**	9.5%	11.2%	**102%**	96%	98%
Ireland	**76.6%**	65.1%	73.6%	**18.7%**	18.2%	19.6%	**105%**	94%	103%
Aviva Europe	**73.6%**	65.5%	72.3%	**11.6%**	12.6%	13.7%	**102%**	96%	103%
Delta Lloyd	**62.4%**	66.2%	63.0%	**11.0%**	12.5%	14.7%	**93%**	97%	97%
Europe	**68.7%**	65.8%	68.4%	**11.4%**	12.6%	14.1%	**99%**	96%	101%
North America	**63.5%**	65.2%	68.5%	**13.8%**	13.7%	12.8%	**96%**	97%	100%
Total	**65.3%**	65.3%	66.7%	**11.8%**	12.3%	12.6%	**97%**	97%	99%

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

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

Definitions:

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

3 – General insurance and health continued

Group operating profit from general insurance and health businesses for the period was £525 million (HY09: £545 million). The general insurance and health underwriting result decreased to £92 million (HY09: £118 million), reflecting adverse weather in UK and Europe totalling £71 million, offset in part by favourable experience in Canada.

We continue to apply our reserving policy consistently and the reserves in the group are set conservatively with the aim to protect against adverse future claims experience and development. Our business is predominantly short tail in nature and loss development experience is generally stable. As a result of the conservatism applied in setting the reserves, there are releases of £56 million, net of reinsurance, in the first half of 2010 which reflect releases from the 2009 accident year and prior (HY09: £190 million).

The worldwide general insurance combined operating ratio (COR) was 97% (HY09: 97%) in line with the group's 'meet or beat' target. The worldwide GI expense ratio has decreased to 11.8% (HY09: 12.3%) reflecting cost savings from our efficiency programmes and actions taken across the group to manage the cost base.

The longer term investment return (LTIR) on general insurance and health business assets was higher at £444 million (HY09: £436 million).

United Kingdom

The result for our general insurance and health business in the UK includes the UK General Insurance business, our group captive reinsurer, Aviva Re, and agencies in run off. Operating profit of £268 million (HY09: £284 million) includes UK General Insurance operating profit of £229 million (HY09: £247 million), a contribution of £39 million (HY09: £35 million) from Aviva Re, £1 million from agencies in run off and £1 million loss from our UK health business (HY09: £2 million). All subsequent commentary relates solely to UK General Insurance.

The first half of the year shows further evidence of a return to growth in our business in 2010, with **net written premiums** of £1,942 million (HY09: £2,049 million) 7% higher than those written in the second half of 2009 (£1,817 million). Performance in our direct channel has been particularly encouraging where we have seen motor policies in force grow by c100,000 for the year to date, reflecting the impact of our marketing initiatives, including 'Get the Aviva Deal' marketing campaign. Our offering on aggregators, the RAC panel, has also proved successful with total sales of 168,000 recorded in the first half of the year compared with 150,000 in the whole of 2009. We continue to roll out our direct prices to brokers, which we believe will offer opportunity for additional growth later in the second half of 2010. Commercial new business levels have been strong and the launch of our corporate risks offering has been well received in the market. We are also seeing good levels of retention across all lines of business. The reduction of 5% in net written premiums from the first half of 2009 principally reflected the impact of the action we took in 2009 to exit unprofitable business.

Overall, **operating profit** for the first half of 2010 was £229 million (HY09: £247 million), which includes broadly stable investment returns of £212 million (HY09 £217 million) and an underwriting result of £27 million (HY09: £39 million), reflecting the improvement in current year profitability offset by lower savings on prior year claims development to £32 million (HY09: £88 million).

The underlying improvement seen in current year profitability in 2009 has continued into 2010. Current year operating profits for the first half of the year were up by 24% to £197 million (HY09: £159 million), despite an adverse impact from weather-related claims of £20 million compared with the long-term average (HY09: neutral). The results reflect the growing sustainable profitability of the business now being written, driven by a disciplined approach to underwriting and the implementation of sophisticated pricing techniques across the business (including brokers and partners), together with a reduction in creditor claims from the levels seen last year.

The **combined operating ratio** has improved to 98% (HY09: 99%) in line with the Group's worldwide target. This reflects an improvement in the loss ratio of 1% since the first half of 2009. We are realising the benefits from the actions we have taken to control our costs, with the distribution ratio in line with the full year 2009 position at 33%, and down from 40% in 2007.

Europe

In Europe, net written premiums were in line with last year at £1,775 million (HY09: £1,738 million). Operating profit of £127 million was below prior year (HY09: £167 million) following adverse weather in Ireland and France partly offset by an improvement in the result from Delta Lloyd.

Aviva Europe

General Insurance **net written premiums** were in line with the same period last year at £901 million (HY09: £908 million). Health net written premiums have increased 9% to £167 million (HY09: £153 million) with our Ireland health franchise delivering profitable growth.

General insurance and health **operating profit** was £46 million (HY09: £108 million) principally reflecting the impact of adverse weather events in Ireland and France and lower reserve releases. The market in Ireland is difficult and exacerbated in the short term by aggressive and unsustainable pricing by competitors; we are focused on remaining competitive whilst delivering returns to shareholders. The LTIR of £78 million (HY09: £87 million) was lower as a result of reduction in interest rate yields across markets and foreign exchange movements in Turkey.

The **combined operating ratio** for Aviva Europe was 102% (HY09: 96%) again impacted by adverse weather. Our pricing includes an allowance for weather, based on historical experience and future projections, which we believe is sufficient in the long-term. This year, like last, saw a variation from this mainly due to storm Xynthia in France and the extreme cold in Ireland. Our expense ratio is down 1% reflecting cost savings achieved on stable volumes.

3 – General insurance and health continued

Delta Lloyd
Net written premiums were £707 million (HY09: £677 million) which includes amounts for accelerating the reporting of brokered business onto an actual basis. Excluding these amounts net written premiums were stable year on year.

Operating profit increased to £81 million (HY09: £59 million), reflecting positive development on disability and liability business. The motor and property market continued to be challenging due to price competition and adverse weather conditions. Property COR was also impacted by a high incidence of fire claims.

North America
In Canada, **net written premiums** were broadly level with the same period last year at £996 million, when measured on a constant currency basis. This reflected lower personal lines premiums, where we took actions in the prior year to exit poorly performing business partly offset by an improvement in our commercial lines premiums, made during a period when we have implemented targeted rate increases in a highly competitive market.

During the year we have continued to focus on business initiatives to enhance our operational and underwriting effectiveness and this, combined with favourable weather experience and improved long term investment return, has driven the increase in our **operating profit** to £132 million (HY09: £87 million). The underwriting result of £43 million (HY09: £21 million) and **COR** at 96% (HY09: 97%) follows the same trend in improved claims and favourable weather experience, while the long term investment return increased to £89 million (HY09: £66 million) driven by a change in asset mix and favourable foreign exchange movements.

Asia Pacific
Net written premiums in the general insurance and health business increased to £32 million (HY09: £22 million) primarily due to improved sales in Retail Healthcare in our Singapore Health business.

The **operating loss** was £2 million (HY09: £7 million profit) reflecting the non recurrence of the favourable £5 million one-off release of reserves in the Singapore health business in 2009 and the costs of setting up the general insurance business in Singapore.

4 – Fund management

Geographical analysis of fund management operating profits

	6 months 2010 £m	6 months 2009 £m	Full year 2009 £m
United Kingdom	**11**	14	66
Europe	**20**	15	28
North America	**13**	8	22
Asia Pacific	**(2)**	(1)	(1)
Aviva Investors	**42**	36	115
United Kingdom	**(2)**	(12)	(14)
Aviva Europe[1]	**—**	1	3
Delta Lloyd	**17**	9	28
Europe	**17**	10	31
Asia Pacific	**(1)**	1	1
Total	**56**	35	133

1. Aviva Europe includes the result from fund management operations in Poland in 2009. This business was transferred across to Aviva Investors from 1 January 2010.

Our worldwide fund management operating profit increased to £56 million (HY09: £35 million) on an IFRS basis.

Aviva Investors
Aviva Investors performed well in the first half of 2010 with operating profit increasing 17% to £42 million (HY09: £36 million).

Aviva Investors' strategy of generating higher revenues by significantly increasing third party assets under management is developing momentum. Net funded inflows from third party clients were £0.8 billion with a further £0.5 billion of unfunded sales, lower than H1 2009, but generating significantly higher annualised revenues, which increased by 67% compared to the first half of 2009. Average fee rates on gross funded third party sales were 56% higher in first half of 2010 compared to full year 2009. Significant mandates won from new clients made up around £1 billion of inflows for the half.

Aviva Investors continued to invest in the development of its operating platform during the period, in particular to support distribution capabilities to third party clients.

Investment market conditions were also broadly supportive, with both equity and real estate markets averaging higher levels than those seen in 2009. In the UK, better market conditions and higher fee revenues were partly offset by lower revenues from securities finance, where central bank liquidity provisions adversely impacted margins and general de-leveraging in the investment banking industry adversely impacted volumes.

The North America result includes River Road Asset Management which was acquired in February 2010, also benefited from inflows from the US Life company. Operating profit in Europe benefited from inflows from the French Life company. In our Asia Pacific business continued investment supports our longer term growth plans to develop business capabilities.

4 – Fund management continued

Other fund management businesses

United Kingdom operating loss of £2 million comprises £2 million profit (HY09: £1 million loss) from our Aviva UK retail investment business and £4 million loss (HY09: £11 million loss) from our collective investment business with Royal Bank of Scotland Group as sales levels have increased compared to the first six months of 2009.

Delta Lloyd operating profit of £17 million (HY09: £9 million) reflected the return on higher funds under management and the benefit of the acquisition of the Delta Lloyd Deelnemingen fund management in February which allowed Delta Lloyd to recognise 100% of the associated fee income as opposed to 50% previously.

Asia Pacific, comprising our Navigator businesses in Singapore and Hong Kong, contributed £1 million loss (HY09: £1 million profit). The 2009 result included £4 million profit from the Australian business which was sold on 1 October 2009.

Funds under management

Total funds under management at 30 June 2010 was £380 billion (31 December 2009: £379 billion).

	30 June 2010			31 December 2009		
	Aviva Investors £m	**Other Aviva and external managers £m**	**Total £m**	Aviva Investors £m	Other Aviva and external managers £m	Total £m
Internal funds under management	**200,630**	**108,051**	**308,681**	204,923	104,100	309,023
Third party funds under management	**47,560**	**23,668**	**71,228**	44,707	25,681	70,388
Funds under management	**248,190**	**131,719**	**379,909**	249,630	129,781	379,411

Funds managed by Aviva Investors were £248 billion (31 December 2009: £250 billion). Funds under management decreased during the period, primarily as a result of the impact of Sterling's appreciation against the Euro. This was partly offset by the depreciation of Sterling against the US dollar, the River Road acquisition and inflows from third party clients.

5 – Other operations and regional costs

	6 months 2010			6 months 2009			Full year 2009		
	Regional Costs £m	**Other Operations £m**	**Total £m**	Regional Costs £m	Other Operations £m	Total £m	Regional Costs £m	Other Operations £m	Total £m
United Kingdom	—	**(1)**	**(1)**	—	(36)	(36)	—	(28)	(28)
Aviva Europe	**(14)**	**(23)**	**(37)**	(11)	(14)	(25)	(36)	(63)	(99)
Delta Lloyd	—	**18**	**18**	—	(23)	(23)	—	(49)	(49)
Europe	**(14)**	**(5)**	**(19)**	(11)	(37)	(48)	(36)	(112)	(148)
North America	**(12)**	**3**	**(9)**	(9)	1	(8)	(19)	3	(16)
Asia Pacific	**(19)**	**1**	**(18)**	(15)	—	(15)	(20)	(2)	(22)
Total	**(49)**	**2**	**(47)**	(35)	(72)	(107)	(75)	(139)	(214)

Other operations and regional costs decreased to £47 million (HY09: £107 million) driven by the receipt of a compensation payment for risk equalisation in relation to the Delta Lloyd health business in respect of earlier underwriting years and cost reductions in our Group centre operations. Across all regions head office costs have increased due to the expansion of regional initiatives and projects and ongoing brand spend.

Note A22 on page 57 in the IFRS supplement gives further information on the operational cost base.

6 – Corporate centre

	6 months 2010 £m	6 months 2009 £m	Full year 2009 £m
Project spend	**(8)**	(2)	(11)
Share awards and other incentive schemes	**(7)**	(6)	(12)
Central spend	**(39)**	(38)	(85)
Total	**(54)**	(46)	(108)

The Corporate Centre costs for the period increased to £54 million (HY09: £46 million) due to additional project spend.

7 – Group debt costs and other interest

	6 months 2010 £m	6 months 2009 £m	Full year 2009 £m
External debt			
Subordinated debt	**(146)**	(139)	(293)
Other	**(22)**	(26)	(42)
Internal debt	**(121)**	(121)	(227)
Net finance charge on main UK pension scheme	**(49)**	(32)	(74)
Total	**(338)**	(318)	(636)

Group debt costs and other interest of £338 million (HY09: £318 million) comprise internal and external interest on borrowings, subordinated debt and intra-group loans not allocated to local business operations. External interest costs increased to £168 million (HY09: £165 million) reflecting revaluation of the Euro offset by the US Dollar denominated loans following exchange rate movements. Internal interest costs of £121 million (HY09: £121 million) are in line with prior year.

The UK pension scheme net charge represents the difference between the expected return on pension scheme assets and the interest charged on pension scheme liabilities. The net pension charge increased to £49 million (HY09: £32 million) due mostly to the effect of the higher deficit at the beginning of the respective periods, which offset the reduction in discount rates from 31 December 2008 to 31 December 2009.

8 – Investment return variances and economic assumption changes on long-term business

(a) Definitions

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

(b) Economic volatility

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

	Long-term business		
	6 months 2010 £m	6 months 2009 £m	Full year 2009 £m
Investment variances and economic assumptions	**1,062**	155	(75)

Investment variances of £1,062 million include £951 million relating to Delta Lloyd. Of this, around £600 million is due to differing movements in asset and liability yield curves and as such, over time this impact is expected to reverse. Liabilities in Delta Lloyd are discounted using a yield curve based on a fully collateralised AAA bond portfolio, as this is considered a suitable proxy for risk free yields. This discount rate was largely unchanged in the first half of 2010 as the impact of increased credit spreads were offset by lower yields. As a result, whilst lower interest rates increased the market value of assets, this has not been offset by a corresponding movement in liabilities. The remainder primarily relates to gains on interest rate derivatives.

The additional provisions for credit defaults on corporate bonds and commercial mortgages that were established in 2008 and 2009 were unchanged and as such had no impact on 2010.

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

(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 property are:

	Equities			Properties		
	6 months 2010 %	6 months 2009 %	Full year 2009 %	**6 months 2010 %**	6 months 2009 %	Full year 2009 %
United Kingdom	**7.8%**	7.0%	7.0%	**6.3%**	5.5%	5.5%
Eurozone	**7.2%**	7.3%	7.3%	**5.7%**	5.8%	5.8%

The expected return on equities and properties has been calculated by reference to the 10 year swap rate in the relevant currency plus an appropriate risk premium.

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

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

	General insurance and health		
	6 months 2010 £m	6 months 2009 £m	Full year 2009 £m
Net investment income	**414**	498	1,272
Foreign exchange on unrealised gains/losses and other charges	**86**	(115)	(179)
	500	383	1,093
Analysed between:			
Longer term investment return, reported within operating profit	**444**	436	875
Short-term fluctuations in investment return, reported outside operating profit	**56**	(53)	218
	500	383	1,093
General insurance	***56***	*(53)*	*218*
Other operations	***(50)***	*(72)*	*(123)*
Total short term fluctuations as per pro forma group operating profit	***6***	*(125)*	*95*

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

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

	30 June 2010 £m	30 June 2009 £m	Restated 31 December 2009 £m
Debt securities	**11,474**	9,975	11,649
Equity securities	**807**	1,104	1,239
Properties	**188**	234	200
Cash and cash equivalents	**2,425**	2,393	2,078
Other	**3,813**	3,864	3,490
Assets supporting general insurance and health business	**18,707**	17,570	18,656
Assets supporting other non-long term business	2,197	2,501	2,598
Total assets supporting non long-term business	**20,904**	20,071	21,254

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

	Longer term rates of return equities			Longer term rates of return property		
	6 months 2010 %	6 months 2009 %	Full year 2009 %	**6 months 2010 %**	6 months 2009 %	Full year 2009 %
United Kingdom	**7.8%**	7.0%	7.0%	**6.3%**	5.5%	5.5%
France	**7.2%**	7.3%	7.3%	**5.7%**	5.8%	5.8%
Ireland	**7.2%**	7.3%	7.3%	**5.7%**	5.8%	5.8%
Netherlands	**7.2%**	7.3%	7.3%	**5.7%**	5.8%	5.8%
Canada	**7.5%**	6.1%	6.1%	**6.0%**	4.6%	4.6%

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

10 – Economic assumption changes on general insurance and health business

Economic assumption changes of £64 million adverse (HY09: £52 million positive) arise as a result of the reduction in the swap rate used to discount latent claims reserves.

11 – Profit on the disposal of subsidiaries and associates

Profit on disposal of subsidiaries and associates was £28 million (HY09: £20 million), arising from the sale of Sogessur, a non-insurance operation in France and certain UK non-core operations. The Delta Lloyd health business was sold on 1 January 2009, with a reported profit on disposal at half year 2009 of £20 million (FY09: £31 million).

12 – Integration and restructuring costs

Integration and restructuring costs were £72 million (HY09: £148 million). This includes expenditure relating to the Quantum Leap project in Europe of £18 million, costs associated with preparing the businesses for Solvency II implementation of £14 million and other restructuring exercises across the group of £40 million, including UKGI and Aviva Investors of £10 million and £11 million respectively. Costs incurred in the first half of 2009 related to expenditure on cost saving programmes in the UK life and general insurance businesses and in Europe.

13 – Exceptional items

Exceptional costs of £117 million (HY09: nil) were mainly due to Delta Lloyd which has recognised a total of £107 million costs in relation to their German business restructuring (£35 million), unit-linked insurance compensation scheme (£35 million) and compensation costs in defined contribution pension schemes (£37 million).

New business

14 – Life and pension sales

Life and pensions (gross of tax and minority interest)	Present value of new business premiums			Value of new business			New business margin		
	6 months 2010 £m	6 months 2009 £m	Full year 2009 £m	**6 months 2010 £m**	6 months 2009 £m	Full year 2009 £m	**6 months 2010 %**	6 months 2009 %	Full year 2009 %
United Kingdom	**5,194**	4,735	8,914	**176**	101	247	**3.4%**	2.1%	2.8%
France	**2,827**	2,440	4,891	**102**	72	169	**3.6%**	3.0%	3.5%
Ireland	**476**	426	1,072	**1**	4	12	**0.2%**	0.9%	1.1%
Italy	**3,052**	2,198	3,607	**84**	81	124	**2.8%**	3.7%	3.4%
Poland	**319**	554	1,079	**20**	27	55	**6.3%**	4.9%	5.1%
Spain	**1,060**	1,245	2,454	**66**	78	151	**6.2%**	6.3%	6.2%
Other Europe	**258**	208	420	**12**	6	10	**4.7%**	2.9%	2.4%
Aviva Europe	**7,992**	7,071	13,523	**285**	268	521	**3.6%**	3.8%	3.9%
Delta Lloyd	**1,732**	1,780	3,665	**(58)**	(34)	(103)	**(3.3)%**	(1.9)%	(2.8)%
Europe	**9,724**	8,851	17,188	**227**	234	418	**2.3%**	2.6%	2.4%
North America	**2,334**	3,189	4,545	**4**	16	16	**0.2%**	0.5%	0.4%
Asia Pacific	**794**	698	1,356	**18**	16	29	**2.3%**	2.3%	2.1%
Total life and pensions	**18,046**	17,473	32,003	**425**	367	710	**2.4%**	2.1%	2.2%

See New Business Supplement on page 61 for further analysis of sales volumes.

Regional new business internal rates of return are included in the Capital Management section, page 21 and 69.

United Kingdom

Our UK business delivered a strong performance in the first half of 2010. Sales continued to build momentum for the third consecutive quarter with further significant increases in profitability. We have successfully increased sales and margin through robust cost control, active management of our new business mix, and an increasingly strong brand presence.

Overall, long term savings sales increased 17% to £6,043 million on the first half of 2009 (HY09: £5,153 million) and 3% when compared to the first quarter of 2010. Our life and pensions sales increased 10% to £5,194 million on the same period last year (HY09: £4,735 million) and 3% over the first quarter of 2010. Particular highlights were the strong performance in the annuity and protection markets. The margin at 3.4% is significantly above the same period last year (HY09: 2.1%), and has doubled over the last 18 months as we have transformed our business in the UK, and our unlevered IRR has also increased to 15% (HY09: 13%). Collective investment sales grew strongly to £849 million (HY09: £418 million) reflecting increased levels of consumer confidence this year.

In the first half of 2010 brand awareness and consideration levels reached their highest ever levels since the rebrand, which gives us a competitive advantage and has helped drive new sales.

Demonstrating our enhanced competitive position and bancassurance strength, we have announced this week an exclusive distribution deal with Santander in the UK. From the summer of 2011 we will sell a range of protection products through Santander's 1,300 UK branches for a minimum of five years.

Aviva is also announcing today that it is proposing to change the basis of its successful strategic partnership with the Royal Bank of Scotland (RBS). It has signed heads of terms which will result in it taking full ownership of the jointly-owned life companies, while RBS will take full ownership of the collective investments business. In addition, Aviva and RBS have agreed to enter into a new distribution agreement for seven years from 1 January 2011, subject to regulatory approval.

Under the new agreement Aviva will sell life, protection and pensions products through RBS branches, with a potential reach of 15 million customers. It is expected that discussions will be completed in the second half of this year.

At the end of 2009 the joint venture had a total value to Aviva of £573 million and we expect this to increase to around £700 million by the end of the year as a result of this transaction. The net asset value of the Group is expected to increase by around £130 million and the quality of capital will also improve as goodwill of some £253 million is converted into net assets and value of in-force profits.

Sales from the partnership with RBS have doubled over the past five years. In the first half of 2010 sales were £499 million (HY09: £692 million) primarily driven by lower bond sales following the withdrawal of the Inflation Protected Guarantee option.

Our aim to drive significant growth in our risk business has achieved good results with growth of at least 10% in both annuity and protection sales (annuity: HY10: £1,603 million; HY09: £833 million : protection HY10: £507 million; HY09: £461 million). In the second quarter of 2010, individual annuity sales reached record levels and we delivered the highest quarterly protection new business volumes since the first quarter of 2006 (excluding creditor).

Protection sales (excluding creditor) grew 14% to £501 million (HY09: £441 million) underpinned by 21% growth in core protection[1] sales. New applications for our Simplified Life product were more than double the equivalent period in 2009. Protection sales, including creditor, were 10% higher at £507 million (HY09: £461 million). Total **annuity** sales were significantly higher at £1,603 million (HY09: £833 million). Sales of individual annuities continue to go from strength to strength, growing 59% to £1,194 million (HY09: £750 million). We remain very competitive in this market due to our active advertising, extensive distribution reach, and strong proposition, service and brand. BPA sales were £409 million (HY09: £83 million) reflecting the high volume of schemes secured in the first quarter of 2010, as we continue to ensure we maximise our return in this market.

[1] Core protection excludes creditor, group life and income protection sales.

14 – Life and pension sales continued

Our **pension** sales were marginally lower at £2,061 million (HY09: £2,089 million) but we are encouraged by three consecutive quarters of growth and signs of employer confidence returning. We continue to write profitable group pension schemes using careful selection and underwriting, and in April we extended our presence in the individual pension market through delivery of adviser-charging.

Sales of **equity release** were strong, up 47% to £195 million (HY09: £133 million). Equity release is an important part of our retirement planning package offering customers the widest possible range of options to suit their individual needs.

Bond sales were lower at £828 million (HY09: £1,219 million) as we seek to maximise value in this product line. We continue to meet customers' preferences for lower risk investments by offering guarantees and low-risk solutions through our with-profit and unit linked funds.

As the uncertainty in the UK economy continues we remain committed to maximising profitability, prudently deploying capital and managing our expenses, while further enhancing the service we offer to customers and distributors. We believe this will enable us to build on the momentum generated during the first six months of 2010.

Europe

In Europe, life and pension sales were 10% higher at £9,724 million (HY09: £8,851 million), a 12% increase on a local currency basis. Margin was 2.3% (HY09: 2.6%) reflecting movement in product mix in Aviva Europe and less favourable economic assumptions in Delta Lloyd.

Aviva Europe

Consumer confidence is cautiously returning across the region, with customers selecting savings products and particularly those lower risk products with an element of guarantee. We have responded successfully to these evolving customer preferences and grew sales by 13% to £7,992 million (HY09: £7,071 million), 15% on a local currency basis.

The popularity of savings products has naturally impacted our sales mix, resulting in an overall margin of 3.6% (HY09: 3.8%) with underlying product margins maintained. This enabled us to grow our value generated from new business to £285 million (HY09: £268 million), a 6% increase, 8% on a local currency basis.

We have balanced our sales growth with continued strong capital disciplines as demonstrated by our new business IRR of 12% (HY09: 13%). Moreover our product centres of excellence are taking actions to improve product profitability, which we expect to see reflected in an improved margin in the second half of the year.

Bancassurance

We continue to leverage our bancassurance franchise, which with 51 arrangements makes Aviva the market leader in Europe. Sales increased 20% to £4,916 million (HY09: £4,093 million).

Sales performance in **Italy** continued to be strong with sales up 41% to £2,961 million (HY09: £2,105 million). We continue to see a very strong demand for lower risk savings products. In order to increase profitability and rebalance product mix, we have taken actions such as reducing the guaranteed interest rates on with-profit products and we expect to see the impact of this in the second half of the year.

In **France** sales have increased 10% to £712 million (HY09: £647 million). In partnership with Credit du Nord we developed an additional product for the "Duo" range which appeals to customers who seek exposure to stock markets whilst also offering an element of guarantee, which is central to consumer demand.

The continued challenging economic environment facing **Spain** has led to sales decreasing 16% to £937 million (HY09: £1,113 million). It is likely that there will be consolidation amongst the savings banks ('cajas') in Spain and we are monitoring developments closely in conjunction with our partners. A number of initiatives aimed at growing protection have led to a 27% increase in total protection sales against the previous quarter, retaining our position as the second largest provider in this sector.

In **Ireland** bancassurance sales have increased 19% to £232 million (HY09: £195 million). Demand has been high for bonds with an element of guarantee so whilst volumes have increased, margin has been impacted. In the continued difficult market conditions our immediate priority is to maintain strong underwriting disciplines in anticipation of a more favourable economic environment in the future. Partially offsetting the market trend, our 'free premium protection' campaign has enabled us to sell protection products at a higher margin than the prior year.

14 – Life and pension sales continued

Retail
Retail sales have increased 3% to £3,076 million (HY09: £2,978 million). We continue to build on our significant retail franchise and are achieving excellent results from our initial productivity pilots in Poland.

France has delivered excellent sales growth of 18% to £2,115 million (HY09: £1,793 million). Sales through our partnership with AFER have increased 39% on a local currency basis with customers attracted by our simple and easy to understand product offering. Marketing campaigns tailored towards increasing protection and commercial sales have also positively impacted sales growth.

In **Poland** retail sales are 42% lower at £313 million (HY09: £539 million), as a result of the Polish pension legislation changes. This has been partly offset by our focus to drive sales towards more profitable products through the Quantum Leap pilots and development of new products which are expected to deliver sales growth in the second half of the year.

Retail sales in **Ireland** are 6% higher at £244 million (HY09: £231 million). We have invested in a nationwide series of presentations to our broker and intermediary network enabling us to highlight our capability in group pensions. We have also taken steps to rebalance the sales mix, including the launch of a new protected growth fund.

Delta Lloyd
Life and pension sales have remained consistent with the same period last year. Conditions in the group pensions market have not yet improved sufficiently to enable the market for large schemes to recover. The main growth area was in "banksparen" products which have been very successful, increasing 78% on the same period last year. However, these products are not reported within life sales. The new business margin of (3.3)% (HY09: (1.9)%) was driven by less favourable economic assumptions and weak margins in Germany where Delta Lloyd has indicated its intention to close the operation to new business.

North America
In the US our focus is on profitable growth as we drive diversification of our business mix and deliver strong internal rates of return and capital efficiency in the business. In the first six months of this year we generated good life and pension sales growth compared to the previous six months. However, sales were lower than in the first half of 2009 because of the specific actions we took last year to moderate the pace of our annuity sales and focus on capital efficiency, while driving growth in our life insurance business. Compared to the previous quarter, sales rose by 34% to £1,337 million (1Q10: £997 million), which equates to an increase of 25% on a local currency basis.

Annuity sales for the first six months of 2010 were 35% lower at £1,829 million compared to the same period in 2009 (HY09: £2,815 million) for the strategic reasons outlined above. Looking at the quarter on quarter trend, sales in the second quarter of 2010 grew by 42% to £1,074 million, (1Q10: £755 million), as we continue to focus our efforts with our key distribution partners.

Against the same period last year, our **life** sales have grown by 35% to £505 million (HY09: £374 million) and account for 22% (HY09: 12%) of our total new business sales. Life sales in the second quarter of £263 million, grew by 9% over the previous three months (1Q10: £242 million) as we continue to develop and benefit from the distribution initiatives we implemented in 2009.

The business delivered a strong improvement in new business profitability with the internal rate of return at 14% (HY09: 7% reported, 10% pro forma like-for-like basis with a life capital solution) as the benefits of more efficient products, pricing actions combined with a more favourable business mix were recognised. New business contribution of £4 million (HY09: £16 million) and overall margin of 0.2% (HY09: 0.5%) were lower than seen in the first half of 2009 as the benefit of actions taken to improve profitability were more than offset by an adverse impact of lower risk free rates.

Asia Pacific
Life and pensions sales increased by 49% to £794 million (HY09: £532 million (excluding the Australian life business which was sold on 1 October 2009)), 45% higher on a local currency basis, reflecting the improving economic environment and recovering investor confidence and our continuing business expansion in Asia. All our businesses recorded double digit growth compared to previous year.

New business margin (pre tax, post cost of capital) improved to 2.3% (HY09: 1.1% (excluding Australia)) through strategic initiatives covering product mix and offering. Scale efficiencies, coupled with disciplined cost management further contributed to the increase.

Our joint venture in **China**, Aviva-COFCO, performed strongly and sales increased by 41% to £235 million (HY09: £167million) and contributed 30% of total life and pension sales in the region. This performance was driven by our strong multi-channel distribution network and the opening of our tenth provincial branch in the last quarter of 2009.

14 – Life and pension sales continued

Our joint venture in **South Korea** continues to perform strongly with sales of £201 million, an increase of 58% (HY09: £127 million) led by continued business expansion across all the distribution channels.

In **India**, our joint venture's sales were up 35% to £58 million (HY09: £43 million) reflecting the successful relaunch of our investment linked product suite and improved consumer sentiment.

In **Singapore**, sales increased by 59% to £143 million (HY09: £90 million), driven by strong investment linked sales, via our bancassurance channel, underpinned by improvements in both consumer sentiment and investment market outlook.

Sales in **Hong Kong, Taiwan, Malaysia** and **Sri Lanka** were higher than the previous year reflecting the steady economic recovery and growth in the region.

1 July 2010 marked our entry into the fast growing Indonesian insurance market, with our acquisition of 60% of a local insurer, further expanding Aviva's footprint in Asia.

15 – Investment sales

	6 months 2010 £m	6 months 2009 £m	12 months 2009 £m
Investment sales			
United Kingdom	**849**	418	1,049
Aviva Europe	**731**	423	852
Delta Lloyd	**395**	357	664
Europe	**1,126**	780	1,516
Australia[1]	**109**	65	188
Singapore	**108**	232	385
Asia Pacific	**217**	297	573
Australia[1]	**—**	453	734
Total investment sales	**2,192**	1,948	3,872

1. Sales through Aviva Investors' operations in Australia are included in the Asia Pacific total. Prior year sales of the long-term business operations in Australia that were disposed of in October 2009 are shown separately.

Total investment sales of £2,192 million were 13% higher than the same period last year (HY09: £1,948 million).

UK investment sales increased to £849 million (HY09: £418 million) driven by the strong performance of the property fund.

Aviva Europe sales rose by 73% to £731 million (HY09: £423 million) reflecting higher European SICAV sales and inflows into the property funds. Delta Lloyd investment sales of £395 million for half year 2010 (HY09: £357 million) increased by 11% which was consistent with the trend during the latter half of 2009.

Investment sales in Asia Pacific were lower at £217 million (HY09: £297 million excluding sale through the Australian Life business) reflecting lower sales in Singapore of £108 million (HY09: £232 million) following a rationalisation of our distribution partnerships, which were only partly offset by improved sales in Aviva Investors Australia. The 2010 sales exclude the Australian business which was sold on 1 October 2009 (£453 million sales in HY09).

Capital management

16 – Capital generation and utilisation

The active management of the generation and utilisation of capital is a primary Group focus, with the balancing of new business investment and shareholder distributions with operational capital generation a key financial priority. We announced in the first quarter Interim Management Statement that we expect to generate approximately £1.3 billion of net operating capital in 2010, a 30% increase on 2009. The strong half year result of £0.9 billon reinforces our confidence in the capital generation position of the Group and we are now revising our full year guidance to £1.5 billion.

The half year result of £0.9 billion represents a £0.4 billion improvement on the 30 June 2009 position. In-force profits from the life business remain strong, generating £1.1 billion of capital in the half year (HY09: £1.1 billion), with a further £0.3 billion (HY09: £0.3 billion) generated by the general insurance, fund management and non-insurance businesses. Capital invested in new business has reduced significantly to £0.5 billion (HY09: £0.9 billion), benefiting in particular from management of volumes and other capital efficiency actions in the US business and the utilisation of the RIEESA to finance new business in UK Life.

	6 months 2010 £bn	6 months 2009 £bn	Full year 2009 £bn
Operational capital generation:			
Life in-force profits	**1.1**	1.1	1.9
General insurance, fund management and non-insurance profits	**0.3**	0.3	0.6
Operational capital generated before investment in new business	**1.4**	1.4	2.5
Capital invested in new business	**(0.5)**	(0.9)	(1.5)
Operational capital generated after investment in new business	**0.9**	0.5	1.0

Operational capital generation comprises the following components:
—Free surplus emergence, including release of required capital, for the life in-force business (net of tax and minorities);
—IFRS operating profits for the general insurance and non-life businesses (net of tax and minorities);
—Capital invested in new business. For the life business this is the impact of initial and required capital on free surplus. For general insurance businesses this reflects the movement in required capital, which we have assumed to equal two times the regulatory minimum. Where appropriate, the movement in capital requirements excludes the impact of foreign exchange movements.

17 – Internal rate of return and payback period

As set out above, the group generates a significant amount of capital each year. This capital generation supports both shareholder distribution and reinvestment in new business. The internal rates of return on new business written during the period are set out below. We manage new business against a target IRR hurdle of 12% or above and a target payback hurdle rate of 10 years or less. With the exception of Asia Pacific and Delta Lloyd, all regions met these requirements in the half year, with a particularly strong improvement in North America, where IRR has increased to 14% (HY09: 7%) and payback has reduced to 4 years (FY09: 14 years), benefiting from a range of management actions as well as recognising the expected future benefits of an AXXX capital solution.

	6 months 2010 IRR %	6 months 2009 IRR %	Full year 2009 IRR %	**6 months 2010 Payback period years**	Full year 2009 Payback period years
United Kingdom	**15%**	13%	14%	**7**	8
France	**9%**	10%	9%	**11**	9
Ireland	**6%**	5%	6%	**10**	10
Italy	**10%**	10%	10%	**7**	7
Poland	**25%**	23%	22%	**4**	5
Spain	**22%**	27%	26%	**4**	3
Other Europe	**17%**	14%	12%	**5**	8
Aviva Europe	**12%**	13%	13%	**8**	7
Delta Lloyd	**5%**	5%	6%	**19**	33
Europe	**10%**	11%	11%	**10**	15
North America	**14%**	7%	7%	**4**	14
Asia Pacific	**10%**	7%	8%	**12**	20
Total	**12.0%**	9.5%	10.0%	**8**	14

18 – Net asset value

IFRS net asset value per share has increased over the half year to 394p (31 December 2009: 374p), with the benefit of profits in the period partially offset by the impact of foreign exchange rate movements, actuarial losses on staff pension schemes and the 2009 final dividend payment. MCEV NAV has fallen by 10p to 461p, largely driven by the same factors, with a greater adverse foreign exchange impact due to a lower US dollar exposure providing a smaller offset against higher euro exposure losses.

	IFRS			MCEV		
	30 June 2010 £bn	30 June 2009 £bn	31 December 2009 £bn	**30 June 2010 £bn**	30 June 2009 £bn	31 December 2009 £bn
Net assets at 1 January :	**15,086**	14,573	14,573	**18,462**	17,432	17,432
Operating profit after tax	**960**	814	1,475	**1,415**	1,269	2,559
Non-operating items after tax	**545**	(67)	(160)	**(519)**	(350)	376
Actuarial losses on pension schemes	**(368)**	(1,232)	(1,116)	**(368)**	(1,232)	(1,116)
Foreign exchange rate movements	**(372)**	(1,492)	(951)	**(705)**	(1,706)	(991)
Other comprehensive income for the year, net tax	**287**	618	1,084	**71**	(84)	21
Dividends and appropriations net of scrip	**(273)**	(352)	(554)	**(273)**	(352)	(554)
Net increase in total equity following Delta Lloyd IPO	**(9)**	—	930	**(9)**	—	930
Other movements	**(78)**	(12)	(195)	**(78)**	(11)	(195)
Total equity	**15,778**	12,850	15,086	**17,996**	14,966	18,462
Preference share capital and direct capital instruments	**(1,190)**	(1,190)	(1,190)	**(1,190)**	(1,190)	(1,190)
Non-controlling interest[1]	**(3,537)**	(2,000)	(3,540)	**(3,885)**	(2,719)	(4,237)
Net assets at 30 June / 31 December:	**11,051**	9,660	10,356	**12,921**	11,057	13,035
Number of shares	**2,800**	2,739	2,767	**2,800**	2,739	2,767
Net asset value per share	**394p**	353p	374p	**461p**	404p	471p

1. Non-controlling interest has increased as a result of the IPO of Delta Lloyd in November 2009.

19 – Financial flexibility

The group's borrowings are comprised primarily of long dated hybrid instruments with maturities spread over many years, minimising refinancing risk. In addition to central liquid asset holdings of £1.8 billion, the group also has access to unutilised committed credit facilities of £2.1 billion provided by a range of leading international banks.

20 – European Insurance Groups Directive (IGD)

	UK life funds £bn	**Other business £bn**	**30 June 2010 £bn**	31 December 2009 £bn
Insurance Groups Directive (IGD) capital resources	**4.6**	**10.0**	**14.6**	15.7
Less: capital resource requirement	**(4.6)**	**(6.2)**	**(10.8)**	(11.2)
Insurance Group Directive (IGD) excess solvency	**—**	**3.8**	**3.8**	4.5
Cover over EU minimum (calculated excluding UK life funds)			**1.6 times**	1.7 times

The EU Insurance Groups Directive (IGD) regulatory capital solvency surplus has decreased by £0.7 billion since 31 December 2009 to £3.8 billion. This decrease is driven by negative market movements, dividends and pension scheme funding offset by profits for the period.

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

	£bn
IGD solvency surplus at 31 December 2009	**4.5**
Dividends net of scrip	**(0.3)**
Operating profits net of other income and expenses	**0.5**
Market movements including foreign exchange	**(0.4)**
Pension scheme funding	**(0.5)**
Estimated IGD solvency surplus at 30 June 2010	**3.8**

Market movements include the impact of equity, credit spread, interest rate and foreign exchange movements net of the effect of hedging instruments. The recently revised funding arrangement agreed with the trustees of our UK staff pension scheme has resulted in a one off decrease in our IGD of £0.5 billion.

21 – Sensitivity analysis

The sensitivity of the group's total equity on an MCEV basis and IFRS basis at 30 June 2010 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 2009 £bn	MCEV basis	30 June 2010 £bn	Equities down 10% Direct £bn	Equities down 10% Indirect £bn	Interest rates up 1% £bn	0.5% increased credit spread £bn
20.7	Long-term savings[1]	**19.9**	**(0.4)**	**(0.3)**	**0.1**	**(1.2)**
4.6	General insurance and other	**4.9**	**(0.2)**	**—**	**(0.6)**	**0.5**
(6.8)	Borrowings[2]	**(6.8)**	**—**	**—**	**—**	**—**
18.5	**Total equity**	**18.0**	**(0.6)**	**(0.3)**	**(0.5)**	**(0.7)**

31 December 2009 £bn	IFRS basis	30 June 2010 £bn	Equities down 10%	Interest rates up 1% £bn	0.5% increased credit spread £bn
17.3	Long-term savings	**17.7**	**(0.4)**	**(0.7)**	**(0.1)**
4.6	General insurance and other	**4.9**	**(0.2)**	**(0.6)**	**0.5**
(6.8)	Borrowings[2]	**(6.8)**	**—**	**—**	**—**
15.1	**Total equity**	**15.8**	**(0.6)**	**(1.3)**	**0.4**

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

These sensitivities assume a full tax charge/credit on market value assumptions. The interest rate sensitivity also assumes an equivalent movement in both inflation and discount rate (i.e. no change to real interest rates) and therefore incorporates the offsetting effects of these items on the pension scheme liabilities. A 1% increase in the real interest rate has the effect of reducing the pension scheme liability by £1.7 billion.

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

Group IGD

The sensitivity of the group's IGD surplus reflects the impact of the hedges we have put in place as part of our long-term strategy to protect the group from extreme market movements. At 30 June 2010 the sensitivity to a 10% fall in global equity markets or a rise of 1% in global interest rates is as follows:

	30 June 2010 £bn	Equities down 10% £bn	Interest rates up 1% £bn
IGD Group surplus	**3.8**	**(0.2)**	**(0.3)**

We continue to actively manage our exposure to further market volatility, with ongoing hedging strategies in place. We expect that a 40% fall in equity markets at 30 June 2010 would reduce IGD by £0.5 billion.

	£bn
Equities down 10%	(0.2)
Equities down 20%	(0.4)
Equities down 30%	(0.4)
Equities down 40%	(0.5)

22 – Risk management

Equity hedging

Our risk management processes ensure close and ongoing monitoring of all our capital measures. The following table shows the material equity derivatives within the group's shareholder funds at 30 June 2010 that are used as part of a long-term strategy to manage equity risk. It excludes derivatives used for portfolio management purposes:

Derivative	Notional £bn[1]	Market fall below protection level %[2,4]	Market fall required before protection starts %[3,4]	Outstanding duration
(a)	3.4	—	24%	< 2 months
(b)	2.4	—	22%	3-12 months
(c)	0.2	1%	—	> 12 months

1. The notional represents the notional amount of hedging as at 30 June 2010.
2. The "Market fall below protection level" shows the percentage the market has fallen below the protection level as at 30 June 2010.
3. The "Market fall required before protection starts" shows the percentage the market would have to fall from the 30 June 2010 position before the derivative moves into the money.
4. Derivatives (a), (b) and (c) each represent a collection of derivatives with different strike prices. The strike prices used in the above calculations are the weighted average strikes of the derivatives in each bucket.

Interest rate hedging

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

Currency Hedging

At a group level we actively seek to manage foreign currency risk primarily by matching assets and liabilities in functional currencies at the business unit level. Foreign currency dividends from subsidiaries are hedged using FX forwards to provide certainty regarding the sterling value to be received by Group. Derivatives have also been used to reduce balance sheet FX translation risk. At 30 June 2010 group had in place two Euro hedges being a £500 million cross currency swap and a £1,000 million zero cost collar. A further £500 million Euro zero cost collar was put in place after 30 June 2010. These hedges are used to protect the group's capital against a significant depreciation in the Euro versus Sterling.

Analysis of 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 principle way in which we manage our investments. In addition, to support this, we also use a variety of hedging and other risk management strategies to diversify away residual mis-match risk that is outside of our risk appetite.

The quality of our asset base continues to be strong, and prudent management of investments has limited our exposure to market volatility and toxic assets. Equity and debt markets have suffered deterioration in 2010 after a significant recovery in 2009, and rating agencies have downgraded the debt securities of a number of governments and corporate institutions. The impact on Aviva's investment portfolio has not been significant and the credit rating profile of our debt securities portfolio remains strong.

23 – Total assets

30 June 2010	Policyholder assets £m	Participating fund assets £m	Shareholder assets £m	Total assets analysed £m	Less assets of operations classified as held for sale £m	Balance sheet total £m
Loans	1,746	7,701	31,947	41,394	—	41,394
Financial investments						
Debt securities	16,855	81,282	62,480	160,617	—	160,617
Equity securities	27,483	8,664	4,595	40,742	—	40,742
Other investments	23,820	8,785	2,618	35,223	—	35,223
Total loans and financial investments	69,904	106,432	101,640	277,976	—	277,976
Cash and cash equivalents	5,028	15,047	8,371	28,446	—	28,446
Other assets	5,513	12,839	29,844	48,196	(6)	48,190
Assets of operations classified as held for sale	—	—	—	—	6	6
Total	**80,445**	**134,318**	**139,855**	**354,618**	**—**	**354,618**
Total %	**22.7%**	**37.9%**	**39.4%**	**100.0%**	**0.0%**	**100.0%**
FY09 (Restated)	82,686	135,628	136,077	354,391	—	354,391
FY09 %	23.3%	38.3%	38.4%	100.0%	0.0%	100.0%

FY09 restated as our Spanish business undertook a review in 2010 of the allocation of assets between shareholder and policyholder funds. As a result, debt securities of £2,362 million and equity securities of £10 million previously recognised as participating fund assets were reclassified as shareholder assets.

Total assets – Valuation bases

				30 June 2010				Restated 31 December 2009
	Fair value £m	Amortised cost £m	Equity accounted/ tax assets £m	Total £m	Fair value £m	Amortised cost £m	Equity accounted/ tax assets £m	Total £m
Policyholder assets	**77,434**	**2,758**	**253**	**80,445**	79,807	2,523	356	82,686
Participating fund assets	**121,810**	**11,896**	**612**	**134,318**	122,794	12,237	597	135,628
Shareholder assets	**99,690**	**37,334**	**2,831**	**139,855**	95,012	38,459	2,606	136,077
Total	**298,934**	**51,988**	**3,696**	**354,618**	297,613	53,219	3,559	354,391
Total %	**84.3%**	**14.7%**	**1.0%**	**100.0%**	84.0%	15.0%	1.0%	100.0%

The proportion of total assets measured at fair value (which includes 100% of financial investments) has remained stable at 84.3% (FY09: 84.0%). The principal asset classes measured at fair value are loans, debt securities, equity securities and other financial investments.

Total assets – financial investments

30 June 2010	Cost/ amortised cost £m	Unrealised gain £m	Unrealised loss £m	Impairments £m	Fair value £m
Debt securities	**155,756**	**8,866**	**(3,823)**	**(182)**	**160,617**
Equity securities	**42,683**	**3,412**	**(4,506)**	**(847)**	**40,742**
Other investments	**34,221**	**1,785**	**(761)**	**(22)**	**35,223**
Total	**232,660**	**14,063**	**(9,090)**	**(1,051)**	**236,582**

At 30 June 2010, cumulative impairments on debt securities were £182 million. Actual defaults and impairments on debt securities in the first half of the year were low at £57 million (FY09: £98 million), of which £50 million relates to available for sale debt securities.

24 – Shareholders' assets

As at 30 June 2010, total shareholder investments in loans and financial investments included within shareholder assets was £101,640 million (FY09: £98,677 million), including loans of £31,947 million, debt securities of £62,480 million, equity securities of £4,595 million and other investments of £2,618 million. The increase in shareholder exposure to loans and financial investments during the year is predominantly due to investment of new business inflows into debt securities to appropriately match the underlying insurance liabilities. It also includes the impact of strengthening in the US dollar exchange rate, partially offset by a weakening of the Euro exchange rate and a fall in the amount of strategic equities held centrally.

Shareholders' assets – loans

30 June 2010	United Kingdom £m	Aviva Europe £m	Delta Lloyd £m	North America £m	Asia Pacific £m	Total £m
Policy loans	**7**	**12**	**242**	**243**	**15**	**519**
Loans and advances to banks	**267**	**—**	**89**	**—**	**—**	**356**
Mortgage loans – securitised	**1,894**	**—**	**6,813**	**—**	**—**	**8,707**
Mortgage loans – non-securitised	**12,185**	**—**	**5,378**	**1,784**	**—**	**19,347**
Other loans	**37**	**4**	**2,890**	**85**	**2**	**3,018**
Total	**14,390**	**16**	**15,412**	**2,112**	**17**	**31,947**
FY09	**13,994**	**19**	**16,088**	**1,953**	**14**	**32,068**

Our well diversified UK Life commercial mortgage portfolio remains of high quality, with minimal levels of default losses recorded in the period. Interest service cover remains strong at 1.3 times and over 96% of mortgages are neither past due nor impaired. The average LTV has increased to 99% (FY09: 94%). Mortgage LTV's increased slightly over the first half of 2010 resulting in the amount of exposure uncovered by the underlying security rising to £496 million. The increased LTV levels result from falling gilt yields which have increased the fair value of the loans and enhancements made to the valuation methodology for the underlying properties. However, this change has had no impact on income cover levels which remain the primary risk driver within the mortgage portfolio.

The valuation allowance we made in the UK for short term defaults on corporate bonds and commercial mortgages remains unused. Together with our long-term default assumptions, this equates to a valuation allowance of £1.1 billion for the life of the UK Life corporate bond and commercial mortgage portfolio, and creates a strong buffer against potential future losses. In addition, we hold £65 million of provisions in our UK General Insurance mortgage portfolio.

The total shareholder exposure to loans issued by Delta Lloyd has decreased to £15,412 million (FY09: £16,088 million), including £6,813 million of securitised mortgages and £5,378 million of non-securitised (primarily residential) mortgages. The securitised mortgages have predominantly been sold to third party investors, and therefore present little credit risk to Aviva. Of the non-securitised mortgages, £1,944 million (FY09: £1,877 million) are guaranteed by the Dutch Government, and over 96% are neither past due nor impaired. Delta Lloyd has not made any additional provisions, as it does not consider the amount of potential loss to be significant.

Shareholders' assets – financial investments

				30 June 2010				Restated 31 December 2009
	Fair value hierarchy				Fair value hierarchy			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Debt securities	**29,454**	**31,624**	**1,402**	**62,480**	29,818	27,208	1,786	58,812
Equity securities	**2,102**	**1,807**	**686**	**4,595**	2,918	1,500	619	5,037
Other investments	**708**	**1,756**	**154**	**2,618**	1,203	1,536	21	2,760
Total	**32,264**	**35,187**	**2,242**	**69,693**	**33,939**	**30,244**	**2,426**	**66,609**
Total %	**46.3%**	**50.5%**	**3.2%**	**100.0%**	**51.0%**	**45.4%**	**3.6%**	**100.0%**

During the first half of 2010, there has been a decrease to 46.3% (FY09: 51.0%) in the proportion of shareholder financial investments classified as "Level 1", which means that they are valued using quoted prices in active markets. The key reason for the reduction is mainly due to the strengthening in the US dollar exchange rate and an increase in invested assets due to business growth in our U.S. business (almost all shareholder debt securities in our US business are recorded at Fair Value Level 2) and weakening in the Euro exchange rate (the majority of shareholder debt securities in our European businesses are recorded at Fair Value Level 1).

24 – Shareholders' assets continued

Shareholders' assets – debt securities

	Rating						
30 June 2010	**AAA £m**	**AA £m**	**A £m**	**BBB £m**	**Less than BBB £m**	**Not rated £m**	**Total £m**
Government	11,002	3,869	1,481	133	186	611	17,282
Corporate	3,052	5,157	13,704	11,429	1,535	2,200	37,077
Certificates of deposits	—	185	94	211	—	12	502
Structured	4,802	667	811	407	376	556	7,619
Total	**18,856**	**9,878**	**16,090**	**12,180**	**2,097**	**3,379**	**62,480**
Total %	**30.2%**	**15.8%**	**25.7%**	**19.5%**	**3.4%**	**5.4%**	**100.0%**
FY09 (Restated)	19,531	8,451	15,211	10,824	1,714	3,081	58,812
FY09 % (Restated)	33.2%	14.4%	25.9%	18.4%	2.9%	5.2%	100.0%

During the first half of 2010, the proportion of our shareholder debt securities that are investment grade remained broadly unchanged at 91.2% (FY09: 91.9%). Of the remainder, 3.4% are US private placements (classified as "not rated" in the table above), which are rated as an average equivalent of between "A" and "BBB" by the Securities Valuation Office of the National Association of Insurance Commissioners (NAIC), a US national regulatory agency; 3.4% are debt securities that are below investment grade; and 2.0% are not rated by the major rating agencies or the NAIC.

Aviva's shareholder exposure to debt securities of £62,480 million includes £538 million of exposures to the governments (and local authorities and agencies) of Greece, Spain and Portugal. This represents just 0.2% of total balance sheet assets as at 30 June 2010. A further £1,433 million of exposures to these governments are held in participating funds, although we have limited shareholder risk to these assets. Net of non-controlling interests, our total exposure to these governments is further reduced to £362 million within shareholder assets and £1,070 million within participating fund assets.

Within structured assets, the group continues to have very limited exposure (0.9% of total balance sheet assets) to sub-prime and Alt A RMBS, ABS, Wrapped Credit, CDOs and CLOs. Of our remaining exposures to RMBS, the vast majority are backed by US Government Sponsored Entities, and so are considered to have minimal credit risk.

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Consolidated income statement

For the six month period ended 30 June 2010

6 months 2010 €m		6 months 2010 £m	6 months 2009 £m	Full year 2009 £m
	Income			
22,687	Gross written premiums	**19,738**	18,860	34,690
(1,048)	Premiums ceded to reinsurers	**(912)**	(952)	(2,576)
21,639	Premiums written net of reinsurance	**18,826**	17,908	32,114
(276)	Net change in provision for unearned premiums	**(240)**	33	559
21,363	Net earned premiums	**18,586**	17,941	32,673
1,056	Fee and commission income	**919**	801	1,789
10,728	Net investment income	**9,333**	2,720	24,972
98	Share of profit/(loss) after tax of joint ventures and associates	**85**	(547)	(504)
32	Profit on the disposal of subsidiaries and associates	**28**	20	153
33,277		**28,951**	20,935	59,083
	Expenses			
(16,816)	Claims and benefits paid, net of recoveries from reinsurers	**(14,630)**	(14,142)	(27,549)
(3,801)	Change in insurance liabilities, net of reinsurance	**(3,307)**	(190)	(5,682)
(3,129)	Change in investment contract provisions	**(2,722)**	(969)	(11,185)
(636)	Change in unallocated divisible surplus	**(553)**	(89)	(1,547)
(3,653)	Fee and commission expense	**(3,178)**	(1,909)	(4,396)
(2,148)	Other expenses	**(1,869)**	(2,245)	(5,366)
(701)	Finance costs	**(610)**	(715)	(1,336)
(30,884)		**(26,869)**	(20,259)	(57,061)
2,393	**Profit before tax**	**2,082**	676	2,022
(36)	Tax attributable to policyholders' returns	**(31)**	264	(217)
2,357	**Profit before tax attributable to shareholders' profits**	**2,051**	940	1,805
(663)	Tax (expense)/credit	**(577)**	71	(707)
36	Less: tax attributable to policyholders' returns	**31**	(264)	217
(627)	Tax attributable to shareholders' profits	**(546)**	(193)	(490)
1,730	**Profit for the period**	**1,505**	747	1,315
	Attributable to:			
1,243	Equity shareholders of Aviva plc	**1,081**	675	1,085
487	Non-controlling interests	**424**	72	230
1,730		**1,505**	747	1,315
	Earnings per share			
44.6c	Basic (pence per share)	**38.8p**	24.9p	37.8p
43.9c	Diluted (pence per share)	**38.2p**	24.8p	37.5p

IFRS

Condensed statement of comprehensive income

For the six month period ended 30 June 2010

6 months 2010 €m		6 months 2010 £m	Restated 6 months 2009 £m	Full year 2009 £m
1,730	**Profit for the period**	**1,505**	747	1,315
	Other comprehensive income			
	Investments classified as available for sale			
479	Fair value gains	**417**	352	1,011
(128)	Fair value gains transferred to profit on disposal	**(111)**	(13)	(310)
102	Impairment losses on assets previously revalued through other comprehensive income now taken to the income statement	**89**	381	482
	Owner-occupied properties			
(25)	Fair value losses	**(22)**	—	(25)
—	Share of other comprehensive income of joint ventures and associates	—	43	122
(423)	Actuarial losses on pension schemes	**(368)**	(1,380)	(1,140)
—	Actuarial losses on pension schemes transferred to unallocated divisible surplus	—	148	24
(427)	Foreign exchange rate movements	**(372)**	(1,492)	(951)
(98)	Aggregate tax effect – shareholder tax	**(86)**	(145)	(196)
(520)	**Other comprehensive income for the period, net of tax**	**(453)**	(2,106)	(983)
1,210	**Total comprehensive income for the period**	**1,052**	(1,359)	332
	Attributable to:			
1,083	Equity shareholders of Aviva plc	**942**	(1,187)	240
127	Non-controlling interests	**110**	(172)	92
1,210		**1,052**	(1,359)	332

Condensed statement of changes in equity

For the six month period ended 30 June 2010

6 months 2010 €m		6 months 2010 £m	Restated 6 months 2009 £m	Full year 2009 £m
18,397	**Balance at 1 January as reported**	**15,086**	14,446	14,573
—	Prior year adjustment (see note A1)	—	127	—
18,397	**Balance at 1 January as restated**	**15,086**	14,573	14,573
1,835	Profit for the period	**1,505**	747	1,315
(552)	Other comprehensive income	**(453)**	(2,106)	(983)
1,283	Total comprehensive income for the period	**1,052**	(1,359)	332
(517)	Dividends and appropriations	**(424)**	(536)	(853)
—	Issues of share capital	—	—	1
184	Shares issued in lieu of dividends	**151**	184	299
1	Capital contributions from non-controlling interests	**1**	6	6
—	Transfer to non-controlling interests following Delta Lloyd IPO	—	—	930
(99)	Minority share of dividends declared in the period applicable to non-controlling interests	**(81)**	(36)	(109)
—	Non-controlling interest in disposed subsidiaries	—	(2)	(2)
(52)	Changes in non-controlling interest in existing subsidiaries	**(43)**	—	(111)
—	Shares acquired by employee trusts	—	—	(53)
44	Reserves credit for equity compensation plans	**36**	20	56
—	Aggregate tax effect – shareholder tax	—	—	17
19,242	**Balance at 30 June/31 December**	**15,778**	12,850	15,086

Condensed consolidated statement of financial position

As at 30 June 2010

30 June 2010 €m		30 June 2010 £m	Restated 30 June 2009 £m	31 December 2009 £m
	Assets			
4,118	Goodwill	**3,377**	3,361	3,381
3,222	Acquired value of in-force business and intangible assets	**2,642**	3,269	2,860
2,282	Interests in, and loans to, joint ventures	**1,871**	1,370	1,701
1,546	Interests in, and loans to, associates	**1,268**	1,090	1,281
837	Property and equipment	**686**	805	753
15,288	Investment property	**12,536**	12,218	12,422
50,480	Loans	**41,394**	39,718	41,079
	Financial investments			
195,874	Debt securities	**160,617**	146,116	160,510
49,685	Equity securities	**40,742**	36,125	43,343
42,955	Other investments	**35,223**	29,305	34,826
288,514		**236,582**	211,546	238,679
8,867	Reinsurance assets	**7,271**	7,005	7,572
351	Deferred tax assets	**288**	2,502	218
328	Current tax assets	**269**	444	359
11,027	Receivables and other financial assets	**9,041**	10,765	9,632
6,543	Deferred acquisition costs and other assets	**5,365**	6,244	5,621
4,361	Prepayments and accrued income	**3,576**	3,674	3,604
34,690	Cash and cash equivalents	**28,446**	25,030	25,176
7	Assets of operations classified as held for sale	**6**	2,451	53
432,461	**Total assets**	**354,618**	331,492	354,391
	Equity			
855	Ordinary share capital	**701**	685	692
1,461	Share premium	**1,198**	1,214	1,207
3,989	Merger reserve	**3,271**	3,270	3,271
(83)	Shares held by employee trusts	**(68)**	(33)	(68)
2,412	Other reserves	**1,978**	1,471	1,829
4,843	Retained earnings	**3,971**	3,053	3,425
13,477	**Equity attributable to ordinary shareholders of Aviva plc**	**11,051**	9,660	10,356
1,451	Preference share capital and direct capital instrument	**1,190**	1,190	1,190
4,313	Non-controlling interests	**3,537**	2,000	3,540
19,241	**Total equity**	**15,778**	12,850	15,086
	Liabilities			
208,759	Gross insurance liabilities	**171,182**	161,775	171,092
130,735	Gross liabilities for investment contracts	**107,203**	97,541	110,015
5,152	Unallocated divisible surplus	**4,225**	2,283	3,866
12,002	Net asset value attributable to unitholders	**9,842**	7,973	9,894
4,882	Provisions	**4,003**	3,955	3,980
1,520	Deferred tax liabilities	**1,246**	2,789	1,038
555	Current tax liabilities	**455**	378	192
17,228	Borrowings	**14,127**	14,325	15,000
27,805	Payables and other financial liabilities	**22,800**	21,109	20,542
4,582	Other liabilities	**3,757**	4,529	3,653
—	Liabilities of operations classified as held for sale	—	1,985	33
413,220	**Total liabilities**	**338,840**	318,642	339,305
432,461	**Total equity and liabilities**	**354,618**	331,492	354,391

Condensed consolidated statement of cash flows

For the six month period ended 30 June 2010

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

	6 months 2010 £m	Restated 6 months 2009 £m	Full year 2009 £m
Cash flows from operating activities			
Cash-generated from operations*	**5,383**	3,907	3,286
Tax paid	**(152)**	(221)	(601)
Net cash from operating activities	**5,231**	3,686	2,685
Cash flows from investing activities			
Acquisitions of subsidiaries, joint ventures and associates, net of cash acquired	**(156)**	(223)	(596)
Disposals of subsidiaries, joint ventures and associates, net of cash transferred	**49**	(239)	1,131
Disposal of minority interest in subsidiary	**15**	—	—
New loans to joint ventures and associates	**—**	(3)	(145)
Repayment of loans by joint ventures and associates	**17**	3	99
Net repayment of loans to joint ventures and associates	**17**	—	(46)
Purchases of property and equipment	**(44)**	(73)	(149)
Proceeds on sale of property and equipment	**13**	26	188
Purchases of intangible assets	**(35)**	(7)	(30)
Net cash (used in)/from investing activities	**(141)**	(516)	498
Cash flows from financing activities			
Proceeds from issue of ordinary shares, net of transaction costs	**1**	—	1
Treasury shares purchased for employee trusts	**—**	—	(53)
New borrowings drawn down, net expenses	**286**	665	4,260
Repayment of borrowings	**(417)**	(553)	(3,853)
Net (repayment)/drawdown of borrowings	**(131)**	112	407
Interest paid on borrowings	**(606)**	(705)	(1,199)
Preference dividends paid	**(9)**	(9)	(17)
Ordinary dividends paid	**(264)**	(343)	(476)
Coupon payments on direct capital instrument	**—**	—	(61)
Capital contributions from non-controlling interests	**1**	6	6
Dividends paid to non-controlling interests of subsidiaries	**(81)**	(36)	(109)
Net cash used in financing activities	**(1,089)**	(975)	(1,501)
Net increase in cash and cash equivalents	**4,001**	2,195	1,682
Cash and cash equivalents at 1 January	**24,251**	23,531	23,531
Effect of exchange rate changes on cash and cash equivalents	**(961)**	(1,649)	(962)
Cash and cash equivalents at 30 June/31 December	**27,291**	24,077	24,251

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

Of the total cash and cash equivalents, nil (30 June 2009: £192 million; 31 December 2009: nil) was classified as held for sale (see note A3 c (ii)).

IFRS

Notes to the condensed financial statements

A1 – Basis of preparation

(a) The condensed financial statements for the six months to 30 June 2010 have been prepared using International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU). These include IAS 34, Interim Financial Reporting, which specifically addresses the contents of interim condensed financial statements. The results apply the accounting policies set out in Aviva plc's 2009 Annual Report and Accounts, except as below.

In 2008, the IASB issued a revised version of IFRS 3, *Business Combinations*, which introduced a number of changes in accounting for such transactions that impact the amount of goodwill recognised, the reported results in the period an acquisition occurs, and future reported results. A consequential amendment to IAS 27, *Consolidated and Separate Financial Statements*, requires a change in the ownership interest of a subsidiary (without loss of control) to be accounted for as an equity transaction, rather than giving rise to goodwill or a gain or loss. Other consequential amendments were made to IAS 7, *Statement of Cash Flows*, IAS 12, *Income Taxes*, IAS 21, *The Effects of Changes in Foreign Exchange Rates*, IAS 28, *Investments in Associates*, and IAS 31, *Interests in Joint Ventures*.

During 2008 and 2009, the IASB also issued amendments to IFRS 1, *First Time Adoption of IFRS,* IFRS 2, *Share-Based Payment,* IAS 39, *Financial Instruments: Recognition and Measurement,* and the results of its annual improvements project. IFRIC interpretation 17, *Distributions of Non-cash Assets to Owners*, issued in 2008, has now been endorsed by the EU.

These are all applicable for the first time in the current accounting period and are now reflected in the Group's financial reporting, with no material impact.

The results for the six months to 30 June 2010 and 2009 are unaudited but have been reviewed by the auditor, Ernst & Young LLP. The interim results do not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The results for the full year 2009 have been taken from the Group's 2009 Annual Report and Accounts and do not in themselves constitute statutory accounts. The auditor has reported on the 2009 financial statements and the report was unqualified and did not contain a Statement under section 498 (2) or (3) of the Companies Act 2006. The Group's 2009 Report and Accounts have been filed with the Registrar of Companies.

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

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

(c) Restatement of prior period figures
The following restatements were actioned in the Group's 2009 financial statements. As these restatements took place in the second half of 2009, the comparative figures for the six months to 30 June 2009 are now restated in this report.

(i) During 2009, the Group undertook a review of our accounting policy for cash and cash equivalents. Previously, we defined these as normally having a maturity of three months or less from date of acquisition. To avoid ambiguity, our accounting policy has been refined to impose a cut-off date of exactly three months, allowing us to delete "normally" from the policy wording. This refinement of policy resulted in a reclassification of certain short-dated instruments between cash and cash equivalents and financial investments.

The impact of this refinement was to increase financial investments and reduce cash and cash equivalents at 1 January 2009 and 30 June 2009 by £538 million and £518 million respectively compared to the amounts previously stated. As a consequence of this, cash flows from operating activities for the six month period to 30 June 2009 have decreased by £51 million, with the effect of exchange rate movements accounting for the remaining £71 million.

(ii) During 2009, the Group's Dutch subsidiary, Delta Lloyd, carried out a review of the way it had been applying IAS 19, *Employee Benefits*, in its own financial statements where the corridor method of smoothing actuarial gains and losses in its pension schemes is followed; in accounting for its self-insured pension obligations and intercompany eliminations; and in its reporting to Group where the corridor accounting is reversed. The review concluded that errors had been made locally in applying IAS 19 on the transition to IFRS and in subsequent years, such that gains on certain assets had been reported in provisions, to be released over time, rather than through other comprehensive income. The impact of correcting these errors was to reduce other liabilities by £170 million as at 1 January 2009, increase deferred tax liabilities by £43 million and increase retained earnings at that date by £127 million.

A2 – Exchange rates

The group's principal overseas operations during the period were located within the Eurozone and the United States. The results and cash flows of these operations have been translated at the average rates for the period and the assets and liabilities have been translated at the period end rates as follows:

	6 months 2010	6 months 2009	Full year 2009
Eurozone			
– Average rate (€1 equals)	**£0.87**	£0.89	£0.88
– Period end rate (€1 equals)	**£0.82**	£0.85	£0.88
United States			
– Average rate ($US1 equals)	**£0.65**	£0.67	£0.64
– Period end rate ($US1 equals)	**£0.67**	£0.61	£0.62

Total foreign currency movements during the period resulted in a loss recognised in the income statement of £22 million (30 June 2009: £111 million gain; 31 December 2009: £154 million gain).

A3 – Subsidiaries

(a) Acquisitions

River Road Asset Management

On 24 February 2010, the Group acquired 100% of River Road Asset Management ("River Road"), a US equity manager, to support the expansion of Aviva Investors' third party institutional asset management business. The total consideration was estimated as £83 million (US$128 million), of which £37 million (US$57 million) was paid in cash on completion. The balance comprises undiscounted contingent consideration.

The contingent consideration arrangement requires the Group to pay amounts over the next five years, based on a multiple of the earnings (1.0792 times) during that period, up to a maximum of £70 million (US$108 million). The potential undiscounted amount of all future payments that the Group could be required to make under the contingent consideration arrangement is between £26 million (US$41 million) and £53 million (US$82 million). A fair value liability of £24 million, using a discount rate of 17%, has been recognised for potential consideration that is payable in 2014, 2015 and 2016.

The acquisition has given rise to goodwill of £29 million, calculated as follows:

	£m
Purchase cost:	
Cash paid	**37**
Contingent consideration arrangement (fair value)	**24**
Total consideration	**61**

The estimated book and fair values of the assets and liabilities at the acquisition date were:

	Book value £m	Fair value and accounting policy adjustments £m	Fair value £m
Assets			
Intangible assets	—	31	31
Receivables and other assets	3	—	3
Total assets	**3**	**31**	**34**
Liabilities			
Payables and other liabilities	(2)	—	(2)
Total liabilities	**(2)**	**—**	**(2)**
Total identifiable net assets	**1**	**31**	**32**
Goodwill arising on acquisition			**29**

The assets and liabilities as at the acquisition date are stated at their provisional fair values and may be amended until 23 February 2011. The fair value adjustment for intangible assets relates to customer relationships acquired. Goodwill of £29 million arising from this acquisition consists largely of new business and new product introductions.

A3 – Subsidiaries continued

(b) Disposal of subsidiaries and associates

The profit on the disposal of subsidiaries and associates comprises:

	6 months 2010 £m	6 months 2009 £m	Full year 2009 £m
United Kingdom (see (i) below)	**4**	—	—
France (see (ii) below)	**24**	—	—
Netherlands	**—**	20	31
Australia	**—**	—	122
Profit on disposal before tax	**28**	20	153
Tax on profit on disposal	**—**	—	—
Profit on disposal after tax	**28**	20	153

(i) UK non-core operations

On 30 June 2010, the Group sold its wholly-owned subsidiaries, RAC France SA and RAC Service Europe SA, to their executive management for a consideration of £17 million. These companies had total assets of £48 million (comprising investments of £25 million, receivables of £20 million and other assets of £3 million) and total liabilities of £36 million (insurance liabilities of £23 million and other liabilities of £13 million), giving net assets of £12 million and a profit on disposal after transaction costs of £4 million. The Group's French subsidiary, Aviva Assurances SA, has acquired 17.5% of the shares in both companies.

(ii) France associate

On 17 February 2010, the Group sold its 35% holding in Sogessur SA to that company's main shareholder, Société Générale, for a consideration of £35 million, realising a profit on disposal of £24 million.

(c) Operations and assets classified as held for sale

Assets held for sale as at 30 June 2010 comprise:

	30 June 2010 £m	30 June 2009 £m	31 December 2009 £m
Property and equipment held for sale (see (i) below)	**—**	106	—
Assets of operations classified as held for sale (see (ii) below)	**6**	2,345	53
Total assets classified as held for sale	**6**	2,451	53

(i) Property and equipment held for sale

Property and equipment held for sale at 30 June 2009 related to the UK data centres which were sold during the second half of 2009.

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

The assets and liabilities of operations classified as held for sale as at 30 June 2010 relate to an associate in Australia and are as follows:

	30 June 2010 £m	30 June 2009 £m	31 December 2009 £m
Assets			
Goodwill and intangible assets	**—**	1	—
Interest in associate	**6**	—	6
Investments and property and equipment	**—**	2,058	26
Receivables and other financial assets	**—**	36	20
Deferred acquisition costs and other assets	**—**	18	—
Prepayments and accrued income	**—**	40	1
Cash and cash equivalents	**—**	192	—
Total assets	**6**	2,345	53
Liabilities			
Gross insurance liabilities and liabilities for investment contracts	**—**	(1,718)	(20)
Payables and financial liabilities	**—**	(26)	—
Other liabilities	**—**	(21)	(13)
Tax liabilities and other provisions	**—**	(220)	—
Total liabilities	**—**	(1,985)	(33)
Net assets	**6**	360	20

The operations disclosed as held for sale at 30 June 2009 comprised the Australian life and pensions business and wealth management platform, which were sold during the second half of 2009. The operations held for sale at 31 December 2009 related to the UK non-core operations which were sold in 2010 and the associate in Australia.

A4 – Segmental information

(a) Operating segments

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

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

Aviva Europe
Activities reported in the Aviva Europe operating segment exclude operations in the UK and Delta Lloyd but include those in Russia, Turkey and UAE. Principal activities are long-term business in France, Ireland, Italy, Poland and Spain, and general insurance in France, Ireland and Italy.

Delta Lloyd
The activities of Delta Lloyd comprise long-term business operations in the Netherlands, Belgium and Germany and general insurance, fund management and banking operations in the Netherlands.

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

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

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

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

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

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

A4 – Segmental information continued

(i) Segmental income statement for the six month period ended 30 June 2010

	United Kingdom		Europe						
	Life £m	GI# £m	Aviva Europe £m	Delta Lloyd £m	North America £m	Asia Pacific £m	Aviva Investors £m	Other Group activities £m	Total £m
Gross written premiums	3,576	2,157	7,897	2,515	3,283	310	—	—	19,738
Premiums ceded to reinsurers	(308)	(178)	(233)	(64)	(105)	(24)	—	—	(912)
Internal reinsurance revenue	—	37	(14)	(5)	(16)	(2)	—	—	—
Net written premiums	3,268	2,016	7,650	2,446	3,162	284	—	—	18,826
Net change in provision for unearned premiums	(12)	(23)	(115)	(90)	5	(5)	—	—	(240)
Net earned premiums	3,256	1,993	7,535	2,356	3,167	279	—	—	18,586
Fee and commission income	167	138	269	149	29	3	164	—	919
	3,423	2,131	7,804	2,505	3,196	282	164	—	19,505
Net investment income	2,933	219	2,126	2,422	789	14	71	759	9,333
Inter-segment revenue	—	—	—	—	—	—	90	—	90
Share of profit/(loss) of joint ventures and associates	77	—	3	(6)	—	11	—	—	85
Profit on the disposal of subsidiaries and associates	—	4	24	—	—	—	—	—	28
Segmental income*	6,433	2,354	9,957	4,921	3,985	307	325	759	29,041
Claims and benefits paid, net of recoveries from reinsurers	(4,099)	(1,429)	(4,807)	(2,111)	(1,979)	(205)	—	—	(14,630)
Change in insurance liabilities, net of reinsurance	(1,067)	114	(445)	(587)	(1,238)	(84)	—	—	(3,307)
Change in investment contract provisions	240	—	(2,696)	(81)	(89)	—	(96)	—	(2,722)
Change in unallocated divisible surplus	(62)	—	(531)	(15)	—	55	—	—	(553)
Amortisation of deferred acquisition costs and acquired value of in-force business	—	—	(23)	(2)	(71)	(2)	—	—	(98)
Depreciation and other amortisation expense	(4)	(22)	(21)	(16)	(35)	(2)	(4)	—	(104)
Other operating expenses	(625)	(798)	(980)	(708)	(356)	(66)	(195)	(1,013)	(4,741)
Impairment losses**	(4)	(3)	(1)	(46)	(50)	—	—	—	(104)
Inter-segment expenses	(45)	(2)	(8)	—	(35)	—	—	—	(90)
Finance costs	(103)	(10)	(6)	(316)	(8)	—	(2)	(165)	(610)
Segmental expenses	(5,769)	(2,150)	(9,518)	(3,882)	(3,861)	(304)	(297)	(1,178)	(26,959)
Profit/(loss) before tax	664	204	439	1,039	124	3	28	(419)	2,082
Tax attributable to policyholders' returns	(25)	—	(6)	—	—	—	—	—	(31)
Profit/(loss) before tax attributable to shareholders	639	204	433	1,039	124	3	28	(419)	2,051
Adjusted for non-operating items:									
Reclassification of corporate costs and unallocated interest	1	(5)	4	11	2	—	1	(14)	—
Investment return variances and economic assumption changes on long-term business	(199)	—	10	(951)	68	10	—	—	(1,062)
Short-term fluctuation in return on investments backing non-long-term business	—	(45)	(29)	20	(35)	—	—	83	(6)
Economic assumption changes on general insurance and health business	—	58	2	—	4	—	—	—	64
Impairment of goodwill	2	—	—	—	—	—	—	—	2
Amortisation and impairment of intangibles	1	5	10	9	32	1	2	—	60
Profit on the disposal of subsidiaries and associates	—	(4)	(24)	—	—	—	—	—	(28)
Integration and restructuring costs	12	12	28	—	4	—	11	5	72
Exceptional items	—	—	—	107	10	—	—	—	117
Operating profit/(loss) before tax attributable to shareholders	456	225	434	235	209	14	42	(345)	1,270

* Total reported income, excluding inter-segment revenue, is split United Kingdom £8,787 million, France £4,511 million, Netherlands £4,921 million, USA £2,842 million and Rest of the World £7,935 million. Income is attributed on the basis of geographical origin which does not materially differ from revenue by geographical destination, as most risks are located in the countries where the contracts were written.

**All fair value gains and losses on available-for-sale investments are recorded in the investment valuation reserve. Where these investments are considered to be impaired, the relevant losses are then transferred to the income statement. Impairment losses, and reversal of such losses, recognised directly in other comprehensive income were £89 million and £nil respectively.

\# United Kingdom General Insurance includes the Group Reinsurance business, agency run off business and the non-insurance business for the RAC.

A4 – Segmental information continued

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

	United Kingdom		Europe						
	Life £m	GI# £m	Aviva Europe £m	Delta Lloyd £m	North America £m	Asia Pacific £m	Aviva Investors £m	Other Group activities £m	Total £m
Gross written premiums	2,898	2,247	6,808	2,357	4,272	278	—	—	18,860
Premiums ceded to reinsurers	(330)	(184)	(223)	(52)	(120)	(43)	—	—	(952)
Internal reinsurance revenue	—	28	(15)	(6)	(6)	(1)	—	—	—
Net written premiums	2,568	2,091	6,570	2,299	4,146	234	—	—	17,908
Net change in provision for unearned premiums	(12)	252	(85)	(95)	(24)	(3)	—	—	33
Net earned premiums	2,556	2,343	6,485	2,204	4,122	231	—	—	17,941
Fee and commission income	119	117	242	107	27	72	117	—	801
	2,675	2,460	6,727	2,311	4,149	303	117	—	18,742
Net investment income	(2,027)	178	2,866	720	916	172	(88)	(17)	2,720
Inter-segment revenue	—	—	—	—	—	—	93	—	93
Share of loss of joint ventures and associates	(537)	—	(6)	(4)	—	—	—	—	(547)
Profit on the disposal of subsidiaries and associates	—	—	—	20	—	—	—	—	20
Segmental income*	111	2,638	9,587	3,047	5,065	475	122	(17)	21,028
Claims and benefits paid, net of recoveries from reinsurers	(3,689)	(1,700)	(4,601)	(1,750)	(2,256)	(146)	—	—	(14,142)
Change in insurance liabilities, net of reinsurance	2,701	229	(1,012)	377	(2,462)	(23)	—	—	(190)
Change in investment contract provisions	1,169	—	(2,122)	6	(76)	(7)	61	—	(969)
Change in unallocated divisible surplus	312	—	(359)	(11)	—	(31)	—	—	(89)
Amortisation of deferred acquisition costs and acquired value of in-force business	—	—	(23)	(1)	(27)	(2)	—	—	(53)
Depreciation and other amortisation expense	(6)	(39)	(24)	(12)	(35)	(4)	(3)	—	(123)
Other operating expenses	(527)	(942)	(964)	(556)	(33)	(149)	(152)	(191)	(3,514)
Impairment losses**	—	(42)	—	(366)	(56)	—	—	—	(464)
Inter-segment expenses	(54)	(2)	(7)	—	(30)	(1)	1	—	(93)
Finance costs	(144)	(9)	(6)	(371)	(12)	—	—	(173)	(715)
Segmental expenses	(238)	(2,505)	(9,118)	(2,684)	(4,987)	(363)	(93)	(364)	(20,352)
Profit/(loss) before tax	(127)	133	469	363	78	112	29	(381)	676
Tax attributable to policyholders' returns	301	—	(34)	—	—	(3)	—	—	264
Profit/(loss) before tax attributable to shareholders	174	133	435	363	78	109	29	(381)	940
Adjusted for non-operating items:									
Reclassification of corporate costs and unallocated interest	—	9	12	15	8	—	1	(45)	—
Investment return variances and economic assumption changes on long-term business	124	—	(17)	(244)	30	(48)	—	—	(155)
Short-term fluctuation in return on investments backing non-long-term business	—	90	(40)	68	(41)	—	—	48	125
Economic assumption changes on general insurance and health business	—	(54)	2	—	—	—	—	—	(52)
Impairment of goodwill	5	—	—	—	—	—	—	—	5
Amortisation and impairment of intangibles	1	9	9	8	28	2	1	—	58
Profit on the disposal of subsidiaries and associates	—	—	—	(20)	—	—	—	—	(20)
Integration and restructuring costs	46	76	13	3	—	—	5	5	148
Operating profit/(loss) before tax attributable to shareholders	350	263	414	193	103	63	36	(373)	1,049

* Total reported income, excluding inter-segment revenue, is split United Kingdom £2,749 million, France £5,030 million, Netherlands £3,047 million, USA £4,074 million and Rest of the World £6,035 million. Income is attributed on the basis of geographical origin which does not materially differ from revenue by geographical destination, as most risks are located in the countries where the contracts were written.

** All fair value gains and losses on available-for-sale investments are recorded in the investment valuation reserve. Where these investments are considered to be impaired, the relevant losses are then transferred to the income statement. Impairment losses recognised directly in equity were £422 million.

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

A4 – Segmental information continued

(iii) Segmental income statement for the year ended 31 December 2009

	United Kingdom		Europe						
	Life £m	GI# £m	Aviva Europe £m	Delta Lloyd £m	North America £m	Asia Pacific £m	Aviva Investors £m	Other Group activities £m	Total £m
Gross written premiums	6,086	4,239	12,936	4,482	6,413	534	—	—	34,690
Premiums ceded to reinsurers	(1,311)	(355)	(468)	(134)	(231)	(77)	—	—	(2,576)
Internal reinsurance revenue	—	28	(13)	(7)	(6)	(2)	—	—	—
Net written premiums	4,775	3,912	12,455	4,341	6,176	455	—	—	32,114
Net change in provision for unearned premiums	2	607	(16)	6	(35)	(5)	—	—	559
Net earned premiums	4,777	4,519	12,439	4,347	6,141	450	—	—	32,673
Fee and commission income	261	272	558	226	55	121	296	—	1,789
	5,038	4,791	12,997	4,573	6,196	571	296	—	34,462
Net investment income	8,199	553	10,184	3,172	2,242	586	157	(121)	24,972
Inter-segment revenue	—	—	—	—	—	—	202	—	202
Share of loss of joint ventures and associates	(416)	—	(36)	(41)	—	(11)	—	—	(504)
Profit on the disposal of subsidiaries and associates	—	—	—	31	—	122	—	—	153
Segmental income*	12,821	5,344	23,145	7,735	8,438	1,268	655	(121)	59,285
Claims and benefits paid, net of recoveries from reinsurers	(7,313)	(3,409)	(8,871)	(3,567)	(4,110)	(279)	—	—	(27,549)
Change in insurance liabilities, net of reinsurance	663	531	(2,321)	(1,448)	(2,895)	(212)	—	—	(5,682)
Change in investment contract provisions	(4,008)	—	(6,451)	(239)	(128)	(148)	(211)	—	(11,185)
Change in unallocated divisible surplus	872	—	(2,280)	(68)	—	(71)	—	—	(1,547)
Amortisation of deferred acquisition costs and acquired value of in-force business	(46)	—	(47)	(3)	(149)	(4)	—	—	(249)
Depreciation and other amortisation expense	(45)	(72)	(60)	(35)	(77)	(6)	(5)	—	(300)
Other operating expenses	(1,804)	(1,893)	(2,107)	(1,248)	(653)	(246)	(348)	(306)	(8,605)
Impairment losses**	—	(42)	(17)	(445)	(104)	—	—	—	(608)
Inter-segment expenses	(119)	(6)	(15)	—	(60)	(1)	—	(1)	(202)
Finance costs	(254)	(19)	(13)	(672)	(18)	—	—	(360)	(1,336)
Segmental expenses	(12,054)	(4,910)	(22,182)	(7,725)	(8,194)	(967)	(564)	(667)	(57,263)
Profit/(loss) before tax	767	434	963	10	244	301	91	(788)	2,022
Tax attributable to policyholders' returns	(156)	—	(32)	—	—	(29)	—	—	(217)
Profit/(loss) before tax attributable to shareholders	611	434	931	10	244	272	91	(788)	1,805
Adjusted for non-operating items:									
Reclassification of corporate costs and unallocated interest	1	(10)	13	29	10	—	1	(44)	—
Investment return variances and economic assumption changes on long-term business	83	—	(194)	348	(87)	(75)	—	—	75
Short-term fluctuation in return on investments backing non-long-term business	—	(62)	(92)	23	(79)	—	—	115	(95)
Economic assumption changes on general insurance and health business	—	(55)	2	—	(4)	—	—	—	(57)
Impairment of goodwill	35	—	26	1	—	—	—	—	62
Amortisation and impairment of intangibles	3	18	31	19	69	2	2	—	144
Profit on the disposal of subsidiaries and associates	—	—	—	(31)	—	(122)	—	—	(153)
Integration and restructuring costs	89	114	64	—	—	—	21	(2)	286
Exceptional items	(163)	42	16	—	60	—	—	—	(45)
Operating profit/(loss) before tax attributable to shareholders	659	481	797	399	213	77	115	(719)	2,022

* Total reported income, excluding inter-segment revenue, is split United Kingdom £18,165 million, France £12,890 million, Netherlands £7,735 million, USA £6,350 million and Rest of the World £14,545 million. Income is attributed on the basis of geographical origin which does not materially differ from revenue by geographical destination, as most risks are located in the countries where the contracts were written.

**All fair value gains and losses on available-for-sale investments are recorded in the investment valuation reserve. Where these investments are considered to be impaired, the relevant losses are then transferred to the income statement. Impairment losses, and reversal of such losses, recognised directly in other comprehensive income were £3 million and £nil respectively.

\# United Kingdom General Insurance includes the Group Reinsurance business, agency run off business and the non-insurance business for the RAC.

A4 – Segmental information continued

(iv) Segmental statement of financial position as at 30 June 2010

	United Kingdom		Europe						
	Life £m	GI £m	Aviva Europe £m	Delta Lloyd £m	North America £m	Asia Pacific £m	Aviva Investors £m	Other Group activities £m	Total £m
Goodwill	**31**	**1,208**	**884**	**294**	**875**	**54**	**31**	**—**	**3,377**
Acquired value of in-force business and intangible assets	**16**	**244**	**1,064**	**77**	**1,183**	**18**	**40**	**—**	**2,642**
Interests in, and loans to, joint ventures and associates	**2,096**	**—**	**332**	**347**	**2**	**342**	**16**	**4**	**3,139**
Property and equipment	**104**	**106**	**92**	**243**	**126**	**4**	**11**	**—**	**686**
Investment property	**7,766**	**86**	**1,246**	**1,985**	**9**	**(6)**	**915**	**535**	**12,536**
Loans	**19,396**	**557**	**910**	**18,016**	**2,352**	**38**	**—**	**125**	**41,394**
Financial investments	**74,650**	**2,507**	**89,993**	**31,676**	**31,416**	**2,424**	**1,069**	**2,847**	**236,582**
Deferred acquisition costs	**1,312**	**682**	**646**	**202**	**2,242**	**6**	**—**	**—**	**5,090**
Other assets	**15,752**	**3,668**	**18,481**	**4,062**	**3,402**	**442**	**587**	**2,778**	**49,172**
Total assets	**121,123**	**9,058**	**113,648**	**56,902**	**41,607**	**3,322**	**2,669**	**6,289**	**354,618**
Insurance liabilities									
Long-term business and outstanding claims provisions	**63,169**	**5,358**	**35,498**	**28,946**	**30,588**	**2,323**	**—**	**—**	**165,882**
Unearned premiums	**184**	**2,204**	**1,013**	**417**	**1,104**	**35**	**—**	**—**	**4,957**
Other insurance liabilities	**—**	**79**	**105**	**59**	**101**	**(1)**	**—**	**—**	**343**
Liability for investment contracts	**38,720**	**—**	**60,114**	**3,127**	**3,090**	**—**	**2,152**	**—**	**107,203**
Unallocated divisible surplus	**1,910**	**—**	**2,145**	**140**	**—**	**30**	**—**	**—**	**4,225**
Net asset value attributable to unitholders	**981**	**—**	**4,589**	**646**	**—**	**—**	**—**	**3,626**	**9,842**
External borrowings	**2,414**	**8**	**137**	**6,173**	**195**	**—**	**—**	**5,200**	**14,127**
Other liabilities, including inter-segment liabilities	**9,347**	**(347)**	**3,883**	**13,352**	**2,675**	**173**	**347**	**2,831**	**32,261**
Total liabilities	**116,725**	**7,302**	**107,484**	**52,860**	**37,753**	**2,560**	**2,499**	**11,657**	**338,840**
Total equity									**15,778**
Total equity and liabilities									**354,618**
Capital expenditure (excluding business combinations)	**—**	**4**	**11**	**26**	**33**	**—**	**2**	**—**	**76**

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

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

	United Kingdom		Europe						
	Life £m	GI £m	Aviva Europe £m	Delta Lloyd £m	North America £m	Asia Pacific £m	Aviva Investors £m	Other Group activities £m	Restated Total £m
Goodwill	52	1,209	941	305	804	48	2	—	3,361
Acquired value of in-force business and intangible assets	63	256	1,149	76	1,692	21	12	—	3,269
Interests in, and loans to, joint ventures and associates	1,634	—	354	198	1	258	15	—	2,460
Property and equipment	99	152	131	277	110	25	10	1	805
Investment property	7,416	128	1,319	2,078	6	18	571	682	12,218
Loans	19,433	770	946	16,618	1,916	33	2	—	39,718
Financial investments	65,080	2,491	83,074	29,155	24,789	1,810	1,390	3,757	211,546
Deferred acquisition costs	1,255	916	725	190	2,794	12	—	—	5,892
Other assets	17,143	4,671	17,732	4,752	4,775	2,670	609	(129)	52,223
Total assets	112,175	10,593	106,371	53,649	36,887	4,895	2,611	4,311	331,492
Insurance liabilities									
Long-term business and outstanding claims provisions	59,385	5,863	35,335	27,713	26,141	1,785	—	—	156,222
Unearned premiums	185	2,644	961	460	946	24	—	—	5,220
Other insurance liabilities	—	91	99	59	88	(4)	—	—	333
Liability for investment contracts	34,072	—	55,498	2,885	2,963	—	2,123	—	97,541
Unallocated divisible surplus	2,269	—	(142)	119	—	37	—	—	2,283
Net asset value attributable to unitholders	833	—	3,878	591	—	—	—	2,671	7,973
External borrowings	2,485	10	149	6,260	183	—	—	5,238	14,325
Other liabilities, including inter-segment liabilities	9,616	352	4,103	12,083	3,745	2,110	345	2,391	34,745
Total liabilities	108,845	8,960	99,881	50,170	34,066	3,952	2,468	10,300	318,642
Total equity									12,850
Total equity and liabilities									331,492
Capital expenditure (excluding business combinations)	—	13	9	13	41	3	2	—	81

A4 – Segmental information continued

(vi) Segmental statement of financial position as at 31 December 2009

	United Kingdom		Europe						
	Life £m	GI £m	Aviva Europe £m	Delta Lloyd £m	North America £m	Asia Pacific £m	Aviva Investors £m	Other Group activities £m	Total £m
Goodwill	31	1,208	959	319	812	50	2	—	3,381
Acquired value of in-force business and intangible assets	17	249	1,190	71	1,302	19	12	—	2,860
Interests in, and loans to, joint ventures and associates	1,957	—	348	379	2	277	15	4	2,982
Property and equipment	112	127	105	282	111	5	10	1	753
Investment property	7,369	89	1,342	2,183	6	—	698	735	12,422
Loans	18,348	600	992	18,797	2,177	35	5	125	41,079
Financial investments	73,788	2,477	95,086	32,009	27,371	2,169	1,095	4,684	238,679
Deferred acquisition costs	1,313	717	732	198	2,348	8	—	—	5,316
Other assets	14,942	3,847	19,169	4,364	3,030	379	654	534	46,919
Total assets	117,877	9,314	119,923	58,602	37,159	2,942	2,491	6,083	354,391
Insurance liabilities									
Long-term business and outstanding claims provisions	62,043	5,410	38,422	30,818	27,201	2,062	—	—	165,956
Unearned premiums	173	2,240	956	347	1,040	25	—	—	4,781
Other insurance liabilities	—	79	116	63	98	(1)	—	—	355
Liability for investment contracts	39,322	—	62,477	3,335	2,911	—	1,970	—	110,015
Unallocated divisible surplus	1,849	—	1,787	150	—	80	—	—	3,866
Net asset value attributable to unitholders	875	—	5,257	721	—	—	—	3,041	9,894
External borrowings	2,518	10	141	6,830	183	—	—	5,318	15,000
Other liabilities, including inter-segment liabilities	6,668	(585)	4,282	12,529	2,450	140	320	3,634	29,438
Total liabilities	113,448	7,154	113,438	54,793	33,883	2,306	2,290	11,993	339,305
Total equity									15,086
Total equity and liabilities									354,391
Capital expenditure (excluding business combinations)	38	23	40	24	65	3	4	—	197

(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 businesses, for risks associated mainly with motor vehicles, property and liability, such as employers' liability and professional indemnity liability, and medical expenses.

Fund management

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

Other

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

A4 – Segmental information continued

(i) Segmental income statement – products and services for the six month period ended 30 June 2010

	Long-term business £m	**General insurance and health** £m**	**Fund management £m**	**Other† £m**	**Total £m**
Gross written premiums*	**14,312**	**5,426**	**—**	**—**	**19,738**
Premiums ceded to reinsurers	**(530)**	**(382)**	**—**	**—**	**(912)**
Net written premiums	**13,782**	**5,044**	**—**	**—**	**18,826**
Net change in provision for unearned premiums	**1**	**(241)**	**—**	**—**	**(240)**
Net earned premiums	**13,783**	**4,803**	**—**	**—**	**18,586**
Fee and commission income	**357**	**56**	**246**	**260**	**919**
	14,140	**4,859**	**246**	**260**	**19,505**
Net investment income	**7,720**	**414**	**8**	**1,191**	**9,333**
Inter-segment revenue	**—**	**—**	**91**	**—**	**91**
Share of profit/(loss) of joint ventures and associates	**94**	**—**	**(4)**	**(5)**	**85**
Profit on the disposal of subsidiaries and associates	**—**	**—**	**—**	**28**	**28**
Segmental income	**21,954**	**5,273**	**341**	**1,474**	**29,042**
Claims and benefits paid, net of recoveries from reinsurers	**(11,322)**	**(3,308)**	**—**	**—**	**(14,630)**
Change in insurance liabilities, net of reinsurance	**(3,368)**	**61**	**—**	**—**	**(3,307)**
Change in investment contract provisions	**(2,722)**	**—**	**—**	**—**	**(2,722)**
Change in unallocated divisible surplus	**(553)**	**—**	**—**	**—**	**(553)**
Amortisation of deferred acquisition costs and acquired value of in-force business	**(98)**	**—**	**—**	**—**	**(98)**
Depreciation and other amortisation expense	**(54)**	**(14)**	**(5)**	**(31)**	**(104)**
Other operating expenses	**(1,534)**	**(1,514)**	**(272)**	**(1,421)**	**(4,741)**
Impairment losses	**(88)**	**(6)**	**—**	**(10)**	**(104)**
Inter-segment expenses	**(86)**	**(5)**	**—**	**—**	**(91)**
Finance costs	**(82)**	**(14)**	**(22)**	**(492)**	**(610)**
Segmental expenses	**(19,907)**	**(4,800)**	**(299)**	**(1,954)**	**(26,960)**
Tax attributable to policyholder returns	**(31)**	**—**	**—**	**—**	**(31)**
Profit/(loss) before tax attributable to shareholders	**2,016**	**473**	**42**	**(480)**	**2,051**
Adjusted for non-operating items	**(888)**	**52**	**14**	**41**	**(781)**
Operating profit/(loss) before tax attributable to shareholders' profits	**1,128**	**525**	**56**	**(439)**	**1,270**

* Gross written premiums includes inward reinsurance premiums assumed from other companies amounting to £156 million, of which £86 million relates to property and liability insurance and £70 million relates to long-term business.
** General insurance and health business segment includes gross written premiums of £492 million relating to health business. The remaining business relates to property and liability insurance.
† Other includes the RAC non-insurance operations, our banking business, head office expenses, such as group treasury and finance functions, and certain financing costs and taxes not allocated to business segments.

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

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

* Gross written premiums includes inward reinsurance premiums assumed from other companies amounting to £91 million, of which £16 million relates to property and liability insurance £75 million to long-term business.
** General insurance and health business segment includes gross written premiums of £441 million relating to health business. The remaining business relates to property and liability insurance.
† Other includes the RAC non-insurance operations, our banking business, head office expenses, such as group treasury and finance functions, and certain financing costs and taxes not allocated to business segments.

A4 – Segmental information continued

(iii) Segmental income statement – products and services for the year ended 31 December 2009

	Long-term business £m	General insurance and health** £m	Fund management £m	Other† £m	Total £m
Gross written premiums*	24,722	9,968	—	—	34,690
Premiums ceded to reinsurers	(1,801)	(775)	—	—	(2,576)
Net written premiums	22,921	9,193	—	—	32,114
Net change in provision for unearned premiums	—	559	—	—	559
Net earned premiums	22,921	9,752	—	—	32,673
Fee and commission income	703	131	548	407	1,789
	23,624	9,883	548	407	34,462
Net investment income	23,126	1,272	6	568	24,972
Inter-segment revenue	—	—	189	—	189
Share of (loss)/profit of joint ventures and associates	(449)	2	(16)	(41)	(504)
(Loss)/profit on the disposal of subsidiaries and associates	(4)	—	—	157	153
Segmental income	46,297	11,157	727	1,091	59,272
Claims and benefits paid, net of recoveries from reinsurers	(20,442)	(7,107)	—	—	(27,549)
Change in insurance liabilities, net of reinsurance	(6,229)	547	—	—	(5,682)
Change in investment contract provisions	(11,185)	—	—	—	(11,185)
Change in unallocated divisible surplus	(1,547)	—	—	—	(1,547)
Amortisation of deferred acquisition costs and acquired value of in-force business	(249)	—	—	—	(249)
Depreciation and other amortisation expense	(147)	(53)	(7)	(93)	(300)
Other operating expenses	(3,192)	(3,465)	(554)	(1,394)	(8,605)
Impairment losses	(429)	(85)	—	(94)	(608)
Inter-segment expenses	(178)	(11)	—	—	(189)
Finance costs	(278)	(24)	(58)	(976)	(1,336)
Segmental expenses	(43,876)	(10,198)	(619)	(2,557)	(57,250)
Tax attributable to policyholder returns	(217)	—	—	—	(217)
Profit/(loss) before tax attributable to shareholders	2,204	959	108	(1,466)	1,805
Adjusted for non-operating items	(317)	1	25	508	217
Operating profit/(loss) before tax attributable to shareholders' profits	1,887	960	133	(958)	2,022

* Gross written premiums includes inward reinsurance premiums assumed from other companies amounting to £207 million, of which £51million relates to property and liability insurance and £156 million relates to long-term business.
**General insurance and health business segment includes gross written premiums of £841million relating to health business. The remaining business relates to property and liability insurance.
† Other includes the RAC non-insurance operations, our banking business, head office expenses, such as group treasury and finance functions, and certain financing costs and taxes not allocated to business segments.

(iv) Segmental statement of financial position – products and services as at 30 June 2010

	Long-term business £m	**General insurance and health £m**	**Fund management £m**	**Other £m**	**Total £m**
Goodwill	**1,620**	**451**	**31**	**1,275**	**3,377**
Acquired value of in-force business and intangible assets	**2,147**	**365**	**60**	**70**	**2,642**
Interests in, and loans to, joint ventures and associates	**3,044**	**4**	**43**	**48**	**3,139**
Property and equipment	**357**	**42**	**13**	**274**	**686**
Investment property	**11,718**	**188**	**—**	**630**	**12,536**
Loans	**27,560**	**722**	**—**	**13,112**	**41,394**
Financial investments	**220,884**	**11,368**	**55**	**4,275**	**236,582**
Deferred acquisition costs	**3,852**	**1,218**	**17**	**3**	**5,090**
Other assets	**38,225**	**7,509**	**871**	**2,567**	**49,172**
Total assets	**309,407**	**21,867**	**1,090**	**22,254**	**354,618**
Gross insurance liabilities	**153,759**	**17,423**	**—**	**—**	**171,182**
Gross liabilities for investment contracts	**107,203**	**—**	**—**	**—**	**107,203**
Unallocated divisible surplus	**4,225**	**—**	**—**	**—**	**4,225**
Net asset value attributable to unit holders	**6,206**	**10**	**—**	**3,626**	**9,842**
Borrowings	**3,696**	**82**	**—**	**10,349**	**14,127**
Other liabilities, including inter-segment liabilities	**16,588**	**(516)**	**832**	**15,357**	**32,261**
Total liabilities	**291,677**	**16,999**	**832**	**29,332**	**338,840**
Total equity					**15,778**
Total equity and liabilities					**354,618**

A4 – Segmental information continued

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

	Long-term business £m	General insurance and health £m	Fund management £m	Other £m	Restated Total £m
Goodwill	1,602	458	2	1,299	3,361
Acquired value of in-force business and intangible assets	2,806	366	12	85	3,269
Interests in, and loans to, joint ventures and associates	2,333	4	46	77	2,460
Property and equipment	403	111	12	279	805
Investment property	10,957	234	—	1,027	12,218
Loans	27,362	932	2	11,422	39,718
Financial investments	195,026	10,783	75	5,662	211,546
Deferred acquisition costs	4,478	1,394	16	4	5,892
Other assets	43,690	8,259	508	(234)	52,223
Total assets	288,657	22,541	673	19,621	331,492
Gross insurance liabilities	143,886	17,889	—	—	161,775
Gross liabilities for investment contracts	97,541	—	—	—	97,541
Unallocated divisible surplus	2,283	—	—	—	2,283
Net asset value attributable to unit holders	5,290	12	—	2,671	7,973
Borrowings	4,148	85	—	10,092	14,325
Other liabilities, including inter-segment liabilities	19,605	113	412	14,615	34,745
Total liabilities	272,753	18,099	412	27,378	318,642
Total equity					12,850
Total equity and liabilities					331,492

(vi) Segmental statement of financial position – products and services as at 31 December 2009

	Long-term business £m	General insurance and health £m	Fund management £m	Other £m	Total £m
Goodwill	1,616	462	2	1,301	3,381
Acquired value of in-force business and intangible assets	2,396	382	12	70	2,860
Interests in, and loans to, joint ventures and associates	2,851	5	44	82	2,982
Property and equipment	397	48	12	296	753
Investment property	11,138	191	—	1,093	12,422
Loans	26,915	769	5	13,390	41,079
Financial investments	220,660	11,548	65	6,406	238,679
Deferred acquisition costs	4,069	1,227	20	—	5,316
Other assets	38,469	7,014	523	913	46,919
Total assets	308,511	21,646	683	23,551	354,391
Gross insurance liabilities	153,628	17,464	—	—	171,092
Gross liabilities for investment contracts	110,015	—	—	—	110,015
Unallocated divisible surplus	3,866	—	—	—	3,866
Net asset value attributable to unit holders	6,841	13	—	3,040	9,894
Borrowings	3,780	89	—	11,131	15,000
Other liabilities, including inter-segment liabilities	13,064	(606)	414	16,566	29,438
Total liabilities	291,194	16,960	414	30,737	339,305
Total equity					15,086
Total equity and liabilities					354,391

A5 – Tax

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

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

	6 months 2010 £m	6 months 2009 £m	Full year 2009 £m
Current tax			
For this period	**535**	157	617
Prior year adjustments	**1**	(88)	(164)
Total current tax	**536**	69	453
Deferred tax			
Origination and reversal of temporary differences	**41**	(153)	231
Changes in tax rates or tax laws	**—**	1	2
Write-down of deferred tax assets	**—**	12	21
Total deferred tax	**41**	(140)	254
Total tax charged/(credited) to income statement	**577**	(71)	707

(ii) The Group, as a proxy for policyholders in the UK, Ireland, Singapore, and Australia (prior to its disposal on 1 October 2009) is required to record taxes on investment income and gains each year. Accordingly, the tax benefit or expense attributable to UK, Irish, Singapore and Australian life insurance policyholder returns is included in the tax charge. The tax attributable to policyholders' returns included in the charge/(credit) above is a £31 million charge (6 months 2009: £264 million credit; full year 2009: £217 million charge).

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

	6 months 2010 £m	6 months 2009 £m	Full year 2009 £m
UK tax	**138**	(471)	225
Overseas tax	**439**	400	482
	577	(71)	707

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

(i) The total tax charge comprises:

	6 months 2010 £m	6 months 2009 £m	Full year 2009 £m
Current tax – in respect of pensions and other post-retirement obligations	**(27)**	—	—
Deferred tax			
In respect of pensions and other post-retirement obligations	**(33)**	(13)	(45)
In respect of unrealised gains on investments	**146**	158	241
	113	145	196
Total tax charged to other comprehensive income	**86**	145	196

(c) Tax credited to equity

Tax credited directly to equity in the period amounted to £nil (6 months 2009: £nil, full year 2009: £17 million). The full year 2009 amount of £17 million was wholly in respect of coupon payments on a direct capital instrument.

(d) Tax reconciliation

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

	6 months 2010 £m	6 months 2009 £m	Full year 2009 £m
Profit before tax	**2,082**	676	2,022
Tax calculated at standard UK corporation tax rate of 28.0%	**583**	189	566
Different basis of tax – policyholders	**6**	(214)	82
Adjustment to tax charge in respect of prior years	**(2)**	(42)	(113)
Non-assessable income	**(31)**	(30)	(105)
Non-taxable profit on sale of subsidiaries and associates	**(8)**	(6)	(44)
Disallowable expenses	**52**	24	279
Different local basis of tax on overseas profits	**(40)**	6	50
Impact of increase in statutory local rates	**—**	3	—
Movement in deferred tax not recognised	**19**	14	(15)
Other	**(2)**	(15)	7
Total tax charged/(credited) to income statement	**577**	(71)	707

A gradual reduction in the UK corporation tax rate from 28% to 24% over 4 years was announced in the Emergency Budget of 22 June 2010. The Finance Bill published on 1 July 2010 included the first of the 1% rate reductions with effect from April 2011, with subsequent reductions to be dealt with by future legislation. The benefit to the Group's net assets arising from the 4% reduction of the rate is estimated as c£120 million in total and will be effected as the legislation is substantively enacted.

A6 – Earnings per share

(a) Basic earnings per share

(i) The profit attributable to ordinary shareholders is:

	6 months 2010			6 months 2009			Full year 2009		
	Operating profit £m	**Adjusting items £m**	**Total £m**	Operating profit £m	Adjusting items £m	Total £m	Operating profit £m	Adjusting items £m	Total £m
Profit before tax attributable to shareholders' profits	**1,270**	**781**	**2,051**	1,049	(109)	940	2,022	(217)	1,805
Tax attributable to shareholders' profit	**(310)**	**(236)**	**(546)**	(235)	42	(193)	(547)	57	(490)
Profit for the period	**960**	**545**	**1,505**	814	(67)	747	1,475	(160)	1,315
Amount attributable to non-controlling interests	**(193)**	**(231)**	**(424)**	(87)	15	(72)	(193)	(37)	(230)
Cumulative preference dividends for the period	**(9)**	**—**	**(9)**	(9)	—	(9)	(17)	—	(17)
Coupon payments in respect of direct capital instruments (DCI) (net of tax)	**—**	**—**	**—**	—	—	—	(44)	—	(44)
	758	**314**	**1,072**	718	(52)	666	1,221	(197)	1,024

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

	6 months 2010			6 months 2009			Full year 2009		
	Before tax £m	**Net of tax, non-controlling interests, preference dividends and DCI £m**	**Per share p**	Before tax £m	Net of tax, non-controlling interests, preference dividends and DCI £m	Per share p	Before tax £m	Net of tax, non-controlling interests, preference dividends and DCI £m	Per share p
Operating profit attributable to ordinary shareholders	**1,270**	**758**	**27.4**	1,049	718	26.9	2,022	1,221	45.1
Non-operating items:									
Investment return variances and economic assumption changes on long-term business	**1,062**	**541**	**19.6**	155	36	1.3	(75)	(120)	(4.4)
Short-term fluctuation in return on investments backing non-long-term business	**6**	**(21)**	**(0.8)**	(125)	(34)	(1.3)	95	158	5.8
Economic assumption changes on general insurance and health business	**(64)**	**(46)**	**(1.7)**	52	37	1.4	57	41	1.5
Impairment of goodwill and other amounts expensed	**(2)**	**(2)**	**(0.1)**	(5)	(5)	(0.2)	(62)	(62)	(2.3)
Amortisation and net impairment of intangibles	**(60)**	**(43)**	**(1.5)**	(58)	11	0.4	(144)	(38)	(1.4)
Profit on the disposal of subsidiaries and associates	**28**	**28**	**1.0**	20	20	0.7	153	153	5.7
Integration and restructuring costs and exceptional items	**(189)**	**(143)**	**(5.1)**	(148)	(117)	(4.3)	(241)	(329)	(12.2)
Profit attributable to ordinary shareholders	**2,051**	**1,072**	**38.8**	940	666	24.9	1,805	1,024	37.8

(iii) The calculation of basic earnings per share uses a weighted average of 2,765 million (30 June 2009: 2,672 million; 31 December 2009: 2,705 million) ordinary shares in issue, after deducting shares owned by the employee share trusts. The actual number of shares in issue at 30 June 2010 was 2,805 million (30 June 2009: 2,739 million; 31 December 2009: 2,767 million). Excluding the impact of shares owned by the employee share trusts, the number of shares in issue was 2,800 million at 30 June 2010.

A6 – Earnings per share continued

(b) Diluted earnings per share

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

	6 months 2010			6 months 2009			Full year 2009		
	Total £m	**Weighted average number of shares m**	**Per share p**	Total £m	Weighted average number of shares m	Per share p	Total £m	Weighted average number of shares m	Per share p
Profit attributable to ordinary shareholders	**1,072**	**2,765**	**38.8**	666	2,672	24.9	1,024	2,705	37.8
Dilutive effect of share awards and options	**—**	**38**	**(0.6)**	—	14	(0.1)	—	25	(0.3)
Diluted earnings per share	**1,072**	**2,803**	**38.2**	666	2,686	24.8	1,024	2,730	37.5

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

	6 months 2010			6 months 2009			Full year 2009		
	Total £m	**Weighted average number of shares m**	**Per share p**	Total £m	Weighted average number of shares m	Per share p	Total £m	Weighted average number of shares m	Per share p
Operating profit attributable to ordinary shareholders	**758**	**2,765**	**27.4**	718	2,672	26.9	1,221	2,705	45.1
Dilutive effect of share awards and options	**—**	**38**	**(0.4)**	—	14	(0.2)	—	25	(0.3)
Diluted earnings per share	**758**	**2,803**	**27.0**	718	2,686	26.7	1,221	2,730	44.8

A7 – Dividends and appropriations

	6 months 2010 £m	6 months 2009 £m	Full year 2009 £m
Ordinary dividends declared and charged to equity in the period			
Final 2008 – 19.91 pence per share, paid on 15 May 2009	**—**	527	527
Interim 2009 – 9.00 pence per share, paid on 17 November 2009	**—**	—	248
Final 2009 – 15.00 pence per share, paid on 17 May 2010	**415**	—	—
	415	527	775
Preference dividends declared and charged to equity in the period	**9**	9	17
Coupon payments on direct capital instrument	**—**	—	61
	424	536	853

Subsequent to 30 June 2010, the directors proposed an interim dividend for 2010 of 9.5 pence per ordinary share (HY09: 9.0 pence), amounting to £266 million (HY09: £247 million) in total. The dividend will be paid on 17 November 2010 and will be accounted for as an appropriation of retained earnings in the year ending 31 December 2010.

Interest on the direct capital instrument issued in November 2004 is treated as an appropriation of retained profits and, accordingly, it is accounted for when paid. Tax relief is obtained at a rate of 28% (2009: 28%).

IFRS

A8 – Insurance liabilities

(a) Carrying amount

Insurance liabilities at 30 June/31 December comprise:

	30 June 2010			30 June 2009			31 December 2009		
	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	**63,508**	**—**	**63,508**	61,230	—	61,230	64,702	—	64,702
Unit-linked non-participating	**21,349**	**—**	**21,349**	20,284	—	20,284	23,158	—	23,158
Other non-participating	**69,437**	**—**	**69,437**	62,586	—	62,586	66,198	—	66,198
	154,294	**—**	**154,294**	144,100	—	144,100	154,058	—	154,058
Outstanding claims provisions	**847**	**9,678**	**10,525**	1,105	9,948	11,053	921	9,977	10,898
Provision for claims incurred but not reported	**—**	**2,785**	**2,785**	—	2,710	2,710	—	2,719	2,719
	847	**12,463**	**13,310**	1,105	12,658	13,763	921	12,696	13,617
Provision for unearned premiums	**—**	**4,957**	**4,957**	—	5,220	5,220	—	4,781	4,781
Provision arising from liability adequacy tests	**—**	**3**	**3**	—	11	11	—	7	7
Total	**155,141**	**17,423**	**172,564**	145,205	17,889	163,094	154,979	17,484	172,463
Less: Obligations to staff pension schemes transferred to provisions	**(1,382)**	**—**	**(1,382)**	(1,234)	—	(1,234)	(1,351)	—	(1,351)
Amounts classified as held for sale	**—**	**—**	**—**	(85)	—	(85)	—	(20)	(20)
	153,759	**17,423**	**171,182**	143,886	17,889	161,775	153,628	17,464	171,092

(b) Movements in long-term business liabilities

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

	6 months 2010 £m	6 months 2009 £m	Full year 2009 £m
Carrying amount at 1 January	**154,058**	156,188	156,188
Provisions in respect of new business	**5,755**	6,425	11,105
Expected change in existing business provisions	**(3,689)**	(3,268)	(7,625)
Variance between actual and expected experience	**(46)**	(765)	2,154
Impact of operating assumption changes	**1**	(128)	(121)
Impact of economic assumption changes	**1,424**	(2,562)	(404)
Other movements	**(315)**	228	1,112
Change in liability recognised as an expense	**3,130**	(70)	6,221
Effect of portfolio transfers, acquisitions and disposals	**(1)**	35	(67)
Foreign exchange rate movements	**(2,893)**	(12,053)	(8,284)
Carrying amount at 30 June/31 December	**154,294**	144,100	154,058

(c) Movements in general insurance and health liabilities

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

	6 months 2010 £m	6 months 2009 £m	Full year 2009 £m
Carrying amount at 1 January	**12,696**	14,360	14,360
Impact of changes in assumptions	**80**	(72)	(106)
Claim losses and expenses incurred in the current year	**3,399**	3,689	7,328
Decrease in estimated claim losses and expenses incurred in prior years	**(193)**	(303)	(541)
Exceptional strengthening of general insurance latent claims provisions	**10**	—	60
Incurred claims losses and expenses	**3,296**	3,314	6,741
Less:			
Payments made on claims incurred in the current year	**(1,459)**	(1,511)	(3,922)
Payments made on claims incurred in prior years	**(2,108)**	(2,254)	(3,814)
Recoveries on claim payments	**122**	132	298
Claims payments made in the year, net of recoveries	**(3,445)**	(3,633)	(7,438)
Unwind of discounting	**25**	20	41
Other movements in the claims provisions	**—**	6	—
Change in claims reserve recognised as an expense	**(124)**	(293)	(656)
Effect of portfolio transfers, acquisitions and disposals	**—**	(655)	(649)
Foreign exchange rate movements	**(109)**	(754)	(359)
Carrying amount at 30 June/31 December	**12,463**	12,658	12,696

A8 – Insurance liabilities continued

(d) Movements in unearned premiums

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

	6 months 2010 £m	6 months 2009 £m	Full year 2009 £m
Carrying amount at 1 January	**4,781**	5,493	5,493
Premiums written during the period	**5,426**	5,320	9,968
Less: premiums earned during the period	**(5,189)**	(5,366)	(10,613)
Change in UPR recognised as (income)/expense	**237**	(46)	(645)
Gross portfolio transfers and acquisitions	**(23)**	—	—
Foreign exchange rate movements	**(38)**	(227)	(67)
Carrying amount at 30 June/31 December	**4,957**	5,220	4,781

A9 – Liability for investment contracts

(a) Carrying amount

	30 June 2010 £m	30 June 2009 £m	31 December 2009 £m
Long-term business			
Participating contracts	**64,608**	59,604	66,559
Non-participating contracts at fair value	**40,351**	37,291	41,289
Non-participating contracts at amortised costs	**2,244**	2,279	2,167
	42,595	39,570	43,456
	107,203	99,174	110,015
Less: Amounts classified as held for sale	**—**	(1,633)	—
	107,203	97,541	110,015

(b) Movements in participating investment contracts

	6 months 2010 £m	6 months 2009 £m	Full year 2009 £m
Carrying amount at 1 January	**66,559**	65,278	65,278
Provisions in respect of new business	**3,367**	2,906	5,973
Expected change in existing business provisions	**(1,476)**	(2,071)	(1,256)
Variance between actual and expected experience	**544**	489	2,469
Impact of operating assumption changes	**(1)**	(16)	(49)
Impact of economic assumption changes	**114**	(156)	(57)
Other movements	**(93)**	(177)	(1,316)
Change in liability recognised as an expense	**2,455**	975	5,764
Effect of portfolio transfers, acquisitions and disposals	**—**	14	(246)
Foreign exchange rate movements	**(4,407)**	(6,663)	(4,256)
Other movements	**1**	—	19
Carrying amount at 30 June/31 December	**64,608**	59,604	66,559

(c) Movements in non-participating investment contracts

	6 months 2010 £m	6 months 2009 £m	Full year 2009 £m
Carrying amount at 1 January	**43,456**	42,281	42,281
Provisions in respect of new business	**1,867**	1,029	3,045
Expected change in existing business provisions	**(1,191)**	(1,096)	(1,847)
Variance between actual and expected experience	**(799)**	(377)	2,495
Impact of operating assumption changes	**—**	—	107
Impact of economic assumption changes	**12**	9	4
Other movements	**20**	(234)	370
Change in liability	**(91)**	(669)	4,174
Effect of portfolio transfers, acquisitions and disposals	**—**	—	(1,596)
Foreign exchange rate movements	**(770)**	(2,042)	(1,403)
Carrying amount at 30 June/31 December	**42,595**	39,570	43,456

A10 – Reinsurance assets

(a) Carrying amounts

The reinsurance assets at 30 June/31 December comprised:

	30 June 2010 £m	30 June 2009 £m	31 December 2009 £m
Long-term business			
Insurance contracts	**3,891**	3,804	4,299
Participating investment contracts	**—**	45	—
Non-participating investment contracts	**1,409**	954	1,258
Outstanding claims provisions	**34**	134	40
Less: Amounts classified as held for sale	**—**	(11)	—
	5,334	4,926	5,597
General insurance and health			
Outstanding claims provisions	**1,180**	1,572	1,194
Provisions for claims incurred but not reported	**436**	108	449
	1,616	1,680	1,643
Provision for unearned premiums	**321**	393	332
Other technical provisions	**—**	6	—
	1,937	2,079	1,975
Total	**7,271**	7,005	7,572

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

	6 months 2010 £m	6 months 2009 £m	Full year 2009 £m
Carrying amount at 1 January	**5,557**	5,565	5,565
Asset in respect of new business	**215**	107	412
Expected change in existing business asset	**(47)**	(58)	(57)
Variance between actual and expected experience	**60**	(37)	(35)
Impact of other operating assumption changes	**—**	8	(189)
Impact of economic assumption changes	**71**	(274)	(250)
Other movements	**(451)**	(52)	486
Change in asset	**(152)**	(306)	367
Effect of portfolio transfers, acquisitions and disposals	**—**	—	(41)
Foreign exchange rate movements	**(105)**	(456)	(334)
Other movements	**—**	—	—
Carrying amount at 30 June/31 December	**5,300**	4,803	5,557

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

	6 months 2010 £m	6 months 2009 £m	Full year 2009 £m
Carrying amount at 1 January	**1,643**	1,766	1,766
Impact of changes in assumptions	**38**	(15)	(72)
Reinsurers' share of claim losses and expenses			
Incurred in current year	**80**	120	255
Incurred in prior years	**(53)**	(22)	7
Reinsurers' share of incurred claim losses and expenses	**27**	98	262
Less:			
Reinsurance recoveries received on claims			
Incurred in current year	**(34)**	(23)	(138)
Incurred in prior years	**(119)**	(109)	(202)
Reinsurance recoveries received in the year	**(153)**	(132)	(340)
Unwind of discounting	**11**	11	22
Change in reinsurance asset recognised as income	**(77)**	(38)	(128)
Effect of portfolio transfers, acquisitions and disposals	**7**	—	57
Foreign exchange rate movements	**44**	(48)	(50)
Other movements	**(1)**	—	(2)
Carrying amount at 30 June/31 December	**1,616**	1,680	1,643

A10 – Reinsurance assets continued

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

	6 months 2010 £m	6 months 2009 £m	Full year 2009 £m
Carrying amount at 1 January	**332**	418	418
Premiums ceded to reinsurers in the period	**382**	373	775
Less: Reinsurers' share of premiums earned during the period	**(386)**	(386)	(861)
Change in reinsurance asset recognised as income	**(4)**	(13)	(86)
Reinsurers' share of portfolio transfers and acquisitions	**—**	—	5
Foreign exchange rate movements	**(8)**	(12)	(5)
Other movements	**1**	—	—
Carrying amount at 30 June/31 December	**321**	393	332

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

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

	Effect on profit 6 months 2010 £m	Effect on profit 6 months 2009 £m	Effect on profit full year 2009 £m
Assumptions			
Long-term insurance business			
Interest rates	**(621)**	1,876	(363)
Expenses	**8**	—	69
Persistency rates	**20**	10	—
Mortality for assurance contracts	**—**	—	11
Mortality for annuity contracts	**—**	6	6
Tax and other assumptions	**19**	(1)	(49)
Investment contracts			
Interest rates	**(53)**	(158)	20
Expenses	**—**	—	40
Other assumptions	**—**	—	(89)
General insurance and health business			
Change in loss ratio assumptions	**4**	4	(2)
Change in discount rate assumptions	**(47)**	54	57
Change in expense ratio assumptions	**1**	(1)	(21)
Total	**(669)**	1,790	(321)

The impact of interest rates for long-term business relates primarily to the UK and the Netherlands, driven by the market level of risk-free rates. Lower valuation interest rates in 2010 had the effect of increasing liabilities for traditional business and hence a negative impact on profit. This follows an increase in market interest rates in the first half of 2009 which had the reverse effect. The overall impact on profit also depends on movements in the value of assets backing the liabilities, which is not included in this disclosure. The impacts for persistency and other assumptions include the review of reserves in Ireland.

A12 – Borrowings

There has been no debt issued in the six months to 30 June 2010.

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

A13 – Unallocated divisible surplus

The following movements have occurred in the period:

	6 months 2010 £m	6 months 2009 £m	Full year 2009 £m
Carrying amount at 1 January	**3,866**	2,325	2,325
Change in participating contract assets	**488**	(2,695)	(1,314)
Change in participating contract liabilities	**51**	2,796	3,836
Effect of special bonus to with-profit policyholders	**—**	—	(69)
Effect of reattribution of inherited estate	**—**	—	(881)
Other movements	**14**	(12)	(25)
Change in liability recognised as an expense	**553**	89	2,428
Movement in respect of change in pension scheme deficit	**—**	(148)	(24)
Foreign exchange rate movements	**(179)**	10	43
Other movements	**(15)**	10	(21)
	4,225	2,286	3,866
Less: amounts classified as held for sale	**—**	(3)	—
Carrying amount at 30 June/31 December	**4,225**	2,283	3,866

A14 – Pension schemes

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

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

	30 June 2010 £m	30 June 2009 £m	31 December 2009 £m
Deficits in the staff pension schemes	**1,657**	1,988	1,707
Other obligations to staff pension schemes – insurance policies issued by group companies[1]	**1,382**	1,234	1,351
Total IAS 19 obligations to staff pension schemes	**3,039**	3,222	3,058
Restructuring provisions	**152**	208	198
Other provisions	**812**	542	724
Less: amounts classified as held for sale	**—**	(17)	—
Total provisions	**4,003**	3,955	3,980

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

(b) Movements in the scheme deficits and surpluses

Movements in the pension schemes' deficits comprise:

	6 months 2010 £m	6 months 2009 £m	Full year 2009 £m
Deficits in the schemes at 1 January	**(1,707)**	(613)	(613)
Employer contributions	**458**	186	294
Current and past service cost (see (c) below)	**(89)**	(80)	(156)
Gains on curtailments and settlements (see (c) below)	**18**	13	49
Charge to investment income (see (c) below)	**(71)**	(59)	(125)
Actuarial losses (see (c) below)	**(277)**	(1,456)	(1,158)
Exchange rate movements on foreign plans	**11**	21	2
Deficits in the schemes at 30 June/31 December	**(1,657)**	(1,988)	(1,707)

(c) Pension expense

(i) Recognised in the income statement

	6 months 2010 £m	6 months 2009 £m	Full year 2009 £m
Current service cost	**(80)**	(65)	(131)
Past service cost	**(9)**	(15)	(25)
Gains on curtailments	**18**	13	38
Gains on settlements	**—**	—	11
Total pension cost charged to net operating expenses	**(71)**	(67)	(107)
Expected return on scheme assets	**257**	238	466
Less: Income on insurance policy assets accounted for elsewhere	**(33)**	(29)	(58)
	224	209	408
Interest charge on scheme liabilities	**(328)**	(297)	(591)
Charge to investment income	**(104)**	(88)	(183)
Total charge to income	**(175)**	(155)	(290)

A14 – Pension schemes continued

(c) Pension expense

(ii) Recognised in the statement of comprehensive income

	6 months 2010 £m	6 months 2009 £m	Full year 2009 £m
Expected return on scheme assets	**(257)**	(238)	(466)
Actual (negative) return on these assets	**444**	(318)	1,009
Actuarial gains/ losses on scheme assets	**187**	(556)	543
Less: (gains)/losses on insurance policy assets accounted for elsewhere	**(91)**	76	18
Actuarial gains/ losses on admissible assets	**96**	(480)	561
Experience (losses)/gains arising on scheme liabilities	**(31)**	1	77
Changes in assumptions underlying the present value of the scheme liabilities	**(433)**	(901)	(1,778)
Actuarial losses recognised in the statement of comprehensive income	**(368)**	(1,380)	(1,140)

(d) Proposed changes to UK pension schemes

On 20 April 2010, the Group advised its UK staff and the Trustees of the Aviva Staff Pension Scheme (ASPS) and the RAC staff pension scheme that it intended to begin consultation with them on a proposal to close the final salary sections of these schemes. This consultation is under way and is expected to be concluded by the end of the year. A long-term funding plan for the deficit in the ASPS has now been agreed with the scheme Trustees, where contributions, together with anticipated growth in scheme investments, are expected to eliminate the ASPS deficit over time. As part of this funding plan, Aviva is expecting to make contributions of £365 million in 2010 towards the funding of the ASPS deficit, of which £337 million has been paid in the first half of this year.

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

	30 June 2010 £m	Restated 30 June 2009 £m	31 December 2009 £m
Cash at bank and in hand	**11,473**	11,081	10,681
Cash equivalents	**16,973**	14,141	14,495
	28,446	25,222	25,176
Bank overdrafts	**(1,155)**	(1,145)	(925)
	27,291	24,077	24,251

Of the total cash and cash equivalents shown above, £nil million has been classified as held for sale (30 June 2009: £192 million; 31 December 2009: £nil).

The 30 June 2009 balances have been restated to reflect the refinement to the cash and cash equivalents accounting policy following a review undertaken in 2009. Full details of this can be found in Note A1 - Basis of Preparation.

A16 – Related parties

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

	30 June 2010		30 June 2009		31 December 2009	
	Income earned in period £m	**Receivable at end of period £m**	Income earned in period £m	Receivable at end of period £m	Income earned in year £m	Receivable at end of year £m
Associates	**23**	**—**	22	3	49	3
Joint ventures	**5**	**314**	9	299	17	328
Employee pension schemes	**5**	**5**	15	4	9	2
	33	**319**	46	306	75	333

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

A17 – Risk management

Risk management
As a global company, we face a diverse range of risks, each of which has the potential to impact financial performance or hinder the achievement of business objectives. If we do not manage these risks effectively we could miss potential opportunities to further develop and expand our business.

At Aviva, sound risk management is a key component of our business and is an integral part of maintaining financial stability for our customers, shareholders and other stakeholders. We group the type of risks we face into three categories; financial, strategic, and operational.

- Financial risks cover market and credit risk, insurance risk, liquidity and capital management.
- Strategic risks relate to areas such as customer, brand and products as well as any risks to our business model arising from changes in our market and risks arising from mergers and acquisitions.
- Operational risks arise from inadequate or failed internal processes, or from people and systems or from external events. This includes business protection, information technology, people, legal and regulatory compliance risks.

We operate within a three lines of defence model. Primary responsibility for risk identification and management lies with business management (the 1st line of defence). Support for and challenge on the completeness and accuracy of risk assessment, risk reporting and adequacy of mitigation plans are performed by specialist risk functions (the 2nd line of defence). Independent and objective assurance on the robustness of the risk management framework and the appropriateness and effectiveness of internal control is provided by group internal audit (the 3rd line of defence).

We employ effective processes to identify, assess, mitigate, manage and monitor the risks to which we are exposed. We make appropriate decisions to limit and control the impact the risks may have on our strategic objectives. To ensure that risks are effectively identified and assessed and that appropriate controls and responses are in place, we support all group-wide risk management activities through a central risk team, led by the Group chief risk officer. In each of our regions, regional chief risk officers ensure that the regional risk profiles remain within the limits set centrally. As well as working with the regions, the central risk team is also responsible for managing group risk governance and oversight. A full description of our approach and management of risks is set out in the 2009 Annual Report and Accounts.

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

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

Aviva regularly monitors its investment holdings and asset-liability matching and we continue to explore new ways of mitigating the risks we are exposed to. We actively manage our equity exposures and have purchased additional protection in the half year to June 2010 to hedge against extreme scenarios. We consider equity hedging to continue to be appropriate to protect the Group's financial position against a general decline in economic conditions.

Credit risk
Credit spreads for both corporate and sovereign debt have widened in the first half of the year reflecting concerns about sovereign risks and the effectiveness of economic austerity measures, especially in certain Eurozone countries. Aviva has taken a prudent approach to its overall credit risk exposure including a reduction in some counterparty credit limits and increased monitoring and management of exposures.

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

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

Currency risk
As an international business we are exposed to fluctuations in exchange rates of various currencies; these affect the value of shareholders' funds which are expressed in sterling. Generally we do not hedge foreign currency revenues as these are substantially retained locally to support growth in the business units and meet local regulatory and market requirements. We monitor and manage centrally against pre-determined limits the amount of foreign exchange risk to our group's consolidated shareholders' equity. Limits are set to control the extent to which deployment of capital is not aligned fully with the Group's regulatory capital requirements by currency. We use currency borrowings and derivatives to actively manage currency exposures within the limits that have been set.

A17 – Risk management continued

Insurance risk

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

Regulatory risk

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

Regulatory changes will also influence future distribution opportunities for our products and services. In the USA, passage of the Financial Reform[1] legislation effectively assured that the distribution of equity indexed annuity products will continue to be regulated by state insurance departments rather than the SEC. In the UK, the Retail Distribution Review, which is scheduled for implementation at the end of 2012, is expected to significantly change the landscape for the distribution of life and pensions contracts. We continue to work with regulatory bodies to ensure appropriate outcomes from an insurance industry perspective and prepare for the necessary business changes.

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 and agents in the sale of our products and services. While we as a Group 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 change. We monitor this risk closely and have controls in place to limit this risk.

We have noted no material changes to the other risks identified in the 2009 Annual Report and Accounts.

A18 – Subsequent events

There have been no subsequent events to report.

[1] Financial Reform legislation refers to the Dodd-Frank Wall Street Reform and Consumer Protection Act

A19 – Long-term business IFRS profit driver analysis

	6 months 2010				6 months 2009				Full year 2009
	United Kingdom £m	Aviva Europe £m	Rest of the world £m	Total £m	United Kingdom £m	Aviva Europe £m	Rest of the world £m	Total £m	Total £m
Note (a)									
New business margin (£m)	**230**	**179**	**56**	**465**	179	149	33	361	792
APE (£m)	**657**	**904**	**550**	**2,111**	617	813	612	2,042	3,745
As margin on APE (%)	**35%**	**20%**	**10%**	**22%**	29%	18%	5%	18%	21%

New business margin reflects premiums less initial capital reserves

	United Kingdom £m	Aviva Europe £m	Rest of the world £m	Total £m	United Kingdom £m	Aviva Europe £m	Rest of the world £m	Total £m	Total £m
Note (b)									
Underwriting margin (£m)	**88**	**157**	**124**	**369**	63	161	128	352	683
Analysed by:									
Expenses (£m)	**54**	**37**	**74**	**165**	46	24	61	131	263
Mortality and longevity (£m)	**17**	**90**	**45**	**152**	17	104	58	179	381
Persistency (£m)	**17**	**30**	**5**	**52**	—	33	9	42	39

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

	United Kingdom £m	Aviva Europe £m	Rest of the world £m	Total £m	United Kingdom £m	Aviva Europe £m	Rest of the world £m	Total £m	Total £m
Note (c)									
Unit-linked margin (£m)	**177**	**310**	**51**	**538**	147	289	26	462	1,021
As annual management charge on average reserves (bps)	**100**	**143**	**94**	**120**	94	142	53	113	115
Average reserves (£bn)	**35.5**	**43.4**	**10.9**	**89.8**	31.4	40.8	9.8	82.0	89.1

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

	United Kingdom £m	Aviva Europe £m	Rest of the world £m	Total £m	United Kingdom £m	Aviva Europe £m	Rest of the world £m	Total £m	Total £m
Note (d)									
Participating business (£m)	**109**	**191**	**70**	**370**	137	158	78	373	573
As bonus on average reserves (bps)	**48**	**64**	**132**	**64**	61	55	146	66	49
Average reserves (£bn)	**45.4**	**59.7**	**10.6**	**115.7**	44.6	57.6	10.7	112.9	117.1

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

	United Kingdom £m	Aviva Europe £m	Rest of the world £m	Total £m	United Kingdom £m	Aviva Europe £m	Rest of the world £m	Total £m	Total £m
Note (e)									
Spread margin (£m)	**82**	**26**	**365**	**473**	80	25	229	334	863
As spread margin on average reserves (bps)	**72**	**85**	**175**	**134**	75	74	114	98	126
Average reserves (£bn)	**22.7**	**6.1**	**41.8**	**70.6**	21.5	6.7	40.3	68.5	68.4

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

	United Kingdom £m	Aviva Europe £m	Rest of the world £m	Total £m	United Kingdom £m	Aviva Europe £m	Rest of the world £m	Total £m	Total £m
Note (f)									
Expected return on shareholder assets (£m)	**98**	**66**	**118**	**282**	48	60	99	207	492
Equity (%)	**7.8%**	**7.2%**	**7.2%**	**7.2%**	7.0%	7.3%	7.3%	7.3%	7.3%
Property (%)	**6.3%**	**5.7%**	**5.7%**	**5.7%**	5.5%	5.8%	5.8%	5.8%	5.8%
Bonds (%)	**5.5%**	**4.4%**	**3.6%**	**4.7%**	5.5%	4.7%	4.4%	4.9%	4.7%

Expected return being the return made on shareholder net assets

	United Kingdom £m	Aviva Europe £m	Rest of the world £m	Total £m	United Kingdom £m	Aviva Europe £m	Rest of the world £m	Total £m	Total £m
Note (g)									
Acquisition expenses (£m)	**(183)**	**(275)**	**(90)**	**(548)**	(187)	(212)	(101)	(500)	(950)
APE (£m)	**657**	**904**	**550**	**2,111**	617	813	612	2,042	3,745
As acquisition expense ratio on APE (%)	**28%**	**30%**	**16%**	**26%**	30%	26%	17%	24%	25%

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

	United Kingdom £m	Aviva Europe £m	Rest of the world £m	Total £m	United Kingdom £m	Aviva Europe £m	Rest of the world £m	Total £m	Total £m
Note (h)									
Administrative expenses (£m)	**(178)**	**(240)**	**(214)**	**(632)**	(177)	(238)	(214)	(629)	(1,350)
As existing business expense ratio on average reserves (bps)	**34**	**44**	**68**	**46**	36	45	70	48	49
Average reserves (£bn)	**104**	**109**	**63**	**276**	97	105	61	263	275

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

A20 – Analysis of general insurance

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

	Net written premium			Underwriting result			Combined operating ratio		
	6 months 2010 £m	6 months 2009 £m	Full year 2009 £m	**6 months 2010 £m**	6 months 2009 £m	Full year 2009 £m	**6 months 2010 %**	6 months 2009 %	Full year 2009 %
Personal									
Motor	**569**	541	1,040	**(30)**	4	1	**104%**	101%	100%
Homeowner	**387**	517	942	**21**	15	21	**98%**	98%	99%
Other	**188**	199	370	**9**	(41)	(22)	**98%**	117%	105%
	1,144	1,257	2,352	**—**	(22)	—	**98%**	104%	100%
Commercial									
Motor	**261**	252	484	**6**	14	17	**98%**	96%	97%
Property	**327**	335	616	**3**	10	(16)	**102%**	97%	100%
Other	**210**	205	414	**18**	37	23	**91%**	86%	95%
	798	792	1,514	**27**	61	24	**97%**	94%	98%
Total	**1,942**	2,049	3,866	**27**	39	24	**98%**	99%	99%

(ii) France

	Net written premium			Underwriting result			Combined operating ratio		
	6 months 2010 £m	6 months 2009 £m	Full year 2009 £m	**6 months 2010 £m**	6 months 2009 £m	Full year 2009 £m	**6 months 2010 %**	6 months 2009 %	Full year 2009 %
Motor	**184**	187	322	**(22)**	(4)	(25)	**112%**	101%	107%
Property and other	**245**	247	407	**4**	11	40	**95%**	92%	90%
Total	**429**	434	729	**(18)**	7	15	**102%**	96%	98%

(iii) Ireland

	Net written premium			Underwriting result			Combined operating ratio		
	6 months 2010 £m	6 months 2009 £m	Full year 2009 £m	**6 months 2010 £m**	6 months 2009 £m	Full year 2009 £m	**6 months 2010 %**	6 months 2009 %	Full year 2009 %
Motor	**106**	117	208	**15**	23	19	**83%**	81%	92%
Property and other	**106**	123	214	**(27)**	(8)	(30)	**128%**	106%	113%
Total	**212**	240	422	**(12)**	15	(11)	**105%**	94%	103%

(iv) Delta Lloyd

	Net written premium			Underwriting result			Combined operating ratio		
	6 months 2010 £m	6 months 2009 £m	Full year 2009 £m	**6 months 2010 £m**	6 months 2009 £m	Full year 2009 £m	**6 months 2010 %**	6 months 2009 %	Full year 2009 %
Motor	**227**	174	389	**(28)**	1	9	**112%**	100%	98%
Property	**200**	218	324	**(11)**	9	(28)	**106%**	97%	109%
Liability	**61**	55	87	**16**	(1)	18	**66%**	98%	81%
Other	**219**	230	363	**54**	(3)	39	**68%**	95%	91%
Total	**707**	677	1,163	**31**	6	38	**93%**	97%	97%

(v) Canada

	Net written premium			Underwriting result			Combined operating ratio		
	6 months 2010 £m	6 months 2009 £m	Full year 2009 £m	**6 months 2010 £m**	6 months 2009 £m	Full year 2009 £m	**6 months 2010 %**	6 months 2009 %	Full year 2009 %
Motor	**551**	506	978	**15**	24	30	**97%**	93%	97%
Property	**315**	274	595	**20**	(19)	(61)	**96%**	110%	111%
Liability	**105**	92	190	**3**	14	17	**98%**	86%	91%
Other	**25**	17	37	**5**	2	10	**67%**	69%	71%
Total	**996**	889	1,800	**43**	21	(4)	**96%**	97%	100%

A21 – Funds under management

	Life and related businesses £m	General business and other £m	30 June 2010 Total £m	31 December 2009 Total £m
Total IFRS assets included in the consolidated statement of financial position	**309,407**	**45,211**	**354,618**	354,391
Less: third party funds included within consolidated IFRS assets	**—**	**(12,066)**	**(12,066)**	(9,980)
	309,407	**33,145**	**342,552**	344,411
Third party funds under management:				
Unit trusts, OEICs, PEPs and ISAs			**16,734**	21,618
Segregated funds			**54,494**	48,770
			413,780	414,799
Non-managed assets			**(33,871)**	(35,388)
Funds under management			**379,909**	379,411

A22 – Operational cost base

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

	6 months 2010 £m	6 months 2009 £m
Other expenses (as reported)	**1,869**	2,245
Less: Non operating items included above (amortisation and impairments)	**(421)**	(730)
Add: Claims handling costs[1]	**338**	340
Non commission acquisition costs[2]	**617**	638
Operating cost base	**2,403**	2,493

1. As reported within Claims and benefits paid of £14,630 million (HY09: £14,142 million)
2. As reported within Fee and commissions expense of £3,178 million (HY09: £1,909 million)

During HY10, the operating cost base decreased 4% to £2,403 million (HY09: £2,493 million). The like-for-like cost base presented below is adjusted for the impact of foreign exchange, businesses acquired/disposed of during the year and elimination of one-off restructuring and integration spend from the cost base in both years. The like-for-like cost base increased by 1% to £2,331 million compared with a 30 June 2009 like-for-like cost base of £2,307 million. This is against 4% growth in life business (long-term savings sales up 4% on HY09 to £20.2 billion) and 2% growth in general insurance and health business (net written premiums up 2% to £5 billion)

Movement in operating cost base

	£m
Total operating cost base 30 June 2009	**2,493**
Less: restructuring, integration and brand costs for the six months to 30 June 2009	**(148)**
Impact of acquisitions and disposals[1]	**(40)**
Foreign exchange	**2**
30 June 2009 like-for-like operating cost base	**2,307**
Inflation[2]	**58**
UK Life	**(30)**
UK General Insurance	**(15)**
Aviva Europe	**(26)**
Delta Lloyd	**13**
Other businesses (including group centre)	**24**
30 June 2010 like-for-like operating cost base	**2,331**
Restructuring, integration and brand costs 30 June 2010	**72**
Total operating cost base 30 June 2010	**2,403**

1. Impact of acquisitions & disposals – restatement of the 2009 cost base for the impact of acquisitions and disposals in both 2009 and 2010 to achieve a cost base on a like-for-like basis.
2. Inflation – Notional level of Inflation that would have impacted the operating cost base during the period. This is calculated using the Consumer Price Index for individual countries, applied to operating expenditure i.e. excluding restructuring & integration costs (but including adjustments for acquisitions & disposals). The overall weighted average is calculated at 2.5%.

Directors' responsibility statement

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

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

(a) the group condensed financial statements in this report, which have been prepared in accordance with IFRS as adopted by the EU, IFRIC interpretation and those parts of the Companies Act 2006 applicable to companies reporting under IFRS, give a true and fair view of the assets, liabilities, financial position and results of the group taken as a whole;

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

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

Information on the directors can be found on page 80 of Aviva plc's 2009 Annual Report and Accounts.

By order of the board

Andrew Moss
Group Chief Executive
4 August 2010

Patrick Regan
Chief Financial Officer

Independent review report to Aviva plc

Introduction
We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2010 which comprises the Consolidated Income Statement, the Condensed Statement of Comprehensive Income, the Condensed Statement of Changes in Equity, the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Statement of Cash Flows and the related notes A1 to A18 on pages 28 to 54 . Our review did not extend to the information disclosed in notes A19 to A22. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' Responsibilities
The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Services Authority.

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

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

Scope of Review
We conducted our review in accordance with ISRE 2410. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2010 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Services Authority.

Ernst & Young LLP
London
4 August 2010

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New Business

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Long-term savings new business

B1 – Trend analysis of PVNBP – discrete

	1Q09 £m	2Q09 £m	3Q09 £m	4Q09 £m	1Q10 £m	2Q10 £m	% Growth on 1Q10 Sterling
	Present value of new business premiums[1]						
Life and pensions business							
Pensions	989	1,100	804	859	941	1,120	19%
Annuities	475	358	416	648	877	726	(17)%
Bonds	713	506	383	422	412	416	1%
Protection	245	216	246	258	231	276	19%
Equity release	83	50	80	63	96	99	3%
United Kingdom	**2,505**	**2,230**	**1,929**	**2,250**	**2,557**	**2,637**	**3%**
France	1,270	1,170	1,100	1,351	1,550	1,277	(18)%
Ireland	187	239	264	382	247	229	(7)%
Italy	1,136	1,062	651	758	1,567	1,485	(5)%
Poland	351	203	189	336	206	113	(45)%
Spain	737	508	397	812	590	470	(20)%
Other Europe	112	96	98	114	125	133	6%
Aviva Europe	**3,793**	**3,278**	**2,699**	**3,753**	**4,285**	**3,707**	**(13)%**
Of which:							
Bancassurance	*2,243*	*1,850*	*1,291*	*1,762*	*2,611*	*2,305*	*(12)%*
Retail	*1,550*	*1,428*	*1,408*	*1,991*	*1,674*	*1,402*	*(16)%*
Aviva Europe	*3,793*	*3,278*	*2,699*	*3,753*	*4,285*	*3,707*	*(13)%*
Delta Lloyd[2]	942	838	1,055	830	883	849	(4)%
Europe	**4,735**	**4,116**	**3,754**	**4,583**	**5,168**	**4,556**	**(12)%**
North America	**1,929**	**1,260**	**553**	**803**	**997**	**1,337**	**34%**
Asia Pacific[3]	**325**	**207**	**256**	**307**	**409**	**385**	**(6)%**
Australia	75	91	95	—	—	—	—
Total life and pensions	**9,569**	**7,904**	**6,587**	**7,943**	**9,131**	**8,915**	**(2)%**
Investment sales[4]	**744**	**1,204**	**1,094**	**830**	**1,043**	**1,149**	**10%**
Total long term saving sales	**10,313**	**9,108**	**7,681**	**8,773**	**10,174**	**10,064**	**(1)%**

1. All references to sales in this announcement refer to the present value of new business premiums (PVNBP) unless otherwise stated. PVNBP is the present value of new regular premiums plus 100% of single premiums
2. Delta Lloyd, which operates in the Netherlands, Belgium and Germany, is managed independently from our other European businesses
3. Asia Pacific excludes the Australian life business that was sold on 1 October 2009
4. Investment sales are calculated as new single premium plus the annualised value of new regular premiums

B2 – Trend analysis of PVNBP – cumulative

	Present value of new business premiums[1]					
	1Q09 YTD £m	2Q09 YTD £m	3Q09 YTD £m	4Q09 YTD £m	1Q10 YTD £m	2Q10 YTD £m
Life and pensions business						
Pensions	989	2,089	2,893	3,752	941	2,061
Annuities	475	833	1,249	1,897	877	1,603
Bonds	713	1,219	1,602	2,024	412	828
Protection	245	461	707	965	231	507
Equity release	83	133	213	276	96	195
United Kingdom	**2,505**	**4,735**	**6,664**	**8,914**	**2,557**	**5,194**
France	1,270	2,440	3,540	4,891	1,550	2,827
Ireland	187	426	690	1,072	247	476
Italy	1,136	2,198	2,849	3,607	1,567	3,052
Poland	351	554	743	1,079	206	319
Spain	737	1,245	1,642	2,454	590	1,060
Other Europe	112	208	306	420	125	258
Aviva Europe	**3,793**	**7,071**	**9,770**	**13,523**	**4,285**	**7,992**
Of which:						
Bancassurance	*2,243*	*4,093*	*5,384*	*7,146*	*2,611*	*4,916*
Retail	*1,550*	*2,978*	*4,386*	*6,377*	*1,674*	*3,076*
Aviva Europe	*3,793*	*7,071*	*9,770*	*13,523*	*4,285*	*7,992*
Delta Lloyd[2]	942	1,780	2,835	3,665	883	1,732
Europe	**4,735**	**8,851**	**12,605**	**17,188**	**5,168**	**9,724**
North America	**1,929**	**3,189**	**3,742**	**4,545**	**997**	**2,334**
Asia Pacific[3]	**325**	**532**	**788**	**1,095**	**409**	**794**
Australia	75	166	261	261	—	—
Total life and pensions	**9,569**	**17,473**	**24,060**	**32,003**	**9,131**	**18,046**
Investment sales[4]	**744**	**1,948**	**3,042**	**3,872**	**1,043**	**2,192**
Total long term saving sales	**10,313**	**19,421**	**27,102**	**35,875**	**10,174**	**20,238**

1. All references to sales in this announcement refer to the present value of new business premiums (PVNBP) unless otherwise stated. PVNBP is the present value of new regular premiums plus 100% of single premiums
2. Delta Lloyd, which operates in the Netherlands, Belgium and Germany, is managed independently from our other European businesses
3. Asia Pacific excludes the Australian life business that was sold on 1 October 2009
4. Investment sales are calculated as new single premium plus the annualised value of new regular premiums

B3 – Geographical analysis of life, pension and investment sales

	Present value of new business premiums[1]			
			% Growth	
	6 months 2010 £m	6 months 2009 £m	Sterling	Local[2] currency
Life and pensions business				
United Kingdom	**5,194**	4,735	10%	10%
France	**2,827**	2,440	16%	19%
Ireland	**476**	426	12%	15%
Italy	**3,052**	2,198	39%	43%
Poland	**319**	554	(42)%	(47)%
Spain	**1,060**	1,245	(15)%	(13)%
Other Europe	**258**	208	24%	21%
Aviva Europe	**7,992**	7,071	13%	15%
Delta Lloyd[3]	**1,732**	1,780	(3)%	—
Europe	**9,724**	8,851	10%	12%
North America	**2,334**	3,189	(27)%	(25)%
China	**235**	167	41%	46%
Hong Kong	**79**	52	52%	58%
India	**58**	43	35%	29%
Singapore	**143**	90	59%	54%
South Korea	**201**	127	58%	41%
Other Asia	**78**	53	47%	44%
Asia Pacific[5]	**794**	532	49%	45%
Australia[5]	**—**	166	(100)%	(100)%
Total life and pensions	**18,046**	17,473	3%	4%
Investment sales[4]				
United Kingdom	**849**	418	103%	103%
Aviva Europe	**731**	423	73%	76%
Delta Lloyd[3]	**395**	357	11%	14%
Europe	**1,126**	780	44%	48%
Australia	**109**	65	68%	36%
Singapore	**108**	232	(53)%	(55)%
Asia Pacific[5]	**217**	297	(27)%	(32)%
Australia[5]	**—**	453	(100)%	(100)%
Total investment sales	**2,192**	1,948	13%	6%
Total long-term savings sales	**20,238**	19,421	4%	5%

1. All references to sales in this announcement refer to the present value of new business premiums (PVNBP) unless otherwise stated. PVNBP is the present value of new regular premiums plus 100% of single premiums
2. Local currency growth rates are calculated based on constant rates of exchange.
3. Delta Lloyd, which operates in the Netherlands, Belgium and Germany, is managed independently from our other European businesses
4. Investment sales are calculated as new single premium plus the annualised value of new regular premiums
5. Asia Pacific excludes the Australian life business that was sold on 1 October 2009

B4 – Product analysis of life and pension sales

	Present value of new business premiums[1]			
			% Growth	
	6 months 2010 £m	6 months 2009 £m	Sterling	Local[2] currency
Life and pensions business				
Pensions	**2,061**	2,089	(1)%	(1)%
Annuities	**1,603**	833	92%	92%
Bonds	**828**	1,219	(32)%	(32)%
Protection	**507**	461	10%	10%
Equity release	**195**	133	47%	47%
United Kingdom	**5,194**	4,735	10%	10%
Pensions	**751**	1,123	(33)%	(32)%
Savings	**6,670**	5,255	27%	30%
Annuities	**35**	51	(31)%	(30)%
Protection	**536**	642	(17)%	(14)%
Aviva Europe	**7,992**	7,071	13%	15%
Delta Lloyd[3]	**1,732**	1,780	(3)%	—
Europe	**9,724**	8,851	10%	12%
Life	**505**	374	35%	39%
Annuities	**1,829**	2,815	(35)%	(33)%
Funding agreements	**—**	—	—	—
North America	**2,334**	3,189	(27)%	(25)%
Asia Pacific[4]	**794**	532	49%	45%
Australia	**—**	166	(100)%	(100)%
Total life and pensions	**18,046**	17,473	3%	4%

1. Present value of new business premiums (PVNBP) is the present value of new regular premiums plus 100% of single premiums, calculated using assumptions consistent with those used to determine new business contribution.
2. Growth rates are calculated based on constant rates of exchange.
3. Delta Lloyd, which operates in the Netherlands, Belgium and Germany, is managed independently from our other European businesses
4. Asia Pacific excludes the Australian life business that was sold on 1 October 2009

B5 – Analysis of sales via bancassurance channels

	Present value of new business premiums[1]			
			% Growth	
	6 months 2010 £m	6 months 2009 £m	Sterling	Local[2] currency
Bancassurance				
United Kingdom – RBS	**498**	692	(28)%	(28)%
France – Credit du Nord	**712**	647	10%	13%
Ireland – Allied Irish Bank	**232**	195	19%	22%
UniCredit Group	**1,686**	1,094	54%	58%
Eurovita	**436**	261	67%	72%
Unione di Banche	**726**	695	4%	7%
Other	**113**	55	105%	109%
Italy	**2,961**	2,105	41%	44%
Poland	**6**	15	(60)%	(63)%
Bancaja	**276**	264	5%	7%
Caixa Galicia	**92**	105	(12)%	(10)%
Unicaja	**255**	486	(48)%	(46)%
Caja España	**194**	152	28%	31%
Other	**120**	106	13%	17%
Spain	**937**	1,113	(16)%	(13)%
Other Europe	**68**	18	278%	278%
Aviva Europe	**4,916**	4,093	20%	23%
Delta Lloyd[3] – ABN Amro	**232**	243	(5)%	(2)%
Europe	**5,148**	4,336	19%	22%
North America	**—**	—	—	—
Asia Pacific	**405**	253	60%	118%
Total life and pensions	**6,051**	5,281	15%	19%
Investment sales[4]				
United Kingdom – RBS	**141**	88	60%	60%
Total bancassurance sales	**6,192**	5,369	15%	19%

1. Present value of new business premiums (PVNBP) is the present value of new regular premiums plus 100% of single premiums, calculated using assumptions consistent with those used to determine new business contribution.
2. Growth rates are calculated based on constant rates of exchange.
3. Delta Lloyd, which operates in the Netherlands, Belgium and Germany, is managed independently from our other European businesses
4. Investment sales are calculated as new single premium plus annualised value of new regular premiums.

B6 – Geographical analysis of regular and single premiums – life and pensions sales

	Regular premiums							Single premiums		
	6 months 2010 £m	**Local currency growth**	**WACF**	**Present value £m**	6 months 2009 £m	WACF	Present value £m	**6 months 2010 £m**	6 months 2009 £m	Local currency growth
Pensions	**208**	**(8)%**	**4.7**	**985**	225	4.9	1,095	**1,076**	994	8%
Annuities	**—**	**—**	**—**	**—**	—	—	—	**1,603**	833	92%
Bonds	**—**	**—**	**—**	**—**	—	—	—	**828**	1,219	(32)%
Protection	**79**	**8%**	**6.4**	**507**	73	6.2	452	**—**	9	(100)%
Equity release	**—**	**—**	**—**	**—**	—	—	—	**195**	133	47%
United Kingdom	**287**	**(4)%**	**5.2**	**1,492**	**298**	**5.2**	**1,547**	**3,702**	**3,188**	**16%**
France	**54**	**15%**	**7.2**	**389**	47	6.8	321	**2,438**	2,119	18%
Ireland	**36**	**(3)%**	**4.1**	**146**	38	4.6	176	**330**	250	35%
Italy	**37**	**(51)%**	**5.2**	**191**	78	6.7	519	**2,861**	1,679	75%
Poland	**29**	**(34)%**	**9.4**	**273**	41	11.4	467	**46**	87	(51)%
Spain	**59**	**(8)%**	**5.6**	**333**	65	5.8	379	**727**	866	(14)%
Other Europe	**43**	**—**	**4.8**	**207**	42	4.4	185	**51**	23	122%
Aviva Europe	**258**	**(17)%**	**6.0**	**1,539**	**311**	**6.6**	**2,047**	**6,453**	**5,024**	**32%**
Delta Lloyd[1]	**87**	**(12)%**	**10.1**	**878**	102	9.5	972	**854**	808	9%
Europe	**345**	**(16)%**	**7.0**	**2,417**	**413**	**7.3**	**3,019**	**7,307**	**5,832**	**28%**
North America	**49**	**20%**	**10.2**	**502**	**42**	**8.8**	**370**	**1,832**	**2,819**	**(33)%**
Asia Pacific[2]	**119**	**24%**	**4.4**	**527**	**92**	**4.3**	**399**	**267**	**133**	**101%**
Australia	**—**	**(100)%**	**—**	**—**	30	4.1	124	**—**	42	(100)%
Total life and pensions	**800**	**(9)%**	**6.2**	**4,938**	875	6.2	5,459	**13,108**	12,014	11%

1. Delta Lloyd, which operates in the Netherlands, Belgium and Germany, is managed independently from our other European businesses
2 Asia Pacific excludes the Australian life business that was sold on 1 October 2009

B7 – Geographical analysis of regular and single premiums – investment sales

	Regular[2]			Single			PVNBP
	6 months 2010 £m	6 months 2009 £m	Local currency growth	**6 months 2010 £m**	6 months 2009 £m	Local currency growth	Local currency growth
Investment sales							
United Kingdom	**43**	34	26%	**797**	374	113%	103%
Aviva Europe	**3**	3	—	**728**	420	78%	76%
Delta Lloyd[1]	**—**	—	—	**395**	357	14%	14%
Europe	**3**	3	—	**1,123**	777	48%	48%
			—				
Australia	**—**	—	—	**109**	65	36%	36%
Singapore	**—**	—	—	**108**	232	(55)%	(55)%
Asia Pacific	**—**	—	—	**217**	297	(32)%	(32)%
Australia[3]	**—**	—	—	**—**	453	(100)%	(100)%
Total investment sales	**46**	37	24%	**2,137**	1,901	6%	6%

1. Delta Lloyd, which operates in the Netherlands, Belgium and Germany, is managed independently from our other European businesses
2. UK regular premium investment sales include SIPP products. These are similar in nature to pension products and their payment pattern is stable and predictable and accordingly they have been capitalised. Regular premium SIPP sales for the 6 months to 30 June 2010 totalled £1.9 million (2009: £2.3 million) and have been capitalised using a weighted average capitalisation factor of 5.0 (2009: 5.0). As such, regular premium SIPP sales have produced an overall contribution to investment sales of £9.4 million (2009: £11.5 million) out of the UK investment sales of £849 million (2009: £418 million)
3. Asia Pacific excludes the Australian life business that was sold on 1 October 2009

B8 – Life and pensions new business – net of tax and non-controlling interest

Life and pensions (net of tax and non-controlling interest)	Present value of new business premiums 6 months 2010 £m	6 months 2009 £m	Full year 2009 £m	Value of new business 6 months 2010 £m	6 months 2009 £m	Full year 2009 £m	New business margin 6 months 2010 %	6 months 2009 %	Full year 2009 %
United Kingdom	**5,194**	4,735	8,914	**126**	72	177	**2.4%**	1.5%	2.0%
France	**2,367**	2,019	4,111	**58**	40	94	**2.5%**	2.0%	2.3%
Ireland	**356**	320	804	**1**	3	8	**0.3%**	0.9%	1.0%
Italy	**1,351**	994	1,614	**24**	25	38	**1.8%**	2.5%	2.4%
Poland	**279**	480	933	**14**	19	39	**5.0%**	4.0%	4.2%
Spain	**580**	676	1,326	**22**	26	51	**3.8%**	3.8%	3.8%
Other Europe	**259**	208	420	**10**	5	8	**3.8%**	2.4%	1.9%
Aviva Europe	**5,192**	4,697	9,208	**129**	118	238	**2.5%**	2.5%	2.6%
Delta Lloyd	**937**	1,661	3,235	**(25)**	(28)	(78)	**(2.7)%**	(1.7)%	(2.4)%
Europe	**6,129**	6,358	12,443	**104**	90	160	**1.7%**	1.4%	1.3%
North America	**2,334**	3,189	4,545	**2**	16	16	**0.1%**	0.5%	0.4%
Asia Pacific	**787**	694	1,348	**14**	12	22	**1.8%**	1.7%	1.6%
Total life and pensions	**14,444**	14,976	27,250	**246**	190	375	**1.7%**	1.3%	1.4%

B9 – Aviva Europe analysis of bancassurance and retail sales

Cumulative	Bancassurance 6 months 2010 £m	6 months 2009 £m	Local currency growth %	Retail 6 months 2010 £m	6 months 2009 £m	Local currency growth %	Total 6 months 2010 £m	6 months 2009 £m	Local currency growth %
Life and pensions									
France	**712**	647	13%	**2,115**	1,793	21%	**2,827**	2,440	19%
Ireland	**232**	195	22%	**244**	231	8%	**476**	426	15%
Italy	**2,961**	2,105	44%	**91**	93	—	**3,052**	2,198	43%
Poland	**6**	15	(63)%	**313**	539	(46)%	**319**	554	(47)%
Spain	**937**	1,113	(13)%	**123**	132	(5)%	**1,060**	1,245	(13)%
Other Europe	**68**	18	278%	**190**	190	(3)%	**258**	208	21%
Aviva Europe	**4,916**	**4,093**	**23%**	**3,076**	**2,978**	**4%**	**7,992**	**7,071**	**15%**

Discrete quarter	Bancassurance 2Q 2010 £m	1Q 2010 £m	Local currency growth %	Retail 2Q 2010 £m	1Q 2010 £m	Local currency growth %	Total 2Q 2010 £m	1Q 2010 £m	Local currency growth %
Life and pensions									
France	**319**	393	(17)%	**958**	1,157	(16)%	**1,277**	1,550	(16)%
Ireland	**115**	117	—	**114**	130	(11)%	**229**	247	(6)%
Italy	**1,419**	1,542	(6)%	**66**	25	169%	**1,485**	1,567	(4)%
Poland	**3**	3	10%	**110**	203	(40)%	**113**	206	(39)%
Spain	**407**	530	(22)%	**63**	60	7%	**470**	590	(19)%
Other Europe	**42**	26	62%	**91**	99	(8)%	**133**	125	6%
Aviva Europe	**2,305**	**2,611**	**(10)%**	**1,402**	**1,674**	**(14)%**	**3,707**	**4,285**	**(12)%**

Capital Management

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Capital management

C1 – Capital management objectives and approach

Aviva's capital management philosophy is focused on capital efficiency and effective risk management to support the dividend policy and earnings per share growth. Overall capital risk appetite is set and managed with reference to the requirements of a range of different stakeholders including shareholders, policyholders, regulators and rating agencies. In managing capital we seek to:
— maintain sufficient, but not excessive, financial strength to support new business growth and satisfy the requirements of our regulators and other stakeholders thus giving both our customers and shareholders assurance of our financial strength;
— optimise our overall debt to equity structure to enhance our returns to shareholders, subject to our capital risk appetite and balancing the requirements of the range of stakeholders;
— retain financial flexibility by maintaining strong liquidity, including significant unutilised committed credit facilities and access to a range of capital markets;
— allocate capital rigorously across the group, to drive value adding growth in accordance with risk appetite; and
— declare dividends on a basis judged prudent, while retaining capital to support future business growth, using dividend cover on an IFRS operating earnings after tax basis in the 1.5 to 2.0 times range as a guide.

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

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

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

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

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

C1 – Capital management objectives and approach continued

Economic capital

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

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

The financial modelling techniques employed in economic capital enhance our practice of risk and capital management.

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

Solvency II

The development of Solvency II has continued in 2010. Since the approval of the Solvency II Directive in May 2009, the European Commission has focused on developing the technical requirements in the Level 2 implementing measures to provide the detail under Level 1. The European Commission has asked CEIOPS to run a quantitative impact study (QIS5) to test a possible set of technical requirements with the industry. This exercise, which Aviva will participate in, will run between August and November 2010 with a final report by CEIOPS expected to be published in April 2011. Aviva has been actively participating in the development of the technical requirements, of both the implementing measures and the QIS 5 specifications, through the key European industry working groups who provide the voice of industry in on-going negotiation in Brussels and engaging with the FSA and HM Treasury who participate in these negotiations.

European Commission is now giving further consideration to the wording on the implementing measures and is expected to finalise these measures in spring 2011 following the QIS5 exercise. Full implementation of Solvency II is expected to be delayed and required from 1 January 2013.

C2 – Group capital structure

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

	30 June 2010 £m	31 December 2009 £m
Long-term savings	**19,948**	20,693
General insurance and health	**4,744**	4,562
Fund management	**258**	269
Other business	**(127)**	(246)
Corporate[1]	**(35)**	(34)
Total capital employed	**24,788**	25,244
Financed by		
Equity shareholders' funds	**12,921**	13,035
Non-controlling interests	**3,885**	4,237
Direct capital instrument	**990**	990
Preference shares	**200**	200
Subordinated debt	**4,486**	4,637
External debt	**872**	852
Net internal debt[2]	**1,434**	1,293
Total capital employed	**24,788**	25,244

1. The "corporate" net liabilities represent the element of the pension scheme deficit held centrally.
2. In addition to our external funding sources, we have certain internal borrowing arrangements in place which allow some of the assets that support technical liabilities to be invested in a pool of central assets for use across the group. These internal debt balances allow for the capital allocated to business operations to exceed the externally sourced capital resources of the group. Net internal debt represents the balance of the amounts due from corporate and holding entities, less the tangible net assets held by these entities. Although intra-group in nature, they are included as part of the capital base for the purpose of capital management. These arrangements arise in relation to the following:
   — Certain subsidiaries, subject to continuing to satisfy stand alone capital and liquidity requirements, loan funds to corporate and holding entities, these loans satisfy arms length criteria and all interest payments are made when due.
   — Aviva International Insurance (AII) Ltd acts as both a UK general insurer and as the primary holding company for our foreign subsidiaries. Internal capital management mechanisms in place allocate a portion of the total capital of the company to the UK general insurance operations. These mechanisms also allow for some of the assets backing technical liabilities to be made available for use across the group. Balances in respect of these arrangements are also treated as internal debt for capital management purposes.

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

At 30 June 2010 we had £24.8 billion (31 December 2009: £25.2 billion) of total capital employed in our trading operations, measured on an MCEV basis.

Financial leverage, the ratio of external senior and subordinated debt to MCEV capital and reserves, was 31.9% (31 December 2009: 31.8%). If centre assets were offset against this debt the financial leverage would be 21.1% (31 December 2009: 19.0%). Fixed charge cover, which measures the extent to which external interest costs, including subordinated debt interest and preference dividends, are covered by MCEV operating profit was 11.3 times (31 December 2009: 8.5 times).

At 30 June 2010 the market value of our external debt, subordinated debt, preference shares (including both Aviva plc preference shares of £200 million and General Accident plc preference shares, within non-controlling interest, of £250 million), and direct capital instrument was £6,399 million (31 December 2009: £6,634 million), with a weighted average cost of 4.8% (31 December 2009: 5.0%). The group Weighted Average Cost of Capital (WACC) is 7.4% (31 December 2009: 8.0%) and has been calculated by reference to the cost of equity and the cost of debt at the relevant date. The cost of equity at 30 June 2010 was 9.2% (31 December 2009: 9.8%) based on a risk free rate of 3.4% (31 December 2009: 4.0%), an equity risk premium of 4.0% (31 December 2009: 4.0%) and a market beta of 1.5 (31 December 2009: 1.4).

C2 – Group capital structure continued

Shareholders' funds, including non-controlling interest

	30 June 2010 Closing shareholders' funds			31 December 2009 Closing shareholders' funds		
	IFRS net asset £m	Internally generated AVIF £m	Total Equity £m	IFRS net asset £m	Internally generated AVIF £m	Total Equity £m
Life assurance						
United Kingdom	**4,230**	**1,469**	**5,699**	4,454	1,343	5,797
France	**1,476**	**1,467**	**2,943**	1,707	1,386	3,093
Ireland	**1,188**	**103**	**1,291**	1,139	201	1,340
Italy	**1,232**	**307**	**1,539**	1,405	290	1,695
Poland	**200**	**1,021**	**1,221**	239	1,073	1,312
Spain	**1,207**	**607**	**1,814**	1,288	662	1,950
Other Europe	**353**	**23**	**376**	435	(87)	348
Aviva Europe	**5,656**	**3,528**	**9,184**	6,213	3,525	9,738
Delta Lloyd	**3,644**	**(1,280)**	**2,364**	2,983	(148)	2,835
Europe	**9,300**	**2,248**	**11,548**	9,196	3,377	12,573
North America	**3,512**	**(1,627)**	**1,885**	3,072	(1,490)	1,582
Asia Pacific	**688**	**128**	**816**	595	146	741
	17,730	**2,218**	**19,948**	17,317	3,376	20,693
General insurance and health						
United Kingdom	**1,938**	**—**	**1,938**	1,876	—	1,876
France	**371**	**—**	**371**	410	—	410
Ireland	**423**	**—**	**423**	450	—	450
Other Europe	**285**	**—**	**285**	329	—	329
Aviva Europe	**1,079**	**—**	**1,079**	1,189	—	1,189
Delta Lloyd	**622**	**—**	**622**	545	—	545
Europe	**1,701**	**—**	**1,701**	1,734	—	1,734
North America	**1,077**	**—**	**1,077**	928	—	928
Asia Pacific	**28**	**—**	**28**	24	—	24
	4,744	**—**	**4,744**	4,562	—	4,562
Fund management	**258**	**—**	**258**	269	—	269
Other business	**(127)**	**—**	**(127)**	(246)	—	(246)
Corporate	**(35)**	**—**	**(35)**	(34)	—	(34)
Subordinated debt	**(4,486)**	**—**	**(4,486)**	(4,637)	—	(4,637)
External debt	**(872)**	**—**	**(872)**	(852)	—	(852)
Net internal debt	**(1,434)**	**—**	**(1,434)**	(1,293)	—	(1,293)
	(6,696)	**—**	**(6,696)**	(6,793)	—	(6,793)
Shareholders' funds, including non-controlling interests	**15,778**	**2,218**	**17,996**	15,086	3,376	18,462
Less:						
Non-controlling interests			**(3,885)**			(4,237)
Direct capital instruments			**(990)**			(990)
Preference capital			**(200)**			(200)
Equity shareholders' funds			**12,921**			13,035
Less: goodwill and intangibles[1]			**(4,627)**			(4,628)
Equity shareholders funds' excluding goodwill and intangibles			**8,294**			8,407

1. Goodwill and intangibles comprise £3,377 million (31 December 2009:£3,381 million) of goodwill in subsidiaries, £1,344 million (31 December 2009: £1,367 million) of intangibles in subsidiaries, £166 million (31 December 2009: £150 million) of goodwill and intangibles in joint ventures and £282 million (31 December 2009: £264 million) of goodwill in associates, net of associated deferred tax liabilities of £279 million (31 December 2009: £271 million) and the minority share of intangibles of £263 million (31 December 2009: £263 million).

C3 i – Analysis of IFRS return on capital employed

30 June 2010

	Operating return[1]		Opening shareholders' funds including non-controlling interests	Annualised return on capital
	Before tax £m	**After tax £m**	**£m**	**%**
Life assurance	**1,128**	**866**	**17,317**	**10.0%**
General insurance and health	**480**	**346**	**4,562**	**15.2%**
Fund management	**56**	**39**	**269**	**29.0%**
Other business	**(47)**	**(31)**	**(246)**	**25.2%**
Corporate	**(103)**	**(84)**	**(34)**	**494.1%**
Subordinated debt	**(146)**	**(105)**	**(4,637)**	**4.5%**
External debt	**(22)**	**(16)**	**(852)**	**3.8%**
Net internal debt[2]	**(76)**	**(55)**	**(1,293)**	**8.5%**
	1,270	**960**	**15,086**	**12.7%**
Less: Non-controlling interests		**(193)**	**(3,540)**	**11.0%**
Direct capital instrument		**—**	**(990)**	**—**
Preference capital		**(9)**	**(200)**	**9.0%**
Return on equity shareholders' funds		**758**	**10,356**	**14.6%**

1. The operating return is based upon group IFRS operating profit, which is stated before impairment of goodwill, amortisation of intangibles, exceptional items and investment variance.
2. The net internal debt loss before tax of £76 million comprises investment return of £45 million offset by group internal debt costs and other interest of £121 million.

31 December 2009

	Operating return[1]		Restated Opening shareholders' funds including non-controlling interests	Annualised return on capital
	Before tax £m	After tax £m	£m	%
Life assurance	1,887	1,405	16,581	8.5%
General insurance and health	919	660	5,516	12.0%
Fund management	133	93	340	27.4%
Other business	(214)	(152)	(199)	76.4%
Corporate	(182)	(156)	(30)	520.0%
Subordinated debt	(293)	(211)	(4,606)	4.6%
External debt	(42)	(30)	(919)	3.3%
Net internal debt[2]	(186)	(134)	(2,110)	6.4%
	2,022	1,475	14,573	10.1%
Less: Non-controlling interests		(193)	(2,204)	8.8%
Direct capital instrument		(44)	(990)	4.4%
Preference capital		(17)	(200)	8.5%
Return on equity shareholders' funds		1,221	11,179	10.9%

1. The operating return is based upon group IFRS operating profit, which is stated before impairment of goodwill, amortisation of intangibles, exceptional items and investment variance.
2. The net internal debt loss before tax of £186million comprises investment return of £41 million offset by group internal debt costs and other interest of £227 million.

C3 ii – Analysis of MCEV return on capital employed

	30 June 2010			
	Operating return[1]		Opening shareholders' funds including non-controlling interests	Annualised return on capital
	Before tax £m	After tax £m	£m	%
Life assurance				
United Kingdom	559	402	5,797	13.9%
France	494	325	3,093	21.0%
Ireland	41	36	1,340	5.4%
Italy	146	99	1,695	11.7%
Poland	99	80	1,312	12.2%
Spain	95	66	1,950	6.8%
Other Europe	18	14	348	8.0%
Aviva Europe	893	620	9,738	12.7%
Delta Lloyd	157	116	2,835	8.2%
Europe	1,050	736	12,573	11.7%
North America	271	176	1,582	22.3%
Asia Pacific	38	30	741	8.1%
	1,918	1,344	20,693	13.0%
General insurance and health				
United Kingdom[3]	223	161	1,876	17.2%
France	11	7	410	3.4%
Ireland	24	22	450	9.8%
Other Europe	11	8	329	4.9%
Aviva Europe	46	37	1,189	6.2%
Delta Lloyd	81	60	545	22.0%
Europe	127	97	1,734	11.2%
North America	132	90	928	19.4%
Asia Pacific	(2)	(2)	24	(16.7)%
	480	346	4,562	15.2%
Fund management	13	9	269	6.7%
Other business	(33)	(24)	(246)	19.5%
Corporate	(103)	(84)	(34)	494.1%
Subordinated debt	(146)	(105)	(4,637)	4.5%
External debt	(22)	(16)	(852)	3.8%
Net internal debt[2]	(76)	(55)	(1,293)	8.5%
	2,031	1,415	18,462	15.3%
Less: Non-controlling interests		(268)	(4,237)	12.7%
Direct capital instrument		—	(990)	—
Preference capital		(9)	(200)	9.0%
Return on equity shareholders' funds		1,138	13,035	17.5%

1. The operating return is based upon group MCEV operating profit, which is stated before impairment of goodwill, amortisation of intangibles, exceptional items and investment variance.
2. The net internal debt loss before tax of £76 million comprises investment return of £45 million offset by group internal debt costs and other interest of £121 million.
3. Opening shareholders' funds includes the impact of allocating a share of the UK pension scheme deficit, which lowers shareholders' funds and increases annualised return on capital.

C3 ii – Analysis of MCEV return on capital employed continued

	31 December 2009			
	Operating return[1]		Restated	
	Before tax £m	After tax £m	Opening shareholders' funds including non-controlling interests £m	Annualised return on capital %
Life assurance				
United Kingdom	787	567	5,069	11.2%
France	785	515	2,872	17.9%
Ireland	64	55	1,492	3.7%
Italy	216	147	1,671	8.8%
Poland	499	404	1,415	28.6%
Spain	113	79	2,189	3.6%
Other Europe	27	23	335	6.9%
Aviva Europe	1,704	1,223	9,974	12.3%
Delta Lloyd	531	388	2,666	14.6%
Europe	2,235	1,611	12,640	12.7%
North America	266	266	750	35.5%
Asia Pacific	101	71	981	7.2%
	3,389	2,515	19,440	12.9%
General insurance and health				
United Kingdom[3]	494	356	2,592	13.7%
France	96	63	400	15.8%
Ireland	57	50	545	9.2%
Other Europe	(21)	(15)	377	(4.0)%
Aviva Europe	132	98	1,322	7.4%
Delta Lloyd	143	104	705	14.8%
Europe	275	202	2,027	10.0%
North America	144	98	878	11.2%
Asia Pacific	6	4	19	21.1%
	919	660	5,516	12.0%
Fund management	51	36	340	10.6%
Other business	(173)	(121)	(199)	60.8%
Corporate	(182)	(156)	(30)	520.0%
Subordinated debt	(293)	(211)	(4,606)	4.6%
External debt	(42)	(30)	(919)	3.3%
Net internal debt[2]	(186)	(134)	(2,110)	6.4%
	3,483	2,559	17,432	14.7%
Less: Non-controlling interests		(366)	(3,080)	11.9%
Direct capital instrument		(44)	(990)	4.4%
Preference capital		(17)	(200)	8.5%
Return on equity shareholders' funds		2,132	13,162	16.2%

1. The operating return is based upon group MCEV operating profit, which is stated before impairment of goodwill, amortisation of intangibles, exceptional items and investment variance.
2. The net internal debt loss before tax of £186million comprises investment return of £41 million offset by group internal debt costs and other interest of £227 million.
3. Opening shareholders' funds includes the impact of allocating a share of the UK pension scheme deficit, which lowers shareholders' funds and increases annualised return on capital.

C4 – Capital generation and utilisation

The active management of the generation and utilisation of capital is a primary Group focus, with the balancing of new business investment and shareholder distributions with operational capital generation a key financial priority. We announced in the first quarter IMS that we expect to generate approximately £1.3 billion of net operating capital in 2010, a 30% increase on 2009. The strong half year result of £0.9 billon reinforces our confidence in the capital generation position of the Group, and we are now revising our full year guidance to £1.5 billion.

The half year result of £0.9 billion represents a £0.4 billion improvement on the 30 June 2009 position. In-force profits from the life business remain strong, generating £1.1 billion of capital in the half year (6 months 2009: £1.1 billion), with a further £0.3 billion (6 months 2009: £0.3 billion) generated by the general insurance, fund management and non-insurance businesses. Capital invested in new business has reduced significantly to £0.5 billion (6 months 2009: £0.9 billion), benefiting in particular from management of volumes and other capital efficiency actions in the US business and the utilisation of the RIEESA to finance new business in UK Life.

	6 months 2010 £bn	Full year 2009 £bn	6 months 2009 £bn
Operational capital generation:			
Life in-force profits	**1.1**	1.9	1.1
General insurance, fund management and non-insurance profits	**0.3**	0.6	0.3
Operational capital generated before investment in new business	**1.4**	2.5	1.4
Capital invested in new business	**(0.5)**	(1.5)	(0.9)
Operational capital generated after investment in new business	**0.9**	1.0	0.5

Operational capital generation comprises the following components:
- Free surplus emergence, including release of required capital, for the life in-force business (net of tax and minorities);
- IFRS operating profits for the general insurance and non-life businesses (net of tax and minorities);
- Capital invested in new business. For the life business this is the impact of initial and required capital on free surplus. For general insurance businesses this reflects the movement in required capital, which we have assumed to equal two times the regulatory minimum. Where appropriate, the movement in capital requirements excludes the impact of foreign exchange movements.

As well as financing new business investment, operational capital generated is used to finance corporate costs, service the Group's debt capital and to finance shareholder dividend distributions. After taking these items into account the net operational capital generated after financing remains at a £0.3 billion surplus, a strong improvement on the flat position in the 2009 half year. In addition to the underlying improvement in operational capital generation, the net position also benefits from the dividend re-basing undertaken with the 2009 interim dividend.

	6 months 2010 £bn	Full year 2009 £bn	6 months 2009 £bn
Operational capital generated after investment in new business	**0.9**	1.0	0.5
Interest, corporate and other costs	**(0.3)**	(0.5)	(0.2)
External dividend net of scrip	**(0.3)**	(0.6)	(0.3)
Net operational capital generation after financing	**0.3**	(0.1)	—

C5 – Capital required to write new business, internal rate of return and payback period

As set out above, the group generates a significant amount of capital each year. This capital generation supports both shareholder distribution and reinvestment in new business. The internal rates of return on new business written during the period are set out below.

6 months 2010	Initial capital £m	Required capital £m	Total invested capital £m	IRR %	Payback period years
United Kingdom	**59**	**93**	**152**	**15%**	**7**
France	**27**	**95**	**122**	**9%**	**11**
Ireland	**23**	**11**	**34**	**6%**	**10**
Italy	**31**	**128**	**159**	**10%**	**7**
Poland	**7**	**4**	**11**	**25%**	**4**
Spain	**14**	**36**	**50**	**22%**	**4**
Other Europe	**21**	**7**	**28**	**17%**	**5**
Aviva Europe	**123**	**281**	**404**	**12%**	**8**
Delta Lloyd	**57**	**65**	**122**	**5%**	**19**
Europe	**180**	**346**	**526**	**10%**	**10**
North America	**54**	**178**	**232**	**14%**	**4**
Asia Pacific	**29**	**24**	**53**	**10%**	**12**
Total	**322**	**641**	**963**	**12.0%**	**8**

6 months 2009	Initial capital £m	Required capital £m	Total invested capital £m	IRR %
United Kingdom	77	59	136	13%
France	17	84	101	10%
Ireland	26	12	38	5%
Italy	14	93	107	10%
Poland	10	4	14	23%
Spain	13	41	54	27%
Other Europe	19	3	22	14%
Aviva Europe	99	237	336	13%
Delta Lloyd	59	51	110	5%
Europe	158	288	446	11%
North America	139	285	424	7%
Asia Pacific	32	30	62	7%
Total	406	662	1,068	9.5%

Full year 2009	Initial capital £m	Required capital £m	Total invested capital £m	IRR %	Payback period Years
United Kingdom	109	133	242	14%	8
France	53	169	222	9%	9
Ireland	56	23	79	6%	10
Italy	27	156	183	10%	7
Poland	20	9	29	22%	5
Spain	25	72	97	26%	3
Other Europe	43	7	50	12%	8
Aviva Europe	224	436	660	13%	7
Delta Lloyd	116	140	256	6%	33
Europe	340	576	916	11%	15
North America	162	376	538	7%	14
Asia Pacific	60	59	119	8%	20
Total	671	1,144	1,815	10.0%	14

The capital invested data above is stated gross of non-controlling interests and valued on a point of sale basis. This differs from the analysis of life and pensions earnings in notes E7 and E8 which is stated net of minorities, valued on a year-end basis and benefits from the writing of new business in the UK Life RIEESA. The reconciliation is as follows:

6 months 2010	£m
Total capital invested	963
Non-controlling interests	(193)
Benefit of RIEESA on new business funding	(73)
Timing differences (point of sale versus year end basis)	(29)
New business impact on free surplus	**668**

C6 – Regulatory capital

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

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

	UK life funds £bn	Other business £bn	**30 June 2010 £bn**	31 December 2009 £bn
Insurance Groups Directive (IGD) capital resources	4.6	10.0	**14.6**	15.7
Less: capital resources requirement	(4.6)	(6.2)	**(10.8)**	(11.2)
Insurance Group Directive (IGD) excess solvency	—	3.8	**3.8**	4.5
Cover over EU minimum (calculated excluding UK life funds)			**1.6 times**	1.7 times

The EU Insurance Groups Directive (IGD) regulatory capital solvency surplus has decreased by £0.7 billion since 31 December 2009 to £3.8 billion. This decrease is driven by negative market movements, dividends and pension scheme funding offset by profits for the period.

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

	£bn
IGD solvency surplus at 31 December 2009	**4.5**
Dividends net of scrip	**(0.3)**
Operating profits net of other income and expenses	**0.5**
Market movements including foreign exchange	**(0.4)**
Pension scheme funding	**(0.5)**
Estimated IGD solvency surplus at 30 June 2010	**3.8**

Market movements include the impact of equity, credit spread, interest rate and foreign exchange movements net of the effect of hedging instruments. The recently revised funding arrangement agreed with the trustees of our UK staff pension scheme has resulted in a one off decrease in our IGD of £0.5 billion.

Regulatory capital – Long-term businesses

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

— The level of capital at which the local regulator is empowered to take action;
— The capital requirement of the business unit under the group's economic capital requirements; and,
— The target capital level of the business unit.

The required capital across our life businesses varies between 100% and 325% of EU minimum or equivalent. The weighted average level of required capital for our non-participating life business, expressed as a percentage of the EU minimum (or equivalent) solvency margin has decreased to 127% (31 December 2009: 130%).

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 2010 the aggregate regulatory requirements based on the EU minimum test amounted to £6.4 billion (31 December 2009: £6.1 billion). At this date, the actual net worth held in our long-term business was £9.4 billion (31 December 2009: £9.8 billion) which represents 147% (31 December 2009: 159%) of these minimum requirements.

C6 – Regulatory capital continued

Regulatory capital – UK Life with-profits funds

The available capital of the with-profit funds is represented by the realistic inherited estate. The estate represents the assets of the long-term with-profit funds less the realistic liabilities for non-profit policies within the funds, less asset shares aggregated across the with-profit policies and any additional amounts expected at the valuation date to be paid to in-force policyholders in the future in respect of smoothing costs, guarantees and promises. Realistic balance sheet information is shown below for the three main UK with-profit funds: Old With-Profit Sub Fund (OWPSF), New With-Profit Sub Fund (NWPSF) and UK Life & Pensions (UKL&P). These realistic liabilities have been included within the long-term business provision and the liability for insurance and investment contracts on the consolidated IFRS balance sheet at 30 June 2010 and 31 December 2009.

	30 June 2010						31 December 2009
	Estimated realistic assets £bn	Realistic liabilities[1] £bn	Estimated realistic inherited estate[2] £bn	Support arrangement[5] £bn	Estimated risk capital margin[3] £bn	Estimated excess £bn	Estimated excess £bn
NWPSF	**20.5**	**20.5**	**—**	**1.2**	**(0.4)**	**0.8**	0.6
OWPSF	**3.0**	**2.7**	**0.3**	**—**	**(0.1)**	**0.2**	0.1
UKL&P[4]	**20.0**	**18.4**	**1.6**	**—**	**(0.2)**	**1.4**	1.4
Aggregate	**43.5**	**41.6**	**1.9**	**1.2**	**(0.7)**	**2.4**	2.1

1. These realistic liabilities include the shareholders' share of future bonuses of £0.5 billion (31 December 2009: £0.6 billion). Realistic liabilities adjusted to eliminate the shareholders' share of future bonuses are £41.1billion (31 December 2009: £42.1 billion). These realistic liabilities make provision for guarantees, options and promises on a market consistent stochastic basis. The value of the provision included within realistic liabilities is £2.3billion, £0.3 billion and £3.3 billion for NWPSF, OWPSF and UKL&P respectively (31 December 2009: £2.2 billion, £0.3 billion and £3.1 billion).
2. Estimated realistic inherited estate at 31 December 2009 was £nil, £0.2 billion and £1.6 billion for NWPSF, OWPSF and UKL&P respectively.
3. The risk capital margin (RCM) is 4.5 times covered by the inherited estate (31 December 2009: 3.6 times).
4. The UKL&P fund includes the Provident Mutual (PM) fund which has realistic assets and liabilities of £1.7 billion and therefore does not contribute to the realistic inherited estate.
5. The support arrangement represents the reattributed estate of £1.2 billion at 30 June 2010 held within the non-profit fund with UKL&P included within the other UK Life operations.

Investment mix

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

	30 June 2010 %	31 December 2009 %
Equity	**22%**	21%
Property	**18%**	12%
Fixed interest	**57%**	59%
Other	**4%**	8%

The equity backing ratios, including property, supporting with-profit asset shares are 66% in NWPSF and OWPSF, and 68% in UKL&P.

C7 – 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 noneconomic experience are continually used to manage the business and to inform the decision making process. More information on MCEV sensitivities can be found in the presentation of results on an MCEV basis in the supplementary section of this report.

Life insurance and investment contracts
The nature of long-term business is such that a number of assumptions are made in compiling these financial statements. Assumptions are made about investment returns, expenses, mortality rates, and persistency in connection with the in-force policies for each business unit. Assumptions are best estimates based on historic and expected experience of the business. A number of the key assumptions for the Group's central scenario are disclosed elsewhere in these statements for both IFRS reporting and reporting under MCEV methodology.

General insurance and health business
General insurance and health claim liabilities are estimated by using standard actuarial claims projection techniques.

These methods extrapolate the claims development for each accident year based on the observed development of earlier years. In most cases, no explicit assumptions are made as projections are based on assumptions implicit in the historic claims.

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

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

C7 – IFRS Sensitivity analysis continued

Long-term businesses

Impact on profit before tax £m (30 June 2010)	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Assurance mortality +5%	Annuitant mortality -5%
Insurance participating	**(45)**	**(360)**	**45**	**(55)**	**(30)**	**(5)**	**—**
Insurance non-participating	**(80)**	**85**	**80**	**(65)**	**(20)**	**(40)**	**(300)**
Investment participating	**(25)**	**(5)**	**35**	**(30)**	**(15)**	**—**	**—**
Investment non-participating	**(25)**	**35**	**20**	**(20)**	**(5)**	**—**	**—**
Assets backing life shareholders' funds	**—**	**—**	**150**	**(145)**	**—**	**—**	**—**
Total	**(175)**	**(245)**	**330**	**(315)**	**(70)**	**(45)**	**(300)**

Impact on shareholders' equity before tax £m (30 June 2010)	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Assurance mortality +5%	Annuitant mortality -5%
Insurance participating	**(75)**	**(320)**	**45**	**(60)**	**(30)**	**(5)**	**—**
Insurance non-participating	**(440)**	**475**	**205**	**(190)**	**(20)**	**(40)**	**(300)**
Investment participating	**(25)**	**(5)**	**35**	**(30)**	**(15)**	**—**	**—**
Investment non-participating	**(105)**	**125**	**20**	**(20)**	**(5)**	**—**	**—**
Assets backing life shareholders' funds	**(95)**	**95**	**260**	**(255)**	**—**	**—**	**—**
Total	**(740)**	**370**	**565**	**(555)**	**(70)**	**(45)**	**(300)**

Impact on profit before tax £m (31 December 2009)	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Assurance mortality +5%	Annuitant mortality -5%
Insurance participating	(20)	(275)	15	(35)	(15)	(5)	(40)
Insurance non-participating	(190)	270	35	(35)	(25)	(40)	(280)
Investment participating	(65)	(15)	20	(30)	(15)	—	—
Investment non-participating	(30)	45	20	(20)	(5)	—	—
Assets backing life shareholders' funds	(10)	10	135	(140)	—	—	—
Total	(315)	35	225	(260)	(60)	(45)	(320)

Impact on shareholders' equity before tax £m (31 December 2009)	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Assurance mortality +5%	Annuitant mortality -5%
Insurance participating	(40)	(235)	20	(40)	(15)	(5)	(40)
Insurance non-participating	(380)	535	220	(220)	(25)	(40)	(280)
Investment participating	(65)	(15)	20	(30)	(15)	—	—
Investment non-participating	(80)	125	20	(20)	(5)	—	—
Assets backing life shareholders' funds	(65)	85	215	(215)	—	—	—
Total	(630)	495	495	(525)	(60)	(45)	(320)

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

The sensitivities to economic movements relate mainly to business in the UK, US and the Netherlands. In general a fall in market interest rates has a beneficial impact on non-participating business and shareholders' funds, due to the increase in market value of fixed interest securities and the relative durations of assets and liabilities; similarly a rise in interest rates has a negative impact. In the US most debt securities are classified as available-for-sale, which limits the overall sensitivity of IFRS profit to interest rate movements. The sensitivity to movements in equity and property market values relates mainly to holdings in the Netherlands, although the impact on IFRS profit is moderated by the classification of equities as available for sale.

Changes in sensitivities between 31 December 2009 and 30 June 2010 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 mortality sensitivities relate primarily to the UK.

C7 – IFRS Sensitivity analysis continued

General insurance and health businesses

Impact on profit before tax £m	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Gross loss ratios +5%
						30 June 2010
Gross of reinsurance	(290)	270	90	(95)	(80)	(155)
Net of reinsurance	(350)	350	90	(95)	(80)	(145)

Impact on shareholders' equity before tax £m	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Gross loss ratios +5%
						30 June 2010
Gross of reinsurance	(290)	270	90	(95)	(35)	(155)
Net of reinsurance	(350)	350	90	(95)	(35)	(145)

Impact on profit before tax £m	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Gross loss ratios +5%
						31 December 2009
Gross of reinsurance	(310)	295	105	(110)	(135)	(345)
Net of reinsurance	(365)	365	105	(110)	(135)	(330)

Impact on shareholders' equity before tax £m	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Gross loss ratios +5%
						31 December 2009
Gross of reinsurance	(310)	295	105	(110)	(35)	(345)
Net of reinsurance	(365)	365	105	(110)	(35)	(330)

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

Fund management and non-insurance businesses

Impact on profit before tax £m	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%
				30 June 2010
Total	40	10	40	20

Impact on shareholders' equity before tax £m	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%
				30 June 2010
Total	(20)	80	55	5

Impact on profit before tax £m	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%
				31 December 2009
Total	(20)	25	70	(30)

Impact on shareholders' equity before tax £m	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%
				31 December 2009
Total	(40)	55	80	(50)

The sensitivity of the Group's fund management and non-insurance business to movements in equity and property markets includes the impact of hedging instruments held at Group Centre.

C7 – IFRS Sensitivity analysis continued

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

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

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

A number of the business units use passive assumptions to calculate their long-term business liabilities. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity. Similarly, for general insurance liabilities, the interest rate sensitivities only affect profit and equity where explicit assumptions are made regarding interest (discount) rates or future inflation.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the group's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Analysis of Assets

D1	Total assets – shareholder/policyholder exposure to risk	**86**
D2	Total assets – valuation bases/fair value hierarchy	**87**
D3	Analysis of asset quality	
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	D3.2 Financial investments	**94**
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Analysis of 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 we manage our investments. In addition, to support this, we also use a variety of hedging and other risk management strategies to diversify away residual mis-match risk that is outside of our risk appetite.

D1 – Total assets – Shareholder/policyholder exposure to risk

30 June 2010	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	—	—	6,019	6,019	—	6,019
Interests in joint ventures and associates	253	612	2,274	3,139	—	3,139
Property and equipment	21	73	592	686	—	686
Investment property	3,543	6,899	2,100	12,542	(6)	12,536
Loans	1,746	7,701	31,947	41,394	—	41,394
Financial investments						
Debt securities	16,855	81,282	62,480	160,617	—	160,617
Equity securities	27,483	8,664	4,595	40,742	—	40,742
Other investments	23,820	8,785	2,618	35,223	—	35,223
Reinsurance assets	1,329	983	4,959	7,271	—	7,271
Deferred tax assets	—	—	288	288	—	288
Current tax assets	—	—	269	269	—	269
Receivables and other financial assets	138	2,209	6,694	9,041	—	9,041
Deferred acquisition costs and other assets	133	781	4,451	5,365	—	5,365
Prepayments and accrued income	96	1,282	2,198	3,576	—	3,576
Cash and cash equivalents	5,028	15,047	8,371	28,446	—	28,446
Assets of operations classified as held for sale	—	—	—	—	6	6
Total	**80,445**	**134,318**	**139,855**	**354,618**	**—**	**354,618**
Total %	**22.7%**	**37.9%**	**39.4%**	**100.0%**	**—**	**100.0%**
FY09 (Restated)	82,686	135,628	136,077	354,391	—	354,391
FY09 % (Restated)	23.3%	38.3%	38.4%	100.0%	—	100.0%

As at 30 June 2010, 39.4% of our total asset base was Shareholder assets, 37.9% Participating assets where Aviva shareholders have partial exposure, and 22.7% Policyholder assets where Aviva shareholders have no exposure. Of the total assets, investment property, loans and financial investments comprised £290,512 million, compared to £292,180 million at FY09. This reduction is primarily due to a weakening of the Euro exchange rate, partially offset by new assets invested in our U.S. and European operations due to business growth and significant strengthening of the U.S. dollar exchange rate.

During 2010, our Spanish business undertook a review of the allocation of assets between shareholder and policyholder funds. As a result, debt securities of £2,362 million and equity securities of £10 million previously recognised as participating fund assets were reclassified as shareholder assets.

D2 – Total assets – Valuation bases/fair value hierarchy

	30 June 2010				31 December 2009			
Total assets	**Fair value £m**	**Amortised cost £m**	**Equity accounted /tax assets[1] £m**	**Total £m**	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	**—**	**6,019**	**—**	**6,019**	—	6,241	—	6,241
Interests in joint ventures and associates	**—**	**—**	**3,139**	**3,139**	—	—	2,982	2,982
Property and equipment	**368**	**318**	**—**	**686**	415	340	—	755
Investment property	**12,542**	**—**	**—**	**12,542**	12,430	—	—	12,430
Loans	**20,996**	**20,398**	**—**	**41,394**	20,890	20,189	—	41,079
Financial investments								
Debt securities	**160,617**	**—**	**—**	**160,617**	160,510	—	—	160,510
Equity securities	**40,742**	**—**	**—**	**40,742**	43,343	—	—	43,343
Other investments	**35,223**	**—**	**—**	**35,223**	34,849	—	—	34,849
Reinsurance assets	**—**	**7,271**	**—**	**7,271**	—	7,572	—	7,572
Deferred tax assets	**—**	**—**	**288**	**288**	—	—	218	218
Current tax assets	**—**	**—**	**269**	**269**	—	—	359	359
Receivables and other financial assets	**—**	**9,041**	**—**	**9,041**	—	9,652	—	9,652
Deferred acquisition costs and other assets	**—**	**5,365**	**—**	**5,365**	—	5,621	—	5,621
Prepayments and accrued income	**—**	**3,576**	**—**	**3,576**	—	3,604	—	3,604
Cash and cash equivalents	**28,446**	**—**	**—**	**28,446**	25,176	—	—	25,176
Total	**298,934**	**51,988**	**3,696**	**354,618**	297,613	53,219	3,559	354,391
Total %	**84.3%**	**14.7%**	**1.0%**	**100.0%**	84.0%	15.0%	1.0%	100.0%

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

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

Total assets – Policyholder assets 30 June 2010	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	—	—	**253**	**253**
Property and equipment	**21**	—	—	**21**
Investment property	**3,543**	—	—	**3,543**
Loans	**684**	**1,062**	—	**1,746**
Financial investments				
Debt securities	**16,855**	—	—	**16,855**
Equity securities	**27,483**	—	—	**27,483**
Other investments	**23,820**	—	—	**23,820**
Reinsurance assets	—	**1,329**	—	**1,329**
Deferred tax assets	—	—	—	—
Current tax assets	—	—	—	—
Receivables and other financial assets	—	**138**	—	**138**
Deferred acquisition costs and other assets	—	**133**	—	**133**
Prepayments and accrued income	—	**96**	—	**96**
Cash and cash equivalents	**5,028**	—	—	**5,028**
Total	**77,434**	**2,758**	**253**	**80,445**
Total %	**96.3%**	**3.4%**	**0.3%**	**100.0%**
FY09	79,807	2,523	356	82,686
FY09 %	96.5%	3.1%	0.4%	100.0%

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

Total assets – Participating fund assets 30 June 2010	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	—	—	**612**	**612**
Property and equipment	**32**	**41**	—	**73**
Investment property	**6,899**	—	—	**6,899**
Loans	**1,101**	**6,600**	—	**7,701**
Financial investments				
Debt securities	**81,282**	—	—	**81,282**
Equity securities	**8,664**	—	—	**8,664**
Other investments	**8,785**	—	—	**8,785**
Reinsurance assets	—	**983**	—	**983**
Deferred tax assets	—	—	—	—
Current tax assets	—	—	—	—
Receivables and other financial assets	—	**2,209**	—	**2,209**
Deferred acquisition costs and other assets	—	**781**	—	**781**
Prepayments and accrued income	—	**1,282**	—	**1,282**
Cash and cash equivalents	**15,047**	—	—	**15,047**
Total	**121,810**	**11,896**	**612**	**134,318**
Total %	**90.7%**	**8.9%**	**0.4%**	**100.0%**
FY09 (Restated)	122,794	12,237	597	135,628
FY09 % (Restated)	90.5%	9.0%	0.5%	100.0%

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

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

Total assets – Shareholder assets 30 June 2010	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	—	**6,019**	—	**6,019**
Interests in joint ventures and associates	—	—	**2,274**	**2,274**
Property and equipment	**315**	**277**	—	**592**
Investment property	**2,100**	—	—	**2,100**
Loans	**19,211**	**12,736**	—	**31,947**
Financial investments				
Debt securities	**62,480**	—	—	**62,480**
Equity securities	**4,595**	—	—	**4,595**
Other investments	**2,618**	—	—	**2,618**
Reinsurance assets	—	**4,959**	—	**4,959**
Deferred tax assets	—	—	**288**	**288**
Current tax assets	—	—	**269**	**269**
Receivables and other financial assets	—	**6,694**	—	**6,694**
Deferred acquisition costs and other assets	—	**4,451**	—	**4,451**
Prepayments and accrued income	—	**2,198**	—	**2,198**
Cash and cash equivalents	**8,371**	—	—	**8,371**
Total	**99,690**	**37,334**	**2,831**	**139,855**
Total %	**71.3%**	**26.7%**	**2.0%**	**100.0%**
FY09 (Restated)	95,012	38,459	2,606	136,077
FY09 % (Restated)	69.8%	28.3%	1.9%	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 within the analysis of the group's assets.

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

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

Loans are carried at amortised cost, except for certain mortgage loans, where we have taken advantage of the fair value option under IAS 39 to present the mortgages, associated borrowings, other liabilities and derivative financial instruments at fair value, since they are managed together on a fair value basis. We believe this presentation provides more relevant information and eliminates any accounting mismatch that would otherwise arise from using different measurement bases for these four items.

Fair value hierarchy
To provide further information on the valuation techniques we use to measure assets carried at fair value, we have categorised the measurement basis for assets carried at fair value into a 'fair value hierarchy' in accordance with the valuation inputs and consistent with IFRS7 *Financial Instruments: Disclosures.*
— Inputs to Level 1 fair values are quoted prices (unadjusted) in active markets for identical assets.
— Inputs to Level 2 fair values are inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. If the asset has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset.
— Inputs to Level 3 fair values are unobservable inputs for the asset. Unobservable inputs may have been used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset at the measurement date (or market information for the inputs to any valuation models). As such, unobservable inputs reflect the assumptions the business unit considers that market participants would use in pricing the asset. Examples are certain private equity investments and private placements.

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

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

The table below presents an analysis of investments according to fair value hierarchy:

	Fair value hierarchy						
Total assets 30 June 2010	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Sub-total fair value £m**	**Amortised cost £m**	**Less: Assets of operations classified as held for sale £m**	**Balance sheet total £m**
Investment properties	**—**	**12,542**	**—**	**12,542**	**—**	**(6)**	**12,536**
Loans	**—**	**20,996**	**—**	**20,996**	**20,398**	**—**	**41,394**
Debt securities	**112,032**	**39,425**	**9,160**	**160,617**	**—**	**—**	**160,617**
Equity securities	**34,120**	**5,921**	**701**	**40,742**	**—**	**—**	**40,742**
Other investments (including derivatives)	**28,806**	**3,998**	**2,419**	**35,223**	**—**	**—**	**35,223**
Total	**174,958**	**82,882**	**12,280**	**270,120**	**20,398**	**(6)**	**290,512**
Total %	**60.3%**	**28.5%**	**4.2%**	**93.0%**	**7.0%**	**—**	**100.0%**
FY09	181,125	79,637	11,260	272,022	20,189	(31)	292,180
FY09%	62.0%	27.2%	3.9%	93.1%	6.9%	—	100.0%

At 30 June 2010, there has been a small decrease to 60% (FY09: 62%) in the proportion of total financial investments, loans and investment properties classified as Level 1 in the fair value hierarchy. Level 2 financial investments, loans and investment properties have increased to 29% (FY09: 27%). At Level 3 (fair valued using models with significant unobservable market parameters) financial investments, loans and investment properties have remained constant at 4% (FY09: 4%).

D3 – Analysis of asset quality

D3.1 – 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 and advances to customers of our banking business, and to brokers and intermediaries.

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

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

Loans – Total assets 30 June 2010	**United Kingdom £m**	**Aviva Europe £m**	**Delta Lloyd £m**	**North America £m**	**Asia Pacific £m**	**Total £m**
Policy loans	**47**	**890**	**337**	**467**	**37**	**1,778**
Loans and advances to banks	**4,138**	**—**	**1,356**	**—**	**—**	**5,494**
Mortgage loans	**15,856**	**4**	**12,723**	**1,801**	**—**	**30,384**
Other loans	**37**	**15**	**3,599**	**85**	**2**	**3,738**
Total	**20,078**	**909**	**18,015**	**2,353**	**39**	**41,394**
Total %	**48.5%**	**2.2%**	**43.5%**	**5.7%**	**0.1%**	**100.0%**
FY09	19,077	993	18,797	2,177	35	41,079
FY09%	46.5%	2.4%	45.8%	5.3%	—	100.0%

Loans – Total shareholder assets 30 June 2010	**United Kingdom £m**	**Aviva Europe £m**	**Delta Lloyd £m**	**North America £m**	**Asia Pacific £m**	**Total £m**
Policy loans	**7**	**12**	**242**	**243**	**15**	**519**
Loans and advances to banks	**267**	**—**	**89**	**—**	**—**	**356**
Mortgage loans	**14,079**	**—**	**12,191**	**1,784**	**—**	**28,054**
Other loans	**37**	**4**	**2,890**	**85**	**2**	**3,018**
Total	**14,390**	**16**	**15,412**	**2,112**	**17**	**31,947**
Total %	**45.0%**	**0.1%**	**48.2%**	**6.6%**	**0.1%**	**100.0%**
FY09	13,994	19	16,088	1,953	14	32,068
FY09%	43.7%	—	50.2%	6.1%	—	100.0%

D3 – Analysis of asset quality continued

D3.1 – Loans continued

The value of the group's loan portfolio at 30 June 2010 stood at £41,394 million (FY09: £41,079 million), an increase of £315 million, primarily due to an increase in loans and advances to banks in our UK Life business and an increase in mortgage sales in our Delta Lloyd business, offset by a weakening of the Euro exchange rate. This increase reflects a rise in the value of cash collateral we receive (and subsequently loan out) in our securities financing business due to the strengthening of the U.S. dollar exchange rate, market improvements and also reflects a rise in the level of business with cash counterparties.

Shareholder asset loans represented 77% of the total loan portfolio, with the remaining 23% in Participating funds (£7,701 million) and policyholder assets (£1,746 million).

The total shareholder asset exposure to loans has remained relatively stable at £31,947 million (FY09: £32,068 million). The marginal decrease has been primarily due to a weakening of the Euro exchange rate, partially offset by increases in the loans and advances to banks as explained above and a strengthening of the U.S. dollar exchange rate.

Mortgage loans – Shareholder assets

30 June 2010	United Kingdom £m	Aviva Europe £m	Delta Lloyd £m	North America £m	Asia Pacific £m	Total £m
Non-securitised mortgage loans						
– Residential	—	—	**5,357**	—	—	**5,357**
– Equity release	**1,018**	—	—	—	—	**1,018**
– Commercial	**8,494**	—	**21**	**1,784**	—	**10,299**
– Healthcare	**2,673**	—	—	—	—	**2,673**
	12,185	—	**5,378**	**1,784**	—	**19,347**
Securitised mortgage loans	**1,894**	—	**6,813**	—	—	**8,707**
Total	**14,079**	—	**12,191**	**1,784**	—	**28,054**
FY09	13,828	1	12,730	1,645	—	28,204

Of the group's total loan portfolio (including Policyholder, Participating Fund and Shareholder assets), 73% (FY09: 74%) is invested in mortgage loans. The group's mortgage loan portfolio spans several business units, primarily UK, Delta Lloyd and USA, and across various sectors, including residential loans, commercial loans and government supported healthcare loans. Aviva shareholders are exposed predominantly to mortgage loans (accounting for 88% of total Shareholder asset loans). This section focuses on explaining the residual shareholder risk within these exposures.

Mortgage loan assets are divided into type of loan (residential, equity release, commercial, healthcare and securitised) and the regions in which they are held (predominantly United Kingdom, Netherlands (Delta Lloyd) and the United States). Each loan type and region has its own unique characteristic and composition.

Non-securitised mortgage loans – Residential

Delta Lloyd

Gross exposure by loan to value and arrears

30 June 2010	>120% £m	115–120% £m	110–115% £m	105–110% £m	100–105% £m	95–100% £m	90–95% £m	80–90% £m	70–80% £m	<70% £m	Total £m
Exposures by mortgage type											
– Government guaranteed	**882**	**184**	**149**	**117**	**104**	**95**	**78**	**110**	**69**	**156**	**1,944**
– Non-government guaranteed	**258**	**91**	**84**	**213**	**172**	**629**	**248**	**421**	**442**	**855**	**3,413**
Total	**1,140**	**275**	**233**	**330**	**276**	**724**	**326**	**531**	**511**	**1,011**	**5,357**
Exposures by interest payment arrears											
Neither past due nor impaired	**1,088**	**263**	**226**	**315**	**265**	**698**	**317**	**513**	**500**	**985**	**5,170**
0 – 3 months	**46**	**11**	**6**	**13**	**9**	**22**	**8**	**15**	**10**	**20**	**161**
3 – 6 months	**4**	—	**1**	—	**1**	**2**	—	**1**	**1**	**1**	**11**
6 – 12 months	**2**	—	—	**1**	—	—	—	**1**	—	**3**	**7**
> 12 months	—	—	—	**1**	**1**	**2**	**1**	**1**	—	**2**	**8**
Total	**1,140**	**275**	**233**	**330**	**276**	**724**	**326**	**531**	**511**	**1,011**	**5,357**

The total exposure to non-securitised mortgage loans in the Netherlands is £5,357 million, of which the majority are measured at amortised cost. However, of these, £1,944 million are Government guaranteed, and so present minimal risk to Aviva shareholders.

D3 – Analysis of asset quality continued

D3.1 – Loans continued

The Government guarantees were introduced in the Netherlands to encourage homeownership, and apply to home mortgages of up to €350,000 (this threshold was raised from €265,000 at 1 July 2009). The guarantees are implemented through the National Mortgage Guarantee Scheme, and ensure that, should the homeowner be forced to sell, and cannot make the repayment on the mortgage, then the residual will be provided for by the Homeownership Guarantee Fund, which in turn is funded by the Government and municipalities through agreements for interest free loans.

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

The total amount of loans for which interest payments are past due is £186 million (FY09: £134 million). However, the actual amount of missed payments is £1.7 million (FY09: £2.7 million). Delta Lloyd has currently not made any additional provisions for these loans as it does not consider the amount of potential loss to be significant.

UK Residential
The UK non-securitised residential mortgage portfolio has a total current value of £1,018 million (FY09: £929 million). These mortgages are all in the form of equity release, whereby homeowners that usually own a fully paid up property will mortgage it to release cash equity. Due to the low relative levels of equity released in each property, they all currently have a Loan to Value ("LTV") of below 70%, and the average LTV across the portfolio is approximately 31%. We therefore consider these mortgages to be low risk.

Non-securitised mortgage loans – Commercial
Gross exposure by loan to value and arrears
United Kingdom

30 June 2010	>120% £m	115–120% £m	110–115% £m	105–110% £m	100–105% £m	95–100% £m	90–95% £m	80–90% £m	70–80% £m	<70% £m	Total £m
Neither past due nor impaired	529	879	665	1,224	571	496	800	1,647	889	456	8,156
0 – 3 months	50	—	—	—	—	—	—	—	—	2	52
3 – 6 months	37	—	91	46	—	—	—	—	—	2	176
6 – 12 months	13	5	—	—	—	43	—	—	—	—	61
> 12 months	—	—	38	—	—	11	—	—	—	—	49
Total	629	884	794	1,270	571	550	800	1,647	889	460	8,494

Of the £8,494 million of UK Commercial loans, £7,969 million are held by Aviva UK Life to back annuity liabilities, and are stated on a fair value basis. The loan exposures for the UK Life business are calculated on a discounted cash flow basis, and include a risk adjustment through the use of Credit Risk Adjusted Value ("CRAV") methods. The remaining £525 million of loans are held by Aviva UK General Insurance and are stated on an amortised cost basis. For the UK General Insurance business, mortgages are held at amortised cost, and subject to impairment review, using a fair value methodology calibrated to the UK Life approach, adjusted for specific portfolio characteristics.

The UK portfolio has maintained a strong track record notwithstanding the downturn in the property market. It has continued to provide strong income receipts to back payments to annuitants and maintained low levels of losses since 1993.

Mortgage LTV's increased slightly over the first half of 2010 resulting in the amount of exposure uncovered by the underlying security rising to £496m. The increased LTV levels result from falling gilt yields which have increased the fair value of the loans and enhancements made to the valuation methodology for the underlying properties. However, this change has had no impact on income cover levels which remain the primary risk driver within the mortgage portfolio.

All loans in arrears have been assessed for impairment. Of the £338 million (FY09: £357 million) value of loans in arrears, the interest and capital amount in arrears is only £11 million. The valuation allowance we made in the UK for short term defaults on corporate bonds and commercial mortgages carried at fair value remains unchanged. Together with our long-term default assumptions, this equates to a valuation allowance of £1.1 billion for the life of the UK Life corporate bond and commercial mortgage portfolio, and creates a strong buffer against potential future losses. In addition, we hold £65 million of provisions in our UK General Insurance mortgage portfolio, which is carried at amortised cost.

Loan service collection ratios remain resilient reflecting the strong rent collection reported by our borrowers. 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, has remained stable at 1.3x due to low levels of material tenant defaults.

D3 – Analysis of asset quality continued

D3.1 – Loans continued

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 where loans to a single borrower may be pooled so that any single loan is also supported by payments on the other pool loans. Additionally, there may be support provided by the borrower of the loan itself and further loss mitigation from the general floating charges held over other assets within the borrower companies.

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

UK Healthcare

Of the total UK non-securitised mortgage loans of £12,185 million (FY09: £11,988 million), £2,673 million (FY09: £2,537 million) relates to healthcare businesses and is secured against General Practitioner premises or other health related premises leased to NHS trusts or Primary Care Trusts. For all such loans, Government support is provided through reimbursement of rental payments to the tenants to meet income service and provide for the debt to be reduced substantially over the term of the loan. Although the loan principal is not Government guaranteed, the nature of these businesses and premises provides considerable comfort of an ongoing business model and low risk of default.

On a market value basis, we estimate the average LTV of these mortgages to be 100%, although as explained above, we do not consider this to be a key risk driver. Income support from the National Health Service and stability of the sector provide sustained income stability. Aviva therefore considers these loans to be low risk and uncorrelated with the strength of the UK or global economy.

North America

30 June 2010	>120% £m	115–120% £m	110–115% £m	105–110% £m	100–105% £m	95–100% £m	90–95% £m	80–90% £m	70–80% £m	<70% £m	Total £m
Neither past due nor impaired	**25**	**5**	**26**	**9**	**41**	**63**	**86**	**226**	**320**	**976**	**1,775**
0 – 3 months	—	—	—	—	—	—	—	—	—	—	—
3 – 6 months	**9**	—	—	—	—	—	—	—	—	—	**9**
6 – 12 months	—	—	—	—	—	—	—	—	—	—	—
> 12 months	—	—	—	—	—	—	—	—	—	—	—
Total	**33**	**5**	**26**	**9**	**41**	**63**	**86**	**226**	**320**	**976**	**1,784**
Total %	**1.9%**	**0.3%**	**1.4%**	**0.5%**	**2.3%**	**3.5%**	**4.8%**	**12.7%**	**17.9%**	**54.7%**	**100.0%**

Aviva USA currently holds £1,784 million (FY09: £1,645 million) of commercial mortgages under Shareholder Assets. Of these, 55% (FY09: 51%) have LTV ratios of below 70%, and 85% (FY09: 85%) have LTV ratios of below 90%. However, the mortgage portfolio does currently have a total of £114 million (6% of portfolio) in principal balances where the LTV exceeds 100%. Although property prices in the U.S. have decreased, the mortgages continue to perform well, reflecting:

— low underwriting LTVs (shall not exceed 80% at the time of issuance), and consequently a portfolio with an average LTV of 67% (FY09: 68%);
— A highly diversified portfolio, with strong volumes in many states with more stable economies and related real estate values; and
— Strong LIC ratios, with 92% of the loans having an LIC above 1.4x, and less than 3% with LIC below 1.0x.
— As at 30 June 2010, only £9 million of loans were in arrears, although the amount of payments in arrears was only £0.5 million.

Securitised mortgage loans

Of the total securitised residential mortgages (£8,707 million), approximately £1.2 billion of securities are still held by Aviva. The remaining securities have been sold to third parties, and therefore present little credit risk to Aviva.

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

D3 – Analysis of asset quality continued

D3.2 – Financial investments

Total Assets	30 June 2010				31 December 2009			
	Cost/ amortised cost £m	**Unrealised gains £m**	**Impairment and Unrealised losses £m**	**Fair value £m**	Cost/ amortised cost £m	Unrealised gains £m	Impairment and Unrealised losses £m	Fair value Restated £m
Debt securities	**155,756**	**8,866**	**(4,005)**	**160,617**	159,287	5,872	(4,649)	160,510
Equity securities	**42,683**	**3,412**	**(5,353)**	**40,742**	44,188	4,173	(5,018)	43,343
Other investments	**34,221**	**1,785**	**(783)**	**35,223**	34,081	1,940	(1,172)	34,849
Total	**232,660**	**14,063**	**(10,141)**	**236,583**	237,556	11,985	(10,839)	238,702

The table above is a summary of the cost/amortised cost, gross unrealised gains and losses and fair value of financial investments.

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

D3.2.1 – Debt securities

	30 June 2010			
	Fair value hierarchy			
Debt securities – Shareholder assets	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
UK Government	**1,702**	**—**	**—**	**1,702**
Non-UK Government				
Europe	**10,290**	**262**	**15**	**10,567**
North America	**267**	**2,991**	**124**	**3,382**
Asia Pacific & Other	**1,351**	**188**	**92**	**1,631**
Corporate bonds – Public utilities	**1,967**	**2,554**	**46**	**4,567**
Corporate convertible bonds	**7**	**248**	**—**	**255**
Other corporate bonds	**11,623**	**19,875**	**757**	**32,255**
Other	**2,247**	**5,506**	**368**	**8,121**
Total	**29,454**	**31,624**	**1,402**	**62,480**
Total %	**47.2%**	**50.6%**	**2.2%**	**100.0%**
FY09 (Restated)	29,818	27,208	1,786	58,812
FY09 % (Restated)	50.7%	46.3%	3.0%	100.0%

Only 2.2% of shareholder exposure to debt securities (1.4% of shareholder assets recorded at fair value) are 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.

47.2% of shareholder exposure to debt securities is based on quoted prices in an active market (classified as Fair Value Level 1; FY09: 50.7%). The decrease in the proportion of assets classified as Fair Value Level 1 (and corresponding increase in proportion of assets classified as Fair Value Level 2) predominantly reflects a rise in asset values in our U.S. business as a result of the strengthening of the U.S. dollar and an increase in invested assets due to business growth. The majority of the debt instruments held by our North American businesses are valued by independent pricing firms in accordance with usual market practice in that region and consistent with other companies operating in the region are classified as Level 2 in the Fair Value hierarchy. Excluding our North American businesses, the proportion of shareholder debt securities classified as Level 1 in the Fair Value hierarchy would be 88% (FY09: 88%).

D3 – Analysis of asset quality continued

D3.2.1 – Debt securities continued

Debt securities – Shareholder assets 30 June 2010	AAA £m	AA £m	A £m	BBB £m	Less than BBB £m	Non-rated £m	Total £m
	Ratings						
Government							
UK Government	**1,628**	**61**	**—**	**—**	**—**	**—**	**1,689**
UK local authorities	**—**	**13**	**—**	**—**	**—**	**—**	**13**
Non-UK Government	**9,374**	**3,795**	**1,481**	**133**	**186**	**611**	**15,580**
	11,002	**3,869**	**1,481**	**133**	**186**	**611**	**17,282**
Corporate							
Public utilities	**70**	**242**	**2,491**	**1,535**	**59**	**170**	**4,567**
Convertibles and bonds with warrants	**1**	**—**	**115**	**77**	**24**	**38**	**255**
Other corporate bonds	**2,981**	**4,915**	**11,098**	**9,817**	**1,452**	**1,992**	**32,255**
	3,052	**5,157**	**13,704**	**11,429**	**1,535**	**2,200**	**37,077**
Certificates of deposits	**—**	**185**	**94**	**211**	**—**	**12**	**502**
Structured							
RMBS non-agency sub-prime	**—**	**—**	**—**	**—**	**—**	**—**	**—**
RMBS non-agency ALT A	**23**	**11**	**17**	**13**	**115**	**—**	**179**
RMBS non-agency prime	**366**	**82**	**35**	**59**	**30**	**—**	**572**
RMBS agency	**1,945**	**—**	**—**	**—**	**—**	**1**	**1,946**
	2,334	**93**	**52**	**72**	**145**	**1**	**2,697**
CMBS	**1,310**	**229**	**278**	**104**	**103**	**—**	**2,024**
ABS	**1,039**	**182**	**181**	**87**	**20**	**222**	**1,731**
CDO (including CLO)	**44**	**50**	**22**	**22**	**76**	**52**	**266**
ABCP	**—**	**—**	**—**	**—**	**—**	**—**	**—**
ABFRN	**—**	**—**	**—**	**—**	**—**	**—**	**—**
	2,393	**461**	**481**	**213**	**199**	**274**	**4,021**
Wrapped credit	**63**	**109**	**63**	**117**	**29**	**35**	**416**
Other	**12**	**4**	**215**	**5**	**3**	**246**	**485**
Total	**18,856**	**9,878**	**16,090**	**12,180**	**2,097**	**3,379**	**62,480**
Total%	**30.3%**	**15.8%**	**25.7%**	**19.5%**	**3.3%**	**5.4%**	**100.0%**
FY09 (Restated)	19,531	8,451	15,211	10,824	1,714	3,081	58,812
FY09 % (Restated)	33.2%	14.4%	25.9%	18.4%	2.9%	5.2%	100.0%

The overall quality of the book remains strong, despite the continuing downgrade activity by the major rating agencies during the first half of 2010. 28% of shareholder exposure to debt securities is in government holdings (FY09: 29%). This slight reduction is primarily driven by strengthening of the U.S. dollar (resulting in an increase in the Sterling value of our U.S. operation's corporate holdings), and business growth in the U.S. operation in addition to changes in asset allocation within our Group Centre funds from UK Government debt to corporate debt. Our corporate debt securities portfolio represents 59% (FY09: 54%) of total debt securities and has increased since FY09 due to the factors above.

There has been some overall credit quality deterioration in our debt securities portfolio primarily due to the impact of the changes detailed above, as our corporate debt securities are in general rated lower than our government debt securities. There has been a negligible impact on our debt securities portfolio from the downgrade of various European governments during the first half of 2010 due to our active steps to reduce our exposure to the affected countries.

Our shareholder exposure to debt securities of £62,480 million includes £538 million of exposures to the governments (and local authorities and agencies) of Greece, Spain and Portugal. This represents just 0.2% of total balance sheet assets at 30 June 2010. A further £1,433 million of exposures to these governments are held in participating fund assets, although we have limited shareholder risk to these assets. Net of non-controlling interests, our total exposure to these governments is further reduced to £362 million within shareholder assets and £1,070 million within participating fund assets.

D3 – Analysis of asset quality continued

D3.2 – Financial investments continued

The majority of the Residential Mortgage-Backed Securities (RMBS) are U.S. investments and over 70% of the shareholder exposure is backed by one of the U.S. Government Sponsored Entities (GSEs) including Fannie Mae and Freddie Mac which, under the conservatorship arrangements implemented in September 2008, are now backed by the full faith and credit of the U.S. Government. The majority of the remaining U.S. RMBS is backed by fixed rate loans originated in 2005 or before.

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

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

Excluding the private placements that are rated by the NAIC, the exposure that is not rated by a major rating agency reduces to less than 2.0% of debt securities to which the shareholder has exposure.

D3.2.2 – Equity securities

	30 June 2010				31 December 2009 (Restated)			
	Fair value hierarchy				Fair value hierarchy			
Equity securities – Shareholder assets	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Public utilities	**9**	**—**	**—**	**9**	12	14	—	26
Banks, trusts and insurance companies	**748**	**298**	**652**	**1,698**	1,154	299	295	1,748
Industrial miscellaneous and all other	**1,341**	**1,024**	**29**	**2,394**	1,753	982	318	3,053
Non-redeemable preferred shares	**4**	**486**	**4**	**494**	2	204	4	210
Total	**2,102**	**1,808**	**685**	**4,595**	2,921	1,499	617	5,037
Total %	**45.7%**	**39.4%**	**14.9%**	**100.0%**	58.0%	29.8%	12.2%	100.0%

Over 45% of our shareholder exposure to equity securities is based on quoted prices in an active market and as such is classified as Level 1 (FY09: 58%). The reduction since FY09 has primarily been a result of the transfer of some strategic equity holdings to our staff pension fund, dilution of shareholdings due to not subscribing to rights issues and a weakening in the Euro exchange rate. Continued reduced liquidity in equity markets during the first half of 2010 means that there continues to be a proportion of equities classified as Level 3 (values based on quoted prices in markets that are not active or where the prices are less current).

Shareholder investments include a strategic holding in Unicredit and other Italian banks of £467 million (£309 million net of non-controlling interest share).

D3.2.3 – Other investments

	30 June 2010				31 December 2009			
	Fair value hierarchy				Fair value hierarchy			
Other investments – Shareholder assets	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Unit trusts and other investment vehicles	**466**	**34**	**46**	**546**	467	148	—	615
Derivative financial instruments	**123**	**1,312**	**13**	**1,448**	76	1,221	14	1,311
Deposits with credit institutions	**108**	**277**	**—**	**385**	633	—	—	633
Minority holdings in property management undertakings	**—**	**49**	**—**	**49**	—	52	—	52
Other (including hedge funds)	**10**	**84**	**96**	**190**	26	115	8	149
Total	**707**	**1,756**	**155**	**2,618**	1,202	1,536	22	2,760
Total %	**27.0%**	**67.1%**	**5.9%**	**100.0%**	43.5%	55.7%	0.8%	100.0%

The majority of other shareholder investments, 94%, are classified as Level 1 or 2 (FY09: 99%) in the fair value hierarchy. The unit trusts and other investment vehicles invest in a variety of assets with the majority of the value being invested in Property and Equity securities with a smaller portion being invested in Debt Securities. The key reason for the shift in assets from Levels 1 and 2 to Level 3 has been due to the reclassification of certain investments in hedge funds and other investment vehicles, whose underlying asset mix now includes a significant proportion of Level 3 investments, resulting in the reclassification of the fund as a whole.

D3 – Analysis of asset quality continued

D3.2.4 – Impairments and amount of unrealised losses on available for sale assets

The total impairment expense for AFS debt securities for HY 2010 was £50 million (FY09: £93 million), of which £49 million relates to our U.S. business. £42 million of the write downs in our U.S. business relate to mortgage backed securities, which are not yet in default, however, continued deterioration in market values is considered an indicator of impairment.

The total impairment expense for AFS equity securities for HY 2010 was £40 million (FY09: £384 million), reflecting the continued recovery of equity markets up to May from their lows in 2009, despite recent reversals.

Total unrealised losses on AFS debt securities at 30 June 2010 were £487 million (FY09: £738 million), and AFS equity securities at 30 June 2010 were £19 million (FY09: £97 million). During the first half of 2010, there has been a further significant decrease in total unrealised losses for AFS securities, continuing the improvement observed in the second half of 2009. We have not recognised an impairment charge in respect of these unrealised losses as we believe the decline in fair value of these securities relative to their amortised cost to be temporary.

D4 – Pension fund assets

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

Plan assets include insurance policies of £162 million and £1,381 million in the UK and Dutch schemes respectively. Where the insurance policies are in segregated funds with specific asset allocations, they are included in the appropriate lines in the table below, otherwise they appear in "Other". The Dutch insurance policies are considered non-transferable under the terms of IAS 19 and so have been excluded as assets of the relevant scheme in this table.

	30 June 2010					31 December 2009				
	United Kingdom £m	**Delta Lloyd £m**	**Canada £m**	**Ireland £m**	**Total £m**	United Kingdom £m	Delta Lloyd £m	Canada £m	Ireland £m	Total £m
Equities	**2,522**	**—**	**58**	**26**	**2,606**	2,285	—	78	28	2,391
Bonds	**4,670**	**—**	**140**	**228**	**5,038**	4,619	—	110	231	4,960
Property	**428**	**—**	**—**	**17**	**445**	403	—	—	18	421
Other	**1,090**	**6**	**8**	**114**	**1,218**	835	7	10	130	982
Total	**8,710**	**6**	**206**	**385**	**9,307**	8,142	7	198	407	8,754

Risk management and asset allocation strategy

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

Main UK scheme

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

The principal asset risks to which the scheme is exposed are:
— Equity market risk – the effect of equity market falls on the value of plan assets.
— Inflation risk – the effect of inflation rising faster than expected on the value of the plan liabilities.
— Interest rate risk – falling interest rates leading to an increase in liabilities significantly exceeding the increase in the value of assets.

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

In addition, the trustees have taken measures to partially mitigate inflation and interest rate risks, including entering into inflation and interest rate swaps to hedge approximately one third of the scheme's exposure to these risks.

Other schemes

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

D5 – Available funds

To ensure access to liquidity as and when needed, the group maintains over £2.1 billion of undrawn committed central borrowing facilities with various highly rated banks. £1.0 billion of this is allocated to support the credit rating of Aviva plc's £2.0 billion commercial paper programme. The expiry profile of the undrawn committed central borrowing facilities is as follows:

	£m
Expiring in one year	**700**
Expiring beyond one year	**1,410**
Total	**2,110**

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% increase in interest rates and 10% decline in equity markets).

MCEV supplement

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Condensed consolidated income statement – MCEV basis

For the six month period ended 30 June 2010

6 months 2010 €m		6 months 2010 £m	Restated 6 months 2009 £m	Full year 2009 £m
	Operating profit before tax attributable to shareholders' profits			
643	United Kingdom	**559**	345	787
1,207	Europe	**1,050**	1,105	2,235
311	North America	**271**	120	266
44	Asia Pacific	**38**	37	101
2,205	Long-term business	**1,918**	1,607	3,389
603	General insurance and health	**525**	545	960
15	Fund management[1]	**13**	(4)	51
(38)	Other operations and regional costs[2]	**(33)**	(99)	(173)
2,785	**Regional operating profit**	**2,423**	2,049	4,227
(62)	Corporate centre	**(54)**	(46)	(108)
(389)	Group debt costs and other interest	**(338)**	(318)	(636)
2,334	**Operating profit before tax attributable to shareholders' profits**	**2,031**	1,685	3,483
	Adjusted for the following:			
(551)	Economic variances on long-term business	**(480)**	(194)	759
7	Short-term fluctuation in return on investments on non-long-term business	**6**	(125)	95
(74)	Economic assumption changes on general insurance and health business	**(64)**	52	57
(2)	Impairment of goodwill	**(2)**	(5)	(62)
(59)	Amortisation and impairment of intangibles	**(51)**	(52)	(135)
32	Profit on the disposal of subsidiaries and associates	**28**	20	72
(83)	Integration and restructuring costs	**(72)**	(148)	(286)
(69)	Exceptional items	**(60)**	(218)	(248)
1,536	**Profit before tax**	**1,336**	1,015	3,735
(708)	Tax on operating profit	**(616)**	(416)	(924)
202	Tax on other activities	**176**	320	124
(506)		**(440)**	(96)	(800)
1,030	**Profit for the period**	**896**	919	2,935

All profit is from continuing operations.
1. Excludes the proportion of the results of Aviva Investors fund management businesses and other fund management operations within the group that arises from the provision of fund management services to our life businesses. These results are included within the life MCEV operating earnings consistent with Aviva's MCEV methodology.
2. Excludes the proportion of the results of subsidiaries providing services to the Life business. These results are included within the life MCEV operating earnings consistent with Aviva's MCEV methodology.

Earnings per share – MCEV basis

6 months 2010		6 months 2010	6 months 2009	Full year 2009
	Operating earnings per share on an MCEV basis after tax, attributable to ordinary shareholders of Aviva plc			
47.4c	Basic (pence per share)	**41.2p**	41.4p	78.8p
46.7c	Diluted (pence per share)	**40.6p**	41.2p	78.1p
	Earnings after tax on an MCEV basis, attributable to ordinary shareholders of Aviva plc			
32.8c	Basic (pence per share)	**28.5p**	32.9p	101.7p
32.3c	Diluted (pence per share)	**28.1p**	32.7p	100.8p

Total MCEV operating profit before shareholder tax was £2,031 million (2009: £1,685 million), an increase of 21%. Within this total the long term business operating profit before shareholder tax was £1,918 million (2009: £1,607 million), an increase of 19%. This increase reflects the improved new business profitability, largely arising in the UK and an increase in expected returns. The expected return benefits from the impacts of the reattribution of the inherited estate in the UK and the change in the tax gross up rate for the US, partly offset by the impact of the adoption of implied discount rates as the basis for determining the expected return.

For 2010, the expected profit has been adjusted to reflect an even emergence of risk, calculated by using the Implied Discount Rates to "unwind" the opening balances. The basis for setting the underlying normalised investment returns has not been changed. This change has no impact on total profit.

Experience variances and operating assumption changes are broadly neutral and together total £12 million, which is significantly lower than compared to the prior period, particularly in Europe, Delta Lloyd and the US. The results also benefit from £258 million of other operating variance primarily relating to modelling refinements in France and Delta Lloyd.

Economic variances in 2010 of £(480) million reflect the adverse equity performance and the widening of credit spreads, partly offset by the changes to reference rates. In 2009, the benefit from the reduction in credit spreads was partly offset by the reduction in the adjustment to risk free rates.

Condensed statement of comprehensive income – MCEV basis

For the six month period ended 30 June 2010

6 months 2010 €m		6 months 2010 £m	Restated 6 months 2009 £m	Full year 2009 £m
1,030	**Profit for the period**	**896**	919	2,935
	Other comprehensive income			
21	Fair value losses on AFS securities, owner-occupied properties and hedging instruments	**18**	(121)	(86)
(11)	Fair value gains transferred to profit	**(10)**	(5)	(30)
(423)	Actuarial losses on pension schemes	**(368)**	(1,380)	(1,140)
—	Actuarial gains on pension schemes transferred to unallocated divisible surplus and other movements	**—**	148	24
8	Impairment losses	**7**	15	89
(810)	Foreign exchange rate movements	**(705)**	(1,706)	(991)
64	Aggregate tax effect – shareholder tax	**56**	27	48
(1,151)	**Other comprehensive income for the period, net tax**	**(1,002)**	(3,022)	(2,086)
(121)	**Total comprehensive (expense)/income for the period**	**(106)**	(2,103)	849
	Attributable to:			
153	Equity shareholders of Aviva plc	**133**	(1,773)	971
(274)	Non-controlling interests	**(239)**	(330)	(122)
(121)		**(106)**	(2,103)	849

Condensed statement of changes in equity – MCEV basis

For the six month period ended 30 June 2010

6 months 2010 €m		6 months 2010 £m	Restated 6 months 2009 £m	Full year 2009 £m
22,514	**Balance at 1 January**	**18,462**	17,432	17,432
(129)	Total comprehensive (expense)/income for the period	**(106)**	(2,103)	849
(517)	Dividends and appropriations	**(424)**	(536)	(853)
—	Issues of share capital	**—**	—	1
184	Shares issued in lieu of dividends	**151**	184	299
1	Capital contributions from minority shareholders	**1**	6	6
—	Net increase to total equity following Delta Lloyd IPO	**—**	—	930
(99)	Minority share of dividends declared in the year	**(81)**	(36)	(109)
—	Non-controlling interest in (disposed)/acquired subsidiaries	**—**	(2)	(2)
(52)	Changes in non-controlling interest in existing subsidiaries	**(43)**	—	(111)
—	Shares acquired by employee trusts	—	—	(53)
44	Reserves credit for equity compensation plans	**36**	20	56
—	Aggregate tax effect – shareholder tax	—	1	17
21,946	**Total equity**	**17,996**	14,966	18,462
(4,738)	Non-controlling interests	**(3,885)**	(2,719)	(4,237)
17,208	**Balance at 30 June/31 December**	**14,111**	12,247	14,225

Condensed consolidated statement of financial position – MCEV basis

As at 30 June 2010

30 June 2010 €m		30 June 2010 £m	Restated 30 June 2009 £m	31 December 2009 £m
	Assets			
4,118	Goodwill	**3,377**	3,361	3,381
3,222	Acquired value of in-force business and intangible assets	**2,642**	3,269	2,860
2,706	Additional value of in-force long-term business[1]	**2,218**	2,047	3,376
2,282	Interests in, and loans to, joint ventures	**1,871**	1,370	1,701
1,546	Interests in, and loans to, associates	**1,268**	1,090	1,281
837	Property and equipment	**686**	805	753
15,288	Investment property	**12,536**	12,218	12,422
50,480	Loans	**41,394**	39,718	41,079
	Financial investments			
195,874	Debt securities	**160,617**	146,116	160,510
49,685	Equity securities	**40,742**	36,125	43,343
42,955	Other investments	**35,223**	29,305	34,826
8,867	Reinsurance assets	**7,271**	7,005	7,572
351	Deferred tax assets	**288**	2,502	218
328	Current tax assets	**269**	444	359
11,026	Receivables and other financial assets	**9,041**	10,765	9,632
6,543	Deferred acquisition costs and other assets	**5,365**	6,244	5,621
4,361	Prepayments and accrued income	**3,576**	3,674	3,604
34,690	Cash and cash equivalents	**28,446**	25,030	25,176
7	Assets of operations classified as held for sale	**6**	2,520	53
435,166	**Total assets**	**356,836**	333,608	357,767
	Equity			
855	Ordinary share capital	**701**	685	692
5,450	Capital reserves	**4,469**	4,484	4,478
2,379	Other reserves	**1,951**	2,016	2,042
(83)	Shares held by employee trusts	**(68)**	(33)	(68)
4,843	Retained earnings	**3,971**	3,053	3,425
2,313	Additional retained earnings on an MCEV basis[1]	**1,897**	852	2,466
15,757	**Equity attributable to ordinary shareholders of Aviva plc**	**12,921**	11,057	13,035
1,451	Preference share capital and direct capital instruments	**1,190**	1,190	1,190
4,738	Non-controlling interests[1]	**3,885**	2,719	4,237
21,946	**Total equity**	**17,996**	14,966	18,462
	Liabilities			
208,759	Gross insurance liabilities	**171,182**	161,775	171,092
130,735	Gross liabilities for investment contracts	**107,203**	97,541	110,015
5,152	Unallocated divisible surplus	**4,225**	2,283	3,866
12,002	Net asset value attributable to unitholders	**9,842**	7,973	9,894
4,882	Provisions	**4,003**	3,955	3,980
1,520	Deferred tax liabilities	**1,246**	2,789	1,038
555	Current tax liabilities	**455**	378	192
17,228	Borrowings	**14,127**	14,325	15,000
27,805	Payables and other financial liabilities	**22,800**	21,109	20,542
4,582	Other liabilities	**3,757**	4,529	3,653
—	Liabilities of operations classified as held for sale	**—**	1,985	33
413,220	**Total liabilities**	**338,840**	318,642	339,305
435,166	**Total equity and liabilities**	**356,836**	333,608	357,767

The summarised consolidated statement of financial position presented above is unaltered from the corresponding IFRS summarised consolidated statement of financial position with the exception of the following:

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

Reconciliation of shareholders' equity on IFRS and MCEV bases

For the six month period to 30 June 2010

30 June 2010	IFRS £m	Adjustment £m	MCEV £m
Ordinary share capital	**701**	**—**	**701**
Capital reserves	**4,469**	**—**	**4,469**
Other reserves	**1,978**	**(27)**	**1,951**
Shares held by employee trusts	**(68)**	**—**	**(68)**
Retained earnings	**3,971**	**—**	**3,971**
Additional retained earnings on an MCEV basis	**—**	**1,897**	**1,897**
Equity attributable to ordinary shareholders of Aviva plc	**11,051**	**1,870**	**12,921**
Preference share capital	**200**	**—**	**200**
Direct capital instruments	**990**	**—**	**990**
Non-controlling interests	**3,537**	**348**	**3,885**
Total equity	**15,778**	**2,218**	**17,996**

Restated 30 June 2009	IFRS £m	Adjustment £m	MCEV £m
Ordinary share capital	685	—	685
Capital reserves	4,484	—	4,484
Other reserves	1,471	545	2,016
Shares held by employee trusts	(33)	—	(33)
Retained earnings	3,053	—	3,053
Additional retained earnings on an MCEV basis	—	852	852
Equity attributable to ordinary shareholders of Aviva plc	9,660	1,397	11,057
Preference share capital	200	—	200
Direct capital instruments	990	—	990
Non-controlling interests	2,000	719	2,719
Total equity	12,850	2,116	14,966

31 December 2009	IFRS £m	Adjustment £m	MCEV £m
Ordinary share capital	692	—	692
Capital reserves	4,478	—	4,478
Other reserves	1,829	213	2,042
Shares held by employee trusts	(68)	—	(68)
Retained earnings	3,425	—	3,425
Additional retained earnings on an MCEV basis	—	2,466	2,466
Equity attributable to ordinary shareholders of Aviva plc	10,356	2,679	13,035
Preference share capital	200	—	200
Direct capital instruments	990	—	990
Non-controlling interests	3,540	697	4,237
Total equity	15,086	3,376	18,462

Reconciliation of IFRS total equity to MCEV net worth

For the six month period to 30 June 2010

	30 June 2010 £m	Restated 30 June 2009 £m	31 December 2009 £m
Net assets on a statutory IFRS net basis	**15,741**	12,850	15,086
Adjusting for general business and other net assets on a statutory IFRS net basis	**1,989**	3,054	2,231
Life and related businesses net assets on a statutory IFRS net basis	**17,730**	15,904	17,317
Goodwill and other intangibles	**(2,593)**	(2,579)	(2,606)
Acquired value of in-force business	**(1,298)**	(1,913)	(1,493)
Adjustment for share of joint ventures and associates	**(370)**	(389)	(377)
Adjustment for assets to regulatory value net of tax	**(730)**	740	(19)
Adjustment for DAC and DIR net of tax	**(2,531)**	(2,918)	(2,653)
Adjustment for differences in technical provisions	**1,049**	1,275	1,414
Other accounting and tax differences	**316**	474	630
MCEV net worth	**11,573**	10,594	12,213
MCEV value of in-force	**6,089**	5,306	6,226
MCEV[1]	**17,662**	15,900	18,439

1. Comprises embedded value of £14,510 million (30 June 2009: £13,810 million; 31 December 2009: £15,001 million) and non-controlling interest in long-term business assets of £3,152 million (30 June 2009: £2,090 million; 31 December 2008: £3,438 million).

Group MCEV analysis of earnings

30 June 2010 (net of tax and non-controlling interests)	Covered business[1] £m A	Non-covered but related to life business[2] £m B	Total life business[3] £m A+B	Non-covered relating to non-life £m C	Total non-covered business £m B+C	Total £m A+B+C
Opening group MCEV	**15,001**	**2,055**	**17,056**	**(2,831)**	**(776)**	**14,225**
Opening adjustments	**—**	**—**	**—**	**—**	**—**	**—**
Adjusted opening group MCEV	**15,001**	**2,055**	**17,056**	**(2,831)**	**(776)**	**14,225**
Operating MCEV earnings	**1,132**	**—**	**1,132**	**15**	**15**	**1,147**
Non-operating MCEV earnings	**(208)**	**(25)**	**(233)**	**(117)**	**(142)**	**(350)**
Total MCEV earnings	**924**	**(25)**	**899**	**(102)**	**(127)**	**797**
Other movements in IFRS net equity	**—**	**45**	**45**	**(316)**	**(271)**	**(271)**
Capital and dividend flows	**(892)**	**—**	**(892)**	**646**	**646**	**(246)**
Foreign exchange variances	**(509)**	**(1)**	**(510)**	**116**	**115**	**(394)**
Acquired/divested businesses	**(14)**	**31**	**17**	**(17)**	**14**	**—**
Closing group MCEV	**14,510**	**2,105**	**16,615**	**(2,504)**	**(399)**	**14,111**
Preference share capital and direct capital instruments						**(1,190)**
Equity attributable to ordinary shareholders of Aviva plc on an MCEV basis						**12,921**

1. Covered business represents the business that the MCEV calculations cover, as detailed in the Basis of preparation note. The embedded value is presented net of 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 on E6.
3. Net assets for the total life businesses on an MCEV basis presented net of non-controlling interests.

Restated 30 June 2009 (net of tax and non-controlling interests)	Covered business[1] £m A	Non-covered but related to life business[2] £m B	Total life business[3] £m A+B	Non-covered relating to non-life £m C	Total non-covered business £m B+C	Total £m A+B+C
Opening group MCEV	14,212	2,639	16,851	(2,499)	140	14,352
Opening adjustments	—	—	—	—	—	—
Adjusted opening group MCEV	14,212	2,639	16,851	(2,499)	140	14,352
Operating MCEV earnings	1,030	—	1,030	86	86	1,116
Non-operating MCEV earnings	(148)	(29)	(177)	(51)	(80)	(228)
Total MCEV earnings	882	(29)	853	35	6	888
Other movements in IFRS net equity	—	(373)	(373)	(943)	(1,316)	(1,316)
Capital and dividend flows	(48)	—	(48)	(284)	(284)	(332)
Foreign exchange variances	(1,238)	(281)	(1,519)	174	(107)	(1,345)
Acquired/divested businesses	2	(29)	(27)	27	(2)	—
Closing group MCEV	13,810	1,927	15,737	(3,490)	(1,563)	12,247
Preference share capital and direct capital instruments						(1,190)
Equity attributable to ordinary shareholders of Aviva plc on an MCEV basis						11,057

31 December 2009 (net of tax and non-controlling interests)	Covered business[1] £m A	Non-covered but related to life business[2] £m B	Total life business[3] £m A+B	Non-covered relating to non-life £m C	Total non-covered business £m B+C	Total £m A+B+C
Opening group MCEV	14,212	2,639	16,851	(2,499)	140	14,352
Opening adjustments	—	—	—	—	—	—
Adjusted opening group MCEV	14,212	2,639	16,851	(2,499)	140	14,352
Operating MCEV earnings	2,178	—	2,178	15	15	2,193
Non-operating MCEV earnings	1,215	(99)	1,116	(496)	(595)	620
Total MCEV earnings	3,393	(99)	3,294	(481)	(580)	2,813
Other movements in IFRS net equity	—	(266)	(266)	(839)	(1,105)	(1,105)
Capital and dividend flows	(250)	—	(250)	(283)	(283)	(533)
Foreign exchange variances	(743)	(218)	(961)	224	6	(737)
Acquired/divested businesses	(1,611)	(1)	(1,612)	1,047	1,046	(565)
Closing group MCEV	15,001	2,055	17,056	(2,831)	(776)	14,225
Preference share capital and direct capital instruments						(1,190)
Equity attributable to ordinary shareholders of Aviva plc on an MCEV basis						13,035

Notes to the MCEV condensed financial statements

E1 – Basis of preparation

The condensed consolidated income statement and condensed consolidated statement of financial position on pages 2 to 4 present the group's results and financial position for the life and related businesses on the Market Consistent Embedded Value (MCEV) basis and for its non-life businesses on the International Financial Reporting Standards (IFRS) basis. The MCEV methodology adopted is in accordance with the MCEV Principles published by the CFO Forum in October 2009.

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 more explicit allowance for the impact of uncertainty in future investment returns and other risks.

The results for our half year report have been reviewed by our auditors, Ernst & Young LLP. Their report in respect of the half year report can be found on page 38.

CFO Forum principles update
The CFO Forum issued updated MCEV Principles and Guidance in October 2009, replacing the guidance issued in June 2008. The main change was to permit the use of liquidity premium on contracts with predictable cashflows. Aviva's methodology of applying liquidity premium to contracts where backing assets can be held to maturity is unchanged. Aviva's methodology is compliant with the updated CFO Forum Principles

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

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

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

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

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

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

Life and pensions operating earnings
Expected Return Methodology for Basis of Preparation
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 swap rates from investing in different asset classes.

The normalised investment return on equities and property has been calculated by reference to the 10 year swap rate in the relevant currency plus an appropriate risk premium. The expected return on bonds has been calculated by reference to the swap rate consistent with the duration of the backing assets in the relevant currency plus an appropriate risk margin (equivalent to the gross redemption yield less an allowance for defaults).

From 2010, Aviva has changed the approach to calculating expected returns within operating profit. The expected existing business contribution (in excess of reference rate) is now calculated using the implied discount rates (IDR), which itself is based on the normalised investment returns.

The revised 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 change.

The change to expected returns has no impact on total return or on the closing balance sheet.

E1 – Basis of preparation continued

MCEV methodology

Overview

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

Calculation of the embedded value

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

The embedded value is calculated on an after-tax basis applying current legislation and practice together with future known changes. Where gross results are presented, these have been calculated by grossing up post-tax results at the full rate of corporation tax for each country based on opening period tax rates, apart from the US, where a nil tax rate was used for the 2009 post-tax results, and consequently for 'grossing up'.

Net worth

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

Required capital is the market value of assets attributed to the covered business over and above that required to back liabilities for covered business, for which distribution to shareholders is restricted. Required capital is reported net of implicit items permitted on a local regulatory basis to cover minimum solvency margins which are assessed at a local entity level. The level of required capital for each business unit is set equal to the higher of:
— The level of capital at which the local regulator is empowered to take action;
— The capital requirement of the business unit under the group's economic capital requirements; and
— The target capital level of the business unit.

This methodology reflects the level of capital considered by the directors to be appropriate to manage the business, 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.

The free surplus is the market value of any assets allocated to, but not required to support, the in-force covered business at the valuation date. The level of required capital across the business units expressed as a percentage of the EU minimum solvency margin (or equivalent) can be found in note E15.

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 E15.

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.

E1 – Basis of preparation continued

US capital solutions
Credit has been taken within the 2010 US embedded value, and value of new business, for the anticipated reduction in capital requirements based on management's intention to enact transactions which allow recognition of additional assets that can be held against certain reserves, reducing shareholder capital requirements. Similar transactions, which are effectively based upon a parental guarantee that sufficient capital resources would be available if required, have been enacted for business written between 2006 and 2009. Previously credit has been taken for equivalent capital solution transactions only after they have been formally enacted.

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

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

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

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

Where evidence exists that persistency rates are linked to economic scenarios, dynamic lapse assumptions are set that vary depending on the individual scenarios. This cost is included in the TVOG. Dynamic lapses are modelled for parts of the US and French 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. 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.

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

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

In addition to the operational risk allowance, financial non-hedgeable risks and other product level asymmetries have been allowed for. These allowances are not material as significant financial non-hedgeable risks and product level asymmetries are either modelled explicitly and included in the TVOG or are included in the PVFP through the use of appropriate best estimate assumptions.

Asymmetric risks allowed for in the TVOG or PVFP are described earlier in the Basis of preparation. No allowance has been made within the cost of non-hedgeable risk for symmetrical risks as these are diversifiable by investors.

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.

E1 – Basis of preparation continued

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 reflects contractual requirements as well as existing practice. Under certain economic scenarios where additional shareholder injections are required to meet policyholder payments, the average additional cost has been included in the TVOG.

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

Consolidation adjustments

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

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

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

Restatements

The following restatements were actioned in the group's 2009 financial statements. As these restatements took place in the second half of the year, the comparative figures for the six months to 30 June 2009 are now restated in this report.

(i) The 2008 and half year 2009 embedded values have been restated for the US, primarily reflecting modelling corrections in the valuation of assets on a market consistent basis identified in 2009.

(ii) During 2009, the Group undertook a review of its accounting policy for cash and cash equivalents. Previously, we defined these as normally having a maturity of three months or less from date of acquisition. To avoid ambiguity, our accounting policy has been refined to impose a cut-off date of exactly three months, allowing us to delete "normally" from the policy wording. This refinement of policy resulted in a reclassification of certain short-dated instruments between cash and cash equivalents and financial investments.

The impact of this refinement was to increase financial investments and reduce cash and cash equivalents at 1 January 2009 and 30 June 2009 by £518 million compared to the amounts previously stated. As a consequence of this, cash flows from operating activities for the six month period to 30 June 2009 have decreased by £51 million, with the effect of exchange rate movements accounting for the remaining £71 million.

(iii) During 2009, the Group's Dutch subsidiary, Delta Lloyd, carried out a review of the way it had been applying IAS 19, *Employee Benefits*, in its own financial statements where the corridor method of smoothing actuarial gains and losses in its pension schemes is followed; in accounting for its self-insured pension obligations and intercompany eliminations; and in its reporting to Group where the corridor accounting is reversed. The review concluded that errors had been made locally in applying IAS 19 on the transition to IFRS and in subsequent years, such that gains on certain assets had been reported in provisions, to be released over time, rather than through other comprehensive income. The impact of correcting these errors was to reduce other liabilities by £170 million as at 1 January 2009, increase deferred tax liabilities by £43 million and increase retained earnings at that date by £127 million.

The group's principal overseas operations during the period were located within the Eurozone and the United States. The results and cash flows of these operations have been translated at the average rates for that period and the assets and liabilities have been translated at the period end rates. Please refer to note A2 on page 35.

E2 – Geographical analysis of long-term MCEV operating earnings

6 months 2010

	United Kingdom £m	Europe: Aviva Europe £m	Europe: Delta Lloyd £m	North America £m	Asia Pacific £m	Total £m
Value of new business	**176**	**285**	**(58)**	**4**	**18**	**425**
Earnings from existing business:						
– expected returns at the reference rate	**78**	**129**	**26**	**34**	**6**	**273**
– expected returns in excess of the reference rate	**219**	**175**	**98**	**179**	**17**	**688**
– expected returns	**297**	**304**	**124**	**213**	**23**	**961**
– experience variances	**(8)**	**62**	**(25)**	**8**	**(12)**	**25**
– operating assumption changes	**2**	**(13)**	**—**	**—**	**(2)**	**(13)**
Expected return on shareholders' net worth	**87**	**79**	**50**	**40**	**6**	**262**
Other operating variances	**5**	**176**	**66**	**6**	**5**	**258**
Operating earnings before tax	**559**	**893**	**157**	**271**	**38**	**1,918**

6 months 2009

	United Kingdom £m	Europe: Aviva Europe £m	Europe: Delta Lloyd £m	North America £m	Asia Pacific £m	Total £m
Value of new business	101	268	(34)	16	16	367
Earnings from existing business:						
– expected returns at the reference rate	41	164	43	36	16	300
– expected returns in excess of the reference rate	153	219	116	111	2	601
– expected returns	194	383	159	147	18	901
– experience variances	(27)	(67)	23	(91)	(13)	(175)
– operating assumption changes	2	5	86	—	(7)	86
Expected return on shareholders' net worth	68	94	39	47	7	255
Other operating variances	7	93	56	1	16	173
Operating earnings before tax	345	776	329	120	37	1,607

Full year 2009

	United Kingdom £m	Europe: Aviva Europe £m	Europe: Delta Lloyd £m	North America £m	Asia Pacific £m	Total £m
Value of new business	247	521	(103)	16	29	710
Earnings from existing business:						
– expected returns at the reference rate	113	326	43	55	26	563
– expected returns in excess of the reference rate	402	428	270	249	16	1,365
– expected returns	515	754	313	304	42	1,928
– experience variances	(29)	43	(3)	(87)	(23)	(99)
– operating assumption changes	(67)	(8)	171	(38)	(14)	44
Expected return on shareholders' net worth	138	180	88	89	17	512
Other operating variances	(17)	214	65	(18)	50	294
Operating earnings before tax	787	1,704	531	266	101	3,389

United Kingdom

MCEV operating earnings were 62% higher at £559 million (HY09: £345 million).

Value of new business is £176 million (HY09: £101 million), reflecting the trading actions we have taken to increase profitability, together with strong returns on new annuity business and a beneficial product mix.

Total expected return is £384 million (HY09: £262 million), is significantly higher reflecting the additional expected return following the reattribution of the inherited estate partly offset by the adoption of implied discount rates as the basis for determining the expected return.

Variances and assumption changes on existing business were £1 million unfavourable (HY09: £18 million unfavourable) including offsetting impacts from reducing maintenance expense assumptions and increasing project allowances. Short-term persistency experience has continued to be adverse as a result of the economic conditions; however, this has been offset by favourable mortality experience.

E2 – Geographical analysis of long-term MCEV operating earnings continued

Europe
In Europe, operating profit decreased to £1,050 million (HY09: £1,105 million). Growth in Aviva Europe operating return is driven by more favourable operating experience partly offset by lower expected returns. The reduction in Delta Lloyd operating profit reflects the adverse experience and lower expected returns. 2009 benefited from favourable assumption changes.

Aviva Europe
MCEV operating earnings increased by £117 million, a 15% rise to £893 million (HY09: £776 million), driven by the increased value generated from new business, favourable experience variances and modelling changes.

Value of new business is £285 million (HY09: £268 million), an increase of 6%, reflecting higher new business volumes partly dampened by a movement in mix towards lower margin savings products. The contribution from each of our major distribution channels, bancassurance and retail, rose as we remain focused on developing both channels.

Total expected return is down 20% to £383 million (HY09: £477 million), reflecting the adoption of implied discount rates as the basis for determining the expected return.

Experience variances on existing business of £62 million favourable (HY09: £67 million adverse) reflect continued positive mortality experience and other variances in France and Poland. Overall persistency experience is broadly neutral, with the partial release of the short term provision in France being partly offset by adverse lapse experience in Spain, where we have established a provision of £18 million in excess of in-year experience.

Other operating variances are positive at £176 million (HY09: £93 million). This includes £188 million in respect of modelling refinements in France.

Delta Lloyd
Operating earnings reduced to £157 million (HY09: £329 million) mainly reflecting the contribution of positive operating assumption changes in the prior period and negative experience variances.

Value of new business was negative at £(58) million (HY09: £(34) million) reflecting the lower margins in Germany and the impact of less favourable economic assumptions.

Total expected return reduced to £174 million (HY09: £198 million) reflecting the adoption of implied discount rates as the basis for determining the expected return.

Operating experience and assumption changes were £(25) million (HY09: £109 million). In 2010, the adverse experience mainly arose in our Belgian operations.

Other operating variances of £66 million (HY09: £56 million) reflect modelling refinements.

North America
MCEV operating earnings are 126% higher at £271 million (HY09: £120 million), reflecting a strong improvement in performance primarily as the impact of actions taken to improve life and annuity profitability led to the elimination of adverse operating experience variances compared to the prior year.

Value of new business was lower at £4 million (HY09: £16 million) primarily reflecting the impact of lower risk free rates which masked the underlying improvement in profitability. The internal rate of return on new business moved ahead strongly at 14% (HY09: 7%), mainly reflecting the anticipated management actions to reduce capital consumption.

Total expected return increased to £253 million (HY09: £194 million), as a result of grossing up for tax in 2010, following a reassessment of the tax paying position, partly offset by the adoption of implied discount rates as the basis for determining the expected return.

Variances and assumption changes on existing business were £14 million favourable (HY09: £90 million unfavourable). The prior year contained large variances due to spread compression, whereas the current year reflects favourable mortality and morbidity experience partly offset by project costs.

Asia Pacific
MCEV operating earnings were 3% higher at £38 million (HY09: £37 million, £10 million excluding the contribution from Australia).

Value of New Business was 13% higher at £18 million (HY09: £16 million, £6 million excluding the contribution from Australia), reflecting higher sales volume also resulting in improved scale efficiencies.

Total expected return was £29 million (HY09: £25 million, £14 million excluding the contribution from Australia), benefiting from the adoption of implied discount rates as the basis for determining the expected return.

Variances and assumption changes on existing business were £9 million unfavourable (HY09: £4 million unfavourable). The prior year contained positive modelling changes, whereas the current year sees a continuation of adverse persistency in the region.

E2 – Geographical analysis of MCEV operating earnings continued

Gross of tax and non-controlling interests 30 June 2010	UK £m	France £m	Ireland £m	Italy £m	Poland £m	Spain £m	Other Europe £m	Aviva Europe £m	Delta Lloyd £m	Europe £m	North America £m	Asia Pacific £m	Total £m
Value of new business	**176**	**102**	**1**	**84**	**20**	**66**	**12**	**285**	**(58)**	**227**	**4**	**18**	**425**
Earnings from existing business													
– expected existing business contribution (reference rate)	**78**	**53**	**6**	**8**	**37**	**16**	**9**	**129**	**26**	**155**	**34**	**6**	**273**
– expected existing business contribution (in excess of reference rate)	**219**	**90**	**16**	**18**	**14**	**36**	**1**	**175**	**98**	**273**	**179**	**17**	**688**
Experience variances													
– maintenance expense[1]	**(2)**	**(12)**	**—**	**1**	**5**	**4**	**2**	**—**	**(15)**	**(15)**	**—**	**—**	**(17)**
– project and other related expenses	**(6)**	**—**	**—**	**—**	**—**	**—**	**(2)**	**(2)**	**(1)**	**(3)**	**(8)**	**—**	**(17)**
– mortality/morbidity[2]	**12**	**22**	**5**	**1**	**5**	**(5)**	**2**	**30**	**3**	**33**	**9**	**3**	**57**
– lapses[3]	**(10)**	**18**	**(6)**	**1**	**—**	**(13)**	**(1)**	**(1)**	**4**	**3**	**(1)**	**(14)**	**(22)**
– other[4]	**(2)**	**6**	**10**	**6**	**14**	**—**	**(1)**	**35**	**(16)**	**19**	**8**	**(1)**	**24**
	(8)	**34**	**9**	**9**	**24**	**(14)**	**—**	**62**	**(25)**	**37**	**8**	**(12)**	**25**
Operating assumption changes:													
– maintenance expense[5]	**95**	**—**	**4**	**—**	**—**	**—**	**—**	**4**	**—**	**4**	**—**	**3**	**102**
– project and other related expenses[5]	**(89)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(89)**
– mortality/morbidity	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– lapses[6]	**—**	**—**	**—**	**—**	**—**	**(17)**	**—**	**(17)**	**—**	**(17)**	**—**	**(3)**	**(20)**
– other	**(4)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(2)**	**(6)**
	2	**—**	**4**	**—**	**—**	**(17)**	**—**	**(13)**	**—**	**(13)**	**—**	**(2)**	**(13)**
Expected return on shareholders' net worth	**87**	**27**	**8**	**27**	**5**	**9**	**3**	**79**	**50**	**129**	**40**	**6**	**262**
Other operating variances[7]	**5**	**188**	**(3)**	**—**	**(1)**	**(1)**	**(7)**	**176**	**66**	**242**	**6**	**5**	**258**
Earnings before tax and non-controlling interests	**559**	**494**	**41**	**146**	**99**	**95**	**18**	**893**	**157**	**1,050**	**271**	**38**	**1,918**

1. Adverse expense experience occurs across several countries, partly offset by favourable experience in Poland.
2. Mortality experience continues to be better than the assumptions set across a number of our businesses, most notably in France and the UK annuity business.
3. Persistency experience remains volatile across most of our businesses, in part reflecting the wider economic circumstances. In France, persistency experience reflects a release of the short term provision.
4. Other experience relates to a number of smaller items within various business including a reduction in the allowance for non hedgeable risk in Poland. In the USA, there were positive impacts from spread variances.
5. For UK, the expense assumptions include a reallocation of provisions in the service company, better reflecting the expected future allocation of expenses. The impact in Ireland reflected the benefit of a release of prudent regulatory reserves.
6. Persistency assumptions have been strengthened in Spain.
7. Other operating variances for France relate to modelling changes, particularly relating to the time value of options and guarantees. In Delta Lloyd, modelling changes include impacts related to commercial mortgages partly offset by changes to group pension business.

E2 – Geographical analysis of MCEV operating earnings continued

Gross of tax and non-controlling interests 30 June 2009	UK £m	France £m	Ireland £m	Italy £m	Poland £m	Spain £m	Other Europe £m	Aviva Europe £m	Delta Lloyd £m	Europe £m	North America £m	Asia £m	Australia £m	Asia Pacific £m	Total £m
Value of new business	101	72	4	81	27	78	6	268	(34)	234	16	6	10	16	367
Earnings from existing business															
– expected existing business contribution (reference rate)	41	81	12	6	33	22	10	164	43	207	36	8	8	16	300
– expected existing business contribution (in excess of reference rate)	153	153	5	4	3	55	(1)	219	116	335	111	2	—	2	601
Experience variances															
– maintenance expense[1]	25	1	2	(3)	3	(1)	3	5	16	21	—	2	1	3	49
– project and other related expenses	(36)	(3)	(4)	(2)	(1)	(3)	(2)	(15)	(2)	(17)	(5)	1	—	1	(57)
– mortality/morbidity[2]	6	10	8	—	9	(4)	1	24	(6)	18	(4)	4	4	8	28
– lapses[3]	(17)	(18)	(22)	(3)	8	(35)	(10)	(80)	(6)	(86)	(8)	(24)	—	(24)	(135)
– other[4]	(5)	(13)	(5)	11	5	1	—	(1)	21	20	(74)	1	(2)	(1)	(60)
	(27)	(23)	(21)	3	24	(42)	(8)	(67)	23	(44)	(91)	(16)	3	(13)	(175)
Operating assumption changes:															
– maintenance expense	2	—	—	—	—	—	—	—	—	—	—	—	4	4	6
– project and other related expenses	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
– mortality/morbidity	(1)	—	6	—	—	—	—	6	1	7	—	(2)	—	(2)	4
– lapses[5]	1	—	—	—	—	—	—	—	(31)	(31)	—	(11)	—	(11)	(41)
– other[6]	—	—	(2)	—	—	—	1	(1)	116	115	—	2	—	2	117
	2	—	4	—	—	—	1	5	86	91	—	(11)	4	(7)	86
Expected return on shareholders' net worth	68	34	9	29	5	13	4	94	39	133	47	4	3	7	255
Other operating variances[7]	7	60	5	(3)	—	28	3	93	56	149	1	17	(1)	16	173
Earnings before tax and non-controlling interests	345	377	18	120	92	154	15	776	329	1,105	120	10	27	37	1,607

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

E2 – Geographical analysis of MCEV operating earnings continued

Gross of tax and non-controlling interests 31 December 2009	UK £m	France £m	Ireland £m	Italy £m	Poland £m	Spain £m	Other Europe £m	Aviva Europe £m	Delta Lloyd £m	Europe £m	North America £m	Asia £m	Australia £m	Asia Pacific £m	Total £m
Value of new business	247	169	12	124	55	151	10	521	(103)	418	16	11	18	29	710
Earnings from existing business															
– expected existing business contribution (reference rate)	113	161	22	15	67	39	22	326	43	369	55	11	15	26	563
– expected existing business contribution (in excess of reference rate)	402	282	18	5	4	119	—	428	270	698	249	15	1	16	1,365
Experience variances															
– maintenance expense[1]	37	—	6	(2)	14	(10)	5	13	(3)	10	—	6	(1)	5	52
– project and other related expenses	(34)	(1)	(7)	—	—	(7)	(7)	(22)	(42)	(64)	(35)	—	—	—	(133)
– mortality/morbidity[2]	6	50	8	2	12	(6)	8	74	(22)	52	5	5	8	13	76
– lapses[3]	(30)	53	(23)	(46)	17	(52)	(17)	(68)	13	(55)	(17)	(38)	—	(38)	(140)
– other[4]	(8)	(80)	1	116	7	1	1	46	51	97	(40)	—	(3)	(3)	46
	(29)	22	(15)	70	50	(74)	(10)	43	(3)	40	(87)	(27)	4	(23)	(99)
Operating assumption changes:															
– maintenance expense[5]	1	(22)	5	(31)	54	(94)	10	(78)	275	197	(9)	(10)	8	(2)	187
– project and other related expenses	—	—	—	—	—	(13)	—	(13)	—	(13)	—	—	—	—	(13)
– mortality/morbidity[6]	5	64	7	12	58	(9)	(1)	131	(4)	127	(20)	(1)	5	4	116
– lapses[7]	(51)	(22)	(9)	(37)	83	(69)	(7)	(61)	(40)	(101)	(105)	(9)	4	(5)	(262)
– other[8]	(22)	3	12	1	(1)	—	(2)	13	(60)	(47)	96	(6)	(5)	(11)	16
	(67)	23	15	(55)	194	(185)	—	(8)	171	163	(38)	(26)	12	(14)	44
Expected return on shareholders' net worth	138	66	16	57	8	26	7	180	88	268	89	11	6	17	512
Other operating variances[9]	(17)	62	(4)	—	121	37	(2)	214	65	279	(18)	50	—	50	294
Earnings before tax and non-controlling interests	787	785	64	216	499	113	27	1,704	531	2,235	266	45	56	101	3,389

1 Maintenance expense experience in the UK relates to profits from existing business administration. Project and other related expenses in the UK reflect project costs associated with strategic initiatives, including developments designed to offer a wider range of products to customers, and the simplification of systems and processes. Project and other related expenses in Delta Lloyd relate to integration costs in Belgium.
2. Mortality experience continues to be better than the assumptions set across a number of our businesses.
3. Persistency experience has been volatile across most of our businesses, in part reflecting wider economic volatility. In France, positive persistency experience including the release of a short term provision, in line with positive underlying experience. In Poland, lapse experience continued to be better than the long-term assumptions for both Life and Pension products.
4. Other experience is favourable overall. Both France and Italy include one off adjustments reflecting final commission payments from prior years. The favourable impact in Italy reflects to one-off profit sharing on a reinsurance treaty. The favourable impact in Delta Lloyd relates to the revised investment and bonus strategy in Germany following the decision to close this operation to new business. The adverse impact in the USA relates to the cost of enhancing policyholder crediting rates.
5. Favourable expense assumption changes reflect the impact of cost reductions in the Delta Lloyd and Poland, together with the impact of revisions to expense allocations in Delta Lloyd. The adverse impact in Spain relates to the capitalisation of certain governance costs in respect of bancassurance joint ventures.
6. Favourable mortality assumption changes in France and Poland reflecting recent experience. The adverse impact in Delta Lloyd reflects the net impact of using updated mortality tables in the Netherlands, Germany and Belgium, following the issuance of revised advice from the respective actuarial associations.
7. Persistency assumptions have been strengthened across most of our businesses, in light of experience. In Poland, persistency assumptions have been weakened following sustained favourable experience.
8. Other assumption changes in the US primarily relate to the timing of management action in setting policyholder credited rates. In Delta Lloyd, the change represents tax effects resulting from a reallocation of assets
9. Other operating variances in France, Poland and Asia relate to have arisen as a result of more accurate modelling. In Delta Lloyd, these relate to revisions to investment and bonus strategies and expenses in Delta Lloyd Germany following the decision to close this operation to new business. In Spain, these reflect the impact of re-pricing actions on risk products.

E2 – Geographical analysis of MCEV operating earnings continued

Net of tax and non-controlling interests 30 June 2010	UK £m	France £m	Ireland £m	Italy £m	Poland £m	Spain £m	Other Europe £m	Aviva Europe £m	Delta Lloyd £m	Europe £m	North America £m	Asia Pacific £m	Total £m
Value of new business	**126**	**58**	**1**	**24**	**15**	**22**	**9**	**129**	**(25)**	**104**	**2**	**14**	**246**
Earnings from existing business													
– expected existing business contribution (reference rate)	**56**	**32**	**4**	**3**	**26**	**6**	**8**	**79**	**11**	**90**	**22**	**3**	**171**
– expected existing business contribution (in excess of reference rate)	**158**	**53**	**11**	**5**	**10**	**11**	**1**	**91**	**38**	**129**	**116**	**14**	**417**
Experience variances													
– maintenance expense[1]	**(2)**	**(7)**	**—**	**—**	**4**	**1**	**1**	**(1)**	**(5)**	**(6)**	**—**	**1**	**(7)**
– project and other related expenses	**(5)**	**1**	**—**	**—**	**—**	**—**	**(2)**	**(1)**	**(1)**	**(2)**	**(5)**	**—**	**(12)**
– mortality/morbidity[2]	**9**	**12**	**4**	**—**	**4**	**(2)**	**1**	**19**	**(1)**	**18**	**6**	**3**	**36**
– lapses[3]	**(7)**	**12**	**(5)**	**1**	**(1)**	**(5)**	**—**	**2**	**—**	**2**	**—**	**(11)**	**(16)**
– other[4]	**(2)**	**4**	**6**	**2**	**10**	**1**	**—**	**23**	**(5)**	**18**	**5**	**(1)**	**20**
	(7)	**22**	**5**	**3**	**17**	**(5)**	**—**	**42**	**(12)**	**30**	**6**	**(8)**	**21**
Operating assumption changes:													
– maintenance expense[5]	**68**	**—**	**3**	**—**	**—**	**—**	**—**	**3**	**—**	**3**	**—**	**2**	**73**
– project and other related expenses[5]	**(64)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(64)**
– mortality/morbidity	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– lapses[6]	**—**	**—**	**—**	**—**	**—**	**(6)**	**—**	**(6)**	**—**	**(6)**	**—**	**(1)**	**(7)**
– other	**(2)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(2)**	**(4)**
	2	**—**	**3**	**—**	**—**	**(6)**	**—**	**(3)**	**—**	**(3)**	**—**	**(1)**	**(2)**
Expected return on shareholders' net worth	**63**	**16**	**5**	**9**	**3**	**4**	**2**	**39**	**21**	**60**	**26**	**4**	**153**
Other operating variances[7]	**4**	**101**	**(2)**	**—**	**(1)**	**(1)**	**(6)**	**91**	**25**	**116**	**4**	**2**	**126**
Earnings after tax and non-controlling interests	**402**	**282**	**27**	**44**	**70**	**31**	**14**	**468**	**58**	**526**	**176**	**28**	**1,132**

1. Adverse expense experience occurs across several countries, partly offset by favourable experience in Poland.
2. Mortality experience continues to be better than the assumptions set across a number of our businesses, most notably in France and the UK annuity business.
3. Persistency experience remains volatile across most of our businesses, in part reflecting the wider economic circumstances. In France, persistency experience reflects a release of the short term provision.
4. Other experience relates to a number of smaller items within various business including a reduction in the allowance for non hedgeable risk in Poland. In the USA, there were positive impacts from spread variances.
5. For UK, the expense assumptions include a reallocation of provisions in the service company, better reflecting the expected future allocation of expenses. The impact in Ireland reflected the benefit of a release of prudent regulatory reserves.
6. Persistency assumptions have been strengthened in Spain.
7. Other operating variances for France relate to modelling changes, particularly relating to the time value of options and guarantees. In Delta Lloyd, modelling changes include impacts related to commercial mortgages partly offset by changes to group pension business.

E2 – Geographical analysis of MCEV operating earnings continued

Net of tax and non-controlling interests 30 June 2009	UK £m	France £m	Ireland £m	Italy £m	Poland £m	Spain £m	Other Europe £m	Aviva Europe £m	Delta Lloyd £m	Europe £m	North America £m	Asia £m	Australia £m	Asia Pacific £m	Total £m
Value of new business	72	40	3	25	19	26	5	118	(28)	90	16	5	7	12	190
Earnings from existing business															
– expected existing business contribution (reference rate)	30	50	8	2	23	9	8	100	31	131	36	5	5	10	207
– expected existing business contribution (in excess of reference rate)	110	93	3	1	2	21	—	120	85	205	111	1	—	1	427
Experience variances															
– maintenance expense[1]	18	1	1	(1)	2	(1)	3	5	14	19	—	2	—	2	39
– project and other related expenses	(26)	(2)	(3)	(1)	—	(2)	(2)	(10)	(2)	(12)	(5)	1	—	1	(42)
– mortality/morbidity[2]	4	6	5	—	6	(1)	2	18	(7)	11	(4)	3	3	6	17
– lapses[3]	(13)	(11)	(16)	(1)	6	(12)	(8)	(42)	(4)	(46)	(8)	(19)	—	(19)	(86)
– other[4]	(3)	(8)	(3)	6	4	1	(1)	(1)	18	17	(74)	—	(1)	(1)	(61)
	(20)	(14)	(16)	3	18	(15)	(6)	(30)	19	(11)	(91)	(13)	2	(11)	(133)
Operating assumption changes:															
– maintenance expense	2	—	—	—	—	—	—	—	—	—	—	(1)	3	2	4
– project and other related expenses	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
– mortality/morbidity	(1)	—	4	—	—	—	—	4	—	4	—	—	—	—	3
– lapses[5]	1	—	—	—	—	—	—	—	(22)	(22)	—	(10)	—	(10)	(31)
– other[6]	—	—	(1)	—	—	—	—	(1)	82	81	—	2	—	2	83
	2	—	3	—	—	—	—	3	60	63	—	(9)	3	(6)	59
Expected return on shareholders' net worth	49	19	6	10	4	5	2	46	27	73	47	2	2	4	173
Other operating variances[7]	6	36	4	(1)	(1)	8	4	50	40	90	1	9	1	10	107
Earnings after tax and non-controlling interests	249	224	11	40	65	54	13	407	234	641	120	—	20	20	1,030

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

E2 – Geographical analysis of MCEV operating earnings continued

Net of tax and non-controlling interests 31 December 2009	UK £m	France £m	Ireland £m	Italy £m	Poland £m	Spain £m	Other Europe £m	Aviva Europe £m	Delta Lloyd £m	Europe £m	North America £m	Asia £m	Australia £m	Asia Pacific £m	Total £m
Value of new business	177	94	8	38	39	51	8	238	(78)	160	16	9	13	22	375
Earnings from existing business															
– expected existing business contribution (reference rate)	81	100	15	5	47	15	17	199	29	228	55	6	11	17	381
– expected existing business contribution (in excess of reference rate)	289	170	12	2	3	44	—	231	171	402	249	12	—	12	952
Experience variances															
– maintenance expense[1]	27	—	4	(1)	10	(8)	4	9	4	13	—	5	—	5	45
– project and other related expenses	(26)	—	(5)	—	—	(3)	(6)	(14)	(21)	(35)	(35)	—	—	—	(96)
– mortality/morbidity[2]	4	30	5	1	9	(3)	6	48	(17)	31	5	3	5	8	48
– lapses[3]	(22)	36	(16)	(15)	12	(20)	(14)	(17)	5	(12)	(17)	(31)	—	(31)	(82)
– other[4]	(4)	(49)	1	37	5	1	1	(4)	35	31	(40)	(1)	(2)	(3)	(16)
	(21)	17	(11)	22	36	(33)	(9)	22	6	28	(87)	(24)	3	(21)	(101)
Operating assumption changes:															
– maintenance expense[5]	—	(14)	3	(10)	38	(69)	7	(45)	197	152	(9)	(9)	6	(3)	140
– project and other related expenses	—	—	—	—	—	(5)	—	(5)	—	(5)	—	—	—	—	(5)
– mortality/morbidity[6]	4	42	4	4	42	(3)	1	90	1	91	(20)	—	3	3	78
– lapses[7]	(36)	(13)	(6)	(12)	58	(24)	(5)	(2)	(25)	(27)	(105)	(6)	3	(3)	(171)
– other[8]	(16)	2	8	1	(1)	—	(3)	7	(48)	(41)	96	(5)	(3)	(8)	31
	(48)	17	9	(17)	137	(101)	—	45	125	170	(38)	(20)	9	(11)	73
Expected return on shareholders' net worth	100	38	11	18	6	10	6	89	57	146	89	7	4	11	346
Other operating variances[9]	(11)	34	(3)	—	83	12	1	127	14	141	(18)	40	—	40	152
Earnings after tax and minority interests	567	470	41	68	351	(2)	23	951	324	1,275	266	30	40	70	2,178

1 Maintenance expense experience in the UK relates to profits from existing business administration. Project and other related expenses in the UK reflect project costs associated with strategic initiatives, including developments designed to offer a wider range of products to customers, and the simplification of systems and processes. Project and other related expenses in Delta Lloyd relate to integration costs in Belgium.
2. Mortality experience continues to be better than the assumptions set across a number of our businesses.
3. Persistency experience has been volatile across most of our businesses, in part reflecting wider economic volatility. In France, positive persistency experience including the release of a short term provision, in line with positive underlying experience. In Poland, lapse experience continued to be better than the long-term assumptions for both Life and Pension products.
4. Other experience is favourable overall. The Both France and Italy include one off adjustments reflecting final commission payments from prior years. The favourable impact in Italy reflects to one-off profit sharing on a reinsurance treaty. The favourable impact in Delta Lloyd relates to the revised investment and bonus strategy in Germany following the decision to close this operation to new business. The adverse impact in the USA relates to the cost of enhancing policyholder crediting rates.
5. Favourable expense assumption changes reflect the impact of cost reductions in the Delta Lloyd and Poland, together with the impact of revisions to expense allocations in Delta Lloyd. The adverse impact in Spain relates the capitalisation of certain governance costs in respect of bancassurance joint ventures
6. Favourable mortality assumption changes in France and Poland reflecting recent experience. The adverse impact in Delta Lloyd reflects the net impact of using updated mortality tables in the Netherlands, Germany and Belgium, following the issuance of revised advice from the respective actuarial associations.
7. Persistency assumptions have been strengthened across most of our businesses, in light of experience. In Poland, persistency assumptions have been weakened following sustained favourable experience.
8. Other assumption changes in the US primarily relate to the timing of management action in setting policyholder credited rates. In Delta Lloyd, the change represents tax effects resulting from a reallocation of assets
9. Other operating variances in France, Poland and Asia have arisen as a result of more accurate modelling. In Delta Lloyd, these relate to revisions to investment and bonus strategies and expenses in Delta Lloyd Germany following the decision to close this operation to new business. In Spain, these reflect the impact of re-pricing actions on risk products.

E3 – Geographical analysis of fund management operating earnings

The condensed consolidated income statement – MCEV basis, includes earnings from the group's fund management operations as analysed below. As explained in note E13, this excludes the proportion of the results of Aviva Investors fund management businesses and other fund management operations within the group that arise from the provision of fund management services to our Life businesses. These results are included within the Life MCEV operating earnings.

	6 months 2010 £m	6 months 2009 £m	Full year 2009 £m
United Kingdom	**2**	1	42
Europe	**6**	5	6
North America	**(3)**	(5)	(7)
Asia Pacific	**(2)**	(1)	(1)
Aviva Investors	**3**	—	40
United Kingdom	**(2)**	(12)	(14)
Aviva Europe[1]	**—**	1	3
Delta Lloyd	**13**	6	21
Europe	**13**	7	24
Asia Pacific[2]	**(1)**	1	1
Total	**13**	(4)	51

1. Aviva Europe included the result from the fund management in Poland in 2009. This business was transferred across to Aviva Investors from 1 January 2010.
2. The Australian Life business was sold on 1 October 2009, included within the 6 months 2009 and full year 2009 operating earnings is £4 million and £7 million respectively.

E4 – Analysis of other operations and regional costs

Where subsidiaries provide services to our life business, that portion of earnings has been excluded from the result for other operations and regional costs in their condensed consolidated income statement – MCEV basis. These results are included within the Life MCEV operating earnings.

	6 months 2010			6 months 2009			Full year 2009		
	Regional costs £m	**Other operations £m**	**Total £m**	Regional costs £m	Other operations £m	Total £m	Regional costs £m	Other operations £m	Total £m
United Kingdom	**—**	**(1)**	**(1)**	—	(36)	(36)	—	(28)	(28)
Aviva Europe	**(18)**	**(15)**	**(33)**	(11)	(9)	(20)	(36)	(41)	(77)
Delta Lloyd	**—**	**28**	**28**	—	(20)	(20)	—	(30)	(30)
Europe	**(18)**	**13**	**(5)**	(11)	(29)	(40)	(36)	(71)	(107)
North America	**(12)**	**3**	**(9)**	(9)	1	(8)	(19)	3	(16)
Asia Pacific	**(19)**	**1**	**(18)**	(15)	—	(15)	(20)	(2)	(22)
Total	**(49)**	**16**	**(33)**	(35)	(64)	(99)	(75)	(98)	(173)

E5 – Exceptional items

Exceptional items of £(60) million (HY09: £(218) million) were mainly due to Delta Lloyd which has recognised a total of £(50) million costs in relation to unit-linked insurance compensation scheme and compensation costs in defined contribution pension schemes.

Exceptional item for the half year 2009 of £(218) million was in respect of the change in legislation in Poland restricting charges against pension funds.

Exceptional items for full year 2009 totalled £(248) million. This included £175 million in respect of the reattribution of the inherited estate in the UK, £(261) million in respect of the change in legislation in Poland restricting charges against pension funds, £(102) million brand migration costs and £(60) million in respect of latent claims reserves in Canada.

E6 – Segmentation of condensed consolidated statement of financial position

	30 June 2010			Restated 30 June 2009			31 December 2009		
	Life and related businesses £m	**General business and other £m**	**Group £m**	Life and related businesses £m	General business and other £m	Group £m	Life and related businesses £m	General business and other £m	Group £m
Total assets before acquired value of in-force long-term business	**308,194**	**45,211**	**353,405**	286,846	42,835	329,681	307,117	45,880	352,997
Acquired additional value of in-force long-term business	**1,213**	**—**	**1,213**	1,811	—	1,811	1,394	—	1,394
Total assets included in the IFRS statement of financial position	**309,407**	**45,211**	**354,618**	288,657	42,835	331,492	308,511	45,880	354,391
Liabilities of the long-term business	**(291,677)**	**—**	**(291,677)**	(272,753)	—	(272,753)	(291,194)	—	(291,194)
Liabilities of the general insurance and other businesses	**—**	**(47,163)**	**(47,163)**	—	(45,889)	(45,889)	—	(48,111)	(48,111)
Net assets on a statutory IFRS basis	**17,730**	**(1,952)**	**15,778**	15,904	(3,054)	12,850	17,317	(2,231)	15,086
Additional value of in-force long-term business[1]	**2,218**	**—**	**2,218**	2,116	—	2,116	3,376	—	3,376
Net assets on an MCEV basis[2]	**19,948**	**(1,952)**	**17,996**	18,020	(3,054)	14,966	20,693	(2,231)	18,462
Equity capital, capital reserves, shares held by employee trusts and other reserves			**7,053**			7,183			7,144
IFRS basis retained earnings			**3,971**			3,022			3,425
Additional MCEV basis retained earnings			**1,897**			852			2,466
Equity attributable to ordinary shareholders of Aviva plc on an MCEV basis			**12,921**			11,057			13,035
Preference share capital and direct capital instruments			**1,190**			1,190			1,190
Non-controlling interests			**3,885**			2,719			4,237
MCEV basis total equity			**17,996**			14,966			18,462

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

	30 June 2010	31 December 2009	Movement in period
Group's share included in shareholders' funds	**1,897**	2,466	(569)
Non-controlling interests' share	**348**	697	(349)
Movements in AFS securities	**(27)**	213	(240)
Additional value of in-force long-term business	**2,218**	3,376	(1,158)

Additional value of in-force long-term business includes £nil (30 June 2009: £69 million; 31 December 2009: £nil) of assets classified as held for sale in the condensed consolidated statement of financial position – MCEV basis.

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

	30 June 2010	Restated 30 June 2009	31 December 2009
Embedded value	**14,510**	13,810	15,001
Non-controlling interests	**3,152**	2,090	3,438
	17,662	15,900	18,439
Goodwill and intangible assets allocated to long-term business[3]	**2,593**	2,579	2,606
Notional allocation of IAS19 pension fund deficit to long-term business[4]	**(307)**	(459)	(352)
Long-term business net assets on an MCEV basis	**19,948**	18,020	20,693

3. Goodwill and intangible assets includes amounts related to associated undertakings and joint ventures.
4. The value of the Aviva Staff Pension Schemes deficit has been notionally allocated between segments, based on current funding commitments and the Life proportion has been included within the long-term business net assets on an MCEV basis. The pension fund deficit notionally allocated to long-term business is net of the agreed funding borne by the UK with-profit funds.

E7 – Analysis of life and pensions earnings

The following table provides an analysis of the movement in embedded value for covered business. The analysis is shown separately for free surplus, required capital and the value of in-force covered business, and includes amounts transferred between these categories.

30 June 2010	Free surplus £m	Required capital[1] £m	VIF £m	Total MCEV £m
Opening MCEV	**2,204**	**7,546**	**5,251**	**15,001**
New business value	**(668)**	**406**	**508**	**246**
Expected existing business contribution (reference rate)	—	—	**171**	**171**
Expected existing business contribution (in excess of reference rate)	—	—	**417**	**417**
Transfers from VIF and required capital to the free surplus	**915**	**(199)**	**(716)**	—
Experience variances	**30**	**1**	**(10)**	**21**
Assumption changes	**50**	**(3)**	**(49)**	**(2)**
Expected return on shareholders' net worth	**58**	**95**	—	**153**
Other operating variance	**58**	**(27)**	**95**	**126**
Operating MCEV earnings	**443**	**273**	**416**	**1,132**
Economic variances	**(39)**	**109**	**(256)**	**(186)**
Other non-operating variances	**(41)**	**(1)**	**20**	**(22)**
Total MCEV earnings/(loss)	**363**	**381**	**180**	**924**
Capital and dividend flows[2]	**(892)**	—	—	**(892)**
Foreign exchange variance	**(67)**	**(161)**	**(281)**	**(509)**
Acquired/divested business	**(2)**	**(7)**	**(5)**	**(14)**
Closing MCEV	**1,606**	**7,759**	**5,145**	**14,510**

1. Required capital is shown net of implicit items permitted by local regulators to cover minimum solvency margins.
2. Included within capital and dividend flows is the transfer to Life and related businesses from other segments consisting of service company profits and losses during the reported period that have emerged from the value of in-force. Since the "look through" into service companies includes only future profits and losses, these amounts must be eliminated from the closing embedded value. All figures are shown net of tax and non-controlling interests.

Restated 30 June 2009	Free surplus £m	Required capital[1] £m	VIF £m	Total MCEV £m
Opening MCEV	1,348	8,148	4,716	14,212
New business value	(990)	562	618	190
Expected existing business contribution (reference rate)	—	—	207	207
Expected existing business contribution (in excess of reference rate)	—	—	427	427
Transfers from VIF and required capital to the free surplus	884	(344)	(540)	—
Experience variances	110	(5)	(238)	(133)
Assumption changes	16	(17)	60	59
Expected return on shareholders' net worth	110	63	—	173
Other operating variance	(26)	(31)	164	107
Operating MCEV earnings	104	228	698	1,030
Economic variances	863	(438)	(423)	2
Other non-operating variances	(1)	—	(149)	(150)
Total MCEV (loss)/earnings	966	(210)	126	882
Capital and dividend flows[2]	(48)	—	—	(48)
Foreign exchange variance	(51)	(788)	(399)	(1,238)
Acquired/divested business	2	—	—	2
Closing MCEV	2,217	7,150	4,443	13,810

31 December 2009	Free surplus £m	Required capital[1] £m	VIF £m	Total MCEV £m
Opening MCEV	1,348	8,148	4,716	14,212
New business value	(1,571)	983	963	375
Expected existing business contribution (reference rate)	—	—	381	381
Expected existing business contribution (in excess of reference rate)	—	—	952	952
Transfers from VIF and required capital to the free surplus	1,869	(738)	(1,131)	—
Experience variances	(198)	135	(38)	(101)
Assumption changes	48	6	19	73
Expected return on shareholders' net worth	164	182	—	346
Other operating variance	10	(141)	283	152
Operating MCEV earnings	322	427	1,429	2,178
Economic variances	1,317	(324)	(42)	951
Other non-operating variances	(238)	909	(407)	364
Total MCEV (loss)/earnings	1,401	1,012	980	3,393
Capital and dividend flows[2]	(250)	—	—	(250)
Foreign exchange variance	6	(556)	(193)	(743)
Acquired/divested business	(301)	(1,058)	(252)	(1,611)
Closing MCEV	2,204	7,546	5,251	15,001

E8 – Free surplus emergence

30 June 2010	Existing business					New business			Total business
	Transfer from VIF to net worth £m	Return on net worth £m	Impact of experience variances and assumption changes on net worth £m	Release of required capital to free surplus £m	Total existing business surplus generation £m	Impact on net worth £m	Reduction in free surplus from required capital £m	Total new business surplus generation £m	Total free surplus generation £m
United Kingdom	**232**	**62**	**96**	**(96)**	**294**	**(56)**	**(2)**	**(58)**	**236**
Aviva Europe	**210**	**40**	**70**	**71**	**391**	**(96)**	**(171)**	**(267)**	**124**
Delta Lloyd	**62**	**21**	**(18)**	**20**	**85**	**(31)**	**(32)**	**(63)**	**22**
Europe	**272**	**61**	**52**	**91**	**476**	**(127)**	**(203)**	**(330)**	**146**
North America	**185**	**26**	**(36)**	**144**	**319**	**(50)**	**(177)**	**(227)**	**92**
Asia Pacific	**27**	**4**	**(3)**	**(6)**	**22**	**(29)**	**(24)**	**(53)**	**(31)**
Total	**716**	**153**	**109**	**133**	**1,111**	**(262)**	**(406)**	**(668)**	**443**

30 June 2009	Existing business					New business			Total business
	Transfer from VIF to net worth £m	Return on net worth £m	Impact of experience variances and assumption changes on net worth £m	Release of required capital to free surplus £m	Total existing business surplus generation £m	Impact on net worth £m	Reduction in free surplus from required capital £m	Total new business surplus generation £m	Total free surplus generation £m
United Kingdom	76	49	180	3	308	(77)	(62)	(139)	169
Aviva Europe	230	46	(1)	100	375	(77)	(149)	(226)	149
Delta Lloyd	89	27	(75)	43	84	(53)	(44)	(97)	(13)
Europe	319	73	(76)	143	459	(130)	(193)	(323)	136
North America	99	47	(75)	170	241	(191)	(277)	(468)	(227)
Asia Pacific	46	4	18	18	86	(30)	(30)	(60)	26
Total	540	173	47	334	1,094	(428)	(562)	(990)	104

31 December 2009	Existing business					New business			Total business
	Transfer from VIF to net worth £m	Return on net worth £m	Impact of experience variances and assumption changes on net worth £m	Release of required capital to free surplus £m	Total existing business surplus generation £m	Impact on net worth £m	Reduction in free surplus from required capital £m	Total new business surplus generation £m	Total free surplus generation £m
United Kingdom	220	99	62	(70)	311	(53)	(130)	(183)	128
Aviva Europe	495	89	27	112	723	(177)	(281)	(458)	265
Delta Lloyd	175	57	(124)	55	163	(111)	(124)	(235)	(72)
Europe	670	146	(97)	167	886	(288)	(405)	(693)	193
North America	159	90	(100)	457	606	(192)	(390)	(582)	24
Asia Pacific	82	11	(5)	2	90	(55)	(58)	(113)	(23)
Total	1,131	346	(140)	556	1,893	(588)	(983)	(1,571)	322

E9 – Maturity profile of business

(a) Total in-force business

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

30 June 2010 £m	0-5	6-10	11-15	16-20	20+	Total gross of non-controlling interest	Total net of non-controlling interest
United Kingdom	**102**	**640**	**499**	**275**	**482**	**1,998**	**1,998**
Aviva Europe	**1,606**	**987**	**584**	**357**	**462**	**3,996**	**3,173**
Delta Lloyd	**78**	**79**	**53**	**27**	**(85)**	**152**	**39**
Europe	**1,684**	**1,066**	**637**	**384**	**377**	**4,148**	**3,212**
North America	**(145)**	**(169)**	**(14)**	**(11)**	**30**	**(309)**	**(309)**
Asia Pacific	**104**	**79**	**35**	**20**	**12**	**250**	**244**
Total	**1,745**	**1,616**	**1,157**	**668**	**901**	**6,087**	**5,145**

31 December 2009 £m	0-5	6-10	11-15	16-20	20+	Total gross of non-controlling interest	Total net of non-controlling interest
United Kingdom	289	629	490	288	369	2,065	2,065
Aviva Europe	1,613	1,149	656	350	342	4,110	3,271
Delta Lloyd	36	99	118	101	(156)	198	68
Europe	1,649	1,248	774	451	186	4,308	3,339
North America	(238)	(251)	28	13	54	(394)	(394)
Asia Pacific	102	72	29	18	26	247	241
Total	1,802	1,698	1,321	770	635	6,226	5,251

(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.

30 June 2010 £m	0-5	6-10	11-15	16-20	20+	Total gross of non-controlling interest	Total net of non-controlling interest
United Kingdom	**55**	**36**	**26**	**22**	**45**	**184**	**184**
Aviva Europe	**159**	**70**	**39**	**23**	**25**	**316**	**224**
Delta Lloyd	**(32)**	**20**	**19**	**12**	**(5)**	**14**	**6**
Europe	**127**	**90**	**58**	**35**	**20**	**330**	**230**
North America	**47**	**15**	**—**	**(2)**	**(9)**	**51**	**51**
Asia Pacific	**29**	**8**	**4**	**2**	**1**	**44**	**43**
Total	**258**	**149**	**88**	**57**	**57**	**609**	**508**

31 December 2009 £m	0-5	6-10	11-15	16-20	20+	Total gross of non-controlling interest	Total net of non-controlling interest
United Kingdom	107	30	34	19	40	230	230
Aviva Europe	286	126	80	37	43	572	414
Delta Lloyd	(20)	45	49	38	(70)	42	35
Europe	266	171	129	75	(27)	614	449
North America	20	6	64	52	66	208	208
Asia Pacific	46	14	8	4	5	77	76
Total	439	221	235	150	84	1,129	963

E10 – Segmental analysis of life and related business embedded value

30 June 2010	Net worth			
	Free surplus £m	Required capital[1] £m	VIF £m	Total Embedded value £m
United Kingdom	**909**	**2,859**	**1,998**	**5,766**
France[2]	**(186)**	**1,527**	**1,267**	**2,608**
Ireland	**226**	**206**	**429**	**861**
Italy	**146**	**308**	**139**	**593**
Poland	**64**	**103**	**896**	**1,063**
Spain	**139**	**200**	**228**	**567**
Other Europe	**32**	**37**	**214**	**283**
Aviva Europe	**421**	**2,381**	**3,173**	**5,975**
Delta Lloyd	**318**	**893**	**39**	**1,250**
Europe	**739**	**3,274**	**3,212**	**7,225**
North America[2,3]	**(164)**	**1,415**	**(309)**	**942**
Asia Pacific	**122**	**211**	**244**	**577**
Total	**1,606**	**7,759**	**5,145**	**14,510**

1. Required capital is shown net of implicit items permitted by local regulators to cover minimum solvency margins.
2. France and USA have a positive surplus on a statutory basis.
3. Aviva USA's holding company debt amounting to £824 million at 30 June 2010 has been included within non-covered business.

Restated 30 June 2009	Net worth			
	Free surplus £m	Required capital[1] £m	VIF £m	Total Embedded value £m
United Kingdom	1,401	1,546	2,090	5,037
France[2]	(195)	1,449	1,106	2,360
Ireland	125	218	486	829
Italy	231	230	148	609
Poland	138	109	617	864
Spain	120	203	305	628
Other Europe	42	25	151	218
Aviva Europe	461	2,234	2,813	5,508
Delta Lloyd	679	1,580	66	2,325
Europe	1,140	3,814	2,879	7,833
North America[2,3]	(455)	1,376	(811)	110
Asia	105	156	216	477
Australia	26	258	69	353
Asia Pacific	131	414	285	830
Total	2,217	7,150	4,443	13,810

1. Required capital is shown net of implicit items permitted by local regulators to cover minimum solvency margins.
2. France and USA have a positive surplus on a statutory basis.
3. Aviva USA's holding company debt amounting to £819 million at 30 June 2009 has been included within non-covered business.

31 December 2009	Net Worth			
	Free surplus £m	Required capital[1] £m	VIF £m	Total Embedded value £m
United Kingdom[2]	1,270	2,568	2,065	5,903
France[3]	(71)	1,592	1,252	2,773
Ireland	175	226	487	888
Italy	263	268	129	660
Poland	60	131	950	1,141
Spain	135	212	265	612
Other Europe	38	33	188	259
Aviva Europe	600	2,462	3,271	6,333
Delta Lloyd	368	1,095	68	1,531
Europe	968	3,557	3,339	7,864
North America[3,4]	(152)	1,240	(394)	694
Asia	118	181	241	540
Australia	—	—	—	—
Asia Pacific	118	181	241	540
Total	2,204	7,546	5,251	15,001

1. Required capital is shown net of implicit items permitted by local regulators to cover minimum solvency margins.
2. The large increase in required capital in the UK reflects the additional capital locked in following the reatrribution of the inherited estate..
3. France and Aviva USA have a positive surplus on a statutory basis.
4. Aviva USA's holding company debt amounting to £810 million at 31 December 2009 has been included within non-covered business.

E11 – Risk allowance within present value of in-force (VIF)

Within the VIF in the tables on page 24, there are additional allowances for risks not included within the basic present value of future profits calculation.

30 June 2010	PVFP £m	Frictional costs £m	Non-hedgeable risks £m	Time value of financial options and guarantees £m	VIF £m
United Kingdom	**2,529**	**(295)**	**(211)**	**(25)**	**1,998**
France	**2,023**	**(124)**	**(149)**	**(483)**	**1,267**
Ireland	**453**	**(7)**	**(17)**	**—**	**429**
Italy	**202**	**(24)**	**(12)**	**(27)**	**139**
Poland	**980**	**(14)**	**(62)**	**(8)**	**896**
Spain	**283**	**(12)**	**(28)**	**(15)**	**228**
Other Europe	**226**	**(4)**	**(6)**	**(2)**	**214**
Aviva Europe	**4,167**	**(185)**	**(274)**	**(535)**	**3,173**
Delta Lloyd	**407**	**(78)**	**(65)**	**(225)**	**39**
Europe	**4,574**	**(263)**	**(339)**	**(760)**	**3,212**
North America	**96**	**(157)**	**(51)**	**(197)**	**(309)**
Asia Pacific[1]	**348**	**(24)**	**(42)**	**(38)**	**244**
Total	**7,547**	**(739)**	**(643)**	**(1,020)**	**5,145**

Restated 30 June 2009	PVFP £m	Frictional costs £m	Non-hedgeable risks £m	Time value of financial options and guarantees £m	VIF £m
United Kingdom	2,518	(197)	(157)	(74)	2,090
France	1,775	(170)	(124)	(375)	1,106
Ireland	516	(11)	(19)	—	486
Italy	195	(22)	(10)	(15)	148
Poland	689	(17)	(46)	(9)	617
Spain	368	(16)	(30)	(17)	305
Other Europe	159	(3)	(3)	(2)	151
Aviva Europe	3,702	(239)	(232)	(418)	2,813
Delta Lloyd	710	(175)	(167)	(302)	66
Europe	4,412	(414)	(399)	(720)	2,879
North America	(369)	(27)	(34)	(381)	(811)
Asia	289	(17)	(27)	(29)	216
Australia	135	(31)	(24)	(11)	69
Asia Pacific	424	(48)	(51)	(40)	285
Total	6,985	(686)	(641)	(1,215)	4,443

31 December 2009	PVFP £m	Frictional costs £m	Non-hedgeable risks £m	Time value of financial options and guarantees £m	VIF £m
United Kingdom	2,572	(285)	(197)	(25)	2,065
France	2,048	(144)	(155)	(497)	1,252
Ireland	517	(9)	(21)	—	487
Italy	189	(22)	(11)	(27)	129
Poland	1,050	(17)	(74)	(9)	950
Spain	326	(16)	(28)	(17)	265
Other Europe	198	(3)	(5)	(2)	188
Aviva Europe	4,328	(211)	(294)	(552)	3,271
Delta Lloyd	487	(129)	(80)	(210)	68
Europe	4,815	(340)	(374)	(762)	3,339
North America	80	(9)	(45)	(420)	(394)
Asia Pacific[1]	324	(19)	(30)	(34)	241
Total	7,791	(653)	(646)	(1,241)	5,251

1. Australia business sold during 2009.

E12 – Implied discount rates (IDR)

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

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

Average derived risk discount rates are shown below for the embedded value.

	30 June 2010 %	Restated 31 December 2009 %
United Kingdom	**8.0%**	10.4%
France[1]	**6.4%**	7.2%
Ireland[1]	**4.1%**	5.1%
Italy[1]	**4.6%**	5.3%
Poland	**6.2%**	7.1%
Spain	**7.8%**	8.4%
Other Europe	**7.0%**	8.9%
Aviva Europe	**6.1%**	6.9%
Delta Lloyd[1]	**13.8%**	10.5%
Europe	**7.6%**	8.1%
North America[3]	**24.9%**	35.6%
Asia Pacific[1,2]	**7.4%**	7.2%
Total	**8.9%**	10.1%

1. The IDRs have been restated following more detailed review resulting from the change in expected return methodology, which reflected a more appropriate allowance for the impact of the release of required capital and other refinements
2. Asia Pacific excludes Australian life and pensions business sold in October 2009.
3. The US full year 2009 IDR has been revised to reflect the expected future tax paying position of the business. This reduces the IDR from 41.2% to 35.6%. The revised IDR gives the correct expected return allowing for the impact on future cashflows within the IDR calculation and the impact of the tax assumption change on the closing full-year 2009 balance sheet.

E13 – Analysis of fund management and service company business within embedded value

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

			6 months 2010	6 months 2009	Full year 2009
	Fund management £m	**Other operations £m**	**Total £m**	Total £m	Total £m
United Kingdom	**143**	**(113)**	**30**	(3)	35
France	**172**	**60**	**232**	214	237
Delta Lloyd	**118**	**(107)**	**11**	(21)	9
United States	**162**	**91**	**253**	195	228
Other	**25**	**(67)**	**(42)**	53	(13)
Total	**620**	**(136)**	**484**	438	496

The "look-through" value attributable to fund management is based on the level of after-tax profits expected to be earned in the future over the outstanding term of the covered business in respect of services provided to the group's life operations. The MCEV basis income statement excludes the actual statutory basis profits arising from the provision of fund management services to the group's life businesses. The MCEV income statement records the experience profit or loss compared to the assumed profitability, the expected return on the in-force value and the effect on the in-force value of changes to economic assumptions.

In the United Kingdom, Aviva Life Services Limited (UK) (ALS) is the main provider of administration services to the UK Life business. ALS incurs substantially all of the UK businesses' operating expenditure, comprising acquisition, maintenance and project costs. Costs are recharged to the UK Life companies (the product companies) on the basis of predetermined Management Services Agreements (MSAs).

E14 – Summary of non-controlling interest in life and related businesses' MCEV results

30 June 2010	France £m	Ireland £m	Italy £m	Poland £m	Spain £m	Aviva Europe £m	Delta Lloyd* £m	Europe £m	Asia Pacific £m	Total £m	Share-holders' interest £m	Group £m
Value of new business, net of tax	**8**	**—**	**34**	**2**	**25**	**69**	**(17)**	**52**	**—**	**52**	**246**	**298**
Life MCEV operating earnings after tax	**43**	**9**	**55**	**10**	**35**	**152**	**58**	**210**	**2**	**212**	**1,132**	**1,344**
Life MCEV (loss)/earnings after tax	**55**	**16**	**44**	**13**	**23**	**151**	**(97)**	**54**	**1**	**55**	**924**	**979**
Closing covered businesses' embedded value	**334**	**281**	**694**	**150**	**559**	**2,018**	**1,118**	**3,136**	**16**	**3,152**	**14,510**	**17,662**

Restated 30 June 2009	France £m	Ireland £m	Italy £m	Poland £m	Spain £m	Aviva Europe £m	Delta Lloyd £m	Europe £m	Asia Pacific £m	Total £m	Share-holders' interest £m	Group £m
Value of new business, net of tax	7	1	29	3	28	68	6	74	—	74	190	264
Life MCEV operating earnings after tax	22	5	41	9	54	131	10	141	1	142	1,030	1,172
Life MCEV (loss)/earnings after tax	14	(11)	40	(24)	1	20	(1)	19	4	23	882	905
Closing covered businesses' embedded value	270	271	697	119	539	1,896	178	2,074	16	2,090	13,810	15,900

31 December 2009	France £m	Ireland £m	Italy £m	Poland £m	Spain £m	Aviva Europe £m	Delta Lloyd* £m	Europe £m	Asia Pacific £m	Total £m	Share-holders' interest £m	Group £m
Value of new business, net of tax	16	2	47	5	56	126	3	129	—	129	375	504
Life MCEV operating earnings after tax	45	14	79	53	81	272	64	336	1	337	2,178	2,515
Life MCEV (loss)/earnings after tax	51	1	64	17	57	190	(90)	100	—	100	3,393	3,493
Closing covered businesses' embedded value	320	290	762	162	586	2,120	1,304	3,424	14	3,438	15,001	18,439

* the non-controlling interest for Delta Lloyd increased due to the IPO in 2009.

There are no non-controlling interests in the United Kingdom or North America.

E15 – Principal economic assumptions

(a) Economic assumptions – Deterministic calculations

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

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

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

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

The adjustments made to swap rates to derive a risk-free rate for immediate annuity type contracts and all US contracts are shown below the reference rate table.

The principal economic assumptions used are as follows:

Reference rate (spot, swap rates) and expense inflation

	United Kingdom			
	30 June 2010	30 June 2009	31 December 2009	31 December 2008
Reference rate				
1 year	**1.3%**	1.6%	1.2%	2.8%
5 years	**2.5%**	3.8%	3.5%	3.2%
10 years	**3.6%**	4.3%	4.3%	3.5%
15 years	**4.0%**	4.6%	4.6%	3.8%
20 years	**4.1%**	4.6%	4.6%	3.8%
Expense inflation	**3.0%**	3.4%	3.3%	2.4%

	Delta Lloyd[1]			
	30 June 2010	30 June 2009	31 December 2009	31 December 2008
Reference rate				
1 year	**1.2%**	1.4%	1.3%	2.5%
5 years	**2.1%**	2.9%	2.9%	3.3%
10 years	**3.0%**	3.7%	3.7%	3.8%
15 years	**3.4%**	4.1%	4.1%	4.0%
20 years	**3.5%**	4.3%	4.2%	3.9%
Expense inflation	**2.5%**	2.5%	2.4%	2.5%

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

	Eurozone (excluding Delta Lloyd)			
	30 June 2010	30 June 2009	31 December 2009	31 December 2008
Reference rate				
1 year	**1.2%**	1.4%	1.3%	2.5%
5 years	**2.1%**	2.9%	2.8%	3.3%
10 years	**3.0%**	3.7%	3.7%	3.8%
15 years	**3.4%**	4.2%	4.1%	3.9%
20 years	**3.5%**	4.2%	4.2%	3.9%
Expense inflation	**2.7%**	2.1%	2.5%	2.1%

	Poland			
	30 June 2010	30 June 2009	31 December 2009	31 December 2008
Reference rate				
1 year	**4.1%**	4.5%	4.5%	4.4%
5 years	**5.2%**	5.5%	5.8%	4.3%
10 years	**5.4%**	5.6%	5.8%	4.2%
15 years	**5.3%**	5.5%	5.7%	4.1%
20 years	**5.0%**	5.4%	5.5%	4.0%
Expense inflation	**2.7%**	3.2%	3.0%	2.9%

E15 – Principal economic assumptions continued

	United States			
	30 June 2010	30 June 2009	31 December 2009	31 December 2008
Reference rate				
1 year	**0.7%**	1.6%	0.7%	1.3%
5 years	**2.1%**	3.0%	3.1%	2.2%
10 years	**3.2%**	3.8%	4.2%	2.6%
15 years	**3.6%**	4.1%	4.6%	2.9%
20 years	**3.8%**	4.1%	4.8%	2.9%
Expense inflation	**3.0%**	3.0%	3.0%	3.0%

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

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

	New business					Embedded value		
	First quarter 2010	**Second quarter 2010**	First half 2009	Third quarter 2009	Fourth quarter 2009	**30 June 2010**	30 June 2009	31 December 2009
UK[1]	**0.80%/0.75%**	**0.75%/0.70%**	1.50%	1.10%/0.95%	0.90%/0.45%	**1.15%**	1.25%	1.00%
France	**n/a**	**n/a**	n/a	n/a	n/a	**0.35%**	0.50%	0.30%
Spain	**0.15%**	**0.20%**	1.00%	0.75%	0.30%	**0.25%**	0.40%	0.30%
Delta Lloyd	**0.15%**	**0.35%**	1.50%	0.40%	0.20%	**0.35%**	0.50%	0.15%
US immediate annuities	**0.65%**	**0.65%**	3.00%	1.50%	1.05%	**0.85%**	1.50%	0.65%
US deferred annuities and all other contracts	**0.55%**	**0.55%**	2.50%	1.25%	0.90%	**0.70%**	1.25%	0.55%

1. The rate provided is for immediate annuities/bulk purchase annuities

For 2010, the approach to estimating the market level of liquidity premium in corporate bond assets has been simplified to use the formula structure proposed by CFO/CRO Forum working party.

The formula is:

UK / Europe: 50% of (iBoxx Corporate bond spread – 40bp)

USA: 60% of (iBoxx Corporate bond spread – 40bp)

Adjustments are made where liabilities are not fully backed by assets earning a liquidity premium and for contracts that are exposed to some lapse risk.

The revised approach increases the EV by £0.4 billion due to the release of prudent margins in the previous direct Credit Default Swap-based approach. There has been no change to the types of contracts to which a liquidity premium is applied.

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 E1 – 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 2010	30 June 2009	31 December 2009	31 December 2008
Equity risk premium	**3.5%**	3.5%	3.5%	3.5%
Property risk premium	**2.0%**	2.0%	2.0%	2.0%

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

E15 – Principal economic assumptions continued

Required capital and tax

	Tax rates[6]				Required capital (% EU minimum or equivalent)		
	30 June 2010	30 June 2009	31 December 2009	31 December 2008	**30 June 2010**	30 June 2009	31 December 2009
United Kingdom[1]	**28.0%**	28.0%	28.0%	28.0%	**100%/110%**	100%/110%	100%/110%
France	**34.4%**	34.4%	34.4%	34.4%	**110%**	110%	110%
Ireland	**12.5%**	12.5%	12.5%	12.5%	**150%**	150%	150%
Italy[2]	**32.4%**	32.4%	32.4%	32.4%	**115%/222%**	115%/184%	115%/184%
Poland	**19.0%**	19.0%	19.0%	19.0%	**130%**	150%	150%
Spain[3]	**30.0%**	30.0%	30.0%	30.0%	**110%/125%**	110%/125%	110%/125%
Delta Lloyd[4]	**25.5%**	25.5%	25.5%	25.5%	**116 %**	132%	139%
United States[5]	**35.0%**	0.0%	0.0%	0.0%	**325%**	325%	325%

1. The required capital in the United Kingdom under MCEV is 100% for unit-linked and other non-participating business and 110% for annuity business. With 200% for an immaterial amount of 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.
2. Required capital in Italy under MCEV is 222% of the EU minimum for Eurovita and 115% for other companies.
3. Required capital in Spain is 125% of the EU minimum for Aviva Vida y Pensiones and 110% for bancassurance companies.
4. This capital level is the aggregate capital required for Delta Lloyd.
5. Following a more detailed review of the implied tax position of Aviva US, 2010 results have been calculated including the impact of full corporate tax applying to the cash flows, and consequentially 2010 results are "grossed up" at the corporation tax rate in line with other businesses
6. Current tax legislation and rates have been assumed to continue unaltered except where changes in future tax rates have been announced.

The Finance Bill published on 1 July 2010 includes a proposed 1% reduction in the UK corporation tax rate from 28% to 27% with effect from April 2011. This rate reduction is expected to increase the embedded value of our UK segment by £60 million. The UK corporation tax rate has not been revised for half year 2010.

Other economic assumptions

Required capital relating to with-profit business is assumed to be covered by the surplus within the with-profit funds and no effect has been attributed to shareholders. Bonus rates on participating business have been set at levels consistent with the economic assumptions. The distribution of profit between policyholders and shareholders within the with-profit funds assumes that the shareholder interest in conventional with-profit business in the United Kingdom and Ireland continues at the current rate of one-ninth of the cost of bonus.

(b) Economic Assumptions – Stochastic calculations

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

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

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

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

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

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

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

Model – Netherlands

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

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

E15 – Principal economic assumptions continued

Asset classes

The significant asset classes for UK participating business are equities, property and long-term fixed rate bonds. The most significant assumption is the distribution of future long-term interest rates, since this is the most important factor in the cost of guaranteed annuity options.

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

Summary statistics

Swaption implied volatilities

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

	30 June 2010 Swap length				30 June 2009[1] Swap length				31 December 2009 Swap length			
Option length	**10 years**	**15 years**	**20 years**	**25 years**	10 years	15 years	20 years	25 years	10 years	15 years	20 years	25 years
UK sterling												
10 years	**n/a**	**n/a**	**12.5%**	**n/a**	n/a	n/a	11.8%	n/a	n/a	n/a	14.1%	n/a
15 years	**n/a**	**n/a**	**12.3%**	**n/a**	n/a	n/a	11.9%	n/a	n/a	n/a	14.6%	n/a
20 years	**n/a**	**n/a**	**11.9%**	**n/a**	n/a	n/a	12.1%	n/a	n/a	n/a	14.4%	n/a
25 years	**n/a**	**n/a**	**11.5%**	**n/a**	n/a	n/a	12.4%	n/a	n/a	n/a	14.0%	n/a
Euro												
10 years	**18.6%**	**18.4%**	**18.1%**	**17.8%**	11.7%	11.7%	11.7%	11.8%	17.9%	17.8%	17.7%	17.6%
15 years	**18.3%**	**17.8%**	**17.3%**	**16.6%**	10.9%	10.9%	10.4%	10.9%	18.0%	17.6%	17.3%	16.9%
20 years	**17.1%**	**16.5%**	**15.9%**	**15.2%**	10.5%	10.4%	10.4%	10.3%	17.1%	16.7%	16.3%	15.7%
25 years	**16.0%**	**15.2%**	**14.5%**	**13.8%**	10.0%	10.0%	9.9%	9.5%	16.2%	15.6%	15.0%	14.4%
Delta Lloyd												
10 years	**16.4%**	**17.0%**	**17.9%**	**19.2%**	11.6%	11.6%	11.7%	11.7%	14.5%	15.3%	17.3%	18.6%
15 years	**18.2%**	**19.0%**	**19.5%**	**20.4%**	10.8%	10.7%	10.6%	10.8%	15.2%	15.8%	17.8%	18.9%
20 years	**22.1%**	**22.4%**	**22.0%**	**21.6%**	10.5%	10.3%	10.2%	10.3%	15.8%	16.7%	18.1%	18.5%
25 years	**23.7%**	**23.1%**	**21.9%**	**21.4%**	10.0%	9.8%	9.8%	9.7%	16.8%	17.5%	18.2%	18.3%
US dollar												
10 years	**20.4%**	**19.5%**	**18.6%**	**18.0%**	15.2%	14.4%	14.0%	14.0%	20.0%	18.9%	18.0%	17.3%
15 years	**18.5%**	**17.5%**	**16.7%**	**16.0%**	13.9%	13.0%	12.8%	12.7%	17.5%	16.4%	15.6%	15.0%
20 years	**16.7%**	**15.8%**	**15.1%**	**14.4%**	13.3%	12.4%	12.1%	12.1%	15.5%	14.5%	13.8%	13.2%
25 years	**15.0%**	**14.2%**	**13.5%**	**12.8%**	12.9%	11.9%	11.6%	11.7%	13.7%	12.9%	12.2%	11.6%

1. HY09 volatilities were calibrated to end August 2008.

Equity implied volatilities

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

30 June 2010							**Country**
Option length	**UK**	**France**	**Italy**	**Ireland**	**Delta Lloyd**	**Spain**	**US**
5 years	**27.8%**	**31.1%**	**30.1%**	**29.5%**	**27.6%**	**34.1%**	**31.0%**
10 years	**28.5%**	**29.4%**	**29.6%**	**28.7%**	**30.1%**	**31.9%**	**31.2%**
15 years	**29.1%**	**29.7%**	**28.2%**	**29.1%**	**31.7%**	**30.5%**	**31.1%**

30 June 2009[1]							Country
Option length	UK	France	Italy	Ireland	Delta Lloyd	Spain	US
5 years	25.8%	24.9%	24.4%	24.5%	26.1%	26.3%	24.6%
10 years	27.2%	26.3%	n/a	26.2%	26.8%	28.8%	27.3%
15 years	27.7%	n/a	n/a	27.0%	27.1%	n/a	28.9%

1. HY09 volatilities were calibrated to end August 2008.

31 December 2009							Country
Option length	UK	France	Italy	Ireland	Delta Lloyd	Spain	US
5 years	25.3%	29.2%	26.9%	27.7%	27.5%	27.0%	26.9%
10 years	26.6%	29.0%	26.5%	27.3%	29.1%	25.7%	27.8%
15 years	27.3%	30.0%	26.4%	28.1%	30.5%	26.5%	29.1%

E15 – Principal economic assumptions continued

Property implied volatilities

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

For the UK and the Netherlands, model property implied volatility is 15% for 30 June 2010 (30 June 2009: 15%).

Demographic assumptions

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

We have set the assumptions based on a best estimate of shareholder outcomes. In particular, where the policyholder behaviour varies with economic experience, we have set assumptions which are dynamic, ie vary depending on the economic assumptions. For example, surrender and option take up rate assumptions that vary according to the investment scenario under consideration have been used in the calculation of the time value of options and guarantees, based on our assessment of likely policyholder behaviour in different investment scenarios.

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

Expense assumptions

Management expenses and operating expenses of holding companies attributed to life and related businesses have been included in the MCEV calculations and split between expenses relating to the acquisition of new business, the maintenance of business in-force and project expenses. Future expense assumptions include an allowance for maintenance expenses and a proportion of recurring project expenses. Certain expenses of an exceptional nature, when they occur, are identified separately and are generally charged as incurred. No future productivity gains have been anticipated.

Where subsidiary companies provide administration, investment management or other services to our life businesses, the value of profits or losses arising from these services have been included in the embedded value and value of new business.

Non-hedgeable risk

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

(c) Other assumptions

Valuation of debt

Borrowings in the MCEV consolidated statement of financial position are valued on an IFRS basis, consistent with the primary financial statements. At 30 June 2010 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 £6,399 million (30 June 2009: £5,422 million; 31 December 2009: £6,634 million).

	30 June 2010	30 June 2009	31 December 2009
Borrowings per summarised consolidated statement of financial position – MCEV basis	**14,127**	14,325	15,000
Add: amount included within held for sale	**—**	—	—
Less: Securitised mortgage funding	**(6,574)**	(6,807)	(7,329)
Borrowings excluding non-recourse funding – MCEV basis	**7,553**	7,518	7,671
Less: Operational financing by businesses	**(2,195)**	(1,694)	(2,182)
External debt and subordinated debt – MCEV basis	**5,358**	5,824	5,489
Add: Preference shares (including General Accident plc) and direct capital instrument	**1,440**	1,440	1,440
External debt, subordinated debt, preference shares and direct capital instrument – MCEV basis	**6,798**	7,264	6,929
Effect of marking these instruments to market	**(399)**	(1,842)	(295)
Market value of external debt, subordinated debt, preference shares and direct capital instrument	**6,399**	5,422	6,634

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.

E16 – 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 adjustment to risk free rates for contracts where a liquidity premium adjustment is made.
— one and two percentage point increase and decrease in the risk-free rate, including all consequential changes (including assumed investment returns for all asset classes, market values of fixed interest assets, risk discount rates);
— 10% increase and decrease in market values of equity and property assets;
— 25% increase in equity and swaption volatilities;
— 50 basis point increase and decrease in credit spreads; and
— decrease in the level of required capital to 100% EU minimum (or equivalent).

In each sensitivity calculation, all other assumptions remain unchanged except where they are directly affected by the revised economic conditions. For example, future bonus rates are automatically adjusted to reflect sensitivity changes to future investment returns. Some of the sensitivity scenarios may have consequential effects on valuation bases, where the basis for certain blocks of business is actively updated to reflect current economic circumstances. Consequential valuation impacts on the sensitivities are allowed for where an active valuation basis is used. Where businesses have a target asset mix, the portfolio is re-balanced after a significant market movement otherwise no re-balancing is assumed.

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

In general, the magnitude of the sensitivities will reflect the size of the embedded values, though this will vary as the sensitivities have different impacts on the different components of the embedded value. In addition, other factors can have a material impact, such as the nature of the options and guarantees, as well as the types of investments held.

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

Sensitivities will also vary according to the current economic assumptions, mainly due to the impact of changes to both the intrinsic cost and time value of options and guarantees. Options and guarantees are the main reason for the asymmetry of the sensitivities where the guarantee impacts to different extents under the different scenarios. This can be seen in the sensitivity of a 1%–2% movement in the interest rate for the Netherlands and US, where there is a significant amount of business with investment return guarantees.

Embedded value

30 June 2010 Embedded value (net of tax and non-controlling interest)	As reported on page 24 £m	10bp increase in adjustment to risk-free rates £m	Interest Rates 1% increase £m	1% decrease £m	2% increase £m	2% decrease £m
United Kingdom	5,766	130	(110)	65	(280)	185
France	2,608	5	(115)	50	(250)	(45)
Ireland	861	—	(30)	35	(60)	55
Italy	593	—	10	(30)	10	(100)
Poland	1,063	—	(50)	55	(95)	125
Spain	567	10	(10)	10	(25)	15
Other Europe	283	—	(10)	10	(20)	25
Aviva Europe	5,975	15	(205)	130	(440)	75
Delta Lloyd	1,250	50	270	(525)	425	(1,290)
Europe	7,225	65	65	(395)	(15)	(1,215)
North America	942	85	210	(5)	(125)	(365)
Asia Pacific	577	—	25	(125)	35	(360)
Total	14,510	280	190	(460)	(385)	(1,755)

The sensitivity to adjusting risk-free rates by 10bp only reflects a reduction in future investment returns and discount rates. The interest rate sensitivities include consequential impacts such as the change in market values of fixed assets as well as the change in future investment returns and discount rates.

E16 – Sensitivity analysis continued

30 June 2010 Embedded value (net of tax and non-controlling interest)	As reported on page 24 £m	Equity/property – Market values 10% increase £m	Equity/property – Market values 10% decrease £m	Equity/property – Volatility 25% increase £m
United Kingdom	**5,766**	**215**	**(230)**	**(250)**
France	**2,608**	**95**	**(105)**	**(150)**
Ireland	**861**	**20**	**(20)**	**—**
Italy	**593**	**5**	**(5)**	**—**
Poland	**1,063**	**5**	**(5)**	**—**
Spain	**567**	**10**	**(10)**	**(5)**
Other Europe	**283**	**—**	**—**	**—**
Aviva Europe	**5,975**	**135**	**(145)**	**(155)**
Delta Lloyd	**1,250**	**240**	**(245)**	**(20)**
Europe	**7,225**	**375**	**(390)**	**(175)**
North America	**942**	**—**	**—**	**—**
Asia Pacific	**577**	**20**	**(20)**	**(5)**
Total	**14,510**	**610**	**(640)**	**(430)**

30 June 2010 Embedded value (net of tax and non-controlling interest)	As reported on page 24 £m	Swaption implied volatilities 25% increase £m	Corporate bond credit spreads[1] 50bps increase £m	Corporate bond credit spreads[1] 50bps decrease £m	EU minimum capital (or equivalent) £m
United Kingdom	**5,766**	**(15)**	**(645)**	**695**	**15**
France	**2,608**	**(80)**	**(105)**	**80**	**15**
Ireland	**861**	**—**	**—**	**—**	**5**
Italy	**593**	**—**	**—**	**—**	**5**
Poland	**1,063**	**—**	**—**	**—**	**5**
Spain	**567**	**—**	**(40)**	**35**	**—**
Other Europe	**283**	**—**	**—**	**—**	**5**
Aviva Europe	**5,975**	**(80)**	**(145)**	**115**	**35**
Delta Lloyd	**1,250**	**60**	**(75)**	**65**	**5**
Europe	**7,225**	**(20)**	**(220)**	**180**	**40**
North America	**942**	**(75)**	**(510)**	**380**	**110**
Asia Pacific	**577**	**—**	**(15)**	**15**	**25**
Total	**14,510**	**(110)**	**(1,390)**	**1,270**	**190**

1. Corporate bond credit spreads sensitivities include no allowance for any changes to liquidity premium adjustments

Value of new business

30 June 2010 Value of new business (net of tax and non-controlling interest)	As reported on page 16 £m	10bp increase in adjustment to risk-free rates £m	Risk free rates 1% increase £m	Risk free rates 1% decrease £m	Risk free rates 2% increase £m	Risk free rates 2% decrease £m
United Kingdom	**127**	**9**	**(12)**	**16**	**(21)**	**36**
France	**58**	**—**	**(3)**	**(5)**	**(6)**	**2**
Ireland	**1**	**—**	**1**	**(1)**	**1**	**(1)**
Italy	**24**	**—**	**(1)**	**—**	**(3)**	**(3)**
Poland	**14**	**—**	**(1)**	**1**	**(2)**	**2**
Spain	**22**	**—**	**(1)**	**1**	**(1)**	**1**
Other Europe	**9**	**—**	**(1)**	**1**	**(1)**	**2**
Aviva Europe	**128**	**—**	**(6)**	**(3)**	**(12)**	**3**
Delta Lloyd	**(25)**	**1**	**11**	**(12)**	**19**	**(30)**
Europe	**103**	**1**	**5**	**(15)**	**7**	**(27)**
North America	**2**	**7**	**(17)**	**4**	**(37)**	**2**
Asia Pacific	**14**	**—**	**10**	**(12)**	**18**	**(31)**
Total	**246**	**17**	**(14)**	**(7)**	**(33)**	**(20)**

E16 – Sensitivity analysis continued

30 June 2010 Value of new business (net of tax and non-controlling interest)	As reported on page 16 £m	Equity/property: Market values 10% increase £m	Equity/property: Market values 10% decrease £m	Equity/property: Volatility 25% increase £m
United Kingdom	127	4	(4)	—
France	58	4	(4)	(3)
Ireland	1	—	—	—
Italy	24	1	(1)	—
Poland	14	—	—	—
Spain	22	—	—	—
Other Europe	9	—	—	—
Aviva Europe	128	5	(5)	(3)
Delta Lloyd	(25)	3	(3)	(1)
Europe	103	8	(8)	(4)
North America	2	—	—	—
Asia Pacific	14	—	—	—
Total	246	12	(12)	(4)

30 June 2010 Value of new business (net of tax and non-controlling interest)	As reported on page 16 £m	Swaption implied volatilities 25% increase £m	Corporate bond credit spreads[1] 50bps increase £m	Corporate bond credit spreads[1] 50bps decrease £m	EU minimum capital (or equivalent) £m
United Kingdom	127	—	(38)	43	1
France	58	(2)	—	3	1
Ireland	1	—	—	—	—
Italy	24	—	—	—	1
Poland	14	—	—	—	—
Spain	22	—	(2)	3	—
Other Europe	9	—	—	—	—
Aviva Europe	128	(2)	(2)	6	2
Delta Lloyd	(25)	1	(3)	3	1
Europe	103	(1)	(5)	9	3
North America	2	(12)	(29)	15	9
Asia Pacific	14	—	—	—	4
Total	246	(13)	(72)	67	17

1. Corporate bond credit spreads sensitivities include no allowance for any changes to liquidity premium adjustments

(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.

E16 – Sensitivity analysis continued

Embedded value

30 June 2010 Embedded value (net of tax)	As reported on page 24 £m	10% decrease in maintenance expenses £m	10% decrease in lapse rates £m	5% decrease in mortality/ morbidity rates – life assurance £m	5% decrease in mortality/ morbidity rates – annuity business £m
United Kingdom	5,766	205	50	40	(255)
France	2,608	45	50	35	(25)
Ireland	861	20	20	5	(5)
Italy	593	10	—	—	—
Poland	1,063	35	45	10	—
Spain	567	5	40	10	(5)
Other Europe	283	10	20	5	—
Aviva Europe	5,975	125	175	65	(35)
Delta Lloyd	1,250	245	—	10	(75)
Europe	7,225	370	175	75	(110)
North America	942	50	(15)	45	(15)
Asia Pacific	577	25	10	5	—
Total	14,510	650	220	165	(380)

Value of new business

30 June 2010 Value of new business (net of tax)	As reported on page 18 £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	127	10	9	5	(7)
France	58	2	2	1	—
Ireland	1	—	1	—	—
Italy	24	1	1	1	—
Poland	14	1	2	1	—
Spain	22	1	4	1	—
Other Europe	9	1	2	1	—
Aviva Europe	128	6	12	5	—
Delta Lloyd	(25)	5	—	—	(1)
Europe	103	11	12	5	(1)
North America	2	3	(4)	5	—
Asia Pacific	14	3	1	—	—
Total	246	27	18	15	(8)

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 and have also fully complied with all the guidance included therein. Specifically, the directors have:

— determined assumptions on a realistic basis, having regard to past, current and expected future experience and to relevant external data, and then applied them consistently;
— made estimates that are reasonable and consistent; and,
— provided additional disclosures when compliance with the specific requirements of the MCEV Principles is insufficient to enable users to understand the impact of particular transactions, other events and conditions and the group's financial position and financial performance.

Information on the directors can be found on page 80 of Aviva plc's 2009 Annual Report and Accounts.

By order of the Board

Patrick Regan
Chief Financial Officer
4 August 2010

Independent review report to Aviva plc

Introduction
We have been engaged by the Company to review the condensed set of MCEV financial statements in the half-yearly financial report for the six months ended 30 June 2010 which comprises the Condensed Consolidated Income Statement – MCEV Basis, the Condensed Statement of Comprehensive Income – MCEV Basis, the Condensed Statement of Changes in Equity – MCEV Basis, the Condensed Consolidated Statement of Financial Position – MCEV Basis, the Reconciliation of Shareholders' Equity on IFRS and MCEV bases, the Reconciliation of IFRS Total Equity to MCEV Net Worth, the Group MCEV Analysis of Earnings and the related notes E1 to E16 on pages 2 to 36; We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of MCEV financial statements.

We have reported separately on the condensed financial statements of Aviva plc prepared on an IFRS basis for the six months ended 30 June 2010. The information contained in the condensed set of MCEV financial statements should be read in conjunction with the condensed set of financial statements prepared on an IFRS basis. This information is described within the condensed set of MCEV financial statements in the half-yearly financial report as having being reviewed.

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

Directors' Responsibilities
The condensed set of MCEV financial statements in the half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the condensed set of MCEV financial statements in the half-yearly financial report in accordance with the Basis of Preparation set out on pages 7 to 10.

Our Responsibility
Our responsibilities, as independent auditors, in relation to the condensed set of MCEV financial statements in the half-yearly financial report are set out in our engagement letter with you dated 4 August 2010. We report to you our opinion as to whether the condensed set of MCEV financial statements in the half-yearly financial report have been properly prepared, in all material respects, in accordance with the Basis of Preparation set out on pages 7 to 10.

Scope of Review
We conducted our review in accordance with ISRE 2410. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the condensed set of MCEV financial statements in the half-yearly financial report for the six months ended 30 June 2010 is not prepared, in all material respects, in accordance with the Basis of Preparation set out on pages 7 to 10.

Ernst & Young LLP
London
4 August 2010

Glossary

Definitions of group key performance indicators and other terms

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 dependents or on a bulk purchase basis for groups of people. Deferred annuities are accumulation contracts, which may be used to provide benefits in retirement, and may be guaranteed, unit-linked or index-linked.
Bonds and savings	These are accumulation products with single or regular premiums and unit-linked or guaranteed investment returns. Our product ranges include single premium investment bonds, regular premium savings plans and mortgage endowment products.
Critical illness cover	Critical illness cover pays out a lump sum if the insured person is diagnosed with a serious illness that meets the plan definition. The cover is often provided in conjunction with other benefits under a protection contract.
Deferred annuities	An annuity (or pension) due to be paid from a future date or when the policyholder reaches a specified age. A deferred annuity may be funded by a policyholder by payment of a series of regular contributions or by a capital sum (the latter often provided from a pension fund).
Group pensions	A pension plan that covers a group of people, which is typically purchased by a company and offered to their employees
Guaranteed annuities	A policy that pays out a fixed regular amount of benefit for a defined period.
Income drawdown	The policyholder can transfer money from any pension fund to an income drawdown plan from which they receive an income. The remainder of the pension fund continues to be invested, giving it the potential for growth.
Index linked annuities	An index linked annuity is a type of deferred annuity whose credited interest is linked to an equity index. It guarantees a minimum interest rate and protects against a loss of principal.
Investment sales	Comprise retail sales of mutual fund type products such as unit trusts, individual savings accounts ("ISAs") and Open Ended Investment Companies ("OEICs").
ISAs	Individual savings accounts – Tax efficient plans for investing in stocks and shares, cash deposits or life insurance investment funds, subject to certain limits. Introduced in the UK in 1999.
Monolines	Financial companies specialising in a single line of products such as credit cards, mortgages or home equity loans).
Mortgage endowment	An insurance contract combining savings and protection elements which is designed to repay the principal of a loan or mortgage.
Mortgage life insurance	A protection contract designed to pay off the outstanding amount of a mortgage or loan in the event of death of the insured.
Non profits	Long term savings and insurance products sold in the UK other than "With profits" (see definition below) products.
OEIC	Open ended investment company is a collective investment fund structured as a limited company in which investors can buy and sell shares.
Pensions	A means of providing income in retirement for an individual and possibly his/her dependants. Our pensions products include personal and group pensions, stakeholder pensions and income drawdown.
Personal pensions	A pension plan tailored to the individual policyholder, which includes the options to stop, start or change their payments.
Protection	An insurance contract that protects the policyholder or his/her dependants against financial loss on death or ill-health. Our product ranges include term assurance, mortgage life insurance, flexible whole life and critical illness cover.
Regular premium	A series of payments are made by the policyholder, typically monthly or annually, for part of or all of the duration of the contract.
SICAVs	Société d'investissement à capital variable (variable capital investment company). This is an open-ended investment fund, structured as a legally independent joint stock company, whose units are issued in the form of shares.
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.
Superannuation	Superannuation is a pension product sold in Australia where employers pay a proportion of an employee's salaries and wages into a fund, which can be accessed when the employee retires.
Takaful	Insurance products that observe the rules and regulations of Islamic law.
Term assurance	A simple form of life insurance, offering cover over a fixed number of years during which a lump sum will be paid out if the life insured dies.
Unit trusts	A form of open ended collective investment constituted under a trust deed, in which investors can buy and sell units.
Unit-linked annuities	A unit-linked annuity is a type of deferred annuity which is invested in units of investment funds, whose value depends directly on the market value of assets in those funds.
Whole life	Whole life insurance is a protection policy that remains in force for the insured's whole life. Traditional whole life contracts have fixed premium payments that typically cannot be missed without lapsing the policy. Flexible whole life contracts allow the policyholder to vary the premium and/or amount of life cover, within certain limits.

Product Definitions:

With profits	A type of long term savings and insurance product sold in the UK Under with profits policies premiums are paid into a separate fund. Policyholders receive a return on their policies through bonuses, which "smooth" the investment return from the assets which premiums are invested in. Bonuses are declared on an annual and terminal basis. Shareholders have a participating interest in the with-profit funds and any declared bonuses. Generally, policyholder and shareholder participation in with-profit funds in the UK is split 90:10.
Wrap investments	An account in which a broker or fund manager executes investment decisions on behalf of a client in exchange for a single quarterly or annual fee, usually based on the total assets in the account rather than the number of transactions.

General terms:

Available for Sale ("AFS")	Securities that have been acquired neither for short-term sale nor to be held to maturity. These are shown at fair value on the statement of financial position and changes in value are taken straight to equity instead of the income statement.
Association of British Insurers ("ABI")	Association of British Insurers – A major trade association for UK insurance companies, established in July 1985.
Acquired value of in force ("AVIF")	An estimate of future profits that will emerge over the remaining term of all existing life and pensions policies for which premiums are being paid or have been paid at the statement of financial position date.
Bancassurance	An arrangement whereby banks and building societies sell insurance and investment products to their customers on behalf of other financial providers.
Combined Code on Corporate Governance	The Combined Code on Corporate Governance sets out guidance in the form of principles and provisions on how companies should be directed and controlled to follow good governance practice. The Financial Services Authority requires companies listed in the UK to disclose, in relation to the Combined Code, how they have applied its principles and whether they have complied with its provisions throughout the accounting year. Where the provisions have not been complied with, companies must provide an explanation for this.
Deferred acquisition costs ("DAC")	The cost directly attributable to the acquisition of new business for insurance and participating investment contracts (excluding those written in the UK) are deferred to the extent that they are expected to be recoverable out of future margins in revenue on these contracts.
Fair value	The price that a reasonable buyer would be willing to pay and a reasonable seller would be willing to accept for a product on the open market.
FSA	The UK's Financial Services Authority – Main regulatory body appointed by the government to oversee the financial services industry in the UK. Since December 2001 it has been the single statutory regulator responsible for the savings, insurance and investment business.
Funds under management	Represents all assets actively managed or administered by or on behalf of the Group including those funds managed by third parties.
Funds under management by Aviva	Represents all assets actively managed or administered by the fund management operations of the Group.
General insurance	Also known as non-life or property and casualty insurance. Casualty insurance primarily covers losses arising from accidents that cause injury to other people or damage property of others. Property insurance covers loss or damage through fire, theft, flood, storms and other specified risks.
Gross written premiums	The total earnings or revenue generated by sales of insurance products, before any reinsurance is taken into account. Not all premiums written will necessarily be treated as income in the current financial year, because some of them could relate to insurance cover for a subsequent period.
"Hard" insurance market	A term used to describe the state of the general insurance market. A "hard" insurance market is characterised by high levels of underwriting profits and the ability of insurers to charge high premium rates. Hard insurance markets generally occur when capital is scarce and are the opposite of "soft" insurance markets.
Independent Financial Advisers ("IFAs")	A person or organisation authorised to give advice on financial matters and to sell the products of all financial service providers. In the UK they are legally obliged to offer the product that best suits their clients' needs. Outside the UK IFAs may be referred to by other names.
IFRS	International Financial Reporting Standards. These are accounting regulations designed to ensure comparable statement of financial position preparation and disclosure, and are the standards that all publicly listed companies in the European Union are required to use.
Inherited estate	In the UK, the assets of the long-term with-profit funds less the realistic reserves for non-profit policies, less asset shares aggregated across the with-profit policies and any additional amounts expected at the valuation date to be paid to in-force policyholders in the future in respect of smoothing costs and guarantees.
Long term and savings business	Collective term for life insurance, pensions, savings, investments and related business.
Market Consistent Embedded Value	Aviva's Market Consistent Embedded Value (MCEV) methodology which is in accordance with the MCEV Principles published by the CFO Forum in October 2009.
Net written premiums	Total gross written premiums for the given period, minus premiums paid over or "ceded" to reinsurers.

Net operational capital generation	Net operational capital generation represents the operating returns, net of tax and minorities, generated from our in-force life business and the IFRS profits earned by our general insurance, fund management and non-insurance businesses, net of capital invested in new business. Life in-force returns are defined as the free surplus emergence, including release of required capital, from in-force business. Capital invested in life new business represents the impact of initial and required capital on free surplus. For general insurance businesses this reflects the movement in required capital, which we have assumed to equal two times the regulatory minimum. Where appropriate, the movement in capital requirements excludes the impact of foreign exchange movements.
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 of major European listed and non-listed insurance companies.
"Soft" insurance market	A term used to describe the state of the general insurance market. A "soft" insurance market is characterised by low levels of profitability and market competition driving premium rates lower. Soft insurance markets generally occur when there is excess capital and are the opposite of "hard" insurance markets.
Turnbull Guidance on Internal Control	The Turnbull guidance sets out best practice on internal controls for UK listed companies, and provides additional guidance in applying certain sections of the Combined Code.

IFRS profit drivers – Definitions

Income:	
New business margin	New business cash flows (excluding acquisition expenses) based on actual volumes Premiums less initial reserves. Includes expected investment p return to end of year Excludes variances in operating experience or assumptions
Underwriting margin:	
Expenses	Protection - Allowance in valuation basis for expenses
Mortality	Protection - Allowance in valuation basis for mortality less actual claims & benefits UL - Charges made to policyholders less actual claims & benefits Expected change in liability for any guarantees or options subject to mortality risk
Persistency	All Actual reserves released less surrender benefits paid
AMC	Annual management charges on unit linked business (based on expected investment returns) Excludes risk charges and costs Expected change in liability for any guarantees or options that depend on investment return
Participating business	UK/Ireland shareholders' share of actual bonus declared Continental participating shareholders' share US - closed block profits
Spread margin	Spread - Expected investment return less unwind of liability/amounts credited to policyholders Excludes risk charges and costs Protection - Expected investment return less valuation discount rate applied to opening liability Expected change in liability for any guarantees or option that depend on investment return
Expected return	Return on assets covering solvency margin and additional surplus Based on longer term rates of return applied to expected average funds under management updated for fund flows and out flows
Expenses:	
Acquisition expenses	New business acquisition commission and expenses less deferred costs
Admin expenses	Maintenance expenses and renewal commission on existing business
DAC/AVIF amortisation and other	Amortisation of DAC, AVIF and impact of regulatory changes, reserving methodology changes or other one-off items
IFRS life operating profit	
Investment variances and economic assumption changes	AMCs based on actual investment return less AMCs based on expected returns Spread based on actual investment return less spread based on expected returns Variance in current actual and assumed future investment return less expected investment return

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.
Cost of non-hedgeable risks	This is the cost of undertaking those risks for which a deep and liquid market in which to hedge that risk does not exist. This can include both financial risks and non-financial risks such as mortality, persistency and expense.
Covered business	The contracts to which the MCEV methodology has been applied.
EU solvency	The excess of assets over liabilities and the worldwide minimum solvency margins, excluding goodwill and the additional value of in-force long-term business, and excluding the surplus held in the group's life funds. The group solvency calculation is determined according to the UK Financial Services Authority application of EU Insurance Group's Directive rules.
Financial options and	Features of the covered business conferring potentially valuable guarantees underlying, or options to change, the

Market Consistent Embedded Value (MCEV) terms:

guarantees	level or nature of policyholder benefits and exercisable at the discretion of the policyholder, whose potential value is impacted by the behaviour of financial variables.
Free surplus	The amount of any capital and surplus allocated to, but not required to support, the in-force covered business.
Frictional costs	The additional taxation and investment costs incurred by shareholders through investing the Required Capital in the Company rather than directly.
Funds under management	Represents all assets actively managed or administered by or on behalf of the group including those funds managed by third parties.
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.
IFRS operating profit	From continuing operations on an IFRS basis, stated before tax attributable to shareholders' profits, impairment of goodwill and exceptional items.
Implicit items	Amounts allowed by local regulators to be deducted from capital amounts when determining the EU required minimum margin.
Life business	Subsidiaries selling life and pensions contracts that are classified as covered business under MCEV.
Life MCEV	The MCEV balance sheet value of covered business as at the reporting date. Excludes non-covered business including pension schemes and goodwill.
Life MCEV operating earnings	Operating earnings on the MCEV basis relating to the lines of business included in the embedded value calculations. From continuing operations and is stated before tax, impairment of goodwill and exceptional items.
Life MCEV earnings	Total earnings on the MCEV basis relating to the lines of business included in the embedded value calculations. From continuing operations.
Look-through basis	Inclusion of the capitalised value of profits and losses arising from subsidiary companies providing administration, investment management and other services to the extent that they relate to covered business.
Long-term savings	Includes life and pension sales calculated under MCEV and retail investment sales.
Market consistent	A measurement approach where economic assumptions are such that projected asset cash flows are valued consistently with current market prices for traded assets.
Net asset value per ordinary share	Net asset value divided by the number of ordinary shares in issue. Net asset value is based on equity shareholders' funds.
Net worth	The market value of the shareholders' funds and the shareholders' interest in the surplus held in the non-profit component of the long-term business funds, determined on a statutory solvency basis and adjusted to add back any non-admissible assets, and consists of the required capital and free surplus.
New business margin	New business margins are calculated as the value of new business divided by the present value of new business premiums (PVNBP), and expressed as a percentage.
Present value of new business premiums (PVNBP)	Present value of new regular premiums plus 100% of single premiums, calculated using assumptions consistent with those used to determine the value of new business.
Required capital	The amount of assets, over and above the value placed on liabilities in respect of covered business, whose distribution to shareholders is restricted.
Risk-free rate (reference rate in CFO Forum terminology)	The risk-free rate is taken as the swap curve yield. In current markets, including the period from 1 July 2007, the risk-free rate is taken as swaps except for all contracts that contain features similar to immediate annuities and are backed by appropriate assets, including paid up group deferred annuities in the Netherlands, and deferred annuities and all other contracts in the US. The adjusted risk-free rate is taken as swaps plus the additional return available for products and where backing asset portfolios can be held to maturity.
Service companies	Companies providing administration or fund management services to the covered business.
Solvency cover	The excess of the regulatory value of total assets over total liabilities, divided by the regulatory value of the required minimum solvency margin.
Spread business	Contracts where a significant source of shareholder profits is the taking of credit spread risk that is not passed on to policyholders. The most significant spread business in Aviva are immediate annuities and US deferred annuities and life business.
Statutory basis	The valuation basis and approach used for reporting financial statements to local regulators.
Stochastic techniques	Techniques that incorporate the potential future variability in assumptions.
Symmetric risks	Risks that will cause shareholder profits to vary where the variation above and below the average are equal and opposite. Financial theory says that investors do not require compensation for non-market risks that are symmetrical as the risks can be diversified away by investors.
Time value and intrinsic value	A financial option or guarantee has two elements of value, the time value and intrinsic value. The intrinsic value is the discounted value of the option or guarantee at expiry, assuming that future economic conditions follow best estimate assumptions. The time value is the additional value arising from uncertainty about future economic conditions.
Value of new business	Is calculated using economic assumptions set at the start of each quarter and the same operating assumptions as those used to determine the embedded values at the end of the reporting period and is stated after the effect of any frictional costs. Unless otherwise stated, it is also quoted net of tax and minority interests.

Shareholder services

Group financial calendar for 2010

Announcement of third quarter Interim Management Statement	04 November 2010

Annual General Meeting

The voting results for the 2010 AGM, including proxy votes and votes withheld, can be viewed on our website at www.aviva.com/agm. In addition, you will also find the Group Chief Executive's 2010 presentation and a webcast of the formal business of the meeting. Information relating to previous Annual General Meetings since 2002 is also available to view.

Dividends

Dividends on our ordinary shares are normally paid in May and November; please see the following table for the 2010 interim dividend dates. Dividends paid on our 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 receive their dividends in sterling and holders of ADRs will receive any dividends paid by the Company in US dollars.

Ordinary shares – 2010 interim dividend

Ex-dividend date	22 September 2010
Record date	24 September 2010
Last date for scrip forms to be received in order to be effective for 2010 interim dividend	20 October 2010
Dividend payment date*	17 November 2010

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

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

The online shareholder services centre has been designed to meet the specific needs of our shareholders, preference shareholders and our American Depositary Receipt (ADR) holders and includes features to allow you to manage your holding in Aviva easily and efficiently.

Within the online centre you will be able to find our current and historic ordinary and ADR share prices, sharedealing information, news, updates, and when available, presentations from the Group Chief Executive. You will also be able to download an electronic copy of any current and past reports. There is also a range of frequently asked questions on holding ordinary shares, preference shares and ADRs in Aviva, which include practical help on transferring shares, dealing facilities and updating personal details.

Share price

You can access the current share price of Aviva plc ordinary shares and ADRs at www.aviva.com/shareprice

If you would like to find out the price of Aviva preference shares, please visit the London Stock Exchange website via www.aviva.com/preferenceshares for a direct link.

Managing your shareholding

If you have any queries regarding your shareholding in Aviva please contact our Registrar, Equiniti. Please quote Aviva plc, as well as the name and address in which the shares are held, and your Shareholder Reference Number, which you will find on your latest dividend stationery.

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Telephone:
0871 384 2953*
+44 (0)121 415 7046 (for callers outside of the UK)
Email: aviva@equiniti.com

American Depositary Receipts (ADRs)

Aviva's ADRs are listed on the New York Stock Exchange and our stock is traded as American Depositary Shares (ADS). Aviva maintains a Level II ADR facility in the US, with each ADS representing two (2) Aviva plc ordinary shares. Aviva has a sponsored ADR facility administered by Citibank, NA. Any queries regarding Aviva ADRs can be directed to Citibank by post, telephone or email.

Citibank Shareholder Services
PO Box 43077
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USA 02940-5000

Email:
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Telephone:
+ (1) 877 248 4237 (toll free for callers within the US)
+ (1) 781 575 4555 (for callers outside of the US)
Fax inquiries:
+ (1) 201 324 3284

For information about Aviva's ADR program, please go to www.citi.com/dr for additional reference.

* Calls to 0871 numbers are charged at 8p per minute from a BT landline. Charges from other telephone providers may vary. Lines are open from 8.30am to 5.30pm, Monday to Friday.

Be on your guard – beware of fraudsters

In recent years, many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based 'brokers' who target UK shareholders, offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. These operations are commonly known as 'boiler rooms'.

Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports. If you receive any unsolicited advice:

- Make sure you get the correct name of the person and organisation
- Check that they are properly authorised by the FSA before getting involved by visiting www.fsa.gov.uk/register/
- Report the matter to the FSA by calling 0845 606 1234
- If the calls persist, hang up.

More detailed information on this can be found at www.moneymadeclear.fsa.gov.uk/news/scams/share_scams.html

Alternative format

If you would like to request a copy of our reports in an alternative format please contact our Registrar, Equiniti, by calling 0871 384 2953*.

Form 20-F

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

Internet sites

Aviva owns various internet sites, most of which interlink with each other:

Aviva Group
www.aviva.com
UK Long term savings and general insurance
www.aviva.co.uk
Asset management
www.avivainvestors.com
Aviva worldwide internet sites
www.aviva.com/websites

Other useful links for shareholders:
Aviva Shareholder Services Centre
www.aviva.com/shareholderservices
American Depositary Receipt holders
www.aviva.com/adr
Aviva preference shareholders
www.aviva.com/preferenceshares
Dividend information
www.aviva.com/dividends
Annual General Meeting information
www.aviva.com/agm
Aviva Share Price
www.aviva.com/shareprice

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