

Glossary

Definitions of Group key performance indicators and other terms

Asymmetric risk	Risks that will cause shareholder profits to vary where the variation above and below the average are not equal in distribution.
CFO Forum	The CFO Forum www.cforum.nl is a high-level group formed by the Chief Financial Officers of major European listed and non-listed insurance companies. Its aim is to discuss issues relating to proposed new accounting regulations for their businesses and how they can create greater transparency for investors. The Forum was created in 2002, the Market Consistent Embedded Value principles were launched in June 2008 and CFO Forum members across Europe have agreed to adopt these for their 2009 published accounts. The principles are a further development of the European Embedded Value principles first launched in May 2004.
Cost of non-hedgeable risks	This is the cost of undertaking those risks for which a deep and liquid market in which to hedge that risk does not exist. This can include both financial risks and non-financial risks such as mortality, persistency and expense.
Covered business	The contracts to which the MCEV methodology has been applied.
EU solvency	The excess of assets over liabilities and the world-wide minimum solvency margins, excluding goodwill and the additional value of in-force long-term business, and excluding the surplus held in the Group's life funds. The Group solvency calculation is determined according to the UK Financial Services Authority application of EU Insurance Group's Directive rules.
Financial options and guarantees	Features of the covered business conferring potentially valuable guarantees underlying, or options to change, the level or nature of policyholder benefits and exercisable at the discretion of the policyholder, whose potential value is impacted by the behaviour of financial variables.
Free surplus	The amount of any capital and surplus allocated to, but not required to support, the in-force covered business.
Frictional costs	The additional taxation and investment costs incurred by shareholders through investing the Required Capital in the Company rather than directly.
Funds under management	Represents all assets actively managed or administered by or on behalf of the Group including those funds managed by third parties.
Funds under management by Aviva	Represents all assets actively managed or administered by the fund management operations of the Group.
Group MCEV	A measure of the total consolidated value of the Group with covered life business included on an MCEV basis and non-covered business (including pension schemes and goodwill) included on an IFRS basis.
Gross risk-free yields	Gross of tax yields on risk-free fixed interest investments, generally swap rates under MCEV.
Holding company	A legal entity with a function of being a consolidating entity for primary financial reporting of covered business.

Glossary continued

IFRS operating profit	From continuing operations on an IFRS basis, stated before tax attributable to shareholders' profits, impairment of goodwill and exceptional items.
Implicit items	Amounts allowed by local regulators to be deducted from capital amounts when determining the EU required minimum margin.
Inherited estate	The assets of the long-term with-profit funds less the realistic reserves for non-profit policies, less asset shares aggregated across the with-profit policies
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
Life MCEV earnings	Total earnings on the MCEV basis relating to the lines of business included in the embedded value calculations. From continuing operations.
IFRS operating profit	From continuing operations on an IFRS basis, stated before tax attributable to shareholders' profits, impairment of goodwill and exceptional items.
Implicit items	Amounts allowed by local regulators to be deducted from capital amounts when determining the EU required minimum margin.
Inherited estate	The assets of the long-term with-profit funds less the realistic reserves for non-profit policies, less asset shares aggregated across the with-profit policies and any additional amounts expected at the valuation date to be paid to in-force policyholders in the future in respect of smoothing costs and guarantees.
Look-through basis	Inclusion of the capitalised value of profits and losses arising from subsidiary companies providing administration, investment management and other services to the extent that they relate to covered business.
Long-term savings	Includes life and pension sales calculated under MCEV and retail investment sales.
Market consistent	A measurement approach where economic assumptions are such that projected asset cash flows are valued consistently with current market prices for traded assets.
MCEV	Aviva's Market Consistent Embedded Value methodology which is in accordance with the MCEV Principles published by the CFO Forum in June 2008 with the exception of the use of an adjusted risk-free yield due to current market conditions for immediate annuities in the UK and the Netherlands and for immediate annuity, deferred annuity and other contracts in the US.
Net asset value per ordinary share	Net asset value divided by the number of ordinary shares in issue. Net asset value is based on equity shareholders' funds.
Net worth	The market value of the shareholders' funds and the shareholders' interest in the surplus held in the non-profit component of the long-term business funds, determined on a statutory solvency basis and adjusted to add back any non-admissible assets, and consists of the required capital and free surplus.
New business margin	New business margins are calculated as the value of new business divided by the present value of new business premiums (PVNBP), and expressed as a percentage.
Present value of new business premiums (PVNBP)	Present value of new regular premiums plus 100% of single premiums, calculated using assumptions consistent with those used to determine the value of new business.
Required capital	The amount of assets, over and above the value placed on liabilities in respect of covered business, whose distribution to shareholders is restricted.

Risk-free rate (reference rate in CFO Forum terminology)	The risk-free return that can be earned on investments in the currency of the liability being valued. In stable markets, including the period from 31 December 2006 to 30 June 2007, the risk-free rate is taken as the swap curve yield. In current markets, including the period from 1st July 2007, the risk-free rate is taken as swaps except for UK and Netherlands immediate annuities and immediate annuities, deferred annuities and other US contracts. 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.