

# AVIVA INVESTORS PENSIONS LIMITED

## 2018 SOLVENCY AND FINANCIAL CONDITION REPORT (SFCR)

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## Summary

### Executive Summary

The purpose of the Solvency Financial and Condition Report (SFCR) is to provide information about the capital position at 31 December 2018 of Aviva Investors Pensions Limited (AIPL, 'the Company') based on the Solvency II requirements.

This report sets out different aspects of AIPL's business and performance, system of governance, risk profile, valuation methods used for solvency purposes and its capital management practices.

### Business and performance

AIPL is a limited company incorporated and domiciled in the UK, which provides customers with long-term life insurance services in the form of a unit-linked pensions business.

In 2018, operating profit decreased by £0.5 million to £0.6 million (2017: £1.1 million), mainly due to customer redemptions during the year of £239.8 million (2017: £476.5 million) across eight unit-linked funds, partly offset by favourable net investment income of £31.7 million (2017: £128.5 million). As a result of the redemptions in the year, revenues arising from annual management charges (AMCs) have decreased to £5.9 million for the full year 2018 (2017: £7.4 million). There was a corresponding decrease to expenses arising from management fees and other variable administrative costs paid to Aviva Investors Global Services Limited (AIGSL) to £5.4 million (2017: £6.3 million).

An interim dividend of £2.0 million was paid on the 24 December 2018 (2017: £2.0 million). The directors do not recommend the payment of a final dividend for the financial year ending 31 December 2018.

At the time of approving the Company's financial statements, property fund redemption requests are being met with a short term deferral. Management and the AIPL Board (the Board) are closely monitoring the deferral process.

Section A of this report sets out further details about AIPL's business structure, key operations, market position and financial performance over the reporting period, split by underwriting performance, investment performance, and performance from other activities.

### System of governance

The Board's responsibility includes ensuring that an appropriate system of governance is in place for the Company. To discharge this responsibility, the Board has established frameworks for risk management and internal control using a 'three lines of defence' model and sets the Company's risk appetite. A strong system of governance for the Company aids effective decision-making and supports the achievement of the Company's objectives for the benefit of customers, shareholders and the UK regulators.

Section B of this report describes the system of governance in place throughout AIPL by which the operations of the Company are overseen, directed, managed and controlled, and explains how it complies with the requirements of Solvency II. It describes the following key features:

- The role and responsibility of the Board, its sub-committees and key management committees, and delegation of authority to senior management;
- The role and responsibilities of the four key control functions – Risk management, Actuarial, Compliance and Internal Audit – and how they are implemented within the Company;
- The remuneration policy, skills requirements and procedures for assessing fitness and propriety for senior management and key function holders;
- AIPL's Risk and Oversight Management Framework (ROMF) and its codification through risk policies and business standards, which sets out the risk strategy, appetite, framework and minimum requirements for AIPL's operations, and includes the Company's approach to its Own Risk and Solvency Assessment (ORSA) and governance over its capital model for Solvency II under the Standard Formula (SF) approach;

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- How AIPL adheres to the Aviva Group (the Group) business standards which set out mandated control objectives and controls that mitigate operational risks faced by the Group, collectively providing the Group's framework of internal control; and
- AIPL's outsourcing policy and information on important outsourced operational functions, including any intra-group outsourcing arrangements.

## Risk Profile

AIPL seeks to optimise its business performance subject to remaining within risk appetite and meeting the expectations of stakeholders. This is achieved by embedding rigorous and consistent risk management within the business.

The Board meets at least four times per annum and is responsible for the identification of AIPL's full spectrum of risks facing the business whilst achieving its strategic objectives as well as those risks to which it is not yet exposed, but may be in the future. The Board is responsible for the identification, measurement, management, monitoring and reporting of key, material, proximate and emerging risks which it does at least annually.

The types of risk to which AIPL is exposed have not changed significantly over the year and remain credit, market, lapse, expense, operational and liquidity risks. For those risk types managed through the holding of capital, AIPL measures and monitors risk profile on the basis of the Solvency Capital Requirement (SCR).

Some categories of risk are not measured and managed by holding capital, principally liquidity risk, which is measured through an absolute level target based on stress testing and the operational needs of the business.

In addition, through the ORSA process, management consider whether there are any risks not captured in the SCR for which AIPL should hold additional capital.

Section C of this report further describes the risks to which AIPL is exposed and how the Company measures, monitors, manages and mitigates these risks, including any changes in the year to risk exposures and specific risk mitigation actions taken.

## Valuation for Solvency Purposes

Assets, technical provisions and other liabilities are valued in AIPL's Solvency II balance sheet according to the Solvency II regulations. The principle that underlies the valuation methodology for Solvency II purposes is the amount for which they could be exchanged, transferred or settled by knowledgeable and willing third parties in an arms length transaction.

At 31 December 2018, AIPL's excess of assets over liabilities was £8.7 million on a Solvency II basis, which is £0.1 million higher than the value under International Financial Reporting Standards (IFRS). The difference is driven by the difference in valuation of technical provisions and the consequent impact of tax. The value of technical provisions under Solvency II is equal to the sum of a best estimate liability and a risk margin.

Section D of this report provides further description of the bases, methods and main assumptions used in the valuation of assets, technical provisions and other liabilities for each material asset/liability class. In addition, it also provides an explanation of the material differences between the IFRS and Solvency II bases of valuation.

## Capital management

AIPL manages Own Funds in conjunction with capital requirements as defined by the Solvency II framework. In the calculation of the SCR, management has chosen to implement the SF approach.

In managing capital, AIPL seeks to, on a consistent basis:

- Maintain sufficient financial strength in accordance with risk appetite and satisfy the requirements of the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA), the dual regulators of the Company, and other stakeholders giving both customers and shareholders assurance of the Company's financial strength;
- Retain financial flexibility by maintaining strong liquidity; and
- Repatriate excess capital where appropriate.

At 31 December 2018, the total eligible Own Funds of £8.7 million (2017: £10.8 million) was represented by unrestricted tier 1 capital. The SCR at 31 December 2017 was £2.7 million (2017: £4.6 million). This was lower than the Minimum Capital requirement (MCR) of £3.3 million. Therefore, as at 31 December 2018 the Company's capital requirement was the MCR. This resulted in the overall AIPL surplus position of £5.4 million (2017: £6.2 million), which translates to a regulatory cover ratio of 265% (2017: 232%), and to a surplus above appetite of 200%.

Section E of this report further describes the objectives, policies and procedures employed by AIPL for managing its Own Funds. The section also covers information on structure and quality of Own Funds and calculation of the SCR.

# Section A

## Business and Performance

### In this Chapter

A.1 Business

A.2 Underwriting performance

A.3 Investment performance

A.4 Performance of other activities

A.5 Any other information

## SECTION A: BUSINESS AND PERFORMANCE

The 'Business and Performance' section of the report sets out Aviva Investors Pensions Limited's (hereafter AIPL or 'the Company') business structure, key operations and financial performance over the reporting period.

### A.1 Business

#### A.1.1 Business Overview

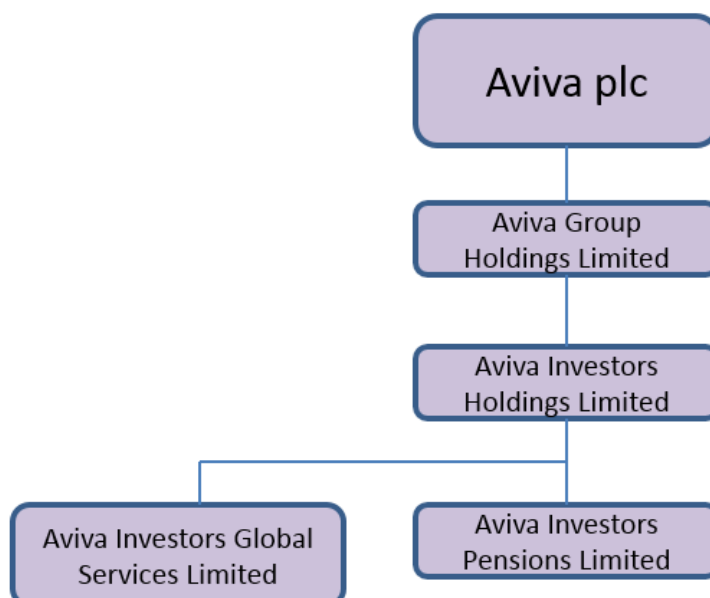
AIPL is a limited company incorporated, domiciled and operating in the United Kingdom (UK). Its principal activity is the provision and administration of unit-linked pension business in the UK.

AIPL is a wholly owned subsidiary of Aviva Investors Holdings Limited ('AIHL'). AIHL is the holding company of the Aviva Investors business and is wholly owned by Aviva Group Holdings Limited which is in turn wholly owned by Aviva plc.

AIPL manages eight unit-linked funds across fixed income, equities, property and multi-asset. As at 31 December 2018, the largest fund is the Property Fund which represents c.60% of the assets under management (AUM) in the fund range.

#### A.1.2 Organisational structure of the Group

The following chart shows, in simplified form, an extract of the Company's position within the structure of the Group and specific subsidiaries with whom AIPL has key relationships at 31 December 2018. Aviva plc is the ultimate parent of the Company and Aviva Investors Holdings Limited (AIHL) is the immediate parent and holding company of the Aviva Investors group of companies.



## A.1.3 Significant events in the reporting period

### Property fund

At the time of approving the Company's financial statements, the property fund redemption requests are being met with a short term deferral. Management and the Board are closely monitoring the deferral process.

### Brexit

Although we do not believe that Brexit has a significant operational impact on the Company, the influence that it will continue to have on the UK economy will require careful monitoring. During the year the Company's Board reviewed the potential exit scenarios and their impact on the Company, and the Company's operational planning in response. It also considered the public policy risks that might arise in 2019 if there was another general election in the UK and a change of government, and continues to monitor political and public policy risk.

## A.1.4 Other information

### Qualifying holdings

AIPL is a 100% subsidiary of AIHL and is a member of the Aviva plc group of companies. AIHL is the only qualifying holding as defined by Article 13(21) of Directive 2009/138/EC as AIHL has 100% of the voting rights and interest in AIPL.

### Supervisor

The Company is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) in the UK. The PRA is part of the Bank of England. Contact details for the PRA are as follows:

<b>Address</b>	20 Moorgate, London, EC2R 6DA.
<b>Telephone number</b>	+44 (0) 20 7601 4444

### External audit

The PRA issued Policy Statement PS25/18 in October 2018 which removes the external audit requirement for the SFCR of certain 'small Solvency II firms'. As the Company meets the criteria of a small Solvency II firm, there is no requirement for this SFCR to be audited. Consequently, all qualitative and quantitative disclosure in this document is unaudited.

## A.2 Underwriting Performance

The Company charges unit-linked policyholders fees for policy administration, investment advisory for a range of pooled investment funds, and other contract services. The Company then delegates investment management to a fellow subsidiary, Aviva Investors Global Services Limited (AIGSL), on an arms length basis, for which it is charged a management fee. The excess of annual management charges (AMCs) over management fees payable to AIGSL is the principal profit generating activity of the Company.

Operating profit is the key performance metric used to manage performance within the Aviva Group. This is a non GAAP measure, and in the case of AIPL, is an appropriate measure of underwriting performance.

Operating profit is defined across Aviva Group as profit before income taxes, excluding the following items: investment return variances and economic assumption changes on long-term business, impairment of goodwill, associates, and joint ventures and other amounts expensed, amortisation and impairment of acquired value of in-force business,



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amortisation and impairment of other intangibles, profit or loss on the disposal and re-measurement of subsidiaries, joint ventures and associates, integration and restructuring costs and other items.

For AIPL, operating profit is aligned to profit before income taxes as outlined in section A.2.1.

## A.2.1 Performance from underwriting and other activities

Profit before tax as disclosed in the AIPL financial statements for full year 2018 represents the Company's overall performance over the reporting period. As noted earlier in this report, this metric represents the excess of AMCs (revenue) paid by the policyholders of the unit-linked business over the underlying management fees paid to AIGSL (administrative expenses) for management of the policyholder assets. The following table presents profit before tax for the year ended 31 December 2018 along with comparatives for 2017.

<b>Statement of Comprehensive Income For the year ended 31 December 2018</b>		
	<b>2018</b>	<b>2017</b>
	<b>£m</b>	<b>£m</b>
<b>Income</b>		
Revenue	5.9	7.4
Net investment income	31.7	128.5
	37.6	135.9
<b>Expenses</b>		
Claims payable	-	(0.4)
Less: reinsurer's share	-	0.4
Change in investment contract provisions	(30.9)	(127.8)
Administrative expenses	(5.4)	(6.3)
Other operating expenses	(0.7)	(0.7)
	(37.0)	(134.8)
<b>Profit before tax</b>	<b>0.6</b>	<b>1.1</b>
<b>Tax expense</b>	<b>(0.1)</b>	<b>(0.2)</b>
<b>Profit for the year and total comprehensive income for the year</b>	<b>0.5</b>	<b>0.9</b>

Net investment income is largely attributable to policyholders and so is offset by corresponding changes in investment contract provisions and other operating expenses. On an IFRS basis, liabilities for unit-linked investment contracts have decreased to £1,025 million at 31 December 2018 (2017: £1,227 million) primarily due to redemptions of £239.8 million (2017: £476.5 million) across eight funds, partly offset by favourable net investment income of £31.7 million (2017: £128.5 million). As a result of the redemptions in the year, revenues arising from AMCs have decreased to £5.9 million for the full year 2018 (2017: £7.4 million). This has been partly offset by lower expenses arising from management fees

and other variable administrative costs paid to AIGSL, which have decreased to £5.4 million in the year (2017: £6.3 million). As a result, the 2018 profit before tax decreased by £0.5 million to £0.6 million.

AIPL also has operating and finance lease arrangements within the property fund of the unit-linked pensions business. Further information regarding lease arrangements can be found in section D.3.2.

## A.3 Investment Performance

Net investment income as disclosed in the Company's financial statements represents the Company's overall investment performance for both policyholders and shareholders. Investment income consists of dividends, interest and rents receivable for the year, realised gains and losses, and unrealised gains and losses on investments held at fair value.

### Long-term insurance and savings business

Policyholders and shareholder funds are invested in order to generate a return for both policyholders and shareholders. The financial strength of the Company and both the current and future operating results and financial performance are, therefore, in part dependent on the quality and performance of these investment portfolios.

As different products vary in their cash flows and in the expectations placed upon them by policyholders, the Company may need to hold different types of investments in the different fund ranges to meet these different cash flows and expectations. With the unit-linked business, the primary objective is to maximise investment returns, subject to following an investment policy consistent with representations made to unit-linked policyholders. Shareholder exposure to loss on policyholder assets is limited to the extent that income arising from asset management charges is based on the value of assets in the funds.

#### A.3.1. Investment performance by asset class

Net investment income represents the Company's overall investment performance for both policyholders and shareholders. The following section summarises the Company's net investment income and provides an analysis of net investment income by fund type.

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## Net investment income – Total

	Debt Securities	Equity Securities	Other financial investments	Investment property	Total
<b>2018 Net Investment Income – Total (£k)</b>					
Dividends	-	2,511	2002	-	4,513
Interest	4,463	-	64	-	4,527
Net realised gains	3,037	6,393	3,990	-	13,420
Net unrealised (losses) gains	(11,477)	(15,168)	(12,145)	-	(38,790)
Rental income less expenses	-	-	-	23,321	23,321
Realised gains on disposal of investment property	-	-	-	9,660	9,660
Unrealised gains on investment property	-	-	-	15,096	15,096
<b>Total</b>	<b>(3,977)</b>	<b>(6,264)</b>	<b>(6,089)</b>	<b>48,077</b>	<b>31,747</b>

	Debt Securities	Equity Securities	Other financial investments	Investment property	Total
<b>2017 Net Investment Income – Total (£k)</b>					
Dividends	-	2,816	224	-	3,040
Interest	6,259	-	25	-	6,284
Net realised gains	16,865	11,629	2,370	-	30,864
Net unrealised (losses) gains	(14,510)	628	6,684	-	(7,198)
Rental income less expenses	-	-	-	36,883	36,883
Realised losses on disposal of investment property	-	-	-	8,464	8,464
Unrealised gains on investment property	-	-	-	50,197	50,197
<b>Total</b>	<b>8,614</b>	<b>15,073</b>	<b>9,303</b>	<b>95,544</b>	<b>128,534</b>

Of the net investment income in the table above, £54,818 (2017 £20,590) relates to the shareholder interest income on cash deposits (held in other financial assets above). The remainder relates to unit-linked policyholder assets. These assets are invested in line with the fund choices made by our unit-linked policyholders and the investment risk is borne by the policyholders.

### A.3.2 Gains and losses recognised directly in equity

AIPL has no gains or losses recognised directly in equity.

### A.3.3 Investments in securitisations

AIPL has no investments in securitisation vehicles.

### A.4 Performance of other activities

AIPL has no other material income and expenses in the year.

### A.5 Any other information

There is no other material information regarding the business and performance of the Company during the year.

# Section B

## System of Governance

### In this Chapter

- B.1 General information on the system of governance
- B.2 Fit and proper policy
- B.3 Risk management system including the Own Risk and Solvency Assessment
- B.4 Internal control system
- B.5 Internal audit function
- B.6 Actuarial function
- B.7 Outsourcing
- B.8 Any other material information

## SECTION B: SYSTEM OF GOVERNANCE

This section of the report sets out information regarding the 'System of Governance' in place within AIPL. Details of the structure of AIPL's administrative, management or supervisory body are provided. The roles, responsibilities and governance of AIPL's key control functions (the Risk, Compliance, Internal Audit, Actuarial, People, Non-executive, Investment Management, Capital Management and Finance functions) are also provided. Other components of the system of governance are also outlined, including the risk management system and internal control system implemented across the business.

### B.1 General information on the system of governance

#### B.1.1 Overview of AIPL's system of governance

AIPL is a wholly owned subsidiary of Aviva Investors Holdings Limited (AIHL). AIHL is the holding company of the Aviva Investors business and is wholly owned by Aviva Group Holdings Limited which is in turn wholly owned by Aviva plc. The Aviva Group's system of governance is applied across the Aviva group therefore including AIPL, AIHL and the other companies within Aviva Investors.

The operating activities of the unit-linked business, which include product development; distribution and marketing; client relationship management; back-office administration services; fund accounting; actuarial services; transfer agency services and custody relationship oversight, have been outsourced to a fellow subsidiary, Aviva Investors Global Services Limited (AIGSL) under service agreements on an arms length basis.

AIGSL is also the nominated investment manager for the AIPL fund range.

#### Role and responsibilities of the Board

The Board is responsible for ensuring that an appropriate system of governance is in place for the Company, that the Company is appropriately managed and that it achieves its objectives. A strong system of governance aids effective decision-making and supports the achievement of business objectives for the benefit of customers, the shareholder and the regulators.

The specific duties of the Board are set out in its terms of reference. The terms of reference list those items that are specifically reserved for decision by the Board. All director appointments are supported by the Aviva Group General Counsel and Company Secretary.

The Board comprises a Non-Executive Chairman, a CEO and four further Executive Directors. In March 2018 the CFO resigned and was replaced with a new CFO. The Board has delegated to the CEO the approval of specific issues within certain limits, above which matters must be escalated to the Board for determination.

The CEO fulfils his responsibilities in relation to the culture in the firm through his membership of the Aviva Investors Executive as culture is addressed at an Aviva Investors level given the level of interconnectedness in the business.

#### Board committees

The Aviva Investors group has established a core set of Global Funds Services (GFS) committees to create a more transparent, integrated, consistent and effective governance oversight structure over its funds, including those of AIPL.

Throughout 2018, the Board delegated responsibilities to a core set of the GFS committees to oversee the activities of AIPL. The duties of the Company's Board and of each committee are set out in their respective terms of references. The terms of references list the items that are specifically reserved for decision by the Board and those matters that must be reported to the Board.

## *GFS Operational Risk & Controls Committee*

The GFS Operational Risk & Controls Committee (ORCC) oversees the management of AIPL's operational risk and control framework and monitors specific operational risks and controls related to GFS oversight and monitoring activities. Activities of the GFS ORCC include -

- provision of effective controls management oversight ensuring that operational risks are managed in accordance with the AI risk management framework;
- oversight of the GFS Control framework supporting operational risk management ensuring that GFS (and supplier) systems and processes meet customer, employee, regulator and external stakeholders expectations;
- consideration of matters relating to risk and control management;
- support of the AI Group Strategy and optimisation of the Risk & Control Self Assessment (RCSA), related operational risks and the AI Group Operational Risk Capital (ICAAP).

## *GFS Investment Oversight Committee*

- The GFS Investment Oversight Committee (IOC) provides oversight of the investment management activities of funds under the remit of AIPL. Activities of the GFS IOC include -
- review and recommendation of changes to investment mandates, guidelines, fund policy and objectives;
- review of all changes to the investment management of funds to ensure they are considered for impact on customers, target market, distributor and competitor positioning and, where necessary changes are appropriately governed and delivered;
- review of investment performance against individual fund targets/mandate, peer group, and the investment management targets of GFS;
- driving of actions and priorities to ensure all fund mandates and investment management agreements remain appropriate for the customer and fit for purpose;
- review and challenge of investment strategies, styles and decisions of individual managers against performance, risk and customer expectation measures to ensure that adherence to policies and objectives are achieved; and
- identification, measurement, management, monitoring and reporting (escalation) of risks supporting the Group risk management framework.

## **Aviva Investors Audit Committee**

The Audit Committee, working closely with the Aviva Investors Risk Committee, assists the AIPL Board in discharging its responsibilities for monitoring the integrity of the Company's financial statements and regulatory reporting. It also reviews the adequacy and effectiveness of the Company's systems of internal control and risk management and monitors the performance and objectivity of the internal and external auditors.

## **The "three lines of defence model" and roles and responsibilities of key functions**

Aviva Investors (including AIPL) recognises the importance of clear and appropriate apportionment of significant responsibilities among directors and senior managers. This is achieved by having clear role profiles that record senior management accountabilities and are consistent with committee and delegated authority structures.

### **First line of defence: management monitoring**

The Global Fund Services (GFS) Operational Risk Committee's (ORCC) is responsible for the implementation of AIPL's Risk and Oversight Management Framework (ROMF) and oversight of its suppliers.

The Board is responsible for the implementation of AIPL's strategy, plans and policies, the monitoring of operational and financial performance, the assessment of financial, business and operational risks.

## Second line of defence: Risk Management, Compliance and Actuarial functions

### *Risk function*

The Risk function is responsible for developing AIPL's ROMF which complements the Aviva Group and Aviva Investors Risk Management Framework (RMF) requirements insofar that it does not breach any regulatory requirements.

The Risk function reviews and challenges the IMMMR of risk exposures performed by the first line of defence. The Risk function reports to the Aviva Investors CRO who, in turn, reports to the Board on the overall risk profile of AIPL incorporating the results of the risk monitoring activities and risk assessments performed on business decisions.

### *Compliance and actuarial functions*

The Compliance function, reporting to the Aviva Investors CRO, supports and advises the business on the IMMMR of its regulatory, financial crime and conduct risks and monitors and reports on the overall compliance risk profile.

The Director of Compliance and the UK Life Chief Risk Actuary attend the Board meetings and provide their respective reports to the Board

Refer to sections B.3.2, B.4.2 and B.6 for further details on the roles, responsibilities, authorities, resources, independence and reporting lines of the Risk, Compliance and Actuarial functions respectively.

## Third line of defence: Internal Audit

AIPL Internal Audit is part of the Aviva plc Group Audit function. It has a dedicated audit team who specialise in fund management, led by an Audit Director who reports to the Chief Audit Officer (Group CAO) of Aviva plc and the Aviva Investors' Audit Committee. Refer to section B.5 of this report for details on the roles, responsibilities, authority, resources, independence and reporting lines of the Internal Audit Function.

## Implementation and assessment of adequacy of the system of governance

To promote a consistent and rigorous approach to risk and oversight management AIPL maintains frameworks, policies, methodologies, registers and supplementary guidance documents (as is appropriate) that are aligned with the policies and standards prescribed by Aviva Group. On an annual basis the Aviva Investors CEO, supported by the CRO, signs-off compliance with the Aviva Group policies and standards (which includes AIPL), providing assurance to the relevant oversight committee that the framework is being used for managing its business and associated risks. More over, the ORCC and GFS Investment Oversight Committee (IOC) have a reporting and escalation relationship with the Board and AIHL Committees, which in turn have a reporting and escalation relationship with the AI Executive Committee and the Risk Management Committee, a personal committee of the Aviva Investors CRO

There have been no material changes in the system of governance during the year.

### **B.1.2 Remuneration policy**

There are no employees of the Company. Directors are remunerated for their roles as employees of the Aviva Group but are not remunerated directly for their services as directors of AIPL.

### **B.1.3 Material transactions with management, shareholders and persons with significant influence on the Group**

There were no material related party transactions reported. AIPL directors may from time to time purchase insurance, savings, asset management or annuity products marketed by Group companies on equivalent terms to all employees of the Group.

## B.2 Fit and Proper Policy

The Group has the following policies in place to ensure that individuals acting on behalf of the Company are both “fit” and “proper” in line with the Prudential Regulation Authority’s Fit and Proper requirements for individuals subject to the Senior Manager Certification Regime and the Financial Conduct Authority’s requirements for Approved Persons:

- Fit - As part of recruitment and employee screening, an individual’s career history will be assessed and validated to establish whether an individual’s skills and knowledge are appropriately matched to the role.
- Proper – checks are in place to ensure that an individual is honest, of good reputation, has integrity and is financially sound.

The governance over the fitness and propriety of individuals spans across the employee lifecycle including recruitment, performance management and training. To ensure the Group protects itself against employing individuals who potentially could threaten our people, customers, properties, facilities or reputation, the majority of Fit and Proper activities take place within recruitment and more specifically in pre-employment screening.

A policy to apply a minimum set of basic screening requirements has been agreed and implemented in order to support the recruitment activity for all staff across the Group. Additional enhanced screening requirements and ongoing Fit and Proper requirements are also applied for individuals who are subject to regulatory approval by the PRA and / or FCA.

For persons responsible for running the undertaking subject to regulatory approval / notification this assessment must consider their allocated responsibilities and skills and experience across a skills matrix which covers the following areas as appropriate:

- Insurance and financial markets;
- Business strategy and business models;
- Systems of governance;
- Financial and actuarial analysis; and
- Regulatory framework and requirements.

The AIHL Nomination committee identifies the skills and experience that it would like to have at both Board and subsidiary level for Aviva Investors companies (including AIPL). These qualities are recorded into a skills matrix. The Committee uses the skills matrix as part of the process to identify suitable candidates to join the Boards of AIHL and its subsidiaries including AIPL. The Committee will consider the skills and experience of the Board that have been identified, taking into account all relevant aspects of diversity, to ensure a good balance is maintained on the Board that supports the wider Aviva Group values and culture.

Prior to appointing an individual into a role which requires regulatory approval, Certification status or enhanced vetting (Non-SMF Non-executive Directors), the Regulatory Approvals Team in the People Function ensures that the relevant skills and experience have been identified and agreed for the role. This is achieved by engaging with internal subject matter experts to define the skills and experience required for each approved Certified or Non-SMF Non-executive Director role. In all cases the team ensures that all skills and experience requirements have been identified, including any specific qualifications required to carry out the role. The Certified or Non-SMF Non-executive Director role skills and experience requirements and qualifications are, where applicable, captured within role profiles.

## B.3 Risk management system including the Own Risk and Solvency Assessment

This section provides an overview of the Company’s ROMF. It describes how the Company’s ROMF has been implemented and integrated into the decision making process. It also describes the Company’s process for conducting its ORSA.



## B.3.1 AIPL Risk and Oversight Management Framework

AIPL seeks to optimise its business performance subject to remaining within risk appetite and meeting stakeholders' expectations. This is achieved by embedding rigorous and consistent risk and oversight management within the business. AIPL's ROMF includes the strategies, policies, processes, governance arrangements, tools, and reporting procedures necessary to support this. The ROMF adopts the AIHL RMF risk principles.

The Board is responsible for identifying, measuring, managing, monitoring and reporting (IMMMR) on AIPL's full spectrum of current and future risks facing the business whilst achieving its strategic objectives. The appropriate oversight activities underpinned by people, processes, systems and external factors (e.g. suppliers) are developed and embedded to adequately meet business strategic goals and minimise losses to an acceptable residual risk exposure level.

AIPL monitors the health of the business by comparing data results (leading and lagging) – for example, risk events, indicators and review results – to appetite limits and strategic targets. Issues and related root causes identified are used by the Board to assess the residual risk exposure of the business. Exposures exceeding appetite are prioritised for resolution requiring senior management to decide how to responsibly allocate resources (capital, liquidity, people and knowhow).

The progress of remediation is monitored by the Board to identify early any activities that are not on track. In such instances, the Board is required to decide how to best bring the risk back within appetite in a timely manner (e.g. additional allocation of resources, tactical or short-term solutions until remediation is completed, etc.).

The ROMF is in compliance with AIPL's regulatory requirements and Aviva Investors' RMF insofar that it aligns with regulatory requirements. This document is owned by the AIPL Board and managed on their behalf by the CRO.

The Board has delegated the oversight of the AIPL's outsource providers to the GFS ORCC.

## B.3.2 Risk management system: Own Risk and Solvency Assessment (ORSA)

AIPL's ORSA comprises all processes and tools that underpin the consideration of risk and capital implications in key decisions, including business planning. The goal of the ORSA is to provide a continuous and forward-looking assessment of the short-term and long-term risks that AIPL faces, or may face, and ensuring that the company's solvency requirements are met at all times.

The ORSA comprises a number of elements of the ROMF reflected in the requirement of supporting Aviva Group Risk policies and Business standards, specifically:

- The risk strategy and risk appetite, which is set by the Board and then used to inform business planning;
- Capital and liquidity management information which enables the monitoring of up-to-date capital and liquidity levels;
- The identification, measurement, monitoring, managing and reporting principles (outlined in the Aviva Investors Risk Management Framework), which communicate the requirements for each of these activities to those who have responsibility for carrying them out;
- Stress and scenario testing, which helps simulate the likely impact of risks on the business (outlined in the Stress and Scenario Testing Business Standard);
- The explicit consideration of risk in the development of the business plans and strategy, and in performance reporting (outlined in the Strategy and Planning Business Standard); and
- The risk register and risk spectrum, which record all quantifiable and non-quantifiable risks identified via top-down and bottom-up processes (outlined in the Aviva Group Risk Management Framework Policy and supporting guidance).

In combination, these elements create a holistic overview of the elements of risk that may impact the business, and which is taken into account in day-to-day decision-making. These ORSA processes provide the Board with insights on the key risks and current and future capital requirements of the Company.

The Board approved that capital resources and requirements are measured on the basis of Solvency II Standard Formula requirements for determining Solvency II Own Funds and SCR.

The ORSA reporting processes help to connect the strategy and business plans with the forward-looking assessment of risks as well as capital and liquidity requirements over the business planning horizon. They also provide the Board and management with the means to assess and challenge the risks and capital requirements associated with the execution of the business plan and key decision-making, including under stressed conditions. Key ORSA reports provided to the Board are:

- Finance Reports including capital and liquidity information: Provide an assessment, for the Board's review and approval, of the Company's capital and liquidity resources and needs
- CRO Report: Provide an update on the Company's risk profile, external and internal risk environment and emerging risks; and
- ORSA Report: Summarises in a single report a high level description of the key components of the ORSA and key developments and outcomes during the year. The ORSA Report and accompanying ORSA Policy is reviewed and approved by the Board at least annually.

The second line Risk function reports to the Aviva Investors CRO. The AI CRO, in turn, reports to the Board on the overall risk profile and emerging risks of AIPL and all risk monitoring activities and business decisions as well as the effect of those risk monitoring activities and business decisions on AIPL's risk profile.

### **B.3.3 Integration of risk management into the decision making processes**

Current risks are the day-to-day risks facing the business whilst achieving its strategic objectives. The exposures to these risks are considered expected losses that are within the risk appetite of the business.

On an annual basis, the Board identifies and approves the current risks facing the business via the annual risk identification and measurement workshop. The results of the workshops are validated, reviewed and challenged by the Risk Function; and approved by the Board.

On a quarterly basis, the current risk register is reviewed by the Board to determine whether any residual risk exposures are moving outside appetite due to issues or decisions / changes in the business that have been made

## **B.4 Internal control system**

### **B.4.1 Description of the internal control system**

Internal controls facilitate effective and efficient business operations, the development of robust and reliable internal reporting and compliance with laws and regulations.

The Internal Control Business Standard sets out Aviva's required controls for effective internal control across the Group which are applied directly by the Company or via the outsourcing arrangement with AIGSL. These required controls are split along five principles:

- Appropriate tone from the top: Businesses are to ensure that there is an appropriate culture ("tone from the top"). An appropriate culture includes the effective management of exposures, adequate resourcing, effective communication, malpractice reporting, a business ethics code that is annually signed up to by employees, and a commitment to integrity, ethical behaviour and compliance;
- An organisational structure exists that supports the systems of internal control: Businesses are to implement an organisational structure which facilitates the system of internal control. This includes the effective operation of an adequately resourced three lines of defence model, appropriate and proportionate segregation of duties, a clear system of delegated authorities, clearly defined roles and responsibilities for staff, and the consideration of risk management and control responsibilities when setting objectives for and reviewing the performance of all staff;

- Implementation of a risk management framework: Businesses implement Aviva Investors' risk and oversight management framework including:
  - Implementation of the applicable risk policies;
  - Implementation of the applicable business standards;
  - Consistent identification, measurement, management, monitoring and reporting of all key risks;
  - Documentation of agreed action plans for risks out of tolerance / appetite; and,
  - Consideration of alternative responses where risks are not directly controllable by management actions.
- Effective controls and monitoring: Businesses are to ensure that there are effective controls for each core business process and that these processes are monitored and reported on regularly. The controls should be proportionate to manage risks, be adequately documented, maintained and reviewed, and the results of that review reported; and
- Risk oversight: A risk oversight process should be established that provides adequate challenge to the completeness and openness of internal control and risk assessment. Where a committee structure is put in place to support this work, all committees must have defined terms of reference and appropriate membership, with proceedings adequately recorded and actions followed up.

## B.4.2 Compliance function

AIPL is authorised and regulated by the PRA for prudential matters and regulated by the FCA for all conduct matters.

The Compliance Function is part of Aviva Investors Risk Team and constitutes a key part of the firm's control environment. The function is a critical contributor to the safe and sound operation of the business and supports the achievement of the firm's strategy and business goals.

The primary purpose of the Compliance function is advising and overseeing the business's exposure to regulatory risk, including the following core areas of regulatory risk:

- Conduct of business and systems of control;
- Prudential regulatory risk management;
- Prevention of financial crime and anti money laundering;
- Interpretation and application of current rules and regulatory guidance;
- Monitoring regulatory developments and supporting regulatory change management programmes;
- Managing a compliance related training framework; and
- Developing, implementing and overseeing compliance related policies and procedures.

The structure of the Compliance team is as follows; the Aviva Investors' Chief Compliance Officer reports to Aviva Investors' Chief Risk Officer, and also has a reporting line into the Aviva Group Compliance function. Accordingly, the Chief Risk Officer has a dual reporting line into Aviva Investors' Chief Executive Officer and to the Chief Risk Officer for the Aviva Group.

The Compliance team is responsible for identifying compliance risks in Aviva Investors (including both AIPL and the outsourced provider AIGSL) and working with senior management to ensure that appropriate policies, procedures and guidance exist to manage such risks. The compliance policies apply to Aviva Investors globally including AIPL.

## B.5 Internal audit function

The Aviva Investors Internal Audit function is part of the Aviva plc Group Audit function and provides independent and objective assessment on the robustness of the RMF and the appropriateness and effectiveness of internal control. It is a dedicated audit team who specialise in fund management, led by the Aviva Investors Audit Director who reports to the Group CAO and the Chair of the Aviva Investors Audit Committee.

Internal Audit provides reports to the Audit Committee of the AIHL Board and to management on the effectiveness of Aviva Investors' system of internal controls, and the adequacy of this system to manage business risk and to safeguard the Company's assets and resources. Their work provides coverage of key Investment activities performed by AIGSL on

behalf of AIPL and any specific concerns relating to AIPL would be reported to the Board on an exception basis, with the Aviva Investors Audit Director in attendance.

In pursuit of this purpose Internal Audit undertakes, objectively and independently from management, to assess and report on the effectiveness of the design and operation of the framework of controls; on the effectiveness of management actions to address any deficiencies within the framework of controls; and to investigate and report on cases of suspected financial crime.

Internal Audit is responsible for performing these functions efficiently and effectively but it is not responsible for setting AIPL's risk appetite or for the effectiveness of the framework of controls.

## **B.5.1 Independence and objectivity of the internal audit function**

Internal Audit must be independent from management at all times in order to be effective in performing its activities. The arrangements to protect the independence of Internal Audit are set out below.

### **Appointments and reporting lines**

- The Group CAO has a dual reporting line into the chair of the Group Audit Committee and to the Group Chief Financial Officer (Group CFO). The Group CAO has direct and unlimited access to the Group Board Chair, the chairperson of the Group Audit Committee (GAC), the chairperson of the Group Risk Committee (GRC), the chairperson of the Group Governance Committee (GGC) and the chairs of the local audit committees.
- The Aviva Investors Audit Director reports directly to the Group CAO.
- In addition, the AI Audit Director has a dotted reporting line to the Chair of the Aviva Investors Audit Committee.
- The Aviva Investors Audit Committee has a duty to recommend the appointment or dismissal of the AI Audit Director to the AIHL Board and to participate, jointly with the Group CAO or designee, in the determination of the objectives of the AI Audit Director and the evaluation of his levels of achievement, including consultation with AI's CEO.

### **Staff**

- Internal Audit staff shall have no direct responsibility or authority over any operational activities reviewed and should not relieve others of such responsibilities.
- Internal Audit will maintain a formal policy of rotating staff to ensure that independence is maintained.
- Internal auditors will not perform or manage reviews in the business area for which they were previously responsible for a period of at least one year after the end of their role within the business. This excludes similar business areas in other legal entities or operating units. Internal auditors on rotation from a business unit will not perform or manage reviews in the business area for which they were previously responsible.
- Internal Audit will provide to the Group and business unit audit committees an annual confirmation of its independence.

## **B.5.2 Authority and resources of the internal audit function**

- Internal Audit is authorised to review all areas of the Aviva Group and has full, free, and unrestricted access to all activities, records, property, and personnel necessary to complete their work.
- The scope of Internal Audit's activities extends to all legal entities, joint-ventures (JVs) and other business partnerships, outsourcing and reinsurance arrangements, other than where the audit capabilities of the JV counterparty are deemed to be sufficient by the Group CAO, in which case the JV's internal audit services may be provided by the JV partner.
- The Group CAO shall propose a budget which ensures that Internal Audit has sufficient skills and resources to discharge its responsibilities.

## B.6 Actuarial function

The Aviva Group Actuarial Function is accountable for Group wide actuarial methodology, reporting to the relevant governing body on the adequacy of reserves and capital requirements, and on the adequacy of underwriting and reinsurance arrangements. The Actuarial Function has been implemented in line with Solvency II requirements, and where any interpretation has been made, this has been documented in the Actuarial Charter.

The AIPL Actuarial Function is undertaken by Aviva UK Life business (UK Life) and overseen by the Aviva UK Life Chief Risk Actuary and supported by actuaries working in the Chief Finance Actuary Function of UK Life.

The Actuarial Function has authority to review all areas of the business and has full, free and unrestricted access to all activities, records, property and personnel necessary to complete its work. The Group Chief Risk Actuary leads Aviva's global Actuarial function, supported by the local Chief Risk Actuary within UK Life.

UK Life's Actuarial Function has a functional report to the Group Actuarial Function ensuring that the function is effective. As such, UK Life's Actuarial Function is required to confirm to the Group Actuarial Function the appropriate use of methodologies and underlying models, assumptions made in the calculation of provisions and other statutory requirements.

All persons employed by the Actuarial function in a defined 'actuarial' role, are subject to Aviva Group's Fit and Proper minimum requirements to ensure they have the requisite skills and knowledge to complete the responsibilities outlined in these sections.

## B.7 Outsourcing

The Aviva Group Procurement and Outsourcing Standard sets out the relevant responsibilities, objectives, process, and monitoring arrangements to be applied in cases of outsourcing, all of which shall be consistent with the overall business strategy. The standard applies equally to any externally or internally (intra-group) outsourced activity. The objective of this standard is to ensure that minimum control objectives and controls for supplier related activities are followed by all Aviva businesses, supplier risk is managed effectively, customers are being treated fairly and continue to receive good outcomes, as well as to mitigate potential financial, operational, contractual, and brand damage caused by inadequate management.

The standard is benchmarked against UK regulatory expectations, FCA, PRA, Solvency II framework and Group Solvency II requirements, and where appropriate, regulatory guidance will be applied as a requirement.

The standard applies to all staff involved in supplier related activities and provides direction to staff on their roles and responsibilities in effectively managing supplier activity. It provides clarity to businesses on the definition of outsourcing, including where activity is delegated to an intermediary, and whether a function or activity outsourced is critical or important. All staff have a responsibility to comply with this standard if they are involved with supplier related activity.

Aviva Group's Board Risk Committee approves the control objectives and controls in the standard, which cover the following areas:

- Supply governance – business oversight of operational performance for sourcing and supply management activities;
- Sourcing – how a service provider of suitable quality is selected;
- Supplier contracting and approvals – financial, commercial and legal approval of contracts;
- Supplier management and business continuity – risk based approach to management of supply contracts; and
- Business contingency and exit plans – a means to safely exit the arrangement without material harm to the business.

## Outsourced functions and activities

AIPL outsources a wide range of operational functions and activities, including policy administration, fund and investment management, claims handling, customer contact centres and IT services. The Procurement & Outsourcing Standard requires a global Supplier Landscape document to be produced bi-annually to capture details of all critical or important outsourced operational functions and activities.

Material outsourced functions include the following:

- Primary outsourcing to AIGSL who provide asset management services:
  - AIGSL subsequently outsource to JP Morgan (custodian and fund accounting)
  - AIGSL subsequently outsource to Royal Bank of Canada (RBC) (transfer agent)

Contracts are in place with third party outsource providers located in the UK and Luxembourg, some of whom make use of other offshore locations.

Furthermore, the actuarial function is undertaken by Aviva UK Life, who provide the Best Estimate Liabilities (BEL) and Risk Margin (RM) for AIPL's unit-linked business and assist with methodologies to calculate the SCR and review the output.

## Material intra-group outsourcing arrangements

For the year ended 31 December 2018 the only intra-group outsourcing arrangement is in respect of the investment management activity with AIGSL. Some IT services, finance and capital management, actuarial and audit services are undertaken by Aviva Group.

## B.8 Any other material information

No other information on Aviva's system of governance is considered material requiring disclosure in this section.

# Section C

## Risk Profile

### In this Chapter

- C.1 Underwriting risk
- C.2 Market risk
- C.3 Credit risk
- C.4 Operational risk
- C.5 Liquidity risk
- C.6 Other material risks
- C.7 Any other information

## SECTION C: RISK PROFILE

### Overview of the Company's risk profile

An overview of the Company's process for identifying, assessing, managing and monitoring the risks it is exposed to is set out below (see also section B.1.1 'Overview of AIPL's system of governance'). Further details, including key changes to the Company's risk profile in the reporting period and any exposure to off-balance sheet items, are further explained in sections C.1 to C.6.

The Company performs stress and scenario testing and sensitivity analysis for decision-making and planning purposes, and to understand the impact of changes on the Company's Risk Profile, Own Funds, Risk Margin and SCR. Refer to section C.7 for details on the methodology employed in sensitivity analysis, stress and scenario analysis, and the results obtained.

### Risk identification

Risk identification is carried out on a regular basis, embedded in the business planning process and any major business initiatives, drawing on a combination of internal and external data, covering both normal conditions and stressed environments. Primary sources for identifying risks include risk and scenario identification workshops, risk events analysis, external and internal trends analysis, regulatory developments, stress and scenario testing and management information as well as other risk governance processes and input from the Board and subject matter experts within Aviva Investors and the Aviva Group.

### Exposure measurement and monitoring

The primary basis used by AIPL to measure and assess its risks is the Solvency II SCR on the Solvency II Standard Formula basis as it appropriately reflects AIPL's risk profile and balance sheet exposures. The SCR is risk sensitive and proportionate and reflects a level of Solvency II Own Funds at risk in a 1-in-200 year loss event over a 1-year time horizon. Refer to section E.2 of this report for details of the methodology and assumptions used in the calculation of AIPL's Solvency II SCR.

The risk types measured in AIPL's Solvency II SCR Standard Formula are:

- Underwriting risk (refer to section C.1 of this report for further details);
- Market risk (refer to section C.2 of this report for further details);
- Counterparty default risk i.e. credit risk (refer to section C.3 of this report for further details); and
- Operational risk (refer to section C.4 of this report for further details).

The SCR is net of loss-absorbing capacity of technical provisions and deferred taxes. Further information on the SCR is reported in section E.2.2 of this report and in the public disclosure Quantitative Reporting Template (QRT) S.25.01.21 'Solvency Capital Requirement – for undertakings on Standard Formula' that is included in section F.2 of this report.

### Risk management and mitigation

Risks arising in AIPL are mitigated through application of the AIPL Risk and Oversight Management Framework (ROMF), including governance, policies and standards, appetites and limit frameworks. Refer to section B of this report for details on AIPL's overall system of governance.

In addition to AIPL's ROMF, a range of risk mitigation techniques are employed across the different types of risks that it faces. These techniques are explained in detail by risk type in sections C.1 to C.6.



## Monitoring the effectiveness of risk mitigation techniques

Annually the Aviva Investors Chief Risk Officer (AI CRO) undertakes an assessment, presented to the Board, of the effectiveness of AIPL's risk management and the robustness of its control environment. Other inputs include key risk and control indicators and the results of the risk policy and business standard attestation process. See sections C.1 to C.6 for further details by risk type.

Concentration risk is also monitored and managed by AIPL. Any significant concentrations of risk identified at the level of the individual risk are presented in sections C.1 to C.6 of this report.

## Prudent Person Principle

AIPL ensures that its assets are invested in accordance with the prudent person principle as set out in Article 132 (Directive 2009/138/EC) through the collective application of its risk policies and business standards. These ensure that AIPL invests in assets whose risks it can properly identify, measure, monitor, manage, control and report, and appropriately take into account in the assessment of its overall solvency needs.

AIPL adopts the provisions of the Aviva Group Investment Management business standard which sets out the Aviva group controls and control objectives that must be followed when performing investment management (IM). IM is the management of financial instruments and other assets in order to meet specified investment objectives for the benefit of the policyholders and shareholders. The objective of this standard is to establish processes and controls to ensure that investment risks are managed properly, within risk appetite, whilst also achieving the risk/return.

Investment performance and activities are overseen by the Global Funds Services (GFS) Investment Oversight Committee, which was established to oversee the investment management activities of the funds under remit of GFS, including those of AIPL. The GFS Investment Oversight Committee is chaired by the GFS Head of Global Investment Oversight. The GFS Investment Oversight Committee has a dual reporting and escalation relationship with the Board and the AIHL Investment Committee, which in turn has a reporting and escalation relationship with the Aviva Investors Executive Committee and Aviva Investors Risk Management Committee.

The Aviva Investors second line Investment Risk team attends the GFS Investment Oversight Committee and provides additional review and challenge of investment risk, both within asset classes and at a total fund level, and provides risk analysis and recommendations to the fund managers. Its objective is to ensure that each portfolio's risk profile is consistent with the funds' objectives and the stated investment process.

## Exposure to special purpose vehicles

At 31 December 2018, AIPL has no special purpose vehicles as defined in the Solvency II Directive (2009/138/EC).

## C.1 Underwriting risk

Underwriting risk is the risk of loss on underwriting activity caused by an adverse change in the value of liabilities arising from inappropriate insurance pricing, inadequate claims reserving assumptions as well as unforeseen fluctuations in the timing, frequency and severity of insured events relative to the expectations at the time of underwriting. The risk excludes operational risk arising from internal processes in the writing of insurance business or settling of claims.

### C.1.1 Risk exposure

Life insurance risk at AIPL arises through its exposure to worse than anticipated operating experience on factors such as persistency levels (customers lapsing or surrendering their policies) and expense risk (the amount it costs us to administer policies).

AIPL is exposed to persistency (lapse) and expense risk through its unit-linked pensions business.

## C.1.2 Measurement and monitoring

AIPL follows the Solvency II Standard Formula SCR methodology, including its standard stresses, to measure its exposure to persistency risk. A high-level analysis of actual experience against expected experience is conducted to support ongoing monitoring of the appropriateness of lapse risk assumptions.

AIPL conducts reverse stress tests for assumptions based on standard stresses that are identified as sufficiently critical to the profitability and risk profile of the business to render it unviable.

Life underwriting risk SCR before diversification and tax at 31 December 2018 is disclosed in section E.2.2.

## C.1.3 Changes to risk profile in the reporting period

The SCR life underwriting risk component has decreased in 2018, primarily as a result of higher than expected redemptions in the year. This most significantly reduces the exposure to lapse risk. For further detail on the movement of life underwriting risk SCR over the reporting period, refer to section E.2.2 of this report.

## C.1.4 Risk management and mitigation

AIPL manages life underwriting risk as follows:

- Persistency risk generally arises from lapses on customer policies earlier than has been assumed. Persistency risk is managed through the Company strategy, frequent monitoring of lapse experience and benchmarked against local market information. Where possible, the financial impact of lapses is reduced through appropriate product design. The Company also implements specific initiatives to improve the retention of policies which may otherwise lapse.
- Expense risk is primarily managed by the Company through the regular assessment of the Company's profitability and frequent monitoring of expense levels.

## C.1.5 Risk concentration

The majority of policyholders invested in the property fund are advised, by pension fund consultants or real estate managers, as opposed to non-advised and this can result in material increases in the level of redemption requests than might otherwise be seen and hence a source of increased liquidity risk for the fund.

## C.2 Market risk

Market risk is the risk of adverse financial impact resulting, directly or indirectly, from fluctuations in interest rates, foreign currency exchange rates, equity and property prices. Market risk arises in the business due to fluctuations in the value of investments held; this has an impact on the management charges earned by the Company.

### C.2.1 Risk exposure

The nature of the Company's unit-linked insurance product results in the value of the Company's insurance contract liability being directly linked to the value of the related investment assets and therefore the Company's exposure relates solely to the management fees earned on the assets. The principal market risk that AIPL is exposed to is property price risk on holdings of investment properties in the unit-linked pensions business.

### C.2.2 Measurement and monitoring

Investment performance and activities are overseen by the GFS Investment Oversight Committee. The Aviva Investors second line Investment Risk team attends the GFS Investment Oversight Committee and provides additional review and challenge of investment risk, both within asset classes and at a total fund level, and provides risk analysis and recommendations to the fund managers.

Sensitivity analysis and stress and scenario testing are conducted to measure the Company's exposure to fluctuations in the values of assets. A fall in policyholder assets impacts revenue, which is accrued based on those values and which is partially offset by amounts payable by the Company for investment sub-advisory services provided by other entities within the Aviva Investors group.

Market risk SCR before diversification and tax at 31 December 2018 is disclosed in section E.2.2.

### C.2.3 Changes to risk profile in the reporting period

The SCR market risk component has decreased in 2018, primarily as a result of higher than expected redemptions in the year. For further detail on the movement in market risk SCR over the reporting period, refer to section E.2.2 of this report.

### C.2.4 Risk management and mitigation

Sensitivity analysis and stress and scenario testing is conducted to assess the Company's resilience to key risks and exposures, and to inform key business decisions and the business planning process. If necessary, the management actions required to manage or mitigate the risks and scenarios are considered.

### C.2.5 Risk concentration

Due to the size and nature of the property fund, relative to other AIPL funds, the Company has a concentrated exposure to property price risk in so far as it impacts the management fees earned on the assets.

## C.3 Credit risk

Credit risk is the risk of financial loss as a result of the default or otherwise failure of third parties to meet their obligations to the Company.

### C.3.1 Risk Exposure

The nature of AIPL's unit-linked insurance product results in the credit risk on the investment assets held to cover the linked liabilities being borne by the policyholders.

AIPL's exposure to credit risk from trade and other receivables is mainly influenced by the default risk of its client base.

Remaining credit risk relates to cash and cash equivalents held on deposit at credit institutions.

The Company adheres to the Aviva Investors Global Counterparty Credit Risk Policy in managing the credit risk associated with cash and cash equivalents, notably through placement of funds with high credit ratings assigned by international credit agencies. Credit exposures are identified, evaluated and managed in accordance with best practice and agreed risk appetite, so as to ensure that risks are managed within bounds acceptable to clients, the Aviva Investors UK Credit Risk Officer and, where appropriate, the Aviva Group Credit Risk Director. Credit risk on cash and cash equivalents is considered low.

### C.3.2 Measurement and monitoring

Credit risk is measured using the Solvency II Standard Formula approach which considers the Company's exposure to counterparties, the loss given default and their probabilities of default.

Each counterparty is allocated to one of two categories, Type 1 or Type 2, depending on the nature of the counterparty. Generally, Type 1 counterparties are rated entities, whereas Type 2 counterparties are likely to be unrated. The major constituents of these two classes are:

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Aviva Investors

DECEMBER 2018



## Type 1

- Cash at bank
- Deposits with ceding institutions (up to 15 independent counterparties)

## Type 2

- Receivables from intermediaries
- Policyholder debtors
- Deposits with ceding institutions (if the number of independent counterparties exceed 15)

The capital requirements for both types of counterparty are calculated separately and combined in a final calculation that assumes a low diversification effect between the two categories. Credit risk SCR before diversification and tax at 31 December 2018 is disclosed in section E.2.2.

## Credit quality indicators – External credit ratings

Financial assets are graded according to current external credit ratings issued. AAA is the highest possible rating. Investment grade financial assets are classified within the range of AAA to BBB ratings. Financial assets which fall outside this range are classified as sub-investment grade. The following table provides information regarding the aggregated shareholder credit risk exposure of AIPL for financial assets with external credit ratings. 'Not rated' assets capture assets not rated by external ratings agencies.

As at 31 December 2018	AAA	AA	A	BBB	Less than BBB	Not rated	Carrying value £m
Cash deposits	80%	10%	10%	-	-	-	9.0
<b>Total</b>							<b>9.0</b>

The overall credit quality of AIPL's financial investments remains strong at 31 December 2018.

### C.3.3 Changes to risk profile

There have been no material changes to the Company's credit risk profile in 2018. For further detail on the movement in credit risk SCR over the reporting period, refer to section E.2.2 of this report.

### C.3.4 Risk management and mitigation

#### Banking exposures

The credit risk associated with cash and cash equivalents is managed through adherence to internal credit policy and limits frameworks and placement of funds with counterparties with high credit ratings assigned by international credit agencies. Credit exposures are identified, evaluated and managed in accordance with best practice and AIPL's risk appetite.

#### Trade, other receivables and other assets

Aviva Investors has credit control procedures in place to ensure prompt settlement of fees due and, ultimately, has recourse to the clients' funds. Historic losses in respect of unpaid invoices have been immaterial.

### C.3.5 Risk concentration

AIPL adheres to the Aviva Group credit limit framework, which limits investments in individual issuers, geographies, sectors, and asset classes to ensure the Aviva Group, individual business units and legal entities are not individually exposed to significant concentrations of credit risk. Credit concentrations are monitored as part of the regular credit monitoring process and are reported to the Aviva Investors Capital Committee.

## C.4 Operational risk

### C.4.1 Risk exposure

Operational risk is the risk of direct or indirect loss arising from inadequate or failed internal processes, people and systems, or external events, including changes in the regulatory environment. AIPL has a low appetite for operational risk and aims to reduce this risk as far as it is commercially sensible.

Operational risk arises mainly through the investment process, distribution channels, product development, information technology and operations, including the transfer agency activities, the majority of which have been outsourced to AIGSL.

Operational risks facing the Company are assessed regularly, according to the likelihood of them materialising and the potential impact on the business should they do so. Where appropriate, actions are put in place to address risks outside of tolerance or where control deficiencies have been identified.

### Conduct risk

An important element of operational risk is conduct risk. This is the risk that appropriate customer outcomes are not achieved and arises throughout the whole product lifecycle from the development of products, the sales and investment processes to handling client redemptions.

### Reputational risk

This is the risk that litigation, employee misconduct, operational failures, the outcome of regulatory investigations, media speculation and negative publicity, disclosure of confidential client information, inadequate services, whether or not founded, could impact AIPL's brand or reputation. AIPL's brand or reputation could also be affected if products or services do not perform as expected (whether or not the expectations are well founded) or customers' expectations for the product change. Management seek to reduce this risk to as low a level as is commercially sensible.

### C.4.2 Measurement and monitoring

Operational risks for AIPL are identified and assessed through risk identification workshops, at regular risk and control committees and at the Board meetings. The Board reviews and updates the risk appetite statements at least annually and sets its tolerances for operational risk. The Company's exposure against risk appetites is reported and monitored at the board meetings.

Operational risk SCR before diversification and tax at 31 December 2018 is disclosed in section E.2.2.

### C.4.3 Changes to risk exposure in the period

There have been no material changes to AIPL's operational risk profile in the period.

### C.4.4 Risk management and mitigation

The majority of the operating activities of AIPL have been outsourced to AIGSL which is also the nominated investment manager for the Company's funds. Therefore, AIPL has concentrated operational risk exposure to AIGSL.

The performance of outsource providers is monitored by the GFS Operational Risk and Controls Committee (ORCC), which has been established to oversee the management of the operational risk and control framework and to monitor specific operational risks and controls related to GFS oversight and monitoring activities. The GFS ORCC has a reporting and escalation relationship with the AIHL Committees, which in turn have a reporting and escalation relationship with the Aviva Investors Executive Committee and the Aviva Investors Risk Management Committee. Operational risks are also reported quarterly to the Board.

## C.4.5 Concentration risk

As described above, AIPL has concentrated operational risk exposure to AIGSL.

## C.5 Liquidity risk

Liquidity risk is the risk that liabilities cannot be met in a timely and cost-effective manner as they fall due. Liquidity issues may arise from uncertainty in the value and timing of liabilities as well as uncertainty in the ability to realise assets into cash to meet its obligations.

### C.5.1 Risk exposure

AIPL is exposed to liquidity risk from a shareholder (principal) and a policyholder (fund liquidity) perspective.

#### Shareholder liquidity risk

The key risks facing AIPL from a shareholder liquidity perspective are as follows:

- Medium to long term reduction of the AIPL business model through client redemptions (persistence risk) or poor performance causing ongoing losses and reduced cash generation;
- Late receipt of fee income. This is considered low risk due to the diverse client base and direct deduction of asset management charges on pooled assets in the fund;
- Exceptional fines or other operational risk event crystallisation;
- Mismatches in revenue collection compared to operating outflows and dividend payments; and
- High levels of bad debt write-offs.

#### Policyholder liquidity risk (fund liquidity risk)

Policyholder liquidity risk arises from the following factors:

- Nature of the assets held in the funds;
- Redemption terms provided to policyholders;
- Concentration of investors in the funds;
- Policyholder or investor sentiment; and
- Market conditions

### C.5.2 Measurement and assessment of liquidity risk exposure

#### Shareholder liquidity risk

AIPL aims to ensure a high degree of confidence that it can meet its obligations as they fall due. To support this, AIPL complies with the Aviva Group Liquidity Business Standard and Aviva Group Liquidity Policy that requires management to consider a range of approaches to determine the appropriate minimum liquidity appetite.

Monthly rolling 12 months cash flow forecasts are prepared by the Aviva Investors Finance function and are monitored at the Board and at the Aviva Investors Capital Committee.

#### Policyholder liquidity risk

AIPL manages the exposure to policyholder liquidity risks through setting appropriate liquidity parameters within which the funds are to be managed. Policyholder liquidity risk is monitored at the GFS Investment Oversight Committee and by the Board.

## C.5.3 Changes to risk profile in the reporting period

### Shareholder liquidity risk

There has been no material change to the Company's shareholder liquidity risk profile.

### Policyholder liquidity risk

The Property Fund has been operating a deferral queue for redemptions. This was undertaken in order to manage the liquidity of the fund following the receipt of substantial redemption requests in the first half of 2016 and which continued after the EU Referendum.

At the time of approving the Company's financial statements the Property Fund redemption requests are being met with a short term deferral.

However, due to the uncertainty surrounding a no deal Brexit scenario following the 29 March 2019 Article 50 deadline, there is a renewed risk of an increase in redemption requests leading to further deferral queues.

## C.5.4 Risk management and mitigation

### Shareholder liquidity risk

At its quarterly meetings the Board receives a shareholder liquidity status report and a 12-month liquidity forecast. The liquidity status and forecast is measured against the Board's approved liquidity risk appetite.

### Policyholder liquidity risk

The current position and forecast projections of liquidity in the AIPL Property Fund are reported at the GFS Investment Oversight Committee and to the Board.

The AIPL Policy Document allows AIPL to defer any transaction involving the cancellation of units in any AIPL fund, other than investments in direct property, for a period of up to three months if the encashment is more than 5% of the respective fund's asset value or up to twelve months in the case of investments in direct property (or any investment that have holdings in funds that invest in direct property) if it is in the interest of existing policyholders or if there is insufficient liquidity in the respective fund. The deferral period operates individually for each redemption instruction. This however does not apply in the case of payments required to provide retirement benefits.

There is a remote risk that the Company may not raise sufficient liquidity to meet the redemption requirements upon expiry of the three months redemption deferral period or, in the case of funds that invest in real property (or have holdings in funds that invest in real property), the twelve months redemption deferral period. In that case, the Company may seek to extend the deferral period in consultation with its investors.

## C.5.5 Concentration risk

### Shareholder liquidity risk

There are no material concentrations of shareholder liquidity risk for AIPL.

### Policyholder liquidity risk

The property fund is the largest fund run by AIPL and therefore represents a source of concentration risk for the Company in the case of material level of redemptions. The majority of policyholders invested in the property fund are advised, by pension fund consultants or real estate managers, as opposed to non-advised and this can result in material increases in the level of redemption requests than might otherwise be seen and hence a source of increased liquidity risk for the fund.

## C.5.6 Expected profit in future premium

The amount of expected profit in future premium included within the valuation of the Company's Technical Provisions at 31 December 2018 is £nil.

## C.6 Other material risks

The Company has no material information to disclose regarding other material risks.

## C.7 Any other information

### C.7.1 Stress and scenario testing and sensitivity analysis

The Company performs stress and scenario testing and sensitivity analysis for decision-making and planning purposes, and to understand the impact of changes on the Company's Risk Profile, Own Funds, Risk Margin and SCR. Furthermore, AIPL seeks to identify and quantify appropriate management actions that the business could take to mitigate the impact of stressed events which may arise. As part of this process it considers the likelihood of success of these management actions and any barriers to their successful implementation.

#### Stress and scenario testing

The stress scenarios conducted in 2018 represented the Board's view of adverse circumstances relevant to AIPL and its risk profile. Management agreed that, if required, the main action that would be taken in the short term would be a reduction of dividends to AIHL, its parent company, or a request for a capital injection. A review of AIPL's cost structure would be conducted in the longer term, due to the fact that all costs are tied to contracts.

#### Sensitivity analysis

AIPL conducts sensitivity analysis to understand the impact of material risks and events on AIPL's key financial drivers and the magnitude of the change required to put AIPL's capital at risk. The following risk exposures were subjected to sensitivity analysis:

- Operational/liquidity risk: an operational risk event that leads to depletion of own funds or exhaustion of cash and cash equivalents that cannot be mitigated by management actions;
- Business/reputational risk: redemption levels (persistence risk) to the point of break-even profitability, and that result in the underlying funds no longer being viable;
- Policyholder liquidity risk: redemption levels (persistence risk) that may result in redemption queues not being cleared in the timeframes as required by the AIPL Policy Document; and
- Group risk: Depletion of own funds or exhaustion of cash and cash equivalents due to increased expenses (expense risk).

It was concluded that AIPL has sufficient capital and liquidity resources, and available management actions, to withstand and/or mitigate the above risk exposures.



# Section D

## Valuation for Solvency Purposes

### In this Chapter

- D.1 Assets
- D.2 Technical Provisions
- D.3 Other Liabilities
- D.4 Alternative methods of valuation
- D.5 Any other material information

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## SECTION D: VALUATION FOR SOLVENCY PURPOSES

The 'Valuation for Solvency Purposes' section of the report provides a description of the bases, methods and main assumptions used in the valuation of assets, technical provisions and other liabilities for each material asset/liability class. It also provides an explanation of the material differences between the IFRS and Solvency II bases of valuation.

Assets and liabilities under Solvency II are valued in accordance with AIPL's accounting policies established under IFRS as adopted by the European Union (EU), except for those that are described in sections D.1, D.2 and D.3. A summary of AIPL's accounting policies under IFRS can be found in the Accounting policies section of the 2018 Annual report and financial statements.

The table below sets out a summarised balance sheet at 31 December 2018. The Company's Solvency II balance sheet is detailed in the balance sheet QRT, S.02.01.02 shown in section F.2. The IFRS balance sheet has been reclassified, from the presentation used under IFRS in the financial statements, to the categories used in the balance sheet QRT. Compared to the balance sheet QRT, the figures disclosed in this section are rounded to the nearest £0.1 million.

### Balance Sheet – IFRS and Solvency II

As at 31 December 2018	Corresponding IFRS financial statement note	IFRS balance sheet £m	Reclassified IFRS balance sheet £m	Solvency II balance sheet £m	Difference between reclassified IFRS and SII balance sheet £m	SFCR note
<b>Assets</b>						
Investment property	9	622.3	-	-	-	D.1.1
Financial investments	10	277.2	-	-	-	D.1.2
Participations and related undertakings		-	8.0	8.0	-	D.1.3
Assets held for index-linked and unit-linked funds		-	1,025.1	1,025.1	-	D.1.4
Trade receivables	11	29.2	0.4	0.4	-	D.1.5
Cash and cash equivalents	19	129.7	1.0	1.0	-	D.1.6
<b>Total assets</b>		<b>1,058.4</b>	<b>1,034.5</b>	<b>1,034.5</b>	<b>-</b>	
<b>Liabilities</b>						
Technical provisions	14	(1,025.1)	(1,025.1)	(1,025.0)	(0.1)	D.2
Finance lease liabilities	15	(6.3)	-	-	-	D.3.1
Deferred tax liabilities	8	(0.1)	(0.1)	(0.1)	-	D.3.2
Payables (trade, not insurance)	16	(17.6)	-	-	-	D.3.3
Provisions other than technical provisions	17	(0.7)	(0.7)	(0.7)	-	
<b>Total liabilities</b>		<b>(1,049.8)</b>	<b>(1,025.9)</b>	<b>(1,025.8)</b>	<b>(0.1)</b>	
Excess of assets over liabilities		8.6	8.6	8.7	0.1	

## IFRS Balance Sheet reclassified into Solvency II Balance Sheet categories

The main bases, methods and assumptions in respect of the valuation of assets and liabilities under Solvency II are broadly consistent with those of IFRS, disclosed through the Company's Annual report and financial statements. The key classification differences relate to assets backing unit-linked and index-linked contracts, cash and cash equivalents and investment funds. The nature of the reclassification differences are set out in sections D.1, D.2 and D.3.

### Valuation differences

As noted earlier, a number of valuation differences exist in respect of liabilities reporting in the Company's balance sheet under Solvency II compared to IFRS at 31 December 2018. The net impact of these differences is an overall increase in net assets of £0.1 million under Solvency II relative to IFRS. This primarily reflects the differences in assumptions and reserving methodology used under Solvency II compared to IFRS. The nature of the differences is set out in sections D.1, D.2 and D.3.

### D.1 Assets

Assets have been valued according to the requirements of the Solvency II Directive and related guidance. The basis of the Solvency II valuation principle is the amount for which the assets could be exchanged between knowledgeable willing parties in an arm's length transaction.

The Company considers markets to be active where transactions take place with sufficient frequency and volume for pricing information to be available on an ongoing basis. Where the Company has concluded that markets are not active, alternative methods for valuation are used. Refer to section D.4 for further details on alternative methods for valuation.

There were no changes made to the recognition and valuation bases used or to estimations made during the period.

This section details the Solvency II valuation basis of each material class of asset and any material difference between that and the IFRS valuation.

#### D.1.1 Investment property

Investment property is valued in accordance with IFRS whereby it is recognised at its fair value at the balance sheet date. The fair values are assessed by qualified external valuation specialists or by qualified staff and reflect rental income and other assumptions that market participants would use when pricing the investment property under current market conditions. All investment property relates to the unit-linked business and so is reclassified in the Solvency II balance sheet (section D.1.4).

Further information on investment property valued using an alternative method to either a quoted market price or a quoted market price for a similar asset is included in section D.4.

## D.1.2 Financial Investments

Financial investments are valued in accordance with IFRS whereby they are recognised at fair value at the balance sheet date. Fair value is obtained from quoted market prices or, if these are not available, by using relevant valuation techniques. All financial investments are attributable to the unit-linked business. For further detail, refer to section D.1.4.

There are no financial investments valued using an alternative method to either a quoted market price or a quoted market price for a similar asset.

## D.1.3 Participations and related undertakings

Participations and related undertakings consist of investments in internally managed Collective Investment Undertakings (CIUs), which are liquidity funds. Under IFRS, the assets are recognised as cash and cash equivalents (D.1.6 'Cash and cash equivalents'). AIPL's total investment in CIUs at 31 December 2018 is £8.0 million. These investments are measured at fair value in the Solvency II valuation which is equal to the IFRS carrying value.

## D.1.4 Assets held for index-linked and unit-linked contracts

Assets held for index linked and unit-linked contracts represent all assets that are attributable to policyholders upon redemption of their investment contracts. Assets held to cover index-linked and unit-linked funds are measured at fair value for both Solvency II and IFRS purposes. These assets are not recognised separately in the IFRS balance sheet and are therefore reclassified to this category for Solvency II reporting purposes. As such, the assets held for index linked and unit-linked contracts comprises in whole or part the IFRS balances of investment property, financial investments, cash and cash equivalents, receivables and payables that have been reclassified from their separate captions in the IFRS financial statements.

There is no difference between the valuation basis for Solvency II and the IFRS balance sheets.

## D.1.5 Receivables (insurance, reinsurance and intermediaries)

Under Solvency II, receivables are held at fair value, being the amount for which they could be exchanged between knowledgeable parties in an arm's length transaction. Where receivables are expected to be recovered within one year, as is the case for AIPL, the Solvency II fair value is equal to the IFRS carrying value. Receivables attributable to the policyholders of the unit-linked business are reclassified to Assets held for index-linked and unit-linked contracts (see section D.1.4).

## D.1.6 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, deposits held on call with banks and other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are those with less than three months' maturity from the date of acquisition, or which are redeemable on demand only with an insignificant change in their fair values. Under Solvency II shareholder investments in CIUs are reclassified from cash and cash equivalents to Participations (see section D.1.3), while cash and cash equivalents attributable to the policyholders of the unit-linked business are reclassified to Assets held for index-linked and unit-linked contracts (see section D.1.4). The residual balance held in the cash and cash equivalents line under Solvency II is valued in accordance with IFRS principles.

## D.2 Technical Provisions

This section describes the Solvency II valuation of technical provisions, the level of uncertainty associated with the valuation and an explanation of material differences between the Solvency II and IFRS valuation.

Technical provisions are detailed in the QRT S.12.01.02 'Life Technical Provisions', section F.2 'Public disclosure templates'.

### D.2.1 Definition of Technical Provisions

The value of technical provisions under Solvency II is equal to the sum of a best estimate liability and a risk margin. The best estimate liability is defined as the probability-weighted average of the present value of future cash flows on a market consistent basis, using the relevant risk-free interest rate term structure after making allowance for credit risk.

The risk margin is the present value of the cost of capital held each year in respect of non-hedgeable risks and represents the amount, in addition to the best estimate liability, that a third party might expect to receive in order to take over the insurance obligations of an existing entity.

The following general principles apply to technical provisions valuation:

- The calculation of technical provisions is performed on a going concern basis. This means that it can be assumed that contracts run to their expected term (only including premiums within the boundary of the contract) and a proportion of expected future costs (such as general overheads) will be covered by future business.
- The definition of a "best estimate" assumption is one that represents the expected outcome from the range of possible outcomes for future experience of that assumption and is reasonable and realistic with no deliberate margins for prudence included.

AIPL has not applied to the Prudential Regulation Authority (PRA) for any transitional measures on technical provisions.

### D.2.2 Technical provisions methodology and assumptions

#### (i) Cash flow modelling

A deterministic valuation approach producing point estimates, based on best estimate assumptions and all relevant future cash flows required to settle the life insurance liabilities, is used. The best estimate liability is calculated separately for cash flows in different currencies. AIPL's cash flows are all modelled in sterling.

The cash flow projections used in the calculation of the best estimate liability are grouped together since contracts are essentially homogeneous.

The calculation of technical provisions is performed on a going concern basis. This means current fully loaded unit costs are assumed to continue, which implicitly assumes that future business will replace that running off.

#### (ii) Minimum technical provision per policy

Technical provisions for insurance contracts are allowed to be negative where future cash in-flows are expected to exceed future cash out-flows.

The technical provisions of an insurance contract may be lower than the surrender value available to the policyholder of the underlying contract.

#### (iii) Contract Boundaries

Solvency II technical provisions are required to allow for any boundaries of the insurance contract. A boundary exists where the insurance undertaking has a unilateral right to: terminate the contract; reject premiums payable under the

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contract; or amend the premiums or benefits payable under the contract at a future date in such a way that the premiums fully reflect the risks.

Solvency II technical provisions for unit-linked business take into consideration all expected profits over the expected lifetime of the contracts based on those premiums paid to date. Only premiums paid to date are included in the projection; any future premiums would fall outside the contract boundary.

## (iv) Cash flows in scope

For life insurance obligations, all cash flows required to settle the insurance liabilities over their lifetime are taken into account. The table below summarises the main cash flows that are modelled:

Gross cash in-flows	Gross cash out-flows
Annual management (and other) charges in Unit Linked Business	Benefits including: <ul style="list-style-type: none"><li>- Surrender benefits</li></ul>
	Expenses including: <ul style="list-style-type: none"><li>- Investment management expenses</li><li>- Administrative expenses</li></ul>
Reinsurance cash in-flows	Reinsurance cash out-flows
None	None

No future premiums are taken into account. There are no regular premium contracts in force.

## (v) Economic and non-economic assumptions

Economic assumptions are reviewed quarterly while non-economic assumptions are reviewed at least on an annual basis to ensure that these remain appropriate, relevant and realistic. The choice of assumptions is validated through experience analyses and, where available and appropriate, benchmarked against external sources.

The basic risk-free rate curves used to value the technical provisions reflect the curves published by EIOPA.

The risk-free rates at key durations used to value the technical provisions at full year 2018 are stated in the table below. The figures shown below allow for a Credit Risk Adjustment of 10 bps.

Risk-free rates	1 year	5 years	10 years	15 years	20 years
	0.98%	1.20%	1.34%	1.43%	1.46%

There is no Matching Adjustment or Volatility Adjustment applied.

### Expense inflation

Expenses which are not directly related to unit-linked assets are assumed to increase in line with RPI +0.5% p.a. The annual rate of increase used at end-2018 was 3.99%.

### Tax rates

The tax assumptions used at 31 December 2018 are shown in the table below.

Parameter	31 December 2018
Corporation tax (current year)	19%
Corporation tax (future profits)	17%

## (vi) Reinsurance counterparty default allowances

As at 31 December 2018, AIPL has no reinsurance arrangements.

## (vii) Expenses

The future profits following the valuation date allow for all expected expenses, including:

- Investment management fees in line with the management agreement between AIPL and Aviva Investors Global Services Limited (AIGSL);
- Fund administration and other administration services payable to AIGSL for costs equivalent to those levied by JPMorgan Chase Bank related to fund accounting and also other corporate overhead fees in line with the outsourcing arrangement;
- Registrar and transfer agent fees payable to AIGSL to cover maintenance and system access in line with the outsourcing arrangement to cover shareholder servicing, transaction processing and any other transfer agent fees; and
- Distribution fees payable to AIGSL for business development services.

## (viii) Persistency assumptions

Recent persistency experience is reviewed annually in order to set assumptions for the number of unit-linked policies remaining in force. The lapse rate assumptions are 10% p.a. for segregated schemes, and 12% p.a. for other business. Whilst these assumptions have limited impact on the Company's solvency position, they reflect average expected future long-term withdrawals following a period of more volatile exits due mainly to uncertainty in property markets.

## (ix) Events not in data ("ENID")

The term ENID refers to any events not deemed to be captured by the data, which need to be allowed for within the best estimate calculation to allow for the uncertainty in the future cash flows.

AIPL considers ENID through adjusting the best estimate assumptions to ensure the likely impact of the event is included. Expert judgement is applied to determine the expected impact on future experience.

For unit-linked business, the assumed lapse rates take into account expert judgement on expected future experience.

## (x) Tax

Reserves are established (or credit is taken) for tax on unrealised gains (or losses) for unit-linked business as part of the technical provisions.

## (xi) Consistency of assumptions

The calculation of the best estimate liability requires a number of projection assumptions to be used. These assumptions are consistently reflected in both the valuation of technical provisions and the calculation of the SCR where necessary.

### D.2.3 Material differences between the SII and IFRS valuation bases

In contrast to Solvency II, the IFRS provisions are a single calculation of liabilities, with appropriate margins for uncertainty included within the assumptions and/or methodology. Compared to IFRS technical provisions, £0.1 million Solvency II valuation difference is driven by £0.5 million present value of future profits (PVFP) included in the best estimate liability (BEL), partly offset by the inclusion of risk margin (RM) for £0.4 million.

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The following table summarises the Company's gross technical provisions split by Solvency II line of business.

	IFRS technical provisions £m	Best Estimate Liability (BEL) £m	Risk Margin (RM) £m	Solvency II technical provisions £m	Difference £m
<b>Insurance liability As at 31 December 2018</b>					
31 Index-linked and unit-linked	1,025.1	1,024.6	0.4	1,025.0	(0.1)

Key areas of difference between the methods used to calculate Solvency II technical provisions and the methods used to calculate IFRS technical provisions are:

## (i) Treatment of unit-linked business

Under IFRS, the technical provisions are based on current unit value (plus an allowance for non-unit cash flows if this would increase the technical provisions, though this is not the case at 31 December 2018). Under Solvency II, the technical provisions are lower than the unit value reflecting the profits expected to emerge from existing business. This results in a decrease in Solvency II best estimate liability relative to IFRS technical provisions.

## (ii) Discount Rates

Solvency II best estimate liabilities are valued using an EIOPA prescribed basic risk-free rate curve with an allowance for credit risk. No matching adjustment or volatility adjustment is used. Discount rates have no impact on unit-linked IFRS best estimate because IFRS non-unit provisions are zero due to the treatment described above.

As noted earlier in this report, AIPL has not applied to the PRA for any transitional measures on risk-free interest rates.

## (iii) Risk Margin

In addition to the best estimate liability, Solvency II technical provisions include a risk margin. This is analogous to the additional margins held under IFRS to cover uncertainty.

## (iv) IFRS margins

IFRS margins have no impact on IFRS technical provisions because IFRS non-unit provisions are zero due to the treatment described above.

## D.2.4 Level of uncertainty in value

The best estimate liability corresponds to the probability-weighted average of future cash flows, taking account of the time value of money using the relevant risk-free interest rate term structure. They reflect estimates of how markets and the business might behave in the future given policyholder data, cash flow models and a set of assumptions.

All estimates are based on management's knowledge of current facts and circumstances; assumptions based on that knowledge; and their predictions of future events and actions. Actual results may differ from those estimates, possibly significantly. The list below sets out the estimates and assumptions that are considered particularly susceptible to valuation uncertainty:

- Changes in the value of an index/market values used to determine claims amounts, e.g. estimating future market values of the unit-linked assets; and
- Uncertainty in policyholder behaviour, e.g. for estimating lapse rates for unit-linked policies.

The best estimate liability assumptions are governed by a rigorous process, underpinned by actuarial judgement and peer review.



Following the requirements of the Aviva Group Data Governance and Model Governance standards helps to ensure that the cash flow models used to calculate technical provisions, and the data which is used within that calculation, are fit for purpose and are managed under appropriate change control processes.

## Regulatory compliance

The Company's insurance business is subject to dual regulation in the UK, directly authorised by both the PRA (for prudential regulation) and the FCA (for conduct regulation). Between them, the PRA and the FCA have broad powers including the authority to grant, vary the terms of, or cancel a regulated firm's authorisation; to investigate marketing and sales practices; and to require the maintenance of adequate financial resources.

The Company has compliance resources to respond to regulatory enquiries in a constructive way, and take corrective action when warranted. However, all regulated financial services companies face the risk that their regulator could find that they have failed to comply with applicable regulations or have not undertaken corrective action as required. The impact of any such finding could have a negative impact on the Company's reported results.

### D.2.5 Risk margin methodology

The risk margin is calculated using a Cost of Capital (CoC) approach.

The calculation of the risk margin is defined as the present value of the cost of capital applied to the SCR in respect of non-hedgeable risks in each future year.

The cost of capital rate is the cost in excess of the risk-free rate, to the third party taking over the liabilities, of raising and holding capital to support the non-hedgeable risks over the lifetime of the business. The same cost of capital rate is used for all insurance companies and is prescribed by EIOPA at 6% per annum.

As the SCR in the risk margin calculation takes into account non-hedgeable risks only, the rate used to discount the projected non-hedgeable SCR is the basic risk-free rate (including credit risk adjustment).

The SCR in the risk margin calculation takes the following risks into account:

- Life underwriting risk, including lapse risk
- Operational risk
- Counterparty default risk

All market risks in respect of investment assets are considered hedgeable.

No allowance for the loss absorbency of deferred taxes is included in the risk margin.

In order to project the non-hedgeable SCR which underpins the risk margin, some projection simplifications are necessary to ensure that the risk margin calculation remains proportionate to the nature, scale and complexity of the business.

This means that for expense risk, the projected SCR run-off has been calculated directly. For other risks, so-called risk carriers are used, where a suitable statistic is chosen which can be readily projected and used as a proxy for the projected size of the risk relative to its size at the balance sheet date. For example, the best estimate liability excluding the unit value ("non-unit BEL") is used as a carrier for lapse risk, operational risk and counterparty risk.

The risk margin allows for diversification between risks using the Standard Formula defined aggregation approach.

### D.2.6 Simplified methods

There are no material simplifications used by management.

### D.2.7 Material changes in assumptions since the prior period

There have been no material changes to assumptions since the prior period.

## D.3 Other Liabilities

This section details how “other liabilities” are valued under Solvency II rules and how this differs to the statutory accounts valuations. There have been no changes made to the recognition and valuation bases during the reporting period.

Under Solvency II, other liabilities expected to be paid within one year are considered to be the same as IFRS value.

### D.3.1 Lease arrangements

At 31 December 2018, AIPL has finance lease commitments totalling £6.3 million. The average lease term is 85 years. All other leases are operating leases held off balance sheet. There is no difference between the IFRS and Solvency II valuation of finance leases.

### D.3.2 Deferred tax liabilities

Deferred tax for Solvency II valuation purposes is determined on a non-discounted basis in accordance with IAS 12 principles on ‘temporary differences’ between the economic value of assets or liabilities on the Solvency II balance sheet and their tax base.

Deferred tax balances in the Solvency II balance sheet usually differ from those already recognised in the IFRS balance sheet as a result of differences between the IFRS and Solvency II balance sheet valuation basis and consequential impact on recognition of deferred tax liabilities.

As at 31 December 2018, the value of deferred tax liabilities is £0.1 million under both IFRS and Solvency II. The value is the same due to the negligible overall IFRS and Solvency II balance sheet valuations difference of £0.1 million.

### D.3.3 Payables (trade, not insurance)

Under Solvency II, payables are measured at fair value, adjusted to eliminate movement in fair value due to changes in the own credit standing of the entity. Under IFRS, payables are initially recognised at cost, being fair value. Subsequent to initial measurement they are measured at amortised cost. There is no difference in the valuation of trade payables between the restated IFRS balance sheet and the Solvency II balance sheet.

## D.4 Alternative methods of valuation

At 31 December 2018, approximately 60% of AIPL’s unit-linked assets are held in investment property for which quoted market data or observable market data is not available. In addition, approximately 8% of AIPL’s unit-linked assets in debt securities are valued based on inputs other than quoted prices in active markets that are observable for the asset, either directly or indirectly. The remainder of AIPL’s assets and liabilities are measured at fair value based on quoted market information or observable market data.

Although the Solvency II valuation hierarchy differs from IFRS, the methodology for valuing assets and liabilities measured at fair value remains consistent. The assets valued using quoted prices for identical or similar assets from inactive markets (within the fair value hierarchy of IFRS) fall under alternative methods for valuation under Solvency II.

### (i) Justification for use of alternative valuation method approach

In accordance with the Aviva Group Asset Valuation Business Standard, alternative methods for valuation are applied in respect of the valuation of assets and liabilities only where a readily observable, external market valuation is not available, or where the relevant market is deemed to be inactive.

## **(ii) Assumptions underlying the valuation approach and key drivers of valuation uncertainty**

Alternative methods for valuation include the use of estimates and assumptions that are not market observable but based on a combination of independent third-party evidence and internally developed models, calibrated to market observable data where possible. Valuation uncertainty arises from variation in the expected range of the key inputs feeding into models, judgemental features of model inputs and assumptions used and reliance on third-party adherence to accepted valuation standards.

The main assumptions underlying the valuation approach and key drivers of valuation uncertainty for investment property are described below:

### **Investment Property**

The Directly held investment property is valued monthly in the UK by external valuers to Fair value in accordance with the Royal Institute of Chartered Surveyors (RICS) Valuation – Global Standards 2017 and the UK National Supplement 2018. Properties are either valued on an investment basis or utilising a residual valuation method.

Investment properties are valued on an income approach that is based on current rental income plus anticipated uplifts at the next rent review, lease expiry, or break option taking into consideration lease incentives and assuming no further growth in the estimated rental value of the property. The uplift and discount rates are derived from rates implied by recent market transactions on similar properties.

Development properties are valued using a residual valuation method. Under this methodology, the valuer assesses the completed development value using income and yield assumptions. Deductions are then made for estimated costs to complete, including finance and developer's profit, to arrive at the valuation. As the development approaches completion, the valuer may consider the income capitalisation approach to be more appropriate.

The extent of uncertainty systemic within the valuation of investment properties has been assessed based on ranges of expected rental yields provided by several independent surveyors by property type and by reference to the Private Real Estate Valuation Sale Price Comparison Report 2017 prepared by MSCI and dated June 2018.

### **(iii) Adequacy of valuation compared to experience**

AIPL is required to operate independent price verification (IPV) controls, including an assessment of adequacy of valuation methods applied, across all assets.

For illiquid assets such as AIPL's investment property, which are marked to model, the IPV process includes a review of the valuation methodology and periodic assessment of both observable and judgemental model inputs.

For investment property AIPL relies on implementation of accepted valuation standards by parties that are independent to the Group.

## **D.5 Any other material information**

The Company has no other material information to disclose.

# Section E

## Capital Management

### In this Chapter

- E.1 Own Funds
- E.2 Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR)
- E.3 Use of duration-based equity risk sub-module in the calculation of the SCR
- E.4 Difference between the standard formula and any internal model used
- E.5 Non-compliance with the MCR and non-compliance with the SCR
- E.6 Any other material information

## SECTION E: CAPITAL MANAGEMENT

The Capital Management section of the report describes the objectives, policies and procedures employed by AIPL for managing its Own Funds. The section also covers information on structure and quality of Own Funds and calculation of SCR. Compared to the QRTs disclosed in section F.2, the figures disclosed in this section are rounded to the nearest £0.1 million.

### E.1 Own Funds

#### E.1.1 Management of Own Funds

The primary objective of capital management is to maintain an efficient capital structure, in a manner consistent with the Company's risk profile and the regulatory and market requirements of the business. In managing Own Funds, the Company seeks to:

- Match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- Maintain sufficient, but not excessive, financial strength in accordance with risk appetite to support new business growth and satisfy the requirements of its policyholders and its regulators;
- Retain financial flexibility by maintaining strong liquidity; and
- Allocate capital efficiently to support growth and repatriate excess capital where appropriate.

In order to achieve these objectives, Own Funds are monitored via projections over a three year planning horizon. The Company also uses a number of sensitivity tests to understand the volatility of earnings (being the primary determinant of Own Funds for the Company) and to manage its capital more efficiently. Sensitivities to economic and operating experience are regularly produced on the Company's key financial performance metrics to inform decision making and planning processes, and as part of the framework for identifying and quantifying the risks to which the Company is exposed.

A Capital Management Standard, applicable Aviva Group-wide, sets out minimum standards and guidelines over responsibility for capital management, including consideration for capital management discussions and requirements for management information, capital monitoring, reporting, forecasting, planning and overall governance. The Solvency II capital surplus of the Company, determined as the excess of Own Funds over the higher of the Solvency Capital requirement (SCR) or the Minimum Capital Requirement (MCR), is monitored monthly at the Aviva Investors Capital Committee and quarterly by the Board.

There have been no material changes to the objectives, policies or processes with respect to the management of Own Funds during the year.

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## E.1.2 Own Funds by tier

The table below sets out AIPL's Own Funds by tier at 31 December 2018.

As at 31 December 2018	Total £m	Tier 1 Unrestricted £m
Ordinary share capital	8.0	8.0
Reconciliation reserve	0.7	0.7
<b>Total Basic Own Funds</b>	<b>8.7</b>	<b>8.7</b>
<b>Total Eligible Own Funds to meet the SCR &amp; MCR</b>	<b>8.7</b>	<b>8.7</b>

As at 31 December 2017	Total £m	Tier 1 Unrestricted £m
Ordinary share capital	8.0	8.0
Reconciliation reserve	2.8	2.8
<b>Total Basic Own Funds</b>	<b>10.8</b>	<b>10.8</b>
<b>Total Eligible Own Funds to meet the SCR &amp; MCR</b>	<b>10.8</b>	<b>10.8</b>

All of the Company's Own Funds is unrestricted Tier 1 capital. This consists of ordinary share capital and the reconciliation reserve, which reconciles the total excess of assets over liabilities less share capital. Dividend payments are not declared. As such all of the Company's share capital can be classified as Tier 1.

At 31 December 2018, total basic Own Funds equal the total eligible Own Funds to meet the SCR, with no tiering limit restrictions. Compared to 2017, Eligible Own Funds have reduced by £2.1 million. This is mainly driven by the payment of £2 million dividend to Aviva Investors Holding Limited (AIHL). As well as this, unit-linked funds redemptions of £240 million in the year led to circa £1 million reduction in the present value of future profits, but this also leads to an offsetting reduction in the risk margin.

Further information on Own Funds by tier is presented in QRT S.23.01.01 'Own Funds' within section F.2.

## E.1.3 Reconciliation reserve

The table below sets out the constituents of the reconciliation reserve:

	2018 £m	2017 £m
Solvency II excess of assets over liabilities	8.7	10.8
Share capital	(8.0)	(8.0)
<b>Reconciliation reserve</b>	<b>0.7</b>	<b>2.8</b>

The reconciliation reserve equals the total excess of Solvency II assets over liabilities reduced by the share capital.

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## E.1.4 Differences between IFRS net assets and the excess of assets over liabilities as calculated for solvency purposes

The table below lists the material differences between equity as shown in the financial statements of the Company and the excess of assets over liabilities as calculated under Solvency II:

	2018	2017
	£m	£m
<b>Total equity on an IFRS basis</b>	<b>8.6</b>	<b>10.1</b>
Liability valuation differences	0.5	2.0
Inclusion of risk margin	(0.4)	(1.2)
Net deferred tax	-	(0.1)
<b>Solvency II Net Assets</b>	<b>8.7</b>	<b>10.8</b>
<b>Difference between IFRS and SII Net Assets</b>	<b>0.1</b>	<b>0.7</b>

The increase in net assets of £0.1 million under Solvency II compared to IFRS at 31 December 2018 results from solvency valuation differences. The key component of this difference is the recognition of future expected profits within unit-linked Solvency II best estimate liabilities (£0.5 million) which is partially offset by the associated Solvency II risk margin (£0.4 million).

Valuation of assets and liabilities is explained further in sections D.1, D.2, D.3 and D.4.

## E.2 Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR)

### E.2.1 SCR Calculation Method

AIPL calculates the SCR using the Standard Formula which is a regulatory prescribed method with standard model parameters. Given the Company has a non-complex business model offering no guarantees on performance or charges, the Board considers that this appropriately reflects AIPL's risk profile. Appropriate allowance is made for agreed management actions within the calculation of the SCR.

### E.2.2 Solvency Capital Requirement (SCR)

AIPL's SCR at 31 December 2018 is £2.7 million (2017: £4.6 million). The SCR has decreased in 2018, primarily as a result of £240 million of unit-linked redemptions in the year.

The table below shows the SCR split by risk module and the diversification benefit between risks. The figures disclosed in this section are rounded to the nearest £0.1 million.

	2018	2017
	£m	£m
<b>SCR by risk module</b>		
Life underwriting risks (i.e. lapse risk and expense risk)	1.1	2.6
Market risk	0.6	1.3
Credit risk (counterparty default risk)	0.1	0.1
Operational risk	1.3	1.6
Loss absorbing capacity of deferred taxes	(0.1)	(0.2)
<b>Total undiversified components</b>	<b>3.1</b>	<b>5.4</b>
Diversification	(0.4)	(0.8)
<b>Solvency capital requirement</b>	<b>2.7</b>	<b>4.6</b>

## Diversification Benefits

AIPL performs an analysis of the diversification benefit to provide assurance that the level of diversification applied is reasonable given the Company's structure, mixture of risks and underlying risk calibrations. AIPL's overall diversification benefit is £0.4 million which is calculated on an undiversified SCR of £3.1 million, which is a ratio of 13%.

### E.2.3 Minimum Capital Requirement (MCR)

The MCR for each European Economic Area (EEA) insurance undertaking is calculated using a linear formula that applies prescribed factors to Technical Provisions, written premiums, capital at risk, deferred tax and administrative expenses (all net of reinsurance). In accordance with the guidelines the MCR is subject to a floor, equal to 25% of the SCR, and a cap, equal to 45% of the SCR. The MCR is also subject to an absolute floor of €3.7 million. The MCR for the Company at 31 December 2018 is £3.3 million, which is the absolute floor. The MCR is disclosed in QRT S.28.01.01 'Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity' (see section F.2 'Public disclosure templates').

### E.2.4 Standard Formula Simplifications

Where the SCR is calculated using the Standard Formula approach, the Solvency II regulations specify simplified calculations that may be used across all of the risk modules except operational risk. Management has not used any of these simplified calculations to calculate the SCR at 31 December 2018.

### E.2.5 Standard Formula Undertaking Specific Parameters (USPs)

Where the SCR is calculated using the Standard Formula approach, Solvency II regulations specify certain USPs that may be used in place of the standard parameters, subject to regulatory approval. These are available for life and health revision risks, and non-life (including some health) premium and reserve risks. Management has not used any USPs to calculate the SCR at 31 December 2018.

### E.2.6 Transitional measures, disclosure of capital add-ons and USPs (unaudited)

Local regulators have the power to impose capital add-ons to the SCR or to require the use of certain USPs, where there are significant deficiencies in a firm's internal model or partial internal model, or where a firm's risk profile deviates significantly from the assumptions underlying the Standard Formula. AIPL has not had to apply any capital add-ons to calculate the SCR at 31 December 2018.

### E.2.7 Material changes over the reporting period

The SCR has decreased in 2018 by £1.9 million, primarily as a result of the high volume of redemptions in the year. As a result of the decrease in the year, as at 31 December 2018 the SCR (£2.7 million) is lower than the MCR (£3.3 million). As a result, the MCR has become the biting capital requirement constraint.

## E.3 Use of the duration-based equity risk sub-module in the calculation of the SCR

Insurance firms that have particular types of retirement provision business managed on a ring-fenced basis, for which the SCR is calculated using the Standard Formula, are entitled to calculate the equity risk capital requirement using a specified duration-based approach. Management does not use the duration-based equity risk sub-module in the calculation of the SCR.

## E.4 Difference between the standard formula and any internal model used

Management only uses the Standard Formula and has not used an Internal Model.

## E.5 Non-compliance with the MCR and non-compliance with the SCR

The Company has complied with the MCR and SCR at all times during the year.



## E.6 Any other material information

Management has no other material information to disclose regarding the capital management of its insurance undertaking.

# Section F

## Other Information

### In this Chapter

- F.1 Glossary of abbreviations used in the report
- F.2 Public disclosure templates
- F.3 Directors Statement
- F.4 Cautionary statement

## F.1 Glossary of abbreviations used in the report

AIGSL	Aviva Investors Global Services Limited
AIHL	Aviva Investors Holdings Limited
AIPL	Aviva Investors Pensions Limited
Aviva Group	Aviva plc Group
AUM	Assets under management
BEL	Best Estimate Liabilities
BMG	Business Management Group
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIU	Collective Investment Undertaking
CoC	Cost of Capital
CRO	Chief Risk Officer
EEA	European Economic Area
ENID	Events not in data
EU	European Union
FCA	Financial Conduct Authority
GAC	Group Audit Committee
GGC	Group Governance Committee
GRC	Group Risk Committee
Group CAO	Group Chief Audit Officer
IFRS	International Financial Reporting Standards
IPV	Independent price verification
JV	Joint Ventures
MCR	Minimum Capital Requirement
nhSCR	Non-hedgeable Solvency Capital Requirement
OCC	Operations & Controls Committee
ORSA	Own Risk and Solvency Assessment

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PRA	Prudential Regulation Authority
QRT	Quantitative Reporting Template
RBC	Royal Bank of Canada
RFR	Risk-free interest rate
RM	Risk Margin
ROMF	Risk and Oversight Management Framework
SCR	Solvency Capital Requirement
SF	Standard Formula
SFCR	Solvency and Financial Condition Report
USP	Undertaking Specific Parameter
UK	United Kingdom
UK Life	Aviva UK Life business

## F.2 Public disclosure templates

On 7 December the PRA issued feedback to life insurers expressing a preference for unit liabilities included within technical provisions to be reported within technical provisions as a whole on the Solvency II Balance Sheet. This was not a mandated approach and has no impact on the measurement of own funds or of technical provisions. The Group has continued to present the unit liabilities within best estimate liabilities in line with the approach adopted in previous years.

List of reported templates:

S.02.01.02 - Balance sheet

S.05.01.02 - Premiums, claims and expenses by line of business

S.05.02.01 - Premiums, claims and expenses by country

S.12.01.02 – Life and Health SLT Technical Provisions

S.23.01.01 - Own Funds

S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula

S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

The templates are included at the end of this report.

## F.3 Directors Certificate

The Board is satisfied that to the best of its knowledge and belief:

(a) throughout the financial year to 31 December 2018, the firm has complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable to the firm; and

(b) it is reasonable to believe that in respect of the period from 31 December 2018 to the date of the publication of the SFCR, the firm has continued so to comply and that it will continue so to comply for the remainder of the financial year to 31 December 2019.

David Clayton  
Director

Greg Neilson  
Director

15 April 2019

## F.4 Cautionary statement

This announcement contains, and we may make other verbal or written 'forward-looking statements' with respect to certain of the Company's plans and current goals and expectations relating to future financial condition, performance, results, strategic initiatives and objectives. Statements containing the words 'believes', 'intends', 'expects', 'projects', 'plans', 'will', 'seeks', 'aims', 'may', 'could', 'outlook', 'likely', 'target', 'goal', 'guidance', 'trends', 'future', 'estimates', 'potential' and 'anticipates', and words of similar meaning, are forward-looking. By their nature, all forward-looking statements involve risk and uncertainty. Accordingly, there are or will be important factors that could cause actual results to differ materially from those indicated in these statements.

The Company believes factors that could cause actual results to differ materially from those indicated in forward-looking statements in the announcement include, but are not limited to: the impact of ongoing difficult conditions in the global financial markets and the economy generally; the impact of simplifying our operating structure and activities; the impact of various local and international political, regulatory and economic conditions; market developments and government actions (including those arising from the referendum on the UK's membership of the European Union); the effect of losses due to defaults by counterparties, including potential sovereign debt defaults or restructurings, on the value of our investments; changes in interest rates that may reduce the value of our portfolio; the impact of changes in short or long-term inflation; the impact of changes in equity or property prices on our investment portfolio; fluctuations in currency exchange rates; the effect of market fluctuations on the value of the assets backing reserves; the amount of allowances and impairments taken on our investments; the effect of adverse capital and credit market conditions on our ability to meet liquidity needs and our access to capital; changes in, or restrictions on, our ability to initiate capital management initiatives; changes in or inaccuracy of assumptions in pricing and reserving for insurance business (particularly with regard to policy renewal rates), a cyclical downturn of the insurance industry; the impact of natural and man-made catastrophic events on our business activities and results of operations; our reliance on information and technology and third-party service providers for our operations and systems; the inability of reinsurers to meet obligations or unavailability of reinsurance coverage; increased competition in the UK and in other countries where we have significant operations; regulatory approval of extension of use of the Company's internal model for calculation of regulatory capital under the European Union's SII rules; the impact of actual experience differing from estimates used in valuing and amortising deferred acquisition costs ('DAC'); the impact of recognising an impairment of our goodwill or intangibles with indefinite lives; changes in valuation methodologies, estimates and assumptions used in the valuation of investment securities; the effect of legal proceedings and regulatory investigations; the impact of operational risks, including inadequate or failed internal and external processes, systems and human error or from external events (including cyber attack); risks associated with arrangements with third parties; our reliance on third-party distribution channels to deliver our products; funding risks associated with our participation in defined benefit staff pension schemes; the failure to attract or retain the necessary key personnel; the effect of fluctuations in share price as a result of general market conditions or otherwise; the effect of simplifying our operating structure and activities; the effect of a decline in any of our ratings by rating agencies on our standing among customers, broker-dealers, agents, wholesalers and other distributors of our products and services; changes to our brand and reputation; changes in government regulations or tax laws in jurisdictions where we conduct business; the inability to protect our intellectual property; the policies, decisions and actions of government or regulatory authorities in the UK, the European Union, the US or elsewhere, including the implementation of key legislation and regulation. For a more detailed description of these risks, uncertainties and other factors, please see the Aviva plc Annual report and accounts.

The Company undertakes no obligation to update the forward-looking statements in this announcement or any other forward-looking statements it may make. Forward-looking statements in this report are current only as of the date on which such statements are made.

This Solvency and Financial Condition Report has been prepared for information only, it is based on our understanding as at 15 April 2019 and does not provide financial or legal advice. Other than set out in section F.3 (Directors Certificate), the Company, its directors, employees, agents or advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come, and any such responsibility or liability is expressly disclaimed.

**S.02.01.02****Balance sheet****Assets**

Intangible assets
Deferred tax assets
Pension benefit surplus
Property, plant & equipment held for own use
Investments (other than assets held for index-linked and unit-linked contracts)
Property (other than for own use)
Holdings in related undertakings, including participations
Equities
Equities - listed
Equities - unlisted
Bonds
Government Bonds
Corporate Bonds
Structured notes
Collateralised securities
Collective Investments Undertakings
Derivatives
Deposits other than cash equivalents
Other investments
Assets held for index-linked and unit-linked contracts
Loans and mortgages
Loans on policies
Loans and mortgages to individuals
Other loans and mortgages
Reinsurance recoverables from:
Non-life and health similar to non-life
Non-life excluding health
Health similar to non-life
Life and health similar to life, excluding health and index-linked and unit-linked
Health similar to life
Life excluding health and index-linked and unit-linked
Life index-linked and unit-linked
Deposits to cedants
Insurance and intermediaries receivables
Reinsurance receivables
Receivables (trade, not insurance)
Own shares (held directly)
Amounts due in respect of own fund items or initial fund called up but not yet paid in
Cash and cash equivalents
Any other assets, not elsewhere shown
<b>Total assets</b>

		Solvency II value
		C0010
<b>R0030</b>		
<b>R0040</b>		
<b>R0050</b>		
<b>R0060</b>		
<b>R0070</b>		8,000
<b>R0080</b>		
<b>R0090</b>		8,000
<b>R0100</b>		
<b>R0110</b>		
<b>R0120</b>		
<b>R0130</b>		
<b>R0140</b>		
<b>R0150</b>		
<b>R0160</b>		
<b>R0170</b>		
<b>R0180</b>		
<b>R0190</b>		
<b>R0200</b>		
<b>R0210</b>		
<b>R0220</b>		1,025,093
<b>R0230</b>		
<b>R0240</b>		
<b>R0250</b>		
<b>R0260</b>		
<b>R0270</b>		
<b>R0280</b>		
<b>R0290</b>		
<b>R0300</b>		
<b>R0310</b>		
<b>R0320</b>		
<b>R0330</b>		
<b>R0340</b>		
<b>R0350</b>		
<b>R0360</b>		
<b>R0370</b>		
<b>R0380</b>		381
<b>R0390</b>		
<b>R0400</b>		
<b>R0410</b>		1,003
<b>R0420</b>		7
<b>R0500</b>		1,034,484



**S.02.01.02****Balance sheet****Liabilities**

Technical provisions – non-life

Technical provisions – non-life (excluding health)

TP calculated as a whole

Best Estimate

Risk margin

Technical provisions - health (similar to non-life)

TP calculated as a whole

Best Estimate

Risk margin

Technical provisions - life (excluding index-linked and unit-linked)

Technical provisions - health (similar to life)

TP calculated as a whole

Best Estimate

Risk margin

Technical provisions – life (excluding health and index-linked and unit-linked)

TP calculated as a whole

Best Estimate

Risk margin

Technical provisions – index-linked and unit-linked

TP calculated as a whole

Best Estimate

Risk margin

Contingent liabilities

Provisions other than technical provisions

Pension benefit obligations

Deposits from reinsurers

Deferred tax liabilities

Derivatives

Debts owed to credit institutions

Financial liabilities other than debts owed to credit institutions

Insurance &amp; intermediaries payables

Reinsurance payables

Payables (trade, not insurance)

Subordinated liabilities

Subordinated liabilities not in BOF

Subordinated liabilities in BOF

Any other liabilities, not elsewhere shown

**Total liabilities****Excess of assets over liabilities**

	Solvency II value
	C0010
<b>R0510</b>	
<b>R0520</b>	
<b>R0530</b>	
<b>R0540</b>	
<b>R0550</b>	
<b>R0560</b>	
<b>R0570</b>	
<b>R0580</b>	
<b>R0590</b>	
<b>R0600</b>	
<b>R0610</b>	
<b>R0620</b>	
<b>R0630</b>	
<b>R0640</b>	
<b>R0650</b>	
<b>R0660</b>	
<b>R0670</b>	
<b>R0680</b>	
<b>R0690</b>	1,024,950
<b>R0700</b>	
<b>R0710</b>	1,024,560
<b>R0720</b>	389
<b>R0740</b>	
<b>R0750</b>	700
<b>R0760</b>	
<b>R0770</b>	
<b>R0780</b>	58
<b>R0790</b>	
<b>R0800</b>	
<b>R0810</b>	
<b>R0820</b>	
<b>R0830</b>	
<b>R0840</b>	38
<b>R0850</b>	
<b>R0860</b>	
<b>R0870</b>	
<b>R0880</b>	15
<b>R0900</b>	1,025,761
<b>R1000</b>	8,723







S.23.01.01

Own funds

Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated

Regulation (EU) 2015/35

- Ordinary share capital (gross of own shares)
- Share premium account related to ordinary share capital
- Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings
- Subordinated mutual member accounts
- Surplus funds
- Preference shares
- Share premium account related to preference shares
- Reconciliation reserve
- Subordinated liabilities
- An amount equal to the value of net deferred tax assets
- Other own fund items approved by the supervisory authority as basic own funds not specified above

Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds

- Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds

Deductions

- Deductions for participations in financial and credit institutions

Total basic own funds after deductions

Ancillary own funds

- Unpaid and uncalled ordinary share capital callable on demand
- Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand
- Unpaid and uncalled preference shares callable on demand
- A legally binding commitment to subscribe and pay for subordinated liabilities on demand
- Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC
- Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC
- Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC
- Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC
- Other ancillary own funds

Total ancillary own funds

Available and eligible own funds

- Total available own funds to meet the SCR
- Total available own funds to meet the MCR
- Total eligible own funds to meet the SCR
- Total eligible own funds to meet the MCR

SCR

MCR

Ratio of Eligible own funds to SCR

Ratio of Eligible own funds to MCR

Reconciliation reserve

- Excess of assets over liabilities
- Own shares (held directly and indirectly)
- Foreseeable dividends, distributions and charges
- Other basic own fund items
- Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

Reconciliation reserve

Expected profits

- Expected profits included in future premiums (EPIFP) - Life business
- Expected profits included in future premiums (EPIFP) - Non- life business

Total Expected profits included in future premiums (EPIFP)

	Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
	C0010	C0020	C0030	C0040	C0050
R0010	8,000	8,000			
R0030					
R0040					
R0050					
R0070					
R0090					
R0110					
R0130	723	723			
R0140					
R0160					
R0180					
R0220					
R0230					
R0290	8,723	8,723			
R0300					
R0310					
R0320					
R0330					
R0340					
R0350					
R0360					
R0370					
R0390					
R0400					
R0500	8,723	8,723			
R0510	8,723	8,723			
R0540	8,723	8,723			
R0550	8,723	8,723			
R0580	2,729				
R0600	3,288				
R0620	3,1969				
R0640	2,6527				
C0060					
R0700	8,723				
R0710					
R0720					
R0730	8,000				
R0740					
R0760	723				
R0770					
R0780					
R0790					

S.25.01.21

**Solvency Capital Requirement - for undertakings on Standard Formula**

Market risk  
 Counterparty default risk  
 Life underwriting risk  
 Health underwriting risk  
 Non-life underwriting risk  
 Diversification  
 Intangible asset risk  
**Basic Solvency Capital Requirement**

**Calculation of Solvency Capital Requirement**

Operational risk  
 Loss-absorbing capacity of technical provisions  
 Loss-absorbing capacity of deferred taxes  
 Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC

**Solvency capital requirement excluding capital add-on**

Capital add-on already set

**Solvency capital requirement**

**Other information on SCR**

Capital requirement for duration-based equity risk sub-module  
 Total amount of Notional Solvency Capital Requirement for remaining part  
 Total amount of Notional Solvency Capital Requirements for ring fenced funds  
 Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios  
 Diversification effects due to RFF nSCR aggregation for article 304

	Gross solvency capital requirement	USP	Simplifications
	C0110	C0090	C0100
<b>R0010</b>	647		
<b>R0020</b>	129		
<b>R0030</b>	1,084		
<b>R0040</b>			
<b>R0050</b>			
<b>R0060</b>	- 420		
<b>R0070</b>			
<b>R0100</b>	1,440		

	C0100
<b>R0130</b>	1,347
<b>R0140</b>	
<b>R0150</b>	- 58
<b>R0160</b>	
<b>R0200</b>	2,729
<b>R0210</b>	
<b>R0220</b>	2,729
<b>R0400</b>	
<b>R0410</b>	
<b>R0420</b>	
<b>R0430</b>	
<b>R0440</b>	

**S.28.01.01**

**Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity**

**Linear formula component for life insurance and reinsurance obligations**

	<b>C0040</b>
MCR <sub>L</sub> Result	<b>R0200</b> 7,172

	Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
	<b>C0050</b>	<b>C0060</b>
Obligations with profit participation - guaranteed benefits	<b>R0210</b>	
Obligations with profit participation - future discretionary benefits	<b>R0220</b>	
Index-linked and unit-linked insurance obligations	<b>R0230</b> 1,024,560	
Other life (re)insurance and health (re)insurance obligations	<b>R0240</b>	
Total capital at risk for all life (re)insurance obligations	<b>R0250</b>	

**Overall MCR calculation**

	<b>C0070</b>
Linear MCR	<b>R0300</b> 7,172
SCR	<b>R0310</b> 2,729
MCR cap	<b>R0320</b> 1,228
MCR floor	<b>R0330</b> 682
Combined MCR	<b>R0340</b> 1,228
Absolute floor of the MCR	<b>R0350</b> 3,288
	<b>C0070</b>
<b>Minimum Capital Requirement</b>	<b>R0400</b> 3,288