

1 March 2007

AVIVA PLC PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2006

- **Worldwide EEV operating profit up 12% to £3,245m; IFRS operating profit up 46% to £3,110m**
- **Continued profitable growth in long-term savings with sales up 21% to £30,762m and stable margins at 3.5% (H1 2006: 3.5%); life EEV operating profit up 12% to £2,033m**
- **Strong general insurance result with combined operating ratio of 94% ahead of ‘meet or beat’ commitment of 98%; general insurance and health operating profit up 8% to £1,680m**
- **Balance sheet strength with 1.8 times excess IGD solvency cover**
- **Total dividend increased by 10% to 30.0 pence per share**

Richard Harvey, group chief executive, commented:

“This is high quality growth from Aviva and demonstrates the benefit of our balanced portfolio of businesses, in terms of product, distribution and geography.

“In the UK, our clear strategy and increased consumer confidence has delivered an excellent result and an increased market share. Our European portfolio of life businesses is also growing ahead of the market overall, with an increasing contribution from Central and Eastern Europe. In Asia, we’ve made good headway in the biggest markets of India and China and will continue to broaden our reach, looking at new markets and distribution opportunities.

“We’re delighted with our acquisition of AmerUs in the US. It is a key strategic development for us, bringing a great growth platform in the biggest long-term savings market in the world. The integration is on track with an excellent growth outlook for 2007 and beyond.

“In general insurance, we’ve out-performed our combined operating ratio target again. The RAC has been a great acquisition, delivering good profits and bringing new insurance customers.

“Looking to the future, we will continue with aggressive growth of our business across product lines, distribution and geographies, subject to our strict profitability targets. We will supplement strong organic growth with bolt-on value-adding acquisitions funded from internally generated capital.”

| Worldwide highlights | 2006 | 2005 | Growth in constant currency |
|---|----------|----------|-----------------------------|
| Operating profit – EEV basis* | £3,245m | £2,904m | 12% |
| Operating profit – IFRS basis** | £3,110m | £2,128m | 46% |
| Life EEV operating return | £2,033m | £1,814m | 12% |
| General insurance and health operating profit | £1,680m | £1,551m | 8% |
| Long-term savings new business sales | £30,762m | £25,583m | 21% |
| New business contribution – gross | £892m | £808m | 11% |
| New business contribution – net of required capital, tax and minorities | £376m | £341m | 10% |
| Final dividend per share | 19.18p | 17.44p | 10% |
| Total dividend per share | 30.0p | 27.27p | 10% |
| Equity shareholders’ funds*** | £17,531m | £14,899m | 18% |
| Return on equity shareholders’ funds | 13.1% | 15.0% | - |
| Net asset value per share | 683p | 622p | 10% |

All operating profit is from continuing operations and all growth rates quoted are at constant rates of exchange.

* Including life EEV operating return, before tax and exceptional items.

** Before tax, amortisation of acquired value of in-force business and intangibles and exceptional items.

*** Measured on an EEV basis, excluding preference shares, direct capital instrument and minority interests.

Segmental analysis of Group operating profit*

For the year ended 31 December

| | 2006 £m | 2005 at 2006 exchange rates £m | 2005 £m |
|---|--------------|--|--------------|
| Continuing operations | | | |
| Life EEV operating return¹ | | | |
| France | 402 | 319 | 321 |
| Ireland | (40) | 20 | 20 |
| Italy | 110 | 95 | 96 |
| Netherlands (including Belgium, Germany and Luxembourg) | 329 | 346 | 349 |
| Poland | 162 | 136 | 132 |
| Spain | 221 | 213 | 214 |
| Other Europe | (13) | (5) | (6) |
| Asia | 37 | 31 | 30 |
| Australia | 49 | 43 | 44 |
| United States | 32 | 25 | 25 |
| Aviva International | 1,289 | 1,223 | 1,225 |
| United Kingdom | 744 | 589 | 589 |
| | 2,033 | 1,812 | 1,814 |
| Fund Management^{2,3} | | | |
| France | 10 | 8 | 8 |
| Netherlands | 33 | 31 | 32 |
| Other Europe | 8 | 7 | 7 |
| Other | 16 | 11 | 11 |
| United Kingdom | 29 | 25 | 25 |
| | 96 | 82 | 83 |
| General insurance and health | | | |
| United Kingdom | 1,075 | 974 | 974 |
| France | 63 | 35 | 35 |
| Ireland | 172 | 170 | 171 |
| Netherlands | 139 | 136 | 137 |
| Other Europe | 43 | 46 | 47 |
| Canada | 148 | 154 | 147 |
| Other | 40 | 40 | 40 |
| Aviva International | 605 | 581 | 577 |
| | 1,680 | 1,555 | 1,551 |
| Non-insurance operations ^{2,4} | (23) | 29 | 28 |
| Corporate costs | | | |
| – central costs and sharesave schemes | (143) | (101) | (101) |
| – staff profit share and share incentive schemes | (17) | (7) | (7) |
| – global finance transformation programme | - | (28) | (28) |
| Unallocated interest charges | | | |
| – external | (230) | (248) | (248) |
| – intra-group | (228) | (220) | (220) |
| – net pension income | 77 | 32 | 32 |
| Group operating profit before tax* | 3,245 | 2,906 | 2,904 |

* Group operating profit before tax. All operating profit is from continuing operations.

1 Germany has been reclassified from Other Europe to the Netherlands, Lithuania has been reclassified from Other Europe to Poland and Norwich Union's Dublin-based offshore life and savings business has been reclassified from Other Europe to the United Kingdom. 2005 figures have been reclassified accordingly.

2 Delta Lloyd Asset Management previously included within non-insurance has been reclassified to fund management and 2005 figures reclassified accordingly.

3 Excludes the proportion of the results of Morley's fund management businesses, of our French asset management operation Aviva Gestion d'Actifs (AGA) 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 EEV operating return.

4 Excludes the results of Norwich Union Equity Release. Also excludes the proportion of the results of Norwich Union Life Services relating to the services provided to the UK life business. These results are included within the Life EEV operating return.

The total IFRS operating profit for the year to 31 December 2006 was £3,110 million (2005: £2,128 million; £2,130 million restated at constant exchange rates).

GROUP CHIEF EXECUTIVE'S STATEMENT

In 2006 we have achieved a 12% increase in EEV¹ operating profit before tax to £3.2 billion along with a return on capital employed of 13.1%, ahead of our group target of 12.5%. On an IFRS basis, operating profit before tax grew 46% to £3.1 billion driven by investment market movements in our life operations and some significant one-offs in our UK life business. These results have been achieved on top of the 29% growth in EEV and 25% growth in IFRS operating profits in 2005. This trend of sustained growth has been delivered by applying a consistent strategy across our UK and international life and general insurance businesses. We continue to demonstrate our ability to grow our existing portfolio of businesses profitably, while also achieving excellent returns from our acquisitions.

As a result of our continued growth, I am delighted to announce that the Board recommends an increase in our final dividend of 10% to 19.18 pence per share, giving a total dividend for the year of 30.00 pence per share. Our intention continues to be to grow the dividend using a dividend cover² in the range of 1.5 to 2.0 times as a guide, while retaining sufficient capital to support future business growth.

Our portfolio of long-term savings and general insurance businesses across Europe, North America and Asia-Pacific gives us geographical diversification and a broad range of distribution channels and products across locations. The acquisition of AmerUs in November 2006 and the further development of our Central and Eastern European and Asian businesses makes our diversified portfolio even stronger.

Long-term Savings and Fund management

I am pleased to report that worldwide total long-term savings sales increased by 21% to £30.8 billion. Life and pension sales increased by 17% to £25.9 billion, with gross margins maintained at 3.5% (HY 2006: 3.5%) and the group IRR on new business increasing to 12.6% (HY06: 11.8%). This demonstrates our continued focus on profitable growth across our long-term savings business.

2006 has been a record year for Norwich Union in the UK, with total sales up 31% to £13.6 billion and EEV operating profits up 26% to £744 million, even after strengthening our persistency assumptions. Our strong brand, broad distribution and waterfront product range meant that we were well positioned to capture growth, underpinned by an increase in customer confidence and buoyant equity markets. In addition we achieved a strong performance from our bancassurance partnership with the Royal Bank of Scotland Group. We were well positioned to capture the growth stimulated by A-day and we have increased our market share in this growing market, while also improving service levels during the year. Gross margins were maintained at 2.9% and IRR improved to 12%. Our outlook for the UK long term savings market remains positive and we anticipate market growth in 2007 of between 5% and 10%. Our aim is to grow at least in line with the market.

Outside the UK, total international long-term savings sales increased by 13% to £17.2 billion and life and pension sales also increased by 13% to £14.7 billion. Operating profits increased by 5% to £1.3 billion, representing 63% of our life profits, while gross margins reduced slightly to 3.8% (HY 2006: 4.0%). We remain confident of achieving our ambition of average organic sales growth of 10% a year over the next five years in our international life businesses, with new business profits growing at least as fast as sales.

In continental Europe we achieved strong and steady growth with sales increasing by 9% or £1 billion to £12.8 billion, highlighting the continued growth potential for the Group in this wealthy region. Organic growth was approximately 5%, and about one third of our growth was achieved in our Central and Eastern European businesses. We believe that this region will continue to make a growing contribution to our results.

We continue to build on our strong bancassurance franchise and we continue to be a partner of choice for banks worldwide. In 2006 we generated excellent sales through our new arrangements with Allied Irish Banks in Ireland, Centurion Bank of Punjab in India, National Development Bank in Sri Lanka and in Italy through the additional branches in the UniCredit group network.

In North America, our acquisition of AmerUs provides us with a platform for sustainable growth in the United States, the world's largest long-term savings market. The fourth quarter of 2006 was the strongest quarter for new business for AmerUs, in spite of a period of considerable change as a result of the acquisition. This growth is underpinned by a strong distribution network enhanced by new distribution agreements with Annexus and two other independent marketing organisations in 2006, with three more already secured in 2007. The Aviva USA management team is now in place and the integration of the two businesses is on track.

Our businesses in Asia-Pacific continue to show strong rates of growth, with total sales nearly doubling in the year. We have businesses in China, India, Sri Lanka, Australia, Singapore and Hong Kong and we expect to enter the Taiwanese and Malaysian markets in 2007. Operating profit from Asia-Pacific was up 16% to £86 million. In India, sales grew nearly threefold with our 26% share totalling £84 million. We welcome the Indian Government's indication that a proposal to raise the foreign investment limit to 49% may go before parliament this year. In China, our 50% share of sales through our joint venture life business, Aviva COFCO, continue to grow rapidly, up 41% to £50 million and we are now licensed to operate in 15 cities across six major provinces covering a population of around 375 million. Our stated ambition is to achieve an average 10% market share in 10 provinces by 2010.

I am particularly pleased to report significant growth in our fund management operations this year, with investment sales increasing by 48% to £4.9 billion. Funds under management increased by £42 billion to £364 billion and profits on an IFRS basis increased by 25% to £155 million.

¹ European Embedded Value

² Dividend cover is measured on an operating earnings after tax on an IFRS basis, expressed as a multiple of the ordinary dividend.

General Insurance and Health

Our general insurance businesses delivered a strong performance, with a combined operating ratio (COR) of 94%, comfortably ahead of our target to meet or beat a COR of 98%. Operating profit has increased to £1.7 billion, 8% ahead of last year. This was achieved through a combination of improved underwriting disciplines and lower than average weather-related claims of £91 million. The result includes exceptional releases in the UK of approximately £200 million.

In the UK, we have taken the lead in tackling reduced profitability in the motor insurance market and we have already seen an improvement in our motor COR as a result. We continue to increase our distribution reach in our international businesses in order to capture profitable growth. The RAC business delivered a good performance growing operating profit to £160 million in 2006. We expect to deliver cost savings of £130 million and operating profits of £220 million per annum by 2008, giving a run rate return on capital of 18.8%. We remain on track to meet our target of increasing the customer base by 1.4 million customers by the end of 2008.

Cost and efficiency review

Our market place continues to be very competitive. In September 2006 we announced a programme to save £250 million a year in our UK businesses by 2008. We are on track to achieve this objective and maintain our market leading positions in both our life and savings and general insurance business.

Management changes

We announced earlier in January that I will retire in July this year. Andrew Moss, who is currently the group finance director will take over from me as group chief executive and Philip Scott, currently group executive director, Aviva International, will become group finance director. I am confident that I am handing over Aviva at a time when it is in a very healthy and strong position, and with a management team, including Patrick Snowball and Tidjane Thiam, that has the capability to continue to develop the Group.

Outlook

In summary, these are a strong set of results that demonstrate the resilience and sustainability of our composite business model. We continue to prosper in our chosen markets and are excited by the further opportunities we see in 2007 and the longer term. Our strategy continues to be to deliver growth across the world, while maintaining our focus on value. In 2007 strong organic growth is our priority, while completing the integration of AmerUS into the Aviva group. We will continue to develop our distribution reach by expanding bancassurance and growing our direct business. We will supplement strong organic growth with bolt-on value-adding acquisitions funded from internally generated capital.

Richard Harvey
Group chief executive

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NEWSWIRES: There will be a conference call today for wire services at 8.15am (GMT) on +44 (0)20 7162 0125 Quote: Aviva, Richard Harvey.

ANALYSTS: A presentation to investors and analysts will take place at 9.30am (GMT) at St Helen's, 1 Undershaft, London, EC3P 3DQ. The investors and analysts presentation is being filmed for live webcast and can be viewed on the Group's website www.aviva.com or on www.cantos.com. In addition a replay will be available on these websites later today. There will also be a live teleconference link to the investor and analyst meeting on +44 (0) 20 7138 0817. A replay facility will be available until 14 March 2007 on +44 (0) 20 7806 1970. The pass code is 7467412# for the whole presentation including Question & Answer session or 7492722# for Question & Answer session only.

The presentation slides will be available on the Group's website, www.aviva.com/investors/presentations.cfm from 9.00am (GMT).

The Aviva media centre at www.aviva.com/media includes images, company information and news release archive. High resolution images are also available for the media to view and download free of charge from www.vismedia.co.uk

Notes to editors

- Aviva is one of the leading providers of life and pensions to Europe with substantial positions in other markets around the world, making it the world's fifth largest insurance group based on gross worldwide premiums at 31 December 2005.
- Aviva's principal business activities are long-term savings, fund management and general insurance, with worldwide total sales of £41.5 billion and assets under management of £364 billion at 31 December 2006.
- Overseas currency results are translated at average exchange rates.
- The present value of new business premiums (PVNBP) is equal to total single premium sales received in the year plus the discounted value of annual premiums expected to be received over the term of the new contracts, and is expressed at the point of sale.
- All growth rates are quoted at constant currency, which excludes the impact of changes in exchange rates between periods.
- This preliminary announcement may contain "forward-looking statements" with respect to certain of Aviva's plans and its current goals and expectations relating to its future financial condition, performance and results. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond Aviva's control, including amongst other things, UK domestic and global economic business conditions, market-related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory authorities, the impact of competition, inflation, deflation, the timing impact and other uncertainties of future acquisitions or combinations within relevant industries, as well as the impact of tax and other legislation and other regulations in the jurisdictions in which Aviva and its affiliates operate. As a result, Aviva's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in Aviva's forward-looking statements. Aviva undertakes no obligation to update the forward-looking statements contained in this presentation or any other forward-looking statements we may make.

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OPERATING AND FINANCIAL REVIEW**1. Group operating profit before tax**

The Group's operating profit before tax, including life EEV operating return, grew 12% to £3,245 million (2005: £2,904 million) reflecting strong operational performance. On an IFRS basis, operating profit before tax amounted to £3,110 million (2005: £2,128 million), an increase of 46%. This robust set of results has been achieved by our continued focus on profitable growth, by growing and strengthening our distribution channels, exploiting our scale advantages in pricing and costs, in addition to our disciplined approach to underwriting and efficient claims management.

| | EEV basis | | IFRS basis | |
|--|--------------|--------------|--------------|--------------|
| | 2006 £m | 2005 £m | 2006 £m | 2005 £m |
| Life EEV operating return / IFRS long-term business profit | 2,033 | 1,814 | 1,896 | 1,065 |
| Fund management | 96 | 83 | 155 | 124 |
| General insurance and health | 1,680 | 1,551 | 1,680 | 1,551 |
| Other: | | | | |
| Other operations | (23) | 28 | (80) | (40) |
| Corporate costs | (160) | (136) | (160) | (136) |
| Unallocated interest charges | (381) | (436) | (381) | (436) |
| Operating profit before tax | 3,245 | 2,904 | 3,110 | 2,128 |
| Profit before tax attributable to shareholders | 4,165 | 5,283 | 2,977 | 2,528 |
| Equity shareholders' funds | 17,531 | 14,899 | 11,176 | 8,774 |

2. Long-term savings

We achieved continued strong growth in 2006, with worldwide long-term savings sales 21% higher at £30.8 billion (2005: £25.6 billion) benefiting from both excellent sales growth in the UK of 31% to £13.6 billion and our strong, well diversified international portfolio where sales grew by 13% to £17.1 billion and comprised 56% of total sales. Worldwide life and pension sales increased by 17% to £25.9 billion (2005: £22.2 billion) and we achieved excellent investment sales growth of 48% to £4.9 billion (2005: £3.3 billion).

| | 2006 | | | Local currency growth | | |
|--|-------------------------|--------------------------|---------------|------------------------|-------------------------|------------|
| | Life and pensions £m | Retail investments £m | Total £m | Life and pensions % | Retail investments % | Total % |
| Long-term savings sales | | | | | | |
| <i>Continental Europe</i> | 12,840 | 891 | 13,731 | 9% | (13)% | 8% |
| <i>Rest of the World</i> | 1,866 | 1,564 | 3,430 | 49% | 38% | 44% |
| International | 14,706 | 2,455 | 17,161 | 13% | 14% | 13% |
| United Kingdom | 11,146 | 2,455 | 13,601 | 21% | 112% | 31% |
| Total new business sales on a present value of new business premium (PVNBP) basis | 25,852 | 4,910 | 30,762 | 17% | 48% | 21% |

United Kingdom

Our UK life business had an excellent year. Total long-term sales increased by 31% to £13,601 million (2005: £10,345 million) reflecting broad based growth underpinned by the effective implementation of the company's A-day strategy, product developments throughout the year, an increase in customer confidence, increased pensions business within the market following A-day and buoyant equity markets. Within this total, life and pensions new business sales grew by 21% to £11,146 million (2005: £9,185 million), with particularly strong growth in pension and bond sales. Investment sales were exceptionally strong, up 112% to £2,455 million (2005: £1,160 million), driven by new fund offerings and strong investment markets. Our share of sales through the bancassurance partnership with the Royal Bank of Scotland Group was up by 58% to £1,169 million (2005: £742 million), reflecting an increased focus from both partners, a rise in the number of sales advisers and introduction of new product propositions. Total sales momentum continued throughout the year, with sales in the second half of the year ahead of those in the first half. The company increased its full year 2006 life and pensions market share position to 10.9% (full year 2005: 10.5%).

Norwich Union has a well-known brand, broad product range and strong multi-distribution capability. During 2006 the company invested in service improvements resulting in a measurable improvement in service standards during the year. The company remains committed to delivering improvements in efficiency and service levels, addressing its complex legacy systems and developing simpler customer propositions while being easy to do business with. We anticipate market growth of between 5 and 10% in 2007 and aim to grow at least in line with the market.

Aviva International

In Aviva International, our long-term savings new business sales increased by 13% to £17,161 million (2005: £15,238 million) reflecting strong growth in a number of our main markets and the benefit from businesses acquired during the year in Ireland and the United States. Growth in Asia was 91% and this region now accounts for 6% of total international sales. Our life and pension new business sales were 13% higher at £14,706 million (2005: £13,061 million), while investment sales grew by 14% to £2,455 million (2005: £2,177 million), primarily reflecting increased sales through the Navigator platform in Australia and Singapore.

In line with our strategy for growth in the international long-term savings market, we continue to review value-driven inorganic growth opportunities in the major global long-term savings markets.

Continental Europe

Life and pension sales in continental Europe grew 9% to £12,840 million (2005: £11,801 million), accounting for 50% of the group's total life and pension sales and reflecting the success of our multi-distribution strategy, broad product offerings, expertise in equity-backed products and diversified, balanced portfolio. Investment sales were £891 million (2005: £1,026 million) reflecting increased competition in the Netherlands.

In France, where our focus has been on successfully encouraging Fourgous transfers, life and pension sales grew by 1% to £3,552 million while our bancassurance partnership with Crédit du Nord contributed strong growth. Unit-linked savings sales in France were 10% higher in 2006. Long-term savings sales were lower in the Netherlands, affected by a challenging market experiencing aggressive pricing, competition for investment funds and regulatory and fiscal changes, and also lower in Germany where a flattening yield curve reduced sales volumes.

In Ireland, life and pension sales were 93% higher at £1,273 million following the commencement of business through our bancassurance partnership with Allied Irish Banks (AIB), Ireland's largest retail bank, in January 2006, and reflecting increased sales through the broker channel. In Spain, we continued to focus on higher margin protection and pension business while maintaining our market position. Sales grew strongly in Italy by 22% to £2,768 million benefiting from access to additional branches in the UniCredit Group network and outperformed the local market, which contracted by 9%.

In Poland and Lithuania, favourable market conditions together with product and distribution enhancements resulted in stronger long-term savings sales. Our businesses in Turkey, the Czech Republic, Hungary and Romania continue to seek to achieve strong organic growth while developing further relationships with banks and brokers.

We continue to benefit from our strong platform in continental Europe and our product expertise, allied with our extensive multi-distribution network, will enable us to benefit further from the significant opportunities these markets provide.

Rest of the World

In the Rest of the World, our total sales grew by 44% to £3,430 million (2005: £2,411 million) representing strong growth in Asia and the inclusion of sales of £324 million from the AmerUs business we acquired on 15 November 2006 in the United States.

Sales in Asia continued to grow as a result of our expanding distribution and broadening geographical presence. Sales in Singapore and Hong Kong grew through our strong partnership with the banking group DBS and through the broker distribution channels. We continue to make excellent progress in developing our Indian and Chinese operations. In January 2007, Aviva India announced a significant bancassurance agreement with IndusInd Bank, one of India's fastest-growing private sector banks. Aviva India now has over 30 bancassurance distribution agreements in place. In China we are licensed to operate in 15 cities across six provinces and were ranked fifth amongst foreign joint ventures as at the end of November 2006.

We have also further strengthened our position in the Indian sub-continent through the acquisition of a 51% stake in Eagle Insurance Company Limited (Eagle), the third largest insurer in Sri Lanka in February 2006. Eagle has since entered into two bancassurance agreements.

In Australia, sales grew strongly driven by higher investment sales through Navigator, the master trust fund administration business. In the United States, the inclusion of six weeks' of sales following the acquisition of AmerUs has boosted sales by £324 million to £884 million (2005: £527 million). Our operations based in Boston grew sales by 7% as a result of strong growth of structured settlement products following their A.M. Best rating upgrade in November 2005. Sales for the full year from AmerUs were £2,261 million.

Our acquisition of AmerUs in the United States provides us with a platform for growth in that market. In Asia, we are actively pursuing growth in markets with significant longer-term potential and further developing our relationships with local partners. We are working to finalise our new opportunity in Malaysia with Bumiputra-Commerce Holdings Berhad which was announced in January 2007 and is subject to regulatory approval.

3. Life EEV operating return

| | 2006 | 2005 |
|--|--------------|--------------|
| | £m | £m |
| New business contribution (after the effect of required capital) | 683 | 612 |
| Profit from existing business | | |
| – expected return | 1,011 | 895 |
| – experience variances | (50) | (39) |
| – operating assumption changes | 44 | 17 |
| Expected return on shareholders' net worth | 345 | 329 |
| Life EEV operating return before tax | 2,033 | 1,814 |
| Analysed as: | | |
| Continental Europe | 1,171 | 1,126 |
| Rest of the World | 118 | 99 |
| International | 1,289 | 1,225 |
| United Kingdom | 744 | 589 |

The Group's life EEV operating return before tax was 12% higher at £2,033 million (2005: £1,814 million) reflecting increased contributions from both new and existing business. New business contribution after the effect of required capital also grew 12% to £683 million (2005: £612 million). New business margins before the effect of required capital of 3.5% (2005: 3.6%) have been maintained from the first half of the year while the Group's new business margin after the effect of required capital was 2.6% (2005: 2.8%). In the UK the strong life and pension sales growth was achieved while maintaining the new business margin before and after required capital at 2.9% and 2.4%, respectively demonstrating Aviva UK's continued focus on managing margin and volume.

| | Present value of new business premiums | | New business contribution ⁽¹⁾ | | New business margin ^(1, 2) | | New business contribution ⁽³⁾ | | New business margin ^(2,3) | |
|---|--|---------------|--|------------|---------------------------------------|-------------|--|------------|--------------------------------------|-------------|
| | 2006 £m | 2005 £m | 2006 £m | 2005 £m | 2006 % | 2005 % | 2006 £m | 2005 £m | 2006 % | 2005 % |
| France | 3,552 | 3,530 | 153 | 135 | 4.3% | 3.8% | 110 | 91 | 3.1% | 2.6% |
| Ireland | 1,273 | 665 | 15 | 16 | 1.2% | 2.4% | 9 | 13 | 0.7% | 2.0% |
| Italy | 2,768 | 2,294 | 70 | 59 | 2.5% | 2.6% | 50 | 36 | 1.8% | 1.6% |
| Netherlands (including Belgium, Germany and Luxembourg) | 2,346 | 2,739 | 56 | 90 | 2.4% | 3.3% | 25 | 58 | 1.1% | 2.1% |
| Poland | 534 | 320 | 28 | 16 | 5.2% | 5.0% | 25 | 14 | 4.7% | 4.4% |
| Spain | 2,059 | 2,013 | 184 | 175 | 8.9% | 8.7% | 168 | 155 | 8.2% | 7.7% |
| Other Europe | 308 | 240 | (4) | (1) | (1.3)% | (0.4)% | (6) | (4) | (1.9)% | (1.7)% |
| <i>Continental Europe</i> | 12,840 | 11,801 | 502 | 490 | 3.9% | 4.2% | 381 | 363 | 3.0% | 3.1% |
| Asia | 685 | 396 | 26 | 20 | 3.8% | 5.1% | 22 | 16 | 3.2% | 4.0% |
| Australia | 297 | 337 | 17 | 16 | 5.7% | 4.7% | 9 | 9 | 3.0% | 2.7% |
| United States | 884 | 527 | 20 | 13 | 2.3% | 2.5% | 8 | 7 | 0.9% | 1.3% |
| <i>Rest of the World</i> | 1,866 | 1,260 | 63 | 49 | 3.4% | 3.9% | 39 | 32 | 2.1% | 2.5% |
| International | 14,706 | 13,061 | 565 | 539 | 3.8% | 4.1% | 420 | 395 | 2.9% | 3.0% |
| United Kingdom⁴ | 11,146 | 9,185 | 327 | 269 | 2.9% | 2.9% | 263 | 217 | 2.4% | 2.4% |
| Total life and pensions business⁴ | 25,852 | 22,246 | 892 | 808 | 3.5% | 3.6% | 683 | 612 | 2.6% | 2.8% |

(1) Before effect of required capital which amounted to £209 million (2005: £196 million).

(2) New business margin represents the ratio of new business contribution to present value of new business premiums, expressed as a percentage.

(3) After deducting the effect of required capital.

(4) After the effect of lapse assumption changes.

The expected returns on existing business and shareholders' net worth were higher at £1,356 million (2005: £1,224 million) reflecting the higher start of year embedded values. Adverse experience variances of £50 million (2005: £39 million adverse) were offset by positive operating assumption changes of £44 million (2005: £17 million positive).

United Kingdom

Norwich Union delivered a record performance in 2006, with total sales, including investment sales, up 31% to £13,601 million (2005: £10,345 million). New business contribution rose 22% to £327 million (2005: £269 million) largely driven by higher volumes. Margin remained level for the full year at 2.9% (2005: 2.9%) demonstrating the company's focus on value and volume.

On a post cost of capital basis new business contribution was £263 million (2005: £217 million) with a margin of 2.4% (2005: 2.4%).

Life EEV operating return was 26% higher at £744 million (2005: £589 million) reflecting higher levels of new business contribution and improved performance from our in-force book. Total experience variances in the year were £140 million adverse (2005: £95 million adverse) driven by exceptional expenses and lower than expected persistency experience. Positive experience variances in areas such as credit and morbidity have continued, but at a lower level than in 2005.

Adverse exceptional expenses of £149 million (2005: £151 million adverse) are due to the company's ongoing investment in projects to deliver simpler products to the customer, and the continuing simplification of systems and processes used to administer the existing book. It is anticipated that the operational changes announced in September 2006 will serve to reduce, but not completely eliminate, this cost in 2007.

Persistency experience has continued to be adverse at £66 million (2005: £78 million adverse) particularly in relation to bonds and the re-broking of regular premium pensions business following A-day. This is after a £75 million release from A-day specific provisions made in 2005, in line with expectations.

As a result of further analysis of recent customer behaviours, the company has changed certain persistency assumptions. This has included consideration of factors such as the increasing portability of pensions products post A-day, customer outlooks being based on shorter time horizons and advisers more actively managing their customers' changing needs. This has resulted in a strengthening of persistency assumptions by £224 million. Offsetting this, the company has clarified the financial obligations of its with-profits funds in relation to pensions deficit, resulting in a £126 million benefit, and partially adopted

PS06/14 (non-profit reserving changes) resulting in a £50 million benefit. Other assumptions have also been reviewed, and whilst none are of individual significance in aggregate they produce a further benefit of £108 million. In parallel with these assumption changes the company has begun to execute a wide-ranging customer retention strategy, and is confident that this, along with an updated assumptions set, will reduce future experience variances and place the business on a sustainable basis going forward.

Continental Europe

New business contribution before the effect of required capital was £502 million (2005: £490 million). This reflected continued good performances in France, Poland, Italy and Spain partially offset by the impact of lower business volumes and margins in the Netherlands. New business margins before and after required capital were 3.9% and 3.0% respectively (2005: 4.2% and 3.1%), reflecting a reduction in margins in the Netherlands and Ireland caused by economic and operating assumption changes, offset by strong margin growth in France, Spain and Poland where the business mix moved towards more profitable and less capital-intensive products.

Life EEV operating return from our continental European businesses was £1,171 million (2005: £1,126 million). New business contribution after the effect of required capital was £18 million higher at £381 million reflecting increased contributions from France, Italy, Spain and Poland. Expected returns rose to £715 million (2005: £645 million) reflecting the higher start of year embedded value. Favourable experience variances increased to £91 million (2005: £47 million), mainly reflecting strong favourable variances in France. Operating assumption changes were negative at £16 million (2005: £71 million positive) mainly reflecting adverse assumption changes in Ireland.

France: Aviva France's sales increased by 1% to £3,552 million (2005: £3,530 million) and to date Fourgous transfers amounted to £4.2 billion which have not been included in the new business sales figures. Unit-linked sales increased by 10% to £1,556 million (2005: £1,423 million) with unit-linked sales through AFER increasing by 32%, while sales through our bancassurance partnership with Crédit du Nord increased to £838 million (2005: £728 million). These increases were offset by reduced Euro fund sales in the non-bank channels. Our continued strategic focus on more profitable unit-linked sales resulted in a 14% increase in new business contribution to £153 million (2005: £135 million) giving a higher full year new business margin of 4.3% (2005: 3.8%). Life EEV operating return increased to £402 million (2005: £321 million). This performance primarily reflects the increased contribution from new business, higher expected returns and positive experience variances. The underlying profitability of in-force life business has been enhanced as the proportion of AFER in-force funds invested in unit-linked products increased to 18% (2005: 11%) reflecting the positive impact of Fourgous transfers. The favourable experience variance of £71 million (2005: £32 million) includes higher mortality profits and the impact of Fourgous transfers into unit-linked funds.

Ireland: Including sales through the bancassurance partnership with AIB, Hibernian's new business sales increased by 93% to £1,273 million (2005: £665 million). Sales through AIB, which commenced at the end of January 2006, amounted to £589 million. Sales through the Hibernian broker channel were 4% higher at £684 million (2005: £665 million), mainly driven by strong sales of single premium savings products partly offset by the effect of changes to lapse assumptions. New business contribution of £15 million (2005: £16 million) included £8 million through the bancassurance partnership with AIB. The total Ireland new business margin was lower at 1.2% (2005: 2.4%), reflecting continuing competitive pressure and the adverse impact of lapse assumption changes in respect of unit-linked business. Life EEV operating return was a loss of £40 million (2005: £20 million profit) and included £21 million of profit through the bancassurance partnership with AIB. The EEV operating loss reflects adverse persistency in the year and the impact of consequential changes in operating assumptions. Following the removal of market value adjustments at the beginning of 2006, Hibernian has experienced higher rates of withdrawals from its with-profits Celebration bond. Lapse assumptions have also been strengthened for unit-linked pension business and for some other single premium life products. Other assumption changes include the strengthening of annuitant mortality assumptions following a detailed review of experience and industry trends, and a one-off change in expense assumptions.

Italy: Aviva Italy outperformed the local market with sales growth of 22% to £2,768 million (2005: £2,294 million) benefiting from the launch of new and improved products and access to additional branches in the UniCredit Group network. New business contribution increased to £70 million (2005: £59 million) due to significantly higher sales, representing a new business margin of 2.5% (2005: 2.6%). Life EEV operating return rose to £110 million (2005: £96 million) mainly reflecting the new business growth.

Netherlands (including Germany and Belgium): Life and pension sales in Delta Lloyd reduced by 14% to £2,346 million (2005: £2,739 million) reflecting the challenging conditions in the Dutch and German markets, which have been affected by aggressive pricing and competition for investment funds, and by regulatory and fiscal changes in the Netherlands. Delta Lloyd continues to seek out new sales opportunities with group pensions and distribution expansion providing prospects for improvement in 2007. New business contribution was £56 million (2005: £90 million) reflecting the lower volumes and the adverse impact of the 40 basis point decrease in the bond yield within the European embedded value assumptions at the end of 2005 which resulted in a lower margin of 2.4% (2005: 3.3%). Life EEV operating return of £329 million (2005: £349 million) reflected lower contribution from new business offset by increased expected returns due to a higher start of year embedded value. On 8 February 2007, Delta Lloyd announced its acquisition of the Erasmus Group in the Netherlands which remains subject to regulatory approval. This transaction is expected to add approximately 3% to Delta Lloyd's existing life business volumes.

Poland: CU Polska achieved life and pension sales growth of 63% to £534 million (2005: £320 million), with both the life and pension businesses showing strong performances. New business contribution was £28 million (2005: £16 million), resulting in a margin of 5.2% (2005: 5.0%). Life EEV operating return increased to £162 million (2005: £132 million) due to the higher contribution from new business together with the benefit of favourable lapse and mortality assumption changes.

Spain: Aviva Spain generated sales in 2006 of £2,059 million (2005: £2,013 million) achieving underlying growth, excluding one-off sales, of 4%. New business contribution increased to £184 million (2005: £175 million) improving the new business margin to 8.9% (2005: 8.7%) as we continue to focus on higher margin protection and pension products. Life EEV operating

return increased to £221 million (2005: £214 million) primarily reflecting the increased contribution from new business which was partially offset by adverse lapse assumption changes on protection business.

Other Europe: Aviva's other European businesses are based in the Czech Republic, Hungary, Romania, Russia and Turkey. These businesses generated increased life and pension sales of £308 million (2005: £240 million, including £45 million from the Portuguese business which was disposed of in October 2005), due primarily to a strong increase in sales in Hungary ahead of changes in the tax regime. Strong momentum in sales over the last quarter of 2006 in Turkey also contributed to this performance. Our Russian business received its licence in March 2006 and trading has commenced in corporate sales on a limited scale. Life EEV operating return for the other European businesses was a loss of £13 million (2005: £6 million loss, including £3 million profit from Portugal), reflecting the developing nature of these operations.

Rest of the World

New business contribution before the effect of required capital was £63 million (2005: £49 million). This reflected continued strong growth in Asia and included £12 million of contribution from AmerUs in the six weeks following acquisition. New business margin was 3.4% (2005: 3.9%) mainly reflecting higher volume but lower margin sales in Singapore.

Life EEV operating return from our international businesses was £118 million (2005: £99 million) and included £22 million EEV operating return from the AmerUs business in the six weeks following acquisition. New business contribution after the effect of required capital was £39 million (2005: £32 million) including £8 million contribution from AmerUs. Expected returns rose to £80 million (2005: £56 million). Experience variances were negative £1 million (2005: £9 million positive) and operating assumption changes were neutral (2005: £2 million positive).

Asia: Our businesses across Asia achieved substantial life and pension sales growth of 70% to £685 million (2005: £396 million). In Singapore and Hong Kong, sales increased to £319 million (2005: £227 million) and to £216 million (2005: £103 million), respectively reflecting strong sales through Aviva's partnership with banking group DBS together with an increase in sales through other distribution channels, notably in the developing IFA channel in Hong Kong. In India and China, sales continue to grow rapidly with our share of sales amounting to £84 million (2005: £32 million) and £50 million (2005: £35 million), respectively. In Sri Lanka, sales have amounted to £16 million since the acquisition of Eagle. New business contribution in Asia increased by 30% to £26 million (2005: £20 million) with a new business margin of 3.8% (2005: 5.1%) reflecting stronger sales of lower margin limited period single premium offerings in Singapore. The life EEV operating return from our businesses in Asia was £37 million (2005: £30 million), principally due to higher new business contribution.

Australia: Life and pension sales in Australia were £297 million (2005: £337 million). New business contribution was £17 million (2005: £16 million) with a new business margin of 5.7% (2005: 4.7%) benefiting from improved business mix, in particular a higher proportion of protection business. The life EEV operating return was £49 million (2005: £44 million) benefiting from favourable experience variances.

United States: Aviva's presence in the United States market increased four-fold¹ following the completion of the acquisition of AmerUs on 15 November 2006. Life and pension sales increased by 70% to £884 million (2005: £527 million) including £324 million of sales from AmerUs in the six weeks following acquisition. New business contribution increased to £20 million (2005: £13 million) while margin decreased to 2.3% (2005: 2.5%). Life EEV operating return was £32 million (2005: £25 million), including £22 million of profit from AmerUs. In our operations based in Boston, the operating profit was lower at £10 million affected by lapse variances and operating assumption changes. Full year sales by AmerUs were £2,261 million (2005: £1,882 million), including £330 million of funding agreement sales (2005: £38 million) which are irregular by nature. 2006 full year life EEV operating return for AmerUs amounted to £205 million including new business contribution of £94 million representing a new business margin of 4.2%. The margin excluding funding agreements was 3.8%.

4. Bancassurance margins – before required capital, tax and minority interests

The weighted average new business margin generated through our bancassurance channels was 4.8% (2005: 5.1%) before the effect of required capital. This reflects the change in geographical mix with a lower proportion of high margin business in Spain and the impact of sales from our partnership in Ireland where margins are lower by comparison. The bancassurance margin net of required capital was 4.0% (2005: 4.2%).

| Total life and pensions | Present value of new business premiums | | New business contribution ⁽¹⁾ | | New business margin ⁽²⁾ | |
|-------------------------------------|--|--------------|--|------------|------------------------------------|-------------|
| | 2006 £m | 2005 £m | 2006 £m | 2005 £m | 2006 % | 2005 % |
| France | 838 | 728 | 36 | 30 | 4.3% | 4.1% |
| Ireland | 589 | - | 9 | - | 1.5% | n/a |
| Italy | 2,695 | 2,134 | 68 | 57 | 2.5% | 2.7% |
| Netherlands | 425 | 543 | 18 | 19 | 4.2% | 3.5% |
| Spain | 1,832 | 1,793 | 180 | 169 | 9.8% | 9.4% |
| Asia | 367 | 241 | 20 | 20 | 5.5% | 8.3% |
| United Kingdom | 991 | 636 | 38 | 16 | 3.8% | 2.5% |
| Total bancassurance channels | 7,737 | 6,075 | 369 | 311 | 4.8% | 5.1% |

(1) Before effect of required capital which amounted to £56 million (2005: £58 million).

(2) New business margin represents the ratio of new business contribution to present value of new business premiums, expressed as a percentage.

¹ Measured in terms of PVNBP

Higher unit-linked sales through our French bancassurance partnership increased the new business margin to 4.3% (2005: 4.1%). Our bancassurance partnership with AIB in Ireland generated a margin of 1.5% reflecting competitive pressures. In Italy, where volumes were substantially higher, the new business margin from our bancassurance partnerships reduced to 2.5% (2005: 2.7%) as a result of a change in business mix. In Spain, our bancassurance partnerships produced an increased margin of 9.8% (2005: 9.4%) due to our focus on pension and protection products. Our bancassurance partnership with ABN AMRO in the Netherlands generated a margin of 4.2% (2005: 3.5%) with the prior year affected by a special promotion on lower margin annuity business. The new business bancassurance margin from our partnership with DBS in Singapore and Hong Kong was 5.5% (2005: 8.3%), reflecting stronger sales of lower margin limited period single premium offerings in Singapore in the second half of the year. In the UK, the new business margin generated by our partnership with RBSG was higher at 3.8% (2005: 2.5%) benefiting from sales momentum, cost efficiencies and product mix.

5. New business contribution – after deducting required capital, tax and minority interest

New business contribution after required capital, tax and minority interest increased by 10% to £376 million (2005: £341 million). The new business margin was broadly maintained at 1.7% (2005: 1.8%) with bancassurance contributing over 30% of new business profits in the year.

| | Present value of new business premiums ⁽¹⁾ | | New business contribution ⁽²⁾ | | New business margin ⁽³⁾ | |
|---|---|---------------|--|------------|------------------------------------|-------------|
| | 2006 £m | 2005 £m | 2006 £m | 2005 £m | 2006 % | 2005 % |
| Bancassurance channels | 4,465 | 3,238 | 121 | 93 | 2.7% | 2.9% |
| Other distribution channels | 17,607 | 15,815 | 255 | 248 | 1.4% | 1.6% |
| Total life and pensions business | 22,072 | 19,053 | 376 | 341 | 1.7% | 1.8% |
| Analysed: | | | | | | |
| <i>Continental Europe</i> | 9,067 | 8,608 | 162 | 164 | 1.8% | 1.9% |
| <i>Rest of the World</i> | 1,859 | 1,260 | 29 | 24 | 1.6% | 1.9% |
| International | 10,926 | 9,868 | 191 | 188 | 1.7% | 1.9% |
| UK | 11,146 | 9,185 | 185 | 153 | 1.7% | 1.7% |

(1) Stated after deducting the minority interest.

(2) Stated after deducting the effect of required capital, tax and minority interest.

(3) New business margin represents the ratio of new business contribution to present value of new business premiums, expressed as a percentage.

6. Long-term business operating profit on an International Financial Reporting Standard (IFRS) basis

On an IFRS basis, our long-term business operating profit before shareholder tax was £1,896 million (2005: £1,065 million). The increase in the year is primarily driven by the beneficial impact of the with-profit fund contributing to the pension scheme deficit funding along with the early partial implementation of PS06/14 "Prudential changes for insurers" in the UK, the rise in long-term interest rates in the Netherlands and the inclusion of post-acquisition profits from AmerUs.

The operating result from the UK with-profit business of £147 million (2005: £99 million) reflects the changes in bonus rates during 2006 which saw final and certain annual bonuses rise following strong investment performance. The total non-profit operating result increased by 90%. This result has similarly benefited from the clarification of with-profit fund financial obligations in relation to the pension scheme deficit. The partial introduction of PS06/14 has had a further beneficial result, contributing £149 million representing a reduction in technical provisions offset by related deferred acquisition cost write downs.

In continental Europe, the increase in life operating profit to £1,088 million (2005: £685 million) was driven primarily by the Netherlands and Spain. In the Netherlands where long-term interest rates and the equity markets rose in 2006, operating profit was higher at £458 million (2005: £172 million) reflecting an £82 million release from the provision for guarantees on unit-linked contracts, which contrasted with a charge in 2005, and increased realised investment gains. The operating profit in Spain increased to £126 million (2005: £89 million) due to higher sales of protection products and increased investment returns benefiting from favourable equity market conditions in the year. In France, operating profit increased to £273 million (2005: £258 million) with growth reflecting the profitable development of the business and benefits following the combination of our direct operation and one of our broker businesses this year. In Ireland, operating profit increased to £60 million (2005: £28 million) including a contribution of £45 million from the bancassurance partnership with AIB.

Our life businesses in the rest of the world reported a profit of £125 million (2005: £2 million loss, including an unfavourable change in valuation basis in Singapore). Operating profit in the United States increased to £71 million (2005: £4 million loss), with a contribution of £84 million from AmerUs in the six weeks following acquisition which included a £22 million benefit from investment gains. The increased loss from our operations based in Boston reflected increased new business strain. Operating profit from our operations in Asia and Australia increased, reflecting strong investment market performance together with favourable claims and lapse experience in Australia.

7. Fund management operating profit

Our worldwide fund management operating profit was 25% higher at £155 million (2005: £124 million) on an IFRS basis, as the momentum from the first half of the year continued. On an EEV basis, the total operating profit from our fund management businesses was £96 million (2005: £83 million) and represents the profit on those funds managed on behalf of third parties and the Group's non-life businesses. Assets under management at 31 December 2006 increased to £364 billion (31 December 2005: £322 billion) reflecting the impact of new business flows and the strong performance of worldwide investment markets.

| | 2006 £m | 2005 £m |
|--|------------|------------|
| UK | 62 | 36 |
| International | 14 | 13 |
| Morley | 76 | 49 |
| France | 33 | 26 |
| Netherlands | 37 | 32 |
| Other Europe and International | 15 | 9 |
| International | 85 | 67 |
| UK (excluding Morley) | (6) | 8 |
| Fund management operating profit – IFRS basis | 155 | 124 |

In the UK, our fund management businesses comprise our institutional business Morley Fund Management (Morley), our retail investment business trading as Norwich Union, and our collective investment joint venture business with RBSG. These businesses reported an operating profit of £56 million (2005: £44 million) in the year. Our international operations consist of Morley's overseas businesses based in Melbourne, Dublin, Warsaw, Boston, Milan and Madrid, Aviva Gestion d'Actifs in France, Delta Lloyd Asset Management in the Netherlands and other businesses including our fund administration business Navigator. Our international fund management operating profit was £99 million (2005: £80 million).

Morley

The Morley group contributed an overall operating profit of £79 million (2005: £52 million) to the Group's results, including a £3 million contribution (2005: £3 million) from the pooled pensions business which is reported within the long-term business segment. Our fund management operating profit grew significantly to £76 million (2005: £49 million), reflecting increased investment management fee revenue, continued cost control and a profit contribution of £14 million (2005: £10 million) from higher performance fees which were mainly recognised in the second half of the year.

Morley's total funds under management increased by £12 billion in 2006 to £166 billion as we achieved strong sales to third-party life companies and discretionary fund managers and also won a number of institutional mandates across our core asset classes of fixed income, UK equities, property including specialist partnership vehicles and asset allocation. Funds under management also benefited from investment market performance, the take-on of £2.3 billion of Ark Life policyholder investments in May and the acquisition of ORN Capital in June. Our fee income benefited from these new business mandates and strongly performing investment markets that, coupled with our management of our expense base, delivered a further improvement in our cost/income ratio to 72% (2005: 77%).

We aim to deliver sustainable and profitable growth through a focus on increasing our revenue by offering higher-margin products in our areas of strength while carefully managing our cost base. We continue to position our business to work with our clients to develop tailored investment solutions and capitalise on the growing demand for specialist investment products.

International

Operating profit from Aviva Gestion d'Actifs (AGA), our market-leading fund management operation in France, increased to £33 million (2005: £26 million) reflecting new business inflows, particularly from unit-linked sales, and strongly performing equity markets. AGA continued to demonstrate its expertise with over 96% of managed funds ranked in the top half for returns over five years and was ranked best fund manager over the last five years by the weekly magazine 'Mieux Vivre Votre Argent' in September 2006.

Operating profit from our fund management business in the Netherlands was £37 million (2005: £32 million, previously reported within non-insurance business). This improvement reflected an increase in funds under management, which included an increase in net inflows into institutional funds of £913 million (2005: £573 million).

Our other overseas businesses reported operating profits of £15 million (2005: £9 million) reflecting stronger results in our operations in Australia and Singapore. New business sales through Navigator, our fund administration business grew 48% to £1,371 million (2005: £938 million). Within this, sales in Australia increased by 34% to £1,110 million (2005: £848 million), benefiting from continuing improvements in product offerings, sustained customer service levels and its strategic investments in key distributors. Singapore reported significantly higher sales of £261 million (2005: £90 million) reflecting strong distribution relationships with key brokers, an increased fund choice and an ongoing buoyant economic environment.

United Kingdom (excluding Morley)

Operating losses from Norwich Union's retail investment business amounted to £6 million (2005: £8 million profit) where increased sales through the company's collectives investment business with RBSG resulted in a higher new business strain.

8. General insurance and health operating profit

Net written premiums from the Group's worldwide general insurance and health business increased 3% to £10.7 billion, driven by an increase in the Netherlands of 39% to £1.8 billion. Operating profit from our worldwide general insurance and health businesses increased by 8% to £1,680 million (2005: £1,551 million).

The Group's general insurance combined operating ratio (COR) improved to 94% (2005: 95%), comfortably ahead of our stated target to meet or beat a worldwide COR of 98% for the foreseeable future. Scale advantages, focused underwriting, claims management and efficiencies continue to provide us with ongoing benefits. The worldwide expense ratio for general insurance was 13.7% (2005: 11.4%), reflecting investment in the business and brand to gain competitive advantage.

Underwriting profit for the year totalled £607 million (2005: £505 million) including £91 million of better than expected weather-related claims experience (2005: benefit of £7 million). This continued profitability demonstrates our disciplined approach to underwriting, claims management and lower claims frequency across our major businesses.

The longer-term investment return (LTIR) on general insurance and health business assets increased to £1,073 million (2005: £1,046 million) as the higher start-of-year asset base, together with positive cash inflows, more than offset the lower LTIR rates applied in 2006.

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 prudence applied in setting the reserves, there are some releases in 2006 which reflect releases from the 2005 accident year and prior. The releases mainly arise in the UK and this favourable development benefits the UK underwriting result by £435 million, with the remainder of releases arising in our European businesses. We have increased our confidence levels in our reserves over the past few years and continue to maintain our reserves at very strong levels.

| | Net written premiums | | Underwriting result* | | Operating profit* | |
|--|----------------------|---------------|----------------------|------------|-------------------|--------------|
| | 2006 £m | 2005 £m | 2006 £m | 2005 £m | 2006 £m | 2005 £m |
| United Kingdom | 5,940 | 6,127 | 380 | 303 | 1,075 | 974 |
| Continental Europe | 3,287 | 2,754 | 189 | 164 | 417 | 390 |
| Rest of the World | 1,474 | 1,430 | 38 | 38 | 188 | 187 |
| International | 4,761 | 4,184 | 227 | 202 | 605 | 577 |
| General insurance and health operations | 10,701 | 10,311 | 607 | 505 | 1,680 | 1,551 |

* Excludes the Financial Services Compensation Scheme credit of £6 million (2005: nil).

United Kingdom

Norwich Union Insurance (NUI) has had another excellent year, delivering record profits of £1,075 million (2005: £970 million) and a COR of 95%, despite a small reduction in general insurance net written premiums to £5,583 million (2005: £5,832 million), as we continue to focus on our commitment to write profitable business.

The result has been achieved against a backdrop of increasingly tough market conditions. It includes a benefit of £75 million from better than expected weather (2005: neutral), together with savings on prior year claims that have arisen as a result of management action to control claims costs and improve processes and our reserving approach. Of the £435 million of reserves releases, of which £50 million relates to weather, approximately half reflect exceptional releases resulting from management actions. These benefits have allowed us to re-invest in the business to secure future profitability.

In commercial lines intense competition has led to a reduction in rates of around 3% (2005: 1% decrease) in commercial property but retention rates remain very strong. In commercial motor we have seen a reduction of rates of 2% (2005: 1% decrease), although we are seeing the first indications that the sector is hardening. Again retention rates have remained strong. Our disciplined approach to risk selection and underwriting continues to maintain attractive levels of profitability across all commercial classes.

In personal lines, homeowner rates have increased by 3% (2005: 6%) and again retention is strong. The personal motor market has remained challenging but the rating action we have taken is already having a positive impact on profitability, with the full year COR of 104%, 1% lower than at the half year and rates have increased by 5% on average throughout the year (2005: 4%). We are satisfied with the extent of the corrective action taken and are seeing encouraging signs that others in the market are following our lead. Following the opening of a dedicated retention centre in November, personal motor retention rates are improving.

Distribution costs have risen in 2006, with our expense ratio increasing to 13.9% (2005: 10.9%), as we have invested to secure future profitability. As flagged at the half year, the investments have been in brand presence and technology to provide better service to our brokers and to enable personal lines transactions to be performed on-line and in one place. The expense ratio has also been impacted by a full year of expenses associated with RAC Rescue, whose model includes higher costs of acquiring and administering business. In September, we announced details of our UK Cost & Efficiency programme which will deliver cost savings and enhanced cost flexibility.

Following the successful completion of the integration, RAC has made an overall contribution of £160 million to Group operating profit. Of this, £115 million is recognised within general insurance and the remainder in the results of our non-insurance operations. Specifically, we have delivered cost savings of £100 million and we remain on track to meet the target profit of £220 million in 2008.

RAC has continued to deliver excellent customer service and has been rated number one for motorists in the 2006 JD Power Roadside Assistance survey. In addition, RAC has agreed a three-year deal to provide breakdown assistance to all VW Group brands (including Audi, Lamborghini, Bentley, Seat and Skoda), commencing in the first quarter of 2007. This follows a new six-year deal with Lex Vehicle Leasing to provide roadside assistance and glass replacement, and a two-year UK roadside contract with AssetCo that were signed in the first half of the year. RAC also successfully renewed its contracts with Porsche and Volvo. Since the year end we have also successfully renewed our contract with Motability until 2014.

During 2006, we signed deals with the Post Office (to provide motor, homeowner and commercial van products), and with the broker Towergate (to provide creditor insurance). We also successfully renewed our contracts with Abbey and Saga to provide homeowner insurance, and our contract with Lloyds TSB to provide creditor insurance. We won the Insurance Times 'General Insurer of the Year' for the fourth consecutive year, a significant achievement that reflects the consistency of our performance across the business.

NU Healthcare is a leading UK health insurer providing medical insurance (PMI) and income protection to over 800,000 customers. The PMI health business recorded a break even result (2005: £4 million) reflecting increased strategic focus and investment in the Healthcare business.

Continental Europe

In continental Europe, our general insurance and health businesses produced an operating profit of £417 million (2005: £390 million).

In France, our general insurance and health business reported an operating profit of £63 million (2005: £35 million) with an underwriting profit of £6 million (2005: loss of £21 million). The underwriting result benefited from cost savings due to our head office relocation and favourable claims experience, resulting in an improved general insurance COR of 99% (2005: 101%). Net written premiums increased by 2% to £735 million (2005: £726 million) reflecting selective rises in rates in an increasingly competitive market, notably in commercial lines. Increased activity in our commercial operations in 2006, particularly in the health and self-employed sectors of our business, ensures that we are in a strong position to continue to grow in a competitive 2007 market place.

In Ireland, operating profit was stable at £172 million (2005: £171 million) including favourable weather-related experience of £5 million (2005: £7 million). The underwriting profit increased to £121 million (2005: £116 million) driven by improved claims costs as direct settlement was more extensively used and the number of personal injury claims fell. This led to a COR of 77% (2005: 78%). We expect an adverse impact on COR in 2007 as a result of rate reductions and claims inflation. Net written premiums increased to £519 million (2005: £499 million) despite intense competition for market share. We continue to focus on developing alternative distribution channels and on enhancing our internet portal functionality to enable us to capitalise on the expected growth of the internet channel. Building on Hibernian Life & Pension's strategic partnership with AIB, we will commence selling motor insurance through AIB's website, and will seek to develop further opportunities with AIB in the future. Our partnership with Tesco, through which we sell motor insurance, has produced encouraging sales volumes in 2006, while we continue to invest in flood mapping technology to improve underwriting and pricing.

In the Netherlands, operating profit from general insurance and health was £139 million (2005: £137 million). The general insurance COR improved to 89% (2005: 93%) reflecting a strong premium rating environment and favourable claims experience, including a low incidence of large claims. General insurance premiums were 3% higher at £733 million (2005: £716 million). The health COR remained at 103% on a significantly higher level of premiums of £1,022 million (2005: £554 million) following the introduction of new healthcare arrangements which merged public and private healthcare at the start of 2006 and Delta Lloyd's success in writing new policies in 2006. In November, the proposed merger with Agis Health Insurance and Menzis Health and Income was rejected by Menzis' member council at a late stage in the process. Nevertheless, Delta Lloyd remains confident in the future of its healthcare businesses, underlined by its success in writing 45,000 new policies in 2006. On 8 February 2007, Delta Lloyd announced its acquisition of the Erasmus Group in the Netherlands, subject to regulatory approval. This transaction has a good strategic fit and is expected to add 12 to 15% to Delta Lloyd's existing general insurance business volumes.

Our other European general insurance businesses, including operations in Italy, Turkey and Poland, recorded an operating profit of £43 million (2005: £47 million).

Rest of the World

Our general insurance businesses in the rest of the world achieved an operating profit of £188 million (2005: £187 million).

Our Canadian business reported a stable operating profit of £148 million (2005: £147 million) and the COR was 98% (2005: 97%). The £11 million benefit from lower than average weather-related claims has been offset by lower premium rates on commercial lines and flat rates on personal lines which were driven by legislative rate changes. Additionally rising claims inflation has caused a deterioration in the claims ratio. Although the number of policies written increased in 2006, net written premiums were stable on a local currency basis at £1,389 million (2005: £1,324 million) reflecting small decreases in premium rates and customers' lower propensity to switch insurer resulting in high retention levels. We continue to expand our distribution capability and during 2006 invested in two market-leading group brokers in Quebec.

The operating profit from our other rest of the world businesses including the Group's captive reinsurer was £40 million (2005: £40 million).

9. Other operations

The Group's other operations reported a loss of £80 million (2005: loss of £40 million) on an IFRS basis. This comprises £45 million of profits from RAC non-insurance operations (2005: £30 million), lower losses from NU Life Services Ltd of £50 million (2005: loss of £66 million), a loss of £29 million relating to the development of the Lifetime and SIPP platform (2005: £14 million) and a loss of £46 million (2005: £10 million profit) from other non-insurance operations including our Dutch banking division.

Operating profit from RAC non-insurance operations, which include BSM, HPI, Auto Windscreens and Solus, amounted to £45 million reflecting the results for the entire year (2005: £30 million post-acquisition). In the second half of 2006 the Group completed the sale of the Lex brand in July for a profit of £3 million. In total, this transaction and the previous disposals of the other non-core operations of the RAC group generated sale proceeds of £358 million, and a profit on disposal of £69 million in 2006 (2005: £5 million). These businesses contributed an operating profit of £17 million in the period.

The 2006 loss from other non-insurance businesses of £46 million (2005: £10 million profit) reflects the impact in the Netherlands of increased holding company costs, a lower profit in the banking result following pricing competition for mortgage business in an environment of rising interest rates, and the inclusion of a £19 million one-off cost relating to systems migration.

On an EEV basis, our other operations recorded a loss of £23 million (2005: £28 million profit) as this excludes the majority of NU Life Services Ltd losses which are incorporated within the life EEV operating return.

10. Corporate costs

The Group's corporate costs were higher at £160 million (2005: £136 million) despite the non-recurrence of global finance transformation costs (2005: £28 million). Within this, central costs relating to staff profit share and incentive plans rose to £17 million (2005: £7 million) while other corporate costs increased to £143 million (2005: £101 million) reflecting higher brand spend, pension funding and staff costs.

11. Unallocated interest charges

Unallocated interest charges comprise internal and external interest on borrowings, subordinated debt and intra-group loans not allocated to local business operations. Also included is net pension income being the expected return on pension scheme assets less the interest charge on pension scheme liabilities. Interest costs in the year were lower at £458 million (2005: £468 million). External interest costs were lower at £230 million (2005: £248 million) as senior debt was repaid at the end of 2005 while internal interest costs amounted to £228 million (2005: £220 million). Net pension income increased to £77 million (2005: £32 million) reflecting a larger increase in the expected return on assets than the interest cost on the liabilities due to asset gains in 2005 and accelerated deficit funding payments.

Interest on the £990 million direct capital instrument issued in 2004 of £52 million (2005: £42 million) is not included within unallocated interest as it is instead treated as an appropriation of profits retained in the year. The appropriation was charged upon declaration and settlement in the second half of the year. As the coupon payment attracts tax relief at 30%, the net impact of the appropriation to profit attributable to ordinary shareholders was £37 million (2005: £29 million).

12. Profit on ordinary activities before tax

| | EEV basis | | IFRS basis | |
|--|--------------|--------------|--------------|--------------|
| | 2006 £m | 2005 £m | 2006 £m | 2005 £m |
| Operating profit before tax | 3,245 | 2,904 | 3,110 | 2,128 |
| Impairment of goodwill | (94) | (43) | (94) | (43) |
| Amortisation of acquired additional value of in-force long-term business | - | - | (100) | (73) |
| Amortisation and impairment of intangibles | (46) | (21) | (70) | (45) |
| Financial Services Compensation Scheme and other levies | 6 | - | 6 | - |
| Profit on disposal of subsidiary and associates | 161 | 153 | 222 | 153 |
| Short-term fluctuations in return on investments backing general insurance and health business | 149 | 517 | 149 | 517 |
| Variation from longer-term investment return – life business | 319 | 2,288 | - | - |
| Effect of economic assumption changes | 671 | (406) | - | - |
| Integration and restructuring costs | (246) | (109) | (246) | (109) |
| Profit before tax/ Profit before tax attributable to shareholders' profits | 4,165 | 5,283 | 2,977 | 2,528 |

Profit before tax on an EEV basis was lower at £4,165 million (2005: £5,283 million), and includes favourable investment return variances and short-term investment fluctuations of £468 million (2005: £2,805 million) and positive economic assumption changes of £671 million (2005: £406 million negative).

During the year we completed the sale of our remaining RAC non-core businesses and our associate holding in a French online brokerage company generating disposal profits of £148 million. The sale of a minority stake in our Irish life business as part of the Ark Life transaction contributed a lower profit on disposal on an EEV basis of £25 million compared to £86 million on an IFRS basis as, under the latter, the additional value of long-term in-force business is excluded from the IFRS balance sheet. Other small disposals produced a loss of £12 million.

Groupwide integration costs totalled £41 million following the successful integration of RAC in the UK, continuing assimilation of Ark Life in Ireland and activity that commenced relating to the acquisition of AmerUs. As previously announced in September, our UK business plans to reduce duplication and improve efficiency to deliver annual cost savings of £250 million in 2008 at a

cost of £250 million by the end of 2007. The project is on track and by the end of 2006 £205 million of restructuring costs have been recorded.

The variance from the longer-term investment return primarily reflects higher than assumed equity returns, particularly in the second half of the year. In the UK, the FTSE All Share index rose by 13%, the CAC 40 by 18% and the AEX by 13% from end of 2005 levels. This was partially offset by lower market values of fixed income securities due to the rise of 50 basis points and 70 basis points in UK and Euro zone bond yields, respectively in 2006. Long-term economic assumptions, which are set by reference to long-term bond yields, were revised upwards at 31 December 2006 and these higher assumptions have increased the expected value of future profits from in-force life contracts, increasing profits by £671 million.

The non-life short-term fluctuations amounted to a profit of £149 million (2005: £517 million positive) as equity markets outperformed our longer-term investment return assumptions in the year. The effect of the non-life investment market movements, profit on disposal together with integration and restructuring costs are included in the IFRS profit before tax attributable to shareholders' profits of £2,977 million (2005: £2,528 million).

The Group's taxation charge on an EEV basis was £1,286 million (2005: £1,601 million). This includes a charge of £1,028 million (2005: £927 million) in respect of operating profit, which is equivalent to an effective rate of 31.7% (2005: 31.9%). On an IFRS basis the effective tax rate on operating profit was 23.3% (2005: 25.2%) reflecting the use of tax losses in the life businesses and release of prior year provisions following agreements reached with tax authorities on a number of issues.

13. Dividends

Ordinary dividends

The Board has recommended a final dividend increase of 10% to 19.18 pence net per share (2005: 17.44 pence) payable on 17 May 2007 to shareholders on the register on 9 March 2007. This provides growth of 10% in the total dividend for the year of 30.00 pence (2005: 27.27 pence). Our IFRS post-tax operating profits cover this dividend 2.80 times (2005: 2.17 times). Excluding the beneficial impacts of one-offs in 2006 and applying a normalised tax rate, the dividend cover was 2.0 times.

Preference dividends

8 3/8 % cumulative irredeemable preference shares of £1 each

The Board has recommended a dividend of 4 3/16 % per share for the six month period ending 31 March 2007 payable on 31 March 2007 to preference shareholders on the register on 9 March 2007.

8 3/4% cumulative irredeemable preference shares of £1 each

The Board has recommended a dividend of 4 3/8 % per share for the six month period ending 30 June 2007 payable on 30 June 2007 to preference shareholders on the register on 1 June 2007.

14. Pension fund deficit

At 31 December 2006 the total pension fund deficit at a group level was £973 million (gross of tax) (2005: £1,471 million) benefiting from deficit funding contributions during 2006. Following the finalisation of previously announced negotiations, agreement was reached that 12% of the deficit funding payments were to be borne by UK with-profit funds from 2006. Following a further funding contribution in 2006 we have now paid £339 million of the £700 million additional funding announced in March 2006.

15. Group capital structure

The Group maintains an efficient capital structure from a combination of equity shareholders' funds, preference capital, subordinated debt and borrowings, consistent with the Group's risk profile and the regulatory and market requirements of its business. The Group is subject to a number of regulatory capital tests and also employs a number of realistic tests to allocate capital and manage risk. Overall, the Group comfortably meets all of these requirements and, as reported below, has significant resources and financial strength.

The ratings of the Group's main operating subsidiaries are AA/AA- ("very strong") with a stable outlook from Standard & Poor's and Aa3 ("excellent") with a stable outlook from Moody's. These ratings reflect the Group's strong liquidity, competitive position, capital base, increasing underlying earnings and strategic and operational management.

Capital management

In managing its capital, the Group seeks to:

- (i) match the profile of its assets and liabilities, taking account of the risks inherent in each business. In the case of the Group's life operations, which have long-term liabilities, the majority of capital is held in fixed income securities. A significant proportion of the capital supporting the Group's general insurance and health operations is held in equities, reflecting the relatively low risk profile of these businesses;
- (ii) maintain financial strength to support new business growth and satisfy the requirements of its policyholders, regulators and rating agencies;
- (iii) retain financial flexibility by maintaining strong liquidity, including significant unutilised committed credit lines, and access to a range of capital markets;
- (iv) allocate capital efficiently to support growth and repatriate excess capital where appropriate; and
- (v) manage exposures to movement in exchange rates by aligning the deployment of capital by currency with the Group's capital requirements by currency.

An important aspect of the Group's overall capital management process is the setting of target risk-adjusted rates of return for individual business units, which are aligned to performance objectives and ensure that the Group is focused on the creation of value for shareholders. The Group has a number of sources of capital available to it and seeks to optimise its debt to equity structure in order to ensure that it can consistently maximise returns to shareholders. The Group considers not only the

traditional sources of capital funding but the alternative sources of capital including reinsurance and securitisation, as appropriate, when assessing its deployment and usage of capital.

Return on equity shareholders' funds

The Group's post-tax operating return on equity shareholders' funds was 13.1% (2005: 15.0%), ahead of our 12.5% target notwithstanding the impact of opening shareholders' funds being £3.2 billion higher than the previous year. This return is based on the post-tax operating profit from continuing operations, including the EEV operating return, expressed as a percentage of the opening equity shareholders' funds.

Different measures of capital

The Group measures its capital on a number of different bases. These include measures which comply with the regulatory regime within which the Group operates and those which the directors consider appropriate for the management of the business. The measures which the Group uses are:-

- i) **Accounting bases**
Although the Group is required to report its results on an IFRS basis, the directors consider that the European Embedded Value principles provide a more meaningful reflection of the Group's life operations and accordingly we analyse and measure the net asset value and total capital employed for the Group on this basis.
- ii) **Regulatory bases**
In reporting the financial strength of our insurance subsidiaries the Group measures the capital and solvency using the regulations prescribed by the Financial Services Authority (FSA). These regulatory capital tests are based upon required levels of solvency capital and a series of prudent assumptions in respect of the type of business written by the Group's insurance subsidiaries.
- iii) **Economic bases**
Notwithstanding the required levels of capital laid out by the FSA, the Group also measures its capital using various risk based capital models that take into account a more realistic set of financial and non-financial assumptions. These models have been under considerable development over the past few years and have become more relevant in the internal assessment of the Group's financial strength. In addition, these models include measures used by rating agencies in measuring and assessing the financial strength of the Group.

Group

Accounting bases

The Group's capital, from all funding sources, has been allocated such that the capital employed by trading operations is greater than the capital provided by its shareholders and its subordinated debt holders. As a result, the Group is able to enhance the returns earned on its equity capital.

At 31 December 2006 the Group had £26.4 billion (31 December 2005: £23.0 billion) of total capital employed in its trading operations which is efficiently financed by a combination of equity shareholders' funds, preference capital, subordinated debt and borrowings.

| | 31 December 2006 | 31 December 2005 |
|--|-----------------------------|-----------------------------|
| Total shareholders' funds – EEV basis (including minority interests) | £20.9 billion | £17.5 billion |
| Total capital employed by business operations | £26.4 billion | £23.0 billion |
| Net asset value per share – EEV basis | 683 pence | 622 pence |

The significant increase in shareholders' funds reflects strong operational performance in 2006. Net asset value per ordinary share, based on equity shareholders' funds, was higher at 683 pence per share.

Regulatory bases

EU Groups directive

| | 31 December 2006 | 31 December 2005 |
|--|-----------------------------|-----------------------------|
| Insurance Groups Directive (IGD) excess solvency | £3.6 billion | £3.6 billion |
| Cover (times) over EU minimum | 1.8 times | 1.8 times |

Aviva Group had an estimated excess regulatory capital, as measured under the Group Capital Adequacy calculation per the EU Groups Directive, of £3.6 billion at 31 December 2006 (31 December 2005: £3.6 billion). 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 Group's UK life funds. The minimum solvency requirement for the Group's 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 Aviva's 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 the Group's major non-European businesses (the US, Australia and Canada) a risk charge on assets and liabilities approach is used. The IGD is a pure aggregation test with no credit given for the considerable diversification benefits of Aviva.

The Group's excess solvency of £3.6 billion reflects operational and investment performance generating solvency capital during the year, offset by the acquisition of AmerUs which reduced the solvency surplus by £0.7 billion, and the funding of the pension deficit. The impact of the acquisition of AmerUs reflects the £2.5 billion of acquired intangibles, including acquired value of in-

force business and goodwill, offset by the positive effect of the £0.9 billion share placing to finance the transaction and a further uplift of £0.9 billion to move from IFRS to the US local solvency basis. From 31 December 2006, the Group has a regulatory obligation to have a positive solvency on an IGD basis. The Group's risk management processes ensure adequate review of this measure at all times.

Economic bases

We have developed a framework using ICA principles for identifying the risks that business units, and the Group as a whole, are exposed to and quantifying their impact on economic capital. The ICA estimates the capital required to mitigate the risk of insolvency to a 99.5% confidence level over a one year time horizon against financial and non-financial tests.

Currently our ICA uses a mixture of scenario based approaches and risk based capital models. The FSA will use the results of our ICA process when discussing the target levels of capital it believes the UK regulated businesses should maintain. We continue to develop our risk based capital modelling capability for all our businesses as part of our longer-term development programme for more complex risk modelling techniques, and increasingly operate our business by reference to economic and risk based capital requirements.

UK general insurance and international

Regulatory basis

Our principal UK general insurance regulated subsidiaries are Aviva International Insurance group (All) and Norwich Union Insurance (NUI). The combined businesses of the All Group and NUI Group have strong solvency positions. 2005 figures for the All Group, and consequently NUI and All Group pro forma, have been restated to reflect admissibility and counterparty restrictions relating to intercompany balances. There is no economic impact on the All Group and no impact on the Group capital adequacy (IGD) calculation for Aviva plc.

On an aggregate basis the estimated solvency surplus representing the regulatory value of Group capital resources over the capital resources requirement amounted to £4.0 billion (31 December 2005 restated: £3.5 billion) after covering the requirement of £4.5 billion (31 December 2005 restated: £4.0 billion).

The table below sets out the regulatory basis of these general insurance groups at 31 December 2006 and 2005.

| | 31 December 2006 | | | 31 December 2005 | | |
|-----------------------------------|------------------|-----------|-----------------------------|------------------|----------------------|--|
| | NUI | All Group | NUI and All Group pro forma | NUI | All Group restated * | NUI and All Group pro forma restated * |
| Capital resources £bn | £1.1 bn | £7.4 bn | £8.5 bn | £1.3 bn | £6.2 bn | £7.5 bn |
| Capital resources requirement £bn | £0.4 bn | £4.1 bn | £4.5 bn | £0.4 bn | £3.6 bn | £4.0 bn |
| Solvency surplus £bn | £0.7 bn | £3.3 bn | £4.0 bn | £0.9 bn | £2.6 bn | £3.5 bn |
| Cover (times) | 3.1 times | 1.8 times | 1.9 times | 3.4 times | 1.7 times | 1.9 times |

* Figures for All Group, and consequently NUI and All Group pro forma, have been restated to reflect admissibility and counterparty restrictions relating to intercompany balances following a revised application of the technical rules. There is no economic impact on the All Group and no impact on the Group capital adequacy (IGD) calculation for Aviva plc.

Economic bases - Risk based capital

The Group uses a number of measures of risk based capital to assess its capital requirements for its general insurance businesses. Financial modelling techniques enhance our practice of active capital management, ensuring sufficient capital is available to protect against unforeseen events and adverse scenarios, and risk management. Our aim continues to be the optimal usage of capital through appropriate allocation to our businesses.

Our traditional risk based capital measure for general insurance business assesses insurance market and credit risks and makes prudent allowance for diversification benefits. The underlying model looks at the level of capital necessary to enable the general insurance business to meet the statutory minimum solvency margin over a five year period with 99% probability of not requiring further capital. We consider risks over a five year period allowing for planned levels of business growth.

Life operations

Regulatory basis

For the Group's non-participating worldwide life assurance business the Group has set its capital requirements as the higher of:

- Target levels set by reference to own internal risk assessment and internal objectives
- Minimum capital level (i.e. level of solvency capital at which local regulator is empowered to take action)

Having undertaken an assessment of the level of operational, demographic, market and currency risk of each of our life businesses, we have quantified the levels of capital required for each business. We have expressed these as a percentage of EU minimum.

The required capital across all the Group's businesses varies depending on the level of operational, market and currency risk, between 100% and 250% of EU minimum or equivalent for businesses. In the UK we have assessed the required capital for our annuity book at 150% of the EU minimum and the remainder of the non-profit portfolio has been set at 100% of the EU minimum. The weighted average level of required capital for the Group's non-participating life business, expressed as a percentage of the EU minimum solvency margin or equivalent is 134% (2005: 128%). This is a blended rate and we would expect this to change over time with product mix. The increase from 2005 is due to the acquisition of AmerUs reflecting the

combination of required capital for our expanded US business being assessed at 250% of the local risk based capital requirement (2005: 200%), and the higher weighting of US operations in 2006.

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 31 December 2006 the aggregate regulatory requirements based on the EU minimum test amounted to £4.3 billion (31 December 2005: £3.9 billion). At this date, the actual net worth held in the Group's long-term business was £8.9 billion (31 December 2005: £7.2 billion) which represents 206% (31 December 2005: 183%) of these minimum requirements. The increase in this ratio reflects the impact of favourable equity market performance on the net worth and the acquisition of AmerUs.

UK Life operations

Available capital

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-profits funds less the realistic liabilities 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, guarantees and promises. Realistic balance sheet information is shown below for the three main UK with-profits funds; CGNU Life, Commercial Union Life Assurance Company (CULAC) and Norwich Union Life & Pensions (NUL&P). These realistic liabilities have been included within the long-term business provision and the liability for insurance and investment contracts on the Group's IFRS balance sheet at 31 December 2006 and 31 December 2005.

| | 31 December 2006 | | | | | 31 December 2005 |
|--------------------|-----------------------------------|--|--|---|-------------------------|------------------|
| | Estimated Realistic assets £bn | Realistic liabilities* ¹ £bn | Estimated Realistic inherited estate ² £bn | Estimated risk capital margin ³ £bn | Estimated excess £bn | Excess £bn |
| CGNU Life | 14.3 | (11.8) | 2.5 | (0.5) | 2.0 | 1.6 |
| CULAC | 14.1 | (11.6) | 2.5 | (0.5) | 2.0 | 1.3 |
| NUL&P ⁴ | 27.7 | (25.9) | 1.8 | (0.6) | 1.2 | 0.4 |
| Aggregate | 56.1 | (49.3) | 6.8 | (1.6) | 5.2 | 3.3 |

* These realistic liabilities include the shareholders' share of future bonuses of £0.7 billion (31 December 2005: £0.7 billion). Realistic liabilities adjusted to eliminate the shareholders' share of future bonuses are £48.6 billion (31 December 2005: £50.5 billion).

1 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 £0.5 billion, £0.7 billion and £3.0 billion for CGNU Life, CULAC and NUL&P respectively (31 December 2005: £0.7 billion, £0.9 billion and £3.4 billion for CGNU Life, CULAC and NUL&P respectively).

2 Estimated realistic inherited estate at 31 December 2005 was £2.1 billion, £1.9 billion and £1.2 billion for CGNU Life, CULAC and NUL&P respectively.

3 The risk capital margin (RCM) is 4.2 times covered by the inherited estate (31 December 2005: 2.7 times).

4 The NUL&P fund includes the Provident Mutual (PM) fund, which has realistic assets and liabilities of £2.3 billion and therefore does not impact the realistic inherited estate.

Possible reattribution of inherited estate

As previously announced, Aviva is continuing to review the possibility of a reattribution of the inherited estate of two of its with-profit funds: CGNU Life and CULAC. At 31 December 2006, the estimated inherited estates of the CGNU Life and CULAC with-profits funds before the estimated risk capital margin amounted to £2.5 billion each, totalling £5.0 billion.

As announced in November 2006, Aviva has appointed Clare Spottiswoode as the Policyholder Advocate with the FSA's approval following her nomination in February 2006. At this stage, no decision has been taken to proceed with a reattribution, which will only be undertaken if there is agreement on a fair outcome for both policyholders and shareholders. This will include agreement by the independent Policyholder Advocate and Aviva on any incentive payments to eligible with-profits policyholders.

Investment mix

The aggregate investment mix of the assets in the three main with-profit funds at 31 December 2006 was:

| | 31 December 2006 % | 31 December 2005 % |
|----------------|-----------------------|-----------------------|
| Equity | 42% | 42% |
| Property | 16% | 15% |
| Fixed interest | 36% | 37% |
| Other | 6% | 6% |
| | 100% | 100% |

The equity backing ratio, including property, supporting with-profit asset shares is 74% in CGNU Life and CULAC and 65% in NUL&P. With-profit new business is mainly written through CGNU Life.

Glossary

Life profits reporting

In reporting the headline operating profit, life profits have been included using the European Embedded Value basis. This is used throughout the Aviva Group to assess performance, having adopted the EEV Principles. We have focused on the EEV basis, as we believe EEV operating return is a more realistic measure of the performance of the businesses than the IFRS basis. The IFRS basis is used in our primary financial statements and, on this basis, the operating profit before tax on continuing operations amounted to £3,110 million (2005: £2,128 million). The EEV methodology adopted is in accordance with the EEV Principles introduced by the CFO Forum.

Definitions of Group key performance indicators and other terms

- Annual premium equivalent (APE) – Method for calculating life, pensions and investment new business levels. It equals the total of new annualised regular premiums plus 10% of single premiums.
- Assets under management – Represents all assets managed or administered by the Group including funds held on behalf of third parties.
- All (previously named CGUII) – A principal UK general insurance company and the parent of the majority of the Group's overseas general insurance and life assurance subsidiaries.
- Combined operating ratio (COR) – The aggregate of incurred claims expressed as a percentage of earned premiums and written expenses and written commissions expressed as a percentage of written premiums.
- Covered business – The contracts to which the EEV methodology has, in line with the *EEV Principles*, 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 Groups Directive rules.
- Financial Options and Guarantees – Features of the *covered business* conferring potentially valuable guarantees underlying, or options to change, the level or nature of policyholder benefits and exercisable at the discretion of the policyholder, whose potential value is impacted by the behaviour of financial variables.
- Free Surplus – The amount of any capital and surplus allocated to, but not required to support, the in-force covered business.
- Gross risk free yields – Gross of tax yields on risk free fixed interest investments, generally Government bonds.
- Holding Company – A legal entity with a function of being a consolidating entity for primary financial reporting of *covered business*.
- Implicit items – Amounts allowed by local regulators to be deducted from capital amounts when determining the EU required minimum margin.
- Life EEV operating return – Operating return on the EEV 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 EEV return – Total return on the EEV 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.
- IFRS operating profit – From continuing operations on an IFRS basis, stated before tax attributable to shareholders' profits, impairment of goodwill, amortisation of acquired additional value of in-force long-term business and exceptional items.
- 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.
- New business contribution – Is calculated using the same economic assumptions as those used to determine the embedded values at the beginning of each year and is stated before tax and the effect of required capital.
- New business margin – New business margins are calculated as the new business contribution divided by the present value of new business premiums (PVNBP), and expressed as a percentage. Previously, under the Achieved Profits basis, they were expressed as new business contribution divided by premiums measured on an annual premium equivalent (APE) basis.
- 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.
- 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 new business contribution.
- Required Capital – The amount of assets, over and above the value placed on liabilities in respect of *covered business*, whose distribution to shareholders is restricted.
- Service companies – Companies providing administration or fund management services to the *covered business*.
- Solvency cover – The excess of the regulatory value of total assets over total liabilities, divided by the regulatory value of the required minimum solvency margin.
- Statutory Basis – The valuation basis and approach used for reporting financial statements to local regulators.
- Stochastic Techniques – Techniques that incorporate the potential future variability in assumptions affecting their outcome.
- 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.

EEV basis

Summarised consolidated income statement – EEV basis

For the year ended 31 December 2006

| Page | 2006 €m | | 2006 £m | 2005 £m |
|------|--------------|--|--------------|--------------|
| | | Operating profit before tax attributable to shareholders' profits | | |
| 23 | 2,990 | Life EEV operating return | 2,033 | 1,814 |
| 50 | 141 | Fund management ¹ | 96 | 83 |
| 51 | 2,471 | General insurance and health | 1,680 | 1,551 |
| | | Other: | | |
| 52 | (35) | Other operations ² | (23) | 28 |
| 53 | (235) | Corporate costs | (160) | (136) |
| 53 | (560) | Unallocated interest charges | (381) | (436) |
| | 4,772 | Operating profit before tax attributable to shareholders' profits | 3,245 | 2,904 |
| | | Adjusted for the following: | | |
| 61 | (138) | Impairment of goodwill | (94) | (43) |
| | (68) | Amortisation and impairment of intangibles | (46) | (21) |
| | 9 | Financial Services Compensation Scheme and other levies | 6 | - |
| | 688 | Variation from longer-term investment return | 468 | 2,805 |
| | 987 | Effect of economic assumption changes | 671 | (406) |
| 48 | 237 | Profit on the disposal of subsidiaries and associates | 161 | 153 |
| 49 | (362) | Integration and restructuring costs | (246) | (109) |
| | 6,125 | Profit before tax | 4,165 | 5,283 |
| | (1,512) | Tax on operating profit | (1,028) | (927) |
| | (379) | Tax on other activities | (258) | (674) |
| | 4,234 | Profit for the year | 2,879 | 3,682 |
| | | Attributable to: | | |
| | 3,894 | Equity shareholders of Aviva plc | 2,648 | 3,470 |
| | 340 | Minority interests | 231 | 212 |
| | 4,234 | | 2,879 | 3,682 |

All profit is from continuing operations.

- 1 Excludes the proportion of the results of Morley's fund management businesses, of our French asset management operation Aviva Gestion d'Actifs (AGA) 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 EEV operating return.
- 2 Excludes the proportion of the results of Norwich Union Life Services relating to the services provided to the UK life business. These results are included within the Life EEV operating return. Other subsidiaries providing services to our life businesses do not materially impact the Group results.

Earnings per share – EEV basis

For the year ended 31 December 2006

| 2006 | Earnings per share | 2006 | 2005 |
|--------|--|--------|--------|
| | Operating profit on an EEV basis after tax, attributable to ordinary shareholders in respect of Aviva plc | | |
| 116.5c | Basic (pence per share) | 79.2p | 74.5p |
| 115.1c | Diluted (pence per share) | 78.3p | 73.9p |
| | Profit after tax for the year on an EEV basis, attributable to ordinary shareholders of Aviva plc | | |
| 154.6c | Basic (pence per share) | 105.1p | 146.3p |
| 152.8c | Diluted (pence per share) | 103.9p | 145.1p |

Consolidated statement of recognised income and expense – EEV basis

For the year ended 31 December 2006

| 2006 €m | | 2006 £m | 2005 £m |
|------------------|---|--------------|--------------|
| 62 | Fair value gains on AFS securities, owner-occupied properties and hedging instruments | 42 | 92 |
| (26) | Fair value (gains)/losses transferred to profit | (18) | 14 |
| (3) | Impairment losses on revalued assets | (2) | (45) |
| (168) | Actuarial losses on pension schemes | (114) | (547) |
| (590) | Foreign exchange rate movements | (401) | (44) |
| 40 | Aggregate tax effect – shareholder tax | 27 | 224 |
| (685) | Net expense recognised directly in equity | (466) | (306) |
| 4,234 | Profit for the year | 2,879 | 3,682 |
| 3,549 | Total recognised income and expense for the year | 2,413 | 3,376 |
| Attributable to: | | | |
| 3,247 | Equity shareholders of Aviva plc | 2,208 | 3,184 |
| 302 | Minority interests | 205 | 192 |
| 3,549 | | 2,413 | 3,376 |

Summarised reconciliation of movements in consolidated shareholders' funds – EEV basis

For the year ended 31 December 2006

| 2006 €m | | 2006 £m | 2005 £m |
|----------------|--|----------------|----------------|
| 26,188 | Balance at 1 January | 17,546 | 14,011 |
| 3,601 | Total recognised income and expense for the year | 2,413 | 3,376 |
| (1,137) | Dividends and appropriations (note 15) | (762) | (657) |
| 1,331 | Issue of share capital for the acquisition of AmerUs Group Co. (2005: RAC plc), net of transaction costs | 892 | 530 |
| 64 | Other issues of share capital, net of transaction costs | 43 | 59 |
| 303 | Shares issued in lieu of dividends | 203 | 100 |
| 593 | Capital contribution from minority shareholders | 397 | 212 |
| (112) | Minority share of dividends declared in the year | (75) | (70) |
| 228 | Minority interest in acquired/(disposed) subsidiaries | 153 | (36) |
| 72 | Reserves credit for equity compensation plans | 48 | 22 |
| - | Other movements | - | (1) |
| 31,131 | Total equity | 20,858 | 17,546 |
| (3,189) | Minority interests | (2,137) | (1,457) |
| 27,942 | Balance at 31 December | 18,721 | 16,089 |

Summarised consolidated balance sheet – EEV basis

As at 31 December 2006

| 2006 €m | 2006 £m | 2005 £m |
|------------------------------|----------------|----------------|
| Assets | | |
| 4,343 | | |
| 4,072 | 2,910 | 2,274 |
| 10,140 | 2,728 | 803 |
| | 6,794 | 6,454 |
| 4,172 | 2,795 | 2,129 |
| 1,336 | 895 | 885 |
| 1,349 | 904 | 885 |
| 22,572 | 15,123 | 13,275 |
| 39,470 | 26,445 | 24,544 |
| Financial investments | | |
| 168,718 | 113,041 | 103,917 |
| 84,719 | 56,762 | 52,044 |
| 49,328 | 33,050 | 26,427 |
| 11,679 | 7,825 | 7,130 |
| 1,790 | 1,199 | 1,018 |
| 513 | 344 | 87 |
| 12,088 | 8,098 | 7,706 |
| 5,188 | 3,476 | 3,766 |
| 3,858 | 2,585 | 2,363 |
| 21,704 | 14,542 | 13,732 |
| - | - | 462 |
| 447,039 | 299,516 | 269,901 |
| Equity | | |
| 957 | 641 | 599 |
| 6,657 | 4,460 | 4,438 |
| 793 | 531 | 834 |
| 7,585 | 5,082 | 2,597 |
| 10,174 | 6,817 | 6,431 |
| 26,166 | 17,531 | 14,899 |
| 1,776 | 1,190 | 1,190 |
| 3,189 | 2,137 | 1,457 |
| 31,131 | 20,858 | 17,546 |
| Liabilities | | |
| 215,269 | 144,230 | 132,602 |
| 131,878 | 88,358 | 77,309 |
| 14,127 | 9,465 | 8,978 |
| 5,687 | 3,810 | 3,137 |
| 4,254 | 2,850 | 2,875 |
| 4,593 | 3,077 | 2,458 |
| 1,884 | 1,262 | 1,033 |
| 18,115 | 12,137 | 11,013 |
| 13,784 | 9,235 | 9,485 |
| 6,317 | 4,234 | 3,320 |
| - | - | 145 |
| 415,908 | 278,658 | 252,355 |
| 447,039 | 299,516 | 269,901 |

Segmentation of summarised consolidated balance sheet – EEV basis

As at 31 December 2006

| | Life and related businesses 2006 £m | General business and other 2006 £m | Group 2006 £m | Life and related businesses 2005 £m | General business and other 2005 £m | Group 2005 £m |
|---|---|--|---------------------|---|--|---------------------|
| Total assets before acquired additional value of in-force long-term business | 252,955 | 37,961 | 290,916 | 224,453 | 38,679 | 263,132 |
| Acquired additional value of in-force long-term business | 1,806 | - | 1,806 | 315 | - | 315 |
| Total assets included in the statutory IFRS balance sheet | 254,761 | 37,961 | 292,722 | 224,768 | 38,679 | 263,447 |
| Liabilities of the long-term business | (241,892) | - | (241,892) | (215,624) | - | (215,624) |
| Liabilities of the general insurance and other businesses | - | (36,766) | (36,766) | - | (36,731) | (36,731) |
| Net assets on a statutory IFRS basis | 12,869 | 1,195 | 14,064 | 9,144 | 1,948 | 11,092 |
| Additional value of in-force long-term business ¹ | 6,794 | - | 6,794 | 6,454 | - | 6,454 |
| Net assets on an EEV basis² | 19,663 | 1,195 | 20,858 | 15,598 | 1,948 | 17,546 |
| Equity capital, capital reserves, shares held by employee trusts and other reserves | | | 5,632 | | | 5,871 |
| IFRS basis retained earnings | | | 5,082 | | | 2,597 |
| Additional EEV basis retained profit | | | 6,817 | | | 6,431 |
| Equity attributable to ordinary shareholders of Aviva plc on an EEV basis | | | 17,531 | | | 14,899 |
| Preference share capital and direct capital instrument | | | 1,190 | | | 1,190 |
| Minority interests | | | 2,137 | | | 1,457 |
| EEV basis total equity | | | 20,858 | | | 17,546 |

1 The analysis between the Group's and the minority interest's share of the additional value of in-force long-term business is as follows:

| | 2006 £m | 2005 £m | Movement in the year £m |
|---|--------------|--------------|----------------------------|
| Group's share included in shareholders' funds | 6,817 | 6,431 | 386 |
| Minority interest share | 439 | 329 | 110 |
| Movement in AFS securities | (462) | (306) | (156) |
| Balance at 31 December | 6,794 | 6,454 | 340 |

2 Analysis of net assets on an EEV basis is made up as follows:

| | 2006 £m | 2005 £m |
|---|---------------|---------------|
| Long-term business net assets on an EEV basis | 19,663 | 15,598 |
| Comprises: | | |
| Embedded value | 18,098 | 15,113 |
| RBSG goodwill | 217 | 217 |
| Goodwill and intangible assets allocated to long-term business | 1,527 | 631 |
| Notional allocation of IAS 19 pension fund deficit to long-term business ^{3,4} | (179) | (363) |
| Long-term business net assets on an EEV basis | 19,663 | 15,598 |

3 Effective from 31 December 2005, the value of the Aviva Staff Pension Scheme deficit has been notionally allocated between segments, based on current funding and the life proportion has been included within the long-term business net assets on an EEV basis.

4 Effective from 31 December 2006, the pension fund deficit notionally allocated to long-term business is net of the proportion of funding borne by the UK with-profits funds.

Basis of preparation – **EEV basis**

The summarised consolidated income statement and balance sheet on pages 16 to 19 present the Group's results and financial position for the life and related businesses on the European Embedded Value (EEV) basis and for its non-life businesses on the International Financial Reporting Standards (IFRS) basis. The EEV methodology adopted is in accordance with the EEV Principles introduced by the CFO Forum in May 2004 and the Additional Guidance on EEV Disclosures published by the CFO Forum in October 2005 applicable for financial reporting for the year ending 31 December 2006.

In the Directors' opinion, the EEV basis provides a more relevant reflection of the performance of the Group's life and related operations year on year than results presented under the IFRS basis. The Directors consider that the EEV methodology represents a more meaningful basis of reporting the underlying value of the Group's life and related businesses and the underlying drivers of performance. This basis allows for the impact of uncertainty in the future investment returns more explicitly and is consistent with the way the business is priced and managed.

The Group's approach to establishing economic assumptions (specifically investment returns, required capital and discount rates) was reviewed by Tillinghast, a firm of actuarial consultants, at the time of adopting the EEV principles in 2004. The approach is based on the well established capital asset pricing model theory and is in line with the EEV Principles and Guidance.

The results for 2006 and 2005 have been audited by our auditors, Ernst & Young LLP. Their report in respect of 2006 is included in the Report and Accounts on page 219 of that document. The preliminary announcement for the year ended 31 December 2006 does not constitute statutory accounts as defined in section 240 of the Companies Act 1985.

Covered business

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

Covered business includes the Group's share of our joint venture operations including our arrangement with The Royal Bank of Scotland Group (RBSG) and our operations in India and China. In addition, the results of Group companies providing significant administration, investment 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 sales of new contracts during the year;
- 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.

For products sold to individuals, premiums are generally considered to represent new business in certain circumstances, including 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.

Foreign exchange adjustments

Embedded value and other balance sheet items denominated in foreign currencies have been translated to sterling using the appropriate closing exchange rate. New business contribution and other income statement items have been translated using an average exchange rate for the relevant period. The exchange rates adopted in this announcement are shown on page 44.

EEV methodology

Overview

Under the EEV 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 life business, 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. Profits are then grossed up for tax at the full rate of corporation tax for the UK and at an appropriate rate for each of the other countries based on opening year tax rates.

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 reported net of implicit items permitted on a local regulatory basis to cover minimum solvency margins which are assessed at a local entity basis. The level of required capital for each business, which ranges between 100% and 150% of the EU minimum solvency requirement for our main European businesses and 250% of the EU minimum equivalent solvency requirements in the US, reflects the level of capital considered by the Directors to be appropriate to manage the business, allowing for our internal assessment of the level of market, insurance and operating risk inherent in the underlying products. The same definition of required capital is used for both existing and new business. The free surplus comprises the market value of shareholder assets in excess of local statutory reserves and required capital.

Value of in-force covered business

The value of in-force covered business is the present value at the appropriate risk discount rate (which incorporates a risk margin) of the distributable profits to shareholders arising from the in-force covered business projected on a best estimate basis, less a deduction for the cost of holding the required level of capital.

In the UK, shareholders' distributable profits arise when they are released following actuarial valuations. These valuations are carried out in accordance with 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 best estimate assumptions of future experience. In overseas businesses generally, there are similar requirements restricting payments to shareholders from life businesses.

The value of in-force covered business includes an allowance for the impact of financial options and guarantees arising from best estimate assumptions (the intrinsic value) and from additional costs related to the variability of investment returns (the time value). The intrinsic value is included in the underlying value of the in-force covered business using deterministic assumptions. The time value of financial options and guarantees has been determined using stochastic modelling techniques.

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. 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. The time value is determined by deducting the average value of shareholder cash flows under these economic scenarios from the deterministic shareholder value under best estimate assumptions.

The cost of holding required capital is the difference between the required capital and the present value at the appropriate risk discount rate of the projected release of the required capital and investment earnings on the assets deemed to back the required capital. Where the required capital is covered by policyholder assets, for example in the UK with-profit funds, there is no impact of cost of capital on shareholder value. The assets regarded as covering the required capital are those that the operation deems appropriate.

The value of in-force covered business 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.

Risk discount rates

Under the EEV methodology, a risk discount rate (RDR) is required to express a stream of expected future distributable profits as a single value at a particular date (the present value). It is the interest rate that an investment equal to the present value would have to earn in order to be able to replicate exactly the stream of future profits. The RDR is a combination of a

risk free rate to reflect the time value of money plus a risk margin to make prudent allowance for the risk that experience in future years may differ from that assumed. In particular, a risk margin is added to allow for the risk that expected additional returns on certain asset classes (e.g. equities) are not achieved.

Risk discount rates for our life businesses have been calculated using a risk margin based upon a Group Weighted Average Cost of Capital (WACC). The Group WACC is calculated using a gross risk free interest rate, an equity risk margin, a market assessed risk factor (beta), and an allowance for the gearing impact of debt financing (including subordinated debt) on a market value basis. The market assessed risk factor captures the market's view of the effect of all types of risk on our business, including operational and other non-economic risk.

The RDR is only one component of the overall allowance for risk in EEV calculations. Risk is also allowed for in the cost of holding statutory reserving margins, additional required capital and in the time value of options and guarantees. Hence to derive the RDR the Group WACC is adjusted to reflect the average level of required capital assumed to be held, and to reflect the explicit valuation of the time value of options and guarantees.

In order to derive risk discount rates for each of our life businesses, the adjusted Group WACC is expressed as a risk margin in excess of the gross risk free interest rate used in the WACC calculation as described above. This risk margin is used for all our main businesses including the US. Business-specific discount rates are then calculated as the sum of this risk margin and the appropriate local gross risk free rate at the valuation date, based on returns on government bonds. A common risk free rate, and hence a common RDR, is used for all of our businesses within the Eurozone. Additional country-specific risk margins are applied to smaller businesses to reflect additional economic, political and business-specific risk. For example, risk margins ranging from 3.7% to 8.7% are applied to the Group's eastern European and Asian operations. Within each business, a constant RDR has been applied in all future time periods and in each of the economic scenarios underlying the calculation of the time value of options and guarantees.

At each valuation date, the risk margin is reassessed based on current economic factors and is updated only if a significant change has occurred. In particular, changes in risk profile arising from movements in asset mix are allowed for via the updated risk margin calculation.

Following the review of the risk margin at 31 December 2006, the Directors have decided to leave the life embedded value risk margin unchanged at 2.7%. The market assessed risk factor (beta) has reduced in recent periods, implying a reduction of the risk in the life business. Management will keep the risk margin under review and will make adjustments as necessary to reflect past trends and future expected trends in the riskiness of the life business, based on the beta.

The sensitivity disclosures on page 36 indicate the impact to the embedded value that would arise for a change in the risk discount rate.

Participating business

Future regular bonuses on participating business are projected in a manner consistent with current bonus rates and expected future 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 time value of options and guarantees.

For profit sharing business in continental Europe, where policy benefits and shareholder value depend on the timing of realising gains, apportionment of unrealised gains between policyholders' benefits and shareholders reflect contractual requirements as well as existing practice. Where under certain economic scenarios additional shareholder injections are required to meet policyholder payments, the average additional cost has been included in the time value of options and guarantees.

Consolidation adjustments

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

As the EEV 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 EEV basis.

The capitalised value of the future profits and losses from such service companies are included in the embedded value and new business contribution calculations for the relevant territory, 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 balance sheets, 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.

Components of life EEV return

The life EEV return comprises the following components:

- new business contribution written during the period including value added between the point of sale and end of the period;
- the profit from existing business equal to:
 - the expected return on the value of the in-force covered business at the beginning of the period,
 - experience variances caused by the differences between the actual experience during the period and expected experience based on the operating assumptions used to calculate the start of year value,
 - the impact of changes in operating assumptions including risk margins;
- the expected investment return on the shareholders' net worth, based upon assumptions applying at the start of the year;
- investment return variances caused by differences between the actual return in the period and the expected return based on economic assumptions used to calculate the start of year value; and
- the impact of changes in economic assumptions in the period.

The life EEV operating return comprises the first three of these components and is calculated using economic assumptions as at the start of the year and operating (demographic, expenses and tax) assumptions as at the end of the year.

| Life EEV return | 2006 £m | 2005 £m |
|--|--------------|--------------|
| New business contribution (after the effect of required capital) | 683 | 612 |
| Profit from existing business | | |
| – expected return | 1,011 | 895 |
| – experience variances | (50) | (39) |
| – operating assumption changes | 44 | 17 |
| Expected return on shareholders' net worth | 345 | 329 |
| Life EEV operating return before tax | 2,033 | 1,814 |
| Investment return variances | 319 | 2,288 |
| Effect of economic assumption changes | 671 | (406) |
| Life EEV return before tax | 3,023 | 3,696 |
| Tax on operating profit | (630) | (566) |
| Tax charge on other ordinary activities | (295) | (579) |
| Life EEV return after tax | 2,098 | 2,551 |

There were no separate development costs reported in these periods.

New business contribution

The following tables set out the premium volumes and contribution from new business written by the life and related businesses, consistent with the definition of new business set out on page 20.

The contribution generated by new business written during the period is the present value of the projected stream of after tax distributable profit from that business. New business contribution before tax is calculated by grossing up the contribution after tax at the full corporation tax rate for UK business and at appropriate rates of tax for other countries. New business contribution has been calculated using the same economic assumptions as those used to determine the embedded value as at the start of the year and operating assumptions used to determine the embedded value as at the end of the year, and is rolled forward to the end of the financial period. New business contribution is shown before and after the effect of required capital, calculated on the same basis as for in-force covered business.

New business sales are expressed on two bases: annual premium equivalent (APE) and the present value of new business premiums (PVNBP). The PVNBP calculation is equal to total single premium sales received in the year plus the discounted value of regular premiums expected to be received over the term of the new contracts, and is expressed at the point of sale. The premium volumes and projection assumptions used to calculate the present value of regular premiums for each product are the same as those used to calculate new business contribution, so the components of the new business margin are on a consistent basis.

| | Annual premium equivalent | | Present value of new business premiums | | New business contribution before the effect of required capital | | New business margin before the effect of required capital ¹ | |
|---|---------------------------|--------------|--|---------------|---|------------|--|-------------|
| | 2006 £m | 2005 £m | 2006 £m | 2005 £m | 2006 £m | 2005 £m | 2006 % | 2005 % |
| Life and pensions | | | | | | | | |
| France | 391 | 384 | 3,552 | 3,530 | 153 | 135 | 4.3% | 3.8% |
| Ireland | 190 | 100 | 1,273 | 665 | 15 | 16 | 1.2% | 2.4% |
| Italy | 323 | 252 | 2,768 | 2,294 | 70 | 59 | 2.5% | 2.6% |
| Netherlands (including Belgium, Germany and Luxembourg) | 270 | 323 | 2,346 | 2,739 | 56 | 90 | 2.4% | 3.3% |
| Poland | 72 | 47 | 534 | 320 | 28 | 16 | 5.2% | 5.0% |
| Spain | 248 | 240 | 2,059 | 2,013 | 184 | 175 | 8.9% | 8.7% |
| Other Europe | 63 | 51 | 308 | 240 | (4) | (1) | (1.3)% | (0.4)% |
| <i>Continental Europe</i> | <i>1,557</i> | <i>1,397</i> | <i>12,840</i> | <i>11,801</i> | <i>502</i> | <i>490</i> | <i>3.9%</i> | <i>4.2%</i> |
| Asia | 107 | 63 | 685 | 396 | 26 | 20 | 3.8% | 5.1% |
| Australia | 58 | 64 | 297 | 337 | 17 | 16 | 5.7% | 4.7% |
| United States | 97 | 66 | 884 | 527 | 20 | 13 | 2.3% | 2.5% |
| <i>Rest of the World</i> | <i>262</i> | <i>193</i> | <i>1,866</i> | <i>1,260</i> | <i>63</i> | <i>49</i> | <i>3.4%</i> | <i>3.9%</i> |
| International | 1,819 | 1,590 | 14,706 | 13,061 | 565 | 539 | 3.8% | 4.1% |
| United Kingdom | 1,439 | 1,155 | 11,146 | 9,185 | 327 | 269 | 2.9% | 2.9% |
| Total (before the effect of required capital) | 3,258 | 2,745 | 25,852 | 22,246 | 892 | 808 | 3.5% | 3.6% |

Germany has been reclassified from Other Europe to the Netherlands, Lithuania has been reclassified from Other Europe to Poland and Norwich Union's Dublin-based offshore life and savings business has been reclassified from Other Europe to the United Kingdom.

¹ New business margin represents the ratio of new business contribution before the effect of required capital to PVNBP, expressed as a percentage.

New business contribution before the effect of required capital includes minority interests in 2006 of £175 million (2005: £156 million). This comprises minority interests in France of £24 million (2005: £19 million), Ireland £3 million (2005: nil), Italy £41 million (2005: £35 million), Netherlands £9 million (2005: £10 million), Poland £4 million (2005: £2 million), Spain £93 million (2005: £89 million), Other Europe nil (2005: £1 million) and Asia £1 million (2005: nil).

| Life and pensions | Present value of new business premiums | | New business contribution after the effect of required capital | | New business margin after the effect of required capital ¹ | |
|---|--|---------------|--|------------|---|-------------|
| | 2006 £m | 2005 £m | 2006 £m | 2005 £m | 2006 % | 2005 % |
| France | 3,552 | 3,530 | 110 | 91 | 3.1% | 2.6% |
| Ireland | 1,273 | 665 | 9 | 13 | 0.7% | 2.0% |
| Italy | 2,768 | 2,294 | 50 | 36 | 1.8% | 1.6% |
| Netherlands (including Belgium, Germany and Luxembourg) | 2,346 | 2,739 | 25 | 58 | 1.1% | 2.1% |
| Poland | 534 | 320 | 25 | 14 | 4.7% | 4.4% |
| Spain | 2,059 | 2,013 | 168 | 155 | 8.2% | 7.7% |
| Other Europe | 308 | 240 | (6) | (4) | (1.9)% | (1.7)% |
| <i>Continental Europe</i> | <i>12,840</i> | <i>11,801</i> | <i>381</i> | <i>363</i> | <i>3.0%</i> | <i>3.1%</i> |
| Asia | 685 | 396 | 22 | 16 | 3.2% | 4.0% |
| Australia | 297 | 337 | 9 | 9 | 3.0% | 2.7% |
| United States | 884 | 527 | 8 | 7 | 0.9% | 1.3% |
| <i>Rest of the World</i> | <i>1,866</i> | <i>1,260</i> | <i>39</i> | <i>32</i> | <i>2.1%</i> | <i>2.5%</i> |
| International | 14,706 | 13,061 | 420 | 395 | 2.9% | 3.0% |
| United Kingdom | 11,146 | 9,185 | 263 | 217 | 2.4% | 2.4% |
| Total (after the effect of required capital) | 25,852 | 22,246 | 683 | 612 | 2.6% | 2.8% |

Germany has been reclassified from Other Europe to the Netherlands, Lithuania has been reclassified from Other Europe to Poland and Norwich Union's Dublin-based offshore life and savings business has been reclassified from Other Europe to the United Kingdom.

¹ New business margin represents the ratio of new business contribution after deducting the effect of required capital to PVNBP, expressed as a percentage.

New business contribution after the effect of required capital includes minority interests in 2006 of £142 million (2005: £120 million). This comprises minority interests in France of £15 million (2005: £10 million), Ireland £1 million (2005: nil), Italy £29 million (2005: £21 million), Netherlands £7 million (2005: £7 million), Poland £3 million (2005: £2 million), Spain £86 million (2005: £79 million), Other Europe nil (2005: £1 million) and Asia £1 million (2005: nil).

EEV basis – new business contribution before the effect of required capital, tax and minority interest

| | Annual premium equivalent | | Present value of new business premiums | | New business contribution ¹ | | New business margin ² | |
|-------------------------------|---------------------------|--------------|--|---------------|--|------------|----------------------------------|-------------|
| | 2006 £m | 2005 £m | 2006 £m | 2005 £m | 2006 £m | 2005 £m | 2006 % | 2005 % |
| Analysed between: | | | | | | | | |
| – Bancassurance channels | 942 | 710 | 7,737 | 6,075 | 369 | 311 | 4.8% | 5.1% |
| – Other distribution channels | 2,316 | 2,035 | 18,115 | 16,171 | 523 | 497 | 2.9% | 3.1% |
| Total | 3,258 | 2,745 | 25,852 | 22,246 | 892 | 808 | 3.5% | 3.6% |

¹ Stated before the effect of required capital

² New business margin represents the ratio of new business contribution before the effect of required capital to PVNBP, expressed as a percentage.

EEV basis – new business contribution after the effect of required capital, tax and minority interest

| | Annual premium equivalent | | Present value of new business premiums ¹ | | New business contribution ² | | New business margin ³ | |
|-------------------------------|---------------------------|--------------|---|---------------|--|------------|----------------------------------|-------------|
| | 2006 £m | 2005 £m | 2006 £m | 2005 £m | 2006 £m | 2005 £m | 2006 % | 2005 % |
| Analysed between: | | | | | | | | |
| – Bancassurance channels | 553 | 387 | 4,465 | 3,238 | 121 | 93 | 2.7% | 2.9% |
| – Other distribution channels | 2,252 | 1,997 | 17,607 | 15,815 | 255 | 248 | 1.4% | 1.6% |
| Total | 2,805 | 2,384 | 22,072 | 19,053 | 376 | 341 | 1.7% | 1.8% |

¹ Stated after deducting minority interests.

² Contribution stated after deducting the effect of required capital, tax and minority interests.

³ New business margin represents the ratio of new business contribution after deducting the effect of required capital, tax and minority interests to PVNBP after deducting the minority interests, expressed as a percentage.

Post-tax internal rate of return on life and pensions new business

The internal rate of return (IRR) on life and pensions new business for the Group was 12.6% for 2006 (2005: 12.5%).

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

| | Internal rate of return % | Initial capital £m | Required capital £m | Total invested capital £m |
|--|--|-------------------------------|--------------------------------|--|
| France | 13% | 20 | 93 | 113 |
| Ireland | 7% | 54 | 33 | 87 |
| Italy | 12% | 17 | 59 | 76 |
| Netherlands (including Belgium, Germany and Luxembourg) | 7% | 42 | 88 | 130 |
| Poland | 23% | 15 | 6 | 21 |
| Spain | 30% | 19 | 63 | 82 |
| Other Europe | 7% | 37 | 3 | 40 |
| <i>Continental Europe</i> | 13% | 204 | 345 | 549 |
| United States | 9% | 41 | 37 | 78 |
| Other | 25% | 28 | 22 | 50 |
| <i>Rest of the World</i> | 15% | 69 | 59 | 128 |
| International | 13% | 273 | 404 | 677 |
| United Kingdom | 12% | 360 | 149 | 509 |
| Total | 13% | 633 | 553 | 1,186 |

The total initial capital for life and pensions new business for 2006 of £633 million (2005: £544 million) shown above is expressed at the point of sale. Hence it is higher than the impact of writing that new business on net worth of £602 million (2005: £536 million) shown on page 29, because the latter amount includes expected profits from the point of sale to the end of the reporting period, partly offset by the expected return on the initial capital.

Experience variances

Experience variances include the impact of the difference between expense, demographic and persistency assumptions, and actual experience incurred in the year. Also included are variances arising from tax, where such variances are due to management action.

| | 2006 | 2005 |
|---|--------------|-------------|
| | £m | £m |
| France | 71 | 32 |
| Netherlands (including Belgium, Germany and Luxembourg) | (9) | 2 |
| Rest of Europe | 29 | 13 |
| <i>Continental Europe</i> | <i>91</i> | <i>47</i> |
| United States | (11) | 3 |
| Other | 10 | 6 |
| <i>Rest of the World</i> | <i>(1)</i> | <i>9</i> |
| International | 90 | 56 |
| United Kingdom | (140) | (95) |
| Total | (50) | (39) |

Germany has been reclassified from Other Europe to the Netherlands, Lithuania has been reclassified from Other Europe to Poland and Norwich Union's Dublin-based offshore life and savings business has been reclassified from Other Europe to the United Kingdom.

Operating assumption changes

Changes in operating assumptions are made when the assumed future levels of expenses, mortality or other operating assumptions are expected to change permanently.

| | 2006 | 2005 |
|---|-------------|-------------|
| | £m | £m |
| France | 11 | 14 |
| Netherlands (including Belgium, Germany and Luxembourg) | 56 | 55 |
| Rest of Europe | (83) | 2 |
| <i>Continental Europe</i> | <i>(16)</i> | <i>71</i> |
| United States | (9) | (10) |
| Other | 9 | 12 |
| <i>Rest of the World</i> | <i>-</i> | <i>2</i> |
| International | (16) | 73 |
| United Kingdom | 60 | (56) |
| Total | 44 | 17 |

Germany has been reclassified from Other Europe to the Netherlands, Lithuania has been reclassified from Other Europe to Poland and Norwich Union's Dublin-based offshore life and savings business has been reclassified from Other Europe to the United Kingdom.

Further disclosures on experience variances and operating assumption changes on an EEV basis are provided on pages 66 and 67.

Geographical analysis of life EEV operating return

| | 2006 | 2005 |
|---|--------------|--------------|
| | £m | £m |
| France | 402 | 321 |
| Ireland | (40) | 20 |
| Italy | 110 | 96 |
| Netherlands (including Belgium, Germany and Luxembourg) | 329 | 349 |
| Poland | 162 | 132 |
| Spain | 221 | 214 |
| Other Europe | (13) | (6) |
| <i>Continental Europe</i> | <i>1,171</i> | <i>1,126</i> |
| Asia | 37 | 30 |
| Australia | 49 | 44 |
| United States | 32 | 25 |
| <i>Rest of the World</i> | <i>118</i> | <i>99</i> |
| International | 1,289 | 1,225 |
| United Kingdom | 744 | 589 |
| Total | 2,033 | 1,814 |

Germany has been reclassified from Other Europe to the Netherlands, Lithuania has been reclassified from Other Europe to Poland and Norwich Union's Dublin-based offshore life and savings business has been reclassified from Other Europe to the United Kingdom.

Life EEV operating return includes minority interests in 2006 of £247 million (2005: £216 million). This comprises minority interests in France of £33 million (2005: £24 million), Ireland £(11) million (2005: nil), Italy £60 million (2005: £52 million), Netherlands £30 million (2005: £17 million), Poland £25 million (2005: £18 million), Spain £108 million (2005: £103 million), Other Europe nil (2005: £2 million) and Asia £2 million (2005: nil).

Analysis of movement in life and related businesses embedded value

The following tables provide an analysis of the movement in embedded value for the life and related businesses for 2006 and 2005. The analysis is shown separately for net worth and the value of in-force covered business, and includes amounts transferred between these categories. The transfer to life and related businesses from other segments consists 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.

| | | 2006 | | |
|--|---------------------------------|------------------|--------------------------|---------------|
| | | Net worth | Value of in-force | Total |
| | | £m | £m | £m |
| Embedded value at the beginning of the year | – Free surplus | 2,772 | | |
| | – Required capital ¹ | 4,448 | | |
| | Total | 7,220 | 7,893 | 15,113 |
| New business contribution (after the effect of required capital) | | (602) | 1,071 | 469 |
| Expected return on existing business – return on VIF | | - | 710 | 710 |
| Expected return on existing business – transfer to net worth | | 1,023 | (1,023) | - |
| Experience variances and operating assumption changes | | 400 | (415) | (15) |
| Expected return on shareholders' net worth | | 239 | - | 239 |
| Investment return variances and economic assumption changes | | 355 | 340 | 695 |
| Life EEV return after tax | | 1,415 | 683 | 2,098 |
| Exchange rate movements | | (189) | (120) | (309) |
| Embedded value from business acquired | | 675 | 759 | 1,434 |
| Amounts injected into life and related businesses | | 393 | - | 393 |
| Amounts released from life and related businesses | | (646) | - | (646) |
| Transfer to life and related businesses from other segments | | 113 | - | 113 |
| UK pension fund deficit borne by UK with-profit funds transferred to analysis of net assets on an EEV basis ² | | (98) | - | (98) |
| Embedded value at the end of the year | – Free surplus | 3,569 | | |
| | – Required capital ¹ | 5,314 | | |
| | Total | 8,883 | 9,215 | 18,098 |

1 Required capital is shown net of implicit items permitted by local regulators to cover minimum solvency margins.

2 The impact of the operating assumption change reflecting the UK with-profits funds contribution to the UK pension scheme deficit funding has been removed from the Life EEV analysis as the pension fund deficit notionally allocated to long-term business net assets on an EEV basis is net of the proportion of funding borne by the UK with-profits funds.

The embedded value of business acquired in 2006 of £1,434 million represents the embedded value of Ark Life Assurance Company Limited, Eagle Insurance Company Limited and AmerUs Group Co.

Required capital has increased in the year by £866 million. The movement comprises an increase of £553 million in relation to new business written, a reduction of £188 million in relation to in-force business, £607 million additional in-force required capital relating to acquisitions during the year and a reduction of £106 million in relation to movements in foreign exchange rates. The decrease in the in-force required capital includes the impact of PS06/14 on the amount of shareholder capital required to support the business and the effect of the increase in long-term interest rates which has decreased statutory reserves and, therefore, capital requirements.

| | | 2005 | | |
|---|---------------------------------|------------------|--------------------------|---------------|
| | | Net worth | Value of in-force | Total |
| | | £m | £m | £m |
| Embedded value at the beginning of the year | – Free surplus | 1,894 | | |
| | – Required capital ¹ | 4,362 | | |
| | Total | 6,256 | 6,758 | 13,014 |
| New business contribution (after the effect of required capital) | | (536) | 955 | 419 |
| Expected return on existing business – return on VIF | | - | 624 | 624 |
| Expected return on existing business – transfer to net worth | | 929 | (929) | - |
| Experience variances and operating assumption changes | | 96 | (115) | (19) |
| Expected return on shareholders' net worth | | 225 | - | 225 |
| Investment return variances and economic assumption changes | | 785 | 517 | 1,302 |
| Life EEV return after tax | | 1,499 | 1,052 | 2,551 |
| Exchange rate movements | | (54) | (45) | (99) |
| Embedded value from business disposed of | | (19) | (19) | (38) |
| Amounts injected into life and related businesses | | 266 | - | 266 |
| Amounts released from life and related businesses | | (751) | - | (751) |
| Transfer to life and related businesses from other segments | | 23 | - | 23 |
| UK Life pension fund deficit transferred to analysis of net assets on an EEV basis ² | | - | 147 | 147 |
| Embedded value at the end of the year | – Free surplus | 2,772 | | |
| | – Required capital ¹ | 4,448 | | |
| | Total | 7,220 | 7,893 | 15,113 |

1 Required capital is shown net of implicit items permitted by local regulators to cover minimum solvency margins.

2 Reflecting CFO Forum guidance the pension scheme deficit is now being accounted for on an IAS 19 basis. Consequently, the element that had previously been included in the Life EEV analysis, being the present value of agreed deficit funding payments, has been removed from the Life EEV analysis.

Segmental analysis of life and related businesses embedded value

| | Net worth | | Value of in-force covered business | | Total |
|--|-------------------------------------|--------------------|------------------------------------|--------------------------------|----------------------|
| | Required capital ¹ £m | Free surplus £m | Present value of in-force £m | Cost of required capital £m | Embedded value £m |
| 31 December 2006 | | | | | |
| France | 1,143 | 250 | 1,142 | (244) | 2,291 |
| Ireland | 254 | 143 | 535 | (40) | 892 |
| Italy | 320 | 329 | 206 | (63) | 792 |
| Netherlands (including Belgium, Germany and Luxembourg) | 1,067 | 1,701 | 1,461 | (362) | 3,867 |
| Poland | 105 | 107 | 540 | (33) | 719 |
| Spain | 273 | 37 | 606 | (59) | 857 |
| Other Europe | 18 | 25 | 75 | (12) | 106 |
| <i>Continental Europe</i> | <i>3,180</i> | <i>2,592</i> | <i>4,565</i> | <i>(813)</i> | <i>9,524</i> |
| United States ² | 618 | 211 | 794 | (145) | 1,478 |
| Other | 182 | 125 | 204 | (51) | 460 |
| <i>Rest of the World</i> | <i>800</i> | <i>336</i> | <i>998</i> | <i>(196)</i> | <i>1,938</i> |
| International | 3,980 | 2,928 | 5,563 | (1,009) | 11,462 |
| United Kingdom | 1,334 | 641 | 5,103 | (442) | 6,636 |
| Total | 5,314 | 3,569 | 10,666 | (1,451) | 18,098 |

Germany has been reclassified from Other Europe to the Netherlands, Lithuania has been reclassified from Other Europe to Poland and Norwich Union's Dublin-based offshore life and savings business has been reclassified from Other Europe to the United Kingdom.

- 1 Required capital is shown net of implicit items permitted by local regulators to cover minimum solvency margins.
- 2 AmerUs holding company debt amounting to £362 million at 31 December 2006 has been included within non-insurance.

| | Net worth | | Value of in-force covered business | | Embedded value | |
|--|--------------|--------------|------------------------------------|--------------|----------------|---------------|
| | 2006 £m | 2005 £m | 2006 £m | 2005 £m | 2006 £m | 2005 £m |
| France | 1,393 | 1,264 | 898 | 803 | 2,291 | 2,067 |
| Ireland | 397 | 286 | 495 | 353 | 892 | 639 |
| Italy | 649 | 602 | 143 | 114 | 792 | 716 |
| Netherlands (including Belgium, Germany and Luxembourg) | 2,768 | 2,204 | 1,099 | 933 | 3,867 | 3,137 |
| Poland | 212 | 214 | 507 | 445 | 719 | 659 |
| Spain | 310 | 262 | 547 | 463 | 857 | 725 |
| Other Europe | 43 | 42 | 63 | 54 | 106 | 96 |
| <i>Continental Europe</i> | <i>5,772</i> | <i>4,874</i> | <i>3,752</i> | <i>3,165</i> | <i>9,524</i> | <i>8,039</i> |
| United States | 829 | 254 | 649 | 77 | 1,478 | 331 |
| Other | 307 | 289 | 153 | 106 | 460 | 395 |
| <i>Rest of the World</i> | <i>1,136</i> | <i>543</i> | <i>802</i> | <i>183</i> | <i>1,938</i> | <i>726</i> |
| International | 6,908 | 5,417 | 4,554 | 3,348 | 11,462 | 8,765 |
| United Kingdom | 1,975 | 1,803 | 4,661 | 4,545 | 6,636 | 6,348 |
| Total | 8,883 | 7,220 | 9,215 | 7,893 | 18,098 | 15,113 |

Germany has been reclassified from Other Europe to the Netherlands, Lithuania has been reclassified from Other Europe to Poland and Norwich Union's Dublin-based offshore life and savings business has been reclassified from Other Europe to the United Kingdom.

The shareholders' 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. Required capital, net of implicit items, of £5,314 million at 31 December 2006 (31 December 2005: £4,448 million) is included within the net worth.

The value of in-force covered business includes the effect of holding shareholders' capital to support the level of required capital and allowing for projected future releases. This impact reduces the value of in-force covered business at 31 December 2006 by £1,451 million (31 December 2005: £1,187 million).

The embedded value at the end of 2006 includes minority interests of £1,387 million (2005: £1,000 million). This comprises minority interests in France of £162 million (2005: £148 million), Ireland £216 million (2005: nil), Italy £413 million (2005: £365 million), Netherlands £102 million (2005: £70 million), Poland £118 million (2005: £107 million), Spain £366 million (2005: £310 million) and Other £10 million (2005: nil).

Time value of options and guarantees

The following table sets out the time value of options and guarantees relating to covered business by territory at 31 December 2006 and 31 December 2005.

| | 2006 | 2005 |
|---|-------------|-------------|
| | £m | £m |
| France | 77 | 84 |
| Ireland | 2 | 3 |
| Italy | 17 | 19 |
| Netherlands (including Belgium, Germany and Luxembourg) | 146 | 118 |
| Poland | 4 | 5 |
| Spain | 4 | 8 |
| Other Europe | - | 2 |
| <i>Continental Europe</i> | 250 | 239 |
| United States | 68 | 11 |
| Other | 4 | 5 |
| <i>Rest of the World</i> | 72 | 16 |
| International | 322 | 255 |
| United Kingdom | 50 | 48 |
| Total | 372 | 303 |

Germany has been reclassified from Other Europe to the Netherlands, Lithuania has been reclassified from Other Europe to Poland and Norwich Union's Dublin-based offshore life and savings business has been reclassified from Other Europe to the United Kingdom.

The time value of options and guarantees (TVOG) is most significant in the United Kingdom, France, the Netherlands and the United States. In the United Kingdom, this relates mainly to non-market value adjustment (MVA) guarantees on unithold with-profit business and guaranteed annuity rates. In France, this relates mainly to guaranteed crediting rates and surrender values on traditional business including the AFER fund. In the Netherlands, this relates mainly to maturity guarantees on unit-linked products and interest rate guarantees on traditional individual and group profit sharing business. In the United States, this relates to crediting rate, death benefit and surrender on life business.

The TVOG has increased to £372 million reflecting acquired TVOG from AmerUs of £56 million.

Minority interest in life and related businesses' EEV results

| | | | 2006 | 2005 |
|---|---------------------------------|----------------------------|---------------|---------------|
| | Shareholders' interest £m | Minority interest £m | Group £m | Group £m |
| New business contribution before effect of required capital | 717 | 175 | 892 | 808 |
| Effect of required capital | (176) | (33) | (209) | (196) |
| New business contribution including effect of required capital | 541 | 142 | 683 | 612 |
| Life EEV operating return before tax | 1,786 | 247 | 2,033 | 1,814 |
| Life EEV return before tax | 2,744 | 279 | 3,023 | 3,696 |
| Attributed tax | (830) | (95) | (925) | (1,145) |
| Life EEV return after tax | 1,914 | 184 | 2,098 | 2,551 |
| Closing life and related businesses' embedded value | 16,711 | 1,387 | 18,098 | 15,113 |

Principal 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. The same margins are applied on a consistent basis across the Group to gross risk-free yields to obtain investment return assumptions for ordinary shares and property and to produce risk discount rates. Additional country-specific risk margins are applied to smaller businesses to reflect additional economic, political and business-specific risk, which result in the application of risk margins ranging from 3.7% to 8.7% in our eastern European and Asian business operations. Expense inflation is derived as a fixed margin above a local measure of long-term price inflation. Risk free rates and price inflation have been harmonised across territories within the Euro currency zone, except for expense inflation in Ireland where significant differences remain. Required capital is shown as a multiple of the EU statutory minimum solvency margin or equivalent.

Investment return assumptions are generally derived by major product class, based on hypothecating the assets at the valuation date. Future assumed reinvestment rates are consistent with implied market returns at 31 December 2006. Rates have been derived using rates from the current yield curve at a duration based on the term of the liabilities, or directly from forward yield curves where considered appropriate. Assumptions about future investment mix are consistent with long-term plans. In most cases, the investment mix is assumed to continue unchanged throughout the projection period. The changes in assumptions between reporting dates reflect the actual movements in risk free yields in the United Kingdom, the Eurozone and other territories. The principal economic assumptions used are as follows:

| | United Kingdom | | | France | | |
|---|----------------|-------------|-------------|--------|-------|-------|
| | 2006 | 2005 | 2004 | 2006 | 2005 | 2004 |
| Risk discount rate | 7.3% | 6.8% | 7.3% | 6.7% | 6.0% | 6.4% |
| Pre-tax investment returns: | | | | | | |
| Base government fixed interest | 4.6% | 4.1% | 4.6% | 4.0% | 3.3% | 3.7% |
| Ordinary shares | 7.6% | 7.1% | 7.6% | 7.0% | 6.3% | 6.7% |
| Property | 6.6% | 6.1% | 6.6% | 6.0% | 5.3% | 5.7% |
| Future expense inflation | 3.4% | 3.2% | 3.3% | 2.5% | 2.5% | 2.5% |
| Tax rate | 30.0% | 30.0% | 30.0% | 34.4% | 34.4% | 34.9% |
| Required Capital (% EU minimum) | 150% / 100% | 150% / 100% | 200% / 100% | 115% | 115% | 115% |
| | Ireland | | | Italy | | |
| | 2006 | 2005 | 2004 | 2006 | 2005 | 2004 |
| Risk discount rate | 6.7% | 6.0% | 6.4% | 6.7% | 6.0% | 6.4% |
| Pre-tax investment returns: | | | | | | |
| Base government fixed interest | 4.0% | 3.3% | 3.7% | 4.0% | 3.3% | 3.7% |
| Ordinary shares | 7.0% | 6.3% | 6.7% | 7.0% | 6.3% | 6.7% |
| Property | 6.0% | 5.3% | 5.7% | 6.0% | 5.3% | 5.7% |
| Future expense inflation | 4.0% | 4.0% | 4.0% | 2.5% | 2.5% | 2.5% |
| Tax rate | 12.5% | 12.5% | 12.5% | 38.3% | 38.3% | 38.3% |
| Required Capital (% EU minimum) | 150% | 150% | 150% | 115% | 115% | 115% |
| | Netherlands | | | Poland | | |
| | 2006 | 2005 | 2004 | 2006 | 2005 | 2004 |
| Risk discount rate | 6.7% | 6.0% | 6.4% | 8.7% | 8.6% | 9.7% |
| Pre-tax investment returns: | | | | | | |
| Base government fixed interest | 4.0% | 3.3% | 3.7% | 5.0% | 4.9% | 6.0% |
| Ordinary shares | 7.0% | 6.3% | 6.7% | 8.0% | 7.9% | 9.0% |
| Property | 6.0% | 5.3% | 5.7% | n/a | n/a | n/a |
| Future expense inflation | 2.5% | 2.5% | 2.5% | 3.4% | 3.3% | 3.4% |
| Tax rate | 25.5% | 29.1% | 31.5% | 19.0% | 19.0% | 19.0% |
| Required Capital (% EU minimum) | 150% | 150% | 150% | 150% | 150% | 150% |
| | Spain | | | US | | |
| | 2006 | 2005 | 2004 | 2006* | 2005 | 2004 |
| Risk discount rate | 6.7% | 6.0% | 6.4% | 7.4% | 7.2% | 7.1% |
| Pre-tax investment returns: | | | | | | |
| Base government fixed interest | 4.0% | 3.3% | 3.7% | 4.7% | 4.5% | 4.4% |
| Ordinary shares | 7.0% | 6.3% | 6.7% | n/a | n/a | n/a |
| Property | 6.0% | 5.3% | 5.7% | n/a | n/a | n/a |
| Future expense inflation | 2.5% | 2.5% | 2.5% | 3.0% | 3.0% | 3.0% |
| Tax rate | 30.0% | 35.0% | 35.0% | 35.0% | 35.0% | 35.0% |
| Required Capital (% EU minimum or equivalent) | 125% / 110% | 125% / 110% | 125% / 110% | 250% | 200% | 200% |

For service companies, expense inflation relates to the underlying expenses rather than the fees charged to the life company. Future returns on corporate fixed interest investments are calculated from prospective yields less an adjustment for credit risk. Required capital in the United Kingdom is 150% EU minimum for Norwich Union Annuity Limited and 100% for other companies. Required capital in Spain is 125% EU minimum for Aviva Vida y Pensiones and 110% for bancassurance companies. The level of required capital for the US business is 250% of the risk based capital, at the company action level, set by the National Association of Insurance Commissioners. The required capital is equivalent to 5% of the insurance liabilities on a local regulatory basis which is broadly equivalent to the required capital we hold for our main European businesses.

* The principal economic assumptions used for AmerUs Group Co. at the date of acquisition were as follows: risk discount rate of 7.2%, pre-tax investment returns of 4.6% for base government fixed interest and required capital of 250%.

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 and Aviva's medium-term bonus plans. 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.

Principal economic assumptions – stochastic calculations

The time value of options and guarantees calculation allows for expected management and policyholder actions in response to varying future investment conditions. The management actions modelled include changes to asset mix and bonus rates. Modelled policyholder actions are described under "Other assumptions".

This section describes the models used to generate future investment simulations, and gives some sample statistics for the simulations used. Two separate models have been used, for the UK businesses and for International businesses, as each of these models better reflect the characteristics of the businesses.

United Kingdom

Model

Overall asset returns have been generated assuming that the portfolio total return has a lognormal distribution. The mean and standard deviation of the overall asset return have been calculated using the evolving asset mix of the fund and assumptions over the mean and standard deviation of each asset class, together with correlations between them.

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.

Summary Statistics

The following table sets out the means and standard deviations (StDev) of future returns at 31 December 2006 for the three most significant asset classes. Interest rates are assumed to have a lognormal distribution with an annualised standard deviation of 12.5% p.a. for the natural logarithm of the interest rate.

| | Mean ¹ | StDev ² |
|------------------|-------------------|------------------------|
| Equities | 7.6% | 20% |
| Property | 6.6% | 15% |
| Government Bonds | 4.6% | 3.25-4.5% ³ |

¹ Means have been calculated by accumulating a unit investment for the required number of years in each simulation, averaging the accumulation across all simulations, and converting the result to an equivalent annual rate (by taking the nth root of the average accumulation minus 1).

² Standard deviations have been calculated by accumulating a unit investment for the required number of years in each simulation, taking the natural logarithm of the result, calculating the variance of this statistic, dividing by the projection period (n years) and taking the square root. This makes the result comparable to implied volatilities quoted in investment markets.

³ Depending on the duration of the portfolio.

For the UK, the statistics are the same over all projection horizons. Assumptions are also required for correlations between asset classes. These have been set based on an assessment of historical data. Returns for corporate fixed interest investments in each scenario are equal to the return on Government bonds plus a fixed additional amount, based on current spreads less a margin for credit risk.

International

Model

Government nominal interest rates are generated by a model that projects a full yield curve at annual intervals. The model assumes that the logarithm of the short rate follows a mean reverting process subject to two normally distributed random shocks. This ensures that nominal interest rates are always positive, the distribution of future interest rates remains credible, and the model can be calibrated to give a good fit to the initial yield curve.

The total annual return on equities is calculated as the return on 1 year bonds plus an excess return. The excess return is assumed to have a lognormal distribution. The model also generates property total returns and real yield curves, although these are not significant asset classes for Aviva outside the UK.

Asset Classes

The most important assets are fixed rate bonds of various durations. In some businesses equities are also an important asset class.

Summary Statistics

The following table sets out the means and standard deviations of future euro and US dollars returns at 31 December 2006 for the three most significant asset classes: equities (in the case of euro), short-term bonds (defined to be of 1 year duration) and long-term bonds (defined to be 10 year zero coupon bonds). In the accumulation of 10 year bonds, it is assumed that

these are held for one year, sold as 9 year bonds then the proceeds are reinvested in 10 year bonds, although in practice businesses follow more complex asset strategies or tend to adopt a buy and hold strategy. Correlations between asset classes have been set using the same approach as described for the United Kingdom.

| | <u>5- year return</u> | | <u>10- year return</u> | | <u>20- year return</u> | |
|------------------------|-----------------------|--------------------|------------------------|--------------------|------------------------|--------------------|
| | Mean ¹ | StDev ² | Mean ¹ | StDev ² | Mean ¹ | StDev ² |
| Euro | | | | | | |
| Short Government Bonds | 3.7% | 1.7% | 3.7% | 3.0% | 3.8% | 5.3% |
| Long Government Bonds | 4.2% | 3.8% | 4.1% | 2.9% | 4.1% | 3.3% |
| Equities | 7.0% | 19.5% | 6.9% | 19.3% | 6.9% | 19.0% |
| US dollar | | | | | | |
| Short Government Bonds | 4.5% | 2.0% | 4.4% | 3.5% | 4.7% | 6.7% |
| Long Government Bonds | 5.0% | 4.5% | 4.8% | 3.7% | 5.0% | 4.4% |

- 1 Means have been calculated by accumulating a unit investment for the required number of years in each simulation, averaging the accumulation across all simulations, and converting the result to an equivalent annual rate (by taking the nth root of the average accumulation minus 1).
- 2 Standard deviations have been calculated by accumulating a unit investment for the required number of years in each simulation, taking the natural logarithm of the result, calculating the variance of this statistic, dividing by the projection period (n years) and taking the square root. This makes the result comparable to implied volatilities quoted in investment markets.

Other assumptions

Taxation

Current tax legislation and rates have been assumed to continue unaltered, except where changes in future tax rates have been announced.

Demographic assumptions

Assumed future mortality, morbidity and lapse rates have been derived from an analysis of Aviva's recent operating experience. Where appropriate, 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.

Expense assumptions

Management expenses and operating expenses of holding companies attributed to life and related businesses have been included in the EEV 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 businesses included in the European Embedded Value calculations, the value of profits or losses arising from these services have been included in the embedded value and new business contribution.

Valuation of debt

Borrowings in the EEV consolidated balance sheet are valued on an IFRS basis, consistent with the primary financial statements. At 31 December 2006 the market value of the Group's external debt, subordinated debt, preference shares including General Accident plc preference shares of £250 million (classified as minority interests) and direct capital instrument was £5,991 million (31 December 2005: £5,868 million).

| | 2006 £m | 2005 £m |
|--|---------------|---------------|
| Borrowings per summarised consolidated balance sheet – EEV basis | 12,137 | 11,013 |
| Less: Securitised mortgage funding | (7,068) | (6,303) |
| Borrowings excluding non-recourse funding - EEV basis | 5,069 | 4,710 |
| Less: Operational financing by businesses | (874) | (900) |
| External debt and subordinated debt – EEV basis | 4,195 | 3,810 |
| Add: Preference shares (including General Accident plc) and direct capital instrument | 1,440 | 1,440 |
| External debt, subordinated debt, preference shares and direct capital instrument – EEV basis | 5,635 | 5,250 |
| Effect of marking these instruments to market | 356 | 618 |
| Market value of external debt, subordinated debt, preference shares and direct capital instrument | 5,991 | 5,868 |

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.

Sensitivity analysis – economic assumptions

The tables below show the sensitivity of the embedded value as at 31 December 2006 and the new business contribution before the effect of required capital for 2006 to:

- one percentage point increase and decrease in the discount rates;
- one percentage point increase and decrease in interest rates, including all consequential changes (including assumed investment returns for all asset classes, market values of fixed interest assets, risk discount rates);
- one percentage point increase and decrease in the assumed investment returns for equity and property investments, excluding any consequential changes to the risk discount rate;
- 10% rise and fall in market value of equity and property assets (not applicable for new business contribution); and
- decrease in the level of required capital to 100% EU minimum (or equivalent) (not applicable for new business contribution).

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.

| Embedded value (net of tax) 31 December 2006 | As reported on page 30 £m | 1% increase in discount rates £m | 1% decrease in discount rates £m | 1% increase in interest rates £m | 1% decrease in interest rates £m |
|---|--|---|---|---|---|
| France | 2,291 | (135) | 155 | (90) | 85 |
| Ireland | 892 | (40) | 40 | (30) | 30 |
| Italy | 792 | (20) | 25 | (5) | (60) |
| Netherlands (including Belgium, Germany and Luxembourg) | 3,867 | (165) | 195 | 50 | (210) |
| Poland | 719 | (35) | 40 | (5) | 5 |
| Spain | 857 | (45) | 50 | (25) | 25 |
| Other Europe | 106 | (5) | 5 | - | - |
| <i>Continental Europe</i> | <i>9,524</i> | <i>(445)</i> | <i>510</i> | <i>(105)</i> | <i>(125)</i> |
| United States | 1,478 | (80) | 85 | (85) | 85 |
| Other | 460 | (15) | 20 | - | - |
| <i>Rest of the World</i> | <i>1,938</i> | <i>(95)</i> | <i>105</i> | <i>(85)</i> | <i>85</i> |
| International | 11,462 | (540) | 615 | (190) | (40) |
| United Kingdom | 6,636 | (470) | 560 | (310) | 350 |
| Total | 18,098 | (1,010) | 1,175 | (500) | 310 |

| Embedded value (net of tax) 31 December 2006 | As reported on page 30 £m | 1% increase in equity / property returns £m | 1% decrease in equity / property returns £m | 10% rise in equity / property market values £m | 10% fall in equity / property market values £m | EU minimum capital (or equivalent) £m |
|---|--|--|--|---|---|--|
| France | 2,291 | 75 | (75) | 115 | (135) | 40 |
| Ireland | 892 | 20 | (20) | 30 | (30) | 15 |
| Italy | 792 | 10 | (10) | 10 | (10) | 10 |
| Netherlands (including Belgium, Germany and Luxembourg) | 3,867 | 225 | (225) | 405 | (415) | 95 |
| Poland | 719 | 10 | (10) | 10 | (10) | 10 |
| Spain | 857 | 15 | (15) | 15 | (15) | 5 |
| Other Europe | 106 | - | - | - | - | 5 |
| <i>Continental Europe</i> | <i>9,524</i> | <i>355</i> | <i>(355)</i> | <i>585</i> | <i>(615)</i> | <i>180</i> |
| United States | 1,478 | 25 | (10) | 5 | (5) | 80 |
| Other | 460 | 5 | (5) | 10 | (10) | 5 |
| <i>Rest of the World</i> | <i>1,938</i> | <i>30</i> | <i>(15)</i> | <i>15</i> | <i>(15)</i> | <i>85</i> |
| International | 11,462 | 385 | (370) | 600 | (630) | 265 |
| United Kingdom | 6,636 | 220 | (230) | 435 | (435) | 95 |
| Total | 18,098 | 605 | (600) | 1,035 | (1,065) | 360 |

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 interest rate sensitivity will vary significantly by territory, depending on the type of business written: for example, where non-profit business is well matched by backing assets, the favourable impact of reducing the risk discount rate is the dominant factor.

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% movement in the interest rate for the Netherlands, where there is a significant amount of business with investment return guarantees. The increase of 70 basis points to the assumed pre-tax investment returns at 31 December 2006 has significantly decreased this sensitivity, reflecting the level of the guarantees relative to the interest rate assumption.

Sensitivities to a 1% movement in the equity/property return will only impact the value of the in-force covered business, whereas a 10% movement in equity/property values may impact both the net worth and the value of in-force, depending on the allocation of assets.

**New business contribution
before required capital
(gross of tax)
31 December 2006**

| | As reported on page 24 £m | 1% increase in discount rates £m | 1% decrease in discount rates £m | 1% increase in interest rates £m | 1% decrease in interest rates £m |
|---|---------------------------------|--|--|--|--|
| France | 153 | (13) | 15 | (1) | (2) |
| Ireland | 15 | (4) | 4 | (2) | 1 |
| Italy | 70 | (4) | 5 | 2 | (12) |
| Netherlands (including Belgium, Germany and Luxembourg) | 56 | (10) | 11 | 43 | (39) |
| Poland | 28 | (2) | 3 | - | 1 |
| Spain | 184 | (12) | 14 | (5) | 5 |
| Other Europe | (4) | (2) | 2 | (1) | - |
| <i>Continental Europe</i> | 502 | (47) | 54 | 36 | (46) |
| United States | 20 | (3) | 3 | (1) | (2) |
| Other | 43 | (8) | 9 | 3 | (4) |
| <i>Rest of the World</i> | 63 | (11) | 12 | 2 | (6) |
| International | 565 | (58) | 66 | 38 | (52) |
| United Kingdom | 327 | (55) | 65 | (20) | 23 |
| Total | 892 | (113) | 131 | 18 | (29) |

**New business contribution
before required capital
(gross of tax)
31 December 2006**

| | As reported on page 24 £m | 1% increase in equity / property returns £m | 1% decrease in equity/ property returns £m |
|---|---------------------------------|---|--|
| France | 153 | 6 | (6) |
| Ireland | 15 | 2 | (2) |
| Italy | 70 | 1 | (1) |
| Netherlands (including Belgium, Germany and Luxembourg) | 56 | 16 | (21) |
| Poland | 28 | 1 | (1) |
| Spain | 184 | 2 | (1) |
| Other Europe | (4) | 1 | (1) |
| <i>Continental Europe</i> | 502 | 29 | (33) |
| United States | 20 | 1 | (1) |
| Other | 43 | 1 | (1) |
| <i>Rest of the World</i> | 63 | 2 | (2) |
| International | 565 | 31 | (35) |
| United Kingdom | 327 | 31 | (31) |
| Total | 892 | 62 | (66) |

Sensitivity analysis – non-economic assumptions

The tables below show the sensitivity of the embedded value as at 31 December 2006 and the new business contribution before the effect of required capital for 2006 to the following changes in non-economic assumptions:

- 10% decrease in maintenance expenses (a 10% sensitivity on a base expense assumption of £10pa would represent an expense assumption of £9pa). 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);
- 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.

| Embedded value (net of tax) Year to 31 December 2006 | As reported on page 30 £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 |
|---|--|--|---|---|---|
| France | 2,291 | 35 | 35 | 20 | (5) |
| Ireland | 892 | 20 | 20 | 5 | (5) |
| Italy | 792 | 5 | - | - | - |
| Netherlands (including Belgium, Germany and Luxembourg) | 3,867 | 75 | 15 | 15 | (45) |
| Poland | 719 | 20 | 35 | 10 | - |
| Spain | 857 | 10 | 40 | 15 | (5) |
| Other Europe | 106 | 5 | 5 | - | - |
| <i>Continental Europe</i> | <i>9,524</i> | <i>170</i> | <i>150</i> | <i>65</i> | <i>(60)</i> |
| United States | 1,478 | 25 | 15 | 15 | (5) |
| Other | 460 | 10 | 10 | 10 | - |
| <i>Rest of the World</i> | <i>1,938</i> | <i>35</i> | <i>25</i> | <i>25</i> | <i>(5)</i> |
| International | 11,462 | 205 | 175 | 90 | (65) |
| United Kingdom | 6,636 | 180 | 85 | 75 | (120) |
| Total | 18,098 | 385 | 260 | 165 | (185) |

| New business contribution before required capital (gross of tax) Year to 31 December 2006 | 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 |
|--|--|--|---|---|---|
| France | 153 | 5 | 7 | 6 | - |
| Ireland | 15 | 2 | 4 | 1 | - |
| Italy | 70 | 2 | 2 | 1 | - |
| Netherlands (including Belgium, Germany and Luxembourg) | 56 | 10 | 9 | 5 | (2) |
| Poland | 28 | 2 | 3 | 2 | - |
| Spain | 184 | 4 | 19 | 5 | - |
| Other Europe | (4) | - | 1 | - | (1) |
| <i>Continental Europe</i> | <i>502</i> | <i>25</i> | <i>45</i> | <i>20</i> | <i>(3)</i> |
| United States | 20 | 1 | (1) | - | (1) |
| Other | 43 | 3 | 4 | 1 | - |
| <i>Rest of the World</i> | <i>63</i> | <i>4</i> | <i>3</i> | <i>1</i> | <i>(1)</i> |
| International | 565 | 29 | 48 | 21 | (4) |
| United Kingdom | 327 | 21 | 25 | 23 | (4) |
| Total | 892 | 50 | 73 | 44 | (8) |

The demographic sensitivities shown above represent a standard change to the assumptions for all products. Different products will be more or less sensitive to the change, and impacts may partially offset.

IFRS basis

Summarised consolidated income statement – IFRS basis

For the year ended 31 December 2006

| Page | 2006 €m | | 2006 £m | 2005 £m |
|--------|-----------------|--|-----------------|-----------------|
| | | Income | | |
| 62, 65 | 40,050 | Premiums written net of reinsurance | 27,234 | 24,982 |
| | 40,187 | Net earned premiums | 27,327 | 24,859 |
| | 2,750 | Fee and commission income | 1,870 | 1,851 |
| | 22,754 | Net investment income | 15,473 | 23,722 |
| | 713 | Share of profit after tax of joint ventures and associates | 485 | 340 |
| | 327 | Profit on the disposal of subsidiaries and associates | 222 | 153 |
| | 66,731 | | 45,377 | 50,925 |
| | | Expenses | | |
| | (34,476) | Claims and benefits paid, net of recoveries from reinsurers | (23,444) | (19,706) |
| | (3,853) | Change in insurance liabilities, net of reinsurance | (2,620) | (10,376) |
| | (8,826) | Change in investment contract provisions | (6,002) | (7,814) |
| | (821) | Change in unallocated divisible surplus | (558) | (1,474) |
| | (7,416) | Fee and commission expense | (5,043) | (4,330) |
| | (5,231) | Other expenses | (3,557) | (3,166) |
| | (1,221) | Finance costs | (830) | (609) |
| | (61,844) | | (42,054) | (47,475) |
| | 4,887 | Profit before tax | 3,323 | 3,450 |
| | (509) | Tax attributable to policyholders' returns | (346) | (922) |
| | 4,378 | Profit before tax attributable to shareholders' profits | 2,977 | 2,528 |
| | | Tax expense | | |
| | (704) | United Kingdom tax | (479) | (1,150) |
| | (670) | Overseas tax | (455) | (402) |
| | (1,374) | | (934) | (1,552) |
| | 509 | Less: tax attributable to policyholders' returns | 346 | 922 |
| | (865) | Tax attributable to shareholders' profits | (588) | (630) |
| | 3,513 | Profit for the year | 2,389 | 1,898 |
| | | Attributable to: | | |
| | 3,257 | Equity shareholders of Aviva plc | 2,215 | 1,767 |
| | 256 | Minority interests | 174 | 131 |
| | 3,513 | | 2,389 | 1,898 |

All profit is from continuing operations.

| | 2006 | | 2006 | 2005 |
|----|--------|--|-------|-------|
| | | Earnings per share – IFRS basis | | |
| 55 | 128.7c | Basic (pence per share) | 87.5p | 73.5p |
| 55 | 127.4c | Diluted (pence per share) | 86.6p | 72.9p |

Subsequent to 31 December 2006, the directors proposed a final dividend for 2006 of 19.18p (final 2005: 17.44p) per ordinary share, amounting to £492 million (final 2005: £418 million) in total. Subject to the approval by shareholders at the AGM, the dividend will be paid on 17 May 2007 and will be accounted for as an appropriation of retained earnings in the year ending 31 December 2007.

During 2006 the directors declared a final dividend for 2005 of 17.44p per ordinary share (final 2004: 16.00p) and an interim dividend for 2006 of 10.82p per ordinary share (interim 2005: 9.83p) totalling £418 million (2005: £364 million) and £275 million (2005: £233 million) respectively.

Proforma reconciliation of Group operating profit to profit before tax – IFRS basis
For the year ended 31 December 2006

| Page | 2006 €m | | 2006 £m | 2005 £m |
|------|--------------|---|--------------|--------------|
| | | IFRS operating profit before tax attributable to shareholders' profits | | |
| 50 | 2,788 | Long-term business | 1,896 | 1,065 |
| 50 | 228 | Fund management | 155 | 124 |
| 51 | 2,471 | General insurance and health | 1,680 | 1,551 |
| | | Other: | | |
| 52 | (118) | Other operations | (80) | (40) |
| 53 | (235) | Corporate costs | (160) | (136) |
| 53 | (560) | Unallocated interest charges | (381) | (436) |
| | 4,574 | IFRS operating profit before adjusting items and tax attributable to shareholders' profits | 3,110 | 2,128 |
| | | Adjusted for the following: | | |
| 61 | (138) | Impairment of goodwill | (94) | (43) |
| | (147) | Amortisation and impairment of acquired value of in-force business | (100) | (73) |
| | (103) | Amortisation and impairment of intangibles | (70) | (45) |
| | 9 | Financial Services Compensation Scheme and other levies | 6 | - |
| 51 | 219 | Short-term fluctuation in return on investments backing general insurance and health business | 149 | 517 |
| 48 | 326 | Profit on the disposal of subsidiaries and associates | 222 | 153 |
| 49 | (362) | Integration and restructuring costs | (246) | (109) |
| | 4,378 | Profit before tax attributable to shareholders' profits | 2,977 | 2,528 |
| | | Tax attributable to shareholders' profits | | |
| 53 | (1,066) | Operating profit | (725) | (536) |
| 53 | 201 | Other activities | 137 | (94) |
| | (865) | | (588) | (630) |
| | 3,513 | Profit for the year | 2,389 | 1,898 |
| | | Earnings per share – IFRS operating profit basis | | |
| 55 | 127.8c | Basic (pence per share) | 86.9p | 60.5p |
| 55 | 126.5c | Diluted (pence per share) | 86.0p | 60.0p |

Consolidated statement of recognised income and expense – IFRS basis**For the year ended 31 December 2006**

| 2006 €m | | 2006 £m | 2005 £m |
|--------------|--|--------------|--------------|
| 550 | Fair value gains/(losses) on AFS securities, owner-occupied properties and hedging instruments | 374 | (52) |
| (238) | Fair value (gains)/losses transferred to profit | (162) | 411 |
| (3) | Impairment losses on revalued assets | (2) | (45) |
| - | Share of fair value changes in joint ventures and associates taken to equity | - | 2 |
| (168) | Actuarial losses on pension schemes | (114) | (547) |
| (509) | Foreign exchange rate movements | (346) | (2) |
| - | Aggregate tax effect – policyholder tax | - | 3 |
| (7) | Aggregate tax effect – shareholder tax | (5) | 272 |
| (375) | Net income recognised directly in equity | (255) | 42 |
| 3,513 | Profit for the year | 2,389 | 1,898 |
| 3,138 | Total recognised income and expense for the year | 2,134 | 1,940 |
| | Attributable to: | | |
| 2,909 | Equity shareholders of Aviva plc | 1,978 | 1,827 |
| 229 | Minority interests | 156 | 113 |
| 3,138 | | 2,134 | 1,940 |

Reconciliation of movements in consolidated shareholders' equity – IFRS basis**For the year ended 31 December 2006**

| 2006 €m | | 2006 £m | 2005 £m |
|----------------|--|----------------|----------------|
| 16,555 | Balance at 1 January | 11,092 | 8,993 |
| 3,185 | Total recognised income and expense for the year | 2,134 | 1,940 |
| (1,137) | Dividends and appropriations (note 15) | (762) | (657) |
| | Issue of share capital for the acquisition of AmerUs Group Co. (2005: RAC plc), net of transaction costs | 892 | 530 |
| 64 | Other issues of share capital, net of transaction costs | 43 | 59 |
| 303 | Shares issued in lieu of dividends | 203 | 100 |
| 593 | Capital contributions from minority shareholders | 397 | 212 |
| (112) | Minority share of dividends declared in the year | (75) | (70) |
| 137 | Minority interest in acquired / (disposed) subsidiaries | 92 | (36) |
| 72 | Reserves credit for equity compensation plans | 48 | 22 |
| - | Other movements | - | (1) |
| 20,991 | Total equity | 14,064 | 11,092 |
| (2,534) | Minority interests | (1,698) | (1,128) |
| 18,457 | Balance at 31 December | 12,366 | 9,964 |

Summarised consolidated balance sheet – IFRS basis**As at 31 December 2006**

| 2006 €m | | 2006 £m | 2005 £m |
|------------------------------|--|----------------|----------------|
| Assets | | | |
| 4,343 | Goodwill | 2,910 | 2,274 |
| 4,072 | Acquired value of in-force business and intangible assets | 2,728 | 803 |
| 4,172 | Investments in joint ventures | 2,795 | 2,129 |
| 1,336 | Investments in associates | 895 | 885 |
| 1,349 | Property and equipment | 904 | 885 |
| 22,572 | Investment property | 15,123 | 13,275 |
| 39,470 | Loans | 26,445 | 24,544 |
| Financial investments | | | |
| 168,718 | Debt securities | 113,041 | 103,917 |
| 84,719 | Equity securities | 56,762 | 52,044 |
| 49,328 | Other investments | 33,050 | 26,427 |
| 11,679 | Reinsurance assets | 7,825 | 7,130 |
| 1,790 | Deferred tax assets | 1,199 | 1,018 |
| 513 | Current tax assets | 344 | 87 |
| 12,088 | Receivables and other financial assets | 8,098 | 7,706 |
| 5,188 | Deferred acquisition costs and other assets | 3,476 | 3,766 |
| 3,858 | Prepayments and accrued income | 2,585 | 2,363 |
| 21,704 | Cash and cash equivalents | 14,542 | 13,732 |
| - | Assets of operations classified as held for sale | - | 462 |
| 436,899 | Total assets | 292,722 | 263,447 |
| Equity | | | |
| 957 | Ordinary share capital | 641 | 599 |
| 6,657 | Capital reserves | 4,460 | 4,438 |
| 1,482 | Other reserves | 993 | 1,140 |
| 7,585 | Retained earnings | 5,082 | 2,597 |
| 16,681 | Equity attributable to ordinary shareholders of Aviva plc | 11,176 | 8,774 |
| 1,776 | Preference share capital and direct capital instrument | 1,190 | 1,190 |
| 2,534 | Minority interests | 1,698 | 1,128 |
| 20,991 | Total equity | 14,064 | 11,092 |
| Liabilities | | | |
| 215,269 | Gross insurance liabilities | 144,230 | 132,602 |
| 131,878 | Gross liabilities for investment contracts | 88,358 | 77,309 |
| 14,127 | Unallocated divisible surplus | 9,465 | 8,978 |
| 5,687 | Net asset value attributable to unitholders | 3,810 | 3,137 |
| 4,254 | Provisions | 2,850 | 2,875 |
| 4,593 | Deferred tax liabilities | 3,077 | 2,458 |
| 1,884 | Current tax liabilities | 1,262 | 1,033 |
| 18,115 | Borrowings | 12,137 | 11,013 |
| 13,784 | Payables and other financial liabilities | 9,235 | 9,485 |
| 6,317 | Other liabilities | 4,234 | 3,320 |
| - | Liabilities of operations classified as held for sale | - | 145 |
| 415,908 | Total liabilities | 278,658 | 252,355 |
| 436,899 | Total equity and liabilities | 292,722 | 263,447 |

Summarised consolidated cash flow statement – IFRS basis**For the year ended 31 December 2006**

The cash flows presented in this statement cover all the Group's activities and include flows from policyholder and shareholder activities.

| | 2006 | | 2005 | |
|--|---|---|----------------|----------------|
| | Long-term business operations £m | Non-long- term business operations £m | Group £m | Group £m |
| Cash flows from operating activities | | | | |
| Cash generated from operations | 1,985 | 470 | 2,455 | 2,784 |
| Tax paid | (512) | (83) | (595) | (375) |
| Net cash from operating activities | 1,473 | 387 | 1,860 | 2,409 |
| Cash flow from investing activities: | | | | |
| Acquisition of subsidiaries, joint ventures and associates, net of cash acquired | (96) | (1,793) | (1,889) | (1,423) |
| Disposal of subsidiaries, joint ventures and associates, net of cash transferred | 102 | 514 | 616 | 464 |
| Net loans to joint ventures and associates | (113) | 9 | (104) | (128) |
| Purchases of property and equipment | (55) | (240) | (295) | (206) |
| Proceeds on sale of property and equipment | 10 | 146 | 156 | 50 |
| Purchases of intangible assets | (10) | (48) | (58) | (60) |
| Net cash from investing activities | (162) | (1,412) | (1,574) | (1,303) |
| Cash flow from financing activities: | | | | |
| Proceeds from issue of ordinary shares, net of transaction costs | - | 935 | 935 | 59 |
| Net drawdown of borrowings | (466) | 1,367 | 901 | 856 |
| Interest paid on borrowings | (367) | (458) | (825) | (609) |
| Preference dividends paid | - | (17) | (17) | (17) |
| Ordinary dividends paid | - | (490) | (490) | (498) |
| Coupon payments on direct capital instrument | - | (52) | (52) | (42) |
| Finance lease payments | - | (22) | (22) | (8) |
| Capital contributions from minority shareholders | 295 | 9 | 304 | 212 |
| Dividends paid to minority interests of subsidiaries | (53) | (22) | (75) | (70) |
| Non-trading cash flows between operations | (288) | 288 | - | - |
| Net cash from financing activities | (879) | 1,538 | 659 | (117) |
| Total cash flow | 432 | 513 | 945 | 989 |
| Net increase in cash and cash equivalents | 432 | 513 | 945 | 989 |
| Cash and cash equivalents at 1 January | 10,107 | 2,960 | 13,067 | 12,126 |
| Effect of exchange rate changes on cash and cash equivalents | (119) | (47) | (166) | (48) |
| Cash and cash equivalents at 31 December | 10,420 | 3,426 | 13,846 | 13,067 |
| Cash and cash equivalents at 31 December comprised: | | | | |
| Cash at bank and in hand | 2,790 | 1,297 | 4,087 | 3,530 |
| Cash equivalents | 7,896 | 2,559 | 10,455 | 10,227 |
| | 10,686 | 3,856 | 14,542 | 13,757 |
| Bank overdrafts | (266) | (430) | (696) | (690) |
| | 10,420 | 3,426 | 13,846 | 13,067 |

Included within non-long-term business "Cash flows from operating activities" of £470 million are cash outflows resulting from net purchases of financial investments. However the cash inflow from the issuance of securitised mortgage loan notes of £1,397 million is included within net drawdown of borrowings. The majority of the issuance has funded the purchase of financial investments included in operating activities.

Of the total cash and cash equivalents shown for 2005, £25 million was classified as held for sale.

1. Basis of preparation – IFRS basis

- (a) From 2005, all European Union listed companies were required to prepare consolidated financial statements using International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union. The results in this preliminary announcement have been prepared in accordance with IFRS applicable at 31 December 2006 and have been taken from the Group's Annual Report and Accounts.

The preliminary announcement for the year ended 31 December 2006 does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. The results on an IFRS basis for the full years 2006 and 2005 have been audited by Ernst & Young LLP. The auditors have reported on the 2005 and 2006 accounts and their reports were unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985. The Group's 2005 Report and Accounts have been filed with the Registrar of Companies.

- (b) In August 2005, the IASB issued IFRS 7, *Financial Instruments: Disclosures*, and an amendment to IAS 1, *Capital Disclosures*. Although their requirements are applicable for accounting periods beginning on or after 1 January 2007, the Group has decided to adopt IFRS 7 early and reflect its impact in the financial statements. The amendment to IAS 1 brings the capital disclosures into line with those already required by IAS 27 and, although the Group is not adopting it early, this is not expected to result in any material additional disclosures.
- (c) 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 presentation 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.
- (d) In accordance with Phase I IFRS 4, *Insurance Contracts*, the Group has applied existing accounting practices for insurance and participating investment contracts, modified as appropriate to comply with the IFRS framework and applicable standards.
- (e) The results of the Group's fund management business in the Netherlands were previously reported within the results of our other operations but are now shown as part of our fund management operations. The result reclassified in the year ended 31 December 2006 is £37 million (2005: £32 million). The related assets and liabilities reclassified at 31 December 2006 are £63 million (31 December 2005: £54 million) and £18 million (31 December 2005: £15 million), respectively.

2. Exchange rates

The Group's principal overseas operations during the year were located within the Eurozone and the United States.

The euro rates employed in this announcement are an average rate of 1 euro = £0.68 (2005: 1 euro = £0.68) and a closing rate of 1 euro = £0.67 (2005: 1 euro = £0.69).

The US dollar rates used for translation are an average of £1 = US\$1.84 (2005: £1 = US\$1.82) and a closing rate of £1 = US\$1.96 (2005: £1 = US\$1.72).

3. Acquisitions

(a) Ark Life Assurance Company Limited

On 27 January 2006, Hibernian Life Holdings Limited (HLH), the parent company of Hibernian Life & Pensions Limited, acquired all the shares of Ark Life Assurance Company Limited (Ark Life) from Allied Irish Banks plc (AIB) in exchange for a 24.99% stake in the enlarged HLH and a balancing cash payment of €196 million (£134 million) which also reflects the transfer of the management of Ark Life funds to Hibernian Investment Managers Limited, part of the Group's fund management business. The final consideration has not yet been agreed with AIB but is expected to be finalised in 2007. However, any adjustment to the above figures is not expected to be material. In addition, a further deferred cash payment of up to €10 million (£7 million) is payable, subject to the fulfilment of certain performance criteria. The results of Ark Life have been included in the consolidated financial statements of the Group with effect from 27 January 2006, and contributed £30 million to the consolidated EEV profit before tax and £40 million to the IFRS profit before tax.

The transaction has been accounted for as the acquisition of 75.01% of Ark Life and the disposal of 24.99% of HLH. The realised gain on disposal of the Group's 24.99% interest in HLH was £25 million on an EEV basis and £86 million on an IFRS basis.

The Ark Life acquisition has given rise to goodwill on acquisition of £57 million, calculated as follows:

Purchase cost:

| | |
|---|------------|
| | £m |
| Fair value of shares in Hibernian Life Holdings Limited | 184 |
| Cash paid | 134 |
| Attributable costs | 4 |
| Total consideration | 322 |

The assets and liabilities at the date of acquisition were:

| | Book value £m | Fair value and accounting policy adjustments £m | Fair value £m |
|---|------------------------------|--|------------------------------|
| Assets | | | |
| Acquired value of in-force business on insurance and investment contracts | - | 168 | 168 |
| Other intangible assets | 1 | 44 | 45 |
| Investments | 2,939 | (74) | 2,865 |
| Other assets | 1,225 | (15) | 1,210 |
| Total assets | 4,165 | 123 | 4,288 |
| Liabilities | | | |
| Gross insurance liabilities | (1,767) | (22) | (1,789) |
| Gross liability for investment contracts | (2,066) | (25) | (2,091) |
| Other liabilities | (154) | 96 | (58) |
| Total liabilities | (3,987) | 49 | (3,938) |
| Total net assets | 178 | 172 | 350 |
| Net assets acquired (Group share) | | | 265 |
| Goodwill arising on acquisition | | | 57 |

The value of the agreement to distribute through AIB's networks has been identified as a separate intangible asset and valued by an independent third party at £45 million, using estimated post-tax cash flows and discount rates. It has been assessed as having a life of 25 years and is being amortised over that period, with a corresponding release of the applicable deferred tax provision.

The residual goodwill of £57 million represents future synergies expected to arise in the combined life operations. The slight increase of £12 million in residual goodwill from the interim announcement reflects finalisation of values of the assets and liabilities which have been amended in accordance with paragraph 62 of IFR3, *Business Combinations*.

As disclosed in the EEV section on page 29, the embedded value of the long-term business acquired was £310 million, representing the net assets adjusted for other intangible assets net of tax.

(b) Eagle Insurance Company Limited

On 1 February 2006, the Group acquired a 51% interest in Eagle Insurance Limited (Eagle), the third largest insurer in Sri Lanka, by buying a majority shareholding in Eagle's immediate holding company, NDB Finance Lanka (Pvt) Limited. At the same time, Eagle entered into a 10-year bancassurance agreement with National Development Bank Limited (NDB), Sri Lanka's biggest development bank and Eagle's other major shareholder. The cash consideration, including purchase costs, was £15 million. The fair value of the Group's share of net assets acquired was £12 million including intangibles of £2 million, giving rise to £3 million of goodwill on acquisition.

As disclosed in the EEV section on page 29, the embedded value of the long-term business acquired was £17 million, representing the net assets adjusted for other intangible assets net of tax.

(c) Canadian Brokers

On 28 April 2006, the Group acquired a 20% holding in Dale-Parizeau L.M. Inc, a Canadian insurance broker, for a consideration of £16 million including purchase costs. The allocation of the risks and rewards of ownership between the Group and third party investors in the broker has led the Group to consolidate its results for the period since acquisition to 31 December 2006. The fair value of the net assets acquired, including intangibles of £10 million, was £9 million, giving rise to £7 million of goodwill on acquisition.

On 4 December 2006, the Group acquired a 20% holding in a second Canadian insurance broker, Morris & Mackenzie Inc (M&M), for a consideration of £28 million including purchase costs. The allocation of the risks and rewards of ownership between the Group and third party investors in the broker has led the Group to consolidate its results for the period since acquisition to 31 December 2006. Due to the proximity of the acquisition date to the year end, provisional fair values have been used and will be adjusted within 12 months. The provisional fair value of the net assets acquired, including intangibles of £14 million, was £12 million, giving rise to £16 million of goodwill on acquisition. On 31 December 2006, the Group completed the disposal of M&M's non-Quebec based operations for £9 million. The sale did not give rise to any gain or loss. Net assets at disposal represented goodwill, intangible assets and deferred tax liabilities.

(d) AmerUs Group Co.

On 15 November 2006, the Group acquired 100% of the common stock of AmerUs Group Co. (AmerUs) for US\$69 in cash per common share of AmerUs. AmerUs is a leading provider of equity-indexed life and annuity products to the United States retirement and savings markets, and the acquisition establishes a leading presence for the Group in these selected high-growth segments.

The total purchase price of US\$3.1 billion (£1.7 billion) represents cash consideration for AmerUs shares and stock options, and stock-based compensation vesting on change of control. The purchase consideration was partly financed by a £903 million placing of the Company's ordinary shares, with the balance of funding being provided by internal resources and external debt. The share placing was completed on 13 July 2006, with 129 million shares issued on 18 July, at £7 per share.

The issue of new shares in the company to fund the acquisition of AmerUs was effected by a share placing and attracted merger relief under section 131 of the Companies Act 1985. The placing structure utilised attracted merger relief under section 131 of the Companies Act 1985, resulting in a credit to the merger reserve of £871 million. Subsequent internal transactions required to complete the placing structure have resulted in this part of the merger reserve being realised. Consequently, a transfer of £871 million has been made from the merger reserve to retained earnings. Expenses of £11 million have been charged to the share premium account.

The AmerUs acquisition has given rise to goodwill on acquisition of £669 million, calculated as follows:

Purchase cost:

| | £m |
|----------------------------|--------------|
| Cash paid | 1,669 |
| Attributable costs | 11 |
| Total consideration | 1,680 |

The assets and liabilities at the date of acquisition were:

| | Book Value £m | Fair value and Accounting Policy Adjustments £m | Fair value £m |
|---|---------------------|---|---------------------|
| Assets | | | |
| Acquired value of in-force business on insurance and investment contracts | 179 | 1,387 | 1,566 |
| Other intangible assets | 126 | 165 | 291 |
| Investments | 11,539 | 5 | 11,544 |
| Other assets | 2,717 | (1,270) | 1,447 |
| Total assets | 14,561 | 287 | 14,848 |
| Liabilities | | | |
| Gross insurance liabilities | 11,055 | (50) | 11,005 |
| Gross liability for investment contracts | 1,137 | 5 | 1,142 |
| Other liabilities | 1,503 | 187 | 1,690 |
| Total liabilities | 13,695 | 142 | 13,837 |
| Total net assets acquired | 866 | 145 | 1,011 |
| Goodwill arising on acquisition | | | 669 |

The largest fair value adjustments above relate to the recognition of a value for the in-force business on insurance and investment contracts acquired by the Group (the AVIF) and to a reduction in other assets. The AVIF adjustment of £1,387 million represents the excess of the value of the acquired in-force life insurance contracts over their IFRS net asset value, and is calculated as the difference between the acquired net tangible assets on an EEV value basis and the same net assets on an IFRS basis. Deferred acquisition costs (DAC) totalling £1,297 million included in other assets in the book value column above, are not recognised in the IFRS fair value balance sheet as they have no fair value at acquisition. As DAC is reflected in the calculation of AVIF, its write-off in the fair value adjustments is offset by the recognition of a fair value for the AVIF.

Other intangible assets of £291 million are represented by AmerUs' distribution channels and have been valued by an independent third party, using estimated post-tax cash flows and discount rates. The distribution channels have been assessed as having a life of between six and nine years and their value is being amortised over that period, with a corresponding release of the applicable deferred tax provision.

The residual goodwill of £669 million represents future synergies expected to arise in the combined life operations, the value of new business from new distribution channels and customers going forward, and the value of the workforce and management, related know-how and other future business value not included in the intangibles and the AVIF.

As disclosed in the EEV section on page 29, the embedded value of the long-term business acquired was £1,107 million, representing the net assets acquired, adjusted for other intangible assets net of tax and corporate debt.

(e) Total goodwill arising on the above acquisitions

| | £m |
|------------------------------------|--------------|
| Total net assets | 1,405 |
| Less: Minority interests | (96) |
| Net assets acquired | 1,309 |
| Goodwill arising on acquisition | 752 |
| Total consideration | 2,061 |
| The total consideration comprised: | |
| Fair value of shares | 184 |
| Cash paid | 1,862 |
| Attributable costs | 15 |
| Total consideration | 2,061 |

(f) Other

In addition to the goodwill arising on the above acquisitions, the Group also made a number of smaller acquisitions giving rise to additional goodwill of £9 million. Total goodwill arising in the year was £761 million.

On 1 January 2006, following the introduction of a new Health Insurance Act, a Netherlands subsidiary acquired 100% of the share capital of O.W.M. Delta Lloyd and OHRA Zorgverzekeringen U.A. for nil consideration. Assets and liabilities acquired amounted to £272 million and £258 million, respectively, giving rise to £14 million of negative goodwill which has been recognised in the income statement.

Unaudited pro forma combined revenues and profit

Shown below are unaudited pro forma figures for the Group's combined revenues and profit as though the acquisition date for all business combinations effected during the year had been 1 January 2006, after giving effect to purchase accounting adjustments and the elimination of intercompany transactions. The pro forma financial information is not necessarily indicative of the combined results that would have been attained had the acquisitions taken place at 1 January 2006, nor is it necessarily indicative of future results.

| | 2006 |
|--|-------------|
| | £m |
| Revenues (net earned premiums and fee income) | 30,670 |
| Profit before tax attributable to shareholders | 3,076 |

Of the above pre-tax profit, £83 million has arisen since acquisition. No adjustments have been made to the profit figure above for any additional borrowing costs, integration costs or other synergies that might arise had the acquisitions been completed at 1 January 2006.

(g) Non-adjusting post-balance sheet events

On 1 January 2007, the Group acquired 100% of the shares of the Eurolloyd companies (Eurolloyd Nederland BV and Eurolloyd Belgie NV) for cash of £11 million. In view of the very recent timing of this transaction, it is currently impractical to comply with the requirements of paragraph 67 of IFRS 3, Business Combinations, and to state with any certainty the fair value of assets and liabilities acquired, and therefore to estimate the goodwill arising on this acquisition.

In addition to the above transaction, subsequent to year end, the Group has announced it will acquire two of the units of the Malaysian business Bumiputra-Commerce Holdings Berhad (BCHB) – 49% of each of a Life and a Takaful business - for approximately £75 million. The transaction is subject to signature and regulatory approval but completion is expected to occur by the second quarter of 2007.

On 8 February 2007, the Group announced that it planned to acquire 100% of the shares in Erasmus Groep BV in the Netherlands. Erasmus writes both general insurance and long-term business and, at 31 December 2005, had gross assets of £648 million and net assets of £29 million. The acquisition, when completed, will be effective from 1 January 2007, subject to the approval of the Dutch regulator, the relevant works council and notification to the relevant competition authorities.

4. Profit on the disposal of subsidiaries and associates

The profit on the disposal of subsidiaries and associates comprises:

| | 2006 | 2005 |
|---|-------------|-------------|
| | £m | £m |
| United Kingdom (see (a) below) | 69 | 10 |
| Ireland (see note 3(a)) | 86 | - |
| France (see (b) below) | 79 | - |
| Asia | - | 165 |
| Other small operations | (12) | (22) |
| Profit on disposal before tax | 222 | 153 |
| Tax credit/(charge) on profit on disposal | 13 | (43) |
| Profit on disposal after tax | 235 | 110 |

The tax credit on the profit on disposal in 2006 reflects the benefit of prior year tax credits against charges on disposals in earlier years.

On an EEV basis, the profit on disposal before tax for 2006 falls to £161 million because, on that basis, the gain on disposal in Ireland was £25 million (see note 3(a)). The EEV profit on disposal after tax for the same period was £174 million. There is no difference between IFRS and EEV figures for the comparative period.

(a) Sale of RAC non-core businesses

During 2006, the Group completed the disposal of the Manufacturer Support Services (MSS), Lex Vehicle Leasing (LVL) divisions and the Lex Brand, which had been acquired with the RAC Group in 2005. The decision to sell was part of the Group's wider strategy to integrate RAC and exit non-core operations.

| | 2006 |
|---|-------------|
| | £m |
| Proceeds from sale | 358 |
| Net assets disposed of | (310) |
| Transaction costs | (15) |
| Profit before tax and pension curtailment gain | 33 |
| Pension curtailment gain | 36 |
| Profit on disposal before tax | 69 |
| Tax attributable to profit on disposal | (11) |
| Profit on disposal after tax | 58 |

The net assets disposed of, which total £310 million, comprised investment in joint ventures of £239 million, tangible assets of £102 million, other assets of £95 million and other liabilities of £126 million. The pension curtailment gain arose from the remeasurement of pension liabilities in the RAC plc defined benefit pension scheme, following the MSS and LVL disposals.

(i) *Sale of MSS*

The MSS disposal was completed in three stages during the first six months of 2006, following the disposals of certain operational assets and liabilities of Hyundai Cars (UK) and the commercial fleet business of Lex Transfleet in 2005. On 10 January 2006, the Group sold Hyundai Car Finance Limited, which provides vehicle instalment finance and leasing, to Lloyds TSB. On 14 February 2006, the Group sold Lex Autologistics Limited, Lex Commercials Limited and associated properties to Imperial Holdings. On 27 April 2006, the Group completed the sale of the remaining vehicle solutions businesses, comprising Lex Transfleet Limited, Lex Defence Limited, Lex Defence Management Limited and RAC Software Solutions Limited, to VT Group plc. Receipts from the completion of the disposal of the MSS division totalled £111 million, resulting in a profit of £12 million before tax.

In 2005, the Group sold certain operational assets and liabilities of Hyundai Cars (UK) and the commercial fleet business of Lex Transfleet for total consideration of £139 million. The sale resulted in a profit of £5 million which is included in the 2005 figures above.

Of the total consideration of £250 million received for MSS disposals in 2005 and 2006, £73 million was in respect of liabilities to be settled by the Group.

(ii) *Sale of LVL*

On 31 May 2006, the sale of Aviva's 50% stake in Lex Vehicle Leasing (Holdings) Limited to HBOS plc was completed. Under the terms of the joint venture agreement, the change of control of RAC provided HBOS with the right to acquire Aviva's interest in LVL which HBOS chose to exercise. The proceeds consisted of a net cash receipt of £227 million, from which Aviva's estimated contribution of £16 million to the statutory debt funding of the RAC plc defined benefit pension scheme had been deducted. The gross consideration was therefore £243 million. In addition to the disposal of the investment in the joint venture of £239 million, HBOS will make an equivalent contribution to the statutory debt funding of the defined benefit pension scheme estimated at £16 million. The sale resulted in a profit of £18 million before tax. A further £3 million profit arose on the sale of the Lex brand.

(b) In July 2006, our French operation, Aviva France, sold its associate holding in ProCapital SA, an online brokerage company, to Credit Mutuel for £98 million. The sale resulted in a profit on disposal of £79 million.

No other disposal is considered material for further disclosure.

5. Integration and restructuring costs

£246 million of integration and restructuring costs have been included in the results to 31 December 2006. £21 million related to the restructuring of the combined Norwich Union Insurance and RAC businesses. This completes the integration spend on the RAC business. £205 million relates to Norwich Union's restructuring to reduce duplication and improve efficiency. The remainder relates to the integration of Ark Life into the Hibernian business and the integration of AmerUs.

6. Operations classified as held for sale

There were no operations held for sale at 31 December 2006. The table below sets out the RAC businesses which were held for sale at 31 December 2005 and which completed in the first half of 2006.

| | 2005 |
|---|--------------|
| | £m |
| Intangible assets | 9 |
| Investments and property and equipment | 320 |
| Receivables and other financial assets | 68 |
| Deferred acquisition costs and other assets | 40 |
| Cash and cash equivalents | 25 |
| Total assets | 462 |
| Payables and financial liabilities | (96) |
| Other liabilities | (49) |
| Total liabilities | (145) |
| Net assets | 317 |

7. Geographical analysis of life IFRS operating profit

| | 2006 £m | 2005 £m |
|---|--------------|--------------|
| France | 273 | 258 |
| Ireland | 60 | 28 |
| Italy | 79 | 53 |
| Netherlands (including Belgium, Germany and Luxembourg) | 458 | 172 |
| Poland | 108 | 91 |
| Spain | 126 | 89 |
| Other Europe | (16) | (6) |
| <i>Continental Europe</i> | <i>1,088</i> | <i>685</i> |
| United States | 71 | (4) |
| Other | 54 | 2 |
| <i>Rest of the World</i> | <i>125</i> | <i>(2)</i> |
| International | 1,213 | 683 |
| With-profit | 147 | 99 |
| Non-profit | 536 | 283 |
| United Kingdom | 683 | 382 |
| Total | 1,896 | 1,065 |

8. Geographical analysis of fund management operating profit**(a) IFRS basis**

| | 2006 £m | 2005 £m |
|--------------------------------|------------|------------|
| UK business | 62 | 36 |
| International business | 14 | 13 |
| Morley | 76 | 49 |
| France | 33 | 26 |
| Netherlands | 37 | 32 |
| Other Europe | 3 | 2 |
| Other | 12 | 7 |
| International | 85 | 67 |
| Royal Bank of Scotland | (7) | (1) |
| Norwich Union investment funds | 1 | 9 |
| United Kingdom | (6) | 8 |
| Total | 155 | 124 |

(b) EEV basis

| | 2006 £m | 2005 £m |
|--------------------------------|------------|------------|
| UK business | 35 | 17 |
| International business | 9 | 9 |
| Morley | 44 | 26 |
| France | 10 | 8 |
| Netherlands | 33 | 32 |
| Other Europe | 3 | 2 |
| Other | 12 | 7 |
| International | 58 | 49 |
| Royal Bank of Scotland | (7) | (1) |
| Norwich Union investment funds | 1 | 9 |
| United Kingdom | (6) | 8 |
| Total | 96 | 83 |

9. Geographical analysis of general insurance and health

(a) Operating result

| | Operating profit | | Underwriting result | |
|---------------------------|------------------|--------------|---------------------|------------|
| | 2006 £m | 2005 £m | 2006 £m | 2005 £m |
| France | 63 | 35 | 6 | (21) |
| Ireland | 172 | 171 | 121 | 116 |
| Netherlands | 139 | 137 | 50 | 54 |
| Other | 43 | 47 | 12 | 15 |
| <i>Continental Europe</i> | <i>417</i> | <i>390</i> | <i>189</i> | <i>164</i> |
| Canada | 148 | 147 | 27 | 35 |
| Other | 40 | 40 | 11 | 3 |
| <i>Rest of the World</i> | <i>188</i> | <i>187</i> | <i>38</i> | <i>38</i> |
| International | 605 | 577 | 227 | 202 |
| United Kingdom | 1,075 | 974 | 380 | 303 |
| Total | 1,680 | 1,551 | 607 | 505 |
| <i>Analysed by:</i> | | | | |
| General insurance | 1,652 | 1,496 | 639 | 507 |
| Health | 28 | 55 | (32) | (2) |
| Total | 1,680 | 1,551 | 607 | 505 |

(b) Investment return information

| | Actual investment return credited to income | | Longer-term investment return | |
|--|---|--------------|-------------------------------|--------------|
| | 2006 £m | 2005 £m | 2006 £m | 2005 £m |
| France | 35 | 54 | 57 | 56 |
| Ireland | 41 | 43 | 51 | 55 |
| Netherlands | 72 | 88 | 89 | 83 |
| Other | 17 | 17 | 31 | 32 |
| <i>Continental Europe</i> | <i>165</i> | <i>202</i> | <i>228</i> | <i>226</i> |
| Canada | 98 | 95 | 121 | 112 |
| Other | 27 | 27 | 29 | 37 |
| <i>Rest of the World</i> | <i>125</i> | <i>122</i> | <i>150</i> | <i>149</i> |
| International | 290 | 324 | 378 | 375 |
| United Kingdom | 625 | 646 | 695 | 671 |
| Total longer-term investment return | | | 1,073 | 1,046 |
| Total actual investment income | 915 | 970 | | |
| Realised gains | 281 | 216 | | |
| Unrealised /gains | 26 | 377 | | |
| Total actual investment return | 1,222 | 1,563 | | |

The total short-term fluctuation in investment return of £149 million (2005: £517 million) is the difference between the total actual investment return of £1,222 million (2005: £1,563 million) and the total longer-term investment return of £1,073 million (2005: £1,046 million).

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

9. Geographical analysis of general insurance and health (continued)

The longer-term investment return is calculated separately for each principal general insurance and health 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 period, 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.

The Group has calculated the longer-term investment return for its general insurance and health business using the same start of year economic assumptions for equities and properties as those used for EEV reporting as shown on page 33 of this announcement.

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

| | Longer-term rates of return Equities | | Longer-term rates of return Properties | |
|----------------|---|-----------|---|-----------|
| | 2006 % | 2005 % | 2006 % | 2005 % |
| United Kingdom | 7.1% | 7.6% | 6.1% | 6.6% |
| France | 6.3% | 6.7% | 5.3% | 5.7% |
| Ireland | 6.3% | 6.7% | 5.3% | 5.7% |
| Netherlands | 6.3% | 6.7% | 5.3% | 5.7% |
| Canada | 7.0% | 7.4% | 6.0% | 6.4% |

The table below shows the sensitivity of the Group's general insurance and health operating profit before tax to changes in the longer-term rates of return:

| Movement in investment return for | By | Change in | 2006 | 2005 |
|-----------------------------------|-----------------|------------------------|------|------|
| | | | £m | £m |
| Equities | 1% higher/lower | Group operating profit | 31 | 29 |
| Properties | 1% higher/lower | Group operating profit | 4 | 4 |

10. Analysis of other operations' operating profit

(a) IFRS basis

| | 2006 £m | 2005 £m |
|---------------------------------|-------------|-------------|
| RAC | 45 | 30 |
| UK Life | | |
| - Personal finance subsidiaries | - | 4 |
| - Norwich Union Life Services | (50) | (66) |
| - Lifetime and SIPP | (29) | (14) |
| Other | (46) | 6 |
| Total | (80) | (40) |

(b) EEV basis

| | 2006 £m | 2005 £m |
|---------------------------------|-------------|------------|
| RAC | 45 | 30 |
| UK Life | | |
| - Personal finance subsidiaries | - | 4 |
| - Norwich Union Life Services | 5 | 3 |
| - Lifetime and SIPP | (29) | (14) |
| Other | (44) | 5 |
| Total | (23) | 28 |

11. Corporate costs

| | 2006 £m | 2005 £m |
|--|--------------|--------------|
| Staff profit share and other incentive schemes | (17) | (7) |
| Central costs | (143) | (101) |
| Global finance transformation programme | - | (28) |
| Total | (160) | (136) |

12. Unallocated interest charges

| | 2006 £m | 2005 £m |
|---------------------------------------|--------------|--------------|
| External | | |
| Subordinated debt | (169) | (169) |
| Other | (61) | (79) |
| Internal | (228) | (220) |
| Net finance income on pension schemes | 77 | 32 |
| Total | (381) | (436) |

13. Tax**(a) Tax charged to the income statement**

| | 2006 £m | 2005 £m |
|--|------------|--------------|
| Current tax: | | |
| For the year | 1,022 | 799 |
| Prior year adjustments | (287) | (212) |
| Total current tax | 735 | 587 |
| Deferred tax: | | |
| Origination and reversal of timing differences | 221 | 881 |
| Changes in tax rates or tax laws | (7) | (5) |
| Write down of deferred tax assets | (15) | 89 |
| Total deferred tax | 199 | 965 |
| Total tax charged to income statement | 934 | 1,552 |

Tax charge analysed between

| | 2006 £m | 2005 £m |
|---|------------|--------------|
| Tax charge attributable to policyholders' returns | 346 | 922 |
| Tax charge on IFRS operating profit before tax attributable to shareholders' profits from continuing operations | 725 | 536 |
| Tax (credit)/charge on profit on other activities | (137) | 94 |
| Total tax charged to income statement | 934 | 1,552 |

The Group, as a proxy for policyholders in the UK, Ireland and Australia, is required to record taxes on investment income and gains each year. Accordingly, the tax benefit or expense attributable to UK, Irish and Australian life insurance policyholder returns is included in the tax charge.

(b) Tax charged to equity

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

| | 2006 £m | 2005 £m |
|---|------------|--------------|
| Current tax credit | (9) | (13) |
| Deferred tax charge / (credit) | 14 | (262) |
| Total tax charged / (credited) to equity | 5 | (275) |

(ii) The tax expense attributable to policyholders' returns included in the charge above is nil (2005: £3 million).

(c) Tax reconciliation

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

| | 2006 | 2005 |
|---|--------------|--------------|
| | £m | £m |
| Net profit before tax | 3,323 | 3,450 |
| Tax calculated at standard UK corporation tax rate of 30% (2005: 30%) | 997 | 1,035 |
| Different basis of tax for UK life insurance | 209 | 616 |
| Adjustment to tax charge in respect of prior years | (287) | (253) |
| Non-assessable dividends | (55) | (26) |
| Non-taxable profit on sale of subsidiaries and associates | (80) | (4) |
| Disallowable expenses | 46 | 55 |
| Different local basis of tax on overseas profits | 201 | 168 |
| Deferred tax assets not recognised | (60) | (25) |
| Other | (37) | (14) |
| Tax charge for the year | 934 | 1,552 |

14. Earnings per share**(a) Basic earnings per share**

(i) The profit attributable to ordinary shareholders is:

| | 2006 | 2005 |
|---|--------------|--------------|
| | £m | £m |
| Profit for the year | 2,389 | 1,898 |
| Amount attributable to minority interests | (174) | (131) |
| Cumulative preference dividends for the year | (17) | (17) |
| Coupon payments on direct capital instrument net of tax | (37) | (29) |
| Profit attributable to ordinary shareholders | 2,161 | 1,721 |

14. Earnings per share (continued)

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

| | 2006 | | | 2005 | | |
|---|------------------|--|-------------------|------------------|--|-------------------|
| | Before tax £m | Net of tax, minorities and preference dividends and DCI appropriation £m | Per share p | Before tax £m | Net of tax, minorities and preference dividends and DCI appropriation £m | Per share p |
| Operating profit attributable to ordinary shareholders | 3,110 | 2,146 | 86.9 | 2,128 | 1,415 | 60.5 |
| Adjusted for the following: | | | | | | |
| – Impairment of goodwill | (94) | (94) | (3.8) | (43) | (43) | (1.8) |
| – Amortisation and net impairment of acquired value of in-force business | (100) | (83) | (3.4) | (73) | (73) | (3.1) |
| – Amortisation and net impairment of intangibles | (70) | (48) | (1.9) | (45) | (42) | (1.8) |
| – Financial Services Compensation Scheme and other levies | 6 | 4 | 0.2 | - | - | - |
| – Short-term fluctuation on return on investments backing general insurance and health business | 149 | 189 | 7.7 | 517 | 430 | 18.2 |
| – Profit on the disposal of subsidiaries and associates | 222 | 235 | 9.5 | 153 | 110 | 4.7 |
| – Integration and restructuring costs | (246) | (188) | (7.7) | (109) | (76) | (3.2) |
| Profit attributable to ordinary shareholders | 2,977 | 2,161 | 87.5 | 2,528 | 1,721 | 73.5 |

Earnings per share has been calculated based on the operating profit before impairment of goodwill and other non-operating items, after tax, attributable to ordinary shareholders, as well as on the profit attributable to ordinary shareholders. The directors believe the former earnings per share figures provide a better indication of operating performance.

The calculation of basic earnings per share uses a weighted average of 2,469 million (2005: 2,340 million) ordinary shares in issue, after deducting shares owned by the employee share trusts. The actual number of shares in issue at 31 December 2006 was 2,566 million (2005: 2,396 million).

(b) Diluted earnings per share:

Diluted earnings per share is calculated as follows:

| | 2006 | | | 2005 | | |
|---|--------------|---|-------------------|--------------|---|-------------------|
| | 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 equity shareholders | 2,161 | 2,469 | 87.5 | 1,721 | 2,340 | 73.5 |
| Dilutive effect of share awards and options | - | 27 | (0.9) | - | 20 | (0.6) |
| Diluted earnings per share | 2,161 | 2,496 | 86.6 | 1,721 | 2,360 | 72.9 |

Diluted earnings per share on an operating profit attributable to ordinary shareholders is 86.0p (2005: 60.0p).

15. Dividends and appropriations

| | 2006 | 2005 |
|---|-------------|-------------|
| | £m | £m |
| Ordinary dividends declared and charged to equity in the year | | |
| Final 2004 – 16.00p per share, paid on 17 May 2005 | - | 364 |
| Interim 2005 - 9.83p per share, paid on 17 November 2005 | - | 234 |
| Final 2005 - 17.44p per share, paid on 17 May 2006 | 418 | - |
| Interim 2006 - 10.82p per share, paid on 17 November 2006 | 275 | - |
| | <hr/> 693 | <hr/> 598 |
| Preference dividends declared and charged to equity in the year | 17 | 17 |
| Coupon payments on direct capital instrument - gross of tax | 52 | 42 |
| | <hr/> | <hr/> |
| Total | 762 | 657 |

Subsequent to 31 December 2006, the directors proposed a final dividend for 2006 of 19.18 pence per ordinary share, £492 million in total, making a total dividend for the year of 30.00 pence per share (2005: 27.27 pence). Subject to approval by shareholders at the AGM, the dividend will be paid on 17 May 2007 and will be accounted for as an appropriation of retained earnings in the year ending 31 December 2007.

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 will be obtained at a rate of 30%.

Irish shareholders who are due to be paid a dividend denominated in euros will receive a payment at the exchange rate prevailing on 28 February 2007.

16. Segmental information**(a) Segmental results – primary reporting format - business segments**

The principal activity of the Group is financial services, which is managed using the following reportable segments: long-term business, fund management, general insurance and health.

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 the lifetime mortgage business written in the United Kingdom.

Fund management activities

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.

General insurance and health

Our general insurance and health business provides insurance cover to individuals and to small and medium-sized businesses, for risks associated mainly with motor vehicles, property and liability, such as employers' liability and professional indemnity liability, and medical expenses.

Other

Other activities not related to the core business segments or which are not reportable segments due to their immateriality, such as the RAC non-insurance operations, our banking businesses and service companies are included as "Other" in the following tables. Head office expenses, such as Group treasury and finance functions are also reported as "Other", together with eliminations and any other reconciling items. Certain financing costs and taxes are not allocated among the segments.

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.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet but excluding items such as tax and certain borrowings.

16. Segmental information (continued)**(b) Segmental results of the income statement – primary reporting format - business segments for the year ended 31 December 2006**

| | Long-term business £m | Fund management £m | General insurance and health £m | Other £m | Total £m |
|--|-----------------------------|--------------------------|--|----------------|-----------------|
| Segment income from external customers: | | | | | |
| Net written premiums | 16,532 | - | 10,702 | - | 27,234 |
| Net earned premiums | 16,532 | - | 10,795 | - | 27,327 |
| Fee and commission income | 630 | 452 | 172 | 616 | 1,870 |
| | 17,162 | 452 | 10,967 | 616 | 29,197 |
| Net investment income | 13,928 | 17 | 1,299 | 229 | 15,473 |
| Inter-segment revenue | - | 199 | - | - | 199 |
| Profit on the disposal of subsidiaries and associates | 12 | - | 88 | 122 | 222 |
| Segment income | 31,102 | 668 | 12,354 | 967 | 45,091 |
| Claims and benefits paid, net of recoveries from reinsurers | (16,523) | - | (6,921) | - | (23,444) |
| Change in insurance liabilities, net of reinsurance | (2,594) | - | (26) | - | (2,620) |
| Change in investment contract provisions | (6,002) | - | - | - | (6,002) |
| Change in unallocated divisible surplus | (558) | - | - | - | (558) |
| Fee and commission expense | (2,125) | (111) | (2,742) | (65) | (5,043) |
| Other operating expenses | | | | | |
| Depreciation | (12) | (3) | (19) | (89) | (123) |
| Amortisation of acquired value of in-force business | (58) | - | - | - | (58) |
| Net impairment of acquired value of in-force business | (28) | - | - | - | (28) |
| Amortisation and net impairment of intangible assets | (32) | (1) | (18) | (19) | (70) |
| Impairment of goodwill | - | - | - | (94) | (94) |
| Other impairment losses recognised in the income statement | 6 | - | (5) | (1) | - |
| Inter-segment expense | (190) | - | (8) | (1) | (199) |
| Other expenses | (990) | (392) | (806) | (996) | (3,184) |
| Finance costs | (367) | - | (3) | (230) | (600) |
| Segment expenses | (29,473) | (507) | (10,548) | (1,495) | (42,023) |
| Segment result before share of profit/(loss) of joint ventures and associates | 1,629 | 161 | 1,806 | (528) | 3,068 |
| Share of profit/(loss) of joint ventures and associates | 471 | (7) | 5 | 16 | 485 |
| Segmental result before tax | 2,100 | 154 | 1,811 | (512) | 3,553 |
| Unallocated costs: | | | | | |
| Finance costs on central borrowings | | | | | (230) |
| Tax attributable to policyholders' returns | | | | | (346) |
| Tax attributable to shareholders' profits | | | | | (588) |
| Total unallocated expenses | | | | | (1,164) |
| Profit for the year | | | | | 2,389 |

Finance costs on central borrowings comprise interest payable on borrowings by holding companies within the Group which are not allocated to operating companies.

16. Segmental information (continued)**(b) Segmental results of the income statement – primary reporting format - business segments for the year ended 31 December 2006 (continued)****Proforma reconciliation to operating profit before tax attributable to shareholders' profits**

| | Long-term business £m | Fund management £m | General insurance and health £m | Other £m | Total £m |
|--|-----------------------------|--------------------------|--|--------------|--------------|
| Segment result before tax | 2,100 | 154 | 1,811 | (512) | 3,553 |
| Finance costs on central borrowings | - | - | (2) | (228) | (230) |
| Adjusted for the following items: | | | | | |
| Impairment of goodwill | - | - | - | 94 | 94 |
| Amortisation and impairment of acquired value of in -force business | 100 | - | - | - | 100 |
| Amortisation and impairment of intangible assets | 32 | 1 | 18 | 19 | 70 |
| Financial Services Compensation Scheme and other levies | - | - | (6) | - | (6) |
| Short-term fluctuation in return on investments backing general insurance and health business | - | - | (149) | - | (149) |
| Profit on the disposal of subsidiaries and associates | (12) | - | (88) | (122) | (222) |
| Integration and restructuring costs | 21 | - | 95 | 130 | 246 |
| Unallocated interest and corporate costs reallocation | 1 | - | 1 | (2) | - |
| | 2,242 | 155 | 1,680 | (621) | 3,456 |
| Less: | | | | | |
| Tax attributable to policyholders' returns | (346) | - | - | - | (346) |
| Operating profit before tax attributable to shareholders' profits | 1,896 | 155 | 1,680 | (621) | 3,110 |

16. Segmental information (continued)**(c) Segmental results of the income statement – primary reporting format - business segments for the year ended 31 December 2005**

| | Long-term business £m | Fund management £m | General insurance and health £m | Other £m | Total £m |
|--|-----------------------------|--------------------------|--|----------------|-----------------|
| Segment income from external customers: | | | | | |
| Net written premiums | 14,671 | - | 10,311 | - | 24,982 |
| Net earned premiums | 14,671 | - | 10,188 | - | 24,859 |
| Fee and commission income | 598 | 318 | 218 | 717 | 1,851 |
| | 15,269 | 318 | 10,406 | 717 | 26,710 |
| Net investment income | 21,985 | 15 | 1,603 | 119 | 23,722 |
| Inter-segment revenue | - | 112 | - | - | 112 |
| (Loss)/profit on the disposal of subsidiaries and associates | (10) | - | 41 | 122 | 153 |
| Segment income | 37,244 | 445 | 12,050 | 958 | 50,697 |
| Claims and benefits paid, net of recoveries from reinsurers | (13,482) | - | (6,224) | - | (19,706) |
| Change in insurance liabilities, net of reinsurance | (10,004) | - | (372) | - | (10,376) |
| Change in investment contract provisions | (7,814) | - | - | - | (7,814) |
| Change in unallocated divisible surplus | (1,474) | - | - | - | (1,474) |
| Fee and commission expense | (1,481) | (78) | (2,756) | (15) | (4,330) |
| Other operating expenses | | | | | |
| Depreciation | (11) | (6) | (17) | (78) | (112) |
| Amortisation of acquired value of in-force business | (27) | - | - | - | (27) |
| Net impairment of acquired value of in-force business | (28) | - | - | - | (28) |
| Amortisation and net impairment of intangible assets | (24) | - | (5) | (16) | (45) |
| Impairment of goodwill | (14) | - | - | (29) | (43) |
| Other impairment losses recognised in the income statement | (37) | - | - | - | (37) |
| Inter-segment expense | (103) | - | (9) | - | (112) |
| Other expenses | (999) | (236) | (615) | (1,024) | (2,874) |
| Finance costs | (203) | - | (58) | (100) | (361) |
| Segment expenses | (35,701) | (320) | (10,056) | (1,262) | (47,339) |
| Segment result before share of profit/(loss) of joint ventures and associates | 1,543 | 125 | 1,994 | (304) | 3,358 |
| Share of profit/(loss) of joint ventures and associates | 322 | (1) | 1 | 18 | 340 |
| Segmental result before tax | 1,865 | 124 | 1,995 | (286) | 3,698 |
| Unallocated costs: | | | | | |
| Finance costs on central borrowings | | | | | (248) |
| Tax attributable to policyholders' returns | | | | | (922) |
| Tax attributable to shareholders' profits | | | | | (630) |
| Total unallocated costs | | | | | (1,800) |
| Profit for the year | | | | | 1,898 |

Finance costs on central borrowings comprise interest payable on borrowings by holding companies within the Group which are not allocated to operating companies.

16. Segmental information (continued)**(c) Segmental results of the income statement – primary reporting format - business segments for the year ended 31 December 2005 (continued)****Proforma reconciliation to operating profit before tax attributable to shareholders' profits**

| | Long-term business £m | Fund management £m | General insurance and health £m | Other £m | Total £m |
|--|-----------------------------|--------------------------|--|--------------|--------------|
| Segment result before tax | 1,865 | 124 | 1,995 | (286) | 3,698 |
| Finance costs on central borrowings | - | - | - | (248) | (248) |
| Adjusted for the following items: | | | | | |
| Impairment of goodwill | 14 | - | - | 29 | 43 |
| Amortisation and impairment of acquired value of in-force business | 73 | - | - | - | 73 |
| Amortisation and impairment of intangible assets | 24 | - | 5 | 16 | 45 |
| Short-term fluctuation on investment return | - | - | (517) | - | (517) |
| Loss/(Profit) on the disposal of subsidiaries and associates | 10 | - | (41) | (122) | (153) |
| Integration costs | - | - | 77 | 32 | 109 |
| Unallocated interest | - | (1) | 25 | (24) | - |
| Corporate costs reallocation | 1 | 1 | 7 | (9) | - |
| | 1,987 | 124 | 1,551 | (612) | 3,050 |
| Less: | | | | | |
| Tax attributable to policyholders' returns | (922) | - | - | - | (922) |
| Operating profit before tax attributable to shareholders' profits | 1,065 | 124 | 1,551 | (612) | 2,128 |

(d) Segmental balance sheet – primary reporting format – business segments as at 31 December 2006

| | Long-term business £m | Fund management £m | General insurance and health £m | Other £m | Total £m |
|---|-----------------------------|--------------------------|--|---------------|----------------|
| Goodwill | 1,316 | 9 | 390 | 1,195 | 2,910 |
| Acquired value of in-force business and intangible assets | 2,301 | 18 | 287 | 122 | 2,728 |
| Investments in joint ventures and associates | 3,526 | 44 | 39 | 81 | 3,690 |
| Property and equipment | 416 | 4 | 94 | 390 | 904 |
| Investment property | 14,714 | - | 384 | 25 | 15,123 |
| Loans | 18,805 | - | 735 | 6,905 | 26,445 |
| Financial investments | | | | | |
| Debt securities | 102,815 | 3 | 7,933 | 2,290 | 113,041 |
| Equity securities | 52,782 | 19 | 2,858 | 1,103 | 56,762 |
| Other investments | 32,453 | 8 | 457 | 132 | 33,050 |
| Other assets | 24,383 | 534 | 9,755 | 1,854 | 36,526 |
| Segment assets | 253,511 | 639 | 22,932 | 14,097 | 291,179 |
| Unallocated assets – tax assets | | | | | 1,543 |
| Total assets | | | | | 292,722 |
| Insurance liabilities | 126,224 | - | 18,006 | - | 144,230 |
| Liability for investment contracts | 88,358 | - | - | - | 88,358 |
| Unallocated divisible surplus | 9,465 | - | - | - | 9,465 |
| Net asset value attributable to unitholders | 3,786 | 1 | 23 | - | 3,810 |
| External borrowings | 3,894 | - | 11 | 4,037 | 7,942 |
| Other liabilities, including inter-segment liabilities | 6,999 | 313 | (712) | 9,719 | 16,319 |
| Segment liabilities | 238,726 | 314 | 17,328 | 13,756 | 270,124 |
| Unallocated liabilities | | | | | |
| Central borrowings | | | | | 4,195 |
| Tax liabilities | | | | | 4,339 |
| Total liabilities | | | | | 278,658 |
| Total equity | | | | | 14,064 |
| Total equity and liabilities | | | | | 292,722 |

Central borrowings are borrowings by holding companies within the Group which are not allocated to operating companies. In 2006, there has been a reclassification of Amstelhuys loans into "Other" business from our general insurance and health segment.

16. Segmental information (continued)**(e) Segmental balance sheet – primary reporting format - business segments as at 31 December 2005**

| | Long-term business £m | Fund management £m | General insurance and health £m | Other £m | Total £m |
|---|-----------------------------|--------------------------|--|---------------|----------------|
| Goodwill | 631 | - | 398 | 1,245 | 2,274 |
| Acquired value of in-force business and intangible assets | 424 | - | 265 | 114 | 803 |
| Investments in joint ventures and associates | 2,815 | 46 | 39 | 114 | 3,014 |
| Property and equipment | 367 | 4 | 126 | 388 | 885 |
| Investment property | 12,895 | - | 338 | 42 | 13,275 |
| Loans | 18,240 | - | 3,661 | 2,643 | 24,544 |
| Financial investments | | | | | |
| Debt securities | 91,926 | 2 | 9,390 | 2,599 | 103,917 |
| Equity securities | 48,365 | 12 | 2,647 | 1,020 | 52,044 |
| Other investments | 25,920 | 8 | 459 | 40 | 26,427 |
| Other assets | 23,185 | 490 | 9,425 | 2,059 | 35,159 |
| Segment assets | 224,768 | 562 | 26,748 | 10,264 | 262,342 |
| Unallocated assets – tax assets | | | | | 1,105 |
| Total assets | | | | | 263,447 |
| Insurance liabilities | 114,176 | - | 18,426 | - | 132,602 |
| Liability for investment contracts | 77,309 | - | - | - | 77,309 |
| Unallocated divisible surplus | 8,978 | - | - | - | 8,978 |
| Net asset value attributable to unitholders | 3,137 | - | - | - | 3,137 |
| External borrowings | 4,060 | - | 2,565 | 578 | 7,203 |
| Other liabilities, including inter-segment liabilities | 6,149 | 293 | (224) | 9,607 | 15,825 |
| Segment liabilities | 213,809 | 293 | 20,767 | 10,185 | 245,054 |
| Unallocated liabilities | | | | | |
| Central borrowings | | | | | 3,810 |
| Tax liabilities | | | | | 3,491 |
| Total liabilities | | | | | 252,355 |
| Total equity | | | | | 11,092 |
| Total equity and liabilities | | | | | 263,447 |

Central borrowings are borrowings by holding companies within the Group which are not allocated to operating companies.

(f) Goodwill allocation and impairment testing

IFRS requires formal impairment testing to be carried out annually. For impairment testing, goodwill and intangibles with indefinite useful lives have been allocated to cash-generating units by geographical reporting unit and business segment. The carrying amount of goodwill and intangible assets with indefinite useful lives is reviewed at least annually or when circumstances or events indicate there may be uncertainty over this value.

During the year, goodwill allocated to a long-term cash-generating unit in Germany, Berlinische, was tested for impairment. Following the impairment test, an impairment charge of £94 million has been recognised in the income statement. The impairment charge arose as a result of the fall off in contribution from new business in 2006 and current adverse experience within the in-force portfolio. As a result of this, no goodwill remains allocated to this cash-generating unit. The 2005 impairment charge of £43 million comprised £21 million relating to goodwill allocated to a life cash-generating unit in Germany and £22 million on other small European businesses.

16. Segmental information (continued)**(g) Long-term business summary analysis by geographical segment**

Germany has been reclassified from Other Europe to the Netherlands, Lithuania has been reclassified from Other Europe to Poland and Norwich Union's Dublin-based offshore life and savings business has been reclassified from Other Europe to the United Kingdom.

(i) Income statement

For the year ended 31 December 2006

| | Net written premiums | | Fee and commission income | | Profit before tax | |
|--|----------------------|---------------|---------------------------|------------|-------------------|--------------|
| | 2006 £m | 2005 £m | 2006 £m | 2005 £m | 2006 £m | 2005 £m |
| France | 3,573 | 3,553 | 179 | 160 | 259 | 234 |
| Ireland | 397 | 182 | 64 | 23 | 52 | 56 |
| Italy | 1,919 | 1,357 | 69 | 66 | 76 | 35 |
| Netherlands (including Belgium, Germany and Luxembourg) | 2,079 | 2,582 | 21 | 57 | 453 | 164 |
| Poland | 395 | 312 | 55 | 45 | 108 | 90 |
| Spain | 1,266 | 1,248 | 56 | 39 | 113 | 75 |
| Other Europe | 159 | 152 | 3 | 4 | (16) | (5) |
| <i>Continental Europe</i> | <i>9,788</i> | <i>9,386</i> | <i>447</i> | <i>394</i> | <i>1,045</i> | <i>649</i> |
| United States | 932 | 517 | 4 | - | 17 | (4) |
| Other | 512 | 309 | 39 | 27 | 68 | 12 |
| <i>Rest of the World</i> | <i>1,444</i> | <i>826</i> | <i>43</i> | <i>27</i> | <i>85</i> | <i>8</i> |
| International | 11,232 | 10,212 | 490 | 421 | 1,130 | 657 |
| United Kingdom | 5,300 | 4,459 | 140 | 177 | 970 | 1,208 |
| Total | 16,532 | 14,671 | 630 | 598 | 2,100 | 1,865 |

The following analysis shows the net written premiums from associates and joint ventures on insurance and participating investment contracts which are not included in the analysis above.

| | 2006 £m | 2005 £m |
|-------|------------|------------|
| RBSG | 236 | 217 |
| India | 31 | 14 |
| China | 38 | 30 |
| | 305 | 261 |

16. Segmental information (continued)**(ii) Balance sheet**

As at 31 December 2006

| | <u>Segmental total assets</u> | | <u>Segmental net assets</u> | |
|---|-------------------------------|----------------|-----------------------------|---------------|
| | 2006 £m | 2005 £m | 2006 £m | 2005 £m |
| France | 46,547 | 44,109 | 1,355 | 1,318 |
| Ireland | 10,951 | 6,054 | 1,040 | 628 |
| Italy | 11,828 | 10,805 | 613 | 570 |
| Netherlands (including Belgium, Germany and Luxembourg) | 28,340 | 28,826 | 2,922 | 2,344 |
| Poland | 2,232 | 1,860 | 216 | 203 |
| Spain | 6,641 | 6,355 | 862 | 805 |
| Other Europe | 483 | 515 | 65 | 59 |
| <i>Continental Europe</i> | <i>107,022</i> | <i>98,524</i> | <i>7,073</i> | <i>5,927</i> |
| United States | 18,828 | 3,866 | 2,470 | 365 |
| Other | 3,687 | 3,563 | 433 | 387 |
| <i>Rest of the World</i> | <i>22,515</i> | <i>7,429</i> | <i>2,903</i> | <i>752</i> |
| International | 129,537 | 105,953 | 9,976 | 6,679 |
| United Kingdom | 123,974 | 118,815 | 4,809 | 4,280 |
| Total | 253,511 | 224,768 | 14,785 | 10,959 |

16. Segmental information (continued)**(h) Geographical analysis of life and pensions and investment sales – new business and total income**

For the purpose of recording life and pensions new business premiums, the Group's policy is to include 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 the lifetime mortgage business written in the UK. This includes both insurance and investment contracts as defined under IFRS 4, *Insurance Contracts* and is consistent with the definition of covered business used for our supplementary embedded value reporting.

An analysis of new long-term business sales is provided below. In this table, single premiums are those relating to products issued by the Group, which provide for the payment of one premium only. Regular premiums are those where there is a contractual obligation to pay on an ongoing basis. Life and pensions total income represents all net written premiums in the year for insurance contracts and investment contracts, excluding non-participating investment contracts which are required to be accounted for under IAS 39, *Financial Instruments: Recognition and Measurement* and IAS 18, *Revenue*.

| | <u>New single premiums</u> | | <u>New regular premiums</u> | | <u>Total income</u> | |
|--|----------------------------|---------------|-----------------------------|--------------|---------------------|---------------|
| | 2006 £m | 2005 £m | 2006 £m | 2005 £m | 2006 £m | 2005 £m |
| Life and pensions: | | | | | | |
| France | 3,090 | 3,077 | 82 | 76 | 3,573 | 3,553 |
| Ireland | 809 | 372 | 109 | 63 | 397 | 182 |
| Italy | 2,216 | 1,940 | 101 | 58 | 1,919 | 1,357 |
| Netherlands (including Belgium, Germany and Luxembourg) | 1,224 | 1,441 | 148 | 179 | 2,079 | 2,582 |
| Poland | 238 | 120 | 48 | 34 | 395 | 312 |
| Spain | 1,410 | 1,395 | 107 | 100 | 1,266 | 1,248 |
| Other Europe | 83 | 78 | 55 | 43 | 159 | 152 |
| <i>Continental Europe</i> | <i>9,070</i> | <i>8,423</i> | <i>650</i> | <i>553</i> | <i>9,788</i> | <i>9,386</i> |
| United States | 767 | 448 | 20 | 20 | 931 | 517 |
| Other | 490 | 350 | 116 | 93 | 582 | 353 |
| <i>Rest of the World</i> | <i>1,257</i> | <i>798</i> | <i>136</i> | <i>113</i> | <i>1,513</i> | <i>870</i> |
| International | 10,327 | 9,221 | 786 | 666 | 11,301 | 10,256 |
| United Kingdom | 8,312 | 6,705 | 608 | 485 | 5,536 | 4,676 |
| Total life and pensions (including share of associates) | 18,639 | 15,926 | 1,394 | 1,151 | 16,837 | 14,932 |
| Retail sales of mutual fund type products: | | | | | | |
| Netherlands | 285 | 563 | - | - | 285 | 563 |
| Poland | 127 | 49 | 4 | 4 | 131 | 53 |
| Other Europe | 475 | 410 | - | - | 475 | 410 |
| Other | 1,564 | 1,151 | - | - | 1,564 | 1,151 |
| International | 2,451 | 2,173 | 4 | 4 | 2,455 | 2,177 |
| United Kingdom | 2,411 | 1,139 | 44 | 21 | 2,455 | 1,160 |
| Total investment sales | 4,862 | 3,312 | 48 | 25 | 4,910 | 3,337 |
| Total long-term savings (including share of associates) | 23,501 | 19,238 | 1,442 | 1,176 | 21,747 | 18,269 |

Included within new business sales is £6,365 million single premiums and £615 million regular premiums (2005: £5,071 million single premiums and £357 million regular premiums), in respect of contracts that meet the definition of "non-participating investment" contracts under IFRS 4 "Insurance Contracts". Under IFRS, the premiums on these contracts are not included in the Group income statement under earned premiums, but are included on the balance sheet as a deposit.

Sales from the Navigator funds administration business, previously excluded from investment sales figures, are now included in the new single premiums figures above. This change has increased total investment sales for 2006 by £1,371 million (2005: £938 million).

16. Segmental information (continued)**(i) General insurance and health business summary analysis by geographical segment****(i) Income statement**

For the year ending 31 December 2006

| | Net written premiums | | Fee and commission income | | Profit before tax | |
|---------------------------|----------------------|---------------|---------------------------|------------|-------------------|--------------|
| | 2006 £m | 2005 £m | 2006 £m | 2005 £m | 2006 £m | 2005 £m |
| France | 735 | 726 | - | - | 77 | 68 |
| Ireland | 519 | 499 | 1 | - | 297 | 181 |
| Netherlands | 1,755 | 1,270 | - | 22 | 107 | 171 |
| Other Europe | 278 | 259 | 3 | 5 | 26 | 17 |
| <i>Continental Europe</i> | <i>3,287</i> | <i>2,754</i> | <i>4</i> | <i>27</i> | <i>507</i> | <i>437</i> |
| Canada | 1,389 | 1,324 | 10 | 11 | 169 | 178 |
| Other | 86 | 106 | 1 | - | 48 | 86 |
| <i>Rest of the World</i> | <i>1,475</i> | <i>1,430</i> | <i>11</i> | <i>11</i> | <i>217</i> | <i>264</i> |
| International | 4,762 | 4,184 | 15 | 38 | 724 | 701 |
| United Kingdom | 5,940 | 6,127 | 157 | 180 | 1,087 | 1,294 |
| Total | 10,702 | 10,311 | 172 | 218 | 1,811 | 1,995 |

(ii) Balance sheet

As at 31 December 2006

| | Segmental total assets | | Segmental net assets | |
|---------------------------|------------------------|---------------|----------------------|--------------|
| | 2006 £m | 2005 £m | 2006 £m | 2005 £m |
| France | 1,731 | 1,698 | 376 | 414 |
| Ireland | 1,765 | 1,916 | 444 | 564 |
| Netherlands | 2,775 | 5,038 | 630 | 530 |
| Other Europe | 803 | 860 | 266 | 284 |
| <i>Continental Europe</i> | <i>7,074</i> | <i>9,512</i> | <i>1,716</i> | <i>1,792</i> |
| Canada | 3,250 | 3,742 | 647 | 850 |
| Other | 405 | 380 | 255 | 249 |
| <i>Rest of the World</i> | <i>3,655</i> | <i>4,122</i> | <i>902</i> | <i>1,099</i> |
| International | 10,729 | 13,634 | 2,618 | 2,891 |
| United Kingdom | 12,203 | 13,114 | 2,986 | 3,090 |
| Total | 22,932 | 26,748 | 5,604 | 5,981 |

(iii) General insurance, fund management and other investments mix at 31 December 2006

| | United Kingdom £m | Continental Europe £m | Rest of the World £m | Total £m |
|--|----------------------|--------------------------|-------------------------|---------------|
| Equity securities - fair value | 2,256 | 1,214 | 510 | 3,980 |
| Debt and fixed income securities at market value | 3,261 | 4,737 | 2,228 | 10,226 |
| Loans secured by mortgages and other loans | 612 | 7,018 | 10 | 7,640 |
| Other investments | 13 | 583 | 1 | 597 |
| Investments in joint ventures and associates | 112 | 28 | 24 | 164 |
| Investment property | 303 | 106 | - | 409 |
| Total investments | 6,557 | 13,686 | 2,773 | 23,016 |

Statistical supplement

Segmental analysis of the components of life EEV operating return**Year ended 31 December 2006 £m**

| | UK | France | Ireland | Italy | Netherlands | Poland | Spain | Other Europe | United States | Other | Total |
|--|------------|------------|-------------|------------|-------------|------------|------------|--------------|---------------|-----------|--------------|
| New business contribution (after the effect of required capital) | 263 | 110 | 9 | 50 | 25 | 25 | 168 | (6) | 8 | 31 | 683 |
| Profit from existing business | | | | | | | | | | | |
| - expected return | 474 | 142 | 41 | 26 | 158 | 52 | 53 | 9 | 29 | 27 | 1,011 |
| - experience variances: | | | | | | | | | | | |
| Maintenance expenses | 13 | 9 | 4 | (1) | (11) | 5 | (2) | (2) | - | (2) | 13 |
| Exceptional expenses ¹ | (149) | 1 | (4) | - | (23) | - | (1) | (2) | - | - | (178) |
| Mortality/Morbidity ² | (13) | 33 | (2) | 4 | 3 | 16 | 1 | 2 | - | 15 | 59 |
| Lapses ³ | (66) | 8 | (9) | (8) | 2 | 21 | (1) | (2) | (9) | (3) | (67) |
| Other ⁴ | 75 | 20 | (9) | 6 | 20 | 3 | 11 | (1) | (2) | - | 123 |
| | (140) | 71 | (20) | 1 | (9) | 45 | 8 | (5) | (11) | 10 | (50) |
| - operating assumption changes: | | | | | | | | | | | |
| Maintenance expenses ⁵ | 58 | - | (3) | - | 60 | (3) | - | (11) | (12) | (6) | 83 |
| Exceptional expenses ⁶ | (46) | (2) | (22) | - | (9) | - | - | (3) | - | - | (82) |
| Mortality/Morbidity ⁷ | 57 | 45 | (13) | - | - | 17 | - | (1) | 3 | 11 | 119 |
| Lapses ⁸ | (224) | (41) | (47) | - | (14) | 17 | (21) | (1) | - | 2 | (329) |
| Other ⁹ | 215 | 9 | - | 2 | 19 | 1 | 2 | 3 | - | 2 | 253 |
| | 60 | 11 | (85) | 2 | 56 | 32 | (19) | (13) | (9) | 9 | 44 |
| Expected return on shareholders' net worth | 87 | 68 | 15 | 31 | 99 | 8 | 11 | 2 | 15 | 9 | 345 |
| Life EEV operating return before tax | 744 | 402 | (40) | 110 | 329 | 162 | 221 | (13) | 32 | 86 | 2,033 |

¹ Exceptional expenses in the UK reflect £32 million relating to the ongoing transformation of the life business and £117 million of other exceptional and project costs associated with strategic initiatives, including developments designed to improve the future new business volumes, and regulatory changes. In the Netherlands, exceptional expenses reflect higher project costs compared to allowances as well as the payment to ABN AMRO in respect of the joint venture operations.

² Mortality experience continues to be better than the assumptions set across many of our businesses.

³ Lapse experience in the UK has been worse than assumed and primarily relates to bonds and pensions. In Poland, lapses for both life and pension products have been lower than assumed resulting in the favourable experience variance.

⁴ In the UK, other experience profits include better than assumed default experience on corporate bonds and mortgages, and the benefit of higher than expected performance fees in Morley.

⁵ Maintenance expenses in UK relate to Morley's change in profit margin. The change in Delta Lloyd is also driven by improved asset management profitability. The adverse movement in the US is due to a reassessment of expenses in our Boston-based operations.

⁶ In the UK, exceptional expenses relate to short-term project costs and capitalisation of reorganisation costs. Ireland reflects changes in expense assumptions regarding the future attribution of investment income and expenses between policyholders and shareholders.

⁷ The change in mortality assumptions in the UK includes an alignment in the basis for internal business. Mortality assumptions in France were changed following improvements in mortality experience over the last few years.

⁸ In the UK, the lapse assumption change relates to bonds and pension business while the change in Ireland relates to the Celebration Bond and unit-linked bonds. In France, lapse assumptions have been changed for non-AFER business in Aviva Vie. In Spain, lapse assumptions have been changed for risk business and some savings products.

⁹ In the UK, the assumption changes reflect the beneficial impact of the with-profit funds sharing the pension scheme deficit funding (£126 million) and the impact of PS06/14, primarily in reducing the non-profit reserves (£50 million). In Delta Lloyd the impact is due to changes to management fee rebates.

Segmental analysis of the components of life EEV operating return**Year ended 31 December 2005 £m**

| | UK | France | Ireland | Italy | Netherlands | Poland | Spain | Other Europe | United States | Other | Total |
|--|------------|------------|-----------|-----------|-------------|------------|------------|--------------|---------------|-----------|--------------|
| New business contribution (after the effect of required capital) | 217 | 91 | 13 | 36 | 58 | 14 | 155 | (4) | 7 | 25 | 612 |
| Profit from existing business | | | | | | | | | | | |
| - expected return | 425 | 122 | 29 | 30 | 148 | 50 | 48 | 10 | 13 | 20 | 895 |
| - experience variances: | | | | | | | | | | | |
| Maintenance expenses | 12 | 3 | (2) | (2) | 3 | 5 | (2) | 1 | (1) | (3) | 14 |
| Exceptional expenses ¹ | (151) | - | (5) | - | (12) | - | (2) | - | - | - | (170) |
| Mortality/Morbidity ² | 86 | 29 | (1) | 2 | 16 | 16 | 5 | - | (1) | 6 | 158 |
| Lapses ³ | (78) | (4) | (9) | (4) | 2 | 5 | 1 | (5) | 5 | 4 | (83) |
| Other ⁴ | 36 | 4 | (4) | 4 | (7) | 10 | 2 | (2) | - | (1) | 42 |
| | (95) | 32 | (21) | - | 2 | 36 | 4 | (6) | 3 | 6 | (39) |
| - operating assumption changes: | | | | | | | | | | | |
| Maintenance expenses | (20) | - | 1 | (3) | 25 | 3 | 1 | (6) | (12) | 3 | (8) |
| Exceptional expenses | (4) | (3) | - | - | (2) | - | - | 1 | - | - | (8) |
| Mortality/Morbidity ⁵ | 19 | 1 | (4) | 4 | (25) | 8 | - | 1 | - | 5 | 9 |
| Lapses ⁶ | (130) | - | (8) | - | (10) | - | (2) | (2) | - | 4 | (148) |
| Other ⁷ | 79 | 16 | - | - | 67 | 11 | (2) | (1) | 2 | - | 172 |
| | (56) | 14 | (11) | 1 | 55 | 22 | (3) | (7) | (10) | 12 | 17 |
| Expected return on shareholders' net worth | 98 | 62 | 10 | 29 | 86 | 10 | 10 | 1 | 12 | 11 | 329 |
| Life EEV operating return before tax | 589 | 321 | 20 | 96 | 349 | 132 | 214 | (6) | 25 | 74 | 1,814 |

¹ Exceptional expenses in the UK reflect £47 million relating to ongoing transformation of the life business and £101 million of other exceptional and project costs associated with regulatory change and strategic initiatives.

² Mortality experience continues to be better than assumed across most of our businesses, and particularly for protection business in the UK, AFER and unit-linked business in France and group business in the Netherlands.

³ Lapse experience in the UK has been worse than assumed and mainly relates to bonds and pension business. In Ireland, the adverse persistency has mainly arisen on unit-linked pensions business.

⁴ In the UK, other experience profits includes better than assumed default experience on corporate bonds and commercial mortgages.

⁵ Mortality assumptions have been revised in the Netherlands following the publication of new annuitant mortality tables used for group business.

⁶ In the UK, the adverse lapse assumption change reflects a more prudent allowance for future persistency experience in the UK following recent experience. In Ireland, the lapse assumption change mainly relates to unit-linked pension business. Lapse assumption changes in the Netherlands largely relate to group business in the intermediary division.

⁷ Other operating assumption changes in the UK primarily relate to the change in annuitant required capital to 150% of required minimum margins which results in a £110 million one-off benefit. In France other operating assumptions represent an allowance for further tax benefits arising from dividends from subsidiaries. In the Netherlands, they reflect a variety of changes including increased annual management fees on unit-linked contracts, favourable change in asset mix, and the reduction of future guaranteed returns on group pensions business in Belgium. In Poland it was previously assumed that the introduction of new individual pension products would lead to significant conversion of existing policies. The prudent allowance made for this is no longer required.

Supplementary analyses**(a) Analysis of service companies and fund management businesses within embedded value**

The EEV methodology incorporates the impact of profits and losses arising from subsidiary undertakings providing administration, investment management and other services where these arise in relation to covered business. The principal subsidiaries of the Aviva group providing such services include NU Life Services Limited (UK), Morley Fund Management (UK) and Aviva Gestion d'Actifs (France). The following table provides an analysis of the elements within the life and other related business embedded value:

| | | | 2006 | 2005 |
|------------------------------------|-----------------------------------|-----------------------------|---------------------|---------------------|
| | Fund Management £m | Non-Insurance £m | Total £m | Total £m |
| United Kingdom | 154 | (182) | (28) | (102) |
| France | 65 | 6 | 71 | 47 |
| Netherlands | 55 | (48) | 7 | - |
| Other Europe and Rest of the World | 32 | (2) | 30 | 27 |
| | 306 | (226) | 80 | (28) |

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 EEV basis income statement excludes the actual statutory basis profits arising from the provision of fund management services to the Group's life businesses. The EEV income statement records the experience profit or loss compared to the assumed profitability, the return on the in-force value arising from the unwind at the relevant risk discount rate and the effect on the in-force value of changes to economic assumptions.

NU Life Services Limited (NULS) is the main provider of administration services to the UK Life business. NULS incurs substantially all of the UK Life businesses operating expenditure, comprising acquisition, maintenance and project costs. Costs are recharged to the UK Life companies (the product companies) on the basis of a pre-determined Management Services Agreement (MSA) which will be reviewed in 2008.

The EEV principles "look-through" the contractual terms of the MSA to the underlying expenses of NULS. Accordingly the actual maintenance expenses and a "normal" annual level of project expense allowances have been applied to the product companies. Under EEV, any further one-off project expenditure is reported as experience losses when incurred.

The increases in fund management have arisen from changes in the assumed future profitability of these operations. In the Netherlands the non-insurance element reflects the "look-through" to expenses that were previously recharged to the covered business.

(b) Pension schemes**(i) Pension scheme deficits in consolidated balance sheet**

On the consolidated balance sheet, the amount described as Provisions includes the pension scheme deficits and comprises:

| | 2006 £m | 2005 £m |
|---|--------------------|--------------------|
| Deficits in the staff pension schemes | 1,029 | 1,471 |
| Other obligations to staff pension schemes – Insurance policies issued by Group companies | 1,086 | 875 |
| Total IAS 19 obligations to staff pension schemes | 2,115 | 2,346 |
| Restructuring provisions | 234 | 36 |
| Other provisions | 501 | 493 |
| Provisions | 2,850 | 2,875 |

(b) Pension schemes (continued)**(ii) Movements in the pension schemes' deficits comprise:**

| | 2006 £m | 2005 £m |
|--|--------------|----------------|
| Deficits in the schemes at 1 January | (1,471) | (893) |
| Employer contributions | 554 | 383 |
| Charge to net operating expenses (see (iii) below) | (160) | (130) |
| Credit to investment income | 77 | 32 |
| Actuarial gains / (losses) | 3 | (547) |
| Acquisitions | (1) | (313) |
| Buy-outs and other transfers | 18 | - |
| Exchange rate movements in foreign plans | 7 | (3) |
| Deficits in the schemes at 31 December | (973) | (1,471) |

The current year surplus in the Irish scheme of £56 million is included in Other assets whilst the deficits in the other schemes of £1,029 million are included in provisions.

The change in the net pension deficit during 2006 is mainly attributable to additional contribution into the schemes and an increase in the market value of their assets, partially offset by changes in assumptions underlying the present value of the schemes' liabilities. In the UK, the value of the liabilities has increased due to a strengthening to the post-retirement mortality assumptions and higher assumed inflation, partially offset by an increase in the corporate bond yields used for the valuation discount rate. The increase in scheme assets is primarily due to an improvement in equity values since the previous year end, partially offset by a reduction in bond values, together with deficit contribution payments made by the employing companies.

Employer contributions included deficit funding payments amounting to £229 million (2005: £211 million).

(iii) The pension expense for these schemes comprises:

| | 2006 £m | 2005 £m |
|--|------------|------------|
| Current service cost | 196 | 158 |
| Past service cost/(credit) | 3 | (7) |
| Gain on curtailments* | (39) | (21) |
| Charge to net operating expenses | 160 | 130 |
| Expected return on scheme assets | (490) | (439) |
| Interest charge on scheme liabilities | 453 | 407 |
| Credit to investment income | (37) | (32) |
| Total charge to income | 123 | 98 |
| Expected return on scheme assets | 530 | 439 |
| Actual return on these assets | (800) | (1,270) |
| Actuarial gains on scheme assets | (270) | (831) |
| Less: gains accounted for elsewhere | 19 | - |
| Experience (gains)/losses arising on scheme liabilities | (63) | 86 |
| Changes in assumptions underlying the present value of the scheme liabilities | 430 | 1,292 |
| Loss on acquisitions | 1 | - |
| Actuarial losses on the pension schemes | 117 | 547 |
| Less: Recoveries from unallocated divisible surplus and other movements | (3) | - |
| Actuarial losses recognised in the statement of recognised income and expense | 114 | 547 |

* The current year credit mainly arises in the UK as a result of the remeasurement of pension liabilities in the RAC plc defined benefit scheme, following the MSS and LVL disposals (see note 4(a)).

The cumulative amount of actuarial gains and losses on the pension scheme recognised in the statement of recognised income and expenses since 1 January 2004 (the date of transition to IFRS) is a loss of £809 million at 31 December 2006 (2005: loss of £692 million).

(c) Long-term savings new business

| | Present value of new business premiums ¹ | | Annual premium equivalent | |
|---|---|---------------|---------------------------|--------------|
| | 2006 £m | 2005 £m | 2006 £m | 2005 £m |
| Life and pensions | | | | |
| France | 3,552 | 3,530 | 391 | 384 |
| Ireland | 1,273 | 665 | 190 | 100 |
| Italy | 2,768 | 2,294 | 323 | 252 |
| Netherlands (including Belgium, Germany and Luxembourg) | 2,346 | 2,739 | 270 | 323 |
| Poland | 534 | 320 | 72 | 47 |
| Spain | 2,059 | 2,013 | 248 | 240 |
| Other Europe | 308 | 240 | 63 | 51 |
| <i>Continental Europe</i> | <i>12,840</i> | <i>11,801</i> | <i>1,557</i> | <i>1,397</i> |
| Asia | 685 | 397 | 107 | 66 |
| Australia | 297 | 337 | 58 | 63 |
| United States | 884 | 526 | 97 | 64 |
| <i>Rest of the World</i> | <i>1,866</i> | <i>1,260</i> | <i>262</i> | <i>193</i> |
| International | 14,706 | 13,061 | 1,819 | 1,590 |
| United Kingdom | 11,146 | 9,185 | 1,439 | 1,155 |
| Total (before the effect of required capital) | 25,852 | 22,246 | 3,258 | 2,745 |
| Investment sales | | | | |
| Netherlands | 285 | 563 | 29 | 56 |
| Poland | 131 | 53 | 17 | 9 |
| Other Europe | 475 | 410 | 47 | 41 |
| <i>Continental Europe</i> | <i>891</i> | <i>1,026</i> | <i>93</i> | <i>106</i> |
| <i>Rest of the World (including Navigator sales)</i> | <i>1,564</i> | <i>1,151</i> | <i>156</i> | <i>115</i> |
| International | 2,455 | 2,177 | 249 | 221 |
| United Kingdom | 2,455 | 1,160 | 285 | 135 |
| Total investment sales | 4,910 | 3,337 | 534 | 356 |
| Total long-term savings (including share of associates and joint ventures) | 30,762 | 25,583 | 3,792 | 3,101 |

Germany has been reclassified from Other Europe to the Netherlands, Lithuania has been reclassified from Other Europe to Poland and Norwich Union's Dublin-based offshore life and savings business has been reclassified from Other Europe to the United Kingdom.

Sales from the Navigator funds administration business, previously excluded from investment sales figures, are now included in the figures above. This change has increased the total investment sales for year ended 31 December 2006 by £1,371 million (2005: £938 million).

1 Investment sales are calculated as new single premiums plus annualised value of new regular premiums.

(d) Assets under management

| | Life and related business 2006 £m | General business and other 2006 £m | Group 2006 £m | Group 2005 £m |
|--|--|--|---------------------|---------------------|
| Total IFRS assets included in the balance sheet | 254,761 | 37,961 | 292,722 | 263,447 |
| Additional value of in-force long-term business | 6,794 | - | 6,794 | 6,454 |
| Total EEV assets included in the balance sheet | 261,555 | 37,961 | 299,516 | 269,901 |
| Third party funds under management: | | | | |
| Unit trusts, Oeics, Peps and Isas | | | 20,574 | 16,188 |
| Segregated funds | | | 43,672 | 35,427 |
| Total assets under management | | | 363,762 | 321,516 |

Third party funds under management now include funds administered under the Navigator platform. This change has increased the total assets under management at 31 December 2006 by £6,058 million (2005: £4,606 million).

General insurance business only: geographical analysis**(a) General insurance**

| | Operating profit | | Longer-term investment return | | Underwriting result | |
|-----------------------|------------------|--------------|----------------------------------|------------|---------------------|------------|
| | 2006 £m | 2005 £m | 2006 £m | 2005 £m | 2006 £m | 2005 £m |
| France | 47 | 26 | 45 | 44 | 2 | (18) |
| Ireland | 172 | 171 | 51 | 55 | 121 | 116 |
| Netherlands | 128 | 97 | 45 | 42 | 83 | 55 |
| Canada | 148 | 147 | 121 | 112 | 27 | 35 |
| Other | 82 | 85 | 59 | 68 | 23 | 17 |
| International | 577 | 526 | 321 | 321 | 256 | 205 |
| United Kingdom | 1,075 | 970 | 692 | 668 | 383 | 302 |
| Total | 1,652 | 1,496 | 1,013 | 989 | 639 | 507 |

(b) Combined operating ratio analysis – geographical basis – general insurance business only

| | Claims ratio | | Expense ratio | | Combined operating ratio | |
|-----------------------|--------------|--------------|---------------|--------------|--------------------------|------------|
| | 2006 % | 2005 % | 2006 % | 2005 % | 2006 % | 2005 % |
| France | 73.0% | 73.7% | 10.4% | 12.0% | 99% | 101% |
| Ireland | 55.8% | 56.8% | 11.2% | 11.6% | 77% | 78% |
| Netherlands | 51.5% | 60.0% | 17.8% | 12.0% | 89% | 93% |
| Canada | 66.7% | 66.0% | 12.4% | 11.9% | 98% | 97% |
| International | 62.9% | 64.3% | 13.3% | 12.2% | 93% | 94% |
| United Kingdom | 58.7% | 61.8% | 13.9% | 10.9% | 95% | 96% |
| Total | 60.3% | 62.7% | 13.7% | 11.4% | 94% | 95% |

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.

(c) General insurance business only: class of business analyses**(i) United Kingdom**

| | <u>Net written premiums</u> | | <u>Underwriting result</u> | | <u>Combined operating ratio</u> | |
|-------------------|-----------------------------|--------------|----------------------------|------------|---------------------------------|-------------|
| | 2006 £m | 2005 £m | 2006 £m | 2005 £m | 2006 % | 2005 % |
| Personal | | | | | | |
| Motor | 1,631 | 1,641 | (39) | (40) | 104% | 102% |
| Homeowner | 1,262 | 1,300 | 23 | 69 | 98% | 97% |
| Other | 694 | 772 | 50 | 8 | 100% | 100% |
| | 3,587 | 3,713 | 34 | 37 | 102% | 100% |
| Commercial | | | | | | |
| Motor | 638 | 679 | 40 | 55 | 94% | 94% |
| Property | 826 | 877 | 194 | 164 | 79% | 84% |
| Other | 532 | 563 | 115 | 46 | 78% | 93% |
| | 1,996 | 2,119 | 349 | 265 | 83% | 88% |
| | 5,583 | 5,832 | 383 | 302 | 95% | 96% |

During 2006, rating increases were as follows; personal motor: 5%; homeowners: 3% (including indexation); commercial motor: 2% decrease; commercial property: 3% decrease; and commercial liability: 6% decrease.

(ii) France

| | <u>Net written premiums</u> | | <u>Underwriting result</u> | | <u>Combined operating ratio</u> | |
|--------------------|-----------------------------|------------|----------------------------|-------------|---------------------------------|-------------|
| | 2006 €m | 2005 €m | 2006 €m | 2005 €m | 2006 % | 2005 % |
| Motor | 377 | 378 | - | (10) | 99% | 102% |
| Property and other | 453 | 446 | 3 | (16) | 97% | 101% |
| €m | 830 | 824 | 3 | (26) | 99% | 101% |
| £m | 564 | 564 | 2 | (18) | 99% | 101% |

(iii) Netherlands

| | <u>Net written premiums</u> | | <u>Underwriting result</u> | | <u>Combined operating ratio</u> | |
|-----------|-----------------------------|--------------|----------------------------|------------|---------------------------------|------------|
| | 2006 €m | 2005 €m | 2006 €m | 2005 €m | 2006 % | 2005 % |
| Property | 371 | 351 | 42 | 44 | 88% | 88% |
| Motor | 350 | 370 | 20 | (1) | 96% | 100% |
| Liability | 99 | 83 | 3 | 15 | 97% | 84% |
| Other | 257 | 242 | 57 | 23 | 76% | 91% |
| €m | 1,077 | 1,046 | 122 | 81 | 89% | 93% |
| £m | 733 | 716 | 83 | 55 | 89% | 93% |

(iv) Canada

| | <u>Net written premiums</u> | | <u>Underwriting result</u> | | <u>Combined operating ratio</u> | |
|-------------|-----------------------------|--------------|----------------------------|--------------|---------------------------------|------------|
| | 2006 C\$m | 2005 C\$m | 2006 C\$m | 2005 C\$m | 2006 % | 2005 % |
| Automobile | 1,715 | 1,756 | 23 | 70 | 99% | 96% |
| Property | 864 | 831 | 13 | (2) | 98% | 100% |
| Liability | 278 | 281 | 6 | (9) | 98% | 102% |
| Other | 45 | 43 | 15 | 18 | 60% | 73% |
| C\$m | 2,902 | 2,911 | 57 | 77 | 98% | 97% |
| £m | 1,389 | 1,324 | 27 | 35 | 98% | 97% |

Appendix A

Capital

1 – Group capital structure

2 – FRS 27 disclosures

Appendix A1

Group capital structure

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A1 Group capital structure

The Group maintains an efficient capital structure from a combination of equity shareholders' funds, preference capital, subordinated debt and borrowings, consistent with the Group's risk profile and the regulatory and market requirements of its business. The European Embedded Value basis provides a more relevant reflection of the performance of the Group's life operations year on year than results under IFRS. Accordingly, the Group's capital structure is analysed on this basis.

The Group's capital, from all funding sources, has been allocated such that the capital employed by trading operations is greater than the capital provided by its shareholders and its subordinated debt holders. As a result, the Group is able to enhance the returns earned on its equity capital.

Capital employed by segment

| | 2006 | 2005 |
|---|---------------|---------------|
| | £m | £m |
| Long-term savings | 19,663 | 15,598 |
| General insurance and health | 5,344 | 5,581 |
| Other business | 1,425 | 1,876 |
| Corporate | (19) | (36) |
| Total capital employed | 26,413 | 23,019 |
| Financed by | | |
| Equity shareholders' funds and minority interests | 19,668 | 16,356 |
| Direct capital instrument | 990 | 990 |
| Preference shares | 200 | 200 |
| Subordinated debt | 2,937 | 2,808 |
| External debt | 1,258 | 1,002 |
| Net internal debt | 1,360 | 1,663 |
| | 26,413 | 23,019 |

At 31 December 2006 the Group had £26.4 billion (31 December 2005: £23.0 billion) of total capital employed in our trading operations which is efficiently financed by a combination of equity shareholders' funds, preference capital, direct capital instruments, subordinated debt and internal and external borrowings.

In 2006, the total capital employed increased by £3.4 billion reflecting growth in our long-term savings operations; these increased by £4.1 billion driven by the acquisition of AmerUs, operational results and the movement in equity markets in the year.

In addition to its external funding sources, the Group has a number of internal debt arrangements in place. These have allowed the assets supporting technical liabilities to be invested into the pool of central assets for use across the Group. They have also enabled the shareholders to deploy cash from some parts of the business to others in order to fund growth. Although intra-group loans in nature, they are counted as part of the capital base for the purpose of capital management. All internal loans satisfy arms length criteria and all interest payments have been made when due.

The presentation of internal debt depicts a net debt position which represents the upstream of internal loans from business operations to corporate and holding entities net of tangible assets held by these entities. The corporate net liabilities represent the element of the pension scheme deficit held centrally.

The ratio of the Group's external debt plus subordinated debt to shareholders' funds was 20% (31 December 2005: 22%). Fixed charged cover on an EEV basis, which measures the extent to which external interest costs are covered by EEV operating profit, was 10.3 times (2005: 9.6 times).

At 31 December 2006 the market value of the Group's external debt, subordinated debt, preference shares, including both the Aviva plc preference shares and the General Accident plc preference shares of £250 million, within minority interests, and direct capital instrument was £5,991 million (31 December 2005: £5,868 million), with a weighted average cost of 3.9% (31 December 2005: 3.8%). The Group WACC is 7.0% and has been calculated by reference to the cost of equity and cost of debt at the relevant date. The cost of equity at 31 December 2006 was 7.8%, based on a risk free rate of 4.7%, an equity market premium of 3% and a market beta of 1.0.

A1 Group capital structure (continued)**Deployment of equity shareholders' funds**

| | | | | | 2006 | 2005 |
|---|----------------|-------------------------------------|----------------------------|---------------------------|---------------|---------------|
| | Equities £m | Fixed income securities £m | Other investments £m | Other net assets £m | Total £m | Total £m |
| Assets | | | | | | |
| Long-term savings | 892 | 2,878 | 1,775 | 3,708 | 9,253 | 7,874 |
| General insurance, health, and other business | 3,980 | 948 | 2,587 | (3,004) | 4,511 | 5,397 |
| | 4,872 | 3,826 | 4,362 | 704 | 13,764 | 13,271 |
| Goodwill | | | | | 3,127 | 2,491 |
| Additional and acquired value of in- force long-term business and intangible assets | | | | | 9,522 | 7,257 |
| Assets backing total capital employed in continuing operations | | | | | 26,413 | 23,019 |
| External debt | | | | | (1,258) | (1,002) |
| Net Internal debt | | | | | (1,360) | (1,663) |
| Subordinated debt | | | | | (2,937) | (2,808) |
| | | | | | 20,858 | 17,546 |
| Minority interests | | | | | (2,137) | (1,457) |
| Direct capital instrument | | | | | (990) | (990) |
| Preference capital | | | | | (200) | (200) |
| Equity shareholders' funds | | | | | 17,531 | 14,899 |

Return on equity shareholders' funds

| | | | | | 2006 | 2005 |
|-----------------------------------|---------------------------|---------------------------------|--------------------------|--------------------------|--------------|---------------|
| | After-tax return £m | Opening equity capital £m | Return on equity % | Return on equity % | | |
| Long-term savings | 1,403 | 15,598 | 9.0% | 9.0% | | |
| General insurance and health | 1,090 | 5,581 | 19.5% | 20.0% | | |
| Other business | 51 | 1,876 | 2.7% | 9.3% | | |
| Corporate | (112) | (36) | 311.1% | 30.6% | | |
| | 2,432 | 23,019 | 10.6% | 11.5% | | |
| Borrowings | (215) | (5,473) | 3.9% | 4.5% | | |
| | 2,217 | 17,546 | 12.6% | 14.1% | | |
| Minority interests | (208) | (1,457) | 14.3% | 16.1% | | |
| Direct capital instrument | (37) | (990) | 3.7% | 2.9% | | |
| Preference capital | (17) | (200) | 8.5% | 8.5% | | |
| Equity shareholders' funds | | | | | 1,955 | 14,899 |
| | | | 13.1% | 15.0% | | |

The return on capital is calculated as the after-tax return on opening equity capital, based on Group operating profit, including Life EEV operating return, on continuing operations.

Sensitivity analysis

The sensitivity of the Group's shareholders' funds on an EEV basis at 31 December 2006 to a 10% fall in global equity markets or a rise of 1% in global interest rates is as follows:

| 31 December 2005 £bn | | 31 December 2006 £bn | Equities down 10% £bn | Interest rates up 1% £bn |
|----------------------------|--------------------------------|----------------------------|-----------------------------|--------------------------------|
| 15.6 | Long-term savings ¹ | 19.7 | 18.8 | 19.2 |
| 7.4 | General insurance and other | 6.8 | 6.3 | 6.6 |
| (5.5) | Borrowings ² | (5.6) | (5.6) | (5.6) |
| 17.5 | Shareholders' funds | 20.9 | 19.5 | 20.2 |

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

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

The table above incorporates the effect on the value of the pension scheme assets of a 10% decrease in equity and a 1% increase in fixed income bond yields. The latter 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 discount rate only has the effect of reducing the pension scheme liability by £1.7 billion thereby enhancing shareholders' funds by £1.2 billion (after deducting tax).

A1 Group capital structure (continued)
Shareholders' funds, including minority interests.

| | Note | 31 December 2006 | | | 31 December 2005 | | |
|--|------|-----------------------------|---------------------------------|--------------------|-----------------------------|---------------------------------|--------------------|
| | | Closing shareholders' funds | | | Closing shareholders' funds | | |
| | | IFRS net assets £m | Internally generated AVIF £m | Total Equity £m | IFRS net assets £m | Internally generated AVIF £m | Total Equity £m |
| Life assurance | 1 | | | | | | |
| France | | 1,221 | 1,070 | 2,291 | 1,177 | 890 | 2,067 |
| Ireland | | 971 | 48 | 1,019 | 410 | 72 | 482 |
| Italy | | 688 | 115 | 803 | 639 | 88 | 727 |
| Netherlands (including Belgium, Germany and Luxembourg) | | 2,860 | 977 | 3,837 | 2,229 | 826 | 3,055 |
| Poland | | 202 | 517 | 719 | 193 | 465 | 658 |
| Spain | | 845 | 530 | 1,375 | 790 | 438 | 1,228 |
| Other Europe | | 64 | 42 | 106 | 56 | 102 | 158 |
| United States | 5 | 2,315 | (27) | 2,288 | 357 | (25) | 332 |
| Other | | 380 | 116 | 496 | 345 | 85 | 430 |
| International | | 9,546 | 3,388 | 12,934 | 6,196 | 2,941 | 9,137 |
| United Kingdom | | 3,323 | 3,406 | 6,729 | 2,948 | 3,513 | 6,461 |
| | | 12,869 | 6,794 | 19,663 | 9,144 | 6,454 | 15,598 |
| General insurance and health | 1,2 | | | | | | |
| France | | 333 | - | 333 | 362 | - | 362 |
| Ireland | | 423 | - | 423 | 545 | - | 545 |
| Netherlands | | 684 | - | 684 | 553 | - | 553 |
| Other Europe | | 286 | - | 286 | 302 | - | 302 |
| Canada | | 666 | - | 666 | 848 | - | 848 |
| Other | | 250 | - | 250 | 246 | - | 246 |
| International | | 2,642 | - | 2,642 | 2,856 | - | 2,856 |
| United Kingdom | | 2,702 | - | 2,702 | 2,725 | - | 2,725 |
| | | 5,344 | - | 5,344 | 5,581 | - | 5,581 |
| Other business | 1,2 | 1,425 | - | 1,425 | 1,876 | - | 1,876 |
| Corporate | | (19) | - | (19) | (36) | - | (36) |
| External debt | | (1,258) | - | (1,258) | (1,002) | - | (1,002) |
| Internal debt | | (1,360) | - | (1,360) | (1,663) | - | (1,663) |
| Subordinated debt | | (2,937) | - | (2,937) | (2,808) | - | (2,808) |
| | | (4,149) | - | (4,149) | (3,633) | - | (3,633) |
| Shareholders' funds, including minority interests | | 14,064 | 6,794 | 20,858 | 11,092 | 6,454 | 17,546 |
| Comprising | | | | | | | |
| Equities | | 4,872 | - | 4,872 | 4,503 | - | 4,503 |
| Debt and fixed income securities | | 3,826 | - | 3,826 | 6,130 | - | 6,130 |
| Property | | 2,610 | - | 2,610 | 957 | - | 957 |
| Deposits and other investments | | 1,752 | - | 1,752 | 1,190 | - | 1,190 |
| Intangible assets | 3 | 5,855 | 6,794 | 12,649 | 3,294 | 6,454 | 9,748 |
| Other net assets | | 704 | - | 704 | 491 | - | 491 |
| Borrowings | | (5,555) | - | (5,555) | (5,473) | - | (5,473) |
| | | 14,064 | 6,794 | 20,858 | 11,092 | 6,454 | 17,546 |

Notes

Germany has been reclassified from Other Europe to the Netherlands, Lithuania has been reclassified from Other Europe to Poland and Norwich Union's Dublin-based offshore life and savings business has been reclassified from Other Europe to the United Kingdom.

IFRS net assets shown above include the allocation of tax assets and liabilities and hence differ from segmental net assets disclosed on pages 63 and 65.

- Goodwill of £3,127 million (31 December 2005: £2,491 million) has been allocated as follows: life assurance £1,533 million (31 December 2005: £848 million); general insurance and health £390 million (31 December 2005: £398 million); other businesses £1,204 million (31 December 2005: £1,245 million).
- Intangibles of £638 million (31 December 2005: £379 million) have been allocated as follows: life assurance £211 million (31 December 2005: nil); general insurance and health £287 million (31 December 2005: £265 million); other businesses £140 million (31 December 2005: £114 million).

A1 Group capital structure (continued)

Notes (continued)

- Total intangible assets of £12,649 million (31 December 2005: £9,748 million) comprise goodwill of £3,127 million (31 December 2005: £2,491 million); acquired value of in-force long-term business and intangibles of £2,728 million (31 December 2005: £803 million) and additional value of in-force long-term business of £6,794 million (31 December 2005: £6,454 million). The associated deferred tax liability on the intangibles of £224 million (31 December 2005: £123 million) is included within other net assets.
- The post-tax pension fund deficit of £673 million (31 December 2005: £989 million) has been allocated as follows: life operations £179 million (31 December 2005: £363 million), general insurance and health: £458 million (31 December 2005: £532 million), other business £17 million (31 December 2005: £58 million) and corporate of £19 million (31 December 2005: £36 million).
- AVIF is negative for the US life business due to the embedded value being below its balance sheet value on an IFRS basis. This is due to the cost of locked-in required capital under EEV which is not recognised under IFRS.

Geographical analysis of return on capital employed

For the year ended 31 December 2006

| | Note | Operating return (Note 1) | | Opening | Return on |
|--|------|---------------------------|-----------------|--|--------------|
| | | Before tax £m | After tax £m | shareholders' funds including minority interests | |
| | | | | £m | % |
| Life assurance | | | | | |
| France | | 402 | 264 | 2,067 | 12.8% |
| Ireland | | (40) | (35) | 482 | (7.3)% |
| Italy | | 110 | 68 | 727 | 9.3% |
| Netherlands (including Belgium, Germany and Luxembourg) | | 329 | 235 | 3,055 | 7.7% |
| Poland | | 162 | 132 | 658 | 20.0% |
| Spain | | 221 | 143 | 1,228 | 11.7% |
| Other Europe | | (13) | (10) | 158 | (6.3)% |
| United States | | 32 | 21 | 332 | 6.3% |
| Other | | 86 | 64 | 430 | 14.9% |
| International | | 1,289 | 882 | 9,137 | 9.7% |
| United Kingdom | | 744 | 521 | 6,461 | 8.1% |
| | | 2,033 | 1,403 | 15,598 | 9.0% |
| General insurance and health | | | | | |
| France | | 63 | 41 | 362 | 11.3% |
| Ireland | | 172 | 150 | 545 | 27.5% |
| Netherlands | | 139 | 98 | 553 | 17.7% |
| Other Europe | | 43 | 30 | 302 | 9.9% |
| Canada | | 148 | 96 | 848 | 11.3% |
| Other | | 40 | 28 | 246 | 11.4% |
| International | | 605 | 443 | 2,856 | 15.5% |
| United Kingdom | | 924 | 647 | 2,725 | 23.7% |
| | | 1,529 | 1,090 | 5,581 | 19.5% |
| Other business | | 73 | 51 | 1,876 | 2.7% |
| Corporate | | (83) | (112) | (36) | 311.1% |
| External debt | | (61) | (43) | (1,002) | 4.3% |
| Net internal debt | 2 | (77) | (54) | (1,663) | 3.2% |
| Subordinated debt | | (169) | (118) | (2,808) | 4.2% |
| | | 3,245 | 2,217 | 17,546 | 12.6% |

Notes

- The operating return is based upon Group operating profit, which is stated before impairment of goodwill, amortisation of additional value of in-force business, exceptional items and tax including policyholder tax, adjusted for the short-term fluctuation in investment return.
- The return before tax of £(77) million comprises investment return of £151 million and unallocated interest of £(228) million.

A1 Group capital structure (continued)**Geographical analysis of return on capital employed (continued)**

For the year ended 31 December 2005

| | <u>Operating return (Note 1)</u> | | <u>Opening</u> <u>shareholders' funds</u> <u>including minority</u> <u>interests</u> | <u>Return on</u> <u>Capital</u> | |
|--|----------------------------------|--------------------------------|---|------------------------------------|--------------|
| | <u>Note</u> | <u>Before tax</u> <u>£m</u> | <u>After tax</u> <u>£m</u> | <u>£m</u> | <u>%</u> |
| Life assurance | | | | | |
| France | | 321 | 209 | 1,819 | 11.5% |
| Ireland | | 20 | 17 | 651 | 2.6% |
| Italy | | 96 | 60 | 550 | 10.9% |
| Netherlands (including Belgium, Germany and Luxembourg) | | 348 | 236 | 2,485 | 9.5% |
| Poland | | 132 | 107 | 557 | 19.2% |
| Spain | | 214 | 139 | 1,040 | 13.4% |
| Other Europe | | (5) | (4) | 196 | (2.0)% |
| United States | | 25 | 16 | 379 | 4.2% |
| Other | | 74 | 55 | 267 | 20.6% |
| International | | 1,225 | 835 | 7,944 | 10.5% |
| United Kingdom | | 589 | 413 | 5,882 | 7.0% |
| | | 1,814 | 1,248 | 13,826 | 9.0% |
| General insurance and health | | | | | |
| France | | 35 | 23 | 416 | 5.5% |
| Ireland | | 171 | 150 | 498 | 30.1% |
| Netherlands | | 137 | 94 | 461 | 20.4% |
| Other Europe | | 47 | 32 | 162 | 19.8% |
| Canada | | 147 | 95 | 687 | 13.8% |
| Other | | 40 | 28 | 277 | 10.1% |
| International | | 577 | 422 | 2,501 | 16.9% |
| United Kingdom | | 827 | 580 | 2,504 | 23.2% |
| | | 1,404 | 1,002 | 5,005 | 20.0% |
| Other business | | 111 | 78 | 838 | 9.3% |
| Corporate | | (104) | (114) | (372) | 30.6% |
| External debt | | (79) | (67) | (1,452) | 4.6% |
| Net internal debt | 2 | (73) | (52) | (987) | 5.3% |
| Subordinated debt | | (169) | (118) | (2,847) | 4.1% |
| | | 2,904 | 1,977 | 14,011 | 14.1% |

Notes

Germany has been reclassified from Other Europe to the Netherlands, Lithuania has been reclassified from Other Europe to Poland and Norwich Union's Dublin-based offshore life and savings business has been reclassified from Other Europe to the United Kingdom.

1. The operating return is based upon Group operating profit, which is stated before impairment of goodwill, amortisation of additional value of in-force business, exceptional items and tax including policyholder tax, adjusted for the short-term fluctuation in investment return.
2. The return before tax of £(73) million comprises investment return of £147 million and unallocated interest of £(220) million.

Group Capital Resources

From 1 January 2005 insurance groups are required to report the capital adequacy to the FSA. UK insurers are required to disclose in respect of its ultimate insurance parent undertaking the Group Capital Resources (GCR), the Capital Resources Requirement (CRR) and the resulting surplus or deficit. From 31 December 2006 Prudential sourcebook for insurers INSPRU 6.1.15R requires UK insurers to meet this requirement at the ultimate EEA insurance parent level. The statement for 2006 is given in the table below. This information represents the group solvency surplus calculated in accordance with the INSPRU 6.1.

| | 31 December 2006 | | |
|-------------------------------------|----------------------------------|-------------------------------------|--------------------------------|
| | UK Life Funds £bn | Other businesses £bn | Group Total £bn |
| Group Capital Resources | 7.9 | 8.1 | 16.0 |
| Less: Capital Resources Requirement | (7.9) | (4.5) | (12.4) |
| Group surplus | - | 3.6 | 3.6 |

In 2006, the FSA further extended the requirement to reconcile Group capital resources on regulatory basis to the Group's capital resources on a statutory reporting basis. In addition, this reconciliation provides further analysis of differences between the Group capital resources and the amounts included in the capital statement made in accordance with FRS 27 and disclosed in the Group consolidated accounts. This reconciliation is given in the second table below.

The Group Capital Adequacy Report is prepared in accordance with the FSA's valuation rules (Peak 1) and brings in capital in respect of the UK life funds equal to the UK Life Capital Resources Requirement. The FRS 27 disclosure brings in the realistic value of with-profit capital resources (Peak 2). As the two bases differ greatly, the reconciliation below is presented by removing the restricted regulatory assets and then replacing them with the unrestricted realistic assets.

PS06/14 does not have a significant impact on the solvency result in 2006 on a regulatory basis. Although excess assets increased in the individual UK life entities, there is a minimal effect for Group solvency as the capital resources are restricted to the value of the capital resources requirement.

| | 31 December 2006 £bn |
|---|-------------------------------------|
| Total capital and reserves (IFRS basis) | 14.1 |
| Plus: other qualifying capital | 3.1 |
| Plus: UK Life Funds | 7.9 |
| Less: Goodwill, acquired AVIF and intangible assets | (5.6) |
| Less: adjustments onto a regulatory basis | (3.5) |
| Group Capital Resources on regulatory basis | 16.0 |

The Group Capital Resources can be analysed as follows:

| | |
|--|-------------|
| Core Tier 1 Capital | 14.9 |
| Innovative Tier 1 Capital | 1.0 |
| Total Tier 1 Capital | 15.9 |
| Upper Tier 2 Capital | 1.7 |
| Lower Tier 2 Capital | 1.9 |
| Group Capital Resources Deductions | (3.5) |
| Group Capital Resources on regulatory basis (Tier 1 & Tier 2 Capital) | 16.0 |
| Less: UK life restricted regulatory assets | (7.9) |
| Add: UK life unrestricted realistic assets | 8.8 |
| Add: Overseas UDS – restricted asset | 2.6 |
| Total FRS 27 capital | 19.5 |

Appendix A2

FRS 27 disclosures

| | Page |
|---|------|
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A2 FRS 27 disclosures**Capital statement**

FRS 27 requires us to produce a capital statement which sets out the financial strength of our Group entities and provides an analysis of the disposition and constraints over the availability of capital to meet risks and regulatory requirements. The capital statement also provides a reconciliation of shareholders' funds to regulatory capital.

The analysis below sets out the Group's available capital resources.

Available capital resources

| | 2006 | | | | | | | | | | 2005 |
|---|---|--|--|---|--|--|--|---|--|---------------------|---------------------|
| | CGNU with-profit fund £m | CULAC with-profit fund £m | NUL&P with-profit fund³ £m | Total UK life with-profit funds £m | Other UK life operations £m | Total UK life operations £m | Overseas life operations £m | Total life operations £m | Other operations⁴ £m | Total £m | Total £m |
| Total shareholders' funds | 35 | 34 | 35 | 104 | 3,219 | 3,323 | 9,546 | 12,869 | 1,195 | 14,064 | 11,092 |
| Total other sources of capital ¹ | - | - | - | - | 200 | 200 | 153 | 353 | 2,737 | 3,090 | 2,941 |
| Unallocated divisible surplus | 2,211 | 2,264 | 2,303 | 6,778 | - | 6,778 | 2,687 | 9,465 | - | 9,465 | 8,978 |
| Adjustments onto a regulatory basis: | | | | | | | | | | | |
| Shareholders' share of accrued bonus | (79) | (87) | (564) | (730) | - | (730) | - | (730) | - | (730) | (700) |
| Goodwill, acquired value of in-force long-term business and intangibles | - | - | - | - | (68) | (68) | (3,549) | (3,617) | (2,021) | (5,638) | (3,077) |
| Regulatory valuation and admissibility restrictions ² | 381 | 268 | 49 | 698 | (1,438) | (740) | 453 | (287) | (459) | (746) | (1,211) |
| Total available capital | 2,548 | 2,479 | 1,823 | 6,850 | 1,913 | 8,763 | 9,290 | 18,053 | 1,452 | 19,505 | 18,023 |
| Analysis of liabilities: | | | | | | | | | | | |
| Participating insurance liabilities | 9,755 | 9,116 | 18,258 | 37,129 | 2,853 | 39,982 | 23,723 | 63,705 | - | 63,705 | 59,958 |
| Unit-linked liabilities | - | - | - | - | 6,221 | 6,221 | 14,783 | 21,004 | - | 21,004 | 17,999 |
| Other non-participating life insurance | 1,157 | 1,857 | 705 | 3,719 | 13,557 | 17,276 | 24,239 | 41,515 | - | 41,515 | 36,219 |
| Total insurance liabilities | 10,912 | 10,973 | 18,963 | 40,848 | 22,631 | 63,479 | 62,745 | 126,224 | - | 126,224 | 114,176 |
| Participating investment liabilities | 2,001 | 2,413 | 7,833 | 12,247 | 2,817 | 15,064 | 34,336 | 49,400 | - | 49,400 | 47,258 |
| Non-participating investment liabilities | 53 | 18 | - | 71 | 22,840 | 22,911 | 16,047 | 38,958 | - | 38,958 | 30,051 |
| Total investment liabilities | 2,054 | 2,431 | 7,833 | 12,318 | 25,657 | 37,975 | 50,383 | 88,358 | - | 88,358 | 77,309 |
| Total liabilities | 12,966 | 13,404 | 26,796 | 53,166 | 48,288 | 101,454 | 113,128 | 214,582 | - | 214,582 | 191,485 |

1 Other sources of capital include subordinated debt of £2,937 million issued by Aviva and £153 million of other qualifying capital issued by Dutch, Italian and US subsidiary undertakings

2 Including adjustments for minorities

3 Includes the Provident Mutual with-profit fund

4 Other operations include general insurance and fund management business

The regulatory and valuation admissibility restrictions for 2005 have been changed following a revised application of the technical rules. This has increased total capital resources by £4.4 billion, all attributable to life operations.

A2 FRS 27 disclosures (continued)**Analysis of movements in capital**

For the year ended 31 December 2006

| | CGNU with-profit fund | CULAC with-profit fund | NUL&P with-profit fund | Total UK life with-profit funds | Other UK life operations | Total UK life operations | Overseas life operations | Total life operations |
|---|-----------------------|------------------------|------------------------|---------------------------------|--------------------------|--------------------------|--------------------------|-----------------------|
| | £m | £m | £m | £m | £m | £m | £m | £m |
| Opening available capital resources | 2,103 | 1,941 | 1,249 | 5,293 | 2,044 | 7,337 | 8,677 | 16,014 |
| Effect of new business | (56) | (49) | - | (105) | (351) | (456) | (163) | (619) |
| Expected change in available capital resources | 106 | 185 | 404 | 695 | 338 | 1,033 | 471 | 1,504 |
| Variance between actual and expected experience | 293 | 288 | (4) | 577 | 4 | 581 | (490) | 91 |
| Effect of operating assumption changes | 75 | 159 | 51 | 285 | 478 | 763 | (27) | 736 |
| Effect of economic assumption changes | 136 | 151 | 383 | 670 | 54 | 724 | 48 | 772 |
| Effect of changes in management policy | (53) | (83) | (143) | (279) | - | (279) | (7) | (286) |
| Transfers, acquisitions and disposals | - | - | - | - | - | - | 617 | 617 |
| Foreign exchange movements | - | - | - | - | - | - | (202) | (202) |
| Other movements | (56) | (113) | (117) | (286) | (654) | (940) | 366 | (574) |
| Closing available capital resources | 2,548 | 2,479 | 1,823 | 6,850 | 1,913 | 8,763 | 9,290 | 18,053 |

The analysis of movements in capital provides an explanation of the movement in available capital of the Group's life assurance business for the year. This analysis is intended to give an understanding of the underlying causes of the changes in the available capital of the Group's life assurance business, and provides a distinction between some of the key factors affecting the available capital.

For the UK with-profit funds, the increase in available capital in the year has been driven by the favourable economic environment. Equity performance was positive, which had a direct effect on the equity content of the estate assets and an indirect impact from the reduction in maturity guarantee costs. Fixed interest yields have generally increased. Although this led to a reduction in the market value of fixed interest assets, it also resulted in a reduction of guarantee costs, with the increase in yield having a net benefit to the estates of all the funds. Also, the implied market volatility for equities has reduced lowering the assumed future asset share volatility particularly in CGNU and CULAC, and consequently guarantee costs are reduced.

The changes in management policy relate to the review of bonus rates for with-profit business.

The capital position of the other UK life operations was augmented by changes to reserving for UK non-profit business permitted under the FSA Policy Statement 06/14 *Prudential Changes for Insurers* which are included in operating assumption changes.

For the overseas life operations, the negative variance between the actual and expected experience is driven mainly by the increase in market interest rates, which has led to a reduction in the market value of fixed interest assets and consequential reduction of the unallocated divisible surplus in France and other European businesses.

A2 FRS 27 disclosures (continued)

In aggregate, the Group has at its disposal total available capital of £19.5 billion (2005: £18.0 billion), representing the aggregation of the solvency capital of all of our businesses. This capital is available to meet risks and regulatory requirements set by reference to local guidance and EU directives.

After effecting the year end transfer to shareholders the UK with-profit funds' available capital of £6.9 billion (2005: £5.2 billion) can only be used to provide support for UK with-profits business and is not available to cover other shareholder risks. This is comfortably in excess of the required capital margin and, therefore, the shareholders are not required to provide further capital support to this business.

For the remaining life and general insurance operations, the total available capital amounting to £12.6 billion (2005: £12.8 billion) is significantly higher than the minimum requirements established by regulators and, in principle, the excess is available to shareholders. In practice, management will hold higher levels of capital within each business operation to provide appropriate cover for risk.

As the total available capital of £19.5 billion is arrived at on the basis of local regulatory guidance, which evaluates assets and liabilities prudently, it understates the economic capital of the business which is considerably higher. This is a limitation of the Group Capital Statement which, to be more meaningful, needs to evaluate available capital on an economic basis and compare it with the risk capital required for each individual operation, after allowing for the considerable diversification benefits that exist in our Group.

Within the Aviva group there exist intra-group arrangements to provide capital to particular business units. Included within these arrangements is a subordinated loan of £200 million from Aviva plc to the NUL&P non-profit fund to provide capital to support the writing of new business.

The available capital of the Group's with-profit funds is determined in accordance with the "Realistic balance sheet" regime prescribed by the FSA's regulations, under which liabilities to policyholders include both declared bonuses and the constructive obligation for future bonuses not yet declared. The available capital resources include an estimate of the value of their respective estates, included as part of the unallocated divisible surplus. The estate represents the surplus in the fund that is in excess of any constructive obligation to policyholders. It represents capital resources of the individual with-profit fund to which it relates and is available to meet regulatory and other solvency requirements of the fund and, in certain circumstances, additional liabilities may arise.

The liabilities included in the balance sheet for the with-profit funds do not include the amount representing the shareholders' portion of future bonuses. However, the shareholders' portion is treated as a deduction from capital that is available to meet regulatory requirements and is therefore shown as a separate adjustment in the capital statement.

In accordance with the FSA's realistic capital regime, the Group is required to hold sufficient capital in its UK life with-profit funds to meet the FSA capital requirements, based on the risk capital margin (RCM). The determination of the RCM depends on various actuarial and other assumptions about potential changes in market prices, and the actions management would take in the event of particular adverse changes in market conditions.

The table below provides the information on the UK with-profits funds on a realistic basis.

| | 31 December 2006 | | | | 31 December 2005 | |
|------------------|---------------------------------|--------------------------------------|---|------------------------------------|-------------------------|-----------------------|
| | Realistic assets £bn | Realistic liabilities £bn | Realistic inherited estate £bn | Risk capital margin £bn | Excess £bn | Excess £bn |
| CGNU Life | 14.3 | (11.8) | 2.5 | (0.5) | 2.0 | 1.6 |
| CULAC | 14.1 | (11.6) | 2.5 | (0.5) | 2.0 | 1.3 |
| NUL&P | 27.7 | (25.9) | 1.8 | (0.6) | 1.2 | 0.4 |
| Aggregate | 56.1 | (49.3) | 6.8 | (1.6) | 5.2 | 3.3 |

1. These realistic liabilities include the shareholders' share of future bonuses of £0.7 billion (31 December 2005: £0.7 billion). Realistic liabilities adjusted to eliminate the shareholders' share of future bonuses are £48.6 billion (31 December 2005: £50.5 billion).
2. These realistic liabilities make provision for guarantees and promises on a market consistent stochastic basis. The value of the provision included within the realistic liabilities is £0.5 billion, £0.7 billion and £3.0 billion for CGNU Life, CULAC and NUL&P, respectively (31 December 2005: £0.7 billion, £0.9 billion and £3.4 billion for CGNU Life, CULAC and NUL&P respectively).
3. The risk capital margin (RCM) is 4.2 times covered by the inherited estate (31 December 2005: 2.7 times).

A2 FRS 27 disclosures (continued)

Under the FSA regulatory regime, UK with-profit funds are required to hold capital equivalent to the greater of their regulatory requirement based on EU Directive ("regulatory peak") and the FSA realistic basis ("realistic peak") described above.

For UK non-participating business, the relevant capital requirement is the minimum solvency requirement determined in accordance with FSA regulations. For overseas life businesses, the amount shown is the minimum requirement under the locally applicable regulatory regimes.

For UK general insurance businesses, the relevant capital requirement is the minimum solvency requirement determined in accordance with the FSA requirements.

For overseas business in the EEA, US, Canada, Australia, Hong Kong and Singapore, the available capital and the minimum capital requirement are calculated under the locally applicable regulatory regimes. The businesses outside these territories are subject to the FSA rules for the purposes of calculation of available capital and capital resource requirement.

For fund management and other businesses, the relevant capital requirement is the minimum solvency requirement determined in accordance with the local regulator's requirements for the specific class of business.

All businesses hold sufficient available capital to meet their minimum capital requirement.

The available capital resources in each regulated entity are generally subject to restrictions as to their availability to meet requirements that may arise elsewhere in the Group. The principal restrictions are:

- (i) UK with-profit funds (CGNU Life, CULAC and NUL&P) - any available surplus held in each fund can only be used to meet the requirements of the fund itself or be distributed to policyholders and shareholders. With-profit policyholders are entitled to at least 90% of the distributed profits while the shareholders receive the balance. The latter distribution would be subject to a tax charge, which is met by the fund in the case of CGNU Life, CULAC and NUL&P.
- (ii) UK non-participating funds – any available surplus held in these is attributable to shareholders. Capital within the non-profit funds may be made available to meet requirements elsewhere in the Group subject to meeting the regulatory requirements of the fund. Any transfer of the surplus may give rise to a tax charge subject to availability of tax relief elsewhere in the Group.
- (iii) Overseas life operations – the capital requirements and corresponding regulatory capital held by overseas businesses are calculated using the locally applicable regulatory regime. The available capital resources in all these businesses are subject to local regulatory restrictions which may constrain management's ability to utilise these in other parts of the Group. Any transfer of available capital may give rise to a tax charge subject to availability of tax relief elsewhere in the Group.
- (iv) General insurance operations – the capital requirements and corresponding regulatory capital held by overseas businesses are calculated using the locally applicable regulatory regime. The available capital resources in all these businesses are subject to local regulatory restrictions which may constrain management's ability to utilise these in other parts of the Group. Any transfer of available capital may give rise to a tax charge, subject to availability of tax relief elsewhere in the Group.

Financial guarantees and options

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.

(a) UK Life with-profits business

In the UK, life insurers are required to comply with the FSA's realistic reporting regime for their with-profit funds for the calculation of FSA liabilities. Under the FSA's rules, provision for guarantees and options within realistic liabilities must be measured at fair value, using market-consistent stochastic models. A stochastic approach includes measuring the time value of guarantees and options, which represents the additional cost arising from uncertainty surrounding future economic conditions.

The material guarantees and options to which this provision relates are:

- (i) Maturity value guarantees – Substantially all of the conventional with-profit business and a significant proportion of unitised with-profit business have minimum maturity values reflecting the sums assured plus declared annual bonus. In addition, the guarantee fund has offered maturity value guarantees on certain unit-linked products.
- (ii) No market valuation reduction (MVR) guarantees – For unitised business, there are a number of circumstances where a "no MVR" guarantee is applied, for example on certain policy anniversaries, guaranteeing that no market value reduction will be applied to reflect the difference between the accumulated value of units and the market value of the underlying assets.
- (iii) Guaranteed annuity options – The Group's UK with-profit funds have written individual and group pensions which contain guaranteed annuity rate options (GAOs), where the policyholder has the option to take the benefits from a policy in the form of an annuity based on guaranteed conversion rates. The Group also has exposure to GAOs and similar options on deferred annuities.
- (iv) Guaranteed minimum pension – The Group's UK with-profit funds also have certain policies which contain a guaranteed minimum level of pensions as part of the condition of the original transfer from state benefits to the policy.

In addition, while these do not constitute guarantees, the with-profit fund companies made promises to certain policyholders in relation to their with-profit mortgage endowments. Subject to certain conditions, top-up payments will be made on these policies at maturity to meet the mortgage value up to a maximum of the 31 December 1999 illustrated shortfall.

A2 FRS 27 disclosures (continued)**(b) UK Life non-profit business**

The Group's UK non-profit funds are evaluated by reference to local statutory reserving rules, including changes introduced in 2006 under the FSA Policy Statement 06/14 *Prudential Changes for insurers*.

- (i) Guaranteed annuity options – Similar options to those written in the with-profit fund have been written in relation to non-profit products. Provision for these guarantees does not materially differ from a provision based on a market-consistent stochastic model, and amounts to £39 million at 31 December 2006 (2005: £44 million).
- (ii) Guaranteed unit price on certain products – Certain unit-linked pension products linked to long-term life insurance funds provide policyholders with guaranteed benefits at retirement or death. No additional provision is made for this guarantee as the investment management strategy for these funds is designed to ensure that the guarantee can be met from the fund, mitigating the impact of large falls in investment values and interest rates.

(c) Overseas life businesses

In addition to guarantees written within the Group's UK life businesses, our overseas businesses have also written contracts containing guarantees and options. Details of the significant guarantees and options provided by overseas life businesses are set out below.

(i) France

Guaranteed surrender value and guaranteed minimum bonuses

Aviva France has written a number of contracts with such guarantees. The guaranteed surrender value is the accumulated value of the contract including accrued bonuses. Bonuses are based on accounting income from amortised bond portfolios, where the duration of bond portfolios is set in relation to the expected duration of the policies, plus income and releases from realised gains on equity-type investments. Policy reserves are equal to guaranteed surrender values. Local statutory accounting envisages the establishment of a reserve, "Provision pour Aléas Financiers" (PAF), when accounting income is less than 125% of guaranteed minimum credited returns. No PAF was established at the end of 2006.

The most significant of these contracts is the AFER Euro fund which has total liabilities of £21 billion at 31 December 2006 (2005: £22 billion). The guaranteed bonus on this contract equals 65% of the average of the last two years' declared bonus rates (or 60% of the TME index rates if higher) and was 3.30% for 2006 (2005: 3.51%) compared with an accounting income from the fund of 4.81% (2005: 4.91%).

Non-AFER contracts with guaranteed surrender values had liabilities of £6 billion (2005: £7 billion) at 31 December 2006 and guaranteed annual bonus rates are between 0% and 4.5% on 98.3% of liabilities. For non-AFER business, the accounting income return exceeded guaranteed bonus rates in 2006.

Guaranteed death and maturity benefits

In France, the Group has also sold unit-linked policies where the death and/or maturity benefit is guaranteed to be at least equal to the premiums paid. The reserve held in the Group's consolidated balance sheet at the end of 2006 for this guarantee is £8 million (2005: £14 million). The reserve is calculated on a prudent basis and is in excess of the economic liability. At the end of 2006, total sums at risk for these contracts were £38 million (2005: £73 million) out of total unit-linked funds of £13 billion (2005: £8 billion). The average age of policyholders was approximately 53. It is estimated that the economic liability would increase by £3 million (2005: £1 million) if yields were to decrease by 1% per annum and by £2 million (2005: £0.1 million) if equity markets were to decline by 10% from year end 2006 levels. These figures do not reflect our ability to review the tariff for this option.

(ii) Netherlands

Guaranteed minimum return at maturity

In the Netherlands, it is market practice to guarantee a minimum return at maturity on traditional savings and pensions contracts. Guarantees on older lines of business are 4% per annum while, for business written since 1 September 1999, the guarantee is 3% per annum. On group pensions business, it is often possible to recapture guarantee costs through adjustments to surrender values or to premium rates.

On transition to IFRS, Delta Lloyd changed the reserving basis for most traditional contracts to reflect current market interest rates, for consistency with the reporting of assets at market value. The cost of meeting interest rate guarantees is allowed for directly in the liabilities. Although most traditional contracts are valued at market interest rate, the split by level of guarantee shown below is according to the original underlying guarantee.

The total liabilities for traditional business at 31 December 2006 are £8 billion (2005: £8 billion) analysed as follows:

| | Liabilities 3% guarantee 31 December 2006 | Liabilities 3% guarantee 31 December 2005 | Liabilities 4% guarantee 31 December 2006 | Liabilities 4% guarantee 31 December 2005 |
|----------------|--|--|--|--|
| | £m | £m | £m | £m |
| Individual | 1,222 | 1,148 | 2,989 | 3,074 |
| Group pensions | 518 | 408 | 3,180 | 3,333 |
| Total | 1,740 | 1,556 | 6,169 | 6,407 |

A2 FRS 27 disclosures (continued)

Delta Lloyd has certain unit-linked contracts which provide a guaranteed minimum return at maturity from 4% pa to 2% pa. Provisions consist of unit values plus an additional reserve for the guarantee. The additional provision for the guarantee was £76 million (2005: £127 million). An additional provision of £43 million (2005: £77 million) in respect of investment return guarantees on group segregated fund business is held. It is estimated that the provision would increase by £163 million (2005: £293 million) if yields were to reduce by 1% pa and by £25 million (2005: £44 million) if equity markets were to decline by 10% from year end 2006 levels.

(iii) Ireland

Guaranteed annuity options

Products with similar GAOs to those offered in the UK have been issued in Ireland. The current net of reinsurance provision for such options is £152 million (2005: £145 million). This has been calculated on a deterministic basis, making conservative assumptions for the factors which influence the cost of the guarantee, principally annuitant mortality and long-term interest rates.

These GAOs are "in the money" at current interest rates but the exposure to interest rates under these contracts has been hedged through the use of reinsurance, using derivatives (swaptions). The swaptions effectively guarantee that an interest rate of 5% will be available at the vesting date of these benefits so there is no exposure to a further decrease in interest rates.

"No MVR" guarantees

Certain unithised with-profit policies containing "no MVR" guarantees, similar to those in the UK, have been sold in Ireland. These guarantees are currently "out-of-the-money" by £69 million (2005: £84 million). This has been calculated on a deterministic basis as the excess of the current policy surrender value over the discounted value (excluding terminal bonus) of the guarantees. The value of these guarantees is sensitive to the performance of investments held in the with-profit fund. Amounts payable under these guarantees are determined by the bonuses declared on these policies. It is estimated that the guarantees would be out-of-the-money by £74 million (2005: £74 million) if yields were to increase by 1% per annum and by £31 million (2005: £39 million) if equity markets were to decline by 10% from year end 2006 levels.

Return of premium guarantee

In 2005 Hibernian Life wrote two tranches of linked bonds with a return of premium guarantee after five or six years. The provision for these at the end of 2006 is £nil (2005: £3 million). It is expected that the provision would not increase if equity markets were to decline by 10% from year end 2006 levels. We would not expect any significant impact on this provision as a result of interest movements.

(iv) Spain and Italy

Guaranteed investment returns and guaranteed surrender values

The Group has also written contracts containing guaranteed investment returns and guaranteed surrender values in both Spain and Italy. Traditional profit-sharing products receive an appropriate share of the investment return, assessed on a book value basis, subject to a guaranteed minimum annual return of up to 6% in Spain and 4% in Italy on existing business, while on new business the maximum guaranteed rate is lower. Liabilities are generally taken as the face value of the contract plus, if required, an explicit provision for guarantees calculated in accordance with local regulations. At 31 December 2006, total liabilities for the Spanish business were £3 billion (2005: £2 billion) with a further reserve of £18 million (2005: £20 million) for guarantees. Total liabilities for the Italian business were £5 billion (2005: £4 billion), with a further provision of £46 million (2005: £55 million) for guarantees. Liabilities are most sensitive to changes in the level of interest rates. It is estimated that provisions for guarantees would need to increase by £66 million (2005: £66 million) in Spain and £9 million (2005: £12 million) in Italy if interest rates fell by 1% from end 2006 values. Under this sensitivity test, the guarantee provision in Spain is calculated conservatively, assuming a long-term market interest rate of 1.42% and no lapses or premium discontinuances.

(v) United States

Indexed and total return strategy products

In the United States, the Group writes indexed life and deferred annuity products. These products guarantee the return of principal to the policyholder and credit interest based on certain indices, primarily the Standard & Poor's 500 Composite Stock Price Index. A portion of each premium is used to purchase call options to hedge the growth in interest credited to the policyholder. The call options held by the Group and the options embedded in the policy are both carried at fair value. At 31 December 2006, the total liabilities for indexed products were £5.4 billion. If interest rates were to increase by 1%, the provision for embedded options would decrease by £51 million and, if interest rates were to decrease by 1%, the provision would increase by £56 million.

The Group has certain products that credit interest based on a total return strategy, whereby policyholders are allowed to allocate their premium payments to different asset classes within the general account. The Group guarantees a minimum return of premium plus approximately 3% interest over the term of the contracts. The linked general account assets are fixed maturity securities, and both the securities and the contract liabilities are carried at fair value. At 31 December 2006, the liabilities for total return strategy products were valued at £408 million.

(d) Sensitivity

In providing these guarantees and options, the Group's capital position is sensitive to fluctuations in financial variables including foreign currency exchange rates, interest rates, real estate prices and equity prices. Interest rate guaranteed returns, such as those available on guaranteed annuity options (GAOs), are sensitive to interest rates falling below the guaranteed level. Other guarantees, such as maturity value guarantees and guarantees in relation to minimum rates of return, are sensitive to fluctuations in the investment return below the level assumed when the guarantee was made.

Appendix B

Additional disclosures

The following additional disclosures have been extracted from the Group's 2006 Report and Accounts:

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Movements in insurance liabilities**(i) Movements in long-term business provisions**

The long-term business provision is calculated separately for each of the Group's life operations. The provisions for overseas subsidiaries have generally been included on the basis of local regulatory requirements, mainly using the net premium method, modified where necessary to reflect the requirements of the Companies Acts.

Material judgement is required in calculating the provisions and is exercised particularly through the choice of assumptions where there is discretion over these. In turn, the assumptions used depend on the circumstances prevailing in each of the life operations. Provisions are most sensitive to assumptions regarding discount rates and mortality/morbidity rates.

Bonuses paid during the year are reflected in claims paid, whilst those allocated as part of the bonus declaration are included in the movements in the long-term business provision, as detailed below.

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

| | 2006 | 2005 |
|---|----------------|----------------|
| | £m | £m |
| Carrying amount at 1 January | 114,430 | 106,491 |
| Provisions in respect of new business | 8,750 | 6,589 |
| Expected change in existing business provisions | (5,678) | (2,703) |
| Variance between actual and expected experience | 1,209 | 3,784 |
| Effect of adjusting to PS06/14 realistic basis | (800) | - |
| Impact of other operating assumption changes | (333) | (1,034) |
| Impact of economic assumption changes | (1,727) | 2,411 |
| Other movements | 314 | 340 |
| Change in liability recognised as an expense | 1,735 | 9,387 |
| Effect of portfolio transfers, acquisitions and disposals | 12,454 | (360) |
| Foreign exchange rate movements | (2,005) | (684) |
| Other movements | - | (404) |
| Carrying amount at 31 December | 126,614 | 114,430 |

The impact on existing business of implementing FSA Policy Statement 06/14, *Prudential Changes for Insurers*, in 2006 is £132 million, arising mainly on expenses and persistency rates in both insurance and investment contracts. This is reflected in reductions in insurance contract liabilities of £800 million, investment contract liabilities of £105 million, reinsurance recoveries of £502 million and deferred acquisition costs of £271 million. The impact on new business in 2006 is £17 million, giving a total increase in pre-tax profit for the year of £149 million.

(ii) Movements in general insurance and health claims provisions

Delays occur in the notification and settlement of claims and a substantial measure of experience and judgement is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty at the balance sheet date. The reserves for general insurance and health are based on information currently available; however, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

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

| | 2006 | 2005 |
|---|---------------|---------------|
| | £m | £m |
| Carrying amount at 1 January | 12,965 | 12,750 |
| Impact of changes in assumptions | 2 | (6) |
| Claim losses and expenses incurred in the current year | 7,639 | 7,124 |
| Decrease in estimated claim losses and expenses incurred in prior years | (550) | (372) |
| Incurred claims losses and expenses | 7,091 | 6,746 |
| Less: | | |
| Payments made on claims incurred in the current year | (3,765) | (3,379) |
| Payments made on claims incurred in prior years | (3,771) | (3,407) |
| Recoveries on claim payments | 304 | 263 |
| Claims payments made in the year, net of recoveries | (7,232) | (6,523) |
| Other movements in the claims provisions | (7) | (9) |
| Changes in claims reserve recognised as an expense | (148) | 214 |
| Gross portfolio transfers, acquisitions and disposals | 207 | (153) |
| Foreign exchange rate movements | (306) | 146 |
| Other gross movements | - | 8 |
| Carrying amount at 31 December | 12,718 | 12,965 |

Long-term business investment liabilities

Investment contracts are those that do not transfer significant insurance risk from the contract holder to the issuer, and are therefore treated as financial instruments under IFRS.

Many investment contracts contain a discretionary participation feature in which the contract holder has a contractual right to receive additional benefits as a supplement to guaranteed benefits and are referred to as participating contracts. They are not measured at fair value as there is currently no agreed definition of fair valuation for discretionary features under IFRS. In the absence of such a definition, it is not possible to provide a range of estimates within which a fair value is likely to fall. The IASB has deferred consideration of participating contracts to Phase II of its insurance contracts project.

For participating business, the discretionary participation feature is recognised separately from the guaranteed element and is classified as a liability, referred to as unallocated divisible surplus.

Investment contracts that do not contain a discretionary participation feature are referred to as non-participating contracts and the liability is measured at either fair value or amortised cost.

Most non-participating investment contracts measured at fair value are unit-linked in structure and the fair value liability is equal to the unit reserve plus additional non-unit reserves if required on a fair value basis. For this business, a deferred acquisition cost asset and deferred income reserve liability are recognised in respect of transaction costs and front-end fees respectively, that relate to the provision of investment management services, and which are amortised on a systematic basis over the contract term.

In the United States, funding agreements consist of one to ten year fixed rate contracts. These contracts may not be cancelled by the holders unless there is a default under the agreement, but may be terminated by Aviva at any time. The weighted average interest rates for fixed-rate and floating-rate funding agreements in 2006 were 5.07% and 5.55%, respectively. The funding agreements are measured at fair value equal to the present value of contractual cash flows.

There is a small volume of annuity certain business for which the liability is measured at amortised cost using the effective interest method. The fair value of contract liabilities measured at amortised cost is not materially different from the amortised cost liability.

Movements in the year

The following movements have occurred in the year:

(i) Participating investment contracts

| | 2006 | 2005 |
|---|---------------|---------------|
| | £m | £m |
| Carrying amount at 1 January | 47,258 | 43,974 |
| Provisions in respect of new business | 3,001 | 3,467 |
| Expected change in existing business provisions | (2,237) | (1,720) |
| Variance between actual and expected experience | 2,131 | 2,034 |
| Effect of adjusting to PS06/14 realistic basis | (105) | - |
| Impact of other operating assumption changes | (43) | 5 |
| Impact of economic assumption changes | (125) | 513 |
| Other movements | 51 | (153) |
| Change in liability | 2,673 | 4,146 |
| Effect of portfolio transfers, acquisitions and disposals | 125 | 4 |
| Foreign exchange rate movements | (656) | (856) |
| Other movements | - | (10) |
| Carrying amount at 31 December | 49,400 | 47,258 |

(ii) Non-participating investment contracts

| | 2006 | 2005 |
|---|---------------|---------------|
| | £m | £m |
| Carrying amount at 1 January | 30,051 | 25,581 |
| Provisions in respect of new business | 5,695 | 5,247 |
| Expected change in existing business provisions | (163) | 936 |
| Variance between actual and expected experience | 265 | (1,732) |
| Impact of operating assumption changes | 15 | 2 |
| Impact of economic assumption changes | (5) | - |
| Other movements | 56 | 93 |
| Change in liability | 5,863 | 4,546 |
| Effect of portfolio transfers, acquisitions and disposals | 3,396 | - |
| Foreign exchange rate movements | (352) | (76) |
| Carrying amount at 31 December | 38,958 | 30,051 |

Loss development tables

The following table presents the development of claim payments and the estimated ultimate cost of claims for the accident years 2001 to 2006. The upper half of the table shows the cumulative amounts paid during successive years related to each accident year. For example, with respect to the accident year 2002, by the end of 2006 £5,297 million had actually been paid in settlement of claims. In addition, as reflected in the lower section of the table, the original estimated ultimate cost of claims of £6,037 million was re-estimated to be £5,912 million at 31 December 2006. This decrease from the original estimate is due to the combination of a number of factors. The original estimates will be increased or decreased, as more information becomes known about the individual claims and overall claim frequency and severity.

In 2005, the year of adoption of IFRS, only five years were required to be disclosed. This will be increased in each succeeding additional year, until ten years of information is included.

The Group aims to maintain strong reserves in respect of its non-life and health business in order to protect against adverse future claim experience and development. As claims develop and the ultimate cost of claims become more certain, the absence of adverse claims experience will then result in a release of reserves from earlier accident years, as shown in the loss development table. However, in order to maintain strong reserves the Group transfers much of this release to current accident year (2006) reserves where the development of claims is less mature and there is much greater uncertainty attaching to the ultimate cost of claims. The release from prior accident year reserves during 2006 is also due to an improvement in the estimated ultimate cost of claims.

After the effect of reinsurance the loss development table is:

| Accident Year | All prior years £m | 2001 £m | 2002 £m | 2003 £m | 2004 £m | 2005 £m | 2006 £m | Total £m |
|--|-----------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|---------------------|
| Net cumulative claim payments | | | | | | | | |
| At end of accident year | | (2,970) | (2,913) | (2,819) | (2,870) | (3,281) | (3,612) | |
| One year later | | (4,624) | (4,369) | (4,158) | (4,378) | (4,925) | | |
| Two years later | | (5,088) | (4,779) | (4,565) | (4,712) | | | |
| Three years later | | (5,436) | (5,064) | (4,924) | | | | |
| Four years later | | (5,648) | (5,297) | | | | | |
| Five years later | | (5,763) | | | | | | |
| Estimate of net cumulative claims | | | | | | | | |
| At end of accident year | | 6,186 | 6,037 | 6,218 | 6,602 | 6,982 | 7,430 | |
| One year later | | 6,333 | 6,038 | 6,093 | 6,266 | 6,818 | | |
| Two years later | | 6,321 | 5,997 | 6,037 | 6,082 | | | |
| Three years later | | 6,329 | 5,973 | 5,942 | | | | |
| Four years later | | 6,286 | 5,912 | | | | | |
| Five years later | | 6,219 | | | | | | |
| Estimate of cumulative claims | | | | | | | | |
| Cumulative payments | | 6,219 | 5,912 | 5,942 | 6,082 | 6,818 | 7,430 | |
| | | (5,763) | (5,297) | (4,924) | (4,712) | (4,925) | (3,612) | |
| | 1,884 | 456 | 615 | 1,018 | 1,370 | 1,893 | 3,818 | 11,054 |
| Effect of discounting | (15) | (4) | (4) | (5) | (3) | (4) | (8) | (43) |
| Present value | 1,869 | 452 | 611 | 1,013 | 1,367 | 1,889 | 3,810 | 11,011 |
| Cumulative effect of foreign exchange movements | | | | | | | | |
| | - | (7) | (7) | (10) | (15) | (53) | - | (92) |
| Effect of acquisitions | - | - | 1 | 4 | 7 | 34 | 15 | 61 |
| Present value recognised in the balance sheet | 1,869 | 445 | 605 | 1,007 | 1,359 | 1,870 | 3,825 | 10,980 |

In the loss development table shown above, the cumulative claim payments and estimates of cumulative claims for each accident year are translated into sterling at the exchange rates that applied at the end of that accident year. The impact of using varying exchange rates is shown at the bottom of the table. Disposals are dealt with by treating all outstanding and IBNR claims of the disposed of entity as "paid" at the date of disposal.

The table also includes information on asbestos and environmental pollution claims provisions from business written before 2001. The claims provisions, net of reinsurance, in respect of this business were £312 million (2005: £289 million). The movement in the year reflects strengthening of the provisions by £9 million (2005: £83 million) and timing differences between claim payments and reinsurance recoveries.

Sensitivity analysis and capital management

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 EEV, Financial Condition Reporting (a medium term projection of the financial health of the business under a variety of economic and operating scenarios), and increasingly Individual Capital Assessment (ICA) are used. Sensitivities to economic and operating experience are regularly produced on all of the Group's financial performance measurements as part of the Group's decision making and planning process, 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 EEV performance indicators to changes in both economic and non-economic experience are continually used to manage the business and to inform the decision making process. More information on EEV sensitivities can be found in the presentation of results in the EEV section of this announcement.

Life insurance and investment contracts

The nature of long-term business is such that a number of assumptions are made in compiling the 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.

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 development on which the projections are based. As such, in the analysis below, the sensitivity of general insurance claim liabilities is primarily based on the financial impact of changes to the reported loss ratio.

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

| Sensitivity Factor | Description of sensitivity factor applied |
|---|--|
| Interest rate & investment return | The impact of a change in market interest rates by $\pm 1\%$ (e.g. if a current interest rate is 5%, the impact of an immediate change to 4% and 6%). 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 $\pm 10\%$ |
| 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% |

The above sensitivity factors are applied using actuarial and statistical models, with the following pre-tax impacts on profit and shareholders' equity at 31 December 2006:

Long-term business

Impact on profit before tax (£m)

| | Interest rates +1% | Interest rates -1% | Equity / property +10% | Equity / property -10% | Expenses +10% | Assurance mortality +5% | Annuitant mortality -5% |
|---|-------------------------------|-------------------------------|-----------------------------------|-----------------------------------|--------------------------|------------------------------------|------------------------------------|
| Insurance participating | (5) | - | 35 | (35) | (5) | - | (5) |
| Insurance non-participating | 25 | (210) | 110 | (130) | - | (20) | (295) |
| Investment participating | (30) | (35) | 10 | (10) | (5) | - | - |
| Investment non-participating | (15) | 15 | 40 | (40) | - | - | - |
| Assets backing life shareholders' funds | (280) | 305 | 60 | (60) | - | - | - |
| Total | (305) | 75 | 255 | (275) | (10) | (20) | (300) |

Sensitivity analysis and capital management (continued)**Impact before tax on shareholders' equity (£m)**

| | Interest rates +1% | Interest rates -1% | Equity / property +10% | Equity / property -10% | Expenses +10% | Assurance mortality +5% | Annuitant mortality -5% |
|---|------------------------------|------------------------------|----------------------------------|----------------------------------|-------------------------|-----------------------------------|-----------------------------------|
| Insurance participating | (25) | 25 | 35 | (35) | (5) | - | (5) |
| Insurance non-participating | (240) | 60 | 125 | (140) | - | (20) | (295) |
| Investment participating | (30) | (35) | 10 | (10) | (5) | - | - |
| Investment non-participating | (70) | 70 | 40 | (40) | - | - | - |
| Assets backing life shareholders' funds | (320) | 345 | 95 | (95) | - | - | - |
| Total | (685) | 465 | 305 | (320) | (10) | (20) | (300) |

Sensitivities as at 31 December 2005**Impact on profit before tax (£m)**

| | Interest rates +1% | Interest rates -1% | Equity / property +10% | Equity / property -10% | Expenses +10% | Assurance mortality +5% | Annuitant mortality -5% |
|---|------------------------------|------------------------------|----------------------------------|----------------------------------|-------------------------|-----------------------------------|-----------------------------------|
| Insurance participating | 5 | (35) | 35 | (35) | (5) | - | - |
| Insurance non-participating | 60 | (350) | 105 | (120) | (5) | (30) | (295) |
| Investment participating | 10 | (50) | 10 | (10) | - | - | - |
| Investment non-participating | - | - | 35 | (35) | - | - | - |
| Assets backing life shareholders' funds | (225) | 240 | 65 | (65) | - | - | - |
| Total | (150) | (195) | 250 | (265) | (10) | (30) | (295) |

Impact before tax on shareholders' equity (£m)

| | Interest rates +1% | Interest rates -1% | Equity / property +10% | Equity / property -10% | Expenses +10% | Assurance mortality +5% | Annuitant mortality -5% |
|---|------------------------------|------------------------------|----------------------------------|----------------------------------|-------------------------|-----------------------------------|-----------------------------------|
| Insurance participating | (10) | (20) | 35 | (35) | (5) | - | - |
| Insurance non-participating | 20 | (305) | 120 | (135) | (5) | (30) | (295) |
| Investment participating | (10) | (25) | 10 | (10) | - | - | - |
| Investment non-participating | (5) | - | 35 | (35) | - | - | - |
| Assets backing life shareholders' funds | (240) | 255 | 90 | (90) | - | - | - |
| Total | (245) | (95) | 290 | (305) | (10) | (30) | (295) |

Changes in sensitivities between 2005 and 2006 arise primarily from the acquisitions of Ark Life and AmerUs, and the effect of increases in market interest rates. 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 economic impacts on profit before tax for insurance contracts relate mainly to the effect of minimum return guarantees in the Netherlands. However in the case of the interest rate sensitivities, the impacts on shareholders' equity are more than offset by the effect of changes in the market value of fixed interest securities in the United States that are classified as available for sale.

The mortality sensitivities relate primarily to the UK and Ireland.

The impact on the Group's results from sensitivity to these assumptions can also be found in the EEV sensitivities included in the EEV section of this announcement.

General insurance and health business**Sensitivities as at 31 December 2006****Impact on profit before tax (£m)**

| | Interest rates +1% | Interest rates -1% | Equity / property +10% | Equity / property -10% | Expenses +10% | Gross loss ratios +5% |
|--------------------|------------------------------|------------------------------|----------------------------------|----------------------------------|-------------------------|---------------------------------|
| Net of reinsurance | (270) | 290 | 370 | (370) | (140) | (325) |

Impact before tax on shareholders' equity (£m)

| | Interest rates +1% | Interest rates -1% | Equity / property +10% | Equity / property -10% | Expenses +10% | Gross loss ratios +5% |
|--------------------|------------------------------|------------------------------|----------------------------------|----------------------------------|-------------------------|---------------------------------|
| Net of reinsurance | (270) | 290 | 370 | (370) | (35) | (325) |

Sensitivities as at 31 December 2005**Impact on profit before tax (£m)**

| | Interest rates +1% | Interest rates -1% | Equity / property +10% | Equity / property -10% | Expenses +10% | Gross loss ratios +5% |
|--------------------|-----------------------|-----------------------|------------------------------|------------------------------|------------------|-----------------------------|
| Net of reinsurance | (275) | 285 | 330 | (330) | (115) | (305) |

Impact before tax on shareholders' equity (£m)

| | Interest rates +1% | Interest rates -1% | Equity / property +10% | Equity / property -10% | Expenses +10% | Gross loss ratios +5% |
|--------------------|-----------------------|-----------------------|------------------------------|------------------------------|------------------|-----------------------------|
| Net of reinsurance | (275) | 285 | 330 | (330) | (30) | (305) |

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**Sensitivities as at 31 December 2006****Impact on profit before tax (£m)**

| | Interest rates +1% | Interest rates -1% | Equity / property +10% | Equity / property -10% |
|-------|-----------------------|-----------------------|------------------------------|------------------------------|
| Total | (26) | 26 | 44 | (44) |

Impact before tax on shareholders' equity (£m)

| | Interest rates +1% | Interest rates -1% | Equity / property +10% | Equity / property -10% |
|-------|-----------------------|-----------------------|------------------------------|------------------------------|
| Total | (52) | 51 | 78 | (78) |

Sensitivities as at 31 December 2005**Impact on profit before tax (£m)**

| | Interest rates +1% | Interest rates -1% | Equity / property +10% | Equity / property -10% |
|-------|-----------------------|-----------------------|------------------------------|------------------------------|
| Total | (35) | 35 | 26 | (26) |

Impact before tax on shareholders' equity (£m)

| | Interest rates +1% | Interest rates -1% | Equity / property +10% | Equity / property -10% |
|-------|-----------------------|-----------------------|------------------------------|------------------------------|
| Total | (70) | 70 | 60 | (60) |

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, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation, adjusting bonuses credited to policyholders, and taking other protective action.

A number of the business units use passive assumptions to calculate their long-term business liabilities. Consequently, 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 balance sheet. 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.

Shareholder services

Scrip dividend

The Aviva Scrip Dividend Scheme (the "Scheme") provides shareholders with the option of receiving new ordinary shares instead of cash dividends. Shareholders who have not already joined the Scheme but wish to do so should contact Lloyds TSB Registrars at the address on page 94 and request a mandate form. The mandate form will need to be received by Lloyds TSB Registrars no later than 18 April 2007 in order to be effective for the 2006 final dividend.

Dividend payments direct to your bank account

As an alternative to having dividends paid by cheque, shareholders can, if they wish, have them credited directly into their bank or building society account on the dividend payment date. For overseas shareholders, Transcontinental Account Payment Service (TAPS) is available, which allows shareholders in many countries to have dividends credited direct to their bank accounts in local currencies. To obtain further details and a mandate form please contact the Company's registrar at the address on page 94.

For those private shareholders who currently receive dividends paid directly into their bank or building society account, it is now the Company's practice to issue one consolidated tax voucher each year instead of a voucher with each dividend payment. Shareholders who do not wish to receive this service and wish to continue to receive tax vouchers with each dividend may elect to do so by contacting the Company's registrar at the address on page 94.

E-Communications

Shareholders can receive communications electronically by logging onto www.aviva.com/shareholders and registering for shareholder e-communications. Shareholders will be able to access details of their Aviva shareholding online, elect to receive the Report and Accounts and other shareholder documentation electronically, update their address details online and elect to have their dividends paid directly into their bank or building society account.

Share price

Shareholders can access the current share price of Aviva ordinary shares at www.aviva.com or alternatively can call 0906 843 2197*.

Share dealing facilities

The Company has arranged the following services that can be used to buy or sell Aviva shares. Alternatively, if shareholders hold a share certificate they can also use any bank, building society or stockbroker offering share dealing facilities. If shareholders are in any doubt about buying or selling their shares they should seek professional financial advice.

Share dealing facilities for UK shareholders/share account members

To buy and sell shares over the telephone or internet shareholders can contact Shareview Dealing, arranged through Lloyds TSB Registrars. For telephone purchases or sales call 0870 850 0852** between 8.00am and 4.30pm, Monday to Friday and for internet purchases or sales log on to www.shareview.co.uk/dealing

To buy or sell shares over the telephone, shareholders can contact Barclays Stockbrokers on 0870 549 3002** (if they hold a share certificate) or 0870 549 3001** (if they hold a share account statement).

NatWest Stockbrokers provide a Share Dealing Service at certain branches for Aviva Share Account holders only. For more information contact NatWest Stockbrokers on 0845 122 0689.

NatWest Stockbrokers Limited is operated by a joint venture between The Royal Bank of Scotland Group plc and The Toronto-Dominion Bank. Registered Number: 1959479 England. Registered Office: Waterhouse Square, 138-142 Holborn, London EC1N 2TH. Member of the London Stock Exchange and OFEX. Authorised and regulated by the Financial Services Authority.

Share dealing facilities for overseas shareholders

To sell Aviva shares over the telephone, shareholders can contact Barclays Stockbrokers on +44 (0)141 352 3959. Non UK residents will need to provide various documentation in order to use this service and details will be provided on registration. Please note that regulations prevent this service being offered to US residents. Settlement proceeds will be sent to either a UK sterling bank account or by sterling cheque.

Amalgamating your shares

If shareholders receive more than one copy of any shareholder communication, it may be because Aviva has more than one record of shareholdings in their name. To ensure that shareholders do not receive duplicate mailings in future, they can have all their shares amalgamated into one account by contacting Lloyds TSB Registrars at the address on page 94.

ShareGift

The Orr Mackintosh Foundation operates a purely voluntary charity share donation scheme for shareholders who wish to dispose of small numbers of shares whose value makes it uneconomical to sell them. Details of the scheme are available from ShareGift at www.sharegift.org or can be obtained from the Company's registrar.

Shareholders with disabilities

Alternative versions of this publication (including braille, large print and audio-tape) are available on request from the Company's registrar.

*Calls are currently charged at 60 pence per minute at all times. The average time to access the share price is approximately one minute.

** All 0870 numbers are charged at national rates, and are only available if you are calling from the UK.

For your protection and ours, to check instructions and maintain high quality service standards, we may record and monitor calls made to or from Barclay's Stockbrokers. New Business Development hours are 8.00am – 6.00pm Monday - Friday, excluding Bank Holidays.

Group financial calendar for 2007

| | |
|--|--------------|
| Online publication of Aviva plc Annual Report and Accounts 2006 | 22 March |
| Announcement of first quarter long-term savings new business figures | 24 April |
| Annual General Meeting | 26 April |
| Announcement of unaudited six months' interim results | 9 August |
| Announcement of third quarter long-term savings new business figures | 25 October |
| Ordinary Shares | |
| Ex-dividend date | 7 March |
| Record date | 9 March |
| Scrip dividend price available | 14 March |
| Last date for scrip dividend mandate forms to be received in order to be effective for 2006 final dividend | 18 April |
| Dividend payment date | 17 May |
| Preference Shares | |
| First dividend payment for 8½% cumulative irredeemable preference shares | 31 March |
| First dividend payment for 8¼% cumulative irredeemable preference shares | 30 June |
| Second dividend payment for 8½% cumulative irredeemable preference shares | 30 September |
| Second dividend payment for 8¼% cumulative irredeemable preference shares | 31 December |

Useful contact details

Detailed below are various addresses that shareholders may find useful if they have a query in respect of their shareholding. Please quote Aviva plc, as well as the name and address in which the shares are held, in all correspondence.

| | | | |
|------------------------------------|--|--|---------------|
| General shareholding queries | Lloyds TSB Registrars | The Causeway Worthing West Sussex BN99 6DA | 0870 600 3952 |
| Corporate and single company Peps | Barclays Stockbrokers Limited | Tay House 300 Bath Street Glasgow G2 4LH | 0870 514 3263 |
| Individual Savings Accounts (ISAs) | Lloyds TSB Registrars (ISA Manager) | The Causeway Worthing West Sussex BN99 6DA | 0870 242 4244 |

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.norwichunion.com |
| Fund management | www.morleyfm.com |
| Aviva worldwide internet sites | www.aviva.com/websites |

Corporate social responsibility (CSR)

Aviva's CSR policy and programme continues to take firmer roots within the business and to generate support with staff, shareholders and customers. For Aviva, CSR is defined as embracing corporate performance in respect of standards of business conduct, human rights, the environment and health and safety, as well as the promotion of good and fair relations with employees, customers, suppliers and the community. Trust and integrity are integral to the wellbeing of a financial services company and therefore the Group sees CSR as presenting a vital business opportunity. Aviva's CSR performance is also highly ranked by growing numbers of research agencies and investment houses. More details can be found on our website at www.aviva.com/csr

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