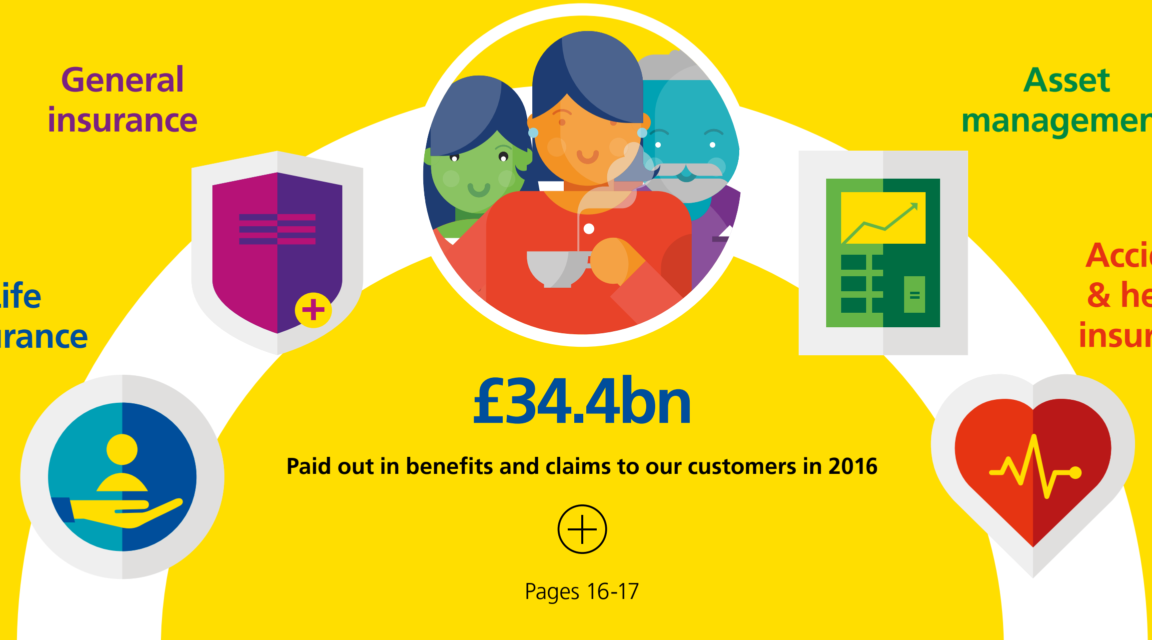
AVIVA

Annual Report and Accounts 2016

| Retirement | Investments | Insurance | Health |

WHAT WE DO

We help people protect what's important to them and save for a comfortable future. We offer a wide range of insurance and savings products



General insurance

Life insurance

Asset management

Accident & health insurance

£34.4bn

Paid out in benefits and claims to our customers in 2016

Pages 16-17

2016 FINANCIALS

2016 was a successful year despite challenging market conditions

Operating profit‡[1]

£3,010m

Up 12% on 2015[2]

Cash remittances‡

£1,805m

Up 20% on 2015

Total dividend

23.30p

Up 12% on 2015

Profit after tax[1]

£859m

Down 22% on 2015[2]

Net asset value per share‡

414p

Up 6% on 2015[2]

Solvency II cover ratio‡[3]

189%

Up 9ppts on 2015

1 Impact of the change in the Ogden discount rate is an exceptional item and therefore not recognised within operating profit. The impact to profit before tax is £475 million, with an after tax impact of £380 million. Please refer to the CFO review on pages 64-65 for further information.
2 Prior period comparatives have been restated. Refer to note 1 on page 154 for further information.
3 The estimated Solvency II cover ratio represents the shareholder view. Refer to the Glossary for further information.

OUR STRATEGY

Our strategic framework focuses on the things that really matter and puts the customer at the heart of everything we do. It provides clear direction across all our markets for how we run our business

True Customer Composite

Meeting customer needs across life, general, accident & health insurance and asset management

Pages 20-23

Digital First

Emphasising customer experience driven by digital – online, mobile and tablet

Pages 26-27

Not Everywhere

Focusing on markets and segments where we can win

Pages 28-29

OUR VALUES AND CULTURE

Our values are deliberately edgy, thought-provoking and challenging. We strive to live them every day. We want them to guide everything we do and the decisions we take

Care More

We start with the customer and prioritise delivering a great outcome for them. We're in it together

Kill Complexity

We can list our priorities on one hand, picking a few things to do brilliantly. We join forces and build it once

Never Rest

We are dissatisfied with the status quo. We test and learn at pace. We embrace digital

Create Legacy

We invest with courage, taking smart risks and good decisions. We take the long view

Pages 30-33

Scan to view film on our purpose

Defy **Uncertainty**

We're there for our **33 million customers**, protecting what's important to them and helping them save for the future. We help our customers look to the future with confidence

£34.4bn Paid out in benefits and claims to our customers in 2016 – a £3.7 billion increase on last year	**74%** Employee engagement has increased by four percentage points, and is above the financial services average[1]
58% Our global businesses are either at or above the upper quartile for customer advocacy compared to our competitors[2]	**7.5m** Registered users on our global digital platforms up 97% from 3.8 million in 2015
£450bn Assets under management‡ an increase of £59 billion on last year	**1,600** Community projects supported in 2016, 60% more than our target

We want to be a **320 year old disruptor,** benefitting from the strength of our past while leading the way in digital innovation

VIEW MORE – To access supplementary digital content, simply open a QR app on your mobile device and scan the QR code. Please note that the link is provided for ease of reference only and the information in the link does not form part of the 2016 annual report and accounts.

1 We can externally benchmark four of the ten questions we use to calculate employee engagement.
2 GfK Annual Relationship Survey, 2016. Net Promoter Score® (NPS) is a measure of the likelihood to recommend (brand) to a friend or colleague.
‡ Please refer to the glossary for further details on non-GAAP Alternative Performance Measures (APMs). All APMs are referenced using "‡" within the strategic report.

WHAT'S INSIDE

Living our values

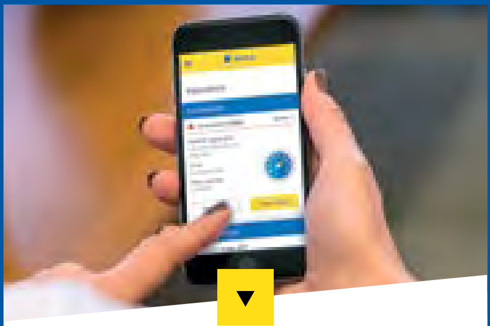
Pages 04-05

Interview with Mark Wilson, our Group Chief Executive Officer

Pages 06-09

Putting our customers first

Pages 14-15

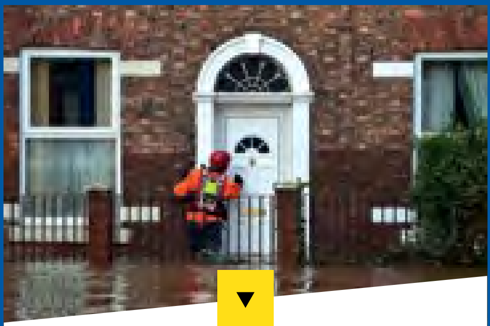


Disrupting through digital

Pages 24-25

Helping to prevent and protect

Pages 34-35



Being a good ancestor

Pages 56-57

By continuing to **serve our customers well** we can grow earnings, cash and dividends

HIGHLIGHTS FOR 2016

We have tremendous advantages as a Company: a clear strategy, a well-respected brand, strong values and outstanding technical skills. And more than that, we have the energy and drive to make the most of them.

Our people

I would like to thank our 29,500 people in 16 markets around the world for their contribution in delivering on our purpose. They strive to live our values - Care More, Kill Complexity, Never Rest and Create Legacy. We are building an innovative, energetic, supportive culture which is anchored in these strong values and focused on our customers' needs, enabling us to make the most of our strategic advantages now and in the future. I am delighted that our overall colleague engagement score in 2016 has increased by four percentage points to 74%.

SIR ADRIAN MONTAGUE CBE

Chairman

KEY HIGHLIGHTS

Net asset value per share[‡]

414p

(2015: 390 pence[1])

Profit after tax (including the impact of the change in the Ogden rate)

£859m

(2015: £1,097 million[1])

Total dividend

23.30p

(2015: 20.80 pence)

1 Prior period comparatives have been restated. Refer to Note 1 on page 154 for further information.

Read more about the net asset value and profit after tax in the CFO review on pages 64-67

Aviva has had a good year and there is more to come. We have a clear purpose to help our customers Defy Uncertainty. We are embracing digital to deliver more effectively and our financial performance sets us well for the future.

BREXIT

The European Union (EU) referendum introduced considerable volatility to UK markets however Brexit does not have a significant operational impact for Aviva. The vast majority of our businesses are locally incorporated and regulated, and we have limited reliance on passporting, which allows some companies to serve customers across the EU. We are of course developing contingency plans to cover any potential adverse consequences that might arise for our business.

OUR COMMUNITY AND CUSTOMERS

We believe in acting sustainably and responsibly, which supports our strategy and aligns with our values. We aim to reduce our impact on the environment, and increase our support to our communities and charity partners.

In 2016 we launched our three year partnership with the British Red Cross to help communities across the world prepare for, and respond to, disasters, through skills-sharing, innovation and fundraising. The Aviva Community Fund continued to make a difference to the causes that are important to our people, customers and stakeholders.

The Board recognises our responsibility to our 33 million customers, to help protect what is important to them and to help save for a comfortable future. Further details can be found on pages 14-15 of the report.

BOARD COMPOSITION AND GOVERNANCE

During the year Claudia Arney and Keith Williams joined the Board as Non-Executive Directors, and Scott Wheway stepped down on 31 December 2016 after nine years' service on the Board. I would like to thank Scott for his significant contribution to the Group over this time. In March 2017 we announced a number of Board changes. Further details on this and our approach to succession planning are set out in the Chairman's Governance letter. We remain conscious of the need to enhance Board diversity, our progress on which is also set out in the Chairman's Governance letter.

CHALLENGES DURING 2016

The Board and its committees of course faced some challenges during the year, including increased market uncertainty and volatility. In addition, the Governance Committee examined the customer and conduct implications following suspension of dealings in the Aviva Property Trust Funds. The Board also reviewed the steps taken following the fine issued by the Financial Conduct Authority (FCA) in October 2016 in response to the breaches of FCA client money rules. These challenges did not lead to any loss for our customers or have any material impact on our performance, as set out later in this report.

PERFORMANCE

Net asset value increased 6% to 414 pence per share *(2015: 390 pence per share[1])*. Profit after tax was down 22% to £859 million *(2015: £1,097 million[1])* which includes the adverse impact of the change in the Ogden discount rate announced by the Lord Chancellor on 27 February 2017. Excluding Ogden, profit after tax increased 13%. We have considered this change an exceptional item which is not reflected in Aviva's operating profit and will not result in a change in dividend policy.

DIVIDEND

The Board proposes a final dividend of 15.88 pence per share (*2015: 14.05 pence per share*). This is a 13% increase and reflects the Board's confidence in the Group's prospects.

LOOKING FORWARD

During 2017, we will continue to focus on increasing customer advocacy, becoming a digital disruptor, capital optimisation, managing our risk environment and increasing shareholder value. Your Board remains confident in Aviva's ability to deliver on our commitment to increase the dividend payout ratio to 50% of operating earnings per share in 2017.

Sir Adrian Montague CBE
Chairman
8 March 2017

Living our **values**

Our values are edgy, challenging and thought-provoking.
We Care More, Kill Complexity, Never Rest and Create Legacy.
We want our values to guide everything we do and the decisions we take

DOING THE RIGHT THING FOR OUR PEOPLE

We want our people to be able to enjoy a decent standard of living – that's why we're proud to be a real Living Wage Employer in the UK. And that doesn't apply just to our people, but also to contractors and suppliers who work on our sites – people like Lynne (right), who do a great job helping to keep our offices in Norwich clean and safe. Why? Because it's the right thing to do.

Scan to see Lynne's story

INCLUSIVE DIVERSITY

Inclusive diversity is at the heart of how we do business. If people can be themselves, they'll be happier and perform better. Our Lesbian, Gay, Bisexual and Transgender (LGBT) network, Aviva Pride, launched its Allies Programme in 2016, so that everyone can show how important LGBT colleagues are to our success. Our photo shows our people celebrating diversity at Dublin Pride in June 2016. Diversity is something we can all celebrate.

5,000+

Visible LGBT Allies across six locations, showing that it's important to spend energy being yourself, not hiding it. We also recently launched our Aviva Pride and Allies group in Toronto, Canada

87%

Of our people believe Aviva is a place where people from diverse backgrounds can succeed (up 11 percentage points from 2015)

LIVING LEGENDS AWARDS

Each year we look to all corners of Aviva to find the true values legends. Those people who live by and champion our values every day. We celebrate these colleagues at our annual CEO Forum where we share their stories, and recognise their contribution by donating £5,000 to a charity of their choice. Alongside individual values legends, we recognise one individual as our Global Living Legend. A colleague who epitomises all our values. This year we celebrated Hugh Hessing as our Global Living Legend. Hugh is passionate about the customer and tireless in living our values every day. That's why he is our new UK customer operations director.

Turning Aviva into a 320 year old **disruptor**

MARK WILSON

Group Chief Executive Officer

Q How would you describe 2016?

MW By any standards 2016 was a year of global uncertainty – with a few political surprises. Aviva's results however are simple and clear cut: more operating profit, more capital, more cash, more dividend. And there is more to come.

Aviva's results reflect the considerable progress we've made in recent years. Operating profits are up, our balance sheet is now a key point of strength, and our results are reflected in the total dividend which increased by 12% to 23.30 pence.

We enjoy a clear strategic advantage as a composite insurer – providing customers with a wide range of insurance and savings products from car, home and health insurance to pensions and investments.

We're taking a leadership position in digital insurance and this is our future. In the UK, all of our customer systems now talk to each other. That's no mean feat and gives us a big advantage in how we serve customers in a simple and transparent way.

We have completed the fix phase of our transformation and we are now moving to the growth phase, redefining our business model and our relationship with our customers as we become a 320 year old digital disruptor.

Q Talk us through the numbers for 2016?

MW The numbers speak for themselves. Aviva is building a track record of delivery and growth. For the third year in a row we have grown operating profits, up 12% and further strengthened the balance sheet. Fund management delivered a break-out year with strong positive net flows and profits up 30%. UK Life and GI grew profits by 7% and 10% respectively, and Canada grew by 26%.

There were plenty of highlights during the year. We delivered the integration benefits of Friends Life a year ahead of schedule and secured run rate synergies of £270 million - in excess of our £225 million target. We also acquired RBC General Insurance which will increase our scale and broaden our distribution in Canada. And in Hong Kong we're reinventing insurance for the digital age with our new joint venture with Hillhouse Capital, a leading investment management firm, and Tencent, the world's fourth largest internet company. Together we're going to disrupt the market.

We also note the surprise decision on the Ogden discount rate which we believe is not sustainable in the long term. The UK Government has announced a consultation to review the methodology behind the rate and we hope that common sense will prevail. That said, we recognised the full impact of the minus 0.75% rate as an exceptional item in our 2016 results outside of our operating profit measure. This does not affect our dividend policy. We await a fuller Government review to ascertain what the rate will be.

TRANSFORMING AVIVA: THE NEXT PHASE

Over the past three years we have transformed Aviva. We have fixed the balance sheet and turned around the operating performance. As we now enter the growth phase of our transformation, we have a clear strategy to deliver that growth. And we are going to accelerate how we deliver that strategy. We'll do so by recognising that strategy alone is just not enough. To go faster and further, we need the right culture, the right way of doing things. Our values aren't optional or incidental. They crystallise how we are going to leave behind anything that holds us back, by killing complexity and making sure the customer is at the heart of our thinking.

In addition to the cultural change we have also addressed how Aviva is structured to deliver the best of Aviva to our customers, simply and conveniently. We're structuring ourselves so they deal with just one business. Our priorities are to

DIGITAL CAPABILITY

We have two enviable advantages: our brand and customer base. But to become the successful digital disruptor that we want to be, we need much more than excellent insurance and finance people. We also need data scientists, innovators, entrepreneurs and start-up magicians.

Over the past two years, we've recruited some of the world's best digital talent - stars from the online gaming, technology and entertainment sectors; customer experience gurus, passionate designers and world-class app-developers. They have joined us because they want to break the mould and help us disrupt the market. Whether it's the established digital experts we've attracted to Aviva or the graduates and apprentices who are choosing Aviva as the launch pad for their digital careers, this new talent is helping to drive a rapid cultural shift to a 'Digital First' mindset across Aviva.

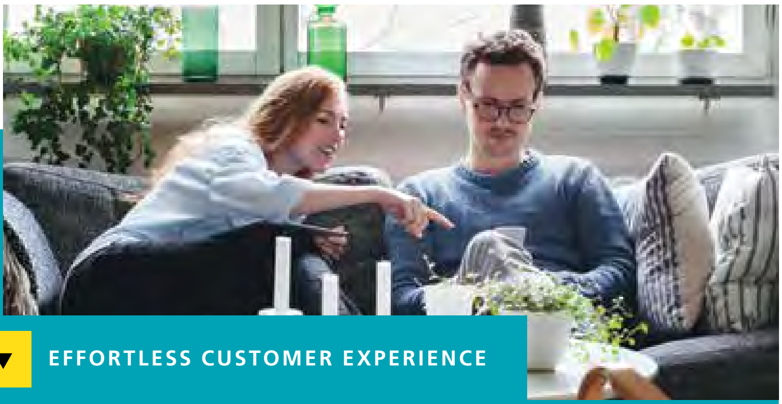
Whatever their background, our digital people have a real passion for delivering excellent customer experience and are choosing to be part of an organisation that is disrupting its industry.

continue to deepen our position in our home UK market and to continue growing in our core international markets in order to diversify and strengthen Aviva.

In 2017, we announced that we are bringing together our UK insurance businesses – life insurance, general insurance and health insurance – under Andy Briggs, who becomes CEO UK Insurance[1]. We have also strengthened our international focus, with Maurice Tulloch becoming CEO International Insurance[1], responsible for Aviva's insurance operations in Canada, France, Ireland, Spain, Italy, Poland, Turkey and India. Chris Wei remains Executive Chairman of Asia & FPI and Global Chairman of Aviva Digital and Euan Munro remains CEO of Aviva Investors. This new structure better reflects our focus on meeting our customers' needs and is reflected in how we report on our performance in this report.

1 Subject to regulatory approval.

Scan to see Mark Wilson talking about our performance



EFFORTLESS CUSTOMER EXPERIENCE

Being a True Customer Composite means we can build deeper relationships with customers. MyAviva gives us the right tool to deliver what they expect, a simple and effortless digital experience – whatever they're buying. Nothing is more annoying than being asked the same questions again and again. Our customers want us to save them time as well as money. So our plan is to ask customers questions – once. With the right systems in place, we can use data more intelligently, to offer a pre-underwritten and pre-approved quote. It's a fundamentally different way of thinking. Customers are more likely to buy additional products with us because we know them better and can meet their needs better. What's our long-term goal? To go from Ask it Once to Ask it Never – so customers don't have to answer any questions at all.

KEY HIGHLIGHTS

Operating profit‡2 up 12% to

£3,010m

(2015: £2,688 million[1])

Cash remittances‡ up 20% to

£1,805m

(2015: £1,507 million)

Digital registrations up 97% to

7.5m

(2015: 3.8 million)

Final dividend per share

15.88p

(2015: 14.05 pence)

Q How important is digital?

MW Leading with digital is how we will maximise our competitive advantage as a composite insurer. It's how our customers increasingly want to deal with us. Aviva was born in an age of quills and parchment – 320 years ago. Now digital is fundamental to our future. Everything we do must be through a digital lens.

We are rapidly increasing the number of customers on MyAviva in the UK, doubling to 4.7 million.

The insurance industry is ripe for disruption. Aviva must be the world's oldest digital disruptor. We're a long way from where I know we need to be. But now let's see how far and fast we can travel.

Q What's your approach to capital allocation?

MW As I've said before, I see capital allocation in Aviva as a competitive sport. And we're going to carry on being absolutely ruthless in how we allocate it, investing where we will get the best returns and stopping things where we won't be clear winners. Not everything in the garden is rosy and we will continue to take action to address areas which do not meet our exacting expectations.

We think of our markets in terms of "oaks" – which deliver solid growth and sustainable cash; as "acorns", which promise fast future growth and "apple trees", which we will simplify, restructure, focus and improve. It is through this strategic lens that we make decisions around capital to simplify, strengthen and grow the business.

For example, we've reallocated capital by selling our Irish health business and we've announced the sale of Antarius, our joint venture with SocGen in France. And we've invested for growth through our exciting new partnership with Tencent and Hillhouse, and through our deal with RBC General Insurance in Canada.

Aviva's financial position has been transformed and an unmistakably stronger balance sheet and excess capital gives Aviva options. We will invest further to grow our businesses and we are now actively planning a capital return to our shareholders and a debt reduction in 2017.

Q What will you be focusing on in 2017?

MW We are focused on delivering consistent growth year after year. 2017 is no exception. We aim to grow profits and increase our dividend payout ratio to 50% of operating earnings per share. With our high quality franchises and strong balance sheet, we enter the year with optimism.

We will keep transforming our business for the digital age, to make it simple and convenient for our customers. To do this, we will continue to transform our culture. We've made great strides. 78% of our people believe, understand and agree with our strategy. But I want us to have the mentality and agility of a start-up combined with the prudence, risk management and discipline of an established business. With the right culture, we can fundamentally change the world of insurance.

Q What's your final message?

MW To our shareholders, I say Aviva's strong financial position, resilience and diversity mean we are well insulated from external events. We remain confident in our ability to deliver on our key commitments of cash flow and growth.

To our people, I say thank you. You've achieved a tremendous amount. But I'm relying on you to do a whole lot more. 2017 is going to be a year of change – exciting, innovative change.

And to our customers, I say thank you for putting your trust in us. You are the reason we're in business. We are here to help you defy uncertainty in this uncertain world.

Mark Wilson
Group Chief Executive Officer
8 March 2017

DELIVERING ON A CLEAR PLAN OF ACTION

Financial
Cash flow plus growth
Dividend
Strong balance sheet

Strategic
True Customer Composite
Digital First
Not Everywhere

Cultural
Care More
Kill Complexity
Never Rest
Create Legacy

WHAT WE ACHIEVED

Financial

For our key metrics, we have:
- Increased operating profit‡ by 12%[1] to £3,010 million[2]. Operating earnings per share‡ increased 3%[1] to 51.1p[2]
- Increased cash remittances‡ to Group by 20% to £1,805 million
- Increased total dividend per share by 12% to 23.30 pence
- Delivered a strong Solvency II capital position with a Solvency II cover ratio‡ of 189%[3] up 9ppts

For the acquisition of Friends Life, we have:
- Delivered the integration benefits a year ahead of schedule
- Secured run rate synergies of £270 million – in excess of our £225 million target

Strategic

For our customers, we have:
- Added around 30% more products to MyAviva in the UK during 2016
- Campaigned for our customers e.g. tackling motor fraud

In Digital, we have:
- Opened digital garages in Poland and Canada, alongside our existing ones in London and Singapore
- Agreed a new digital insurance joint venture in Hong Kong with Hillhouse and Tencent

Not Everywhere:
- Sold our Ireland Health business and announced the sale of Antarius in France
- Launched Aviva Financial Advisers in Singapore
- Diversified and strengthened distribution with the RBC General Insurance acquisition in Canada

Cultural

For our people, we have:
- Continued to build a culture where we consider our customers in every decision
- Launched the GROW portal to help our people develop new skills
- Created an environment which attracts and retains talented, committed, entrepreneurial people

For society, we have:
- Continued to lead the debate and take action on sustainable finance and the risk of climate change
- Supported 1,600 community projects

WHAT WE PLAN TO DO

Financial
- Target mid-single digit increase in operating profit over the medium term
- Aim to deliver £7 billion of cash remittances between 2016-2018
- Focus on achieving a 50% dividend pay out ratio in 2017
- Target a Solvency II cover ratio working range of between 150%–180%

Strategic
- Build and deepen engagement with our customers by increasing registrations on MyAviva
- Disrupt in digital to do more for our customers
- Continue to campaign for what's important to our customers
- Continue to reallocate capital to focus on what we do best and drive higher returns

Cultural
- Further develop our leaders across Aviva through greater innovation, agility and accountability
- Build a culture where we consider our customers in every decision
- Develop an inclusive workforce that reflects the diversity of our customers
- Extend the Aviva Community Fund to more countries and continue towards our target of helping 2.5 million beneficiaries through our projects by 2020

1 Prior period comparatives have been restated. Refer to note 1 on page 154 for further information.
2 The adverse impact of the change in the Ogden rate of £475 million is an exceptional item and therefore not recognised within operating profit. Please refer to the CFO review on pages 64-65 for further information.
3 The estimated Solvency II cover ratio represents the shareholder view. Refer to the Glossary for further information.

How our performance is measured

We use a range of financial and non-financial metrics to measure our performance, financial strength, customer advocacy, employee engagement and impact on society[1]

ENGAGING OUR PEOPLE R

We give our people the freedom to act in line with our values to create an environment in which they can thrive through collaboration and recognition. We measure this through our annual global 'Voice of Aviva' survey. Since 2015, engagement has risen by four percentage points driven by increases in the UK, France, Ireland and within our Aviva Investors and Digital businesses. People who joined Aviva through the Friends Life acquisition are significantly more positive than a year ago. This is a key measure of success for our integration work.

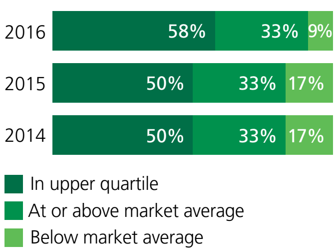
74%

Read more on our people pages 30-33

MAKING A DIFFERENCE TO OUR CUSTOMERS R

Our Net Promoter Score® (NPS) measures the likelihood of a customer recommending Aviva. Our 2016 relationship survey scores have improved slightly compared to 2015, with seven of our 12 markets[2] (58%) measured being ahead of the competition. Our overall global Net Promoter Score® improved by three points to +13 and is in line with our competitors. There is still more to do and we are committed to putting customers first and improving their experience.

58% 33% 9%

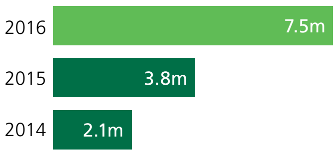


Read more on True Customer Composite on pages 20-23

DIGITAL CONVENIENCE FOR OUR CUSTOMERS R

We continue to make strong progress with our digital transformation. MyAviva remains at the heart of our digital revolution and registrations on our digital platforms have surpassed 7.5 million. Our digital platforms enable customers to deal with us whenever and however they choose.

7.5m



Read more on Digital First on pages 26-27

REDUCING OUR CARBON FOOTPRINT

We are carbon neutral. We've reduced the level of carbon emissions (CO_2e) from our day-to-day operations by 46% since 2010.

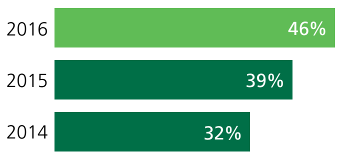
In the UK alone we installed solar panels to generate renewable electricity, replaced over 250,000 lightbulbs with LED equivalents and reduced water consumption per tap in our bathrooms and kitchens by 80% during 2016.

CO_2e data includes emissions from our buildings, business travel, water and waste to landfill.

Long-term target

Carbon emissions reduction target of 50% by 2020 and 70% by 2030

46% reduction since 2010



Read more on our environmental performance on pages 58-61

MEASURING OPERATING PROFITABILITY R

Overall, operating profit‡ increased 12% to £3,010 million which includes an additional quarter's contribution from Friends Life, six months results from RBC General Insurance acquired in July 2016 and a favourable foreign exchange impact of £141 million. This excludes the impact of the change in the Ogden discount rate of £475 million, which is treated as an exceptional non-operating item.

Medium-term target
Target mid-single digit growth

£3,010m

2016	£3,010m
2015	£2,688m[4]
2014	£2,238m[4]

Read more on our markets on pages 38-53

IMPROVING CASH FLOW FROM OUR BUSINESSES R

Sustainable cash remittances‡ from our businesses are a key financial priority. The increase in cash remittances included £250 million from the Friends Life integration and a contribution of £130 million from our Canadian business. This was partly offset by lower remittances from UK General Insurance, as cash was used to fund an increase in the internal reinsurance arrangement.

2016-2018 target
£7 billion of cash remittances

£1,805m

2016	£1,805m
2015	£1,507m
2014	£1,431m

Read more on our financials on pages 64-67

MAINTAINING A STRONG BALANCE SHEET

We continue to maintain our strong financial position. The Solvency II shareholder cover ratio‡[5] excludes the contribution from fully ring fenced with-profits funds (£2.9 billion) and staff pension schemes in surplus (£1.1 billion). The impact of the announced sale of Antarius and the changes to UK tax rules announced in the November 2016 Autumn statement have also been reflected in the Solvency II position.

Working range
150%–180%

189%

2016	189%
2015	180%
2014	n/a

Read more on our financials on pages 64-67

GROWING OUR LIFE INSURANCE BUSINESS R

Value of New Business (VNB)‡ measures growth and is the source of future cash flows in our life businesses. VNB increased by 13%, primarily driven by growth of new business in Europe, the UK and Aviva Investors. VNB includes a foreign exchange benefit of £65 million.

£1,352m

2016	£1,352m
2015	£1,192m
2014	£1,005m

Read more on our markets on pages 38-53

UNDERWRITING THAT DELIVERS PROFITS R

The combined operating ratio (COR)‡ is a measure of general insurance underwriting profit. The lower the COR is below 100%, the more profitable we are. COR is 101.1% including the impact of the change in the Ogden discount rate. Excluding the Ogden rate change, COR increased 0.6 percentage points to 95.2%, reflecting the new HomeServe partnership agreement and the Flood Re Levy in the UK, partly offset by better weather experience and claims cost saving initiatives.

95.2%

2016	95.2% 5.9%
2015	94.6%
2014	95.7%

Reflects Ogden impact of 5.9ppts (total including Ogden is 101.1%)

Read more on our markets on pages 38-53

R Symbol denotes key performance indicators used as a base to determine remuneration.

1 2015 numbers include Friends Life from 10 April 2015. 2014 numbers are Aviva stand-alone.
2 Excludes Indonesia, India, Taiwan and Vietnam.
3 Restated to reflect a new methodology used to measure employee engagement in 2016.
4 Prior period comparatives have been restated. Refer to note 1 on page 154 for further information.
5 The estimated Solvency II cover ratio represents the shareholder view. Refer to the Glossary for further information.

My life, my way

Customers will be much more in control, expecting to self-serve and self-solve. They will want to be able to access data and insight, and use it to guide their own decisions

For more information on our customer strategy, see pages 20-23.

Banking app logins a day during 2015 in the UK – up 50% on the previous year

11m

Source: Way we Bank Now, BBA, June 2016

The power of communities

Government influence is reducing as the role of 'communities' of mutual interests and connected networks, both virtual and local, increases

For more information on our role in society, see pages 58-61.

Daily active Facebook users on average

1.23bn

Source: facebook.com, stats, December 2016

Where the world is going

Our strategic framework responds to and anticipates the seven long-term trends which will impact our industry over the next few years. We acknowledge the risks they present but aim to turn these trends into opportunities for future growth.

Winning through data

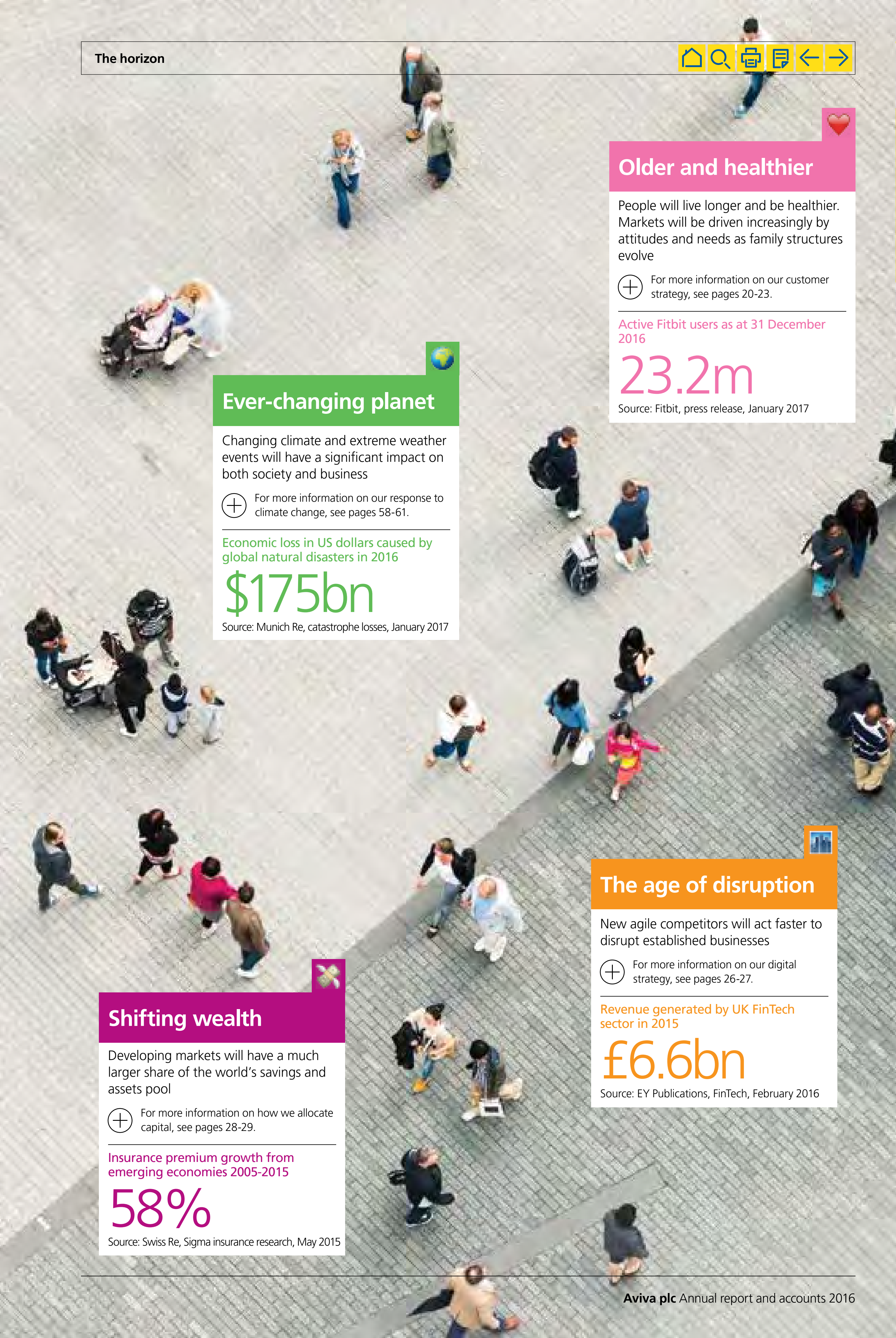
Those who interpret data quickly and intuitively to inform the development of products and services that provide real value for customers will lead the way

For more information on our digital strategy, see pages 26-27.

Number of vehicles in use globally with built-in telematics by 2025

430m

Source: Navigant Research Newsroom, October 2016



Older and healthier

People will live longer and be healthier. Markets will be driven increasingly by attitudes and needs as family structures evolve

For more information on our customer strategy, see pages 20-23.

Active Fitbit users as at 31 December 2016

23.2m

Source: Fitbit, press release, January 2017

Ever-changing planet

Changing climate and extreme weather events will have a significant impact on both society and business

For more information on our response to climate change, see pages 58-61.

Economic loss in US dollars caused by global natural disasters in 2016

$175bn

Source: Munich Re, catastrophe losses, January 2017

The age of disruption

New agile competitors will act faster to disrupt established businesses

For more information on our digital strategy, see pages 26-27.

Revenue generated by UK FinTech sector in 2015

£6.6bn

Source: EY Publications, FinTech, February 2016

Shifting wealth

Developing markets will have a much larger share of the world's savings and assets pool

For more information on how we allocate capital, see pages 28-29.

Insurance premium growth from emerging economies 2005-2015

58%

Source: Swiss Re, Sigma insurance research, May 2015

Putting our customers first

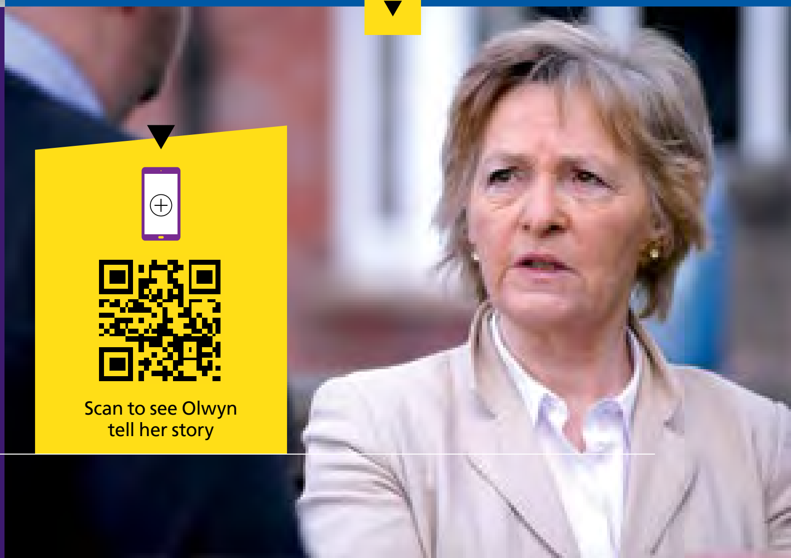
We help people protect what's important to them and save for a comfortable future. We're here to help our customers Defy Uncertainty

CARING ABOUT OUR CUSTOMERS

When our customers talk to us, it's often because something bad has happened and they want our help. That's what happened when Olwyn (below) called us after her home flooded. We've rolled out training from the British Red Cross so our people can do more to help customers with their claims at these moments of crisis. The scheme also helps our people look after their own well-being. It's a great example of caring more about our customers and one another.

AIMS: OUTCOME-ORIENTED SOLUTIONS

Our goal at Aviva Investors is to use our international reach and expertise to solve our clients' problems, most notably with the AIMS range of funds. These are totally focused on meeting customers' needs – that's especially important in an uncertain world. Aviva Investors CEO, Euan Munro, thinks Aviva Investors is the one to watch in 2017 – whether you're a shareholder or a customer.



Scan to see Olwyn tell her story

CUSTOMER-FIRST ADVICE IN SINGAPORE

In Singapore, lions are considered auspicious. So when a business opens, the way to get it off to a great start is to have a lion dance. We think Aviva Financial Advisers, launched in August 2016, can be pretty auspicious too for our customers. Our service promotes independence and customer-first advice on a wide range of insurance and investment services to meet their needs.

YOU NEVER KNOW WHAT'S ROUND THE CORNER

Chris Wall (below) works at a property company and lives in Winchester in the South of England with her husband and two lovely working cocker spaniels. A few years ago she bought an Aviva critical illness policy. Money was tight – but she saw it as a wise precaution. She's very glad she did because in October 2015 she was diagnosed with a rare form of bowel cancer. That led to many questions – not least whether she would be able to pay the bills if she couldn't work. Chris talked to Aviva – and within a month we had paid out on her critical illness cover. It was one less thing to worry about. She was delighted with how we handled her claim, telling us the service was "exceptional". We're delighted Chris has recovered and we were happy to help so she could concentrate on getting better.

£34.4bn

Paid out in benefits and claims to our customers in 2016. That's billions of good reasons why we're in business

Scan to see Chris tell her story

We help people protect what's important to them and save for a comfortable future

We have a distinctive approach. It defines and differentiates us. It helps us meet our customers' needs…

Values

Our values are at the heart of how we do business. They are how we must operate:

Care More

Kill Complexity

Never Rest

Create Legacy

Read more on page 32

Strengths

We have unique strengths as a business that give us a significant competitive advantage:

Brand strength

Financial strength

Customer understanding

Multi-distribution

Multi-product

Skills

We have a great range and blend of skills:

Underwriting

Risk management

Customer service

Digital innovation

Big Data & Analytics

Asset & liability management

Capital allocation

Strategy

Our strategic framework focuses on the things that really matter and puts the customer at the heart of what we do:

True Customer Composite

Digital First

Not Everywhere

Read more on pages 18-29

…where premiums and cash are reinvested, creating sustainable value for…

Customers

Customers benefit from a range of products to meet their needs, with easy access when and how they want it.

£34.4bn

Paid out in benefits and claims to our customers in 2016

Shareholders

We create value for shareholders by using our profits to reinvest and grow the business and pay out dividends.

23.30p

Total dividend up 12%

Our people

Our aim is for our people to achieve their potential within a diverse, collaborative and customer-focused organisation.

74%

Increased our engagement score by four percentage points

Society

We play a significant role in our communities, including as a major employer and a long-term responsible investor.

1,600

Community projects supported in 2016

Our **strategic framework** provides clear **direction**

OUR STRATEGY

Our strategic framework focuses on the things that really matter and puts the customer at the heart of everything we do. It provides clear direction across all our markets for how we run our business

True Customer Composite

We can provide customers with life, general, accident and health insurance and asset management – a True Customer Composite. This is what differentiates us. We are the only composite insurer of scale in the UK.

Read more on pages 20-23

Digital First

We put Digital First. This is how we will capitalise on being a True Customer Composite. With their busy lives, customers are increasingly turning to digital to make things more convenient, easier and quicker.

Read more on pages 26-27

Not Everywhere

We focus our resources where we can be most competitive. We are not interested in planting flags or being in 100 countries. We will focus on a select number of markets and business lines where we have scale and profitability or a distinct competitive advantage – where we can win.

Read more on pages 28-29

We are a **True Customer Composite** helping customers protect what's important to them and save for a comfortable future

WHY IT'S IMPORTANT

Operating as a True Customer Composite means we can help our customers protect what's important to them and save for a comfortable future. We understand that customers have a wide range of insurance, protection and savings needs, and can find it challenging to manage them all.

True Customer Composite means offering all these products individually or in tailored combinations to meet customers' needs in a convenient, easy to understand and timely manner.

Furthermore, True Customer Composite means valuing and rewarding customers for making the choice to have a deeper, more loyal relationship with us.

For Aviva, this means increased customer retention and engagement, and lower-cost administration.

WHY NOW?

In a digital world, the advantages of being a True Customer Composite become more tangible. We have a much greater opportunity to deal directly with customers and provide them with a wide range of products to meet their needs.

In the past, although the financial benefits of our composite model were clear (such as lower capital requirements through diversifying our risk), the operational benefits were more elusive. Very few customers held more than one Aviva product because our business was distributed almost solely through intermediaries.

If customers are not relying on intermediaries to analyse their needs and recommend a suitable package of products, they could find themselves managing multiple products from different providers. This is not what customers tell us they want: what they want is a simple way to meet their insurance and savings needs.

HOW WE'VE PROGRESSED

In the UK, our focus in 2016 was to improve the functionality and significantly increase customer registrations for MyAviva, our digital platform. This was enabled by a major programme to bring all of our UK customers onto the same database, so that they can see their products in one place.

We also extended the range of products available to MyAviva customers in the UK, with around 30% more products added to the platform during 2016.

MyAviva now shows pre-calculated quotes for travel, home and health products, together with a 20% discount for existing customers so that they can share the benefits of doing business with us digitally.

Scan to see True Customer Composite in action

True Customer Composite

Digital First

Not Everywhere

By the end of 2016, we had a total of 7.5 million customers registered on our global digital platforms compared to 3.8 million at the start of the year.

We have also been making progress on True Customer Composite in other areas. In Singapore we launched Aviva Financial Advisers, a fully-owned financial advisory firm providing customers with financial solutions across life, health, general insurance and investments.

In the UK, we announced a new partnership with TSB, distributing our 'Pick and Protect' modular home insurance both digitally and through TSB branches. 'Pick and Protect' breaks down traditional home insurance, allowing TSB customers the flexibility to tailor cover for their own insurance needs.

In Italy, we have seen strong sales via our bank and IFA partners of our hybrid savings product, generating €660 million of premiums to outpace the market in 2016. This provides customers with an efficient medium/ long-term investment solution with lower volatility and the option of life and illness protection.

In Spain we launched an online service for our life protection customers to encourage healthy living, physical activity and nutrition.

Of course, our aim is always to get it right for our customers. But sometimes we don't. Our objective is to fix any issues as quickly as possible, so that we restore the level of service our customers rightly expect.

GOOD THINKING

Aviva's global brand strategy "Good Thinking" supports our True Customer Composite and Digital First ambitions by placing the customer firmly at the heart of our business. The essence of the idea is "everything we do is full of good thinking for you".

In 2016, this approach inspired two campaigns in the UK - #DriveSafer and #SaveSmarter. As well as putting our strategy and values into action we have a key social purpose too: tackling issues that matter most to our customers, like safer roads and saving for retirement.

WHAT WE PLAN TO DO NEXT

As part of "Good Thinking", we will continue to develop new propositions for customers in the UK, including home insurance and services for small and medium-sized enterprises. We will extend MyAviva to more countries, as part of our Digital First strategy, which includes creating a common approach to customer-facing digital developments.

To accelerate our strategy for growth and provide a simple, more convenient and better value service to our customers, we are bringing together our UK insurance businesses - life insurance, general insurance and health insurance – all under one roof.

We aim to broaden our offering of accident and health products across several Aviva markets. This will be underpinned by our Digital First strategy which is the key to unlocking the benefits of the True Customer Composite.

DIGITAL CLAIMS

We put Digital First so we can help customers put their health first. It makes dealing with us quick, simple and convenient. If you're not well the last thing you want is to deal with forms – we want customers to focus on getting better.

In Singapore, customers can log in online to file and manage medical claims. It's convenient, quick, and totally paperless – and there's a host of other features to make life easier; whether that's taking a photo of a letter or receipt and submitting it electronically, monitoring your claim, locating clinics, or working out what you're entitled to.

In the UK, some of our health customers can now make claims online through MyAviva. Customers claiming for back, neck, muscle and joint pain can now book an appointment online in just three easy steps, leaving them free to concentrate on the all-important business of getting better. With a range of helpful information and guidance and lots more in the pipeline in 2017, we're working hard to help our customers quickly access the care they need, when they need it most.

Strategic report

KEY HIGHLIGHTS

Global customer advocacy

+13NPS®

Improved by three points[1]

UK customer advocacy

+14NPS®

Compared to -2 NPS® for UK competitors' customers[1]

True Customer Composite – greater UK customer advocacy

+47NPS®

Aviva's UK customers who have three or more products[1]

Global digital customers

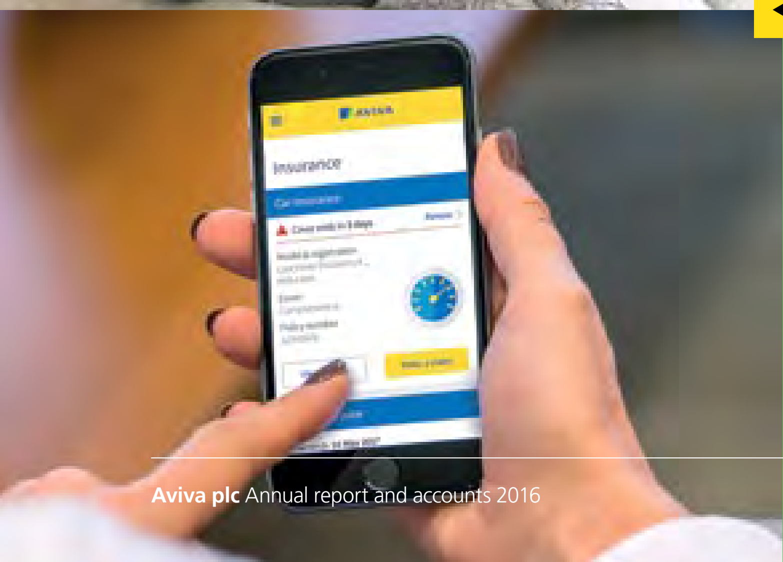
69%

Likely to consider Aviva for other products, compared to 52% of non-digital customers

1 GfK Annual Relationship Survey, 2016. The Net Promoter Score® (NPS) is a measure of the likelihood to recommend (brand) to a friend or colleague.

Disrupting through digital

The insurance industry is ripe for disruption by digital. We want Aviva to be a 320 year old disruptor, which puts Digital First so we can offer customers better, more personalised products and services



MAKING DIGITAL EASY FOR EVERYONE

We put Digital First – because that's great for the customer. But it also means we've got to go the extra mile for customers who aren't confident or comfortable with digital, tailoring what we do so it works for them. We're making MyAviva accessible and convenient, and our retirement hub is designed with ease of use in mind. The Aviva Community Fund has supported local projects that help people of all ages get the skills they need to do more online. We want our customers to be confident enough to be Digital First with us.

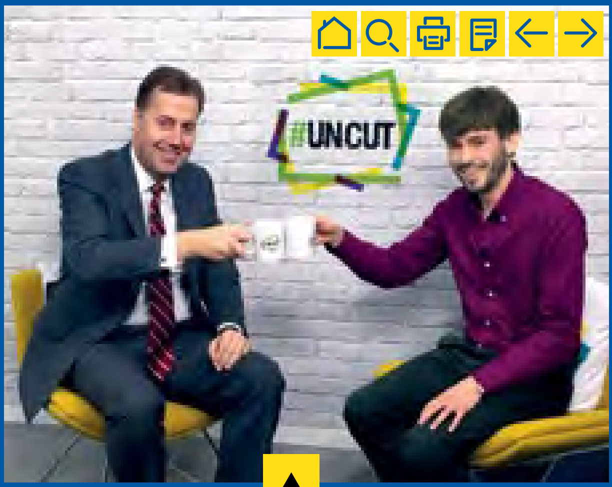
We want everyone to be able to enjoy the ease of dealing with us digitally

#Aviva2016

Mark Wilson / Group Chief Executive Officer

WECHAT, YOU SAVE

In China, WeChat, a leading messaging platform, is part of people's everyday lives and is used by 850 million people. With our partner COFCO, we've set up a savings account available on WeChat called FuBaoBao. It offers a simple, easy, convenient way to build up long-term savings, especially for children. Anyone can pay in as little as 10 yuan (approximately £1). Mr. Derek Wang Tianshan from Guangzhou (below) is one of FuBaoBao's developers. He opened an account for his six year old son and has topped it up more than 500 times. Derek shares pictures of his son with friends and family in other cities through WeChat, and they show their love for the boy by sending him "hong bao" digitally – gifts of money at Chinese New Year – which is paid directly into FuBaoBao. So distance is no longer a barrier for this wonderful tradition.



IN THE HOT SEAT

Aviva #Uncut is a great way to help build a culture in which we have open, transparent, challenging conversations and do better for our customers. One of our senior managers is filmed answering any question without any warning and streamed live to our people. It's a great way to ask burning questions – and stimulate a lively debate. And in 2016, we launched a new mobile streaming app that enables colleagues to watch #Uncut live on their phones.

Scan to see Derek's story

True Customer Composite
Digital First
Not Everywhere

Everything just clicks with **Digital First**

Digital remains crucial to our True Customer Composite strategy. We put Digital First because our customers are increasingly choosing this as their preferred way to deal with us.

WHY IT'S IMPORTANT

The environment in which we operate continues to see rapid change in technology and digital distribution. We have to think Digital First across all our distribution channels – it's how customers want to connect and do business with us.

Digital First helps make being a True Customer Composite central to a new relationship with customers. It builds on our understanding of how customers want to use our products in a digital world.

Increasingly customers want to be able to self-serve: researching, buying policies and making changes online.

Putting Digital First means putting digital at the forefront of all change and development activity across Aviva.

This includes working to maintain and improve our IT security and data encryption, because cyber security is increasingly important to reassure our customers that they can deal with us digitally with confidence.

JUST ASK ALEXA

Let's face it, business is full of jargon and confusing words. We already Kill Complexity through our jargon buster on www.aviva.co.uk. Now we've gone one step further, with Amazon's voice-activated assistant, Alexa, providing people with more than 300 insurance terms and their definitions. We're the first UK insurer to deliver a Skill for Alexa and it's a new way for our customers to interact with us. So if you don't know your no claims discount from your accidental damage cover, just ask Alexa!

HOW WE'VE PROGRESSED

The implementation of our Digital First strategy focuses on our larger markets: UK, France, Poland, Canada and Singapore.

We are adapting our strategies to reflect the distribution landscape in each market, whether that's via direct, intermediaries or our partners, bringing simplicity and an effortless experience.

In all markets the objective is to grow the share of customers we acquire and interact with digitally.

Our Digital Garages in London, Singapore and Canada act as catalysts for digital innovation, where creative minds from across Aviva and the industry collaborate to turn innovative ideas into real products and services for our customers.

We also look to find and apply new ways of doing business, and we are working in partnership with a range of new and existing players in the digital space.

Our Digital Garages act as catalysts for digital innovation – turning innovative ideas into real products

#Aviva2016

Chris Wei / Executive Chairman, Asia & FPI and Global Chairman, Aviva Digital

Scan to see Alexa in action

REINVENTING INSURANCE

We want to reinvent insurance for the digital age; to make it as simple, convenient and accessible as possible for our customers, and challenge traditional distribution, selling and marketing methods. Our new joint venture in Hong Kong aims to do just that. Our partners, Hillhouse and Tencent, have tremendous investment and digital expertise. Together we want to shake up the Hong Kong insurance market, which currently relies on expensive intermediaries, by offering a superior digital solution so that insurance fits with our customers' lives and meets their needs.

SPACE TO INNOVATE

We want to be a 320 year old disruptor. Our aim is to deliver outstanding customer service in a simpler and more cost-effective way – through digital channels. To achieve this, we are bringing together our experts and encouraging them to break the insurance industry's traditional way of doing things. To help our teams collaborate, focus on customers' needs, think bigger and work differently, we've created dedicated digital spaces. Aviva Canada recently opened their Digital Garage in Toronto, joining our Garages in London and Singapore and spaces in our offices in Paris, Warsaw, Bristol and Norwich.

AVIVA VENTURES GLOBAL LAUNCH

Aviva Ventures is our corporate venture capital fund. It looks for cutting edge tech start-ups that can help shape the future of insurance and invests in them. In 2016 it went global. First came London, then Canada, and finally Singapore. We have partnered with businesses like Cocoon (above) – which uses smart tech to deliver next generation home security. We've also announced partnerships with Opun, AppyParking and Founders Factory.

KEY METRICS

Global digital platform registrations

7.5m

(2015: 3.8m)

MyAviva customer satisfaction

75%

Online satisfaction tool shows three quarters are very happy with their online experience

Aviva Ventures investment

£100m

We've committed to a total investment of up to £100 million through Aviva Ventures by 2020

True Customer Composite
Digital First
Not Everywhere

Not Everywhere is all about focusing on creating value and then delivering it

How do we decide where to allocate capital?

1

Does it fit with our strategy?

We focus on delivering our strategic ambitions and providing solutions to meet our customers' needs

WHY IT'S IMPORTANT

Not Everywhere is about focusing our resources where we can be most competitive. It's about focusing on doing a relatively small number of things very well, rather than casting our net too widely. It's about focusing on where we can win.

But Not Everywhere is also about capital allocation – something we see as a competitive sport at Aviva. We allocate capital to the markets, businesses and products that offer the most attractive returns, looking at it through three lenses: strategic, financial and execution.

We expect to continue to narrow our focus on what we can do best throughout 2017.

NOT EVERYWHERE IN PRACTICE

We completed the acquisition of RBC General Insurance in Canada. It strengthened our market position, increasing profit and providing consumers with improved choice about how they access insurance solutions.

We focus on allocating capital to areas where we can generate strong returns. If we're not getting the results we want, we will take action. In 2016, we disposed of our 70% shareholding in Aviva Health Insurance Ireland and in 2017, we announced the sale of Antarius, our joint venture with SocGen in France.

In 2016, we launched Aviva Financial Advisers in Singapore. The business advises on a full range of life, health, general insurance and investment products focused on meeting our customers' needs.

OAKS, ACORNS AND APPLE TREES

Our Oaks, Acorns and Apple trees categorisation shows how each of Aviva's businesses contributes to our overall portfolio, either now or in the future.

Scan to see Mark Wilson talking about our portfolio of businesses

It's about being clear what not to do, so we can focus and invest in what we do best

#Aviva2016

Mark Wilson / Group Chief Executive Officer

2

Does this investment create value?

We aim to invest our Group capital efficiently to get the right balance of risk and return

3

Can we deliver it?

We ensure outcomes can be delivered with a high degree of confidence and that the risks are manageable and understood

Oaks

Solid growth, sustainable cash

UK: Deepen
France: Focus
Poland: Grow
Canada: Diversify

Acorns

Future, fast growth

Aviva Investors: Accelerate
Digital: Innovate
Asia: Disrupt
Turkey: Grow

Apple trees

Simplify, restructure, focus, improve

Spain
Italy
FPI
India/Taiwan

Transforming Aviva from the inside out

To disrupt insurance, we must transform our culture. With the right culture, Aviva will be agile, innovative and visionary. We will delight and serve our customers brilliantly.

We employ around 29,500 people globally and are particularly proud to support the regional economies in our home market, where we employ more than 16,000 people across the UK.

OUR STRATEGY

Our global people strategy sets out how we will accelerate our performance from the inside out. We will:

- Focus on our customers by connecting the day-to-day activities of our people with our purpose;
- Give our people the freedom to act in line with our values, particularly paying attention to Kill Complexity;
- Make leadership a way of life so all our people contribute to delivering our strategy, think independently and inspire high performance;
- Create an inclusive and diverse environment so that everyone can be themselves; and
- Create competitive advantage by actively investing in the skills, mindsets and future talent we need to win in a digital age.

To disrupt insurance we must transform our culture

#Aviva2016

Sarah Morris / Chief People Officer

DEVELOPING OUR TALENT

To succeed we need to empower our people to develop the skills and experiences they need to thrive and deliver for our customers. In 2016, we:

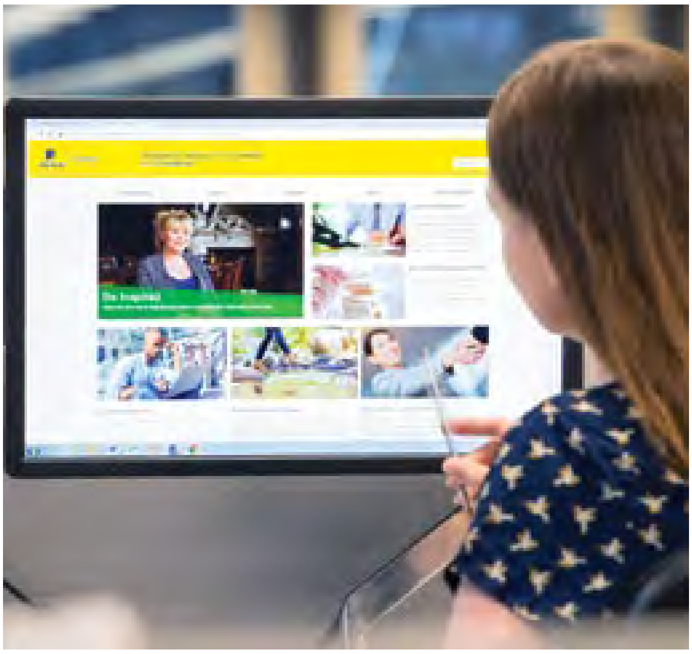
- Strengthened our executive team succession by investing in innovative programmes for future leaders and women in leadership;
- Moved 22% of our high potential people into new roles which will develop and stretch them, and benefit Aviva;
- Launched #disruptivedigitaltalent for 23 future leaders in our UK Digital business;
- Ran the second cohort of our Finance Future Talent programme which helps transition technical finance managers to senior management; and
- Relaunched our global graduate programmes, so that Aviva builds a full pipeline of new talent.

BECOMING A DIGITAL TALENT DESTINATION

We have taken steps to encourage digital and future talent to join Aviva. In 2016, we:

- Opened a digital garage in Toronto to provide an agile environment and encourage collaboration and creativity;
- Launched secondment opportunities with our Plug and Play partners, a global digital start-up accelerator, in Silicon Valley; and
- Introduced a software developer apprenticeship programme into our UK Digital team with places offered in Norwich and Hoxton.

GROW – OUR DIGITAL LEARNING PORTAL



GROW is our new online learning and career portal, which we piloted in Canada. It brings together the tools and resources people need to do their jobs, develop their career and ultimately fulfil their potential. It features details of secondments and job opportunities across the world, essential learning and skills pathways for our people in underwriting and claims. We've had almost 11,000 hits since its launch in September 2016. In 2017, we'll add user-generated content and map out more skills pathways for our people. GROW will also be available on all devices, including mobiles, to make it accessible and convenient.

Our people are more positive than last year on a wide range of areas, but there's more we can do

#Aviva2016

Sarah Morris / Chief People Officer

We are proud to be a Living Wage Foundation partner and a fully accredited Living Wage employer in the UK

WHAT WE ACHIEVED

Improved engagement

We increased our employee engagement score to 74% – by four percentage points. Support for Aviva's strategy is at its highest level up nine percentage points to 78%.

Agile communications

We launched Aviva #Uncut in 2016, where our senior leaders are streamed live on a weekly basis answering any question, from anyone, anywhere about anything.

Inclusive diversity

87% of our people feel that people from diverse backgrounds can succeed at Aviva. We are accelerating our strategy through innovative practices and expert partners.

WHAT WE PLAN TO DO

Culture

We are accelerating our focus on customers, innovation and simplicity in our culture, fuelled by our purpose of Defy Uncertainty and our values.

Digital capability

We will develop outstanding digital capability and agile work practices to disrupt the industry, encourage creative problem-solving, speed and flexibility, with a philosophy of test and learn.

Leadership

We will reinvent the way we identify, select, develop and motivate leaders to inspire our people to create breakthroughs for our customers and foster an inclusive work environment.

OUR VALUES

CARE MORE
We start with the customer and prioritise delivering a great outcome for them. We do the right thing, making sure we and those around us are acting with positive intent. We don't shrink from the tough conversations. We're in it together.

KILL COMPLEXITY
We can list our priorities on one hand, picking a few things to do brilliantly. We make the call with the right information. We join forces and build it once.

NEVER REST
We fail fast and learn fast, testing and learning at pace. We embrace digital. We are dissatisfied with the way things are done now. We challenge ourselves to learn about the cutting edge and harness it. We get it done at pace.

CREATE LEGACY
We invest with courage, taking smart risks and making good decisions to ensure we allocate our resources where they can do most. We think like an owner, taking responsibility. We go for more than quick wins. We take the long view.

OUR VALUES IN ACTION

Each year we look to all corners of Aviva to find the true values legends. Those people that champion our values every day. We celebrate these colleagues at our Living Legends Awards at our annual CEO Forum where we share their stories, and recognise their contribution by donating £5,000 to a charity of their choice. In 2016, we received over 80 nominations, and the winners included:

CARE MORE: **Joanne Cann,** UK Life, for increasing morale and setting up a Women's network in Bristol

KILL COMPLEXITY: **Alison Blowers,** Aviva Investors, for digitising over 30 million documents in one system

NEVER REST: **Lionel Chee,** Singapore, for being an individual who is driven and never satisfied

CREATE LEGACY: **Damian Cross,** UKGI, for helping our flood customers and his work with the Department for Environment, Food and Rural Affairs

INCLUSION AND DIVERSITY

Becoming a more inclusive and diverse organisation is a business imperative. Jan Gooding, our Global Inclusion Director, also chair of LGBT equality charity Stonewall, is leading the agenda.

In 2016, gender diversity was a big focus for us. Mark Wilson, Group CEO, was the first FTSE 100 CEO to sign up to the Executive Committee commitment outlined by the 30% Club - a commitment for 30% of our Group Executive to be women by 2020.

We want to achieve inclusion through leadership, developing leaders and visible role models across Aviva who embody and exemplify inclusive diversity. For example, we've launched our Accelerating Leadership from the Inside Out programme for 30 women. It's designed to develop our future female talent – by exploring purpose, authenticity, influence and confidence. It's a great way for our talent to develop the skills they need to be successful.

In 2017, we will evolve our working culture and work hard to actively embrace everyone.

We will hardwire inclusion into everything we do to allow our people to do their best work

#Aviva2016

Sarah Morris / Chief People Officer

ENGAGING OUR PEOPLE

More than 50,000 comments were provided and analysed in this year's global Voice of Aviva survey. Employee engagement is up by four percentage points to 74%[1], led by significant improvements within our UK Life, global functions, French, Irish and Aviva Investors businesses. Importantly former Friends Life colleagues' engagement significantly strengthened (up 11 percentage points) highlighting how successful the integration work has been over the past 12 months.

Our people are more positive than last year on a wide range of areas, in particular strong rises in their perception of diversity and inclusion, recognition and a significant jump in support for the strategy with 78% saying they believe, understand and agree with our strategy.

As we focus on our growth and digital agenda, employees shared strong alignment on how we achieve this – with 57% requesting simpler systems and processes and 41% requesting greater collaboration and cross team working. Action planning is taking place at a global level and in every large team to address this alongside responding to the local feedback and results.

However, we recognise there is more to do to transform our culture and this is a focus in 2017.

DIVERSITY

At 31 December 2016, we had the following gender split:

BOARD MEMBERSHIP

Male
10

Female
3

SENIOR MANAGEMENT

Male
527

Female
151

AVIVA GROUP EMPLOYEES

Male
14,302

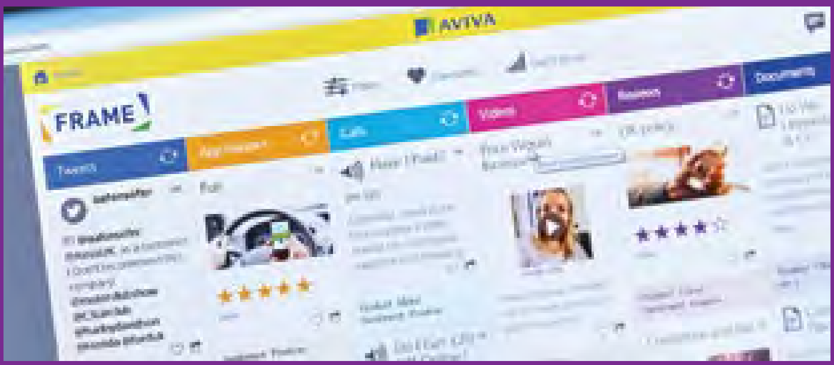
Female
15,228

INCLUSIVE DIVERSITY

We will build an agile and diverse workforce to reflect the population make-up of each country we operate in and the customers we seek to serve.

We are building on the existing strengths of our networks and partnerships. Aviva Pride now has over 5,000 visible lesbian, gay, bisexual and transgender (LGBT) Allies in the UK, and we are establishing it in Ireland and Canada. The Aviva Pride Allies programme has significantly raised the profile of Aviva Pride and issues still affecting the LGBT community.

KEEPING OUR CUSTOMER FOCUS



To make sure our customers are front-of-mind for every one of our UK people – whatever their role – we have developed Frame. It brings together genuine real-time customer feedback, in the form of videos, social media comments, telephone calls or online reviews. It's a great way of keeping everyone focused on what matters to our customers – and how we can serve them better.

We are committed to ensuring we provide full and fair consideration for job applications from people with disabilities, as well as supporting any of our people who become disabled while working for Aviva. For example, we adapt the working environment where we can and offer flexible working practices to take into account their personal circumstances.

HEALTH AND WELLBEING

We help our people blend the demands of work and home through initiatives like our new maternity policy in Asia and time off for parents when their children start school. We're also transforming the workplace. In Poland, we are piloting a new office environment as well as the opportunity to work flexibly up to four days a week.

OUR PLANS FOR 2017

Culture, leadership and developing digital capabilities are high priorities for us as we transform our business. We have mapped out how we will accelerate Aviva's transformation into a company that puts the customers at the centre of everything we do and in which our people can deliver in an innovative and simple way.

In 2017 we will continue to build on our strengths in gender, age, sexual orientation and socio-economic mobility. We will also gather better data and insight, so we will be well-placed to make progress on race and ethnicity, and disability from 2018.

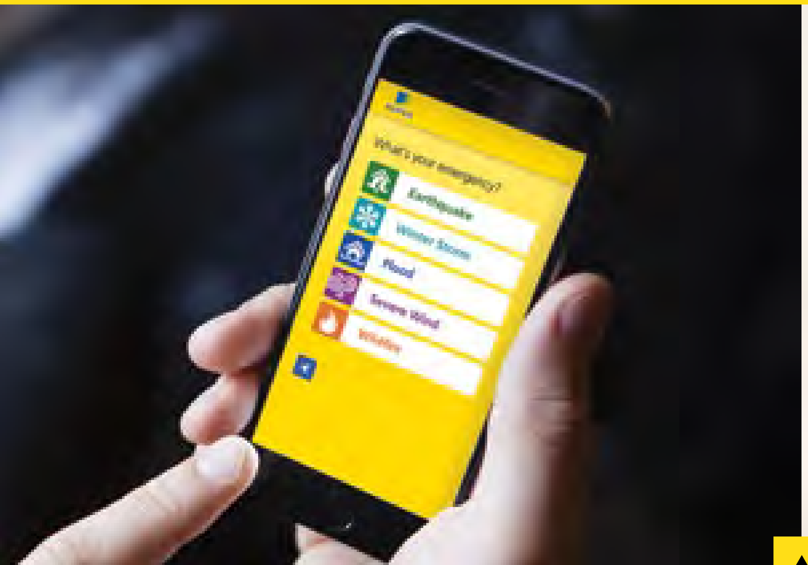
- Gender: continue to unlock the potential of gender diversity - including improving our understanding of issues relating to gender identity, and strengthening the pool of future women leaders.
- Age: focusing our effort in the UK on ways we can increase the proportion of our workforce who are over 50.
- Sexual orientation: we will continue to build our Aviva Pride 'allies' network across the group, and find ways to achieve our aspiration that LGBT colleagues can be themselves at work.
- Socio-economic mobility: making sure that development and growth are open to all regardless of social background.

We have a clear strategy and we will accelerate the delivery of that strategy by having the right culture, the best people, and by always putting customers first.

1 Restated to reflect a new methodology used to measure employee engagement in 2016.

Helping to **prevent** and protect

We're there for our customers when bad things happen. But we can also help prevent bad things happening in the first place



PLAN AND PROTECT

Knowing about natural disasters in advance can be a matter of life and death – and certainly means you're better prepared to withstand them. Our Canadian business has teamed up with the Institute for Catastrophic Loss Reduction to create the Plan and Protect app, which sends you personalised information so you can better prepare.

Prevention, not just protection, is key to helping our customers Defy Uncertainty

#Aviva2016

Maurice Tulloch / Chief Executive Officer, International

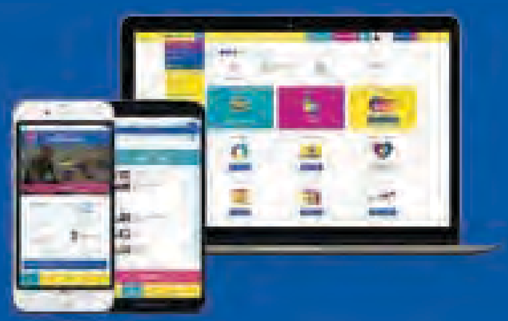
MINIMISE LEAK DAMAGE IN YOUR HOME

Many of us will know the damage leaking pipes can cause in our homes. Through our partnership with HomeServe we're the first insurer to be able to offer LeakBot – a great way to help selected UK customers to detect leaks anywhere in the water mains supply to their home. It never rests in monitoring your system and sends you an alert to your phone if it finds a leak. It's a great way of making sure small leaks don't become big problems.

LEAKBOT

GETTING FIT AND STAYING HEALTHY

We've all got busy lifestyles – so it's often hard to make sure you eat well and exercise properly. Our online service for our life protection customers in Spain provides a wealth of information on getting healthy and staying healthy – everything from exercise programmes to advice on diet. It's a first for the industry – but more importantly, it helps our customers.



We help and support our 33m customers

Our businesses deliver consistent and predictable growth

UK & Ireland

Aviva has brought its UK insurance businesses together - life insurance, general insurance and health insurance – under Andy Briggs, who has become CEO UK Insurance[1], responsible for all Aviva's insurance businesses in the UK

Interview with Andy Briggs
Chief Executive Officer, UK Insurance

Q What's your strategy?

AB Our strategy is to demonstrate the benefits of the composite model for our customers. The strategy puts Digital First and helps us deliver our promises to shareholders. We can meet our customers' insurance needs, whether that's helping our customers enjoy a secure and prosperous retirement, looking after them and their loved ones should they fall ill or die, or protecting what's most precious to them. And by bringing our UK life, general insurance and health operations together in 2017, we can serve our customers more simply and conveniently and deepen our presence in the UK.

The UK is our home market – and the third largest in the world. We have 15 million customers and a compelling competitive advantage as a True Customer Composite. We are investing and growing in the UK.

The UK life business is the Group's cornerstone – and it's a market we expect to double in the next decade. It delivers more than half the Group's profits. That's a major contribution to capital generation and being able to keep our promises on the dividend. It's the base for the rest of the Group to grow, and the nucleus for delivering the composite model.

We are uniquely well-positioned in general insurance, and enjoy an unrivalled brand and offer customers a wide range of products, underpinned by strong capabilities in pricing, underwriting and indemnity management.

Our health business is a leading provider of private medical insurance, winning health insurer of the year at the Health Insurance Awards for the seventh year running in 2016.

Q How are you putting Digital First?

AB Digital will help us deliver the benefits of the composite model for our customers. We have moved our UK motor insurance business from being mainly via brokers towards a digital platform. We're already writing close to £1 billion of digital business through brands like Quotemehappy. But we can do more to help UK customers deal directly with us.

We know that many people like to hold multiple products with a single provider. We want that to be with Aviva – so we can use data and analytics to assess risk and provide them with personalised products and an effortless experience.

So firstly, we want to improve the quality of our customers' experience. For pension customers, getting their monthly valuation online is much easier and more convenient than having to ring us up. In fact, they look at their valuation around once a month.

And because we have a whole variety of information about them we can easily and conveniently pre-populate quotes for other products and services too.

Secondly, putting Digital First gives us the means to create new propositions for customers, not least by linking up different services. For instance, we are linking up

We have a real opportunity and responsibility to help our customers look to the future with confidence

#Aviva2016

Andy Briggs / Chief Executive Officer, UK Insurance

1 Subject to regulatory approval.

health and wellness services to our protection products. Customers want to stay healthy and we can help them do so.

Q What are the operational highlights?

AB One significant highlight was delivering the integration of Friends Life ahead of plan, ahead of schedule, with greater run rate synergies than we originally said.

Our general insurance business is really starting to grow. HomeServe is a key example and our five year partnership with them means we can do more for customers to protect their homes. We are also founding members of Flood Re. Since its launch in April 2016, we've transferred around 11,000 policies to the scheme, with new customers in high flood risk areas saving an average of £500 on their premium.

I'm also delighted by our continuing work on transforming our culture. We've brought in new expertise and revitalised our graduate programme. And our people are also growing in confidence, with engagement scores improving. We've got some great people and in Colm Holmes, Chief Executive of Aviva UK General Insurance, we have someone making a big impact. He epitomises our values, in particular Never Rest.

But not all our highlights were positive. In October, we reached a settlement with the Financial Conduct Authority (FCA) regarding historical breaches of FCA rules relating to oversight of administration for client money and assets on the UK life adviser platform and agreed to pay a fine of £8.2 million. We have taken action to address the areas of concern and customers have not suffered any loss.

Q What are the challenges and risks?

AB Brexit is a challenge but we are well placed to deal with the uncertainty.

We see decent growth over the next decade. The fundamental drivers for our business – an ageing population, digital and auto-enrolment – are all the same.

We'll also continue to innovate for customers, for instance by protecting them against new threats such as cyber security which is increasingly important in this digital age.

Q What's your final message?

AB Our purpose is to help people Defy Uncertainty – and to be there for customers in uncertain times. And the world got a whole lot more uncertain in 2016. We have a real opportunity and responsibility to help our customers look to the future with confidence.

MAKING ENDS MEET

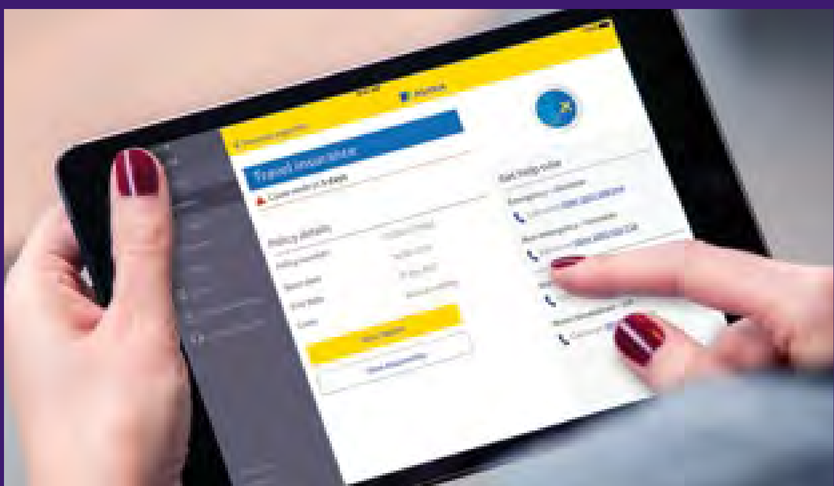
Making ends meet can be tough, especially if you're retired. Gill Duncan, who lives near Sunderland in the North of England, was certainly finding things hard. In fact, she told us she'd started to feel trapped in her own home.

Gill's niece told her about equity release – a lifetime mortgage on her home – and recommended Aviva. We were delighted to help.

Equity release has given Gill a whole new freedom. She's bought a new car so it's easier to get out and about and enjoy life and she's having some essential repairs done to the roof of her home. Gill said that "equity release has dramatically changed my life for the better".

Gill has a very special companion – Spot, her cocker spaniel. Now the two of them can enjoy their daily walk with an extra spring in their step.

THREE CLICKS TO BUY



MyAviva, whether that's as an app or online, is at the heart of our digital revolution. It's where our customers can see and manage all of their policies in one place and benefit from a 20% discount on further Aviva products. In fact, we offer instant quotes with a three clicks to buy process so we don't ask questions we already have the answers to. We're creating an effortless experience for our customers so they can engage with us exactly when and how they want. We've made lots of improvements over the year to make it even better. The registration process is a whole lot easier – and we've also added guest registration. You can change your personal details online. We've overhauled the pension tracker – and we're showing customers the benefits of the composite model through a wide range of bespoke products and offers. It's beautifully simple.

MyAviva is effortlessly simple and rewards loyalty

#Aviva2016

Blair Turnbull / Managing Director, UK Digital

Scan to see more about MyAviva

Life insurance

OVERVIEW
Aviva is a leading insurer in the UK and Ireland life insurance markets, with a 14.7%[1] share of the UK life and pensions market. We offer a market leading range of propositions to individual and corporate customers, including long-term savings, equity release, annuities and protection. We have one of the largest back books in the UK life and pensions market.

We have competitive advantages through the strength of our balance sheet, cost efficiencies, and being a composite with a strong brand.

In Ireland, we continue to grow our annuity and long-term savings business, progressing towards being the provider of choice, winning the "Innovation in Pensions" award for the third year running at the Irish Pension Awards.

We are one of the UK's leading protection providers in both the individual and group protection markets, providing peace of mind to customers should they die or fall ill – including life insurance, critical illness cover and income protection. This is supported by our market leading digital Aviva Life Protection System (ALPS), a protection platform for advisers and customers in the UK.

We look after around £250 billion of assets for our customers through long-term savings and pensions, and we are the third fastest growing Platform business in the market[2].

We help people save for a comfortable retirement. We are the number one provider of equity release and annuities in the UK[3].

We are also a leading supplier of services to the corporate marketplace. We offer pensions, protection, flexible benefits packages and bulk annuity propositions to both large and small companies, having the largest bundled workplace (defined contribution pensions) business[4] (£61 billion assets) in the UK.

We have access to customers across the UK through our unparalleled distribution network, with a growing Digital Direct offering for sales and service, strong relationships with independent financial advisers, employee benefit consultants, banks and estate agents.

FINANCIAL PERFORMANCE
During the year, UK and Ireland Life operating profit increased by 7% to £1,555 million *(2015: £1,455 million[5])*. In the UK, operating profit has increased to £1,523 million *(2015: £1,431 million[5])*, benefiting from an additional quarter of contribution from Friends Life and integration synergies. Growth in protection, long-term savings and individual annuities was partly offset by lower bulk purchase annuity (BPA) volumes and investment in digital. Ireland operating profit has increased to £32 million *(2015: £24 million)* as we continue to grow market share.

Cash remittances to Group increased 64% in 2016 to £1,096 million. The 2016 payment includes £250 million, the first instalment of the planned £1 billion Friends Life integration remittance.

Operating expenses increased 6% to £867 million. In the UK, operating expenses increased to £827 million *(2015: £788 million)* due to the inclusion of the additional quarter of Friends Life in 2016. Excluding this, operating expenses are lower due to an increase in realised integration synergies partially offset by investment in digital.

KEY HIGHLIGHTS

Life operating profit‡
£1,555m
(2015: £1,455m[5])

Cash remittances‡ to Group
£1,096m
(2015: £667m)

Operating expenses‡
£867m
(2015: £815m)

Value of new business‡
£695m
(2015: £625m)

WHAT WE ACHIEVED

Fixed the balance sheet
Implemented Solvency II and managed market turbulence following the Brexit vote.

Friends Life integration
Delivered the integration benefits one year ahead of schedule.

Financial advice
Launched Aviva Financial Advice Service - our new retirement focused in-house advice service.

UK and Ireland Life VNB increased by 11% to £695 million *(2015: £625 million)*. UK Life VNB increased to £671 million *(2015: £609 million)*. UK VNB has benefitted from an additional quarter of Friends along with continued momentum in long-term savings, increased volumes in individual protection and individual annuities, partly offset by lower sales of BPAs.

MARKET CONTEXT AND CHALLENGES

We continue to support our customers through the wide range of choices they have as they approach and move through their retirement with market leading propositions (investment, drawdown, annuity, Equity Release), information through our Aviva Retirement Centre, online guides and tools and our newly launched in-house advice service, Aviva Financial Advice.

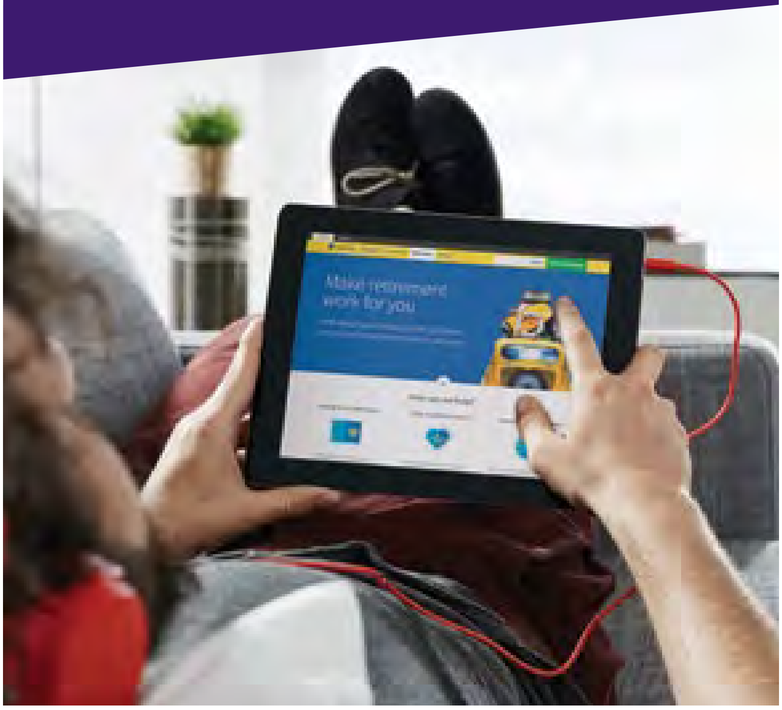
We look forward to further improvements to the market over the next two to three years. We would like to see a fairer pension taxation system and a simpler regulatory environment which allows us to better serve the needs of our customers. The Government has set up a working group to take forward recommendations assigned to it by the Financial Advice Market Review (FAMR) and the outcome of this could have significant implications for how we engage with our customers and their advisers.

2017 will also see a review of Auto-Enrolment, where UK employers must offer and enrol their employees into a suitable pension scheme. The review will consider the success to date and explore ways to further develop the policy.

1 Association of British Insurers (ABI) 9 months to end Q3 2016.
2 Fundscape, Q3 2016.
3 Equity Release Council and ABI.
4 PRA returns and Aviva analysis.
5 Prior period comparatives have been restated. Refer to Note 1 on page 154 for further information.

SUPPORTING CUSTOMERS IN RETIREMENT CHOICES

UK Pension customers now have far more choices and decisions to take about their retirement. We want to help them make the decision that's right for them. So we've set up Aviva Financial Advice. 2016 saw our team working with customers in parts of the UK, both in person or digitally. Now we're widening the scope of our advice and covering the whole of the UK. We want customers to enjoy a secure and prosperous retirement. Aviva Financial Advice is one way to help them do that.



We have competitive advantages through the strength of our balance sheet and being a composite with a strong brand

#Aviva2016

Andy Briggs / Chief Executive Officer, UK Insurance

WHAT WE PLAN TO DO

Welcome Friends customers

Transferring the Friends Life customers' policies to the Aviva brand and welcoming them to the wide range of Aviva services and products.

Focus on digital

All UK customers will be able to manage their policies online.

Help businesses de-risk

To support business customers wishing to reduce defined benefit (DB) pension risk from their balance sheets, we will build up and broaden our existing DB de-risking and bulk annuity capability.

General insurance

OVERVIEW

We provide propositions to consumers, small, medium-sized enterprises (SMEs) and large businesses, with a wide range of insurance products. We have a market share of 10.9%[1] in the UK and 12.3%[2] in Ireland. Customers are able to access our multi-distribution footprint; digitally direct or via aggregators; over the phone; through our broker and partner relationships; or via our strategic partners.

Market leading service is at the heart of our business. Customers publicly review their claims experiences with ratings over 4.5 out of 5 for both our Motor and Home policies. We have won the Insurance Times Insurer of the Year award three years running and been named Best Large Call Centre at the Top 50 Companies for Customer Service Awards.

FINANCIAL PERFORMANCE

Excluding the exceptional charge associated with the change in the Ogden discount rate, UK and Ireland general insurance and health operating profit increased 10% to £471 million *(2015: £430 million)*. Our UK underwriting result increased to £232 million *(2015: £154 million)*, reflecting improvements in underlying performance and lower absolute weather costs. Investment return was lower mainly due to reductions in the internal loan.

In UK Health, operating profit increased to £31 million *(2015: £21 million)*.

Ireland general insurance operating profit increased to £41 million *(2015: £30 million)*, reflecting continued rating and account improvement actions.

Cash remittances to Group were £91 million *(2015: £358 million)* as cash was

WE'LL TAKE CARE OF BUSINESS

We want to help our customers Defy Uncertainty – not least our small business customers. We want to make things as simple and convenient as possible for them – so they can concentrate on making their business a success. So by putting Digital First we've got rid of all the small print and have made what's covered as clear as possible. We've also protected customers against innocent underinsurance – so they're far more likely to receive the right payment on their claim when they need it. And in another industry first, our Disclosure Guarantee means customers applying online can easily meet their obligations under the new UK Insurance Act by answering a few simple questions. Just three examples of how we take care of business – so our business customers can take care of theirs.

WHAT WE ACHIEVED

Customers at the heart

We grew by putting our customers at the heart of our business, launching new propositions such as Aviva Private Clients, We'll Take Care of Business and Multi-national.

Tackling fraud

We continued to defend our customers against claims fraud, taking over 1,500 cases to court and winning 70%.

Market leading

We've been independently voted the "Insurer of the Year" for the third year in a row – recognising our work to improve customer outcomes and be the partner of choice for intermediaries.

KEY HIGHLIGHTS

General insurance and health operating profit‡3

£471m

(2015: £430m)

Cash remittances‡ to Group

£91m

(2015: £358m)

Operating expenses‡

£665m

(2015: £697m)

Combined operating ratio‡ (excluding Ogden)

94.9%

(2015: 95.0%)

Combined operating ratio‡

106.3%

(2015: 95.0%)

1 Verdict Financial Services 2016.
2 Central Bank of Ireland Insurance Statistics, 2015.
3 The adverse impact of the change in the Ogden discount rate of £475 million is an exceptional item and therefore not recognised within operating profit.

used to fund an increase in the internal reinsurance arrangement. Our operating expenses reduced to £665 million *(2015: £697 million)*, despite a £23 million new Flood Re Levy.

UK and Ireland general insurance net written premiums increased 9% to £4,308 million *(2015: £3,967 million)*. The combined operating ratio (COR) increased 11.4 percentage points to 106.3% due to the change in the Ogden rate. Excluding Ogden, COR remained stable at 94.9% *(2015: 95.0%)*.

MARKET CONTEXT AND CHALLENGES

Market conditions have remained competitive across our entire product range, and we expect that to continue.

In this environment, it's important that we listen to what our customers tell us, responding with products and services to meet their needs.

In February 2017, an announcement was made by the UK Government to change the Ogden discount rate, which is used by the courts to calculate awards for cases involving bodily injury. The cost of bodily injury compensation claims will increase significantly as a result of this decision. Injured claimants should be fully compensated for the injuries they receive but it is also vital that individuals are not over-compensated to a level which creates significant consequences for the cost of insurance premiums for individuals and businesses, large and small.

This is one of a number of significant changes influencing the motor insurance market at the moment.

We have supported the need for motor insurance reform through our Road to Reform campaign. We will continue to champion Road to Reform until it becomes law and Aviva has promised to pass on 100% of the savings to its customers when it does.

We're also reducing the number of variations of our personal lines products from 800 to 40. To keep it simple, we're publishing guides to explain how an insurance premium is calculated and

TAKING THE HEAT OUT OF FIRE RISK

Electrical fires are the biggest cause of fire in the workplace, causing significant disruption. In fact, 70% of businesses that suffer from a fire do not reopen. That's why we equip our risk consultants with thermographic cameras to help businesses protect employees from injury, property from damage and reduce unscheduled interruptions to normal trading. Thermal imaging allows then to identify any 'hot spots' in electrical installations, machinery and equipment, as well as issues with light fittings, water leaks and condensation. White areas denote increased temperatures that could be dangerous and therefore require further investigation.

offering specialist training programmes to help our customer-facing teams recognise the needs of vulnerable customers.

The floods suffered by UK customers during the 2015/16 winter once again demonstrated the importance of flood resilience. We support the Government's flood reinsurance scheme (FloodRe) and Flood Resilience Action Plan to reduce the impacts of severe weather on communities and businesses across the UK.

In the SME and corporate markets we are prioritising efforts to protect businesses and reduce the impact of any accidents. We have equipped our risk management experts with thermographic cameras which identify early warning signs of risks and prevent interruptions to normal trading.

WHAT WE PLAN TO DO

Target markets

Grow our business and deepen customer relationships by expanding our propositions in targeted markets such as Lifestyle, Home, Digital SME and Corporate Multinational.

Digital interactions

Further digitise our interactions with customers and intermediaries across all areas of our business.

Customer focus

We'll continue to lead the industry on the big customer issues by simplifying products, increasing transparency and launching disruptive solutions to market.

International

Aviva has simplified and strengthened its international focus, bringing together its insurance operations in Canada, Ireland[1], France, Spain, Italy, Poland, Turkey and India[1] under Maurice Tulloch, who has become CEO International Insurance

Interview with Maurice Tulloch
Chief Executive Officer, International Insurance

Q What's your strategy?

MT Our international markets are a major contributor to the Group, accounting for 36% of total operating profit in 2016, and providing a valuable source of diversification for the Group.

We have 14 million customers across our markets, and operate a composite model in France, Poland, Ireland and Italy.

We have strong positions in large and attractive markets such as Canada, France, Italy, Ireland and Spain; and are well placed in Poland, Turkey and India – our growing markets with relatively low insurance penetration.

We believe Canada and Europe offer us clear potential for future profitable growth.

Each of our international markets has a slightly different emphasis. But ultimately we're there to help our customers Defy Uncertainty so everything we do is focused on delivering that objective – and delivering our promises to shareholders.

As the second[2] largest general insurer in Canada, we want to be a customer champion. We listen to our customers and have responded to how they want to purchase insurance by working with our broker partners and striking new partnerships, such as a partnership with Royal Bank of Canada General Insurance (RBC GI).

In Europe we are focusing on building leadership positions in specific segments, such as SMEs in France, Italy, Ireland and Poland. We also chose our product and customer segments carefully – and focus on areas where we can win, in line with the Group's strategic objective of being Not Everywhere. We need to capitalise on our composite potential by offering tailored, integrated and innovative solutions to our customers.

In general insurance, we have further opportunities to improve performance and build scale in our markets.

Q How are you putting Digital First?

MT Our focus is to build a digital ecosystem for our intermediaries and develop simpler processes, products and streamlined services for our customers.

We have strong and diversified distribution across our international markets, which are digitally immature compared to the UK. Through digital, we've got the potential to disrupt our markets. I'd say, we aim to fundamentally change insurance!

We're working closely with our intermediaries. In Poland, we offer a fully digital sales tool with over 90% of agents adopting it in a couple of months. We launched new ways to use social media for our agents in Poland and France and redesigned websites for agents in France, Italy and Poland.

We're also building and enhancing our digital capabilities in France, Italy, Poland

We have the right products in the right markets and the right people and skills to deliver our strategy

#Aviva2016

Maurice Tulloch / Chief Executive Officer, International Insurance

1 In 2017, we announced that Maurice Tulloch will have management responsibility for Ireland and India. However, the 2016 figures for these businesses are reported in the UK & Ireland and Asia sections respectively.
2 Market Security Analysis & Research Inc, 2015 online database.

and Canada – and we already have 2.2 million registered users on digital platforms in those markets. We'll continue to upgrade and add new functionalities to MyAviva – so it offers our customers more.

In Canada, we have opened a Digital Garage, a new space designed to help to drive spontaneous conversations, ignite innovation and bring Digital First to life through digital, web and mobile.

Q What are the operational highlights?

MT The acquisition of RBC GI in Canada was a definite highlight. It's a great marriage of RBC Insurance's powerful brand and sales force and our depth and manufacturing expertise. Our market position is growing and gross written premiums increased by around CAD$470 million.

In our European businesses, we've seen an improved performance in the second half of the year.

Building on the success in Canada, we have launched this year Community Funds in France, Italy and Poland. We're committed to Care More about our communities and invest in local and sustainable projects to make a difference.

The personal loss experienced in the Alberta fires was terrible – but our people did a wonderful job to help our customers. If we don't tackle climate change we're going to see further increases in natural catastrophes occurring. This goes to our role in society – to protect people and to be a responsible investor – and our value of Create Legacy. That's especially important to me as the Chair of Climatewise and a member of the Insurance Development Forum.

Q What about the challenges and risks?

MT Well Brexit is clearly a challenge. But we don't expect any significant operational impact for Aviva. Our European operations operate locally within each country, are well capitalised and locally regulated.

We also continue to manage our life and general insurance businesses in a low interest rate environment, fine-tuning our business mix and focusing on customer segments where we can win.

Q What's your final message?

MT We're working tirelessly so customers win in an insurance market undergoing major change. We will continue to focus on transforming our businesses, to be a low cost customer-focused insurance business that puts Digital First, and reduces complexity for our customers. We have the right products in the right markets and the right people and skills to deliver our strategy.

A MOMENT OF TRUTH

The Alberta wildfires in 2016 were the costliest disaster in Canadian history, spreading across 1,500,000 acres, destroying 2,400 homes and leading to the evacuation of 80,000 people. It was a moment of truth for us – and we mobilised every resource we could to help our customers. We used digital to direct customers and brokers to our claims hotline, got our teams on the ground within 24 hours and mobilised our teams of volunteers, especially through our partnership with the Red Cross, to help thousands of people affected. And we made sure we were there for them once it was safe to return home. This is exactly why we're in business: to help customers when bad things happen.

Scan to watch a film about the Alberta fires

Canada

OVERVIEW
We are Canada's second largest general insurer providing a range of personal and commercial lines products to over 2.9 million customers. We have a 10.6%[1] market share and a top five position in all major provinces.

83% of our business is intermediated, sold through a network of independent broker partners, 16% is sold through RBC General Insurance (RBC GI) agents and the remainder makes up our direct offering.

Our objective is to be the customer champion in Canadian insurance through building on our existing service to customers and distributors, building our digital capabilities, and leading product innovation in Canada.

On 1 July 2016, we acquired RBC GI and entered into a 15-year distribution agreement with RBC Insurance. Through this agreement, Aviva Canada provides underwriting, pricing and claims services. This diversifies our distribution, giving us increased access to customers. The deal combines RBC Insurance's powerful Canadian brand and sales force with Aviva's depth of products and guidewire (new policy and claims) system.

We continue to support our largest channel, our broker partners, to help them integrate digital technology. We want to lead the Canadian market with new product innovation to allow brokers to better serve customers and stay competitive.

FINANCIAL PERFORMANCE
Operating profit increased by 26% to £269 million *(2015: £214 million)*, a 16% increase on a constant currency basis primarily driven by the RBC GI acquisition and partially offset by increased catastrophe experience, in particular the Alberta fires.

Cash remittances of £130 million were paid in 2016. In 2015, Canada retained its dividend within the business as a result of the RBC GI acquisition.

Operating expenses increased to £396 million *(2015: £298 million)* mainly driven by the RBC acquisition and the impact of foreign exchange movements.

MARKET CONTEXT AND CHALLENGES
Insurer merger and acquisition activity has been significant over the past five years. The top five insurers currently represent around half of the overall market. This is projected to increase in the near to medium term. The broker channels also continue to face consolidation both amongst brokers and through vertical integration with insurers. Due to continued consolidation coupled with a mature market, focusing on our competitive advantage is crucial.

In our opinion, further regulatory and product reforms are necessary in the Ontario auto market to drive both costs and fraud out of the system. A panel of Canadian insurers proposed to shift the regulators' focus from rate regulation to market conduct. We support the steps taken by the Government so far and will continue to work with them to help customers.

1 Market Security Analysis & Research Inc, online database.

WHAT WE ACHIEVED

Expanding distribution

Increased our access to customers through acquiring RBC GI and entering into a 15-year distribution agreement with RBC Insurance. Integrated over 550 RBC GI colleagues into Aviva Canada.

Guidewire transition

Successfully moved Ontario direct business from a legacy system to the new Guidewire personal lines platform. The new platform is a more automated policy management and billing system.

WHAT WE PLAN TO DO

Disrupt in digital

Invest further in our digital businesses to produce innovative digital customer experiences and propositions for our customers and broker partnerships.

Customer champion

Continue to influence the market and regulators to help drive out costs and fraud for our customers in the Ontario motor market

KEY HIGHLIGHTS

General insurance operating profit‡
£269m
(2015: £214m)

Cash remittances‡ to Group
£130m
(2015: £6m)

Operating expenses‡
£396m
(2015: £298m)

Combined operating ratio‡
94.6%
(2015: 93.8%)

We want to be the customer champion in Canadian insurance

#Aviva2016

Maurice Tulloch / Chief Executive Officer, International Insurance

Strategic report

Europe

EUROPE'S FINANCIAL PERFORMANCE
Our European businesses have shown resilient performance during 2016, reflecting the strength and diversity of our franchise. Despite a challenging start to the year, management actions led to an improved performance in the second half of the year.

Life operating profit increased by 10% to £844 million *(2015: £766 million)* but decreased marginally on a constant currency basis, with growth and margin improvements more than offset by adverse market movements and the impact of a new asset levy in Poland.

Our general insurance and health premiums grew by 5%[1] to £1,673 million *(2015: £1,410 million)*, a significant achievement in markets that have been either flat or reducing over the year. Our combined operating ratio marginally increased to 95.8% *(2015: 95.4%)* with underlying results remaining strong.

Cash remittances of £449 million were broadly stable compared to prior year *(2015: £431 million)*.

VNB was up 7%[1] to £480 million *(2015: £400 million)* largely driven by a strong performance in Italy and despite challenging conditions in other markets.

FRANCE

OVERVIEW
We offer a full range of life, general, health insurance and asset management products to our 3.4 million customers through a well-diversified distribution model, with half of our profits generated from channels we own or control.

We enjoy a long-standing relationship with Association Française d'Epargne et de Retraite (AFER), the largest retirement and savings association in France, as well as a growing tied agency network. We also have a majority stake in Union Financière de France (UFF), a leading financial adviser network in the market with 1,200 advisers and strong direct businesses.

In February 2017, we announced the sale of our entire shareholding in Antarius, our joint venture with Crédit du Nord, to Sogecap (both subsidiaries of Société Générale), for c.£425 million.

This transaction follows Crédit du Nord's decision to exercise its option to purchase Aviva's shareholding. The sale will realise a strong return for our shareholders.

In addition, Aviva Investors France entered into a new agreement with Sogecap to continue managing in excess of £10 billion of assets held by Antarius.

FINANCIAL PERFORMANCE
France delivered resilient results, despite strong headwinds in the market.

Total operating profit was £481 million *(2015: £449 million)*, an increase of 7% but a 5% decrease in constant currency driven by increased investment in the business and weather events. Cash remittances were £185 million *(2015: £252 million)*. Operating expenses increased due to investment required for growing and reorganising the business.

VNB was up 13% at £224 million *(2015: £198 million)* however flat on a constant currency basis as higher protection and with-profit sales were offset by lower demand in unit-linked products.

The combined operating ratio increased by 1.2 percentage points to 96.9% as a result of weather events in the first half of the year.

KEY HIGHLIGHTS

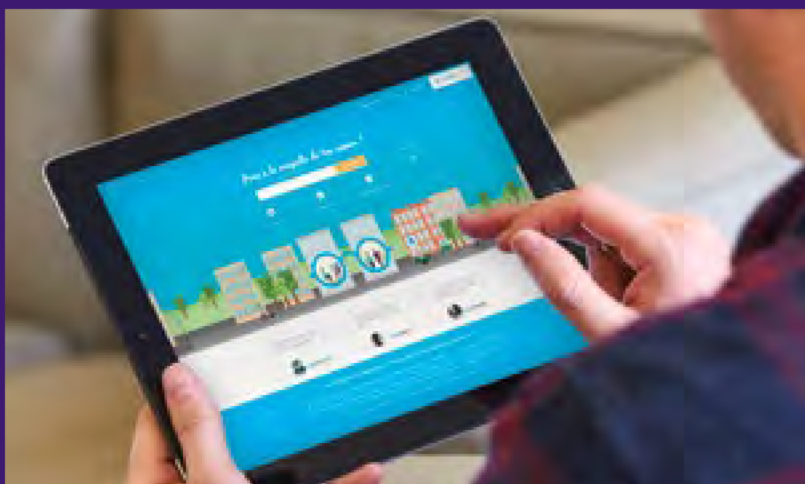
Life operating profit‡
£844m
(2015: £766m)

General insurance and Health operating profit‡
£120m
(2015: £114m)

Cash remittances‡ to Group
£449m
(2015: £431m)

Operating expenses‡
£641m
(2015: £526m)

SUPPORTING GREAT IDEAS



La Fabrique Aviva is one way in which the Aviva Community Fund in France invests in great ideas that create a wider social profit, not just a financial profit. One of the winners of the 2016 competition was a social enterprise called Myjobglasses.com, a website which matches up students with professionals in business to help them better understand the demands and prospects in different careers. It's a great way to tackle a real problem; 45% of students say they don't know what job they really want to do when they start out in working life and around a third of permanent contracts are broken before the end of the first year. Myjobglasses.com helps people really think about what they want to do – and it's clearly hit the target, with over 1,000 students and 300 professionals taking part already.

MARKET CONTEXT AND CHALLENGES
France is a mature and stable market with a large and well-developed insurance sector. The combination of hardening market conditions due to persistent low interest rates, lower demand for equity linked products and increased financial regulations contributed to a challenging environment. To respond to this, we reorganised our business and renewed our strategy to be aligned around our key customer segments, such as SMEs.

ITALY

OVERVIEW
We offer life, general and health insurance to 2.2 million customers. We operate through strong bancassurance partnerships with three of the five top banks in Italy – Banco Popolare, UBI Banca and UniCredit – a distribution network of around 650 multi-agents and brokers, and a growing IFA network.

FINANCIAL PERFORMANCE
Total operating profit was £205 million *(2015: £165 million)*, up 10%[1] with growth in both life and general insurance. Cash remittances improved to £76 million *(2015: £45 million)*. Operating expenses increased due to investment supporting business growth.

VNB improved to £124 million *(2015: £79 million)*, with growth in all product lines including over 30% growth in sales of unit-linked versus a market that contracted by over 30%. The combined operating ratio of 92.7% *(2015: 94.3%)* improved by 1.6 percentage points as a result of pricing actions.

BEING THERE FOR OUR CUSTOMERS

Leszek and Renata Kotula were longstanding life and critical illness customers with Aviva Poland and enjoyed an excellent relationship with our agent, Wanda Jadach. Sadly Leszek was diagnosed with cancer in 2015, dying shortly afterwards. With Wanda's help we paid claims on his critical illness cover within a few days and on his life policy after his death, so Renata had one less thing to worry about. She describes Wanda as resourceful, competent, empathic and friendly. That's the service we aim to give to all our customers in their time of need.

Everything we do is focused on helping our customers

#Aviva2016

Maurice Tulloch / Chief Executive Officer, International Insurance

WHAT WE ACHIEVED

2.2m

Increase in registrated users on our digital platforms across France, Poland, Italy and Turkey and introduced a suite of additional services and features for our customers and distributors.

Community funds

Launched a community fund in France, Italy and Poland to support individuals and entrepreneurs in realising innovative projects which have a positive impact on local communities and economy.

Digitising networks

Successfully launched a fully digital tool in Poland to facilitate sales processes of our agents. We also developed social media tools for agents in Poland and France and new agency websites in Italy and France.

Strategic report

Our European businesses have shown resilient performance during 2016, reflecting the strength and diversity of our franchise

#Aviva2016

Maurice Tulloch / Chief Executive Officer, International Insurance

MARKET CONTEXT AND CHALLENGES
The Italian economy continued to show signs of recovery, although financial market conditions hardened in the second half of the year. In a shrinking life insurance market and stable general insurance market, Aviva Italy has produced significant operating profit and volume growth, benefitting from the completion of its turnaround actions in the past few years.

POLAND

OVERVIEW
We are a leading life insurer, also providing health and general insurance products, with 1.6 million customers.

We continued to strengthen our distribution channels. We have the largest life insurance direct sales network with 2,200 advisers and own the second largest financial adviser network Expander, as well as a bancassurance agreement with BZ WBK, the third largest bank in Poland.

Our subsidiary in Lithuania is the country's largest life insurer[2].

FINANCIAL PERFORMANCE
Operating profit was £146 million *(2015: £141 million)*, down 5%[1] due to a new asset levy. Operating expenses increased due to the impact of the asset levy and additional expense from the acquisition of Expander in July 2015.

MARKET CONTEXT AND CHALLENGES
In 2016, the insurance sector was affected by the low interest rate environment and the introduction of an asset-based levy for bank and insurance companies.

Despite political and economic uncertainties, the relatively low insurance penetration continues to represent a significant opportunity for further growth, driven by favourable demographics and growing disposable incomes.

SPAIN

OVERVIEW
We provide life and pensions products to 1.1 million customers. We have strong bancassurance relationships, and operate a growing retail business.

FINANCIAL PERFORMANCE
Operating profit of £107 million *(2015: £92 million)* was resilient despite increased pressure on savings margins from the low interest rates. VNB was higher at £42 million *(2015: £31 million)*.

MARKET CONTEXT AND CHALLENGES
The Spanish economy continues to recover, with one of the highest GDP growth in Europe, and this is starting to benefit our business. We grew our protection business, maintaining our market position, and increased our share in individual pensions, with sales outperforming the market.

TURKEY

OVERVIEW
We are a leading pension provider with 19%[3] market share, serving two million customers through our joint venture with Sabancı Group, one of Turkey's leading conglomerates. We mainly operate through Akbank, part of the Sabancı Group, with over 900 branches.

FINANCIAL PERFORMANCE
Life operating profit of £6 million *(2015: £11 million)* decreased due to market turbulence. VNB was down 9%[1] at £25 million *(2015: £27 million)* as a result of market volatility and uncertainty on the pension reforms.

MARKET CONTEXT AND CHALLENGES
Despite political uncertainties, Turkey offers long-term potential. It has the second largest population in Europe with a young demographic and we anticipate an increasing demand for financial products. We are well placed to seize further growth opportunities in the pensions market following the introduction of auto-enrolment in early 2017.

1 On a constant currency basis.
2 Bank of Lithuania.
3 Pension Monitoring Center, Turkey.

WHAT WE PLAN TO DO

Invest in digital
Expand and upgrade our digital solutions to enhance the seamless customer and distributor experiences in France and Poland, and develop a digital platform for our Corporate pensions customers in Turkey.

Customer focus
Realign our organisation and simplify our processes to deliver an outstanding customer service and offer attractive customer propositions in targeted markets.

Growth markets
Continue to develop market-leading positions in our growth markets – Poland and Turkey – and grow profitably our businesses in France and Italy capitalising on our True Customer Composite potential.

Asia

We have wholly-owned subsidiaries in Singapore and Hong Kong[1], affinity joint ventures in China, Indonesia and India[2], bancassurance joint ventures in Taiwan and Vietnam, and Friends Provident International Limited (FPI), with branches in Singapore, Hong Kong and the United Arab Emirates

Interview with Chris Wei
Executive Chairman, Asia & FPI and Global Chairman, Aviva Digital

Q What's your strategy?

CW Our strategy is to change fundamentally how we engage with our customers. That will mean different things in different markets – but digital runs through much of what we're doing.

Q What are the highlights for 2016?

CW It's been a year of transition for us as we reinvested into our businesses to make up for the discontinuance of the DBS bancassurance agreement at the end of 2015. By the end of the year, we were already seeing solid progress in our shift towards financial advisory and digital.

We recorded solid growth, especially in markets with large populations and low insurance penetration, like China and Indonesia.

In China we've made real progress in developing the agency model. And in Indonesia we're developing new distribution channels with our partner, Astra International.

In Singapore we've done everything we said we would do – and more. We expanded our contract with the Singaporean government to include not just the armed forces, but also the Ministry of Home Affairs. One in four adult Singaporeans is now an Aviva customer. We also successfully launched Aviva Financial Advisers which disrupted the traditional agency channel, as well as a direct sales force which is already proving to be among the industry's most productive.

But there's much more to come from us. In particular, we're going to work more closely with digital leaders in countries like China, which is really leaping ahead in digital innovation.

1 In 2017, we agreed to develop a joint venture in Hong Kong, with Hillhouse Capital and Tencent Holdings.
2 The 2016 figures for India are reported in Asia, however management responsibility will transfer to International, under Maurice Tulloch, as announced in 2017.

WHAT WE ACHIEVED

FuBaoBao savings

Launched FuBaoBao in China which allows friends and family to celebrate key milestones in a child's life by contributing to a savings plan for them via a social media payment platform, WeChat.

Aviva FA launch

In August we launched Aviva Financial Advisers in Singapore to offer our customers a wide range of insurance and investment services that exactly meet their needs.

Digital joint venture

Agreed a new digital insurance joint venture in Hong Kong with Hillhouse Capital Group, a leading investment management firm, and Tencent Holdings Limited, the world's fourth largest internet company.

KEY HIGHLIGHTS

Life operating profit‡

£241m

(2015: £244m)

General insurance and Health operating loss‡

£(13)m

(2015: £(6)m)

Cash remittances‡ to Group

nil

(2015: £21m)

Operating expenses‡

£177m

(2015: £141m)

Q What are the risks and challenges?

CW Our future is in our hands. So we have to focus on delivering what we said we'd deliver. Having said that, it's a volatile time in global geopolitics and that can have an impact on currency and interest rates.

Q What's your final message?

CW We're not following traditional insurance models. We're fundamentally changing the way we engage with our customers and deliver a service that is transparent, high quality, digital – and in line with our values.

We know the great responsibility we have to our customers and the trust we have to earn from them. We don't take that for granted.

OVERVIEW

We have 3.5 million customers across our markets in Asia, and operate a multi-distribution strategy which includes bancassurance, agents, financial advisers, direct and telemarketing, and direct sales force.

FINANCIAL PERFORMANCE

Life operating profit decreased to £241 million *(2015: £244 million)* which was driven by the discontinuance of the bancassurance agreement with DBS and continuous investment to support business growth across Asia particularly in distribution, digital and analytics capabilities. These investments together with the additional quarter of FPI impacted operating expenses which increased to £177 million *(2015: £141 million)*.

The general insurance and health business reported a £13 million loss as a result of higher claims experience from the Singapore Health business.

No dividends were remitted to the Group during the financial year *(2015: £21 million)* as we continued to reallocate capital to support growth initiatives in the region.

VNB declined to £148 million *(2015: £151 million)* impacted by the discontinuance of the bancassurance agreement with DBS, partly offset by growth in sales from Singapore's core financial advisory channel. VNB in other Asian markets fell due to the adverse impact of lower sales and higher expense overruns.

MARKET CONTEXT AND CHALLENGES

While most analysts expect the Asian economy to record only moderate growth in the year ahead, we believe the long-term favourable trends of emerging middle-class, increasing awareness in retirement planning, growing market share in healthcare will persist across the region, and Asia will continue to outperform in insurance growth.

We also see an acceleration towards digital in our daily life, and a heightened sense of fintech's development, which play to Aviva's strength in digital and innovation. We are encouraged by multiple Asian governments' support in this area, and are ever more enthused in seeing consumers' rapid adoption, such as our FuBaoBao online sales platform in China.

In this rapidly evolving and highly competitive market, where distribution and technologies revolutionise at an ever faster pace, our challenge is to deliver truly unique customer propositions that help to solve our clients' problems, and to continually improve our propositions to keep ahead.

DISRUPTING TRADITIONAL FINANCIAL ADVISORY

We strongly believe in a needs-based financial advisory service which offers a broad range of insurance and investment choices to best meet customers' needs. That's why we're disrupting the way insurance has traditionally been sold, from tied agents to financial advisers, with the launch of Aviva Financial Advisors in Singapore. In a matter of months, we have already built up a team of 400 financial advisers whose results far outperform the industry.

WHAT WE PLAN TO DO

Tailored offer

Further embrace the True Customer Composite model by delivering Aviva's strengths in Life and Health, plus Aviva Investors and General Insurance, tailored to different markets.

Seamless experiences

Make the most of Group digital solutions and capabilities to deliver seamless customer and distributor experiences while improving efficiency.

Strengthen and build

Generate value by strengthening our distribution platforms and building affinity models.

Aviva Investors

We are a global investment management business, with £345 billion assets under management, focused on outcome-oriented solutions

Interview with Euan Munro
Chief Executive Officer, Aviva Investors

Q What is your strategy?

EM We want to become a global leader in outcome-oriented investing. We're bringing our international reach and expertise to solve our clients' problems, most notably with the AIMS range of funds, as well as investing more in illiquid assets like infrastructure.

In a world of low interest rates and Solvency II, we provide the solutions for the Group to achieve the returns it needs. We offer winning solutions to the Group and external investors alike.

We're excited by the development of the Aviva digital platform. If direct customers select Aviva Investors funds, Aviva wins twice.

In terms of Not Everywhere, if we can't do something to an exceptional standard we won't do it. We have stopped activities for exactly that reason, including closing funds that were sub-scale and did not meet the needs of our customers.

Q What are your highlights for 2016?

EM We're really starting to see the benefits of AIMS. I'm delighted by the inflows of funds we're starting to see, especially from institutional investors. I'm pleased with the outcomes that our AIMS strategies are delivering, adding real value in difficult markets with very low levels of volatility.

We're also working harder to develop alternative sources of income, such as infrastructure debt and real estate – and benefit from the scale we bring to these and other asset classes.

We Never Rest in scanning the horizon for new investment ideas. We've also made real progress in Killing Complexity. We've reduced the number of funds we offer without diluting our focus on delivering client outcomes. We demonstrate Care More through building world class controls and being responsible investors – engaging with companies on governance and sustainability.

We're also Creating Legacy by building a winning culture. We're much more outward facing now and delivering what clients need.

Q What are the risks and challenges?

EM Brexit is a challenge for the whole of the UK. In fact, in the immediate aftermath of the Brexit vote, we temporarily suspended dealing in one of our daily priced commerical property funds, along with many of our competitors. While suspension was a last resort, we took this action to protect the interests of our customers and to avoid a

KEY HIGHLIGHTS

Fund management operating profit‡
£139m
(2015: £105m)

Cash remittances‡ to Group
£39m
(2015: £24m)

Operating expenses‡
£367m
(2015: £345m)

Assets under management
£345bn
(2015: £290bn)

WHAT WE ACHIEVED

New funds

Added to our range of outcome-oriented funds with launch of Global Equity Endurance and AIMS Fixed Income funds.

Sun Life

Strategic partnership with Sun Life in Canada

AIMS growth

In 2016, the combined assets under management of our AIMS range increased from £3bn to £9bn.

WHAT WE PLAN TO DO

Investment

Grow and protect our asset base by investing in distribution and through True Customer Composite initiatives with the rest of the Group

Overseas markets

Look at further opportunities to form strategic partnerships in key overseas markets

Risk and compliance

Continue to invest in our risk and compliance teams to protect customers, shareholders and our reputation

INVESTING FOR THE FUTURE

Better infrastructure underpins a better society – whether that's hospitals, schools or railways. And investing in infrastructure is also good for our customers, as it can deliver stable long-term returns. To date, we've invested more than £2.2 billion in hospitals and medical centres in the UK alone. That isn't just bricks and mortar.

We're also major investors in low carbon and renewables. In 2016 we made one of our largest investments yet – four wind farms in the UK, with the capacity to produce 60.5MW – that's enough to power over 3,500 UK homes.

damaging fire sale of assets. The suspension on trading was lifted in mid-December but the environment for the economy remains uncertain. However, we take a global view and there are interesting opportunities out there for clients.

Q **What's your final message?**

EM I want Aviva Investors to be the one to watch! Overall, I'm excited. We're winning mandates and taking positive earnings momentum into 2017.

OVERVIEW

We are Aviva's global asset management business with expertise in real estate, fixed income, equity, multi-asset and alternative investments. We currently invest £345 billion on behalf of our customers, spanning major markets. This gives us the size and scale to successfully seek out opportunities that will deliver specific investor outcomes.

FINANCIAL PERFORMANCE

Fund management operating profit has increased by 32% to £139 million in 2016 *(2015: £105 million)*. The growth in operating profit is driven by a £56 million increase in revenue from positive external net flows, the transfer to Aviva Investors of a further £14 billion of Friends Life assets during 2016, taking the total Friends Life assets transferred to £59 billion and the change in pricing to manage funds on behalf of other Aviva entities. Cost increases have been controlled as we invest to grow the business.

Aviva Investors Multi-Strategy (AIMS) assets under management have continued to grow to £9.0 billion *(2015: £3.0 billion)*. Working closely with UK Life, origination of infrastructure assets has increased by 16% to £3.3 billion. Overall net flows have continued to improve to £1.0 billion and the externalisation of the business is progressing with 32% of revenue coming from external clients.

MARKET CONTEXT AND CHALLENGES

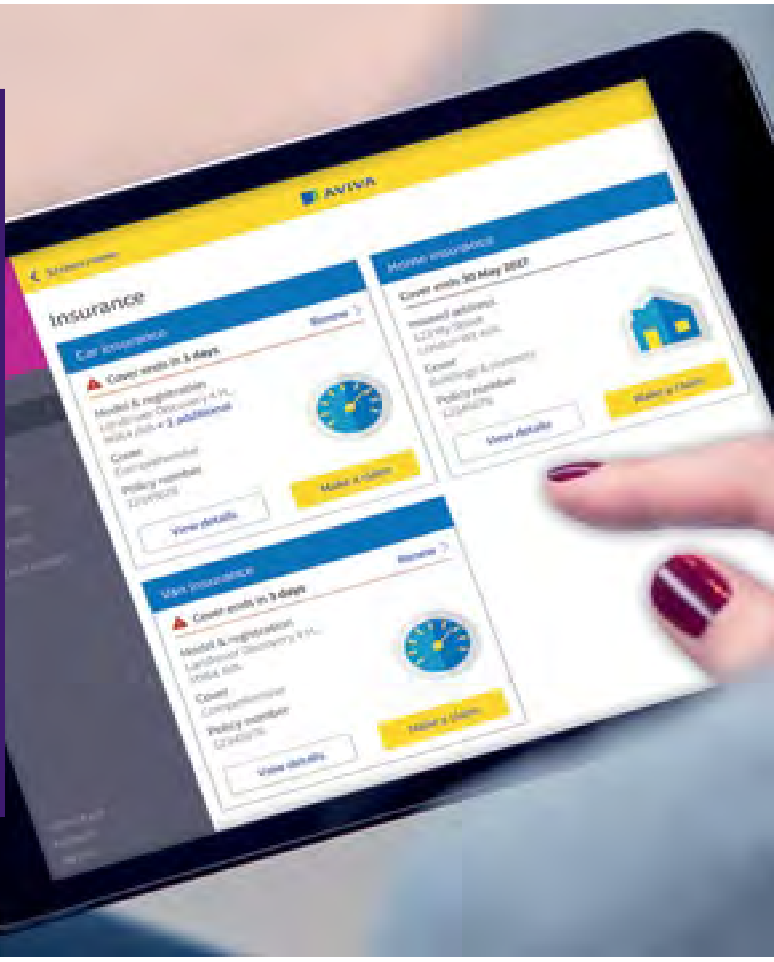
The last 12 months highlighted the unpredictability of markets, with political events having a sizeable impact. That is set to continue, while the era of easy returns in most asset classes – fuelled by central bank policy – is finally coming to an end.

The asset management industry is under intense pressure to demonstrate value to customers, with the interim report from the UK Financial Conduct Authority, published in November 2016, highlighting that there is room for improvement.

We have to meet these challenges head on. With volatility returning to markets, it will be clear which asset managers are able to deliver good outcomes for customers, and those that can't. For Aviva Investors, it is imperative we can prove our value to society and what we do to support economic growth and development.

Digital review

UK Digital was set up in 2015. It is our flagship digital business with the purpose of connecting with our customers in the UK, and significantly accelerating our digital and composite offering



OVERVIEW

Customers want to be more in control, expecting to self-serve and self-solve. They want to be able to access data in clicks.

For us to disrupt in digital, we need to interpret data quickly and intuitively to develop the products and services that provide real value for customers.

We are focused on designing innovative and easy-to-understand solutions which meet our customers' needs.

Customers buy products from us direct, through intermediaries and via our partnerships. We want to grow our direct business through UK Digital across the full range of our products. And regardless of how customers buy, we want to offer them the ease and convenience of managing their product online.

MyAviva, whether that's as an app or online, is at the heart of our digital revolution. It's where our customers can see and manage all of their policies in one place and benefit from a 20% discount on further Aviva products, as a reward for their loyalty. In fact, we offer instant quotes with a three-clicks-to-buy process so we don't ask questions we already have the answers to. Our long-term goal is to go from Ask it Once to Ask it Never. We're creating a beautifully simple experience for our customers.

In 2016, the focus was on putting all of our customer information onto a single database so our customers can see all their products and services in one place. By the end of 2016, we had more than 95% of our customers on one database, giving us a single view of our customers.

We also focused on delivering an effortless experience for our customers. Our new pension tracker service lets customers view their pension as well as make changes, such as switching funds.

WHAT WE ACHIEVED

Single customer view

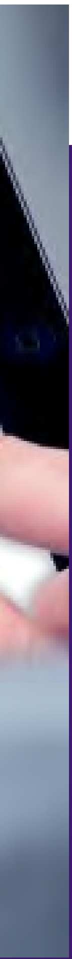
As part of the integration with Friends Life we now have more than 95% of our customers on a single database.

Registrations up

Doubled the number of customers who are registered on our UK digital platforms from 2.3 million to 4.7 million.

Self-service

Customers can now do much more on online, from changing their details, managing their investments and viewing their documents.



INTERVIEW WITH CHRIS WEI

Chris Wei is the Executive Chairman, Asia & FPI and Global Chairman, Aviva Digital. We asked him about his priorities for the coming year.

Q How do you think digital has progressed at Aviva?

CW In a year, we've achieved a lot. We have significantly improved the customer experience by fixing the basics and laying the foundations for disruptive innovation in 2017.

We've listened to our customers and fixed their pain points. They can now do much more on online, from changing their details, managing their investments and viewing their documents. We're making it effortless for them.

And we're going further to try to limit the number of questions we ask our customers to make dealing with us beautifully simple.

Q What are your priorities for next year?

CW We will continue to disrupt in digital. New agile competitors will act faster to disrupt established businesses. We want to be the world's oldest disrupter.

Underpinning all of this is our agile start up culture blending our expertise in insurance and investments with significantly enhanced capability in the new digital essentials of data and digital product design. With its base in the Digital Garage in Hoxton, and new Digital environments in Bristol and Norwich, UK Digital is helping to transform the culture of Aviva to ensure we are fully able to meet the digital needs of 21st century consumers.

We've already made progress, but there's much more we can do.

FIRST DIGITAL SUCCESS

Quotemehappy.com was our first Digital First success story and it keeps on growing. It offers low-cost car and home insurance in the UK and is only available online. Our fully self-service insurance gives customers the flexibility to manage their policies online, such as downloading documents and making changes to their policy. And because they deal with us digitally, we are able to offer our customers lower prices.

KEY HIGHLIGHTS

Aviva.co.uk visits

32m

Up 6% on 2015

Aviva registrations in the UK

4.7m

Up from 2.3m in 2015

Online direct sales in the UK

88%

Up from 75% in 2015

UK digital customers

72%

Consider Aviva for buying other products, compared to 63% for our competitors[1]

1 GfK Annual Relationship Survey, 2016. Net Promoter Score® (NPS).

WHAT WE PLAN TO DO

Redesign web

Rolling out a beautifully simple new online experience across devices that is easier for customers to use and for us to maintain.

New launches

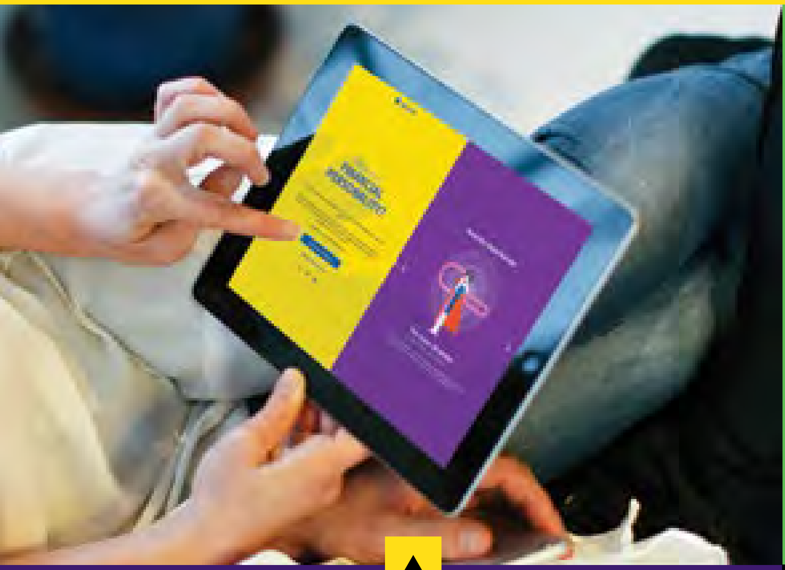
Leveraging new technology such as Cocoon (next generation home security) to create compelling reasons for customers to continue to choose Aviva.

Invest in data

Data is the lifeblood of our great Digital experience – we will continue to invest in the core IT infrastructure and people expertise.

Being a good ancestor

Good ancestors do the right thing. Good ancestors make responsible, sustainable choices, and those decisions are judged over the long term



ROAD TO REFORM

We want to slam the brakes on the fraudsters profiting from the UK's whiplash compensation culture. It pushes up premiums for genuine customers, puts innocent motorists at risk from crash for cash scams and wastes scarce public resources such as ambulance, police and A&E time on these entirely bogus claims. We have campaigned tirelessly for change and welcome the Government's recent whiplash reforms. However, they will only be successful if crash for cash no longer puts innocent motorists at risk. We will pass on 100% of savings to customers. Read more in our report at www.aviva.co.uk/roadtoreform.

#SAVESMARTER

The savings gap between low and high income families in the UK has grown 25% year-on-year to £62,790 in winter 2016/7. We want to help close it. Our Save Smarter Campaign challenges people to understand how they can save and live on their predicted pensions – and features informative but fun films. Take a look now at www.avivasavesmarter.co.uk.

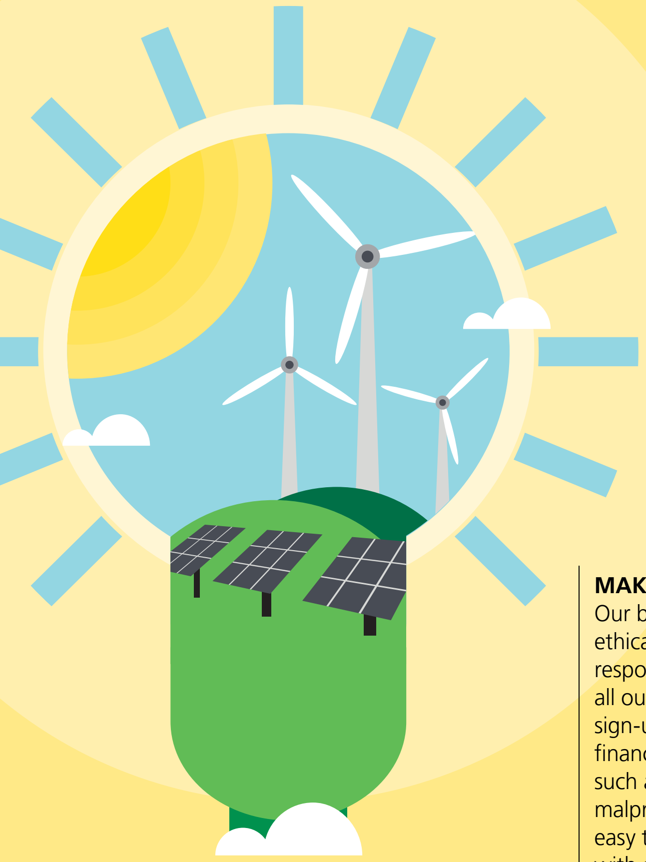
AFFORDABLE HOME INSURANCE

We all know the devastation a flood can cause – and then people can find it difficult to get affordable insurance. To help, the UK insurance industry launched a scheme called Flood Re in April 2016. Flood Re will provide affordable home insurance to many of the estimated 350,000 of UK households at high risk of flooding, funded by an insurance levy. Since its launch last April, we have transferred around 11,000 policies to the scheme, with new customers in high flood risk areas saving an average of £500 on their premiums.

Scan here to see Peter tell his story

CREATING A SUSTAINABLE FUTURE

The United Nations Sustainable Development Goals (SDGs) in 2015 represent a milestone in our efforts to create sustainable future. But we will only create legacy if we deliver them. We have set out ways to create incentives so that business invests and act sustainably. Our Group Chief Executive, Mark Wilson, spoke twice at United Nations events in 2016, making the case for benchmarks and sustainability league tables for business. We think what gets measured gets managed. We're making progress but there's a long way to go.



Good **thinking** for everyone

Since issuing our first fire insurance policy over 320 years ago, we have never been afraid to help tackle the big issues. With current challenges such as ageing populations and climate change, our ambition needs to be bigger than at any time in our history. That is why we are using our bright ideas for the good of our customers, our communities and the world.

PUTTING CUSTOMERS FIRST

Our approach always starts with the customer and to build trust we must always do the right thing for them. An example of this is the simplification of our products and services to ensure they meet our customers' needs. In the UK, we have done this through the launch of MyAviva and in Aviva Singapore we now accept paperless death claims, reducing pay-out times from 60+ days to just three, helping to support customers when they really need it. In Poland, we talked to our customers about improving our standard communications and are rewriting them to remove any insurance jargon. We know that we are not always perfect and any complaints and feedback we receive are taken seriously and investigated thoroughly. This commitment is reflected in the customer business standard all our markets abide by (see the policies section of aviva.com/cr).

MAKING THE RIGHT CALL

Our business ethics code outlines our high ethical standards and ensures we operate responsibly and transparently. We require all our people, at every level, to read and sign-up to our code every year. We provide financial crime prevention training, in areas such as fraud and market abuse and our malpractice helpline Right Call makes it easy to report any concerns in confidence, with all reports referred to independent investigation. In 2016, 25 cases were reported through Right Call *(2015: 25)*. 18 cases reached conclusion, and seven remain under investigation. There has been no material litigation arising from any cases reported in 2016.

SUPPORTING COMMUNITIES

In 2016, we used our expertise to give hundreds of organisations across our markets the support they need to make a difference in their local communities through the Aviva Community Fund. In 2016, we increased our community investment, by 5%, totalling £11.3 million *(2015: £10.8 million)* and helped 939,000 people. We also harnessed the passion and talent of our employees, who contributed 41,700 hours of volunteering time and gave or fundraised over £1.9 million. Our people are the lifeblood of our corporate responsibility strategy and our Voice of Aviva results show that 84% of our people believe that Aviva is a good corporate citizen[1] and these employees are 59% more likely to be proud of Aviva.

In February 2016 we launched a group wide three year strategic partnership with the British Red Cross. We are investing in global disaster response and resilience, sharing our risk management expertise to help communities to be better informed, prepared, and therefore more resilient if disaster strikes. We are using our digital skills with our global mapathon and British Red Cross psychosocial training is helping us look after our customers even better in times of crisis.

I'm proud of what we've achieved in 2016 and am focused on ensuring we continue to build a bright and sustainable future for Aviva and our customers

#Aviva2016

Kirstine Cooper / Group General Counsel and Company Secretary

1 The equivalent Financial Services Benchmark for social responsibility is 75%.

AVIVA COMMUNITY FUND

Our online Aviva Community Fund (ACF) shows our values of Create Legacy and Care More in action. Anyone can nominate and vote for inspirational projects in their local communities, with the winners getting funding and support. The ACF is now operating in six of our markets across the world. We're delighted to support so many wonderful causes. The Happy Community Service in Hong Kong (above) was one of ten projects that won funding to help strengthen different aspects of local community life. Now young families in the Kwun Tong District can enjoy free family activities, helping to support their community – thanks to ACF.

RED CROSS MAPATHON

We're in business to help people to Defy Uncertainty. So we're a natural partner for the British Red Cross. That takes many forms, but one of the most enjoyable was when 1,000 of our people across 13 markets took part in the Aviva Global Mapathon. They used their computers to map 75,000 buildings in some of the most vulnerable communities in the world. Their mapping will help the planning work in Malawi for a childhood Measles and Rubella immunisation initiative and in Haiti, where many rural communities were devastated by Hurricane Matthew. Every £1 invested in reducing the risk of disaster saves £4 in emergency response and reconstruction.

FTSE4Good

ROBECOSAM
Sustainability Award
Bronze Class 2016

Aviva is one of the top-scoring companies in the 2016 Dow Jones Sustainability Index (run in partnership with RobecoSAM) and a long-standing member of the FTSE4Good Index.

WHAT WE ACHIEVED

46%

We are carbon neutral and we've reduced our CO_2e by 46% since 2010 (our baseline year), offsetting 1.3 million tonnes over the last ten years.

1,600 projects

Our community development activity, including the Aviva Community Fund and carbon offset projects, have benefited 1,600 community projects and 939,000 people globally.

UN collaboration

Following our global commitment to the Sustainable Development Goals, Mark Wilson set out to world leaders Aviva's practical recommendations to accelerate progress towards sustainable capital markets.

Upholding business ethics

Ensured that 98% of our people globally confirmed they had read, understood and accepted the business ethics code.

WHAT WE PLAN TO DO

Strengthening local communities

Replicate the Aviva Community Fund in more markets and target 2.5 million beneficiaries and 200,000 hours of volunteering by 2020.

Red Cross Partnership

Build on the successful launch of our British Red Cross partnership, sharing our skills and working together to help our customers and vulnerable communities become safer and stronger in times of uncertainty and crisis.

Tackling climate change

Continue progress towards our £2.5 billion target in low carbon infrastructure investment by 2020 and our long-term CO_2e reduction target of 70% by 2030.

HELPING PROTECT OUR CUSTOMERS

Storms during the winter of 2015/2016 had a terrible impact in parts of the North of England and the Scottish Borders. Storm Desmond saw the UK's record for rainfall in a 24 hour period smashed and thousands of homes flooded. Aviva had over 250 claims in Carlisle alone. We were on the ground as quickly as possible to sort things out for our customers and help them access the flood resilience grants they needed. Reinstating our customers' homes was our top priority but we've also made sure their homes are more resilient, so if there's another flood they'll be better protected. It was a moment of truth when we showed we Care More about our customers.

MONEY TALKS – WHAT DOES YOURS SAY?

Many people know how important it is to save for a comfortable retirement. But they may not know much about the companies in which their savings for retirement are invested. While pensions are all about savings for the long term, it's possible they're being invested in companies that make short term profits, rather than creating a sustainable long term legacy. We've made a short film to explain how everyone can help to make sure more money is invested sustainably and responsibly. You can see it using the QR code below.

Scan to watch our sustainable investment film

OUR HUMAN RIGHTS APPROACH

In 2016 we have continued to implement the requirements of our human rights policy across the business. Additionally, as required by the UK Modern Slavery Act, we have taken steps to ensure slavery and human trafficking are not taking place in our business or supply chain.

This included risk assessing our UK suppliers, and updating supplier contract templates, our supplier code of behaviour and our business ethics code, to ensure all employees understand the role they play. We also engaged suppliers to understand their risk of modern slavery and provided training to our procurement function on this topic. For our complete modern slavery statement please see aviva.com/cr.

OUR GLOBAL COMMITMENT TO HUMAN RIGHTS COVERS:

Customers
We respect the rights of our customers by treating them fairly and ensuring their data is managed in an ethical, lawful and responsible way.

Our people
We promote fair reward, diversity and inclusion, equal opportunities, the freedom of association and other human rights through our interactions with our people. We provide a secure, safe and healthy environment for all our people.

Due diligence
We conduct human rights due diligence periodically to ensure we are not complicit in human rights abuse in the countries we operate in.

Investment
We are committed to investing our money and our customers' money in a responsible manner. Aviva Investors is a founding signatory to the UN Principles of Responsible Investment and founding partner of the Corporate Human Rights Benchmark Initiative.

Suppliers
We evaluate, select and ask suppliers to disclose their human rights policies as part of our selection criteria. In the UK, we were an early adopter in achieving accreditation by the Living Wage Foundation. We ensure suppliers pay at least the Living Wage to employees subcontracted to Aviva.

Governance
We have a set of Policies, Business Standards and internal procedures which support delivery of our commitment to human rights.

Reporting
We are committed to ensuring that we adequately report human rights performance according to suitable benchmarks and frameworks for financial services.

Grievance mechanisms
Customers or other external stakeholders can report human rights concerns to the Group Corporate Responsibility Directorate (CR.team@aviva.com) or to Right Call (rightcall@expolink.co.uk).

USING DORMANT MONEY FOR GOOD

Sometimes people lose track of their investments. Despite companies' efforts to trace the owner and re-unite them with their funds, it is not always possible. Aviva has contributed our bright ideas and people to the Dormant Assets Commission to help it recommend ways for 'dormant' or lost funds to go to charity, whilst protecting the rights of owners to reclaim their funds at any time.

CHAMPIONING RESPONSIBLE INVESTMENT

Aviva is committed to responsible investment, using our influence to support more sustainable businesses and ultimately a more sustainable economy and society. Aviva Investors is a proud founding signatory to the UN Principles for Responsible Investment. For over two decades we have focused on good stewardship, taking considered voting action and actively engaging with our holdings. We use our environmental, social and governance (ESG) insight to make better longer term investment decisions. We recognise the challenges of financing action on the Sustainable Development Goals and the particular urgency to take action on climate change. We actively engage with policymakers to help unlock capital markets to deliver on these priorities.

STARTING WITH OURSELVES

We have a proud history of taking action to reduce the environmental impact of our business and were the first carbon neutral insurer worldwide in 2006. We continue to offset 100% of any remaining carbon emissions and our offsetting projects have helped over 970,000 people since 2012 live better lives (e.g. through provision of clean cook-stoves in Kenya). In 2016 our solar panel (solar pv) power systems began generating renewable electricity in three Aviva office sites across the UK. In light of our progress in reducing our carbon emissions against the 2020 target, we have recently revised our ambitions, setting a higher target of 50% reduction by 2020 and 70% by 2030. To date we have achieved a 46% reduction against the 2010 baseline. Under the Carbon Reduction Commitment Energy Efficiency Scheme, we reported total emissions of 55,517 tonnes of CO_2e in 2016, costing £883,623. This mandatory scheme is limited to UK businesses emissions from building energy, and includes the property portfolio of our investment funds managed by Aviva investors.

ENSURING A SUSTAINABLE FUTURE

Protecting the environment today means we can all enjoy a bright and sustainable future. We have assessed our potential environmental risks, focusing our strategy on the issues that matter most to our customers, business and stakeholders (see page 70 for more details). We work hard to ensure that assets remain insurable despite environmental risks and use our expertise to advise customers on how they can help protect the people and things they love. This included partnering with the Institute for Catastrophic Loss Reduction (ICLR) in Canada to develop the Plan & Protect app to help people prepare for and minimise the impact of unforeseen weather events and natural disasters.

A CHALLENGE FOR TODAY, NOT TOMORROW

Aviva has a long-term commitment to tackle climate change and in November we published progress on our strategy to act on climate-related investment risk over the next five years (2015-2020). This can be found on aviva.com/reports and includes details of our progress a year on from the historic COP21 agreement in a number of areas, including low carbon investment, supporting policy action, active stewardship and divestment.

CLIMATE RELATED FINANCIAL DISCLOSURE

Aviva was represented on the Financial Stability Board's Taskforce on Climate-related Financial Disclosure this year. We have provided an initial high-level response to Taskforce recommendations in our roles as an asset owner, insurer and asset manager (Aviva Investors) – this can be found in the Annual Report and Accounts.

OPERATIONAL GLOBAL GREENHOUSE GAS EMISSIONS DATA BOUNDARIES

Our carbon footprint boundaries show the scope of the data we monitor and the emissions we offset. We report on Greenhouse Gas (GHG) emission sources on a carbon dioxide emissions equivalents basis (CO_2e) as required under the Companies Act 2006 (Strategic Report and Directors' Reports) 2013 Regulations. We also refer to the GHG Protocol Corporate Accounting and Reporting Standard, and emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2016.

Tonnes CO_2e	Scope 1	Scope 2	Scope 3	Absolute CO_2e footprint**	Carbon offsetting***	Total net emissions
2016	19,210	41,008	19,193	79,410	(79,410)	0
2015*	19,112	49,595	19,991	88,698	(88,698)	0
2014	20,031	46,231	17,662	83,924	(83,924)	0

Scope 1 – natural gas, fugitive emissions, oil, company owned cars. **Scope 2** – electricity. **Scope 3** – business travel and grey fleet, waste and water.

	CO_2e tonnes per employee	CO_2e tonnes per £m GWP
2016	2.0	3.12
2015*	2.2	4.05
2014	2.4	3.87

* This includes Friends Life business operations for the whole of 2015.
** 2016 Assurance provided by PricewaterhouseCoopers LLP in the Independent Limited Assurance Report to the Directors of Aviva plc in the Annual Report and Accounts
*** Carbon offsetting through the acquisition and surrender of emissions units on the voluntary market.

> **If business isn't sustainable then society is at risk. And if society isn't sustainable then business is at risk.**
>
> **#Aviva2016**
>
> **Mark Wilson** / Group CEO, Aviva

Operating profit‡

Up 12%

to £3,010m

Prior period comparatives have been restated.
Refer to Note 1 on page 154 for further information.

Cash remittances‡

Up 20%

to £1,805m

Financial flexibility to **drive returns**

TOM STODDARD

Chief Financial Officer

LOOKING FORWARD

- Operating profit[‡1] increased 12%[2] to £3,010 million. We target mid-single digit increase in operating earnings per share[‡] over the medium term
- Cash remittances[‡] to Group - increased 20% to £1,805 million. Between 2016-2018 we will deliver £7 billion of cash remittances
- Dividend per share up 12% to 23.30 pence. We aim to achieve a 50% dividend pay out ratio in 2017
- Stable Solvency II capital position with a solvency II cover ratio[‡3,4] of 189%. Our target working range is 150%-180%

1 2016 and 2015 exclude the impact from an outward quota share reinsurance agreement written in 2015 and completed in 2016 in Aviva Insurance Limited (AIL).

2 Prior period comparatives have been restated. Refer to Note 1 on page 154 for further information.

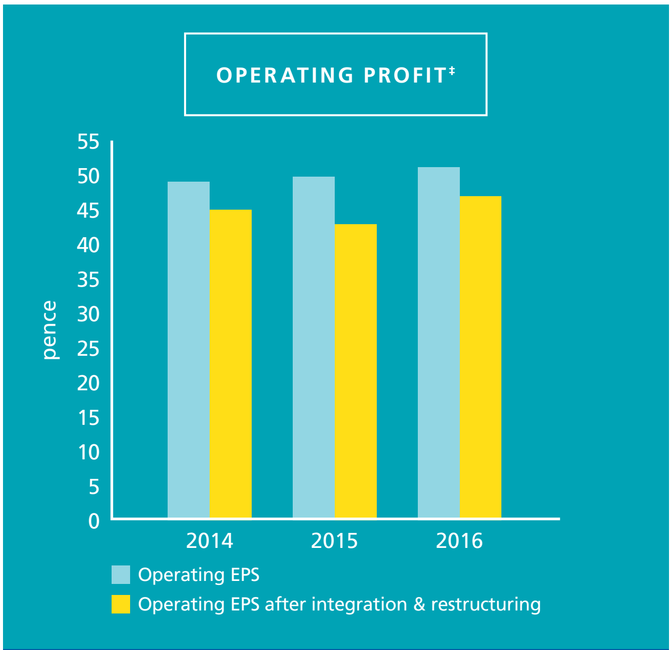
OVERVIEW

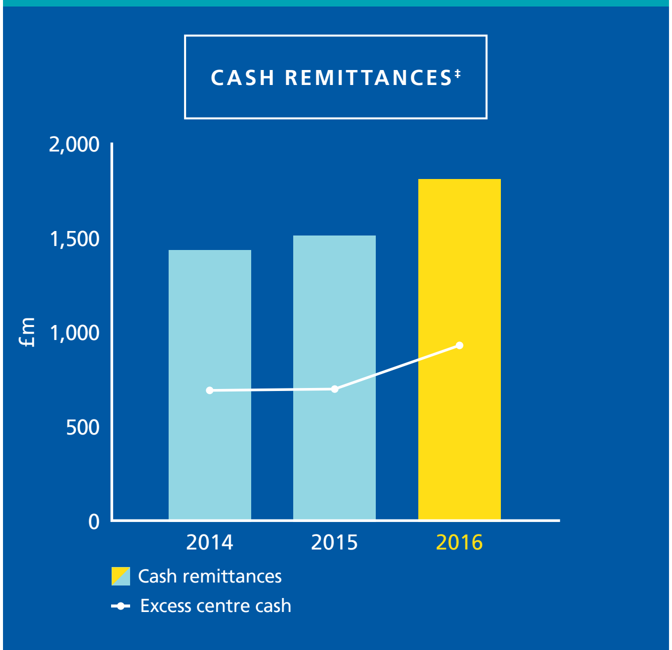
Aviva has delivered another year of progress in 2016. We have grown operating profit, significantly strengthened Solvency II capital surplus and increased cash remittances. Reflecting these financial results and in view of our confidence in the outlook for Aviva, the Board of Directors has proposed a 12% increase in our total shareholder dividend in 2016 to 23.30p.

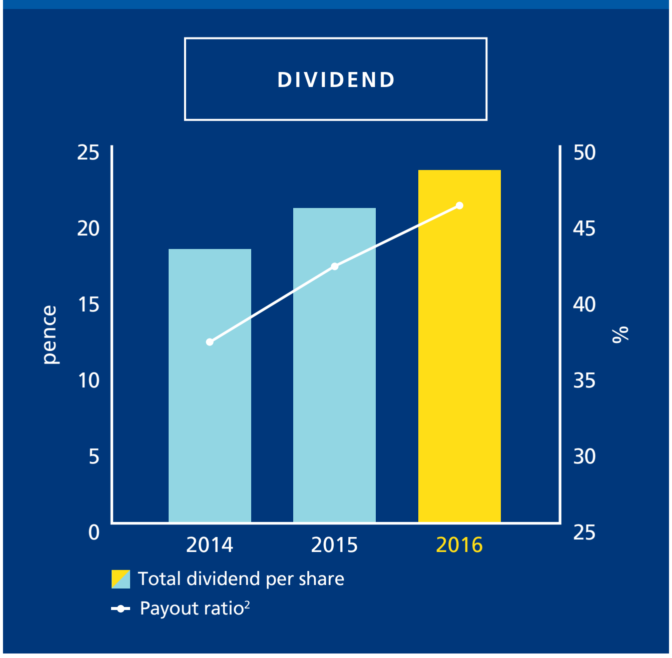
Operating profit[1] increased 12% to £3,010 million *(2015: £2,688 million[2])*. Growth in operating profit was underpinned by strong performances from UK and Ireland General Insurance, Canada and Aviva Investors, while UK Life benefitted from a full-year contribution from Friends Life and improved cost efficiency from realised integration synergies. After incorporating an increase in weighted average shares on issue arising from the Friends Life acquisition, operating EPS[1] increased 3% to 51.1p *(2015: 49.7p[2])*.

Operating profit excludes the impact of the reduction in the Ogden discount rate (£475 million, *2015: nil*). The Lord Chancellor's and subsequent Chancellor of the Exchequer's statements confirm that a consultation will be launched in the coming weeks that will allow the Government to consider the methodology for setting the discount rate. This gives rise to uncertainty with respect to the ultimate level of claims payable and we believe the volatility in our operating profit arising from the "catch up" impact on prior year claims coupled with the potential impact from a subsequent adjustment to the discount rate in 2017 or 2018 would provide a distorted view of the Group's year to year financial performance. Our target of paying a progressive dividend with a dividend payout ratio of 50% of operating EPS for 2017 remains, and we have maintained the alignment of our dividend trajectory and operating EPS by

KEY METRICS







treating the Ogden impact as an exceptional item.

IFRS profit after tax was £859 million in 2016, down from £1,097 million[2] in 2015. This includes a £380 million after-tax charge due to the reduction in the Ogden discount rate. Integration and restructure costs declined to £212 million *(2015: £379 million)* but remained elevated as we completed the Friends Life and RBCI integrations. Investment variances were £(381) million *(2015: £(170) million)*. Net asset value per share rose 6% to 414p *(2015: 390p[2])* as operating profits, foreign exchange gains and increase in IAS 19 pension surplus offset the Ogden charge, negative investment variances and higher amortisation expenses.

The Solvency II coverage ratio increased to 189%[3,4] *(2015: 180%)*. Operating capital generation‡ was £3.5 billion in 2016, comprising £4.0 billion generated by our business units, net of £0.5 billion of debt interest, head office and other costs. Operating capital generation included benefits from non-recurring items such as approved model changes as we optimised capital for Solvency II. Remittances from our business units were £1.8 billion *(2015: £1.5 billion)* and excess centre cash flow‡ was £0.9 billion *(2015: £0.7 billion)*.

Our financial results in 2016 demonstrated the benefits of Aviva's diversity and the strength of our franchises. We continue to target consistent mid-single digit growth in operating EPS over the medium term.

BUSINESS UNIT PERFORMANCE

UK and Ireland Life increased operating profit 7% to £1,555 million *(2015: £1,455 million[2])*. In the UK, operating profit was £1,523 million *(2015: £1,431 million[2])* reflecting a full year contribution from Friends Life (acquired April 2015), integration synergies and growth in sales and managed assets. Our core growth engines in UK Life all delivered strong momentum. Operating profit from long term savings increased 39% to £142 million *(2015: £102 million)*, protection grew 52% to £242 million *(2015: £159 million)* and retirement (annuities and equity release) gained 26% to £656 million

3 The estimated Solvency II cover ratio represents the shareholder view. Refer to the Glossary for further information.
4 The estimated Solvency II position includes an estimated adverse impact of a notional reset of the transitional measure on technical provisions ("TMTP") to reflect interest rates at 31 December 2016. Removing this notional reset of TMTP would increase the estimated Solvency II surplus by £0.4 billion. Amortisation of TMTP since 1 January 2016 is also reflected.

FINANCE FUTURE TALENT

One of our values is to Create Legacy. That includes making sure our people are fit to tackle the challenges of today – and tomorrow. That's why our Finance Future Talent programme is so important. It's about making sure our best people in our Global Finance, Risk and Internal Audit teams are developed, engaged, retained and equipped for senior leadership roles. It's pretty intensive; two years of four six month assignments that build experience, skills and networks across a variety of finance and control teams. They are supported by a senior mentor and external executive coaches. It's a great opportunity – and helps Aviva make the most of our own opportunities.

(2015: £519 million). These were partially offset by a modest reduction in legacy profits to £332 million *(2015: £341 million)* and a 51% reduction in income from other to £151 million *(2015: £310 million)*. In Ireland, life insurance operating profit increased 33% to £32 million.

Aviva Investors delivered 32% growth in fund management operating profit to £139 million *(2015: £105 million)*. Revenue increased 12% to £506 million driven by increased external new business flow, significantly increased origination of infrastructure and other illiquid assets primarily for Aviva and completion of on-boarding of Friends Life assets. Operating expenses increased 6% to £367 million reflecting continued investment in the business. Assets under management increased 19% to £345 billion *(2015: £290 billion)* due to positive net flows, the inward transfer of a further £14 billion of Friends Life assets and positive market returns.

Excluding the exceptional charge associated with the change in the Ogden discount rate, operating profit[1] from UK and Ireland General Insurance and Health increased by 23% to £471 million *(2015: £384 million[5])*. In UK general insurance, net written premiums[1] increased 7% due to new distribution relationships with Homeserve and TSB. Excluding the exceptional Ogden discount rate impact, the combined operating ratio of the UK business remained relatively stable at 95.3% in 2016 *(2015: 95.1%)* with lower weather claims and the positive effect of portfolio re-balancing and cost initiatives offsetting the Flood Re levy and commission strain from new distribution partnerships. In Ireland, general insurance operating profits increased to £41 million *(2015: £30 million)* reflecting strong growth in net written premiums (19% in local currency) and an improvement in combined ratio to 91.2% *(2015: 94.6%)*. Operating profit from Health increased 19% to £38 million *(2015: £32 million)* due to a 30% improvement in underwriting profit to £35 million.

Europe responded well to challenging market conditions by delivering resilient results in 2016. Operating profit fell 3% in local currency terms but benefitted from foreign currency translation to reach £964 million *(2015: £880 million)*. In France, operating profit fell 5% in constant currency terms to £499 million *(2015: £466 million)* due to weak investment markets, an increase in weather claims in general insurance and higher operating expenses. Italy increased operating profits by 9% in constant currency to £212 million *(2015: £172 million)* as a result of growing sales volumes and improved margins in life insurance. In Poland, the underlying performance remained solid, though the cost of the financial sector asset levy implemented by the Polish Government caused operating profits to decline 7% in local currency to £140 million *(2015: £139 million)*.

Canada delivered operating profit of £269 million *(2015: £214 million)*, an increase of 16% in local currency terms. Net written premiums increased 14% in local currency to £2,453 million *(2015: £1,992 million)* and benefitted from a six month contribution from the acquired RBCI business. The underwriting result increased to £168 million *(2015: £120 million)* with higher premium volumes associated with the acquisition of RBCI more than offsetting a modest increase in the combined operating ratio to 94.6% *(2015: 93.8%)*.

In Asia, operating profit fell 8% in constant currency terms to £228 million *(2015: £238 million)* reflecting the discontinuation of the DBS bancassurance relationship, lower profits from Friends Provident International and investment into nascent markets such as Indonesia and Vietnam. The Singapore and Hong Kong businesses have repositioned and are pursuing innovative and disruptive distribution strategies.

CAPITAL MANAGEMENT

At the end of 2016, our Solvency II coverage ratio[3,4] was 189% *(2015: 180%)*, above the top end of our 150-180% working range. The Solvency II surplus[4] increased to £11.3 billion *(2015: £9.7 billion)* as exceptionally strong operating capital generation of £3.5 billion (of which £1.7 billion underlying) was only partially offset by negative variances from investment market fluctuations and dividend payments to shareholders. Included within 2016 operating capital generation were a number of initiatives such as Friends Life capital synergies and approved model changes that improved our position under the new Solvency II regime. In total, these accounted for approximately £1.8 billion of capital generation. While there remain opportunities for further Solvency II optimisation and capital synergies, the contribution from such actions is likely to be lower in the future than was the case in 2016.

5 2016 comparatives have been rebased for the reduction in the internal loan.

In view of our strong Solvency II ratio, there is now capacity to deploy surplus capital. In addition to underpinning a progressive dividend, we have four priorities for capital deployment:

1. Organic growth, including capital required to support new distribution partnerships;
2. Bolt-on acquisitions that strengthen our core markets;
3. Returning capital to shareholders, via a share re-purchase program or special dividend; and
4. Paying down hybrid debt obligations.

These priorities are not mutually exclusive and we expect to pursue all of these options. Specifically, we plan to take steps to return additional capital to shareholders and reduce hybrid debt during 2017. Liquidity at the centre is £1.8 billion at the end of February 2017 *(February 2016: £1.3 billion)*. We generally intend to maintain centre liquidity balances in excess of £1 billion.

While capital return options are now on our current agenda, we continue to invest in our businesses, with organic priorities being digital, fund management and general insurance. In 2016, we acquired RBCI, increasing the scale of our Canadian business and strengthening our distribution. We also established partnerships with Homeserve and TSB to expand our UK General Insurance business. We will continue to consider bolt-on acquisitions and distribution partnerships that grow operating profit and strengthen our position in core markets.

OUTLOOK

Our three financial targets are to deliver mid-single digit percentage growth in operating EPS over the medium term, for our business units to remit £7 billion of cash to group centre in 2016 to 2018 inclusive and to increase our dividend payout ratio to 50% by the end of 2017, following which the dividend trajectory is expected to align with growth in operating EPS. We remain confident that we can deliver on these objectives.

Thomas D. Stoddard
Chief Financial Officer
8 March 2017

MOVEMENT IN NET ASSET VALUE

The table below shows the movement in Net Asset Value (NAV) during 2016, which increased by 24 pence to 414 pence per share‡.

Profit after tax attributable to equity holders was £703 million *(2015: £936 million[1])*. Within this, operating profit‡, one of our key financial metrics, was £3,010 million *(2015: £2,688 million[1])*. Details of operating performance in our markets can be found on pages 38-53.

Non-operating items including integration and restructuring costs were a charge of £1,817 million *(2015: £1,275 million)*. The movement includes:

- the change in the Ogden rate had an adverse impact of £475 million (12 pence per share)
- investment return variances on long term business of £379 million *(2015: £14 million)*
- short-term fluctuation on non-long-term business of £(518) million *(2015: £(84) million)*
- economic assumption changes on general insurance and health business of £(242) million *(2015: £(100) million);*
- integration and restructuring costs of £212 million *(2015: £379 million)*; and
- a charge of £23 million *(2015: £53 million)*, relating to a UK reinsurance transaction which provides significant protection again claims volatility.

Further details can be found in the "Reconciliation of group operating profit to profit for the year" in the consolidated financial statements.

Favourable foreign exchange movements of £945 million *(2015: £(325) million)* is due to the weakening of sterling, particularly compared to the euro and Canadian dollar.

Other net equity movements of £309 million *(2015: £(113) million)* includes the remeasurement of pension schemes (£242 million, *2015: £(142) million)*.

	£m	pence per share*
At 1 January 2016[1]	**15,802**	**390p**
Operating profit‡	3,010	73p
Non-operating items	(1,817)	(44)p
Tax and non-controlling interests	(490)	(12)p
Profit after tax attributable to shareholders	703	17p
Dividends and appropriations	(956)	(24)p
Foreign exchange	945	23p
Other net equity movements	309	8p
At 31 December 2016	**16,803**	**414p**

* Number of shares as at 31 December 2016: 4,062 million *(31 December 2015: 4,048 million)*.

MAKING GOOD DECISIONS

We've finished the fix and now we're in the transform and grow phase. It's important for all our people to be making the right decisions, at the right time. We 're also continuing to improve our risk and control culture. So we've come up with a set of five clear principles, with our values at the core, to help guide our people in their everyday roles. It's been rolled out to ten markets and our approach has been profiled by the Institute of Ethics.

Rigorous and consistent risk management

Risk management is key to Aviva's success. We accept the risks inherent to our core business lines of life, accident & health, and general insurance and asset management. We diversify these risks through our scale, geographic spread, the variety of the products and services we offer and the channels through which we sell them.

We receive premiums which we invest in order to maximise risk-adjusted returns, so that we can fulfil our promises to customers while providing a return to our shareholders. In doing so, as set out in the next page, we have a preference for retaining those risks we believe we are capable of managing to generate a return.

Looking forward, these risks may be magnified or dampened by current and emerging external trends which may impact upon our current and longer term profitability and viability, in particular our ability to write profitable new business. This includes the risk of failing to adapt our business model to take advantage of these trends. Pages 70 to 71 describe what these trends are, their impact, future outlook and how we manage these risks.

We prefer risks we understand, have the expertise to manage and which are well-rewarded

#Aviva2016

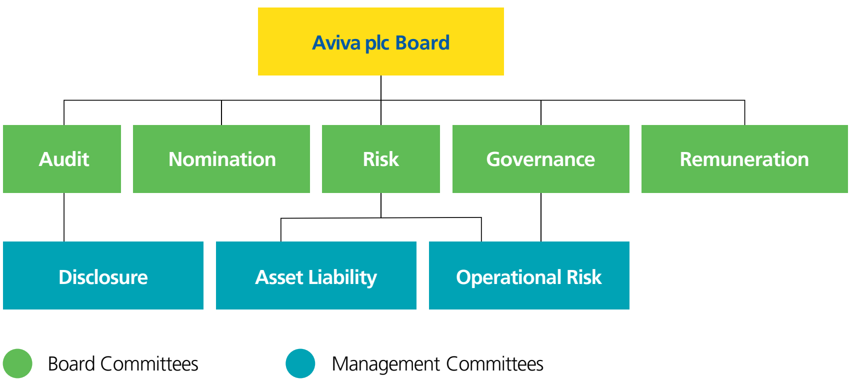
Angela Darlington / Chief Risk Officer

HOW WE MANAGE RISK

Rigorous and consistent risk management is embedded across the Group through our Risk Management Framework, comprising our systems of governance, our risk management processes and risk preferences (see next page).

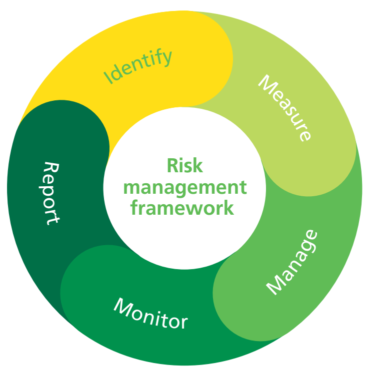
Our Governance

Includes risk policies and business standards, risk oversight committees (see below) and roles and responsibilities. Line management in the business is accountable for risk management which, together with the risk function and internal audit, form our 'three lines of defence' of risk management. The roles and responsibilities of the Governance, Audit and Risk Committees and Disclosure, Asset Liability and Operational Risk management committees in the oversight of risk management and internal control is set out in the Directors' and corporate governance report.



Our process

The processes we use to identify, measure, manage, monitor and report risks, including the use of our risk models and stress and scenario testing:



OUR RISK PREFERENCES

This includes qualitative statements on the risks that we select for reward, the risks we accept but seek to minimise and the risks we seek to avoid or transfer, as well as quantitative expressions (risk appetite statements) of the level of risk we can support (e.g. the amount of capital we are prepared to put at risk). The table below sets out our preference for those risks arising from our business model. Where our inherent risk exposure exceeds our risk preference, we seek to reduce our residual risk exposure through management actions, such as reinsurance, investment hedges and enhanced operational controls. We prefer those risks which we believe we understand well and have the expertise to manage so we can generate superior returns.

Risks customers transfer to us

- Life insurance risk includes longevity risk (annuitants living longer than we expect), mortality risk (customers with life protection), critical illness risk, expense risk (the amount it costs us to administer policies) and persistency risk (customers lapsing or surrendering their policies).
- General insurance (GI) risk is the risk arising from loss events (fire, flooding, windstorms, accidents etc).
- Accident & Health insurance risk covers healthcare costs and loss of earnings arising from customers falling ill.

Risks from Investments

- Credit risks (actual defaults and market expectation of defaults) create uncertainty in our ability to offer a minimum investment return on our investments.
- Liquidity risk is the risk of not being able to make payments as they become due because there are insufficient assets in cash form.
- Market risks result from fluctuations in asset values, including equity prices, property prices, foreign exchange, inflation and interest rates.

Risks from our operations and other business risks[3]

- 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.
- Asset management risk is the risk of customers redeeming funds, not investing with us, or switching funds, resulting in reduced fee income.

1 Our top three risks ranked by diversified Solvency II Solvency Capital Requirement
2 At a business level we have minimal appetite for foreign exchange risk. At Group level we accept some foreign exchange risk, against predetermined limits, from the translation on consolidation of the net assets of our overseas subsidiaries from local currency into pounds sterling to the extent not offset by foreign currency borrowings and derivative hedges.
3 The most critical residual operational risks to which the Group is exposed are aligned to the Group's Major Control Improvement Topics, set out in the Audit Committee Report in the Annual Report and Accounts.

PRINCIPAL RISK TRENDS

This table describes the external trends and causal factors impacting our inherent risks, their impact, future outlook and how we take action to manage these risks:

KEY TRENDS AND MOVEMENT	RISK MANAGEMENT	OUTLOOK
▲ **Uncertain interest rate environment** – if current low interest rates continue for a prolonged period it will adversely affect the return we earn on our investments, as well as the attractiveness of the returns we can offer to new customers. **Risks impacted:** Credit risk Market risks Liquidity risk	**Over the last few years we have taken significant steps to reduce the sensitivity of our balance sheet to interest rates.** Our exposure to interest rates movements is mitigated by investing in fixed interest securities which closely match the interest rate sensitivity of our liabilities. Actions taken include close asset liability matching, reducing sales of products with guarantees (in particular in Italy and France), shifting our sales towards protection and unit-linked products.	Since the US election there has been a shift in sentiment on the limitations of loose monetary policy in favour of fiscal stimulus to support growth, resulting in a rebound in the record low long term interest rates experienced after the UK-EU referendum. While it remains likely UK and Eurozone interest rates will remain low for some time to come, there is a risk that a rapid increase in rates could result in a collapse in bond prices and widening spreads.
▲ **UK-EU relations (Brexit uncertainty)** – Following the referendum result there is considerable uncertainty over the UK's future relationship with the EU (including access to the single market), and economic growth and financial markets, as well as the status of our EU employees working in the UK and longer term implications for financial services regulation, including Solvency II. **Risks impacted:** Credit risk Market risks Operational risk	**Brexit does not have a significant operational impact.** We are actively engaged through the Association of British Insurers and directly with the UK Government to ensure the interests of our industry and stakeholders are appropriately taken into account. We are developing contingency plans to cover potential adverse operational outcomes for our business, in particular with regards to the loss of the ability for UK firms to passport business into the EU. Given our corporate structure, this is not a major risk. Our Financial Event Response Plan ensures that we will be able to respond swiftly and effectively to any severe adverse financial event.	We expect greater clarity to emerge once Article 50 is invoked. However, until negotiations are concluded there will remain considerable uncertainty over their outcome, and in particular whether any transitional arrangements will be in place when the UK exits the EU, which may adversely impact financial markets and economic growth.
◀▶ **People living longer** – Medical advances and healthier life styles contribute to an increase in life expectancy of our annuitants and thus future payments over their lifetime may be in excess of the amounts we currently expect. **Risks impacted:** Life insurance risk (longevity)	**We monitor our own experience carefully and analyse external population data to identify emerging trends.** Detailed analysis of the factors that influence mortality informs our pricing and reserving policies. We add qualitative medical expert inputs to our statistical analysis and analyse factors influencing mortality and trends in mortality by cause of death. Aviva's Staff Pension Scheme hedges its longevity risk covering approximately £5 billion of pensioner in payment liabilities. In 2016 we started to use longevity reinsurance for bulk purchase annuities and Aviva guaranteed annuity options. We continue to evaluate emerging reinsurance market solutions.	There is considerable uncertainty over the extent that improvements in life expectancy experienced over the last 40 years will continue into the future. Indeed, despite continued medical advances emerging lifestyle changes may begin to slow or even reverse this trend.
▲ **Climate change** – potentially resulting in higher than expected weather-related claims (including business continuity claims) and inaccurate pricing of general insurance risk, as well as adverse secondary impacts on economic growth and investment markets. **Risks impacted:** General insurance risk Credit risk Market risk	**We are actively engaged in public policy debate on the risks and impacts of climate change to our business and customers.** We use reinsurance to reduce the financial impact of catastrophic weather events. Our flood mapping analytics helps us identify properties most at risk and improve our risk selection. Our responsible investment strategy ensures climate change, as well as other environmental and social issues are integrated into our investment decisions. We actively seek to reduce our own direct carbon emissions (46% reduction since 2010) as well as indirect emissions through supplier agreements and as a criteria for supplier selection. For further information see pages 58-61.	Global average temperatures in 2016 were the hottest on record. Despite the UNFCCC Paris agreement, the current trend of increasing CO_2 emissions is expected to continue with global temperatures likely to exceed pre-industrial levels by at least 2°C and weather events (floods, droughts, windstorms) increasing in frequency and severity.

KEY TRENDS AND MOVEMENT	RISK MANAGEMENT	OUTLOOK
▲ **Impact of new technologies** – Failure to understand and react to the impact of new technology and its effect on customer behaviour and how we distribute products could potentially result in our business model becoming obsolete. While failure to keep pace with the use of data to price more accurately and to detect insurance fraud could lead to loss of competitive advantage and underwriting losses. **Risks impacted:** Operational risk (developing the right strategy)	**Aviva's strategy is focused on transformation into a digital leader by taking a bold and enterprise-wide approach to digital and automation.** In July 2014, Aviva announced its strategic anchors and embarked on a digital strategy leveraging the building blocks of predictive analytics, automation and digital sales channels. We are currently integrating data analytics into our operations, enabling new means of underwriting, personalised customer propositions and operational efficiency. For further information on our digital strategy see pages 26-27 and 54-55.	There is expected to be a five-fold growth in digital data between now and 2020. Big data is becoming a critical driver of competitive advantage for insurers. Artificial intelligence and robotic automation are likely to increasingly transform the efficiency of insurance operations such as underwriting and claims.
◀▶ **Changes in public policy** – Any change in public policy (government or regulatory) could influence the demand for, and profitability of, our products. In some markets there are (or could be in the future) restrictions and controls on premium rates, rating factors and charges. **Risks impacted:** Operational risk (developing the right strategy, regulatory compliance)	**We actively engage with governments and regulators in the development of public policy and regulation.** We do this to understand how public policy may change and to help ensure better outcomes for our stakeholders, including customers. The Group's multi-channel distribution and product strategy and geographic diversification underpin the Group's adaptability to public policy risk, and often provides a hedge to the risk. For example, since the end of compulsory annuitisation in 2015 we have compensated for falling sales of individual annuities by increasing sales of other life and pension products including bulk purchase annuities.	In the UK pressure on public finances may result in further erosion of tax relief for pension savings, while further restrictions on pension charges are also possible, as well as increases in Insurance Premium Tax, extension in Flood Re coverage and changes to the asset management industry following the FCA's review. Also, the Polish government is consulting on pension changes which will radically impact the pensions industry.
▲ **Cyber crime** – criminals may attempt to access our IT systems to steal or utilise company and customer data, or plant malware viruses, in order to access customer or company funds, and/or damage our reputation and brand. **Risks impacted:** Operational risk (fraud, business interruption)	**We are not complacent.** We continue to invest significantly in IT Security, introducing additional automated controls to protect our data, detect and prevent cyber-attacks. In addition to implementing secure development practices we employ our own "white hat" hackers to regularly test our IT security defences. We undertake regular activities with our people to promote awareness of cyber and data security, including: employee phishing exercises, computer based training and more regular communications about specific threats as they are identified.	In 2016 there were a number of high profile cyber security incidents for corporates in the UK and elsewhere, and we expect this to increase in 2017 as cyber criminals become ever more sophisticated and given the growing importance of digital automation in business strategy.
◀▶ **Changes in customer behaviour** – will impact how customers wish to interact with us and the product offering they expect from us, including the exercise of options embedded in contracts already sold by us. **Risks impacted:** Operational risk (developing the right strategy, regulatory compliance)	**We listen to our customers to ensure we meet their needs.** For information on how we are mitigating this risk through execution of our strategy, focused on Digital First, see pages 26-27, and True Customer Composite, see pages 20-23, with further examples provided in the market review section on pages 38-53.	We expect customers will be much more in control, expecting to self-service and self-solve. They will want to access data and insight and use it to guide their own decisions.

▲ Increased during 2016 ◀▶ Remained stable ▼ Decreased during 2016

This Strategic Report (up to page 71) was approved by the Board of Directors on 8 March 2017 and signed on its behalf by

Mark Wilson
Group Chief Executive Officer

GOVERNANCE

IN THIS SECTION

Dear Shareholder

I am pleased to present this year's directors' and corporate governance report

EMBEDDING OUR VALUES

The Board is accountable for setting and leading our culture and, along with the Group Executive, for ensuring the correct tone from the top. Our culture is reflected in our values: Care More; Never Rest; Kill Complexity; and Create Legacy, and through certain initiatives and our remuneration structures, we ensure these guide the organisation and are reflected in our decision making.

One example is the launch of 'Good Decisions'. Comprising a toolkit and principles that help our colleagues use the values to make 'Good Decisions' in the course of their everyday work. The cultural shift achieved is measured bi-annually via metrics including customer satisfaction, risk and control metrics, and through questions within our annual Voice of Aviva survey. The initiative ensures our values are at the heart of all decisions that the Board and our colleagues make.

INTRODUCTION

The Board and I are pleased to report that Aviva has made considerable progress in the past three years as we have grown operating profit, increased cash remittances and strengthened the balance sheet. This performance has been delivered against a backdrop of significant political, market and regulatory change, in particular following the national election in America and the result of the European Union (EU) referendum. Change breeds uncertainty, and during this period, strong governance has supported the organisation in successfully anticipating and adapting to the more volatile environment.

CULTURE IN THE ORGANISATION

During the year I led the Board through a number of discussions on our culture and how it is manifested throughout the organisation. We engaged our management to develop a series of metrics through which the culture within Aviva could be measured. I believe that there is no single measure that can define an organisation's culture, but that a broad dashboard can provide the Board with a holistic view of the culture in our business. As we define these cultural metrics we can better understand the actions we, as a Board, can take to develop our culture to meet our strategic objectives.

REFRESHING THE BOARD

During the year Claudia Arney and Keith Williams joined the Board as Non-Executive Directors and Scott Wheway stepped down on 31 December 2016 after nine years' service on the Board. I would like to thank Scott for his significant contribution to the Group over this time. As we moved into 2017 we announced that Sir Malcolm Williamson and Bob Stein would not seek re-election at the 2017 Annual General Meeting (AGM) and that Glyn Barker will become Senior Independent Director. Following the announcement of the half year results in August 2017, it is intended that Glyn will step down as Chair of the Audit Committee (but remain as a member), with Keith Williams assuming this role, subject to regulatory approval.

EXECUTIVE SUCCESSION

The Board focused extensively on, and invested in, executive succession and contingency planning during the year, and further detail is contained in the Nomination Committee report.

CHALLENGES DURING 2016

During 2016 the Board and its committees of course faced some challenges, with the Governance Committee in particular examining the conduct implications following the suspension of dealings in the Aviva Property Trust Funds. The Board also reviewed the steps taken following the breaches of the Financial Conduct Authority's Principles with regard to client money. This is an area we have invested in and will continue to monitor.

GOVERNANCE STRUCTURE

To drive forward our True Customer Composite strategy, we have combined the UK Insurance businesses[1] to provide a single interface to our UK customers. We have also appointed an Aviva plc non-executive director to the boards of Aviva Life Holdings UK Limited, Aviva Investors Holdings Limited and Aviva UK Digital Limited to strengthen the link between the Board and key operating companies.

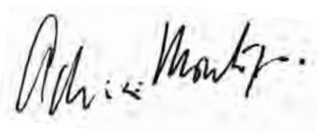
GOVERNANCE

In November 2016, the Government issued a green paper on corporate governance highlighting greater stakeholder involvement at Board level, and on executive pay. The Board supports the drive for greater stakeholder engagement generally, and we have participated in the consultation process, and look forward to reviewing the resulting legislation.

DIRECT CREDIT OF DIVIDENDS FOR SHAREHOLDERS

In November 2016 we sent a newsletter to shareholders relating to the forthcoming change to our dividend payment procedures, specifically that we will cease to pay cash dividends by cheque from November 2017. Cash dividends will be paid by direct bank credit as the Board believes this directly aligns with our Digital First strategy, will increase the speed and security of payments, reduces printing and postage costs and will minimise the impact of Aviva's activities on the environment.

The Board recognise that a strong governance framework is fundamental to the execution of our strategic objectives, underpinned by a clear purpose and well understood culture and values, and this will remain a focus during 2017.

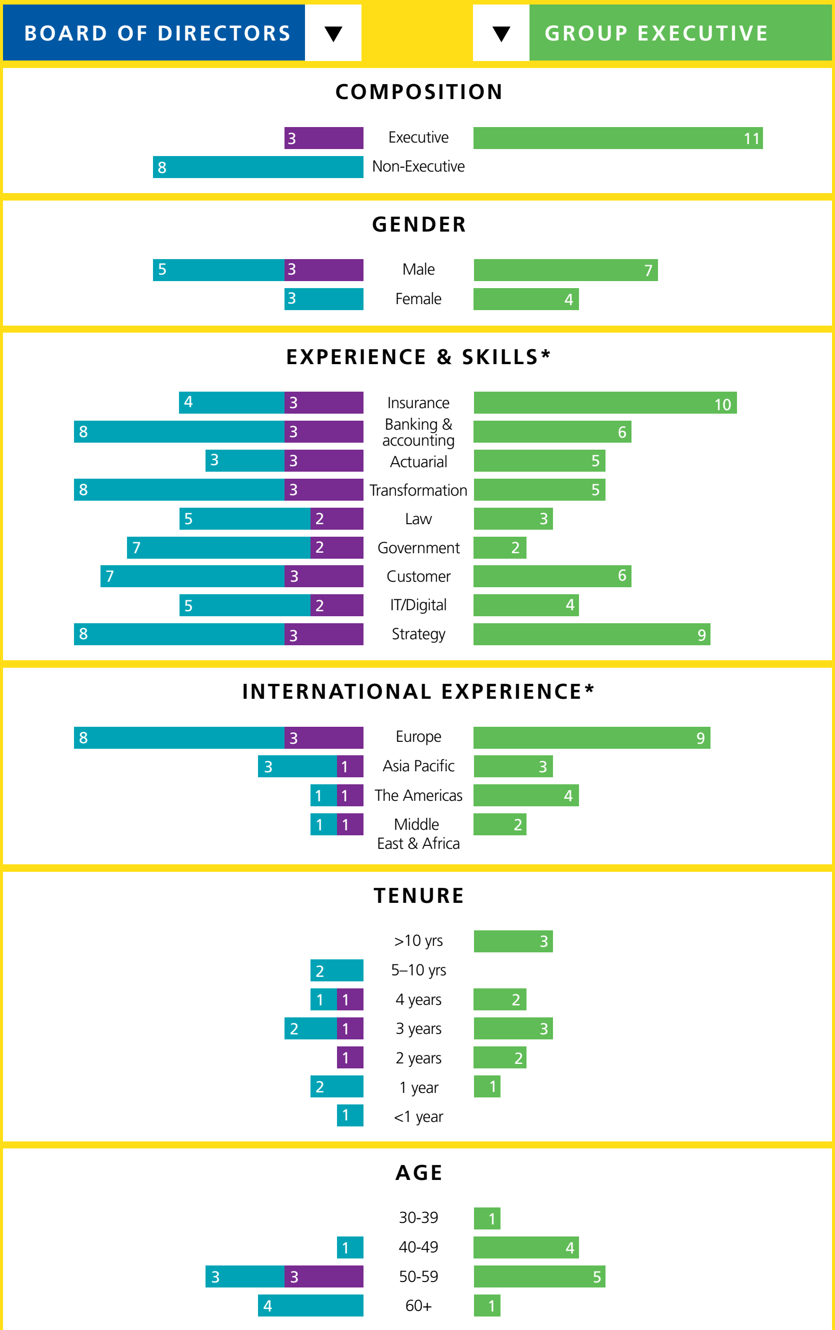


Sir Adrian Montague CBE
Chairman
8 March 2017

1 Subject to regulatory approval.

BOARD AND GROUP EXECUTIVE DIVERSITY

We believe in having a diverse leadership team with regard to experience, skills, tenure, age, geographical expertise, professional background and gender. The charts below illustrate the diversity of our Board and senior management following the Board changes effective as at the date of the Annual General Meeting (AGM), and are materially the same as at the date of this report.



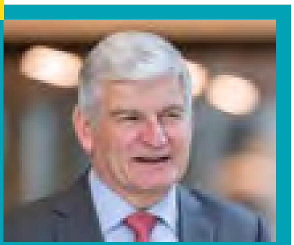
Executive Non-Executive Group Executive

*Individual Directors may fall into one or more categories

We continue to progress towards greater diversity on the Board and throughout the Company. The Board is supportive of the Lord Davies report and Hampton-Alexander review target for women to represent 33% of boards by 2020; at the date of this report women represent 23% of the Board membership and 36% of the Group Executive. Following the Board changes effective from the 2017 AGM, women will represent 27% of the Board membership. We actively support women advancing into senior roles, as evidenced by our participation in initiatives such as the Future Board Scheme and the 30% club.

Governance

Our Board of Directors bring a wealth of **industry experience**



Sir Adrian Montague, CBE
Position: Chairman

Nationality: British
Committee membership: Nomination Committee (Chair)

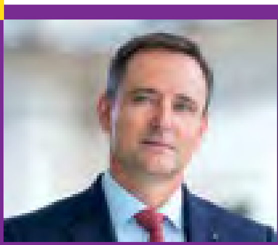
Tenure: 4 years 2 months. Appointed to the Board as a Non-Executive Director in January 2013, as Senior Independent Director in May 2013, and as Chairman in April 2015

Qualifications: MA, Law (Cambridge); Qualified Solicitor

Skills and Experience: Sir Adrian is an experienced chairman with extensive leadership skills and a wealth of knowledge of the financial services industry, government affairs and regulatory matters. His diverse skill-set and strategic awareness facilitate open discussion and challenge in the Boardroom.

Sir Adrian has led the Board in discussions on corporate culture and ethics and is an active advocate for these throughout the Group. He is also a champion for the Aviva Community Fund, creating legacy and supporting the communities in the markets in which Aviva operates.

External Appointments: Chairman of The Manchester Airports Group plc and The Point of Care Foundation and a non-executive director of Cellmark AB.



Mark Wilson
Position: Group Chief Executive Officer

Nationality: New Zealander
Committee Membership: N/A

Tenure: 4 years 3 months. Appointed to the Board in December 2012 and as Group Chief Executive Officer (CEO) in January 2013

Qualifications: MSc Management Studies (Waikato University)

Skills and Experience: Mark is an inspirational CEO with exceptional business acumen and he has extensive experience of leading major international insurance companies, in both mature and growth markets.

A dynamic leader and effective communicator, Mark has enabled the successful transfer and integration of the Friends Life companies and continues to develop the Company's strategy and embed its core values, whilst delivering strong financial performance.

Mark is a champion for sustainable business and is a key commentator on the role of business in society, particularly in creating sustainable, long-term investment. He is also an advocate of championing consumer interests, particularly in the motor insurance industry.

External Appointments: N/A

Tom Stoddard
Position: Chief Financial Officer

Nationality: American
Committee membership: N/A

Tenure: 2 years 11 months. Appointed to the Board and as Chief Financial Officer in April 2014

Qualifications: BA Economics (Swarthmore College); Juris Doctor (University of Chicago Law School)

Skills and Experience: Tom's financial expertise and strategic decision-making skills play a fundamental role in driving Aviva's strategy and he has continued to deliver Aviva's investment thesis of cash flow plus growth.

Tom has a strong track record of leading the finance function of Aviva including successfully steering the Group through the implementation of Solvency II.

Prior to joining Aviva, Tom worked primarily as an investment banker and has held senior positions in highly respected US firms, including Blackstone Advisory Partners LP, where he was responsible for successfully driving Blackstone's business advising banks, insurers and other financial institutions globally on mergers and acquisitions and financial restructuring.

External Appointments: N/A

Andy Briggs
Position: Chief Executive Officer, UK Insurance

Nationality: British
Committee membership: N/A

Tenure: 1 year 11 months. Appointed to the Board and as Executive Director in April 2015

Qualifications: Fellow of the Institute of Actuaries

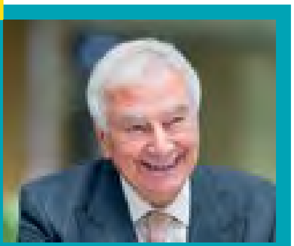
Skills and Experience: Andy became CEO UK Insurance[1] in 2017 and is responsible for all Aviva's insurance businesses in the UK, further strengthening Aviva's position in the UK market. His strategic insight and business transformation skills are supported by his extensive operational and executive experience gained over more than 25 years in the insurance industry.

Previously CEO of the Friends Life business, Andy's knowledge and experience of the UK Life sector is invaluable to the Board.

Additionally, his position as chairman of the Association of British Insurers (ABI) gives him a unique perspective of the UK insurance and regulatory environment.

External Appointments: Chairman of the ABI and on the Board of Trustees of the NSPCC. Andy is also the Government's Business Champion for Older Workers.

1 Subject to regulatory approval.



Sir Malcolm Williamson

Position: Senior Independent Non-Executive Director

Nationality: British

Committee membership: Audit Committee, Governance Committee, Nomination Committee, Remuneration Committee

Tenure: 1 year 11 months. Appointed to the Board and as Senior Independent Director in April 2015

Qualifications: Fellow of the Institute of Bankers

Skills and Experience: Sir Malcolm brings over 50 years' leadership experience in the insurance and banking sectors and an in-depth knowledge of the UK life insurance market to the Board. His comprehensive understanding of the regulated financial services environment and thought leadership facilitates constructive challenge in the Boardroom and assists him with his duties in his role as a non-executive director.

Sir Malcolm has been vital in overseeing the successful integration of the Friends Life business, having previously been Chairman of the Friends Life Board.

External Appointments: Chairman of Cass Business School's Strategy and Development Board, the Board of Trustees of Youth Business International Limited, the Governing Council of the Centre for the Study of Financial Innovation and NewDay Group Limited.

Claudia Arney

Position: Independent Non-Executive Director

Nationality: British

Committee membership: Governance Committee (Chair), Nomination Committee, Remuneration Committee, Risk Committee

Tenure: 1 year 1 month. Appointed to the Board in February 2016

Qualifications: MBA (INSEAD)

Skills and Experience: Claudia brings a broad range of skills to the Board, notably, extensive expertise of building digital businesses, strategy formulation, business transformation and customer strategy. Additionally, as Chair of the Governance Committee, Claudia brings challenge and a fresh perspective to customer, conduct and governance issues.

She has considerable experience, both executive and non-executive, across a number of sectors including financial services, publishing, digital and government.

In her executive career, Claudia was group managing director of Emap and was responsible for transforming the predominantly print trade publishing business into a digital data and information business. This experience positions her well in her role as a non-executive director of Aviva's UK Digital business.

External Appointments: Non-executive director of Derwent London plc, Halfords Group plc and the Premier League.

Glyn Barker

Position: Independent Non-Executive Director

Nationality: British

Committee membership: Audit Committee (Chair), Nomination Committee, Risk Committee

Tenure: 5 years 1 month. Appointed to the Board in February 2012

Qualifications: Fellow of the Institute of Chartered Accountants of England and Wales; BSc Economics and Accounting (Bristol)

Skills and Experience: Glyn possesses a deep understanding of accounting and regulatory issues together with in-depth transactional and financial services knowledge. He has extensive experience as a business leader and as a trusted adviser to FTSE 100 companies and their boards on a wide variety of corporate and finance issues. Glyn has extensive knowledge of the Aviva Group which gives him a balanced understanding of the issues and concerns of shareholders, allowing him to support the Chairman and the Board in instilling the appropriate culture, values and behaviours in the Boardroom.

Formerly, Glyn was vice chairman of PricewaterhouseCoopers LLP (PwC) with responsibility for leading the strategy and business development for Europe, the Middle East, Africa and India region.

External Appointments: Chairman of Irwin Mitchell, and Interserve plc, and a non-executive director of Berkeley Group Holdings plc and Transocean Limited.

Patricia Cross

Position: Independent Non-Executive Director

Nationality: Australian

Committee membership: Remuneration Committee (Chair), Audit Committee, Nomination Committee

Tenure: 3 years 3 months. Appointed to the Board in December 2013

Qualifications: BSc (Hons), International Economics (Georgetown University)

Skills and Experience: Patricia has diverse international expertise, gained from more than 30 years of executive and non-executive experience in financial services, other regulated industries and government in the United States, Europe and Australia.

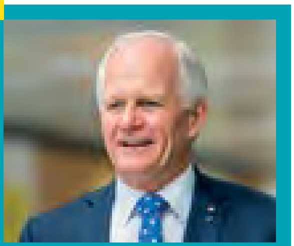
She brings strategic financial capability, and a deep knowledge of international capital markets and financial risk management to the Board.

Patricia is also a recipient of the Australian Centenary Medal for service to Australian society through the finance industry.

External Appointments: Chairman of the Commonwealth Superannuation Corporation, a non-executive director of Macquarie Group Limited and Macquarie Bank Limited. She is an ambassador for the Australian Indigenous Education Foundation.

Executive
Non-Executive

Governance



Michael Hawker, AM
Position: Independent Non-Executive Director

Nationality: Australian

Committee membership: Risk Committee (Chair), Audit Committee, Nomination Committee

Tenure: 7 years 2 months. Appointed to the Board in January 2010

Qualifications: Fellow of the Financial Services Institute of Australia

Skills and Experience: Michael brings to the Board his comprehensive knowledge and experience of the financial services industry, broad strategic insight and a deep knowledge of the Company and its businesses. He brings continuity to the Board and his experience at Aviva makes him well placed in determining the nature and extent of the potential risks in achieving the Company's strategic objectives.

Michael's long career and leadership positions in the banking and insurance industries, in both executive and non-executive roles across Europe, Asia and Australia, enable his constructive challenge to discussion in the Boardroom and also in maintaining sound risk management and internal controls.

External Appointments: Non-executive director of Macquarie Group Ltd, Macquarie Bank Ltd, Washington H Soul Pattinson Pty and Company Ltd (investment) and Rugby World Cup Limited. Michael is also chairman of The George Institute for Global Health.

Michael Mire
Position: Independent Non-Executive Director

Nationality: British

Committee membership: Governance Committee, Nomination Committee, Remuneration Committee, Risk Committee

Tenure: 3 years 6 months. Appointed to the Board in September 2013

Qualifications: MBA, (Harvard)

Skills and Experience: Michael has a detailed understanding of the financial services sector and extensive experience of advising companies on, and in implementing transformation programmes.

Formerly a senior partner at McKinsey & Company, where he focused on the strategies for retail and financial services companies, and having gained governmental experience at the Central Policy Review Staff (now the Number 10 Policy Unit), Michael brings a unique perspective and insight to the Board.

External Appointments: Chairman of the Land Registry and senior independent director at the Care Quality Commission.

Belén Romana García
Position: Independent Non-Executive Director

Nationality: Spanish

Committee membership: Governance Committee, Nomination Committee, Risk Committee

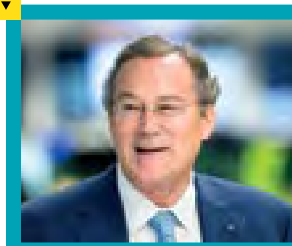
Tenure: 1 year 8 months. Appointed to the Board in June 2015

Qualifications: BSc, Business and Economics (Universidad Autonomo de Madrid)

Skills and Experience: Belén has a wealth of government and regulatory experience and possesses a detailed knowledge of the financial services industry, particularly, insurance and European regulation, which is valuable in the Board's decision-making process.

In addition to her non-executive director experience in financial services and other regulated industries, as a former Spanish civil servant, Belén has held senior positions at the Spanish Treasury and represented the Spanish Government at the Organisation for Economic Co-operation and Development and serves on various EU Committees.

External Appointments: Independent non-executive director of Banco Santander.



Bob Stein
Position: Independent Non-Executive Director

Nationality: American

Committee membership: Audit Committee, Nomination Committee, Remuneration Committee, Risk Committee

Tenure: 4 years 2 months. Appointed to the Board in January 2013

Qualifications: Certified Public Accountant, Fellow of the Society of Actuaries and a member of the American Institute of Certified Accountants and the American Academy of Actuaries

Skills and Experience: Bob has a deep knowledge of accounting and actuarial practices, and the insurance and broader financial services sector.

His background as a former global managing partner for actuarial services at Ernst & Young and in the various leadership roles he held in the firm's actuarial and insurance practice allow him to effectively challenge and determine the risks facing the Group and the successful execution of its strategy. He brings to the Board a deep and broad knowledge of the global life insurance industry and of dealing with regulators internationally.

External Appointments: Non-executive director of Assurant, Inc. (US speciality insurance), director of Resolution Life Holdings, Inc. and a trustee emeritus of the Board of Trustees of the US Actuarial Foundation.

Non-Executive
Group General Counsel and Company Secretary

Scott Wheway retired from the Board as at 31 December 2016.

Keith Williams

Position: Independent Non-Executive Director

Nationality: British

Committee membership: Audit Committee, Governance Committee, Nomination Committee

Tenure: 7 months. Appointed to the Board in August 2016

Qualifications: Associate member of the Institute of Chartered Accountants

Skills and Experience: Keith has extensive financial experience including a detailed knowledge of business planning, capital projects and project finance gained in a number of industries and over 10 years of executive experience as chief financial officer at British Airways Plc.

Keith also brings to the Board his broad experience of leading transformation and implementing technology, particularly through his role as chairman of British Airways where he transformed the company into a customer focused organisation.

His previous roles provide him with an understanding of the challenges and opportunities faced by an international business with a multi-channel distribution strategy.

External appointments: Non-executive deputy chairman of John Lewis and member of the Audit Committee of the British Museum.

Kirstine Cooper

Position: Group General Counsel and Company Secretary

Nationality: British

Committee membership: N/A

Tenure: 6 years 3 months. Appointed as Company Secretary in December 2010

Qualifications: Bachelor of laws degree (Glasgow) and qualified solicitor. Graduate of the general manager programme (INSEAD)

Skills and Experience: Kirstine has over 25 years of experience at Aviva and is an experienced and trusted adviser to the Board. Previously Kirstine was the Deputy Group Company Secretary and Legal Counsel and her experience as a lawyer together with the various senior management roles she has held within Aviva make her well qualified to advise the Board on governance issues and the regulatory agenda.

She has significant experience of managing legal risk in connection with corporate acquisitions and disposals, partnerships, joint ventures and agency relations, financial transactions and litigation.

Kirstine established the legal and secretarial function as a global team and is responsible for the provision of legal services to the Group, legal risk management, regulatory compliance, public policy and corporate responsibility.

External appointments: Trustee of the Royal Opera House and Commissioner on the Cabinet Office's Dormant Assets Commission.

OUR GROUP EXECUTIVES

Mark Wilson
Group Chief Executive Officer

Tom Stoddard
Chief Financial Officer

Andy Briggs
Chief Executive Officer, UK Insurance

Kirstine Cooper
Group General Counsel and Company Secretary

Nick Amin
Group Chief Operations and IT Officer

Angela Darlington
Group Chief Risk Officer

Sarah Morris
Chief People Officer

Euan Munro
Chief Executive Officer, Aviva Investors

Monique Shivanandan
Group Chief Technologist and Chief Information Officer

Maurice Tulloch
Chief Executive Officer, International Insurance

Chris Wei
Executive Chairman, Asia & FPI and Global Chairman, Aviva Digital

For a more detailed biography of each of our Group Executive please go to: www.aviva.com/ge/

Directors' and corporate governance report

This report sets out the role and activities of the Board and explains how the Group is governed.

THE UK CORPORATE GOVERNANCE CODE

As a UK premium listed company, Aviva has adopted a governance structure based on the principles of the UK Corporate Governance Code (the Code). The 2016 version of the Code applies to financial periods beginning on or after 17 June 2016, however the Company felt it was best practice to adopt the 2016 Code early. Further details of how the Company has applied the Code principles and complied with its provisions, are set out in this report and the directors' remuneration report.

The Board can confirm that the Company was compliant throughout the financial year under review with both the 2014 and 2016 versions of the Code. Further information on the Code can be found on the Financial Reporting Council's (FRC's) website www.frc.org.uk.

THE BOARD

The role of the Board and its committees is set out on page 82 of this report.

A strong system of governance throughout the Group aids effective decision-making and supports the achievement of the Group's objectives for the benefit of customers and shareholders whilst in compliance with regulations. The duties of the Board and of each of its committees are set out in their respective Terms of Reference. The committee Terms of Reference can be found on the Company's website at www.aviva.com/committees and are also available from the Group Company Secretary. The Terms of Reference list both matters that are specifically reserved for decision by the Board and those matters that must be reported to the Board. The Board delegates clearly defined responsibilities to various committees and reports from the Audit, Governance, Nomination and Risk Committees are contained in this report. A report from the Remuneration Committee is included in the directors' remuneration report.

THE DIRECTORS

Biographical details of current directors are set out in their biographies on pages 76 to 79, and details of those directors seeking election/re-election are contained within the Notice of the 2017 Annual General Meeting (Notice of AGM) and on the Company's website.

2016 - 2017 Board changes

As at the date of this report the Board comprises the Chairman, three Executive Directors and nine Independent Non-Executive Directors (NEDs).

Claudia Arney was appointed to the Board as a NED on 8 February 2016 and brings a wide range of skills and experience notably in building digital strategies, business transformation and customer focus. Keith Williams was appointed to the Board as a NED on 1 August 2016 and brings a strong financial background, detailed knowledge of business planning and capital projects, and experience working in the technology sector.

Scott Wheway retired on 31 December 2016, after serving nine years on the Board. In 2017 we announced that Sir Malcolm Williamson and Bob Stein would not seek re-election at the 2017 Annual General Meeting (AGM). Glyn Barker will become Senior Independent Director (SID), and following announcement of the half year results in August 2017 will step down as Chair of the Audit Committee (but remain as a member), with Keith Williams becoming the Audit Committee Chair, subject to regulatory approval.

Board diversity

The diversity charts in the Chairman's Governance Letter show that we have a Board with a sound balance of skills and experience. The Nomination Committee report sets out the Board's approach to diversity, which is not just limited to gender but diversity in its widest sense.

Board appointments

The Board appoints NEDs who can apply their wider business skills, knowledge and experience to the oversight of the Group, and input and challenge in the boardroom

EVOLUTION OF THE SKILLS MATRIX

*Individual Directors may fall into one or more categories

The Board recognises the role it plays in demonstrating effective leadership and in building Aviva's culture. The Board requires a broad range of skills to ensure balanced and effective decision making. To support this, our skills matrix has been developed to meet the evolving needs of the Company, enabling us to map the current skills and experience of the Board and to link these to our strategy.

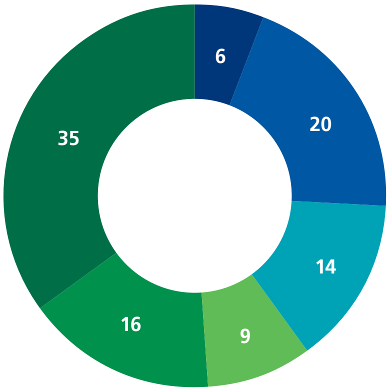
The skills matrix will continue to support our approach to succession planning in the future, providing an objective assessment of the Board's skills and experience, and what additional elements may be required to support the Company's strategic objectives. This will make any future search process more focused and ensure the continuing strategic context in all Board appointments.

BOARD RESPONSIBILITIES AND ALLOCATION OF AGENDA TIME

Group strategy and business plans – 35%
Sets the Group's strategy against which performance is monitored, and assesses progress against the business plan.

Oversight of risk and risk management – 16%
Sets the Group's risk appetite and risk management framework, and monitors compliance with internal controls and business standards.

Corporate governance – 9%
Reviews and approves all significant shareholder communications and monitors developments to legislation and regulation and internal governance arrangements.



Significant transactions and expenditure – 6%
Considers, reviews and approves updates on transactions and expenditure.

Financial reporting and controls, capital structure and dividend policy – 20%
Reviews and assesses the Group's financial performance.

People, culture, succession planning and Board effectiveness – 14%
Ensures adequate succession planning, taking into consideration the talent pipeline and sets and embeds the Group's culture and values.

ACTIVITIES DURING 2016

Group strategy and business plans

- Approved the 2017-2019 Group Plan and received presentations and reports from business units in respect of strategy execution and performance against the Group Plan
- Reviewed and constructively challenged reports from the Group Chief Executive Officer (Group CEO) and Chief Financial Officer (CFO) containing updates on the Group's financial performance; any proposed significant transactions; changes in senior management; regulatory developments; and the control environment, together with progress against the Group Plan and the Group's strategy
- Received regular reports from the Chairman comprising updates on Board matters for which he is responsible such as Board composition
- Critically reviewed updates from the business on the integration of the Friends Life Group following the 2015 acquisition
- Held an annual two-day Board strategy meeting in June 2016, and a further meeting in November 2016, to review and agree the Group's strategy
- Visited the leadership teams of technology companies, further details on which can be found later in this report
- Regularly discussed topical issues as they became prevalent; during 2016 two Board meetings were called to assess the Group's position with regard to Brexit

Oversight of risk and risk management

- Received reports from the Chief Risk Officer (CRO), and assessed the Group's significant risks and regulatory issues; approved the Group's risk appetite; approved the Group risk policies which provide the risk framework for managing risk across the Group; and received updates on the Group's capital and liquidity position

Corporate governance

- Reviewed regular updates from its committees and management on legislation and proposed consultations that may affect the Company's legal and regulatory obligations, including proposals to reform Corporate Governance
- Received assurance that governance structures remained appropriate for the businesses and the global markets in which we operate, while supporting the overall strategy and culture
- Continued focus on the governance framework for the Group's subsidiaries and supported the roll out of the Subsidiary Governance Principles
- Approved the redemption of its 8.25% capital securities which were redeemed on 1 December 2016, the voluntary delisting of its American Depositary Shares (ADS) from the New York Stock Exchange, and the deregistration of the ADS and the underlying ordinary shares under the US Securities Exchange Act 1934 (the Exchange Act), to move to a 'Level 1' sponsored programme

Significant transactions and expenditure

- Approved financial matters in line with the Group Funding Plan, and also strengthening of our capital position through debt raising issues
- Approved external and inter-group financing

Financial reporting and controls, capital structure and dividend policy

- Reviewed the Company's financial performance, financial results, and dividend payments
- Assessed the Group capital and liquidity requirements including the Solvency II position, arising from the Company's strategy and Group Plan
- Reviewed reports provided by its committees on key matters of financial reporting discussed at committee meetings, providing the opportunity for the Board to input and challenge where necessary

People, culture, succession planning and Board effectiveness

- Significant focus was given to succession planning. Further details are provided in the Nomination Committee report
- Undertook an internal evaluation of the Board's effectiveness, the effectiveness of each committee and individual directors. Further details are included later in this report
- Reviewed the results of the 2016 Voice of Aviva survey, and discussed the organisational results in respect of culture
- Regularly discussed the current Group culture and its alignment with strategy, and initiated a project to review the culture in the Group and the metrics on which it could be measured
- In addition the Board met for a half day strategic culture review

BOARD AND BOARD COMMITTEE STRUCTURE

Aviva plc Board

Collectively responsible for promoting the long-term success of the Company and for setting the Group's strategy, against which management's performance is monitored. It sets the Group's risk appetite and satisfies itself that financial controls and risk management systems are robust, whilst ensuring the Group is adequately resourced. It is also responsible for setting the values and supporting the culture of the Group, and ensures appropriate dialogue with shareholders on strategy and remuneration.

Audit
Responsible for monitoring the integrity of the Company's financial statements, the adequacy and effectiveness of the systems of internal control (including whistleblowing procedures), and the effectiveness and independence of the internal and external auditors.

Governance
Responsible for the consistency of, and compliance with, governance and regulatory requirements across the Group. In addition, the Committee provides oversight of conduct, customer outcomes, financial crime, corporate responsibility and the governance of UK Digital.

Nomination
Responsible for monitoring the balance of skills, knowledge, experience and diversity on the Board. It makes recommendations for Board and committee appointments and is responsible for monitoring the succession plans of the executive directors and senior management.

Risk
Responsible for assisting the Board in its oversight and management of risk, and reviews the Group's risk appetite and risk profile in relation to capital and liquidity. It works with the Remuneration Committee to ensure risk management is considered when setting remuneration policy.

Remuneration
Responsible for making recommendations to the Board regarding the remuneration policy of the Group and, in compliance with policy, recommending the remuneration packages of the Chairman, the Executive Directors and other members of the Group Executive.

to progress the business. Executive director appointments are made to ensure that the appropriate business focus is represented on the Board to support effective implementation of the Board strategy. The Board regularly reviews and refreshes the skills of Board members, identifying any areas of skills, experience and knowledge that we can further strengthen. As outlined opposite, in the second half of 2016, we rolled out a refreshed version of the Board skills matrix, which will be used to further promote a sound balance of Board skills, experience and knowledge. More information on the skills matrix can be found in the Nomination Committee report, which also sets out the work carried out during the year in respect of Board and committee succession planning.

Director appointments are made by the Board and are subject to a formal, rigorous, and transparent process and to the appropriate regulatory approvals. The Nomination Committee report sets out the steps taken to identify and appoint new NEDs, which includes consideration of diversity criteria. Executive director appointments follow the executive succession planning process that ensures there is a pipeline of executive talent available. All Board appointments are also subject to continued satisfactory performance following the Board's annual effectiveness review, and the Company's articles of association, which prescribe that all serving directors will retire and stand for election or re-election at each AGM. The NEDs also assist management in the development of the Company's strategy, which is set by the Board, so it is important that they have experience of strategy formulation, business planning and transformation. To be effective, it is the Board's view that the majority of our NEDs should have a sound understanding of the financial services industry so as to be able to evaluate the information they receive and for them to provide appropriate challenge. The majority of the NEDs at the date of this report have this experience.

Board independence

The Nomination Committee, having considered the matter carefully, is of the opinion that the current NEDs remain independent, in line with the definition set out in the Code, and are free from any relationship or circumstances that could affect, or appear to affect, their independent judgement. Over half of the Board members, excluding the Chairman, are independent NEDs. Scott Wheway had served on the Board since his appointment in December 2007, and Mike Hawker has served since his appointment in January 2010. Accordingly, in early 2016 their performance, including their independence, was the subject of a particularly rigorous review pursuant to the recommendations of the Code, both having been on the Board for longer than six years. The Board remained satisfied that both Scott and Mike were independent and would continue to make a valuable contribution during the year. Scott retired from the Board on 31 December 2016, having served just over nine years. The review of the directors' other interests included the 'cross directorships' of Patricia Cross and Mike Hawker who are both directors at Macquarie Group and Belén Romana García and Scott Wheway as directors of companies within the Santander group. The Nomination Committee was satisfied this did not affect the judgement or independence of Patricia, Mike, Scott or Belén.

Time commitment

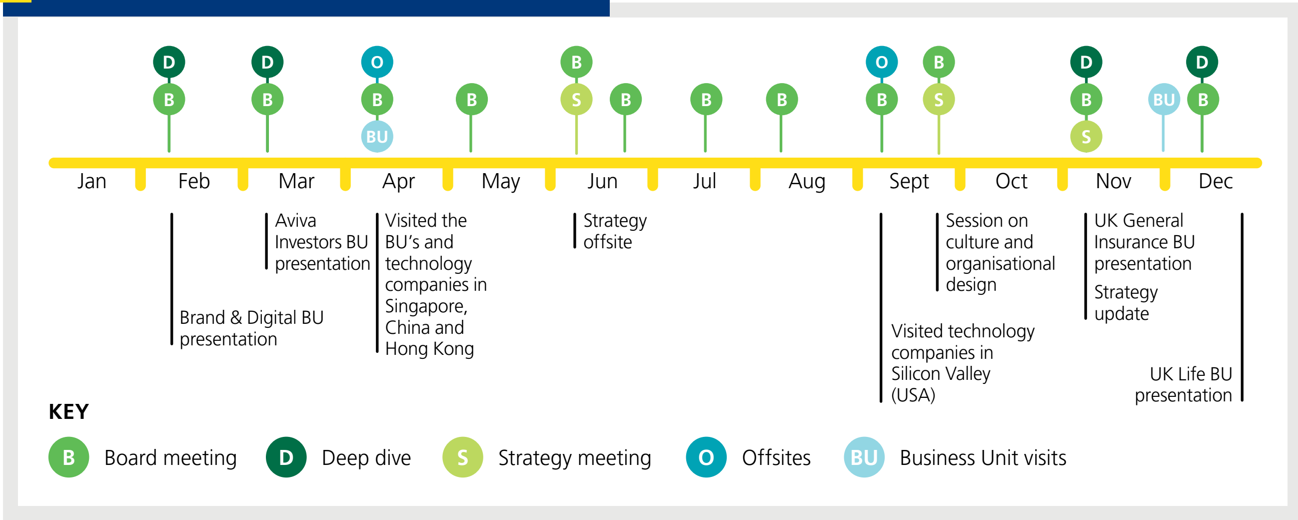
Each NED must be able to devote sufficient time to the role in order to discharge his or her responsibilities effectively. The Chairman assesses the time commitment of the NEDs as part of the annual review of their effectiveness, and the SID reviews the time commitment of the Chairman. This assessment takes into account the number of external commitments each director has and that each director has demonstrated that they have sufficient time to devote to their present role within Aviva including under potential periods of particular stress, for example during a significant business transaction. Under the Board's policy on this matter, executive directors may hold one external directorship and must obtain the prior consent of the Board before accepting a non-executive directorship in any other company. Executive directors may retain the fees from any external directorship. No such positions are currently held.

Independent advice

All directors have access to the advice and services of the Group Company Secretary and directors wishing to do so in furtherance of their duties may take independent professional advice at the Company's expense. No such requests were made during 2016.

The Company arranges appropriate insurance cover in respect of legal actions against its directors. The Company has also entered into indemnities with its directors as described on page 102.

BOARD MEETINGS AND ACTIVITIES IN 2016



THE CHAIRMAN AND GROUP CHIEF EXECUTIVE OFFICER

Consistent with the Board Terms of Reference, and separately the Senior Insurance Managers Regime (SIMR), role profiles are in place for the Chairman and the Group Chief Executive Officer (Group CEO) which set out the duties of each role; the Chairman's priority is to lead the Board and ensure its effectiveness and the Group CEO's priority is the management of the Group. The Board has delegated the day-to-day running of the Group to the Group CEO within certain limits, above which matters must be escalated to the Board for determination.

SENIOR INDEPENDENT DIRECTOR (SID)

The SID's role is to act as a sounding board for the Chairman, to serve as an intermediary for the other directors where necessary and to be available to shareholders should they have concerns they have been unable to resolve through normal channels, or when such channels would be inappropriate. During the year the NEDs, led by Sir Malcolm Williamson, met to discuss the executives' performance and also met once without the Chairman present to consider the Chairman's performance. Sir Malcolm meets each NED from time to time, providing a forum in which they can raise matters. Sir Malcolm will not seek re-election as a NED at the 2017 AGM on 10 May 2017 and Glyn Barker will become SID on that date. Glyn will remain Chair of the Audit Committee until the half year results in August 2017, following which he will step down as Committee Chair (but remain a member).

Role profiles for the Chairman, SID, Group CEO and NEDs are on the Company's website at www.aviva.com/roles.

TRAINING AND DEVELOPMENT

- Internal training sessions
- Deep Dives; In-depth sessions on particular areas and Business Unit visits
- An induction programme including:
  - Meetings with each director
  - Presentations from senior management
  - Visits to the Group's main operating businesses
  - Meetings with the External Auditor and some of the Company's advisors

INDUCTION, TRAINING AND DEVELOPMENT

The Board believe strongly in the development of the directors and the Group's employees. It is a Company requirement that each director commits to continuing their professional development.

During the year, the directors attended a number of internal training sessions on topics including Solvency II (SII) with particular focus on the reporting requirements, directors' duties with regard to the impact of SII and SIMR, and matters affecting our IT architecture and related technical platforms. An independent IT adviser to the Board was retained to provide bespoke training and a holistic view on technological developments and the cyber security environment in the context of the Company's strategic objectives. Training sessions have been built into the Board and committees' plans for 2017 and are scheduled to include SII benchmarking, areas of regulatory focus and International Financial Reporting Standard 17, regarding the accounting of insurance contracts.

The Chairman ensures all new directors receive a comprehensive induction programme over a number of months, tailored to their particular needs. Elements of the programme are detailed in the Training and Development section to the left. All new directors receive induction materials, which include: the current strategic and operational plan; recent Board and committee minutes and meeting packs; organisation structure charts; role profiles; a history of the Group; and relevant policies, procedures and governance material. Any knowledge or skill enhancements identified during the director's regulatory application process, are also addressed through their induction programme. Claudia Arney and Keith Williams commenced induction programmes following their appointment and during the year Belén Romana García completed her programme.

BOARD CALENDAR

During 2016, 12 Board meetings were held, of which nine were scheduled meetings and three were additional meetings called at short notice. In addition, the Board delegated responsibility for certain items to specially created Board committees, which met nine times.

The Group Company Secretary assisted the Chairman of the Board and committee chairs in planning for each meeting and ensuring that Board and committee members received information and papers in a timely manner. Members of senior management regularly attend Board meetings to present items of business.

The Board visits different business units whenever it can and during 2016, two Board meetings were held at Aviva offices in Singapore and Norwich. This gave the Board the opportunity to meet the senior management teams and to gain a deeper understanding of the operations and performance of each of the businesses. The Board also held two strategy meetings offsite in the UK to set, and monitor progress against, the Group's strategy. During 2016 significant progress was made on our Digital First strategy, and in support of this the Board held two additional offsite sessions to meet with the leadership

BOARD AND COMMITTEE MEETINGS ATTENDANCE DURING 2016

Directors are expected to attend all meetings of the Board and the committees on which they serve and to devote sufficient time to the Company to effectively perform their duties. Directors receive relevant papers in advance of meetings and any director unable to attend can raise any issues and give comments to the Board or relevant committee chair in advance of the meeting. All meetings were attended unless stated in the footnotes below the table. Details of each committee are contained in each of the committee reports.

Number of meetings held	Board[1] 12	Audit Committee 10	Governance Committee 6	Nomination Committee 4	Remuneration Committee 5	Risk Committee 7
Chairman						
Sir Adrian Montague	12/12	–	–	4/4	–	–
Executive directors						
Mark Wilson	12/12	–	–	–	–	–
Tom Stoddard	12/12	–	–	–	–	–
Andy Briggs	12/12	–	–	–	–	–
Non-executive directors						
Glyn Barker	12/12	10/10	–	4/4	–	7/7
Patricia Cross[2]	12/12	8/10	–	4/4	5/5	–
Belén Romana García	12/12	–	6/6	4/4	–	7/7
Michael Hawker	12/12	10/10	–	4/4	–	7/7
Michael Mire	12/12	–	6/6	4/4	5/5	7/7
Bob Stein[7]	12/12	10/10	–	4/4	5/5	7/7
Scott Wheway[3]	11/12	–	6/6	4/4	–	7/7
Sir Malcolm Williamson[6, 7]	12/12	9/10	6/6	4/4	5/5	–
Claudia Arney[4]	10/11	–	3/3	3/3	2/2	–
Keith Williams[5]	5/5	3/3	3/3	–	–	–

1 During the year there were 12 Board meetings, of which nine were scheduled meetings, and three were called at short notice.
2 Patricia Cross missed two Audit Committee meetings on 19 February 2016 and 29 March 2016 respectively due to personal commitments.
3 Scott Wheway missed one Board meeting which was called at short notice on 30 September 2016 due to a personal commitment. Scott retired as a NED, as Governance Committee Chair, and as a member of the Nomination Committee and Risk Committee with effect from 31 December 2016.
4 Claudia Arney was appointed as a NED and as a member of the Nomination Committee on 8 February 2016, and as a member of the Remuneration Committee and Governance Committee on 1 June 2016. Claudia missed a Board meeting that was called at short notice on 15 July 2016 due to a personal commitment.
5 Keith Williams was appointed as a NED and as a member of the Audit Committee, Governance Committee and Nomination Committee on 1 August 2016.
6 Sir Malcolm Williamson missed one Audit Committee meeting on 16 December 2016 due to a personal commitment.
7 Bob Stein and Sir Malcolm Williamson will not seek re-election at the AGM on 10 May 2017.

teams of technology companies enabling them to discuss business models, customer focus, culture, and the general approach to agile working. The first of these was held in Asia, visiting technology companies in Singapore, China and Hong Kong, which also aligned with a Board meeting and a visit to the Asian Business Units, and the second was held in Silicon Valley. Following this, an action plan was devised to reflect the learnings obtained and to implement these within the Group. During 2017, it is planned that the Board will visit the Group's business in France.

CONFLICTS OF INTEREST

In accordance with the Companies Act 2006, the Company's articles of association allow the Board to authorise potential conflicts of interest that may arise and to impose such limits or conditions as it thinks fit. The decision to authorise a conflict of interest can only be made by non-conflicted directors (those who have no interest in the matter being considered) and in making such a decision the directors must act in a way they consider, in good faith, will be most likely to promote the Company's success for the benefit of its shareholders as a whole. The Board's procedure is to review and approve actual and potential conflicts of interest as they arise. This procedure operated effectively during the year.

BOARD PRIORITIES FOR 2017

The Board has made considerable progress during 2016 on the objectives set at the beginning of the year. This included progressing our Digital First strategy through MyAviva by focusing on our True Customer Composite model, continuing to monitor customer outcomes and conduct risk, and the Group's adoption of SII to ensure we were well prepared to meet our new reporting obligations. These areas of focus were in addition to the Board's routine matters, including financial reporting and strategic planning.

During 2017, IT and cyber security will remain on the Board's agenda, as controls continue to advance in line with ever-evolving technological capability, so that the Company is prepared for new threats and opportunities as and when they arise.

Offsite strategy days are used to set, and reflect on progress with the Company's strategy. In these sessions the Board also discuss the strategic priorities for the year ahead and set the three year strategic plan. In line with the 2017-2019 plan, priorities for the Board's 2017 agenda will be further increasing value for shareholders and strengthening relationships with customers, for example by providing a single point of contact for customers no matter what product they hold.

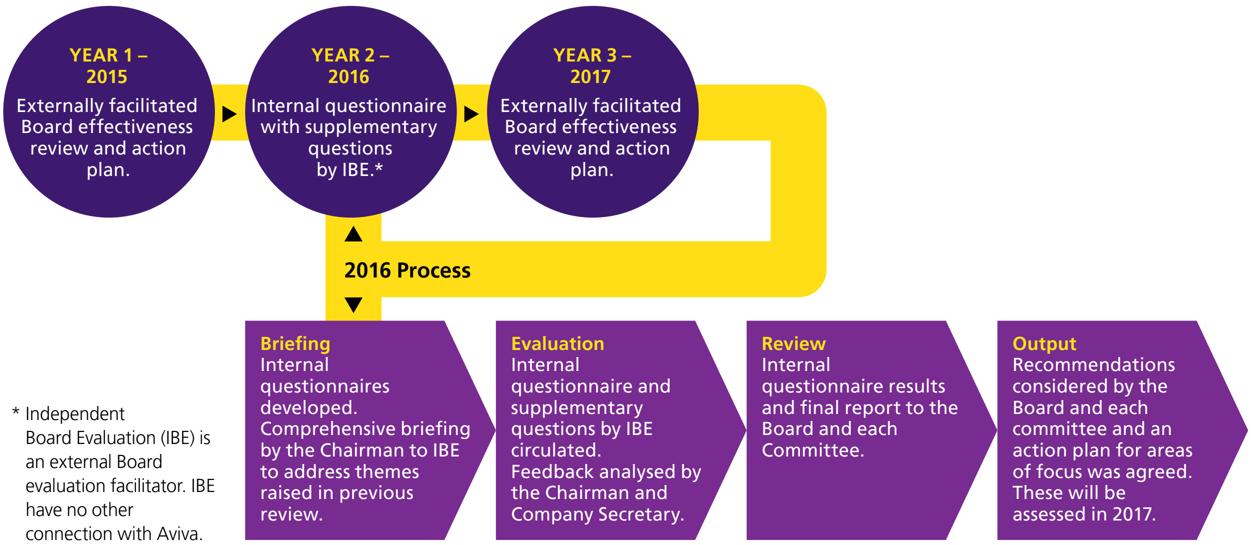
The Audit, Governance and Risk Committees will continue to consider the opportunities and risks associated with each business area and the Remuneration Committee will assess any consequential impact on reward decisions. The Board will maintain oversight and challenge management in its execution of the 2017-2019 plan. As the culture programme progresses, the Board will remain close to the annual all-employee survey results, 'Voice of Aviva'. Succession planning and continued development of the talent pipeline will continue to be a focus for the Board and Nomination Committee.

BOARD EVALUATION

The effectiveness of the Board is vital to the success of the Group. The Board has a rigorous evaluation process each year to assess how it, its committees and individual directors are performing. The normal process is to undertake an evaluation by way of internal questionnaire, supported by discussions with the Chairman, with an external evaluation being conducted every third year. However, in light of major events such as the Friends Life acquisition, the

BOARD AND COMMITTEE EVALUATION AND EFFECTIVENESS

2015 – 2017 EVALUATION PROCESS



* Independent Board Evaluation (IBE) is an external Board evaluation facilitator. IBE have no other connection with Aviva.

OUTCOMES AND STEPS TAKEN IN 2016

Focus area	Theme	Feedback/Actions
Board debate	Operation of the Board, committees and directors	Continue to operate to a high level, work effectively and demonstrate full commitment to their respective duties. The review found that directors are able to participate fully in and effectively challenge discussion, facilitated by the Chairman's positive leadership and the culture of openness that permeates the Board.
Boardroom information	Quality and detail of board papers	New board reporting templates continue to be embedded with training provided across the Group to establish best practice reporting and inform good decision making. There has been a noted improvement in the quality of information presented to the Board, allowing more time for discussion and debate. This will continue to be a focus going forward.
Committee responsibilities	Overlap between the Board and committees	The responsibilities of the Board and its committees have been clarified and efforts have been made not to duplicate reporting, whilst appreciating that in some areas appropriate overlap is beneficial. Enhanced communication between committees is facilitated by detailed agenda planning, committee cross-membership and a summary of activities being presented by committee chairs at each Board meeting.
Board composition	Commitment to diversity	In order to support the Board's commitment to having a strong and appropriate membership which is diverse in terms of skills, experience, background and gender, the role of the Nomination Committee has been further strengthened and the Board skills matrix has been enhanced by broadening its oversight of executive succession.
Succession planning	Board and executive level succession planning	This remains a continual focus as evidenced, at Board level, by the appointments of Claudia Arney and Keith Williams in 2016. A dedicated IT Advisor to the Board was also retained in order to provide further independent insight and expertise in the execution of the Company's Digital First strategy. The Nomination Committee gave particular focus during the year to executive succession and contingency planning.
Customer focus	Customer propositions and products	Customer experience, product design, customer outcome and brand identity have been a focus of the Governance Committee's discussions and the Committee has received management update reports at each meeting. Going forward, and given the importance of this area, it is intended that the strategic direction of the customer experience will be a matter for the Board as a whole, with oversight of compliance with this policy and any associated management actions being the responsibility of the Governance Committee.
Shareholder engagement	Visibility of shareholder views	The Company continues to engage regularly with its shareholders and the Chairman and Group CEO are particularly active in this area. The corporate brokers are invited to attend Board meetings when appropriate and provide an update on shareholder views which assists with this engagement.

Chairman's succession and SII readiness a decision was taken to hold an external evaluation in 2015 and conduct the 2016 review using an internal questionnaire with supplementary questions by IBE. Further details can be found on page 85.

FRAMEWORKS FOR RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for promoting the long-term success of the Company for the benefit of shareholders, as well as taking account of other stakeholders including employees and customers. This includes ensuring that an appropriate system of risk governance is in place throughout the Group. To discharge this responsibility, the Board has established frameworks for risk management and internal control using a 'three lines of defence' model and reserves for itself the setting of the Group's risk appetite. Further details are contained on pages 68 to 71.

In-depth monitoring of the establishment and operation of prudent and effective controls in order to assess and manage risks associated with the Group's operations is delegated to the Audit, Governance and Risk Committees which report regularly to the Board. However, the Board retains ultimate responsibility for the Group's systems of internal control and risk management and has reviewed their effectiveness for the year.

A robust assessment was conducted by the Board of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency and liquidity. During 2016 these included Brexit and cyber security. Further information is contained in the Risk Committee report on page 91.

The frameworks for risk management and internal control play a key role in the management of risks that may impact the fulfilment of the Board's objectives. They are designed to identify and manage, rather than eliminate, the risk of Aviva failing to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or losses. These frameworks were in place for the financial year under review and up to the date of this report. They are regularly reviewed by the Board and comply with the Financial Reporting Council's (FRC) updated guidance on Risk Management, Internal Controls and Related Financial and Business Reporting.

THREE LINES OF DEFENCE

FIRST LINE
Management monitoring

Management are responsible for the application of the RMF, for implementing and monitoring the operation of the system of internal control and for providing assurance to the Audit, Governance and Risk Committees and the Board.

SECOND LINE
Risk Management, Compliance and Actuarial functions

The Risk Management function is accountable for the quantitative and qualitative oversight and challenge of the identification, measurement, monitoring and reporting of principal risks and for developing the RMF.

THIRD LINE
Internal Audit

This function provides independent and objective assessment on the robustness of the RMF and the appropriateness and effectiveness of internal control to the Audit, Governance and Risk Committees, business unit audit committees and the Board.

RISK MANAGEMENT FRAMEWORK

The Risk Management Framework (RMF) is designed to identify, measure, manage, monitor and report the principal risks to the Group of achieving its business objectives and is embedded throughout the Group. The RMF has been in place for the year under review and up to the date of the approval of the annual report and accounts. It is codified through risk policies and business standards which set out the risk strategy, appetite, framework and minimum requirements for the Group's worldwide operations. Further detail is set out in note 56.

INTERNAL CONTROLS

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

Group reporting manuals in relation to IFRS, Solvency II reporting requirements and a Financial Reporting Control Framework (FRCF) are in place across the Group. FRCF relates to the preparation of reliable financial reporting, covering both IFRS and Solvency II reporting activity. The FRCF process follows a risk-based approach, with management identification, assessment (documentation and testing), remediation (as required), reporting and certification over key financial reporting-related controls. Management regularly undertakes quality assurance procedures over the application of the FRCF process and controls. Friends Life had an established framework of financial reporting controls in place at the time of acquisition in 2015 and work to align this with the Group's FRCF methodology was completed in 2016.

A Major Control Improvement Topic programme is also in place, designed to focus attention on enhancing our control environment around six focus areas identified by management. Further information can be found in the Audit Committee report on page 94.

FIRST LINE

The Group Executive members and each business unit chief executive officer are responsible for the implementation of Group strategies, plans and policies, the monitoring of operational and financial performance, the assessment and control of financial, business and operational risks and the maintenance and ongoing development of a robust control framework and environment in their areas of responsibility. Chaired by the Chief Risk Officer (CRO) during 2016, the Asset Liability Committee (ALCO) assists the Chief Financial Officer (CFO) with discharging his responsibilities in relation to management of the Group's balance sheet within risk appetite and provides financial and insurance risk management oversight. From January 2017, the ALCO has been chaired by the Chief Capital Officer (CCO).

The Operational Risk Committee is chaired by the CRO. It supports the first line owners of key operations and franchise risks in the discharge of their responsibilities in relation to operational risk management.

The Disclosure Committee minutes are sent to the Audit Committee. It oversees the design and effectiveness of the Group's disclosure controls, for financial and non-financial information, evaluates the Group's disclosure controls and reviews and endorses the Group's key periodic external reports, including the consolidated financial statements.

SECOND LINE

As the business responds to changing market conditions and customer needs, the Risk Management function regularly monitors the appropriateness of the Company's risk policies and the RMF to ensure they remain up to date.

The Actuarial function is accountable for Group wide actuarial methodology, reporting to the relevant governing body on the adequacy of reserves and capital requirements, as well as underwriting and reinsurance arrangements. The Compliance function supports and advises the business on the identification, measurement and management of its regulatory, financial crime and conduct risks. It is accountable for maintaining the compliance standards

THE PRINCIPAL COMMITTEES THAT OVERSEE RISK MANAGEMENT ARE AS FOLLOWS

THE AUDIT COMMITTEE
Works closely with the Risk Committee and is responsible for assisting the Board in discharging its responsibilities for the integrity of the Company's financial statements, the effectiveness of the system of internal financial controls and for monitoring the effectiveness, performance and objectivity of the internal and external auditors.

THE GOVERNANCE COMMITTEE
Works closely with the Risk Committee and is responsible for assisting the Board in its oversight of operational risk across the Group, particularly in respect of the risk of not delivering good customer outcomes.

THE RISK COMMITTEE
Assists the Board in its oversight of risk and risk management across the Group and makes recommendations on risk appetite to the Board. Reviews the effectiveness of the RMF, and the methodology in determining the Group's capital and liquidity requirements. Ensures that risk management is properly considered in setting remuneration policy.

and framework within which the Group operates, and monitoring and reporting on its compliance risk profile.

THIRD LINE
The third line of defence is Internal Audit. Further information can be found in the Three Lines of Defence section opposite, and within the Audit Committee report on page 94.

BOARD OVERSIGHT
The Board has delegated responsibilities to various committees to assist in its oversight of risk management and the approach to internal controls are set out in the chart above. There is a good working practice between each committee and they provide regular reports to the Board on their activities and escalate significant matters where appropriate. The responsibilities and activities of each Board committee are set out in the committee reports. Further details on the management of risk operated by the Group are in note 56.

ASSESSMENT OF EFFECTIVENESS
To support an assessment of the effectiveness of the Group's governance, internal control and risk management requirements, the chief executive officer of each business unit must certify that:

- there are sound risk management and internal control systems, which are effective and fit for purpose in place across the business; and
- material existing or emerging risks within the business have been identified and assessed and the business operates in a manner which conforms to the minimum requirements outlined in Group risk policies and business standards.

The chief risk officer of each business unit must certify that:

- the risk function has reviewed and challenged the process supporting the business unit chief executive officer's certification and is satisfied that it can provide reasonable assurance of the material accuracy and completeness of the business unit chief executive officer's assessment; and
- no material gaps exist in the RMF as it applies to their Business Unit.

Any material risks not previously identified, control weaknesses or non-compliance with the Group's risk policies and business standards or local delegations of authority, must be highlighted as part of this process. This is supplemented by investigations carried out at Group level and a Group CEO and CRO certification for Aviva plc.

The effectiveness assessment also draws on the regular cycle of assurance activity carried out during the year, as well as the results of the certification process. For 2016, this has been enhanced by the Group's Integrated Assurance Implementation programme (IAI), which has helped integrate the results of identification of operational risks and assurance activity across the three lines of defence. Certification process results and details of key failings or weaknesses are reported to the Audit Committee and the Board annually to enable them to carry out an effectiveness assessment.

The Audit Committee, working closely with the Risk Committee, on behalf of the Board, last carried out a full review of the effectiveness of the systems of internal control and risk management in March 2017 covering all material controls, including financial, operational and compliance controls and the RMF. The review identified a number of areas for improvement and clear action plans are in place to address these, which will be regularly monitored. The committee reports refer to these areas and the mitigating actions to address them.

The risk management framework of a small number of our joint ventures and strategic equity holdings differs from Aviva's RMF outlined in this report. We work with these entities to understand how their risks are managed and to align them, where possible, with our framework.

COMMUNICATION WITH SHAREHOLDERS
The Company places considerable importance on communication with shareholders. The directors have an ongoing dialogue and a programme of meetings with institutional investors, fund managers and analysts which are managed by the Company's Investor Relations function. The Chairman met a number of the Company's major shareholders during 2016. At these meetings a range of issues are discussed including strategy, financial performance, management, remuneration and governance, within the constraints of information already made public, to understand any issues of concern. Shareholders' views are regularly shared with the Board through the Group CEO's and CFO's reports and periodic briefings from the corporate brokers, especially around report publications. The SID was available to meet with major investors to discuss any concerns that could not be resolved through normal channels.

2017 AGM
The 2017 AGM will be held on Wednesday 10 May 2017 and the Notice of AGM and related papers will, unless otherwise noted, be sent to shareholders at least 20 working days before the meeting. The AGM provides a valuable opportunity for the Board to communicate with private shareholders. All directors normally attend the Company's AGM and all were in attendance for the 2016 AGM.

There is a dedicated email address aviva.shareholders@aviva.com, for shareholders to ask questions on the business of the AGM.

A presentation on the Group's performance will be given at the AGM and made available on the Company's website after the meeting at www.aviva.com/agm.

Shareholders are invited to ask questions related to the business of the meeting at the AGM and have an opportunity to meet with the directors following the conclusion of the meeting. Further details on the AGM are provided in the Shareholder Services section.

Nomination
Committee report

I am pleased to present the Nomination Committee's report for the year ended 31 December 2016.

The Committee continues to review the composition of the Board and succession planning for executive management. More recently the Committee has broadened its remit and now has responsibility for talent development within the wider Aviva Group.

During 2016, we welcomed Claudia Arney and Keith Williams to the Committee. Scott Wheway retired from the Committee and the Board on 31 December 2016. I am grateful to all members for their support and dedication during the year.

Q What is the main function of the Nomination Committee and how has the Committee's role developed during the year?

AM The main function of the Committee is to monitor the balance of skills, knowledge, experience and diversity on the Board and lead succession planning for appointments to the Board and the senior executive team.

Recently, the Committee's remit has evolved with respect to the people agenda. Responsibility for talent development for the wider Group has been transferred from the Governance Committee and now sits with the Committee to align with the role it plays in the succession of senior executives. We believe this gives a more holistic approach to talent development throughout the Company, from succession planning at the most senior level to ensuring a future talent pipeline. The Committee's Terms of Reference have been updated to reflect this.

COMMITTEE MEMBERSHIP

	Member since:	Years on the Committee
Sir Adrian Montague*	06/03/2013	4
Claudia Arney	08/02/2016	1
Glyn Barker	01/07/2012	4
Patricia Cross	01/12/2013	3
Belén Romana García	26/06/2015	1
Michael Hawker	01/07/2012	4
Michael Mire	12/09/2013	3
Bob Stein***	06/03/2013	4
Scott Wheway**	01/07/2012	4
Sir Malcolm Williamson***	14/05/2015	1
Keith Williams	01/08/2016	<1

* Chair
** Retired on 31 December 2016
*** Will retire from the conclusion of the 2017 Annual General Meeting

I am confident we have the appropriate balance of skills and experience on the Board

Sir Adrian Montague (AM) / Nomination Committee Chair

Q What has been the Committee's main focus in 2016?

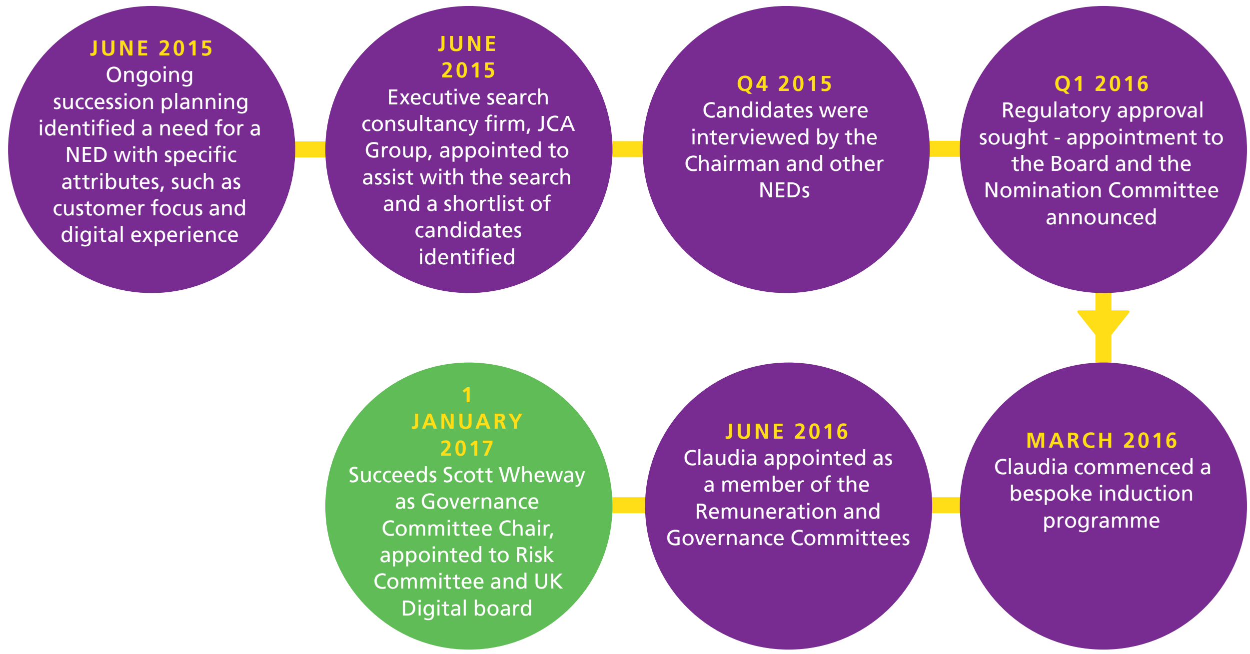
AM Board succession planning continues to be a focus for the Committee. We identified some time ago that there was a need to further strengthen the Board with more experience and capability in the digital area. Also, with Scott Wheway's retirement from the Board in December 2016 we needed to identify a suitable candidate to Chair the Governance Committee. Through Committee discussions we identified the skills and experiences we were looking for and we were able to work efficiently with executive search consultants, JCA Group (who had no other connection with Aviva), to identify suitable candidates. This led to the appointments of Claudia Arney and Keith Williams. Keith's strong financial background make him an excellent successor to Glyn Barker as Audit Committee Chair and following Scott's retirement Claudia has now transitioned to be Chair of the Governance Committee. The Committee has also spent a substantial amount of time reviewing senior executive development and succession planning and this will continue during 2017.

Q How do you ensure you have the right balance of skills on the Board and that directors can devote sufficient time to their role?

AM This is something we regularly assess as a Committee and as a Board. To assist with these discussions we have recently enhanced our skills matrix and now Board members are asked, via an online questionnaire, to self-assess their experience and skills each year. This matrix is reviewed by myself, as Group Chairman, and forms the basis for succession plans for the Board.

In addition, the independence, effectiveness and time commitment of each Non-Executive Director (NED) is reviewed individually both by myself, as Group Chairman, and by the Committee. A particularly rigorous review was conducted in respect of both Scott Wheway, who had been appointed to the Board in December 2007, and Mike Hawker, who had served on the Board for just over six years. As part of this review the Committee considers closely whether directors with other external commitments have sufficient capacity to devote the necessary time to the Company. The Committee has again undertaken this review in 2017 and remains satisfied that all directors are fully able to commit to their role and accordingly all current directors, (with the exception of Sir Malcolm

CLAUDIA ARNEY – SUCCESSION PLANNING IN ACTION



Williamson and Bob Stein) will stand for election/re-election at the 2017 Annual General Meeting (AGM).

We are conscious of the value of having a Board that is diverse in its make-up not only in respect of gender but diversity in its widest sense to include age, experience, ethnicity, geographical expertise and professional background. We have continued our commitment to improving the representation of women on the Board and in supporting women to advance into senior roles with 23% of the Board currently female, rising to 27% following the conclusion of the 2017 AGM. In terms of our senior management, 36% of our Group Executive is comprised of female membership.

I am confident we have the appropriate balance of skills and experience on the Board, but we will keep this under review as the business and industry evolves.

Q How do you deal with Board and executive succession planning?

AM We use a number of measures to assess whether we have the right skills and experience on the Board, and the updated skills matrix will support this further. In addition, in 2017 I plan to hold a Nomination Committee meeting following the Board strategy meeting to ensure the skills and experience in the Boardroom and our succession plan for the Board remain aligned to the strategic direction of the Group.

In respect of executive directors, the Board focused and invested extensively during the year on succession planning and contingency, including arrangements for key personnel loss. A programme has been designed to provide succession and development insight to the Group Executive members which will continue to run and be reviewed during 2017.

Q How does the Committee ensure an efficient pipeline of talent throughout the Group?

AM In 2016, Aviva made significant investment in talent development programmes, as part of our systematic approach to creating legacy by improving diversity and strengthening the pipeline for senior roles. The Committee has had regular updates on the progress of the talent strategy.

We launched our Executive and Future Leaders Programme and created detailed succession and development plans based on the assessment of potential. We plan to extend this programme in 2017. We also launched our first Global Graduate programme in September 2016. This programme will build our long-term leadership capability, creating a high performing pipeline, to meet our future needs at director level.

Myself and the Group Chief Executive Officer (Group CEO) are active members of the FTSE 100 30% Club and are committed to improving diversity at senior levels. In November 2016, we launched our female 'Accelerating Leadership from the Inside Out' programme, to give participants the opportunity to build the skills and organisational awareness needed to be successful in broader and more complex roles.

This investment has helped the development of a strong pipeline of talent within the Group.

Q What are the Committee's forward looking priorities in 2017?

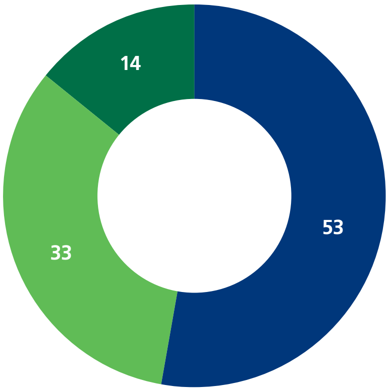
AM We will continue to retain our focus on succession planning and developing our people, while ensuring that our Board and senior management team remain diverse in the widest sense.

Sir Adrian Montague CBE
Chair of the Nomination Committee
8 March 2017

NOMINATION COMMITTEE RESPONSIBILITIES AND ALLOCATION OF AGENDA TIME

Evaluation and annual assessment – 14%
Reviews the results of the annual Board and committee performance evaluation and undertakes an assessment of directors' independence, conflicts of interest, time commitment, effectiveness and overall contribution.

Board composition and diversity – 33%
Evaluates and monitors the balance of skills, knowledge, experience and diversity of the Board, taking into account the Company's risk profile and strategy. Leads on searches for suitable Board members when appropriate.



Succession planning and Board pipeline – 53%
Monitors the development and succession plans for senior executives and identifies suitable talent for appointment to the Board.

ACTIVITIES DURING 2016

Evaluation and annual assessment

- Considered and recommended to the Board the election/re-election of each continuing director ahead of their election/re-election by shareholders at the AGM
- Reviewed and made recommendations to the Board in respect of each directors' actual, potential or perceived conflicts of interests

Board composition and diversity

- Reviewed the composition of the Board and in particular, whether the Board required additional skills and experience which would complement those of the existing members and the Company's risk profile and strategy
- Ensured that the Audit Committee has members with recent and relevant financial experience and who met US Securities and Exchange Commission (SEC) requirements during the year
- Engaged in a thorough search and interview process with the intention to strengthen the composition of the Board with additional NEDs. The Committee identified and endorsed the appointments of Claudia Arney in February 2016 and Keith Williams in August 2016

Succession planning and Board pipeline

- Continued to focus on succession planning arrangements at both the Board and executive level, against a specification for the role and capabilities required for the position and the composition of the Board
- Considered plans for succession for each Group Executive member, including talent development below Group Executive level

Risk Committee report

As Chair of the Risk Committee, I am pleased to present the Committee's report for the year ended 31 December 2016.

The Company's approach to risk and risk management together with the principal risks that face the Group are explained on pages 68 to 71.

2016 has been a year of market uncertainty with Brexit, the national election in America and the start of elections across Europe, which will continue in 2017. The Committee's agenda has evolved in line with the external environment to ensure the Group is well equipped to manage risk and retain a strong capital and liquidity position.

Committee members are shown below and their experience, qualifications and attendance at Committee meetings during 2016 are detailed on page 84, and directors biographies on page 76. The Group Chairman, Group Chief Executive Officer, Chief Audit Officer (CAO), Chief Financial Officer, Chief Risk Officer (CRO), and additional attendees as appropriate, regularly attended Committee meetings by invitation to present reports.

On 1 January 2017, we welcomed Claudia Arney to the Committee following Scott Wheway's retirement on 31 December 2016. Bob Stein will retire from the Committee at the conclusion of the 2017 Annual General Meeting. I would like to thank Scott and Bob for their excellent contributions.

COMMITTEE MEMBERSHIP

	Member since:	Years on the Committee
Michael Hawker*	01/01/2010	7
Glyn Barker	02/05/2012	4
Belén Romana García	26/06/2015	1
Michael Mire	12/09/2013	3
Bob Stein***	06/03/2013	4
Claudia Arney	01/01/2017	<1
Scott Wheway**	14/05/2015	1

* Chair
** Retired on 31 December 2016
*** Will retire from the conclusion of the 2017 Annual General Meeting

The Group is well equipped to manage risk and retain a strong capital and liquidity position

Michael Hawker (MH) / Risk Committee Chair

Q What is the main function of the Committee?

MH The Committee oversees all aspects of risk management in the Group, save for compliance, conduct and reputational risk, responsibility for which lay with the Governance Committee during 2016.

The principal purpose of the Committee is to assist the Board in its oversight of risk within the Group, with particular focus on the Group's risk appetite and risk profile in relation to capital, liquidity and franchise value. The Committee annually reviews the effectiveness of the Group's risk management framework and the performance of the CRO and overall Risk function. It reviews the risks inherent in the Group's investment portfolios, and in the products it offers our customers, in addition to monitoring the Group's overall operational risks. The Committee assesses the risks of strategic and material transactions as part of due diligence appraisals. It also monitors changes to the prudential regulations applicable to the Group and how the Group responds to them, a significant activity due to our designation as a Global Systemically Important Insurer (G-SII).

Work is also undertaken with the Remuneration Committee to ensure risk management is properly considered in setting remuneration policy.

Q What has been the Committee's main focus in 2016?

MH Brexit and the geopolitical risks more generally, the global economic outlook, and the low interest rate environment, have been a major focus during 2016. The Committee assessed and continues to monitor the impact of these on the Group's asset mix and investment return. In light of these challenges focus continued on the Group's capital resilience, balance sheet strength and liquidity, as well as concentrations of risk and diversification.

Additionally, legislative change continues within Financial Services, particularly in relation to regulatory capital and the pensions and savings markets across Europe. The strategic and operational implications associated with these changes have also been an area of focus for the Committee. The Committee has monitored the implementation and usage of the new Solvency II (SII) partial internal model and oversaw further expansion of the internal model to three of the Group's subsidiaries. The Committee has continued to oversee developments in the Group's internal reinsurance vehicle, given its significance in enabling the fungibility and transferability of SII capital between Group entities. The impact of IT changes on the Group in terms of cost base, customer interaction and security, including the cyber threat environment, was also looked at by the Committee.

The Committee has responsibility for three Major Control Improvement Topics (MCITs), Cyber Security, Outsourcing and Disaster Recovery, as part of the MCIT programme overseen by the Audit Committee.

ASSESSING THE IMPACTS OF, AND PREPARING FOR, BREXIT

In March 2016 the Committee reviewed a detailed analysis outlining the risks that Brexit would pose for the Group. An update followed from management on contingency plans to address operational and financial market impacts in the event of a leave vote. This included a scenario analysis of a medium-severe financial market reaction to a leave vote. Following the referendum, the Committee assessed management plans and the progress in managing the operational impacts that would arise in the event of a 'hard-Brexit', with particular emphasis on the loss of passporting rights. Whilst uncertainty continues into 2017, the Group and its subsidiaries are capitalised appropriately, and the regulated structure limits any operational impact. The Committee continues to be provided with regular updates from the CRO, enabling it to monitor the potential impacts of Brexit.

Q What market challenges did the Committee face during 2016?

MH Following the referendum bond yields fell to record lows and the Committee discussed the strategic implications of the resulting financial market distortions and the appropriateness of the Group's asset mix. Towards the end of the year, these were also discussed in the context of the business plan. Further, it considered how low interest rates have impacted our exposure to other risks, namely credit, longevity, commercial mortgages and property price risks, revisiting the Group's risk appetites by type and counterparty credit limits.

Q Cyber security was a key focus of the Committee during the year. How has it managed this risk?

MH In the last few years there have been a number of high profile cyber security breaches at other UK corporates, so this has been an area of focus for the Committee, particularly given the importance of digital to our strategy. We have received regular updates from the Chief Information Officer on cyber security risk, progress on the Cyber Security MCIT and the contingency plans which seek to address it. The Cyber Security MCIT aims to improve the quality of controls, and ensure these are embedded and continue to adapt with the changing external environment, to deliver all planned risk reduction activities.

Q How does the Committee monitor the Company's adoption of, and compliance with, SII?

MH SII remains in focus as it moves to business as usual, as we ensure that it is satisfying the governance requirements with regards to the internal model and that it feeds into the business strategy, planning and wider decisions. The Committee also reviewed and approved SII risk appetites, both overarching and by risk type. The Committee receives regular updates on the Group's SII capital position against the projected risk appetite, on the resilience of the SII capital position through stress and scenario testing, and contingent management actions identified in the G-SII Group Recovery Plan.

Q How does the Committee assess the risk culture in the organisation?

MH Since 2013, Aviva has set a common risk and control performance goal for all senior colleagues affecting their remuneration to help promote the right risk culture and behaviours in the business. The Committee review and approve the goal for the coming year and receive an assessment from the Risk function of business unit performance against the goal for the previous year. This assessment considers how effectively business units have embedded the risk management framework, which includes promoting a risk aware culture, for example in rolling out the Group's 'Good Decisions' initiative. The assessment of risk culture includes an analysis of risk related questions and responses from the Group-wide employee survey, Voice of Aviva.

Q How is risk appropriately managed across the various committees?

MH The Committee acts independently of management and works closely with the Governance, Remuneration and Audit Committees. There is cross-membership between each committee ensuring risk issues are appropriately managed and considered in the decisions of each.

During 2016, Glyn Barker and I were also members of the Audit Committee (Glyn as Chair), ensuring efficient and complete coverage of the effectiveness of the systems of internal control and risk management across both committees.

Attendance by Committee members to subsidiary risk committee meetings is encouraged, and during 2016 I attended an Aviva Investors audit committee meeting and a UK Life risk committee meeting, and both Glyn and I attended an Aviva Investors risk committee meeting. I also speak with the chairs of each major subsidiary risk committee and local CROs twice a year to maintain linkage to the matters considered at subsidiary level.

Q What are the Committee's forward looking priorities in 2017?

MH Focus will continue on plans in preparation for Brexit as more information becomes known. We expect financial markets to remain volatile with diverging monetary policy between the US and Europe, and further national elections in Europe. The resilience of the Group's balance sheet to market shocks, the Group's hedging strategy and contingency plans, will continue to be reviewed.

The Committee will also focus on diversifying further the asset mix. It will manage the risks inherent in moving the Company into the digital age and to a True Customer Composite, specifically with regard to IT infrastructure, durability, and security, against an ever changing cyber threat environment.

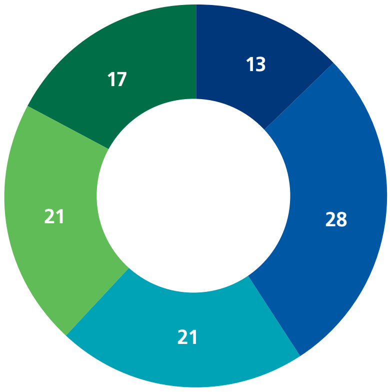
Michael Hawker
Chair of the Risk Committee
8 March 2017

Governance

RISK COMMITTEE RESPONSIBILITIES AND ALLOCATION OF AGENDA TIME

Risk Appetite, Risk Management, and Risk Reporting – 17%
Reviews and robustly assesses the design and effectiveness of the risk management framework, and recommends updated risk appetites to the Board. It also ensures risk management is considered when setting the Company's remuneration policy.

Group Capital and Liquidity, Financial Plan, and Stress Testing – 21%
Reviews and monitors the risks to, and arising from, the Company's strategy, business plan and major transactions and any impact on the Group's capital, and liquidity position.



Solvency II – 13%
Ensures that the Solvency II partial internal model meets required regulations, and reviews and approves Solvency II risk appetites, to which it monitors the Solvency II capital position against.

External Factors – 28%
Reviews the external risk environment, the impact of this on the Company's risk profile and assesses how risks are managed and mitigated.

Regulatory, Governance and Internal Audit – 21%
Reviews developments in the prudential regulatory environment, the Group's external risk and capital disclosures, and assesses internal control.

ACTIVITIES DURING 2016

Risk Appetite, Risk Management and Risk Reporting
- Reviewed reports from the CRO which included updates on significant risks facing the Group, the Group's capital and liquidity position, the control environment, emerging risks and risk profile, and operational, regulatory and conduct risk
- Approved the Group's risk policies for recommendation to the Board

Group Capital and Liquidity, Financial Plan, and Stress Testing
- Approved the 2016 Group Capital and Liquidity Plan and subsequent updates
- Assessed and monitored the IT risk in respect of the Company's Digital First strategy
- Reviewed capital and liquidity projections including the Group's Shareholder cover ratio and liquidity cover ratio
- Reviewed updates on credit risk, assessed scenarios to outline the Company's exposure and reviewed mitigating actions
- Approved the key principles for the 2016 G-SII Group Recovery Plan for managing its capital and liquidity in stress scenarios and received updates on the Plan
- Oversaw the 2016 Group-wide Stress and Scenario testing exercise
- Oversaw the Group's internal reinsurance mixer model
- Reviewed the Company's employee pension schemes funding position

Solvency II
- Undertook reviews of components of the key internal model, reviewed changes to the model, and reviewed independent internal model validation reports and associated assurance provided by the External Auditor
- Reviewed risk identification reports, ensured material quantifiable risks were captured by the internal model, and that material non-quantifiable risks were managed appropriately
- Approved the SII risk appetite
- Approved for recommendation to the Board updates to the SII Business Standards

External Factors
- Reviewed regular updates on the performance of the Group's investment portfolios and on the external economic environment, and assessed the implications on the Group's asset portfolio
- Monitored the risk of cyber security, the progress against mitigating cyber risks, and reviewed the results of simulation cyber security attacks against the Group
- Monitored the risk of Brexit ahead of, and after the European Union referendum, regularly reviewed updates regarding the potential impact on capital and liquidity, approved Brexit communications, and oversaw Brexit scenario planning including, operational and contingency planning

Regulatory, Governance and Internal Audit
- Monitored an internal audit review of the Group's outsourcing control framework
- Reviewed the effectiveness of the systems of internal control and risk management
- Reviewed updates on the outsourcing, cyber security and disaster recovery MCITs, and monitored and challenged progress by management
- Assessed the performance of all Group Business Units against the 2016 Group risk and control goal
- Reviewed the adequacy and quality of the Risk Management function
- Received quarterly reports from the CAO on internal audit which included progress on improving the control environment, progress on MCITs, and the review of the Internal Audit function
- Reviewed the results of the 2016 Committee effectiveness review
- Reviewed the Group Own Risk Solvency Assessment Supervisory Report and approved its submission

Audit Committee report

We have successfully embedded Solvency II reporting during the year

Glyn Barker (GB) / Audit Committee Chair

I am pleased to present the Audit Committee's report for the year ended 31 December 2016.

Accurate and informative financial reporting, and an effective control environment are of critical importance to the Board and our shareholders. The Committee continued to review the embedding of the Solvency II (SII) regime, our control environment and the development and strengthening of the internal control framework, including overseeing the Major Control Improvement Topics (MCITs) on Cyber Security, Compliance Effectiveness, Data Governance, Disaster Recovery, Outsourcing and Fraud Management. The MCIT programme is designed to focus attention on enhancing our control environment around six key areas identified by management. The programme encourages the mobilisation of resources in a targeted way to deliver the desired control improvements. Once the MCIT closure criteria have been attained these control topics will be managed on a business as usual basis.

In August 2016, we welcomed Keith Williams to the Committee. Keith brings extensive financial expertise including a detailed knowledge of business planning and capital projects. Sir Malcolm Williamson and Bob Stein will retire from the Committee at the conclusion of the Annual General Meeting. I will become Senior Independent Director at that date, and accordingly I will step down as Committee Chair following announcement of the half year results, with Keith becoming Chair. I will remain a member of the Committee to maintain continuity of membership. I am grateful to all members of the Committee for their support in 2016. The members of the Committee are shown in the table to the left and details of their experience, qualifications and attendance at Committee meetings during the year are shown earlier in the report on pages 76 and 84.

COMMITTEE MEMBERSHIP

	Member since:	Years on the Committee
Glyn Barker*	08/08/2012	4
Patricia Cross	01/12/2013	3
Michael Hawker	01/09/2011	5
Bob Stein **	14/05/2015	1
Sir Malcolm Williamson **	14/05/2015	1
Keith Williams	01/08/2016	<1

* Chair
** Will retire from the conclusion of the 2017 Annual General Meeting

Q What is the main function of the Committee?

GB The Committee's principal function is to assist the Board in discharging its responsibilities for monitoring the integrity of the Company's financial statements and reviewing announcements relating to the Company's financial performance; reviewing the significant estimates and judgements of management and the methodology and assumptions used in relation to the Company's financial statements; assessing the adequacy and effectiveness of internal controls and of the Internal Audit function; and reviewing the effectiveness, performance and objectivity of the External Auditor and of the external audit process. It is also responsible for establishing and overseeing the effectiveness of the Group's whistleblowing procedures.

The Committee acts independently of management and works closely with the Governance, Remuneration and Risk Committees. There is cross-membership between each committee which provides a better understanding and more efficient communication of each committee's work.

Q How does the Committee assess its performance?

GB The Committee annually undertakes a rigorous review of its effectiveness, which for the 2016 year was conducted alongside the evaluations of the Board and other committees by way of an internal questionnaire, completed by every Committee member.

The review highlighted that the Committee's structure and delegation from, and reporting to the Board, were all appropriate. Areas that were identified for improvement were discussed with the Committee and included the duplication of papers between the Committee, the Risk Committee, and the Board, and the need for clearer and more concise summaries in papers. The Committee's workplan for 2017 will address these areas.

Q What significant issues has the Committee considered in relation to the financial statements?

GB Committee time is divided between regular items relating to the Company's financial statements, accounting policies, financial risks, internal control matters and, internal and external audit issues.

The Committee is in addition responsible for assessing and recommending to the Board that the annual report and accounts, taken as a

SIGNIFICANT ISSUES

Areas of focus	Actions taken by the Committee
Solvency II (SII) disclosures	Following the introduction of SII, the Committee has reviewed the proposed approach to the SII reporting structure and approved the judgements and disclosure options.
Key issues and judgements	Challenged estimates and judgements for International Financial Reporting Standards (IFRS) and SII reporting bases. IFRS judgements covered goodwill and intangible assets, restructuring provisions and reserving for insurance contracts, including the impact of Brexit on property growth assumptions and the valuation of unquoted investments. SII judgements focused on the valuation of own funds and capital.
Friends Life integration	Considered the impact on the internal control environment of the increased scale and complexity of the enlarged Group following the acquisition of Friends Life. The Committee reviewed specific reports from Internal Audit to assess and monitor the effectiveness of integration planning.
UK Life and General Insurance (GI) reserving	Approved IFRS and SII key issues and judgements. For the UK Life business the Committee assessed the assumptions in respect of credit default, mortality, expenses and persistency. GI reserving issues were based around best estimate reserves and the level of margin for uncertainty to be retained, in particular the increased reserves, following changes to the 'Ogden rate' on bodily injury claims.
MCITs	The Committee led the oversight of the overall progress of the MCIT programme, receiving regular reports from management, particularly on the Fraud MCIT, of which the Committee has ownership.
QRT submissions and SFCR/ RSR	Reviewed the development of the Group Solvency and Financial Condition Report (SFCR) and the Regulatory Supervisory Report (RSR) that will be filed for the first time by 1 July 2017. The Committee also provided input to the development of Quantitative Reporting Templates (QRT) submitted to the regulator.

COMMITTEE OVERSIGHT OF SOLVENCY II

We must comply with the new SII reporting requirements for the first time following their implementation in January 2016. We have met the new requirements through a coordinated approach across our Board committees. The Risk Committee monitored the construction of the partial internal model, the Audit Committee focused on the new reporting requirements of the publically filed SFCR and the privately filed RSR. The Committee provided oversight to a series of tests on the capability of our reporting systems in preparation for the first live SFCR submission in 2017. SII introduces complex capital reporting requirements and the disclosure of information that will be prepared and made public for the first time, and there is a challenge to make this disclosure useful and meaningful for users of the SFCR. When making decisions, the Board now has to consider the impact of SII requirements and the combined work of the Board committees has helped to ensure we are well prepared for the new SII reporting obligations.

whole, are fair, balanced and understandable in line with the UK Corporate Governance Code (the Code).

It is also responsible for reviewing and challenging the actions and judgements of management in relation to the financial statements, including the accounting policies used and their consistent application. The significant issues assessed by the Committee during the year are set out in the table above.

Q How does the Committee satisfy itself that its members meet the requirements of the Code, the Disclosure Guidance and Transparency Rules (DTR) and US requirements for financial expertise?

GB An annual exercise is undertaken to assess how the Committee's members meet the expertise criteria of the Code, the DTR, and US requirements.

Following the review in respect of 2016, a recommendation was made to the Board, which confirmed that I, as Committee Chair fulfilled each of the requirements for relevant financial experience and competence in accounting and auditing as did Bob Stein, Sir Malcolm Williamson and Keith Williams. Patricia Cross and Michael Hawker have confirmed they meet the Code requirement for recent and relevant financial experience. All Committee members, other than Patricia Cross, also met the US requirements to be an audit committee financial expert. The Committee as a whole has competence relevant to both the insurance and financial services industry.

Q How does the Committee monitor the control environment across the Group?

GB The Committee is responsible for supporting the Board in ensuring a robust system of internal control.

The Committee reviews quarterly updates on the effectiveness of the Financial Reporting Control Framework (FRCF). During 2016 this included updates on the progress to align financial reporting controls processes within the heritage-Friends Life businesses with the FRCF methodology. In addition, it receives regular reports on the status of the control environment, reports on the Group's MCITs, and updates on progress to embed the new approach to managing operational risks and controls under our Integrated Assurance Implementation programme (IAI). IAI embeds and aligns ownership of risk management with first line management and clarifies risk ownership with the business while ensuring proper separation of accountability from the second and third line functions.

The Committee also receives quarterly control reports from the Internal Audit function and reviews and challenges management on the actions being taken to improve the quality of the overall control environment and the control culture across the Group.

The Committee reviews and approves the bi-annual Internal Audit Plan and conducts an annual review of the Internal Audit function to assess its effectiveness and to satisfy itself that the quality, experience and expertise of the Internal

Audit function is appropriate for the business. This is carried out by reviewing reports issued by Internal Audit and the output of an annual stakeholder effectiveness survey. This formal process is supplemented by regular private discussions with both executive management and the External Auditor. The Committee concluded that for 2016 the function was performing well and it continued to deliver an objective and independent service.

For the financial period under review, the Company met the relevant provisions of the Code relating to internal controls and the Financial Reporting Council's 2014 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting'.

The Committee Chair is the whistleblowers' champion for the Group and has responsibility to oversee the integrity, independence and effectiveness of the Group's policies. The Committee as a whole is responsible for establishing and overseeing the effectiveness of controls put in place in accordance with regulatory requirements in respect of whistleblowing. This involves ensuring that internal arrangements are in place within the Group for individuals, not just employees, to raise concerns not just limited to accounting, accounting controls and auditing matters. The Committee receives assurance that all UK based employees are aware of the Financial Conduct Authority and Prudential Regulation Authority's whistleblowing services, in which to raise concerns. The Board will annually receive a formal report in respect of whistleblowing activity and compliance in line with updated regulatory requirements.

Regular reports are also provided to the Committee through the Group's malpractice reporting service and the Committee was satisfied that none of the reports received in 2016 made allegations of material financial malpractice.

INTERNAL CONTROL

The Committee is responsible for supporting the Board in ensuring there is a robust system of internal control and risk management in the Group. The system of internal controls and risk management is comprised of the following:

- IAI to embed management of operational risk with First Line management
- bi-annual sign off by senior management confirming that they have tested the controls within their business responsibility and whether they have operated effectively
- MCIT programme with significant progress made during 2016 on issues identified
- An Internal Audit function, that is assessed annually
- Risk management function and adoption of the three lines of defence Risk Management Framework
- the FRCF

Q How does the Committee satisfy itself that the External Auditor remains independent, effective and objective?

GB PricewaterhouseCoopers LLP (PwC) was appointed as the Group's External Auditor (Auditor) in 2012 following a formal tender process. The external audit contract will be put out to tender at least every ten years.

The external audit is led by the PwC audit partner, Marcus Hine, who has held the role for the Group for two years.

An annual review of the Auditor was undertaken through completion of a questionnaire by the Committee, senior management, and members of the Group's finance community. Following review of output from questionnaires, the Committee concluded that PwC continued to perform effectively and is recommended to shareholders for reappointment at the 2017 AGM.

The Company has complied with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Uses of Competitive Tender Process and Audit Committee Responsibilities) Order 2014 during the financial year under review and up to the date of this report.

The Company has an External Auditor Business Standard (Standard) in place which is aimed at safeguarding and supporting the independence and objectivity of the Auditor. This Standard is compliant with all UK and International Federation of Accountants rules and takes into account the Financial Reporting Council's Revised Ethical Standard 2016 and the EU Audit Directive that became applicable to Aviva from 1 January 2017.

The Standard regulates the appointment of former audit employees to senior finance positions in the Group and sets out the approach to be taken by the Group when using the non-audit services of the Auditor.

The Standard distinguishes between (i) those services where an independent view is required and services that should be performed by the Auditor (such as statutory and non-statutory audit and assurance work); (ii) prohibited services where the independence of the Auditor could be threatened and the Auditor must not be used; and (iii) other non-audit services where the Auditor may be used which include non-recurring internal controls and risk management reviews (excluding outsourcing of internal audit work), advice on financial reporting and regulatory matters, due diligence on acquisitions and disposals project assurance and advice.

In 2016 the Group paid PwC £23.9 million (*2015: £19.3 million*) for audit and audit-related assurance services, with the overall increase due to the fee for the audit of the Group's SII regulatory filings now being part of audit related assurance services.

In addition, PwC were paid £9.4 million (*2015: £15.2 million*) for other services, including £8.1 million *(2015: £13.3 million)* for other assurance services, giving a total fee to PwC of £33.3 million (*2015: £34.5 million*). This included £7.7 million relating to the SII internal model independent validation and SII balance sheet assurance fees. SII implementation is a major project requiring substantial model validation assurance that the Company believes is most appropriately performed by the prinicpal auditor. In view of the significance and scale of this work, the Committee specifically assessed the suitability of PwC to provide this service.

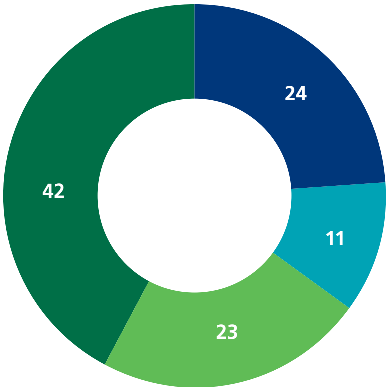
In line with the Standard, the Committee satisfied itself that for all non-audit engagements, robust controls were in place through a quarterly review process for audit related and non-audit services provided, to ensure that PwC's objectivity and independence were safeguarded, and concluded that it was in the interests of the Company to purchase these services from PwC due to their specific expertise. Further details are provided in note 12 of the financial statements.

Q What are the Committee's forward-looking priorities for 2017?

GB In addition to carrying out its principal function the Committee will continue to monitor the embedding of SII as the regime becomes more mature, and will oversee the delivery of the MCITs and the development and embedding of IAI.

Glyn Barker
Chair of the Audit Committee
8 March 2017

AUDIT COMMITTEE RESPONSIBILITIES AND ALLOCATION OF AGENDA TIME



Financial Statements and accounting policies – 42%
Assesses and reviews the significant issues and judgements of, and methodology and assumptions used by management in relation to the Group's financial statements and formal announcements.

External Audit, auditor engagement and policy – 23%
Considers and recommends to the Board the appointment, reappointment, dismissal or resignation of the External Auditor, assesses their effectiveness, independence and objectivity, agrees their remuneration, and monitors the application and appropriateness of the External Auditor Business Standard. Reviews the External Auditor's plans and reports on the Group's financial statements.

Internal Audit – 24%
Approves and monitors the application of the Internal Audit Charter and Business Standard, reviews control issues identified by Internal Audit and assesses the effectiveness of the Internal Audit function.

Internal Controls, including the financial reporting control framework and financial reporting developments – 11%
Assesses the effectiveness of the Group's systems of internal control and risk management.

ACTIVITIES DURING 2016

Financial Statements and accounting policies

- Considered and continued to monitor the impact of the acquisition of the General Insurance (GI) business of the Royal Bank of Canada, which completed on 1 July 2016, on the 2016 half year and full year results
- Following assessment, recommended to the Board for approval the SII First Opening Information Results
- Approved the IFRS and SII technical provisions within the 2016 half and full year results
- Challenged and reviewed the reserve positions relating to the UK Life and GI operations
- Reviewed and challenged the treatment and recoverability of goodwill and other intangible assets
- Reviewed the Chief Financial Officer's reports which included the IFRS and SII key issues and judgements; changes to financial reporting disclosure requirements; and policies for materiality and unadjusted differences
- Reviewed and challenged the going concern assumptions for 2016 and the principles underpinning the Longer Term Viability Statement
- Reviewed the Group Risk Actuary's report on significant issues related to technical provisions of SII and IFRS

External Audit, auditor engagement and policy

- Reviewed the effectiveness of the External Auditor and was satisfied that the services it provided remained effective, objective and fit for purpose
- Reviewed the External Auditor's compliance with the independence criteria set out in the Code
- Monitored compliance with the External Auditor Business Standard on a quarterly basis
- Refreshed the External Auditor Business Standard to reflect new regulatory requirements
- Held private meetings with the External Auditor without management present to provide an appropriate forum for issues to be raised
- Reviewed reports from the External Auditor with regard to: the 2016 Audit Plan and progress against plan and reports on the audit of the 2016 half and full year results including key assumptions used and outcomes of the audit

Internal Audit

- Reviewed and approved the Internal Audit Charter and Business Standard
- Assessed the performance of the Internal Audit function and concluded it was performing well, was sufficiently resourced and had demonstrated continued improvement
- Reviewed and approved the Internal Audit Plan in July and November 2016
- Assessed the independence of the Chief Audit Officer (CAO) and concluded that this had been maintained and was satisfied that his annual performance related bonus was unconnected to the Group's financial performance
- Held private meetings with the CAO without management present to provide an appropriate forum for issues to be raised
- Reviewed reports from the CAO

Internal controls, including financial reporting control framework and financial reporting developments

- Reviewed quarterly updates on the effectiveness of the FRCF framework and rectification of controls
- Oversaw the MCIT programme and monitored and challenged progress by management to address the Fraud Management MCIT
- Reviewed the Internal Audit function report to ensure adequacy of the systems of internal control and risk management
- Ensured an appropriate whistleblowing framework to comply with the policy set out by the Financial Conduct Authority and Prudential Regulation Authority

Governance Committee report

This is my first report to shareholders as Chair of the Governance Committee and I am pleased to report that during 2016 the Committee continued to focus on the oversight of conduct risk, customer outcomes and our subsidiary governance framework.

This year Keith Williams and I joined the Committee. Scott Wheway, who had been a director of Aviva plc since December 2007, and Chair of the Governance Committee since February 2014, retired from the Committee and the Aviva Board on 31 December 2016. More recently we announced that Sir Malcolm Williamson would not seek re-election at the 2017 Annual General Meeting. I am grateful to all members of the Committee for their support and contribution during 2016 but wish to express particular thanks to Sir Malcolm for his contribution and to Scott for his dedication and excellent leadership of the Committee.

The members of the Committee are shown in the table below and details of members' attendance at Committee meetings during the year are shown in the table in the directors' and corporate governance report on page 84.

COMMITTEE MEMBERSHIP

	Member since:	Years on the Committee
Claudia Arney*	01/06/2016	<1
Belén Romana García	26/06/2015	1
Michael Mire	12/09/2013	3
Scott Wheway**	05/12/2007	9
Keith Williams	01/08/2016	<1
Sir Malcolm Williamson ***	14/05/2015	1

* Chair from 1 January 2017
** Retired on 31 December 2016
*** Will retire from the conclusion of the 2017 Annual General Meeting

Customers are at the heart of Aviva's strategy and the Committee has a central role in ensuring that they remain there

Claudia Arney (CA) / Governance Committee Chair

Q As the new Chair of the Committee, describe its role and how it has evolved since its creation.

CA The role of the Committee is to help the Board drive consistency across the Aviva Group in respect of governance and regulatory matters to ensure alignment with the Company's culture, values and strategic priorities. The Committee has traditionally overseen governance, conduct, reputation, financial crime and corporate responsibility matters on behalf of the Board and has evolved to also have oversight of the conduct agenda of the UK Digital (UKD) business. The remit of the Committee is reviewed annually given the constantly changing external environment and recently the Committee's Terms of Reference were amended to reflect the move of the people agenda to the Nomination Committee. In addition, given the importance of the customer agenda this will be considered by both the Committee and the Board going forward. It is intended that the strategic direction of the customer experience will be a matter for the Board as a whole, with oversight of the customer policy and any associated management actions being the responsibility of the Committee. The Board is confident that this gives the Committee the correct focus and, in line with our annual cycle, the Committee's responsibilities will be reviewed again in 2017.

Q The Committee has oversight for the UKD business – how does it do this?

CA Digital First is a strategic priority of the Group, and the UKD business is crucial to achieving this ambition. The Committee has continued to take an oversight role in supporting its development and in monitoring the customer and conduct risks of the new business.

The use of a Board committee in this way enables the escalation of governance matters directly to the Group and provides speed and agility in decision-making and the required oversight, in a fast developing area.

Q Since the 2015 annual report and accounts the Global Subsidiary Governance Principles (the Principles) have been rolled out. How do you think these have been received?

CA Feedback has been extremely positive with constructive comments received from directors and subsidiary boards across the Group. The Principles are aligned to UK corporate governance standards, and therefore for some jurisdictions these minimum requirements have meant raising the bar. The roll out of the Principles has enhanced the Group's engagement with local boards and also improved the level of consistency in practice across the organisation. This is reflected in the Board evaluation process conducted by subsidiaries across the Group, the updated processes for Board appointments and the setting of executive remuneration. The Principles were refreshed at the beginning of 2017 and it is intended that they evolve over time within an established framework. More information about the work undertaken on the Principles can be found in the case study below.

Q **How has the Committee's oversight of conduct risk been exercised during the year?**

CA The oversight of conduct risk has remained a primary focus of the Committee during 2016. The Committee receives a report from the Group Compliance Director at each meeting and particular consideration was given during the year to the rationale for the suspension of dealings in the Aviva Investors' Property Trusts. The Committee has oversight for the Compliance Effectiveness and Data Governance Major Control Improvement Topics (MCITs) and where Business Units (BU) have failed to achieve the necessary standards this has been reflected in remuneration decisions, as outlined in the directors' remuneration report.

The Group's BUs have an ongoing programme to continually reassess their conduct risk performance and conduct risk framework and the Committee has continued to actively review this. During 2016 the chief executive officers from a number of BUs presented their detailed plans for conduct risk management to the Committee.

Q **Following the introduction of Section 172 of the Companies Act 2006, 'the duty to promote the success of the Company', how does the Committee continue to shape and support the Group's wider corporate responsibility decision-making?**

CA The Committee was established in 2006 (initially focused on corporate responsibility) to support the Board's belief that good governance and strong responsible leadership is critical to creating long-term shareholder value and business success. This continues to be the case and the Committee has played an important part in ensuring the robust oversight of governance across the Group. Aviva has a responsibility to all its stakeholders and needs to play a positive role in society, whilst addressing the rapid pace of change in technology and customer expectations. The Committee has continued to support the corporate responsibility (CR) agenda, ensuring that it is reinforced throughout the Group. Further details can be found in the Corporate Responsibility section of the Strategic Report and can be viewed at www.aviva.com/corporate-responsibility.

Q **What are the Committee's forward looking priorities in 2017?**

CA In 2017 the Committee will focus even more strongly on our customers, ensuring that we treat customers fairly and that we focus on good customer outcomes. The Committee will also give priority to enhancing the governance framework around the handling of customer data, and will have detailed oversight of the governance impact of combining the UK Life and General Insurance operations.

The Committee will also continue to focus on the Group's conduct risk agenda, financial crime prevention processes, external regulatory developments and the relationship with various regulatory bodies, in particular the Financial Conduct Authority (FCA). It will remain the first line of oversight for conduct risk for the UKD business and monitor the Group's CR agenda.

Customers are at the heart of Aviva's strategy and the Committee has a central role in ensuring that they remain there.

Claudia Arney
Chair of the Governance Committee
8 March 2017

▼ SUBSIDIARY GOVERNANCE PRINCIPLES

During 2016, the roll out of the Principles has been progressed to provide a consistent framework for subsidiary governance. Achievements have included:

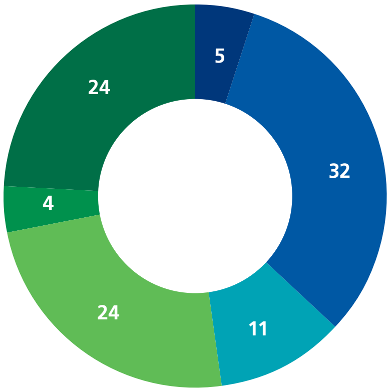
- The completion of a global gap analysis against the Principles. This has helped develop consistent standards across the Group
- Embedding procedures across the Group to assist with adherence to the Principles. The use of technology including the on-going enhancement of the Group internal governance site and the development of a non-executive director (NED) Resource Centre have helped support adherence to the Principles
- Communication between the Group and BUs has been built upon, for example the annual NEDs' conference has been expanded to include all NEDs in the Group and provide a broader focus
- The roll out of a suite of board/committee templates and training to BU report writers to develop best practice in report writing across the Group

GOVERNANCE COMMITTEE RESPONSIBILITIES AND ALLOCATION OF AGENDA TIME

Customer and conduct risk – 24%
Reviews the Group's risk profile and risk management control framework as it relates to conduct, reputation and the Group's overall culture and values.

Corporate responsibility – 4%
Oversees and monitors the Group's CR strategy, external developments and the Group's mandatory reporting requirements.

Governance – 24%
Monitors compliance with corporate governance guidelines and promotes the Principles.



People - 5%
Approves the Business Ethics Code, reviews the Group's policies on diversity and employees and monitors talent development programmes and the culture agenda. This area has also been considered extensively by the Aviva Board.

Regulatory and financial crime – 32%
Oversees the effectiveness of the Group's procedures and controls relating to the Group's conduct and financial crime agenda.

UK Digital – 11%
Provides governance and conduct oversight over UKD.

ACTIVITIES DURING 2016

Customer and conduct risk
- Constructively challenged reports on conduct risk management at each meeting to monitor compliance with regulatory standards
- Several BU chief executive officers attended meetings and presented to assist the Committee in overseeing the embedding of the conduct risk framework across the Group. This included Aviva UK Life, UK General Insurance, UK Health, Aviva India, Aviva Asia, Aviva Ireland and Aviva Investors
- Received and considered reports detailing on-going and possible reputational, brand and franchise risks, including media and public policy issues
- Significant focus was given to the customer agenda and regular updates were received and progress monitored on customer metrics relating to sales, retention, claims experience and complaints

Corporate responsibility
- Continued to provide guidance and direction on the corporate responsibility agenda and monitored compliance with the Group's CR strategy
- Monitored external developments and monitored the Group's mandatory reporting requirements
- Received reports from management during the year on the Aviva Community Fund and the Group's health and safety compliance
- Reviewed and approved the Aviva Investors' Voting Policy and Stewardship Statement
- Reviewed the Group's annual corporate responsibility reporting and the Group's Corporate Responsibility, Environment and Climate Change Business Standard

Governance
- Considered regular updates from the Group Company Secretary on governance matters, legal and litigation risks which had the potential to impact the reputation of the Group
- Reviewed and where appropriate approved changes to the composition of the material subsidiary boards
- Monitored the roll out of the Principles and reviewed the output from the subsidiary board and committee effectiveness reviews
- Monitored the Group's compliance with the UK Corporate Governance Code and other areas of regulation and guidance

People
- Reviewed the progress of embedding Aviva's values and the wider cultural agenda
- Monitored the Group's diversity and inclusion strategy
- Reviewed and considered the talent development programmes for leadership across the Group
- Approved the Business Ethics Code

Regulatory and financial crime
- Regularly reviewed regulatory updates from the Group Compliance Director
- Reviewed and constructively challenged management's view of emerging and potential financial crime risks and any actions required in response
- Monitored the Group's relationship and interaction with the FCA and other regulatory bodies and monitored the actions taken in respect of regulatory developments
- Reviewed reports on the Group's financial crime prevention procedures and controls and any associated actions and the effectiveness of the anti-bribery controls
- Monitored certain MCITs – data governance and compliance effectiveness
- Reviewed and challenged management's explanations and actions in response to issues/events. For example, the suspension of dealings in Aviva Investors' Property Trusts

UK Digital
- Received updates on UKD at each meeting and considered the conduct risk framework, the UKD licence application, its conduct and compliance strategy, data governance and security
- Constructively challenged the UKD Board on matters in relation to conduct, regulatory and financial crime risks and the risk management control framework
- Reviewed the Internal Audit Report on UKD

Governance

OTHER STATUTORY INFORMATION

The directors submit their annual report and accounts for Aviva plc, together with the consolidated financial statements of the Aviva group of companies, for the year ended 31 December 2016.

The directors' report required under the Companies Act 2006 comprises this directors' and corporate governance report; the directors' remuneration report and the following disclosures in the strategic report:

- Environment and climate change for disclosure of our greenhouse gas emissions
- Increasing diversity and inclusion for details of our policy on employment of disabled persons
- Engaging with our people for details of employee involvement
- Likely future developments in the business of the Company

Details of significant post balance sheet events that have occurred subsequent to 31 December 2016 are disclosed in notes 3, 18, 40, 60 and 62.

The management report required under Disclosure and Transparency Rule 4.1.5R comprises the strategic report, shareholder information (which includes the principal risks relating to our business), and details of material acquisitions and disposals made by the Group during the year which are included in note 3. This directors' and corporate governance report fulfils the requirements of the corporate governance statement under Disclosure Guidance and Transparency Rule 7.2.1.

Our policy on hedging

The hedging policy is disclosed in note 57 and details of likely future developments are set out in the strategic report.

Results

The Group's results for the year are shown in the consolidated income statement.

Related party transactions

Related party transactions are disclosed in note 59 which is incorporated into this report by reference.

2017 Annual General Meeting (AGM)

Details are provided in the shareholder services section on page 354.

Dividends

Dividends for ordinary shareholders of Aviva plc are as follows:

- Paid interim dividend of 7.42 pence per ordinary share (2015: 6.75 pence)
- Proposed final dividend of 15.88 pence per ordinary share (2015: 14.05 pence)
- Total ordinary dividend of 23.30 pence per ordinary share (2015: 20.80 pence),
- Total cost of ordinary dividends paid in 2016 was £871 million (2015: £635 million)

Subject to shareholder approval at the 2017 AGM, the final dividend for 2016 will become due and payable on 17 May 2017 to all holders of ordinary shares on the Register of Members at the close of business on 7 April 2017 (payment date approximately five business days later for holders of the Company's American Depositary Shares (ADS)).

Further details on the Company's dividend policy is set out on page 319 and details of any dividend waivers are disclosed in note 32.

Share class and listing

All the Company's shares in issue are fully paid up and the ordinary and preference shares have a Premium and Standard listing respectively on the London Stock Exchange. On 1 December 2016, the Company announced that it had resolved to voluntarily delist its ADS from the New York Stock Exchange and to terminate the registration of its ADS and the underlying ordinary shares under the Securities Exchange Act and to continue its ADS programme as a 'Level 1' sponsored programme, which will enable investors to trade ADS in the US over-the-counter market. The last day of trading on the NYSE was 22 December 2016 and the Company expects the deregistration of its ADS and the underlying ordinary shares to become effective on 22 March 2017. Details of the Company's share capital and shares under option at 31 December 2016 and shares issued during the year are given in notes 30 to 33.

Share capital

The issued ordinary share capital of the Company was increased by 13,074,033 ordinary shares during the year which were allotted to satisfy amounts under the Group's employee share and incentive plans. At 31 December 2016 the:

- issued ordinary share capital totalled 4,061,539,206 shares of 25 pence each
- issued preference share capital totalled 200,000,000 shares of £1 each

Further details on the ordinary share capital of the Company are shown in Note 30.

Rights and obligations attaching to the Company's ordinary shares and preference shares

Rights and obligations together with the powers of the Company's directors are set out in the Company's articles of association (the Articles), copies of which can be obtained from Companies House and the Company's website at www.aviva.com/articles, or by writing to the Group Company Secretary. The powers of the Company's directors are subject to relevant legislation and, in certain circumstances (including in relation to the issue or buying back by the Company of its shares), are subject to authority being given to the directors by shareholders in general meeting. At the 2017 AGM, shareholders will be asked to renew the directors' authority to allot new securities. Details are contained in the Notice of 2017 Annual General Meeting (Notice of AGM).

Restrictions on transfer of securities

With the exception of restrictions on the transfer of ordinary shares under the Company's employee share incentive plans, whilst the shares are subject to the plan rules, there are no restrictions on the voting rights attaching to the Company's ordinary shares or the transfer of securities in the Company.

Where, under an employee share incentive plan operated by the Company, participants are the beneficial owners of shares but not the registered owners, the voting rights are normally exercised at the discretion of the participants. No person holds securities in the Company carrying special rights with regard to control of the Company. The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or voting rights.

Significant agreements – change of control

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid, such as commercial contracts and joint venture agreements. None are considered to be significant in terms of their potential impact on the business of the Group as a whole. All of the Company's employee share incentive plans contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions and pro-rata reduction as may be applicable under the rules of the employee share incentive plans.

Authority to purchase own shares

At the Company's 2016 AGM, shareholders renewed the Company's authorities to make market purchases of up to 404 million ordinary shares, up to 100 million 8¾% preference shares and up to 100 million 8⅜% preference shares. These authorities were not used during the year or up to the date of this report. At the 2017 AGM, shareholders will be asked to renew these authorities for another year and the resolution relating to ordinary shares will once again propose a maximum aggregate number of ordinary shares which the Company can purchase of less than 10% of the issued ordinary share capital. Details are contained in the Notice of AGM. The Company held no treasury shares during the year or up to the date of this report.

Disclosure and Transparency Rule 5 (DTR) – major shareholders

The table below shows the holdings of major shareholders in the Company's issued ordinary share capital in accordance with the DTRs as at 31 December 2016 and 7 March 2017.

SHAREHOLDING INTEREST

Shareholder	At 31 December 2016 Notified holdings	At 31 December 2016 Nature of holding	At 7 March 2017 Notified holdings	At 7 March 2017 Nature of holding
BlackRock, Inc[1]	Above 5%	Indirect	Above 5%	Indirect

1 Holding includes holdings of subsidiaries.

Directors

The directors as at the date of this report are shown together with their biographical details earlier in the report. During the year and up to the date of this report, the following Board appointments, resignations and retirements occurred:

APPOINTMENTS

Director	Position	Effective Date
Claudia Arney	Independent Non-Executive Director	08/02/2016
Keith Williams	Independent Non-Executive Director	01/08/2016

RETIREMENT/ RESIGNATION

Director	Position	Effective Date
Scott Wheway	Independent Non-Executive Director	31/12/2016

The rules regarding the appointment and removal of directors are contained in the Company's Articles. Under the Articles, the Board can appoint additional directors or appoint a director to fill a casual vacancy. The new director must retire at the first AGM following their appointment and can only continue as a director if they are elected by shareholders at the AGM.

At no time during the year did any director hold a material interest in any contract of significance with the Company or any of its subsidiary undertakings other than an indemnity provision between each director and the Company and employment contracts between each executive director and a Group company. The Company has purchased and maintained throughout the year directors' and officers' liability insurance in respect of itself and its directors and others. The Company has also executed deeds of indemnity for the benefit of each director of the Company, and each person who was a director of the Company during the year, in respect of liabilities that may attach to them in their capacity as directors of the Company or of associated companies. The Articles allow such indemnities to be granted. These indemnities were granted at different times according to the law in place at the time and where relevant are qualifying third-party indemnity provisions as defined by section 234 of the Companies Act 2006. These indemnities were in force throughout the year and are currently in force. Details of directors' remuneration, service contracts, employment contracts and interests in the shares of the Company are set out in the directors' remuneration report.

The Company has also granted indemnities by way of a deed poll to the directors of the Group's subsidiary companies, including former directors who retired during the year and directors appointed during the year, which is a 'qualifying third party indemnity' for the purposes of the applicable sections 309A to 309C of the Companies Act 1985. The deed poll indemnity was in force throughout the year and remains in force.

Financial instruments

Group companies use financial instruments to manage certain types of risks, including those relating to credit, foreign currency exchange, cash flow, liquidity, interest rates, and equity and property prices. Details of the objectives and management of these instruments are contained in the risk and capital management section, the shareholder information section and in note 56 on risk management.

Political donations

At the 2016 AGM, shareholders passed a resolution, on a precautionary basis, to authorise the Company and its subsidiaries to make political donations and/or incur political expenditure (as such terms are defined in sections 362 to 379 of the Companies Act 2006), in each case in amounts not exceeding £100,000 in aggregate. As the authority granted will expire at the 2017 AGM, renewal of this authority will be sought at this year's AGM up to a total aggregate limit of £100,000. Further details are available in the Notice of AGM. It is not the policy of the Company to make donations to European Union (EU) political organisations or to incur any other political expenditure. However, definitions of political donations and political expenditure used in the Companies Act 2006 are broad in nature and this authority is sought to ensure that any activities undertaken throughout the Group, which could otherwise be construed to fall within these provisions, can be undertaken without inadvertently infringing the rules. Aviva did not make any political donations during 2016.

Disclosure of information to the auditor

In accordance with section 418 of the Companies Act 2006, the directors in office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's External Auditor, PricewaterhouseCoopers (PwC), is unaware and each director has taken all reasonable steps that ought to have been taken as a director to be aware of any relevant audit information and to establish that PwC is aware of that information.

Annual general meeting

The 2017 AGM of the Company will be held on Wednesday, 10 May 2017 at the Queen Elizabeth II Centre, Broad Sanctuary, Westminster, London SW1P 3EE at 11am. The Notice of AGM convening the meeting describes the business to be conducted thereat. Further details can be found in the shareholder information section of the Notice of AGM.

Articles of association

Unless expressly stated to the contrary in the Articles, the Company's Articles may only be amended by special resolution of the shareholders. The Company's current articles were adopted on 29 April 2015.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report. The performance review includes the risk and capital management section. In addition, the financial statements sections include notes on the Group's borrowings (note 49); its contingent liabilities and other risk factors (note 52); its capital management (note 54); management of its risks including market, credit and liquidity risk (note 56); and derivative financial instruments (note 57).

The Group has considerable financial resources together with a diversified business model, with a spread of businesses and geographical reach. The directors believe the Group is well placed to manage its business risks successfully.

After making enquiries, the directors have a reasonable expectation that the Company and the Group as a whole have adequate resources to continue in operational existence for a period of at least 12 months from the date of approval of the financial statements. For this reason, they continue to adopt, and to consider appropriate, the going concern basis in preparing the financial statements.

Longer-term viability statement

It is fundamental to the Group's longer-term strategy that the directors manage and monitor risk taking into account all key risks the Group faces, including longer term insurance risks, so that it can continue to meet its obligations to policyholders. The Group is also subject to extensive regulation and supervision including Solvency II from 1 January 2016, and as a result of being designated a Global Systemically Important Insurer by the Financial Stability Board.

Against this background, the directors have assessed the prospects of the Group in accordance with provision C.2.2 of the 2014 UK Corporate Governance Code, with reference to the Group's current position and prospects, its strategy, risk appetite, and the potential impact of the principal risks and how these are managed (as detailed on pages 68-71 of the strategic report as well as note 56 of the IFRS financial statements).

The assessment of the Group's prospects by the directors covers the three years to 2019 and is underpinned by management's three year 2017-2019 business plan which includes projections of the Group's capital, liquidity and solvency.

The Group's stress and scenario testing considers the Group's capacity to respond to a series of relevant financial, insurance (e.g., catastrophe) or operational shocks should future circumstances or events differ from the plan assumptions. The Group addresses the impacts of contingent management actions designed to maintain or restore key capital, liquidity and solvency metrics to within the Group's approved risk appetites over the planning period.

Based on this assessment, the directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three year assessment period.

Fair, balanced and understandable

To support the directors' statement below that the annual report and accounts, taken as a whole, is fair, balanced and understandable, the Board considered the process followed to draft the annual report and accounts:

- each section of the annual report and accounts is prepared by a member of management with appropriate knowledge, seniority and experience. Each preparer receives guidance on the requirement for content included in the annual report and accounts to be fair, balanced and understandable
- the overall co-ordination of the production of the annual report and accounts is overseen by the Chief Accounting Officer to ensure consistency across the document
- an extensive verification process is undertaken to ensure factual accuracy
- comprehensive reviews of drafts of the annual report and accounts are undertaken by members of the Group Executive and, other members of senior management, and in relation to certain parts of the report external legal advisers and the External Auditor
- an advanced draft is considered and reviewed by the Disclosure Committee
- the final draft is reviewed by the Audit Committee prior to being considered by the Board
- Board members receive drafts of the annual report and accounts for their review and input. This includes the opportunity to discuss the drafts with both management and the External Auditor, and challenging the disclosures where appropriate.

Directors' responsibilities

The directors are responsible for preparing the annual report and accounts, the directors' remuneration report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and parent company financial statements in accordance with IFRS as adopted by the EU. In preparing these financial statements, the directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make reasonable and prudent judgements and accounting estimates
- state whether applicable IFRSs as adopted by the EU and IFRSs issued by IASB have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the directors' remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for making, and continuing to make, the Company's annual report and accounts available on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and the Company's position and performance, business model and strategy.

Each of the current directors, whose names and functions are listed on pages 76 to 79 in the directors' and corporate governance report confirm that, to the best of their knowledge: the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and the strategic report and the directors' and corporate governance report in this annual report and accounts include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

By order of the Board on 8 March 2017.

Mark Wilson
Group Chief Executive Officer

Tom Stoddard
Chief Financial Officer

Rewarding performance

Dear Shareholder, on behalf of the Remuneration Committee, I am pleased to present the Directors' Remuneration Report (DRR) for the year ended 31 December 2016.

Aviva has had a good year in a volatile market environment and the Group's performance, and the contributions of our Executive Directors (EDs), are reflected in the remuneration decisions detailed in the DRR.

Our Remuneration Policy was approved by shareholders in 2015. Through consultation with shareholders and key stakeholders over the past year, we are aware of continuing support for our approach for this three year policy period. We are committed to paying for performance, and not paying excessively. We are also committed to ensuring pay outcomes are linked to the experience of our shareholders and reflect the effectiveness of risk management. Our Committee processes include steps and checkpoints to achieve these aims.

We understand the great interest that our executive pay decisions, like those of our peers, attract from key stakeholders, including our shareholders, our employees and the communities in which we operate. Our reward framework looks to align these interests through pay decisions based on a suite of financial and non-financial metrics.

COMMITTEE MEMBERSHIP

	Member since:	Years on the committee
Patricia Cross*	01 Dec 2013	3
Michael Mire	14 May 2015	2
Bob Stein**	06 Mar 2013	4
Sir Malcolm Williamson**	14 May 2015	2
Claudia Arney	01 Jun 2016	<1

* Chair
** Will retire from the conclusion of the 2017 Annual General Meeting (AGM).

Aligned to value and the interests of our shareholders

Patricia Cross / Remuneration Committee Chair

ANNUAL BONUS APPROACH

When we decide on annual bonuses we firstly review achievement against key financial and non-financial targets. The targets used for 2016 are detailed in our bonus scorecard on table 2 and have been chosen to align with our strategic ambitions to drive growth in shareholder value.

The percentage outcomes achieved for those targets do not alone determine the bonus decisions for our EDs. The Committee also undertakes a structured assessment of performance in relation to risk, the experience of our customers and the engagement of our employees. Performance versus these non-financial modifiers is outlined in table 2. The Committee considers the management of risk, and focus on customers and employees, to be critical to the long-term wealth creation and sustainability of Aviva. The final step in the annual bonus decision is the assessment of the individual's performance in their role. For our senior leaders this covers their effectiveness in articulating the Group's strategy and the planning and execution of key initiatives. It also involves considerations of how they have focused on our customers, encouraged collaboration, lived our values, managed risk and demonstrated effectiveness as a leader. This is aimed at ensuring reward outcomes are aligned to value and the interests of our shareholders.

KEY DECISIONS IN RESPECT OF 2016

The decisions made in respect of 2016 are the annual bonuses for the EDs and the vesting of the 2014 Long Term Incentive Plan (LTIP).

The impact of the Ogden rate change as a post balance sheet date exceptional item occurred almost two months after the completion of the performance year. It is considered likely there will be a further off-setting adjustment relevant to this item once the UK Government has established a new methodology for setting the rate later in 2017. In the circumstances, the Committee has determined to defer this exceptional item from the assessment of incentives for 2016 since its quantum can only be established once the new approach is decided upon. Instead, any impact would be taken against the incentive targets set for the 2017 year. This will be fully disclosed in the 2017 DRR.

2016 annual bonus

Performance at Group level against the financial targets in our bonus scorecard was strong again in 2016. Our strategic performance target of online customer registrations was also surpassed for the year with active digital registrations globally increasing by over 100% during 2016. The Committee has also made its annual assessment of the modifier factors, referred to above, in determining the overall bonus scorecard outcome.

2014 LTIP

Given the dates of appointment of our EDs, only Mark Wilson, Group Chief Executive Officer (Group CEO) and Tom Stoddard, Chief Financial Officer (CFO) will receive shares under this award. Awards under the 2014 LTIP vested subject to Aviva's Return on Equity (ROE) and relative Total Shareholder Return (TSR) performance over the period 1 January 2014 to 31 December 2016. 41.3% of the maximum award vested. Full details can be found in table 4.

Quality of earnings and risk adjustment reviews

The Committee's decisions on annual bonus and on the vesting of the 2014 LTIP were made after conducting its annual risk and quality of earnings reviews for both plans and determining they were reasonable in both cases.

Through the year, we have continued to focus on the risk and control environment and to take this into consideration when taking reward decisions. In 2016, all but one of the business units and functions within the Group were assessed as on or above target against their overall goal in relation to risk and compliance outcomes. No adjustment was considered warranted at a Group level but appropriate annual bonus adjustments were made in the market concerned.

DISCRETIONS AVAILABLE TO THE COMMITTEE

With the Ogden rate change being dealt with as described earlier, no other use of discretion to adjust outcomes available under the incentive plans or the Remuneration Policy have been exercised by the Committee.

APPLICATION OF POLICY IN 2017

Salary

The EDs' salaries have been reviewed by the Committee and an increase of 2.5% will be made for each from 1 April 2017. These increases are in line with expectations around market movements and inflation in the UK and are consistent with overall increases being applied across our UK-based employees.

Bonus

25% of the annual bonus scorecard will continue to be linked to progress on our Digital First strategy. The measure, which focused on customer registrations in 2016, will be extended in 2017 to include a target for an increase in the volume of online transactions.

2017 LTIP

In 2017, maximum awards under the LTIP will be in line with previous years. 300% of salary for the Group CEO and 225% of salary for the CFO and Andy Briggs, Chief Executive Officer, UK Insurance (CEO UK). The performance conditions are detailed in table 17.

DISCLOSURE OF BONUS SCORECARD AND LTIP TARGETS

In line with feedback we have received from stakeholders, we have made changes to how we disclose performance against the targets. The bonus targets are now being disclosed in detail at the same time as the bonus outcomes are determined, as detailed in table 3. The forward looking 2017 LTIP targets can be seen in table 17.

PAY RATIOS

The requirements for pay ratio reporting in the UK have yet to be published. We have however considered the ratio of the CEO's pay relative to other members of the Group Executive (GE) Committee. We believe this is a meaningful comparison of interest to some shareholders given that their remuneration is similarly structured, including the mix of fixed versus 'at risk' pay. Based on this year's pay decisions, the Group CEO earns approximately 2.1 times more than the GE average and 1.8 times more than the average for the other EDs.

The percentage change in Group CEO pay for 2016 versus other UK based employees is reported in table 9.

COMMITTEE CHANGES DURING THE YEAR

Claudia Arney joined the Aviva Board in January 2016 and became a Committee member with effect from 1 June 2016. Claudia's background and expertise in digital and rapid growth businesses has been invaluable to the Committee in its work since she joined.

PRIORITIES FOR 2017

The key priorities we identified for last year remain largely unchanged for 2017.

These were:

- The ongoing development of a remuneration system which is fair to executives and aligned to long-term, sustainable growth in shareholder value.
- Compliance with our regulatory obligations in relation to pay.

In 2017, we are increasing our focus on Aviva's diversity agenda, which we see as being integral to our core values of Care More and Create Legacy. For example, as a Committee we take a 'gender pay gap' lens into account in our hiring, pay review and incentive award processes. This approach is followed at all levels throughout the Group and we will be commencing formal gender pay gap reporting under the UK Government's mandatory regime later this year.

In 2018, we will be seeking approval for a new Remuneration Policy, as we are required to do every three years and our approach will be to commence formal engagement with key shareholders and stakeholders. We encourage constructive input and invite a broad range of comments as we develop and adapt our Policy in the lead up to the vote next year.

I look forward to seeing shareholders at the 2017 AGM.

Patricia Cross
Chair, Remuneration Committee
8 March 2017

OUR REMUNERATION FRAMEWORK AT A GLANCE

Remuneration philosophy

The key principles of our approach to executive remuneration are:

Align
to Aviva's purpose and strategy.

Incentivise
achievement of Aviva's annual business plan and longer term sustainable growth of the business.

Recognise
the leaders who achieve the required business results through living Aviva's values and behaviours.

Ensure
risk based decision making and good governance.

Phasing

2017 | 2018 | 2019 | 2020 | 2021

Phasing of payments (based on Group CEO's maximum remuneration opportunity for 2017)

Salary
17% of total package

Annual bonus
11% of total package — *Cash element (1/3 of total bonus)*
22% of total package — *Deferred element – delivered in shares (2/3 of total bonus for 3 years)*

LTIP
3 year performance period (100% of LTIP)
50% of total package — *2 year holding period – delivered in shares (100% of LTIP)*

Salary

Overview of Policy (approved in 2015)
- Set by reference to relevant pay data, levels of increase for the broader UK employee population and individual and business performance

Remuneration in respect of 2016
- Group CEO: £1,009,400
- CFO: £695,250
- CEO UK: £712,631

Application of Policy in 2017
- Group CEO: £1,034,635
- CFO: £712,000
- CEO UK: £730,000

Annual bonus

Overview of Policy (approved in 2015)
- Maximum of 200% of salary for CEO and 150% of salary for other EDs
- Performance measures: range of financial and non-financial metrics
- Malus and clawback provisions apply

Remuneration in respect of 2016
- Group CEO: 91% of maximum (£1,837,108)
- CFO: 90% of maximum (£938,588)
- CEO UK: 87% of maximum (£926,421)

Application of Policy in 2017
- Payments determined on a scorecard split: 75% Group financial and 25% strategic measure

LTIP

Overview of Policy (approved in 2015)
- Maximum of 350% of salary
- Subject to performance (TSR and ROE) and two year post vest holding
- Malus and clawback provisions apply

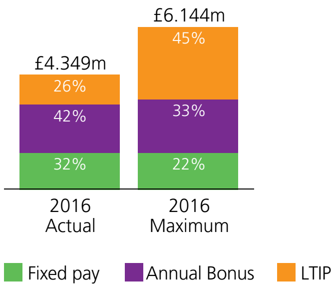
Remuneration in respect of 2016
- 2014 LTIP vested at 41.3% overall
- ROE: 33.7% vesting at 41.3%
- TSR: ranked 8.9 vesting at 0%

Application of Policy in 2017
- Group CEO: 300% of salary
- CFO: 225% of salary
- CEO UK: 225% of salary

ED 2016 REMUNERATION ACTUAL VS POLICY

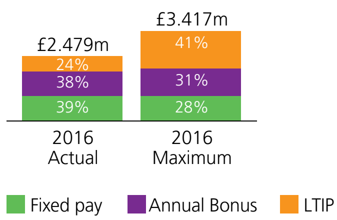
Mark Wilson

£4.3m
(2015: £5.4m)



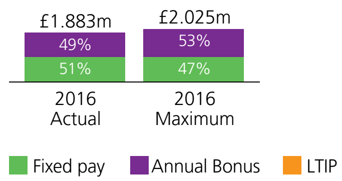
Tom Stoddard

£2.5m
(2015: £2.9m)



Andy Briggs

£1.9m
(2015: £1.3m)



ANNUAL REPORT ON REMUNERATION

This section of the report sets out how Aviva has implemented its Remuneration Policy for EDs during the course of 2016, and how the approved Policy will be implemented for 2017. This is in accordance with the requirements of the Large & Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended).

The full terms of reference for the Committee can be found on the Company's website at www.aviva.com/terms-of-reference and are also available from the Group General Counsel and Company Secretary.

CONSIDERATION BY THE COMMITTEE OF MATTERS RELATING TO DIRECTORS' REMUNERATION

The Committee met five times during 2016, of which four were scheduled meetings and one was an additional meeting called at short notice. Details of attendance at Committee meetings are shown on page 84.

The Group Chairman attended all meetings of the Committee. The Group General Counsel and Company Secretary acted as secretary to the Committee. The Chairman of the Committee reported to subsequent meetings of the Board on the Committee's work and the Board received a copy of the agenda and the minutes of each meeting of the Committee.

The Committee received assistance in considering executive remuneration from:

- the Group Chairman;
- the Group CEO;
- the Chief People Officer;
- the Group Reward Director;
- the Chief Accounting Officer;
- the Chief Capital & Investments Officer;
- the Chief Executive Officer – Aviva Investors;
- the Chief Audit Officer;
- the CFO;
- the Remuneration Committee Chair of Aviva Investors;
- the Reward Director, Aviva Investors;
- the Group Chief Risk Officer; and
- the Director of Global Finance & Chief Planning and Performance Officer.

These people attended meetings by invitation during the year. No person was present during any discussion relating to their own remuneration.

During the year, the Committee received advice on executive remuneration matters from Deloitte LLP who were appointed by the Committee. They are a member of the Remuneration Consultants' Group and adhere to its Code of Conduct. The Group received advice on remuneration matters, taxation and other consulting services (including advice in relation to Solvency II (SII)) during the year. In addition Tapestry Compliance LLP, appointed by the Company, provided advice on share incentive plan related matters, including on senior executive remuneration matters and views on shareholder perspectives.

During the year, Deloitte LLP were paid fees totalling £131,600, and Tapestry Compliance LLP were paid fees totalling £3,715 for their advice to the Company on these matters during the year. Fees were charged on a time plus expenses basis.

The Committee reflects on the quality of the advice provided and whether it properly addresses the issues under consideration as part of its normal deliberations. The Committee is satisfied that the advice received during the year was objective and independent.

COMMITTEE PERFORMANCE AND EFFECTIVENESS

The Committee undertakes a rigorous review of its effectiveness on an annual basis, which for the 2016 year was conducted alongside the evaluations of the Board and other committees by way of an internal questionnaire, completed by every Committee member. Further details on how this has been carried out are contained in the directors' and corporate governance report.

REMUNERATION COMMITTEE RESPONSIBILITIES AND ALLOCATION OF AGENDA TIME

Governance, regulatory issues and reporting policy – 33%

Works with the Risk Committee to ensure that risk and risk appetite are considered in setting the Remuneration Policy and reflected appropriately in pay outcomes.

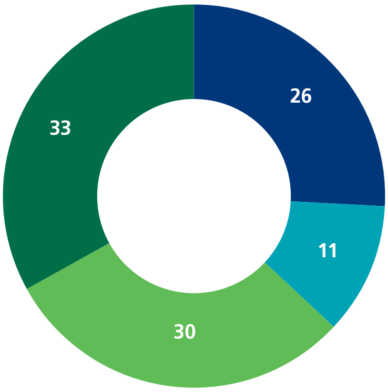
Obtains information about remuneration in other companies to act as one of many reference points considered.

Selects, appoints and determines the terms of reference for independent remuneration consultants, to advise on Remuneration Policy and levels of remuneration.

Reviews and determines the remuneration of the Board Chairman and the terms of employment and remuneration of individual EDs and members of the GE, including any specific recruitment or severance terms.

Bonus target setting – 30%

Reviews and determines annual bonus targets incorporating financial and non-financial modifiers.



Senior management objectives and pay decisions – 26%

Recommends to the Board the Group's Policy in respect of remuneration of the Board Chairman, EDs, GE and members of senior management, taking account of all legal and regulatory requirements and provisions of best practice and remuneration trends across the Group.

Reviews the general principles applying to relevant employees under SII and oversee remuneration decisions relating to these employees to ensure they are aligned to the agreed Policy.

Reviews and recommends to management the level and structure of senior management remuneration.

Approves the Aviva Investors' reward strategy, including any changes to the strategy.

Share plan operation and performance testing – 11%

Exercises the Board's powers in relation to the operation of all employee share and incentive plans and exercise all the Board's powers in relation to the operation of all employee share and incentive plans.

ACTIVITIES DURING 2016

Governance, regulatory issues and reporting policy

- Engaged external advisors to conduct a high level review of the remuneration framework and its alignment with Aviva's strategic goals. This was a preliminary exercise in preparation for a new Remuneration Policy for shareholders to consider at the 2018 AGM.
- The Committee Chair met with key investors and stakeholders as part of the ongoing programme of engagement on remuneration and reported back to the Committee on these meetings.
- Actively engaged with our regulators to continuously review the remuneration approach to ensure alignment with evolving regulatory requirements.
- Reviewed and agreed the initial SII Remuneration Policy Statement submission, and further disclosures for Aviva Investors and UK Life subsidiaries.
- Received regular updates and briefings from management and the external advisors, on topics such as developments in governance, disclosure practices and regulatory changes.

Bonus target setting

- Reviewed the Annual Bonus Plan targets for 2016 and 2017. This included an assessment of financial targets, and non-financial modifiers which consider; risk, strategic ambition, employee engagement and customer metrics.

Senior management objectives and pay decisions

- Benchmarked, reviewed and set salaries for the EDs and GE members from 1 April 2016.
- Reviewed and approved the Group bonus pools, taking into account performance against financial metrics and non-financial modifiers relating to employee engagement, customer and risk outcomes.
- Continuously reviewed quality of earnings and alignment of accounting decisions ensuring appropriate remuneration outcomes.
- Reviewed and approved the key individual objectives for 2016 for each member of the GE.
- Reviewed and approved the principles for implementing any new carried interest plans within Aviva Investors.
- Reviewed the fees for Non-Executive Directors (NEDs) on our subsidiary Boards and approved a number of amendments.
- Considered and approved amendments to the Remuneration Standard applying across the Aviva Group to simplify and provide greater clarity on the ownership on the controls.
- Ensured that remuneration outcomes were aligned with delivery against the strategic anchor, long-term sustainable growth, shareholder experience and the risk profile of the Group.

Share plan operation and performance testing

- Approved the 2016 LTIP and considered bonus targets for 2017.
- Reviewed and approved the performance achieved for 2013 LTIP awards, and reviewed interim testing on the subsisting 2014 and 2015 LTIP awards.
- Ongoing review of Group share plans including the approval of a new all employee global matching share plan.

SINGLE TOTAL FIGURES OF REMUNERATION FOR 2016

The table below sets out the total remuneration for 2016 and 2015 for each of our EDs.

1 TOTAL 2016 REMUNERATION – EXECUTIVE DIRECTORS (AUDITED INFORMATION)

	Mark Wilson		Tom Stoddard		Andy Briggs		Total emoluments of Executive Directors	
	2016 £000	2015 £000	**2016 £000**	2015 £000	**2016 £000**	2015[6] £000	**2016 £000**	2015 £000
Basic salary[1]	**1,002**	980	**690**	675	**707**	466	**2,399**	2,121
Benefits[2]	**99**	65	**73**	152	**51**	30	**223**	247
Annual bonus[3]	**1,837**	1,783	**939**	877	**926**	673	**3,702**	3,333
LTIP[4]	**1,133**	2,330	**585**	—	—	—	**1,718**	2,330
Buyout award – CFO Award 2014	—	—	—	1,000	—	—	—	1,000
Pension[5]	**281**	280	**193**	185	**198**	139	**672**	604
Total	**4,352**	5,438	**2,480**	2,889	**1,882**	1,308	**8,714**	9,635

Notes
1 Basic salary received during 2016.
2 The benefits disclosure includes the cost, where relevant, of private medical insurance, life insurance, accommodation, travel and car benefits. In the case of Mark and Andy this also includes benefits resulting from the UK HMRC tax-advantaged Save As You Earn (SAYE) plan, and for Andy the UK HMRC tax-advantaged (share incentive plan) All Employee Share Ownership Plan (AESOP), in which they participate on the same basis as all eligible employees. All numbers disclosed include the tax charged on the benefits, where applicable. The year on year increase in the value of Mark's benefits results mainly from higher death in service (life insurance) costs, and a change during 2015 in the administration of Aviva's shared car service for senior executives. The actual car service arrangements provided to Mark were unchanged in 2015 and 2016. For Tom, his 2015 benefits included expenditure in terms of his relocation from the US to the UK, which were not incurred in 2016.
3 Bonus payable in respect of the financial year including any deferred element at face value at date of award. The deferred element is made under the Aviva Annual Bonus Plan 2011 (ABP).
4 The value of the LTIP for 2016 relates to the 2014 award, which had a three-year performance period ending 31 December 2016. 41.3% of the award will vest in March 2017. An assumed share price of 456.27 pence has been used to determine the value of the award based on the average share price over the final quarter of the 2016 financial year. The LTIP amounts shown in last year's report in respect of the LTIPs awarded in 2013 were also calculated with an assumed share price of 491.68 pence. The actual share price at vesting was 447.01 pence, leading to a decrease in value. Estimated value £2,562,000; actual value £2,330,000 (decrease of £232,000).
5 Pension contributions consist of employer contributions into the defined contribution section of the Aviva Staff Pension Scheme, excluding salary exchange contributions made by the employees, plus payments in lieu of pension above the lifetime or annual allowance caps. From 1 May 2015, EDs are eligible to participate in a defined contribution plan and receive pension contributions or a cash pension allowance from the Company of 28% of basic salary. The cash pension allowance is payable where the annual or lifetime limits have been reached.
6 For Andy, his 2015 values only relate to his services to Aviva from 29 April 2015, whereas 2016 represents a full year.

ADDITIONAL DISCLOSURES IN RESPECT OF THE SINGLE TOTAL FIGURE OF REMUNERATION TABLE

2016 annual bonus outcome

The Group's financial performance, together with non-financial modifiers and personal performance have been used to determine ED bonuses paid in respect of 2016. We have provided an indication of performance against the financial and non-financial metrics for 2016 in table 2. As set out in this table, the bonuses reflect a good year in a volatile market environment for the Group.

Shareholders approved increased 'at target' and maximum annual bonus opportunities for the Group CEO as part of the Remuneration Policy adopted at the 2015 AGM. In proposing the changes, we undertook that we would not 'pay more for the same performance' and 2016 annual bonus outcomes reported here have been achieved against appropriately challenging hurdles.

In determining the bonus awards, the Committee took into account the wider performance of Aviva and the experience of shareholders during the year, and is satisfied that the bonus awards above are fair in the light of those considerations. One-third of the bonus award for all EDs will be delivered in cash, with two-thirds being deferred into shares for three years.

Other items of remuneration

The EDs have not received any items in the nature of remuneration other than those disclosed in table 1.

Malus and Clawback

As part of the annual pay review process, the Committee has considered whether any recovery or withholding under the malus and clawback provisions of Aviva's incentive plans is required by any current circumstances. No incidents are currently subject to action under Aviva's malus and clawback policy.

2 ASSESSMENT OF 2016 PERFORMANCE AGAINST THE BONUS SCORECARD

Group financial performance

Weighting 75%	Metric	FY 2016 outcome	Min Target Max
22.5%	Adjusted IFRS EPS	32.9p	
18.75%	Net cash remittances	£1,416m	
11.25%	Economic Surplus Generation (ESG)	£3,365m	
15%	Value of New Business (VNB)	£988m	
7.5%	Combined Operating Ratio (COR)	95.2%	
Achievement against Group financial scorecard		**125.7%**	

Group progress towards strategic ambition

Weighting 25%	Metric	FY 2016 outcome	Min Target Max
25%	Digital First strategy progress	29.5%	
Overall achievement		**155.2%**	

Non-financial modifiers	Assessment
Employee Employee engagement.	Employee engagement up four percentage points to 74%, with significant improvements within our UK Life, global functions, French, Irish and Aviva Investors businesses. Engagement among former Friends Life colleagues was up 11% versus 2015.
Customer Performance against our Net Promoter Score (NPS) targets and our overall focus on customer outcomes.	Our 2016 relationship survey scores have improved slightly compared to 2015, with seven of our 12 markets measured being ahead of the competition, at upper quartile. Our overall global NPS improved by three points to +13 and is in line with our competitors. Our global brand strategy "Good Thinking" is underpinning how we develop new propositions for our customers, and placing the customer firmly at the heart of our business.
Risk & Controls Aviva's reward strategy includes specific risk and control objectives for senior management and EDs. The aim is to help drive and reward effective risk management and a robust control environment across the Group.	All but one of the business units and functions within the group were assessed as on or above target against their overall goal in relation to risk, conduct and control outcomes. One business unit within the Group was identified as needing to make improvements and while corrective actions are underway, an appropriate reward adjustment was made to the annual bonus pool for the market. Other risk adjustments were limited to individual cases and managed through our performance management process. No adjustment was warranted at a Group level.

Under the ABP, this outcome can be modified by the performance on the employee, customer and risk and controls modifiers. Typically, adjustments (if made) would be in the range of +/- 15% but for major risk or controls or customer issues (e.g. concerning conduct) a considerably greater adjustment could be made.

For 2016, an adjustment of 5% has been decided in relation to the modifier factors, to recognise the significant year-on-year improvement in employee engagement.

2 …*continued*

Individual bonus outcomes for EDs

While the modified outcome against the bonus scorecard provides a pool of funding for bonuses, actual bonus decisions are made based on; individual contribution and achievements, how the person has assisted the Group achieve progress against its strategic objectives, the leadership they have exhibited and how the individual has demonstrated the Aviva values. Each ED has a target and maximum opportunity against which this is assessed.

Mark Wilson

The Aviva Group had a strong year under Mark Wilson's leadership. Key results include:

- Strong financial results for 2016 with COR in the range set for performance and all other metrics exceeding target. Aviva's balance sheet and capital position has proven its strength and resilience despite significant market volatility.
- Delivered the Friends Life Group (FLG) integration benefits a year ahead of schedule. Secured run rate synergies of £270m – in excess of our £225m target.
- Significant progress on Digital ambition: 15 million of our customers consolidated onto a single database and rapidly scaling up the number of users on MyAviva, with registrations more than doubling to five million at the end of 2016.
- Acquisition of the Royal Bank of Canada (RBC) General Insurance in Canada, increasing the Group's size in Canada by 25% and diversifying its distribution mix.
- Improved employee engagement, up by four percentage points to 74%.

Bonus award: £1,837,108

Bonus as a % of basic salary: 182%
Bonus as a % of max opportunity: 91%

Tom Stoddard

Tom Stoddard continued to provide outstanding leadership to the Finance function and was instrumental in many initiatives that supported the Group's strategy, including:

- Delivered Aviva's first year under the new SII capital regime. The cover ratio of 189% as at 31 December 2016 is above the top end of our working range, and capital generation of £3.5bn was much stronger than planned.
- Delivery of FLG integration synergies ahead of the 2017 target.
- Completed the acquisition of RBC General Insurance in Canada, providing a 15 year distribution agreement and supporting independent broker channels.
- Successful financing activity including issuance of C$450m of Tier 3 into Canada to support the RBC transaction (the first Tier 3 hybrid capital issuance by any insurer) and two opportunistic euro senior debt issuances while rates were near their low point.
- Ensured resources were available to lead and oversee the development and execution of Aviva's group-wide Major Control Improvement Topic (MCIT) programme.
- Continuing to develop senior finance talent and function capability.

Bonus award: £938,588

Bonus as a % of basic salary: 135%
Bonus as a % of max opportunity: 90%

Andy Briggs

Andy Briggs has continued with the integration of FLG during 2016 and his leadership of the UK Life business. Key results include:

- UK Life strategy translating into long-term support of Aviva Group's growth goals.
- Strong financial performance, with IFRS operating profit showing underlying growth, cash remittances and capital generation significantly ahead of plan.
- Delivery of FLG integration synergies ahead of the 2017 target.
- Focus within Global Life on automating and improving underwriting to enhance customers' on-boarding experience. Review of global reinsurance strategy to extract better value through a more centralised approach to negotiation.
- Improved understanding of risks and controls through roll out and embedding of the operational risk control and management framework.

Bonus award: £926,421

Bonus as a % of basic salary: 130%
Bonus as a % of max opportunity: 87%

2015 and 2016 Annual bonus – disclosure of performance against targets

This year we have moved to reporting performance against targets immediately rather than on a lagged basis. To move to this new disclosure approach, we provide details for both this year and 2015, as the yet to be disclosed prior year, below. The overall scorecard outcome percentage applies to all of the EDs. The individual bonus decisions for the EDs, explained in table 2, are determined after taking into account this scorecard assessment and their respective personal performance.

3 2015 AND 2016 PERFORMANCE AGAINST BONUS SCORECARD FOR ED BONUSES

	2015					2016				
Financial metrics	Weighting	Minimum	Target	Maximum	Outcome	Weighting	Minimum	Target	Maximum	Outcome
Adjusted IFRS Profit Before Tax[1]	25%	£1,407m	£1,521m	£1,635m	**£1,610m**					
Adjusted IFRS EPS[1]						22.50%	24.4p	26.4p	28.4p	**32.9p**
Cash Remittances	25%	£1,398m	£1,511m	£1,625m	**£1,420m**	18.75%	£1,241m	£1,342m	£1,443m	**£1,416m**
VNB[1]	20%	£759m	£820m	£882m	**£869m**	15.00%	£904m	£977m	£1,051m	**£988m**
ESG	15%	£(1,280)m	£(689)m	£(98)m	**£1,000m**	11.25%	£1,229m	£1,429m	£1,629m	**£3,365m**
Operating Expense Ratio[1]	10%	53.2%	51.3%	49.4%	**50.0%**					
COR	5%	95.8%	94.8%	93.8%	**94.6%**	7.50%	95.9%	94.9%	93.9%	**95.2%**
Total Financial metrics	**100%**					**75.00%**				
Strategic Progress										
MyAviva registrations						**25.00%**	4.0m	5.0m	6.0m	**5.2m**
Score before modifier decision[2]					**160%**					**155%**
Modifier decision					0%					5%
Overall scorecard assessment[3]					**160%**					**160%**

Notes
1 Refer to the glossary on page 348 for a full explanation on each financial metric.
2 Modifier decisions include employee, customer and risk and control.
3 This is a key factor in determining individual bonuses for EDs along with personal performance.

2014 LTIP vesting in respect of performance period 2014-2016

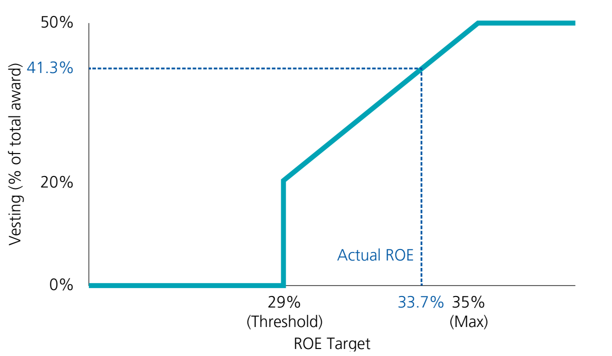
As previously reported, both the ROE and TSR targets for the 2014 LTIP were adjusted to ensure that they were appropriately calibrated and were equally challenging for the enlarged Group to support the realisation of benefits from the FLG acquisition and the achievement of the Group's strategic agenda.

Given the timing of the appointment dates of our EDs, Mark and Tom are the only EDs who will receive shares under the 2014 LTIP. As indicated in the table below, 41.3% of the award will vest in March 2017.

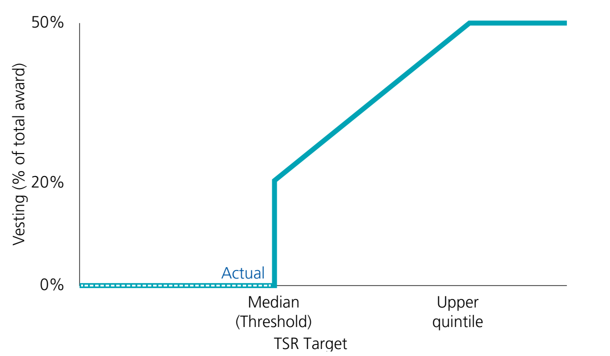
4 2014 LTIP AWARD – PERFORMANCE CONDITIONS

	Weighting	Threshold (20% vests)	Maximum (100% vests)	Outcome	Vesting (% of maximum)
ROE performance	50%	29%	35%	33.7%	41.3%
Relative TSR performance	50%	Median	Upper quantile and above	Between rank 8 and 9	0%

ROE performance



Relative TSR performance



Governance

AWARDS MADE DURING THE FINANCIAL YEAR

Share and option awards granted to EDs during the year are set out in table 5.

5 AWARDS GRANTED DURING THE YEAR (AUDITED INFORMATION)

					Amount vesting			
	Date of award	Award Type[1]	Face value (% of basic salary)	Face value (£)[2]	Threshold performance (% of face value)	Maximum performance (% of face value)	End of performance period	End of vesting/ holding period
Mark Wilson	29 Mar 2016	LTIP	300%	£2,939,997	20%	100%	31 Dec 2018	21 Mar 2021
	29 Mar 2016	ABP	121%	£1,189,065	N/A			21 Mar 2019
	4 Oct 2016	SAYE	0.89%	£8,999	N/A			1 Dec 2019
Tom Stoddard	29 Mar 2016	LTIP	225%	£1,518,748	20%	100%	31 Dec 2018	21 Mar 2021
	29 Mar 2016	ABP	87%	£584,997	N/A			21 Mar 2019
Andy Briggs	29 Mar 2016	LTIP	225%	£1,556,714	20%	100%	31 Dec 2018	21 Mar 2021
	29 Mar 2016	ABP	65%	£448,673	N/A			21 Mar 2019
	4 Oct 2016	SAYE	2.53%	£17,999	N/A			1 Dec 2019
	14 Oct 2016	AESOP	0.03%	£220	N/A			12 Dec 2019

Notes

1 ABP and LTIP awards have been granted as share awards. LTIP is a conditional right to receive shares based on a three-year performance period, with an additional two-year holding period. ABP represents the portion of the 2015 bonus deferred into shares for three years. SAYE awards are savings-related options normally exercisable during the six-month period following the end of the relevant 3 or 5 year savings contract. AESOP includes partnership, matching and dividend share awards which vest after three years. Further details are provided at tables 13 and 15.

2 Face value for the awards granted on 29 March 2016 has been calculated using the average of the middle-market closing price of an Aviva ordinary share on the three consecutive business days immediately preceding the date of the main grant, on 21 March 2016 (485.00 pence). For SAYE the option price is fixed to a three day average closing middle-market price of an ordinary share of the Company, prior to invitation date, with a discount of 20% as permitted under the SAYE plan (351.00 pence). AESOP has been calculated using the price achieved at purchase of the partnership shares (479.87 pence).

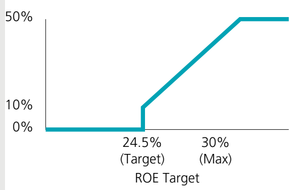
ROE targets for awards made in 2016

ROE targets determine the vesting of 50% of the LTIP award and are set annually within the context of the Company's three-year business plan. Vesting depends upon performance over the three-year period against a target return. The 2016 targets are provided below and have been set in the context of the enlarged Group.

ROE is calculated as the IFRS profit after tax and non-controlling interest, excluding the impact of investment variances, pension scheme income/charge and economic assumption changes, over average IFRS equity (excluding pension scheme net surplus/deficit) attributable to the ordinary shareholders of the Company.

6 2016 LTIP ROE TARGETS

Achievement of ROE targets over the three-year performance period	Percentage of shares in award that vests based on achievement of ROE targets
Less than 24.5%	0%
24.5%	10%
Between 24.5% and 30%	Pro rata between 10% and 50% on a straight line basis
30% and above	50%

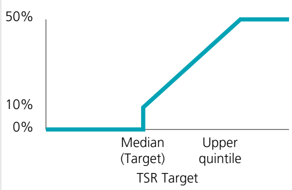


TSR targets for awards made in 2016

Relative TSR determines the vesting of the other 50% of the LTIP award. Performance for the 2016 grant will be assessed against the following companies: Aegon, Allianz, Assicurazioni Generali, AXA, CNP Assurances, Direct Line Group, Legal & General, MetLife, NN Group, Old Mutual, Prudential, RSA Insurance Group, Standard Life and Zurich Financial. The performance period for the TSR performance condition will be three years beginning 1 January 2016. For the purposes of measuring the TSR performance condition, the Company's TSR and that of the comparator group will be based on the 90-day average TSR for the period immediately preceding the start and end of the performance period. The vesting schedule is set out in table 7 below.

7 TSR VESTING SCHEDULE FOR THE 2016 LTIP AWARD

TSR position over the three-year performance period	Percentage of shares in award that vests based on achievement of TSR targets
Below median	0%
Median	10%
Between median and upper quantile	Pro-rata between 10% and 50% on straight line basis
Upper quantile and above	50%



PAYMENTS TO PAST DIRECTORS (AUDITED INFORMATION)

Russell Walls retired from the Board with effect from 8 May 2013.

- Russell was appointed as a NED of Aviva Italia Holdings S.p.A on 4 December 2014 and on 30 April 2015 was appointed as Chairman.
- On 13 April 2015 Russell was also appointed as Chairman of Aviva Annuity UK Limited, Aviva Life Holdings UK Limited, Aviva Life Services UK Limited and Aviva Life & Pensions UK Limited each of which are subsidiary companies of Aviva plc.
- The emoluments he received in respect of these directorships for the 2016 financial year were £105,207 and €90,000.

PAYMENTS FOR LOSS OF OFFICE (AUDITED INFORMATION)

There were no payments for loss of office made during the year.

SINGLE TOTAL FIGURE OF REMUNERATION FOR 2016

The table below sets out the total remuneration earned by each NED who served during 2016.

8 TOTAL 2016 REMUNERATION – NON-EXECUTIVE DIRECTORS (AUDITED INFORMATION)

	Fees		Benefits[1]		Total	
	2016 £000	2015 £000	**2016 £000**	2015 £000	**2016 £000**	2015[2] £000
Chairman						
Sir Adrian Montague	**550**	417	**77**	64	**627**	481
Non-executive directors						
Claudia Arney[3]	**84**	—	**2**	—	**86**	—
Glyn Barker	**137**	138	**3**	2	**140**	140
Patricia Cross	**127**	128	**2**	—	**129**	128
Belén Romana García	**105**	54	**11**	—	**116**	54
Michael Hawker	**138**	138	**—**	—	**138**	138
Michael Mire	**117**	113	**2**	—	**119**	113
Bob Stein	**120**	114	**16**	—	**136**	114
Keith Williams[3]	**44**	—	**1**	—	**45**	—
Sir Malcolm Williamson	**152**	101	**7**	7	**159**	108
Former non-executive directors						
Scott Wheway[4]	**128**	128	**—**	—	**128**	128
Total emoluments of NEDs	**1,702**	1,331	**121**	73	**1,823**	1,404

Notes
1 Benefits include the gross taxable value of expenses relating to accommodation, travel and other expenses incurred on Company business in accordance with our expense policy and may vary year-on-year dependent on the time required to be spent in the UK.
2 The prior year total has been recalculated to show the directors that continued in office during all or part of the current year and excludes remuneration of directors that left in the prior year.
3 Claudia Arney was appointed to the Board on 8 February 2016 and Keith Williams was appointed to the Board on 1 August 2016.
4 Scott Wheway acts as non-executive chairman to Aviva Insurance Limited and was appointed on 13 April 2015. The emoluments he received in respect of this directorship for the 2016 financial year was £105,000. Scott Wheway stepped down from the Board effective 31 December 2016.

The total amount paid in fees to NEDs in 2016 was £1,702,000, which is within the limits set in the Company's Articles of Association, as previously approved by shareholders.

PERCENTAGE CHANGE IN REMUNERATION OF GROUP CEO

The table below sets out the increase in the basic salary, bonus and benefits of the Group CEO and that of the wider workforce. The UK employee workforce was chosen as a suitable comparator group, as all EDs are based in the UK (albeit with global responsibilities), and pay changes across the Group vary widely depending on local market conditions.

9 PERCENTAGE CHANGE IN REMUNERATION OF GROUP CEO

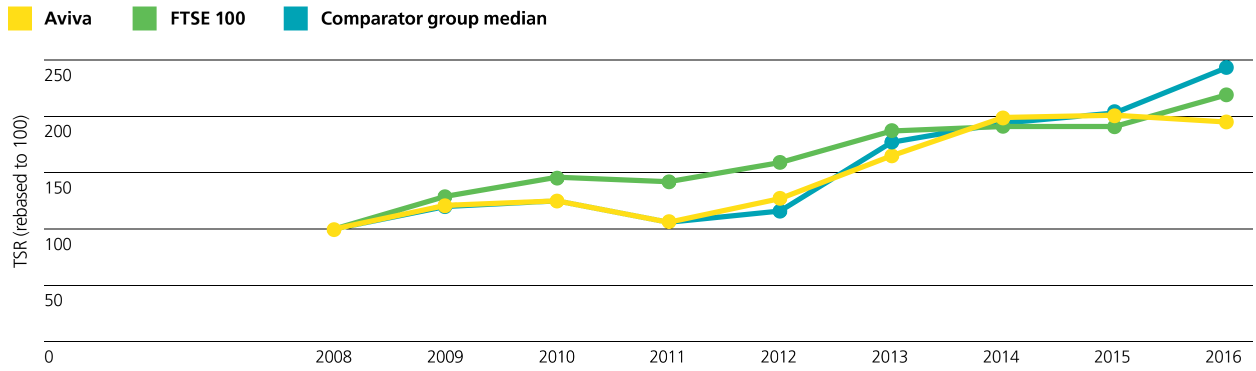
	% change in basic salary 2015–2016	% change in bonus 2015–2016	% change in benefits 2015–2016
Group CEO	3.0%	3.0%	52.3%
All UK-based employees	4.9%	18.2%	1.8%

Note
The higher bonus outcomes seen for UK-based employees reflects the stronger performance of the major UK businesses compared to that seen in 2015. The change in the CEO's benefits from £65,000 in 2015 to £99,000 in 2016 includes higher death in service (life insurance) costs, and a change during 2015 in the administration of Aviva's shared car service for senior executives. The actual car service arrangements provided to Mark were unchanged in 2015 and 2016.

HISTORICAL TSR PERFORMANCE AND GROUP CEO REMUNERATION OUTCOMES

Table 10 compares the TSR performance of the Company over the past eight years against the TSR of the FTSE 100 Return Index. This index has been chosen because it is a recognised equity market index of which Aviva is a member. In addition, median TSR performance for the LTIP comparator group has been shown. The companies which comprise the current LTIP comparator group for TSR purposes are listed in the 'TSR Targets' section on page 113.

10 AVIVA PLC EIGHT-YEAR TSR PERFORMANCE AGAINST THE FTSE 100 INDEX AND THE MEDIAN OF THE COMPARATOR GROUP



The table below summarises the Group CEO single figure for total remuneration, annual bonus pay-out and LTIP vesting as a percentage of maximum opportunity over this period.

11 HISTORICAL GROUP CEO REMUNERATION OUTCOMES

	Group CEO	2009	2010	2011	2012	2013	2014	2015	**2016**
Annual bonus payout (as a % of maximum opportunity)	Mark Wilson[1]	—	—	—	—	75%	86.7%	91%	**91%**
	Andrew Moss[2]	74.2%	74.3%	81.0%	—	—	—	—	**—**
LTIP vesting (as a % of maximum opportunity)	Mark Wilson	—	—	—	—	—	—	53%	**41.3%**
	Andrew Moss	50.0%	72.3%	81.7%	—	—	—	—	**—**
Group CEO single figure of remuneration (£000)	Mark Wilson	—	—	—	—	2,615	2,600	5,438	**4,352**
	Andrew Moss	2,591	2,748	3,477	554	—	—	—	**—**

Notes
1 Mark joined the Board as an ED with effect from 1 December 2012, and became Group CEO on 1 January 2013. He received no emoluments in respect of 2012.
2 Andrew resigned from the Board with effect from 8 May 2012 and left the Company on 31 May 2012.

RELATIVE IMPORTANCE OF SPEND ON PAY

The table below outlines adjusted operating profit before tax attributable to shareholders' profits after integration and restructuring costs, dividends paid to shareholders and buybacks compared to overall spend on pay (in total and per capita). The measure of profit has been chosen as a straightforward measure reflecting the performance of the Company, showing both gross income, and also taking into account integration and restructuring costs.

12 RELATIVE IMPORTANCE OF SPEND ON PAY

	Restated Year end 31 December 2014 £m	Restated Year end 31 December 2015 £m	**Year end 31 December 2016 £m**	% change between 2015 & 2016
Adjusted operating profit before tax[1,2]	2,098	2,309	2,798	21%
Dividends paid[3]	449	635	871	37%
Share buybacks[4]	—	—	—	—
Total staff costs[5]	1,534	1,628	1,764	8%

Notes
1 Operating profit has been restated to exclude amortisation and impairment of acquired value of in-force business, which is now shown as a non-operating item.
2 Operating profit before tax attributable to shareholders' profits for continuing operations after integration and restructuring costs.
3 The total cost of ordinary dividends paid to shareholders.
4 There were no share buybacks in 2014, 2015 or 2016.
5 Total staff costs from continuing operations includes wages and salaries, social security costs, post-retirement obligations, profit sharing and incentive plans, equity compensation plans and termination benefits. The average number of employees in continuing operations was 30,007 (2015) and 29,653 (2016).

EXTERNAL BOARD APPOINTMENTS

Tom Stoddard is a Trustee of Trout Unlimited (a non-profit conservation organisation).

Andy Briggs is the Chairman of the Association of British Insurers, on the Board of Trustees of the NSPCC and the Government's Business Champion for Older Workers.

Neither Tom nor Andy received any fees or other compensation for these appointments.

STATEMENT OF DIRECTORS' SHAREHOLDINGS AND SHARE INTERESTS

EDs share ownership requirements

The Company requires the Group CEO to build a shareholding in the Company equivalent to 300% of basic salary and each ED to build a shareholding in the Company equivalent to 150% of basic salary.

- The EDs are required to retain 50% of the net shares released from ABP and LTIP awards until the shareholding requirement is met.
- Shareholding requirement needs to be built up over a five-year period.
- Unvested share awards, including shares held in connection with bonus deferrals, are not taken into account in applying this test.

13 EXECUTIVE DIRECTORS – SHARE OWNERSHIP REQUIREMENTS (AUDITED INFORMATION)

	Shares held			Options held[4]				
Executive Directors	Owned outright[1]	Unvested and subject to performance conditions[2]	Unvested and subject to continued employment[3]	Unvested and subject to continued employment	Vested but not exercised	Shareholding requirement (% of salary)	Current shareholding[5] (% of salary)	Requirement met
Mark Wilson	458,370	1,728,687	546,065	6,179	—	300	221	No
Tom Stoddard	57,557	893,007	281,078	—	—	150	40	No
Andy Briggs	222,933	596,986	92,526	5,128	—	150	152	Yes

Notes
1 Directors' beneficial holdings in the ordinary shares of the Company. This information includes holdings of any connected persons. For Andy Briggs it also includes partnership shares purchased under the AESOP, under which participants can currently contribute up to £150 every month. Shares are purchased on a monthly basis, and have to be held in the AESOP trust for three years.
2 Awards granted under the Aviva LTIP which vest only if the performance conditions are achieved.
3 Awards arising through the ABP and CFO award in the case of Tom. Under this plan, some of the earned bonuses are paid in the form of conditional shares and deferred for three years. The transfer of the shares to the director at the end of the period is not subject to the attainment of performance conditions but the shares can be forfeited if the ED leaves service before the end of the period. For Andy Briggs this figure also includes matching shares under the AESOP, which vest after three years providing the ED does not leave service and the related partnership shares are not withdrawn from the AESOP trust.
4 Savings-related options (without performance conditions) over shares granted under the SAYE plan.
5 Based on the closing middle-market price of an ordinary share of the Company on 30 December 2016 of 486.4 pence. The closing middle-market price of an ordinary share of the Company during the year ranged from 346.2 pence to 500 pence.

There were no changes to the EDs interests in Aviva shares during the period 1 January 2017 to 7 March 2017, with the exception of Andy Briggs' continued participation in the AESOP.

14 NON-EXECUTIVE DIRECTORS' SHAREHOLDINGS[1] (AUDITED INFORMATION)

	1 January 2016	31 December 2016[1]
Sir Adrian Montague	25,266	33,082
Sir Malcolm Williamson	41,421	41,421
Claudia Arney	—	14,000
Glyn Barker	11,700	11,700
Patricia Cross	7,000	7,000
Belén Romana García	—	—
Michael Hawker	20,000	20,000
Michael Mire	7,500	50,000
Bob Stein	21,000	21,000
Keith Williams	—	—
Former non-executive directors		
Scott Wheway[2]	13,579	13,579

Notes
1 This information includes holdings of any connected persons.
2 Scott Wheway stepped down from the Board effective 31 December 2016.

There were no changes to the NEDs interests in Aviva shares during the period 1 January 2017 to 7 March 2017.

Share awards and share options

Details of the EDs who were in office for any part of the 2016 financial year and hold or held outstanding share awards or options over ordinary shares of the Company pursuant to the Company's share based incentive plans are set out in table 15. EDs are eligible to participate in two HMRC tax-advantaged all employee share plans (SAYE and AESOP) on the same basis as other eligible employees. Details of awards and options granted to EDs under these plans are also included in tables 1, 5 and 13 (and SAYE options are included in table 15). More information around these HMRC tax-advantaged plans can also be found in note 31 and the shareholder information section on page 316 (share capital).

15 LTIP, ABP, CFO AWARD AND OPTIONS OVER AVIVA SHARES (AUDITED INFORMATION)

	At 1 January 2016 number	Options/ awards granted during year[1] number	Options/ awards exercised/ vesting during year number	Options/ awards lapsing during year number	At 31 December 2016[2] number	Market price at date awards granted[3] pence	Exercise price (options) pence	Market price at date awards vested/ option exercised pence	Normal vesting date/ exercise period[6]
Mark Wilson									
LTIP[4, 5]									
2013	983,277	—	569,459[8]	462,140	—	294.20		444.20	Apr-16
2014	601,226	—	—	—	601,226	476.40		—	Mar-17
2015	521,276	—	—	—	521,276	535.00		—	Mar-18
2016	—	606,185	—	—	606,185	475.20		—	Mar-19
ABP									
2014	150,306	—	—	—	150,306	476.40		—	Mar-17
2015	150,591	—	—	—	150,591	535.00		—	Mar-18
2016	—	245,168	—	—	245,168	475.20		—	Mar-19
SAYE									
2014[7]	3,615	—	—	—	3,615	—	419.00	—	Dec 19 – May 20
2016[7]	—	2,564	—	—	2,564	—	351.00	—	Dec 19 – May 20
Tom Stoddard									
LTIP[4, 5]									
2014	310,582	—	—	—	310,582	564.50		—	Mar-17
2015	269,281	—	—	—	269,281	535.00		—	Mar-18
2016	—	313,144	—	—	313,144	475.20		—	Mar-19
ABP									
2015	62,228	—	—	—	62,228	535.00		—	Mar-18
2016	—	120,618	—	—	120,618	475.20		—	Mar-19
Aviva Chief Financial Officer Award									
2014	145,383	—	51,527[8]	—	98,232	564.50		424.50	Jul 15 – Jul 17
Andy Briggs									
LTIP[4, 5]									
2015	276,014	—	—	—	276,014	535.00		—	Mar-18
2016	—	320,972	—	—	320,972	475.20		—	Mar-19
ABP									
2016	—	92,510	—	—	92,510	475.20		—	Mar-19
SAYE									
2015[7]	2,368	—	—	2,368[9]	—	—	380.00	—	
2016[7]	—	5,128	—	—	5,128	—	351.00	—	Dec 19 – May 20

Notes
1 The aggregate net value of share awards granted to the EDs in the period was £8.1 million (*2015: £9.7 million*). The net value has been calculated by reference to the closing middle-market price of an ordinary share of the Company at the date of grant.
2 The information given in this column is at 31 December 2016.
3 The actual price used to calculate the ABP and LTIP awards is based on a three-day average closing middle-market price of an ordinary share of the Company, prior to grant date. These were in 2013: 299.00 pence, 2014: 489.00 pence, 2015: 564.00 pence and 2016: 485.00 pence. The actual price used to calculate the CFO Award is based on a three-day average closing middle-market price of an ordinary share of the Company, prior to employment start date, which was 509.00 pence.
4 For the 2013 and 2014 LTIP grant, the TSR comparator group consisted of the following companies: Aegon, Allianz, Assicurazioni Generali, Axa, CNP Assurances, Direct Line Group, FLG, Legal & General, Met Life, Old Mutual, Prudential, RSA Insurance Group, Standard Life and Zurich Financial. For the 2015 and 2016 LTIP grant, the TSR comparator group consisted of the following companies: Aegon, Allianz, Assicurazioni Generali, Axa, CNP Assurances, Direct Line Group, Legal & General, MetLife, NN Group, Old Mutual, Prudential, RSA Insurance Group, Standard Life and Zurich Financial.
5 The performance periods for these awards begin at the commencement of the financial year in which the award is granted and run for a three-year period.
6 Any unexercised options will lapse at the end of the exercise period.
7 Options are not subject to performance conditions. The option price was fixed by reference to a three day average closing middle-market price of an ordinary share of the Company, prior to invitation date, with a discount of 20% as permitted under the SAYE plan. Options granted under the SAYE are normally exercisable during the six-month period following the end of the relevant (3 or 5 year) savings contract.
8 The shares comprised in these vested awards include shares issued in lieu of dividends accrued during the deferral period.
9 Andy Briggs withdrew from the 2015 SAYE in order to participate fully into the 2016 SAYE. As a result his option under the 2015 SAYE was cancelled.

Dilution

Awards granted under Aviva employee share plans are generally met by issuing new shares as agreed by the Board. Shares are still held in employee trusts, details of which are set out in note 32.

The Company monitors the number of shares issued under the Aviva employee share plans and their impact on dilution limits. The Company's usage of shares compared to the relevant dilution limits set by the Investment Association in respect of all share plans (10% in any rolling ten-year period) and executive share plans (5% in any rolling ten-year period) was 2.54% and 1.50% respectively on 31 December 2016.

Governance

Regulatory remuneration code

Aviva Investors and two small 'firms' (as defined by the Financial Conduct Authority (FCA)) within the UK & Ireland Life business are subject to the Capital Requirements Directive IV (CRD IV) and the FCA Remuneration Code (SYSC 19A). Additionally, there are two Aviva Investors 'firms' in the UK and Ireland, Friends Life Funds Limited and Aviva Investors UK Funds Limited, subject to the Alternative Investment Fund Management Directive (AIFMD). Remuneration Code requirements include an annual disclosure. For AIFMD the disclosure is part of the Financial Statements and/or Annual accounts of the Alternative Investment Funds under each AIFMD. For CRD IV requirements the Aviva Investors disclosure can be found in Section 5 of the Pillar 3 Disclosure which can be found at https://www.avivainvestors.com/content/dam/aviva-investors/global/documents/Pillar-3-disclosures-2015.pdf and a link to the disclosure for the UK & Ireland Life firms can be found at http://www.aviva.com/investor-relations/corporate-governance/board-of-directors/board-committees/remuneration-committee/.

Solvency II remuneration

Remuneration Requirements (PRA PS22/16 & SS10/16) apply to the Aviva Group. Our remuneration structures have been designed in a way so that they are compliant with these requirements for all senior managers across the Group, not just those identified as being specifically covered by the requirements of the regulation. Such employees at Aviva are termed 'Covered Employees'. As part of the implementation of SII we are required to complete a Remuneration Policy Statement, which outlines how we have complied with each of the requirements, this document was approved by the Group Remuneration Committee and submitted to the Prudential Regulatory Authority (PRA).

The SII reporting requirements necessitate firms to produce two key reports containing remuneration information. One of these reports, the Solvency and Financial Condition Report (SFCR) is publicly available, while the other, the Regulatory Supervisory Report (RSR) is submitted to the PRA.

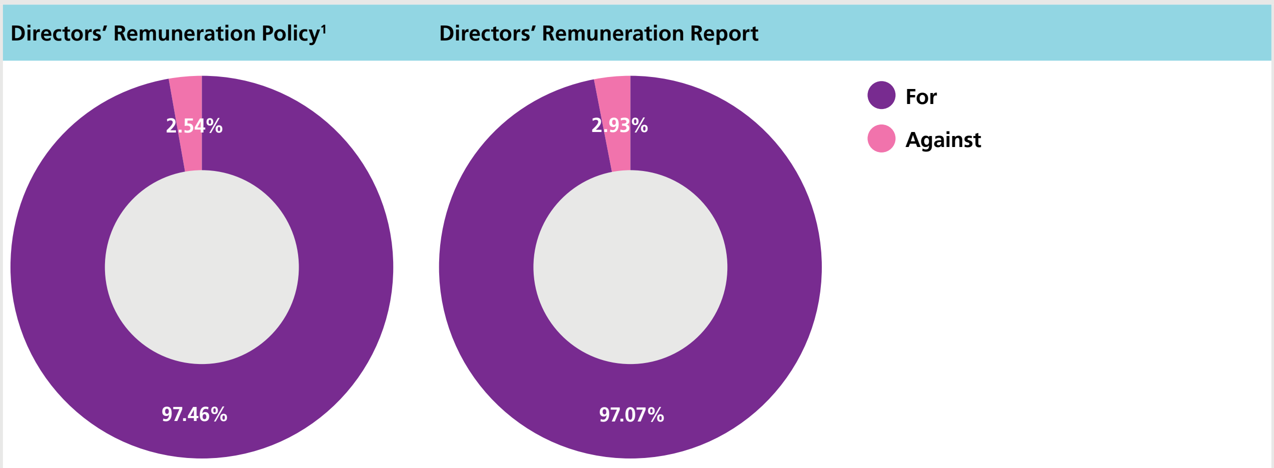
Aviva's reward principles and arrangements are designed to incentivise and reward employees for achieving stated business goals in a manner that is consistent with the Company's approach to sound and effective risk management.

STATEMENT OF VOTING AT AGM

The result of the shareholder vote at the Company's 2016 AGM in respect of the 2015 DRR is set out in the table below.

16 RESULT OF THE VOTE AT 2016 AGM

	Percentage of Votes Cast		Number of Votes Cast		
	For	Against	For	Against	Votes withheld
Directors' Remuneration Policy[1]	97.46%	2.54%	2,379,508,415	61,947,024	82,821,178
Directors' Remuneration Report	97.07%	2.93%	2,555,380,060	77,086,894	19,421,047



Following the 2016 AGM, the Committee Chairman continued dialogue with major institutional shareholders.

Note

1 Voting on Remuneration Policy at 2015 AGM

Governance

IMPLEMENTATION OF REMUNERATION POLICY IN 2017

The implementation of the Policy will be consistent with that outlined in the Policy Report, with no significant changes from how the Policy was implemented during 2016, and detailed in full within table 19.

17 IMPLEMENTATION OF THE POLICY IN 2017

Key Element	Phasing 2017 2018 2019 2020 2021	Implementation in 2017[1]
Salary		• Group CEO – £1,034,635 per annum. • CFO – £712,000 per annum. • CEO UK – £730,000 per annum.
Bonus		• Three financial metrics (reduced from five). • One strategic Digital First metric, focusing on two elements; active customer registrations and digital sales. • For the financial element, a quality of earnings assessment will be undertaken by the Remuneration Committee to provide assurance that bonus payouts appropriately reflect the shareholder experience. • Performance against a number of other non-financial measures will be considered when determining bonus payouts (employee engagement, customer and risk). • Personal performance during the year will be taken into account.

Performance measures and weightings

- 30% IFRS Adjusted Earnings per Share
- 30% Operating Capital Generation
- 15% Net Cash Remittance
- 25% progress on strategy – Digital First

Key Element	Phasing 2017 2018 2019 2020 2021	Implementation in 2017[1]
LTIP		• Group CEO – 300% of salary. • CFO & CEO UK – 225% of salary. • Subject to performance against two equally weighted performance measures, which have been chosen to reflect shareholders' long-term interests, as detailed below. Shares are typically subject to a two-year holding period after vesting. • TSR comparator group remains unchanged from prior year and is detailed on page 113. • ROE is calculated as the IFRS profit after tax and non-controlling interest, excluding the impact of amortisation of acquired value of in force business, investment variances, pension scheme income/charge and economic assumption changes, over average IFRS equity (excluding pension scheme net surplus/deficit), attributable to the ordinary shareholders of the Company.

50% ROE target		50% TSR target	
Three-year ROE range	**Vesting level**	**TSR Ranking**	**Vesting level**
Less than 28.8%	0%	Below median	0%
28.8%	10%	Median	10%
Between 28.8% and 35.2%	10-50% (straight line)	Between median and upper quantile	Pro rata between 10% and 50% on a straight line basis
35.2% and above	50%	Upper quantile and above	50%

1 As highlighted on page 104, any impact of the Ogden rate change will be taken against the incentive targets for 2017. The above are based on pre-Ogden rate change targets, which the Committee will review and will fully disclose in the 2017 DRR.

Approach to NED fees for 2017

NED fees are reviewed annually. No changes were made to the current fee levels, as set out in the table below:

18 NON-EXECUTIVE DIRECTORS' FEES

Role	Fee from 1 April 2017	Fee from 1 April 2016
Chairman of the Company[1]	£550,000	£550,000
Board membership fee	£70,000	£70,000
Additional fees are paid as follows:		
Senior Independent Director	£35,000	£35,000
Committee Chairman (inclusive of committee membership fee):		
– Audit	£45,000	£45,000
– Governance	£35,000	£35,000
– Remuneration	£35,000	£35,000
– Risk	£45,000	£45,000
Committee membership:		
– Audit	£15,000	£15,000
– Governance	£12,500	£12,500
– Nomination	£7,500	£7,500
– Remuneration	£12,500	£12,500
– Risk	£15,000	£15,000

1 Inclusive of Board membership fee and any committee membership fees.

DIRECTORS' REMUNERATION POLICY

This section sets out Aviva's Remuneration Policy for directors, in accordance with the requirements of the Companies Act 2006 (as amended) and the Large & Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended).

This Policy was approved by shareholders at Aviva's 2015 AGM, held on 29 April 2015. We have included the Policy below, but have updated the scenario charts and details of our Directors' dates of appointment in table 22. The full Policy, as approved by shareholders, can be found on the Aviva plc website.

Alignment of Group strategy with executive remuneration

The Committee considers alignment between Group strategy and the remuneration of its EDs is critical. Our Remuneration Policy provides market competitive remuneration, and incentivises EDs to achieve both the annual business plan and the longer-term strategic objectives of the Group. Significant levels of deferral and an aggregate shareholding requirement align EDs' interests with those of shareholders and aid retention of key personnel. As well as rewarding the achievement of objectives, variable remuneration can be zero if performance thresholds are not met.

Table 19 below provides an overview of our Remuneration Policy for EDs. For an overview of the Remuneration Policy for NEDs see table 21.

19 REMUNERATION POLICY FOR EXECUTIVE DIRECTORS – OVERVIEW

Element	Purpose and link to strategy	Operation and recovery provisions (if applicable)	Maximum opportunity	Performance measures
Basic salary	To provide core market related pay to attract and retain the required level of talent.	Annual review, with changes normally taking effect from 1 April each year. The review is informed by: ▸ Relevant pay data including market practice among relevant FTSE listed companies of comparable size to Aviva in terms of market capitalisation, large European and global insurers; and UK financial services companies ▸ Levels of increase for the broader UK employee population ▸ Individual and business performance	Current basic salaries are disclosed on table 17. There is no maximum increase within the Policy. However, basic salary increases take account of the average basic salary increase awarded to UK employees. Different levels of increase may be agreed in certain circumstances at the Committee's discretion, such as: ▸ An increase in job scope and responsibility ▸ Development of the individual in the role ▸ A significant increase in the size, value or complexity of the Group	Any movement in basic salary takes account of performance of the individual and the Group.
Annual bonus	To incentivise EDs to achieve the annual business plan. To reward EDs who achieve the Company's strategic objectives and demonstrate the Aviva values and behaviours. Deferral provides alignment with shareholder interests and aids retention of key personnel.	Awards are based on performance in the year. Targets are set annually and pay-out levels are determined by the Committee based on performance against those targets. Two-thirds of any bonus awarded is deferred into shares which vest after three years. Additional shares are awarded at vesting in lieu of dividends paid on the deferred shares. Cash and deferred awards are subject to malus and clawback. Details of when these may be applied are set out in the notes below. The Committee retains discretion to amend annual bonus pay-outs for a range of factors, including financial, market and other considerations. The Committee will exercise its discretion to reduce otherwise unreasonable reward outcomes. If extraordinary circumstances were to arise where the Committee felt an adjustment upwards is warranted, it would consult with major stakeholders before making any adjustment. Any exceptional adjustment would not exceed the stated maximum.	Maximum bonus opportunity for the Group CEO is 200% of basic salary with 100% of basic salary payable for performance in line with target. Maximum bonus opportunity for other EDs is 150% of basic salary with 100% of basic salary payable for performance in line with target. Threshold performance would result in a bonus payment of no more than 25% of basic salary. Performance below threshold would result in no bonus being paid.	Performance is assessed against a range of relevant financial, employee, customer and risk targets designed to incentivise the achievement of our strategy, as well as individual strategic objectives as set by the Committee. Although financial performance is the major factor in considering overall expenditure on bonuses, performance against non-financial measures including behaviours in line with our values will also be taken into consideration.

Governance

19 REMUNERATION POLICY FOR EXECUTIVE DIRECTORS – OVERVIEW

Element	Purpose and link to strategy	Operation and recovery provisions (if applicable)	Maximum opportunity	Performance measures
Long-term incentive plan	To motivate EDs to achieve the Company's longer-term objectives, to align EDs' interests with those of shareholders and to aid the retention of key personnel.	Shares are awarded which vest dependent on the achievement of performance conditions over a three year period. Additional shares are awarded at vesting in lieu of dividends on any shares which vest. Shares are typically subject to a two year holding period after vesting, creating a total of five years between the award being granted, and the first opportunity to sell. Awards are subject to malus and clawback. Details of when these may be applied are set out in the notes below. The Committee has discretion to amend vesting levels to prevent unreasonable outcomes, which it may use taking into account a range of factors, including the management of risk and good governance and, in all cases, the experience of shareholders.	The plan rules allow for awards to be made up to a maximum of 350% of basic salary. Threshold performance would result in a vesting level of 20% of maximum. Performance below threshold on both targets would result in the award lapsing in its entirety.	Currently, performance targets over three years are: - 50% vest based on targets for absolute Return on Equity (ROE) performance - 50% vest based on relative Total Shareholder Return (TSR) against a comparator group - Actual targets for ROE and the appropriate TSR comparator group are agreed by the Committee annually and disclosed in the annual remuneration report section.
Pension	To give a market competitive level of provision for post-retirement income.	EDs are eligible to participate in a defined contribution plan up to the annual limit. Any amounts above the annual or lifetime limits are paid in cash.	If suitable employee contributions are made, employer contributes 28% of basic salary (into pension or as cash as applicable).	N/A
Benefits	To provide EDs with a suitable but reasonable package of benefits as part of a competitive remuneration package. This involves both core executive benefits, and the opportunity to participate in flexible benefits programmes offered by the Company (via salary sacrifice). This enables us to attract and retain the right level of talent necessary to deliver the Company's strategy.	Benefits are provided on a market related basis. The Company reserves the right to deliver benefits to EDs depending on their individual circumstances, which may include a cash car allowance, life insurance and private medical insurance. In the case of non-UK executives, the Committee may consider additional allowances in line with standard relevant market practice. EDs employed under UK contracts are eligible to participate in any HMRC approved all employee share plans operated by the Company on the same basis as other eligible employees.	Set at a level which the Committee considers appropriate against comparable roles in companies of a similar size and complexity to provide a reasonable level of benefit. Costs would normally be limited to providing a cash car allowance, private medical insurance, life insurance, and reasonable travel benefits, including the tax cost where applicable. In addition, there may be one-off or exceptional items on a case by case basis, which would be disclosed in the DRR.	N/A
Relocation and mobility	To assist with mobility across the Group to ensure the appropriate talent is available to execute strategy locally.	Employees who are relocated or reassigned from one location to another receive relevant benefits to assist them and their dependants in moving home and settling in to the new location.	Dependent on location and family size, benefits are market related and time bound. They are not compensation for performing the role but to defray costs of a relocation or residence outside the home country. The Committee would pay no more than it judged reasonably necessary, in the light of all applicable circumstances.	N/A
Shareholding requirement	To align EDs' interests with those of shareholders.	A requirement to build a shareholding in the Company equivalent to 300% of basic salary for the Group CEO and 150% of basic salary for other EDs. This shareholding is normally to be built up over a period not exceeding 5 years (subject to the Committee's discretion where personal circumstances dictate).	N/A	N/A

NOTES TO THE TABLE:

Performance measures

For the annual bonus, performance measures are chosen to align to the Group's KPIs and include financial, risk, employee and customer measures. Achievement against individual strategic objectives is also taken into account.

LTIP performance measures are chosen to provide an indication of both absolute and relative return generated for shareholders. In terms of target setting, a number of reference points are taken into account each year including, but not limited to, the Group's business plan and external market expectations of the Company. Maximum payouts require exceptional performance that significantly exceeds performance targets or expected performance, under both the annual bonus and LTIP.

Malus and Clawback

The circumstances when malus and clawback may apply include (but are not limited to) where the Committee considers that the employee concerned has been involved in or partially or wholly responsible for:

- A materially adverse misstatement of the Company's financial statements, or a misleading representation of performance; or
- A significant failure of risk management and/or controls; or
- A scenario or event which causes material reputational damage to the Company; or
- Misconduct which, in the opinion of the Committee, ought to result in the complete or partial lapse of an award.

The clawback period runs for two years from the date of vesting (or from the date of payment in the case of annual bonus awards).

Clawback was introduced in 2015 so applies to the annual bonus from 2015 (paid March 2016) and the LTIP awards granted in 2015 and any future awards.

Discretions

The discretions the Committee has in relation to the operation of the ABP and LTIP are set out in the plan rules. These include (but are not limited to) the ability to set additional conditions (and the discretion to change or waive those conditions) in exceptional circumstances. In relation to the LTIP, in accordance with its terms, the Committee has discretion in relation to vesting and in exceptional circumstances to waive or change a performance condition if anything happens which causes the Committee reasonably to consider it appropriate to do so. Any use of the discretions will be disclosed, where relevant, in the annual report and, where appropriate be subject to consultation with Aviva's shareholders.

Change in control

In the event of a change in control, unless a new award is granted in exchange for an existing award, or if there is a significant corporate event like a demerger, awards under the LTIP would normally vest to the extent that the performance conditions have been satisfied as at the date of the change in control, and unless the Committee decides otherwise, would be pro-rated to reflect the time between the start of the performance period and the change in control. Awards under the ABP would normally vest on the date of the change in control and may vest if there is a significant corporate event.

Consistency of executive Remuneration Policy across the Group

The Remuneration Policy for our EDs is designed as part of the remuneration philosophy and principles that underpin remuneration for the wider Group. Remuneration arrangements for employees below the EDs take account of the seniority and nature of the role, individual performance and local market practice. The components and levels of remuneration for different employees may therefore differ from the Policy for EDs. Any such elements are reviewed against market practice and approved in line with internal guidelines and frameworks.

Differentiation in reward outcomes based on performance and behaviour that is consistent with the Aviva values is a feature of how Aviva operates its annual bonus plan for its senior leaders and managers globally. A disciplined approach is taken to moderation across the Company in order to recognise and reward the key contributors. The allocation of LTIP awards also involves strong differentiation, with expected contribution and ability to collaborate effectively in implementation of the strategy driving award levels.

The Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out above where the terms of the payment were agreed (i) before the Policy came into effect or (ii) at a time when the relevant individual was not a director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a director of the Company. For these purposes 'payments' includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.

APPROACH TO RECRUITMENT REMUNERATION

On hiring a new ED, the Committee would align the proposed remuneration package with our Remuneration Policy.

In determining the actual remuneration for a new ED, the Committee would consider the package in totality, taking into account elements such as the likely contribution of the individual, local market benchmarks, remuneration practice, and the existing remuneration of other senior executives. The Committee would ensure any arrangements agreed would be in the best interests of Aviva and its shareholders. It would seek not to pay more than necessary to secure the right candidate.

The Committee may make awards on hiring an external candidate to 'buyout' remuneration arrangements forfeited on leaving a previous employer. In doing so, the Committee would take account of relevant factors including any performance conditions attached to these awards, the form in which it was paid (e.g. cash or shares) and the timeframe of awards. The Committee considers that a buyout award is a significant investment in human capital by Aviva, and any buyout decision will involve careful consideration of the contribution that is expected from the individual. Buyout awards would be awarded on a 'like for like' basis compared to remuneration being forfeited, and would be capped to reflect the value being forfeited.

The maximum level of variable pay which could be awarded to a new ED, excluding any buyouts, would be in line with the Policy set out above and would therefore be no more than 550% of basic salary for the Group CEO (200% of basic salary annual bonus opportunity and 350% of basic salary as the face value of a LTIP grant) and 500% of basic salary for other EDs (150% of basic salary annual bonus opportunity and 350% of basic salary as the face value of a LTIP grant).

All other elements of remuneration will also be in line with the Policy set out above.

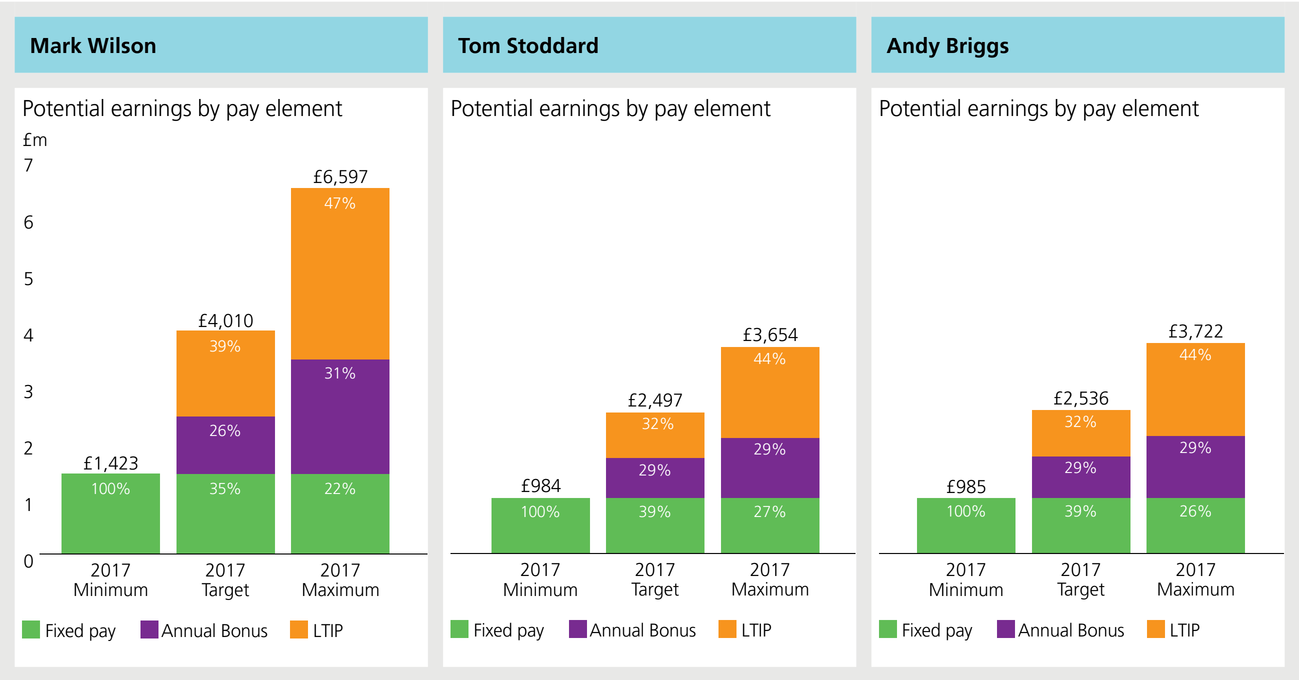
Should the Company have any prior commitments outside of this Policy in respect of an employee promoted internally to an ED position, the Committee may continue to honour these for a period of time. Where an ED is appointed from within the organisation, the normal policy of the Company is that any legacy arrangements would be honoured in line with the original terms and conditions. Similarly, if an ED is appointed following Aviva's acquisition of, or merger with, another company, legacy terms and conditions may be honoured.

On hiring a new NED, the Committee would align the remuneration package with the Remuneration Policy for NEDs, outlined in table 20, including fees and travel benefits.

ILLUSTRATION OF THE POLICY

The charts below illustrate how much EDs could earn under different performance scenarios in one financial year:

- Minimum – basic salary, pension or cash in lieu of pension and benefits, no bonus and no vesting of the LTIP
- Target – basic salary, pension or cash in lieu of pension, benefits, and:
  - A bonus of 100% and an LTIP of 300% of basic salary (with notional LTIP vesting at 50% of maximum) for the Group CEO;
  - A bonus of 100% and an LTIP of 225% of basic salary (with notional LTIP vesting at 50% of maximum) for the CFO; and
  - A bonus of 100% and an LTIP of 225% of basic salary (with notional LTIP vesting at 50% of maximum) for the CEO UK.
- Maximum – basic salary, pension or cash in lieu of pension, benefits, and:
  - A bonus of 200% and an LTIP of 300% of basic salary (with notional LTIP vesting at maximum) for the Group CEO;
  - A bonus of 150% and an LTIP of 225% of basic salary (with notional LTIP vesting at maximum) for the CFO; and
  - A bonus of 150% and an LTIP of 225% of basic salary (with notional LTIP vesting at maximum) for the CEO UK.



Notes to the charts

- Fixed pay consists of basic salary, pension as described in table 19, and estimated value of benefits provided under the Remuneration Policy, excluding any one offs. Actual figures may vary in future years.
- The value of the LTIP and deferred element of the annual bonus assumes a constant share price and does not include additional shares awarded in lieu of dividends, that may have been accrued during the vesting period.
- LTIP as awarded in 2017.

EMPLOYMENT CONTRACTS AND LETTERS OF APPOINTMENT

ED employment contracts and NED letters of appointment are available for inspection at the Company's registered office during normal hours of business, and at the place of the Company's 2017 AGM from 10.45am on 10 May 2017 until the close of the meeting.

The key employment terms and conditions of the current EDs, and those who served during the year, as stipulated in their employment contracts, are set out in the table below.

20 EXECUTIVE DIRECTORS' CONDITIONS OF EMPLOYMENT

Provision	Policy
Notice period **By the ED** **By the Company**	 6 months. 12 months, rolling. No notice or payment in lieu of notice to be paid where the Company terminates for cause.
Termination payment	Pay in lieu of notice up to a maximum of 12 months' basic salary. Any payment is subject to phasing and mitigation requirements. An ED would be expected to mitigate the loss of office by seeking alternative employment. Any payments in lieu of notice would be reduced, potentially to zero, by any salary received from such employment.
Remuneration and benefits	The operation of the annual bonus and LTIP is at the Company's discretion.
Expenses	Reimbursement of expenses reasonably incurred in accordance with their duties.
Car allowance	A cash car allowance is received, as varied from time to time.
Holiday entitlement	30 working days plus public holidays.
Private medical insurance	Private medical insurance is provided for the ED and their family. The ED can choose to opt out of this benefit or take a lower level of cover. However, no payments are made in lieu of reduced or no cover.
Other benefits	Other benefits include private medical insurance and participation in the Company's staff pension scheme.
Sickness	100% of basic salary for 52 weeks, and 75% thereafter for a further 52 weeks.
Non-compete	During employment and for six months after leaving (less any period of garden leave) without the prior written consent of the Company.
Contract dates	Director: — Date current contract commenced: Mark Wilson — 1 January 2013 Tom Stoddard — 28 April 2014 Andy Briggs — 13 April 2015

POLICY ON PAYMENT FOR LOSS OF OFFICE

There are no pre-determined ED special provisions for compensation for loss of office. The Committee has the ability to exercise its discretion on the final amount actually paid. Any compensation would be based on basic salary, pension entitlement and other contractual benefits during the notice period, or a payment made in lieu of notice, depending on whether the notice is worked.

Where notice of termination of a contract is given, payments to the ED would continue for the period worked during the notice period. Alternatively, the contract may be terminated and phased monthly payments made in lieu of notice for, or for the balance of, the 12 months' notice period. During this period, EDs would be expected to mitigate their loss by seeking alternative employment. Payments in lieu of notice would be reduced by the salary received from any alternative employment, potentially to zero. The Company would typically make a reasonable contribution towards an ED's legal fees in connection with advice on the terms of their departure.

There is no automatic entitlement to an annual bonus for the year in which loss of office occurs. The Committee may determine that an ED may receive a pro rata bonus in respect of the period of employment during the year loss of office occurs based on an assessment of performance. Where an ED leaves the Company by reason of death, disability or ill health, or any other reason determined by the Committee, there may be a payment of a pro rata bonus for the relevant year at the discretion of the Committee.

The treatment of leavers under our ABP and LTIP is determined by the rules of the relevant plans. Good leaver status under these plans would be granted in the event of, for example, the death of an ED, or their departure on ill health grounds. Good leaver status for other leaving reasons is at the discretion of the Committee, taking into account the circumstances of the individual's departure, but would typically include planned retirement. In circumstances where good leaver status has been granted, awards may still be subject to malus and clawback in the event that inappropriate conduct of the ED is subsequently discovered post departure. If good leaver status is not granted, all outstanding awards will lapse.

In the case of LTIPs, where the Committee determines EDs to be good leavers, vesting is normally based on the extent to which performance conditions have been met at the end of the relevant performance period, and the proportion of the award that vests is pro-rated for the time from the date of grant to final date of service (unless the Committee decides otherwise). Any decision not to apply this would only be made in exceptional circumstances, and would be fully disclosed. It is not the practice to allow such treatment.

Governance

CONSIDERATION OF WIDER EMPLOYEE PAY AND SHAREHOLDER VIEWS

When determining the Remuneration Policy and arrangements for our EDs, the Committee considers:

- Pay and employment conditions elsewhere in the Group to ensure that pay structures are suitably aligned and that levels of remuneration remain appropriate. The Committee reviews levels of basic salary increases for other employees and executives based in the UK. It reviews changes in overall bonus pool funding and long-term incentive grants. The Committee does not directly consult with employees on pay issues but it does consider feedback from sources including the employee opinion survey. The Committee also takes into account information provided by the people function and external advisers
- Its ongoing dialogue with shareholders. It seeks shareholder views and takes them into account when any significant changes are being proposed to remuneration arrangements and when formulating and implementing Remuneration Policy. For example, during 2014 and continuing in 2015, the Committee has had detailed engagement with our largest shareholders to discuss amendments to targets for existing LTIP awards and 2015 annual bonus plan following the acquisition of FLG

NON-EXECUTIVE DIRECTORS

The table below, sets out details of our Remuneration Policy for NEDs.

21 REMUNERATION POLICY FOR NON-EXECUTIVE DIRECTORS – OVERVIEW

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Chairman and NEDs' fees	To attract individuals with the required range of skills and experience to serve as a Chairman and as a NED.	NEDs receive a basic annual fee in respect of their Board duties. Further fees are paid for membership and, where appropriate, chairmanship of Board committees. The Chairman receives a fixed annual fee. Fees are reviewed annually taking into account market data and trends and the scope of specific Board duties. The Chairman and NEDs do not participate in any incentive or performance plans or pension arrangements and do not receive an expense allowance. NEDs are reimbursed for reasonable expenses, and any tax arising on those expenses is settled directly by Aviva. To the extent that these are deemed taxable benefits, they will be included in the annual remuneration report, as required.	The Company's Articles of Association provide that the total aggregate remuneration paid to the Chairman of the Company and NEDs will be determined by the Board within the limits set by shareholders and detailed in the Company's Articles of Association.	N/A
Chairman's Travel Benefits	To provide the Chairman with suitable travel arrangements for him to discharge his duties effectively.	The Chairman has access to a company car and driver for business use. Where these are deemed a taxable benefit, the tax is paid by the Company.	N/A	N/A
NED Travel and Accommodation	To reimburse NEDs for appropriate business travel and accommodation, including attending Board and committee meetings.	Reasonable costs of travel and accommodation for business purposes are reimbursed to NEDs. On the limited occasions when it is appropriate for a NED's spouse or partner to attend, such as to a business event, the Company will meet these costs. The Company will meet any tax liabilities that may arise on such expenses.	N/A	N/A

The NEDs, including the Chairman of the Company, have letters of appointment which set out their duties and responsibilities. The key terms of the appointments are set out in table below.

22 NON-EXECUTIVE DIRECTORS' KEY TERMS OF APPOINTMENT

Provision	Policy
Period	In line with the requirement of the UK Corporate Governance Code, all NEDs, including the Chairman, are subject to annual re-election by shareholders at each AGM.
Termination	By the director or the Company at their discretion without compensation upon giving one month's written notice for NEDs and three months' written notice for the Chairman of the Company.
Fees	As set out in table 18.
Expenses	Reimbursement of travel and other expenses reasonably incurred in the performance of their duties.
Time commitment	Each director must be able to devote sufficient time to the role in order to discharge his or her responsibilities effectively.

Director	Committee appointments	Appointment date[1]	Appointment end date in accordance with letter of appointment
Sir Adrian Montague	$\boxed{N}$	14 January 2013	AGM 2017
Sir Malcolm Williamson	A G N R	29 April 2015	AGM 2017
Claudia Arney	$\boxed{G}$ N R R	8 February 2016	AGM 2017
Glyn Barker	$\boxed{A}$ N R	27 February 2012	AGM 2017
Patricia Cross	A N $\boxed{R}$	1 December 2013	AGM 2017
Belén Romana García	G N R	26 June 2015	AGM 2017
Michael Hawker	A N $\boxed{R}$	1 January 2010	AGM 2017
Michael Mire	G N R R	12 September 2013	AGM 2017
Bob Stein	A N R R	28 January 2013	AGM 2017
Keith Williams	A G N	1 August 2016	AGM 2017

Key

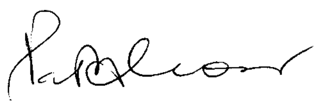
- A Audit Committee member
- G Governance Committee member
- N Nomination Committee member
- R Remuneration Committee member
- R Risk Committee member
- ☐ Denotes chair of committee

Notes

1 The dates shown above reflect the date the individual was appointed to the Aviva plc Board.

Approval by the Board

This Directors' Remuneration Report was reviewed and approved by the Board on 8 March 2017.



Patricia Cross
Chair, Remuneration Committee

IFRS FINANCIAL STATEMENTS

IN THIS SECTION

CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL STATEMENTS OF THE COMPANY

Report on the financial statements

Our opinion

In our opinion, Aviva plc's Group financial statements and company financial statements (the 'financial statements'):
- give a true and fair view of the state of the Group's and of the company's affairs as at 31 December 2016 and of the Group's and the parent company's profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in the Accounting policies to the financial statements, the Group, in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB). In our opinion the financial statements comply with IFRSs as issued by the IASB.

What we have audited

The financial statements included within the Annual Report and Accounts (the "Annual Report") comprise:
- the Consolidated and Company statements of financial position as at 31 December 2016;
- the Consolidated and Company income statements and statements of comprehensive income for the year then ended;
- the Reconciliation of Group operating profit to profit for the year then ended;
- the Consolidated and Company statements of changes in equity and statements of cash flows for the year then ended;
- the principal accounting policies adopted in the preparation of the financial statements; and
- the notes to the financial statements which include other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited. The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

Our audit approach

Context

Our audit continued to focus on the valuation of insurance contract liabilities and the valuation of hard to value investments as well as the valuation of certain intangible assets established through the acquisition of the Friends Life Group in the prior year.

Overview

- Overall group materiality: £140 million which represents 5% of operating profit before tax attributable to shareholders' profits after the deduction of integration and restructuring costs.
- Based on the outputs of a risk assessment, along with our understanding of the Aviva structure, we performed full scope audits over the following markets; UK Life (including Friends Life), UK General Insurance, Canada, Italy and France Life.
- We identified a further four markets where account balances are considered to be significant in size in relation to the Group, and scoped our audit to include detailed testing of those account balances.
- Further audit procedures were performed by the Group engagement team, including over the head office operations and the consolidation process, to ensure that sufficient coverage was obtained.
- Our risk assessment analysis identified the following as areas of focus :
  - Valuation of life insurance contract liabilities.
  - Valuation of non-life insurance contract liabilities.
  - Valuation of hard to value investments.
  - Valuation of finite lived intangible assets relating to the Friends Life Group Limited acquisition.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

- We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.
- The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Valuation of life insurance contract liabilities Refer to page 95 (Audit Committee Report), page 136 (Accounting policies) and page 207 (notes)	
For UK Life (including Friends Life) insurance contract liabilities, the Directors' valuation of the provisions for the settlement of future claims involves complex and subjective judgements about future events, both internal and external to the business, for which small changes in assumptions can result in material impacts to the valuation of these liabilities.	The work to address the valuation of the UK Life (including Friends Life) insurance contract liabilities included the following procedures: • We tested on a sample basis the underlying data to source documentation. • Using our actuarial specialist team members, we applied our industry knowledge and experience and we compared the methodology, models and assumptions used against recognised actuarial practices. • Understood and tested the governance process in place to determine the insurance contract liabilities, including testing the associated financial reporting control framework. • We tested the key judgements and controls over the preparation of the manually calculated components of the liability. We focused on the consistency in treatment and methodology period-on-period, across life insurance funds and with reference to recognised actuarial practice. • We used the results of an independent PwC annual benchmarking survey of assumptions to further challenge the assumption setting process by comparing certain assumptions used relative to the Group's industry peers. • Further testing was also conducted on the Annuitant Mortality, Credit Default and Expense assumptions as set out below. *Based on the work performed, we consider that the assumptions used to be in line with recognised market practices and, where appropriate, industry peers.*
As part of our consideration of the entire set of assumptions we focused particularly on the following three within the UK Life market (including Friends Life) given their significance to the Group's result and the level of judgement involved.	
Annuitant Mortality Assumptions Annuitant mortality assumptions require a high degree of judgement due to the number of factors which may influence mortality experience. The differing factors which affect the assumptions are underlying mortality experience (in the portfolio), industry and management views on the future rate of mortality improvements and external factors arising from developments in the annuity market.	In addition to the procedures above, in respect of the annuitant mortality assumptions: • We understood and tested the governance process in place to determine the annuitant mortality methodology and assumptions. • We tested the methodology used by management to derive the assumptions with reference to relevant rules and actuarial guidance and by applying our industry knowledge and experience. • We assessed the results of the experience investigations carried out by UK Life (including Friends Life) management for the annuity business to determine whether they provided support for the assumptions used by management. • We compared the mortality assumptions selected by UK Life (including Friends Life) against those used by their peers. *Based on the work performed and the evidence obtained, we consider the assumptions used for annuitant mortality to be reasonable.*
Credit default risk assumptions for corporate bonds and commercial and equity release mortgage assets UK Life (including Friends Life for corporate bonds only) has substantial holdings in asset classes with significant credit risk, notably, corporate bonds and commercial and equity release mortgages. Management use an active approach to setting the assumptions. For both corporate bonds and mortgages a long term deduction from the current market yield is made and a supplementary provision is held to cover the risk of higher short term default rates.	In respect of the credit default assumptions : • We understood and tested the governance process in place to determine the credit default risk methodology and assumptions. • We tested the methodology and credit risk pricing models used for commercial and equity release mortgages by management to derive the assumptions with reference to relevant rules and actuarial guidance, and by applying our industry knowledge and experience. • We validated significant assumptions used by management against market observable data (to the extent available and relevant) and our experience of market practices. *Based on the work performed, we consider the allowance for credit default risk to be appropriate.*

Area of focus	How our audit addressed the area of focus
Expense Assumptions Future maintenance expenses and expense inflation assumptions are used in the measurement of insurance and participating investment contract liabilities and any associated reinsurance assets. The assumptions used require significant judgement.	In respect of the expense assumptions : • We understood and tested the governance process in place to determine the maintenance expense and expense inflation assumptions. • We tested the methodology used by management to derive the assumptions with reference to relevant rules and actuarial guidance and by applying our industry knowledge and experience, including assessing the appropriateness of a service fee approach to allowance for internal service company arrangements. • We validated significant assumptions used by management against past experience, market observable data and our experience of market practices. *Based on the work performed, we consider the assumptions for expense risk to be appropriate.*
Valuation of non-life insurance contract liabilities Refer to page 95 (Audit Committee Report), page 136 (Accounting policies) and page 211 (notes)	
The estimation of non-life insurance contract liabilities involves a significant degree of judgement. The liabilities are based on the best-estimate ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling costs. A range of methods, including stochastic projections, may be used to determine these provisions. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims. This includes assumptions relating to the settlement of personal injury lump sum compensation amounts. Regulators across the globe continue to focus on reserving adequacy for non-life insurers, particularly in the current market. Given their size in relation to the consolidated Group and the complexity of the judgements involved our work focused on the liabilities in the UK General Insurance and Canada markets.	In the UK General Insurance and Canada markets, we assessed the Directors' calculation of the non-life insurance liabilities by performing the following procedures: • We tested on a sample basis the underlying data to source documentation. • Using our actuarial specialist team members, we applied our industry knowledge and experience and we compared the methodology, models and assumptions used against recognised actuarial practices. • Understood and tested the governance process in place to determine the insurance contract liabilities, including testing the associated financial reporting control framework. • Our actuarial specialist team members performed independent re-projections on selected classes of business, particularly focusing on the largest and most uncertain reserves. For these classes we compared our re-projected claims reserves to those booked by management, and sought to understand any significant differences. • For the remaining classes we evaluated the methodology and assumptions, or performed a diagnostic check to identify and follow up any anomalies. *Based on the work performed we consider the non-life insurance contract liabilities to be appropriately valued.*
Valuation of hard to value investments Refer to page 95 (Audit Committee Report), page 136 (Accounting policies) and page 184 (notes)	
Given the ongoing market volatility and macroeconomic uncertainty, investment valuation continues to be an area of inherent risk. The risk is not uniform for all investment types and is greatest for the following, where the investments are hard to value because quoted prices are not readily available: • Commercial mortgage loans (UK Life). • Equity release and UK securitised mortgage loans (UK Life). • Structured bond-type investments (France Life). • Collateralised loan obligations and non-recourse loans (UK Life).	For these hard to value investments we assessed both the methodology and assumptions used by management in the calculation of the year end values as well as testing the governance controls that the Directors have in place to monitor these processes. The testing included performing the following procedures: • We agreed data inputs to underlying documentation. • We evaluated the methodology and assumptions in particular, yield curves, discounted cash flows, property growth rates and liquidity premium used within the valuation models. • We compared the assumptions used against appropriate benchmarks and investigated significant differences. • We tested the operation of data integrity and change management controls for the models. • We used our valuation experts to perform independent valuations, where applicable. *Based on the work performed, we considered the assumptions used by management to be appropriate.*

Area of focus	How our audit addressed the area of focus
Valuation of finite lived intangible assets relating to the Friends Life Group Limited acquisition Refer to page 95 (Audit Committee Report), page 136 (Accounting policies) and page 178 (notes)	
On acquisition of Friends Life Group Limited, Aviva recognised the Acquired Value of In Force Business 'AVIF' (£4,790 million) in respect of the insurance and investment contract portfolios. Under IFRS, the intangible asset is amortised each period in accordance with IAS 38 (non-participating investment contracts) and IFRS 4 (insurance contracts). Further, the Group has to, at least annually, perform impairment testing on the non-participating investment contract AVIF under IAS 36 and the insurance contract AVIF is assessed as part of the wider liability adequacy test (under IFRS 4).	For the finite lived intangible assets we performed the following procedures: • We agreed data to underlying documentation on a sample basis. • Understood and tested the governance process in place to determine the finite lived intangible assets, including testing the associated financial reporting control framework. • We examined the new amortisation and impairment methodology to check it is in accordance with IFRS requirements. • We tested management's application of the methodology by re-performing the amortisation and impairment calculations as appropriate. • We assessed the disclosures in the year end accounts. *Based on the work performed, we consider the valuation of the finite lived intangibles to be appropriate.*

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the group, the accounting processes and controls, and the industry in which the group operates.

Using the outputs of a risk assessment, along with our understanding of the Aviva structure, we scoped our audit based on the significance of the results and financial position of individual markets relative to the Group result and financial position. In doing so, we also considered qualitative factors and checked that we obtained sufficient coverage across all financial statement line items in the consolidated financial statements. This scope provided us with audit coverage in excess of 78% for Operating profit before tax and, after the deduction of integration and restructuring costs, 80% for Gross Written Premiums and 84% for Total Assets.

The Group's primary reporting format is along market reporting lines with supplementary information being given by business activity. The operating segments of the Group are 'United Kingdom & Ireland' (Life and General Insurance), France, Poland, 'Italy, Spain and Other', Canada, Asia, Aviva Investors and 'Other Group Activities'.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at each of the markets by us, as the Group audit team, or auditors of the markets within PwC UK or from other PwC network firms operating under our instructions. Work was performed by local engagement teams in the following markets; UK Life (including Friends Life), UK General Insurance, Canada, France Life, Aviva Investors UK, Spain, Italy, Poland and Asia (Friends Provident International Limited).

Where the work was performed by auditors of the markets, we determined the level of involvement we needed as the Group audit team to have in the audit work at those markets to be able to conclude whether sufficient and appropriate audit evidence had been obtained as a basis for our opinion on the financial statements as a whole. The Group audit team kept in regular communication with reporting market audit teams including visits to teams based in Aviva operating locations at Bristol, York and Norwich in the United Kingdom, France, Canada, Italy, Spain, Poland and Hong Kong, regular phone calls, discussions and written instructions, where appropriate.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality	£140 million *(2015: £114 million)*.
How we determined it	5% of operating profit before tax attributable to shareholders' profits after the deduction of integration and restructuring costs.
Rationale for benchmark applied	In determining our materiality, we considered financial metrics which we believed to be relevant, and concluded, consistent with last year, that operating profit before tax and after the deduction of integration and restructuring costs was the most relevant benchmark. Operating profit presents a longer-term assessment of the performance of the entity which is more in line with the operations and time horizons of an insurer where insurance contracts and customer relationships span over multiple years. We believe that it is appropriate to deduct integration and restructuring costs as Aviva incur a base level of restructuring costs, even outside times of significant restructuring.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £5 million *(2015: £5 million)* as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the directors' statement, set out on page 103, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the group and company have adequate resources to remain in operation, and that the directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the group's and company's ability to continue as a going concern.

Other required reporting

Consistency of other information and compliance with applicable requirements

Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:
- the information given in the Strategic Report and the Directors' and corporate governance report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' and corporate governance report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the group, the company and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' and corporate governance report. We have nothing to report in this respect.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:
- Information in the Annual Report is:
  - Materially inconsistent with the information in the audited financial statements; or
  - Apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group and company acquired in the course of performing our audit; or
  - Otherwise misleading.

We have no exceptions to report.

- The statement given by the directors on page 103, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the group's and parent company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and company acquired in the course of performing our audit.

We have no exceptions to report.

- The section of the Annual Report on page 97, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report.

The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:
- The directors' confirmation on page 103 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.

We have nothing material to add or to draw attention to.

- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.

We have nothing material to add or to draw attention to.

- The directors' explanation on page 103 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the directors' statement that they have carried out a robust assessment of the principal risks facing the group and the directors' statement in relation to the longer-term viability of the group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit.

We have nothing to report having performed our review.

Adequacy of accounting records and information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion:
- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration
Directors' remuneration report – Companies Act 2006 opinion
In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.
Other Companies Act 2006 reporting
Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made.
We have no exceptions to report arising from this responsibility.

Corporate governance statement
Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code.
We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit
Our responsibilities and those of the Directors
As explained more fully in the Directors' Responsibilities Statement set out on page 103, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.
Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.
This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:
- whether the accounting policies are appropriate to the group's and the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' and corporate governance report, we consider whether those reports include the disclosures required by applicable legal requirements.

Marcus Hine (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
8 March 2017

a The maintenance and integrity of the Aviva plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
b Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Aviva plc (the 'Company'), a public limited company incorporated and domiciled in the United Kingdom (UK), together with its subsidiaries (collectively, the 'Group' or 'Aviva') transacts life assurance and long-term savings business, fund management and most classes of general insurance and health business through its subsidiaries, joint ventures, associates and branches in the UK, Ireland, continental Europe, Canada, Asia and other countries throughout the world.

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(A) Basis of preparation

The consolidated financial statements and those of the Company have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU), and those parts of the Companies Act 2006 applicable to those reporting under IFRS. In addition to fulfilling their legal obligation to comply with IFRS as adopted by the EU, the Group and the Company have also complied with IFRS as issued by the IASB applicable at 31 December 2016. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, investment property, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

In accordance with IFRS 4 *Insurance Contracts*, the Group has applied existing accounting practices for insurance and participating investment contracts, modified as appropriate to comply with the IFRS framework and applicable standards. Further details are given in accounting policy G.

Items included in the financial statements of each of the Group's entities are measured in the currency of the primary economic environment in which that entity operates (the functional currency). The consolidated financial statements are stated in pounds sterling, which is the Company's functional and presentational currency. Unless otherwise noted, the amounts shown in these financial statements are in millions of pounds sterling (£m). The separate financial statements of the Company are on pages 268 to 276.

Comparative figures have been restated for adjustments as detailed in note 1.

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

The Group has adopted the following amendments to standards which became effective for the annual reporting period beginning on 1 January 2016.

(i) Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation

These amendments provide additional guidance on how the depreciation or amortisation of property, plant and equipment and intangible assets should be calculated. The amendments to IAS 16 and IAS 38 prohibit the use of revenue-based depreciation for property, plant and equipment and significantly limit the use of revenue-based amortisation for intangible assets.

The adoption of these amendments has no impact for the Group's consolidated financial statements.

(ii) Amendments to IAS 27, Equity Method in Separate Financial Statements

The amendments to IAS 27 allow investments in subsidiaries to be accounted for using the equity method within the Company's financial statements. The Company has not elected to use the equity method in its separate financial statements.

(iii) Narrow scope amendments to IFRS10, IFRS 12 and IAS 28 – Applying the Consolidation Exception

These narrow scope amendments clarify the application of the requirements for investment entities to measure subsidiaries at fair value instead of consolidating them. There are no implications for the Group's consolidated financial statements as the Group does not meet the definition of an investment entity.

(iv) Amendments to IAS 1 – Disclosure Initiative

These amendments form part of the IASB's Disclosure Initiative and are intended to assist entities in applying judgement in considering presentation and disclosure requirements. The amendments clarify guidance in IAS 1 *Presentation of Financial Statements* on materiality and aggregation, the presentation of subtotals, the order of the notes to financial statements and the disclosure of accounting policies. The adoption of these amendments has no impact on the Group's consolidated financial statements.

(v) Annual Improvements to IFRSs 2012-2014

These improvements consist of amendments to five IFRSs including IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, IFRS 7 *Financial Instruments: Disclosures* and IAS 19 *Employee Benefits*. The amendments clarify existing guidance and there is no impact on the Group's consolidated financial statements.

Standards, interpretations and amendments to published standards that are not yet effective and have not been adopted early by the Group

The following new standards, amendments to existing standards have been issued, are not yet effective and have not been adopted early by the Group:

(i) Narrow scope amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses

The revisions to IAS 12 *Income Taxes* clarify the accounting for deferred tax assets on unrealised losses and state that deferred tax assets should be recognised when an asset is measured at fair value and that fair value is below the asset's tax base. It also provides further clarification on the estimation of probable future taxable profits that may support the recognition of deferred tax assets. The adoption of this amendment is not expected to have an impact on the consolidated financial statements as the clarifications are consistent with our existing interpretation. The amendment is effective from 1 January 2017 and has not yet been endorsed by EU.

(ii) Amendments to IAS 7 – Disclosure initiative

The amendments to IAS 7, *Statement of Cash Flows*, which form part of the IASB's Disclosure Initiative, require disclosure of the movements in liabilities arising from financing activities with cash and non-cash changes presented separately. The adoption of this amendment is not expected to have an impact on the consolidated financial statements as the Group already voluntarily discloses this information in note 49. The amendment is effective from 1 January 2017 and has not yet been endorsed by EU.

(iii) IFRS 15, Revenue from Contracts with Customers
IFRS 15 will replace IAS 18 *Revenue* and establishes a principle based five-step model to be applied to all contracts with customers, except for insurance contracts, financial instruments and lease contracts. IFRS 15 also includes enhanced disclosure requirements. The impact of the adoption of the new standard is being assessed by the Group. This standard applies to annual reporting periods beginning on or after 1 January 2018 and has been endorsed by the EU.

(iv) Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions
In June 2016, the IASB issued amendments to IFRS 2 *Share-based Payment*. The amendments clarify that the fair value of a cash-settled share-based payment is determined on a basis that is consistent with that used for equity-settled share-based payments. The amendments also clarify the classification of share-based payments settled net of withholding tax as well as the accounting consequences resulting from a modification of share-based payments from cash-settled to equity-settled. The adoption of these amendments is not expected to have a significant impact on the Group's consolidated financial statements. The amendments are effective from 1 January 2018 and have not yet been endorsed by the EU.

(v) IFRS 9, Financial Instruments (including amendments to IFRS 4, Insurance Contracts)
In July 2014, the IASB published IFRS 9 *Financial Instruments* which will replace IAS 39 *Financial Instruments: Recognition and Measurement*. The standard incorporates new classification and measurements requirements for financial assets, the introduction of an expected credit loss impairment model which will replace the incurred loss model of IAS 39, and new hedge accounting requirements. Under IFRS 9, all financial assets will be measured at either amortised cost or fair value. The basis of classification will depend on the business model and the contractual cash flow characteristics of the financial assets. The standard retains most of IAS 39's requirements for financial liabilities except for those designated at fair value through profit or loss whereby that part of the fair value changes attributable to own credit is to be recognised in other comprehensive income instead of the income statement. The hedge accounting requirements are more closely aligned with risk management practices and follow a more principle based approach.

In September 2016, the IASB published amendments to IFRS 4 *Insurance Contracts* that address the accounting consequences of the application of IFRS 9 to insurers prior to the publication of the forthcoming accounting standard for insurance contracts. The amendments introduce two options for insurers: the deferral approach and the overlay approach. The deferral approach provides an entity, if eligible, with a temporary exemption from applying IFRS 9 until the earlier of the effective date of a new insurance contract standard or 2021.The overlay approach allows an entity to remove from profit or loss the effects of some of the accounting mismatches that may occur before the new insurance contracts standard is applied.

The Group is eligible to apply the deferral approach under the amendments to IFRS 4. The impact of the adoption of IFRS 9 on the Group's consolidated financial statements will, to a large extent, have to take into account the interaction with the forthcoming insurance contracts standard. As such, it is not possible to fully assess the effect of the adoption of IFRS 9. IFRS 9 has been endorsed by the EU.

(vi) IFRS 16 Leases
In January 2016, the IASB published IFRS 16 *Leases* which will replace IAS 17 *Leases*. IFRS 16 introduces a definition of a lease with a single lessee accounting model eliminating the classification of either operating or finance leases. Lessees will be required to account for all leases in a similar manner to the current finance lease accounting recognising lease assets and liabilities on the statement of financial position. Lessor accounting remains similar to current practice. The impact of the adoption of IFRS 16 has yet to be fully assessed by the Group. This standard applies to annual reporting periods beginning on or after 1 January 2019 and has not yet been endorsed by the EU.

(vii) Annual Improvements to IFRSs 2014-2016
These improvements consist of amendments to three IFRSs including IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investments in Associates*. The amendments clarify existing guidance. The adoption of these amendments is not expected to have a significant impact on the Group's consolidated financial statements. The amendments to IFRS 1 and IAS 28 are effective for annual reporting periods beginning on or after 1 January 2018; the amendment to IFRS 12 for annual reporting periods beginning on or after 1 January 2017. These amendments have not yet been endorsed by the EU.

(viii) Amendments to IAS 40 – Transfers of Investment Property
In December 2016, the IASB published amendments to IAS 40 *Investment Property* to clarify that transfers of property to, or from, investment property should only be made when there is evidence of a change in use of the property. The adoption of these amendments is not expected to have a significant impact on the Group's consolidated financial statements. The amendments are effective from 1 January 2018 and have not yet been endorsed by the EU.

(ix) IFRIC 22, Foreign Currency Transactions and Advance Consideration
In December 2016, the IASB published IFRIC 22 *Foreign Currency Transactions and Advance Consideration* to clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. For the purpose of determining the exchange rate, the date of the transaction is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. The adoption of this standard is not expected to have a significant impact on the Group's consolidated financial statements. The standard is effective for annual reporting beginning on or after 1 January 2018 and has not yet been endorsed by the EU.

(B) Operating profit

The long-term nature of much of the Group's operations means that, for management's decision-making and internal performance management, short-term realised and unrealised investment gains and losses are treated as non-operating items. The Group focuses instead on operating profit, a non-GAAP financial performance measure, that incorporates an expected return on investments supporting its long-term and non-long-term businesses.

Operating profit for long-term business is based on expected investment returns on financial investments backing shareholder and policyholder funds over the reporting period, with allowance for the corresponding expected movements in liabilities. Variances between actual and expected investment returns, and the impact of changes in economic assumptions on liabilities, are disclosed separately outside operating profit. For non-long-term business, the total investment income, including realised and unrealised gains, is analysed between that calculated using a longer-term return and short-term fluctuations from that level. Further details of this analysis and the assumptions used are given in notes 8 and 9.

Operating profit also excludes impairment of goodwill, associates and joint ventures; amortisation and impairment of other intangibles; amortisation and impairment of acquired value of in-force business; the profit or loss on disposal and remeasurement of subsidiaries, joint ventures and associates; integration and restructuring costs; and other. Other items are those items that, in the Directors' view, are required to be separately disclosed by virtue of their nature or incidence to enable a full understanding of the Group's financial performance. Details of these items are provided in the relevant notes.

(C) Critical accounting policies and the use of estimates

Critical accounting policies

The preparation of financial statements requires the Group to select accounting policies and make estimates and assumptions that affect items reported in the consolidated income statement, consolidated statement of financial position, other primary statements and notes to the consolidated financial statements.

The Audit Committee reviews the reasonableness of judgements and assumptions applied and the appropriateness of significant accounting policies. The significant issues considered by the Committee in the year are included within the Audit Committee Report on page 95.

These major areas of judgement on policy application are summarised below:

Item	Critical accounting judgement	Accounting policy
Consolidation	Assessment of whether the Group controls the underlying entities including consideration of its decision making authority and rights to the variable returns from the entity	D
Insurance and participating investment contract liabilities	Assessment of the significance of insurance risk transferred to the Group in determining whether a contract should be accounted for as insurance or investment contract	G
Financial investments	Classification of investments including the application of the fair value option	T

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 table below sets out those items considered particularly susceptible to changes in estimates and assumptions, and the relevant accounting policy and note disclosures.

Item	Critical accounting assumptions	Accounting policy	Note
Measurement of insurance and investment contract liabilities	Principal assumptions will include those in respect of mortality, morbidity, persistency, expense, valuation interest rates, credit default allowances on corporate bonds and valuation of guarantees	L	40b
Acquired value of in-force business ('AVIF') and intangible assets	AVIF is recognised, amortised and tested for impairment by reference to the present value of estimated future profits. Other intangible assets are recognised and tested for impairment using an income approach method. Significant estimates include forecast cash flows and discount rates	O	17
Goodwill impairment	The determination of a cash generating unit's recoverable value is based on the discounted value of expected future profits of each business. Significant estimates include forecast cash flow, new business growth rates and discount rates.	O	16
Fair value of financial investments, derivative financial instruments and investment property	Where quoted market prices are not available, valuation techniques are used to value financial investments, derivatives and investment property. These include broker quotes and models using both observable and unobservable market inputs.	F,T,U	22,26
Impairment of financial assets	Factors considered when assessing whether there is objective evidence of impairment include industry risk factors, financial condition, credit rating and whether there has been a significant or prolonged decline in fair value	T,V	23,26
Deferred acquisition costs	Management use estimation techniques to determine the amortisation profile and impairment test by reference to the present value of estimated future profits	X	28
Provisions and contingent liabilities	When evaluating whether a provision or a contingent liability should be recognised the Group assesses the likelihood of a constructive or legal obligation to settle a past event and whether the amount can be reliably estimated. The amount of provision is determined based on the Group's estimation of the expenditure required to settle the obligation at the statement of financial position date	AA	47,52
Pension obligations	The Group uses a number of estimates when calculating its pension obligations, including mortality assumptions, discount rates and inflation rates	AB	48
Deferred income taxes	Calculation and recognition of temporary differences giving rise to deferred tax balances includes estimates of the extent to which future taxable profits are available against which the temporary differences can be utilised	AC	13

(D) Consolidation principles

Subsidiaries

Subsidiaries are those entities over which the Group has control. The Group controls an investee if and only if the Group has all of the following:

- power over the investee,
- exposure, or rights, to variable returns from its involvement with the investee, and
- the ability to use its power over the investee to affect its returns.

The Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including: the purpose and design of an investee, relevant activities, substantive and protective rights, and voting rights and potential voting rights.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Subsidiaries are consolidated from the date the Group obtains control and are excluded from consolidation from the date the Group loses control. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between Group companies have been eliminated. Accounting policies of subsidiaries are aligned on acquisition to ensure consistency with Group policies.

The Group is required to use the acquisition method of accounting for business combinations. Under this method, the Group recognises identifiable assets, liabilities and contingent liabilities at fair value, and any non-controlling interest in the acquiree. For each business combination, the Group has the option to measure the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. The excess of the consideration transferred over the fair value of the net assets of the subsidiary acquired is recorded as goodwill (see accounting policy O below). Acquisition-related costs are expensed as incurred.

Transactions with non-controlling interests that lead to changes in the ownership interests in a subsidiary but do not result in a loss of control are treated as equity transactions.

Merger accounting and the merger reserve

Prior to 1 January 2004, the date of first time adoption of IFRS, certain significant business combinations were accounted for using the 'pooling of interests method' (or merger accounting), which treats the merged groups as if they had been combined throughout the current and comparative accounting periods. Merger accounting principles for these combinations gave rise to a merger reserve in the consolidated statement of financial position, being the difference between the nominal value of new shares issued by the Parent Company for the acquisition of the shares of the subsidiary and the subsidiary's own share capital and share premium account. These transactions have not been restated, as permitted by the IFRS 1 transitional arrangements.

The merger reserve is also used where more than 90% of the shares in a subsidiary are acquired and the consideration includes the issue of new shares by the Company, thereby attracting merger relief under the Companies Act 1985 and, from 1 October 2009, the Companies Act 2006.

Investment vehicles

In several countries, the Group has invested in a number of specialised investment vehicles such as Open-ended Investment Companies (OEICs) and unit trusts. These invest mainly in equities, bonds, cash and cash equivalents, and properties, and distribute most of their income. The Group's percentage ownership in these vehicles can fluctuate from day to day according to the Group's and third-party participation in them. When assessing control over investment vehicles, along with the factors determining control outlined above, the Group considers the scope of its decision-making authority including its ability to direct the relevant activities of the fund and exposure to variability of returns from the perspective of an investor in the fund and of the asset manager. In addition, the Group assesses rights held by other parties including substantive removal rights that may affect the Group's ability to direct the relevant activities and indicate that the Group does not have power. Where the Group is deemed to control such vehicles, they are consolidated, with the interests of parties other than Aviva being classified as liabilities. These appear as 'Net asset value attributable to unitholders' in the consolidated statement of financial position.

Where the Group does not control such vehicles, and these investments are held by its insurance or investment funds, they are carried at fair value through profit or loss within financial investments in the consolidated statement of financial position, in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*.

As part of their investment strategy, long-term business policyholder funds have invested in a number of property limited partnerships (PLPs), either directly or via property unit trusts (PUTs), through a mix of capital and loans. The PLPs are managed by general partners (GPs), in which the long-term business shareholder companies hold equity stakes and which themselves hold nominal stakes in the PLPs. The PUTs are managed by a Group subsidiary.

Accounting for the PUTs and PLPs as subsidiaries, joint ventures, associates or other financial investments depends on whether the Group is deemed to have control or joint control over the PUTs and PLPs' shareholdings in the GPs and the terms of each partnership agreement are considered along with other factors that determine control, as outlined above. Where the Group exerts control over a PUT or a PLP, it has been treated as a subsidiary and its results, assets and liabilities have been consolidated. Where the partnership is managed by an agreement such that there is joint control between the parties, notwithstanding that the Group's partnership share in the PLP (including its indirect stake via the relevant PUT and GP) may be lower or higher than 50%, such PUTs and PLPs have been classified as joint ventures (see below). Where the Group has significant influence over the PUT or PLP, as defined in the following section, the PUT or PLP is classified as an associate. Where the Group holds non-controlling interests in PLPs, with no significant influence or control over their associated GPs, the relevant investments are carried at fair value through profit or loss within financial investments.

Associates and joint ventures

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control. Generally, it is presumed that the Group has significant influence if it has between 20% and 50% of voting rights. Joint ventures are joint arrangements whereby the Group and other parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. In a number of these, the Group's share of the underlying assets and liabilities may be greater or less than 50% but the terms of the relevant agreements make it clear that control is not exercised. Such jointly controlled entities are referred to as joint ventures in these financial statements.

Gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the associates and joint ventures. Losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred between entities.

Other than investments in investment vehicles which are carried at fair value through profit or loss, investments in associates and joint ventures are accounted for using the equity method of accounting. Under this method, the cost of the investment in a given associate or joint venture, together with the Group's share of that entity's post-acquisition changes to shareholders' funds, is included as an asset in the consolidated statement of financial position. As explained in accounting policy O, the cost includes goodwill recognised on acquisition. The Group's share of their post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. Equity accounting is discontinued when the Group no longer has significant influence or joint control over the investment.

If the Group's share of losses in an associate or joint venture equals or exceeds its interest in the undertaking, the Group does not recognise further losses unless it has incurred obligations or made payments on behalf of the entity.

The Company's investments
In the Company's statement of financial position, subsidiaries, associates and joint ventures are stated at their fair values, estimated using applicable valuation models underpinned by the Company's market capitalisation. These investments are classified as available for sale (AFS) financial assets, with changes in their fair value being recognised in other comprehensive income and recorded in a separate investment valuation reserve within equity.

(E) Foreign currency translation
Income statements and cash flows of foreign entities are translated into the Group's presentation currency at average exchange rates for the year while their statements of financial position are translated at the year-end exchange rates. Exchange differences arising from the translation of the net investment in foreign subsidiaries, associates and joint ventures, and of borrowings and other currency instruments designated as hedges of such investments, are recognised in other comprehensive income and taken to the currency translation reserve within equity. On disposal of a foreign entity, such exchange differences are transferred out of this reserve and are recognised in the income statement as part of the gain or loss on sale. The cumulative translation differences were deemed to be zero at the transition date to IFRS.

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

Translation differences on debt securities and other monetary financial assets measured at fair value and designated as held at fair value through profit or loss (FVTPL) (see accounting policy T) are included in foreign exchange gains and losses in the income statement. For monetary financial assets designated as available for sale (AFS), translation differences are calculated as if they were carried at amortised cost and so are recognised in the income statement, while foreign exchange differences arising from fair value gains and losses are recognised in other comprehensive income and included in the investment valuation reserve within equity. Translation differences on non-monetary items, such as equities which are designated as FVTPL, are reported as part of the fair value gain or loss, whereas such differences on AFS equities are included in the investment valuation reserve.

(F) Fair value measurement
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. This presumes that the transaction takes place in the principal (or most advantageous) market under current market conditions. Fair value is a market-based measure and in the absence of observable market prices in an active market, it is measured using the assumptions that market participants would use when pricing the asset or liability.

The fair value of a non-financial asset is determined based on its highest and best use from a market participant's perspective. When using this approach, the Group takes into account the asset's use that is physically possible, legally permissible and financially feasible.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price i.e. the fair value of the consideration given or received. In certain circumstances, the fair value at initial recognition may differ from the transaction price. If the fair value is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging), or is based on a valuation technique whose variables include only data from observable markets, then the difference between the fair value at initial recognition and the transaction price is recognised as a gain or loss in the income statement. When unobservable market data has a significant impact on the valuation of financial instruments, the difference between the fair value at initial recognition and the transaction price is not recognised immediately in the income statement, but deferred and recognised in the income statement on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out or otherwise matured.

If an asset or a liability measured at fair value has a bid price and an ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances is used to measure fair value.

(G) Product classification
Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. Contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant. Any contracts not considered to be insurance contracts under IFRS are classified as investment contracts. Some insurance and investment contracts contain a discretionary participation feature, which is a contractual right to receive additional benefits as a supplement to guaranteed benefits. These are referred to as participating contracts.

As noted in accounting policy A, insurance contracts and participating investment contracts in general continue to be measured and accounted for under existing accounting practices at the later of the date of transition to IFRS ('grandfathered') or the date of the acquisition of the entity, in accordance with IFRS 4. IFRS accounting for insurance contracts in UK companies was grandfathered at the date of transition to IFRS and determined in accordance with the Statement of Recommended Practice issued by the Association of British Insurers (subsequently withdrawn by the ABI in 2015).

In certain businesses, the accounting policies or accounting estimates have been changed, as permitted by IFRS 4 and IAS 8 respectively, to remeasure designated insurance liabilities to reflect current market interest rates and changes to regulatory capital requirements. When accounting policies or accounting estimates have been changed, and adjustments to the measurement basis have occurred, the financial statements of that year will have disclosed the impacts accordingly. One such example is our adoption of Financial Reporting Standard 27 *Life Assurance* (FRS 27) which was issued by the UK's Accounting Standards Board (ASB) in December 2004 (subsequently withdrawn by the ASB in 2015).

(H) Premiums earned
Premiums on long-term insurance contracts and participating investment contracts are recognised as income when receivable, except for investment-linked premiums which are accounted for when the corresponding liabilities are recognised. For single premium business, this is the date from which the policy is effective. For regular premium contracts, receivables are recognised at the date when payments are due. Premiums are shown before deduction of commission and before any sales-based taxes or duties. Where policies lapse due to non-receipt

of premiums, then all the related premium income accrued but not received from the date they are deemed to have lapsed is offset against premiums.

General insurance and health premiums written reflect business incepted during the year, and exclude any sales-based taxes or duties. Unearned premiums are those proportions of the premiums written in a year that relate to periods of risk after the statement of financial position date. Unearned premiums are calculated on either a daily or monthly pro rata basis. Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience, and are included in premiums written.

Deposits collected under investment contracts without a discretionary participation feature (non-participating contracts) are not accounted for through the income statement, except for the fee income (covered in accounting policy I) and the investment income attributable to those contracts, but are accounted for directly through the statement of financial position as an adjustment to the investment contract liability.

(I) Other investment contract fee revenue

Investment contract policyholders are charged fees for policy administration, investment management, surrenders or other contract services. The fees may be for fixed amounts or vary with the amounts being managed, and will generally be charged as an adjustment to the policyholder's balance. The fees are recognised as revenue in the period in which they are collected unless they relate to services to be provided in future periods, in which case they are deferred and recognised as the service is provided.

Initiation and other 'front-end' fees (fees that are assessed against the policyholder balance as consideration for origination of the contract) are charged on some non-participating investment and investment fund management contracts. Where the investment contract is recorded at amortised cost, these fees are deferred and recognised over the expected term of the policy by an adjustment to the effective yield. Where the investment contract is measured at fair value, the front-end fees that relate to the provision of investment management services are deferred and recognised as the services are provided.

(J) Other fee and commission income

Other fee and commission income consists primarily of fund management fees, distribution fees from mutual funds, commissions on reinsurance ceded, commission revenue from the sale of mutual fund shares and transfer agent fees for shareholder record keeping. Reinsurance commissions receivable are deferred in the same way as acquisition costs, as described in accounting policy X. All other fee and commission income is recognised as the services are provided.

(K) Net investment income

Investment income consists of dividends, interest and rents receivable for the year, movements in amortised cost on debt securities, realised gains and losses, and unrealised gains and losses on fair value through profit or loss investments (as defined in accounting policy T). Dividends on equity securities are recorded as revenue on the ex-dividend date. Interest income is recognised as it accrues, taking into account the effective yield on the investment. It includes the interest rate differential on forward foreign exchange contracts. Rental income is recognised on an accruals basis, and is recognised on a straight line basis unless there is compelling evidence that benefits do not accrue evenly over the period of the lease.

A gain or loss on a financial investment is only realised on disposal or transfer, and is the difference between the proceeds received, net of transaction costs, and its original cost or amortised cost, as appropriate.

Unrealised gains and losses, arising on investments which have not been derecognised as a result of disposal or transfer, represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year, less the reversal of previously recognised unrealised gains and losses in respect of disposals made during the year. Realised gains or losses on investment property represent the difference between the net disposal proceeds and the carrying amount of the property.

(L) Insurance and participating investment contract liabilities

Claims

Long-term business claims reflect the cost of all claims arising during the year, including claims handling costs, as well as policyholder bonuses accrued in anticipation of bonus declarations.

General insurance and health claims incurred include all losses occurring during the year, whether reported or not, related handling costs, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

Long-term business provisions

Under current IFRS requirements, insurance and participating investment contract liabilities are measured using accounting policies consistent with those adopted previously under existing accounting practices, with the exception of liabilities remeasured to reflect current market interest rates to be consistent with the value of the backing assets, and those relating to UK with-profit and non-profit contracts.

The long-term business provisions are calculated separately for each life operation, based either on local regulatory requirements or existing local GAAP (at the later of the date of transition to IFRS or the date of the acquisition of the entity); and actuarial principles consistent with those applied in each local market. Each calculation represents a determination within a range of possible outcomes, where the assumptions used in the calculations depend on the circumstances prevailing in each life operation. The principal assumptions are disclosed in note 40(b). For the UK with-profit funds, FRS 27 required liabilities to be calculated on the realistic basis adjusted to remove the shareholders' share of future bonuses. FRS 27 was grandfathered from UK regulatory requirements prior to the adoption of Solvency II. For UK non-profit insurance contracts, the liabilities are calculated using the gross premium valuation method. This method uses the amount of contractual premiums payable and includes explicit assumptions for interest and discount rates, mortality and morbidity, persistency and future expenses. These assumptions are set on a prudent basis and can vary by contract type and reflect current and expected future experience. The liabilities are based on the UK regulatory requirements prior to the adoption of Solvency II, adjusted to remove certain regulatory reserves and margins in assumptions, notably for annuity business.

Unallocated divisible surplus

In certain participating long-term insurance and investment business, the nature of the policy benefits is such that the division between shareholder reserves and policyholder liabilities is uncertain. Amounts whose allocation to either policyholders or shareholders has not been determined by the end of the financial year are held within liabilities as an unallocated divisible surplus.

If the aggregate carrying value of liabilities for a particular participating business fund is in excess of the aggregate carrying value of its assets, then the difference is held as a negative unallocated divisible surplus balance, subject to recoverability from margins in that fund's participating business. Any excess of this difference over the recoverable amount is charged to net income in the reporting period.

Embedded derivatives
Embedded derivatives that meet the definition of an insurance contract or correspond to options to surrender insurance contracts for a set amount (or based on a fixed amount and an interest rate) are not separately measured. All other embedded derivatives are separated and measured at fair value if they are not considered closely related to the host insurance contract or do not meet the definition of an insurance contract. Fair value reflects own credit risk to the extent the embedded derivative is not fully collateralised.

Liability adequacy
At each reporting date, an assessment is made of whether the recognised long-term business provisions are adequate, using current estimates of future cash flows. If that assessment shows that the carrying amount of the liabilities (less related assets) is insufficient in light of the estimated future cash flows, the deficiency is recognised in the income statement by setting up an additional provision in the statement of financial position.

General insurance and health provisions
Outstanding claims provisions
General insurance and health outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the statement of financial position date, whether reported or not, together with related claims handling costs. Significant delays are experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, including environmental and pollution exposures, the ultimate cost of which cannot be known with certainty at the statement of financial position date. As such, booked claim provisions for general insurance and health insurance are based on the best estimate of the cost of future claim payments plus an explicit allowance for risk and uncertainty. Any estimate represents a determination within a range of possible outcomes. Further details of estimation techniques are given in note 40(c).

Provisions for latent claims and claims that are settled on an annuity type basis such as structured settlements are discounted, in the relevant currency at the reporting date, having regard to the expected settlement dates of the claims and the nature of the liabilities. The discount rate is set at the start of the accounting period with any change in rates between the start and end of the accounting period being reflected below operating profit as an economic assumption change. The range of discount rates used is described in note 40(c)(ii). Outstanding claims provisions are valued net of an allowance for expected future recoveries. Recoveries include non-insurance assets that have been acquired by exercising rights to salvage and subrogation under the terms of insurance contracts. Where material, anticipated recoveries are disclosed under receivables and not deducted from outstanding claims provisions.

Provision for unearned premiums
The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as a provision for unearned premiums. The change in this provision is taken to the income statement as recognition of revenue over the period of risk.

Liability adequacy
At each reporting date, the Group reviews its unexpired risks and carries out a liability adequacy test for any overall excess of expected claims and deferred acquisition costs over unearned premiums, using the current estimates of future cash flows under its contracts after taking account of the investment return expected to arise on assets relating to the relevant general business provisions. If these estimates show that the carrying amount of its insurance liabilities (less related deferred acquisition costs) is insufficient in light of the estimated future cash flows, the deficiency is recognised in the income statement by setting up a provision in the statement of financial position.

Other assessments and levies
The Group is subject to various periodic insurance-related assessments or guarantee fund levies. Related provisions are established where there is a present obligation (legal or constructive) as a result of a past event. Such amounts are not included in insurance liabilities but are included under 'Provisions' in the statement of financial position.

(M) Non-participating investment contract liabilities
Claims
For non-participating investment contracts with an account balance, claims reflect the excess of amounts paid over the account balance released.

Contract liabilities
Deposits collected under non-participating investment contracts are not accounted for through the income statement, except for the investment income attributable to those contracts, but are accounted for directly through the statement of financial position as an adjustment to the investment contract liability.

The majority of the Group's contracts classified as non-participating investment contracts are unit-linked contracts and are measured at fair value. Certain liabilities for non-linked non-participating contracts are measured at amortised cost.

The liability's fair value is determined using a valuation technique to provide a reliable estimate of the amount for which the liability could be transferred in an orderly transaction between market participants at the measurement date, subject to a minimum equal to the surrender value. For unit-linked contracts, the fair value liability is equal to the current unit fund value, including any unfunded units. In addition, if required, non-unit reserves are held based on a discounted cash flow analysis. For non-linked contracts, the fair value liability is based on a discounted cash flow analysis, with allowance for risk calibrated to match the market price for risk.

Amortised cost is calculated as the fair value of consideration received at the date of initial recognition, less the net effect of payments such as transaction costs and front-end fees, plus or minus the cumulative amortisation (using the effective interest rate method) of any difference between that initial amount and the maturity value, and less any write-down for surrender payments. The effective interest rate is the one that equates the discounted cash payments to the initial amount. At each reporting date, the amortised cost liability is determined as the value of future best estimate cash flows discounted at the effective interest rate.

(N) Reinsurance
The Group assumes and cedes reinsurance in the normal course of business, with retention limits varying by line of business. Premiums on reinsurance assumed are recognised as revenue in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. The cost of reinsurance

related to long-duration contracts is accounted for over the life of the underlying reinsured policies, using assumptions consistent with those used to account for these policies.

Where general insurance liabilities are discounted, any corresponding reinsurance assets are also discounted using consistent assumptions.

Gains or losses on buying retroactive reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised. Premiums ceded and claims reimbursed are presented on a gross basis in the consolidated income statement and statement of financial position as appropriate.

Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance and investment contract liabilities. This includes balances in respect of investment contracts which are legally reinsurance contracts but do not meet the definition of a reinsurance contract under IFRS. Amounts recoverable from reinsurers are estimated in a manner consistent with the underlying contract liabilities, outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.

Reinsurance of non-participating investment contracts and reinsurance contracts that principally transfer financial risk are accounted for directly through the statement of financial position. A deposit asset or liability is recognised, based on the consideration paid or received less any explicitly identified premiums or fees to be retained by the reinsured. These deposit assets or liabilities are shown within reinsurance assets in the consolidated statement of financial position.

If a reinsurance asset is impaired, the Group reduces the carrying amount accordingly and recognises that impairment loss in the income statement. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Group may not receive all amounts due to it under the terms of the contract, and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

(O) Goodwill, AVIF and intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill arising on the Group's investments in subsidiaries is shown as a separate asset, while that on associates and joint ventures is included within the carrying value of those investments.

Goodwill on acquisitions prior to 1 January 2004 (the date of transition to IFRS) is carried at its book value (original cost less cumulative amortisation) on that date, less any impairment subsequently incurred. Goodwill arising before 1 January 1998 was eliminated against reserves and has not been reinstated.

Acquired value of in-force business (AVIF)

The present value of future profits on a portfolio of long-term insurance and investment contracts, acquired either directly or through the purchase of a subsidiary, is recognised as an asset.

If the AVIF results from the acquisition of an investment in a joint venture or an associate, it is held within the carrying amount of that investment. In all cases, the AVIF is amortised over the useful lifetime of the related contracts in the portfolio on a systematic basis. The rate of amortisation is chosen by considering the profile of the additional value of in-force business acquired and the expected depletion in its value.

Non-participating investment contract AVIF is reviewed for evidence of impairment, consistent with reviews conducted for other finite life intangible assets. Insurance and participating investment contract AVIF is reviewed for impairment at each reporting date as part of the liability adequacy requirements of IFRS 4 (see accounting policy L). AVIF is reviewed for evidence of impairment and impairment tested at product portfolio level by reference to a projection of future profits arising from the portfolio.

Intangible assets

Intangible assets consist primarily of contractual relationships such as access to distribution networks, customer lists and software. The economic lives of these are determined by considering relevant factors such as usage of the asset, typical product life cycles, potential obsolescence, maintenance costs, the stability of the industry, competitive position and the period of control over the assets. These intangibles are amortised over their useful lives, which range from three to 30 years, using the straight-line method.

The amortisation charge for the year is included in the income statement under 'Other expenses'. For intangibles with finite lives, impairment charges will be recognised in the income statement where evidence of such impairment is observed. Intangibles with indefinite lives are subject to regular impairment testing, as described below.

Impairment testing

For impairment testing, goodwill and intangible assets with indefinite useful lives have been allocated to cash-generating units. The carrying amount of goodwill and intangible assets with indefinite useful lives is reviewed at least annually or when circumstances or events indicate there may be uncertainty over this value. Goodwill and indefinite life intangibles are written down for impairment where the recoverable amount is insufficient to support its carrying value. Further details on goodwill allocation and impairment testing are given in note 16. Any impairments are charged as expenses in the income statement.

(P) Property and equipment

Owner-occupied properties are carried at their revalued amounts, and movements are recognised in other comprehensive income and taken to a separate reserve within equity. When such properties are sold, the accumulated revaluation surpluses are transferred from this reserve to retained earnings. These properties are depreciated down to their estimated residual values over their useful lives. All other items classed as property and equipment within the statement of financial position are carried at historical cost less accumulated depreciation.

Investment properties under construction are included within property and equipment until completion, and are stated at cost less any provision for impairment in their values until construction is completed or fair value becomes reliably measurable.

Depreciation is calculated on the straight-line method to write down the cost of other assets to their residual values over their estimated useful lives as follows:

• Properties under construction	No depreciation
• Owner-occupied properties, and related mechanical and electrical equipment	25 years
• Motor vehicles	Three years, or lease term (up to useful life) if longer
• Computer equipment	Three to five years
• Other assets	Three to five years

The assets' residual values, useful lives and method of depreciation are reviewed regularly, and at least at each financial year end, and adjusted if appropriate. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount.

Borrowing costs directly attributable to the acquisition and construction of property and equipment are capitalised. All repair and maintenance costs are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing asset will flow to the Group and the renovation replaces an identifiable part of the asset. Major renovations are depreciated over the remaining useful life of the related asset.

(Q) Investment property

Investment property is held for long-term rental yields and is not occupied by the Group. Completed investment property is stated at its fair value, as assessed by qualified external valuers or by local qualified staff of the Group. Changes in fair values are recorded in the income statement in net investment income.

As described in accounting policy P above, investment properties under construction are included within property and equipment, and are stated at cost less any impairment in their values until construction is completed or fair value becomes reliably measurable.

(R) Impairment of non-financial assets

Property and equipment and other non-financial assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows. Non-financial assets except goodwill which have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(S) Derecognition and offset of financial assets and financial liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired.
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement.
- The Group has transferred its rights to receive cash flows from the asset and has either transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a currently enforceable legal right to set off the recognised amounts and there is the ability and intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(T) Financial investments

The Group classifies its investments as either FVTPL or AFS. The classification depends on the purpose for which the investments were acquired, and is determined by local management at initial recognition. The FVTPL category has two subcategories – those that meet the definition as being held for trading and those the Group chooses to designate as FVTPL (referred to in this accounting policy as 'other than trading') upon initial recognition.

In general, the other than trading category is used as, in most cases, the Group's investment or risk management strategy is to manage its financial investments on a fair value basis. Debt securities and equity securities, which the Group acquires with the intention to resell in the short term, are classified as trading, as are non-hedge derivatives (see accounting policy U below). The AFS category is used where the relevant long-term business liability (including shareholders' funds) is passively managed, as well as in certain fund management and non-insurance operations.

Purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the assets, at their fair values. Debt securities are initially recorded at their fair value, which is taken to be amortised cost, with amortisation credited or charged to the income statement. Investments classified as trading, other than trading and AFS, are subsequently carried at fair value. Changes in the fair value of trading and other than trading investments are included in the income statement in the period in which they arise.

Changes in the fair value of securities classified as AFS are recognised in other comprehensive income and recorded in a separate investment valuation reserve within equity. When securities classified as AFS are sold or impaired, the accumulated fair value adjustments are transferred out of the investment valuation reserve to the income statement with a corresponding movement through other comprehensive income.

Impairment

The Group reviews the carrying value of its AFS investments on a regular basis. If the carrying value of an AFS investment is greater than the recoverable amount, the carrying value is reduced through a charge to the income statement in the period of impairment. The following policies are used to determine the level of any impairment, some of which involve considerable judgement:

AFS debt securities: An AFS debt security is impaired if there is objective evidence that a loss event has occurred which has impaired the expected cash flows, i.e. where all amounts due according to the contractual terms of the security are not considered collectible. An impairment charge, measured as the difference between the security's fair value and amortised cost, is recognised when the issuer is known to be either in default or in financial difficulty. Determining when an issuer is in financial difficulty requires the use of judgement, and we consider a number of factors including industry risk factors, financial condition, liquidity position and near-term prospects of the issuer, credit rating declines and a breach of contract. A decline in fair value below amortised cost due to changes in risk-free interest rates does not necessarily represent objective evidence of a loss event.

For securities identified as being impaired, the cumulative unrealised loss previously recognised within the investment valuation reserve is transferred to realised losses for the year, with a corresponding movement through other comprehensive income. Any subsequent increase in fair value of these impaired securities is recognised in other comprehensive income and recorded in the investment valuation reserve unless this increase represents a decrease in the impairment loss that can be objectively related to an event occurring after the impairment loss was recognised in the income statement. In such an event, the reversal of the impairment loss is recognised as a gain in the income statement.

AFS equity securities: An AFS equity security is considered impaired if there is objective evidence that the cost may not be recovered. In addition to qualitative impairment criteria, such evidence includes a significant or prolonged decline in fair value below cost. Unless there is evidence to the contrary, an equity security is considered impaired if the decline in fair value relative to cost has been either at least 20% for a continuous six-month period or more than 40% at the end of the reporting period, or been in an unrealised loss position for a continuous period of more than 12 months at the end of the reporting period. We also review our largest equity holdings for evidence of impairment, as well as individual equity holdings in industry sectors known to be in difficulty. Where there is objective evidence that impairment exists, the security is written down regardless of the size of the unrealised loss.

For securities identified as being impaired, the cumulative unrealised loss previously recognised within the investment valuation reserve is transferred to realised losses for the year with a corresponding movement through other comprehensive income. Any subsequent increase in fair value of these impaired securities is recognised in other comprehensive income and recorded in the investment valuation reserve.

Reversals of impairments on any of these assets are only recognised where the decrease in the impairment can be objectively related to an event occurring after the write-down (such as an improvement in the debtor's credit rating), and are not recognised in respect of equity instruments.

(U) Derivative financial instruments and hedging

Derivative financial instruments include foreign exchange contracts, interest rate futures, currency and interest rate swaps, currency and interest rate options (both written and purchased) and other financial instruments that derive their value mainly from underlying interest rates, foreign exchange rates, credit or equity indices, commodity values or equity instruments.

All derivatives are initially recognised in the statement of financial position at their fair value, which usually represents their cost. They are subsequently remeasured at their fair value, with the method of recognising movements in this value depending on whether they are designated as hedging instruments and, if so, the nature of the item being hedged. Fair values are obtained from quoted market prices or, if these are not available, by using valuation techniques such as discounted cash flow models or option pricing models. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative. Premiums paid for derivatives are recorded as an asset on the statement of financial position at the date of purchase, representing their fair value at that date.

Derivative contracts may be traded on an exchange or over-the-counter (OTC). Exchange-traded derivatives are standardised and include certain futures and option contracts. OTC derivative contracts are individually negotiated between contracting parties and include forwards, swaps, caps and floors. Derivatives are subject to various risks including market, liquidity and credit risk, similar to those related to the underlying financial instruments. Many OTC transactions are contracted and documented under International Swaps and Derivatives Association (ISDA) master agreements or their equivalent, which are designed to provide legally enforceable set-off in the event of default, reducing the Group's exposure to credit risk.

The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities on the statement of financial position as they do not represent the fair value of these transactions. These amounts are disclosed in note 57(b).

The Group has collateral agreements in place between the individual Group entities and relevant counterparties. Accounting policy W covers collateral, both received and pledged, in respect of these derivatives.

Interest rate and currency swaps

Interest rate swaps are contractual agreements between two parties to exchange fixed rate and floating rate interest by means of periodic payments, calculated on a specified notional amount and defined interest rates. Most interest rate swap payments are netted against each other, with the difference between the fixed and floating rate interest payments paid by one party. Currency swaps, in their simplest form, are contractual agreements that involve the exchange of both periodic and final amounts in two different currencies. Both types of swap contracts may include the net exchange of principal. Exposure to gain or loss on these contracts will increase or decrease over their respective lives as a function of maturity dates, interest and foreign exchange rates, and the timing of payments.

Interest rate futures, forwards and options contracts

Interest rate futures are exchange-traded instruments and represent commitments to purchase or sell a designated security or money market instrument at a specified future date and price. Interest rate forward agreements are OTC contracts in which two parties agree on an interest rate and other terms that will become a reference point in determining, in concert with an agreed notional principal amount, a net payment to be made by one party to the other, depending upon what rate prevails at a future point in time. Interest rate options, which consist primarily of caps and floors, are interest rate protection instruments that involve the potential obligation of the seller to pay the buyer an interest rate differential in exchange for a premium paid by the buyer. This differential represents the difference between current rate and an agreed rate applied to a notional amount. Exposure to gain or loss on all interest rate contracts will increase or decrease over their respective lives as interest rates fluctuate. Certain contracts, known as swaptions, contain features which can act as swaps or options.

Foreign exchange contracts

Foreign exchange contracts, which include spot, forward and futures contracts, represent agreements to exchange the currency of one country for the currency of another country at an agreed price and settlement date. Foreign exchange option contracts are similar to interest rate option contracts, except that they are based on currencies, rather than interest rates.

Derivative instruments for hedging

On the date a derivative contract is entered into, the Group designates certain derivatives as either:

(i) a hedge of the fair value of a recognised asset or liability (fair value hedge);
(ii) a hedge of a future cash flow attributable to a recognised asset or liability, a highly probable forecast transaction or a firm commitment (cash flow hedge); or
(iii) a hedge of a net investment in a foreign operation (net investment hedge).

Hedge accounting is used for derivatives designated in this way, provided certain criteria are met. At the inception of the transaction, the Group documents the relationship between the hedging instrument and the hedged item, as well as the risk management objective and the strategy for undertaking the hedge transaction. The Group also documents its assessment of whether the hedge is expected to be, and has been, highly effective in offsetting the risk in the hedged item, both at inception and on an ongoing basis.

Changes in the fair value of derivatives that are designated and qualify as net investment or cash flow hedges, and that prove to be highly effective in relation to the hedged risk, are recognised in other comprehensive income and a separate reserve within equity. Gains and losses accumulated in this reserve are included in the income statement on disposal of the relevant investment or occurrence of the cash flow as appropriate.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the income statement. The gain or loss on the hedged item that is attributable to the hedged risk is recognised in the income statement. This applies even if the hedged item is an available for sale financial asset or is measured at amortised cost. If a hedging relationship no longer meets the criteria for hedge accounting, the cumulative adjustment made to the carrying amount of the hedged item is amortised to the income statement, based on a recalculated effective interest rate over the residual period to maturity. In cases where the hedged item has been derecognised, the cumulative adjustment is released to the income statement immediately.

For a variety of reasons, certain derivative transactions, while providing effective economic hedges under the Group's risk management positions, do not qualify for hedge accounting under the specific IFRS rules and are therefore treated as derivatives held for trading. Their fair value gains and losses are recognised immediately in net investment income.

(V) Loans

Loans with fixed maturities, including policyholder loans, mortgage loans on investment property, securitised mortgages and collateral loans, are recognised when cash is advanced to borrowers. Certain loans are carried at their unpaid principal balances and adjusted for amortisation of premium or discount, non-refundable loan fees and related direct costs. These amounts are deferred and amortised over the life of the loan as an adjustment to loan yield using the effective interest rate method.

However, for the majority of mortgage loans, the Group has taken advantage of the fair value option under IAS 39 to present the mortgages, associated borrowings and derivative financial instruments at fair value, since they are managed as a portfolio on a fair value basis. This presentation provides more relevant information and eliminates any accounting mismatch that would otherwise arise from using different measurement bases for these three items. The fair values of these mortgages are estimated using discounted cash flow models, based on a risk-adjusted discount rate which reflects the risks associated with these products. They are revalued at each period end, with movements in their fair values being taken to the income statement.

At each reporting date, we review loans carried at amortised cost for objective evidence that they are impaired and uncollectable, either at the level of an individual security or collectively within a group of loans with similar credit risk characteristics. To the extent that a loan is uncollectable, it is written down as impaired to its recoverable amount, measured as the present value of expected future cash flows discounted at the original effective interest rate of the loan, taking into account the fair value of the underlying collateral through an impairment provision account. Subsequent recoveries in excess of the loan's written-down carrying value are credited to the income statement.

(W) Collateral

The Group receives and pledges collateral in the form of cash or non-cash assets in respect of stock lending transactions, certain derivative contracts and loans, in order to reduce the credit risk of these transactions. Collateral is also pledged as security for bank letters of credit. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

Collateral received in the form of cash, which is not legally segregated from the Group, is recognised as an asset in the statement of financial position with a corresponding liability for the repayment in financial liabilities (note 58). However, where the Group has a currently enforceable legal right of set-off and the ability and intent to net settle, the collateral liability and associated derivative balances are shown net. Non-cash collateral received is not recognised in the statement of financial position unless the transfer of the collateral meets the derecognition criteria from the perspective of the transferor. Such collateral is typically recognised when the Group either (a) sells or repledges these assets in the absence of default, at which point the obligation to return this collateral is recognised as a liability; or (b) the counterparty to the arrangement defaults, at which point the collateral is seized and recognised as an asset.

Collateral pledged in the form of cash, which is legally segregated from the Group, is derecognised from the statement of financial position with a corresponding receivable recognised for its return. Non-cash collateral pledged is not derecognised from the statement of financial position unless the Group defaults on its obligations under the relevant agreement, and therefore continues to be recognised in the statement of financial position within the appropriate asset classification.

(X) Deferred acquisition costs and other assets

Costs relating to the acquisition of new business for insurance and participating investment contracts are deferred in line with existing local accounting practices, to the extent that they are expected to be recovered out of future margins in revenues on these contracts. For participating contracts written in the UK, acquisition costs are generally not deferred as the liability for these contracts is calculated on a realistic basis which was grandfathered from UK regulatory requirements prior to the adoption of Solvency II (see accounting policy L). For non-participating investment and investment fund management contracts, incremental acquisition costs and sales enhancements that are directly attributable to securing an investment management service are also deferred.

Where such business is reinsured, an appropriate proportion of the deferred acquisition costs is attributed to the reinsurer, and is treated as a separate liability.

Long-term business deferred acquisition costs are amortised systematically over a period no longer than that in which they are expected to be recoverable out of these future margins. Deferred acquisition costs for non-participating investment and investment fund management contracts are amortised over the period in which the service is provided. General insurance and health deferred acquisition costs are amortised over the period in which the related revenues are earned. The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset.

Deferred acquisition costs are reviewed by category of business at the end of each reporting period and are written-off where they are no longer considered to be recoverable.

Other receivables and payables are initially recognised at cost, being fair value. Subsequent to initial measurement they are measured at amortised cost.

(Y) Statement of cash flows

Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand, deposits held at call with banks, treasury bills 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 with only an insignificant change in their fair values.

For the purposes of the statement of cash flows, cash and cash equivalents also include bank overdrafts, which are included in payables and other financial liabilities on the statement of financial position.

Operating cash flows

Purchases and sales of investment property, loans and financial investments are included within operating cash flows as the purchases are funded from cash flows associated with the origination of insurance and investment contracts, net of payments of related benefits and claims.

(Z) Leases

Leases, where a significant portion of the risks and rewards of ownership is retained by the lessor, are classified as operating leases. Where the Group is the lessee, payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the term of the relevant leases.

Where the Group is the lessor, lease income from operating leases is recognised in the income statement on a straight-line basis over the lease term.

When assets are subject to finance leases, the present value of the lease payments, together with any unguaranteed residual value, is recognised as a receivable. The Group has not entered into any material finance lease arrangements either as lessor or lessee.

(AA) Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more probable than not that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Restructuring provisions include lease termination penalties and employee termination payments. They comprise only the direct expenditures arising from the restructuring, which are those that are necessarily entailed by the restructuring; and not associated with the ongoing activities of the entity. The amount recorded as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Where the effect of the time value of money is material, the provision is the present value of the expected expenditure. Provisions are not recognised for future operating losses.

Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

The Group recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract. Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

(AB) Employee benefits

Pension obligations

The Group operates a number of pension schemes, whose members receive benefits on either a defined benefit or defined contribution basis. Under a defined contribution plan, the Group's legal or constructive obligation is limited to the amount it agrees to contribute to a fund and there is no obligation to pay further contributions if the fund does not hold sufficient assets to pay benefits. A defined benefit pension plan is a pension plan that is not a defined contribution plan and typically defines the amount of pension benefit that an employee will receive on retirement.

The defined benefit obligation is calculated by independent actuaries using the projected unit credit method. The pension obligation is measured as the present value of the estimated future cash outflows, using a discount rate based on market yields for high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. The resultant net surplus or deficit recognised as an asset or liability on the statement of financial position is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets.

If the fair value of plan assets exceeds the present value of the defined benefit obligation, the resultant asset is limited to the asset ceiling defined as present value of economic benefits available in the form of future refunds from the plan or reductions in contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group.

Remeasurements of defined benefit plans comprise actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions, the return on plan assets (excluding net interest) and the effect of the asset ceiling (if any). The Group recognises remeasurements immediately in other comprehensive income and does not reclassify them to the income statement in subsequent periods.

Service costs comprising current service costs, past service costs, gains and losses on curtailments and net interest expense/(income) are charged or credited to the income statement.

Past service costs are recognised at the earlier of the date the plan amendment or curtailment occurs or when related restructuring costs are recognised.

The Group determines the net interest expense/(income) on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to the net defined benefit liability/(asset). Net interest expense is charged to finance costs, whereas, net interest income is credited to investment income.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension plans. Once the contributions have been paid, the Group, as employer, has no further payment obligations. The Group's contributions are charged to the income statement in the year to which they relate and are included in staff costs.

Equity compensation plans

The Group offers share award and option plans over the Company's ordinary shares for certain employees, including a Save As You Earn plan (SAYE plan), details of which are given in the Directors' Remuneration Report and in note 31.

The Group accounts for options and awards under equity compensation plans, which were granted after 7 November 2002, until such time as they are fully vested, using the fair value based method of accounting (the 'fair value method'). Under this method, the cost of providing equity compensation plans is based on the fair value of the share awards or option plans at date of grant, which is recognised in the income statement over the expected vesting period of the related employees and credited to the equity compensation reserve, part of shareholders' funds. In certain jurisdictions, awards must be settled in cash instead of shares, and the credit is taken to liabilities rather than reserves. The fair value of these cash-settled awards is recalculated each year, with the income statement charge and liability being adjusted accordingly.

Shares purchased by employee share trusts to fund these awards are shown as deduction from shareholders' equity at their weighted average cost.

When the options are exercised and new shares are issued, the proceeds received, net of any transaction costs, are credited to share capital (par value) and the balance to share premium. Where the shares are already held by employee trusts, the net proceeds are credited against the cost of these shares, with the difference between cost and proceeds being taken to retained earnings. In both cases, the relevant amount in the equity compensation reserve is then credited to retained earnings.

(AC) Income taxes

The current tax expense is based on the taxable profits for the year, after any adjustments in respect of prior years. Tax, including tax relief for losses if applicable, is allocated over profits before taxation and amounts charged or credited to components of other comprehensive income and equity, as appropriate.

Provision is made for deferred tax liabilities, or credit taken for deferred tax assets, using the liability method, on all material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

The principal temporary differences arise from depreciation of property and equipment, revaluation of certain financial assets and liabilities including derivative contracts, technical provisions and other insurance items, provisions for pensions and other post-retirement benefits and tax losses carried forward; and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base. The rates enacted or substantively enacted at the statement of financial position date are used to value the deferred tax assets and liabilities.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. In countries where there is a history of tax losses, deferred tax assets are only recognised in excess of deferred tax liabilities if there is convincing evidence that future profits will be available.

Deferred tax is provided on temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Deferred taxes are not provided in respect of temporary differences arising from the initial recognition of goodwill, or from the initial recognition of an asset or liability in a transaction which is not a business combination and affects neither accounting profit nor taxable profit or loss at the time of the transaction.

Current and deferred tax relating to items recognised in other comprehensive income and directly in equity are similarly recognised in other comprehensive income and directly in equity respectively. Deferred tax related to fair value re-measurement of available for sale investments, pensions and other post-retirement obligations and other amounts charged or credited directly to other comprehensive income is recognised in the statement of financial position as a deferred tax asset or liability. Current tax on interest paid on the direct capital instrument and tier 1 notes is credited directly in equity.

In addition to paying tax on shareholders' profits ('shareholder tax'), the Group's life businesses in the UK, Ireland and Singapore pay tax on policyholders' investment returns ('policyholder tax') on certain products at policyholder tax rates. The incremental tax borne by the Group represents income tax on policyholder's investment return. In jurisdictions where policyholder tax is applicable, the total tax charge in the income statement is allocated between shareholder tax and policyholder tax. The shareholder tax is calculated by applying the corporate tax rate to the shareholder profit. The difference between the total tax charge and shareholder tax is allocated to policyholder tax. This calculation methodology is consistent with the legislation relating to the calculation of tax on shareholder profits. The Group has decided to show separately the amounts of policyholder tax to provide a meaningful measure of the tax the Group pays on its profit. In the pro forma reconciliations, the operating profit has been calculated after charging policyholder tax.

(AD) Borrowings

Borrowings are classified as being for either core structural or operational purposes. They are recognised initially at their issue proceeds less transaction costs incurred. Subsequently, most borrowings are stated at amortised cost, and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method. All borrowing costs are expensed as they are incurred except where they are directly attributable to the acquisition or construction of property and equipment as described in accounting policy P.

Where loan notes have been issued in connection with certain securitised mortgage loans, the Group has taken advantage of the fair value option under IAS 39 to present the mortgages, associated liabilities and derivative financial instruments at fair value, since they are managed as a portfolio on a fair value basis. This presentation provides more relevant information and eliminates any accounting mismatch which would otherwise arise from using different measurement bases for these three items.

(AE) Share capital and treasury shares

Equity instruments

An equity instrument is a contract that evidences a residual interest in the assets of an entity after deducting all its liabilities. Accordingly, a financial instrument is treated as equity if:

(i) there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable; and

(ii) the instrument is a non-derivative that contains no contractual obligation to deliver a variable number of shares or is a derivative that will be settled only by the Group exchanging a fixed amount of cash or other assets for a fixed number of the Group's own equity instruments.

Share issue costs

Incremental external costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds of the issue and disclosed where material.

Dividends

Interim dividends on ordinary shares are recognised in equity in the period in which they are paid. Final dividends on these shares are recognised when they have been approved by shareholders. Dividends on preference shares are recognised in the period in which they are declared and appropriately approved.

Treasury shares

Where the Company or its subsidiaries purchase the Company's share capital or obtain rights to purchase its share capital, the consideration paid (including any attributable transaction costs net of income taxes) is shown as a deduction from total shareholders' equity. Gains and losses on own shares are charged or credited to the treasury share account in equity.

(AF) Fiduciary activities

Assets and income arising from fiduciary activities, together with related undertakings to return such assets to customers, are excluded from these financial statements where the Group has no contractual rights in the assets and acts in a fiduciary capacity such as nominee, trustee or agent.

(AG) Earnings per share

Basic earnings per share is calculated by dividing net income available to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding the weighted average number of ordinary shares after deducting treasury shares.

Earnings per share has also been calculated on operating profit attributable to ordinary shareholders, net of tax, non-controlling interests, preference dividends, the direct capital instrument (the DCI) and tier one notes as the directors believe this figure provides a better indication of operating performance. Details are given in note 14.

For the diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares, such as convertible debt and share options granted to employees.

Potential or contingent share issuances are treated as dilutive when their conversion to shares would decrease net earnings per share.

(AH) Operations held for sale

Assets and liabilities held for disposal as part of operations which are held for sale are shown separately in the consolidated statement of financial position. Operations held for sale are recorded at the lower of their carrying amount and their fair value less the estimated selling costs.

Consolidated income statement
For the year ended 31 December 2016

	Note	2016 £m	Restated[1] 2015 £m
Income	5		
Gross written premiums		**25,442**	21,925
Premiums ceded to reinsurers		**(2,364)**	(2,890)
Premiums written net of reinsurance		**23,078**	19,035
Net change in provision for unearned premiums		**(210)**	(111)
Net earned premiums	H	**22,868**	18,924
Fee and commission income	I&J	**1,962**	1,797
Net investment income	K	**30,257**	2,825
Share of profit after tax of joint ventures and associates		**216**	180
(Loss)/profit on the disposal and remeasurement of subsidiaries, joint ventures and associates	3b	**(11)**	2
		55,292	23,728
Expenses	6		
Claims and benefits paid, net of recoveries from reinsurers		**(23,782)**	(21,985)
Change in insurance liabilities, net of reinsurance	40a(ii)	**(6,893)**	6,681
Change in investment contract provisions		**(14,039)**	(1,487)
Change in unallocated divisible surplus	45	**(381)**	984
Fee and commission expense		**(3,885)**	(3,324)
Other expenses		**(3,853)**	(2,784)
Finance costs	7	**(626)**	(618)
		(53,459)	(22,533)
Profit before tax		**1,833**	1,195
Tax attributable to policyholders' returns	13d	**(640)**	218
Profit before tax attributable to shareholders' profits		**1,193**	1,413
Tax expense	AC & 13	**(974)**	(98)
Less: tax attributable to policyholders' returns	13d	**640**	(218)
Tax attributable to shareholders' profits	13d	**(334)**	(316)
Profit for the year		**859**	1,097
Attributable to:			
Equity holders of Aviva plc		**703**	936
Non-controlling interests	38	**156**	161
Profit for the year		**859**	1,097
Earnings per share	AG & 14		
Basic (pence per share)		**15.3p**	23.1p
Diluted (pence per share)		**15.1p**	22.8p

1 Following a correction to accounting and modelling for annual management charge rebates in UK Life, prior year comparatives have been restated. This has led to an increase in operating profit and profit before tax of £23 million for 2015 and an increase in opening retained earnings for 2015 of £20 million with an increase in equity at 31 December 2015 of £38 million. See note 1 for further details.

The accounting policies (identified alphabetically) on pages 134 to 147 and notes (identified numerically) on pages 154 to 267 are an integral part of the financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2016

	Note	2016 £m	Restated[1] 2015 £m
Profit for the year		**859**	**1,097**
Other comprehensive income:			
Items that may be reclassified subsequently to income statement			
Investments classified as available for sale			
Fair value gains/(losses)		**12**	(9)
Fair value losses transferred to profit on disposals		**(2)**	—
Share of other comprehensive income of joint ventures and associates		**(6)**	(14)
Foreign exchange rate movements		**1,128**	(378)
Aggregate tax effect – shareholder tax on items that may be reclassified subsequently to income statement		**(34)**	13
Items that will not be reclassified to income statement			
Owner-occupied properties – fair value gains		**4**	27
Remeasurements of pension schemes	48b(i)	**311**	(235)
Aggregate tax effect – shareholder tax on items that will not be reclassified subsequently to income statement		**(70)**	93
Total other comprehensive income, net of tax		**1,343**	(503)
Total comprehensive income for the year		**2,202**	594
Attributable to:			
Equity holders of Aviva plc		**1,901**	478
Non-controlling interests		**301**	116
		2,202	594

1 Following a correction to accounting and modelling for annual management charge rebates in UK Life, prior year comparatives have been restated. This has led to an increase in operating profit and profit before tax of £23 million for 2015 and an increase in opening retained earnings for 2015 of £20 million with an increase in equity at 31 December 2015 of £38 million. See note 1 for further details.

The accounting policies (identified alphabetically) on pages 134 to 147 and notes (identified numerically) on pages 154 to 267 are an integral part of the financial statements.

Reconciliation of Group operating profit to profit for the year

For the year ended 31 December 2016

	Note	2016 £m	Restated[1] 2015 £m
Operating profit before tax attributable to shareholders' profits			
Life business		**2,642**	2,442
General insurance and health		**833**	765
Fund management		**138**	106
Other:			
Other operations		**(94)**	(84)
Corporate centre		**(184)**	(180)
Group debt costs and other interest		**(325)**	(361)
Operating profit before tax attributable to shareholders' profits		**3,010**	2,688
Integration and restructuring costs	6	**(212)**	(379)
Operating profit before tax attributable to shareholders' profits after integration and restructuring costs		**2,798**	2,309
Adjusted for the following:			
Investment return variances and economic assumption changes on long-term business	8	**379**	14
Short-term fluctuation in return on investments on non-long-term business	9a	**(518)**	(84)
Economic assumption changes on general insurance and health business	9a	**(242)**	(100)
Impairment of goodwill, associates and joint ventures and other amounts expensed	16a, 19a	**—**	(22)
Amortisation and impairment of intangibles		**(175)**	(155)
Amortisation and impairment of acquired value of in-force business	17, 18	**(540)**	(498)
(Loss)/profit on the disposal and remeasurement of subsidiaries, joint ventures and associates	3b	**(11)**	2
Other[2]		**(498)**	(53)
Non-operating items before tax		**(1,605)**	(896)
Profit before tax attributable to shareholders' profits		**1,193**	1,413
Tax on operating profit	14a(i)	**(706)**	(603)
Tax on other activities	14a(i)	**372**	287
		(334)	(316)
Profit for the year		**859**	1,097

1 Following a correction to accounting and modelling for annual management charge rebates in UK Life, prior year comparatives have been restated. This has led to an increase in operating profit and profit before tax of £23 million for 2015 and an increase in opening retained earnings for 2015 of £20 million with an increase in equity at 31 December 2015 of £38 million. See note 1 for further details.

2 Other items include an exceptional charge of £475 million *(2015: £nil)* relating to the impact of the change in the Ogden discount rate from 2.5% set in 2001 to minus 0.75% announced by the Lord Chancellor on 27 February 2017. Refer to note 40 (c)(iii) for further details. Other items also include a charge of £23 million *(2015: £53 million charge)*, which represents the recognition of the loss upon the completion of an outwards reinsurance contract, written in 2015 by the UK General Insurance business, which provides significant protection against claims volatility from mesothelioma, industrial deafness and other long tail risks. The £23 million loss comprises £107 million in premiums ceded, less £78 million in reinsurance recoverables recognised and £6 million claims handling provisions released *(2015: £53 million charge comprises £712 million in premiums ceded, less £659 million reinsurance recoverables recognised)*.

Operating profit can be further analysed into the following segments (details of segments can be found in note 4):

Year ended 31 December 2016	**Long-term business £m**	**General insurance and health £m**	**Fund management £m**	**Other operations £m**	**Total £m**
United Kingdom & Ireland	**1,555**	**471**	**—**	**(4)**	**2,022**
France	**429**	**70**	**—**	**(18)**	**481**
Poland	**132**	**8**	**—**	**6**	**146**
Italy, Spain and Other	**283**	**42**	**—**	**(7)**	**318**
Canada	**—**	**269**	**—**	**1**	**270**
Asia	**241**	**(13)**	**(1)**	**(26)**	**201**
Aviva Investors	**2**	**—**	**139**	**19**	**160**
Other Group activities	**—**	**(14)**	**—**	**(65)**	**(79)**
	2,642	**833**	**138**	**(94)**	**3,519**
Corporate Centre					**(184)**
Group debt costs and other interest					**(325)**
Total					**3,010**

Year ended 31 December 2015	Restated[1] Long-term business £m	General insurance and health £m	Fund management £m	Other operations £m	Restated[1] Total £m
United Kingdom & Ireland	1,455	430	—	(24)	1,861
France	395	71	—	(17)	449
Poland	129	10	—	2	141
Italy, Spain and Other	242	33	—	(7)	268
Canada	—	214	—	—	214
Asia	244	(6)	1	(16)	223
Aviva Investors	1	—	105	—	106
Other Group activities	(24)	13	—	(22)	(33)
	2,442	765	106	(84)	3,229
Corporate Centre					(180)
Group debt costs and other interest					(361)
Total					2,688

1 Following a correction to accounting and modelling for annual management charge rebates in UK Life, prior year comparatives have been restated. This has led to an increase in operating profit and profit before tax of £23 million for 2015 and an increase in opening retained earnings for 2015 of £20 million with an increase in equity at 31 December 2015 of £38 million. See note 1 for further details.

The accounting policies (identified alphabetically) on pages 134 to 147 and notes (identified numerically) on pages 154 to 267 are an integral part of the financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2016

	Ordinary share capital £m	Preference share capital £m	Share premium £m	Merger reserve £m	Treasury shares £m	Other Reserves[1] £m	Retained earnings £m	DCI and tier 1 notes £m	Total equity excluding non-controlling interest £m	Non-controlling interests £m	Total equity £m
Balance at 1 January	**1,012**	**200**	**1,185**	**8,974**	**(29)**	**(114)**	**4,774**	**1,123**	**17,125**	**1,145**	**18,270**
Profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**703**	**—**	**703**	**156**	**859**
Other comprehensive income	**—**	**—**	**—**	**—**	**—**	**956**	**242**	**—**	**1,198**	**145**	**1,343**
Total comprehensive income for the year	**—**	**—**	**—**	**—**	**—**	**956**	**945**	**—**	**1,901**	**301**	**2,202**
Owner-occupied properties fair value gains transferred to retained earnings on disposals	**—**	**—**	**—**	**—**	**—**	**(46)**	**46**	**—**	**—**	**—**	**—**
Dividends and appropriations	**—**	**—**	**—**	**—**	**—**	**—**	**(973)**	**—**	**(973)**	**—**	**(973)**
Non-controlling interests share of dividends declared in the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(135)**	**(135)**
Transfer to profit on disposal of subsidiaries, joint ventures and associates	**—**	**—**	**—**	**—**	**—**	**(7)**	**—**	**—**	**(7)**	**—**	**(7)**
Capital contributions from non-controlling interests	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**9**	**9**
Changes in non-controlling interests in subsidiaries	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**105**	**105**
Treasury shares held by subsidiary companies	**—**	**—**	**—**	**—**	**13**	**—**	**—**	**—**	**13**	**—**	**13**
Reserves credit for equity compensation plans	**—**	**—**	**—**	**—**	**—**	**38**	**—**	**—**	**38**	**—**	**38**
Shares issued under equity compensation plans	**3**	**—**	**12**	**—**	**1**	**(30)**	**26**	**—**	**12**	**—**	**12**
Aggregate tax effect – shareholder tax	**—**	**—**	**—**	**—**	**—**	**—**	**17**	**—**	**17**	**—**	**17**
Balance at 31 December	**1,015**	**200**	**1,197**	**8,974**	**(15)**	**797**	**4,835**	**1,123**	**18,126**	**1,425**	**19,551**

1 Refer to note 36 for further details of balances included in Other reserves.

For the year ended 31 December 2015 – restated[1]

	Ordinary share capital £m	Preference share capital £m	Share premium £m	Merger reserve £m	Treasury shares £m	Other Reserves[2] £m	Retained earnings[1] £m	DCI and tier 1 notes £m	Total equity excluding non-controlling interest £m	Non-controlling interests £m	Total equity £m
Balance at 1 January as reported	737	200	1,172	3,271	(8)	229	4,617	892	11,110	1,166	12,276
Prior period adjustment[1]	—	—	—	—	—	—	20	—	20	—	20
Balance at 1 January as restated	737	200	1,172	3,271	(8)	229	4,637	892	11,130	1,166	12,296
Profit for the year	—	—	—	—	—	—	936	—	936	161	1,097
Other comprehensive income	—	—	—	—	—	(316)	(142)	—	(458)	(45)	(503)
Total comprehensive income for the year	—	—	—	—	—	(316)	794	—	478	116	594
Issue of share capital – acquisition of Friends Life	272	—	—	5,703	—	—	—	—	5,975	—	5,975
Non-controlling interests in acquired subsidiaries[3]	—	—	—	—	—	—	—	—	—	504	504
Reclassification of non-controlling interests to financial liabilities[4]	—	—	—	—	—	—	—	—	—	(272)	(272)
Reclassification of non-controlling interests to tier 1 notes[5]	—	—	—	—	—	—	—	231	231	(231)	—
Owner-occupied properties fair value gains transferred to retained earnings on disposals	—	—	—	—	—	(33)	33	—	—	—	—
Dividends and appropriations	—	—	—	—	—	—	(724)	—	(724)	—	(724)
Non-controlling interests share of dividends declared in the year	—	—	—	—	—	—	—	—	—	(142)	(142)
Transfer to profit on disposal of subsidiaries, joint ventures and associates	—	—	—	—	—	1	—	—	1	—	1
Capital contributions from non-controlling interests	—	—	—	—	—	—	—	—	—	5	5
Changes in non-controlling interests in subsidiaries	—	—	—	—	—	—	—	—	—	(1)	(1)
Treasury shares held by subsidiary companies	—	—	—	—	(27)	—	—	—	(27)	—	(27)
Reserves credit for equity compensation plans	—	—	—	—	—	40	—	—	40	—	40
Shares issued under equity compensation plans	3	—	13	—	6	(35)	19	—	6	—	6
Aggregate tax effect – shareholder tax	—	—	—	—	—	—	15	—	15	—	15
Balance at 31 December	1,012	200	1,185	8,974	(29)	(114)	4,774	1,123	17,125	1,145	18,270

1 Following a correction to accounting and modelling for annual management charge rebates in UK Life, prior year comparatives have been restated. This has led to an increase in operating profit and profit before tax of £23 million for 2015 and an increase in opening retained earnings for 2015 of £20 million with an increase in equity at 31 December 2015 of £38 million. See note 1 for further details.
2 Refer to note 36 for further details of balances included in Other reserves.
3 Includes Friends Life's Step-up Tier one Insurance Capital Securities ('STICS') issuances classified as equity instruments within non-controlling interests at the date of acquisition.
4 On 29 May 2015, notification was given that the Group would redeem the 2005 STICS issuance. At that date the instrument was reclassified as a financial liability. The instrument was redeemed on 1 July 2015, £272 million represents the fair value of instruments recognised on acquisition, made up of the £268 million outstanding principal redeemed on 1 July 2015 and £4 million amortised subsequent to the reclassification and included within finance costs in the income statement.
5 On 1 October 2015 Aviva plc replaced Friends Life Holdings plc as issuer of the 2003 STICS issuance which resulted in a reclassification of the STICS from non-controlling interests to DCI and tier 1 notes.

The accounting policies (identified alphabetically) on pages 134 to 147 and notes (identified numerically) on pages 154 to 267 are an integral part of the financial statements.

Consolidated statement of financial position

As at 31 December 2016

	Note	2016 £m	Restated[1] 2015 £m
Assets			
Goodwill	O & 16	**2,045**	1,955
Acquired value of in-force business and intangible assets	O & 17	**5,468**	5,731
Interests in, and loans to, joint ventures	D & 18	**1,604**	1,590
Interests in, and loans to, associates	D & 19	**481**	329
Property and equipment	P & 20	**487**	449
Investment property	Q & 21	**10,768**	11,301
Loans	V & 23	**24,784**	22,433
Financial investments	S, T, U & 26	**299,835**	274,217
Reinsurance assets	N & 43	**26,343**	20,918
Deferred tax assets	AC & 46	**180**	131
Current tax assets		**119**	114
Receivables	27	**7,794**	6,875
Deferred acquisition costs and other assets	X & 28	**5,893**	5,018
Prepayments and accrued income	X & 28c	**2,882**	3,094
Cash and cash equivalents	Y & 55d	**38,708**	33,676
Assets of operations classified as held for sale	AH & 3c	**13,028**	—
Total assets		**440,419**	387,831
Equity			
Capital	AE		
Ordinary share capital	30	**1,015**	1,012
Preference share capital	33	**200**	200
		1,215	1,212
Capital reserves			
Share premium	30b	**1,197**	1,185
Merger reserve	D & 35	**8,974**	8,974
		10,171	10,159
Treasury shares	32	**(15)**	(29)
Other reserves	36	**797**	(114)
Retained earnings	37	**4,835**	4,774
Equity attributable to shareholders of Aviva plc		**17,003**	16,002
Direct capital instrument and tier 1 notes	34	**1,123**	1,123
Equity excluding non-controlling interests		**18,126**	17,125
Non-controlling interests	38	**1,425**	1,145
Total equity		**19,551**	18,270
Liabilities			
Gross insurance liabilities	L & 40	**151,183**	140,556
Gross liabilities for investment contracts	M & 41	**197,095**	181,082
Unallocated divisible surplus	L & 45	**9,349**	8,811
Net asset value attributable to unitholders	D	**15,638**	11,415
Provisions	AA, AB & 47	**1,510**	1,416
Deferred tax liabilities	AC & 46	**2,413**	2,084
Current tax liabilities		**421**	177
Borrowings	AD & 49	**10,295**	8,770
Payables and other financial liabilities	S & 50	**17,751**	12,448
Other liabilities	51	**2,719**	2,802
Liabilities of operations classified as held for sale	AH & 3c	**12,494**	—
Total liabilities		**420,868**	369,561
Total equity and liabilities		**440,419**	387,831

1 Following a correction to accounting and modelling for annual management charge rebates in UK Life, prior year comparatives have been restated. This has led to an increase in operating profit and profit before tax of £23 million for 2015 and an increase in opening retained earnings for 2015 of £20 million with an increase in equity at 31 December 2015 of £38 million. See note 1 for further details.

Approved by the Board on 8 March 2017

Thomas D. Stoddard
Chief Financial Officer

Company number: 2468686

The accounting policies (identified alphabetically) on pages 134 to 147 and notes (identified numerically) on pages 154 to 267 are an integral part of the financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2016

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

	Note	2016 £m	2015 £m
Cash flows from operating activities[1]			
Cash generated from operating activities	55a	**5,394**	5,197
Tax paid		**(647)**	(442)
Total net cash from operating activities		**4,747**	4,755
Cash flows from investing activities			
Acquisitions of, and additions to, subsidiaries, joint ventures and associates, net of cash acquired	55b	**(432)**	7,783
Disposals of subsidiaries, joint ventures and associates, net of cash transferred	55c	**42**	(3)
New loans to joint ventures and associates	18a(i)	**(3)**	(21)
Net repayment of/(new) loans to joint ventures and associates	18 & 19	**97**	—
Net new loans to joint ventures and associates		**94**	(21)
Purchases of property and equipment		**(67)**	(58)
Proceeds on sale of property and equipment		**75**	51
Purchases of intangible assets		**(119)**	(111)
Total net cash (used in)/from investing activities		**(407)**	7,641
Cash flows from financing activities			
Proceeds from issue of ordinary shares		**15**	16
Treasury shares purchased for employee trusts	32	**—**	(1)
New borrowings drawn down, net of expenses		**3,526**	2,049
Repayment of borrowings[2]		**(2,340)**	(1,979)
Net drawdown of borrowings	49	**1,186**	70
Interest paid on borrowings		**(595)**	(588)
Preference dividends paid	15	**(17)**	(17)
Ordinary dividends paid	15	**(871)**	(635)
Coupon payments on direct capital instrument and tier 1 notes	15	**(85)**	(72)
Capital contributions from non-controlling interests of subsidiaries	38	**9**	5
Dividends paid to non-controlling interests of subsidiaries[3]	38	**(135)**	(142)
Changes in controlling interest in subsidiaries	38	**105**	(1)
Total net cash (used in)/from financing activities		**(388)**	(1,365)
Total net increase in cash and cash equivalents		**3,952**	11,031
Cash and cash equivalents at 1 January		**33,170**	22,564
Effect of exchange rate changes on cash and cash equivalents		**1,283**	(425)
Cash and cash equivalents at 31 December	55d	**38,405**	33,170

1 Cash flows from operating activities include interest received of £5,642 million *(2015: £5,251 million)* and dividends received of £2,536 million *(2015: £2,353 million)*.
2 In 2015 this included redemption of 2005 STICS of £268 million.
3 Dividends paid to non-controlling interests of subsidiaries included £7 million in 2015 relating to the 2003 STICS which were reclassified from non-controlling interests to the direct capital instrument and tier 1 notes in October 2015. Following reclassification, interest is included in coupon payments on the direct capital instrument and tier 1 notes. Dividends paid to non-controlling interests of subsidiaries during 2015 also included £17 million relating to the 2005 STICS which were redeemed in July 2015.

The accounting policies (identified alphabetically) on pages 134 to 147 and notes (identified numerically) on pages 154 to 267 are an integral part of the financial statements.

1 – Prior period adjustments

During 2016, UK Life reviewed its accounting and modelling for annual management charge rebates relating to unit-linked investment contracts. It was concluded that an associated liability should be released partly offset by a reduction in deferred acquisition costs in accordance with IFRS. This has been presented as a prior year adjustment and has led to an increase in operating profit and profit before tax of £23 million for 2015 and an increase in opening retained earnings for 2015 of £20 million with an increase in closing equity at 31 December 2015 of £38 million. The impact on the consolidated income statement, statement of financial position and equity are shown in the tables below. There is no impact on the consolidated statement of cash flows.

	2015		
	As reported £m	Effect of prior period adjustments £m	Restated £m
Operating profit before tax attributable to shareholders' profits	2,665	23	2,688
Total expenses	(22,556)	23	(22,533)
Effect analysed as:			
Fee and commission expense	(3,347)	23	(3,324)
Profit before tax	1,172	23	1,195
Tax expense	(93)	(5)	(98)
Profit for the period	1,079	18	1,097
Profit attributable to equity holders of Aviva plc	918	18	936
Operating earnings per share			
Basic (pence per share)	49.2p	0.5p	49.7p
Diluted (pence per share)	48.7p	0.5p	49.2p
Earnings per share			
Basic (pence per share)	22.6p	0.5p	23.1p
Diluted (pence per share)	22.3p	0.5p	22.8p

	31 December 2015		
	As reported £m	Effect of prior period adjustments £m	Restated £m
Total assets	387,874	(43)	387,831
Effect analysed as:			
Deferred acquisition costs and other assets	5,061	(43)	5,018
Total liabilities	369,642	(81)	369,561
Effect analysed as:			
Gross liabilities for investment contracts	181,173	(91)	181,082
Deferred tax liabilities	2,074	10	2,084

	31 December 2015		
	As reported £m	Effect of prior period adjustments £m	Restated £m
Total equity			
Balance at 1 January	12,276	20	12,296
Total comprehensive income for the period	576	18	594
Other equity movements	5,380	—	5,380
Balance at 31 December	18,232	38	18,270

As a result of this adjustment, comparative information in note 4 Segmental information, note 6 Details of expenses, note 13 Tax, note 14 Earnings per Share, note 22 Fair value methodology, note 28 Deferred acquisition costs, other assets, prepayments and accrued income, note 37 Retained earnings, note 39 Contract liabilities and associated reinsurance, note 41 Liability for investment contracts, note 46 Tax assets and liabilities and lines within note 55 Statement of cash flows (with no change to total cash generated from operating activities) have been restated.

2 – Exchange rates

The Group's principal overseas operations during the year were located within the eurozone, Canada and Poland. The results and cash flows of these operations have been translated into sterling at the average rates for the year and the assets and liabilities have been translated at the year end rates as follows:

	2016	2015
Eurozone		
Average rate (€1 equals)	**£0.82**	£0.72
Period end rate (€1 equals)	**£0.85**	£0.74
Canada		
Average rate ($CAD1 equals)	**£0.56**	£0.51
Period end rate ($CAD1 equals)	**£0.60**	£0.49
Poland		
Average rate (PLN1 equals)	**£0.19**	£0.17
Period end rate (PLN1 equals)	**£0.19**	£0.17

3 – Subsidiaries

This note provides details of the acquisitions and disposals of subsidiaries, joint ventures and associates that the Group has made during the year, together with details of businesses held for sale at the year end and subsequent events.

(a) Acquisitions

(i) RBC General Insurance

On 1 July 2016, Aviva plc announced its Canadian business, Aviva Canada had completed the acquisition of 100% of the outstanding shares of RBC General Insurance Company ('RBC'), the existing home and motor insurance business of RBC Insurance, and entered into a 15-year strategic agreement with RBC Insurance. Through this agreement, Aviva Canada will provide policy administration and claims services, and RBC Insurance customers will access Aviva Canada's full suite of property and casualty (P&C) products. The acquisition extends Aviva's presence in the Canadian general insurance market and brings diversification to existing distribution channels.

Under the agreement, Aviva paid RBC Insurance £345 million (CAD$598 million) on 1 July 2016, the date on which the general insurance company became a wholly owned subsidiary of the Group and was renamed Aviva General Insurance Company. A further c.£29 million (CAD$50 million) commission is payable over three years as part of a deferred consideration agreement.

The following table summarises the consideration for the acquisition, the fair value of the assets acquired, liabilities assumed and resulting allocation to goodwill:

	Fair Value £m
Assets	
Intangible assets	**210**
Financial investments	**749**
Reinsurance assets	**29**
Receivables	**189**
Other assets	**6**
Cash and cash equivalents	**26**
Total identifiable assets	**1,209**
Liabilities	
Insurance liabilities	**825**
Deferred tax liabilities	**49**
Payables and other financial liabilities	**3**
Other liabilities	**16**
Total identifiable liabilities	**893**
Net identifiable assets acquired	**316**
Goodwill arising on acquisition	**58**
Consideration	**374**

For cash flow purposes, the amounts included within the Group's consolidated statement of cash flows related to this acquisition are as follows:

	£m
Consideration	
Cash	**345**
Deferred cash consideration	**—**
Directly attributable costs	**7**
	352
Less: Cash and cash equivalents acquired	**26**
Net cash outflow	**326**

Fair value and accounting policy adjustments

The adjustments arising on acquisition were in respect of the following:

- Recognition of identifiable intangible assets at fair value and related deferred tax liability; and
- Elimination of deferred acquisition costs.

Intangible assets

Within intangible assets of £210 million, £190 million relate to RBC Insurance's distribution network and RBC's customer relationships, the value of which is based on the multi-period excess earnings method. The useful lives of the access to the distribution network and value of the customer relationships have been assessed as 15 years and 10 years, respectively. These will be amortised over these periods, along with the corresponding release of the applicable deferred tax liability, in accordance with the Group's accounting policies.

Other intangible assets of £20 million were recognised upon acquisition representing the fair value of future profits from the general insurance book as at 1 July 2016. This will be amortised based on its useful life of approximately two years in accordance with the Group's accounting policies.

3 – Subsidiaries continued

Goodwill

The residual goodwill on acquisition of £58 million, none of which is expected to be deductible for tax purposes, is attributable to the future synergies expecting to arise from combining the operations of the Aviva Canada insurance entities with that of RBC. Refer to note 16 for changes to the carrying amount of goodwill during the year.

Profit and loss

In the period 1 July 2016 to 31 December 2016, the acquired general insurance company contributed net earned premiums of £239 million and a profit before tax attributable to shareholders of £4 million, including £17 million of integration and restructuring costs, to the consolidated results of the Group.

If the acquisition had been effective on 1 January 2016, on a pro-forma basis the Group's net earned premiums is estimated at £23.3 billion and profit before tax attributable to shareholders is estimated at £1,200 million. In determining this amount, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 January 2016. The pro-forma results are provided for information purposes only and do not necessarily reflect the actual results that would have occurred had the acquisition taken place on 1 January 2016, nor are they necessarily indicative of the future results of the combined Group.

(ii) Other acquisitions

On 29 April 2016, Aviva plc completed the acquisition of an additional 23% share in Aviva Life Insurance Company India Limited ('Aviva India') from its partner Dabur invest Corp (a part of the Dabur Group) which brings the Group's holding to 49%. As the Group continues to have significant influence, Aviva India continues to be equity accounted as an associate (see note 19).

(b) Disposal and remeasurement of subsidiaries, joint ventures and associates

The (loss)/profit on the disposal and remeasurement of subsidiaries, joint ventures and associates comprises:

	2016 £m	2015 £m
Ireland – health	**(8)**	—
Turkey – long-term business	**—**	1
Other small operations	**(3)**	1
Total (loss)/profit on disposal and remeasurement	**(11)**	2

The total Group loss on disposal and remeasurement of subsidiaries, joint ventures and associates is £11 million *(2015: £2 million profit)*. This primarily relates to the Group's sale in its entire stake in its Irish private medical insurance business and a closed book of offshore bonds business which both completed in the third quarter of 2016.

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

The assets and liabilities of operations classified as held for sale as at 31 December 2016 are as follows:

	2016 £m	2015 £m
Assets		
Goodwill, AVIF and other intangibles	**12**	—
Investment property	**48**	—
Loans	**75**	—
Financial investments	**10,706**	—
Reinsurance assets	**411**	—
Other assets	**1,521**	—
Cash and cash equivalents	**255**	—
Total assets	**13,028**	—
Liabilities		
Insurance liabilities	**(4,448)**	—
Liability for investment contracts	**(7,175)**	—
Unallocated divisible surplus	**(859)**	—
Other liabilities	**(12)**	—
Total liabilities	**(12,494)**	—
Net assets	**534**	—

Assets and liabilities of operations classified as held for sale as at 31 December 2016 relate to Antarius S.A. ('Antarius'), a consolidated subsidiary of Aviva. The subsidiary has been classified as held for sale from May 2016, the date when the transaction was expected to complete within 12 months. The business is measured at its carrying amount. See note 3(d)(ii) for further details.

(d) Subsequent events

(i) Aviva Hong Kong

On 20 January 2017, it was announced that Aviva, Hillhouse Capital ('Hillhouse') and Tencent Holdings Limited ('Tencent') had agreed to develop an insurance company in Hong Kong, which will focus on digital insurance. As part of the agreement, Hillhouse and Tencent will acquire shares in Aviva Life Insurance Company Limited ('Aviva Hong Kong'). Following completion of the transaction, which is expected in the fourth quarter of 2017, Aviva and Hillhouse will each hold 40% and Tencent will hold 20% shareholdings in Aviva Hong Kong. The transaction is subject to customary closing conditions, including regulatory approval. Aviva Hong Kong remains a consolidated subsidiary of Aviva at the balance sheet date.

3 – Subsidiaries continued

(ii) Antarius

On 9 February 2017, Aviva announced the sale of its entire 50% shareholding in Antarius to Sogecap, a subsidiary of Société Générale, for a consideration of approximately £425 million (€500 million), payable in cash upon completion. Antarius is currently owned jointly by Aviva and Crédit du Nord, a separate subsidiary of Société Générale. This agreement follows Crédit du Nord's decision in 2015 to exercise its option to purchase Aviva's shareholding in Antarius. All regulatory approvals for the transaction have been received with completion expected on 1 April 2017.

(e) Significant restrictions

In certain jurisdictions the ability of subsidiaries to transfer funds to the Group in the form of cash dividends or to repay loans and advances is subject to local corporate or insurance laws and regulations and solvency requirements. There are no protective rights of non-controlling interests which significantly restrict the Group's ability to access or use the assets and settle the liabilities of the Group.

4 – Segmental information

The Group's results can be segmented either by activity or by geography. Our primary reporting format is on market reporting lines, with supplementary information being given by business activity. This note provides segmental information on the consolidated income statement and consolidated statement of financial position.

The Group has determined its operating segments along market reporting lines and internal management reporting.

United Kingdom & Ireland

United Kingdom and Ireland comprises two operating segments – Life and General Insurance. The principal activities of our UK and Ireland Life operations are life insurance, long-term health (in the UK) and accident insurance, savings, pensions and annuity business, and include the UK insurance operations acquired as part of the acquisition of Friends Life in 2015. UK and Ireland General Insurance provides insurance cover to individuals and businesses, for risks associated mainly with motor vehicles, property and liability (such as employers' liability and professional indemnity liability) and medical expenses. UK & Ireland General Insurance includes the results of our Ireland Health business, up to the date of disposal on 1 August 2016.

France

The principal activities of our French operations are long-term business and general insurance. The long-term business offers a range of long-term insurance and savings products, primarily for individuals, with a focus on the unit-linked market. The general insurance business predominantly sells personal and small commercial lines insurance products through agents and a direct insurer. As set out in note 3, the operations of Antarius are classified as held for sale as at 31 December 2016.

Poland

Activities in Poland comprise long-term business and general insurance operations, including our long-term business in Lithuania.

Italy, Spain and Other

These countries are not individually significant at a Group level, so have been aggregated into a single reporting segment in line with IFRS 8. The principal activities of our Italian operations are long-term business and general insurance. The life business offers a range of long-term insurance and savings products, and the general insurance business provides motor and home insurance products to individuals, as well as small commercial risk insurance to businesses. The principal activity of the Spanish operation is the sale of long-term business, accident and health insurance and a selection of savings products. Our 'Other' operations include our life operations in Turkey.

Canada

The principal activity of the Canadian operation is general insurance. In particular it provides personal and commercial lines insurance products principally distributed through insurance brokers. Canada includes the operations of RBC General Insurance Company following its acquisition on 1 July 2016.

Asia

Our activities in Asia principally comprise our long-term business operations in China, India, Singapore, Hong Kong, Vietnam, Indonesia, Taiwan and the international operations of Friends Life. This segment also includes general insurance and health operations in Singapore and health operations in Indonesia.

Aviva Investors

Aviva Investors operates in most of the markets in which the Group operates, in particular the UK, France, North America, Asia Pacific and other international businesses, managing policyholders' and shareholders' invested funds, providing investment management services for institutional pension fund mandates and managing a range of retail investment products, including investment funds, unit trusts, OEICs and ISAs.

Other Group activities

Investment return on centrally held assets and head office expenses, such as Group treasury and finance functions, together with certain taxes and financing costs arising on central borrowings are included in 'Other Group activities', along with central core structural borrowings and certain tax balances in the segmental statement of financial position. The results of our internal reinsurance operations are also included in this segment.

4 – Segmental information continued

Measurement basis

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

(i) profit or loss from operations before tax attributable to shareholders

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

(a) (i) Segmental income statement for the year ended 31 December 2016

	United Kingdom & Ireland		Europe							
	Life £m	GI £m	France £m	Poland £m	Italy, Spain and Other £m	Canada £m	Asia £m	Aviva Investors[2] £m	Other Group activities[3] £m	Total £m
Gross written premiums	5,458	4,750	6,624	496	4,652	2,542	920	—	—	25,442
Premiums ceded to reinsurers	(1,509)	(498)	(86)	(9)	(39)	(89)	(134)	—	—	(2,364)
Internal reinsurance revenue	(7)	(2)	—	—	(3)	—	(11)	—	23	—
Premiums written net of reinsurance	3,942	4,250	6,538	487	4,610	2,453	775	—	23	23,078
Net change in provision for unearned premiums	(2)	(132)	(8)	(16)	(11)	(33)	(8)	—	—	(210)
Net earned premiums	3,940	4,118	6,530	471	4,599	2,420	767	—	23	22,868
Fee and commission income	868	140	258	60	98	17	198	326	(3)	1,962
	4,808	4,258	6,788	531	4,697	2,437	965	326	20	24,830
Net investment income	24,903	283	2,951	141	533	50	1,240	83	73	30,257
Inter-segment revenue	—	—	—	—	—	—	—	234	—	234
Share of profit of joint ventures and associates	172	—	16	7	3	1	17	—	—	216
(Loss)/profit on the disposal and remeasurement of subsidiaries, joint ventures and associates	(3)	(8)	—	—	—	—	—	—	—	(11)
Segmental income[1]	29,880	4,533	9,755	679	5,233	2,488	2,222	643	93	55,526
Claims and benefits paid, net of recoveries from reinsurers	(11,200)	(2,680)	(5,397)	(315)	(2,230)	(1,521)	(399)	—	(40)	(23,782)
Change in insurance liabilities, net of reinsurance	(3,381)	(550)	(1,221)	(79)	(1,303)	(16)	(349)	—	6	(6,893)
Change in investment contract provisions	(10,069)	—	(1,636)	—	(1,180)	—	(1,069)	(85)	—	(14,039)
Change in unallocated divisible surplus	(259)	—	(276)	2	132	—	20	—	—	(381)
Fee and commission expense	(862)	(1,277)	(632)	(77)	(275)	(628)	(108)	(35)	9	(3,885)
Other expenses	(1,427)	(263)	(266)	(64)	(106)	(150)	(289)	(393)	(895)	(3,853)
Inter-segment expenses	(212)	(8)	(1)	(5)	—	(5)	—	—	(3)	(234)
Finance costs	(195)	(2)	(1)	—	(3)	(4)	(3)	—	(418)	(626)
Segmental expenses	(27,605)	(4,780)	(9,430)	(538)	(4,965)	(2,324)	(2,197)	(513)	(1,341)	(53,693)
Profit/(loss) before tax	2,275	(247)	325	141	268	164	25	130	(1,248)	1,833
Tax attributable to policyholders' returns	(638)	—	—	—	—	—	(2)	—	—	(640)
Profit/(loss) before tax attributable to shareholders' profits	1,637	(247)	325	141	268	164	23	130	(1,248)	1,193
Adjusted for non-operating items:										
Reclassification of corporate costs and unallocated interest	—	(5)	46	—	—	17	—	5	(63)	—
Investment return variances and economic assumption changes on long-term business	(503)	—	86	1	27	—	10	—	—	(379)
Short-term fluctuation in return on investments backing non-long-term business	(135)	(79)	(2)	(1)	13	42	—	—	680	518
Economic assumption changes on general insurance and health business	—	229	13	—	—	—	—	—	—	242
Impairment of goodwill, joint ventures and associates and other amounts expensed	—	—	—	—	—	—	—	—	—	—
Amortisation and impairment of intangibles	71	24	2	3	7	29	9	6	24	175
Amortisation and impairment of AVIF	387	—	3	2	2	—	142	—	4	540
Loss/(profit) on the disposal and remeasurement of subsidiaries, joint ventures and associates	3	8	—	—	—	—	—	—	—	11
Integration and restructuring costs	119	15	8	—	1	18	17	19	15	212
Other[4]	—	498	—	—	—	—	—	—	—	498
Operating profit/(loss) before tax attributable to shareholders	1,579	443	481	146	318	270	201	160	(588)	3,010

1 Total reported income, excluding inter-segment revenue, includes £33,784 million from the United Kingdom (Aviva plc's country of domicile). Income is attributed on the basis of geographical origin which does not differ materially from revenue by geographical destination, as most risks are located in the countries where the contracts were written.

2 Aviva Investors operating profit includes £2 million profit relating to the Aviva Investors Pooled Pensions business.

3 Other Group activities include Group Reinsurance.

4 Other items include an exceptional charge of £475 million *(2015: £nil)* relating to the impact of the change in the Ogden discount rate from 2.5% set in 2001 to minus 0.75% announced by the Lord Chancellor on 27 February 2017. Refer to note 40 (c)(iii) for further details. Other items also include a loss upon the completion of an outwards reinsurance contract by the UK General Insurance business, which provides significant protection against claims volatility from mesothelioma, industrial deafness and other long tail risks. The £23 million loss comprises £107 million in premiums ceded less £78 million in reinsurance recoverables recognised and £6 million claims handling provisions released.

4 – Segmental information continued

(a) (ii) Segmental income statement for the year ended 31 December 2015 – restated[1]

	United Kingdom & Ireland		Europe							
	Life £m	GI £m	France £m	Poland £m	Italy, Spain and Other £m	Canada £m	Asia £m	Aviva Investors[3] £m	Other Group activities[4] £m	Total £m
Gross written premiums	5,402	4,503	5,777	484	2,733	2,109	917	—	—	21,925
Premiums ceded to reinsurers	(1,355)	(1,163)	(75)	(6)	(42)	(117)	(132)	—	—	(2,890)
Internal reinsurance revenue	(5)	(1)	—	(1)	(4)	—	(2)	—	13	—
Premiums written net of reinsurance	4,042	3,339	5,702	477	2,687	1,992	783	—	13	19,035
Net change in provision for unearned premiums	(1)	(53)	(11)	(13)	(7)	(15)	(14)	—	3	(111)
Net earned premiums	4,041	3,286	5,691	464	2,680	1,977	769	—	16	18,924
Fee and commission income	810	160	232	40	115	28	134	281	(3)	1,797
	4,851	3,446	5,923	504	2,795	2,005	903	281	13	20,721
Net investment income/(expense)	448	159	1,949	(1)	444	49	(325)	155	(53)	2,825
Inter-segment revenue	—	—	—	—	—	—	—	195	—	195
Share of profit of joint ventures and associates	149	—	7	5	8	—	11	—	—	180
Profit/(loss) on the disposal and remeasurement of subsidiaries, joint ventures and associates	2	—	—	—	(1)	—	1	—	—	2
Segmental income[2]	5,450	3,605	7,879	508	3,246	2,054	590	631	(40)	23,923
Claims and benefits paid, net of recoveries from reinsurers	(10,663)	(2,533)	(4,454)	(302)	(2,343)	(1,240)	(415)	—	(35)	(21,985)
Change in insurance liabilities, net of reinsurance	7,070	492	(1,093)	17	264	(12)	(68)	—	11	6,681
Change in investment contract provisions	943	—	(1,915)	18	(702)	—	328	(159)	—	(1,487)
Change in unallocated divisible surplus	22	—	841	12	93	—	16	—	—	984
Fee and commission expense	(562)	(1,195)	(623)	(57)	(252)	(571)	(114)	(26)	76	(3,324)
Other expenses	(1,369)	(223)	(205)	(51)	(111)	(81)	(250)	(365)	(129)	(2,784)
Inter-segment expenses	(169)	(5)	(9)	(6)	—	(4)	—	—	(2)	(195)
Finance costs	(214)	(1)	(1)	—	(4)	(4)	(3)	—	(391)	(618)
Segmental expenses	(4,942)	(3,465)	(7,459)	(369)	(3,055)	(1,912)	(506)	(550)	(470)	(22,728)
Profit/(loss) before tax	508	140	420	139	191	142	84	81	(510)	1,195
Tax attributable to policyholders' returns	232	—	—	—	—	—	(14)	—	—	218
Profit/(loss) before tax attributable to shareholders' profits	740	140	420	139	191	142	70	81	(510)	1,413
Adjusted for non-operating items:										
Reclassification of corporate costs and unallocated interest	7	(1)	20	—	—	6	—	4	(36)	—
Investment return variances and economic assumption changes on long-term business	—	—	(17)	—	14	—	(11)	—	—	(14)
Short-term fluctuation in return on investments backing non-long-term business	53	84	2	(2)	31	47	—	—	(131)	84
Economic assumption changes on general insurance and health business	—	98	—	—	—	2	—	—	—	100
Impairment of goodwill, joint ventures and associates and other amounts expensed	—	—	—	—	9	—	13	—	—	22
Amortisation and impairment of intangibles	84	14	—	2	14	10	9	10	12	155
Amortisation and impairment of AVIF	350	—	5	2	5	—	136	—	—	498
(Profit)/loss on the disposal and remeasurement of subsidiaries, joint ventures and associates	(2)	—	—	—	1	—	(1)	—	—	(2)
Integration and restructuring costs	215	26	19	—	3	7	7	11	91	379
Other[5]	—	53	—	—	—	—	—	—	—	53
Operating profit/(loss) before tax attributable to shareholders	1,447	414	449	141	268	214	223	106	(574)	2,688

1 Following a correction to accounting and modelling for annual management charge rebates in UK Life, prior year comparatives have been restated. This has led to an increase in operating profit and profit before tax of £23 million for 2015 and an increase in opening retained earnings for 2015 of £20 million with an increase in equity at 31 December 2015 of £38 million. See note 1 for further details.
2 Total reported income, excluding inter-segment revenue, includes £9,031 million from the United Kingdom (Aviva plc's country of domicile). Income is attributed on the basis of geographical origin which does not differ materially from revenue by geographical destination, as most risks are located in the countries where the contracts were written.
3 Aviva Investors operating profit includes £1 million profit relating to Aviva Investors Pooled Pensions business.
4 Other Group activities include Group Reinsurance.
5 Other items represents a loss upon the completion of an outwards reinsurance contract by the UK0 General Insurance business, which provides significant protection against claims volatility from mesothelioma, industrial deafness and other long tail risks. The £53 million loss comprises £712 million in premiums ceded less £659 million in reinsurance recoverables recognised.

4 – Segmental information continued

(a) (iii) Segmental statement of financial position as at 31 December 2016

	United Kingdom & Ireland		Europe							
	Life £m	GI £m	France £m	Poland £m	Italy, Spain and Other £m	Canada £m	Asia £m	Aviva Investors £m	Other Group activities £m	Total £m
Goodwill	663	1,018	—	26	199	88	51	—	—	2,045
Acquired value of in-force business and intangible assets	3,152	160	86	12	619	292	1,062	9	76	5,468
Interests in, and loans to, joint ventures and associates	1,257	—	169	48	71	13	527	—	—	2,085
Property and equipment	78	27	240	4	5	24	12	5	92	487
Investment property	6,504	208	2,878	—	1	—	—	951	226	10,768
Loans	23,793	5	757	—	22	170	37	—	—	24,784
Financial investments	173,069	4,324	68,427	3,015	24,108	4,670	11,460	574	10,188	299,835
Deferred acquisition costs	1,224	507	280	45	82	360	113	3	—	2,614
Other assets	52,754	6,175	7,716	237	1,644	1,372	1,479	961	6,967	79,305
Assets of operations classified as held for sale	—	—	13,028	—	—	—	—	—	—	13,028
Total assets	262,494	12,424	93,581	3,387	26,751	6,989	14,741	2,503	17,549	440,419
Insurance liabilities										
Long-term business and outstanding claims provisions	104,194	6,098	15,932	2,698	10,241	3,248	3,750	—	12	146,173
Unearned premiums	227	2,136	463	68	281	1,527	64	—	—	4,766
Other insurance liabilities	—	72	51	—	—	118	—	—	3	244
Liability for investment contracts	125,198	—	49,929	2	12,000	—	8,395	1,571	—	197,095
Unallocated divisible surplus	2,858	—	5,151	60	1,074	—	206	—	—	9,349
Net asset value attributable to unitholders	76	—	2,349	—	509	—	—	—	12,704	15,638
External borrowings	1,793	—	1	—	46	—	—	—	8,455	10,295
Other liabilities, including inter-segment liabilities	15,701	(404)	4,694	139	758	1,107	645	396	1,778	24,814
Liabilities of operations classified as held for sale	—	—	12,494	—	—	—	—	—	—	12,494
Total liabilities	250,047	7,902	91,064	2,967	24,909	6,000	13,060	1,967	22,952	420,868
Total equity										19,551
Total equity and liabilities										440,419

4 – Segmental information continued

(a) (iv) Segmental statement of financial position as at 31 December 2015 – restated[1]

	United Kingdom & Ireland		Europe							
	Life £m	GI £m	France £m	Poland £m	Italy, Spain and Other £m	Canada £m	Asia £m	Aviva Investors £m	Other Group activities £m	Total £m
Goodwill	663	1,026	5	23	172	21	45	—	—	1,955
Acquired value of in-force business and intangible assets	3,600	139	86	12	539	69	1,206	15	65	5,731
Interests in, and loans to, joint ventures and associates	1,291	—	138	39	72	7	372	—	—	1,919
Property and equipment	130	27	225	3	5	10	8	1	40	449
Investment property	7,483	198	2,089	—	1	—	—	1,146	384	11,301
Loans	21,502	5	733	1	26	135	31	—	—	22,433
Financial investments	163,987	4,715	65,413	2,575	19,176	3,187	9,684	515	4,965	274,217
Deferred acquisition costs	1,351	418	227	32	77	255	57	4	—	2,421
Other assets	42,636	5,301	9,678	239	1,480	860	1,351	901	4,959	67,405
Assets of operations classified as held for sale	—	—	—	—	—	—	—	—	—	—
Total assets	242,643	11,829	78,594	2,924	21,548	4,544	12,754	2,582	10,413	387,831
Insurance liabilities										
Long-term business and outstanding claims provisions	99,435	5,439	16,487	2,308	7,699	2,058	2,865	—	18	136,309
Unearned premiums	226	2,083	393	45	237	1,016	48	—	—	4,048
Other insurance liabilities	—	76	44	—	—	77	—	—	2	199
Liability for investment contracts	114,052	—	47,834	2	9,770	—	7,681	1,743	—	181,082
Unallocated divisible surplus	2,575	—	4,941	55	1,047	—	193	—	—	8,811
Net asset value attributable to unitholders	203	—	2,863	—	413	—	—	—	7,936	11,415
External borrowings	1,903	—	—	—	49	—	—	—	6,818	8,770
Other liabilities, including inter-segment liabilities	12,271	(1,240)	4,066	99	715	596	565	370	1,485	18,927
Liabilities of operations classified as held for sale	—	—	—	—	—	—	—	—	—	—
Total liabilities	230,665	6,358	76,628	2,509	19,930	3,747	11,352	2,113	16,259	369,561
Total equity										18,270
Total equity and liabilities										387,831

1 Following a correction to accounting and modelling for annual management charge rebates in UK Life, prior year comparatives have been restated. This has led to an increase in operating profit and profit before tax of £23 million for 2015 and an increase in opening retained earnings for 2015 of £20 million with an increase in equity at 31 December 2015 of £38 million. See note 1 for further details.

(b) Further analysis by products and services

The Group's results can be further analysed by products and services which comprise long-term business, general insurance and health, fund management and other activities.

Long-term business

Our long-term business comprises life insurance, long-term health and accident insurance, savings, pensions and annuity business written by our life insurance subsidiaries, including managed pension fund business. Long-term business also includes our share of the other life and related business written in our associates and joint ventures, as well as lifetime mortgage business written in the UK.

General insurance and health

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

Fund management

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

Other

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

4 – Segmental information continued

(b) (i) Segmental income statement – products and services for the year ended 31 December 2016

	Long-term business £m	General insurance and health[2] £m	Fund management £m	Other £m	Total £m
Gross written premiums[1]	15,748	9,694	—	—	25,442
Premiums ceded to reinsurers	(1,697)	(667)	—	—	(2,364)
Premiums written net of reinsurance	14,051	9,027	—	—	23,078
Net change in provision for unearned premiums	—	(210)	—	—	(210)
Net earned premiums	14,051	8,817	—	—	22,868
Fee and commission income	1,234	26	300	402	1,962
	15,285	8,843	300	402	24,830
Net investment income/(expense)	29,695	383	(2)	181	30,257
Inter-segment revenue	—	—	239	—	239
Share of profit of joint ventures and associates	213	3	—	—	216
(Loss)/profit on the disposal and remeasurement of subsidiaries, joint ventures and associates	(3)	(8)	—	—	(11)
Segmental income	**45,190**	**9,221**	**537**	**583**	**55,531**
Claims and benefits paid, net of recoveries from reinsurers	(18,026)	(5,756)	—	—	(23,782)
Change in insurance liabilities, net of reinsurance	(6,249)	(644)	—	—	(6,893)
Change in investment contract provisions	(14,039)	—	—	—	(14,039)
Change in unallocated divisible surplus	(381)	—	—	—	(381)
Fee and commission expense	(1,369)	(2,299)	(33)	(184)	(3,885)
Other expenses	(1,887)	(521)	(396)	(1,049)	(3,853)
Inter-segment expenses	(222)	(12)	—	(5)	(239)
Finance costs	(183)	(5)	—	(438)	(626)
Segmental expenses	**(42,356)**	**(9,237)**	**(429)**	**(1,676)**	**(53,698)**
Profit/(loss) before tax	2,834	(16)	108	(1,093)	1,833
Tax attributable to policyholder returns	(640)	—	—	—	(640)
Profit/(loss) before tax attributable to shareholders' profits	2,194	(16)	108	(1,093)	1,193
Adjusted for:					
Non-operating items	448	849	30	490	1,817
Operating profit/(loss) before tax attributable to shareholders' profits	**2,642**	**833**	**138**	**(603)**	**3,010**

1 Gross written premiums include inward reinsurance premiums assumed from other companies amounting to £138 million, of which £54 million relates to property and liability insurance and £84 million relates to long-term business.
2 General insurance and health business segment includes gross written premiums of £1,030 million relating to health business. The remaining business relates to property and liability insurance.

(b) (ii) Segmental income statement – products and services for the year ended 31 December 2015 – restated[1]

	Long-term business £m	General insurance and health[3] £m	Fund management £m	Other £m	Total £m
Gross written premiums[2]	13,187	8,738	—	—	21,925
Premiums ceded to reinsurers	(1,529)	(1,361)	—	—	(2,890)
Premiums written net of reinsurance	11,658	7,377	—	—	19,035
Net change in provision for unearned premiums	—	(111)	—	—	(111)
Net earned premiums	11,658	7,266	—	—	18,924
Fee and commission income	1,161	61	274	301	1,797
	12,819	7,327	274	301	20,721
Net investment income/(expense)	2,667	240	(5)	(77)	2,825
Inter-segment revenue	—	—	201	—	201
Share of profit of joint ventures and associates	177	3	—	—	180
Profit on the disposal and remeasurement of subsidiaries, joint ventures and associates	1	1	—	—	2
Segmental income	15,664	7,571	470	224	23,929
Claims and benefits paid, net of recoveries from reinsurers	(16,809)	(5,176)	—	—	(21,985)
Change in insurance liabilities, net of reinsurance	6,205	476	—	—	6,681
Change in investment contract provisions	(1,487)	—	—	—	(1,487)
Change in unallocated divisible surplus	984	—	—	—	984
Fee and commission expense	(1,098)	(2,118)	(23)	(85)	(3,324)
Other expenses	(1,663)	(368)	(367)	(386)	(2,784)
Inter-segment expenses	(190)	(11)	—	—	(201)
Finance costs	(202)	(5)	—	(411)	(618)
Segmental expenses	(14,260)	(7,202)	(390)	(882)	(22,734)
Profit/(loss) before tax	1,404	369	80	(658)	1,195
Tax attributable to policyholder returns	218	—	—	—	218
Profit/(loss) before tax attributable to shareholders' profits	1,622	369	80	(658)	1,413
Adjusted for:					
Non-operating items	820	396	26	33	1,275
Operating profit/(loss) before tax attributable to shareholders' profits	2,442	765	106	(625)	2,688

1 Following a correction to accounting and modelling for annual management charge rebates in UK Life, prior year comparatives have been restated. This has led to an increase in operating profit and profit before tax of £23 million for 2015 and an increase in opening retained earnings for 2015 of £20 million with an increase in equity at 31 December 2015 of £38 million. See note 1 for further details.
2 Gross written premiums include inward reinsurance premiums assumed from other companies amounting to £146 million, of which £66 million relates to property and liability insurance and £80 million relates to long-term business.
3 General insurance and health business segment includes gross written premiums of £1,092 million relating to health business. The remaining business relates to property and liability insurance.

4 – Segmental information continued

(b) (iii) Segmental statement of financial position – products and services as at 31 December 2016

	Long-term business £m	General insurance and health £m	Fund management £m	Other £m	Total £m
Goodwill	889	1,086	3	67	2,045
Acquired value of in-force business and intangible assets	4,845	571	9	43	5,468
Interests in, and loans to, joint ventures and associates	2,030	42	—	13	2,085
Property and equipment	264	109	5	109	487
Investment property	10,202	341	—	225	10,768
Loans	24,607	177	—	—	24,784
Financial investments	277,889	11,699	51	10,196	299,835
Deferred acquisition costs	1,574	1,037	3	—	2,614
Other assets	61,780	8,995	835	7,695	79,305
Assets of operations classified as held for sale	13,028	—	—	—	13,028
Total assets	**397,108**	**24,057**	**906**	**18,348**	**440,419**
Gross insurance liabilities	134,695	16,488	—	—	151,183
Gross liabilities for investment contracts	197,095	—	—	—	197,095
Unallocated divisible surplus	9,349	—	—	—	9,349
Net asset value attributable to unitholders	2,934	—	—	12,704	15,638
External borrowings	1,718	—	—	8,577	10,295
Other liabilities, including inter-segment liabilities	19,930	1,215	371	3,298	24,814
Liabilities of operations classified as held for sale	12,494	—	—	—	12,494
Total liabilities	**378,215**	**17,703**	**371**	**24,579**	**420,868**
Total equity					**19,551**
Total equity and liabilities					**440,419**

(b) (iv) Segmental statement of financial position – products and services as at 31 December 2015 – restated[1]

	Long-term business £m	General insurance and health £m	Fund management £m	Other £m	Total £m
Goodwill	862	1,035	—	58	1,955
Acquired value of in-force business and intangible assets	5,369	309	15	38	5,731
Interests in, and loans to, joint ventures and associates	1,878	34	—	7	1,919
Property and equipment	299	95	1	54	449
Investment property	10,582	335	—	384	11,301
Loans	22,292	141	—	—	22,433
Financial investments	258,995	10,280	23	4,919	274,217
Deferred acquisition costs	1,604	812	5	—	2,421
Other assets	52,844	7,315	769	6,477	67,405
Assets of operations classified as held for sale	—	—	—	—	—
Total assets	354,725	20,356	813	11,937	387,831
Gross insurance liabilities	127,050	13,506	—	—	140,556
Gross liabilities for investment contracts	181,082	—	—	—	181,082
Unallocated divisible surplus	8,811	—	—	—	8,811
Net asset value attributable to unitholders	3,479	—	—	7,936	11,415
External borrowings	1,857	—	—	6,913	8,770
Other liabilities, including inter-segment liabilities	15,397	(307)	346	3,491	18,927
Liabilities of operations classified as held for sale	—	—	—	—	—
Total liabilities	337,676	13,199	346	18,340	369,561
Total equity					18,270
Total equity and liabilities					387,831

1 Following a correction to accounting and modelling for annual management charge rebates in UK Life, prior year comparatives have been restated. This has led to an increase in operating profit and profit before tax of £23 million for 2015 and an increase in opening retained earnings for 2015 of £20 million with an increase in equity at 31 December 2015 of £38 million. See note 1 for further details.

5 – Details of income

This note gives further detail on the items appearing in the income section of the consolidated income statement.

	2016 £m	2015 £m
Gross written premiums (note 4a and 4b)		
Long-term:		
Insurance contracts	**9,915**	8,577
Participating investment contracts	**5,833**	4,610
General insurance and health	**9,694**	8,738
	25,442	21,925
Less: premiums ceded to reinsurers (note 4a and 4b)	**(2,364)**	(2,890)
Gross change in provision for unearned premiums (note 40e)	**(191)**	(125)
Reinsurers' share of change in provision for unearned premiums (note 43ciii)	**(19)**	14
Net change in provision for unearned premiums	**(210)**	(111)
Net earned premiums	**22,868**	18,924
Fee and commission income		
Fee income from investment contract business	**1,021**	922
Fund management fee income	**403**	342
Other fee income	**330**	310
Reinsurance commissions receivable	**47**	74
Other commission income	**150**	134
Net change in deferred revenue	**11**	15
	1,962	1,797
Total revenue	**24,830**	20,721
Net investment income		
Interest and similar income		
From financial instruments designated as trading and other than trading	**5,392**	5,219
From AFS investments and financial instruments at amortised cost	**35**	49
	5,427	5,268
Dividend income	**2,544**	2,238
Other income from investments designated as trading		
Realised gains/(losses)on disposals	**66**	1,264
Unrealised gains and losses (policy K)		
Gains/(losses) arising in the year	**(204)**	107
(Gains) recognised now realised	**(66)**	(1,264)
	(270)	(1,157)
	(204)	107
Other income from investments designated as other than trading		
Realised gains on disposals	**1,457**	2,150
Unrealised gains and losses (see policy K)		
Gains/(losses) arising in the year	**21,179**	(6,279)
(Gains) recognised now realised	**(1,457)**	(2,150)
	19,722	(8,429)
	21,179	(6,279)
Realised gains and losses on AFS investments		
Losses/(gains) recognised in prior periods as unrealised in equity	**2**	—
Net income from investment properties		
Rent	**604**	590
Expenses relating to these properties	**(66)**	(52)
Realised gains on disposal	**56**	120
Fair value (losses)/gains on investment properties (note 21)	**(129)**	778
	465	1,436
Realised gains/(losses) on loans	**—**	(10)
Foreign exchange gains and losses on investments other than trading	**979**	176
Other investment expenses	**(135)**	(111)
Net investment income	**30,257**	2,825
Share of profit after tax of joint ventures (note 18)	**170**	162
Share of profit after tax of associates (note 19a)	**46**	18
Share of profit after tax of joint ventures and associates	**216**	180
(Loss)/profit on disposal and remeasurement of subsidiaries, joint ventures and associates (note 3b)	**(11)**	2
Total income	**55,292**	23,728

6 – Details of expenses

This note gives further detail on the items appearing in the expenses section of the consolidated income statement.

	2016 £m	Restated[1] 2015 £m
Claims and benefits paid		
Claims and benefits paid to policyholders on long-term business		
Insurance contracts	**12,875**	12,443
Participating investment contracts	**6,030**	5,270
Non-participating investment contracts	**548**	368
Claims and benefits paid to policyholders on general insurance and health business	**6,164**	5,522
	25,617	23,603
Less: Claim recoveries from reinsurers		
Insurance contracts	**(1,481)**	(1,563)
Participating investment contracts	**(354)**	(55)
Claims and benefits paid, net of recoveries from reinsurers	**23,782**	21,985
Change in insurance liabilities		
Change in insurance liabilities (note 40)	**8,111**	(6,442)
Change in reinsurance asset for insurance provisions (note 40)	**(1,218)**	(239)
Change in insurance liabilities, net of reinsurance	**6,893**	(6,681)
Change in investment contract provisions		
Investment income allocated to investment contracts	**5,200**	1,958
Other changes in provisions		
Participating investment contracts (note 41)	**2,914**	1,270
Non-participating investment contracts	**9,849**	(2,957)
Change in reinsurance asset for investment contract provisions	**(3,924)**	1,216
Change in investment contract provisions	**14,039**	1,487
Change in unallocated divisible surplus (note 45)	**381**	(984)
Fee and commission expense		
Acquisition costs		
Commission expenses for insurance and participating investment contracts	**2,567**	2,220
Change in deferred acquisition costs for insurance and participating investment contracts	**(195)**	(127)
Deferrable costs for non-participating investment contracts	**24**	30
Other acquisition costs	**846**	819
Change in deferred acquisition costs for non-participating investment contracts	**98**	(34)
Investment income attributable to unitholders	**96**	17
Reinsurance commissions and other fee and commission expense	**449**	399
	3,885	3,324
Other expenses		
Other operating expenses		
Staff costs (note 10b)	**1,059**	944
Central costs and sharesave schemes	**186**	181
Depreciation	**25**	24
Impairment of goodwill on subsidiaries (note 16)	**—**	22
Amortisation of acquired value of in-force business on insurance/investment contracts	**539**	496
Amortisation of intangible assets	**155**	131
Impairment of intangible assets	**14**	18
Integration and restructuring costs (see below)	**212**	379
Other expenses	**1,089**	764
	3,279	2,959
Impairments		
Net impairment on loans	**1**	2
Net impairment on financial investments (note 26 (c))	**(9)**	—
Net impairment on receivables and other financial assets	**8**	3
Net impairment on non-financial assets	**—**	2
	—	7
Other net foreign exchange losses/(gains)	**574**	(182)
Finance costs (note 7)	**626**	618
Total expenses	**53,459**	22,533

1 Following a correction to accounting and modelling for annual management charge rebates in UK Life, prior year comparatives have been restated. This has led to an increase in operating profit and profit before tax of £23 million for 2015 and an increase in opening retained earnings for 2015 of £20 million with an increase in equity at 31 December 2015 of £38 million. See note 1 for further details.

Integration and restructuring costs

Integration and restructuring costs were £212 million *(2015: £379 million),* which has decreased mainly due to lower integration spend following the Friends Life acquisition and lower Solvency II project costs, partially offset by costs related to the acquisition of RBC.

7 – Finance costs

This note analyses the interest costs on our borrowings (which are described in note 49) and similar charges. Finance costs comprise:

	2016 £m	2015 £m
Interest expense on core structural borrowings		
Subordinated debt	**387**	335
Long term senior debt	**1**	14
Commercial paper	**—**	1
	388	350
Interest expense on operational borrowings		
Amounts owed to financial institutions	**39**	48
Securitised mortgage loan notes at fair value	**84**	84
	123	132
Interest on collateral received	**10**	13
Net finance charge on pension schemes (note 48(b)(i))	**29**	25
Unwind of discount on GI reserves	**2**	2
Extinguishment of debt	**—**	13
Other similar charges	**74**	83
Total finance costs	**626**	618

8 – Long-term business economic volatility

The long-term nature of much of the Group's operations means that, for management's decision-making and internal performance management, the effects of short-term economic volatility are treated as non-operating items. The Group focuses instead on an operating profit measure that incorporates an expected return on investments supporting its long-term business, as described below.

(a) Definitions

Operating profit for long-term business is based on expected investment returns on financial investments backing shareholder and policyholder funds over the reporting period, with consistent allowance for the corresponding expected movements in liabilities. Operating profit includes the effect of variance in experience for non-economic items, such as mortality, persistency and expenses, and the effect of changes in non-economic assumptions, where not treated as other items. Changes due to economic items, such as market value movements and interest rate changes, which give rise to variances between actual and expected investment returns, and the impact of changes in economic assumptions on liabilities, are disclosed separately outside operating profit.

(b) Economic volatility

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

Life business	2016 £m	2015 £m
Investment variances and economic assumptions	**379**	14

Investment variances and economic assumption changes were £379 million positive *(2015: £14 million positive)*. Positive variances in the UK reflect lower interest rates and narrowing credit spreads, which increase asset values more than liabilities. In the first half of 2016 the Group revised its expectation of future property prices and rental income in light of the UK referendum vote for the UK to leave the European Union. The adverse impact of this adjustment on the Group's equity release and commercial mortgage portfolios has been broadly offset in the second half of the year as expectations for future property price and rental growth have increased. In addition, in the UK the investment variance reflects the refined approach of assuming best estimate expected credit defaults on corporate bonds with a resulting increase in operating profit in the period. The positive variance in the UK has been partially offset by negative variances in France and Italy. The negative variance in France reflects losses on equity hedges managed on an economic basis rather than an IFRS basis and falling interest rates, while the negative variance in Italy reflects widening credit spreads.

In 2015, positive investment variances of £14 million were driven by France and Asia, partially offset by a negative variance in Italy. The positive variance in France reflected realised bond gains and equity outperformance, while the positive variance in Asia was driven by increased interest rates in Singapore, which reduced liabilities by more than asset values. The negative variance in Italy was driven by widening credit spreads. The investment variance was largely neutral in the UK, reflecting the positive variance from a reduction in equity release asset default provisions following favourable property market performance, offset by the negative impact of widening credit spreads.

8 – Long-term business economic volatility continued

(c) Methodology

The expected investment returns and corresponding expected movements in long-term business liabilities are calculated separately for each principal long-term business unit.

The expected return on investments for both policyholders' and shareholders' funds is based on opening economic assumptions applied to the expected funds under management over the reporting period. Expected investment return assumptions are derived actively, based on market yields on risk-free fixed interest assets at the end of each financial year. The same margins are applied on a consistent basis across the Group to gross risk-free yields, to obtain investment return assumptions for equities and properties. Expected funds under management are equal to the opening value of funds under management, adjusted for sales and purchases during the period arising from expected operating experience.

The actual investment return is affected by differences between the actual and expected funds under management and changes in asset mix, as well as movements in interest rates. To the extent that these differences arise from the operating experience of the long-term business, or management decisions to change asset mix, the effect is included in the operating profit. The residual difference between actual and expected investment return is included in investment variances, outside operating profit but included in profit before tax.

The movement in liabilities included in operating profit reflects both the change in liabilities due to the expected return on investments and the impact of experience variances and assumption changes for non-economic items.

The effect of differences between actual and expected economic experience on liabilities, and changes to economic assumptions used to value liabilities, are taken outside operating profit. For many types of long-term business, including unit-linked and with-profits funds, movements in asset values are offset by corresponding changes in liabilities, limiting the net impact on profit. The profit impact of economic volatility on other long-term business depends on the degree of matching of assets and liabilities, and exposure to financial options and guarantees.

(d) Assumptions

The expected rate of investment return is determined using consistent assumptions between operations, having regard to local economic and market forecasts of investment return and asset classification under IFRS.

The principal assumptions underlying the calculation of the expected investment return for equities and properties are:

	Equities		Properties	
	2016 %	2015 %	**2016 %**	2015 %
United Kingdom	**5.5**	5.4	**4.0**	3.9
Eurozone	**4.5**	4.3	**3.0**	2.8

The expected return on equities and properties has been calculated by reference to the 10 year mid-price swap rate for an AA-rated bank in the relevant currency plus a risk premium. The use of risk premium reflects management's long-term expectations of asset return in excess of the swap yield from investing in different asset classes. The asset risk premiums are set out in the table below:

All territories	**2016 %**	2015 %
Equity risk premium	**3.5**	3.5
Property risk premium	**2.0**	2.0

The 10 year mid-price swap rates as at the start of the period are set out in the table below:

Territories	**2016 %**	2015 %
United Kingdom	**2.0**	1.9
Eurozone	**1.0**	0.8

For fixed interest securities classified as fair value through profit or loss, the expected investment returns are based on average prospective yields for the actual assets held less an adjustment for credit risks (assessed on a best estimate basis); this includes an adjustment for credit risk on all eurozone sovereign debt. Where such securities are classified as available for sale, the expected investment return comprises the expected interest or dividend payments and amortisation of the premium or discount at purchase.

9 – Longer-term investment return and economic assumption changes for non-long-term business

For non-long-term business, the total investment income, including realised and unrealised gains, is split between a calculated longer-term return, which is included in operating profit, and short-term fluctuations from this, which are disclosed outside operating profit but are included in profit before tax. This note gives details of the longer-term return calculation and the relevant assumptions, as well as the economic assumption changes on our general insurance and health business.

(a) The short-term fluctuations in investment return and economic assumption changes attributable to the non-long-term business result and reported outside operating profit were as follows:

Non-long-term business	**2016 £m**	2015 £m
Short-term fluctuations in investment return (see (b) below)	**(518)**	(84)
Economic assumption changes (see (g) below)	**(242)**	(100)
	(760)	(184)

(b) The longer-term investment return and short-term fluctuation are as follows:

Non-long-term business	**2016 £m**	2015 £m
Analysis of investment income:		
Net investment income	**(136)**	327
Foreign exchange gains/losses and other charges	**(35)**	(10)
	(171)	317
Analysed between:		
Longer-term investment return, reported within operating profit	**347**	401
Short-term fluctuation in investment return, reported outside operating profit		
General insurance and health	**5**	(166)
Other operations[1]	**(523)**	82
	(518)	(84)
	(171)	317

1 Represents short-term fluctuations on assets backing non-long-term business in Group centre investments, including the centre hedging programme and Group external borrowings.

(c) The longer-term investment return is calculated separately for each principal non-long-term business unit. In respect of equities and properties, the return is calculated by multiplying the opening market value of the investments, adjusted for sales and purchases during the year, by the longer-term rate of investment return.

The longer-term rate of investment return is determined using consistent assumptions between operations, having regard to local economic and market forecasts of investment return. The allocated longer-term return for other investments is the actual income receivable for the year. Actual income and longer-term investment return both contain the amortisation of the discounts/premium arising on the acquisition of fixed income securities. For other operations, the longer-term return reflects assets backing non-long-term business held in Group centre investments.

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

The impact of realised and unrealised gains and losses on Group centre investments, including the centre hedging programme which is designed to economically protect the total Group's capital against adverse equity and foreign exchange movements, is included in short-term fluctuations on other operations.

The adverse movement in short-term fluctuations during 2016 compared to 2015 is mainly due to foreign exchange losses on Group centre holdings, including the centre hedging programme, and Group external borrowings.

9 – Longer-term investment return and economic assumption changes for non-long-term business continued

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

	2016 £m	2015 £m
Debt securities	**10,799**	9,608
Equity securities	**267**	217
Properties	**341**	335
Cash and cash equivalents	**1,162**	969
Other[1]	**2,032**	3,008
Assets supporting general insurance and health business	**14,601**	14,137
Assets supporting other non-long-term business[2]	**724**	538
Total assets supporting non-long-term business	**15,325**	14,675

1 Includes the internal loan.
2 Represents assets backing non-long-term business in Group centre investments, including the centre hedging programme.

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

	Longer-term rates of return Equities		Longer-term rates of return Properties	
	2016 %	2015 %	**2016 %**	2015 %
United Kingdom	**5.5**	5.4	**4.0**	3.9
Eurozone	**4.5**	4.3	**3.0**	2.8
Canada	**5.4**	5.8	**3.9**	4.3

The longer-term rates of return on equities and properties have been calculated by reference to the 10 year mid-price swap rate for an AA-rated bank in the relevant currency plus a risk premium. The underlying reference rates and risk premiums are shown in note 8.

(e) The table below compares the actual return on investments attributable to the non-long-term business, after deducting investment management expenses and charges, with the aggregate longer-term return over a five-year period.

	2012-2016 £m	2011-2015 £m
Actual return attributable to shareholders	**1,853**	2,527
Longer-term return credited to operating results	**(2,523)**	(2,945)
Excess of longer-term returns over actual returns	**(670)**	(418)

(f) The table below shows the sensitivity of the Group's non-long-term business operating profit before tax to changes in the longer-term rates of return:

Movement in investment return for	By	Change in	2016 £m	2015 £m
Equities	1% higher/lower	Group operating profit before tax	**2**	3
Properties	1% higher/lower	Group operating profit before tax	**3**	2

(g) The economic assumption changes arise as a result of a decrease in the real interest rates used to discount claim reserves for periodic payment orders and latent claims. Market interest rates used to discount periodic payment orders and latent claims have reduced and the estimated future inflation rate used to value periodic payment orders has been increased to be consistent with market expectations. This has, in part, been offset by a change in estimate for the interest rate used to discount periodic payment orders to allow for the illiquid nature of these liabilities.

As explained in accounting policy L, provisions for latent claims are discounted, using rates based on the relevant swap curve, in the relevant currency at the reporting date, having regard to the duration of the expected settlement of the claims. The discount rate is set at the start of the accounting period, with any change in rates between the start and end of the accounting period being reflected below operating profit as an economic assumption change. The range of discount rates used is disclosed in note 40.

10 – Employee information

This note shows where our staff are employed throughout the world, excluding staff employed by our joint ventures and associates, and analyses the total staff costs.

(a) Employee numbers

The number of persons employed by the Group, including directors under a service contract, was:

	At 31 December		Average for the year[1]	
	2016 Number	2015 Number	**2016 Number**	2015 Number
United Kingdom & Ireland	**15,175**	16,222	**15,828**	16,695
France	**4,154**	4,161	**4,144**	4,122
Poland	**1,542**	1,677	**1,544**	1,706
Italy, Spain and Other	**958**	950	**955**	958
Canada	**4,232**	3,558	**3,937**	3,542
Asia	**1,533**	1,486	**1,483**	1,517
Aviva Investors	**1,316**	1,204	**1,238**	1,095
Other Group Activities	**620**	381	**524**	372
Total employee numbers	**29,530**	29,639	**29,653**	30,007

1 Average employee numbers have been calculated using a monthly average that takes into account recruitment, leavers, transfers, acquisitions and disposals of businesses during the year.

(b) Staff costs

	2016 £m	2015 £m
Wages and salaries	**1,123**	1,047
Social security costs	**215**	190
Post-retirement obligations		
Defined benefit schemes (note 48d)	**17**	13
Defined contribution schemes (note 48d)	**138**	123
Profit sharing and incentive plans	**214**	188
Equity compensation plans (note 31d)	**37**	48
Termination benefits	**20**	19
Total staff costs	**1,764**	1,628

Staff costs are charged within:

	2016 £m	2015 £m
Acquisition costs	**433**	447
Claims handling expenses	**145**	131
Central costs and sharesave schemes	**90**	76
Other operating expenses	**1,059**	944
Integration and restructuring costs	**37**	30
Total staff costs	**1,764**	1,628

11 – Directors

Information concerning individual directors' emoluments, interests and transactions is given in the Directors' Remuneration Report in the 'Corporate governance' section of this report. For the purposes of the disclosure required by Schedule 5 to the Companies Act 2006, the total aggregate emoluments of the directors in respect of 2016 was £10.5 million *(2015: £11.5 million)*. Employer contributions to pensions for executive directors for qualifying periods were £14,168 *(2015: £57,581)*. The aggregate net value of share awards granted to the directors in the period was £8.1 million *(2015: £9.7 million)*. The net value has been calculated by reference to the closing middle market price of an ordinary share at the date of grant. During the year, no share options were exercised by directors *(2015: no share options)*.

12 – Auditors' remuneration

This note shows the total remuneration payable by the Group, excluding VAT and any overseas equivalent thereof, to our principal auditors, PricewaterhouseCoopers LLP.

	2016 £m	2015 £m
Fees payable to PwC LLP and its associates for the statutory audit of the Aviva Group and Company financial statements	**2.8**	3.8
Fees payable to PwC LLP and its associates for other services		
Audit of Group subsidiaries	**14.1**	12.4
Additional fees related to the prior year audit of Group subsidiaries	**0.7**	0.5
Total audit fees	**17.6**	16.7
Audit related assurance	**6.3**	2.6
Other assurance services	**8.1**	13.3
Total audit and assurance fees	**32.0**	32.6
Tax compliance services	**0.1**	0.1
Tax advisory services	**0.1**	0.1
Services relating to corporate finance transactions	**0.1**	0.2
Other non-audit services not covered above	**1.0**	1.5
Fees payable to PwC LLP and its associates for services to Group companies	**33.3**	**34.5**

The table above reflects the disclosure requirements of SI2011/2198 – The Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) (Amendment) Regulations 2011.

In addition to the fees shown above, during 2016 the Group paid PwC £0.3 million *(2015: £0.2 million)* in relation to the audit of Group occupational pension schemes.

Fees payable for the audit of the Group's subsidiaries include fees for the statutory audit of the subsidiaries, both inside and outside the UK, and for the work performed by the principal auditors in respect of the subsidiaries for the purpose of the consolidated financial statements of the Group.

Audit related assurance comprises services in relation to statutory and regulatory filings. These include fees for the audit of the Group's Solvency II regulatory returns from 2016, services for the audit of other regulatory returns of the Group's subsidiaries and review of interim financial information under the Listing Rules of the UK Listing Authority. Total audit fees (excluding additional fees relating to the prior year audits of Group subsidiaries) and audit-related assurance fees were £23.2 million *(2015: £20.2 million)*. This increase is mainly driven by Solvency II audit related assurance of £3.7 million in 2016 as a formal audit requirement was implemented by the regulator during the year.

Fees for other assurance services comprise non-statutory assurance work which is customarily performed by the external auditor. This included the audit of the Group's MCEV reporting in the prior year as the relevant fees were not classified as being for statutory audit. Audited MCEV reporting ceased in 2016.

Other assurance services in 2016 of £8.1 million *(2015: £13.3 million)* mainly include fees relating to the Solvency II internal model independent validation work and balance sheet assurance which reduced during the year to £7.7 million *(2015: £11.6 million)*. Solvency II implementation was a major project requiring substantial model validation assurance that the Company believes is most appropriately performed by the principal auditors. In view of the significance and scale of this work, the Audit Committee specifically assessed the suitability of PwC to provide this service.

The 2016 fees for other non-audit services of £1.0 million include a number of individually smaller services.

Details of the Group's process for safeguarding and supporting the independence and objectivity of the external auditors are given in the Audit Committee report.

13 – Tax

This note analyses the tax charge for the year and explains the factors that affect it.

(a) Tax charged to the income statement

(i) The total tax charge comprises:

	2016 £m	Restated[1] 2015 £m
Current tax		
For the period	**930**	500
Prior period adjustments	**1**	(68)
Total current tax	**931**	432
Deferred tax		
Origination and reversal of temporary differences	**72**	(222)
Changes in tax rates or tax laws	**(14)**	(82)
Write back of deferred tax assets	**(15)**	(30)
Total deferred tax	**43**	(334)
Total tax charged to income statement	**974**	98

1 Following a correction to accounting and modelling for annual management charge rebates in UK Life, prior year comparatives have been restated. This has led to an increase in operating profit and profit before tax of £23 million for 2015 and an increase in opening retained earnings for 2015 of £20 million with an increase in equity at 31 December 2015 of £38 million. As a result, the tax charge increased by £5 million to £98 million. See note 1 for further details.

(ii) The Group, as a proxy for policyholders in the UK, Ireland and Singapore, is required to record taxes on investment income and gains each year. Accordingly, the tax benefit or expense attributable to UK, Irish and Singapore life insurance policyholder returns is included in the tax charge. The tax charge attributable to policyholder returns included in the charge above is £640 million *(2015: credit of £218 million).*

(iii) The tax charge above, comprising current and deferred tax, can be analysed as follows:

	2016 £m	Restated[1] 2015 £m
UK tax	**688**	(289)
Overseas tax	**286**	387
	974	98

1 Following a correction to accounting and modelling for annual management charge rebates in UK Life, prior year comparatives have been restated. This has led to an increase in operating profit and profit before tax of £23 million for 2015 and an increase in opening retained earnings for 2015 of £20 million with an increase in equity at 31 December 2015 of £38 million. As a result, the tax charge increased by £5million to £98 million. See note 1 for further details.

(iv) Unrecognised tax losses and temporary differences of previous years were used to reduce the current tax expense and deferred tax expense by £10 million and £8 million *(2015: £5 million and £30 million)*, respectively.

(v) Deferred tax charged/(credited) to the income statement represents movements on the following items:

	2016 £m	Restated[1] 2015 £m
Long-term business technical provisions and other insurance items	**(147)**	517
Deferred acquisition costs	**(12)**	(41)
Unrealised gains/(losses) on investments	**144**	(847)
Pensions and other post-retirement obligations	**21**	(4)
Unused losses and tax credits	**39**	34
Subsidiaries, associates and joint ventures	**4**	4
Intangibles and additional value of in-force long-term business	**(99)**	(149)
Provisions and other temporary differences	**93**	152
Total deferred tax charged /(credited) to income statement	**43**	(334)

1 Following a correction to accounting and modelling for annual management charge rebates in UK Life, prior year comparatives have been restated. This has led to an increase in operating profit and profit before tax of £23 million for 2015 and an increase in opening retained earnings for 2015 of £20 million with an increase in equity at 31 December 2015 of £38 million. See note 1 for further details.

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

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

	2016 £m	2015 £m
Current tax		
In respect of pensions and other post-retirement obligations	**(25)**	(44)
In respect of foreign exchange movements	**31**	(7)
	6	(51)
Deferred tax		
In respect of pensions and other post-retirement obligations	**94**	(49)
In respect of fair value gains on owner-occupied properties	**1**	—
In respect of unrealised gains on investments	**3**	(6)
	98	(55)
Total tax charged/(credited) to other comprehensive income	**104**	(106)

(ii) The tax charge attributable to policyholders' returns included above is £nil *(2015: £nil).*

13 – Tax continued

(c) Tax credited to equity

Tax credited directly to equity in the year in respect of coupon payments on the direct capital instrument and tier 1 notes amounted to £17 million *(2015: £15 million).*

(d) Tax reconciliation

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

	Shareholder £m	**Policyholder £m**	**2016 £m**	Shareholder £m	Policyholder £m	Restated[1] 2015 £m
Total profit/(loss) before tax	**1,193**	**640**	**1,833**	1,413	(218)	1,195
Tax calculated at standard UK corporation tax rate of 20.00% *(2015: 20.25%)*	**239**	**128**	**367**	286	(44)	242
Reconciling items						
Different basis of tax – policyholders	**—**	**513**	**513**	—	(174)	(174)
Adjustment to tax charge in respect of prior periods	**(34)**	**—**	**(34)**	(46)	—	(46)
Non-assessable income and items not taxed at the full statutory rate	**39**	**—**	**39**	19	—	19
Non-taxable loss/(profit) on sale of subsidiaries and associates	**1**	**—**	**1**	1	—	1
Disallowable expenses	**49**	**—**	**49**	67	—	67
Different local basis of tax on overseas profits	**97**	**(1)**	**96**	126	—	126
Change in future local statutory tax rates	**(36)**	**—**	**(36)**	(82)	—	(82)
Movement in deferred tax not recognised	**(13)**	**—**	**(13)**	(52)	—	(52)
Tax effect of profit from joint ventures and associates	**(6)**	**—**	**(6)**	(6)	—	(6)
Other	**(2)**	**—**	**(2)**	3	—	3
Total tax charged/(credited) to income statement	**334**	**640**	**974**	316	(218)	98

1 Following a correction to accounting and modelling for annual management charge rebates in UK Life, prior year comparatives have been restated. This has led to an increase in operating profit and profit before tax of £23 million for 2015 and an increase in opening retained earnings for 2015 of £20 million with an increase in equity at 31 December 2015 of £38 million. As a result, the tax charge increased by £5 million to £98 million. See note 1 for further details.

The tax charge/(credit) attributable to policyholder returns is removed from the Group's total profit before tax in arriving at the Group's profit before tax attributable to shareholders' profits. As the net of tax profits attributable to with-profit and unit-linked policyholders is zero, the Group's pre-tax profit attributable to policyholders is an amount equal and opposite to the tax charge/(credit) attributable to policyholders included in the total tax charge. The difference between the policyholder tax charge/(credit) and the impact of this item in the tax reconciliation can be explained as follows:

	2016 £m	2015 £m
Tax attributable to policyholder returns	**640**	(218)
UK corporation tax at a rate of 20.00% *(2015: 20.25%)* in respect of the policyholder tax deduction	**(128)**	44
Different local basis of tax of overseas profits	**1**	—
Different basis of tax – policyholders per tax reconciliation	**513**	(174)

Finance (No 2) Act 2015 introduced legislation reducing the rate of corporation tax from 20% at 1 April 2016 to 19% from 1 April 2017 and to 18% from 1 April 2020. These reduced rates were used in the calculation of the UK's deferred tax assets and liabilities as at 31 December 2015. Finance Act 2016, which received Royal Assent on 15 September 2016, reduced the corporation tax rate to 17% from 1 April 2020.

In addition, the French government has reduced the rate of corporation tax from 34.43% to 28.92% with effect from 1 January 2020. The further reduction in the future corporation tax rates in the UK from 18% to 17%, and the reduction in France from 34.43% to 28.92% has been used in the calculation of deferred tax assets and liabilities in the UK and France for the year ended 31 December 2016. This results in a reduction in the Group's net deferred tax liabilities of £24 million, comprising a £14 million credit in the income statement and a £10 million credit in the statement of comprehensive income.

IFRS Financial statements

14 – Earnings per share

This note shows how we calculate earnings per share, based both on the present shares in issue (the basic earnings per share) and the potential future shares in issue, including conversion of share options granted to employees (the diluted earnings per share). We have also shown the same calculations based on our operating profit as we believe this gives a better indication of operating performance.

(a) Basic earnings per share

(i) The profit attributable to ordinary shareholders is:

	2016			Restated[1] 2015		
	Operating profit £m	**Non-operating items £m**	**Total £m**	Operating profit £m	Non-operating items £m	Total £m
Profit before tax attributable to shareholders' profits	**3,010**	**(1,817)**	**1,193**	2,688	(1,275)	1,413
Tax attributable to shareholders' profit	**(706)**	**372**	**(334)**	(603)	287	(316)
Profit for the year	**2,304**	**(1,445)**	**859**	2,085	(988)	1,097
Amount attributable to non-controlling interests	**(147)**	**(9)**	**(156)**	(152)	(9)	(161)
Cumulative preference dividends for the year	**(17)**	**—**	**(17)**	(17)	—	(17)
Coupon payments in respect of direct capital instrument (DCI) and tier 1 notes (net of tax)	**(68)**	**—**	**(68)**	(57)	—	(57)
Profit attributable to ordinary shareholders	**2,072**	**(1,454)**	**618**	1,859	(997)	862

1 Following a correction to accounting and modelling for annual management charge rebates in UK Life, prior year comparatives have been restated. This has led to an increase in operating profit and profit before tax of £23 million for 2015 and an increase in opening retained earnings for 2015 of £20 million with an increase in equity at 31 December 2015 of £38 million. See note 1 for further details.

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

	2016			Restated[1] 2015		
	Before tax £m	**Net of tax, non-controlling interests, preference dividends and DCI[2] £m**	**Per share p**	Before tax £m	Net of tax, non-controlling interests, preference dividends and DCI[2] £m	Per share p
Operating profit attributable to ordinary shareholders	**3,010**	**2,072**	**51.1**	2,688	1,859	49.7
Non-operating items:						
Investment return variances and economic assumption changes on long-term business	**379**	**313**	**7.8**	14	(37)	(1.0)
Short-term fluctuation in return on investments backing non-long-term business	**(518)**	**(398)**	**(9.8)**	(84)	(62)	(1.7)
Economic assumption changes on general insurance and health business	**(242)**	**(193)**	**(4.8)**	(100)	(80)	(2.1)
Impairment of goodwill, joint ventures and associates and other amounts expensed	**—**	**—**	**—**	(22)	(22)	(0.6)
Amortisation and impairment of intangibles	**(175)**	**(137)**	**(3.4)**	(155)	(121)	(3.2)
Amortisation and impairment of acquired value of in-force business	**(540)**	**(455)**	**(11.2)**	(498)	(376)	(10.1)
(Loss)/profit on disposal and remeasurement of subsidiaries, joint ventures and associates	**(11)**	**(16)**	**(0.4)**	2	2	0.1
Integration and restructuring costs	**(212)**	**(170)**	**(4.2)**	(379)	(259)	(6.9)
Other[3]	**(498)**	**(398)**	**(9.8)**	(53)	(42)	(1.1)
Profit attributable to ordinary shareholders	**1,193**	**618**	**15.3**	1,413	862	23.1

1 Following a correction to accounting and modelling for annual management charge rebates in UK Life, prior year comparatives have been restated. This has led to an increase in operating profit and profit before tax of £23 million for 2015 and an increase in opening retained earnings for 2015 of £20 million with an increase in equity at 31 December 2015 of £38 million. See note 1 for further details.
2 DCI includes the direct capital instrument and tier 1 notes
3 Other items include an exceptional charge of £475 million *(2015: £nil)*, £380 million net of tax *(2015: £nil)*, relating to the impact of the change in the Ogden discount rate from 2.5% set in 2001 to minus 0.75% announced by the Lord Chancellor on 27 February 2017.

(iii) The calculation of basic earnings per share uses a weighted average of 4,051 million *(2015: 3,741 million)* ordinary shares in issue, after deducting treasury shares. The actual number of shares in issue at 31 December 2016 was 4,062 million *(2015: 4,048 million)* and 4,058 million *(2015: 4,042 million)* excluding treasury shares.

14 – Earnings per share continued

(b) Diluted earnings per share

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

	2016 Total £m	2016 Weighted average number of shares million	2016 Per share p	Restated[1] 2015 Total £m	Restated[1] 2015 Weighted average number of shares million	Restated[1] 2015 Per share p
Profit attributable to ordinary shareholders	**618**	**4,051**	**15.3**	862	3,741	23.1
Dilutive effect of share awards and options	**—**	**38**	**(0.2)**	—	39	(0.3)
Diluted earnings per share	**618**	**4,089**	**15.1**	862	3,780	22.8

1 Following a correction to accounting and modelling for annual management charge rebates in UK Life, prior year comparatives have been restated. This has led to an increase in operating profit and profit before tax of £23 million for 2015 and an increase in opening retained earnings for 2015 of £20 million with an increase in equity at 31 December 2015 of £38 million. See note 1 for further details.

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

	2016 Total £m	2016 Weighted average number of shares million	2016 Per share p	Restated[1] 2015 Total £m	Restated[1] 2015 Weighted average number of shares million	Restated[1] 2015 Per share p
Operating profit attributable to ordinary shareholders	**2,072**	**4,051**	**51.1**	1,859	3,741	49.7
Dilutive effect of share awards and options	**—**	**38**	**(0.4)**	—	39	(0.5)
Diluted operating profit per share	**2,072**	**4,089**	**50.7**	1,859	3,780	49.2

1 Following a correction to accounting and modelling for annual management charge rebates in UK Life, prior year comparatives have been restated. This has led to an increase in operating profit and profit before tax of £23 million for 2015 and an increase in opening retained earnings for 2015 of £20 million with an increase in equity at 31 December 2015 of £38 million. See note 1 for further details.

15 – Dividends and appropriations

This note analyses the total dividends and other appropriations we paid during the year. The table below does not include the final dividend proposed after the year end because it is not accrued in these financial statements.

	2016 £m	2015 £m
Ordinary dividends declared and charged to equity in the year		
Final 2015 – 14.05 pence per share, paid on 17 May 2016	**570**	—
Final 2014 – 12.25 pence per share, paid on 15 May 2015	**—**	362
Interim 2016 – 7.42 pence per share, paid on 17 November 2016	**301**	—
Interim 2015 – 6.75 pence per share, paid on 17 November 2015	**—**	273
	871	635
Preference dividends declared and charged to equity in the year	**17**	17
Coupon payments on direct capital instrument and tier 1 notes	**85**	72
	973	724

Subsequent to 31 December 2016, the directors proposed a final dividend for 2016 of 15.88 pence per ordinary share *(2015: 14.05 pence*), amounting to £645 million *(2015: £570 million)* in total. Subject to approval by shareholders at the AGM, the dividend will be paid on 17 May 2017 and will be accounted for as an appropriation of retained earnings in the year ending 31 December 2017.

Interest on the direct capital instrument and tier 1 notes is treated as an appropriation of retained profits and, accordingly, is accounted for when paid. Tax relief is obtained at a rate of 20.00% *(2015: 20.25%).*

16 – Goodwill

This note analyses the changes to the carrying amount of goodwill during the year, and details the results of our impairment testing on both goodwill and intangible assets with indefinite lives.

(a) Carrying amount

	2016 £m	2015 £m
Gross amount		
At 1 January	**2,170**	1,503
Acquisitions and additions	**59**	694
Disposals	**(28)**	—
Foreign exchange rate movements	**91**	(27)
At 31 December	**2,292**	2,170
Accumulated impairment		
At 1 January	**(215)**	(201)
Impairment losses charged to expenses	**—**	(22)
Foreign exchange rate movements	**(32)**	8
At 31 December	**(247)**	(215)
Carrying amount at 1 January	**1,955**	1,302
Carrying amount at 31 December	**2,045**	1,955

Goodwill from acquisitions and additions in 2016 primarily arose on the acquisition of RBC General Insurance Company. Goodwill from acquisitions and additions in 2015 primarily arose on the acquisition of Friends Life (£671 million) and a network of independent financial advisors in Poland (£15 million).

There is no impairment of goodwill in 2016. The total impairment of goodwill in subsidiaries, joint ventures and associates in 2015 was a charge of £22 million following management's assessment that goodwill in subsidiaries of £13 million in Hong Kong and £9 million in Italy was impaired. Impairment tests on goodwill were conducted as described in note 16(b).

(b) Goodwill allocation and impairment testing

A summary of the goodwill and intangibles with indefinite useful lives allocated to cash generating units is presented below.

	Carrying amount of goodwill		Carrying amount of intangibles with indefinite useful lives (detailed in note 17)		Total	
	2016 £m	2015 £m	2016 £m	Restated* 2015 £m	2016 £m	Restated* 2015 £m
United Kingdom – long-term business	**663**	663	**—**	—	**663**	663
United Kingdom – general insurance and health	**924**	924	**—**	—	**924**	924
Ireland – general insurance and health	**94**	102	**—**	—	**94**	102
France – long-term business	**—**	5	**53**	46	**53**	51
Poland	**26**	23	**6**	6	**32**	29
Italy – long-term business	**8**	7	**—**	—	**8**	7
Italy – general insurance and health	**28**	24	**—**	—	**28**	24
Spain – long-term business	**163**	141	**183**	157	**346**	298
Canada	**88**	21	**—**	—	**88**	21
Asia	**51**	45	**—**	—	**51**	45
	2,045	1,955	**242**	209	**2,287**	2,164

* Restated for the transfer of a Spanish finite life intangible asset of £157 million to indefinite life Intangible asset.

Goodwill in all business units is tested for impairment by comparing the carrying value of the cash generating unit to which the goodwill relates, to the recoverable value of that cash generating unit. The recoverable amount is the value in use of the cash generating unit unless otherwise stated.

Long-term business

Following the cessation of full MCEV reporting from 1 January 2016, value in use has been calculated based on a shareholder value of the business calculated in accordance with Solvency II principles, adjusted where Solvency II does not represent a best estimate of shareholders' interests. The principal adjustments relate to the exclusion of the benefit of transitional measures on technical provisions and the volatility adjustment under Solvency II, modification of the Solvency II risk margin to an economic view and removal of restrictions on contract boundaries or business scope.

The present value of expected profits arising from future new business may be included within the shareholder value and is calculated on an adjusted Solvency II basis, using profit projections based on the most recent three year business plans approved by management. These plans reflect management's best estimate of future profits based on both historical experience and expected growth rates for the relevant cash generating unit. The underlying assumptions of these projections include market share, customer numbers, mortality, morbidity and persistency.

16 – Goodwill continued

Future new business profits beyond the initial three years are extrapolated using a steady growth rate. Growth rates and expected future profits are set with regards to management estimates, past experience and relevant available market statistics.

Expected profits from future new business are discounted using a risk adjusted discount rate. The discount rate is a combination of a risk-free rate and a risk margin to make prudent allowance for the risk that experience in future years for new business may differ from that assumed.

Key Assumptions

The Solvency II non-economic assumptions in relation to mortality, morbidity, persistency and expenses and other items are derived actively, based on management's best estimate assumptions. Economic assumptions are based on market data as at the end of each reporting period. The basic risk-free rate curves used to value the technical provisions reflect the curves, credit risk adjustment and fundamental spread for the matching adjustment published by EIOPA on their website. For the purposes of calculating value in use, the Solvency II risk margin has been modified to an economic view, with a cost of capital rate of 2%.

For the goodwill in the UK Life long-term business that arose on the Friends Life acquisition, the value of the business was sufficient to demonstrate goodwill recoverability on its own. As such it was not necessary to estimate the present value of expected profits from future new business.

	Shareholder value basis		Future new business profits growth rate		Future new business profits discount rate	
	2016	2015	**2016 %**	2015 %	**2016 (Pre-tax) %**	2015 (Post-tax)[1] %
Italy long-term business	**Adjusted Solvency II**	MCEV	**1.2**	1.3	**11.0**	8.1
Spain long-term business	**Adjusted Solvency II**	MCEV	**1.5**	1.5	**13.3**	10.0

1 The 2015 pre-tax discount rates for Italy and Spain were 12.3% and 13.3%, respectively.

General insurance, health, fund management and other businesses

Value in use is calculated as the discounted value of expected future profits of each business. The calculation uses cash flow projections based on business plans approved by management covering a three year period. These plans reflect management's best estimate of future profits based on both historical experience and expected growth rates for the relevant cash generating unit. The underlying assumptions of these projections include market share, customer numbers, premium rate and fee income changes, claims inflation and commission rates.

Cash flows beyond that three year period are extrapolated using a steady growth rate. Growth rates and expected future profits are set with regards to past experience and relevant available market statistics.

Future profits are discounted using a risk adjusted discount rate.

Key assumptions

	Extrapolated future profits growth rate		Future profits discount rate	
	2016 %	2015 %	**2016 (Pre-tax) %**	2015 (Post-tax)[2] %
United Kingdom general insurance and health	**1**	1.3	**7.7**	6.4
Ireland general insurance and health	**nil**	1.3 – 2.5	**6.7**	6.1
Italy general insurance and health	**1 – 1.2**	1.3	**9.0 – 11.8**	6.5 – 7.8

2 The 2015 pre-tax discount rates for United Kingdom, Ireland and Italy were 8.6%, 7.6% and 9.9%-12.9%, respectively.

Indefinite life intangible asset

France

The recoverable amount of the indefinite life intangible asset has been assessed based on the fair value less costs to sell of the cash generating unit to which it relates. The fair value less costs to sell was determined based on the quoted market value of Aviva's share of the subsidiary to which it relates.

Spain

The recoverable amount of the indefinite life intangible asset (see note 17 (b)) has been assessed using consistent assumptions with those for Spain long-term business goodwill impairment testing.

Results of impairment testing

There is no impairment of goodwill in 2016. For all cash generating units with associated goodwill, the recoverable amount exceeds the carrying value including goodwill. Furthermore, a reasonably possible change in assumptions would not cause the carrying amount to exceed its recoverable amount.

17 – Acquired value of in-force business (AVIF) and intangible assets

This note shows the movements in cost, amortisation and impairment of the acquired value of in-force business and intangible assets during the year.

	AVIF on insurance contracts[1] (a) £m	AVIF on investment contracts[2] (a) £m	Restated* Other intangible assets with finite useful lives (b) £m	Restated* Intangible assets with indefinite useful lives (c) £m	Total £m
Gross amount					
At 1 January 2015	465	118	1,421	110	2,114
Additions and transfers	2,205	2,585	382	220	5,392
Disposals	(21)	—	(20)	—	(41)
Foreign exchange rate movements	(18)	—	(49)	(5)	(72)
At 31 December 2015	**2,631**	**2,703**	**1,734**	**325**	**7,393**
Additions	**—**	**—**	**337**	**—**	**337**
Disposals	**(43)**	**—**	**(216)**	**—**	**(259)**
Foreign exchange rate movements	**51**	**1**	**121**	**42**	**215**
At 31 December 2016	**2,639**	**2,704**	**1,976**	**367**	**7,686**
Accumulated amortisation					
At 1 January 2015	(363)	(61)	(468)	—	(892)
Amortisation for the year	(259)	(237)	(131)	—	(627)
Disposals and transfers	21	—	70	(57)	34
Foreign exchange rate movements	15	—	12	—	27
At 31 December 2015	**(586)**	**(298)**	**(517)**	**(57)**	**(1,458)**
Amortisation for the year	**(255)**	**(284)**	**(155)**	**—**	**(694)**
Disposals	**43**	**—**	**211**	**—**	**254**
Foreign exchange rate movements	**(72)**	**(1)**	**(43)**	**—**	**(116)**
At 31 December 2016	**(870)**	**(583)**	**(504)**	**(57)**	**(2,014)**
Accumulated Impairment					
At 1 January 2015	(43)	(24)	(65)	(62)	(194)
Impairment losses charged to expenses	—	—	(18)	—	(18)
Disposals	—	—	5	—	5
Foreign exchange rate movements	—	—	—	3	3
At 31 December 2015	**(43)**	**(24)**	**(78)**	**(59)**	**(204)**
Impairment losses charged to expenses	**—**	**—**	**(14)**	**—**	**(14)**
Foreign exchange rate movements	**24**	**—**	**11**	**(9)**	**26**
At 31 December 2016	**(19)**	**(24)**	**(81)**	**(68)**	**(192)**
Carrying amount					
At 1 January 2015	59	33	888	48	1,028
At 31 December 2015	2,002	2,381	1,139	209	5,731
At 31 December 2016	**1,750**	**2,097**	**1,391**	**242**	**5,480**
Less: Assets classified as held for sale	**(12)**	**—**	**—**	**—**	**(12)**
	1,738	**2,097**	**1,391**	**242**	**5,468**

* Restated for the transfer of a Spanish finite life intangible asset of £157 million to indefinite life Intangible asset.

1 On insurance and participating investment contracts.
2 On non-participating investment contracts.

(a) AVIF on insurance and investment contracts is generally recoverable in more than one year. Of the total AVIF of £3,847 million (£1,750 million on insurance contracts, £2,097 million on investment contracts), £3,368 million *(2015: 3,962 million)* is expected to be recovered more than one year after the statement of financial position date. In 2015, the additions relate to the acquisition of Friends Life.

Non-participating investment contract AVIF is reviewed for evidence of impairment, consistent with reviews conducted for other finite life intangible assets. Insurance and participating investment contract AVIF is reviewed for impairment at each reporting date as part of the liability adequacy requirements of IFRS 4. AVIF is reviewed for evidence of impairment and impairment tested at product portfolio level by reference to the value of future profits in accordance with Solvency II principles, adjusted where Solvency II does not represent a best estimate of shareholders' interests, consistent with the impairment test for goodwill for long-term business (see note 16(b)). No impairment charges for AVIF were recognised in the year.

(b) Other intangible assets with finite useful lives consist mainly of the value of bancassurance and other distribution agreements and capitalised software. In 2015, a Spanish distribution agreement with a carrying amount of £157 million (£214 million cost less £57 million amortisation) was transferred to 'Other intangible assets with indefinite useful life' as a result of an extension in the duration of the agreement from 30 years to perpetuity.

Additions of intangibles with finite lives primarily relate to RBC Insurance's distribution network and customer relationships acquired as part of the acquisition of RBC General Insurance Company and capitalised software in the UK.

Disposals primarily comprise the derecognition of exhausted assets which are fully amortised or impaired with nil carrying value.

Impairment losses of £14 million on intangible assets with finite lives arose on capitalised software in other group activities.

(c) Intangible assets with indefinite useful lives primarily comprise the value of the Union Financière de France Banque and Banco Mare Nostrum (BMN) distribution channels in Spain, where the existing lives of the assets support this classification. Impairment testing of these intangible assets is covered in note 16(b).

18 – Interests in, and loans to, joint ventures

In several businesses, Group companies and other parties jointly control certain entities. This note analyses these interests and describes the principal joint ventures in which we are involved.

(a) Carrying amount and details of joint ventures

(i) The movements in the carrying amount comprised:

	2016				2015			
	Goodwill and intangibles £m	**Equity interests £m**	**Loans £m**	**Total £m**	Goodwill and intangibles £m	Equity interests £m	Loans £m	Total £m
At 1 January	**90**	**1,406**	**94**	**1,590**	87	980	73	1,140
Share of results before tax	**—**	**182**	**—**	**182**	—	174	—	174
Share of tax	**—**	**(4)**	**—**	**(4)**	—	(4)	—	(4)
Share of results after tax	**—**	**178**	**—**	**178**	—	170	—	170
Amortisation of intangibles[1]	**(8)**	**—**	**—**	**(8)**	(8)	—	—	(8)
Share of (loss)/profit after tax	**(8)**	**178**	**—**	**170**	(8)	170	—	162
Reclassification (to)/from subsidiary	**—**	**—**	**—**	**—**	—	(1)	—	(1)
Reclassification from associate	**—**	**—**	**—**	**—**	—	9	—	9
Additions	**—**	**307**	**3**	**310**	21	587	21	629
Disposals	**—**	**(346)**	**—**	**(346)**	—	(292)	—	(292)
Reduction in Group interest	**—**	**—**	**—**	**—**	(1)	(1)	—	(2)
Share of gains/(losses) taken to other comprehensive income	**—**	**(6)**	**—**	**(6)**	—	(14)	—	(14)
Loans repaid	**—**	**—**	**(97)**	**(97)**	—	—	—	—
Dividends received from joint ventures	**—**	**(53)**	**—**	**(53)**	—	(28)	—	(28)
Foreign exchange rate movements	**10**	**26**	**—**	**36**	(9)	(4)	—	(13)
At 31 December	**92**	**1,512**	**—**	**1,604**	90	1,406	94	1,590

1 Comprises amortisation of AVIF on insurance contracts of £1 million *(2015: £2 million)* and other intangibles of £7 million *(2015: £6 million).*

Additions and disposals primarily relate to the Group's holdings in property management undertakings.

The Group's share of total comprehensive income related to joint venture entities is £164 million *(2015: £148 million).*

(ii) The carrying amount at 31 December comprised:

	2016				2015			
	Goodwill and intangibles £m	**Equity interests £m**	**Loans £m**	**Total £m**	Goodwill and intangibles £m	Equity interests £m	Loans £m	Total £m
Property management undertakings	**—**	**1,146**	**—**	**1,146**	—	1,097	94	1,191
Long-term business undertakings	**78**	**338**	**—**	**416**	77	288	—	365
General insurance and health undertakings	**14**	**28**	**—**	**42**	13	21	—	34
Total	**92**	**1,512**	**—**	**1,604**	90	1,406	94	1,590

The property management undertakings perform property ownership and management activities, and are incorporated and operate in the UK. All such investments are held by subsidiary entities.

The long-term business undertakings perform life insurance activities. All investments in such undertakings are unlisted with the exception of Aviva SA Emklilik ve Hayat A.S. which has issued publicly a minority portion of shares. All investments in such undertakings are held by subsidiaries, except for the shares in the Chinese joint venture, Aviva-COFCO Life Insurance Co. Limited, which are held by Aviva plc. The Group's share of net assets of that company is £251 million *(2015: £214 million*) and has a fair value of £511 million *(2015: £322 million)*, the increase in fair value being driven primarily by a significant increase in the risk-free rates used to discount the liabilities within the Chinese market.

The investment in general insurance and health undertakings relates to the health insurance operations in our Indonesian joint venture and the general insurance operations in our Polish joint venture.

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18 – Interests in, and loans to, joint ventures continued

(iii) No joint ventures are considered to be material from a Group perspective *(2015: none).* The Group's principal joint ventures are as follows:

Name	Nature of activities	Principal place of business	Proportion of ownership interest 2016	2015
Airport Property Partnership	Property management	UK	**50.00%**	50.00%
Ascot Real Estate Investments LP	Property management	UK	**50.00%**	50.00%
2-10 Mortimer Street Limited Partnership	Property management	UK	**50.00%**	50.00%
BZ WBK-Aviva Towarzystwo Ubezpieczen Ogolnych SA	General insurance	Poland	**51.00%**	51.00%
BZ WBK-Aviva Towarzystwo Ubezpieczen na Zycie SA	Life insurance	Poland	**51.00%**	51.00%
Aviva-COFCO Life Insurance Co. Ltd	Life insurance	China	**50.00%**	50.00%
PT Astra Aviva Life	Life and Health insurance	Indonesia	**50.00%**	50.00%
First-Aviva Life Insurance Co. Ltd	Life insurance	Taiwan	**49.00%**	49.00%
AvivaSA Emeklilik ve Hayat A.S	Life insurance	Turkey	**40.00%**	40.00%
Vietinbank Aviva Life Insurance Co. Ltd	Life insurance	Vietnam	**50.00%**	50.00%

The Group has no joint ventures whose non-controlling interest (NCI) is material on the basis of their share of profit/(loss).

(iv) The joint ventures have no significant contingent liabilities to which the Group is exposed. The Group has commitments to provide funding to property management joint ventures of £6 million *(2015: £47 million).*

In certain jurisdictions the ability of joint ventures to transfer funds in the form of cash dividends or to repay loans and advances made by the Group is subject to local corporate or insurance laws and regulations and solvency requirements.

(b) Impairment testing

Interest in Joint ventures are tested for impairment when there is an indicator of impairment. They are tested for impairment by comparing the carrying value of the cash generating unit to which the goodwill or intangible relates to the recoverable value of that cash generating unit. Recoverable amount for Life and General Insurance businesses is calculated on a consistent basis with that used for impairment testing of goodwill, as set out in note 16 (b). The recoverable amount of property management undertakings is the fair value less costs to sell of the joint venture, measured in accordance with the Group's accounting policy for Investment Property (see accounting policy Q).

There is no impairment in the goodwill and intangible amounts within the joint ventures.

(c) Subsequent events

During December 2016, Aviva and Santander agreed changes to the shareholders' agreement in respect of their joint venture insurance operations in Poland, with an effective date of 1 January 2017. Following these changes, Aviva controls the companies and will consolidate them in 2017.

19 – Interests in, and loans to, associates

This note analyses our interests in entities which we do not control but where we have significant influence.

(a) Carrying amount and details of associates

(i) The movements in the carrying amount comprised:

	2016			2015		
	Goodwill and intangibles £m	**Equity interests £m**	**Total £m**	Goodwill and intangibles £m	Equity interests £m	Total £m
At 1 January	**26**	**303**	**329**	—	404	404
Share of results before tax	**—**	**57**	**57**	—	18	18
Share of tax	**—**	**(11)**	**(11)**	—	—	—
Share of results after tax	**—**	**46**	**46**	—	18	18
Impairment	**—**	**—**	**—**	—	—	—
Share of results after tax	**—**	**46**	**46**	—	18	18
Acquisitions	**—**	**—**	**—**	—	4	4
Additions	**39**	**44**	**83**	26	6	32
Reduction to Group interest	**—**	**(4)**	**(4)**	—	(94)	(94)
Reclassification to joint venture	**—**	**—**	**—**	—	(9)	(9)
Dividends received from associate	**—**	**(13)**	**(13)**	—	(17)	(17)
Foreign exchange rate movements	**—**	**40**	**40**	—	(9)	(9)
Movements in carrying amount	**39**	**113**	**152**	26	(101)	(75)
At 31 December	**65**	**416**	**481**	26	303	329

The additions in the year primarily relate to the acquisition of a further 26% holding in Aviva Life Insurance Company India Limited ('Aviva India'), increasing the associate share to 49%.

The Group's share of total comprehensive income related to associates is £46 million *(2015: £18 million)*.

(ii) No associates are considered to be material from a Group perspective *(2015: none)*. All investments in principal associates are held by subsidiaries. The Group's principal associates are as follows:

			Proportion of ownership interest	
Name	**Nature of activities**	**Principal place of business**	**2016**	2015
Aviva Life Insurance Company India Limited	Life insurance	India	**49.00%**	26.00%
SCPI Ufifrance Immobilier	Property Management	France	**20.40%**	20.40%
SCPI Selectipierre 2	Property Management	France	**28.85%**	22.16%
AI UK Commercial Real Estate Debt Fund[1]	Property Management	UK	**16.20%**	20.72%
Encore+[1]	Property Management	UK	**7.00%**	10.19%

1 The Group has significant influence over AI UK Commercial Real Estate Debt Fund and Encore+ so they are therefore accounted for as associates.

(iii) The associates have no significant contingent liabilities to which the Group is exposed. The Group has commitments to provide funding to property management associates of £3 million *(2015: £15 million)*.

In certain jurisdictions the ability of associates to transfer funds in the form of cash dividends or to repay loans and advances made by the Group is subject to local corporate or insurance laws and regulations and solvency requirements.

(b) Impairment testing

The recoverable amount of property management undertakings is the fair value less costs to sell of the associate, measured in accordance with the Group's accounting policy for Investment Property (see accounting policy Q).

There is no impairment of goodwill and intangibles in 2016 *(2015: £nil)*.

20 – Property and equipment

This note analyses our property and equipment, which are primarily properties occupied by Group companies.

	Properties under construction £m	Owner-occupied properties £m	Motor vehicles £m	Computer equipment £m	Other assets £m	Total £m
Cost or valuation						
At 1 January 2015	—	343	3	563	159	1,068
Additions	3	53	—	8	30	94
Disposals[1]	—	(51)	—	(300)	(2)	(353)
Transfers (to)/from investment property (note 21)	—	(13)	—	—	55	42
Fair value gains	—	39	—	—	—	39
Foreign exchange rate movements	—	(11)	—	(4)	(6)	(21)
At 31 December 2015	3	360	3	267	236	869
Additions	**2**	**3**	**—**	**14**	**48**	**67**
Disposals	**—**	**(77)**	**—**	**(13)**	**(20)**	**(110)**
Transfers from/(to) investment property (note 21)	**—**	**39**	**—**	**—**	**—**	**39**
Fair value losses	**—**	**(18)**	**—**	**—**	**—**	**(18)**
Foreign exchange rate movements	**—**	**34**	**—**	**2**	**13**	**49**
At 31 December 2016	**5**	**341**	**3**	**270**	**277**	**896**
Depreciation and impairment						
At 1 January 2015	—	(27)	(2)	(540)	(142)	(711)
Charge for the year	—	—	—	(11)	(13)	(24)
Disposals[1]	—	4	—	300	2	306
Impairment charge	—	—	—	—	—	—
Foreign exchange rate movements	—	—	—	3	6	9
At 31 December 2015	—	(23)	(2)	(248)	(147)	(420)
Charge for the year	**—**	**—**	**(1)**	**(11)**	**(13)**	**(25)**
Disposals	**—**	**3**	**1**	**12**	**19**	**35**
Impairment charge	**—**	**—**	**—**	**—**	**—**	**—**
Foreign exchange rate movements	**—**	**—**	**—**	**1**	**—**	**1**
At 31 December 2016	**—**	**(20)**	**(2)**	**(246)**	**(141)**	**(409)**
Carrying amount						
At 31 December 2015	3	337	1	19	89	449
At 31 December 2016	**5**	**321**	**1**	**24**	**136**	**487**

1 Disposals of computer equipment primarily comprise exhausted assets within Aviva Corporate Services.

Total net fair value losses of £18 million on owner occupied properties consist of £23 million of losses in the year *(2015: £1 million losses)* which have been taken to the income statement and £1 million reversal of losses *(2015: £13 million reversal)* taken to the income statement in previous years and £4 million gains *(2015: £27 million gains)* which have been taken to other comprehensive income.

Owner-occupied properties are stated at their revalued amounts, as assessed by qualified external valuers. These values are assessed in accordance with the relevant parts of the current Royal Institute of Chartered Surveyors Appraisal and Valuation Standards in the UK, and with current local valuation practices in other countries. This assessment is in accordance with UK Valuations Standards ('Red book'), and is the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction, after proper marketing wherein the parties had acted knowledgeably and without compulsion, on the basis of the highest and best use of asset that is physically possible, legally permissible and financially feasible. The valuation assessment adopts market-based evidence and is in line with guidance from the International Valuation Standards Committee and the requirements of IAS 16, *Property, Plant and Equipment*.

Similar considerations apply to properties under construction, where an estimate is made of valuation when complete, adjusted for anticipated costs to completion, profit and risk, reflecting market conditions at the valuation date.

If owner-occupied properties were stated on a historical cost basis, the carrying amount would be £341 million *(2015: £361 million)*.

The Group has no material finance leases for property and equipment.

21 – Investment property

This note gives details of the properties we hold for long-term rental yields or capital appreciation.

	2016 Freehold £m	2016 Leasehold £m	2016 Total £m	2015 Freehold £m	2015 Leasehold £m	2015 Total £m
Carrying value						
At 1 January	**9,372**	**1,929**	**11,301**	7,521	1,404	8,925
Additions[1]	**566**	**1**	**567**	2,813	685	3,498
Capitalised expenditure on existing properties	**119**	**36**	**155**	94	22	116
Fair value (losses)/gains	**(77)**	**(52)**	**(129)**	638	140	778
Disposals	**(1,133)**	**(307)**	**(1,440)**	(1,549)	(318)	(1,867)
Transfers (to)/from property and equipment (note 20)	**(39)**	**—**	**(39)**	(42)	—	(42)
Foreign exchange rate movements	**361**	**40**	**401**	(103)	(4)	(107)
At 31 December	**9,169**	**1,647**	**10,816**	9,372	1,929	11,301
Less: Assets classified as held for sale	**(48)**	**—**	**(48)**	—	—	—
	9,121	**1,647**	**10,768**	9,372	1,929	11,301

1 Additions in 2015 include investment property bought as part of the acquisition of Friends Life.

Please refer to note 22 'Fair value methodology' for further information on the fair value measurement and valuation techniques of investment property.

The fair value of investment properties leased to third parties under operating leases at 31 December 2016 was £10,754 million *(2015: £11,149 million)*. Future contractual aggregate minimum lease rentals receivable under the non-cancellable portion of these leases are given in note 53(b)(i).

22 – Fair value methodology

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

(a) Basis for determining fair value hierarchy

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

Level 1

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

Level 2

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

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

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

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

Level 3

Inputs to Level 3 fair values are unobservable inputs for the asset or liability. Unobservable inputs may have been used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Unobservable inputs reflect the assumptions the business unit considers that market participants would use in pricing the asset or liability. Examples are investment properties, certain private equity investments and private placements.

22 – Fair value methodology continued

The majority of the Group's assets and liabilities measured at fair value are based on quoted market information or observable market data. Of the total assets and liabilities measured at fair value 15.8% of assets and 4.4% of liabilities are based on estimates and recorded as Level 3. Where estimates are used, these are based on a combination of independent third-party evidence and internally developed models, calibrated to market observable data where possible. Third-party valuations using significant unobservable inputs validated against Level 2 internally modelled valuations are classified as Level 3, where there is a significant difference between the third-party price and the internally modelled value. Where the difference is insignificant, the instrument would be classified as Level 2.

(b) Changes to valuation techniques

There were no changes in the valuation techniques during the year compared to those described in the 2015 annual consolidated financial statements, other than in respect of certain securitised and equity release mortgages as set out in (e) below.

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

Set out below is a comparison of the carrying amounts and fair values of financial assets and liabilities, excluding those classified as held for sale. These amounts may differ where the assets or liabilities are carried on a measurement basis other than fair value, e.g. amortised cost.

	2016		2015	
	Fair value £m	**Carrying amount £m**	Fair value £m	Carrying amount £m
Financial assets				
Loans[1] (note 23 (a))	**24,705**	**24,784**	22,307	22,433
Financial Investments (note 26 (b))	**299,835**	**299,835**	274,217	274,217
Fixed maturity securities	**175,536**	**175,536**	162,964	162,964
Equity securities	**68,348**	**68,348**	63,558	63,558
Other investments (including derivatives)	**55,951**	**55,951**	47,695	47,695
Financial liabilities				
Non-participating investment contracts-restated[2] (note 41 (a))	**114,527**	**114,527**	103,034	103,034
Net asset value attributable to unitholders	**15,638**	**15,638**	11,415	11,415
Borrowings[1] (note 49 (a))	**10,926**	**10,295**	9,091	8,770
Derivative liabilities (note 57 (b))	**6,795**	**6,795**	3,881	3,881

1 Within the fair value total, the estimated fair value has been provided for the portion of loans and borrowings that are carried at amortised cost as disclosed in note 22 (h).
2 Following a correction to accounting and modelling for annual management charge rebates in UK Life, prior year comparatives have been restated. See note 1 for further details.

Fair value of the following assets and liabilities approximate to their carrying amounts:
- Receivables
- Cash and cash equivalents
- Payables and other financial liabilities

(d) Fair value hierarchy analysis

An analysis of assets and liabilities measured at amortised cost and fair value categorised by fair value hierarchy is given below.

	Fair value hierarchy					
2016	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Sub-total Fair value £m**	**Amortised cost £m**	**Total carrying value £m**
Recurring fair value measurements						
Investment Property (note 21)	**—**	**—**	**10,768**	**10,768**	**—**	**10,768**
Loans (note 23 (a))	**—**	**360**	**20,923**	**21,283**	**3,501**	**24,784**
Financial investments measured at fair value (note 26 (b))						
Fixed maturity securities	**96,102**	**62,987**	**16,447**	**175,536**	**—**	**175,536**
Equity securities	**67,435**	**—**	**913**	**68,348**	**—**	**68,348**
Other investments (including derivatives)	**45,710**	**6,240**	**4,001**	**55,951**	**—**	**55,951**
Financial assets of operations classified as held for sale	**9,408**	**366**	**980**	**10,754**	**75**	**10,829**
Total	**218,655**	**69,953**	**54,032**	**342,640**	**3,576**	**346,216**
Financial liabilities measured at fair value						
Non-participating investment contracts[1] (note 41 (a))	**110,900**	**219**	**3,408**	**114,527**	**—**	**114,527**
Net asset value attributable to unit holders	**15,618**	**—**	**20**	**15,638**	**—**	**15,638**
Borrowings (note 49 (a))	**—**	**—**	**1,110**	**1,110**	**9,185**	**10,295**
Derivative liabilities (note 57 (b))	**401**	**4,794**	**1,600**	**6,795**	**—**	**6,795**
Financial liabilities of operations classified as held for sale	**—**	**4**	**—**	**4**	**—**	**4**
Total	**126,919**	**5,017**	**6,138**	**138,074**	**9,185**	**147,259**

1 In addition to the balances in this table, included within Reinsurance assets in the Statement of financial position and note 43 are £18,366 million of non-participating investment contracts, which are legally reinsurance but do not meet the definition of a reinsurance contract under IFRS. These assets are financial instruments measured at fair value through profit and loss and are classified as Level 1 assets.

22 – Fair value methodology continued

2016	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
	Fair value hierarchy			
Non-recurring fair value measurement[1]				
Properties occupied by group companies	—	—	**321**	**321**
Total	—	—	**321**	**321**

1 Non-recurring fair value measurements of assets or liabilities are those fair value measurements that other IFRSs permit or require in particular circumstances.

Owner-occupied properties are stated at their revalued amounts, as assessed by qualified external valuers in line with the Group's policy. Further details on the valuation of these properties can be found in note 20.

2015	Level 1 £m	Level 2 £m	Level 3 £m	Sub-total Fair value £m	Amortised cost £m	Total carrying value £m
	Fair value hierarchy					
Recurring fair value measurements						
Investment Property (note 21)	—	—	11,301	11,301	—	11,301
Loans (note 23 (a))	—	950	18,129	19,079	3,354	22,433
Financial investments measured at fair value (note 26 (b))						
Fixed maturity securities	89,158	59,203	14,603	162,964	—	162,964
Equity securities	62,622	—	936	63,558	—	63,558
Other investments (including derivatives)	39,485	4,057	4,153	47,695	—	47,695
Total	191,265	64,210	49,122	304,597	3,354	307,951
Financial liabilities measured at fair value						
Non-participating investment contracts- restated[1,2] (note 41 (a))	99,368	245	3,421	103,034	—	103,034
Net asset value attributable to unit holders	11,393	—	22	11,415	—	11,415
Borrowings (note 49 (a))	—	781	527	1,308	7,462	8,770
Derivative liabilities (note 57 (b))	304	2,484	1,093	3,881	—	3,881
Total	111,065	3,510	5,063	119,638	7,462	127,100

1 In addition to the balances in this table, included within Reinsurance assets in the Statement of financial position and note 43 are £13,967 million of non-participating investment contracts, which are legally reinsurance but do not meet the definition of a reinsurance contract under IFRS. These assets are financial instruments measured at fair value through profit and loss and are classified as level 1 assets.
2 Following a correction to accounting and modelling for annual management charge rebates in UK Life, prior year comparatives have been restated. See note 1 for further details.

2015	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
	Fair value hierarchy			
Non-recurring fair value measurement[1]				
Properties occupied by group companies	—	—	337	337
Total	—	—	337	337

1 Non-recurring fair value measurements of assets or liabilities are those fair value measurements that other IFRSs permit or require in particular circumstances.

(e) Transfers between levels of the fair value hierarchy

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

Transfers between Level 1 and Level 2

For the year ended 31 December 2016, enhanced understanding of pricing vendor methodologies used for fair value hierarchy classification have resulted in transfers of debt securities in the UK from Level 1 to Level 2 of £0.2 billion.

Transfers to/from Level 3

Transfers of assets into Level 3 of £2.7 billion included:

- £0.7 billion of securitised and equity release mortgage loans valued using an internal model in place of the previous discounted cash flow model. The internal model incorporates a greater number of inputs relevant to calculating the fair value of these mortgages. As a number of these inputs have been deemed to be non-market observable and significant, the loans have been classified as Level 3 and transferred from Level 2.
- £1.5 billion of debt securities held in the UK and £0.4 billion held in France transferred due to the unavailability of significant observable market data or sufficiently significant differences between the valuations provided by the counterparty and broker quotes and the validation models.

£1.4 billion of assets transferred out of Level 3 relate principally to debt securities held by our businesses in the UK and France which were transferred to Level 2 as observable inputs became available or where the valuation provided by the counter party and broker quotes are corroborated using valuation models with observable inputs.

Transfers of liabilities into Level 3 of £0.9 billion relate mainly to securitised mortgage loan notes, presented within borrowings which have been transferred as these loans are valued using an internal model in place of the previous discounted cash flow model similar to the method used to value related Level 3 securitised mortgage assets.

22 – Fair value methodology continued

Transfers of liabilities out of Level 3 amounted to £0.3 billion relate to:

- £0.1 billion of non-participating investment contract liabilities where the underlying assets have been transferred due to a change in the observability of the inputs;
- £0.2 billion of derivative liabilities as the significant valuation input, being the credit spreads, are now determined from actively traded observable market data.

(f) Valuation approach for fair value assets and liabilities classified as Level 2

Please see note 22(a) for a description of typical Level 2 inputs.

Debt securities, in line with market practice, are generally valued using an independent pricing service. These valuations are determined using independent external quotations from multiple sources and are subject to a number of monitoring controls, such as monthly price variances, stale price reviews and variance analysis. Pricing services, where available, are used to obtain the third-party broker quotes. Where pricing services providers are used, a single valuation is obtained and applied. When prices are not available from pricing services, quotes are sourced from brokers.

Over-the-counter derivatives are valued using broker quotes or models such as option pricing models, simulation models or a combination of models. The inputs for these models include a range of factors which are deemed to be observable, including current market and contractual prices for underlying instruments, period to maturity, correlations, yield curves and volatility of the underlying instruments.

Unit Trusts and other investment funds included under the other investments category are valued using net asset values which are not subject to a significant adjustment for restrictions on redemption or for limited trading activity.

(g) Further information on Level 3 assets and liabilities:

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

	Assets								Liabilities	
2016	**Investment Property £m**	**Loans £m**	**Debt securities £m**	**Equity securities £m**	**Other investments (including derivatives) £m**	**Financial assets of operations classified as held for sale £m**	**Non participating investment contracts £m**	**Net asset value attributable to unitholders £m**	**Derivative liabilities £m**	**Borrowings £m**
Opening balance at 1 January 2016	**11,301**	**18,129**	**14,603**	**936**	**4,153**	**—**	**(3,421)**	**(22)**	**(1,093)**	**(527)**
Total net gains/(losses) recognised in the income statement[1]	**(75)**	**483**	**586**	**55**	**161**	**13**	**(111)**	**2**	**(575)**	**217**
Purchases	**721**	**116**	**1,587**	**94**	**718**	**228**	**(184)**	**—**	**(302)**	**—**
Issuances	**—**	**2,612**	**—**	**—**	**—**	**—**	**(41)**	**—**	**—**	**—**
Disposals	**(1,534)**	**(1,140)**	**(1,528)**	**(194)**	**(1,144)**	**(75)**	**358**	**—**	**196**	**—**
Settlements[2]	**—**	**—**	**67**	**—**	**—**	**—**	**21**	**—**	**—**	**17**
Transfers into Level 3	**—**	**718**	**1,893**	**—**	**40**	**50**	**(40)**	**—**	**—**	**(817)**
Transfers out of Level 3	**—**	**—**	**(1,284)**	**(1)**	**(111)**	**(15)**	**81**	**—**	**179**	**—**
Reclassification to held for sale	**(40)**	**—**	**(590)**	**—**	**(36)**	**666**	**—**	**—**	**—**	**—**
Foreign exchange rate movements	**395**	**5**	**1,113**	**23**	**220**	**113**	**(71)**	**—**	**(5)**	**—**
Balance at 31 December 2016	**10,768**	**20,923**	**16,447**	**913**	**4,001**	**980**	**(3,408)**	**(20)**	**(1,600)**	**(1,110)**

1 Total net gains/(losses) recognised in the income statement includes realised gains/(losses) on disposals.
2 Settlements include effective settlements of Group holdings.

	Assets								Liabilities	
2015	Investment Property £m	Loans £m	Debt securities £m	Equity securities £m	Other investments (including derivatives) £m	Financial assets of operations classified as held for sale £m	Non participating investment contracts £m	Net asset value attributable to unitholders £m	Derivative liabilities £m	Borrowings £m
Opening balance at 1 January 2015	8,925	17,000	11,309	159	3,066	—	—	(19)	(991)	(560)
Total net gains/(losses) recognised in the income statement[1]	898	(467)	172	29	236	—	42	4	26	(60)
Purchases[2]	3,627	—	4,909	993	2,227	—	(3,644)	(5)	(145)	—
Issuances	—	2,464	—	—	—	—	(79)	(2)	—	—
Disposals	(2,042)	(2,275)	(1,916)	(242)	(1,373)	—	253	—	16	1
Settlements[3]	—	(1,461)	(161)	—	—	—	69	—	—	92
Transfers into Level 3	—	2,868	1,302	6	75	—	(62)	—	—	—
Transfers out of Level 3	—	—	(624)	(2)	(22)	—	13	—	—	—
Reclassification to held for sale	—	—	—	—	—	—	—	—	—	—
Foreign exchange rate movements	(107)	—	(388)	(7)	(56)	—	(13)	—	1	—
Balance at 31 December 2015	11,301	18,129	14,603	936	4,153	—	(3,421)	(22)	(1,093)	(527)

1 Total net gains/(losses) recognised in the income statement includes realised gains/(losses) on disposals.
2 Purchases include Friends Life's Level 3 assets and liabilities at the date of acquisition.
3 Settlements include effective settlements of Group holdings.

22 – Fair value methodology continued

Total net gains recognised in the income statement in the year ended 31 December 2016 in respect of Level 3 assets measured at fair value amounted to £1,223 million *(2015: net gains of £868 million)* with net losses in respect of liabilities of £467 million *(2015: net gains of £12 million)*. Net gains of £833 million *(2015: net gains of £901 million)* attributable to assets and net losses of £333 million *(2015: net gains of £27 million)* attributable to liabilities relate to those still held at the end of the year.

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

(i) Investment property

- Investment property amounting to £10.8 billion *(2015: £11.3 billion)* is valued in the UK at least annually by external chartered surveyors in accordance with guidance issued by The Royal Institution of Chartered Surveyors, and using estimates during the intervening period. Outside the UK, valuations are produced by external qualified professional appraisers in the countries concerned. 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. These inputs are deemed unobservable.

(ii) Loans

- Commercial mortgage loans, Primary Healthcare, Infrastructure and Private Finance Initiative (PFI) loans held by our UK Life business amounting to £12.3 billion *(2015: £10.8 billion)*, were valued using a Portfolio Credit Risk Model (PCRM). This model calculates a Credit Risk Adjusted Value (CRAV) for each loan. The risk adjusted cash flows are discounted using a yield curve, taking into account the term dependent gilt yield curve and global assumptions for the liquidity premium. Loans valued using this model have been classified as Level 3 as the liquidity premium is deemed to be non-market observable. The liquidity premium used in the discount rate ranges between 125 bps to 215 bps. Furthermore, assumptions regarding property growth and rental income forecasts are based on commercial real estate market views which take into account market volatility following the UK referendum vote for the UK to leave the European Union in 2016.
- Equity release and securitised mortgage loans including those that were valued using a discounted cash flow model held by our UK Life business amounting to £8 billion *(2015: £6.7 billion)* are valued using an internal model. Inputs to the model include primarily property growth rates, mortality and morbidity assumptions, cost of capital and liquidity premium which are not deemed to be market observable. The valuation reflects an immediate c.8.5% decrease to property value in light of the UK referendum vote for the UK to leave the European Union the effect of which is offset by the long-term property growth assumption of approximately 4.4% per annum.
- Non-recourse loans of £0.6 billion *(2015: £0.6 billion)* have been valued using internally developed discounted cash flow models incorporating a significant number of modelling assumptions and unobservable market data including a probability of default and illiquidity premium.

(iii) Debt securities

- Privately placed notes held by our UK Life business of £3.1 billion *(2015: £3.3 billion)* have been valued using broker quotes or a discounted cash flow model using discount factors based on swap curves of similar maturity, plus internally derived spreads for credit risk. As these spreads have been deemed to be unobservable these notes have been classified as Level 3.
- Structured bond-type and non-standard debt products held by our business in France amounting to £7.4 billion *(2015: £5.8 billion)* and bonds held by our UK business of £2.6 billion *(2015: £2.2 billion)* have no active market. These debt securities are valued either using counterparty or broker quotes and validated against internal or third-party models. These bonds have been classified as Level 3 because either (i) the third-party models included a significant unobservable liquidity adjustment, or (ii) differences between the valuation provided by the counterparty and broker quotes and the validation model were sufficiently significant to result in a Level 3 classification.
- Collateralised loan obligations of £0.4 billion *(2015: £0.4 billion)* have been valued using internally developed discounted cash flow models incorporating a significant number of modelling assumptions and unobservable market data including assumptions regarding correlation among the underlying loans, a probability of default and liquidity premium.
- Corporate debt securities held by our French business of £1.5 billion *(2015: £1.5 billion)* and debt securities of £1.4 billion held by our UK and Asia businesses *(2015: £0.9 billion)* which are not traded in an active market have been valued using third party or counterparty valuations. These prices are considered to be unobservable due to infrequent market transactions.

(iv) Equity securities

- Equity securities which primarily comprise private equity holdings of £0.8 billion *(2015: £0.8 billion)* held in the UK are valued by a number of third party specialists. These are valued using a range of techniques, including earnings multiples, forecast cash flows and price/earnings ratios which are deemed to be unobservable.

(v) Other investments

- The following Other investments are valued based on external valuation reports received from fund managers:
  - Private equity investment funds amounting to £0.8 billion *(2015: £1.4 billion)*;
  - Other investment funds including property funds amounting to £0.8 billion *(2015: £1.0 billion)*;
  - External hedge funds held principally by businesses in the UK and France amounting to £0.5 billion *(2015: £0.5 billion)*; and
  - Discretionary managed funds held in Asia amounting to £1.7 billion *(2015: £1.2 billion)*.

22 – Fair value methodology continued

Where these valuations are at a date other than balance sheet date, as in the case of some private equity funds, we make adjustments for items such as subsequent draw-downs and distributions and the fund manager's carried interest.

Remaining Level 3 investments amount to £0.3 billion (*2015: £0.7 billion*) within debt securities, equity securities and other investments held by a number of businesses throughout the Group.

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

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

On the basis of the methodology outlined above, the Group is able to perform sensitivity analysis for £54 billion of the Group's Level 3 assets. For these Level 3 assets, changing unobservable valuation inputs to a reasonable alternative would result in a change in fair value by ± £2.3 billion. Of the £0.1 billion Level 3 assets for which sensitivity analysis is not provided, it is estimated that a 10% change in valuation assumptions downwards of these assets would result in a change in fair value of approximately £10 million.

(vi) Liabilities

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

- £3.4 billion *(2015: £3.4 billion)* of non-participating investment contract liabilities are classified as Level 3, either because the underlying unit funds are classified as Level 3 or because the liability relates to unfunded units or other non-unit adjustments which are based on a discounted cash flow analysis using unobservable market data and assumptions.
- Derivative liabilities of £1.6 billion *(2015: £0.9 billion)* comprising over-the-counter derivatives being primarily RPI swaps and index linked asset swaps. These swaps are valued using either discounted cash flow models. Cash flows within these models may be adjusted based on assumptions reflecting the underlying credit risk and liquidity risk and these assumptions are deemed to be non-market observable.
- £1.1 billion *(2015: £0.5 billion)* of securitised mortgage loan notes, presented within Borrowings, are valued using a similar technique to the related Level 3 securitised mortgage assets.

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

On the basis of the methodology outlined above, the Group is able to perform sensitivity analysis for £6 billion of the Group's Level 3 liabilities. For these Level 3 liabilities, changing unobservable valuation inputs to a reasonable alternative would result in a change in fair value by approximately ± £0.7 billion.

(h) Assets and liabilities not carried at fair value for which fair value is disclosed

The table below shows the fair value and fair value hierarchy for those assets and liabilities not carried at fair value.

2016	Fair value hierarchy Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Assets and liabilities not carried at fair value				
Loans	**—**	**1,300**	**2,122**	**3,422**
Borrowings	**9,113**	**300**	**403**	**9,816**

2015	Fair value hierarchy Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Assets and liabilities not carried at fair value				
Loans	—	1,046	2,181	3,227
Borrowings	7,295	176	312	7,783

23 – Loans

This note analyses the loans our Group companies have made, the majority of which are mortgage loans.

(a) Carrying amounts

The carrying amounts of loans at 31 December 2016 and 2015 were as follows:

	2016			2015		
	At fair value through profit or loss other than trading £m	At amortised cost £m	Total £m	At fair value through profit or loss other than trading £m	At amortised cost £m	Total £m
Policy loans	**1**	**881**	**882**	1	778	779
Loans to banks	**569**	**2,010**	**2,579**	572	2,151	2,723
Healthcare, infrastructure & PFI other loans	**2,460**	**—**	**2,460**	1,246	—	1,246
UK securitised mortgage loans (see note 24)	**7,416**	**—**	**7,416**	2,452	—	2,452
Non-securitised mortgage loans	**10,837**	**1**	**10,838**	14,808	—	14,808
Loans to brokers and other intermediaries	**—**	**170**	**170**	—	135	135
Other loans	**—**	**514**	**514**	—	290	290
Total	**21,283**	**3,576**	**24,859**	19,079	3,354	22,433
Less: Amounts classified as held for sale	**—**	**(75)**	**(75)**	—	—	—
	21,283	**3,501**	**24,784**	19,079	3,354	22,433

Of the above total loans, £23,432 million *(2015: £20,948 million)* are due to be recovered in more than one year after the statement of financial position date.

Loans at fair value

Fair values have been calculated by discounting the future cash flows using appropriate current interest rates for each portfolio of mortgages. Further details of the fair value methodology are given in note 22.

The cumulative change in fair value of loans attributable to changes in credit risk to 31 December 2016 was a £1,735 million loss *(2015: £1,994 million loss)*.

During 2016, £4,614 million of non-securitised loans were transferred to securitised residential mortgage loans. Refer to note 24 for details of securitised mortgages and related assets as at 31 December 2016.

Non-securitised mortgage loans include £3.3 billion *(2015: £3.3 billion)* relating to UK primary healthcare and PFI businesses which are secured against General Practitioner premises, other primary health-related premises or other emergency services related premises. For all such loans, government support is provided through either direct funding or reimbursement of rental payments to the tenants to meet income service and provide for the debt to be reduced substantially over the term of the loan. Although the loan principal is not government-guaranteed, the nature of these businesses and premises provides considerable comfort of an ongoing business model and low risk of default.

Healthcare, Infrastructure and PFI other loans of £2.5 billion *(2015: £1.2 billion)* are secured against the income from healthcare and educational premises.

Loans at amortised cost

The fair value of these loans at 31 December 2016 was £3,497 million *(2015: £3,228 million).*

(b) Analysis of loans carried at amortised cost

	2016			2015		
	Amortised Cost £m	Impairment £m	Carrying Value £m	Amortised Cost £m	Impairment £m	Carrying Value £m
Policy loans	**881**	**—**	**881**	778	—	778
Loans to banks	**2,010**	**—**	**2,010**	2,151	—	2,151
Non-securitised mortgage loans	**8**	**(7)**	**1**	6	(6)	—
Loans to brokers and other intermediaries	**170**	**—**	**170**	135	—	135
Other loans	**514**	**—**	**514**	290	—	290
Total	**3,583**	**(7)**	**3,576**	3,360	(6)	3,354

The movements in the impairment provisions on these loans for the years ended 31 December 2016 and 2015 were as follows:

	2016 £m	2015 £m
At 1 January	**(6)**	(61)
Increase during the year	**(1)**	(2)
Write back following sale or reimbursement	**—**	57
At 31 December	**(7)**	(6)

23 – Loans continued

(c) Collateral

Loans to banks include cash collateral received under stock lending arrangements (see note 58 for further discussion regarding these collateral positions). The obligation to repay this collateral is included in payables and other financial liabilities (note 50).

The Group holds collateral in respect of loans where it is considered appropriate in order to reduce the risk of non-recovery. This collateral generally takes the form of liens or charges over properties and, in the case of policy loans, the underlying policy for the majority of the loan balances above. In all other situations, the collateral must be in a readily realisable form, such as listed securities, and is held in segregated accounts.

24 – Securitised mortgages and related assets

The Group, in its UK Life business has loans receivable, secured by mortgages, which have then been securitised through non-recourse borrowings. This note gives details of the relevant transactions.

(a) Description of current arrangements

In a UK long-term business subsidiary, Aviva Equity Release UK Limited (AER), the beneficial interest in certain portfolios of lifetime mortgages has been transferred to five special purpose securitisation companies (the ERF companies), in return for initial consideration and, at later dates, deferred consideration. The deferred consideration represents receipts accrued within the ERF companies after meeting all their obligations to the note holders, loan providers and other third parties in the priority of payments. The purchases of the mortgages were funded by the issue of fixed and floating rate notes by the ERF companies.

All the shares in the ERF companies are held by independent companies, whose shares are held on trust. Although AER does not own, directly or indirectly, any of the share capital of the ERF companies or their parent companies, it has control of the securitisation companies, and they have therefore been treated as subsidiaries in the consolidated financial statements. AER has no right to repurchase the benefit of any of the securitised mortgage loans, other than in certain circumstances where AER is in breach of warranty or loans are substituted in order to affect a further advance.

AER has purchased subordinated notes and granted subordinated loans to some of the ERF companies. In addition, Group companies have invested £217 million in loan notes issued by the ERF companies. These have been eliminated on consolidation through offset against the borrowings of the ERF companies in the consolidated statement of financial position.

In all of the above transactions, the Company and its subsidiaries are not obliged to support any losses that may be suffered by the note holders and do not intend to provide such support. Additionally, the notes were issued on the basis that note holders are only entitled to obtain payment, of both principal and interest, to the extent that the available resources of the respective special purpose securitisation companies, including funds due from customers in respect of the securitised loans, are sufficient and that note holders have no recourse whatsoever to other companies in the Aviva Group.

During 2016, £4,614 million of non-securitised residential loans were securitised internally by transferring them to a wholly owned subsidiary, Aviva ERFA 15 UK Limited in exchange for £4,586 million of loan notes. Any losses arising from the credit risk of the underlying mortgages on the internally securitised mortgage loans are borne by the Group. The Group recognises the securitised mortgage loans at fair value but the other assets of £223 million and liabilities of £5,215 million associated with the arrangement are intercompany and are eliminated on Group consolidation. As at 31 December 2016, securitised mortgage loans of £7,416 million comprised £2,424 million *(2015: £2,452 million)* relating to the ERF companies which are externally securitised and £4,992 million *(2015: £nil)* relating to Aviva ERFA 15 UK Limited which are internally securitised.

(b) Carrying values

The following table summarises the ERF companies'and Aviva ERFA 15 UK Limited securitisation arrangements:

	2016 Securitised assets £m	**2016** Securitised borrowings £m	2015 Securitised assets £m	2015 Securitised borrowings £m
Securitised mortgage loans				
At fair value (note 23)	**7,416**	**(1,327)**	2,452	(1,564)
Other securitisation assets/(liabilities)[1]	**476**	**(6,565)**	297	(1,185)
	7,892	**(7,892)**	2,749	(2,749)

1. Other securitisation assets/(liabilities) include £223 million *(2015: £nil)* of securitisation assets and £5,215 million *(2015: £nil)* of securitisation liabilities (loan note liabilities) with respect to Aviva ERFA 15 UK Limited which are eliminated on consolidation.

Loan notes held by third parties are as follows:

	2016 £m	2015 £m
Total loan notes issued, as above	**1,327**	1,564
Less: Loan notes held by Group companies	**(217)**	(256)
Loan notes held by third parties (note 49(c)(i))	**1,110**	1,308

25 – Interests in structured entities

A structured entity is defined as an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, or when the relevant activities are directed by means of contractual arrangements. The Group has interests in both consolidated and unconsolidated structured entities as described below.

The Group holds redeemable shares or units in investment vehicles, which consist of:
- Debt securities comprising securitisation vehicles that Aviva does not originate. These investments are comprised of a variety of debt instruments, including asset-backed securities and other structured securities.
- Investment funds which include: hedge funds, liquidity funds, private equity funds, unit trusts, mutual funds and Private Finance Initiative (PFIs).
- Specialised investment vehicles include Open Ended Investment Companies (OEICs), Property Limited Partnerships (PLPs), Sociétés d'Investissement a Capital Variable (SICAVs) and other investment vehicles.

The Group's holdings in investment vehicles are subject to the terms and conditions of the respective investment vehicle's offering documentation and are susceptible to market price risk arising from uncertainties about future values of those investment vehicles. The investment manager makes investment decisions after extensive due diligence of the underlying investment vehicle including consideration of its strategy and the overall quality of the underlying investment vehicle's manager.

All of the investment vehicles in the investment portfolio are managed by portfolio managers who are compensated by the respective investment vehicles for their services. Such compensation generally consists of an asset-based fee and a performance-based incentive fee, and is reflected in the valuation of the investment vehicles.

(a) Interests in consolidated structured entities

The Group has determined that where it has control over investment vehicles, these investments are consolidated structured entities. As at 31 December 2016 the Group has granted loans to consolidated PLPs for a total of £114 million *(2015: £174 million).* The purpose of these loans is to assist the consolidated PLPs to purchase or construct properties. The Group has also provided support, without having a contractual obligation to do so, to certain consolidated PLPs via letters of support amounting to £167 million *(2015: £121 million).* The Group has commitments to provide funding to consolidated structured entities of £10 million (*2015 Restated*[1]*: £9 million).*

The Group has also given support to the consolidated structured entity Aviva Equity Release UK Limited (AER). As set out in note 24, at the inception of the securitisation vehicle, the UK subsidiary, Aviva Equity Release UK Limited (AER), has granted subordinated loan facilities to some of the ERF companies. AER receives various fees in return for the services provided to the entities. Aviva receives cash management fees based on the outstanding loan balance at the start of each quarter for the administration of the loan note liabilities. AER receives portfolio administration fees as compensation for managing the mortgage assets. Refer to note 24 for details of securitised mortgages and related assets as at 31 December 2016.

As at the reporting date, the Group has no intentions to provide financial or other support in relation to any other investment vehicles.

1 The Group commitments to provide funding have been reduced by £44 million to reflect consolidated structured entities only.

25 – Interests in structured entities continued

(b) Interests in unconsolidated structured entities

As part of its investment activities, the Group invests in unconsolidated structured entities. As at 31 December 2016, the Group's total interest in unconsolidated structured entities was £59.8 billion (*2015 Restated[3]: £50.9 billion*) on the Group's statement of financial position. The Group's total interest in unconsolidated structured entities is classified as Interests in and loans to joint ventures and associates and financial investments held at fair value through profit or loss. The Group does not sponsor any of the unconsolidated structured entities.

As at 31 December 2016, a summary of the Group's interest in unconsolidated structured entities is as follows:

	2016 £m					2015 £m				
	Interest in, and loans to, joint ventures	**Interest in, and loans to, associates**	**Financial investments**	**Loans**	**Total assets**	Interest in, and loans to, joint ventures	Interest in, and loans to, associates	Financial investments	Loans[3]	Restated[3] Total assets
Structured debt securities[1]	**—**	**—**	**3,923**	**—**	**3,923**	—	—	4,260	—	4,260
Other investments and equity securities	**1,146**	**305**	**51,984**	**—**	**53,435**	1,191	258	43,907	—	45,356
Analysed as:										
Unit trust and other investment vehicles	**—**	**—**	**50,190**	**—**	**50,190**	—	—	42,641	—	42,641
PLPs and property funds	**1,146**	**305**	**1,186**	**—**	**2,637**	1,191	258	960	—	2,409
Other (Including other funds and equity securities)	**—**	**—**	**608**	**—**	**608**	—	—	306	—	306
Loans[2]	**—**	**—**	**—**	**2,460**	**2,460**	—	—	—	1,246	1,246
Total	**1,146**	**305**	**55,907**	**2,460**	**59,818**	1,191	258	48,167	1,246	50,862

1 Reported within 'other debt securities' in note 26a.
2 Loans include Healthcare, infrastructure & PFI other loans.
3 Following a review 2015 loans of £1,246 million were identified as being interests in unconsolidated structured entities.

The Group's maximum exposure to loss related to the interests in unconsolidated structured entities is £59.8 billion.

The majority of debt securities above are investment grade securities held by the UK business. In some cases, the Group may be required to absorb losses from an unconsolidated structured entity before other parties when and if Aviva's interest is more subordinated with respect to other owners of the same security.

At 31 December 2016 the loans granted to PLPs classified as joint ventures and associates have been repaid *(2015: £94 million).* These loans were provided for the purpose of short-term liquidity funding. For commitments to property management joint ventures and associates, please refer to Notes 18 and 19, respectively. The Group has not provided any other financial or other support in addition to that described above as at the reporting date, and there are no intentions to provide support in relation to any other unconsolidated structured entities in the foreseeable future.

In relation to risk management, disclosures on debt securities and investment vehicles are given in note 56(b)(iii) 'Risk management'. In relation to other guarantees and commitments that the Group provides in the course of its business, please refer to Note 52(f) 'Contingent liabilities and other risk factors'.

Aviva's interest in unconsolidated structured entities that it also manages at 31 December 2016 is £2.1 billion *(2015: £2.3 billion)* and the total funds under management relating to these investments at 31 December 2016 is £14.5 billion *(2015: £15.3 billion).*

(c) Other interests in unconsolidated structured entities

The Group receives management fees and other fees in respect of its asset management businesses. The Group does not sponsor any of the funds or investment vehicles from which it receives fees. Management fees received for investments that the Group manages but does not have a holding in also represent an interest in unconsolidated structured entities. As these investments are not held by the Group, the investment risk is borne by the external investors and therefore the Group's maximum exposure to loss relates to future management fees. The table below shows the assets under management of entities that the Group manages but does not have a holding in and the fees earned from those entities. The increase in total assets under management is primarily the result of an increase in total pension fund assets managed by Poland.

	2016		2015	
	Assets Under Management £m	**Investment Management Fees £m**	Assets Under Management £m	Investment Management Fees £m
Investment funds[1]	**9,281**	**63**	7,621	59
Specialised investment vehicles:	**3,726**	**14**	2,886	11
Analysed as:				
OEICs	**1,536**	**5**	812	6
PLPs	**2,155**	**9**	2,042	5
SICAVs	**35**	**—**	32	—
Total	**13,007**	**77**	10,507	70

1 Investment funds relate primarily to the Group's Spanish and Polish pension funds.

26 – Financial investments

This note analyses our financial investments by type and shows their cost and fair value. These will change from one period to the next as a result of new business written, claims paid and market movements.

(a) Carrying amount

Financial investments comprise:

	2016				2015			
	At fair value through profit or loss				At fair value through profit or loss			
	Trading £m	Other than trading £m	Available for sale £m	Total £m	Trading £m	Other than trading £m	Available for sale £m	Total £m
Fixed maturity securities								
Debt securities								
UK government	—	**30,733**	—	**30,733**	—	33,279	—	33,279
UK local authorities	—	**19**	—	**19**	—	18	—	18
Non-UK government (note 26e)	—	**51,563**	**842**	**52,405**	—	41,952	712	42,664
Corporate bonds								
Public utilities	—	**11,651**	**21**	**11,672**	—	10,634	19	10,653
Other corporate	—	**74,780**	**229**	**75,009**	—	63,012	187	63,199
Convertibles and bonds with warrants attached	—	**180**	—	**180**	—	158	—	158
Other	—	**12,224**	—	**12,224**	—	10,765	—	10,765
	—	**181,150**	**1,092**	**182,242**	—	159,818	918	160,736
Certificates of deposit	—	**1,032**	—	**1,032**	—	2,228	—	2,228
	—	**182,182**	**1,092**	**183,274**	—	162,046	918	162,964
Equity securities								
Ordinary shares								
Public utilities	—	**4,328**	—	**4,328**	—	3,367	—	3,367
Banks, trusts and insurance companies	—	**15,392**	**1**	**15,393**	—	14,016	10	14,026
Industrial miscellaneous and all other	—	**48,980**	**6**	**48,986**	—	45,961	3	45,964
	—	**68,700**	**7**	**68,707**	—	63,344	13	63,357
Non-redeemable preference shares	—	**305**	—	**305**	—	201	—	201
	—	**69,005**	**7**	**69,012**	—	63,545	13	63,558
Other investments								
Unit trusts and other investment vehicles	—	**50,189**	**1**	**50,190**	—	42,641	—	42,641
Derivative financial instruments (note 57)	**6,119**	—	—	**6,119**	3,328	—	—	3,328
Deposits with credit institutions	—	**325**	—	**325**	—	460	—	460
Minority holdings in property management undertakings	—	**1,186**	—	**1,186**	—	960	—	960
Other investments – long-term	—	**434**	—	**434**	—	305	—	305
Other investments – short-term	—	**1**	—	**1**	—	1	—	1
	6,119	**52,135**	**1**	**58,255**	3,328	44,367	—	47,695
Total financial investments	**6,119**	**303,322**	**1,100**	**310,541**	3,328	269,958	931	274,217
Less: assets classified as held for sale								
Fixed maturity securities	—	—	**(7,738)**	**(7,738)**	—	—	—	—
Equity securities	—	—	**(664)**	**(664)**	—	—	—	—
Other investments	—	—	**(2,304)**	**(2,304)**	—	—	—	—
	—	—	**(10,706)**	**(10,706)**	—	—	—	—
	6,119	**303,322**	**(9,606)**	**299,835**	3,328	269,958	931	274,217

Of the above total, £192,776 million *(2015: £174,362 million)* is due to be recovered in more than one year after the statement of financial position date.

Other debt securities of £12,224 million *(2015: £10,765 million)* include residential and commercial mortgage-backed securities, as well as other structured credit securities.

26 – Financial investments continued

(b) Cost, unrealised gains and fair value

The following is a summary of the cost/amortised cost, gross unrealised gains and losses and fair value of financial investments:

	2016				2015			
	Cost/ amortised cost £m	**Unrealised gains £m**	**Unrealised losses and impairments £m**	**Fair value £m**	Cost amortised cost £m	Unrealised gains £m	Unrealised losses and impairments £m	Fair value £m
Fixed maturity securities	**168,075**	**16,408**	**(1,209)**	**183,274**	155,247	10,864	(3,147)	162,964
Equity securities	**57,268**	**13,214**	**(1,470)**	**69,012**	60,124	7,663	(4,229)	63,558
Other investments								
Unit trusts and other investment vehicles	**46,002**	**3,484**	**704**	**50,190**	41,620	2,155	(1,134)	42,641
Derivative financial instruments	**1,313**	**5,381**	**(575)**	**6,119**	928	2,698	(298)	3,328
Deposits with credit institutions	**325**	**—**	**—**	**325**	460	—	—	460
Minority holdings in property management undertakings	**1,126**	**138**	**(78)**	**1,186**	938	132	(110)	960
Other investments – long-term	**432**	**32**	**(30)**	**434**	316	20	(31)	305
Other investments – short-term	**1**	**—**	**—**	**1**	1	—	—	1
	274,542	**38,657**	**(2,658)**	**310,541**	259,634	23,532	(8,949)	274,217
These are further analysed as follows:								
At fair value through profit or loss	**273,548**	**38,550**	**(2,657)**	**309,441**	258,777	23,447	(8,938)	273,286
Available for sale	**994**	**107**	**(1)**	**1,100**	857	85	(11)	931
	274,542	**38,657**	**(2,658)**	**310,541**	259,634	23,532	(8,949)	274,217

All unrealised gains and losses and impairments on financial investments classified as fair value through profit or loss have been recognised in the income statement.

Unrealised gains and losses on financial investments classified as at fair value through profit or loss, recognised in the income statement in the year, were a net gain of £19,452 million *(2015: £9,586 million net loss)*. Of this net gain, £19,722 million net gain *(2015: £8,429 million net loss)* related to investments designated as other than trading and £270 million net loss *(2015: £1,157 million net loss)* related to financial investments designated as trading.

The movement in the unrealised gain/loss position reported in the statement of financial position during the year, shown in the table above, includes foreign exchange movements on the translation of unrealised gains and losses on financial investments held by foreign subsidiaries, which are recognised in other comprehensive income, as well as transfers due to the realisation of gains and losses on disposal and the recognition of impairment losses.

The total accumulated impairment provision for financial investments classified as available-for-sale included in the table above within unrealised losses and impairments was £nil million *(2015: £9 million)*, as the previously recognised impairment on other investments of £9 million was recovered through sale during 2016.

(c) Impairment of financial investments

The movements in impairment provisions on available-for-sale financial investments for the years ended 31 December 2016 and 2015 were as follows:

	2016				2015			
	Fixed maturity securities £m	**Equity securities £m**	**Other Investments £m**	**Total £m**	Fixed maturity securities £m	Equity securities £m	Other Investments £m	Total £m
At 1 January	**—**	**—**	**(9)**	**(9)**	—	—	(9)	(9)
Charge for the year taken to the income statement	**—**	**—**	**—**	**—**	—	—	—	—
Write back following sale or reimbursement	**—**	**—**	**9**	**9**	—	—	—	—
At 31 December	**—**	**—**	**—**	**—**	—	—	(9)	(9)

26 – Financial investments continued

(d) Financial investment arrangements

(i) Stock lending arrangements

The Group has entered into stock lending arrangements in the UK and overseas in accordance with established market conventions. The majority of the Group's stock lending transactions occur in the UK, where investments are lent to EEA-regulated, locally domiciled counterparties and governed by agreements written under English law.

The Group receives collateral in order to reduce the credit risk of these arrangements, either in the form of securities or cash. See Note 58 for further discussion regarding collateral positions held by the Group.

(ii) Other arrangements

In carrying on its bulk purchase annuity business, the Group's UK Life operation is required to place certain investments in trust on behalf of the policyholders. Amounts become payable from the trust funds to the trustees if the Group were to be in breach of its payment obligations in respect of policyholder benefits. At 31 December 2016, £1,777 million *(2015: £1,501 million)* of financial investments were restricted in this way.

Certain financial investments are also required to be deposited under local laws in various overseas countries as security for the holders of policies issued in those countries. Other investments are pledged as security collateral for bank letters of credit.

(e) Non-UK Government Debt Securities (gross of non-controlling interests)

The following is a summary of non-UK government debt by issuer as at 31 December 2016, analysed by policyholder, participating and shareholder funds.

	Policyholder		Participating		Shareholder		Total	
Non-UK Government Debt Securities	**2016 £m**	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Austria	**11**	14	**715**	697	**138**	140	**864**	851
Belgium	**21**	34	**1,273**	1,195	**357**	166	**1,651**	1,395
France	**115**	139	**13,285**	10,673	**1,859**	1,846	**15,259**	12,658
Germany	**142**	145	**1,629**	1,470	**606**	590	**2,377**	2,205
Greece	**—**	—	**—**	—	**—**	—	**—**	—
Ireland	**3**	12	**662**	595	**130**	100	**795**	707
Italy	**223**	319	**7,500**	6,090	**556**	442	**8,279**	6,851
Netherlands	**47**	31	**976**	1,156	**329**	302	**1,352**	1,489
Poland	**807**	559	**769**	689	**384**	399	**1,960**	1,647
Portugal	**2**	7	**118**	110	**—**	—	**120**	117
Spain	**88**	98	**1,386**	1,093	**659**	636	**2,133**	1,827
European Supranational debt	**174**	72	**2,404**	2,798	**1,821**	1,760	**4,399**	4,630
Other European countries	**272**	167	**1,029**	1,107	**642**	520	**1,943**	1,794
Europe	**1,905**	1,597	**31,746**	27,673	**7,481**	6,901	**41,132**	36,171
Canada	**16**	49	**174**	178	**2,397**	1,917	**2,587**	2,144
United States	**948**	323	**392**	100	**1,022**	409	**2,362**	832
North America	**964**	372	**566**	278	**3,419**	2,326	**4,949**	2,976
Singapore	**2**	16	**904**	762	**330**	264	**1,236**	1,042
Other	**2,295**	648	**2,650**	1,752	**143**	75	**5,088**	2,475
Asia Pacific and other	**2,297**	664	**3,554**	2,514	**473**	339	**6,324**	3,517
Total	**5,166**	2,633	**35,866**	30,465	**11,373**	9,566	**52,405**	42,664
Assets of operations classified as held for sale	**—**	—	**2,325**	—	**—**	—	**2,325**	—
Total (excluding assets held for sale)	**5,166**	2,633	**33,541**	30,465	**11,373**	9,566	**50,080**	42,664

At 31 December 2016, the Group's total government (non-UK) debt securities stood at £52.4 billion *(2015: £42.7 billion)*. The significant majority of these holdings are within our participating funds where the risk to our shareholders is governed by the nature and extent of our participation within those funds.

Our direct shareholder asset exposure to government (non-UK) debt securities amounts to £11.4 billion *(2015: £9.6 billion)*. The primary exposures, relative to total shareholder (non-UK) government debt exposure, are to Canadian (21%), French (16%), US (9%), Spanish (6%), German (5%) and Italian (5%) government debt securities.

The participating funds exposure to (non-UK) government debt amounts to £35.8 billion *(2015: £30.5 billion)*. The primary exposures, relative to total (non-UK) government debt exposures included within our participating funds, are to the (non-UK) government debt securities of France (37%), Italy (21%), Germany (5%), Belgium (4%), Spain (4%) and Netherlands (3%).

26 – Financial investments continued

(f) Exposure to worldwide banks – debt securities

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

	Shareholder assets			Participating fund assets		
2016	Total senior debt £bn	Total subordinated debt £bn	Total debt £bn	Total senior debt £bn	Total subordinated debt £bn	Total debt £bn
Australia	0.3	—	0.3	0.8	0.3	1.1
Denmark	—	—	—	1.3	—	1.3
France	0.5	0.1	0.6	3.2	0.7	3.9
Germany	0.1	—	0.1	0.4	0.3	0.7
Ireland	—	—	—	—	—	—
Italy	0.1	—	0.1	0.2	—	0.2
Netherlands	0.3	0.2	0.5	1.4	0.3	1.7
Spain	0.7	—	0.7	0.6	0.1	0.7
Sweden	0.2	—	0.2	0.4	0.2	0.6
Switzerland	—	—	—	1.7	—	1.7
United Kingdom	1.4	0.5	1.9	1.6	1.0	2.6
United States	1.1	0.2	1.3	1.8	0.1	1.9
Other	0.7	0.2	0.9	1.4	0.1	1.5
Total	**5.4**	**1.2**	**6.6**	**14.8**	**3.1**	**17.9**
Assets of operations classified as held for sale	—	—	—	0.9	0.2	1.1
Total (excluding assets held for sale)	**5.4**	**1.2**	**6.6**	**13.9**	**2.9**	**16.8**
2015 Total	4.9	1.0	5.9	12.9	2.8	15.7

Net of non-controlling interests, our direct shareholder assets exposure to worldwide bank debt securities is £6.6 billion *(2015: £5.9 billion)*. The majority of our holding (82%) is in senior debt. The primary exposures are to UK (29%), US (20%) and Spanish (11%) banks.

Net of non-controlling interests, the participating fund exposures to worldwide bank debt securities, where the risk to our shareholders is governed by the nature and extent of our participation within those funds, is £17.9 billion *(2015: £15.7 billion)*. The majority of the exposure (83%) is in senior debt. Participating funds are the most exposed to French (22%), UK (15%) and US (11%) banks.

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

	Shareholder assets			Participating fund assets		
2016	Total senior debt £bn	Total subordinated debt £bn	Total debt £bn	Total senior debt £bn	Total subordinated debt £bn	Total debt £bn
Australia	0.3	—	0.3	0.9	0.3	1.2
Denmark	—	—	—	1.3	—	1.3
France	0.5	0.1	0.6	3.8	0.8	4.6
Germany	0.1	—	0.1	0.5	0.3	0.8
Ireland	—	—	—	—	—	—
Italy	0.1	—	0.1	0.2	—	0.2
Netherlands	0.3	0.2	0.5	1.5	0.3	1.8
Spain	0.8	—	0.8	0.7	0.1	0.8
Sweden	0.2	—	0.2	0.4	0.3	0.7
Switzerland	—	—	—	1.7	—	1.7
United Kingdom	1.4	0.5	1.9	1.7	1.0	2.7
United States	1.1	0.2	1.3	2.0	0.1	2.1
Other	0.7	0.2	0.9	1.5	0.1	1.6
Total	**5.5**	**1.2**	**6.7**	**16.2**	**3.3**	**19.5**
Assets of operations classified as held for sale	—	—	—	1.7	0.5	2.2
Total (excluding assets held for sale)	**5.5**	**1.2**	**6.7**	**14.5**	**2.8**	**17.3**
2015 Total	5.0	1.0	6.0	14.2	2.9	17.1

Gross of non-controlling interests, our direct shareholder assets exposure to worldwide bank debt securities is £6.7 billion *(2015: £6.0 billion)*. The majority of our holding (82%) is in senior debt. The primary exposures are to UK (28%), US (19%) and Spanish (12%) banks.

Gross of non-controlling interests, the participating fund exposures to worldwide bank debt securities, where the risk to our shareholders is governed by the nature and extent of our participation within those funds, is £19.5 billion *(2015: £17.1 billion)*. The majority of the exposure (83%) is in senior debt. Participating funds are most exposed to French (24%), UK (14%) and US (11%) banks.

27 – Receivables

This note analyses our total receivables.

	2016 £m	2015 £m
Amounts owed by contract holders	**2,012**	1,546
Amounts owed by intermediaries	**1,202**	1,132
Deposits with ceding undertakings	**1,430**	1,244
Amounts due from reinsurers	**400**	376
Amounts due from brokers for investment sales	**93**	223
Amounts receivable for cash collateral pledged	**2,410**	992
Amounts due from government, social security and taxes	**532**	437
Dividends receivable	**64**	56
Other receivables	**1,055**	869
Total	**9,198**	6,875
Less: Amounts classified as held for sale	**(1,404)**	—
	7,794	6,875
Expected to be recovered in less than one year	**9,132**	6,773
Expected to be recovered in more than one year	**66**	102
	9,198	6,875

Concentrations of credit risk with respect to receivables are limited due to the size and spread of the Group's trading base. No further credit risk provision is therefore required in excess of provisions already recognised for doubtful receivables.

28 – Deferred acquisition costs, other assets, prepayments and accrued income

(a) Deferred acquisition costs and other assets – carrying amount

The carrying amount comprises:

	2016 £m	Restated[1] 2015 £m
Deferred acquisition costs in respect of:		
Insurance contracts – Long-term business	**694**	610
Insurance contracts – General insurance and health business	**1,037**	812
Participating investment contracts – Long-term business	**19**	20
Non-participating investment contracts – Long-term business[1]	**861**	974
Retail fund management business	**3**	5
Total deferred acquisition costs	**2,614**	2,421
Surpluses in the staff pension schemes (note 48(a))	**3,190**	2,523
Other assets	**89**	74
Total	**5,893**	5,018

1 Following a correction to accounting and modelling for annual management charge rebates in UK Life, prior year comparatives have been restated. See note 1 for further details.

Deferred acquisition costs (DAC) on long-term business are generally recoverable in more than one year whereas such costs on general insurance and health business are generally recoverable within one year. Of the above total, £1,262 million *(2015: £1,426 million)* is expected to be recovered more than one year after the statement of financial position date. For long-term business where amortisation of the DAC balance depends on projected profits, the amount expected to be recovered is estimated and actual experience will differ.

Surpluses in the staff pension schemes and £1 million *(2015: £1 million)* of other assets are recoverable more than one year after the statement of financial position date.

(b) Deferred acquisition costs – movements in the year

The movements in deferred acquisition costs (DAC) during the year were:

	2016				Restated[1] 2015			
	Long-term business £m	General insurance and health business £m	Retail fund management business £m	Total £m	Long-term business £m	General insurance and health business £m	Retail fund management business £m	Total £m
Carrying amount at 1 January	**1,604**	**812**	**5**	**2,421**	1,453	852	7	2,312
Acquisition costs deferred during the year	**283**	**2,264**	**—**	**2,547**	263	1,952	—	2,215
Amortisation	**(377)**	**(2,118)**	**(2)**	**(2,497)**	(167)	(1,950)	(2)	(2,119)
Impact of assumption changes	**40**	**—**	**—**	**40**	73	—	—	73
Effect of portfolio transfers, acquisitions and disposals	**(29)**	**(8)**	**—**	**(37)**	—	—	—	—
Foreign exchange rate movements	**53**	**87**	**—**	**140**	(18)	(42)	—	(60)
Carrying amount at 31 December	**1,574**	**1,037**	**3**	**2,614**	1,604	812	5	2,421

1 Following a correction to accounting and modelling for annual management charge rebates in UK Life, prior year comparatives have been restated. See note 1 for further details.

28 – Deferred acquisition costs, other assets, prepayments and accrued income continued

The balance of deferred acquisition costs for long-term business decreased over 2016 mainly due to increased amortisation as a result of projected future profits being reduced in response to an adjustment to the allocation of fixed costs between product lines in our UK Life business. The balance of deferred acquisition costs for general insurance and health business increased over 2016 mainly due to a new partnership distribution deal and increased new business sales.

Where amortisation of the DAC balance depends on projected profits, changes to economic conditions may lead to a movement in the DAC balance and a corresponding impact on profit. It is estimated that the movement in the DAC balance would reduce profit by £19 million *(2015: £26 million)* if market yields on fixed income investments were to increase by 1% and reduce profit by £1 million *(2015: increase profit by £36 million)* if yields were to reduce by 1%. At both 31 December 2016 and at 31 December 2015 the DAC balance has been restricted by the value of projected future profits and hence is more sensitive to changes in the value of those projected profits. Furthermore, the profile of this restriction across product lines has changed leading to a directional switch in the sensitivity year-on-year.

(c) Prepayments and accrued income

Prepayments and accrued income of £2,996 million *(2015: £3,094 million)* include assets classified as held for sale of £114 million *(2015: £nil)* and includes £8 million *(2015: £88 million)* that is expected to be recovered more than one year after the statement of financial position date.

29 – Assets held to cover linked liabilities

Certain unit-linked products have been classified as investment contracts, while some are included within the definition of an insurance contract. The assets backing these unit-linked liabilities are included within the relevant balances in the consolidated statement of financial position, while the liabilities are included within insurance and investment contract provisions. This note analyses the carrying values of assets backing these liabilities.

	2016 £m	2015 £m
Loans	**1,027**	83
Debt securities	**27,048**	24,022
Equity securities	**52,571**	47,394
Reinsurance assets	**18,525**	14,002
Cash and cash equivalents	**8,874**	8,705
Other[1]	**53,083**	47,386
Total	**161,128**	141,592
Less: Assets classified as held for sale	**(2,489)**	—
	158,639	141,592

1 Other includes unit trusts and other investment vehicles of £45,630 million (2015: £39,795 million).

30 – Ordinary share capital

This note gives details of Aviva plc's ordinary share capital and shows the movements during the year.

(a) Details of the Company's ordinary share capital are as follows:

	2016 £m	2015 £m
The allotted, called up and fully paid share capital of the Company at 31 December 2016 was:		
4,061,539,206 *(2015: 4,048,465,173)* ordinary shares of 25 pence each	**1,015**	1,012

At the 2016 Annual General Meeting, the Company was authorised to allot up to a further maximum nominal amount of:

- £674,824,642 of which, £337,412,321 can be in connection with an offer by way of a rights issue
- £100 million of new ordinary shares in relation to any issue of Solvency II instruments

(b) During 2016, a total of 13,074,033 ordinary shares of 25 pence each were allotted and issued by the Company as follows:

	2016			2015		
	Number of shares	Share Capital £m	Share Premium £m	Number of shares	Share Capital £m	Share Premium £m
At 1 January	**4,048,465,173**	**1,012**	**1,185**	2,950,487,340	737	1,172
Shares issued under the Group's Employee and Executive Share Option Schemes	**13,074,033**	**3**	**12**	11,651,227	3	13
Shares issued in relation to the acquisition of Friends Life	**—**	**—**	**—**	1,086,326,606	272	—
At 31 December	**4,061,539,206**	**1,015**	**1,197**	4,048,465,173	1,012	1,185

Ordinary shares in issue in the Company rank pari passu with any new ordinary shares issued in the Company. All the ordinary shares in issue carry the same right to receive all dividends and other distributions declared, made or paid by the Company.

31 – Group's share plans

This note describes various equity compensation plans operated by the Group, and shows how the Group values the options and awards of shares in the Company. Details of other share plans where shares are acquired and held in trust for the participant from the outset are not set out here but described in the shareholder information section of page 316.

(a) Description of the plans

The Group maintains a number of active share option and award plans and schemes (the Group's share plans). These are as follows:

(i) Savings-related options

These are options granted under the tax-advantaged save as you earn (SAYE) share option scheme in the UK and Irish revenue-approved SAYE share option scheme in Ireland. The SAYE allows eligible employees to acquire options over the Company's shares at a discount of up to 20% of their market value at the date of grant.

Options are normally exercisable during the six-month period following either the 3rd or 5th anniversary of the start of the relevant savings contract. 7 year contracts were offered prior to 2012. Savings contracts are subject to the statutory savings limits of £500 per month in the UK and €500 per month in Ireland. A limit of £250 per month was applied to contracts in the UK prior to 2016.

(ii) Aviva long-term incentive plan awards

These awards have been made under the Aviva long term incentive plan 2011 (LTIP), and are described in section (b) below and in the directors' remuneration report.

(iii) Aviva annual bonus plan awards

These awards have been made under the Aviva annual bonus plan 2011 (ABP), and are described in section (b) below and in the directors' remuneration report.

(iv) Aviva recruitment and retention share plan awards

These are conditional awards granted under the Aviva recruitment and retention share award plan (RRSAP) in relation to the recruitment or retention of senior managers excluding executive directors. The awards vest in tranches on various dates and vesting is conditional upon the participant being employed by the Group on the vesting date and not having served notice of resignation. Some awards can be subject to performance conditions. If a participant's employment is terminated due to resignation or dismissal, any tranche of the award which has vested within the 12 months prior to the termination date will be subject to clawback and any unvested tranches of the award will lapse in full.

(v) Aviva Investors deferred share award plan awards

These awards have been made under the Aviva Investors Deferred Share Award Plan (AI DSAP), where employees can choose to have the deferred element of their bonus deferred into awards over Aviva shares. The awards vest in three equal tranches on the 2nd, 3rd and 4th year following the year of grant.

(vi) The Aviva Chief Financial Officer Award 2014

Awards were granted to Tom Stoddard under the Aviva Chief Financial Officer Award 2014 (Aviva CFO Award) following his recruitment, to compensate Mr Stoddard for the loss from his previous employer, on a like for like basis. The awards are described in section (b) below and in the directors' remuneration report. No further awards will be made under this plan.

No new Aviva plc ordinary shares will be issued to satisfy awards made under plans iv, v or vi.

(b) Outstanding options and awards

(i) Share options

At 31 December 2016, options to subscribe for ordinary shares of 25 pence each in the Company were outstanding as follows:

Aviva savings related share option scheme	Option price p	Number of shares	Normally exercisable	Option price p	Number of shares	Normally exercisable
	316	64,151	2016	312	849,262	2016 or 2018
	310	72,440	2017	419	1,959,274	2017 or 2019
	266	825,516	2017	380	5,531,260	2018 or 2020
	268	1,062,962	2016 or 2018	351	13,039,022	2019 or 2021

Aviva Ireland savings related share option scheme (in euros)	Option price c	Number of shares	Normally exercisable	Option price c	Number of shares	Normally exercisable
	304	35,366	2016	527	66,472	2017 or 2019
	336	28,142	2017	518	151,968	2018 or 2020
	369	39,930	2016 or 2018	418	527,444	2019 or 2021

31 – Group's share plans continued

The following table summarises information about options outstanding at 31 December 2016:

Range of exercise prices	Outstanding options Number	Weighted average remaining contractual life Years	Weighted average exercise price p
£2.66 – £3.12	2,913,618	1	281.89
£3.16 – £3.51	13,630,617	4	350.84
£3.80 – £4.19	7,708,974	3	390.25

The comparative figures as at 31 December 2015 were:

Range of exercise prices	Outstanding options Number	Weighted average remaining contractual life Years	Weighted average exercise price p
£2.66 – £3.12	7,602,563	2	282.53
£3.16 – £3.51	157,482	1	316.00
£3.80 – £4.19	10,392,354	4	389.86

(ii) Share awards

At 31 December 2016, awards issued under the Company's executive incentive plans over ordinary shares of 25 pence each in the Company were outstanding as follows:

Aviva long term incentive plan 2011	Number of shares	Year of vesting
	7,359,097	2017
	7,931,818	2018
	10,458,200	2019

Aviva annual bonus plan 2011	Number of shares	Year of vesting
	2,188,730	2017
	2,798,679	2018
	4,043,358	2019

Aviva recruitment and retention share award plan	Number of shares	Year of vesting
	1,128,411	2017
	328,855	2018
	149,179	2019
	1,171	2020

Aviva Investors deferred share award plan	Number of shares	Year of vesting
	53,683	2017
	28,200	2018
	16,630	2019

The Aviva Chief Financial Officer Award 2014	Number of shares	Year of vesting
	98,232	2017

The vesting of awards under the ABP is subject to the attainment of performance conditions as described in the directors' remuneration report.

No performance conditions are attached to the awards under the ABP, AI DSAP, Aviva CFO Award or some of the awards under the RRSAP except as outlined below.

Under the RRSAP, some shares are subject to the attainment of the same performance conditions that apply to the LTIP grants as follows.

- Shares which vest in 2017:
  - 709,064 are subject to the same performance conditions that apply to the 2014 LTIP grant
  - 22,222 subject to the performance conditions relating to the performance of the participant's previous employer.
- Shares which vest in 2018:
  - 192,829 are subject to the same performance conditions that apply to the 2015 LTIP grant
  - 22,222 subject to the performance conditions relating to the performance of the participant's previous employer.
- Shares which vest in 2019:
  - 103,652 are subject to the same performance conditions that apply to the 2016 LTIP grant

These performance conditions are as outlined in the relevant year's directors' remuneration report. Shares which do not vest will lapse.

(iii) Shares to satisfy awards and options

New issue shares are now generally used to satisfy all awards and options granted under plans that have received shareholder approval and where local regulations permit. Further details are given in note 32.

31 – Group's share plans continued

(c) Movements in the year

A summary of the status of the option plans as at 31 December 2015 and 2016, and changes during the years ended on those dates, is shown below.

	2016		2015	
	Number of options	Weighted average exercise price p	Number of options	Weighted average exercise price p
Outstanding at 1 January	**18,152,399**	**338.00**	17,241,534	310.77
Granted during the year	**13,679,774**	**351.00**	7,810,302	380.00
Exercised during the year	**(4,709,978)**	**286.71**	(5,011,905)	275.90
Forfeited during the year	**(591,727)**	**370.87**	(323,950)	341.43
Cancelled during the year	**(2,038,503)**	**383.14**	(1,446,795)	401.38
Expired during the year	**(238,756)**	**368.09**	(116,787)	383.40
Outstanding at 31 December	**24,253,209**	**355.08**	18,152,399	344.27
Exercisable at 31 December	**1,366,584**	**284.51**	1,146,249	278.53

(d) Expense charged to the income statement

The total expense recognised for the year arising from equity compensation plans was as follows:

	2016 £m	2015 £m
Equity-settled expense	**38**	40
Cash-settled expense	**(1)**	8
Total (note 10b)	**37**	48

(e) Fair value of options and awards granted after 7 November 2002

The weighted average fair values of options and awards granted during the year, estimated by using the Binomial option pricing model and Monte Carlo Simulation model, were £0.96 and £3.72 *(2015: £0.88 and £4.49)* respectively.

(i) Share options

The fair value of the options was estimated on the date of grant, based on the following weighted average assumptions:

Weighted average assumption	2016	2015
Share price	**448p**	453p
Exercise price	**351p**	380p
Expected volatility	**28.29%**	26%
Expected life	**3.79 years**	3.69 years
Expected dividend yield	**4.65%**	3.99%
Risk-free interest rate	**0.15%**	0.94%

The expected volatility used was based on the historical volatility of the share price over a period equivalent to the expected life of the option prior to its date of grant. The risk-free interest rate was based on the yields available on UK government bonds as at the date of grant. The bonds chosen were those with a similar remaining term to the expected life of the options. 4,709,978 options granted after 7 November 2002 were exercised during the year *(2015: 5,011,905)*.

(ii) Share awards

The fair value of the awards was estimated on the date of grant based on the following weighted average assumptions:

Weighted average assumption	2016	2015
Share price	**472p**	560p
Expected volatility[1]	**25%**	25%
Expected volatility of comparator companies' share price[1]	**24%**	22%
Correlation between Aviva and comparator competitors' share price[1]	**53%**	44%
Expected life[1]	**2.66 years**	2.85 years
Expected dividend yield[2]	**4.00%**	3.20%
Risk-free interest rate[1]	**0.59%**	0.56%

1 For awards with market-based performance conditions.
2 The majority of awards with market based performance conditions include additional shares being provided to employees equal to dividend rights before vesting. As a result, no dividend yield assumption is required on these awards.

The expected volatility used was based on the historical volatility of the share price over a period equivalent to the expected life of the share award prior to its date of grant. The risk-free interest rate was based on the yields available on UK government bonds as at the date of grant. The bonds chosen were those with a similar remaining term to the expected life of the share awards.

32 – Treasury shares

The following table summarises information about treasury shares at 31 December 2016:

	2016 Number	2016 £m	2015 Number	2015 £m
Shares held by employee trusts	**1,127,473**	**1**	1,918,088	2
Shares held by subsidiary companies	**2,577,362**	**14**	5,258,525	27
	3,704,835	**15**	7,176,613	29

(a) Shares held by employee trusts

Prior to 2014, we satisfied awards and options granted under the Group's share plans primarily through shares purchased in the market and held by employee share trusts. From 2014 we primarily issue new shares except where it is necessary to use shares held by an employee share trust. In 2015 however, new shares were issued to the trust, in order to facilitate the release of shares. This note gives details of the shares held in these trusts. Movements in the carrying value of shares held by employee trusts comprise:

	2016 Number	2016 £m	2015 Number	2015 £m
Cost debited to shareholders' funds				
At 1 January	**1,918,088**	**2**	2,585,824	8
Acquired in the year	**—**	**—**	5,790,872	1
Distributed in the year	**(790,615)**	**(1)**	(6,458,608)	(7)
Balance at 31 December	**1,127,473**	**1**	1,918,088	2

The shares are owned by employee share trusts with an undertaking to satisfy awards of shares in the Company under the Company's share plans and schemes. Details of the features of the plans can be found in the directors' remuneration report and/or in note 31.

These shares were either purchased in the market or, in 2015, new shares were issued to the trust and are carried at weighted average cost. At 31 December 2016, they had an aggregate nominal value of £281,868 *(2015: £479,522)* and a market value of £5,484,028 *(2015: £9,987,334).* The trustees have waived their rights to dividends on the shares held in the trusts.

(b) Shares held by subsidiary companies

During 2015, the Group acquired Friends Life, which holds shares in Aviva plc. The cost of these shares is included within Treasury shares and deducted from total shareholders' equity in accordance with accounting policy AE. At 31 December 2016, the balance of 2,577,362 shares *(2015: 5,258,525 shares)* had an aggregate nominal value of £644,340 *(2015: £1,314,631)* and a market value of £12,536,289 *(2015: £27,133,991).*

33 – Preference share capital

This note gives details of Aviva plc's preference share capital.

The preference share capital of the Company at 31 December was:

	2016 £m	2015 £m
Issued and paid up		
100,000,000 8.375% cumulative irredeemable preference shares of £1 each	**100**	100
100,000,000 8.75% cumulative irredeemable preference shares of £1 each	**100**	100
	200	200

The issued preference shares are non-voting except where their dividends are in arrears, on a winding up or where their rights are altered.

On a winding up, they carry a preferential right of return of capital ahead of the ordinary shares. Holders are entitled to receive dividends out of the profits available for distribution and resolved to be distributed in priority to the payment of dividends to holders of ordinary shares. The Company does not have a contractual obligation to deliver cash or other financial assets to the preference shareholders and therefore the directors may make dividend payments at their discretion.

At the end of 2016 the fair value of Aviva plc's preference share capital was £280 million *(2015: £278 million).*

At the 2015 Annual General Meeting, the Company was authorised to allot the following:

- Sterling new preference shares, as defined in the Company's articles of association, up to a maximum nominal value of £500 million; and
- Additional dollar preference shares, as defined in the 2015 Notice of Annual General Meeting, up to a maximum nominal value of US$650 million.

34 – Direct capital instrument and tier 1 notes

Notional amount	2016 £m	2015 £m
5.9021% £500 million direct capital instrument – Issued November 2004	**500**	500
8.25% $650 million fixed rate tier 1 notes – Issued May 2012	**392**	392
6.875% £210 million STICS – Issued November 2003 (note 38)	**231**	231
Total	**1,123**	1,123

The direct capital instrument (the DCI) was issued on 25 November 2004. The DCI has no fixed redemption date but the Company may, at its sole option, redeem all (but not part) of the principal amount on 27 July 2020, at which date the interest rate changes to a variable rate, or on any respective coupon payment date thereafter. The variable rate will be the six month sterling deposit rate plus margin.

The fixed rate tier 1 notes (the FxdRNs) were issued on 3 May 2012. The FxdRNs are perpetual but the Company may, at its sole option, redeem all (but not part) of the FxdRNs at their principal amounts on 3 November 2017, or on any respective coupon payment date thereafter.

The Step-up Tier one Insurance Capital Securities ('STICS') were issued on 21 November 2003 by Friends Life Holdings plc. The STICS are irrevocably guaranteed on a subordinated basis by Friends Life Limited. On 1 October 2015 Aviva plc replaced Friends Life Holdings plc as issuer which resulted in a reclassification of the STICS from non-controlling interests. The STICS have no fixed redemption date but the Company may, at its sole option, redeem the instrument (in whole or in part) on 21 November 2019, or on the coupon payment date falling on successive fifth anniversaries from this date. For each coupon period beginning 21 November 2019, the STICS will bear interest reset every five years at the rate per annum which is the aggregate of 2.97% and the Gross Redemption Yield of the Benchmark Gilt.

The Company has the option to defer coupon payments on the DCI, FxdRNs or STICS on any relevant payment date.

In relation to the DCI, deferred coupons shall only be satisfied should the Company exercise its sole option to redeem the instruments.

In relation to the FxdRNs, deferred coupons may be satisfied at any time, at the sole option of the Company. The Company is required to satisfy deferred coupons on the FxdRNs upon redemption.

In relation to the STICS, deferred coupons may be satisfied at any time, at the sole option of the Company. The Company is required to satisfy deferred coupons upon the earliest of the following:
- Resumption of payment of coupons on the STICS; or
- Redemption; or
- The commencement of winding up of the issuer.

No interest will accrue on any deferred coupon on the DCI or FxdRNs. Interest will accrue on deferred coupons on the STICS at the then current rate of interest on the STICS.

Deferred coupons on the DCI, FxdRNs and the STICS will be satisfied by the issue and sale of ordinary shares in the Company at their prevailing market value, to a sum as near as practicable to (and at least equal to) the relevant deferred coupons. In the event of any coupon deferral, the Company will not declare or pay any dividend on its ordinary or preference share capital. These instruments have been treated as equity. Please refer to accounting policy AE.

At the end of 2016 the fair value of the DCI, FxdRNs and the STICS was £1,286 million (*2015: £1,223 million*).

35 – Merger reserve

Prior to 1 January 2004, certain significant business combinations were accounted for using the 'pooling of interests method' (or merger accounting), which treats the merged groups as if they had been combined throughout the current and comparative accounting periods. Merger accounting principles for these combinations gave rise to a merger reserve in the consolidated statement of financial position, being the difference between the nominal value of new shares issued by the Parent Company for the acquisition of the shares of the subsidiary and the subsidiary's own share capital and share premium account.

The merger reserve is also used where more than 90% of the shares in a subsidiary are acquired and the consideration includes the issue of new shares by the Company, thereby attracting merger relief under the Companies Act 1985 and, from 1 October 2009, the Companies Act 2006.

The balance of the merger reserve at 31 December 2016 is £8,974 million *(2015: £8,974 million)*. In 2015, the balance of the merger reserve increased by £5,703 million due to the acquisition of Friends Life which attracted merger relief under section 612 of the Companies Act 2006.

36 – Other reserves

This note gives details of the various reserves forming part of the Group's consolidated equity and shows the movements during the year net of non-controlling interests:

	Currency translation reserve (see accounting policy E) £m	Owner occupied properties reserve (see accounting policy P) £m	Investment valuation reserve (see accounting policy T) £m	Hedging instruments reserve (see accounting policy U) £m	Equity compensation reserve (see accounting policy AB) £m	Total £m
Balance at 1 January 2015	534	77	75	(522)	65	229
Arising in the year through other comprehensive income:						
Fair value gains	—	27	(9)	—	—	18
Fair value gains transferred to profit on disposals	—	—	—	—	—	—
Share of other comprehensive income of joint ventures and associates	—	—	(14)	—	—	(14)
Impairment losses on assets previously revalued directly through other comprehensive income now taken to income statement	—	—	—	—	—	—
Foreign exchange rate movements	(377)	—	—	44	—	(333)
Aggregate tax effect – shareholders' tax	7	—	6	—	—	13
Total other comprehensive income for the year	(370)	27	(17)	44	—	(316)
Tax transferred to income statement	—	—	—	—	—	—
Fair value gains transferred to retained earnings on disposals	—	(33)	—	—	—	(33)
Transfer to profit on disposal of subsidiaries, joint ventures and associates	1	—	—	—	—	1
Reserves credit for equity compensation plans	—	—	—	—	40	40
Shares issued under equity compensation plans	—	—	—	—	(35)	(35)
Balance at 31 December 2015	**165**	**71**	**58**	**(478)**	**70**	**(114)**
Arising in the year through other comprehensive income:						
Fair value gains	**—**	**4**	**12**	**—**	**—**	**16**
Fair value gains transferred to profit on disposals	**—**	**—**	**(2)**	**—**	**—**	**(2)**
Share of other comprehensive income of joint ventures and associates	**—**	**—**	**(6)**	**—**	**—**	**(6)**
Impairment losses on assets previously revalued through other comprehensive income now taken to income statement	**—**	**—**	**—**	**—**	**—**	**—**
Foreign exchange rate movements	**1,019**	**—**	**—**	**(36)**	**—**	**983**
Aggregate tax effect – shareholders' tax	**(31)**	**(1)**	**(3)**	**—**	**—**	**(35)**
Total other comprehensive income for the year	**988**	**3**	**1**	**(36)**	**—**	**956**
Tax transferred to income statement	**—**	**—**	**—**	**—**	**—**	**—**
Fair value gains transferred to retained earnings on disposals	**—**	**(46)**	**—**	**—**	**—**	**(46)**
Transfer to profit on disposal of subsidiaries, joint ventures and associates	**(7)**	**—**	**—**	**—**	**—**	**(7)**
Reserves credit for equity compensation plans	**—**	**—**	**—**	**—**	**38**	**38**
Shares issued under equity compensation plans	**—**	**—**	**—**	**—**	**(30)**	**(30)**
Balance at 31 December 2016	**1,146**	**28**	**59**	**(514)**	**78**	**797**

37 – Retained earnings

This note analyses the movements in the consolidated retained earnings during the year.

	2016 £m	Restated[1] 2015 £m
Balance at 1 January	**4,774**	4,637
Profit for the year attributable to equity shareholders	**703**	936
Remeasurements of pension schemes	**311**	(235)
Dividends and appropriations (note 15)	**(973)**	(724)
Net shares issued under equity compensation plans	**26**	19
Fair value gains realised from other reserves	**46**	33
Aggregate tax effect	**(52)**	108
Balance at 31 December	**4,835**	4,774

1 Following a correction to accounting and modelling for annual management charge rebates in UK Life, prior year comparatives have been restated. This has led to an increase in operating profit and profit before tax of £23 million for the 2015 and an increase in opening retained earnings for 2015 of £20 million with an increase in equity at 31 December 2015 of £38 million. See note 1 for further details.

The Group's regulated subsidiaries are required to hold sufficient capital to meet acceptable solvency levels based on applicable local regulations. Their ability to transfer retained earnings to the UK parent companies is therefore restricted to the extent these earnings form part of local regulatory capital.

38 – Non-controlling interests

This note gives details of the Group's non-controlling interests and shows the movements during the year.

Non-controlling interests at 31 December comprised:

	2016 £m	2015 £m
Equity shares in subsidiaries	**519**	447
Share of earnings	**392**	222
Share of other reserves	**264**	226
	1,175	895
Preference shares in General Accident plc	**250**	250
	1,425	1,145

Movements in the year comprised:

	2016 £m	2015 £m
Balance at 1 January	**1,145**	1,166
Profit for the year attributable to non-controlling interests	**156**	161
Foreign exchange rate movements	**145**	(45)
Total comprehensive income attributable to non-controlling interests	**301**	116
Capital contributions from non-controlling interests	**9**	5
Non-controlling interests share of dividends declared in the year	**(135)**	(142)
Non-controlling interests in acquired subsidiaries[1]	**—**	504
Reclassification of non-controlling interests to liabilities[2]	**—**	(272)
Reclassification of non-controlling interests to DCI and Tier 1 notes (note 34)	**—**	(231)
Changes in non-controlling interests in subsidiaries[3]	**105**	(1)
Balance at 31 December	**1,425**	1,145

1 2015 Includes Friends Life's Step up Tier one Insurance Capital Securities ('STICS') issuances classified as equity instruments within non-controlling interests at the date of acquisition.
2 On 29 May 2015, notification was given that the Group would redeem the 2005 STICS issuance. At that date the instrument was reclassified as a financial liability. The instrument was redeemed on 1 July 2015, £272 million represents the fair value of instruments recognised on acquisition, made up of the £268 million outstanding principal redeemed on 1 July 2015 and £4 million amortised subsequent to the reclassification and included within finance costs in the income statement.
3 Changes in non-controlling interests in 2016 primarily relate to a newly consolidated subsidiary in Aviva France.

The Group has no subsidiaries whose non-controlling interest is material on the basis of their share of profit or loss.

39 – Contract liabilities and associated reinsurance

The following notes explain how the Group calculates its liabilities to policyholders for insurance and investment products it has sold to them. Notes 40 and 41 cover these liabilities and note 42 details the financial guarantees and options given for some of these products. Note 43 details the reinsurance recoverables on these liabilities while note 44 shows the effects of changes in the assumptions.

The following is a summary of the contract provisions and related reinsurance assets as at 31 December.

	2016			Restated[1] 2015		
	Gross provisions £m	Reinsurance assets[2] £m	Net £m	Gross provisions £m	Reinsurance assets[2] £m	Net £m
Long-term business						
Insurance contracts	**(137,218)**	**6,186**	**(131,032)**	(125,348)	5,018	(120,330)
Participating investment contracts	**(89,739)**	**2**	**(89,737)**	(78,048)	11	(78,037)
Non-participating investment contracts	**(114,531)**	**18,366**	**(96,165)**	(103,034)	13,967	(89,067)
	(341,488)	**24,554**	**(316,934)**	(306,430)	18,996	(287,434)
Outstanding claims provisions						
Long-term business	**(1,925)**	**65**	**(1,860)**	(1,702)	38	(1,664)
General insurance and health	**(8,749)**	**1,090**	**(7,659)**	(7,063)	988	(6,075)
	(10,674)	**1,155**	**(9,519)**	(8,765)	1,026	(7,739)
Provisions for claims incurred but not reported	**(2,960)**	**795**	**(2,165)**	(2,383)	607	(1,776)
	(355,122)	**26,504**	**(328,618)**	(317,578)	20,629	(296,949)
Provision for unearned premiums	**(4,766)**	**250**	**(4,516)**	(4,048)	289	(3,759)
Provision arising from liability adequacy tests[3]	**(13)**	**—**	**(13)**	(12)	—	(12)
Total	**(359,901)**	**26,754**	**(333,147)**	(321,638)	20,918	(300,720)
Less: Amounts classified as held for sale	**11,623**	**(411)**	**11,212**	—	—	—
	(348,278)	**26,343**	**(321,935)**	(321,638)	20,918	(300,720)

1 Following a correction to accounting and modelling for annual management charge rebates in UK Life, prior year comparatives have been restated. See note 1 for further details.
2 Reinsurance assets at 31 December 2016 for General insurance and health business include the impact of the £78 million reinsurance asset relating to an outwards reinsurance contract completed by the UK General Insurance business and the remaining recoveries expected in respect of the Alberta fires in Canada. Reinsurance assets at 31 December 2015 for General insurance and health business include the impact of the £659 million reinsurance asset relating to an outwards reinsurance contract completed by the UK General Insurance business.
3 Provision arising from liability adequacy tests relates to general insurance business only. Liability adequacy test provisions for life operations are included in other line items.

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40 – Insurance liabilities

This note analyses the Group insurance contract liabilities by type of product and describes how the Group calculates these liabilities and the assumptions used.

(a) Carrying amount

(i) Insurance liabilities (gross of reinsurance) at 31 December comprised:

	2016			Restated[1] 2015		
	Long-term business £m	General insurance and health £m	Total £m	Long-term business £m	General insurance and health £m	Total £m
Long-term business provisions						
Participating	**56,760**	**—**	**56,760**	50,558	—	50,558
Unit-linked non-participating	**16,026**	**—**	**16,026**	14,768	—	14,768
Other non-participating	**64,432**	**—**	**64,432**	60,022	—	60,022
	137,218	**—**	**137,218**	125,348	—	125,348
Outstanding claims provisions	**1,925**	**8,749**	**10,674**	1,702	7,063	8,765
Provision for claims incurred but not reported	**—**	**2,960**	**2,960**	—	2,383	2,383
	1,925	**11,709**	**13,634**	1,702	9,446	11,148
Provision for unearned premiums	**—**	**4,766**	**4,766**	—	4,048	4,048
Provision arising from liability adequacy tests[2]	**—**	**13**	**13**	—	12	12
Total	**139,143**	**16,488**	**155,631**	127,050	13,506	140,556
Less: Amounts classified as held for sale	**(4,448)**	**—**	**(4,448)**	—	—	—
	134,695	**16,488**	**151,183**	127,050	13,506	140,556

1 Restated following a reclassification from participating to other non-participating long-term business provisions in the UK of £3,317 million.
2 Provision arising from liability adequacy tests relates to general insurance business only. Liability adequacy test provisions for life operations are included in other line items.

(ii) Change in insurance liabilities recognised as an expense

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

2016	Gross £m	Reinsurance[1] £m	Net £m
Long-term business			
Change in long-term business provisions (note 40b(iv))	**7,164**	**(993)**	**6,171**
Change in provision for outstanding claims	**91**	**(13)**	**78**
	7,255	**(1,006)**	**6,249**
General insurance and health			
Change in insurance liabilities (note 40c(iv) and 43 c(ii))[2]	**867**	**(222)**	**645**
Less: Unwind of discount on GI reserves and other	**(11)**	**10**	**(1)**
	856	**(212)**	**644**
Total change in insurance liabilities (note 6)	**8,111**	**(1,218)**	**6,893**

1 Reinsurance assets at 31 December 2016 for General insurance and health business include the impact of the £78 million reinsurance asset relating to an outwards reinsurance contract completed by the UK General Insurance business.
2 Includes £475 million in the UK General Insurance business relating to the impact of the change in the Ogden discount rate.

2015	Gross £m	Reinsurance[1] £m	Net £m
Long-term business			
Change in long term business provisions (note 40b(iv))	(6,640)	252	(6,388)
Change in provision for outstanding claims	179	4	183
	(6,461)	256	(6,205)
General insurance and health			
Change in insurance liabilities (note 40c(iv) and 43 c(ii))	29	(504)	(475)
Less: Unwind of discount on GI reserves and other	(10)	9	(1)
	19	(495)	(476)
Total change in insurance liabilities (note 6)	(6,442)	(239)	(6,681)

1 Reinsurance assets at 31 December 2015 for General insurance and health business include the impact of the £659 million reinsurance asset relating to an outwards reinsurance contract completed by the UK General Insurance business.

40 – Insurance liabilities continued

(b) Long-term business liabilities

(i) Business description

The Group underwrites long-term business in a number of countries as follows:

- In the UK mainly in:
  - New With-Profits Sub-Fund (NWPSF) of Aviva Life & Pensions UK (UKLAP), where the with-profit policyholders are entitled to at least 90% of the distributed profits, with the shareholders receiving the balance. Any surplus or deficit emerging in NWPSF that is not distributed as bonus will be transferred from this sub-fund to the Reattributed Inherited Estate External Support Account (RIEESA) (see below).
  - Old With-Profits Sub-Fund (OWPSF), With-Profits Sub-Fund (WPSF) and Provident Mutual Sub-Fund (PMSF) of UKLAP, where the with-profit policyholders are entitled to at least 90% of the distributed profits, with the shareholders receiving the balance.
  - 'Non-profit' funds of Aviva Annuity UK, UKLAP, Friends Life Limited and Friends Life and Pensions Limited, where shareholders are entitled to 100% of the distributed profits. Shareholder profits on unitised with-profit business written by WPSF and on stakeholder unitised with-profit business are derived from management fees and policy charges, and emerge in the non-profit funds.
  - The RIEESA of UKLAP, which is a non-profit fund where shareholders are entitled to 100% of the distributed profits, but these cannot be distributed until the 'lock-in' criteria set by the Reattribution Scheme have been met. The RIEESA is used to provide capital support to NWPSF, and has been used in the past to write non-participating business.
  - The Friends Life Limited FP With-Profits Fund (FP WPF), which will formally be closed to new business during 2017 and where shareholders are entitled to 10% of the distributed profits, plus 60% of the surplus arising on pre-demutualisation non-profit and unitised business and non-investment sources of surplus on policies held by post-demutualisation policyholders. The Friends Provident demutualisation occurred in 2001.
  - The Friends Life Limited With-Profits Fund (FPLAL WPF), which is closed to new business and where policyholders are entitled to 100% of the distributed profits.
  - The Friends Life Limited FLC New With-Profits Fund (FLC New WPF), the Friends Life Limited FLC Old With-Profits Fund (FLC Old WPF), the Friends Life Limited WL With-Profits Fund (WL WPF) and Friends Life Limited FLAS With-Profits Fund (FLAS WPF) which are closed to new business and where policyholders are entitled to 90% of the distributed profits aside from certain policies in the FLC New WPF and the FLC Old WPF with guaranteed bonus rates, and certain policies in the WL WPF which are reinsured into the fund where the shareholders do not receive one-ninth of the bonus.
  - The Friends Life and Pensions Limited SGF With Profits Fund (SGF WPF), (which was deemed a with-profit fund on 1 January 2016), is closed to new business and where policyholders are entitled to 100% of the distributed profits.
- In France, the majority of policyholders' benefits are determined by investment performance, subject to certain guarantees, and shareholders' profits are derived largely from management fees. In addition, a substantial number of policies participate in investment returns, with the balance being attributable to shareholders.
- In other operations in Europe and Asia, a range of long-term insurance and savings products are written.

(ii) Group practice

The long-term business provision is calculated separately for each of the Group's life operations. The provisions for overseas subsidiaries have generally been included on the basis of local regulatory requirements, modified where necessary to reflect the requirements of the Companies Act 2006.

Material judgement is required in calculating the provisions and is exercised particularly through the choice of assumptions where discretion is permitted. In turn, the assumptions used depend on the circumstances prevailing in each of the life operations. Provisions are most sensitive to assumptions regarding discount rates and mortality/morbidity rates. Where discount rate assumptions are based on current market yields on fixed interest securities, allowance is made for default risk implicit in the yields on the underlying assets.

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

For UK with-profit life funds falling within the scope of FRS 27, which was grandfathered from UK regulatory requirements under IFRS4 prior to the adoption of Solvency II, an amount may be recognised for the present value of future profits (PVFP) on non-participating business written in a with-profit fund where the determination of the realistic value of liabilities in that with-profit fund takes account, directly or indirectly, of this value. For our UK with-profit funds, (excluding Friends Life), no adjustment for this value is made to the participating insurance and investment contract liabilities or the unallocated divisible surplus. For Friends Life with profit funds the non-participating liabilities are measured on a realistic basis with implicit recognition of the present value of future profits and hence no additional explicit adjustment is required for this value.

(iii) Methodology and assumptions

There are two main methods of actuarial valuation of liabilities arising under long-term insurance contracts – the net premium method and the gross premium method – both of which involve the discounting of projected premiums and claims.

Under the net premium method, the premium taken into account in calculating the provision is determined actuarially, based on the valuation assumptions regarding discount rates, mortality and disability. The difference between this premium and the actual premium payable provides a margin for expenses. This method does not allow for voluntary early termination of the contract by the policyholder, and so no assumption is required for persistency.

The gross premium method uses the amount of contractual premiums payable and includes explicit assumptions for interest and discount rates, mortality and morbidity, persistency and future expenses. These assumptions can vary by contract type and reflect current and expected future experience.

40 – Insurance liabilities continued

(a) UK

With-profit business

For reporting periods up to and including 31 December 2015, the valuation of with-profit business was stated at the amount of the Solvency I Pillar 1, realistic value of liabilities adjusted to exclude the shareholders' share of projected future bonuses, in accordance with FRS 27 (grandfathered under IFRS 4). The key elements of the realistic liabilities are the with-profit benefit reserve (WPBR) and the present value of the expected cost of any payments in excess of the WPBR (referred to as the cost of future policy-related liabilities). The realistic liability for any contract is equal to the sum of the WPBR and the cost of future policy-related liabilities, which includes the value of any 'planned enhancements' to benefits agreed by the company.

The WPBR for an individual contract is generally calculated on a retrospective basis, and represents the accumulation of the premiums paid on the contract, allowing for investment return, taxation, expenses and any other charges levied on the contract. For a small proportion of business, a prospective valuation approach is used, including allowance for anticipated future regular and final bonuses.

The cost of future policy-related liabilities include:
- Maturity Guarantees;
- Guarantees on surrender, including no-MVR (Market Value Reduction) Guarantees and Guarantees linked to inflation;
- Guaranteed Annuity Options;
- GMP (Guaranteed Minimum Pension) underpin on Section 32 transfers; and
- Expected payments under Mortgage Endowment Promise.

The cost of future policy-related liabilities is determined using a market-consistent approach and, in the main, this is based on a stochastic model calibrated to market conditions at the end of the reporting period. Non-market-related assumptions (for example, persistency, mortality and expenses) are assessed on a best estimate basis with reference to Company and wider industry experience, adjusted to take into account future trends.

On 1 January 2016 the Solvency I Pillar 1 regulatory regime was replaced with Solvency II, under which realistic liabilities were replaced with Best Estimate Liabilities (BEL). Key differences between the realistic liabilities and the Solvency II BEL are that BEL excludes the shareholder's share of future bonuses, excludes certain planned and approved enhancements to benefits (part of Solvency II surplus funds) and uses a higher yield (EIOPA specified) for future investment returns and discounting. Adjusting the yield used in the calculation of the BEL by removing the volatility and credit risk adjustments, including planned enhancements that are part of Solvency II surplus funds and making other less significant adjustments, results in a valuation in accordance with FRS 27. Consequently, for periods subsequent to 31 December 2015, the with-profit business is valued based on an adjusted Solvency II BEL assessment, which represents a change in estimate of the liabilities.

The principal assumptions underlying the cost of future policy-related liabilities are as follows:

Future investment return

A 'risk-free' rate equal to the spot yield on UK swaps is used for the valuation of with-profit business. The rates vary according to the outstanding term of the policy, with a typical rate as at 31 December 2016 of 1.25% *(2015: 2.04%)* for a policy with ten years outstanding.

Volatility of investment return

Volatility assumptions are set with reference to implied volatility data on traded market instruments, where available, or on a best estimate basis where not.

Volatility	**2016**	2015
Equity returns	**23.9%**	22.6%
Property returns	**16.4%**	16.0%
Fixed interest yields	**51.3%**	30.6%

The equity volatility used depends on term, money-ness and region. The figure shown is for a sample UK equity, at the money, with a ten-year term. Fixed interest yield volatility is also dependent on term and money-ness. The figure shown is for a ten-year swap option with ten-year term, currently at the money.

Future regular bonuses

Annual bonus assumptions for 2017 have been set consistently with the year-end 2016 declaration. Future annual bonus rates reflect the principles and practices of each fund. In particular, the level is set with regard to the projected margin for final bonus and the change from one year to the next is limited to a level consistent with past practice.

Mortality

Mortality assumptions for with-profit business are set with regard to recent Company experience and general industry trends. The mortality tables used in the valuation are summarised below:

Mortality table used	**2016**	2015
Assurances, pure endowments and deferred annuities before vesting	**Nil or Axx00 adjusted**	Nil or Axx00 adjusted
Pensions business after vesting and pensions annuities in payment	**PCMA00/PCFA00 adjusted plus allowance for future mortality improvement**	PCMA00/PCFA00 adjusted plus allowance for future mortality improvement

40 – Insurance liabilities continued

Allowance for future mortality improvement is in line with the rates shown for non-profit business below.

Non-profit business

The valuation of non-profit business is based on grandfathered regulatory requirements under IFRS 4 prior to the adoption of Solvency II, adjusted to remove certain regulatory reserves and margins in assumptions, notably for annuity business. Conventional non-profit contracts, including those written in the with-profit funds, are valued using gross premium methods which discount projected future cash flows. The cash flows are calculated using the amount of contractual premiums payable, together with explicit assumptions for investment returns, inflation, discount rates, mortality, morbidity, persistency and future expenses. These assumptions vary by contract type and reflect current and expected future experience with an allowance for prudence. For Friends Life with profit funds the non-participating liabilities are measured on a realistic basis with implicit recognition of the present value of future profits.

For unit-linked and some unitised with-profit business, the provisions are valued by adding a prospective non-unit reserve to the bid value of units. The prospective non-unit reserve is calculated by projecting the future non-unit cash flows using prudent assumptions and on the assumption that future premiums cease, unless it is more onerous to assume that they continue. Where appropriate, allowance for persistency is based on actual experience.

Valuation discount rate assumptions are set with regard to yields on the supporting assets and the general level of long-term interest rates as measured by gilt yields. An explicit allowance for risk is included by restricting the yields for equities and properties with reference to a margin over long-term interest rates or by making an explicit deduction from the yields on corporate bonds, mortgages and deposits, based on historical default experience of each asset class. A further margin for risk is then deducted for all asset classes.

The provisions held in respect of guaranteed annuity options are a prudent assessment of the additional liability incurred under the option on a basis and method consistent with that used to value basic policy liabilities, and includes a prudent assessment of the proportion of policyholders who will choose to exercise the option.

Valuation discount rates for business in the non-profit funds are as follows:

Valuation discount rates	2016	2015
Assurances		
Life conventional non-profit	**0.5% to 2.6%**	1.3% to 3.3%
Pensions conventional non-profit	**0.8% to 2.1%**	1.4% to 2.7%
Annuities		
Conventional immediate and deferred annuities	**0.6% to 2.8%**	0.9% to 3.6%
Non-unit reserves on Unit Linked business		
Life	**0.7% to 1.3%**	1.5% to 2.8%
Pensions	**0.7% to 1.6%**	1.5% to 3.5%
Income Protection		
Active lives	**1.0% to 2.6%**	1.5% to 3.3%
Claims in payment (level and index linked)	**(0.2)% to 1.6%**	0.0% to 2.3%

The above valuation discount rates are after reduction for credit risk. For conventional immediate annuity business the allowance for credit risk comprises long-term assumptions for defaults, which vary by asset category and rating. The credit risk allowance made for corporate bonds (including non-Private Finance Initiative infrastructure assets) and mortgages (including healthcare and commercial and infrastructure mortgages, but excluding equity release), held by Aviva Annuity UK Limited equated to 46 bps and 50 bps respectively at 31 December 2016 *(2015: 58 bps and 59 bps respectively)* and for Friends Life Limited equated to 37 bps and 42 bps respectively at 31 December 2016 *(2015: 56 bps for the corporate bonds, no mortgages at 2015).* For corporate bonds, the allowance represented approximately 31% of the average credit spread for the portfolio for both Aviva Annuity UK Limited and Friends Life Limited (*2015: 32% and 40% respectively).* The total valuation allowance held by Aviva Annuity UK Limited in respect of corporate bonds and mortgages, including healthcare mortgages, was £1.3 billion (*2015: £1.5 billion*) over the remaining term of the portfolio while for Friends Life Limited it was £0.5 billion *(2015: £0.7 billion)*. Total liabilities for the annuity business were £50 billion at 31 December 2016 (*2015: £47 billion*).

Mortality assumptions for non-profit business are set with regard to recent Company experience and general industry trends. The mortality tables used in the valuation are summarised below:

Mortality tables used	2016	2015
Assurances		
Non-profit	**AM00/AF00 or TM00/TF00 adjusted for smoker status and age/sex specific factors**	AM00/AF00 or TM00/TF00 adjusted for smoker status and age/sex specific factors
Pure endowments and deferred annuities before vesting	**AM00/AF00 adjusted**	AM00/AF00 adjusted
Annuities in payment		
Pensions business and general annuity business	**PCMA00/PCFA00 adjusted plus allowance for future mortality improvement**	PCMA00/PCFA00 adjusted plus allowance for future mortality improvement

40 – Insurance liabilities continued

For the largest portfolio of pensions annuity business in Aviva Annuity UK Limited, the underlying mortality assumptions for Males are 98.5% of PCMA00 *(2015: 101.5% of PCMA00)* with base year 2000; for Females the underlying mortality assumptions are 91.5% of PCFA00 *(2015: 96.5% of PCFA00)* with base year 2000. For the largest portfolio of pensions annuity business in Friends Life Limited, the underlying mortality assumptions for Males are 100.0% of PCMA00 *(2015: 102.5% of PCMA00)* with base year 2000; for Females the underlying mortality assumptions are 100.0% of PCFA00 *(2015: 97.5% of PCFA00)* with base year 2000. For all the main portfolios of annuities, improvements are based on CMI_2015 *(2015: CMI_2013)* with a long-term improvement rate of 1.75% *(2015: 1.75%)* for males and 1.5% *(2015: 1.5%)* for females, both with an addition of 0.5% *(2015: 0.5%)* to all future annual improvement adjustments. For pension annuity business in Aviva Annuity UK limited, year-specific adjustments are made to allow for potential selection effects due to the development of the Enhanced Annuity market and covering possible selection effects from pension freedom reforms.

(b) France

The majority of reserves arise from single premium savings products and are based on the accumulated fund values, adjusted to maintain consistency with the value of the assets backing the policyholder liabilities. For traditional business, the net premium method is used for prospective valuations, in accordance with local regulation, where the valuation assumptions depend on the date of issue of the contract. The valuation discount rate also depends on the original duration of the contract and mortality rates are based on industry tables.

	Valuation discount rates	Mortality tables used
	2016 and 2015	2016 and 2015
Life assurances	0% to 4.5%	TD73-77, TD88-90,TH00-02 TF00-02, H_AVDBS, F_AVDBS H_SSDBS, F_SSDBS
Annuities	0% to 4.5%	TGF05/TGH05

(c) Other countries

In all other countries, local generally accepted interest rates and published standard mortality tables are used for different categories of business as appropriate. The tables are based on relevant experience and show mortality rates, by age, for specific groupings of people.

(iv) Movements

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

	2016 £m	2015 £m
Carrying amount at 1 January	**125,348**	98,110
Provisions in respect of new business	**5,224**	4,059
Expected change in existing business provisions	**(8,235)**	(8,180)
Variance between actual and expected experience	**4,752**	428
Impact of operating assumption changes	**(536)**	(735)
Impact of economic assumption changes	**5,930**	(2,242)
Other movements	**29**	30
Change in liability recognised as an expense (note 40a(ii))	**7,164**	(6,640)
Effect of portfolio transfers, acquisitions and disposals[1]	**—**	35,099
Foreign exchange rate movements	**4,761**	(1,221)
Other movements	**(55)**	—
Carrying amount at 31 December	**137,218**	125,348

1 The movement during 2015 primarily relates to Friends Life, as at the acquisition date.

For many types of long-term business, including unit-linked and participating funds, movements in asset values are offset by corresponding changes in liabilities, limiting the net impact on profit.

The £4.8 billion impact of variance between actual and expected experience in 2016 is mainly due to higher than expected equity returns in the UK increasing with-profit and unit-linked liabilities.

The impact of operating assumption changes of £(0.5) billion in 2016 reduces the carrying value of insurance liabilities and relates mainly to mortality releases in the UK business (with the impact on profit partially offset by a corresponding reduction in reinsurance assets).

The £5.9 billion impact of economic assumption changes in 2016 reflects a decrease in valuation interest rates in response to decreased interest rates and narrowing spreads, primarily in respect of immediate annuity and participating insurance contracts in the UK.

For participating business, a movement in liabilities is generally offset by a corresponding adjustment to the unallocated divisible surplus and does not impact on profit. Where assumption changes do impact on profit, these are included in the effect of changes in assumptions and estimates during the year shown in note 44, together with the impact of movements in related non-financial assets.

40 – Insurance liabilities continued

(c) General insurance and health liabilities

(i) Provisions for outstanding claims

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

Provisions for outstanding claims are established to cover the outstanding expected ultimate liability for losses and loss adjustment expenses (LAE) in respect of all claims that have already occurred. The provisions established cover reported claims and associated LAE, as well as claims incurred but not yet reported and associated LAE.

The Group only establishes loss reserves for losses that have already occurred. The Group therefore does not establish catastrophe equalisation reserves that defer a share of income in respect of certain lines of business from years in which a catastrophe does not occur to future periods in which catastrophes may occur. When calculating reserves, the Group takes into account estimated future recoveries from salvage and subrogation, and a separate asset is recorded for expected future recoveries from reinsurers after considering their collectability.

The table below shows the split of total general insurance and health outstanding claim provisions and IBNR provisions, gross of reinsurance, by major line of business.

	As at 31 December 2016			As at 31 December 2015		
	Outstanding claim provisions £m	**IBNR provisions £m**	**Total claim provisions £m**	Outstanding claim provisions £m	IBNR provisions £m	Total claim provisions £m
Motor	**4,690**	**1,623**	**6,313**	3,509	1,055	4,564
Property	**1,711**	**57**	**1,768**	1,339	158	1,497
Liability	**1,907**	**1,257**	**3,164**	1,776	1,106	2,882
Creditor	**23**	**20**	**43**	23	18	41
Other	**418**	**3**	**421**	416	46	462
	8,749	**2,960**	**11,709**	7,063	2,383	9,446

(ii) Discounting

Outstanding claims provisions are based on undiscounted estimates of future claim payments, except for the following classes of business for which discounted provisions are held:

	Rate		Mean term of liabilities	
Class	**2016**	2015	**2016**	2015
Reinsured London Market business	**2.0%**	2.0%	**9 years**	9 years
Latent claims	**0.00% to 2.31%**	0.00% to 2.30%	**6 to 15 years**	6 to 15 years
Structured settlements	**0.15% to 2.98%**	2.1%	**13 to 39 years**	38 years

The gross outstanding claims provision before discounting was £12,196 million *(2015: £9,911 million)*. The period of time which will elapse before the liabilities are settled has been estimated by modelling the settlement patterns of the underlying claims.

The discount rate that has been applied to latent claims reserves and reinsured London Market business is based on the relevant swap curve in the relevant currency having regard to the expected settlement dates of the claims. The range of discount rates used depends on the duration of the claims and is given in the table above. The duration of the claims span over 35 years, with the average duration being between 6 and 15 years depending on the geographical region.

The discount rates applied to structured settlements have increased between 2015 and 2016 in order to allow for the illiquid nature of these liabilities. In 2016 the valuation of periodic payment orders (PPOs) or structured settlements also moved to a market consistent basis for inflation based on the price of index linked gilts rather than RPI. During 2016, the propensity for new bodily injury claims settled by PPO, which are reserved for on a discounted basis, has reduced.

Any change in discount rates between the start and the end of the accounting period is reflected outside of operating profit as an economic assumption change.

(iii) Assumptions

Outstanding claims provisions are estimated based on known facts at the date of estimation. Case estimates are set by skilled claims technicians and established case setting procedures. Claims technicians apply their experience and knowledge to the circumstances of individual claims. They take into account all available information and correspondence regarding the circumstances of the claim, such as medical reports, investigations and inspections. Claims technicians set case estimates according to documented claims department policies and specialise in setting estimates for certain lines of business or types of claim. Claims above certain limits are referred to senior claims handlers for estimate authorisation.

No adjustments are made to the claims technicians' case estimates included in booked claim provisions, except for rare occasions when the estimated ultimate cost of individual large or unusual claims may be adjusted, subject to internal reserve committee approval, to allow for uncertainty regarding, for example, the outcome of a court case. The ultimate cost of outstanding claims is then estimated by using a range of standard actuarial claims projection techniques, such as the Chain Ladder and Bornhuetter-Ferguson methods. The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident period, although underwriting or notification period is also used where this is considered appropriate.

40 – Insurance liabilities continued

Claim development is separately analysed for each geographic area, as well as by each line of business. Certain lines of business are also further analysed by claim type or type of coverage. In addition, large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development.

The assumptions used in most non-life actuarial projection techniques, including future rates of claims inflation or loss ratio assumptions, are implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in the future, for example, to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures in order to arrive at a point estimate for the ultimate cost of claims that represents the likely outcome, from a range of possible outcomes, taking account of all the uncertainties involved. The range of possible outcomes does not, however, result in the quantification of a reserve range. The following explicit assumptions are made which could materially impact the level of booked net reserves:

(a) UK mesothelioma claims

The level of uncertainty associated with latent claims is considerable due to the relatively small number of claims and the long-tail nature of the liabilities. UK mesothelioma claims account for a large proportion of the Group's latent claims. The key assumptions underlying the estimation of these claims include claim numbers, the base average cost per claim, future inflation in the average cost of claims and legal fees.

The best estimate of the liabilities reflects the latest available market information and studies. Many different scenarios can be derived by flexing these key assumptions and applying different combinations of the different assumptions. An upper and lower scenario can be derived by making reasonably likely changes to these assumptions, resulting in an estimate £25 million *(2015: £30 million)* greater than the best estimate, or £45 million *(2015: £60 million)* lower than the best estimate. These scenarios do not, however, constitute an upper or lower bound on these liabilities.

(b) Interest rates used to discount latent claim liabilities and structured settlements

The discount rates used in determining our latent claim liabilities and structured settlements are based on the relevant swap curve in the relevant currency at the reporting date, having regard to the duration of the expected settlement of claims. The range of discount rates used is shown in section (ii) above and depends on the duration of the claim and the reporting date. The discount rates applied to structured settlements have been increased during 2016 in order to allow for the illiquid nature of these liabilities. At 31 December 2016, it is estimated that a 1% fall in the discount rates used would increase net claim reserves by approximately £220 million *(2015: £60 million)*, excluding the offsetting effect on asset values as assets are not hypothecated across classes of business. The impact has increased during 2016 due to an increase in reserves for bodily injury claims settled by periodic payment orders (PPOs) or structured settlements as a result of an increase in the estimated future inflation rate used to value these liabilities to be consistent with market expectations. The impact of a 1% fall in interest rates across all assets and liabilities of our general insurance and health businesses is shown in note 56.

(c) Allowance for risk and uncertainty

The uncertainties involved in estimating loss reserves are allowed for in the reserving process and by the estimation of explicit reserve uncertainty distributions. The reserve estimation basis for non-life claims requires all non-life businesses to calculate booked claim provisions as the best estimate of the cost of future claim payments, plus an explicit allowance for risk and uncertainty. The allowance for risk and uncertainty is calculated by each business unit in accordance with the requirements of the Group non-life reserving policy, taking into account the risks and uncertainties specific to each line of business and type of claim in that territory. The requirements of the Group non-life reserving policy also seek to ensure that the allowance for risk and uncertainty is set consistently across both business units and reporting periods.

Changes to claims development patterns can materially impact the results of actuarial projection techniques. However, allowance for the inherent uncertainty in the assumptions underlying reserving projections is automatically allowed for in the explicit allowance for risk and uncertainty included when setting booked reserves.

Subsequent event

Lump sum payments in settlement of bodily injury claims decided by the UK courts are calculated in accordance with the Ogden Tables and discount rate. The Ogden discount rate is set by the Lord Chancellor in accordance with the Damages Act 1996 and is applied when calculating the present value of future care costs and loss of earnings for claims settlement purposes.

On 27 February 2017 the Lord Chancellor announced a reduction in the discount rate used in the Ogden tables from 2.5% set in 2001 to minus 0.75%. The reduction in the Ogden discount rate will increase lump sum payments to UK bodily injury claimants. As a result, claim reserves in the UK have been strengthened by £475 million to allow for the impact of the reduction in the current discount rate. The Lord Chancellor has also announced that the framework for setting the discount rate is under review and a public consultation will be launched before the end of April 2017. The timing of the conclusion of this review and its outcome and impact on future Ogden discount rates is unclear.

40 – Insurance liabilities continued

(iv) Movements

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

	2016 £m	2015 £m
Carrying amount at 1 January	**9,446**	9,876
Impact of changes in assumptions	**324**	115
Claim losses and expenses incurred in the current year	**6,703**	5,889
Decrease in estimated claim losses and expenses incurred in prior periods	**(7)**	(463)
Incurred claims losses and expenses	**7,020**	5,541
Less:		
Payments made on claims incurred in the current year	**(3,505)**	(3,153)
Payments made on claims incurred in prior periods	**(2,893)**	(2,650)
Recoveries on claim payments	**234**	281
Claims payments made in the period, net of recoveries	**(6,164)**	(5,522)
Unwind of discounting	**11**	10
Changes in claims reserve recognised as an expense (note 40a(ii))	**867**	29
Effect of portfolio transfers, acquisitions and disposals	**430**	(64)
Foreign exchange rate movements	**966**	(395)
Carrying amount at 31 December	**11,709**	9,446

The effect of changes in the main assumptions is given in note 44 and the economic assumption changes are explained in note 9.

40 – Insurance liabilities continued

(d) Loss development tables

(i) Description of tables

The tables that follow present the development of claim payments and the estimated ultimate cost of claims for the accident years 2007 to 2016. The upper half of the tables shows the cumulative amounts paid during successive years related to each accident year. For example, with respect to the accident year 2007, by the end of 2016 £8,278 million had actually been paid in settlement of claims. In addition, as reflected in the lower section of the table, the original estimated ultimate cost of claims of £8,530 million was re-estimated to be £8,380 million at 31 December 2016.

The original estimates will be increased or decreased, as more information becomes known about the individual claims and overall claim frequency and severity.

The Group aims to maintain reserves in respect of its general insurance and health business that protect against adverse future claims experience and development. The Group establishes reserves in respect of the current accident year (2016), where the development of claims is less mature, that allow for the greater uncertainty attaching to the ultimate cost of current accident year claims. As claims develop and the ultimate cost of claims become more certain, the absence of adverse claims experience will result in a release of reserves from earlier accident years, as shown in the loss development tables and movements table (c)(iv) above. Releases from prior accident year reserves are also due to an improvement in the estimated cost of claims.

Key elements of the release from prior accident year general insurance and health net provisions during 2016 were:

- £208 million strengthening from UK & Ireland due to the impact of the change in the Ogden discount rate in the UK partly offset by other favourable developments on personal motor and commercial liability claims.
- £154 million release from Canada mainly due to continued favourable experience on motor, following the legislative changes in Ontario.
- £90 million release from Europe mainly due to favourable development in France and Italy.

There was also a £78 million reduction in net claim reserves relating to an outwards reinsurance contract completed by the UK General Insurance business.

Key elements of the release from prior accident year general insurance and health net provisions during 2015 were:

- £166 million release from UK & Ireland due to favourable development on personal and commercial motor, commercial liability and commercial property claims.
- £109 million release from Canada mainly due to continued favourable experience on motor, following the legislative changes in Ontario.
- £52 million release from Europe mainly due to favourable development in France and Italy.

There was also a £659 million reduction in net claim reserves relating to an outwards reinsurance contract completed by the UK General Insurance business.

(ii) Gross figures

Before the effect of reinsurance, the loss development table is:

Accident year	All prior years £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	**Total £m**
Gross cumulative claim payments												
At end of accident year		(4,393)	(4,915)	(3,780)	(3,502)	(3,420)	(3,055)	(3,068)	(3,102)	(2,991)	(3,534)	
One year later		(6,676)	(7,350)	(5,464)	(5,466)	(4,765)	(4,373)	(4,476)	(4,295)	(4,285)		
Two years later		(7,191)	(7,828)	(6,102)	(5,875)	(5,150)	(4,812)	(4,916)	(4,681)			
Three years later		(7,513)	(8,304)	(6,393)	(6,163)	(5,457)	(5,118)	(5,221)				
Four years later		(7,836)	(8,607)	(6,672)	(6,405)	(5,712)	(5,376)					
Five years later		(8,050)	(8,781)	(6,836)	(6,564)	(5,864)						
Six years later		(8,144)	(8,906)	(6,958)	(6,649)							
Seven years later		(8,224)	(8,986)	(7,043)								
Eight years later		(8,257)	(9,012)									
Nine years later		(8,278)										
Estimate of gross ultimate claims												
At end of accident year		8,530	9,508	7,364	6,911	6,428	6,201	6,122	5,896	5,851	6,947	
One year later		8,468	9,322	7,297	7,006	6,330	6,028	6,039	5,833	5,930		
Two years later		8,430	9,277	7,281	6,950	6,315	6,002	6,029	5,865			
Three years later		8,438	9,272	7,215	6,914	6,292	5,952	6,067				
Four years later		8,409	9,235	7,204	6,912	6,262	6,002					
Five years later		8,446	9,252	7,239	6,906	6,265						
Six years later		8,381	9,213	7,217	6,926							
Seven years later		8,381	9,207	7,256								
Eight years later		8,378	9,202									
Nine years later		8,380										
Estimate of gross ultimate claims		8,380	9,202	7,256	6,926	6,265	6,002	6,067	5,865	5,930	6,947	
Cumulative payments		(8,278)	(9,012)	(7,043)	(6,649)	(5,864)	(5,376)	(5,221)	(4,681)	(4,285)	(3,534)	
	2,568	102	190	213	277	401	626	846	1,184	1,645	3,413	**11,465**
Effect of discounting	(400)	(12)	(16)	(27)	(28)	(2)	1	(3)	—	—	—	**(487)**
Present value	2,168	90	174	186	249	399	627	843	1,184	1,645	3,413	**10,978**
Cumulative effect of foreign exchange movements	—	13	(6)	(1)	(7)	(3)	5	22	64	176	—	**263**
Effect of acquisitions	73	17	19	31	40	39	33	46	61	68	41	**468**
Present value recognised in the statement of financial position	**2,241**	**120**	**187**	**216**	**282**	**435**	**665**	**911**	**1,309**	**1,889**	**3,454**	**11,709**

40 – Insurance liabilities continued

(iii) Net of reinsurance

After the effect of reinsurance, the loss development table is:

Accident year	All prior years £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	**Total £m**
Net cumulative claim payments												
At end of accident year		(4,317)	(4,808)	(3,650)	(3,386)	(3,300)	(2,925)	(2,905)	(2,972)	(2,867)	(3,309)	
One year later		(6,542)	(7,165)	(5,286)	(5,242)	(4,578)	(4,166)	(4,240)	(4,079)	(4,061)		
Two years later		(7,052)	(7,638)	(5,885)	(5,637)	(4,963)	(4,575)	(4,649)	(4,432)			
Three years later		(7,356)	(8,094)	(6,177)	(5,905)	(5,263)	(4,870)	(4,918)				
Four years later		(7,664)	(8,356)	(6,410)	(6,137)	(5,485)	(5,110)					
Five years later		(7,852)	(8,515)	(6,568)	(6,278)	(5,626)						
Six years later		(7,942)	(8,626)	(6,657)	(6,361)							
Seven years later		(8,004)	(8,682)	(6,708)								
Eight years later		(8,033)	(8,714)									
Nine years later		(8,055)										
Estimate of net ultimate claims												
At end of accident year		8,363	9,262	7,115	6,650	6,202	5,941	5,838	5,613	5,548	6,489	
One year later		8,302	9,104	7,067	6,751	6,103	5,765	5,745	5,575	5,635		
Two years later		8,244	9,028	7,036	6,685	6,095	5,728	5,752	5,591			
Three years later		8,249	9,007	6,978	6,644	6,077	5,683	5,733				
Four years later		8,210	8,962	6,940	6,634	6,034	5,717					
Five years later		8,221	8,949	6,977	6,614	6,005						
Six years later		8,149	8,926	6,908	6,624							
Seven years later		8,143	8,894	6,897								
Eight years later		8,133	8,898									
Nine years later		8,154										
Estimate of net ultimate claims		8,154	8,898	6,897	6,624	6,005	5,717	5,733	5,591	5,635	6,489	
Cumulative payments		(8,055)	(8,714)	(6,708)	(6,361)	(5,626)	(5,110)	(4,918)	(4,432)	(4,061)	(3,309)	
	928	99	184	189	263	379	607	815	1,159	1,574	3,180	**9,377**
Effect of discounting	(191)	(12)	(14)	(15)	(24)	3	1	3	—	—	—	**(249)**
Present value	737	87	170	174	239	382	608	818	1,159	1,574	3,180	**9,128**
Cumulative effect of foreign exchange movements	—	13	(6)	(2)	(7)	(3)	5	22	62	170	—	**254**
Effect of acquisitions	61	17	20	31	40	39	33	46	61	68	26	**442**
Present value recognised in the statement of financial position	**798**	**117**	**184**	**203**	**272**	**418**	**646**	**886**	**1,282**	**1,812**	**3,206**	**9,824**

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

The loss development tables above include information on asbestos and environmental pollution claims provisions from business written before 2007. The undiscounted claim provisions, net of reinsurance, in respect of this business at 31 December 2016 were £134 million *(2015: £237 million)*. The movement in the year reflects a reduction of £78 million due to the reinsurance contract completed by the UK General Insurance business covering a proportion of these liabilities, favourable claims development of £34 million, claim payments net of reinsurance recoveries and foreign exchange rate movements.

(e) Provision for unearned premiums

Movements

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

	2016 £m	2015 £m
Carrying amount at 1 January	**4,048**	4,107
Premiums written during the year	**9,694**	8,738
Less: Premiums earned during the year	**(9,503)**	(8,613)
Changes in UPR recognised as an (income)/expense	**191**	125
Gross portfolio transfers and acquisitions[1]	**124**	—
Foreign exchange rate movements	**403**	(184)
Carrying amount at 31 December	**4,766**	4,048

1 Relates to the acquisition of Royal Bank of Canada General Insurance Company.

41 – Liability for investment contracts

This note analyses our investment contract liabilities by type of product and describes how the Group calculates these liabilities and the assumptions used.

(a) Carrying amount

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

	2016 £m	Restated[1] 2015 £m
Long-term business		
Participating contracts	**89,739**	78,048
Non-participating contracts at fair value	**114,531**	103,034
Total	**204,270**	181,082
Less: Amounts classified as held for sale	**(7,175)**	—
	197,095	181,082

1 Following a correction to accounting and modelling for annual management charge rebates in UK Life, prior year comparatives have been restated. See note 1 for further details.

(b) Long-term business investment liabilities

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

Many investment contracts contain a discretionary participation feature in which the contract holder has a contractual right to receive additional benefits as a supplement to guaranteed benefits. These are referred to as participating contracts and are measured according to the methodology and Group practice for long-term business liabilities as described in note 40. They are not measured at fair value as there is currently no agreed definition of fair valuation for discretionary participation features under IFRS. In the absence of such a definition, it is not possible to provide a range of estimates within which a fair value is likely to fall. The IASB has deferred consideration of participating contracts to Phase II of its insurance contracts project. This is expected to be addressed in the forthcoming insurance contract standard (i.e. IFRS 17).

For participating business, the discretionary participation feature is recognised separately from the guaranteed element and is classified as a liability, referred to as unallocated divisible surplus. Guarantees on long-term investment products are discussed in note 42.

Investment contracts that do not contain a discretionary participation feature are referred to as non-participating contracts and the liability is measured at either fair value or amortised cost. We currently have no non-participating investment contracts measured at amortised cost.

Of the non-participating investment contracts measured at fair value, £113,307 million in 2016 are unit-linked in structure and the fair value liability is equal to the current unit fund value, including any unfunded units, plus if required, additional non-unit reserves based on a discounted cash flow analysis. These contracts are generally classified as 'Level 1' in the fair value hierarchy, as the unit reserve is calculated as the publicly quoted unit price multiplied by the number of units in issue, and any non-unit reserve is insignificant.

For unit-linked business, a deferred acquisition cost asset and deferred income reserve liability are recognised in respect of transaction costs and front-end fees respectively, that relate to the provision of investment management services, and which are amortised on a systematic basis over the contract term. The amount of the related deferred acquisition cost asset is shown in note 28 and the deferred income liability is shown in note 51.

For non-participating investment contracts acquired in a business combination, an acquired value of in-force business asset is recognised in respect of the fair value of the investment management services component of the contracts, which is amortised on a systematic basis over the useful lifetime of the related contracts. The amount of the acquired value of in-force business asset is shown in note 17, which relates primarily to the acquisition of Friends Life in 2015.

For non-participating investment contracts, deposits collected and amounts withdrawn are not shown on the income statement, but are accounted for directly through the statement of financial position as an adjustment to the gross liabilities for investment contracts. The associated change in investment contract provisions shown on the income statement consists of the attributed investment return. Participating investment contracts are treated consistently with insurance contracts with the change in investment contract provisions primarily consisting of the movement in participating investment contract liabilities (net of reinsurance) over the reporting period.

(c) Movements in the year

The following movements have occurred in the gross provisions for investment contracts in the year:

(i) Participating investment contracts

	2016 £m	2015 £m
Carrying amount at 1 January	**78,048**	67,232
Provisions in respect of new business	**4,584**	3,710
Expected change in existing business provisions	**(4,893)**	(4,219)
Variance between actual and expected experience	**3,084**	1,590
Impact of operating assumption changes	**36**	43
Impact of economic assumption changes	**450**	97
Other movements	**(347)**	49
Change in liability recognised as an expense[1]	**2,914**	1,270
Effect of portfolio transfers, acquisitions and disposals[2]	**—**	12,245
Foreign exchange rate movements	**8,721**	(2,699)
Other movements	**56**	—
Carrying amount at 31 December	**89,739**	78,048

1 Total interest expense for participating investment contracts recognised in profit or loss is £3,111 million *(2015: £1,931 million)*.
2 The movement during 2015 relates to the acquisition of Friends Life.

41 – Liability for investment contracts continued

For many types of long-term business, including unit-linked and participating funds, movements in asset values are offset by corresponding changes in liabilities, limiting the net impact on profit.

The variance between actual and expected experience in 2016 of £3.1 billion is primarily driven by favourable equity returns in the UK.

The impact of assumption changes in the analysis shows the resulting movement in the carrying value of participating investment contract liabilities. For participating business, a movement in liabilities is generally offset by a corresponding adjustment to the unallocated divisible surplus and does not impact profit. Where assumption changes do impact profit, these are included in the effect of changes in assumptions and estimates during the year shown in note 44, together with the impact of movements in related non-financial assets.

(ii) Non-participating investment contracts

	2016 £m	Restated[1] 2015 £m
Carrying amount at 1 January	**103,034**	49,922
Provisions in respect of new business	**3,222**	2,644
Expected change in existing business provisions	**(3,481)**	(2,726)
Variance between actual and expected experience	**11,105**	(2,906)
Impact of operating assumption changes	**17**	32
Impact of economic assumption changes	**2**	3
Other movements	**334**	38
Change in liability	**11,199**	(2,915)
Effect of portfolio transfers, acquisitions and disposals[2]	**(757)**	56,401
Foreign exchange rate movements	**1,065**	(374)
Other movements	**(10)**	—
Carrying amount at 31 December	**114,531**	103,034

1 Following a correction to accounting and modelling for annual management charge rebates in UK Life, prior year comparatives have been restated. See note 1 for further details.
2 The movement during 2015 primarily relates to the acquisition of Friends Life. The movement during 2016 relates to the disposal of a closed book of offshore bonds business.

For unit-linked investment contracts, movements in asset values are offset by corresponding changes in liabilities, limiting the net impact on profit. The variance between actual and expected experience in 2016 of £11.1 billion is primarily driven by the impact of positive equity returns in the UK.

The impact of assumption changes in the above analysis shows the resulting movement in the carrying value of non-participating investment contract liabilities. The impacts of assumption changes on profit are included in the effect of changes in assumptions and estimates during the year shown in note 44, which combines participating and non-participating investment contracts together with the impact of movements in related non-financial assets.

42 – Financial guarantees and options

This note details the financial guarantees and options that the Group has given for some of our insurance and investment products.

As a normal part of their operating activities, various Group companies have given guarantees and options, including investment return guarantees, in respect of certain long-term insurance and fund management products. Further information on assumptions is given in notes 40 and 41.

(a) UK and Ireland Life with-profit business

The Group's UK with-profit liabilities are evaluated by reference to FRS27, which was grandfathered under IFRS 4, prior to the adoption of Solvency II. Under these rules, provision for guarantees and options within realistic liabilities are measured at fair value, using market-consistent stochastic models. A stochastic approach includes measuring the time value of guarantees and options, which represents the additional cost arising from uncertainty surrounding future economic conditions.

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

(i) Maturity value and death benefit guarantees

Substantially all of the conventional with-profit business and a significant proportion of unitised with-profit business have minimum maturity (and in some cases death benefit) values reflecting the sums assured including declared annual bonuses. In addition, the guarantee fund has offered maturity value guarantees on certain unit-linked products. For some unitised with-profit life contracts the amount paid after the fifth policy anniversary is guaranteed to be at least as high as the premium paid increased in line with the rise in RPI/CPI.

(ii) No market valuation reduction (MVR) guarantees

For unitised business, there are a number of circumstances where a 'no MVR' guarantee is applied, for example on certain policy anniversaries, guaranteeing that no market value reduction will be applied to reflect the difference between the accumulated value of units and the market value of the underlying assets.

42 – Financial guarantees and options continued

(iii) Guaranteed annuity options

The Group's UK with-profit funds have written individual and group pension contracts which contain guaranteed annuity rate options (GAOs), where the policyholder has the option to take the benefits from a policy in the form of an annuity based on guaranteed conversion rates. The Group also has exposure to GAOs and similar options on deferred annuities.

Realistic liabilities for GAOs in the UK and Ireland with-profit funds were £2,456 million at 31 December 2016 *(2015: £2,360 million).* With the exception of the New With-Profits Sub Fund (NWPSF), movements in the realistic liabilities in the with-profit funds are offset by a corresponding movement in the unallocated divisible surplus, with no net impact on IFRS profit. In the NWPSF, following the reattribution, any surplus is owned by the Shareholders, with no policyholder interest. Realistic liabilities for GAOs in the NWPSF were £225 million at 31 December 2016 *(2015: £196 million)*.

(iv) Guaranteed minimum pension

The Group's UK with-profit funds also have certain policies that contain a guaranteed minimum level of pensions as part of the condition of the original transfer from state benefits to the policy.

(v) Guaranteed minimum maturity payments on mortgage endowments

In addition, the with-profit fund companies have made promises to certain policyholders in relation to their with-profit mortgage endowments. Top-up payments will be made on these policies at maturity to meet the mortgage value up to a maximum of the 31 December 1999 illustrated shortfall. For UKLAP with profit policyholders, these payments are subject to certain conditions.

(b) UK Life non-profit business

The Group's UK non-profit funds are evaluated by reference to statutory reserving rules, which are based on the UK regulatory requirements (grandfathered under IFRS 4), prior to the adoption of Solvency II, adjusted to remove certain regulatory reserves and margins in assumptions, notably for annuity business.

(i) Guaranteed annuity options

Similar options to those written on with-profit business have been written in relation to non-profit products. Provision for these guarantees does not materially differ from a provision based on a market-consistent stochastic model, and amounts to £121 million at 31 December 2016 *(2015: £112 million)*.

(ii) Guaranteed unit price on certain products

Certain unit-linked pension products linked to long-term life insurance funds provide policyholders with guaranteed benefits at retirement or death. No additional provision is made for this guarantee as the investment management strategy for these funds is designed to ensure that the guarantee can be met from the fund, mitigating the impact of large falls in investment values and interest rates.

(iii) Return of Premium guarantees

German Pension products sold in Friends Life between 2006 and 2014 are subject to a Return of Premium guarantee whereby the product guarantees to return the maximum of the unit fund value or total premiums paid (before deductions). Provisions for this guarantee are calculated using a market-consistent stochastic model and amount to £145 million at 31 December 2016 *(2015: £102 million)*.

(c) Overseas life businesses

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

(i) France

Guaranteed surrender value and guaranteed minimum bonuses

Aviva France has written a number of contracts with such guarantees. The guaranteed surrender value is the accumulated value of the contract including accrued bonuses. Bonuses are based on accounting income from amortised bond portfolios, where the duration of bond portfolios is set in relation to the expected duration of the policies, plus income and releases from realised gains on equity-type investments. Policy reserves are equal to guaranteed surrender values. Local statutory accounting envisages the establishment of a reserve, 'Provision pour Aléas Financiers' (PAF), when accounting income is less than 125% of guaranteed minimum credited returns. No PAF was established at full year 2016.

The most significant of these contracts is the AFER Eurofund which has total liabilities of £37 billion at 31 December 2016 *(2015: £31 billion).* The guaranteed minimum bonus is agreed between Aviva France and the AFER association at the end of each year, in respect of the following year. The bonus was 2.65% for 2016 *(2015: 3.05%)* compared with an accounting income from the fund of 3.14% *(2015: 3.54%).*

Non-AFER contracts with guaranteed surrender values had liabilities of £19 billion at 31 December 2016 *(2015: £16 billion)* and all guaranteed annual bonus rates are between 0% and 4.5%. For non-AFER business the accounting income return exceeded guaranteed bonus rates in 2016.

42 – Financial guarantees and options continued

Guaranteed death and maturity benefits

In France, the Group has also sold unit-linked policies where the death and/or maturity benefit is guaranteed to be at least equal to the premiums paid. The reserve held in the Group's consolidated statement of financial position at the end of 2016 for this guarantee is £59 million *(2015: £29 million).* The reserve is calculated on a prudent basis and is in excess of the economic liability. At the end of 2016, total sums at risk for these contracts were £38 million *(2015: £44 million)* out of total unit-linked funds of £19 billion *(2015: £16 billion).* The average age of policyholders was approximately 54. It is estimated that this liability would increase by £51 million *(2015: £45 million)* if yields were to decrease by 1% (subject to a minimum of 0%) per annum and by £10 million *(2015: £10 million)* if equity markets were to decline by 10% from year end 2016 levels. These figures do not reflect our ability to review the tariff for this option.

(ii) Spain and Italy

Guaranteed investment returns and guaranteed surrender values

The Group has also written contracts containing guaranteed investment returns and guaranteed surrender values in both Spain and Italy. Traditional profit-sharing products receive an appropriate share of the investment return, assessed on a book value basis, subject to a guaranteed minimum annual return of up to 6% in Spain and up to 4% in Italy on existing business, while on new business the maximum guaranteed rate is lower. Liabilities are generally taken as the face value of the contract plus, if required, an explicit provision for guarantees calculated in accordance with local regulations. At 31 December 2016, total liabilities for the Spanish business were £1 billion *(2015: £1 billion)* with a further reserve of £15 million *(2015: £14 million)* for guarantees. Total liabilities for the Italian business were £18 billion *(2015: £14 billion)*, with a further provision of £47 million *(2015: £41 million)* for guarantees. Liabilities are most sensitive to changes in the level of interest rates. It is estimated that provisions for guarantees would need to increase by £14 million *(2015: £12 million)* in Spain and decrease by £5 million *(2015: £1 million decrease)* in Italy if interest rates fell by 1% from end 2016 values. Under this sensitivity test, the guarantee provision in Spain is calculated conservatively, assuming a long-term market interest rate of 0.39% and no lapses or premium discontinuances. In the local valuation there is no allowance for stochastic modelling of guarantees and options.

(d) Sensitivity

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

43 – Reinsurance assets

This note details the reinsurance recoverables on our insurance and investment contract liabilities.

(a) Carrying amounts

The reinsurance assets at 31 December comprised:

	2016 £m	2015 £m
Long-term business		
Insurance contracts	**6,186**	5,018
Participating investment contracts	**2**	11
Non-participating investment contracts[1,2]	**18,366**	13,967
	24,554	18,996
Outstanding claims provisions	**65**	38
	24,619	19,034
General insurance and health		
Outstanding claims provisions[3]	**1,090**	988
Provisions for claims incurred but not reported[3]	**795**	607
	1,885	1,595
Provisions for unearned premiums	**250**	289
	2,135	1,884
	26,754	20,918
Less: Amounts classified as held for sale	**(411)**	—
Total	**26,343**	20,918

1 Balances in respect of all reinsurance treaties are included under reinsurance assets, regardless of whether they transfer significant insurance risk. The reinsurance assets classified as non-participating investment contracts are financial instruments measured at fair value through profit or loss.
2 Reinsurance assets in 2016 include the reclassification of £1,061 million of UK Life investments in certain life insurance funds from unit trusts and other investment vehicles (financial instruments) to reinsurance assets.
3 Reinsurance assets at 31 December 2016 for General insurance and health business include the impact of the £78 million reinsurance asset relating to an outwards reinsurance contract completed by the UK General Insurance business and the remaining recoveries expected in respect of the Alberta fires in Canada. Reinsurance assets at 31 December 2015 for General insurance and health business include the impact of the £659 million reinsurance asset relating to an outwards reinsurance contract completed by the UK General Insurance business.

Of the above total, £22,919 million *(2015: £16,341 million)* is expected to be recovered more than one year after the statement of financial position date.

(b) Assumptions

The assumptions, including discount rates, used for reinsurance contracts follow those used for insurance contracts. Reinsurance assets are valued net of an allowance for their recoverability.

43 – Reinsurance assets continued

(c) Movements

The following movements have occurred in the reinsurance assets during the year:

(i) In respect of long-term business provisions

	2016 £m	2015 £m
Carrying amount at 1 January	**18,996**	6,568
Assets in respect of new business	**941**	664
Expected change in existing business assets	**300**	197
Variance between actual and expected experience	**3,149**	(1,007)
Impact of operating assumption changes	**(182)**	(351)
Impact of economic assumption changes	**171**	(177)
Other movements[1]	**1,003**	636
Change in assets	**5,382**	(38)
Effect of portfolio transfers, acquisitions and disposals[2]	**8**	12,504
Foreign exchange rate movements	**168**	(38)
Carrying amount at 31 December	**24,554**	18,996

1 The other movements in 2015 include the reclassification of the UK Life staff pension scheme investments in Blackrock and Schroder life insurance funds from investments to reinsurance assets. The movement during 2016 includes the reclassification of UK Life investments in certain life insurance funds from unit trusts and other investment vehicles (financial instruments) to reinsurance assets.
2 The movement during 2015 relates to Friends Life, as at the acquisition date. The movement during 2016 relates to the recognition of a reinsurance asset following disposal of a closed book of offshore bonds business.

The impact of assumption changes in the above analysis shows the resulting movement in the carrying value of reinsurance assets and mainly relates to business in the UK, with corresponding movements in gross insurance contract liabilities. For participating businesses, a movement in reinsurance assets is generally offset by a corresponding adjustment to the unallocated divisible surplus and does not impact profit. Where assumption changes do impact profit, these are included in the effect of changes in assumptions and estimates during the year shown in note 44, together with the impact of movements in related liabilities and other non-financial assets.

(ii) In respect of general insurance and health outstanding claims provisions and IBNR

	2016 £m	2015 £m
Carrying amount at 1 January	**1,595**	1,097
Impact of changes in assumptions	**80**	14
Reinsurers' share of claim losses and expenses		
Incurred in current year	**433**	301
Incurred in prior years[1]	**109**	527
Reinsurers' share of incurred claim losses and expenses	**542**	828
Less:		
Reinsurance recoveries received on claims		
Incurred in current year	**(195)**	(121)
Incurred in prior years	**(214)**	(225)
Reinsurance recoveries received in the year	**(409)**	(346)
Unwind of discounting	**9**	8
Change in reinsurance asset recognised as income (note 40a(ii))	**222**	504
Effect of portfolio transfers, acquisitions and disposals	**(25)**	(4)
Foreign exchange rate movements	**97**	(2)
Other movements	**(4)**	—
Carrying amount at 31 December	**1,885**	1,595

1 The change in reinsurance assets for 2016 includes the impact of the £78 million reinsurance asset relating to an outwards reinsurance contract completed by the UK General Insurance business. The change in reinsurance assets for 2015 includes the impact of the £659 million reinsurance asset relating to an outwards reinsurance contract completed by the UK General Insurance business

(iii) Reinsurers' share of the provision for UPR

	2016 £m	2015 £m
Carrying amount at 1 January	**289**	250
Premiums ceded to reinsurers in the year[1]	**668**	1360
Less: Reinsurers' share of premiums earned during the year[1]	**(687)**	(1,346)
Changes in reinsurance asset recognised as income	**(19)**	14
Reinsurers' share of portfolio transfers and acquisitions	**(38)**	33
Foreign exchange rate movements	**18**	(8)
Carrying amount at 31 December	**250**	289

1 For 2016 includes £107 million *(2015: £712 million)* of ceded premiums relating to an outwards reinsurance contract completed by the UK General Insurance business.

44 – Effect of changes in assumptions and estimates during the year

Certain estimates and assumptions used in determining our liabilities for insurance and investment contract business were changed from 2015 to 2016, affecting the profit recognised for the year with an equivalent effect on liabilities. This note analyses the effect of the changes. This note only allows for the impact on liabilities and related assets, such as unallocated divisible surplus, reinsurance, deferred acquisition costs and AVIF, and does not allow for offsetting movements in the value of backing financial assets.

	Effect on profit 2016 £m	Effect on profit 2015 £m
Assumptions		
Long-term insurance business		
Interest rates	**(4,490)**	2,053
Expenses	**48**	248
Persistency rates	**(80)**	(2)
Mortality for assurance contracts	**(11)**	1
Mortality for annuity contracts	**294**	17
Tax and other assumptions	**97**	48
Investment contracts		
Expenses	**—**	(4)
General insurance and health business		
Change in discount rate assumptions	**(242)**	(100)
Change in expense ratio and other assumptions	**—**	1
Total	**(4,384)**	2262

The impact of interest rates on long-term business relates primarily to annuities in the UK (including any change in credit default and reinvestment risk provisions), where a decrease in the valuation interest rate, in response to decreasing risk-free rates and narrowing credit spreads, has increased liabilities. The overall impact on profit also depends on movements in the value of assets backing the liabilities, which is not included in this disclosure.

In the UK, expense reserves have reduced and persistency reserves have increased following a review of recent experience. There has been a release of annuitant mortality reserves in the UK following a review of recent experience (including the exposure to anti-selection risk) and the adoption of the CMI_2015 mortality improvement assumptions, partially offset by a change in base mortality assumptions in response to revisions in the calculation of mortality exposure.

Tax and other assumptions include the profit arising from a change in estimate related to the recoverability testing of the deferred acquisition cost assets (DAC) in the UK. The allowance for risk for non-participating investment contracts and the level of prudence for insurance contracts has been re-assessed, resulting in amortisation or impairment of DAC in prior reporting periods being reversed (subject to the original amortisation profile).

The adverse change in discount rate assumptions on general insurance and health business of £242 million arises as a result of a decrease in the real interest rates used to discount claim reserves for periodic payment orders and latent claims. Market interest rates used to discount periodic payment orders and latent claims have reduced and the estimated future inflation rate used to value periodic payment orders has been increased to be consistent with market expectations. This has, in part, been offset by a change in estimate for the interest rate used to discount periodic payment orders to allow for the illiquid nature of these liabilities.

45 – Unallocated divisible surplus

An unallocated divisible surplus (UDS) is established where the nature of policy benefits is such that the division between shareholder reserves and policyholder liabilities is uncertain at the reporting date. Therefore the expected duration for settlement of the UDS is not defined.

This note shows the movements in the UDS during the year.

	2016 £m	Restated[1] 2015 £m
Carrying amount at 1 January	**8,811**	9,467
Change in participating fund assets	**4,977**	(1,625)
Change in participating fund liabilities	**(4,596)**	641
Change in liability recognised as an expense	**381**	(984)
Effect of portfolio transfers, acquisition and disposals[2]	**—**	724
Foreign exchange rate movements	**1,016**	(396)
Carrying amount at 31 December	**10,208**	8,811
Less: Amounts classified as held for sale	**(859)**	—
	9,349	8,811

1 A review of the 2015 movement in unallocated divisible surplus identified inconsistencies in the presentational approach taken for each participating fund across the Group. As a result, the 2015 analysis has been restated to present the movement in participating fund assets and liabilities consistently on a gross basis for all funds. The 2015 "Change in participating fund assets" has decreased by £690 million, "Change in participating fund liabilities" increased by £677 million and the "Other movements" of £13 million have been allocated between the change in participating fund assets and liabilities lines. There is no impact on the carrying amount of unallocated divisible surplus at 1 January 2015 and 31 December 2015.
2 The movement during 2015 relates to the acquisition of Friends Life.

The amount of UDS has increased to £10.2 billion at 31 December 2016 *(2015: £8.8 billion)* including amounts classified as held for sale, and £9.3 billion excluding amounts classified as held for sale. The increase is predominantly due to the weakening of sterling against the euro.

Where the aggregate amount of participating assets is less than the participating liabilities within a fund then the shortfall may be held as negative UDS, subject to recoverability testing as part of the liability adequacy requirements of IFRS 4. There are no negative UDS balances at the participating fund-level within each life entity in the current and comparative periods with the exception of one fund in UK Life with a negative UDS of £16 million *(2015: a negative UDS of £22 million)*. This negative UDS balance was tested for recoverability and considered to be recoverable by comparing the excess of IFRS participating liabilities over the adjusted Solvency II best estimate liabilities for the relevant contracts. The Solvency II best estimate liabilities were adjusted where Solvency II does not represent a best estimate of shareholders' interests consistent with the impairment test for goodwill for long term business (see note 16) and for AVIF on insurance contracts (see note 17).

46 – Tax assets and liabilities

This note analyses the tax assets and liabilities that appear in the statement of financial position and explains the movements in these balances in the year.

(a) Current tax

Current tax assets recoverable and liabilities payable in more than one year are £29 million and £7 million *(2015: £4 million and £50 million)*, respectively.

(b) Deferred tax

(i) The balances at 31 December comprise:

	2016 £m	Restated[1] 2015 £m
Deferred tax assets	**183**	131
Deferred tax liabilities	**(2,414)**	(2,084)
Net deferred tax liability	**(2,231)**	(1,953)
Less: Amounts classified as held for sale	**(2)**	—
	(2,233)	(1,953)

1 Following a correction to accounting and modelling for annual management charge rebates in UK Life, prior year comparatives have been restated. Deferred tax liabilities as at 31 December 2016 have been restated from £2,074 million to £2,084 million. See note 1 for further details.

Amounts classified as held for sale include £3 million of deferred tax assets *(2015: £nil)* and £1 million of deferred tax liabilities *(2015: £nil)*.

46 – Tax assets and liabilities continued

(ii) The net deferred tax liability arises on the following items:

	2016 £m	Restated[1] 2015 £m
Long-term business technical provisions and other insurance items	**1,852**	1,415
Deferred acquisition costs	**(195)**	(197)
Unrealised gains on investments	**(3,157)**	(2,571)
Pensions and other post-retirement obligations	**(456)**	(354)
Unused losses and tax credits	**203**	247
Subsidiaries, associates and joint ventures	**(20)**	(16)
Intangibles and additional value of in-force long-term business	**(795)**	(814)
Provisions and other temporary differences	**337**	337
Net deferred tax liability	**(2,231)**	(1,953)
Less: Amounts classified as held for sale	**(2)**	—
	(2,233)	(1,953)

1 Following a correction to accounting and modelling for annual management charge rebates in UK Life, prior year comparatives have been restated. See note 1 for further details.

(iii) The movement in the net deferred tax liability was as follows:

	2016 £m	Restated[1] 2015 £m
Net liability at 1 January	**(1,953)**	(1,020)
Acquisition and disposal of subsidiaries[2]	**(50)**	(1,338)
Amounts (charged)/credited to income statement (note 13a)	**(43)**	334
Amounts (charged)/credited to other comprehensive income (note 13b)	**(98)**	55
Foreign exchange rate movements	**(83)**	20
Other movements	**(4)**	(4)
Net liability at 31 December	**(2,231)**	(1,953)

1 Following a correction to accounting and modelling for annual management charge rebates in UK Life, prior year comparatives have been restated. See note 1 for further details.
2 The movement during 2016 relates mainly to the acquisition of RBC General Insurance Company.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. In countries where there is a history of tax losses, deferred tax assets are only recognised in excess of deferred tax liabilities if there is convincing evidence that future taxable profits will be available. Where this is the case, the directors have relied on business plans supporting future profits.

The Group has unrecognised gross tax losses (excluding capital losses) and other temporary differences of £796 million *(2015: £562 million)* to carry forward against future taxable income of the necessary category in the companies concerned. Of these, trading losses of £86 million will expire within the next 20 years. The remaining losses have no expiry date.

In addition, the Group has unrecognised gross capital losses of £503 million *(2015: £509 million).* These have no expiry date.

There are no temporary differences in respect of unremitted overseas retained earnings for which deferred tax liabilities have not been recognised at 31 December 2016 *(2015: £nil).*

Finance (No 2) Act 2015 introduced legislation reducing the rate of corporation tax from 20% at 1 April 2016 to 19% from 1 April 2017 and to 18% from 1 April 2020. These reduced rates were used in the calculation of the UK's deferred tax assets and liabilities as at 31 December 2015. Finance Act 2016, which received Royal Assent on 15 September 2016, reduced the corporation tax rate to 17% from 1 April 2020.

In addition, the French government has reduced the rate of corporation tax from 34.43% to 28.92% with effect from 1 January 2020. The further reduction in the future corporation tax rates in the UK from 18% to 17%, and the reduction in France from 34.43% to 28.92% has been used in the calculation of deferred tax assets and liabilities in the UK and France for the year ended 31 December 2016. This results in a reduction in the Group's net deferred tax liabilities of £24 million, comprising a £14 million credit to the income statement and a £10 million credit to the statement of comprehensive income.

47 – Provisions

This note details the non-insurance provisions that the Group holds, and shows the movements in these during the year.

(a) Carrying amounts

	2016 £m	2015 £m
Total IAS 19 obligations to main staff pension schemes (note 48(a))	**843**	686
Deficits in other staff pension schemes	**56**	46
Total IAS 19 obligations to staff pension schemes	**899**	732
Restructuring provisions	**111**	166
Other provisions	**501**	518
Total provisions	**1,511**	1,416
Less: Amounts classified as held for sale	**(1)**	—
	1,510	1,416

Other provisions comprise provisions throughout the Group for obligations such as costs of compensation, litigation and staff entitlements.

47 – Provisions continued

(b) Movements on restructuring and other provisions

	2016 Restructuring provisions £m	2016 Other provisions £m	2016 Total £m	2015 Restructuring provisions £m	2015 Other provisions £m	2015 Total £m
At 1 January	**166**	**518**	**684**	97	348	445
Additional provisions	**60**	**143**	**203**	382	112	494
Unused amounts reversed	**(2)**	**(126)**	**(128)**	(7)	(130)	(137)
Change in the discounted amount arising from passage of time	**2**	**—**	**2**	1	1	2
Charge/(release) to income statement	**60**	**17**	**77**	376	(17)	359
Utilised during the year	**(118)**	**(63)**	**(181)**	(307)	(108)	(415)
Acquisition/(disposal) of subsidiaries	**—**	**—**	**—**	—	297	297
Foreign exchange rate movements	**3**	**29**	**32**	—	(2)	(2)
At 31 December	**111**	**501**	**612**	166	518	684

Movements during 2015 primarily relate to the acquisition of Friends Life.

Of the total restructuring and other provisions, £188 million *(2015: £199 million)* is expected to be settled more than one year after the statement of financial position date.

48 – Pension obligations

(a) Introduction

The Group operates a number of defined benefit and defined contribution pension schemes. The material defined benefit schemes are in the UK, Ireland, and Canada with the main UK scheme being the largest. The assets and liabilities of these defined benefit schemes as at 31 December 2016 are shown below.

	2016 UK £m	2016 Ireland £m	2016 Canada £m	2016 Total £m	2015 UK £m	2015 Ireland £m	2015 Canada £m	2015 Total £m
Total fair value of scheme assets (see b(ii) below)	**18,803**	**610**	**281**	**19,694**	15,445	484	232	16,161
Present value of defined benefit obligation	**(16,131)**	**(848)**	**(368)**	**(17,347)**	(13,344)	(673)	(307)	(14,324)
Net IAS 19 surpluses/(deficits) in the schemes	**2,672**	**(238)**	**(87)**	**2,347**	2,101	(189)	(75)	1,837
Surpluses included in other assets (note 28)	**3,190**	**—**	**—**	**3,190**	2,523	—	—	2,523
Deficits included in provisions (note 47)	**(518)**	**(238)**	**(87)**	**(843)**	(422)	(189)	(75)	(686)
Net IAS 19 surpluses/(deficits) in the schemes	**2,672**	**(238)**	**(87)**	**2,347**	2,101	(189)	(75)	1,837

This note gives full IAS 19, Employee Benefits, disclosures for the above material schemes. The smaller ones, while still measured under IAS 19, are included as one total within Provisions (see note 47). Similarly, while the charges to the income statement for the main schemes are shown in section (b)(i) below, the total charges for all pension schemes are disclosed in section (d) below.

The assets of the UK, Irish and Canadian schemes are held in separate trustee-administered funds to meet long-term pension liabilities to past and present employees. In all schemes, the appointment of trustees of the funds is determined by their trust documentation, and they are required to act in the best interests of the schemes' beneficiaries. The long-term investment objectives of the trustees and the employers are to limit the risk of the assets failing to meet the liabilities of the schemes over the long term, and to maximise returns consistent with an acceptable level of risk so as to control the long-term costs of these schemes.

A full actuarial valuation of each of the defined benefit schemes is carried out at least every three years for the benefit of scheme trustees and members. Actuarial reports have been submitted for each scheme within this period, using appropriate methods for the respective countries on local funding bases.

The number of scheme members was as follows:

	United Kingdom 2016 Number	United Kingdom 2015 Number[1]	Ireland 2016 Number	Ireland 2015 Number	Canada 2016 Number	Canada 2015 Number
Deferred members	**56,740**	58,986	**1,904**	1,937	**616**	715
Pensioners	**37,131**	36,799	**780**	771	**1,344**	1,344
Total members	**93,871**	95,785	**2,684**	2,708	**1,960**	2,059

1 Following a review of membership data, total members for 2015 have been restated. This has no impact on the net IAS 19 position for the UK schemes.

All schemes are closed to future accrual. Closure of the schemes has removed the volatility associated with additional future accrual for active members.

(i) UK schemes

In the UK, the Group operates three main pension schemes, the Aviva Staff Pension Scheme (ASPS), the smaller RAC (2003) Pension Scheme which was retained after the sale of RAC Limited in September 2011 and the Friends Provident Pension Scheme (FPPS) which was acquired as part of the Friends Life acquisition in 2015. As the defined benefit section of the UK schemes is now closed to both new members and future accrual, existing deferred members in active service and new entrants participate in the defined contribution section of the ASPS. The UK schemes operate within the UK pensions' regulatory framework.

48 – Pension obligations continued

(ii) Other schemes

Future accruals for the Irish and Canadian defined benefit schemes ceased with effect from 30 April 2013 and 31 December 2011 respectively. The Irish scheme is regulated by the Pensions Authority in Ireland. The main Canadian plan is a Registered Pension Plan in Canada and as such is registered with the Canada Revenue Agency and Financial Services Commission of Ontario and is required to comply with the Income Tax of Canada and the various provincial Pension Acts within Canada.

(b) IAS 19 disclosures

Disclosures under IAS 19 for the material defined benefit schemes in the UK, Ireland and Canada, are given below. Where schemes provide both defined benefit and defined contribution pensions, the assets and liabilities shown exclude those relating to defined contribution pensions.

(i) Movements in the scheme deficits and surpluses

Movements in the pension schemes' surpluses and deficits comprise:

2016	Fair Value of Scheme Assets £m	Present Value of defined benefit obligation £m	IAS 19 Pensions net surplus/ (deficits) £m
Net IAS 19 surplus in the schemes at 1 January	**16,161**	**(14,324)**	**1,837**
Past service costs – amendments	**—**	**(1)**	**(1)**
Administrative expenses[1]	**—**	**(13)**	**(13)**
Total pension cost charged to net operating expenses	**—**	**(14)**	**(14)**
Net interest credited/(charged) to investment income /(finance costs)[2]	**590**	**(517)**	**73**
Total recognised in income	**590**	**(531)**	**59**
Remeasurements:			
Actual return on these assets	**4,044**	**—**	**4,044**
Less: Interest income on scheme assets	**(590)**	**—**	**(590)**
Return on scheme assets excluding amounts in interest income	**3,454**	**—**	**3,454**
Losses from change in financial assumptions	**—**	**(3,944)**	**(3,944)**
Gains from change in demographic assumptions	**—**	**363**	**363**
Experience gains	**—**	**438**	**438**
Total recognised in other comprehensive income	**3,454**	**(3,143)**	**311**
Employer contributions	**190**	**—**	**190**
Plan participant contributions	**6**	**(6)**	**—**
Benefits paid	**(825)**	**825**	**—**
Administrative expenses paid from scheme assets[1]	**(15)**	**13**	**(2)**
Foreign exchange rate movements	**133**	**(181)**	**(48)**
Net IAS 19 surplus in the schemes at 31 December	**19,694**	**(17,347)**	**2,347**

1 Administrative expenses are expensed as incurred.
2 Net interest income of £102 million has been credited to investment income and net interest expense of £29 million has been charged to finance costs (see note 7).

The present value of unfunded post-retirement benefit obligations included in the table above is £126 million at 31 December 2016 *(2015: £111 million).*

The increase in the surplus during the period is primarily due to remeasurements recognised in other comprehensive income which reflect increased asset values mainly driven by a reduction in interest rates in the UK partly offset by an increase in the defined benefit obligation following a decrease in the UK discount rate.

48 – Pension obligations continued

2015	Fair Value of Scheme Assets £m	Present Value of defined benefit obligation £m	IAS 19 Pensions net surplus/(deficits) £m
Net IAS 19 surplus in the schemes at 1 January	15,474	(13,170)	2,304
Past service costs – amendments	—	1	1
Administrative expenses[1]	—	(15)	(15)
Total pension cost charged to net operating expenses	—	(14)	(14)
Net interest credited/(charged) to investment income /(finance costs)[2]	584	(504)	80
Total recognised in income	584	(518)	66
Remeasurements:			
Actual return on these assets	99	—	99
Less: Interest income on scheme assets	(584)	—	(584)
Return on scheme assets excluding amounts in interest income	(485)	—	(485)
Gains from change in financial assumptions	—	234	234
Gains from change in demographic assumptions	—	3	3
Experience gains	—	13	13
Total recognised in other comprehensive income	(485)	250	(235)
Acquisitions – gross surplus	1,701	(1,633)	68
Acquisitions – consolidation elimination for non-transferable Group insurance policy[3]	(631)	—	(631)
Acquisitions – net deficit	1,070	(1,633)	(563)
Employer contributions	240	—	240
Plan participant contributions	3	(3)	—
Benefits paid	(656)	656	—
Administrative expenses paid from scheme assets[1]	(15)	15	—
Foreign exchange rate movements	(54)	79	25
Net IAS 19 surplus in the schemes at 31 December	16,161	(14,324)	1,837

1 Administrative expenses are expensed as incurred.
2 Net interest income of £105 million has been credited to investment income and net interest expense of £25 million has been charged to finance costs (see note 7).
3 The gross surplus of £68 million on acquisition relates to the FPPS. As the FPPS assets include an insurance policy of £631 million at acquisition date, issued by a Group company that is not transferable under IAS 19, it is eliminated from the scheme assets.

(ii) Scheme assets

Scheme assets are stated at their fair values at 31 December 2016.

Total scheme assets are comprised by scheme as follows:

	2016				2015			
	UK £m	**Ireland £m**	**Canada £m**	**Total £m**	UK £m	Ireland £m	Canada £m	Total £m
Bonds								
Fixed interest	**7,085**	**249**	**151**	**7,485**	5,542	216	133	5,891
Index-linked	**11,469**	**157**	**—**	**11,626**	5,758	114	—	5,872
Equities	**71**	**—**	**—**	**71**	70	—	—	70
Property	**338**	**—**	**—**	**338**	377	7	—	384
Pooled investment vehicles	**3,433**	**200**	**96**	**3,729**	2,904	143	96	3,143
Derivatives	**86**	**1**	**—**	**87**	96	—	—	96
Cash and other[1]	**(3,046)**	**3**	**34**	**(3,009)**	1,244	4	3	1,251
Total fair value of scheme assets	**19,436**	**610**	**281**	**20,327**	15,991	484	232	16,707
Less: consolidation elimination for non-transferable Group insurance policy[2]	**(633)**	**—**	**—**	**(633)**	(546)	—	—	(546)
Total IAS 19 fair value of scheme assets	**18,803**	**610**	**281**	**19,694**	15,445	484	232	16,161

1 Cash and other assets comprise cash at bank, insurance policies, receivables, payables and repos. At 31 December 2016, repos of £4,666 million *(2015: £nil)* are included within cash and other assets.
2 As at 31 December 2016, the FPPS's cash and other balances includes an insurance policy of £633 million *(2015: £546 million)* issued by a Group company that is not transferable under IAS 19 and is consequently eliminated from the Group's IAS 19 scheme assets.

48 – Pension obligations continued

Total scheme assets are analysed by those that have a quoted market price in active market and other as follows:

	2016 Total Quoted £m	2016 Total Unquoted £m	2016 Total £m	2015 Total Quoted £m	2015 Total Unquoted £m	2015 Total £m
Bonds						
Fixed interest	**3,697**	**3,788**	**7,485**	2,796	3,095	5,891
Index-linked	**11,141**	**485**	**11,626**	5,436	436	5,872
Equities	**71**	**—**	**71**	70	—	70
Property	**—**	**338**	**338**	—	384	384
Pooled investment vehicles	**189**	**3,540**	**3,729**	291	2,852	3,143
Derivatives	**70**	**17**	**87**	6	90	96
Cash and other[1]	**714**	**(3,723)**	**(3,009)**	532	719	1,251
Total fair value of scheme assets	**15,882**	**4,445**	**20,327**	9,131	7,576	16,707
Less: consolidation elimination for non-transferable Group insurance policy[2]	**—**	**(633)**	**(633)**	—	(546)	(546)
Total IAS 19 fair value of scheme assets	**15,882**	**3,812**	**19,694**	9,131	7,030	16,161

1 Cash and other assets comprise cash at bank, insurance policies, receivables, payables and repos. At 31 December 2016, repos of £4,666 million *(2015: £nil)* are included within cash and other assets.
2 As at 31 December 2016, the FPPS's cash and other balances includes an insurance policy of £633 million *(2015: £546 million)* issued by a Group company that is not transferable under IAS 19 and is consequently eliminated from the Group's IAS 19 scheme assets.

IAS 19 plan assets include investments in Group-managed funds in the consolidated statement of financial position of £1,428 million *(2015: £1,115 million)* and transferable insurance policies with other Group companies of £174 million *(2015: £163 million)* in ASPS. Where the investment and insurance policies are in segregated funds with specific asset allocations, they are included in the appropriate line in the table above, otherwise they appear in 'Cash and other'.

(iii) Assumptions on scheme liabilities

The valuations used for accounting under IAS 19 have been based on the most recent full actuarial valuations, updated to take account of the standard's requirements in order to assess the liabilities of the material schemes at 31 December 2016.

The projected unit credit method

The inherent uncertainties affecting the measurement of scheme liabilities require these to be measured on an actuarial basis. This involves discounting the best estimate of future cash flows to be paid out by the scheme using the projected unit credit method. This is an accrued benefits valuation method which calculates the past service liability to members and makes allowance for their projected future earnings. It is based on a number of actuarial assumptions, which vary according to the economic conditions of the countries in which the relevant businesses are situated, and changes in these assumptions can materially affect the measurement of the pension obligations.

Financial assumptions

The main financial assumptions used to calculate scheme liabilities under IAS 19 are:

	UK 2016	UK 2015	Ireland 2016	Ireland 2015	Canada 2016	Canada 2015
Inflation rate[1]	**3.3%/2.2%**	3.15%/2.05%	**1.7%**	1.6%	**2.0%**	2.5%
General salary increases[2]	**5.1%**	4.95%	**3.2%**	3.1%	**2.5%**	3.0%
Pension increases[3]	**3.3%/2.2%**	3.15%/2.05%	**0.4%**	0.4%	**1.25%**	1.25%
Deferred pension increases[3]	**3.3%/2.2%**	3.15%/2.05%	**1.7%**	1.6%	**—**	—
Discount rate[4]	**2.5%/ 2.5%(pensioners)/ 2.6%(deferred)**	3.75%/ 3.6%(pensioners)/ 3.8%(deferred)	**1.8%**	2.3%	**3.75%**	3.75%
Basis of discount rate		AA-rated corporate bonds		AA-rated corporate bonds		AA-rated corporate bonds

1 For the UK schemes, assumptions provided for RPI/CPI. In the UK, the assumptions for the ASPS and RAC schemes are the single rates for RPI/CPI; for FPPS, relevant RPI/CPI swap curves are used, which are broadly equivalent to these single rates.
2 In the UK, the only remaining linkage between pension benefits and general salary increases is in respect of a small amount of Guaranteed Minimum Pension benefits, in line with National Average Earnings.
3 For the UK schemes, assumptions provided for RPI/CPI. In the UK, the assumptions for the ASPS and RAC schemes are single rates for RPI/CPI; for FPPS, relevant RPI/CPI swap curves are used, which are broadly equivalent to these single rates. The assumptions are also adjusted to reflect the relevant caps/floors and the inflation volatility.
4 To calculate scheme liabilities in the UK, a single discount rate is used in ASPS/RAC, whereas in FPPS, separate discount rates are used for the defined benefit obligation for pensioners and deferred.

The discount rate and pension increase rate are the two assumptions that have the largest impact on the value of the liabilities, with the difference between them being known as the net discount rate. For each country, the discount rate is based on current average yields of high-quality debt instruments taking account of the maturities of the defined benefit obligations.

48 – Pension obligations continued

Mortality assumptions

Mortality assumptions are significant in measuring the Group's obligations under its defined benefit schemes, particularly given the maturity of these obligations in the material schemes. The assumptions used are summarised in the table below and have been selected to reflect the characteristics and experience of the membership of these schemes.

The mortality tables, average life expectancy and pension duration used at 31 December 2016 for scheme members are as follows:

Mortality table		Normal retirement age (NRA)	Life expectancy/(pension duration) at NRA of a male: Currently aged NRA	Life expectancy/(pension duration) at NRA of a male: 20 years younger than NRA	Life expectancy/ (pension duration) at NRA of a female: Currently aged NRA	Life expectancy/ (pension duration) at NRA of a female: 20 years younger than NRA
UK– ASPS	Club Vita pooled experience, including an allowance for future improvements	60	89.0 (29.0)	91.4 (31.4)	90.2 (30.2)	92.8 (32.8)
– RAC	SAPS, including allowances for future improvement	65	87.4 (22.4)	89.9 (24.9)	89.2 (24.2)	91.5 (26.5)
– FPPS	SAPS, including allowances for future improvement	60	89.1 (29.1)	91.2 (31.2)	89.7 (29.7)	92.0 (32.0)
Ireland	89% PNA00 with allowance for future improvements	61	88.2 (27.2)	91.5 (30.5)	91.0 (30.0)	94.3 (33.3)
Canada	Canadian Pensioners' Mortality 2014 Private Table	65	86.6 (21.6)	87.7 (22.7)	89.0 (24.0)	90.0 (25.0)

The assumptions above are based on commonly used mortality tables. The tables make allowance for observed variations in such factors as age, gender, pension amount, salary and postcode-based lifestyle group, and have been adjusted to reflect recent research into mortality experience. However, the extent of future improvements in longevity is subject to considerable uncertainty and judgement is required in setting this assumption. In ASPS, which is the most material to the Group, the allowance for mortality improvement is per the actuarial professions' CMI 2015 model *(2015: CMI 2013 model)*, with assumed long-term rates of improvement of 1.75% p.a. for males *(2015: 1.75% p.a.)*, and 1.50% p.a. for females *(2015: 1.50% p.a.)*.

Sensitivity analysis

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate, inflation rate and mortality. The sensitivities analyses below have been determined based on reasonably possible changes of the respective assumptions, holding all other assumptions constant. The following table summarises how the defined benefit obligation would have increased/(decreased) as a result of the change in the respective assumptions:

Impact on present value of defined benefit obligation

	Increase in discount rate +1% £m	Decrease in discount rate -1% £m	Increase in inflation rate +1% £m	Decrease in inflation rate -1% £m	1 year younger[1] £m
Impact on present value of defined benefit obligation at 31 December 2016	**(3,225)**	**4,362**	**3,344**	**(2,601)**	**606**
Impact on present value of defined benefit obligation at 31 December 2015	(2,398)	3,112	2,592	(2,064)	396

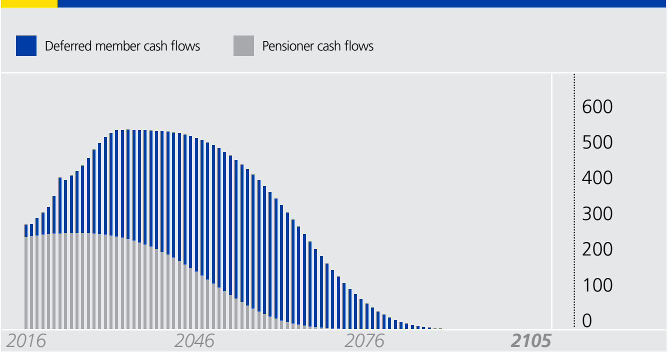
1 The effect of assuming all members in the schemes were one year younger.

The sensitivity analyses presented above may not be representative as in practice it is unlikely that the changes in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, the present value of the defined benefit obligation has been calculated using the projected unit credit method, which is the same as that applied in calculating the defined benefit obligation liability recognised within the consolidated statement of financial position. In addition, the sensitivities shown are for liabilities only and ignore the impact on assets, which would significantly mitigate the net interest rate and inflation sensitivity impact on the net surplus.

Maturity profile of the defined benefit obligation

The discounted scheme liabilities have an average duration of 21 years in ASPS, 21 years in FPPS, 20 years in the RAC scheme, 19 years in the Irish scheme and 12 years in the Canadian scheme. The expected undiscounted benefits payable from the main UK defined benefit scheme, ASPS, is shown in the chart below:

Undiscounted benefit payments (£m)



48 – Pension obligations continued

(iv) Risk management and asset allocation strategy

As noted above, the long-term investment objectives of the trustees and the employers are to limit the risk of the assets failing to meet the liabilities of the schemes over the long-term, and to maximise returns consistent with an acceptable level of risk so as to control the long-term costs of these schemes. To meet these objectives, the schemes' assets are invested in a portfolio, consisting primarily (approximately 75%[1]) of debt securities as detailed in section (b)(ii). The investment strategy will continue to evolve over time and is expected to match the liability profile increasingly closely with swap overlays to improve interest rate and inflation matching. The schemes are generally matched to interest rate risk relative to the funding bases.

Main UK scheme

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

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

Other schemes

The other schemes are considerably less material but their risks are managed in a similar way to those in the main UK scheme. In 2015, the RAC pension scheme entered into a longevity swap covering approximately £600 million of pensioner in payment scheme liabilities.

(v) Funding

Formal actuarial valuations normally take place every three years and where there is a deficit, the Company and the trustee would agree a deficit recovery plan. The assumptions adopted for triennial actuarial valuations are determined by the trustee and agreed with the Company and are normally more prudent than the assumptions adopted for IAS19 purposes, which are best estimate.

For ASPS, following the latest formal actuarial valuation (with an effective date of 31 March 2012) a deficit recovery plan was agreed, to make good the deficit over a period of time, consistent with the requirements of the UK pension regulations. As at 31 December 2016, the ASPS was fully funded. The Company is currently undergoing a triennial actuarial valuation as at 31 March 2015.

Total employer contributions for all schemes in 2017 are currently expected to be £0.2 billion.

(c) Defined contribution (money purchase) section of the ASPS

The trustees have responsibility for selecting a range of suitable funds in which the members can choose to invest and for monitoring the performance of the available investment funds. Members are responsible for reviewing the level of contributions they pay and the choice of investment fund to ensure these are appropriate to their attitude to risk and their retirement plans. Members of this section contribute at least 2% of their pensionable salaries and, depending on the percentage chosen, the Company contributes up to a maximum 14%, together with the cost of the death-in-service benefits. These contribution rates are unchanged for 2017. The amount recognised as an expense for defined contribution schemes is shown section (d) below.

(d) Charge to staff costs in the income statement

The total pension charge to staff costs for all of the Group's defined benefit and defined contribution schemes were:

	2016 £m	2015 £m
Continuing operations		
UK defined benefit schemes	**16**	12
Overseas defined benefit schemes	**1**	1
Total defined benefit schemes (note 10b)	**17**	13
UK defined contribution schemes	**117**	108
Overseas defined contribution schemes	**21**	15
Total defined contribution schemes (note 10b)	**138**	123
Total charge for pension schemes	**155**	136

There were no significant contributions payable or prepaid in the consolidated statement of financial position as at either 31 December 2016 or 2015.

[1] Excluding repos of £4,666 million

49 – Borrowings

Our borrowings are either core structural borrowings or operational borrowings. This note shows the carrying values and contractual maturity amounts of each type, and explains their main features and movements during the year.

(a) Analysis of total borrowings

Total borrowings comprise:

	2016 £m	2015 £m
Core structural borrowings, at amortised cost	**8,577**	6,912
Operational borrowings, at amortised cost	**608**	550
Operational borrowings, at fair value	**1,110**	1,308
	1,718	1,858
	10,295	8,770

(b) Core structural borrowings

(i) The carrying amounts of these borrowings are:

	2016 £m	2015 £m
Subordinated debt		
6.125% £700 million subordinated notes 2036	**694**	693
6.125% £800 million undated subordinated notes	**795**	795
6.875% £600 million subordinated notes 2058	**594**	594
6.875% €500 million subordinated notes 2038	**427**	368
12.00% £162 million subordinated notes 2021	**213**	221
8.25% £500 million subordinated notes 2022	**598**	615
6.625% £450 million subordinated notes 2041	**448**	447
8.25% $400 million subordinated notes 2041	**—**	269
7.875% $575 million undated subordinated notes	**494**	430
6.125% €650 million subordinated notes 2043	**552**	477
3.875% €700 million subordinated notes 2044	**593**	512
5.125% £400 million subordinated notes 2050	**394**	394
3.375% €900 million subordinated notes 2045	**758**	654
4.50% C$450 million subordinated notes 2021	**269**	—
4.375% £400 million subordinated notes 2049	**393**	—
	7,222	6,469
Senior notes		
0.100% €350 million senior notes 2018	**298**	—
0.625% €500 million senior notes 2023	**424**	—
	722	—
Commercial paper	**642**	485
	8,586	6,954
Less: Amount held by Group companies	**(9)**	(42)
Total	**8,577**	6,912

In 2016 the Group issued two subordinated debt instruments and two sets of senior notes. Additionally one subordinated debt instrument was redeemed in full at its first call date. Further details set out below:

- May 2016 – Aviva plc issued C$450 million of subordinated debt at 4.50% which matures in May 2021.
- September 2016 – Aviva plc issued £400 million of subordinated debt at 4.375%, with final maturity in September 2049 and first call in September 2029, and €350 million of senior debt at 0.100% which matures in December 2018.
- October 2016 – Aviva plc issued €500 million of senior debt at 0.625% with a maturity in October 2023.
- December 2016 – Aviva plc redeemed, at first call, the 8.25% $400 million subordinated debt originally issued in 2011.

All the above borrowings are stated at amortised cost.

(ii) The contractual maturity dates of undiscounted cash flows for these borrowings are:

	2016			2015		
	Principal £m	Interest £m	Total £m	Principal £m	Interest £m	Total £m
Within one year	**642**	**426**	**1,068**	485	394	879
1 to 5 years	**733**	**1,683**	**2,416**	—	1,577	1,577
5 to 10 years	**927**	**1,769**	**2,696**	662	1,731	2,393
10 to 15 years	**1,265**	**1,732**	**2,997**	1,190	1,668	2,858
Over 15 years	**4,898**	**3,499**	**8,397**	4,448	3,496	7,944
Total contractual undiscounted cash flows	**8,465**	**9,109**	**17,574**	6,785	8,866	15,651

Borrowings are considered current if the contractual maturity dates are within a year. Where subordinated debt is undated or loan notes are perpetual, the interest payments have not been included beyond 15 years. Annual interest payments in future years for these borrowings are £82 million *(2015: £79 million)*.

Contractual undiscounted interest payments are calculated based on underlying fixed interest rates or prevailing market floating rates as applicable. Year-end exchange rates have been used for interest projections on loans in foreign currencies.

49 – Borrowings continued

(c) Operational borrowings

(i) The carrying amounts of these borrowings are:

	2016 £m	2015 £m
Amounts owed to financial institutions		
Loans	**608**	550
Securitised mortgage loan notes		
UK lifetime mortgage business	**1,110**	1,308
Total	**1,718**	1,858

All the above borrowings are stated at amortised cost, except for the loan notes issued in connection with the UK lifetime mortgage business of £1,110 million *(2015: £1,308 million)*. These loan notes are carried at fair value, their values are modelled on risk-adjusted cash flows for defaults discounted at a risk-free rate plus a market-determined liquidity premium, and are therefore classified as 'Level 3' in the fair value hierarchy. These have been designated at fair value through profit and loss in order to present the relevant mortgages, borrowings and derivative financial instruments at fair value, since they are managed as a portfolio on a fair value basis. This presentation provides more relevant information and eliminates any accounting mismatch.

The securitised mortgage loan notes are at various fixed, floating and index-linked rates. Further details about these notes are given in note 24.

(ii) The contractual maturity dates of undiscounted cash flows for these borrowings are:

			2016			2015
	Principal £m	Interest £m	Total £m	Principal £m	Interest £m	Total £m
Within one year	**45**	**60**	**105**	204	60	264
1 to 5 years	**469**	**246**	**715**	204	269	473
5 to 10 years	**555**	**269**	**824**	551	283	834
10 to 15 years	**666**	**128**	**794**	652	185	837
Over 15 years	**448**	**113**	**561**	498	132	630
Total contractual undiscounted cash flows	**2,183**	**816**	**2,999**	2,109	929	3,038

Contractual undiscounted interest payments are calculated based on underlying fixed interest rates or prevailing market floating rates as applicable. Year-end exchange rates have been used for interest projections on loans in foreign currencies.

(d) Description and features

(i) Subordinated debt

A description of each of the subordinated notes is set out in the table below:

Notional amount	Issue date	Redemption date	Callable at par at option of the Company from	In the event the Company does not call the notes, the coupon will reset at each applicable reset date to
£700 million	14 Nov 2001	14 Nov 2036	16 Nov 2026	5 year Benchmark Gilt + 2.85%
£800 million	29 Sep 2003	Undated	29 Sep 2022	5 year Benchmark Gilt + 2.40%
£600 million	20 May 2008	20 May 2058	20 May 2038	3 month LIBOR + 3.26%
€500 million	20 May 2008	22 May 2038	22 May 2018	3 month Euribor + 3.35%
£162 million	21 May 2009	21 May 2021	N/A	N/A
£500 million	21 April 2011	21 April 2022	N/A	N/A
£450 million	26 May 2011	3 June 2041	3 June 2021	6 Month LIBOR + 4.136%
$400 million	22 November 2011	1 December 2041	1 December 2016	8.25% (fixed)
$575 million	8 November 2012	Undated	8 November 2018	6 year USD mid-swaps + 6.828%
€650 million	5 July 2013	5 July 2043	5 July 2023	5 year EUR mid-swaps + 5.13%
€700 million	3 July 2014	3 July 2044	3 July 2024	5 year EUR mid-swaps + 3.48%
£400 million	4 June 2015	4 June 2050	4 December 2030	3 month Euribor + 4.022%
€900 million	4 June 2015	4 December 2045	4 December 2025	3 month Euribor + 3.55%
C$450 million	9 May 2016	10 May 2021	N/A	N/A
£400 million	12 September 2016	12 September 2049	12 September 2029	3 month LIBOR + 4.721%

Subordinated notes issued by the Company rank below its senior obligations and ahead of its preference shares and ordinary share capital. The dated subordinated notes rank ahead of the undated subordinated notes. The fair value of notes at 31 December 2016 was £7,731 million *(2015: £6,810 million)*, calculated with reference to quoted prices.

(ii) Senior notes

All senior notes are at fixed rates and their total fair value at 31 December 2016 was £720 million *(2015: £nil)*.

(iii) Commercial paper

The commercial paper consists of £642 million issued by the Company *(2015: £485 million)* and is considered core structural funding.

The fair value of the commercial paper is considered to be the same as its carrying value and all issuances are repayable within one year.

49 – Borrowings continued

(iv) Loans

Loans comprise:

	2016 £m	2015 £m
Non-recourse		
Loans to property partnerships (see (a) below)	**66**	62
UK Life reassurance (see (b) below)	**131**	160
Other non-recourse loans (see (c) below)	**193**	208
	390	430
Other loans (see (d) below)	**218**	120
	608	550

(a) As explained in accounting policy D, the UK long-term business policyholder funds have invested in a number of property funds and structures (the 'Property Funds'), some of which have raised external debt, secured on the relevant Property Fund's property portfolio. The lenders are only entitled to obtain payment of interest and principal to the extent there are sufficient resources in the relevant Property Fund and they have no recourse whatsoever to the policyholder or shareholders' funds of any companies in the Group. Loans of £66 million *(2015: £62 million)* included in the table relate to those Property Funds which have been consolidated as subsidiaries.

(b) The UK long-term business entered into a financial reassurance agreement with Swiss Re in 2008, under which up-front payments are received from Swiss Re in return for 90% of future surpluses arising. The loan will be repaid as profits emerge on the business.

(c) Other non-recourse loans primarily include external debt raised by special purpose vehicles in the UK long-term business. The lenders have no recourse whatsoever to the shareholders' funds of any companies in the Group.

(d) Other loans include external debt raised by overseas long-term businesses to fund operations.

(v) Securitised mortgage loan notes

Loan notes have been issued by special purpose securitisation companies in the UK. Details are given in note 24.

(e) Movements during the year

Movements in borrowings during the year were:

	2016			2015		
	Core Structural £m	Operational £m	Total £m	Core Structural £m	Operational £m	Total £m
New borrowings drawn down, excluding commercial paper, net of expenses	**1,372**	**148**	**1,520**	1,045	22	1,067
Repayment of borrowings, excluding commercial paper	**(320)**	**(56)**	**(376)**	(833)	(161)	(994)
Movement in commercial paper[1]	**42**	**—**	**42**	(3)	—	(3)
Net cash inflow/(outflow)	**1,094**	**92**	**1,186**	209	(139)	70
Foreign exchange rate movements	**574**	**33**	**607**	(106)	(2)	(108)
Borrowings acquired/(loans repaid) for non-cash consideration	**—**	**—**	**—**	1,568	11	1,579
Fair value movements	**—**	**(220)**	**(220)**	—	37	37
Amortisation of discounts and other non-cash items	**(34)**	**(16)**	**(50)**	(27)	(17)	(44)
Movements in debt held by Group companies[2]	**31**	**(29)**	**2**	(42)	(100)	(142)
Movements in the year	**1,665**	**(140)**	**1,525**	1,602	(210)	1,392
Balance at 1 January	**6,912**	**1,858**	**8,770**	5,310	2,068	7,378
Balance at 31 December	**8,577**	**1,718**	**10,295**	6,912	1,858	8,770

1 Gross issuances of commercial paper were £2,006 million in 2016 *(2015: £982 million)*, offset by repayments of £1,964 million *(2015: £985 million)*.
2 Certain subsidiary companies have purchased issued subordinated notes and securitised loan notes as part of their investment portfolios. In the consolidated statement of financial position, borrowings are shown net of these holdings but movements in such holdings over the year are reflected in the tables above.

All movements in fair value in 2015 and 2016 on securitised mortgage loan notes designated as fair value through profit or loss were attributable to changes in market conditions.

(f) Undrawn borrowings

The Group has the following undrawn committed central borrowing facilities available to them, which are used to support the commercial paper programme:

	2016 £m	2015 £m
Expiring within one year	**—**	575
Expiring beyond one year	**1,650**	1,075
	1,650	1,650

50 – Payables and other financial liabilities

This note analyses our payables and other financial liabilities at the end of the year.

	2016 £m	2015 £m
Payables arising out of direct insurance	**1,201**	1,106
Payables arising out of reinsurance operations	**263**	443
Deposits and advances received from reinsurers	**150**	110
Bank overdrafts (see below)	**558**	506
Derivative liabilities (note 57)	**6,795**	3,881
Amounts due to brokers for investment purchases	**64**	341
Obligations for repayment of cash collateral received	**7,433**	4,855
Other financial liabilities	**1,296**	1,206
Total	**17,760**	12,448
Less: Amounts classified as held for sale	**(9)**	—
	17,751	12,448
Expected to be settled within one year	**12,016**	9,300
Expected to be settled in more than one year	**5,744**	3,148
	17,760	12,448

Bank overdrafts amount to £69 million *(2015: £113 million)* in life business operations and £489 million *(2015: £393 million)* in general insurance business and other operations.

All payables and other financial liabilities are carried at cost, which approximates to fair value, except for derivative liabilities, which are carried at their fair values.

51 – Other liabilities

This note analyses our other liabilities at the end of the year.

	2016 £m	2015 £m
Deferred income	**131**	175
Reinsurers' share of deferred acquisition costs	**14**	18
Accruals	**1,144**	1,159
Other liabilities	**1,431**	1,450
Total	**2,720**	2,802
Less: Amounts classified as held for sale	**(1)**	—
	2,719	2,802
Expected to be settled within one year	**2,015**	2,277
Expected to be settled in more than one year	**705**	525
	2,720	2,802

52 – Contingent liabilities and other risk factors

This note sets out the main areas of uncertainty over the calculation of our liabilities.

(a) Uncertainty over claims provisions

Note 40 gives details of the estimation techniques used by the Group to determine the general insurance business outstanding claims provisions and of the methodology and assumptions used in determining the long-term business provisions. These approaches are designed to allow for the appropriate cost of policy-related liabilities, with a degree of prudence, to give a result within the normal range of outcomes. However, the actual cost of settling these liabilities may differ, for example because experience may be worse than that assumed, or future general insurance business claims inflation may differ from that expected, and hence there is uncertainty in respect of these liabilities.

(b) Asbestos, pollution and social environmental hazards

In the course of conducting insurance business, various companies within the Group receive general insurance liability claims, and become involved in actual or threatened related litigation arising therefrom, including claims in respect of pollution and other environmental hazards. Amongst these are claims in respect of asbestos production and handling in various jurisdictions, including Europe, Canada and Australia. Given the significant delays that are experienced in the notification of these claims, the potential number of incidents they cover and the uncertainties associated with establishing liability, the ultimate cost cannot be determined with certainty. However, on the basis of current information having regard to the level of provisions made for general insurance claims and substantial reinsurance cover now in place, the directors consider that any additional costs arising are not likely to have a material impact on the financial position of the Group.

52 – Contingent liabilities and other risk factors continued

(c) Guarantees on long-term savings products

As a normal part of their operating activities, various Group companies have given guarantees and options, including interest rate guarantees, in respect of certain long-term insurance and investment products. Note 42 gives details of these guarantees and options. In providing these guarantees and options, the Group's capital position is sensitive to fluctuations in financial variables including foreign currency exchange rates, interest rates, property values and equity prices. Interest rate guaranteed returns, such as those available on guaranteed annuity options, are sensitive to interest rates falling below the guaranteed level. Other guarantees, such as maturity value guarantees and guarantees in relation to minimum rates of return, are sensitive to fluctuations in the investment return below the level assumed when the guarantee was made. The directors continue to believe that the existing provisions for such guarantees and options are sufficient.

(d) Regulatory compliance

The Group's insurance and investment business is subject to local regulation in each of the countries in which it operates. A number of the Group's UK subsidiaries are 'dual regulated' (directly authorised by both the PRA (for prudential regulation) and the FCA (for conduct regulation) whilst others are solo regulated (regulated solely by the FCA for both prudential and conduct regulation). Between them, the PRA and 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 Group's regulators outside the UK typically have similar powers, but in some cases they also operate a system of 'prior product approval'.

The Group's regulated businesses have 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 (whether in the UK or overseas) could have a negative impact on the Group's reported results or on its relations with current and potential customers. Regulatory action against a member of the Group could result in adverse publicity for, or negative perceptions regarding, the Group, or could have a material adverse effect on the business of the Group, its results, operations and/or financial condition and divert management's attention from the day-to-day management of the business.

(e) Structured settlements

The Company has purchased annuities from licensed Canadian life insurers to provide for fixed and recurring payments to claimants. As a result of these arrangements, the Company is exposed to credit risk to the extent that any of the life insurers fail to fulfill their obligations. The Company's maximum exposure to credit risk for these types of arrangements is approximately CAD$1,181 million as at 31 December 2016 *(2015: CAD$1,212 million)*. Credit risk is managed by acquiring annuities from a diverse portfolio of life insurers with proven financial stability. This risk is reduced to the extent of coverage provided by Assuris, the Canadian life insurance industry compensation plan. As at 31 December 2016, no information has come to the Company's attention that would suggest any weakness or failure in life insurers from which it has purchased annuities and consequently no provision for credit risk is required.

(f) Other

In the course of conducting insurance and investment business, various Group companies receive liability claims, and become involved in actual or threatened related litigation. In the opinion of the directors, adequate provisions have been established for such claims and no material loss will arise in this respect.

In addition, in line with standard business practice, various Group companies have given guarantees, indemnities and warranties in connection with disposals in recent years of subsidiaries and associates to parties outside the Aviva Group. In the opinion of the directors, no material unprovisioned loss will arise in respect of these guarantees, indemnities and warranties.

There are a number of charges registered over the assets of Group companies in favour of other Group companies or third parties. In addition, certain of the Company's assets are charged in favour of certain of its subsidiaries as security for intra-Group loans.

The Group's insurance subsidiaries pay contributions to levy schemes in several countries in which we operate. Given the economic environment, there is a heightened risk that the levy contributions will need to be increased to protect policyholders if an insurance company falls into financial difficulties. The directors continue to monitor the situation but are not aware of any need to increase provisions at the statement of financial position date.

53 – Commitments
This note gives details of our commitments to capital expenditure and under operating leases.

(a) Capital commitments
Contractual commitments for acquisitions or capital expenditures of investment property and property and equipment, which have not been recognised in the financial statements, are as follows:

	2016 £m	2015 £m
Investment property	**46**	71
Property and equipment	**37**	61
Other investment vehicles[1]	**202**	202
	285	334

1 Represents commitments for further investment in certain private equity vehicles. Such commitments do not expose the Group to the risk of future losses in excess of its investment.

Contractual obligations for future repairs and maintenance on investment properties are £nil *(2015: £nil)*. Notes 18 and 19 set out the commitments the Group has to its joint ventures and associates.

(b) Operating lease commitments
(i) Future contractual aggregate minimum lease rentals receivable under non-cancellable operating leases are as follows:

	2016 £m	2015 £m
Within 1 year	**335**	318
Later than 1 year and not later than 5 years	**1,027**	996
Later than 5 years	**1,326**	1,382
	2,688	2,696

(ii) Future contractual aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2016 £m	2015 £m
Within 1 year	**103**	95
Later than 1 year and not later than 5 years	**336**	329
Later than 5 years	**423**	493
	862	917
Total future minimum sub-lease payments expected to be received under non-cancellable sub-leases	**44**	45

54 – Group capital management
(a) Capital management
Group capital is represented by Solvency II Own Funds[1]. At 31 December 2016, the estimated Solvency II Own Funds (shareholder view) amounts to £24.1 billion *(1 January 2016: £21.8 billion)*. This excludes the estimated marginal contribution to Group Own Funds of fully ring fenced with-profits funds of £2.9 billion *(1 January 2016: £2.7 billion)* and staff pension schemes in surplus of £1.1 billion *(1 January 2016: £0.7 billion)*, such that the impact on the Solvency II surplus is nil. The most material fully ring fenced with-profit funds and staff pension schemes are self-supporting on a Solvency II capital basis with any surplus capital above Solvency Capital Requirements (SCR) not recognised in the Group position. The Solvency II Own Funds figure also includes the estimated adverse impact of £0.4 billion from a notional reset of transitional measure on technical provision (TMTP) to reflect interest rates at 31 December 2016. The shareholder view is considered by Management to be more representative of the shareholders' risk exposure and the Group's ability to cover the SCR with eligible own funds. The Group manages its capital position assuming a dynamic TMTP in respect of interest rate movements on the risk margin, to avoid step changes to the Solvency II position that arise only when a formal TMTP reset is triggered (as specified by the PRA).

Own Funds is financed by a combination of shareholders' funds, preference share capital, direct capital instrument, tier 1 notes, subordinated debt, and deferred tax assets measured on a Solvency II basis.

Previously, the Group used a risk based capital model to assess economic capital requirements for a number of years. This risk based capital model formed the foundation of the Group's Solvency II partial internal model application and supported the transition to the new capital regime. The Solvency II partial internal model application was approved in December 2015. Refer to note 54(b) for further details on Solvency II.

Management also consider a capital employed metric prepared on an IFRS basis in managing capital and measuring business unit performance. The total capital employed comprises of similar items to Own Funds but measured in accordance with IFRS and includes senior debt. In particular, analysis of return on equity calculated based on the capital employed has been used as one of the inputs to Management's decision making process for capital allocation purposes.

The primary objective of capital management is to maintain an efficient capital structure, in a manner consistent with our risk profile and the regulatory and market requirements of our business.

Capital is a primary consideration across a wide range of business activities, including product development, pricing, business planning, merger and acquisition transactions and asset & liability management. A Capital Management Standard, applicable group-wide, sets out minimum standards and guidelines over responsibility for capital management including considerations for capital management decisions and requirements for management information, capital monitoring, reporting, forecasting, planning and overall governance.

1 Own Funds is capital available to cover the Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR) under Solvency II.

54 – Group capital management continued

The Group manages capital in conjunction with solvency capital requirements, and seeks to; on a consistent basis:

- Match the profile of our assets and liabilities, taking into account the risks inherent in each business;
- Maintain sufficient, but not excessive, financial strength in accordance with risk appetite, to support new business growth and satisfy the requirements of our regulators and other stakeholders giving both our customers and shareholders assurance of our financial strength. Refer to note 56 for more information about the Group's risk management approach;
- Retain financial flexibility by maintaining strong liquidity, access to a range of capital markets and significant unutilised committed credit lines;
- Allocate capital rigorously to support value adding growth and repatriate excess capital where appropriate; and
- Declare dividends with reference to factors including growth in cash flow and earnings.

In 2016, the Group maintained a strong capital position through a combination of increased profits, new business and management actions contributing to a higher operating capital generation offset by adverse market movements and dividend distributions.

At 31 December 2016, total capital employed prepared on an IFRS basis amounted to £28.1 billion *(2015: £25.2 billion)*. This comprises:

	2016 Capital employed £m	Restated[1] 2015 Capital employed £m
Equity shareholders' funds	**16,803**	15,802
Non-controlling interests	**1,425**	1,145
Direct capital instrument & tier 1 notes	**1,123**	1,123
Preference shares	**200**	200
Subordinated debt[2]	**7,213**	6,427
Senior debt	**1,364**	485
Total capital employed[3]	**28,128**	25,182

1 Following a correction to accounting and modelling for annual management charge rebates in UK Life, prior year comparatives have been restated. This has led to an increase in operating profit and profit before tax of £23 million for 2015 and an increase in opening retained earnings for 2015 of £20 million with an increase in equity at 31 December 2015 of £38 million. See note 1 for further details.
2 Subordinated debt excludes amounts held by Group companies of £9 million (2015: £42 million).
3 Goodwill, AVIF and other intangibles are maintained within the capital base. Goodwill includes goodwill in subsidiaries of £2,045 million (*2015: £1,955 million*), goodwill in joint ventures of £20 million (*2015: £19 million*) and goodwill in associates of £47 million (*2015: £26 million*). AVIF and other intangibles comprise £5,468 million (*2015: £5,731 million*) of intangibles in subsidiaries, £72 million (*2015: £71 million*) of intangibles in joint ventures and £18 million (*2015: Nil*) of intangibles in associates, net of deferred tax liabilities of £(783) million (*2015: £(814) million*) and the non-controlling interest share of intangibles of £(226) million (*2015: £(195) million*).

The increase in the capital employed is primarily driven by the increase in the equity shareholders' funds and new issuances of subordinated debt and senior debt.

In May 2016 the Group issued C$450 million of subordinated debt to part fund the acquisition of RBC General Insurance Company. In September 2016 the Group issued £400 million of subordinated debt which was used in part to finance the redemption of $400 million of subordinated debt redeemed at its first call date in December 2016. The Group maintained strong liquidity throughout the year, which was enhanced by the issuance of €350 million and €500 million of senior debt in 2016.

To support value adding growth by efficient capital allocation, the Group continued to reallocate capital from businesses where the capital returns were low; for example the Group withdrew capital from Ireland through the sale of the private health insurance operations and separately invested in Canada through the acquisition of RBC General Insurance Company.

(b) Regulatory basis

Solvency II, the new Europe-wide prudential regulatory framework, came into force on 1 January 2016. This new regime puts in place a consistent solvency framework for insurers across Europe. This capital regime requires insurers to calculate regulatory capital adequacy at both individual regulated subsidiaries and an aggregate Group level. Non-EEA entities have been included in Group solvency in line with Solvency II requirements. Other financial sector entities (including fund management) are included at their proportional share of the capital requirement according to the relevant sectoral values.

Solvency II surplus at the Group level represents the excess of the aggregate value of capital employed in our business over the aggregate solvency capital requirements calculated in accordance with Solvency II requirements. The Group maintained capital in excess of the Solvency Capital Requirement (SCR) at all times during 2016.

In addition, non-EEA businesses including Canada, Hong Kong and Singapore, are subject to the locally applicable capital requirements in the jurisdictions in which they operate.

All regulated subsidiaries complied with their capital requirements throughout the year.

55 – Statement of cash flows

This note gives further detail behind the figures in the statement of cash flows.

(a) The reconciliation of profit before tax to the net cash inflow from operating activities is:

	2016 £m	Restated[1] 2015 £m
Profit before tax	**1,833**	1,195
Adjustments for:		
Share of profits of joint ventures and associates	**(216)**	(180)
Dividends received from joint ventures and associates	**66**	45
(Profit)/loss on sale of:		
Investment property	**(56)**	(120)
Property and equipment	**—**	(1)
Subsidiaries, joint ventures and associates	**11**	(2)
Investments	**(1,525)**	(3,404)
	(1,570)	(3,527)
Fair value (gains)/losses on:		
Investment property	**129**	(778)
Investments	**(19,209)**	9,538
Borrowings	**(220)**	37
	(19,300)	8,797
Depreciation of property and equipment	**25**	24
Equity compensation plans, equity settled expense	**38**	40
Impairment and expensing of:		
Goodwill on subsidiaries	**—**	22
Financial investments, loans and other assets	**—**	7
Acquired value of in-force business and intangibles	**14**	18
Non-financial assets	**—**	—
	14	47
Amortisation of:		
Premium/discount on debt securities	**648**	104
Premium/discount on borrowings	**(50)**	(44)
Premium/discount on non-participating investment contracts	**284**	237
Financial instruments	**25**	12
Acquired value of in-force business and intangibles	**410**	390
	1,317	699
Change in unallocated divisible surplus	**381**	(984)
Interest expense on borrowings	**593**	588
Net finance income on pension schemes	**(73)**	(80)
Foreign currency exchange gains	**(405)**	(358)
Changes in working capital		
(Increase)/decrease in reinsurance assets	**(4,736)**	180
(Increase) in deferred acquisition costs	**(96)**	(139)
Increase/(decrease) in insurance liabilities and investment contracts	**22,434**	(7,950)
Decrease/(increase) in other assets	**3,643**	(1,156)
	21,245	(9,065)
Net sales/(purchases) of operating assets		
Net purchases of investment property	**(722)**	(929)
Net proceeds on sale of investment property	**1,460**	1,953
Net sales of financial investments	**708**	6,932
	1,446	7,956
Total cash generated from operating activities	**5,394**	5,197

1 Following a correction to accounting and modelling for annual management charge rebates in UK Life, prior year comparatives have been restated. This has led to an increase in operating profit and profit before tax of £23 million for 2015 and an increase in opening retained earnings for 2015 of £20 million with an increase in equity at 31 December 2015 of £38 million. The restatement has not resulted in a change to total cash generated from operating activities. See note 1 for further details.

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

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

(b) Cash flows in respect of, and additions to, the acquisition of subsidiaries, joint ventures and associates comprised:

	2016 £m	2015 £m
Cash consideration for subsidiaries, joint ventures and associates acquired and additions	**458**	97
Less: Cash and cash equivalents acquired with subsidiaries	**(26)**	(7,880)
Total cash flow on acquisitions and additions	**432**	(7,783)

55 – Statement of cash flows continued

(c) Cash flows in respect of the disposal of subsidiaries, joint ventures and associates comprised:

	2016 £m	2015 £m
Cash proceeds from disposal of subsidiaries, joint ventures and associates	**94**	6
Less: Net cash and cash equivalents divested with subsidiaries	**(52)**	(9)
Total cash flow on disposals	**42**	(3)

The above figures form part of cash flows from investing activities.

(d) Cash and cash equivalents in the statement of cash flows at 31 December comprised:

	2016 £m	2015 £m
Cash at bank and in hand	**5,049**	4,496
Cash equivalents	**33,914**	29,180
	38,963	33,676
Bank overdrafts	**(558)**	(506)
	38,405	33,170

Cash and cash equivalents reconciles to the statement of financial position as follows:

	2016 £m	2015 £m
Cash and cash equivalents (excluding bank overdrafts)	**38,963**	33,676
Less: Assets classified as held for sale	**(255)**	—
	38,708	33,676

56 – Risk management

This note sets out the major risks our businesses and our shareholders face and describes the Group's approach to managing these. It also gives sensitivity analyses around the major economic and non-economic assumptions that can cause volatility in the Group's earnings and capital position.

(a) Risk management framework

The risk management framework (RMF) in Aviva forms an integral part of the management and Board processes and decision-making framework across the Group. The key elements of our risk management framework comprise risk appetite; risk governance, including risk policies and business standards, risk oversight committees and roles and responsibilities; and the processes we use to identify, measure, manage, monitor and report (IMMMR) risks, including the use of our risk models and stress and scenario testing.

For the purposes of risk identification and measurement, and aligned to Aviva's risk policies, risks are usually grouped by risk type: credit, market, liquidity, life insurance (including long-term health), general insurance (including short-term health), asset management and operational risk. Risks falling within these types may affect a number of metrics including those relating to balance sheet strength, liquidity and profit. They may also affect the performance of the products we deliver to our customers and the service to our customers and distributors, which can be categorised as risks to our brand and reputation or as conduct risk.

To promote a consistent and rigorous approach to risk management across all businesses we have a set of risk policies and business standards which set out the risk strategy, appetite, framework and minimum requirements for the Group's worldwide operations. The business chief executive officers and chief risk officers, on a semi-annual basis during 2016, sign-off compliance with these policies and standards, providing assurance to the relevant oversight committees that there is a consistent framework for managing our business and the associated risks.

A regular top-down key risk identification and assessment process is carried out by the risk function. This includes the consideration of emerging risks and is supported by deeper thematic reviews. This process is replicated at the business unit level. The risk assessment processes are used to generate risk reports which are shared with the relevant risk committees.

Risk models are an important tool in our measurement of risks and are used to support the monitoring and reporting of the risk profile and in the consideration of the risk management actions available. We carry out a range of stress (where one risk factor, such as equity returns, is assumed to vary) and scenario (where combinations of risk factors are assumed to vary) tests to evaluate their impact on the business and the management actions available to respond to the conditions envisaged. For those risk types managed through the holding of capital, being our principal risk types except for liquidity risk, we measure and monitor our risk profile on the basis of the Solvency II solvency capital requirement (SCR).

Roles and responsibilities for risk management in Aviva are based around the 'three lines of defence model' where ownership for risk is taken at all levels in the Group. Line management in the business is accountable for risk management, including the implementation of the risk management framework and embedding of the risk culture. The risk function is accountable for quantitative and qualitative oversight and challenge of the IMMMR process and for developing the risk management framework. Internal Audit provides an independent assessment of the risk framework and internal control processes.

Board oversight of risk and risk management across the Group is maintained on a regular basis through its Risk Committee and Governance Committee. The Board has overall responsibility for determining risk appetite, which is an expression of the risk the business is willing to take. Risk appetites are set relative to capital and liquidity at Group and in the business units.

Economic capital risk appetites are also set for each risk type, calculated on the basis of the Solvency II solvency capital requirement (SCR). The Group's position against risk appetite is monitored and reported to the Board on a regular basis. Long-term sustainability depends upon the protection of franchise value and good customer relationships. As such, Aviva has a risk preference that we will not accept risks that materially impair the reputation of the Group and requires that customers are always treated with integrity. The oversight of risk and risk management at the Group level is supported by the Asset Liability Committee (ALCO), which focuses on business and financial risks, and the Operational Risk Committee (ORC) which focuses on operational and reputational risks. Similar committee structures with equivalent terms of reference exist in the business units.

The risk management framework of a small number of our joint ventures and strategic equity holdings differs from the Aviva framework outlined in this note. We work with these entities to understand how their risks are managed and to align them, where possible, with Aviva's framework.

Further information on the types and management of specific risk types is given in sections (b) to (j) below.

(b) Credit risk

Credit risk is the risk of financial loss as a result of the default or failure of third parties to meet their payment obligations to Aviva, or variations in market values as a result of changes in expectations related to these risks. Credit risk is an area where we can provide the returns required to satisfy policyholder liabilities and to generate returns for our shareholders. In general we prefer to take credit risk over equity and property risks, due to the better expected risk adjusted return, our credit risk analysis capability and the structural investment advantages conferred to insurers with long-dated, relatively illiquid liabilities.

Our approach to managing credit risk recognises that there is a risk of adverse financial impact resulting from fluctuations in credit quality of third parties including default, rating transition and credit spread movements. Our credit risks arise principally through exposures to debt security investments, structured asset investments, bank deposits, derivative counterparties, mortgage lending and reinsurance counterparties.

The Group manages its credit risk at business unit and Group level. All business units are required to implement credit risk management processes (including limits frameworks), operate specific risk management committees, and ensure detailed reporting and monitoring of their exposures against pre-established risk criteria. At Group level, we manage and monitor all exposures across our business units on a consolidated basis, and operate a Group limit framework that must be adhered to by all.

A detailed breakdown of the Group's current credit exposure by credit quality is shown below.

56 – Risk management continued

(i) Financial exposures by 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 credit risk exposure of the Group for financial assets with external credit ratings. 'Not rated' assets capture assets not rated by external ratings agencies.

As at 31 December 2016	AAA	AA	A	BBB	Below BBB	Not rated	Carrying value including held for sale £m	Less: Amounts classified as held for sale £m	Carrying value £m
Debt securities	**11.4%**	**34.1%**	**19.0%**	**24.2%**	**5.9%**	**5.4%**	**183,274**	**(7,738)**	**175,536**
Reinsurance assets	**0.0%**	**92.0%**	**6.3%**	**0.1%**	**0.0%**	**1.6%**	**26,754**	**(411)**	**26,343**
Other investments	**0.0%**	**0.2%**	**0.5%**	**0.0%**	**0.0%**	**99.3%**	**58,255**	**(2,304)**	**55,951**
Loans	**0.0%**	**8.0%**	**0.0%**	**0.1%**	**0.0%**	**91.9%**	**24,859**	**(75)**	**24,784**
Total							**293,142**	**(10,528)**	**282,614**

As at 31 December 2015	AAA	AA	A	BBB	Below BBB	Not rated	Carrying value including held for sale £m	Less: Amounts classified as held for sale £m	Carrying value £m
Debt securities	12.4%	37.4%	19.8%	21.2%	4.0%	5.2%	162,964	—	162,964
Reinsurance assets	0.1%	88.2%	8.0%	0.0%	0.0%	3.7%	20,918	—	20,918
Other investments	0.0%	0.1%	0.8%	0.0%	0.0%	99.1%	47,695	—	47,695
Loans	0.0%	8.2%	1.3%	0.1%	0.0%	90.4%	22,433	—	22,433
Total							254,010	—	254,010

The majority of non-rated debt securities within shareholder assets are held by our businesses in the UK. Of these securities most are allocated an internal rating using a methodology largely consistent with that adopted by an external rating agency, and are considered to be of investment grade credit quality; these include £2.3 billion *(2015: £2.2 billion)* of debt securities held in our UK Life business, predominantly made up of private placements and other corporate bonds, which have been internally rated as investment grade.

The Group continues to hold a series of macro credit hedges to reduce the overall credit risk exposure. The Group's maximum exposure to credit risk of financial assets, without taking collateral or these hedges into account, is represented by the carrying value of the financial instruments in the statement of financial position. These comprise debt securities, reinsurance assets, derivative assets, loans and receivables. The carrying values of these assets are disclosed in the relevant notes: financial investments (note 26), reinsurance assets (note 43), loans (note 23) and receivables (note 27). The collateral in place for these credit exposures is disclosed in note 58; Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements.

To the extent that collateral held is greater than the amount receivable that it is securing, the table above shows only an amount equal to the latter. In the event of default, any over-collateralised security would be returned to the relevant counterparty.

(ii) Financial exposures to peripheral European countries and worldwide banks

Included in our debt securities and other financial assets are exposures to peripheral European countries and worldwide banks. We continued in 2016 to limit our direct shareholder and participating assets exposure to the governments (including local authorities and agencies) and banks of Greece, Portugal, Italy and Spain. Information on our exposures to peripheral European sovereigns and banks is provided in notes 26(e) and 26(f). We continue to monitor closely the situation in the eurozone and have had additional restrictions on further investment in place since late 2009.

(iii) Other investments

Other investments (including assets of operations classified as held for sale) include unit trusts and other investment vehicles; derivative financial instruments, representing positions to mitigate the impact of adverse market movements; and other assets includes deposits with credit institutions and minority holdings in property management undertakings.

The credit quality of the underlying debt securities within investment vehicles is managed by the safeguards built into the investment mandates for these funds which determine the funds' risk profiles. At the Group level, we also monitor the asset quality of unit trusts and other investment vehicles against Group set limits.

A proportion of the assets underlying these investments are represented by equities and so credit ratings are not generally applicable. Equity exposures are managed against agreed benchmarks that are set with reference to overall appetite for market risk.

(iv) Loans

The Group loan portfolio principally comprises:

- Policy loans which are generally collateralised by a lien or charge over the underlying policy;
- Loans and advances to banks which primarily relate to loans of cash collateral received in stock lending transactions. These loans are fully collateralised by other securities;
- Healthcare, infrastructure and PFI loans secured against healthcare, education, social housing and emergency services related premises; and
- Mortgage loans collateralised by property assets.

56 – Risk management continued

We use loan to value; interest and debt service cover; and diversity and quality of the tenant base metrics to internally monitor our exposures to mortgage loans. We use credit quality, based on dynamic market measures, and collateralisation rules to manage our stock lending activities. Policy loans are loans and advances made to policyholders, and are collateralised by the underlying policies.

The adverse impact on the valuation of the Group's UK mortgage portfolio in the first half of 2016 of revised expectations of future property prices and rental income in light of the UK referendum vote for the UK to leave the European Union has been broadly offset in the second half of the year as expectations for future property price and rental growth have increased.

(v) Credit concentration risk

The long-term and general insurance businesses are generally not individually exposed to significant concentrations of credit risk due to the regulations applicable in most markets and the Group credit policy and limits framework, which limit investments in individual assets and asset classes. Credit concentrations are monitored as part of the regular credit monitoring process and are reported to Group ALCO. With the exception of government bonds the largest aggregated counterparty exposure within shareholder assets (i.e. excluding potential exposures arising from reinsurance of unit-linked funds) is to the Swiss Reinsurance Company Limited (including subsidiaries), representing approximately 2.5% of the total shareholder assets.

(vi) Reinsurance credit exposures

The Group is exposed to concentrations of risk with individual reinsurers due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings. The Group operates a policy to manage its reinsurance counterparty exposures, by limiting the reinsurers that may be used and applying strict limits to each reinsurer. Reinsurance exposures are aggregated with other exposures to ensure that the overall risk is within appetite. The Group Capital and Group Risk teams have an active monitoring role with escalation to the Chief Financial Officer (CFO), Chief Risk Officer (CRO), Group ALCO and the Board Risk Committee as appropriate.

The Group's largest reinsurance counterparty is BlackRock Life Ltd (including subsidiaries) as a result of the BlackRock funds offered to UK Life customers via unit-linked contracts. At 31 December 2016, the reinsurance asset recoverable, including debtor balances, from BlackRock Life Ltd was £17,087 million *(2015: £12,660 million)*, reflecting increased valuations of BlackRock funds and net customer inflows. Whilst the risk of default is considered remote due to the nature of the arrangement and the counterparty, the Group is in the process of restructuring the agreements with BlackRock Life Ltd to significantly reduce this exposure.

(vii) Securities finance

The Group has significant securities financing operations within the UK and smaller operations in some other businesses. The risks within this activity are mitigated by collateralisation and minimum counterparty credit quality requirements.

(viii) Derivative credit exposures

The Group is exposed to counterparty credit risk through derivative trades. This risk is generally mitigated through holding collateral for most trades. Residual exposures are captured within the Group's credit management framework.

(ix) Unit-linked business

In unit-linked business the policyholder bears the direct market risk and credit risk on investment assets in the unit funds and the shareholders' exposure to credit risk is limited to the extent of the income arising from asset management charges based on the value of assets in the fund.

(x) Impairment of financial assets

In assessing whether financial assets carried at amortised cost or classified as available for sale are impaired, due consideration is given to the factors outlined in accounting policies (T) and (V). The following table provides information regarding the carrying value of financial assets subject to impairment testing that have been impaired and the ageing of those assets that are past due but not impaired. The table excludes assets carried at fair value through profit or loss and held for sale.

		Financial assets that are past due but not impaired					
At 31 December 2016	**Neither past due nor impaired £m**	**0–3 months £m**	**3–6 months £m**	**6 months–1 year £m**	**Greater than 1 year £m**	**Financial assets that have been impaired £m**	**Carrying value £m**
Debt securities	**1,092**	**—**	**—**	**—**	**—**	**—**	**1,092**
Reinsurance assets	**8,388**	**—**	**—**	**—**	**—**	**—**	**8,388**
Other investments	**1**	**—**	**—**	**—**	**—**	**—**	**1**
Loans	**3,501**	**—**	**—**	**—**	**—**	**—**	**3,501**
Receivables and other financial assets	**7,717**	**61**	**7**	**8**	**1**	**—**	**7,794**

		Financial assets that are past due but not impaired					
At 31 December 2015	Neither past due nor impaired £m	0–3 months £m	3–6 months £m	6 months–1 year £m	Greater than 1 year £m	Financial assets that have been impaired £m	Carrying value £m
Debt securities	918	—	—	—	—	—	918
Reinsurance assets	6,951	—	—	—	—	—	6,951
Other investments	—	—	—	—	—	—	—
Loans	3,353	—	—	—	—	1	3,354
Receivables and other financial assets	6,775	84	5	7	3	1	6,875

56 – Risk management continued

Excluded from the tables above are financial and reinsurance assets carried at fair value through profit or loss that are not subject to impairment testing, as follows: £182.2 billion of debt securities *(2015: £162.0 billion)*, £58.3 billion of other investments *(2015: £47.7 billion)*, £21.3 billion of loans *(2015: £19.1 billion)* and £18.4 billion of reinsurance assets *(2015: £14.0 billion)*.

Where assets have been classed as 'past due and impaired', an analysis is made of the risk of default and a decision is made whether to seek to mitigate the risk. There were no material financial assets that would have been past due or impaired had the terms not been renegotiated.

(c) 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 business units due to fluctuations in both the value of liabilities and the value of investments held. At Group level, it also arises in relation to the overall portfolio of international businesses and in the value of investment assets owned directly by the shareholders. We actively seek some market risks as part of our investment and product strategy. However, we have limited appetite for interest rate risk as we do not believe it is adequately rewarded.

The management of market risk is undertaken at business unit and at Group level. Businesses manage market risks locally using the Group market risk framework and within local regulatory constraints. Group Capital is responsible for monitoring and managing market risk at Group level and has established criteria for matching assets and liabilities to limit the impact of mismatches due to market movements.

In addition, where the Group's long-term savings businesses have written insurance and investment products where the majority of investment risks are borne by its policyholders, these risks are managed in line with local regulations and marketing literature, in order to satisfy the policyholders' risk and reward objectives. The Group writes unit-linked business in a number of its operations. The shareholders' exposure to market risk on this business is limited to the extent that income arising from asset management charges is based on the value of assets in the fund.

The most material types of market risk that the Group is exposed to are described below.

(i) Equity price risk

The Group is subject to direct equity price risk arising from changes in the market values of its equity securities portfolio. Our most material indirect equity price risk exposures are to policyholder unit-linked funds, which are exposed to a fall in the value of the fund thereby reducing the fees we earn on those funds, and participating contracts, which are exposed to a fall in the value of the funds thereby increasing our costs for policyholder guarantees. We also have some equity exposure in shareholder funds through equities held to match inflation-linked liabilities.

We continue to limit our direct equity exposure in line with our risk preferences. At a business unit level, investment limits and local investment regulations require that business units hold diversified portfolios of assets thereby reducing exposure to individual equities. The Group does not have material holdings of unquoted equity securities.

Equity risk is also managed using a variety of derivative instruments, including futures and options. Businesses actively model the performance of equities through the use of risk models, in particular to understand the impact of equity performance on guarantees, options and bonus rates. An equity hedging strategy remains in place to help control the Group's overall direct and indirect exposure to equities. At 31 December 2016 the Group continues to hold a series of macro equity hedges to reduce the overall shareholder equity risk exposure.

Sensitivity to changes in equity prices is given in section '(j) risk and capital management' below.

(ii) Property price risk

The Group is subject to property price risk directly due to holdings of investment properties in a variety of locations worldwide and indirectly through investments in mortgages and mortgage backed securities. Investment in property is managed at business unit level, and is subject to local regulations on investments, liquidity requirements and the expectations of policyholders.

As at 31 December 2016, no material derivative contracts had been entered into to mitigate the effects of changes in property prices.

Sensitivity to changes in property prices is given in section '(j) risk and capital management' below.

(iii) Interest rate risk

Interest rate risk arises primarily from the Group's investments in long-term debt and fixed income securities and their movement relative to the value placed on the insurance liabilities. A number of policyholder product features have an influence on the Group's interest rate risk. The major features include guaranteed surrender values, guaranteed annuity options, and minimum surrender and maturity values. Details of material guarantees and options are given in note 42.

Exposure to interest rate risk is monitored through several measures that include duration, economic capital modelling, sensitivity testing and stress and scenario testing. The impact of exposure to sustained low interest rates is considered within our scenario testing.

The Group typically manages interest rate risk by investing in fixed interest securities which closely match the interest rate sensitivity of the liabilities where such investments are available. In particular, a key objective is to at least match the duration of our annuity liabilities with assets of the same duration, and in some cases where appropriate cash flow matching has been used. These assets include corporate bonds, residential mortgages and commercial mortgages. Should they default before maturity, it is assumed that the Group can reinvest in assets of a similar risk and return profile, which is subject to market conditions. Interest rate risk is also managed in some business units using a variety of derivative instruments, including futures, options, swaps, caps and floors.

Some of the Group's products, principally participating contracts, expose us to the risk that changes in interest rates will impact on profits through a change in the interest spread (the difference between the amounts that we are required to pay under the contracts and the investment income we are able to earn on the investments supporting our obligations under those contracts). The primary markets where Aviva is exposed to this risk are the UK, France and Italy.

56 – Risk management continued

The low interest rate environment in a number of markets around the world has resulted in our current reinvestment yields being lower than the overall current portfolio yield, primarily for our investments in fixed income securities and commercial mortgage loans. We anticipate that interest rates may remain below historical averages before the 2008 financial crisis for an extended period of time and that financial markets may continue to have periods of high volatility. Investing activity will continue to decrease the portfolio yield as long as market yields remain below the current portfolio level. We expect the decline in portfolio yield will result in lower net investment income in future periods.

Other product lines of the Group, such as protection, are not significantly sensitive to interest rate or market movements. For unit-linked business, the shareholder margins emerging are typically a mixture of annual management fees and risk/expense charges. Risk and expense margins will be largely unaffected by low interest rates. Annual management fees may increase in the short term as the move towards low interest rates increases the value of unit funds. However, in the medium term, unit funds will grow at a lower rate which will reduce fund charges. For the UK annuities business interest rate exposure is mitigated by closely matching the duration of liabilities with assets of the same duration.

The UK participating business includes contracts with features such as guaranteed surrender values, guaranteed annuity options, and minimum surrender and maturity values. These liabilities are managed through duration matching of assets and liabilities and the use of derivatives, including swaptions. As a result, the Group's exposure to sustained low interest rates on this portfolio is not material. The Group's key exposure to low interest rates arises through its other participating contracts, principally in Italy and France. Some of these contracts also include features such as guaranteed minimum bonuses, guaranteed investment returns and guaranteed surrender values. In a low interest rate environment there is a risk that the yield on assets might not be sufficient to cover these obligations. For certain of its participating contracts the Group is able to amend guaranteed crediting rates. Our ability to lower crediting rates may be limited by competition, bonus mechanisms and contractual arrangements.

Details of material guarantees and options are given in note 42. In addition, the following table summarises the weighted average minimum guaranteed crediting rates and weighted average book value yields on assets as at 31 December 2016 for our Italian and French participating contracts, where the Group's key exposure to sustained low interest rates arises.

	Weighted average minimum guaranteed crediting rate	Weighted average book value yield on assets	Participating contract liabilities £m
France	0.78%	3.39%	74,606
Italy	0.93%	3.61%	12,514
Other[1]	N/A	N/A	59,379
Total	N/A	N/A	146,499

1 "Other" includes UK participating business

Profit before tax on General Insurance and Health Insurance business is generally a mixture of insurance, expense and investment returns. The asset portfolio is invested primarily in fixed income securities and the reduction in interest rates in recent years has reduced the investment component of profit. The portfolio investment yield and average total invested assets in our general insurance and health business are set out in the table below.

	Portfolio investment yield1	Average assets £m
2014	2.76%	17,200
2015	2.58%	15,268
2016	2.47%	14,369

1 Before realised and unrealised gains and losses and investment expenses

The nature of the business means that prices in certain circumstances can be increased to maintain overall profitability. This is subject to the competitive environment in each market. To the extent that there are further falls in interest rates the investment yield would be expected to decrease further in future periods.

Sensitivity to changes in interest rates is given in section '(j) risk and capital management' below.

(iv) Inflation risk

Inflation risk arises primarily from the Group's exposure to general insurance claims inflation, to inflation linked benefits within the defined benefit staff pension schemes and within the UK annuity portfolio and to expense inflation. Increases in long-term inflation expectations are closely linked to long-term interest rates and so are frequently considered with interest rate risk. Exposure to inflation risk is monitored through economic capital modelling, sensitivity testing and stress and scenario testing. The Group typically manages inflation risk through its investment strategy and, in particular, by investing in inflation linked securities and through a variety of derivative instruments, including inflation linked swaps.

(v) Currency risk

The Group has minimal exposure to currency risk from financial instruments held by business units in currencies other than their functional currencies, as nearly all such holdings are backing either unit-linked or with-profit contract liabilities or hedging. As a result the foreign exchange and losses on investments (see note 5) are largely offset by changes in unit-linked and with-profit liabilities and fair value changes in derivatives attributable to changes in foreign exchange rates recognised in the income statement.

56 – Risk management continued

The Group operates internationally and as a result is exposed to foreign currency exchange risk arising from fluctuations in exchange rates of various currencies. Approximately 63% of the Group's premium income arises in currencies other than sterling and the Group's net assets are denominated in a variety of currencies, of which the largest are sterling, euro and Canadian dollars. The Group does not hedge foreign currency revenues as these are substantially retained locally to support the growth of the Group's business and meet local regulatory and market requirements. However, the Group does use foreign currency forward contracts to hedge planned dividends from its subsidiaries.

Businesses aim to maintain sufficient assets in local currency to meet local currency liabilities, however movements may impact the value of the Group's consolidated shareholders' equity which is expressed in sterling. This aspect of foreign exchange risk is monitored and managed centrally, against pre-determined limits. These exposures are managed by aligning the deployment of regulatory capital by currency with the Group's regulatory capital requirements by currency. Currency borrowings and derivatives are used to manage exposures within the limits that have been set. Except where the Group has applied net investment hedge accounting (see note 57(a)(i), foreign exchange gains and losses on foreign currency borrowings (see note 6) are recognised in the income statement, whereas foreign exchange gains and losses arising on consolidation from the translation of assets and liabilities of foreign subsidiaries are recognised in other comprehensive income. At 31 December 2016, the Group's exposure to euro and Canadian dollars has decreased compared to prior year due to new debt issuance in these currencies (see note 49), capital repatriation and the increased purchase of foreign currency forward contracts to hedge planned dividends from subsidiaries. Foreign currency capital deployed (included in Other below) in the Group's targeted high growth markets has increased in 2016 to fund future growth. At 31 December 2016 and 2015, the Group's total equity deployment by currency including assets 'held for sale' was:

	Sterling £m	Euro £m	CAD$ £m	Other £m	Total £m
Capital 31 December 2016	**15,813**	**923**	**627**	**2,188**	**19,551**
Capital 31 December 2015 (restated)[1]	14,371	2,011	979	909	18,270

1 Following a correction to accounting and modelling for annual management charge rebates in UK Life, prior year comparatives have been restated. This has led to an increase in equity at 31 December 2015 of £38 million. See note 1 for further details.

A 10% change in sterling to euro/Canada$ (CAD$) period-end foreign exchange rates would have had the following impact on total equity.

	10% increase in sterling / euro rate £m	10% decrease in sterling / euro rate £m	10% increase in sterling / CAD$ rate £m	10% decrease in sterling / CAD$ rate £m
Net assets at 31 December 2016	**(92)**	**92**	**(63)**	**20**
Net assets at 31 December 2015	(166)	128	(33)	67

A 10% change in sterling to euro/Canada$ (CAD$) average foreign exchange rates applied to translate foreign currency profits would have had the following impact on profit before tax, including resulting gains and losses on foreign exchange hedges and excluding 'discontinued operations'.

	10% increase in sterling/ euro rate £m	10% decrease in sterling/ euro rate £m	10% increase in sterling/ CAD$ rate £m	10% decrease in sterling/ CAD$ rate £m
Impact on profit before tax 31 December 2016	**(55)**	**67**	**(15)**	**(9)**
Impact on profit before tax 31 December 2015	8	23	25	(46)

The balance sheet changes arise from retranslation of business unit statements of financial position from their functional currencies into sterling, with above movements being taken through the currency translation reserve. These balance sheet movements in exchange rates therefore have no impact on profit. Net asset and profit before tax figures are stated after taking account of the effect of currency hedging activities.

(vi) Derivatives risk

Derivatives are used by a number of the businesses. Derivatives are primarily used for efficient investment management, risk hedging purposes, or to structure specific retail savings products. Activity is overseen by the Group Capital and Group Risk teams, which monitor exposure levels and approve large or complex transactions.

The Group applies strict requirements to the administration and valuation processes it uses, and has a control framework that is consistent with market and industry practice for the activity that is undertaken.

(vii) Correlation risk

The Group recognises that lapse behaviour and potential increases in consumer expectations are sensitive to and interdependent with market movements and interest rates. These interdependencies are taken into consideration in the internal economic capital model and in scenario analysis.

56 – Risk management continued

(d) Liquidity risk

Liquidity risk is the risk of not being able to make payments as they become due because there are insufficient assets in cash form. The relatively illiquid nature of insurance liabilities is a potential source of additional investment return by allowing us to invest in higher yielding, but less liquid assets such as commercial mortgages. The Group seeks to ensure that it maintains sufficient financial resources to meet its obligations as they fall due through the application of a Group liquidity risk policy and business standard and through the development of its liquidity risk management plan. At Group and business unit level, there is a liquidity risk appetite which requires that sufficient liquid resources be maintained to cover net outflows in a stress scenario. In addition to the existing liquid resources and expected inflows, the Group maintains significant undrawn committed borrowing facilities (£1,650 million) from a range of leading international banks to further mitigate this risk.

Maturity analyses

The following tables show the maturities of our insurance and investment contract liabilities, and of the financial and reinsurance assets held to meet them. A maturity analysis of the contractual amounts payable for borrowings and derivatives is given in notes 49 and 57, respectively. Contractual obligations under operating leases and capital commitments are given in note 53.

(i) Analysis of maturity of insurance and investment contract liabilities

For non-linked insurance business, the following table shows the gross liability at 31 December 2016 and 2015 analysed by remaining duration. The total liability is split by remaining duration in proportion to the cash-flows expected to arise during that period, as permitted under IFRS 4, *Insurance Contracts.*

Almost all linked business and non-linked investment contracts may be surrendered or transferred on demand. For such contracts, the earliest contractual maturity date is therefore the current statement of financial position date, for a surrender amount approximately equal to the current statement of financial position liability. However, we expect surrenders, transfers and maturities to occur over many years, and therefore the tables below reflect the expected cash flows for these contracts, rather than their contractual maturity date. This table includes assets held for sale.

At 31 December 2016	**Total £m**	**On demand or within 1 year £m**	**1-5 years £m**	**5-15 years £m**	**Over 15 years £m**
Long-term business					
Insurance contracts – non-linked	**116,400**	**9,757**	**31,423**	**44,791**	**30,429**
Investment contracts – non-linked	**70,749**	**5,358**	**14,687**	**27,568**	**23,136**
Linked business	**156,264**	**24,165**	**47,465**	**58,284**	**26,350**
General insurance and health	**16,488**	**6,761**	**6,594**	**2,448**	**685**
Total contract liabilities	**359,901**	**46,041**	**100,169**	**133,091**	**80,600**

At 31 December 2015	Total £m	On demand or within 1 year £m	1-5 years £m	5-15 years £m	Over 15 years £m
Long-term business					
Insurance contracts – non-linked	114,533	9,847	30,715	43,513	30,458
Investment contracts – non-linked	63,505	4,506	13,666	25,477	19,856
Linked business	130,185	15,221	41,442	51,368	22,154
General insurance and health	13,506	5,844	5,160	1,992	510
Total contract liabilities	321,729	35,418	90,983	122,350	72,978

(ii) Analysis of maturity of financial assets

The following table provides an analysis, by maturity date of the principal, of the carrying value of financial assets which are available to fund the repayment of liabilities as they crystallise. This table excludes assets held for sale.

At 31 December 2016	**Total £m**	**On demand or within 1 year £m**	**1-5 years £m**	**Over 5 years £m**	**No fixed term (perpetual) £m**
Debt securities	**175,536**	**25,817**	**47,971**	**101,580**	**168**
Equity securities	**68,348**	**—**	**—**	**—**	**68,348**
Other investments	**55,951**	**48,059**	**2,202**	**4,143**	**1,547**
Loans	**24,784**	**1,352**	**5,609**	**17,819**	**4**
Cash and cash equivalents	**38,708**	**38,708**	**—**	**—**	**—**
	363,327	**113,936**	**55,782**	**123,542**	**70,067**

At 31 December 2015	Total £m	On demand or within 1 year £m	1-5 years £m	Over 5 years £m	No fixed term (perpetual) £m
Debt securities	162,964	21,912	46,551	93,753	748
Equity securities	63,558	—	—	—	63,558
Other investments	47,695	42,733	940	2,464	1,558
Loans	22,433	1,485	2,404	18,540	4
Cash and cash equivalents	33,676	33,676	—	—	—
	330,326	99,806	49,895	114,757	65,868

56 – Risk management continued

The assets above are analysed in accordance with the earliest possible redemption date of the instrument at the initiation of the Group. Where an instrument is transferable back to the issuer on demand, such as most unit trusts or similar types of investment vehicle, it is included in the 'On demand or within 1 year' column. Debt securities with no fixed contractual maturity date are generally callable at the option of the issuer at the date the coupon rate is reset under the contractual terms of the instrument. The terms for resetting the coupon are such that we expect the securities to be redeemed at this date, as it would be uneconomic for the issuer not to do so, and for liquidity management purposes we manage these securities on this basis. The first repricing and call date is normally ten years or more after the date of issuance. Most of the Group's investments in equity securities and fixed maturity securities are market traded and therefore, if required, can be liquidated for cash at short notice.

(e) Life and health insurance risk

Life insurance risk in the Group arises through its exposure to mortality risk and exposure to worse than anticipated operating experience on factors such as persistency levels, exercising of policy holder options and management and administration expenses. The Group's health insurance business (including private health insurance, critical illness cover, income protection and personal accident insurance, as well as a range of corporate healthcare products) exposes the Group to morbidity risk (the proportion of our customers falling sick) and medical expense inflation. The Group chooses to take measured amounts of life and health insurance risk provided that the relevant business has the appropriate core skills to assess and price the risk and adequate returns are available. The Group's underwriting strategy and appetite is communicated via specific policy statements, related business standards and guidelines. Life insurance risk is managed primarily at business unit level with oversight at the Group level. The underlying risk profile of our life and health insurance risks, primarily persistency, longevity, mortality and expense risk, has remained stable during 2016, although the current continued relatively low levels of interest rates have increased our sensitivity to longevity shocks compared to historical norms. The continuing reduction in individual annuity new business volumes, since the end to compulsory annuitisation in April 2015, will reduce our longevity risks exposure over the longer term to the extent not offset by increased bulk purchase annuity volumes. Despite this longevity risk remains the Group's most significant life insurance risk due to the Group's existing annuity portfolio.

Persistency risk remains significant and continues to have a volatile outlook with underlying performance linked to some degree to economic conditions. However, businesses across the Group have continued to make progress with a range of customer retention activities. The Group has continued to write considerable volumes of life protection business, and to utilise reinsurance to reduce exposure to potential losses. More generally, life insurance risks are believed to provide a significant diversification against other risks in the portfolio. Life insurance risks are modelled within the internal economic capital model and subject to sensitivity and stress and scenario testing. The assumption and management of life and health insurance risks is governed by the group-wide business standards covering underwriting, pricing, product design and management, in-force management, claims handling, and reinsurance. The individual life and health insurance risks are managed as follows:

- Mortality and morbidity risks are mitigated by use of reinsurance. The Group allows businesses to select reinsurers, from those approved by the Group, based on local factors, but retains oversight of the overall exposures and monitors that the aggregation of risk ceded is within credit risk appetite.
- Longevity risk and internal experience analysis are monitored against the latest external industry data and emerging trends. Whilst individual businesses are responsible for reserving and pricing for annuity business, the Group monitors the exposure to this risk and any associated capital implications. The Group has used reinsurance solutions to reduce the risks from longevity and continually monitors and evaluates emerging market solutions to mitigate this risk further.
- Persistency risk is managed at a business unit level through frequent monitoring of company experience, and benchmarked against local market information. Generally, persistency risk arises from customers lapsing their policies earlier than has been assumed. Where possible the financial impact of lapses is reduced through appropriate product design. Businesses also implement specific initiatives to improve the retention of policies which may otherwise lapse. The Group has developed guidelines on persistency management.
- Expense risk is primarily managed by the business units through the assessment of business unit profitability and frequent monitoring of expense levels.

Embedded derivatives

The Group is exposed to the risk of changes in policyholder behavior due to the exercise of options, guarantees and other product features embedded in its long-term savings products. These product features offer policyholders varying degrees of guaranteed benefits at maturity or on early surrender, along with options to convert their benefits into different products on pre-agreed terms. The extent of the impact of these embedded derivatives differs considerably between business units and exposes Aviva to changes in policyholder behaviour in the exercise of options as well as market risk.

Examples of each type of embedded derivative affecting the Group are:

- Options: call, put, surrender and maturity options, guaranteed annuity options, options to cease premium payment, options for withdrawals free of market value adjustment, annuity options, and guaranteed insurability options.
- Guarantees: embedded floor (guaranteed return), maturity guarantee, guaranteed death benefit, and guaranteed minimum rate of annuity payment.
- Other: indexed interest or principal payments, maturity value, loyalty bonus.

The impact of these is reflected in the economic capital model and managed as part of the asset liability framework. Further disclosure on financial guarantees and options embedded in contracts and their inclusion in insurance and investment contract liabilities is provided in note 42.

56 – Risk management continued

(f) General insurance risk

Types of risk

General insurance risk in the Group arises from:

- Fluctuations in the timing, frequency and severity of claims and claim settlements relative to expectations;
- Unexpected claims arising from a single source or cause;
- Inaccurate pricing of risks or inappropriate underwriting of risks when underwritten; and
- Inadequate reinsurance protection or other risk transfer techniques.

Aviva has a preference for general insurance risk in measured amounts for explicit reward, in line with our core skills in underwriting and pricing. The majority of the general insurance business underwritten by the Group continues to be short tail in nature such as motor, household and commercial property insurances. The Group's underwriting strategy and appetite is communicated via specific policy statements, related business standards and guidelines. General insurance risk is managed primarily at business unit level with oversight at the Group level. Claims reserving is undertaken by local actuaries in the various general insurance businesses and is also subject to periodic external reviews. Reserving processes are further detailed in note 40 'insurance liabilities', including information on the adverse impact on reserves following the announcement on 27 February 2017 of the change in the Ogden discount rate used to calculate lump sum payments in settlement of bodily injury claims.

The vast majority of the Group's general insurance business is managed and priced in the same country as the domicile of the customer.

Management of general insurance risks.

Significant insurance risks will be reported under the risk management framework. Additionally, the economic capital model is used to assess the risks that each general insurance business unit, and the Group as a whole, is exposed to, quantifying their impact and calculating appropriate capital requirements.

Business units have developed mechanisms that identify, quantify and manage accumulated exposures to contain them within the limits of the appetite of the Group. The business units are assisted by the General Insurance Council which provides technical input for major decisions which fall outside individual delegated limits or escalations outside group risk preferences, group risk accumulation, concentration and profitability limits.

Reinsurance strategy

Significant reinsurance purchases are reviewed annually at both business unit and Group level to verify that the levels of protection being bought reflect any developments in exposure and the risk appetite of the Group. The basis of these purchases is underpinned by analysis of economic capital, earnings and capital volatility, cash flow and liquidity and the Group's franchise value. Detailed actuarial analysis is used to calculate the Group's extreme risk profile and then design cost and capital efficient reinsurance programmes to mitigate these risks to within agreed appetites. For businesses writing general insurance we analyse the natural catastrophe exposure using our own internal probabilistic catastrophe model which is benchmarked against external catastrophe models widely used by the rest of the (re)insurance industry.

The Group cedes much of its worldwide catastrophe risk to third-party reinsurers through excess of loss and aggregate excess of loss structures. The Group purchases a group-wide catastrophe reinsurance programme to protect against catastrophe losses exceeding a 1 in 200 year return period. The total Group potential retained loss from its most concentrated catastrophe exposure peril (Northern Europe Windstorm) is approximately £150 million on a per occurrence basis and £175 million on an annual aggregate basis. Any losses above these levels are covered by the group-wide catastrophe reinsurance programme to a level in excess of a 1 in 200 year return period. In addition the Group purchases a number of GI business line specific reinsurance programmes with various retention levels to protect both capital and earnings, and has reinsured 100% of its latent exposures to its historic UK employers' liability and public liability business written prior to 31 December 2000.

(g) Asset management risk

Aviva is directly exposed to the risks associated with operating an asset management business through its ownership of Aviva Investors. The underlying risk profile of our asset management risk is derived from investment performance, specialist investment professionals and leadership, product development capabilities, fund liquidity, margin, client retention, regulatory developments, fiduciary and contractual responsibilities. Funds invested in illiquid assets such as commercial property are particularly exposed to liquidity risk. The risk profile is regularly monitored.

A client relationship team is in place to manage client retention risk, while all new asset management products undergo a review and approval process at each stage of the product development process, including approvals from legal, compliance and risk functions. Investment performance against client objectives relative to agreed benchmarks is monitored as part of our investment performance and risk management process, and subject to further independent oversight and challenge by a specialist risk team, reporting directly to the Aviva Investors' Chief Risk Officer.

(h) Operational risk

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. We have limited appetite for operational risk and aim to reduce these risks as far as is commercially sensible.

Our business units are primarily responsible for identifying and managing operational risks within their businesses, within the group-wide operational risk framework including the risk and control self-assessment process. Businesses must be satisfied that all material risks falling outside our risk tolerances are being mitigated, monitored and reported to an appropriate level. Any risks with a high potential impact are monitored centrally on a regular basis. Businesses use key indicator data to help monitor the status of the risk and control environment. They also identify and capture loss events, taking appropriate action to address actual control breakdowns and promote internal learning.

56 – Risk management continued

(i) Brand and reputation risk

We are exposed to 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 our brands or reputation. Any of our brands or our reputation could also be affected if products or services recommended by us (or any of our intermediaries) do not perform as expected (whether or not the expectations are founded) or customers' expectations for the product change. We seek to reduce this risk to as low a level as commercially sensible.

The FCA regularly considers whether we are meeting the requirement to treat our customers fairly and we make use of various metrics to assess our own performance, including customer advocacy, retention and complaints. Failure to meet these requirements could also impact our brands or reputation.

If we do not manage the perception of our brands and reputation successfully, it could cause existing customers or agents to withdraw from our business and potential customers or agents to choose not to do business with us.

(j) Risk and capital management.

(i) Sensitivity test analysis

The Group uses a number of sensitivity tests to understand the volatility of earnings, the volatility of its capital requirements, and to manage its capital more efficiently. Sensitivities to economic and operating experience are regularly produced on the Group's key financial performance metrics to inform the Group's decision making and planning processes, and as part of the framework for identifying and quantifying the risks to which each of its business units, and the Group as a whole, are exposed.

(ii) Life insurance and investment contracts

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

(iii) General insurance and health business

General insurance and health claim liabilities are estimated by using standard actuarial claims projection techniques. These methods extrapolate the claims development for each accident year based on the observed development of earlier years. In most cases, no explicit assumptions are made as projections are based on assumptions implicit in the historic claims.

(iv) Sensitivity test results

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

Sensitivity factor	Description of sensitivity factor applied
Interest rate and investment return	The impact of a change in market interest rates by a 1% increase or decrease. The test allows consistently for similar changes to investment returns and movements in the market value of backing fixed interest securities.
Credit spreads	The impact of a 0.5% increase in credit spreads over risk-free interest rates on corporate bonds and other non-sovereign credit assets. The test allows for any consequential impact on liability valuations.
Equity/property market values	The impact of a change in equity/property market values by ± 10%.
Expenses	The impact of an increase in maintenance expenses by 10%.
Assurance mortality/morbidity (life insurance only)	The impact of an increase in mortality/morbidity rates for assurance contracts by 5%.
Annuitant mortality (long-term insurance only)	The impact of a reduction in mortality rates for annuity contracts by 5%.
Gross loss ratios (non-long-term insurance only)	The impact of an increase in gross loss ratios for general insurance and health business by 5%.

Long-term business
Sensitivities as at 31 December 2016

2016 Impact on profit before tax (£m)	Interest rates +1%	Interest rates -1%	Credit spreads +0.5%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Assurance mortality +5%	Annuitant mortality -5%
Insurance participating	(50)	30	(10)	(130)	65	(30)	(5)	(15)
Insurance non-participating	(190)	20	(775)	(35)	10	(190)	(90)	(920)
Investment participating	(10)	5	(5)	—	—	(5)	—	—
Investment non-participating	10	(15)	—	50	(70)	(65)	—	—
Assets backing life shareholders' funds	(115)	190	10	(85)	85	—	—	—
Total	**(355)**	**230**	**(780)**	**(200)**	**90**	**(290)**	**(95)**	**(935)**

2016 Impact on shareholders' equity before tax (£m)	Interest rates +1%	Interest rates -1%	Credit spreads +0.5%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Assurance mortality +5%	Annuitant mortality -5%
Insurance participating	(50)	30	(10)	(130)	65	(30)	(5)	(15)
Insurance non-participating	(190)	20	(775)	(35)	10	(190)	(90)	(920)
Investment participating	(10)	5	(5)	—	—	(5)	—	—
Investment non-participating	10	(15)	—	50	(70)	(65)	—	—
Assets backing life shareholders' funds	(155)	230	5	(85)	85	—	—	—
Total	**(395)**	**270**	**(785)**	**(200)**	**90**	**(290)**	**(95)**	**(935)**

56 – Risk management continued

Sensitivities as at 31 December 2015

2015 Impact on profit before tax (£m)	Interest rates +1%	Interest rates -1%	Credit spreads +0.5%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Assurance mortality +5%	Annuitant mortality -5%
Insurance participating	30	(65)	(30)	(135)	130	(25)	(10)	(50)
Insurance non-participating	(75)	80	(495)	25	(25)	(155)	(115)	(725)
Investment participating	5	(5)	—	—	—	(5)	—	—
Investment non-participating	(20)	20	(5)	35	(35)	(20)	—	—
Assets backing life shareholders' funds	(140)	85	(65)	40	(40)	—	—	—
Total	(200)	115	(595)	(35)	30	(205)	(125)	(775)

2015 Impact on shareholders' equity before tax (£m)	Interest rates +1%	Interest rates -1%	Credit spreads +0.5%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Assurance mortality +5%	Annuitant mortality -5%
Insurance participating	30	(65)	(30)	(135)	130	(25)	(10)	(50)
Insurance non-participating	(75)	80	(495)	25	(25)	(155)	(115)	(725)
Investment participating	5	(5)	—	—	—	(5)	—	—
Investment non-participating	(20)	20	(5)	35	(35)	(20)	—	—
Assets backing life shareholders' funds	(175)	120	(70)	40	(40)	—	—	—
Total	(235)	150	(600)	(35)	30	(205)	(125)	(775)

Changes in sensitivities between 2016 and 2015 reflect underlying movements in market interest rates, portfolio growth, changes to asset mix and the relative durations of assets and liabilities, asset liability management actions, as well as a transfer in the UK of non-participating insurance business from a with-profit fund to a non-profit fund and changes to the level of DAC in the UK. The sensitivities to economic and demographic movements relate mainly to business in the UK.

General insurance and health business sensitivities as at 31 December 2016

2016 Impact on profit before tax (£m)	**Interest rates +1%**	**Interest rates -1%**	**Credit spreads +0.5%**	**Equity/ property +10%**	**Equity/ property -10%**	**Expenses +10%**	**Gross loss ratios +5%**
Gross of reinsurance	**(315)**	**320**	**(145)**	**85**	**(85)**	**(115)**	**(340)**
Net of reinsurance	**(385)**	**375**	**(145)**	**85**	**(85)**	**(115)**	**(320)**

2016 Impact on shareholders' equity before tax (£m)	**Interest rates +1%**	**Interest rates -1%**	**Credit spreads +0.5%**	**Equity/ property +10%**	**Equity/ property -10%**	**Expenses +10%**	**Gross loss ratios +5%**
Gross of reinsurance	**(315)**	**320**	**(145)**	**85**	**(85)**	**(25)**	**(340)**
Net of reinsurance	**(385)**	**375**	**(145)**	**85**	**(85)**	**(25)**	**(320)**

Sensitivities as at 31 December 2015

2015 Impact on profit before tax (£m)	Interest rates +1%	Interest rates -1%	Credit spreads +0.5%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Gross loss ratios +5%
Gross of reinsurance	(225)	210	(130)	65	(65)	(100)	(270)
Net of reinsurance	(305)	300	(130)	65	(65)	(100)	(260)

2015 Impact on shareholders' equity before tax (£m)	Interest rates +1%	Interest rates -1%	Credit spreads +0.5%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Gross loss ratios +5%
Gross of reinsurance	(225)	210	(130)	70	(70)	(20)	(270)
Net of reinsurance	(305)	300	(130)	70	(70)	(20)	(260)

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

56 – Risk management continued

Fund management and non-insurance business sensitivities as at 31 December 2016

2016 Impact on profit before tax (£m)	Interest rates +1%	Interest rates -1%	Credit spreads +0.5%	Equity/ property +10%	Equity/ property -10%
Total	**—**	**—**	**10**	**(10)**	**15**

2016 Impact on shareholders' equity before tax (£m)	Interest rates +1%	Interest rates -1%	Credit spreads +0.5%	Equity/ property +10%	Equity/ property -10%
Total	**—**	**—**	**10**	**(10)**	**15**

Sensitivities as at 31 December 2015

2015 Impact on profit before tax (£m)	Interest rates +1%	Interest rates -1%	Credit spreads +0.5%	Equity/ property +10%	Equity/ property -10%
Total	—	—	10	(30)	45

2015 Impact on shareholders' equity before tax (£m)	Interest rates +1%	Interest rates -1%	Credit spreads +0.5%	Equity/ property +10%	Equity/ property -10%
Total	—	—	10	(30)	45

Limitations of sensitivity analysis

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

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

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

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

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

57 – Derivative financial instruments and hedging

This note gives details of the various financial instruments we use to mitigate risk.

The Group uses a variety of derivative financial instruments, including both exchange traded and over-the-counter instruments, in line with our overall risk management strategy. The objectives include managing exposure to market, foreign currency and/or interest rate risk on existing assets or liabilities, as well as planned or anticipated investment purchases.

In the narrative and tables below, figures are given for both the notional amounts and fair values of these instruments. The notional amounts reflect the aggregate of individual derivative positions on a gross basis and so give an indication of the overall scale of the derivative transaction. They do not reflect current market values of the open positions. The fair values represent the gross carrying values at the year end for each class of derivative contract held (or issued) by the Group.

The fair values do not provide an indication of credit risk, as many over-the-counter transactions are contracted and documented under ISDA (International Swaps and Derivatives Association, Inc.) master agreements or their equivalent. Such agreements are designed to provide a legally enforceable set-off in the event of default, which reduces credit exposure. In addition, the Group has collateral agreements in place between the individual Group entities and relevant counterparties. Refer to note 58 for further information on collateral and net credit risk of derivative instruments.

(a) Instruments qualifying for hedge accounting

The Group has formally assessed and documented the hedge effectiveness in accordance with IAS 39, *Financial Instruments: Recognition and Measurement.*

(i) Net investment hedges

To reduce its exposure to foreign currency risk, the Group has designated a portion of its euro denominated debt as a hedge instrument to hedge a net investment in its European subsidiaries. In 2016 additional euro denominated loans were designated as hedging instruments. The carrying value of the debt at 31 December 2016 was £2,774 million *(2015: £368 million)* and its fair value at that date was £2,918 million *(2015: £413 million).*

The foreign exchange loss of £34 million *(2015: gain of £42 million)* on translation of the debt to sterling at the statement of financial position date has been recognised in the hedging instruments reserve in shareholders' equity. This hedge was fully effective throughout the current and prior years.

57 – Derivative financial instruments and hedging continued

(ii) Cash flow hedges

The Group did not enter into any new cash flow hedges during the year. The cash flow hedge that the Group entered into in 2015 to hedge the currency exposure related to the acquisition of additional shares in Aviva Life Insurance Company India was terminated in the first half of 2016 upon the completion of the transaction. Consequently, associated gains amounting to £2 million previously recognised in shareholders' equity have been reclassified into the income statement.

(iii) Fair value hedges

There were no fair value hedges designated in the year.

(b) Derivatives not qualifying for hedge accounting

Certain derivatives either do not qualify for hedge accounting under IAS 39 or the option to designate them as hedge instruments has not been taken. These are referred to below as non-hedge derivatives.

(i) The Group's non-hedge derivatives at 31 December 2016 and 2015 were as follows:

	2016			2015		
	Contract/ notional amount £m	**Fair value asset £m**	**Fair value liability £m**	Contract/ notional amount £m	Fair value asset £m	Fair value liability £m
Foreign exchange contracts						
OTC						
Forwards	**11,976**	**96**	**(120)**	7,791	50	(186)
Interest rate and currency swaps	**7,441**	**148**	**(982)**	5,152	133	(346)
Options	**300**	**—**	**(23)**	4,800	28	(16)
Total	**19,717**	**244**	**(1,125)**	17,743	211	(548)
Interest rate contracts						
OTC						
Forwards	**—**	**—**	**—**	66	—	(1)
Swaps	**53,700**	**4,289**	**(3,148)**	48,682	1,907	(1,826)
Options	**164**	**3**	**(20)**	675	110	—
Swaptions	**1,090**	**189**	**(9)**	2,828	151	(22)
Exchange traded						
Futures	**5,384**	**47**	**(35)**	2,581	18	(16)
Total	**60,338**	**4,528**	**(3,212)**	54,832	2,186	(1,865)
Equity/Index contracts						
OTC						
Options	**1,714**	**33**	**(38)**	1,225	114	(15)
Exchange traded						
Futures	**9,618**	**94**	**(107)**	6,175	87	(113)
Options	**4,678**	**568**	**(9)**	4,414	370	(19)
Total	**16,010**	**695**	**(154)**	11,814	571	(147)
Credit contracts	**13,353**	**6**	**(260)**	12,968	10	(155)
Other	**28,614**	**646**	**(2,044)**	21,861	348	(1,166)
Total at 31 December	**138,032**	**6,119**	**(6,795)**	119,218	3,326	(3,881)

Fair value assets made up of £nil *(2015: £2 million)* in hedge derivatives and £6,119 million *(2015: £3,326 million)* in non-hedge derivatives are recognised as 'Derivative financial instruments' in note 26(a), while fair value liabilities are recognised as 'Derivative liabilities' in note 50.

The Group's derivative risk management policies are outlined in note 56.

(ii) The contractual undiscounted cash flows in relation to non-hedge derivative liabilities have the following maturities:

	2016 £m	2015 £m
Within 1 year	**1,075**	484
Between 1 and 2 years	**601**	564
Between 2 and 3 years	**578**	251
Between 3 and 4 years	**558**	227
Between 4 and 5 years	**406**	291
After 5 years	**4,154**	2,613
	7,372	4,430

(c) Collateral

Certain derivative contracts, primarily interest rate and currency swaps, involve the receipt or pledging of cash and non-cash collateral. The amounts of cash collateral receivable or repayable are included in notes 27 and 50 respectively. Collateral received and pledged by the Group is detailed in note 58.

58 – Financial assets and liabilities subject to offsetting, enforceable master netting agreements and similar arrangements

(a) Offsetting arrangements

Financial assets and liabilities are offset in the statement of financial position when the Group has a legally enforceable right to offset and has the intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously.

Aviva mitigates credit risk in derivative contracts by entering into collateral agreements, where practical, and in ISDA master netting agreements for each of the legal entities to facilitate Aviva's right to offset credit risk exposure. The credit support agreement will normally dictate the threshold over which collateral needs to be pledged by Aviva or its counterparty.

Derivative transactions requiring Aviva or its counterparty to post collateral are typically the result of over-the-counter derivative trades, comprised mostly of interest rate swaps, currency swaps and credit default swaps. These transactions are conducted under terms that are usual and customary to standard long-term borrowing, derivative, securities lending and securities borrowing activities. The derivative assets and liabilities in the table below are made up of the contracts described in detail in note 57.

Aviva participates in a number of stock lending and repurchase arrangements. In some of these arrangements cash is exchanged by Aviva for securities and a related receivable is recognised within 'Loans to Banks' (note 23). These arrangements are reflected in the tables below. In instances where the collateral is recognised on the statement of financial position, the obligation for its return is included within 'Payables and other financial liabilities'.

In other arrangements, securities are exchanged for other securities. The collateral received must be in a readily realisable form such as listed securities and is held in segregated accounts. Transfer of title always occurs for the collateral received. In many instances, however, no market risk or economic benefit is exchanged and these transactions are not recognised on the statement of financial position in accordance with our accounting policies, and accordingly not included in the tables below.

	Amounts subject to enforceable netting arrangements						
	Offset under IAS 32			Amounts under a master netting agreement but not offset under IAS 32			
2016	Gross amounts £m	Amounts offset £m	Net amounts reported in the statement of financial position £m	Financial instruments £m	Cash collateral £m	Securities collateral received / pledged £m	Net amount £m
Financial assets							
Derivative financial assets	**6,194**	**(827)**	**5,367**	**(3,577)**	**(921)**	**(336)**	**533**
Loans to banks and repurchase arrangements	**2,579**	**—**	**2,579**	**—**	**—**	**(2,579)**	**—**
Total financial assets	**8,773**	**(827)**	**7,946**	**(3,577)**	**(921)**	**(2,915)**	**533**
Financial liabilities							
Derivative financial liabilities	**(6,762)**	**827**	**(5,935)**	**3,649**	**474**	**1,360**	**(452)**
Other financial liabilities	**(2,779)**	**—**	**(2,779)**	**—**	**—**	**2,779**	**—**
Total financial liabilities	**(9,541)**	**827**	**(8,714)**	**3,649**	**474**	**4,139**	**(452)**

58 – Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements continued

	Amounts subject to enforceable netting arrangements						
	Offset under IAS 32			Amounts under a master netting agreement but not offset under IAS 32			
2015	Gross amounts £m	Amounts offset £m	Net amounts reported in the statement of financial position £m	Financial instruments £m	Cash collateral £m	Securities collateral received / pledged £m	Net amount £m
Financial assets							
Derivative financial assets	3,660	(836)	2,824	(1,793)	(640)	(243)	148
Loans to banks and repurchase arrangements	2,723	—	2,723	—	—	(2,723)	—
Total financial assets	6,383	(836)	5,547	(1,793)	(640)	(2,966)	148
Financial liabilities							
Derivative financial liabilities	(4,030)	836	(3,194)	1,884	388	543	(379)
Other financial liabilities	(2,219)	—	(2,219)	—	—	2,219	—
Total financial liabilities	(6,249)	836	(5,413)	1,884	388	2,762	(379)

Derivative assets are recognised as 'Derivative financial instruments' in note 26(a), while fair value liabilities are recognised as 'Derivative liabilities' in note 50. £752 million *(2015: £504 million)* of derivative assets and £860 million *(2015: £687 million)* of derivative liabilities are not subject to master netting agreements and are therefore excluded from the table above.

Amounts receivable related to securities lending and reverse-repurchase arrangements totalling £2,579 million *(2015: £2,723 million)* are recognised within 'Loans to banks' in note 23(a).

Other financial liabilities presented above represent liabilities related to repurchase arrangements recognised within 'Obligations for repayment of cash collateral received' in note 50.

(b) Collateral

In the tables above, the amounts of assets or liabilities presented in the consolidated statement of financial position are offset first by financial instruments that have the right of offset under master netting or similar arrangements with any remaining amount reduced by the amount of cash and securities collateral. The actual amount of collateral may be greater than amounts presented in the tables above in the case of over collateralisation.

The total amount of collateral received which the Group is permitted to sell or repledge in the absence of default was £22,559 million *(2015: £22,424 million)*, all of which other than £5,764 million *(2015: £2,588 million)* is related to securities lending arrangements. Collateral of £2,764 million *(2015: £2,915 million)* has been received related to balances recognised within 'Loans to banks' (refer to note 23). The value of collateral that was actually sold or repledged in the absence of default was £nil *(2015: £nil)*.

The level of collateral held is monitored regularly, with further collateral obtained where this is considered necessary to manage the Group's risk exposure.

59 – Related party transactions

This note gives details of the transactions between Group companies and related parties which comprise our joint ventures, associates and staff pension schemes.

The Group undertakes transactions with related parties in the normal course of business. Loans to related parties are made on normal arm's-length commercial terms.

Services provided to, and by related parties

	2016 Income earned in the year £m	2016 Expenses incurred in the year £m	2016 Payable at year end £m	2016 Receivable at year end £m	2015 Income earned in the year £m	2015 Expenses incurred in the year £m	2015 Payable at year end £m	2015 Receivable at year end £m
Associates	**4**	**(3)**	**—**	**—**	9	(7)	—	—
Joint ventures	**46**	**—**	**—**	**2**	27	—	—	192
Employee pension schemes	**16**	**—**	**—**	**5**	13	—	—	3
	66	**(3)**	**—**	**7**	49	(7)	—	195

Transactions with joint ventures in the UK relate to the property management undertakings, the most material of which are listed in note 18(a)(iii). Our interest in these joint ventures comprises a mix of equity and loans, together with the provision of administration services and financial management to many of them. Our UK life insurance companies earned interest on loans advanced to these entities, which were fully repaid in 2016. Movements on these loans may be found in note 18(a)(i). Our fund management companies also charge fees to these joint ventures for administration services and for arranging external finance.

Key management personnel of the Company may from time to time purchase insurance, savings, asset management or annuity products marketed by group companies on equivalent terms to those available to all employees of the Group. In 2016 and 2015, other transactions with key management personnel were not deemed to be significant either by size or in the context of their individual financial positions.

Our UK fund management companies manage most of the assets held by the Group's main UK staff pension scheme, for which they charge fees based on the level of funds under management. The main UK scheme holds investments in Group-managed funds and insurance policies with other group companies, as explained in note 48(b)(ii). As at 31 December 2016, the Friends Provident Pension Scheme ('FPPS'), acquired in 2015 as part of the acquisition of the Friends Life business, held an insurance policy of £633 million *(2015: £546 million)* issued by a group company, which eliminates on consolidation.

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

Key management compensation

The total compensation to those employees classified as key management, being those having authority and responsibility for planning, directing and controlling the activities of the Group, including the executive and non-executive directors is as follows:

	2016 £m	2015 £m
Salary and other short-term benefits	**14.6**	13.3
Other long-term benefits	**5.3**	5.2
Post-employment benefits	**1.5**	1.7
Equity compensation plans	**9.3**	10.6
Termination benefits	**—**	2.0
Total	**30.7**	32.8

Information concerning individual directors' emoluments, interests and transactions is given in the Directors' Remuneration Report.

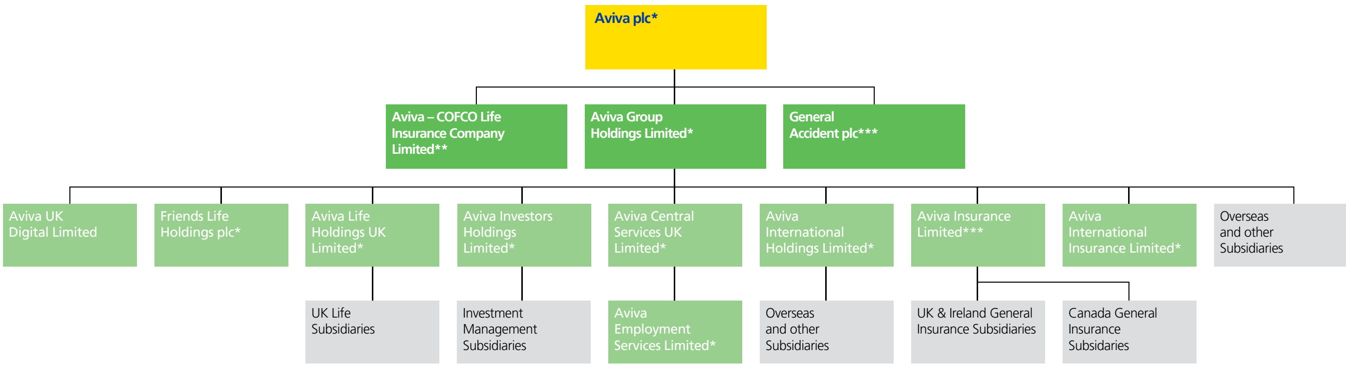
60 – Organisational structure

The following chart shows, in simplified form, the organisational structure of the Group as at 31 December 2016. Aviva plc is the holding company of the Group.

Parent company
Aviva plc

Subsidiaries
The principal subsidiaries of the Company at 31 December 2016 are listed below by country of incorporation.

A complete list of the Group's related undertakings comprising of subsidiaries, joint ventures, associates and other significant holdings is contained within note 61.



* Incorporated in England and Wales
** Incorporated in People's Republic of China.
***Incorporated in Scotland

United Kingdom
Aviva Annuity UK Limited
Aviva Central Services UK Limited
Aviva Employment Services Limited
Aviva Equity Release UK Limited
Aviva Health UK Limited
Aviva Insurance Limited
Aviva International Insurance Limited
Aviva Investors Global Services Limited
Aviva Investors Pensions Limited
Aviva Investors UK Fund Services Limited
Aviva Investors UK Funds Limited
Aviva Life & Pensions UK Limited
Aviva Life Services UK Limited
Aviva Pensions Trustees UK Limited
Aviva UK Digital Limited
Aviva Wrap UK Limited
Gresham Insurance Company Limited
The Ocean Marine Insurance Company Limited
Friends Life Limited
Friends Life and Pensions Limited
Friends Life Management Services Limited
Friends Life Services Limited
Friends Provident International Limited

Barbados
Victoria Reinsurance Company Ltd

Bermuda
Aviva Re Limited

Canada
Aviva Canada Inc. and its principal subsidiaries:
- Aviva Insurance Company of Canada
- Aviva General Insurance Company (Note 3)
- Elite Insurance Company
- Pilot Insurance Company
- Scottish & York Insurance Co. Limited
- S&Y Insurance Company
- Traders General Insurance Company

France
Aviva France SA (99.99%) and its principal subsidiaries:
- Antarius S.A. (50%)[1]
- Aviva Assurances S.A. (99.9%)
- Aviva Investors France S.A. (99.9%)
- Aviva Vie SA (99.9%)
- Aviva Epargne Retraite (99.9%)
- Union Financière de France Banque (Banking) (74.3%)

Hong Kong[1]
Aviva Life Insurance Company Limited

1 Refer to Note 3(d) for further details in respect of Antarius and Aviva Hong Kong

IFRS Financial statements

60 – Organisational structure continued

Italy
Aviva Italia Holding S.p.A and its principal subsidiaries:
Avipop Assicurazioni S.p.A (50%)
Avipop Vita S.p.A (50%)
Aviva S.p.A (51%)
Aviva Assicurazioni Vita S.p.A (80%)
Aviva Italia S.p.A
Aviva Life S.p.A
Aviva Vita S.p.A (80%)

Lithuania
Uždaroji akcinė gyvybės draudimo ir pensijų bendrovė 'Aviva Lietuva'

Poland
Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK S.A. (81%)
Aviva Towarzystwo Ubezpieczen na Zycie SA (90%)
Aviva Towarzystwo Ubezpieczen Ogolnych SA (90%)

Singapore
Aviva Ltd
Navigator Investment Services Limited

Spain
Aviva Vida y Pensiones, SA de seguros y reaseguros
Caja Espana Vida, Compania de Seguros y Reaseguros (50%)
Caja Granada Vida, de Seguros y Reaseguros, S.A. (25%)
Unicorp Vida, Compania de Seguros y Reaseguros (50%)
Caja Murcia Vida y Pensiones, de Seguros y Reaseguros S.A. (50%)

Branches
The Group also operates through branches, the most significant of which is based in Ireland.

Associates and joint ventures
The Group has ongoing interests in the following operations that are classified as joint ventures or associates. Further details of those operations that were most significant in 2016 are set out in notes 18 and 19 to the financial statements.

United Kingdom
The Group has interests in several property limited partnerships. Further details are provided in notes 18, 19 and 25 to the financial statements.

China
Aviva-COFCO Life Insurance Co. Limited (50%)

India
Aviva Life Insurance Company India Limited (49%)

Indonesia
PT Astra Aviva Life (50%)

Poland
BZ WBK – Aviva Towarzystwo Ubezpieczen Ogolnych S.A. (51%)
BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie Spółka Akcyjna (51%)

Taiwan
First-Aviva Life Insurance Co. Limited (49%)

Turkey
AvivaSA Emeklilik ve Hayat A.S (40%)

Vietnam
Vietinbank Aviva Life Insurance Company Limited (50%)

Subsequent events
On 9 November 2016 the UK Life Board approved the transfer of the whole of the long-term business of Aviva Annuity UK Limited to its parent undertaking Aviva Life & Pensions UK Limited through an insurance business transfer scheme under Part VII of the Financial Services and Markets Act 2000 (the 'Part VII Transfer'). The Part VII transfer was ratified by the High Court on 6 December 2016 and became effective on 1 January 2017.

61 – Related Undertakings

The Companies Act 2006 requires disclosure of certain information about the Group's related undertakings which is set out in this note. Related undertakings comprise subsidiaries, joint ventures, associates and other significant holdings. Significant holdings are where the Group either has a shareholding greater than or equal to 20% of the nominal value of any share class, or a book value greater than 20% of the Group's assets.

The definition of a subsidiary undertaking in accordance with the Companies Act 2006 is different from the definition under IFRS. As a result, the related undertakings included within the list below may not be the same as the undertakings consolidated in the Group IFRS financial statements. Refer to accounting policies (D) Consolidation principles for further detail on principles of consolidation and definition of joint ventures.

The Group's related undertakings along with the country of incorporation, the registered address, the classes of shares held and the effective percentage of equity owned at 31 December 2016 are disclosed below.

The direct related undertakings of the Company as at 31 December 2016 are listed below.

Name of undertaking	Country of incorporation	Registered address	Share class	% held
Aviva-COFCO Life Insurance Company Ltd[2]	China	12/F,Block A,Landgent Centre, 20 East Third Ring Middle Road, Beijing, 100022	Ordinary shares	50
General Accident plc	United Kingdom	Pitheavlis, Perth, Perthshire, PH2 0NH	Ordinary shares	100
Aviva Group Holdings Limited	United Kingdom	St Helen's, 1 Undershaft, London, EC3P 3DQ	Ordinary shares	100

The indirect related undertakings of the Company as at 31 December 2016 are listed below.

Company name	Share Class	% held
Australia		
c/o Tmf Corporate Services (Aust) Pty Ltd, L16, 201 Elizabeth Street, Sydney 2000		
Aviva Investors Pacific Pty Ltd	Ordinary Shares	100
Austria		
Praterstrasse 62-64, 1020 Vienna		
Sequin Holding GmbH	Ordinary Shares	85
Barbados		
c/o USA Risk Group (Barbados) Ltd., 6th Floor, CGI Tower, Warrens, St. Michael, Bb22026		
Victoria Reinsurance Company Ltd.	Common Shares	100
Bermuda		
Mintflower Place, 3rd Floor, 8 Par-La-Ville Road, Hamilton, HM 08		
ORN Capital Management (Bermuda) Ltd.	Ordinary Shares	100
Canon's Court, 22 Victoria Street, Hamilton, HM12		
Aviva Re Limited	Ordinary Shares	100
Trinity Hall, 43 Cedar Avenue, Hamilton Hm 12		
Lend Lease Jem Partners Fund Limited	Ordinary Shares	23
Canada		
100 King Street West, Floor 49, Toronto On M5X 2A2		
Aviva Investors Canada Inc.	Common Shares	100
2206 Eglinton Avenue East, Scarborough On M1L 4S8		
9543864 Canada Inc.	Common Shares	100
Aviva Canada Inc.	Class A, Class B, Common, & New Common Shares	100
Aviva General Insurance Company	Common Shares	100
Aviva Insurance Company of Canada	Common Shares	100
Aviva Warranty Services Inc.	Common Shares	100
Elite Insurance Company	Common Shares	100
Insurance Agent Service Inc.	Common Shares	100
National Home Warranty Group Inc.	Common Shares	100
Ois Ontario Insurance Service Limited	Common Shares	100
Pilot Insurance Company	Common Shares	100
S&Y Insurance Company	Common Shares	100
Scottish & York Insurance Co. Limited	Common Shares	100
Traders General Insurance Company	Common Shares	100
Wayfarer Insurance Brokers Limited	Common Shares	100
100, 10325 Bonaventure Drive S.E., Calgary T2J 7E4		
A-Win Insurance Ltd.	Ordinary Shares	100
328 Mill Street, Unit 11, Beaverton L0K 1A0		
Bay-Mill Specialty Insurance Adjusters Inc.	Common Shares	100
555 Chabanel Ouest, Bureau 900, Montreal QC H2N 2H8		
Aviva Agency Services Inc.	Common A Shares	100
600 Cochrane Drive, Suite 205, Markham On L3R 5K3		
Westmount Guarantee Services Inc.	Common A Shares	33
480 University Avenue, Suite 800, Toronto On M5G 1V2		
LMS Prolink Limited[2]	Common A Shares	34
Cayman Islands		
115 East 57th Street, Suite 1019,New York NY 10022		
Belmont Global Opportunity Fund	Mutual Fund	22
Belmont Global Trend Fund Ltd	Mutual Fund	22
c/o Maricorp Services Ltd PO Box 2075GT George Town, Grand Cayman Cayman Islands		
Victory Arcadia Fund	OEIC	57
China		
Units 1805-1807, 18th Floor, Block H Office Building, , Phoenix Land Plaza, No. A5 Yard, Shuguangxili, Chaoyang District, Beijing		
Aviva-Cofco Yi Li Asset Management Co Ltd	Ordinary Shares	21
Unit 9-11, Floor 53th, Shanghai IFC, No.8 Century Avenue		
Harvest Fengyi Strategic Regular Open Bond Fund	Unit Trust	61
Harvest CSI Consumer Staples ETF	Unit Trust	60
Czech Republic		
Rohankse, Nablezi,678/25, Prague 8-Karlin, PC 186 00		
Riga Office East S.R.O.	Ordinary Shares	7
1 Praha, Olivova 2069/4, PSC 110 00		
Sachsenfonds Asset Management Czech S.R.O.	Ordinary Shares	100
5/482, Ve Svahu, Prague 4, 14700		
Aieref Renewable Energy S.R.O.	Ordinary Shares	99
France		
24 Rue de la Pépinière, 75008 Paris		
Afer Actions Amerique FCP	FCP	100
Afer Actions Euro A	FCP	100
Afer Actions Euro I	FCP	100
Afer Actions Monde	FCP	100
Afer Convertibles C.	FCP	100
Afer Diversifie Durable	FCP	100
Afer Marches Emergents FCP	FCP	100
Afer Objectif 2017 FCP	FCP	100
Afer Obl Md Ent C.	FCP	100
Afer Patrimoine	FCP	100
Afer-Flore	FCP	95
Aviv.Inv.Sm.&Mid Cap.Eur.	FCP	100
Aviva Diversifie	SICAV	95
Aviva Actions Croissance	FCP	100
Aviva Actions Euro	FCP	98
Aviva Actions Europe	FCP	100
Aviva Actions France	FCP	81
Aviva Amerique	FCP	99
Aviva Asie	FCP	100
Aviva Convertibles	SICAV	91
Aviva Conviction Opportunites	FCP	100
Aviva Conviction Patrimoine	FCP	100
Aviva Developpement	SICAV	99
Aviva Eur Corp Senior Debts	Mutual Fund	100
Aviva Europe	SICAV	96
Aviva Flexible C.	Mutual Fund	100
Aviva Flexible Emergents A FCP	FCP	100
Aviva Flexible Emetgents I FCP	FCP	100
Aviva France Opportunites	FCP	96
Aviva Grandes Marque	FCP	100
Aviva Grandes Marque A C.	FCP	99
Aviva Interoblig	FCP	100
Aviva Investors Actions Euro	FCP	90
Aviva Investors Alpha Taux A	Mutual Fund	100
Aviva Investors Alpha Yield	FCP	96
Aviva Investors Britannia (D)	SICAV	100

Company name	Share Class	% held
Aviva Investors Conviction	FCP	100
Aviva Investors Inflation Euro	FCP	95
Aviva Investors Inflation Euro	FCP	97
Aviva Investors Japon	FCP	100
Aviva Investors Monetaire (C)	SICAV	60
Aviva Investors Monetaire (D)	FCP	95
Aviva Investors Monetaire (P)	FCP	100
Aviva Investors Portefeuille	FCP	100
Aviva Investors Reference Div	FCP	100
Aviva Investors Reserve Europe	FCP	70
Aviva Investors Selection	FCP	100
Aviva Investors Small & Mid Ca	FCP	100
Aviva Investors Valeurs	FCP	100
Aviva Investors Valeurs Europe	FCP	90
Aviva Investors Valorisation	FCP	100
Aviva Japon	FCP	100
Aviva Messine 5	FCP	100
Aviva Monetaire Isr (A)	FCP	97
Aviva Monetaire Isr (I)	FCP	87
Aviva Multigestion	FCP	99
Aviva Multigestion A International	FCP	100
Aviva Oblig International	SICAV	91
Aviva Oblirea	SICAV	97
Aviva Patrimoine	SICAV	96
Aviva Performance	FCP	100
Aviva Performance Divers.	FCP	100
Aviva Rebond Part A	FCP	98
Aviva Rendement Europe	SICAV	97
Aviva Repo FCP	FCP	100
Aviva Selection Opportunites	FCP	99
Aviva Selection Patrimoine	FCP	98
Aviva Signatures Europe	FCP	100
Aviva Structure Index3	Mutual Fund	100
Aviva Valeurs Francaises	SICAV	99
Aviva Valeurs Immobilieres	SICAV	72
Aviva Valeurs Responsable A	FCP	98
Aviva Valorisation Opportunite	FCP	99
Aviva Valorisation Patrimoine	FCP	99
Diversifie 0-70 M	FCP	86
Obligations 5-7 M	FCP	70
Rendement Diversifie M	FCP	96
UFF Cap Defensif	FCP	100
UFF Diversifie 0-70 A	FCP	100
UFF Eu-Val 0-100 A C.	FCP	99
UFF Obligations 5-7 A	FCP	100
UFF Rendement Diversifie A	FCP	100
Afer-Sfer	SICAV	100
Aviva Investors Eu Cr B 1-3 Hd	FCP	75
Aviva Investors Euro Credit Bonds	FCP	89
Aviva Investors Euro Crédit Bonds 1-3 Hdr	FCP	63
Aviva Investors Inflation Euro Hd FCP	FCP	90
Aviva Structure Index 4 C.	Mutual Fund	100
Aviva Investors Eu Aggr A C.	FCP	80
Aviva Investors Eur Cre Bd	FCP	79
Aviva Investors Yield Curve Abs Ret	FCP	93
Aviva Investors Yield Curve Abs Rt R	FCP	100
Aviva Investors.E.Aggr.I	FCP	99
Aviva Investors Credit Europe(C)	FCP	62
Aviva Investors Credit Europe(D)	FCP	81
Aviva Structure Index 2	FCP	100
Aviva Structure Index 1 C.	FCP	100
Aviva Valeurs Responsible Par I	FCP	100
32, avenue d'Iéna, 75116 Paris		
Actions France M	FCP	68
Aviva Capital Planete FCP	FCP	98
Capital Planete	FCP	88
Croissance Patrimoine Maitre	FCP	99
E Aberdeen Mix.Emer.A FCP4Dec	FCP	91
E Act.Eur.0-100 Carmign.A FCP	FCP	51
E Actions Environnement	FCP	66
E Actions Eurozone Aviva A FCP	FCP	73
E Ccr Act Pme Eur A C.	FCP	64
E Echiquier Act.France A FCP	FCP	43
E Multitalents A FCP	FCP	49
E Schroders Acts Monde He A	FCP	66
Emergence M	FCP	99
Euro-Valeur Maitre	FCP	64
Gestion Flexible 0-100 M	FCP	100
Gestion Flexible 0-30 M	FCP	100
Gestion Flexible 0-70 M	FCP	100
Grande Europe 0-100 M	FCP	100
Liberty M FCP	FCP	100
Myria Concept Actions Europe	FCP	66
Myria Concept Multistars	FCP	100
UFF Action Fce A 4D C.	FCP	100
UFF Actions France I	FCP	100
UFF Avenir Euro-Valeur	FCP	100
UFF Capital Diversifie	FCP	48
UFF Capital Planete A	FCP	100
UFF Croissance Patrimone A	FCP	100
UFF Emergence A	FCP	100
UFF Emergence I	FCP	100
UFF Gde Eur 0-100 A	FCP	99

Company name	Share Class	% held
UFF Gestion FI 0-100 A	FCP	99
UFF Gest FI 0-30 A	FCP	98
UFF Gest FI 0-70 A	FCP	99
UFF Gestion Flexible 0-100 I	FCP	100
UFF Gestion Flexible 0-70 I	FCP	100
UFF Global Multi-Strategies A	FCP	100
UFF Grande Europe 0-100 I	FCP	100
UFF Liberty A	FCP	100
UFF Liberty I	FCP	100
UFF Select Prem A	FCP	98
UFF Select Alpha A C.	FCP	99
UFF Selection Premium I	FCP	100
5/7 rue de Monttessuy, 75007 Paris		
Elite 1818 Securite SICAV	SICAV	20
112 Avenue Kleber, 75784, Paris		
Encore+French Opci	Ordinary Shares	7
SCI 69 Haussmann	Ordinary Shares	7
59 Boulevard Haussmann 75008 Paris		
Antarius	Ordinary € 16 Shares	50
83-85 Avenue Marceau, 75008, Paris, France		
Primonial Real Estate Investment Management	Ordinary	25
Ufifrance Immobilier	Ordinary Shares	20
90, Boulevard Pasteur, 75015, Paris		
Etoile Garanti Février 2020	FCP	89
Etoile Multi Gestion France	FCP	63
Etoile Patrimoine	FCP	40
Antarius Obli 1-3 Ans	FCP	100
Etoile Banque Europe	FCP	25
Etoile Tmt Europe	FCP	22
Etoile Multi Gestion Actifs	FCP	50
Etoile Multi Gestion Actifs Plus	FCP	55
Etoile Patrimoine 20	FCP	24
Etoile Patrimoine 70	FCP	34
Etoile Patrimoine 50	SICAV	59
Etoile Actions Opportunités	FCP	23
Etoile Actions Us	FCP	38
Etoile Actions Rendement	FCP	40
Etoile Multi Gestion Etats-Unis	FCP	64
Etoile Actions Styles	FCP	39
Etoile Consommation Europe	FCP	37
Etoile Energie Europe	FCP	36
Etoile Industrie Europe	FCP	26
Etoile Santé Europe	FCP	52
Etoile Multi Gestion Europe	FCP	44
Antarius Fonds Actions Plus	FCP	100
Antarius Fonds Obligataire	FCP	100
Etoile Valeurs Moyennes	FCP	45
Etoile Trésorerie	FCP	21
Antarius Rotation Sectorielle	FCP	97
Etoile Multi Gestion Monde	FCP	61
Etoile Multi Gestion USA	FCP	22
Etoile Obli Taux Plus	FCP	54
Etoile Garanti Avril 2018	FCP	53
Etoile Garanti Juillet 2018	FCP	59
Etoile Cliquet 90	FCP	62
Etoile Convertibles	FCP	38
Etoile Matières Premières	FCP	56
53 avenue d'Iéna, 75116, Paris		
UFF Tremplin Patrimoine A	FCP	100
37, Avenue des Champs Elysées, 75008, Paris		
Bellatrix	SICAV	83
Europe Israël Croissance	SICAV	85
Sirius	SICAV	97
Bételgeuse	SICAV	92
La Défense 9, 6 place de la Pyramide, 928000, Puteaux		
Axa Première Catégorie	SICAV	33
91 – 93, Boulevard Pasteur, 75015		
Etoile Asie Pacifique	SICAV	45
Amundi Inflation Monde	FCP	21
33, rue Marbeuf, 75008, Paris		
Equilibre Patrimoine	SICAV	52
20, Place Vendôme, 75001, Paris		
AXA Lbo Fund Iv Feeder	Private Equity Fund	39
AXA UK Infrastructure Investment SAS	Ordinary Shares	100
Croissance Patrimoine A C.	Mutual Fund	100
90, Boulevard Pasteur, 75015, Paris		
Aviva Actions S2 C.	FCP	100
Aviva Couv Actions C.	FCP	100
13, Avenue le Brun, 92160, Antony		
SCPI Pierrevenus	Ordinary Shares	84
19, Avenue de Suffren, 75007, Paris		
SCPI UFI France Immobilier	Ordinary Shares	20
OPCI Preim Retail 1	Property Fund	34
1, Boulevard Haussmann, 75009, Paris		
AFER Actions Patrimoine	FCP	59
AFER Actions Patrimoine I	FCP	100
11, Cours Valmy, 92800, Puteaux		
Helios AI	Mutual Fund	100
14, Rue Roquépine, 75008, Paris		

Company name	Share Class	% held
OPCI Logiprime	Property Fund	100
41, Rue du Capitaine Guynemer, 92400, Courbevoie		
SCPI Logipierre 1	Ordinary Shares	44
SCPI Sélectipierre 2	Ordinary Shares	29
47, Rue du Faubourg Saint-Honoré, 75008, Paris		
Aviva Sélection	FCP	100
L'Antenne	FCP	99
UFF Context High Yield Long Terme	FCP	91
Diapason 1	FCP	86
153, Boulevard Haussmann, 75008, Paris		
Selectus	FCP	100
39, Avenue Pierre 1er de Serbie, 75008, Paris		
Axiom Obligat J C.	FCP	100
128, Boulevard Raspail, 75006, Paris		
UFF Oblicontext 2021 A	FCP	99
UFF Pétrocontext	FCP	100
UFF Obligations 3-5 A	FCP	87
UFF Oblicont 2023 A C.	FCP	98
9, Rue Jadin, 75017, Paris		
Opci Résidial	Property Fund	35
18, Place de la Madeleine, 75008, Paris		
Icamap Investors FPS	Mutual Fund	50
24 – 26, rue de la Pepiniere, 75008, Paris		
Sapphire Actipark S.C.I.	Ordinary Shares	100
Sapphire Ile De France Sci	Ordinary Shares	100
Sapphire Lyon S.C.I.	Ordinary Shares	100
4 Rue Marivaux,75002, Paris		
7-13 Boulevard Paul Emile Victor S.A.R.L	Ordinary Shares	7
French Core + Two S.A.R.L	Ordinary Shares	7
SAS Core + Metz	Ordinary Shares	7
SAS Core + Tour Franklin	Ordinary Shares	7
SAS Core + Tour Franklin 2	Ordinary Shares	7
SCI Aix En Provence	Ordinary Shares	7
SCI Bondy Nord	Ordinary Shares	7
SCI Buchelay 78	Ordinary Shares	7
SCI Cormontreuil	Ordinary Shares	7
62 Rue de la Chaussee d'Antin, 75009, Paris		
GEBPF Business Park (France) SARL	Ordinary Shares	100
GEBPF Marseille (France) SARL	Ordinary Shares	100
Vauban Developpement SARL	Ordinary Shares	100
14 Rue Roquépine, 75008, Paris		
Aviva Investors France S.A	Ordinary Shares	100
24 – 26, Rue De La Pepiniere, 75008 Paris		
Aviva Investors Real Estate France S.A.	Ordinary Shares	100
Aviva Investors Real Estate Sgp	Ordinary Shares	100
13 Rue Du Moulin Bailly, 92270, Bois Colombes		
11 Rue De L'Echelle	Ordinary Shares	100
Agents 3A	Ordinary Shares	50
Aviva Assurances, Société Anonyme D'Assurances Incendie, Accidents Et Risques Divers	Ordinary Shares	100
France Santé Courtgae	Ordinary Shares	100
JMVF	Ordinary Shares	100
PG Finances	Ordinary Shares	100
80 Avenue De L'Europe, 92270 Bois-Colombes		
Aviva France	Ordinary Shares	100
Aviva Solutions	Ordinary Shares	100
Croissance Pierre Ii	Ordinary Shares	100
Locamat SAS	Ordinary Shares	100
Newco	Ordinary Shares	100
Selectinvie – Societe Civile Immobiliere	Ordinary Shares	100
Selectipierre – Société Civile	Ordinary Shares	100
Societe Concessionaire Des Immeubles De La Pepiniere	Ordinary Shares	100
Victoire Immo 1- Société Civile	Ordinary Shares	100
Voltaire S.A.S	Ordinary Shares	100
Groupement D'Interet Economique Du Groupe Aviva France	Ordinary Shares	100
70 Avenue De L'Europe, 92270 Bois-Colombes		
Aviva Epargne Retraite	Ordinary Shares	100
Aviva Investissements	Ordinary Shares	100
Aviva Vie, Société Anonyme D'Assurances Vie Et De Capitalisation	Ordinary Shares	100
Epargne Actuelle	Ordinary Shares	100
Innov'Now	Ordinary Shares	100
SCI Pesaro	Ordinary Shares	90
Société Civile Immobilière Carpe Diem	Ordinary Shares	50
Societe Civile Immobiliere Charles Hermite	Ordinary Shares	100
Societe Civile Immobiliere Montaigne	Ordinary Shares	100
12 Place Des Etats-Unis, 92545, Montrouge Cedex		
SCI Campus Medicis St Denis	Ordinary Shares	30
SCI Campus Rimbaud St Denis	Ordinary Shares	30

Company name	Share Class	% held
32 Avenue D'Iena, 75016 Paris		
CGP Entrepreneurs	Ordinary Shares	74
Ufifrance Gestion	Ordinary Shares	74
Ufifrance Patrimoine	Ordinary Shares	74
Union Financière De France Banque	Ordinary Shares	74
Myria Asset Management	Ordinary Shares	74
24-26 Rue De La Pépinière, 75008, Paris		
AFER Immo	Ordinary Shares	100
AFER Immo 2	Ordinary Shares	100
Aviva Commerce Europe	Ordinary	100
Aviva Patrimoine Immobilier	Ordinary Shares	100
Logiprime Europe	Ordinary A Shares	100
Primofin	Ordinary	99
Primotel Europe	Ordinary Shares	99
SCI Aviva Immo Selection	Ordinary Shares	100
SCI La Coupole Des Halles	Ordinary Shares	100
Société Civile Immobilière Thomas Edison	Ordinary Shares	50
37 Avenue Des Champs Elysées, 75008, Paris		
Bellatrix	Ordinary A Shares, Ordinary B Shares	84
Betelgeuse (SICAV)	Ordinary Shares	92
Europe Israel Croissance (SICAV)	Ordinary Shares	85
Sirius (SICAV)	Ordinary Shares	96
Société Française De Gestion Et D'Investissement	Ordinary B Shares	57
41 Rue Capitaine Guynemer , 92400, Courbevoie		
Logipierre 1	Ordinary Shares	44
Selectipierre 2	Ordinary Shares	29
13, Avenue Lebrun, 92188, Antony Cedex		
Pierrevenus	Partner Shares	82
7 Rue Auber, 75009 Paris		
VilP Conseils	Ordinary Shares	34
102 C Rue Amelot, 75011, Paris		
Aviva Impact Investing France	Ordinary Shares	100
3 Rue Alexandre Fleming , 92260, Fontenay-Aux-Roses		
Kroknet S.A.R.L.	Ordinary Shares	75
17 Rue Du Cirque, 75008, Paris		
Financiere Du Carrousel	Ordinary Shares	74
9, rue du Débarcadère, CPC 03A2, 93761, Pantin Cedex		
Aviva Eur Corp Senior Debts	Mutual Fund	100
FCT Artemid Senior Loan	Mutual Fund	21
242, Rue de Rivoli, 75001, Paris		
Capza Priv Debt 2 A C.	UCITS	100

Germany

Company name	Share Class	% held
Eschenheimer Anlage 1, 60316, Frankfurt		
Reschop Carré Hattingen GmbH	Ordinary Shares	95
Reschop Carré Marketing GmbH	Ordinary Shares	100
Max-Planck-Strasse, 3,85609 Aschheim-Dornach		
Asf German Retail GmbH & Co. Kg	Ordinary Shares	98
German Retail I GmbH	Ordinary Shares	98
German Retail Ii GmbH	Ordinary Shares	98
German Retail Investment Properties SARL	Ordinary Shares	98
German Retail Iv GmbH	Ordinary Shares	98
German Retail Ix GmbH	Ordinary Shares	98
German Retail V GmbH	Ordinary Shares	98
German Retail Vii GmbH	Ordinary Shares	98
German Retail Viii GmbH	Ordinary Shares	98
Sachsenfonds Asset Management GmbH	Ordinary Shares	100
Peter-Muller Strasse 10, 40468, Dusseldorf		
Goodman Business Park Fund Dusseldorf Development Verwaltungs GmbH	Ordinary Shares	100
c/o Wswp Weinert GmbH, Theatinerstr. 31, 80333, Munich		
FPB Holdings GmbH	Series A Shares, Series B Shares	100

Guernsey

Company name	Share Class	% held
Trafalgar court, Les Banques st peter port GY1 3QL		
Axa Property Trust Limited	Ordinary Shares	24
F&C Commercial Property Trust Limited	Ordinary Shares	21
Po Box 25, Regency Court, Glategny Esplanade, St Peter Port, GY1 3AP, Guernsey		
FLG Holdings Limited	Ordinary Shares	100
Friends Life Group Limited	Ordinary Shares	100
MitonOptimal Guernsey Limited, PO Box 141, La Tonnelle House, Les Banques, St Sampson, GY1 3HS		
MitonOptimal Rhodium GBP Fund	Unit Trust	73
MitonOptimal Rhodium Singapore $ Fund	Unit Trust	99
MitonOptimal Core Diversified US$ E Fund	Unit Trust	46
MitonOptimal Core Diversified GBP E Fund	Unit Trust	29
MitonOptimal Core Diversified Sing$ E Fund	Unit Trust	22

Company name	Share Class	% held
MitonOptimal Special Situations USD E Fund	Unit Trust	25
MitonOptimal Special Situations GBP E Fund	Unit Trust	24
MitonOptimal Special Situations SGD E Fund	Unit Trust	49
Guernsey International Management Co Dorey Court, Admiral Park, St Peter Port, GY1 2HT		
The Fincrest Global Equity Fund	OEIC	37
First Meridian Cautious Balanced Fund GBP	OEIC	38
First Meridian Cautious Balanced Fund USD	OEIC	25
PO Box 287, 4th Floor, West Wing, Trafalgar Court, Admiral Park, St Peter Port, GY1 3RL		
WSF Asian Pacific Fund	OEIC	21
St Martin's House, Le Bordage , St Peter Port		
Paragon Insurance Company Guernsey Limited	Ordinary Shares	47

Hong Kong

Company name	Share Class	% held
21st Floor, Chater House, 8 Connaught Road Central		
JPMorgan Indonesia Fund	SICAV	35
6th Floor, Alexandra House, 18 Chater Road, Central		
Aviva Life Insurance Company Limited	Ordinary Shares	100

India

Company name	Share Class	% held
Pune Office Addresses 103/P3, Pentagon, Magarpatta City, Hadapsar, Pune – 411013		
A.G.S. Customer Services (India) Private Limited	Ordinary Shares	100
Jaisingh Business Centre, Firs, 101 119/120 Passiwada Salam Road, Off Western Express Highway, Andhari East, Mumbai, 400099		
Aviva Investment Advisory Services Private Limited	Equity Shares	100
2nd Floor, Prakash Deep Building 7, Tolstoy Marg, New Delhi, Delhi, 110001		
Aviva Life Insurance Company India Limited	Ordinary Shares	49
CGU Project Services Private Limited	Rs.10 Shares	100
A-47 (L.G.F), Hauz Khas, New Delhi		
Sesame Group India Private Limited	Ordinary Shares	100

Indonesia

Company name	Share Class	% held
Pondok Indah Office Tower 3, 1st Floor, Jl. Sultan Iskandar Muda Kav. V-Ta, Pondok Indah, Jakarta Selatan, Jakarta, 12310		
Pt Astra Aviva Life[2]	Ordinary Shares	50

Ireland

Company name	Share Class	% held
22 Sir John Rogerson's Quay		
Legal & General Multi-Index Euro ICAV	ICAV	34
Guild House, Guild Steet, IFRS, Dublin 1		
Aviva Irl Merrion Exempt Trust – Managed Fund	Unit Trust	43
One Park Place, Hatch Street, Dublin 2		
Area Life International Assurance Designated Activity Company	A Shares, B Shares	100
Aviva Direct Ireland Limited	Ordinary Shares	100
Aviva Driving School Ireland Limited	Ordinary Shares	100
Aviva Group Ireland Plc	Ordinary Shares	100
Aviva Group Services Ireland Limited	Ordinary Shares	100
Aviva Undershaft Five Limited	Ordinary Shares	70
Aviva Investors Ireland Holdings Limited	Ordinary Shares	100
Aviva Investors Ireland Limited	Ordinary Shares	100
Aviva Life Holdings Ireland Limited	Ordinary Shares	100
Aviva Life Services Ireland Limited	Ordinary Shares	100
Aviva Services Payment Limited	Ordinary Shares	100
Aviva Trustee Company Ireland Limited	Ordinary Shares	100
Aviva Undershaft Four Limited	Ordinary Shares	100
Aviva Undershaft One Se	Ordinary Shares	100
Aviva Undershaft Three Se	Ordinary Shares	100
Knockanevin Limited	Ordinary Shares	100
Peak Re Limited	Ordinary Shares	100
Aviva Europe Services EEIG	Ordinary Shares	100
GAM Star Fund p.l.c., George's Court, 54-62 Townsend Street, Dublin 2		
GAM Star Growth	OEIC	23
Riverside Two, Sir John Rogerson's Quay, Grand Canal Dock, Dublin 2		
Legg Mason Martin Currie Global Resources Fund	OEIC	35
75 St. Stephen's Green, Dublin		
Stoxx Europe 600 Optimised Media Source ETF-Vcic	SICAV	20
George's Court, Mr William Roberts, 54-62 Townsend Street, Dublin 2		
FPPE – Private Equity	Ordinary Shares	100
25-28 North Wall Quay, Dublin 1		
Aviva Investors Sterling Liquidity Fund	OEIC	42
Central Quay, Riverside IV4, Sir John Rogerson's Quay, Dublin 2		
Invesco Global Health Care Fund	Unit Trust	26
Invesco Global Technology Fund	Unit Trust	27
Invesco Emerging Markets Equity Fund	Unit Trust	26
Invesco Funds Series – Invesco UK Equity Fund	Unit Trust	27
Invesco Global Select Equity Fund	Unit Trust	30
2nd Floor IFSC House, International Financial Services Centre,1 Custom House Quay, North Dock, Dublin 1		
Baring Korea Feeder Fund	Unit Trust	24
25-28 North Wall Quay, IFSC, Dublin 1		
CGWM Select Global Opportunity Fund	OEIC	64
CGWM Select Global Affinity Fund	OEIC	52
CGWM Select Global Diversity Fund	OEIC	33
CGWM Select Opportunity Fund	OEIC	45
CGWM Select Affinity Fund	OEIC	22
Aviva Investors Euro Liquidity Fund	ICVC	67
Aviva Investors Sterling Government Liquidity Fund	ICVC	96
Aviva Investors Sterling Liquidity Fund	ICVC	34
Aviva Investors Sterling Strategic Liquidity Fund	ICVC	100
Anna Livia Properties Limited	Ordinary Shares	100
Ga Life Property Ireland Limited	Ordinary Shares	100
Georges Court, 54-62 Townsend Street, Dublin 2		
FPPE Fund Public Limited Company	Shares Of No Par Value Shares, 1 Subscriber Euro €1 Shares	100

Isle of Man

Company name	Share Class	% held
Royal Court, Castletown, IM9 1RA		
Friends Provident International Limited	Ordinary B Shares, Ordinary Shares	100
Friends Provident International Services Limited	Ordinary Shares	100
34 North Quay, Douglas, IM1 4LB		
Global Assetbuilder Fund PLC – Sterling Sub Fund	OEIC	29
Global Assetbuilder Fund PLC – US Dollar Sub Fund	OEIC	38
Global Assetbuilder Fund PLC – Progressive Growth Sub Fund	OEIC	39

Italy

Company name	Share Class	% held
Via Scarsellini 14, 20161, Milan		
Agenzia Aviva Srl	Ordinary Shares	100
Avipop Assicurazioni Spa	Ordinary Shares	50
Avipop Vita Spa	Ordinary Shares	50
Aviva Italia Holding S.P.A	Ordinary Shares	100
Aviva Italia S.P.A	Ordinary Shares	100
Aviva Life Spa	Ordinary Shares	100
Aviva Spa	Ordinary Shares	51
14 Via Scarsellini, 20161, Milan		
Aviva Italia Servizi Scarl	Ordinary Shares	85
Aviva Vita S.P.A	Ordinary Shares	80
Petunia	Ordinary A Shares	51
Piazzetta Guastalla 1, 20122, Milan		
Banca Network Investimenti Spa	Ordinary Shares	25

Jersey

Company name	Share Class	% held
22 Grenville Street, St. Helier, Jersey, JE4 8PX Channel Islands		
Axa Sun Life Private Equity (No1) LP	Limited Partnership	100
19-21 Broad Street, St Helier, Jersey, Channel Islands, JE1 3PB		
Aviva Investors Jersey Unit Trusts Management Limited	Ordinary Shares	100
11-12 Hanover Square Ut[2]	Unit Trust	50
130 Fenchurch Street Ut[2]	Unit Trust	50
30 Warwick Street Ut[2]	Unit Trust	50
30-31 Golden Square Ut[2]	Unit Trust	50
Barratt House Ut[2]	Unit Trust	50
Chancery House London Ut[2]	Unit Trust	50
Irongate House Ut[2]	Unit Trust	50
New Broad Street House Ut[2]	Unit Trust	50
Pegasus House And Nuffield House Ut[2]	Unit Trust	50
W Nine Ut[2]	Unit Trust	50
3rd Floor Walker House, 28-34 Hill Street, St Helier, Channel Islands, JE4 8PN		
1 Fitzroy Place Jersey Unit Trust[2]	Unit Trust	50
2 Fitzroy Place Jersey Unit Trust[2]	Unit Trust	50
Le Masurier House, La Rue Le Masurier, St Helier, Channel Islands, JE2 4YE		

Company name	Share Class	% held
Yatra – (Saffron)	Ordinary Shares	27
Lime Grove House, Green Street, St Helier, Channel Islands, JE1 2ST		
20 Gracechurch Unit Trust	Unit Trust	100
Cow Real Estate Investment Unit Trust	Unit Trust	50
Designer Retail Outlet Centres (Livingston) Unit Trust	Unit Trust	97
Designer Retail Outlet Centres (Mansfield) Unit Trust	Unit Trust	97
Designer Retail Outlet Centres (York) Unit Trust	Unit Trust	97
Designer Retail Outlet Centres Unit Trust	Unit Trust	97
Southgate Unit Trust	Unit Trust	50
Airport Property Unit Trust[2]	Unit Trust	50
Apia Regional Offices Fund Unit Trust[2]	Unit Trust	25
Quantum Property Unit Trust[2]	Unit Trust	50
Serviced Offices UK Unit Trust[2]	Unit Trust	50
Lithuania		
Lvovo G. 25, Vilnius, Lt-09320		
Uždaroji Akcinė Gyvybės Draudimo Ir Pensijų Bendrovė "Aviva Lietuva" (Joint Stock Limited Life Insurance And Pension Company Aviva Lietuva)	Ordinary Shares	90
Luxembourg		
8-10 rue Jean Monnet, L-2180 Luxembourg		
Pioneer Fund Solutions Conservative	SICAV	27
18, Rue Eugene Ruppert, L-2453		
Ab SICAV I Emerging Markets Equity Portfolio	SICAV	52
37/A Avenue JF Kennedy, L-1855		
UBI SICAV Euro Fixed Income	SICAV	22
UBI SICAV Euro Fixed Income Cl I	SICAV	22
UBI SICAV Short Term Eur SICAV Cl I	SICAV	21
3, Rue des Labours, 1912		
Haspa Trendkonzept	FCP	20
1c, Rue Gabriel Lippmann, L—5365 Munsbach		
Patriarch Classic B&W Global Freestyle	FCP	23
2 Boulevard de la Foire, L-1528 Luxembourg		
Coral Student Portfolio	SICAV	23
Pramerica Pan-European Real Estate Fund	Mutual Fund	72
28-32, Place de la gare, L-1616		
Ver Capital Credit Partners Iv SICAV – SIF	SICAV	20
2 Rue du Fort Bourbon, L-1249		
AFRP S.À R.L.	Ordinary Shares	100
AIEREF Holding 1 S.A.R.L	Equity Shares	45
AIEREF Holding 2 S.A.R.L	Equity Shares	100
Aviva Investors Alternative Income Solutions General Partner S.À R.L.	Ordinary Shares	100
Aviva Investors Alternative Income Solutions Limited Partnership	Limited Partnership	100
Aviva Investors Asian Equity Income Fund	SICAV	76
Aviva Investors Cells (GP) S.À R.L.	Ordinary Shares	100
Aviva Investors Cells Scsp	Limited Partnership	100
Aviva Investors Debt Europe Fund	Ordinary Shares	100
Aviva Investors Dynamic Master Fund	SICAV	100
Aviva Investors Ebc S.À R.L.	Ordinary Shares	100
Aviva Investors Emerging Europe Equity Fund	SICAV	26
Aviva Investors Emerging Markets Bond Fund	SICAV	84
Aviva Investors Emerging Markets Corporate Bond Fund	SICAV	100
Aviva Investors Emerging Markets Debt Opportunities Fund	SICAV	100
Aviva Investors Emerging Markets Equity Income Fund	SICAV	98
Aviva Investors Emerging Markets Equity Small Cap Fund	SICAV	78
Aviva Investors Emerging Markets Local Currency Bond Fund	SICAV	96
Aviva Investors European Corporate Bond Fund	SICAV	69
Aviva Investors European Equity Fund	SICAV	62
Aviva Investors European Equity Income Fund	SICAV	97
Aviva Investors European Real Estate Securities Fund	SICAV	73
Aviva Investors Global Aggregate Bond Fund	SICAV	94
Aviva Investors Global Convertibles Absolute Return Fund	SICAV	60
Aviva Investors Global Convertibles Fund	SICAV	74
Aviva Investors Global Emerging Markets Index Fund	SICAV	100
Aviva Investors Global Equity Endurance Fund	SICAV	100
Aviva Investors Global High Yield Bond Fund	SICAV	67

Company name	Share Class	% held
Aviva Investors Global Investment Grade Corporate Bond Fund	SICAV	95
Aviva Investors Investment Solutions Emerging Markets Debt Fund	SICAV	100
Aviva Investors Investment Solutions Perspective 2024	SICAV	100
Aviva Investors Investment Solutions Perspective 2026	SICAV	100
Aviva Investors Investment Solutions Perspective 2028	SICAV	100
Aviva Investors Investment Solutions Perspective 2030	SICAV	100
Aviva Investors Investment Solutions Perspective 2032	SICAV	100
Aviva Investors Investment Solutions Perspective 2034	SICAV	100
Aviva Investors Investment Solutions Perspective 2036	SICAV	100
Aviva Investors Long Term European Bond Fund	SICAV	78
Aviva Investors Multi-Strategy Fixed Income Fund	SICAV	100
Aviva Investors Multi-Strategy Target Income Fund	SICAV	76
Aviva Investors Multi-Strategy Target Return Fund	SICAV	63
Aviva Investors Short Duration Global High Yield Bond Fund	SICAV	60
Aviva Investors Short Term European Bond Fund	SICAV	94
Aviva Investors Strategic Multi Asset Fund	SICAV	100
Aviva Investors UK Equity Focus Fund	SICAV	90
Aviva Investors US Equity Income Fund	SICAV	83
CB Building Kirchberg S.À R.L.	Ordinary Shares	100
Centaurus Cer (Aviva Investors) SARL	Ordinary Shares	100
Encore +	FCP	7
Encore + Bedburg S.À R.L.	Ordinary Shares	7
Encore + Bergkirchen S.À.R.L.	Ordinary Shares	7
Encore + Gravity S.À R.L.	Ordinary Shares	7
Encore + Rheinfelden S.À R.L.	Ordinary Shares	7
Encore Plus Lombardia Sàrl	Ordinary Shares	7
Encore Plus Lux Co Diamants Ii S.À R.L.	Ordinary Shares	7
Encore Plus Lux Co Franklin Ii S.À R.L.	Ordinary Shares	7
Encore Plus Lux Co Ile De La Jatte Ii S.À.R.L.	Ordinary Shares	7
Encore Plus Lux Co Metzanine Ii S.À R.L.	Ordinary Shares	7
Encore Plus Properties I S.À R.L.	Ordinary Shares	7
Encore Plus Properties Ii S.À R.L.	Ordinary Shares	7
Encore Plus Properties Iii SARL	Ordinary Shares	7
Encore Plus Real Estate Bad Cannstatt S.À R.L.	Ordinary Shares	7
Hexagone	FCP	100
Hexagone S.À R.L.	Ordinary Shares	100
Sapphire Actipark 1 S.À R.L.	Ordinary Shares	100
Sapphire Actipark 2 S.À R.L.	Ordinary Shares	100
Sapphire Ile De France 1 S.À.R.L.	Ordinary Shares	100
Sapphire Ile De France 2 S.À R.L.	Ordinary Shares	100
Sapphire Lyon 1 S.À R.L.	Ordinary Shares	100
Sapphire Lyon 2 S.À R.L.	Ordinary Shares	100
Vh German Mandate	Ordinary Shares	100
Victor Hugo 1 S.À R.L.	Ordinary Shares	100
Victor Hugo 2 S.À R.L.	Ordinary Shares	100
6 Route de Treves Senningerberg, L-2633		
Momentum Global Funds Harmony Portfolios Euro Diversified	SICAV	20
Momentum Global Funds Harmony Portfolios US Dollar Growth	SICAV	21
Jupiter Global Fund – Jupiter Global Financials	SICAV	20
Jupiter Global Fund – Jupiter New Europe	SICAV	50
6, Route de Treves, L-2633 Senningerberg		
JPMorgan US Dollar Money Market Fund	SICAV	35
26 Avenue De La Liberte, L-1930		
Vam Managed Funds (Lux) Driehaus UK £ Fund	SICAV	46
2 Rue de Bitbourg, L-1273		
Henderson Horizon – European Growth Fund	SICAV	40
2, Rue du Fort Bourbon, PO Box 1375, L-1249		
Aviva Investors – European Equity Fund	SICAV	36
10 Rue du Fort Bourbon, L-1249		
Vh German Mandate	Ordinary Shares	100
11 Rue du Fort Bourbon, L-1249		
Centaurus SARL	Ordinary Shares	100
12 Rue du Fort Bourbon, L-1249		
Victor Hugo	Ordinary Shares	100
14 Rue du Fort Bourbon, L-1249		
Aviva Investors European Renewable Energy S.A.	Ordinary Shares	100
15 Rue du Fort Bourbon, L-1249		

Company name	Share Class	% held
Aviva Investors European Secondary Infrastructure Credit Fund	Ordinary Shares	67
16 Avenue de la Gare, Luxembourg, 1610		
Aviva Investors Polish Retail S.À R.L.	Ordinary Shares	100
19 Rue du Fort Bourbon, L-1249		
Lend Lease Retail Partners	Ordinary Shares	26
4 Rue du Fort Bourbon, L-1249		
Vitus	Ordinary Shares rl	100
47 Avenue John F Kennedy		
Goodman European Business Park Fund (Lux) S.Àr.L.	Ordinary Shares	100
6 Rue du Fort Bourbon, L-1249		
German Retail Iii GmbH	Ordinary Shares	98
German Retail Investment Property Fund FCP-SIF	FCP	98
Sachsenfonds GmbH	Ordinary Shares	98
7 Rue du Fort Bourbon, L-1249		
Logaxes Austria Ii S.À R.L.	Ordinary Shares	85
Logaxes Austria Iii S.A R.L.	Ordinary Shares	85
Logaxes Fund, FCP-Sif	FCP	85
Logaxes Investment Properties S.À.R.L	Ordinary Shares	85
9 Rue du Fort Bourbon, L-1249		
EPI Nu SARL	Ordinary Shares	100
2 Rue Du Fort Bourbon, L-1249		
Aviva Investors Luxembourg	Nominal Par Value Shares	100
16 Avenue De La Gare, L-1610		
Aviva Investors Luxembourg Services S.À R.L.	Ordinary Shares	100
49 Avenue J.F. Kennedy, L-1855		
F&C Portfolios Fund - F&C Diversified Growth	SICAV	87
F&C European Growth & Income Fund	SICAV	100
Enhanced Loan Investment Strategy	Ordinary Shares	100
48 Avenue John F. Kennedy, L – 1855		
Enhanced Loan Investment Strategy Direct Holdings S.A.R.L	Ordinary Shares	100

Mauritius

Company name	Share Class	% held
Les Cascades, Edith Cavell Street, Port Louis, Mauritius		
Actis China Investment Company Limited	US$ A Shares	50
4th Floor, Raffles Tower, 19 Cybercity, Ebene		
Reliance Emergent India Fund	OEIC	28

Netherlands

Company name	Share Class	% held
Simon Canniggelstaat,12,1D11 DJ, Amsterdam		
Encore + Eurocenter Ii Bv	Ordinary Shares	7
Encore + Logistics Spain B.V.	Ordinary Shares	7
Encore + Netherlands Bv	Ordinary Shares	7
Encore + Spain I Bv	Ordinary Shares	7

Poland

Company name	Share Class	% held
Inflancka 4b, 00-189 Warszawa		
Aviva Sfio Subfundusz Aviva Oszczędnościowy	UCITS	95
Aviva Investors Sfio Akcyjny	UCITS	100
Aviva Investors Sfio Dluzny	UCITS	100
Aviva Investors Sfio Spolek Dywidend	UCITS	100
Aviva Investors Sfio Pieniezny	UCITS	100
Aviva Investors Sfio Pap Nieskarbowych	UCITS	100
Aviva Investors Sfio Aviva Lokacyjny	UCITS	100
Aviva Investors Fio Depozyt Plus	UCITS	34
Aviva Investors Fio Malych Spolek	UCITS	45
Aviva Investors Fio Nowoczesnych Technologii	UCITS	70
Aviva Investors Fio Nowych Spolek	UCITS	81
Aviva Investors Fio Obligacji	UCITS	68
Aviva Investors Fio Polskich Akcji	UCITS	43
Plac Andersa 5, 61-894 Poznań		
Bz Wbk – Aviva Towarzystwo Ubezpieczen Ogolnych S.A.[2]	Ordinary Shares	51
Prosta 69, 00-838, Warsaw		
Adrate Sp. Z O.O.	Ordinary Shares	90
Life Plus Sp. Z O.O.	Ordinary Shares	90
Ul. Prosta 69, 00-838 Warsaw, 00-838, Warsaw		
Expander Advisors Sp. Z O.O.	Ordinary Shares	90
Pl. Andersa 5, 61-894 Poznań		
Bz Wbk-Aviva Towarzystwo Ubezpieczeń Na Życie Spółka Akcyjna[2]	Ordinary A Shares	51
Al. Aleje Jerozolimskie, nr 56C 00-803, Warszawa		
Durhy Investments Sp. Z O.O.	Ordinary Shares	7
Al. Jana Pawła II 25, 00-854, Warszawa		
Focus Mall Zielona Gora Sp Zoo	Ordinary Shares	100
Focus Park Piotrków Trybunalski Sp.Z O.O.	Ordinary Shares	100
Focus Park Zielona Góra Sp.Z O.O.	Ordinary Shares	100
Lodz Bc Sp. Z O.O	Ordinary Shares	100
Peace Harbor Investment Capital Sp. Z O.O.	Ordinary Shares	100
Wroclaw Bc Sp. Z.O.O	Ordinary Shares	100
Zelanza, 28/30 00832 Warsaw		
Encore+ Futura Sp. Z O.O.	Ordinary Shares	7
Ul.Inflancka 4B, 00-189, Warsaw		
Aviva Investors Poland Towarzystwo Funduszy Inwestycyjnych S.A.	Ordinary D Shares	95
Aviva Powszechne Towarzystwo Emerytalne Aviva Bz Wbk S.A.	Ordinary A	81
Aviva Towarzystwo Ubezpieczen Na Zycie S.A.	Ordinary Shares	90
Aviva Towarzystwo Ubezpieczen Ogolnych S.A.	Ordinary Shares	90
Inflancka 4B, 00-189, Warsaw		
Aviva Spółka Z Ograniczoną Odpowiedzialnością	Ordinary	90
Ul Domaniewska 44, 02-672, Warsaw		
Aviva Services Spółka Z Ograniczoną Odpowiedzialnością	Ordinary 1,000 Pln Shares	100
Ul. Burakowska 5/7, 01-066, Warszawa		
Berkley Investments S.A.	Ordinary A Shares	90
Taśmowa 7, 02-677, Warsaw		
Porowneo.Pl Sp. Z O.O.	Ordinary Shares	75

Saudi Arabia

Company name	Share Class	% held
Riyad Capital, 6775 Takhassusi Street – Olaya, Riyadh 12331 – 3712		
Al Hadi Sharia Compliant Fund	Mutual Fund	82
Al Mokdam Sharia Compliant Fund	Mutual Fund	83
Al Shamekh Fund	Mutual Fund	88
Al Shuja'a Sharia Compliant Fund	Mutual Fund	94

Singapore

Company name	Share Class	% held
8 Shenton Way, # 05-02, Axa Tower, 068811		
Fuku Ii Investment Holdings Pte. Ltd	Ordinary Shares	100
Fuku Investment Holdings Pte Ltd	Ordinary Shares	100
Fukut Investmenr Holdings Pte. Ltd.	Ordinary Shares	80
Kout Investment Holdings Pte. Ltd.	Ordinary Shares	80
5 Shenton Way, # 01 – 01 Sgx Centre 2, 068807		
Navigator Investment Services Limited	Ordinary Shares	100
1 Raffles Quay, #27-13, South Tower, 048583		
Aviva Investors Asia Pte. Limited	Ordinary Shares	100
4 Shenton Way, # 01 – 01 Sgx Centre 2, 068807		
Aviva Ltd	Ordinary Shares	100
6 Temasek Boulevard, #29-00, Suntec Tower 4, 038986		
Aviva Asia Holdings Private Limited	Ordinary Shares	100
Aviva Asia Pte Ltd	Ordinary Shares	100
Aviva Financial Advisers Pte. Ltd	Ordinary Shares	100
Aviva Global Services (Management Services) Private Ltd.	Ordinary Shares	100
6 Shenton Way, #09-08, Oue Downtown, 068809		
Professional Advisory Holdings Ltd.	Ordinary A Shares	93
Professional Investment Advisory Services Pte Ltd	Ordinary A Shares	93

South Africa

Company name	Share Class	% held
Mazars House, Rialto Road, Grand Moorings Precinct, Century City, 7441		
Aviva Professional Services (Pty) Limited	Ordinary Shares	100

Spain

Company name	Share Class	% held
9 Camino Fuente De La Mora, Madrid		
Aviva Grupo Corporativo S.L.	Ordinary Shares	100
Santa Nonia 4, León, León		
Caja Espana Vida, Compania De Seguros Y Reaseguros	Ordinary A Shares	50
9 C/Camino Fuente De La Mora, 28050 Madrid		
Aviva Gestion Sgiic Sa	Ordinary Shares	100
Aviva Vida Y Pensiones, Sociedad Anonima De Seguros Y Reaseguros	Ordinary Shares	100
Santa Engracia 67		
Pelayo Vida Seguros Y Reaseguros Sociedad Anonima	Ordinary Shares	50
Camino Fuente De La Mora 9, 28050 Madrid		
Aviva Retorno Absoluto Fi	Mutual Fund	37
Aviva Corto Plazo Fi	Mutual Fund	48
Aviva Espabolsa Fi	Mutual Fund	61
Aviva Eurobolsa Fi	Mutual Fund	82
Aviva Fonvalor Euro Fi	Mutual Fund	74
Aviva Renta Fija Fi	Mutual Fund	85
Aviva Renta Variable Zona No Euro Fi	Mutual Fund	55
Pº Castellana 31, 28046, Madrid		
Fcr Altamar Global Secondaries Ix Fcr	Private Equity Fund	39
Fund Fcr Altamar Infrastructure Income Fcr	Private Equity Fund	26
28-30 Ronda General Mittre, 08017, Barcelona		
Catalina Islands, Slu	Ordinary Shares	7
Encore Plus Logistica S.L.	Ordinary Shares	7
Encore Plus Vaguada Sl	Ordinary Shares	7

Company name	Share Class	% held
Avda de Bruselas – Numero 13, Edificio, America, Piso 1, Puerta d,Alcobendas 28-Madrid		
Eólica Almatret S.L.	Ordinary Shares	45
2 Plaza De La Fuensanta, Murcia		
Cajamurcia Vida Y Pensiones De Seguros Y Reaseguros Sa	Ordinary Shares	50
Calle La Bolsa, 4, Malaga		
Unicorp Vida, Compania De Seguros Y Reaseguros Sociedad Anonima	Ordinary A Shares	50
Avda Andalucia, 10 -12, Malaga		
Ahorro Andaluz, S.A	Ordinary Shares	50
Avenida Fernando De Los Rios, 6, Granada		
Caja Granada Vida, Compañía De Seguros Y Reaseguros Sociedad Anonima	Ordinary Shares	25
Sri Lanka		
216 De Saram Place, Colombo 10		
A.G.S Lanka (Private) Limited	6 Pence Shares	100
Sweden		
Box 239, 72106,Vasteraas		
Fastighets Ab Lagomstansen	Ordinary Shares	7
Switzerland		
Stockerstrasse, 38 8002 , Zurich		
Aviva Investors Schweiz GmbH	Interest Shares	100
Taiwan		
Rm D-1, 24F, No.7, Sec.5, Xin Yi Road, Taipei, 110, Taiwan		
Aviva Investors Securities Investment Consulting Company Limited	Ordinary Shares	100
13F, No.456 Section 4, Xin Yi Road, Taipei 110		
First-Aviva Life Insurance Co., Ltd.[2]	Ordinary Shares	49
Turkey		
Saray Mah., Adnan Büyüjdeniz Cad. No:12 34768 Umraniye, Istanbul, Turkey		
Aviva Sa Emeklilik Ve Hayat[2]	Ordinary Shares	40
United Kingdom		
100 Wood Street, London. EC2V 7AN		
Livingbridge 4 Limited Partnership	Limited Partnership	32
50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ		
ASL Caravel LP	Limited Partnership	100
ASL Clipper LP	Limited Partnership	100
ASL Mainsail LP	Limited Partnership	100
ASL Schooner LP	Limited Partnership	100
ASL/Slas Xebec LP	Limited Partnership	100
Slas Topsail LP	Limited Partnership	100
60 Gresham Street, London, EC2V 7BB		
Alliance Trust Sustainable Future ICVC – European Growth Fund	OEIC	67
Alliance Trust Sustainable Future ICVC – Global Growth Fund	OEIC	57
Alliance Trust Sustainable Future ICVC – Managed Fund	OEIC	89
Alliance Trust Sustainable Future ICVC – UK Ethical Fund	OEIC	83
Alliance Trust Sustainable Future ICVC – UK Growth Fund	OEIC	59
Alliance Trust Sustainable FutureICVC – Corporate Bond Fund	OEIC	43
Alliance Trust Sustainable FutureICVC – Absolute Growth Fund	OEIC	76
80 George Street, Edinburgh, EH2 3BU		
F&C European Capital Partners LP	Limited Partnership	30
North British Properties (Scotland) Limited	Ordinary Shares	100
Bow Bells House 1 Bread Street London EC4M 9HH		
Aberdeen UK Tracker Trust Plc	OEIC	23
Aberdeen Multi-Asset Fund	OEIC	45
Fair Lorna House, Buckingham Road, Singleborough Milton Keynes MK17 0RB		
London And St. Lawrence Investment Company Plc	Ordinary Shares	23
1st Floor Office Suite, 48-50 St Mary's Gate, Lace Market, Nottingham, England, NG1 1QA , United Kingdom		
Blueprint (General Partner) Limited[2]	Ordinary Shares	25
Blueprint (Nominees) Limited[2]	Ordinary Shares	25
Blueprint Limited Partnership[2]	Limited Partnership	25
East Farmhouse, Cams Hall Estate, Fareham, PO16 8UT, United Kingdom		
Iquo Limited	Ordinary A Shares	67
AXA Investment Managers UK Limited, 7 Newgate Street,		
Axa Rosenberg Asia Pacific Ex Japan	OEIC	92
Axa Rosenberg Japan	OEIC	93
Axa Rosenberg Global	OEIC	92
Axa Ethical Distribution Fund	OEIC	35

Company name	Share Class	% held
Axa Rosenberg American	OEIC	94
50 Stratton Street,		
Lazard Multicap UK Income Fund	OEIC	60
Exchange House, Primrose Street,		
F&C Global Bond Fund	OEIC	31
F&C Pacific Growth Fd	OEIC	32
F&C North American Fund	OEIC	27
F&C Strategic Bond Fund	OEIC	52
F&C Instl UK Eq	OEIC	51
F&C Mm Navigator Progressive Fund	OEIC	27
Calton Square, 1 Greenside Row,		
Baillie Gifford Managed	OEIC	27
Woolgate Exchange, 25 Basinghall Street,		
Investec American Fund	OEIC	27
5 Old Broad Street,		
Architas Multi Asset Active Growth Fund	OEIC	21
Architas Multi-Manager Diversified Protector 70	OEIC	51
Architas Multi-Manager Diversified Protector 80	OEIC	35
6 Chesterfield Gardens, Mayfair, London, W1J 5BQ.		
IFSL Tilney Bestinvest Global Defensive Portfolio	OEIC	20
29 Queen Anne's Gate, London SW1H 9BU		
CF Bentley Sterling Income Fund	OEIC	29
CF Bentley Global Growth	OEIC	27
31 Gresham Street, London, Schroder Qep US Core Fund	Unit Trust	31
St Helen's, 1 Undershaft, London, EC3P,3DQ		
20 Gracechurch (General Partner) Limited	General Partner	100
Alternative Use Group Plc	Ordinary Shares	100
Aviva Investors Asia Pacific Property Fund	OEIC	79
Aviva Investors Cash Fund	OEIC	63
Aviva Investors Commercial Assets GP Limited	Ordinary Shares	100
Aviva Investors Corporate Bond Fund	OEIC	93
Aviva Investors Ebc GP Limited	Ordinary Shares	100
Aviva Investors Ebc Limited Partnership	Limited Partnership	100
Aviva Investors Energy Centre No.1 GP Limited	Ordinary Shares	100
Aviva Investors European Property Fund	OEIC	73
Aviva Investors Ground Rent GP Limited	Ordinary Shares	100
Aviva Investors Ground Rent Holdco Limited	Ordinary Shares	100
Aviva Investors High Yield Bond Fund	OEIC	36
Aviva Investors Infrastructure GP Limited	Ordinary Shares	100
Aviva Investors Infrastructure Income Limited Partnership	Limited Partnership	50
Aviva Investors International Index Tracking Fund	OEIC	49
Aviva Investors Japan Equity Mom 1 Fund	OEIC	78
Aviva Investors Managed High Income Fund	OEIC	60
Aviva Investors Multi-Asset I Fund	OEIC	45
Aviva Investors Multi-Asset Ii Fund	OEIC	43
Aviva Investors Multi-Asset Iii Fund	OEIC	52
Aviva Investors Multi-Asset Iv Fund	OEIC	45
Aviva Investors Multi-Asset V Fund	OEIC	43
Aviva Investors Multi-Manager 20-60% Shares Fund	OEIC	75
Aviva Investors Multi-Manager 40-85% Shares Fund	OEIC	73
Aviva Investors Multi-Manager Flexible Fund	OEIC	79
Aviva Investors Multi-Strategy Target Income Fund	OEIC	45
Aviva Investors Multi-Strategy Target Return Fund	OEIC	47
Aviva Investors Polish Retail GP Limited	Ordinary Shares	100
Aviva Investors Polish Retail Limited Partnership	Limited Partnership	100
Aviva Investors Private Equity Programme 2008 Partnership	Limited Partnership	40
Aviva Investors Property Fund Management Limited	Ordinary Shares	100
Aviva Investors Real Estate Limited	Ordinary Shares	100
Aviva Investors Realm Energy Centres GP Limited	Ordinary Shares	100
Aviva Investors Realm Infrastructure No.1 Limited	Ordinary Shares	100
Aviva Investors Realm Infrastructure No.2 Limited	Ordinary Shares	100
Aviva Investors Realm Infrastructure No.3 Limited	Ordinary Shares	100
Aviva Investors Realm Infrastructure No.4A Limited	Ordinary Shares	100
Aviva Investors Realm Infrastructure No.4B Limited	Ordinary Shares	100
Aviva Investors Social Housing GP Limited	Ordinary Shares	100

Company name	Share Class	% held
Aviva Investors Social Housing Limited	Company Limited By Guarantee	100
Aviva Investors Strategic Bond Fund	OEIC	34
Aviva Investors UK Cresd GP Limited	Ordinary Shares	100
Aviva Investors UK Equity Fund	OEIC	26
Aviva Investors UK Equity Income Fund	OEIC	56
Aviva Investors UK Equity Mom 1 Fund	OEIC	83
Aviva Investors UK Growth Fund	OEIC	36
Aviva Investors UK Index Tracking Fund	OEIC	72
Aviva Investors UK Lt Red GP Limited	Ordinary Shares	100
Aviva Investors UK Opportunities Fund	OEIC	99
Aviva Investors UK Real Estate Recovery (General Partner) Limited	Ordinary Shares	100
Aviva Investors UK Real Estate Recovery (Nominee Two) Limited	Ordinary Shares	100
Aviva Investors UK Real Estate Recovery (Nominee) Limited	Ordinary Shares	100
Aviva Special Pfi GP Limited	Ordinary Shares	100
Aviva Special Pfi LP	Limited Partnership	100
Barwell Business Park Nominee Limited	Ordinary Shares	100
Biomass UK No. 3 Limited	"Ordinary A Shares Deferred Shares"	100
Biomass UK No.1 LLP	Limited Liability Partnership	100
Biomass UK No.2 Limited	"A Shares B Shares C Shares Deferred Shares"	100
BMG (Mansfield) Limited	Ordinary Shares	50
BMG (York) Limited	Ordinary Shares	50
BMG (York) Partnership Trustco Limited	Ordinary Shares	50
Boston Wood Recovery Limited	Ordinary Shares	100
Capital Residential Fund	Unit Trust	88
Chichester Health (Holdings) Limited	Ordinary Shares	100
Chichester Health Plc	Ordinary Shares	100
Church Street Nominee No.1 Limited	Ordinary Shares	100
Church Street Nominee No.2 Limited	Ordinary Shares	100
Church Street Nominee No.3 Limited	Ordinary Shares	100
Cornerford Limited	Ordinary Shares	50
Ebisu Investments Limited	Ordinary Shares	100
Ees Operations 1 Limited	Ordinary Shares	100
Free Solar (Stage 2) Limited	Ordinary Shares	100
Free Solar Holdco Limited	Ordinary Shares	100
Friends Slpm Limited	Ordinary Shares	100
Gobafoss General Partner Limited	Ordinary Shares	100
Gobafoss Partnership Nominee No 1 Ltd	Ordinary Shares	100
Hemel Hempstead Estate Management Limited	Ordinary Shares	100
Hillswood Management Limited	Ordinary Shares	24
Lime Property Fund (General Partner) Limited	Ordinary Shares	100
Lime Property Fund (Nominee) Limited	Ordinary Shares	100
Matthew Parker Street (Nominee No 1) Limited	Ordinary Shares	100
Matthew Parker Street (Nominee No 2) Limited	Ordinary Shares	100
Medium Scale Wind No.1 Limited	Ordinary Shares	100
Metropath Limited	Ordinary Shares	100
Netnerve Limited	Ordinary Shares	100
New Oxford Street (General Partner) Limited	Ordinary Shares	100
Norwich Union (Shareholder GP) Limited	Ordinary Shares	100
Norwich Union Public Private Partnership Fund	Limited Partnership	100
Nu 3Ps Limited	Ordinary Shares	100
Nu Library For Brighton Limited	Ordinary Shares	100
Nu Offices For Redcar Limited	Ordinary Shares	100
Nu Offices For Surrey Limited	Ordinary Shares	100
Nu Schools For Redbridge Limited	Ordinary Shares	100
Nu Technology And Learning Centres (Hackney) Limited	Ordinary Shares	100
Nu Technology And Learning Centres Limited	Ordinary Shares	100
Nuppp (Care Technology And Learning Centres) Limited	Ordinary Shares	100
Nuppp (GP) Limited	Ordinary Shares	100
Nuppp Nominees Limited	Ordinary Shares	100
Paddington Central Iii GP Ltd	Ordinary Shares	100
Paddington Central Iii Limited Partnership	Limited Partnership	100
Property Management Company (Croydon) Ltd	Ordinary Shares	100
Quarryvale One Limited	Ordinary Shares	100
Quarryvale Three Limited	Ordinary Shares	100
Renewable Clean Energy Limited	Ordinary Shares	100
1-5 Lowndes Square Management Company Limited	Ordinary A Shares, Ordinary B Shares	75
20 Lowndes Square Management Company Limited	Ordinary A Shares, Ordinary B Shares	76
41-42 Lowndes Square Management Company Limited	Ordinary A Shares Ordinary B Shares	77
43 Lowndes Square Management Company Limited	Ordinary A Shares, Ordinary B Shares	76
44-49 Lowndes Square Management Company Limited	Ordinary A Shares, Ordinary B Shares	75

Company name	Share Class	% held
6-10 Lowndes Square Management Company Limited	Ordinary A Shares, Ordinary B Shares	75
Atlas Park Management Company Limited	Company Limited By Guarantee	100
Aviva Brands Limited	Ordinary Shares	100
Aviva Commercial Finance Limited	Ordinary Shares	100
Aviva Company Secretarial Services Limited	Ordinary Shares	100
Aviva Credit Services UK Limited	Ordinary Shares	100
Aviva Director Services Limited	Ordinary Shares	100
Aviva Employment Services Limited	Ordinary Shares	100
Aviva Europe Se	Ordinary Shares	100
Aviva Insurance Services UK Limited	Ordinary Shares	100
Aviva International Holdings Limited	Ordinary Shares	100
Aviva International Insurance Limited	Ordinary Shares	100
Aviva Investors UK Commercial Real Estate Senior Debt LP	Limited Partnership	17
Aviva Investors Employment Services Limited	Ordinary Shares	100
Aviva Investors Global Services Limited	Ordinary Shares	100
Aviva Investors Holdings Limited	Ordinary Shares	100
Aviva Investors London Limited	Ordinary Shares	100
Aviva Investors Pensions Limited	Ordinary Shares	100
Aviva Investors Real Estate Finance Limited	Ordinary Shares	100
Aviva Investors UK Fund Services Limited	Ordinary Shares	100
Aviva Investors UK Funds Limited	Ordinary Shares	100
Aviva Investors UK Nominees Limited	Ordinary Shares	100
Aviva Overseas Holdings Limited	Ordinary Shares	100
Aviva Public Private Finance Limited	Ordinary Shares	100
Aviva Staff Pension Trustee Limited	Ordinary Shares	100
Aviva UK Digital Ltd	Ordinary Shares	100
Axcess 10 Management Company Limited	Company Limited By Guarantee	100
Commercial Union Corporate Member Limited	Ordinary Shares	100
Commercial Union Life Assurance Company Limited	Ordinary Shares	100
Commercial Union Nominee Holdings Limited	Ordinary Shares	100
Commercial Union Trustees Limited	Ordinary Shares	100
Friends Life Funds Limited	Ordinary Shares	100
Friends Life Investments Limited	Ordinary Shares	100
General Accident Executor And Trustee Company Limited	Ordinary Shares	100
Glasgow Airport Business Park Management Company Limited	Company Limited By Guarantee	100
Ipe Bv	Ordinary Shares	100
LUC Holdings Limited	Ordinary Shares	20
Opus Park Management Limited	Company Limited By Guarantee	100
ORN Capital LLP	Company Limited By Guarantee	100
ORN Capital Services Limited	Ordinary Shares	100
Stonebridge Cross Management Limited	Company Limited By Guarantee	100
The Ocean Marine Insurance Company Limited	Ordinary Shares	100
The Welsh Insurance Corporation Limited	Ordinary Shares	100
The Yorkshire Insurance Company Limited	Ordinary Shares	100
Undershaft (No.4) Limited	Ordinary Shares	100
Undershaft Limited	Ordinary Shares	100
RHP (Retirement Housing Partnership)	Limited Partnership	100
Se11 Pep Limited	Ordinary Shares	100
Solar Clean Energy Limited	Ordinary Shares	100
Southgate General Partner Limited	Ordinary A Shares	50
Southgate Limited Partnership	Limited Partnership	50
Southgate LP (Nominee 1) Limited	Ordinary Shares	50
Southgate LP (Nominee 2) Limited	Ordinary Shares	50
Sunrise Renewables (Barry) Limited	Ordinary Shares	100
Swan Valley Management Limited	Ordinary Shares	100
The Designer Retail Outlet Centres (Mansfield) General Partner Limited	Ordinary Shares	100
The Designer Retail Outlet Centres (Mansfield) LP	Limited Partnership	97
The Designer Retail Outlet Centres (York) General Partner Limited	Ordinary Shares	100
The Designer Retail Outlet Centres (York) LP	Limited Partnership	97
The Gobafoss Partnership	Limited Partnership	100
The Square Brighton Limited	Ordinary Shares	100
Tyne Assets (No 2) Limited	Ordinary Shares	100
Tyne Assets Limited	Ordinary Shares	100
Vanwall 2 Management Company Limited	Ordinary Shares	100
Wood Lane (Stadium) Limited	Ordinary Shares	100
Boston Biomass Limited	Ordinary Shares	100
Aviva Investors Asia Pacific Ex Japan Fund	ACS	100
Aviva Investors Balanced Life Fund	ACS	100
Aviva Investors Balanced Pension Fund	ACS	100
Aviva Investors Sterling Corporate Bond Fund	ACS	100
Aviva Investors Cautious Pension Fund	ACS	100
Aviva Investors Distribution Life Fund	ACS	100
Aviva Investors Europe Equity Ex UK Fund	ACS	100
Aviva Investors Global Equity Alpha Fund	ACS	100

Company name	Share Class	% held
Aviva Investors Global Equity Fund	ACS	100
Aviva Investors Japan Equity Fund	ACS	100
Aviva Investors Money Market VNAV Fund	ACS	100
Aviva Investors North American Equity Fund	ACS	100
Aviva Investors Stewardship UK Equity Income Fund	ACS	100
Aviva Investors Strategic Global Equity Fund	ACS	100
Aviva Investors Sterling Gilt Fund	ACS	100
Aviva Investors Stewardship International Equity Fund	ACS	100
Aviva Investors Stewardship Fixed Interest Fund	ACS	100
Aviva Investors Stewardship UK Equity Fund	ACS	100
Aviva Investors UK Equity Fund	ACS	100
Aviva Investors UK Equity Income Fund	ACS	100
Aviva Investors US Large Cap Equity Fund	ACS	100
11-12 Hanover Square LP[2]	Limited Partnership	50
11-12 Hanover Square Nominee 1 Limited[2]	Ordinary Shares	50
11-12 Hanover Square Nominee 2 Limited[2]	Ordinary Shares	50
130 Fenchurch Street LP[2]	Limited Partnership	50
130 Fenchurch Street Nominee 1 Limited[2]	Ordinary Shares	50
130 Fenchurch Street Nominee 2 Limited[2]	Ordinary Shares	50
30 Warwick Street LP[2]	Limited Partnership	50
30 Warwick Street Nominee 1 Limited[2]	Ordinary Shares	50
30 Warwick Street Nominee 2 Limited[2]	Ordinary Shares	50
30-31 Golden Square LP[2]	Limited Partnership	50
30-31 Golden Square Nominee 1 Limited[2]	Ordinary Shares	50
30-31 Golden Square Nominee 2 Limited[2]	Ordinary Shares	50
400 Caledonian Road Management Company Limited[2]	Company Limited By Guarantee	25
Airport Property GP (No. 2) Limited[2]	Ordinary A Shares Ordinary B Shares	50
Airport Property H1 Limited[2]	Ordinary Shares	50
Airport Property Partnership[2]	Limited Partnership	50
Ascot Real Estate Investments GP LLP[2]	Limited Partnership	50
Aviva Investors Pip Solar Pv Limited Partnership[2]	Limited Partnership	50
Aviva Investors Pip Solar Pv No.1 Limited[2]	Ordinary Shares	100
Aviva Investors Special Pfi Spv Limited	Ordinary Shares	100
Barratt House LP[2]	Limited Partnership	50
Barratt House Nominee 1 Limited[2]	Ordinary Shares	50
Barratt House Nominee 2 Limited[2]	Ordinary Shares	50
Aviva Investors Pip Solar Pv (General Partner) Limited[2]	Ordinary Shares	100
Chancery House London LP[2]	Limited Partnership	50
Chancery House London Nominee 1 Limited[2]	Ordinary Shares	50
Chancery House London Nominee 2 Limited[2]	Ordinary Shares	50
Devon Nominees (No. 1) Limited[2]	Limited Partnership	50
Devon Nominees (No. 2) Limited[2]	Ordinary Shares	50
Devon Nominees (No. 3) Limited[2]	Ordinary Shares	50
Electric Avenue Limited[2]	Ordinary Shares	50
Bmg (Livingston) General Partner Limited[2 3]	Ordinary Shares	50
Bmg (Mansfield) General Partner Limited[2 3]	Ordinary Shares	50
Bmg (York) General Partner Limited[2 3]	Ordinary Shares	50
Cardiff Bay GP Limited[2 3]	Ordinary Shares	100
Cardiff Bay Limited Partnership[2 3]	Limited Partnership	100
Igloo Regeneration (Butcher Street) Limited[2]	Ordinary Shares	50
Igloo Regeneration (Nominee) Limited[2]	Ordinary Shares	50
Igloo Regeneration Developments (General Partner) Limited[2]	Ordinary Shares	50
Igloo Regeneration Developments (Nominees) Limited[3]	Ordinary Shares	50
Igloo Regeneration Property Unit Trust[3]	Unit Trust	50
Irongate House LP[3]	Limited Partnership	50
Irongate House Nominee 1 Limited[2]	Ordinary Shares	50
Irongate House Nominee 2 Limited[2]	Ordinary Shares	50
New Broad Street House LP[2]	Limited Partnership	50
New Broad Street House Nominee 1 Limited[2]	Ordinary Shares	50
New Broad Street House Nominee 2 Limited[2]	Ordinary Shares	50
Pegasus House And Nuffield House LP[2]	Limited Partnership	50
Pegasus House And Nuffield House Nominee 1 Limited[2]	Ordinary Shares	50
Pegasus House And Nuffield House Nominee 2 Limited[2]	Ordinary Shares	50
Porth Teigr Management Company Limited[2]	Ordinary Shares	50
Quantum Property Partnership[2]	Limited Partnership	50
Redan Power Limited[2]	Ordinary Shares	50
Renewable Clean Energy 2 Limited[2]	Ordinary Shares	50
Renewable Clean Energy 3 Limited[2]	Ordinary Shares	50
Rugby Radio Station (General Partner) Limited[2]	Ordinary B Shares	50
Rugby Radio Station (Nominee) Limited[2]	Ordinary Shares	50
Rugby Radio Station Limited Partnership[2]	Limited Partnership	50
Serviced Offices UK Nominee Limited[2]	Ordinary Shares	50
Spire Energy Limited[2]	Ordinary Shares	50

Company name	Share Class	% held
CGU International Holdings Bv	Ordinary €0.45 Shares	100
Sue GP LLP[2]	Ordinary Shares	50
Unitair General Partner Limited[2]	Ordinary Shares	50
Unitair Limited Partnership[2]	Ordinary Shares	50
W Nine LP[2]	Limited Partnership	50
W Nine Nominee 1 Limited[2]	Ordinary Shares	50
W Nine Nominee 2 Limited[2]	Ordinary Shares	50
The Designer Retail Outlet Centres (Livingston) General Partner Limited[2 3]	Ordinary Shares	100
The Designer Retail Outlet Centres (Livingston) LP[2 3]	Limited Partnership	97
1 Dorset Street, Southampton, Hampshire, SO15 2DP		
Building A Future (Newham Schools) Limited	Ordinary Shares	100
Mill Nu Developments (Conference Centre) Limited	Ordinary Shares	100
Mill Nu Properties Limited	Ordinary A Shares	100
Norwich Union (Mall GP) Limited	Ordinary Shares	100
NU College For Canterbury Limited	Ordinary Shares	100
NU Developments (Brighton) Limited	Ordinary Shares	100
NU Local Care Centres (Bradford) Limited	Ordinary Shares	100
NU Local Care Centres (Chichester No.1) Limited	Ordinary Shares	100
NU Local Care Centres (Chichester No.2) Limited	Ordinary Shares	100
NU Local Care Centres (Chichester No.3) Limited	Ordinary Shares	100
NU Local Care Centres (Chichester No.4) Limited	Ordinary Shares	100
NU Local Care Centres (Chichester No.5) Limited	Ordinary Shares	100
NU Local Care Centres (Chichester No.6) Limited	Ordinary Shares	100
NU Local Care Centres (Farnham) Limited	Ordinary Shares	100
NU Local Care Centres (West Park) Limited	Ordinary Shares	100
NU Local Care Centres Limited	Ordinary Shares	100
Nuppp Hard Services Limited	Ordinary Shares	100
1 Poultry, London, EC2R 8EJ		
20 Gracechurch Limited Partnership	Limited Partnership	100
Aviva Investors Realm Infrastructure No.5 Limited	Ordinary Shares	100
Aviva Investors UK Long Term Real Estate Debt Limited Partnership	Limited Partnership	100
Cow Real Estate Investment General Partner Limited	Limited Partnership	50
Cow Real Estate Investment General Partner Limited	Ordinary Shares	100
Cow Real Estate Investment Nominee Limited	Ordinary Shares	100
Den Brook Energy Limited	Ordinary Shares	100
Gw04 Pep Limited	Ordinary Shares	100
New Oxford Street Limited Partnership	Ordinary Shares	50
The Designer Retail Outlet Centres (General Partner) Limited	Ordinary A Shares	50
Turncole Wind Farm Limited	Ordinary Shares	100
Woolley Hill Electrical Energy Limited	Ordinary Shares	100
1 Fitzroy Place Limited Partnership[2]	Limited Partnership	50
2 Fitzroy Place Limited Partnership[2]	Limited Partnership	50
2-10 Mortimer Street (GP No 1) Limited[2]	Ordinary Shares	50
2-10 Mortimer Street GP Limited[2]	Ordinary Shares	50
2-10 Mortimer Street Limited Partnership[2]	Limited Partnership	50
Ascot Real Estate Investment LP[2]	Limited Partnership	50
Apia Regional Office Fund (General Partner) Limited[2]	Ordinary Shares	50
Fitzroy Place GP 2 Limited[2]	Ordinary Shares	50
Fitzroy Place Management Co Limited[2]	Ordinary Shares	50
Fitzroy Place Residential Limited[2]	Ordinary Shares	50
Igloo Regeneration (General Partner) Limited[2]	Ordinary Shares	50
Igloo Regeneration Developments LP[2]	Limited Partnership	50
Igloo Regeneration Partnership[2]	Limited Partnership	40
Mortimer Street Associated Co 1 Limited[2]	Ordinary Shares	50
Mortimer Street Associated Co 2 Limited[2]	Ordinary Shares	50
Mortimer Street Nominee 1 Limited[2]	Ordinary Shares	50
Mortimer Street Nominee 2 Limited[2]	Ordinary Shares	50
Mortimer Street Nominee 3 Limited[2]	Ordinary Shares	50
Serviced Offices UK (Services) Limited[2]	Ordinary Shares	50
Serviced Offices UK GP Limited[2 3]	Ordinary Shares	50
Serviced Offices UK Limited Partnership[2]	Limited Partnership	50
Sue Developments Limited Partnership[2]	Limited Partnership	50
Sue GP Nominee Limited[2]	Ordinary Shares	50
24 Birch Street, Wolverhampton, WV1 4HY		
Maling Street Management Company Limited[2]	Ordinary Shares	25
43-45 Portman Square , London, W1H 6LY		
Bristol And Bath Science Park Estate Management Company Limited[2]	Ordinary D Shares	50
Quantum Property Partnership (General Partner) Limited[2]	Ordinary Shares	50

IFRS Financial statements

Company name	Share Class	% held
Quantum Property Partnership (Nominee) Limited[2]	Ordinary Shares	50
Argyll House, All Saints Passage, London, SW18 1EP		
Freetricity Southeast Limited	Ordinary Shares	100
Beaufort Court , Egg Farm Lane, Kings Langley, Hertfordshire, WD4 8LR		
Jacks Lane Energy Limited	Ordinary Shares	100
c/o Anesco Limited, The Green Easter Park, Benyon Road , Reading, RG7 2PQ		
Homesun 2 Limited	Ordinary Shares	100
Homesun 3 Limited	Ordinary Shares	100
Homesun 4 Limited	Ordinary Shares	100
Homesun 5 Limited	Ordinary Shares	100
Homesun Limited	Ordinary Shares	100
c/o James Fletcher, Mainstay, Whittington Hall, Whittington Road, Worcester, WR5 2ZX		
Aviva Investors GR SPV 10 Limited	Ordinary Shares	100
Aviva Investors GR SPV 11 Limited	Ordinary Shares	100
Aviva Investors GR SPV 12 Limited	Ordinary Shares	100
Aviva Investors GR SPV 13 Limited	Ordinary Shares	100
Aviva Investors GR SPV 14 Limited	Ordinary Shares	100
Aviva Investors GR SPV 15 Limited	Ordinary Shares	100
Aviva Investors GR SPV 4 Limited	Ordinary Shares	100
Aviva Investors GR SPV 5 Limited	Ordinary Shares	100
Aviva Investors GR SPV 6 Limited	Ordinary Shares	100
Aviva Investors GR SPV 7 Limited	Ordinary Shares	100
Aviva Investors GR SPV 8 Limited	Ordinary Shares	100
Aviva Investors GR SPV 9 Limited	Ordinary Shares	100
Aviva Investors GR SPV1 Limited	Ordinary Shares	100
Aviva Investors GR SPV16 Limited	Ordinary Shares	100
Aviva Investors GR SPV2 Limited	Ordinary Shares	100
Aviva Investors GR SPV3 Limited	Ordinary Shares	100
c/o Scottish Canals Canal House, 1 Applecross Street, Glasgow, G4 9SP		
Bigg Regeneration (General Partner) Limited[2]	Ordinary Shares	25
Bigg Regeneration Partnership[2]	Limited Partnership	25
Carillion House, 84 Salop Street, Wolverhampton, WV3 0SR		
Carillion-Igloo Limited[2]	Ordinary Shares	25
Carillion-Igloo Limited Partnership[2]	Limited Partnership	25
Carillion-Igloo Nominees Limited[2]	Ordinary Shares	25
Fairweathers, 7 Chalfont Court, Chalfont Way, Lower Earley, Berkshire, RG6 5SY		
Vanwall Road Management Company Limited	Ordinary Shares	50
Monument House, 58 Coinagehall Street, Helston, Cornwall, TR13 8EL		
Ado6 Pep Limited	Ordinary Shares	100
Ce01 Pep Limited	Ordinary Shares	100
Ce07 Pep Limited	Ordinary Shares	100
Se06 Pep Limited	Ordinary Shares	100
Pitheavlis, Perth, Perthshire, PH2 0NH		
Aviva (Peak No.1) UK Limited	Ordinary Shares	100
Aviva Insurance Limited	Ordinary Shares	100
Aviva Investors (FP) Limited	Ordinary Shares	100
Aviva Investors (GP) Scotland Limited	Ordinary Shares	100
Pixham End, Dorking, Surrey, RH4 1QA		
21/2 Devonshire Square General Partner Limited	Ordinary Shares	100
Atlantic Industrial Nominees Limited	Ordinary Shares	100
Aviva Administration Limited	Ordinary Shares	100
Aviva Investment Solutions UK Limited	Ordinary Shares	100
Bankhall Investment Management Limited	Ordinary Shares	100
Countrywide Independent Advisers Limited	Ordinary Shares	100
Crystal Clear Financial Advice Limited	Ordinary Shares	100
Cumberland Place Management Company Limited	Ordinary Shares	100
DBS Management Limited	Ordinary Shares	100
DBS Financial Management Limited	Ordinary Shares	100
Financial Options Services Limited	Ordinary Shares	100
FP Group Limited	Ordinary Shares	100
Friends Ael Trustees Limited	Ordinary Shares	100
Friends Aellas Limited	Ordinary Shares	100
Friends Aelris Limited	£1 Stock Shares	100
Friends Aslh Limited	Ordinary Shares	100
Friends Life And Pensions Limited	Ordinary Shares	100
Friends Life Assurance Society Limited	Ordinary Shares	100
Friends Life Company Limited	Ordinary Shares	100
Friends Life Distribution Limited	Ordinary Shares	100
Friends Life FPG Limited	Ordinary Shares	100
Friends Life FPL Limited	Ordinary Shares	100
Friends Life FPLMA Limited	Ordinary Shares	100
Friends Life Holdings Plc	Ordinary Shares	100
Friends Life Investment Solutions Limited	Ordinary Shares	100
Friends Life Limited	Ordinary Shares	100
Friends Life Management Services Limited	Ordinary Shares	100
Friends Life Marketing Limited	Ordinary Shares	100
Friends Life Secretarial Services Limited	Ordinary Shares	100
Friends Life Services Limited	Ordinary Shares	100
Friends Life Staff Schemes Limited	Ordinary Shares	100
Friends Life Wf Limited	Ordinary Shares	100
Friends Life Wl Limited	Ordinary Shares	100
Friends Provident Distribution Holdings Limited	Ordinary Shares	100
Friends Provident Investment Holdings Limited	Ordinary A Shares	100
Friends Provident Life Assurance Limited	Ordinary Shares	100
Friends' Provident Managed Pension Funds Limited	Ordinary Shares	100
Friends Provident Pension Scheme Trustees Limited	Ordinary Shares	100
Friends Sl Nominees Limited	Ordinary Shares	100
Friends Slolac Limited	Ordinary Shares	100
Friends Slua Limited	Ordinary Shares	100
Friends Slus Limited	Ordinary A Shares	100
Gateway Specialist Advice Services Limited	Ordinary Shares	100
Hengrove Park Bristol (Phase I) Management Company Limited	Ordinary Shares	100
Herax Nominees (No. 1) Limited	Ordinary Shares	100
Herax Nominees (No. 2) Limited	Ordinary Shares	100
Ifa Exchange Limited	Ordinary Shares	100
Ifa Network Limited	Ordinary Shares	100
Journey Financial Advice Limited	Ordinary Shares	100
London And Manchester Group Limited	Ordinary Shares	100
London Capital Holdings Limited	Ordinary Shares	100
Nbp Developments Limited	Ordinary Shares	100
North British Properties Limited	Ordinary Shares	100
Optimum Investment Solutions Limited	Ordinary Shares	100
Point One Limited	Ordinary Shares	100
Portfolio Member Services Limited	Ordinary Shares	100
Premier Mortgage Service Limited	Ordinary Shares	100
Regional Properties Limited	Ordinary Shares	100
Sb Loan Adminstration Limited	Ordinary Shares	100
Sb Mortgage Network Limited	Ordinary Shares	100
Sesame Bankhall Group Limited	Ordinary Shares	100
Sesame Bankhall Valuation Services Limited	Ordinary -A	75
Sesame Desktop Services Limited	Ordinary Shares	100
Sesame General Insurance Services Limited	Ordinary Shares	100
Sesame Investment Services Limited	Ordinary Shares	100
Sesame Limited	Ordinary Shares	100
Sesame Mortgages Limited	Ordinary Shares	100
Sesame Network Limited	Ordinary Shares	100
Sesame Regulatory Services Limited	Ordinary Shares	100
Sesame Select Services Limited	Ordinary Shares	100
Sesame Services Limited	Ordinary A Shares	100
Silicon Properties Limited	Ordinary Shares	100
Suntrust Limited	Ordinary Shares	100
The I.F.A. Training School Limited	Ordinary Shares	100
United Kingdom Temperance And General Provident Institution	Company Limited By Guarantee	100
Wealth Limited	Ordinary Shares	100
Aviva Management Services UK Limited	Ordinary Shares	100
Bankhall Support Services Limited	Ordinary Shares	100
The Green, Easter Park, Benyon Road, Reading, Berkshire, England, RG7 2PQ		
Anesco Mid Devon Limited	Ordinary Shares	100
Anesco South West Limited	Ordinary Shares	100
Free Solar (Stage 1) Limited	Ordinary Shares	100
New Energy Residential Solar Limited	Ordinary Shares	100
Norton Energy Sls Limited	Ordinary Shares	100
Tghc Limited	Ordinary Shares	100
Wakefield House , 67 Bewsey Street, Warrington , England, WA2 7JQ		
Sunrise Renewables (Hull) Limited	Ordinary Shares	100
8 Surrey Street, Norwich, Norfolk, NR1 3NG		
Aviva Central Services UK Limited	Ordinary Shares	100
Aviva Consumer Products UK Limited	Ordinary Shares	100
Aviva Health UK Limited	Ordinary Shares	100
Aviva Insurance UK Limited	Ordinary Shares	100
Aviva UKGI Investments Limited	Ordinary Shares	100
Gresham Insurance Company Limited	Ordinary Shares	100
Healthcare Purchasing Alliance Limited[2]	Ordinary A Shares	50
London And Edinburgh Insurance Company Limited	Ordinary Shares	100
RAC Pension Trustees Limited	Ordinary Shares	100
Solus (London) Limited	Ordinary Shares	100
Synergy Sunrise (Broadlands) Limited	Ordinary Shares	100
4th Floor, New London House, 6 London Street, London, EC3R 7LP		
Polaris U.K. Limited	Ordinary Shares	39
Wellington Row, York, YO90 1WR		
Aviva (Peak No.2) UK Limited	Ordinary Shares	100
Aviva Annuity UK Limited	Ordinary Shares	100
Aviva Client Nominees UK Limited	Ordinary Shares	100
Aviva Equity Release UK Limited	Ordinary Shares	100
Aviva ERFA 15 UK Ltd	Ordinary Shares	100
Aviva Life & Pensions UK Limited	Ordinary Shares	100
Aviva Life Holdings UK Limited	Ordinary Shares	100
Aviva Life Services UK Limited	Ordinary Shares	100

Company name	Share Class	% held
Aviva Pension Trustees UK Limited	Ordinary Shares	100
Aviva Wrap UK Limited	Ordinary Shares	100
Cgnu Life Assurance Limited	Ordinary Shares	100
Lancashire And Yorkshire Reversionary Interest Company Limited /The	Ordinary Shares	100
Norwich Union Life Insurance Company Limited	Ordinary Shares	100
Synergy Sunrise (Bowthorpe) Limited	Ordinary Shares	100
Synergy Sunrise (Sentinel House) Limited	Ordinary Shares	100
Synergy Sunrise (Yorkshire House) Limited	Ordinary Shares	100
Undershaft (Nulla) Limited	Ordinary Shares	100
5 Lister Hill, Horsforth, Leeds, England, LS18 5AZ		
Aspire Financial Management Limited	Ordinary Shares	47
Living In Retirement Limited	Ordinary Shares	47
Sinfonia Asset Management Limited	Ordinary Shares	47
Tenet Business Solutions Limited	Ordinary Shares	47
Tenet Client Services Limited	Ordinary Shares	47
Tenet Group Limited	Ordinary B Shares	47
Tenet Limited	Ordinary Shares	47
Tenet Valuation Services Ltd	Ordinary A Shares	47
Tenetconnect Limited	Ordinary Shares	47
Tenetfinancial Solutions Limited	Ordinary Shares	47
Tenetlime Limited	Ordinary Shares	47
Tenetselect Limited	Ordinary Shares	47
Tenetconnect Services Limited	Ordinary Shares	47
The Employee Benefits Corporation Limited	Ordinary A Shares, Reedeemable Ordinary Shares	37
No 1 Dorset Street , Southampton, SO15 2DP		
Colonial Management Limited	Company Limited By Guarantee	100
Friends Provident Pensions Services Limited	Ordinary Shares	100
Newgate Street Properties Limited	Ordinary Shares	100
Regional Properties Management Limited	Ordinary Shares	100
30 Finsbury Square, London, EC2P 2YU		
Defined Returns Limited	Ordinary Shares	29
Dextra Court Properties Limited	Ordinary Shares	100
Fp Finance Limited	Ordinary Shares	100
Friends Life Bha Limited	Ordinary Shares	100
Friends Pensions Limited	Ordinary Shares	100
Ifaengine Limited	Ordinary Shares	100
NDF Administration Limited	Ordinary Shares, Ordinary B Shares	33
Sesame Mortgage Services Limited	Ordinary Shares	100
Melrose House , 42 Dingwall Road , Croydon, England, CR0 2NE		
Health & Case Management Limited	Ordinary Shares, Preference Shares	25
2 Rougier Street, York, YO90 1UU		
Aviva Trustees UK Limited	Ordinary Shares	100

Company name	Share Class	% held
42 Dingwall Road, Croydon, Surrey, CR0 2NE		
Ballard Investment Company Limited	Ordinary Shares	25
Swan Court Waterman'S Business Park, Kingsbury Crescent, Staines, Surrey, TW18 3BA		
Healthcode Limited	Ordinary C Shares, Ordinary E Shares	20
1st Floor, 45 Grosvenor Road, St Albans, Hertfordshire, AL1 3AW		
Opal (UK) Holdings Limited	Ordinary Shares	29
Opal Information Systems Limited	Ordinary Shares	29
Outsourced Professional Administration Limited	Ordinary Shares	29
Synergy Financial Products Limited	Ordinary Shares	29
201 Bishopsgate, London, EC2M 3AE		
Optimum Investment Management Limited	Ordinary B Shares	50
Broadwalk House, 5 Appold Street, London, England And Wales, EC2A 2HA		
Percussion Properties Limited	Ordinary Shares	100
United States of America		
2711 Centerville Road, Ste 400, Wilimington DE 19808		
UKp Holdings Inc.	Common Stock Shares	100
Al-Recap Carry I, LP	Limited Partnership	100
Aviva Investors -Recap GP I, Llc	Limited Partnership	100
2222 Grand Avenue, Des Moines Ia 50312		
Aviva Investors North America Holdings, Inc	Common Stock Of No Par Value Shares	100
1209 Orange Street, City Of Wilmington, De 19801		
Ai-Recc I GBP, LLC	Sole Member	100
Aviva Investors Americas Llc	Sole Member	100
National Corporate Research Limited, 850 New Burton Road, Suite 201, Dover, Delaware Kent County 19904		
Winslade Investments Inc.	Common Stock Wpv Shares	100
c/o National Corporate Research Limtited, 615 S Dupont Hwy, Dover, DE 19901		
Exeter Properties Inc.	Common Stock Wpv Shares	95
Vietnam		
10th Floor, Handi Resco Building, No. 521 Kim Ma, Ba Dinh, Hanoi		
Vietinbank Aviva Life Insurance Company Limited[2]	Non-Listed Shares	50

1 Investment Company with Variable Capital ('ICVC')
Fond Common de Placement ('FCP')
Open Ended Investment Fund ('OEIC')
Société d'Investissement à Capital Variable ('SICAV')
Undertakings for Collective Investments in Transferrable Securities ('UCIT')
Irish Collective Asset Management Vechicle ('ICAV')
Authorised Contractual Scheme ('ACS')
2 Please refer to accounting policies (D) Consolidation principles, for further detail on Joint Ventures and the factors on which joint management is based.
3 These joint ventures have a 30 June financial year-end.

62 – Subsequent events

For details of subsequent events relating to:

- subsidiaries – refer to note 3 (d)
- joint ventures – refer to note 18 (c)
- insurance liabilities – refer to note 40 (c)(iii)
- organisational structure – refer to note 60

Income statement

For the year ended 31 December 2016

	Note	2016 £m	2015 £m
Income			
Dividends received from subsidiaries	I	**2,510**	1,250
Interest receivable from group companies	I	**56**	57
Net investment income		**28**	—
		2,594	1,307
Expenses			
Net investment expense		**—**	(3)
Operating expenses	B	**(603)**	(224)
Interest payable to group companies	I	**(182)**	(174)
Interest payable on borrowings		**(345)**	(344)
		(1,130)	(745)
Profit for the year before tax		**1,464**	562
Tax credit	C	**95**	115
Profit for the year after tax		**1,559**	677

Statement of comprehensive income

For the year ended 31 December 2016

	Note	2016 £m	2015 £m
Profit for the year		**1,559**	677
Other comprehensive (loss)/income			
Items that may be reclassified subsequently to income statement			
Fair value (losses)/gains on investments in subsidiaries and joint ventures	E	**(1,742)**	1,095
Items that will not be reclassified to income statement			
Remeasurements of pension schemes	E	**(6)**	—
Other comprehensive (loss)/income, net of tax		**(1,748)**	1,095
Total comprehensive (loss)/income for the year		**(189)**	1,772

Where applicable, the accounting policies of the Company are the same as those of the Group on pages 134 to 147. The notes identified alphabetically on pages 272 to 276 are an integral part of these separate financial statements. Where the same items appear in the Group financial statements, reference is made to the notes (identified numerically) on pages 154 to 267.

Statement of changes in equity

For the year ended 31 December 2016

	Note	Ordinary share capital £m	Preference share capital £m	Share premium £m	Merger reserve £m	Investment valuation reserve £m	Equity compensation reserve £m	Retained earnings £m	Direct capital instrument and fixed rate tier 1 notes £m	Total equity £m
Balance at 1 January		**1,012**	**200**	**1,185**	**6,438**	**10,863**	**70**	**3,124**	**1,116**	**24,008**
Profit for the year		**—**	**—**	**—**	**—**	**—**	**—**	**1,559**	**—**	**1,559**
Other comprehensive income		**—**	**—**	**—**	**—**	**(1,742)**	**—**	**(6)**	**—**	**(1,748)**
Total comprehensive income for the year		**—**	**—**	**—**	**—**	**(1,742)**	**—**	**1,553**	**—**	**(189)**
Dividends and appropriations	15	**—**	**—**	**—**	**—**	**—**	**—**	**(973)**	**—**	**(973)**
Reserves credit for equity compensation plans		**—**	**—**	**—**	**—**	**—**	**38**	**—**	**—**	**38**
Shares issued under equity compensation plans		**3**	**—**	**12**	**—**	**—**	**(30)**	**26**	**—**	**11**
Novation of subsidiary company's tier 1 notes		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Issue of share capital – acquisition of Friends Life		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Aggregate tax effect	C	**—**	**—**	**—**	**—**	**—**	**—**	**17**	**—**	**17**
Balance at 31 December		**1,015**	**200**	**1,197**	**6,438**	**9,121**	**78**	**3,747**	**1,116**	**22,912**

For the year ended 31 December 2015

	Note	Ordinary share capital £m	Preference share capital £m	Share premium £m	Merger reserve £m	Investment valuation reserve £m	Equity compensation reserve £m	Retained earnings £m	Direct capital instrument and fixed rate tier 1 notes £m	Total equity £m
Balance at 1 January		737	200	1,172	735	9,768	65	3,137	892	16,706
Profit for the year		—	—	—	—	—	—	677	—	677
Other comprehensive income		—	—	—	—	1,095	—	—	—	1,095
Total comprehensive income for the year		—	—	—	—	1,095	—	677	—	1,772
Dividends and appropriations	15	—	—	—	—	—	—	(724)	—	(724)
Reserves credit for equity compensation plans		—	—	—	—	—	40	—	—	40
Shares issued under equity compensation plans		3	—	13	—	—	(35)	19	—	—
Novation of subsidiary company's tier 1 notes		—	—	—	—	—	—	—	224	224
Issue of share capital – acquisition of Friends Life		272	—	—	5,703	—	—	—	—	5,975
Aggregate tax effect	C	—	—	—	—	—	—	15	—	15
Balance at 31 December		1,012	200	1,185	6,438	10,863	70	3,124	1,116	24,008

Where applicable, the accounting policies of the Company are the same as those of the Group on pages 134 to 147. The notes identified alphabetically on pages 272 to 276 are an integral part of these separate financial statements. Where the same items appear in the Group financial statements, reference is made to the notes (identified numerically) on pages 154 to 267.

Statement of financial position

As at 31 December 2016

	Note	2016 £m	2015 £m
Assets			
Non-current assets			
Investments in subsidiaries	A	**40,521**	42,452
Investment in joint venture	18a, A	**511**	322
Loans owed by subsidiaries	I	**5,941**	553
Deferred tax assets	C	**156**	191
Current tax assets	C	**135**	130
		47,264	43,648
Current assets			
Other amounts owed by subsidiaries	I	**321**	233
Other assets		**11**	12
Cash and cash equivalents		**82**	188
Total assets		**47,678**	44,081
Equity			
Ordinary share capital	30	**1,015**	1,012
Preference share capital	33	**200**	200
Called up capital		**1,215**	1,212
Share premium	30b	**1,197**	1,185
Merger reserve	E	**6,438**	6,438
Investment valuation reserve	E	**9,121**	10,863
Equity compensation reserve	E	**78**	70
Retained earnings	E	**3,747**	3,124
Direct capital instrument and tier 1 notes	34, D	**1,116**	1,116
Total equity		**22,912**	24,008
Liabilities			
Non-current liabilities			
Borrowings	F	**6,638**	5,202
Loans owed to subsidiaries	I	**13,098**	10,256
Deferred tax liabilities	C	**4**	3
Provisions		**47**	40
		19,787	15,501
Current liabilities			
Borrowings	F	**642**	485
Loans owed to subsidiaries	I	**156**	—
Other amounts owed to subsidiaries	I	**4,042**	3,962
Other creditors		**139**	125
Total liabilities		**24,766**	20,073
Total equity and liabilities		**47,678**	44,081

Approved by the Board on 8 March 2017.

Thomas D. Stoddard
Chief Financial Officer

Company number: 2468686

Where applicable, the accounting policies of the Company are the same as those of the Group on pages 134 to 147. The notes identified alphabetically on pages 272 to 276 are an integral part of these separate financial statements. Where the same items appear in the Group financial statements, reference is made to the notes (identified numerically) on pages 154 to 267.

Statement of cash flows

For the year ended 31 December 2016

All the Company's operating cash requirements are met by subsidiary companies and settled through intercompany loan accounts. As the direct method of presentation has been adopted for these activities, no further disclosure is required. In respect of financing and investing activities, the following items pass through the Company's own bank accounts.

	2016 £m	2015 £m
Cash flows from investing activities		
Sale/(purchase) of financial investments	**29**	(5)
Net cash generated from/(used in) investing activities	**29**	(5)
Cash flows from financing activities		
Funding provided from subsidiaries	**11**	721
New borrowings drawn down, net of expenses	**3,378**	2,027
Repayment of borrowings	**(2,285)**	(1,554)
Net drawdown of borrowings	**1,093**	473
Preference dividend paid	**(17)**	(17)
Ordinary dividend paid	**(871)**	(635)
Interest paid on direct capital instrument and tier 1 notes	**(85)**	(72)
Interest paid on borrowings	**(330)**	(328)
Treasury shares purchased for employee trusts	**—**	(1)
Proceeds from issue of ordinary shares	**13**	16
Net cash (used in)/generated from financing activities	**(186)**	157
Net (decrease)/increase in cash and cash equivalents	**(157)**	152
Cash and cash equivalents at 1 January	**188**	33
Exchange gains on cash and cash equivalents	**51**	3
Cash and cash equivalents at 31 December	**82**	188

Where applicable, the accounting policies of the Company are the same as those of the Group on pages 134 to 147. The notes identified alphabetically on pages 272 to 276 are an integral part of these separate financial statements. Where the same items appear in the Group financial statements, reference is made to the notes (identified numerically) on pages 154 to 267.

A – Investments in subsidiaries and joint venture

(i) Subsidiaries
Movements in the Company's investments in its subsidiaries are as follows:

	2016 £m	2015 £m
Fair value as at 1 January	**42,452**	33,930
Acquisition of Friends Life	**—**	5,975
Issuance of shares in Aviva Group Holdings	**—**	1,566
Movement in fair value	**(1,931)**	981
At 31 December	**40,521**	42,452

Fair values are estimated using applicable valuation models underpinned by the Company's market capitalisation, and are classified as Level 2 in the fair value hierarchy described in note 22 to the Group consolidated financial statements.

At 31 December 2016, the Company has two wholly owned subsidiaries, both incorporated in the UK. These are General Accident plc and Aviva Group Holdings Limited. Aviva Group Holdings Limited is an intermediate holding company, while General Accident plc has preference shares listed on the London Stock Exchange. The principal subsidiaries of the Aviva Group at 31 December 2016 are set out in note 60 to the Group consolidated financial statements.

(ii) Joint venture
At 31 December 2016, the Company's investment in the joint venture, Aviva-COFCO Life Insurance Co. Limited has a fair value of £511 million *(2015: £322 million)*.

B – Operating expenses
(i) Operating expenses
Operating expenses comprise:

	2016 £m	2015 £m
Staff costs and other employee related expenditure (see below)	**97**	82
Other operating costs	**127**	201
Net foreign exchange losses/(gains)	**379**	(59)
Total	**603**	224

(ii) Staff costs
Total staff costs were:

	2016 £m	2015 £m
Wages and salaries	**57**	49
Social security costs	**8**	7
Defined contribution schemes	**8**	8
Equity compensation plans (see (iii) below)	**19**	16
Termination benefits	**5**	2
Total	**97**	82

(iii) Employee numbers
The staff costs recognised by the Company represent recharges of employee related expenses attributable to the Company. The number of persons employed by the Company was nil *(2015: nil)*.

(iv) Equity compensation plans
All transactions in the Group's equity compensation plans involve options and awards for ordinary shares of the Company. Full disclosure of these plans is given in the Group consolidated financial statements, note 31. The cost of such options and awards is borne by all participating businesses and, where relevant, the Company bears an appropriate charge. As the majority of the charge to the Company relates to directors' options and awards, for which full disclosure is made in the Directors' Remuneration Report, no further disclosure is given here.

C – Tax

(i) Tax credited to the income statement

The total tax credit comprises:

	2016 £m	2015 £m
Current tax		
For this year	**(131)**	(129)
Prior year adjustments	**(1)**	1
Total current tax	**(132)**	(128)
Deferred tax		
Origination and reversal of temporary differences	**26**	1
Changes in tax rates or tax laws	**11**	20
Recognition of unprovided deferred tax assets	**—**	(8)
Total deferred tax	**37**	13
Total tax credited to income statement	**(95)**	(115)

Unrecognised tax losses and temporary differences of previous years were used to reduce the deferred tax expense by £nil *(2015: £8 million)*.

(ii) Tax credited to other comprehensive income

Tax credited directly to other comprehensive income is £1 million *(2015: £nil)*. This comprises deferred tax credited on the remeasurement of the pension scheme.

(iii) Tax credited to equity

Tax credited directly to equity in the year, in respect of coupon payments on the direct capital instrument and tier 1 notes, amounted to £17 million *(2015: £15 million)*.

(iv) Tax reconciliation

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

	2016 £m	2015 £m
Profit before tax	**1,464**	562
Tax calculated at standard UK corporation tax rate of 20% (2015: 20.25%)	**293**	114
Adjustment to tax charge in respect of prior years	**(1)**	1
Non-assessable dividend income	**(502)**	(253)
Disallowable expenses	**8**	10
Movement in unprovided deferred tax	**—**	(8)
Different local basis of tax on overseas profits	**1**	1
Change in future local statutory tax rates	**6**	20
Losses surrendered intra-group for nil value	**100**	—
Total tax credited to income statement	**(95)**	(115)

Finance (No 2) Act 2015 introduced legislation reducing the rate of corporation tax from 20% at 1 April 2016 to 19% from 1 April 2017 and to 18% from 1 April 2020. The Finance Act 2016, which received Royal Assent on 15 September 2016, will reduce the corporation tax rate further to 17% from 1 April 2020.

The reductions in rate from 20% to 19% and then to 17% have been used in the calculation of the UK's deferred tax assets and liabilities as at 31 December 2016. The reduction in the future corporation tax rates has resulted in a reduction in the net deferred tax asset of £11 million charged to the income statement. This is offset by a rate change credit of £5 million, reflecting a partial utilisation of the deferred tax asset within current tax, resulting in a net £6 million charge noted in the tax reconciliation.

(v) Deferred tax

The prior year net deferred tax asset of £188 million has been reclassified as a deferred tax asset of £191 million and a deferred tax liability of £3 million in the balance sheet, to reflect the revised disclosure required.

A deferred tax asset of £156 million *(2015: £191 million)*, arising in respect of deferred interest, and a deferred tax liability of £4 million *(2015: £3 million)* in respect of unremitted earnings, has been recognised at 31 December 2016 at 17% *(2015: 18%)*. The Company does not have any unrecognised temporary differences *(2015: £nil)*.

(vi) Current tax assets

Current tax assets recoverable in more than one year are £135 million *(2015: £130 million)*.

D – Direct capital instrument and tier 1 notes

Details of the Direct Capital instrument and tier 1 notes are given in the Group consolidated financial statements, note 34. The 6.875% £210 million STICS are reflected in the Company financial statements at a value of £224 million *(2015: £224 million)* following the transfer at fair value from Friends Life Holdings plc on 1 October 2015.

E – Reserves

	Merger Reserve £m	Investment valuation reserve £m	Equity-compensation reserve £m	Retained earnings £m
Balance at 1 January 2015	735	9,768	65	3,137
Arising in the year:				
Profit for the year	—	—	—	677
Fair value gains on investments in subsidiaries and joint venture	—	1,095	—	—
Premium gained as part of Friends Life acquisition	5,703	—	—	—
Dividends and appropriations	—	—	—	(724)
Reserves credit for equity compensation plans	—	—	40	—
Issue of share capital under equity compensation scheme	—	—	(35)	19
Aggregate tax effect	—	—	—	15
Balance at 31 December 2015	**6,438**	**10,863**	**70**	**3,124**
Arising in the year:				
Profit for the year	**—**	**—**	**—**	**1,559**
Fair value gains on investments in subsidiaries and joint venture	**—**	**(1,742)**	**—**	**—**
Remeasurements of pension schemes	**—**	**—**	**—**	**(6)**
Dividends and appropriations	**—**	**—**	**—**	**(973)**
Reserves credit for equity compensation plans	**—**	**—**	**38**	**—**
Issue of share capital under equity compensation scheme	**—**	**—**	**(30)**	**26**
Aggregate tax effect	**—**	**—**	**—**	**17**
Balance at 31 December 2016	**6,438**	**9,121**	**78**	**3,747**

The tax effect of £17 million *(2015: £15 million)* is recognised in respect of coupon payments of £85 million *(2015: £72 million)* on the direct capital instrument and tier 1 notes.

F – Borrowings

The Company's borrowings comprise:

	2016 £m	2015 £m
Subordinated debt	**5,916**	5,202
Senior notes	**722**	—
Commercial paper	**642**	485
	7,280	5,687

Maturity analysis of contractual undiscounted cash flows:

	2016			2015		
	Principal £m	**Interest £m**	**Total £m**	Principal £m	Interest £m	Total £m
Within 1 year	**642**	**328**	**970**	485	303	788
1 – 5 years	**570**	**1,305**	**1,875**	—	1,212	1,212
5 – 10 years	**427**	**1,572**	**1,999**	—	1,514	1,514
10 – 15 years	**800**	**1,554**	**2,354**	800	1,514	2,314
Over 15 years	**4,898**	**3,499**	**8,397**	4,448	3,496	7,944
Total contractual undiscounted cash flows	**7,337**	**8,258**	**15,595**	5,733	8,039	13,772

Where subordinated debt is undated, the interest payments have not been included beyond 15 years. Annual interest payments in future years for these borrowings are £49 million *(2015: £49 million)*.

The fair value of the subordinated debt at 31 December 2016 was £6,376 million *(2015: £5,504 million)*, calculated with reference to quoted prices. The fair value of the senior debt at 31 December 2016 was £720 million *(2015: £nil)*, calculated with reference to quoted prices. The fair value of the commercial paper is considered to be the same as its carrying value.
Further details of these borrowings and undrawn committed facilities can be found in the Group consolidated financial statements, note 49, with details of the fair value hierarchy in relation to these borrowings in note 22.

G – Contingent liabilities

Details of the Company's contingent liabilities are given in the Group consolidated financial statements, note 52.

H – Risk management

Risk management in the context of the Group is considered in the Group consolidated financial statements, note 56.

The business of the Company is managing its investments in subsidiary and joint venture operations. Its risks are considered to be the same as those in the operations themselves and full details of the major risks and the Group's approach to managing these are given in the Group consolidated financial statements, note 56. Such investments are held by the Company at fair value in accordance with accounting policy D.

The fair values of the subsidiaries and joint ventures are estimated using applicable valuation models, underpinned by the Company's market capitalisation. This uses the Company's closing share price at year end. Given that the key input into the valuation model is based on an observable current share price, and therefore sensitive to movements in that price, the valuation process is not sensitive to non-observable market assumptions.

Financial assets, other than investments in subsidiaries and the joint venture, largely consist of amounts due from subsidiaries. As at the balance sheet date, these receivable amounts were neither past due nor impaired.

Financial liabilities owed by the Company as at the balance sheet date are largely in respect of borrowings (details of which are provided in note F and the Group consolidated financial statements, note 49) and loans owed to subsidiaries. Loans owed to subsidiaries were within agreed credit terms as at the balance sheet date.

Interest rate risk

Loans to and from subsidiaries are at either fixed or floating rates of interest, with the latter being exposed to fluctuations in these rates. The choice of rates is designed to match the characteristics of financial investments (which are also exposed to interest rate fluctuations) held in both the Company and the relevant subsidiary, to mitigate as far as possible each company's net exposure.

All the Company's long term external borrowings are at fixed rates of interest and are therefore not exposed to changes in these rates. However, for short term commercial paper, the Company is affected by changes in these rates to the extent the redemption of these borrowings is funded by the issuance of new commercial paper or other borrowings. Further details of the Company's borrowings are provided in note F and the Group consolidated financial statements, note 49.

The effect of a 100 basis point increase/decrease in interest rates on floating rate loans due to and from subsidiaries and on refinancing short term commercial paper as it matures would be a decrease/increase in profit before tax of £108 million *(2015: decrease/increase of £106 million)*. The net asset value of the Company's financial resources is not materially affected by fluctuations in interest rates.

Currency risk

The Company's direct subsidiaries are exposed to foreign currency risk arising from fluctuations in exchange rates during the course of providing insurance and asset management services around the world. The exposure of the subsidiaries to currency risk is considered from a Group perspective in the Group consolidated financial statements, note 56(c)(v).

The Company faces exposure to foreign currency risk through some of its borrowings which are denominated in Euros. However, most of these borrowings have been on-lent to a subsidiary which holds investments in Euros, generating the net investment hedge described in the Group consolidated financial statements, note 57(a).

Liquidity risk

Liquidity risk is the risk of not being able to make payments as they become due because there are insufficient assets in cash form. The Company's main sources of liquidity are liquid assets held within the Company and its subsidiaries Aviva Group Holdings Limited and Friends Life Holdings plc, and dividends received from the Group's insurance and asset management businesses. Sources of liquidity in normal markets also includes a variety of short and long-term instruments including commercial papers and medium and long-term debt. In addition to the existing liquid resources and expected inflows, the Company maintains significant undrawn committed borrowing facilities (£1,650 million) from a range of leading international banks to further mitigate this risk.

Maturity analysis of external borrowings and amounts due to and by subsidiaries are provided in notes F and I respectively.

I – Related party transactions

The Company receives dividend and interest income from subsidiaries and pays interest and fee expense to those subsidiaries in the normal course of business. These activities are reflected in the table below.

Loans to and from subsidiaries are made on normal arm's-length commercial terms. The maturity analysis of the related party loans is as follows:

Loans owed by subsidiaries

Maturity analysis	2016 £m	2015 £m
Within 1 year	—	—
1 – 5 years	3,111	369
Over 5 years	2,830	184
Total	**5,941**	553

I – Related party transactions continued
Loans owed to subsidiaries

Maturity analysis of contractual undiscounted cash flows:	Principal £m	Interest £m	Total £m	Principal £m	Interest £m	Total £m
	2016			2015		
Within 1 year	**156**	**143**	**299**	—	132	132
1 – 5 years	**13,098**	**336**	**13,434**	10,256	132	10,388
Over 5 years	**—**	**—**	**—**	—	—	—
Total	**13,254**	**479**	**13,733**	10,256	264	10,520

Other related party balances comprise dividends and interest receivable and payable, as well as intercompany balances for fees and other transactions in the normal course of business.

Within the 2016 loan principal balance is £9,990 million relating to a facility provided by General Accident plc. This loan has a maturity date of 31 December 2017, however it is the intention of both parties that this facility will be renewed in full upon maturity and has been presented within 1 – 5 years maturity.

Dividends, loans, interest
Services provided to related parties

	2016 Income earned in year £m	2016 Receivable at year end £m	2015 Income earned in year £m	2015 Receivable at year end £m
Subsidiaries	**2,566**	**6,262**	1,307	786

The Company incurred expenses in the year of £222,096 *(2015: £212,750)* representing audit fees paid by the Company on behalf of subsidiaries. The Company did not recharge subsidiaries for these expenses.

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

Services provided by related parties

	2016 Expense incurred in year £m	2016 Payable at year end £m	2015 Expense incurred in year £m	2015 Payable at year end £m
Subsidiaries	**182**	**17,296**	174	14,218

Of the related parties' payables, £7,306 million *(2015: £4,118 million)* are not secured and no guarantees were received in respect thereof. The remaining £9,990 million *(2015: £10,100 million)* are secured against the ordinary share capital of Aviva Group Holdings Limited. The payables will be settled in accordance with normal credit terms. Details of guarantees, indemnities and warranties given by the Company on behalf of related parties are given in note 52(f).

The directors and key management of the Company are considered to be the same as for the Group. Information on both the Company and Group key management compensation can be found in note 59.

J – Subsequent events
There are no subsequent events to report.

OTHER INFORMATION – PERFORMANCE REVIEW

IN THIS SECTION

Financial and operating performance

Our main activities are the provision of products and services in relation to long-term insurance and savings, general, accident and health insurance and fund management.

Factors affecting results of operations

Our financial results are affected, by a number of external factors, including demographic trends, general economic and market conditions, government policy and legislation and exchange rate fluctuations. See 'Other information – Risk and capital management' for more information on these and other risk factors. In addition, our financial results are affected by corporate actions taken by the Group, including acquisitions, disposals and other actions aimed at achieving our stated strategy. We believe that all of these factors will continue to affect our results in the future.

During the year, sterling weakened against the euro, Canadian dollar and Polish zloty which has benefitted the overall results and performance. See IFRS financial statements – note 2 – Exchange rates. In addition, the Group undertook the following actions which impacted the overall results and performance:

- In 2016, the Group completed a number of acquisitions and disposals. See 'IFRS Financial statements – note 3 – Subsidiaries' for further details:
  - On 1 July 2016, the Group completed the acquisition of RBC General Insurance Company (RBC) in Canada.
  - The Group also completed the acquisition of an additional 23% share in Aviva Life Insurance Company India Limited, and the disposal of its Irish private medical insurance business.
- Following the change in the Ogden discount rate from 2.5% to minus 0.75% as announced by the Lord Chancellor on 27 February 2017, an exceptional charge within other non-operating items of £475 million *(2015: £nil)* has been recognised by the Group.
- The Group continued to undertake restructuring and transformation activity to align our business operations with our strategy. Integration and restructuring costs decreased to £212 million *(2015: £379 million)*, as a result of lower integration spend relating to the Friends Life acquisition and lower Solvency II project costs. This was partly offset by costs related to the RBC acquisition.

There was a favourable movement of £311 million *(2015: £235 million adverse)* relating to the Group's staff pension schemes which has been recognised in other comprehensive income. This was principally due to increased asset values driven by a reduction in interest rates in the UK, partly offset by an increase in the defined benefit obligation following a decrease in the UK discount rate. See 'IFRS Financial statements – note 48 – Pension obligations' for further details.

Technological change

Our industry is not immune to the rapid pace of technological change, which shows no sign of letting up. Customer expectations, including distribution preferences, are changing rapidly in some of our markets and can be expected to do the same in the others. Digital remains crucial to our future success. By putting Digital First, a key element of our Group strategy, we can support customers more quickly with their enquiries and transactions, wherever they are in the world.

Demographic trends

Our results are affected by the demographic make-up of the countries in which we operate. The types of products that we sell reflect the needs of our customers. For example, in countries with a high proportion of older people, a larger proportion of our sales will reflect their needs for pre-and post-retirement planning. Our sales levels will also be impacted by our ability to help provide useful information to such policyholders on retirement planning and to offer products that are competitive and respond to such policyholders' needs.

In our long-term insurance and savings business we make assumptions about key non-economic factors, such as the mortality rate that we expect to be experienced by our policyholders. In countries where the life expectancy is growing, this will need to be reflected in our pricing models as lower mortality rates will increase profitability of life insurance products but will reduce the returns on annuity products. We review our assumptions against our own experience and industry expectations.

Economic conditions

Our results are affected by the economic conditions in our geographic markets and, consequently, by economic cycles in those markets. High levels of general economic activity typically result in high levels of demand for, and sales of, our products and services. Economic activity in turn is affected by government monetary and fiscal policy as well as by global trading conditions and external shocks such as terrorist activity, war and oil price movements.

2016 saw continued volatility in global economic activity, leading to subdued global growth overall. Advanced economies continued their modest recovery, while emerging markets were stable, ending the decline of the previous five years.

The economies where the Group has operations that were impacted in 2016 by estimated low growth include: Italy 0.9%[2], France 1.3%[1] and Canada 1.3%[1]. Economic growth in the UK was at 2.0%[1]. Some of our other markets experienced stronger growth, for example 3.3%[2] in Turkey, 3.1%[2] in Poland, and 6.7%[1] in China.

The world economy is expected to grow c.3.4%[1] in 2017 and 3.6%[1] in 2018, slightly higher than the previous two years (growth was 3.1%[1] in 2016 and 3.2%[1] in 2015). Economic activity is projected to pick up in 2017 and 2018, especially in emerging markets and developing economies. Advanced economies led by the US, are expected to continue their recovery, with the eurozone and UK growing more slowly. However, there is considerable uncertainty around this forecast, in view of potential changes in the economic policy stance of the US under the newly elected administration and future macroeconomic outcomes following the UK referendum result in favour of leaving the European Union. Risks remain weighted to the downside.

Capital and credit market conditions

An important part of our business involves investing client, policyholder and shareholder funds across a wide range of financial investments, including equities, fixed income securities and properties. Our results are sensitive to volatility in the market value of these investments, either directly because we bear some or all of the investment risk, or indirectly because we earn management fees for investments managed on behalf of policyholders.

Investment market conditions also affect the demand for a substantial portion of our life insurance products. In general, rising equity price levels have a positive effect on the demand for equity-linked products, such as unit trusts and unit-linked life insurance products, and conversely have a negative effect on the demand for products offering fixed or guaranteed minimum rates of return. Declining equity price levels tend to have the opposite effects.

1 International Monetary Fund world economic outlook (January 2017)
2 International Monetary Fund world economic outlook (October 2016)

General insurance and health underwriting cycle

Our general insurance and health business is comprised of our property and casualty insurance and health insurance operations. In 2016, general insurance and health sales accounted for 39% of Group net written premiums (NWP). Demand for general insurance is usually price-sensitive because of the limited degree of product differentiation inherent in the industry. As a result, the price of insuring property and casualty risks is subject to a cycle (called an underwriting cycle). In periods when the price of risk is high, the high profitability of selling insurance attracts new entrants and hence new capital into the market. Increased competition, however, drives prices down. Eventually the business becomes uneconomic and some industry players, suffering from losses, exit the market while others fail, resulting in lower capital invested within the market. Decreased competition leads to increasing prices, thereby repeating the cycle. Our various general insurance markets are not always at the same stage of the underwriting cycle.

During 2016, the UK personal motor market saw prices continue to rise, in part reflecting current levels of claims inflation. Challenging market conditions remain in other UK classes of business as insurers seek opportunities to gain share in segments with better margin, putting pressure on rates and extent of cover.

We expect the underwriting cycle to continue in the future but to be less pronounced than in the past. Capital markets are imposing financial discipline by being increasingly more demanding about performance from insurance companies before extending new capital. Such discipline, together with the increased concentration of competitors within the market, and the adoption of more advanced pricing methods, is expected to make the underwriting cycle less pronounced in the future.

Natural and man-made disasters

Our general insurance business results are affected by the amount of claims we need to pay out which, in turn, can be subject to significant volatility depending on many factors, including natural and man-made disasters. Natural disasters arise from adverse weather, earthquakes and other such natural phenomena. Man-made disasters include accidents and intentional events, such as acts of terrorism. These events are difficult to predict with a high degree of accuracy, although they generally occur infrequently at a material level. Our exposure to large disasters is somewhat reduced through our focus on personal lines business and small to medium sized commercial risks in the general insurance business. The Group cedes the majority of its worldwide catastrophe risk to third-party reinsurers.

Government policy and legislation

Changes in government policy and legislation are applicable to our business in many of the markets in which we operate, particularly in the UK and may affect the results of our operations. These include changes to the tax treatment of financial products and services, government pension arrangements and policies, the regulation of selling practices and the regulation of solvency standards. Such changes may affect our existing and future business by, for example, requiring us to change our range of products and services, causing customers to cancel existing policies, requiring us to redesign our technology, requiring us to retrain our staff or increase our tax liability. As a global business, we are exposed to various local political, regulatory and economic conditions, and business risks and challenges which may affect the demand for our products and services, the value of our investments portfolio and the credit quality of local counterparties. Our regulated business is subject to extensive regulatory supervision both in the UK and internationally. For details please refer to the section 'Shareholder information – Regulation'.

Exchange rate fluctuations

We publish our consolidated financial statements in pounds sterling. Due to our substantial non-UK operations, a significant portion of our operating earnings and net assets are denominated in currencies other than sterling, most notably the euro, Canadian dollar and the Polish zloty. As a consequence, our results are exposed to translation risk arising from fluctuations in the values of these currencies against sterling.

We generally do not hedge foreign currency revenues, as we retain local currency in each business to support business growth, to meet local and regulatory market requirements and to maintain sufficient assets in local currency to match local currency liabilities.

Movements in exchange rates may affect the value of consolidated shareholders' equity, which is expressed in sterling. Exchange differences taken to other comprehensive income arise on the translation of the net investment in foreign subsidiaries, associates and joint ventures. This aspect of foreign exchange risk is monitored centrally against limits that we have set to control the extent to which capital deployment and capital requirements are not aligned. We use currency borrowings and derivatives when necessary to keep currency exposures within these predetermined limits, and to hedge specific foreign exchange risks when appropriate; for example, in any acquisition or disposal activity.

During 2016, sterling weakened against a number of currencies including the euro, Canadian dollar and Polish zloty. This resulted in a foreign currency gain in other comprehensive income of £1,128 million *(2015: £378 million loss).*

The impact of these fluctuations is limited to a significant degree, however, by the fact that revenues, expenses, assets and liabilities within our non-UK operations are generally denominated in local currencies.

Acquisitions and disposals
Over the last three years we have completed and announced a number of transactions, some of which have had a material impact on our results. These transactions reflect our strategic objectives of narrowing our focus to businesses where we seek to produce attractive returns and exit businesses which we do not consider central to our future growth.

Activity in 2016
On 1 July 2016, the Group completed the acquisition of RBC in Canada for a consideration of £374 million (CAD$648 million).

During 2016, the Group also increased its associate holding in India to 49% and sold its stake in its Irish private medical insurance business and a closed book of offshore bonds business.

Further details can be found in the section 'IFRS Financial statements – note 3 – Subsidiaries'.

Activity in 2015
On 10 April 2015, the Group completed the acquisition of 100% of the outstanding shares of Friends Life Group Limited ('Friends Life') through an all share exchange. 1,086,326,606 Group shares were issued for a consideration of £5,975 million. During 2015 the Group also completed other minor acquisitions, undertook a further sale of shares in our Turkey Life business, and sold some small reinsurance operations in Asia.

Basis of earnings by line of business
Our earnings originate from four main lines of business: our long-term insurance and savings business, which includes a range of life insurance and savings products; general insurance, which focuses on personal and commercial lines; health insurance and fund management, which manages funds on behalf of our long-term insurance and general insurance businesses, external institutions, pension funds and retail clients. These lines of business are present in our various operating segments to a greater or lesser extent.

In the UK, we have major long-term insurance and savings businesses and general insurance and health businesses; in Europe we have long-term insurance and savings businesses in all countries in which we operate, large general insurance businesses in France, Ireland and Italy, and smaller general insurance operations in several other countries and a health business in France; in Canada we have a leading general insurance operation; in Asia we predominantly have long-term insurance and savings businesses. Our fund management businesses operate across Europe, Asia, North America and the UK.

Long-term insurance and savings business
For most of our life insurance businesses, such as those in the UK and France, operating earnings are generated principally from our in-force books of business. Our in-force books consist of business written in prior years and on which we continue to generate profits for shareholders. Under IFRS, certain costs incurred in acquiring new business must be expensed, thereby typically giving rise to a loss in the period of acquisition, although the degree of this effect will depend on the pricing structure of product offerings. In certain higher growth markets, current year sales have a more significant effect on current year operating earnings.

UK with-profits business
With-profits products are mainly written in our UK & Ireland operating segment, with small funds in France and Singapore. With-profits products are designed to pay policyholders smoother investment returns through a combination of regular bonuses and final bonuses. These funds enable policyholders to participate in a large pool of diverse investments, therefore reducing their exposure to individual securities or asset classes. The investment pool is managed by us with returns to with-profits policyholders paid through bonuses which are added to the value of their policy. Shareholders also have a participating interest in the with-profits funds and any declared bonuses. Shareholders' profit emerges from this business in direct proportion to policyholder bonuses as shareholders receive up to one-ninth of the value of each year's bonus declaration to policyholders. Accordingly, the smoothing inherent in the bonus declarations provides for relatively stable annual shareholders' profit from this business. The most significant factors that influence the determination of bonus rates are the return on the investments of the with-profits funds and expectations about future investment returns. Actual and expected investment returns are affected by, among other factors, the mix of investments supporting the with-profits fund, which in turn is influenced by the extent of the inherited estate within the with-profits fund. While bonuses can never be negative, a predicted sustained fall in equity markets could lead to a reduction in regular and final bonus rates, thereby reducing both policyholder returns and shareholders' profit under IFRS.

The annual excess of premiums and investment return over operating expenses, benefit provisions and claims payments within our with-profits funds that are not distributed as bonuses and related shareholders' profit is transferred from the income statement to the unallocated divisible surplus. Conversely, if a shortfall arises one year, for example because of insufficient investment return, a transfer out of the unallocated divisible surplus finances bonus declarations and related shareholders' profit.

The unallocated divisible surplus consists of future (as yet undetermined) policyholder benefits, associated shareholders' profit and the inherited estate. The inherited estate serves as working capital for our with-profits funds. It affords the with-profits funds a degree of freedom to invest a substantial portion of the funds' assets in investments yielding higher returns than might otherwise be obtainable while continuing to demonstrate solvency.

Other participating business
Outside of the UK, most of our long-term operations write participating business. This is predominantly savings or pensions business, where the policyholders receive guaranteed minimum investment returns, and additional earnings are shared between policyholders and shareholders in accordance with local regulatory and policy conditions. This may also be referred to as 'with-profits' business.

Other long-term insurance and savings business
Non-profit business falls into two categories: investment type business and risk cover and annuity business.

Investment type business, which accounts for most of our non-profit business, includes predominantly unit-linked life and pensions business where the risk of investing policy assets is borne entirely by the policyholder. Operating earnings arise from unit-linked business when fees charged to policyholders based on the value of the policy assets exceed costs of acquiring new business and administration costs. Shareholders bear the risk of investing shareholder capital in support of these operations.

Risk cover business includes term assurance, or term life insurance business. Annuity business includes immediate annuities purchased for individuals or on a bulk purchase basis for groups of people. The risk of investing policy assets in this business is borne entirely by the shareholders. Operating earnings arise when premiums, and investment return earned on assets supporting insurance liabilities and shareholder capital, exceed claims and benefit costs, costs of acquiring new business and administration costs.

General insurance and health business
Operating earnings within our general insurance and health business arise when premiums and investment return earned on assets supporting insurance liabilities and shareholder capital exceed claims costs, costs of acquiring new business and administration costs.

Fund management
Fund management operating earnings consist of fees earned for managing policyholder funds and external retail and institutional funds on behalf of clients, net of operating expenses.

Arrangements for the management of proprietary funds are conducted on an arm's length basis between our fund management and insurance businesses. Such arrangements exist mainly in the UK, France, Ireland and Canada. Proprietary insurance funds in most other countries are externally managed.

Other operations
Other operations include our operations other than insurance and fund management, including Group Centre expenses.

Financial highlights

The following analysis is based on our consolidated financial statements and should be read in conjunction with those statements. In order to fully explain the performance of our business, we discuss and analyse the results of our business in terms of certain financial measures which are based on 'non-GAAP measures' and which we use for internal monitoring purposes. We review these in addition to GAAP measures, such as profit before and after tax.

The remainder of the financial performance section focuses on the activity of the Group's continuing operations.

Non-GAAP measures
Sales
The total sales of the Group consist of long-term insurance and savings new business sales and general insurance and health net written premiums (excluding long-term health business).

Long-term insurance and savings new business sales
Sales of the long-term insurance and savings business consist of:

- Insurance and participating investment business
  - This includes traditional life insurance, long-term health, annuity business and with-profits business.
  - There is an element of insurance risk borne by the Group therefore, under IFRS, these are reported within net written premiums.
- Non-participating investment business
  - This includes unit-linked business and pensions business.
  - The amounts received for this business are treated as deposits under IFRS and an investment management fee is earned on the funds deposited.
  - For new business reporting in the UK, companies continue to report non-participating investment business within their 'covered business' sales, in line with the historic treatment under UK GAAP.
- Non-covered business or investment sales:
  - These include retail sales of mutual fund type products.
  - There is no insurance risk borne by the Group therefore, under IFRS, these are treated as deposits and an investment management fee income is earned on the funds deposited.

Sales is a non-GAAP financial measure and financial performance indicator that we report to our key decision makers in the businesses in order to help assess the value of new business from our customers and compare performance across the markets in which we operate.

For long-term insurance and savings new business, we define sales as the sum of the present value of new business premiums (PVNBP) of life, pension and savings products and investment sales.

PVNBP is equal to the present value of new regular premiums, plus total single premiums from new business written at the point of sale. It includes any changes to existing contracts, which were not anticipated at the outset of the contract that generates additional shareholder risk and associated premium income of the nature of a new policy. An example of a change to existing contracts that is considered to be generating value of new business is an internal transfer of annuities from with-profits to our non-profit fund. We adjust annual premiums to reflect the expected stream of business coming from this new business over future years. In the view of management, this performance measure better recognises the relative economic value of regular premium contracts compared with single premium contracts. PVNBP is a European insurance industry standard measure of new business.

For our long-term insurance and savings business, we believe that sales is an important measure of underlying performance and a better measure for new business than IFRS net written premiums. We consider that the use of sales over IFRS net written premiums provides a:

- Consistent treatment of long-term insurance and investment contracts: IFRS net written premiums do not include deposits received on non-participating investment contracts. Long-term insurance contracts and participating investment contracts both contain a deposit component, which are included in IFRS net written premiums, in addition to an insurance risk component. Therefore, to assess the revenue generated on a consistent basis between types of contracts, we evaluate the present value of new business sales of long-term insurance and investment products on the basis of total premiums and deposits collected, including sales of mutual fund type products such as unit trusts and open ended investment companies (OEICs).
- Better reflection of the relative economic value of regular premium contracts compared to single premium contracts: Sales recognise the economic value of all expected contractual cash flows for regular premium contracts in the year of inception, whereas IFRS net written premiums only recognise premiums received in the year.
- Better reflection of current management actions in the year: IFRS net written premiums include premiums on regular premium contracts which incepted in prior years, and therefore reflect the actions of management in prior years.

In comparison with IFRS net written premiums, sales do not include premiums received from contracts in-force at the beginning of the year, even though these are a source of IFRS revenue, as these have already been recognised as sales in the year of inception of the contract. In addition, unlike IFRS net written premiums, sales do not reflect the effect on premiums of any increase or decrease in persistency of regular premium contracts compared with what was assumed at the inception of the contract.

PVNBP is not a substitute for net written premiums as determined in accordance with IFRS. Our definition of sales may differ from similar measures used by other companies, and may change over time.

General insurance and health sales
General insurance and health (excluding long-term health business) sales are defined as IFRS net written premiums, which are premiums written during the year net of amounts reinsured with third parties. For sales reporting, we use the GAAP measure for this business.

Total sales

The table below presents our consolidated sales for the three years ended 31 December 2016, 2015 and 2014, as well as the reconciliation of sales to net written premiums in IFRS.

	2016 £m	2015 £m	2014 £m
Present value of new business premiums[1]	**34,967**	29,765	24,728
Investment sales	**7,292**	6,437	4,977
General insurance and health net written premiums	**9,134**	8,090	8,300
Less: long-term health and collectives business[2]	**(4,944)**	(3,660)	(3,146)
Total sales	**46,449**	40,632	34,859
Less: Effect of capitalisation factor on regular premium long-term business	**(10,493)**	(10,357)	(7,314)
Share of long-term new business sales from JVs and associates	**(552)**	(427)	(473)
Annualisation impact of regular premium long-term business[3]	**(264)**	(251)	(214)
Deposits taken on non-participating investment contracts and equity release contracts	**(7,834)**	(6,560)	(5,641)
Retail sales of mutual fund type products (investment sales)	**(7,292)**	(6,437)	(4,977)
Add: IFRS gross written premiums from existing long-term business[3]	**4,867**	4,676	4,787
Less: long-term insurance and savings business premiums ceded to reinsurers	**(1,696)**	(1,529)	(971)
Less: Outward reinsurance premium relating to general insurance business[4]	**(107)**	(712)	—
Total IFRS net written premiums	**23,078**	19,035	20,056
Analysed as:			
Long-term insurance and savings net written premiums	**14,051**	11,658	11,756
General insurance and health net written premiums	**9,027**	7,377	8,300
	23,078	19,035	20,056

1 Includes £257 million relating to the internal transfer of annuities from a with-profits fund to a non-profit fund during the second half of 2016 in the UK.
2 Long-term health and collectives business are included as part of PVNBP following the extension of MCEV covered business.
3 £200 million has been reclassified from 'Annualisation impact of regular premium long-term business' to 'IFRS gross written premiums from existing long-term business' in UK Life for 2015.
4 Outward reinsurance premium ceded represents £107 million *(2015: £712 million)* relating to an outwards reinsurance contract completed by the UK General Insurance business

- ***Effect of capitalisation factor on regular premium long-term business***
  PVNBP is derived from the single and regular premiums of the products sold during the financial period and is expressed at the point of sale. The PVNBP calculation is equal to total single premium sales received in the year plus the discounted value of regular premiums expected to be received over the term of the new contracts. It includes any changes to existing contracts, which were not anticipated at the outset of the contract, that generates additional shareholder risk and associated premium income of the nature of a new policy. The discounted value of regular premiums is calculated using the same market consistent embedded value methodology as for VNB on an MCEV basis.
  The discounted value reflects the expected income streams over the life of the contract, adjusted for expected levels of persistency, discounted back to present value. The discounted value can also be expressed as annualised regular premiums multiplied by a weighted average capitalisation factor (WACF). The WACF varies over time depending on the mix of new products sold, the average outstanding term of the new contracts and the projection assumptions.

- ***Share of long-term new business sales from joint ventures and associates***
  Total long-term new business sales include our share of sales from joint ventures and associates. Under IFRS reporting, premiums from these sales are excluded from our consolidated accounts, with only our share of profits or losses from such businesses being brought into the income statement separately.

- ***Annualisation impact of regular premium long-term business***
  As noted above, the calculation of PVNBP includes annualised regular premiums. The impact of this annualisation is removed in order to reconcile the non-GAAP new business sales to IFRS premiums and will vary depending on the volume of regular premium sales during the year.

- ***Deposits taken on non-participating investment contracts and equity release contracts***
  Under IFRS, non-participating investment contracts are recognised in the Statement of Financial Position by recording the cash received as a deposit and an associated liability and are not recorded as premiums received in the IFRS income statement. Only the margin earned is recognised in the IFRS income statement.

- ***Retail sales of mutual fund type products (investment sales)***
  Investment sales included in the total sales number represent the cash inflows received from customers to invest in mutual fund type products such as unit trusts and OEICs. We earn fees on the investment and management of these funds which are recorded separately in the IFRS income statement as 'fees and commissions received' and are not included in statutory premiums.

- ***IFRS gross written premiums from existing long-term business***
  The non-GAAP measure of long-term and savings sales focuses on new business written in the year under review while the IFRS income statement includes premiums received from all business, both new and existing.

Consolidated results of operations

The table below presents our consolidated sales for the three years ended 31 December 2016, 2015 and 2014.

	2016 £m	2015 £m	2014 £m
United Kingdom & Ireland Life[1]	**18,801**	16,797	12,444
United Kingdom & Ireland GI[2]	**4,357**	4,051	4,028
France	**6,717**	5,835	5,739
Poland	**516**	514	630
Italy, Spain and Other	**5,415**	3,559	4,639
Canada	**2,453**	1,992	2,104
Asia	**2,413**	2,879	2,162
Aviva Investors	**5,776**	5,005	3,106
Other group activities	**1**	—	7
Total sales[2]	**46,449**	40,632	34,859

1 Includes £257 million relating to the internal transfer of annuities from a with-profit fund to a non-profit fund during the second half of 2016 in the UK.
2 2016 excludes a reinsurance premium ceded of£107 million (2015: £712 million) relating to an outwards reinsurance contract completed by the UK General Insurance business.

Sales

Year ended 31 December 2016

Total sales increased to £46,449 million *(2015: £40,632 million)* for the reasons set out in the market performance sections below.

Year ended 31 December 2015

Total sales increased to £40,632 million *(2014: £34,859 million)* for the reasons set out in the market performance sections below.

Operating profit

We report to our chief operating decision makers in the businesses the results of our operating segments using a non-GAAP financial performance measure we refer to as 'operating profit'. Operating profit is defined as profit before income taxes and non-controlling interests in earnings, excluding the following items: investment return variances and economic assumption changes on long-term and non-long-term business, impairment of goodwill, associates, and joint ventures and other amounts expensed, amortisation and impairment acquired value of in-force business, amortisation and impairment of other intangibles, profit or loss on the disposal and remeasurement of subsidiaries, joint ventures and associates and integration and restructuring costs and other items.

While these excluded items are significant components in understanding and assessing our consolidated financial performance, we believe that the presentation of operating profit enhances the understanding and comparability of the underlying performance of our segments by highlighting net income attributable to ongoing segment operations.

Operating profit for long-term insurance and savings business is based on expected investment returns on financial investments backing shareholder and policyholder funds over the period, with consistent allowance for the corresponding expected movements in liabilities. The expected rate of return is determined using consistent assumptions between operations, having regard to local economic and market forecasts of investment return and asset classification. For fixed interest securities classified as fair value through profit or loss, the expected investment returns are based on average prospective yields for the actual assets held less an adjustment for credit risks. Where such securities are classified as available for sale the expected return comprises interest or dividend payments and amortisation of the premium or discount at purchase. The expected return on equities and properties is calculated by reference to the opening 10-year swap rate in the relevant currency plus an appropriate risk margin. Operating profit includes the effect of variances in experience for non-economic items, such as mortality, persistency and expenses, and the effect of changes in non-economic assumptions. Changes due to economic items, such as market value movement and interest rate changes, which give rise to variances between actual and expected investment returns, and the impact of changes in economic assumptions on liabilities, are disclosed as non-operating items.

Operating profit for non-long-term insurance business is based on expected investment returns on financial investments backing shareholder funds over the period. Expected investment returns are calculated for equities and properties by multiplying the opening market value of the investments, adjusted for sales and purchases during the year, by the longer-term rate of return. This rate of return is the same as that applied for the long-term business expected returns. The longer-term return for other investments is the actual income receivable for the period. Changes due to market value movement and interest rate changes, which give rise to variances between actual and expected investment returns, are disclosed as non-operating items. The impact of changes in the discount rate applied to claims provisions is also treated outside operating profit.

Operating profit is not a substitute for profit before income taxes and non-controlling interests in earnings or net income as determined in accordance with IFRS. Our definition of operating profit may differ from similar measures used by other companies, and may change over time.

Other items are those items that, in the directors' view, are required to be separately disclosed by virtue of their nature or incidence to enable a full understanding of the Group's financial performance.

The table below presents our consolidated operating profit for the three years ended 31 December 2016, 2015 and 2014, as well as the reconciliation of operating profit to profit before tax attributable to shareholders' profits.

	2016 £m	Restated 2015 £m[1]	Restated 2014 £m[1]
United Kingdom & Ireland Life	**1,579**	1,447	1,087
United Kingdom & Ireland GI	**443**	414	492
France	**481**	449	470
Poland	**146**	141	195
Italy, Spain and Other	**318**	268	304
Canada	**270**	214	191
Asia	**201**	223	78
Aviva Investors	**160**	106	63
Other Group activities	**(588)**	(574)	(642)
Operating profit before tax attributable to shareholders' profit	**3,010**	2,688	2,238
Integration and restructuring costs	**(212)**	(379)	(140)
Operating profit before tax after integration and restructuring costs	**2,798**	2,309	2,098
Adjusted for the following:			
Investment return variances and economic assumption changes on long-term business	**379**	14	72
Short-term fluctuation in return on investments on non-long-term business	**(518)**	(84)	261
Economic assumption changes on general insurance and health business	**(242)**	(100)	(145)
Impairment of goodwill, associates and joint ventures and other amounts expensed	**—**	(22)	(24)
Amortisation and impairment of intangibles	**(175)**	(155)	(90)
Amortisation and impairment of acquired value of in-force business	**(540)**	(498)	(40)
(Loss)/profit on the disposal and re-measurement of subsidiaries, joint ventures and associates	**(11)**	2	174
Other	**(498)**	(53)	—
Non-operating items before tax	**(1,605)**	(896)	208
Profit before tax attributable to shareholders' profits – continuing operations	**1,193**	1,413	2,306
Profit before tax attributable to shareholders' profits – discontinued operations	**—**	—	58
Profit before tax attributable to shareholders' profits	**1,193**	1,413	2,364

1 Following a correction to accounting and modelling for annual management charge rebates in UK Life, prior year comparatives have been restated. This led to an increase in operating profit and profit before tax of £23 million for 2015 and £25 million for 2014. See IFRS financial statements – note 1 for further details.

Operating profit before tax (from continuing operations)

Year ended 31 December 2016

Operating profit before tax was £3,010 million *(2015: £2,688 million[1])*. Refer to the market performance section below.

Year ended 31 December 2015

Operating profit before tax increased by £450 million to £2,688 million *(2014: £2,238 million[1])* for the reasons set out in the market performance section below.

Other information

Adjusting items

Year ended 31 December 2016

Integration and restructuring costs decreased to £212 million *(2015: £379 million)*, as a result of lower integration spend relating to the Friends Life acquisition and lower Solvency II project costs of £17 million *(2015: £82 million)*. This was partly offset by costs related to the RBC acquisition.

Life investment variances were £379 million positive *(2015: £14 million positive)* mainly driven by lower interest rates and narrowing credit spreads in the UK, partially offset by adverse variances in France and widening credit spreads in Italy.

Short-term fluctuations on non-long term business were £518 million negative *(2015: £84 million negative*). The adverse movement in short-term fluctuations during 2016 compared with 2015 was mainly due to foreign exchange losses on Group Centre holdings, including Group external borrowings.

Economic assumption changes of £242 million adverse (*2015: £100 million adverse*) arise as a result of a decrease in the real interest rates used to discount claim reserves for periodic payment orders (PPOs) and latent claims.

The total charge for impairment of goodwill, associates and joint ventures and other amounts expensed for the year was £nil *(2015: £22 million*).

Amortisation and impairment of intangibles was a charge of £175 million (*2015: £155 million charge*) and amortisation and impairment of acquired value of in-force business (AVIF) was a charge of £540 million *(2015: £498 million).*

Loss on the disposal and remeasurement of subsidiaries, joint ventures and associates was £11 million *(2015: £2 million profit).* See 'IFRS Financial Statements – note 3 – Subsidiaries' for further details.

Other items, a charge of £498 million *(2015: £53 million charge*), includes an exceptional charge of £475 million *(2015: £nil)* relating to the change in the Ogden discount rate from 2.5% set in 2001 to minus 0.75% announced by the Lord Chancellor on 27 February 2017. Refer to IFRS financial statements – note 40(c)(iii) – Financial Liabilities for further details. Other items also includes £23 million relating to the loss upon the completion of an outwards reinsurance contract, written in 2015 by UK General Insurance business, which provides significant protection against claims volatility from mesothelioma, industrial deafness and other long tail risks.

Further details on significant movements are outlined in the market performance sections below.

Year ended 31 December 2015

Integration and restructuring costs were £379 million *(2014: £140 million)*, principally driven by transaction and integration activities in relation to the acquisition of Friends Life. It also included expenses associated with the Solvency II programme of £82 million *(2014: £94 million)*.

Life investment variances were £14 million positive *(2014: £72 million positive)* mainly driven by realised bond gains and equity outperformance in France and positive variances in Asia, partially offset by widening credit spreads in Italy. The investment variance in the UK was broadly neutral.

Short-term fluctuations on non-long term business were £84 million negative (*2014: £261 million positive*). The adverse movement in short-term fluctuations during 2015 compared with 2014 was mainly due to an increase in risk-free rates reducing fixed income security market values.

Economic assumption changes of £100 million adverse (*2014: £145 million adverse*) arose as a result of an increase in the expected future inflation rates used to calculate reserves for periodic payment orders (PPOs), and a decrease in the swap rates used to discount latent claims reserves and PPOs.

The total charge for impairment of goodwill, associates and joint ventures and other amounts expensed for the year was £22 million *(2014: £24 million*).

Amortisation and impairment of intangibles was a charge of £155 million (*2014: £90 million charge*) and amortisation and impairment of acquired value of in-force business (AVIF) was a charge of £498 million *(2014: £40 million).* The higher charges during 2015 were driven by amortisation of the AVIF and intangibles arising on the acquisition of Friends Life.

Profit on the disposal and remeasurement of subsidiaries, joint ventures and associates was £2 million *(2014: £174 million).* See 'IFRS Financial Statements – note 3 – Subsidiaries' for further details.

Other items, a charge of £53 million, represents a day one loss upon the completion of an outwards reinsurance contract, completed in 2015 by UK General Insurance business, which provides significant protection against claims volatility from mesothelioma, industrial deafness and other long tail risks.

Further details on significant movements are outlined in the market performance sections below.

Continuing Operations	2016 £m	Restated 2015 £m[1]	Restated 2014 £m[1]
Income			
Gross written premiums	**25,442**	21,925	21,670
Premiums ceded to reinsurers	**(2,364)**	(2,890)	(1,614)
Premiums written net of reinsurance	**23,078**	19,035	20,056
Net change in provision for unearned premiums	**(210)**	(111)	1
Net earned premiums	**22,868**	18,924	20,057
Fee and commission income	**1,962**	1,797	1,230
Net investment income	**30,257**	2,825	21,889
Share of profit of joint ventures and associates	**216**	180	147
(Loss)/profit on the disposal and re-measurement of subsidiaries and associates	**(11)**	2	174
	55,292	23,728	43,497
Expenses			
Claims and benefits paid, net of recoveries from reinsurers	**(23,782)**	(21,985)	(19,474)
Change in insurance liabilities, net of reinsurance	**(6,893)**	6,681	(5,570)
Change in investment contract provisions	**(14,039)**	(1,487)	(6,518)
Change in unallocated divisible surplus	**(381)**	984	(3,364)
Fee and commission expense	**(3,885)**	(3,324)	(3,364)
Other expenses	**(3,853)**	(2,784)	(1,979)
Finance costs	**(626)**	(618)	(540)
	(53,459)	(22,533)	(40,809)
Profit before tax	**1,833**	1,195	2,688
Tax attributable to policyholders' returns	**(640)**	218	(382)
Profit before tax attributable to shareholders' profits	**1,193**	1,413	2,306

1 Following a correction to accounting and modelling for annual management charge rebates in UK Life, prior year comparatives have been restated. This led to an increase in operating profit and profit before tax of £23 million for 2015 and £25 million for 2014. See IFRS financial statements – note 1 for further details.

Net written premiums

Year ended 31 December 2016

Net written premiums were £23,078 million *(2015: £19,035 million)* which includes a reinsurance premium ceded of £107 million relating to an outwards reinsurance contract completed by the UK General Insurance business *(2015: £712 million)*. Excluding this, net written premiums increased by £3,438 million, or 17%, to £23,185 million *(2015: £19,747 million)*.

Long-term insurance and savings premiums increased by £2,393 million, or 21% to £14,051 million *(2015: £11,658 million)*, driven by an additional quarter of Friends Life, strong performance in Italy and benefitted from the weakening of sterling against the euro.

General insurance and health premiums were £9,027 million *(2015: £7,377 million)*. Excluding the outwards reinsurance premium described above, premiums increased by £1,044 million, or 13%, to £9,134 million *(2015: £8,090 million)*, with higher sales in the UK due to new partnerships, an increase in Canada due to the acquisition of RBC and foreign exchange benefits arising from the weakening sterling.

Further details on significant movements are outlined in the market performance sections below.

Year ended 31 December 2015
Net written premiums were £19,035 million *(2014: £20,056 million)* which included a reinsurance premium ceded of £712 million relating to an outwards reinsurance contract completed by the UK General Insurance business. Excluding this, net written premiums decreased by £309 million, or 2%, to £19,747 million *(2014: £20,056 million)*.

Long-term insurance and savings premiums decreased by £98 million, or 1% to £11,658 million *(2014: £11,756 million)*. Higher sales in France and the UK (mainly due to the contribution from Friends Life) were more than offset by lower premiums in Italy and Spain (mainly due to the effect of disposals in the prior period and adverse foreign exchange), and Ireland.

General insurance and health premiums were £7,377 million *(2014: £8,300 million)*. Excluding the outwards reinsurance premium described above, premiums decreased by £210 million, or 3%, to £8,090 million *(2014: £8,300 million)*. Higher sales in the UK were more than offset by lower premiums in Europe and Canada mainly due to adverse foreign exchange.

Further details on significant movements are outlined in the market performance sections below.

Net investment income

Year ended 31 December 2016
Net investment income was £30,257 million *(2015: £2,825 million)*. Compared to 2015, unrealised gains were significantly higher in 2016 reflecting market movements, including higher fixed income security market values arising from lower risk-free interest rates, narrowing corporate bond spreads and favourable equity index movements. Foreign exchange gains also increased following depreciation of sterling.

Year ended 31 December 2015
Net investment income from continuing operations was £2,825 million *(2014: £21,889 million)*. Compared to 2014, unrealised gains were significantly lower in 2015 reflecting market movements, including lower fixed income security market values arising from higher risk-free interest rates.

Other income

Year ended 31 December 2016
Other income, which consists of fee and commission income, share of profit after tax of joint ventures and associates, and loss on disposal and remeasurement of subsidiaries, joint ventures and associates, increased by £188 million, or 9%, to £2,167 million in 2016 *(2015: £1,979 million)*.

Fee and commission income increased by £165 million, or 9% to £1,962 million *(2015: £1,797 million)*, mainly due to an additional quarter of the acquired Friends Life businesses.

Loss on disposal and remeasurement of subsidiaries, joint ventures and associates was £11 million *(2015: £2 million profit)* and the share of profits from joint ventures and associates was £216 million *(2015: £180 million)*.

Year ended 31 December 2015 (continuing operations)
Other income, which consists of fee and commission income, share of profit after tax of joint ventures and associates, and profit on disposal and remeasurement of subsidiaries, joint ventures and associates, increased by £428 million, or 28%, to £1,979 million in 2015 *(2014: £1,551 million)*.

Fee and commission income increased by £567 million, or 46% to £1,797 million *(2014: £1,230 million)*, mainly due to the contribution from the acquired Friends Life businesses.

Profit on disposal and remeasurement of subsidiaries, joint ventures and associates was £2 million *(2014: £174 million profit)* and the share of profits from joint ventures and associates was £180 million *(2014: £147 million)*.

Expenses

Year ended 31 December 2016
Claims and benefits paid net of reinsurance in 2016 increased by £1,797 million, or 8% to £23,782 million *(2015: £21,985 million)*. This was mainly due to higher claims payments in UK Life, due to the inclusion of an additional quarter of Friends Life, and higher claims in Europe due in part to the weakening of sterling against the euro in 2016.

General insurance and health claims increased by £580 million, or 11% to £5,756 million *(2015: £5,176 million)* mainly due to the acquisition of RBC in Canada, and weather events in France.

Change in insurance liabilities in 2016 was a debit of £6,893 million *(2015: £6,681 million credit)*, resulting mainly from changes in economic and non-economic assumptions on long-term business. This also includes the £475 million impact of the change in the Ogden discount rate.

The change in investment contract provisions was a charge of £14,039 million *(2015: £1,487 million charge)* as a result of investment market conditions (primarily driven by favourable equity returns in the UK) causing an increase in contract liabilities.

The change in unallocated divisible surplus ('UDS') was a debit of £381 million *(2015: £984 million credit)* mainly driven by foreign exchange rate movements with the remaining debit reflecting lower interest rates and corporate bond yields in France.

Fee and commission expense, other expenses and finance costs increased by £1,638 million, or 24% to £8,364 million *(2015: £6,726 million[1])* due to foreign exchange movements on external borrowings.

See 'IFRS Financial Statements – note 6 – Details of expenses' for further details.

Year ended 31 December 2015
Claims and benefits paid net of reinsurance in 2015 increased by £2,511 million, or 13% to £21,985 million *(2014: £19,474 million)*. This was mainly due to higher claims payments in UK Life following the acquisition of Friends Life, partly offset by lower claims in our European life businesses due in part to the weakening of the euro during 2015. General insurance and health claims decreased by £437 million, or 8% to £5,176 million *(2014: £5,613 million)* mainly due to lower claims in UK & Ireland GI.

Change in insurance liabilities in 2015 was a credit of £6,681 million *(2014: £5,570 million charge)*, resulting mainly from changes in economic and non-economic assumptions on long-term business.

The change in investment contract provisions was a charge of £1,487 million *(2014: £6,518 million charge)* as a result of investment market conditions causing an increase in contract liabilities.

The change in unallocated divisible surplus ('UDS') was a credit of £984 million *(2014: £3,364 million charge)* primarily driven by adverse market movements in Europe as a result of higher interest rates and corporate bond yields during 2015.

Fee and commission expense[1], other expenses and finance costs increased by £843 million, or 14% to £6,726 million[1] *(2014: £5,883 million[1])* mainly as a result of increased amortisation of acquired value of in-force business following the acquisition of Friends Life, and higher integration and restructuring costs principally driven by transaction and integration activities in relation to the Friends Life acquisition. See 'IFRS Financial Statements – note 6 – Details of expenses' for further details.

1 Following a correction to accounting and modelling for annual management charge rebates in UK Life, prior year comparatives have been restated. This led to an increase in operating profit and profit before tax of £23 million for 2015 and £25 million for 2014. See IFRS financial statements – note 1 for further details.

Profit before tax attributable to shareholders' profits

Year ended 31 December 2016

Profit before tax attributable to shareholders was £1,193 million *(2015: £1,413 million[1])* mainly due to the reasons set out in the sections 'net written premiums', 'net investment income', 'other income' and 'expenses' above.

It also includes a debit of £640 million *(2015: £218 million credit)* in relation to tax attributable to policyholders' returns. See 'IFRS Financial Statements – note 13 – Tax' for further details.

Year ended 31 December 2015

Profit before tax attributable to shareholders was £1,413 million[1] *(2014: £2,306 million[1])* mainly due to the reasons set out in the sections 'net written premiums', 'net investment income', 'other income' and 'expenses' above.

It also includes a credit of £218 million *(2014: £382 million charge)* in relation to tax attributable to policyholders' returns. See 'IFRS Financial Statements – note 13 – Tax' for further details.

Market performance

United Kingdom and Ireland

UK & Ireland life

The table below presents sales, net written premiums, operating profit and profit before tax attributable to shareholders' profits from our UK and Ireland long-term businesses for the three years ended 31 December 2016, 2015 and 2014.

	2016 £m	Restated 2015 £m[1]	Restated 2014 £m[1]
Pensions	**11,562**	8,950	5,803
Annuities[2]	**2,074**	2,945	1,948
Bonds	**133**	139	174
Protection	**1,779**	1,586	1,103
Equity release	**637**	699	696
Others	**1,907**	1,917	2,285
United Kingdom[2]	**18,092**	16,236	12,009
Ireland	**709**	561	435
Long-term insurance, savings and health sales	**18,801**	16,797	12,444
IFRS net written premiums	**3,942**	4,042	3,515
Operating profit before tax			
United Kingdom	**1,523**	1,431	1,050
Ireland	**32**	24	24
Life business	**1,555**	1,455	1,074
General insurance and health – UK health	**31**	21	11
Fund management	**—**	—	6
Other operations	**(7)**	(29)	(4)
Total operating profit before tax	**1,579**	1,447	1,087
Profit before tax attributable to shareholders' profits	**1,637**	740	1,005

1 Following a correction to accounting and modelling for annual management charge rebates in UK Life, prior year comparatives have been restated. This led to an increase in operating profit and profit before tax of £23 million for 2015 and £25 million for 2014. See IFRS financial statements – note 1 for further details.
2 Includes £257 million relating to the internal transfer of annuities from a with-profits fund to a non-profit fund during the second half of 2016 in the UK.

Year ended 31 December 2016

On a PVNBP basis, sales in the UK long-term insurance and savings business increased by £1,856 million to £18,092 million *(2015: £16,236 million).* This included an additional quarter from Friends Life following the acquisition in April 2015. Excluding this, growth in sales of group pensions, individual annuities and protection products were partly offset by lower volumes of bulk purchase annuities.

On a PVNBP basis, sales in Ireland increased 26%, 12% on a constant currency basis, to £709 million *(2015: £561 million)*, mainly reflecting higher sales of pensions.

UK and Ireland IFRS net written premiums were down 2% to £3,942 million *(2015: £4,042 million)* due to lower bulk purchase annuity sales.

Overall UK & Ireland Life operating profit increased to £1,555 million *(2015: £1,455 million[1])*. UK life operating profit was £1,523 million *(2015: £1,431 million[1])*, up £92 million benefitting from an additional quarter of Friends Life, realisation of integration synergies and the growth in sales mentioned above, partly offset by the decreased sales in bulk purchase annuities and continued investment in digital. In Ireland, operating profit was up £8 million to £32 million *(2015: £24 million)* as we continue to grow our market share.

In UK Health, operating profit was up £10 million to £31 million *(2015: £21 million)* due to increased sales in corporate excess products and lower claims costs.

Operating profit from other operations resulted in a £7 million loss *(2015: £29 million loss)* with higher expenses in the platform business offset by profit in our financial advisors business.

IFRS profit before tax attributable to shareholders' profits increased to £1,637 million *(2015: £740 million[1])*. This includes higher operating profits which increased for the reasons set out above. It also includes positive investment return variances of £503 million *(2015: £nil),* reflecting lower interest rates and narrowing corporate bond spreads, lower integration and restructuring costs of £119 million *(2015: £215 million)* and positive short-term fluctuation in return on investments backing non-long-term business of £135 million *(2015: £53 million negative)*. Amortisation and impairment of acquired value of in-force business and intangibles was £458 million *(2015: £434 million).*

Year ended 31 December 2015

On a PVNBP basis, sales in the UK long-term insurance and savings business increased by £4,227 million to £16,236 million *(2014: £12,009 million).* This included a contribution from Friends Life of £4,477 million following the acquisition in April 2015. Excluding Friends Life, UK long-term insurance and savings business decreased by £250 million, or 2%, to £11,759 million *(2014: £12,009 million)*. Within this, growth in sales of pensions and bulk purchase annuities was more than offset by lower sales of individual annuities following the pension reforms announced in March 2014 together with the impact of the transfer of the retail fund management business to Aviva Investors in 2014.

In Ireland, sales increased 29% to £561 million *(2014: £435 million)* mainly reflecting higher sales of pensions and annuities.

UK and Ireland IFRS net written premiums were up 15% to £4,042 million *(2014: £3,515 million)* mainly due to the post acquisition contribution from Friends Life.

Overall UK & Ireland Life operating profit[1] increased to £1,455 million *(2014: £1,074 million[1])*. UK life operating profit was £1,431 million[1] *(2014: £1,050 million[1])*, including a contribution of £358 million from Friends Life following its acquisition in April 2015. Excluding Friends Life, UK profits increased 2% to £1,096 million[1] *(2014: £1,075 million[1])*, benefitting from lower operating expenses as well as improved new business profitability. In Ireland, operating profit was stable at £24 million *(2014: £24 million)*.

In UK Health, operating profit was up £10 million to £21 million *(2014: £11 million)* due to lower expenses and the benefit of pricing actions.

Operating profit from other operations resulted in a £29 million loss *(2014: £4 million loss)* reflecting continued investment into the UK Life Platform business.

IFRS profit before tax attributable to shareholders' profits decreased to £740 million[1] *(2014: £1,005 million[1])*. This includes higher operating profits which increased for the reasons set out above. It also includes a higher amortisation of acquired value of in-force business charge of £350 million *(2014: £10 million charge)* following the acquisition of Friends Life, higher integration and restructuring costs of £215 million *(2014: £28 million)* and a higher amortisation of intangibles charge of £84 million *(2014: £31 million charge)*.

UK & Ireland general insurance and health

The table below presents sales, net written premiums, operating profit and profit before tax attributable to shareholders' profits from our UK and Ireland general insurance and health businesses for the three years ended 31 December 2016, 2015 and 2014.

	2016 £m	2015 £m	2014 £m
Total Sales[1]	**4,357**	4,051	4,028
IFRS net written premiums			
United Kingdom	**3,823**	2,972	3,663
Ireland	**427**	367	365
	4,250	3,339	4,028
Operating profit before tax			
United Kingdom	**392**	368	455
Ireland	**48**	41	33
General insurance and health business	**440**	409	488
Other operations	**3**	5	4
Total operating profit before tax	**443**	414	492
(Loss)/profit before tax attributable to shareholders' profits	**(247)**	140	406

1 2016 excludes a reinsurance premium ceded of £107 million *(2015: £712 million)* relating to an outwards reinsurance contract.

Year end 31 December 2016

UK & Ireland general insurance and health NWP increased to £4,250 million *(2015: £3,339 million)*, which includes the remaining reinsurance premium ceded of £107 million *(2015 £712 million)* relating to an outwards reinsurance contract written in 2015 by the UK business. Excluding this, net written premiums increased by £306 million, or 8%, to £4,357 million *(2015: £4,051 million)*. Within this, general insurance and health sales NWP in the UK increased 7% to £3,930 million *(2015: £3,685 million)* benefitting from new partnerships and an expanding Digital offering. Ireland general insurance and health NWP increased to £427 million *(2015: £367 million)*, up 3% on a constant currency basis, due to rating actions and strong retention.

Operating profit before tax from general insurance and health business was up 8% to £440 million *(2015: £409 million)*.

Within this, UK operating profit was £392 million *(2015: £368 million)*. This excludes the adverse impact of the change in the Ogden discount rate of £475 million as this is an exceptional item within other non-operating items. Longer term investment return in the UK reduced by £53 million to £162 million *(2015: £215 million)* mainly due to the reduction in the internal loan (which is neutral at an overall Group level). The UK underwriting result increased to £232 million *(2015: £154 million)*, attributable to lower weather claims and improvements in underlying performance. In Ireland, general insurance and health operating profit increased to £48 million *(2015: £41 million)* mainly driven by strong rate increases and ongoing improved underlying performance, partly offset by continued investment in the business.

Profit before tax has decreased to a loss of £247 million *(2015: £140 million profit)*, mainly due to the impact of the change in the Ogden discount rate of £475 million *(2015: £nil)*.

Lower integration and restructuring costs of £15 million *(2015: £26 million)*, favourable short-term investment variances of £79 million *(2015: £84 million adverse)*, and a £23 million loss *(2015: £53 million loss)* arising from the completion of the outwards reinsurance contract written in 2015 were offset by higher adverse economic assumption changes of £229 million *(2015: £98 million adverse)*.

Year end 31 December 2015

UK & Ireland general insurance and health NWP decreased to £3,339 million *(2014: £4,028 million)*, which included a reinsurance premium ceded of £712 million relating to an outwards reinsurance contract completed in the year by the UK business. Excluding this, net written premiums increased by £23 million, or 1%, to £4,051 million *(2014: £4,028 million)*. Within this, in the UK, general insurance and health NWP increased 18% to £3,685 million *(2014: £3,663 million)* primarily driven by growth in personal motor, partly offset by selected exits in personal property lines. Ireland general insurance and health NWP was stable at £367 million *(2014: £365 million)*.

Operating profit before tax from general insurance and health business was down 16% to £409 million *(2014: £488 million)*. In the UK, operating profit was £368 million *(2014: £455 million)*. Within this, longer term investment return reduced by £45 million to £215 million *(2014: £260 million)* mainly as a result of the lower intercompany loan balance (which is neutral at an overall Group level). The underwriting result was £154 million *(2014: £199 million)* with the adverse weather experience due to the December floods in the UK being partly offset by the benefit of expense savings and more favourable prior year claims development.

In Ireland, general insurance and health operating profit increased to £41 million *(2014: £33 million)* mainly driven by favourable weather experience partly offset by lower prior year claims reserve releases.

Profit before tax decreased to £140 million *(2014: £406 million)*. This included operating profits of £414 million *(2014: £492 million)*, which decreased for the reasons set out above.

The remaining decrease in profit before tax attributable to shareholders' profits was due to higher integration and restructuring costs of £26 million *(2014: £11 million)* adverse short term investment variances of £84 million *(2014: £82 million positive*), lower adverse economic assumption changes of £98 million *(2014: £145 million adverse)* and the day one loss arising from the completion of the outwards reinsurance contract of £53 million.

France

The table below presents sales, net written premiums, operating profit and profit before tax attributable to shareholders' profits under IFRS from our operations in France for the three years ended 31 December 2016, 2015 and 2014.

	2016 £m	2015 £m	2014 £m
Sales			
Long-term insurance and savings business	**5,525**	4,821	4,633
General insurance and health net written premiums	**1,192**	1,014	1,106
Total sales	**6,717**	5,835	5,739
IFRS net written premiums	**6,538**	5,702	5,684
Operating profit before tax			
Long-term insurance and savings business	**429**	395	412
General insurance and health	**70**	71	78
Other operations	**(18)**	(17)	(20)
Total operating profit before tax	**481**	449	470
Profit before tax attributable to shareholders' profits	**325**	420	462

Year ended 31 December 2016

The weakening of the sterling against the euro affected all metrics from a Group perspective.

On a PVNBP basis, long-term insurance and savings business sales in France increased to £5,525 million *(2015: £4,821 million)*, but remained stable on a constant currency basis, with higher sales in protection and with-profit products offset by lower sales of unit-linked products reflecting customer demand. General insurance and health sales increased by 4% on a constant currency basis to £1,192 million *(2015: £1,014 million)*, reflecting rating actions and growth in SME and

Other information

commercial lines. IFRS net written premiums increased by 1% on a constant currency basis to £6,538 million *(2015: £5,702 million)*.

Operating profit before tax was 7% higher at £481 million *(2015: £449 million)* but decreased 5% on a constant currency basis. Within this, life operating profit increased by 9% to £429 million *(2015: £395 million)* but decreased by 4% on a constant currency basis, with growth in protection and with-profit offset by higher operating expenses due to investment in and reorganisation of the business. General insurance and health operating profit remained stable at £70 million *(2015: £71 million),* but was down 12% on a constant currency basis due to weather events in the first half of the year.

Profit before tax attributable to shareholders' profits decreased to £325 million *(2015: £420 million)*, including operating profits discussed above, adverse investment variances of £84 million *(2015: £15 million favourable*) and lower integration and restructuring costs of £8 million *(2015: £19 million)*.

Year ended 31 December 2015

The weakening of the euro affected all metrics from a Group perspective.

On a PVNBP basis, long-term insurance and savings business sales in France increased by £188 million, to £4,821 million *(2014: £4,633 million),* with higher sales of unit-linked, with-profit and protection products. General insurance and health sales decreased by £92 million to £1,014 million *(2014: £1,106 million)* but increased by 2% on a constant currency basis, with increases across both personal and commercial lines of business. IFRS net written premiums remained stable at £5,702 million *(2014: £5,684 million),* but were up 12% on a constant currency basis.

Operating profit before tax was 4% lower at £449 million *(2014: £470 million)* but improved by 6% on a constant currency basis. Within this, life operating profit decreased by 4% to £395 million *(2014: £412 million)* but improved by 7% on a constant currency basis, mainly from portfolio growth and a change in mix towards unit-linked products and protection products, together with strong results from UFF, our majority owned broker business. General insurance and health operating profit was lower at £71 million *(2014: £78 million),* up 2% on a constant currency basis due to better weather experience compared to the prior year, partly offset by higher large losses and lower investment returns.

Profit before tax attributable to shareholders' profits decreased to £420 million *(2014: £462 million)*, which includes the lower operating profits discussed above, lower favourable investment variances of £15 million *(2014: £41 million favourable*) and higher integration and restructuring costs of £19 million *(2014: £15 million)* partially offset by a lower amortisation and impairment of AVIF charge of £5 million *(2014: £18 million).*

Poland

The table below presents sales, net written premiums, operating profit and profit before tax attributable to shareholders' profits under IFRS from our operations in Poland for the three years ended 31 December 2016, 2015 and 2014.

	2016 £m	2015 £m	2014 £m
Sales			
Long-term insurance and savings business	**430**	448	573
General insurance and health net written premiums	**86**	66	57
Total sales	**516**	514	630
IFRS net written premiums	**487**	477	482
Operating profit before tax			
Long-term insurance and savings business	**132**	129	183
General insurance and health	**8**	10	9
Other operations	**6**	2	3
Total operating profit before tax	**146**	141	195
Profit before tax attributable to shareholders' profits	**141**	139	196

Year ended 31 December 2016

The weakening of sterling against the zloty affected all metrics from a Group perspective.

Life and pensions sales on a PVNBP basis were down 4% to £430 million *(2015: £448 million)*, and down 12% on a constant currency basis. This was due to regulatory changes and reduced market appetite. General insurance net written premiums were £86 million *(2015: £66 million)* driven by rating actions in motor. Total net written premiums increased 2% to £487 million *(2015: £477 million)* but decreased c.5% on a constant currency basis.

Operating profit increased by 3% to £146 million *(2015: £141 million)* but decreased by 5% on a constant currency basis. Within this, life operating profit was down 6% on a constant currency basis mainly as a result of a new asset levy and general insurance operating profit was down 28% on a constant currency basis due to commercial large loss experience and increased motor claims frequency. Profit before tax attributable to shareholders' profits was £141 million *(2015: £139 million*).

Year ended 31 December 2015

The weakening of the zloty affected all metrics from a Group perspective.

Life and pensions sales on a PVNBP basis were down 22% to £448 million *(2014: £573 million)*. Excluding the one-off benefit in 2014 from regulatory pension change in Lithuania, PVNBP was broadly stable. General insurance net written premiums were £66 million *(2014: £57 million)* with increases mainly in personal lines. Total net written premiums decreased 1% to £477 million *(2014: £482 million).*

Operating profit decreased by 28% to £141 million *(2014: £195 million)*. Within this, Life operating profit was lower, at £129 million *(2014: £183 million)* largely due to a £39 million one-off regulatory pension change which benefitted the prior year. General insurance operating profit was £10 million *(2014: £9 million*).

Profit before tax attributable to shareholders' profits was £139 million *(2014: £196 million*), a decrease of 29%, for the reasons described above.

Italy, Spain and Other

The table below presents sales, net written premiums, operating profit and profit before tax attributable to shareholders' profits under IFRS from our operations in Italy, Spain and Other for the three years ended 31 December 2016, 2015 and 2014.

	2016 £m	2015 £m	2014 £m
Sales			
Long-term insurance and savings business			
Italy – excluding Eurovita	**3,634**	2,147	2,473
Spain – excluding Aseval & CxG	**938**	622	1,054
Other	**448**	460	495
Eurovita, Aseval & CxG	**—**	—	224
Total long-term insurance and savings business	**5,020**	3,229	4,246
General insurance and health			
Italy & Other	**395**	330	393
Total sales	**5,415**	3,559	4,639
IFRS net written premiums	**4,610**	2,687	3,444
Operating profit before tax			
Long-term insurance and savings business			
Italy	**170**	139	148
Spain	**107**	92	126
Other	**6**	11	13
	283	242	287
General insurance and health			
Italy & other	**42**	33	26
Other operations	**(7)**	(7)	(9)
Total operating profit before tax	**318**	268	304
Profit before tax attributable to shareholders' profits	**268**	191	489

Year ended 31 December 2016

The weakening of sterling affected all metrics from a Group perspective.

Total long-term insurance and savings sales were £5,020 million *(2015: £3,229 million)* mainly due to strong sales in both Italy and Spain.

In Italy, life sales increased by £1,487 million, or 69%, to £3,634 million *(2015: £2,147 million)* or 50% on a constant currency basis, reflecting growth in all product lines.

In Spain, life sales increased by £316 million, or 51% (33% on a constant currency basis), to £938 million *(2015: £622 million)* mainly reflecting mix improvements within protection business and sales of unit-linked products in the second half of the year.

Other life sales, which relates to sales in our Turkey Life joint venture, decreased by £12 million, or 4% on a constant currency basis, to £448 million *(2015: £460 million)*, driven by lower pension sales arising from market volatility and uncertainty on pension reforms.

General insurance sales in Italy increased by £65 million, or 20%, to £395 million *(2015: £330 million),* with growth in most lines.

IFRS net written premiums increased £1,923 million, or 52% in constant currency, to £4,610 million *(2015: £2,687 million)* for the reasons described above.

Total operating profit increased by £50 million, or 19%, to £318 million *(2015: £268 million)*. Within this, life operating profit in Italy increased to £170 million *(2015: £139 million),* up 8% on a constant currency basis, reflecting portfolio growth and margin improvements across all products. In Spain, life operating profit increased to £107 million *(2015: £92 million),* 2% higher on a constant currency basis mainly due to the improved protection margin.

General insurance and health operating profit increased to £42 million *(2015: £33 million)* with lower longer-term investment return more than offset by growth in underwriting result.

Profit before tax attributable to shareholders' profits increased by £77 million to £268 million *(2015: £191 million)* mainly driven by movement in operating profit as described above.

Year ended 31 December 2015

The weakening of the euro affected all metrics from a Group perspective.

Total long-term insurance and savings sales were £3,229 million *(2014: £4,246 million)* mainly due to lower sales in Italy and Spain.

In Italy (excluding Eurovita), life sales decreased by £326 million, or 13%, to £2,147 million *(2014: £2,473 million)* or 3% on a constant currency basis, reflecting lower unit-linked and with-profit sales.

In Spain (excluding Aseval & CxG), life sales decreased by £432 million, or 41%, to £622 million *(2014: £1,054 million)* mainly reflecting reduced with-profit sales.

Other life sales, which relates to sales in our Turkey Life joint venture, decreased by £35 million, or 7%, to £460 million *(2014: £495 million),* but increased 7% on a constant currency basis driven by increased sales of pensions offset by the impact of a reduction in our share of the business following the partial IPO in 2014.

General insurance sales which in 2015 were only made by our operation in Italy decreased by £63 million, or 16%, to £330 million *(2014: £393 million)* mainly due to the sale of our Turkish general insurance operations in late 2014. Excluding this disposal, premiums grew by 3% on a constant currency basis mainly due to growth in the creditor business in Italy.

IFRS net written premiums decreased £757 million, or 22%, to £2,687 million *(2014: £3,444 million)* mainly reflecting 2014 disposals in Italy, Spain and Turkey.

Total operating profit decreased by £36 million, or 12%, to £268 million *(2014: £304 million)*. This was mainly due the 2014 disposals in Italy and Spain. Within this, life operating profit in Italy, excluding Eurovita, increased to £139 million *(2014: £135 million),* up 15% on a constant currency basis, mostly due to improved margins on with-profits business, driven by management actions to reduce the cost of guarantees. In Spain (excluding CxG), life operating profit decreased to £92 million *(2014: £101 million)* but was 2% higher on a constant currency basis.

General insurance and health operating profit increased to £33 million *(2014: £26 million)* mainly driven by the disposal of the loss-making Turkey GI business in December 2014.

Profit before tax attributable to shareholders' profits decreased by £298 million to £191 million *(2014: £489 million)*. This includes lower operating profit as described above and adverse investment variances of £45 million *(2014: £88 million positive*). The prior year also included profit on disposal of subsidiaries, including CxG and Eurovita, of £125 million.

Canada

The table below presents sales, net written premiums, operating profit and profit before tax attributable to shareholders for the three years ended 31 December 2016, 2015 and 2014.

	2016 £m	2015 £m	2014 £m
IFRS net written premiums	**2,453**	1,992	2,104
Operating profit before tax			
General insurance	**269**	214	189
Other operations	**1**	—	2
Total operating profit before tax	**270**	214	191
Profit before tax attributable to shareholders' profits	**164**	142	253

Year ended 31 December 2016
The weakening of sterling has affected all metrics from a Group perspective.

General insurance net written premiums increased by 23% to £2,453 million *(2015: £1,992 million).* Net written premiums increased by 14% on a constant currency basis, mainly due to the acquisition of RBC. Excluding RBC, net written premiums increased by 2% on a constant currency due to strong rate increases in personal property and SME business.

Operating profit was £270 million *(2015: £214 million)*, a 26% increase compared to the prior year. On a constant currency basis, operating profit increased by 16%, including higher underwriting profits of £168 million *(2015: £120 million)*, mainly due to the RBC acquisition and higher favourable prior year development, partially offset by increased catastrophe experience. Longer term investment return increased 7% to £105 million *(2015: £98 million)* but decreased 1% on a constant currency basis.

Profit before tax attributable to shareholders' profits was £164 million *(2015: £142 million)* including higher operating profits for the reasons described above partly offset by higher amortisation of intangibles of £29 million *(2015: £10 million),* and higher integration and restructuring costs of £18 million *(2015: £7 million)* following the acquisition of RBC.

Year ended 31 December 2015
The weakening of the Canadian dollar has affected all metrics from a Group perspective.

General insurance net written premiums decreased by 5% to £1,992 million *(2014: £2,104 million).* On a constant currency basis, net written premiums increased by 1%, mainly due to improved rates and retention on personal lines.

Operating profit was £214 million *(2014: £191 million)*, a 12% increase compared to the prior year. On a constant currency basis, profit increased by 21%. The increase in profits included higher underwriting profits of £120 million *(2014: £83 million)*, and benefitted from more benign weather conditions compared to prior year and higher positive prior year reserve releases in personal lines. Longer term investment return reduced 13% to £98 million *(2014: £112 million)*, down 6% on a constant currency basis, primarily as a result of lower reinvestment yields.

Profit before tax attributable to shareholders' profits was £142 million *(2014: £253 million)* including higher operating profits more than offset by short-term investment variances of £47 million *(2014: £65 million positive)* reflecting lower investment values.

Asia
The table below presents the sales, net written premiums, operating profit and profit before tax attributable to shareholders' profits under IFRS for the three years ended 31 December 2016, 2015 and 2014.

	2016 £m	2015 £m	2014 £m
Sales			
Long-term insurance, savings and health business			
Singapore	**940**	1,498	1,336
Other Asia – excluding Malaysia	**1,269**	1,196	518
Malaysia	**—**	—	97
Total long-term savings sales	**2,209**	2,694	1,951
General insurance and health (excluding long-term health)			
Singapore	**67**	56	56
Other Asia	**—**	—	9
Total general insurance and health sales	**67**	56	65
Investment sales	**137**	129	146
Total sales	**2,413**	2,879	2,162
IFRS net written premiums	**775**	783	781
Operating profit before tax			
Long-term insurance and savings business			
Singapore	**112**	94	82
Other Asia	**129**	150	5
	241	244	87
General insurance and health			
Singapore	**(12)**	(6)	(3)
Other Asia	**(1)**	—	1
Other operations	**(27)**	(15)	(7)
Total operating profit before tax	**201**	223	78
Profit before tax attributable to shareholders' profits	**23**	70	38

Year ended 31 December 2016
Long -term insurance and savings sales in Asia decreased by 18% to £2,209 million *(2015: £2,694 million)* mainly reflecting the discontinuance of the bancassurance agreement with DBS Bank Ltd. General insurance and health net written premiums, excluding long-term health, were £67 million *(2015: £56 million)* due to strong renewals in Group schemes.

Total net written premiums were slightly lower at £775 million *(2015: £783 million)* for the reasons mentioned above.

Operating profits were £201 million *(2015: £223 million).* Life operating profit decreased to £241 million *(2015: £244 million)*, 5% on a constant currency basis due to the bancassurance discontinuance, continuing investment and the one-off benefit of an internal reinsurance transaction in 2015 partly offset by a recovery of indirect taxes paid in Singapore. Non-life operating losses were higher due to higher claims experience from the Singapore health business and higher losses from other operations.

Profit before tax attributable to shareholders' profits was £23 million *(2015: £70 million)*, due to the above, and negative investment variances of £10 million *(2015: £11 million positive).*

Year ended 31 December 2015
Long -term insurance and savings sales in Asia increased by 38% to £2,694 million *(2014: £1,951 million)* mainly reflecting higher protection sales in Singapore and China and £582 million sales contributed by Friends Provident International ('FPI'), following the Friends Life acquisition in April 2015. General insurance and health net written premiums, excluding long-term health, were £56 million *(2014: £65 million)*.

Total net written premiums were stable at £783 million *(2014: £781 million)*.

Operating profits were £223 million *(2014: £78 million)* including a £151 million contribution from FPI (£15 million operating profit net of amortisation of acquired value of in-force business). Excluding FPI, operating profit was £72 million *(2014: £78 million).* Within this, higher life operating profits were more than offset by lower non-life profits.

Profit before tax attributable to shareholders' profits was £70 million *(2014: £38 million)*. As described above, this included operating profits partly offset by a higher AVIF amortisation charge. In addition, there were favourable life investment variances of £11 million *(2014: £11 million adverse)* and lower goodwill impairment charges.

Aviva Investors

The table below presents the sales, operating profit, profit before tax attributable to shareholders' profits under IFRS and assets under management of Aviva Investors for the three years ended 31 December 2016, 2015 and 2014.

	2016 £m	2015 £m	2014 £m
Sales[1]			
Long-term insurance and saving business (including UK retail collectives)	**2,845**	1,647	881
Investment sales (excluding UK retail collectives)	**2,931**	3,358	2,225
Total sales	**5,776**	5,005	3,106
Operating profit before tax			
Fund management operating profit[1]	**139**	105	79
Long-term insurance and savings business – Pooled Pensions operating profit[1]	**2**	1	2
Other operations	**19**	—	(18)
Total operating profit/(loss) before tax	**160**	106	63
Profit/(loss) before tax attributable to shareholders' profits	**130**	81	83
Assets under management	**344,518**	289,910	245,898

1 The UK Retail fund management business was transferred from UK Life to Aviva Investors on 9 May 2014 and hence is included in Aviva Investors from 9 May 2014 onwards.

Year ended 31 December 2016

Total sales increased by 15% to £5,776 million *(2015: £5,005 million)*. Long-term insurance and savings business increased to £2,845 million reflecting growth of the Aviva Investors Multi-Strategy (AIMS) fund.

Investment sales decreased to £2,931 million reflecting lower sales in Europe.

Fund management operating profit increased to £139 million *(2015: £105 million)*, driven by revenue growth from increased assets under management and a revision in pricing to manage funds on behalf of other Aviva entities.

Assets under management increased by £54.6 billion to £344.5 billion *(2015: £289.9 billion)*. This was driven by positive net fund flows, the transfer of a further £14 billion of Friends Life assets and favourable market and foreign exchange rate movements.

Profit before tax attributable to shareholders' profits increased to £130 million *(2015: £81 million profit)*. This included higher operating profits, partly offset by higher integration and restructuring costs of £19 million *(2015: £11 million)*. Other operations operating profit of £19 million *(2015: £nil)* related to reinsurance recoveries, of which £16 million was from the Group's internal reinsurer and therefore has a neutral effect at a Group level.

Year ended 31 December 2015

Total sales increased by 61% to £5,005 million *(2014: £3,106 million)*. Long-term insurance and savings business increased to £1,647 million following the transfer of the UK retail fund management business from UK Life in May 2014. Investment sales increased to £3,358 million (*2014: £2,235 million)* reflecting higher sales of European funds.

Fund management operating profit was £105 million *(2014: £79 million)*, including a contribution of £9 million from Friends Life Investments (FLI). Excluding FLI, the increase of £17 million was driven by increased performance fees partly offset by higher operating expenses.

Assets under management increased by £44.0 billion to £289.9 billion *(2014: £245.9 billion)*. This was driven by acquisitions partly offset by net outflows and adverse market and other movements including adverse euro exchange rate movements.

Profit before tax attributable to shareholders' profits was broadly flat at £81 million *(2014: £83 million)*. This included higher fund management operating profits and higher integration and restructuring costs of £11 million *(2014: £4 million)*. The 2014 result included a profit on disposal of River Road of £35 million and the provision for the FCA fine of £17.6 million as described below.

Other Group activities

The table below presents net written premiums, operating losses and loss before tax attributable to shareholders' profits from other Group activities for the three years ended 31 December 2016, 2015 and 2014.

	2016 £m	2015 £m	2014 £m
IFRS net written premiums	**23**	13	18
Operating profit before tax			
General Insurance	**(14)**	13	9
Corporate centre	**(184)**	(180)	(132)
Group debt costs and other interest	**(325)**	(361)	(463)
Other Group operations	**(65)**	(46)	(56)
Total operating loss before tax	**(588)**	(574)	(642)
Loss before tax attributable to shareholder's profits	**(1,248)**	(510)	(626)

Year ended 31 December 2016

Net written premiums from our reinsurance business were £23 million *(2015: £13 million)*.

Operating loss from general insurance was £14 million *(2015: £13 million profit)*.

Corporate centre costs were £184 million *(2015: £180 million)*.

Group debt costs and other interest decreased to £325 million *(2015: £361 million)*, mainly due to lower internal debt costs of £23 million (*2015: £92 million*) and a decrease in the net finance income on the main UK pension scheme to £86 million (*2015: £94 million*). The impact of internal debt costs is neutral at an overall Group level.

Losses from other operations were £65 million *(2015: £46 million)* due mainly to increased investment in the development of the UK digital business.

Loss before tax attributable to shareholders' profits was £1,248 million *(2015: £510 million loss)*. The higher loss in 2016 is due to foreign exchange movements on external borrowings.

Year ended 31 December 2015

Net written premiums from our reinsurance business were £13 million *(2014: £18 million)*.

Operating profit from general insurance was £13 million *(2014: £9 million)*.

Corporate centre costs were £180 million *(2014: £132 million)* mainly as a result of increased spend on digital initiatives across the Group as well as the inclusion of Friends Life costs following the acquisition of this business.

Group debt costs and other interest decreased to £361 million *(2014: £463 million)*, mainly due to lower internal debt costs of £92 million (*2014: £186 million*) and an increase in the net finance income on the main UK pension scheme to £94 million (*2014: £33 million*), partially offset by higher external debt costs reflecting the inclusion of Friends Life external debt. The impact of internal debt costs is neutral at an overall Group level.

Losses from other operations were £46 million *(2014: £56 million)*.

Loss before tax attributable to shareholders' profits was £510 million *(2014: £626 million loss)*. The lower loss in 2015 was mainly due to lower operating losses and higher positive short-term investment variances, partially offset by higher integration and restructuring costs.

This data is derived from our consolidated financial statements which have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU).

On 10 April 2015, the Group completed the acquisition of 100% of the outstanding ordinary shares of Friends Life Group Limited ('Friends Life') through an all share exchange which gave Friends Life shareholders 0.74 Group shares for every Friends Life share held. In total 1,086 million Group shares were issued.

On 2 October 2013 the Group completed the sale of its US Life and related internal asset management operations, which have been shown as discontinued operations in the income statement, statement of comprehensive income and statement of cash flows. In 2014, the Group paid a settlement related to the purchase price adjustment, which in conjunction with the aggregate development of other provisions has been presented as discontinued operations.

In July 2012, the Group's shareholding in Delta Lloyd N.V., which had been deconsolidated during 2011 and subsequently accounted for as an associate, fell below 20%. From July 2012 Delta Lloyd was treated as a financial investment within continuing operations at fair value through profit and loss. The Group sold its remaining shareholding in Delta Lloyd in January 2013.

Income statement data

Amounts in accordance with IFRS

Continuing operations	2016 £m	Restated[1] 2015 £m	Restated[1] 2014 £m	2013 £m	2012 £m
Income					
Gross written premiums	**25,442**	21,925	21,670	22,035	22,744
Premiums ceded to reinsurers	**(2,364)**	(2,890)	(1,614)	(1,546)	(1,571)
Premiums written net of reinsurance	**23,078**	19,035	20,056	20,489	21,173
Net change in provision for unearned premiums	**(210)**	(111)	1	134	(16)
Net earned premiums	**22,868**	18,924	20,057	20,623	21,157
Fee and commission income	**1,962**	1,797	1,230	1,279	1,273
Net investment income	**30,257**	2,825	21,889	12,509	21,135
Share of profit/(loss) after tax of joint ventures and associates	**216**	180	147	120	(255)
Profit/(loss) on the disposal and re-measurement of subsidiaries and associates	**(11)**	2	174	115	(164)
	55,292	23,728	43,497	34,646	43,146
Expenses					
Claims and benefits paid, net of recoveries from reinsurers	**(23,782)**	(21,985)	(19,474)	(22,093)	(23,601)
Change in insurance liabilities, net of reinsurance	**(6,893)**	6,681	(5,570)	2,493	(430)
Change in investment contract provisions	**(14,039)**	(1,487)	(6,518)	(7,050)	(4,450)
Change in unallocated divisible surplus	**(381)**	984	(3,364)	280	(6,316)
Fee and commission expense	**(3,885)**	(3,324)	(3,364)	(3,975)	(4,457)
Other expenses	**(3,853)**	(2,784)	(1,979)	(2,220)	(2,843)
Finance costs	**(626)**	(618)	(540)	(609)	(653)
	(53,459)	(22,533)	(40,809)	(33,174)	(42,750)
Profit before tax	**1,833**	1,195	2,688	1,472	396
Tax attributable to policyholders' returns	**(640)**	218	(382)	(191)	(221)
Profit before tax attributable to shareholders' profits	**1,193**	1,413	2,306	1,281	175
Tax attributable to shareholders' profits	**(334)**	(316)	(606)	(403)	(261)
Profit/(loss) after tax from continuing operations	**859**	1,097	1,700	878	(86)
Profit/(loss) after tax from discontinued operations	**—**	—	58	1,273	(2,848)
Total profit/(loss) for the year	**859**	1,097	1,758	2,151	(2,934)

Amounts in accordance with IFRS	Per share	Per share	Per share	Per share	Per share
Profit/(loss) per share attributable to equity shareholders:					
Basic (pence per share)	**15.3p**	23.1p	50.4	65.3p	(109.1)p
Diluted (pence per share)	**15.1p**	22.8p	49.6	64.5p	(109.1)p
Continuing operations – Basic (pence per share)	**15.3p**	23.1p	48.4	22.0p	(11.2)p
Continuing operations – Diluted (pence per share)	**15.1p**	22.8p	47.7	21.8p	(11.2)p

	Per share	Per share	Per share	Per share	Per share
Dividends paid per share	**23.3**	20.8	18.1	15.0	19.0

	Millions	Millions	Millions	Millions	Millions
Number of shares in issue at 31 December	**4,062**	4,048	2,950	2,947	2,946
Weighted average number of shares in issue for the year	**4,051**	3,741	2,943	2,940	2,910

1 Following a correction to accounting and modelling for annual management charge rebates in UK Life, prior year comparatives have been restated. This has led to an increase in operating profit and profit before tax of £23 million for 2015 *(2014: £25 million)* and an increase in opening retained earnings for 2015 of £20 million *(2014: £nil)* with an increase in equity at 31 December 2015 of £38 million *(£20 million)*. See note 1 to the Consolidated Financial Statements for further details.

2 Weighted average number of shares in issue for the year is calculated after deducting treasury shares.

Statement of financial position data

Amounts in accordance with IFRS	**2016 £m**	Restated[1] 2015 £m	Restated 2014 £m	2013 £m	2012 £m
Total assets	**440,419**	387,831	285,653	281,627	317,120
Gross insurance liabilities	**151,183**	140,556	113,445	110,555	113,091
Gross liabilities for investment contracts	**197,095**	181,082	117,154	116,058	110,494
Unallocated divisible surplus	**9,349**	8,811	9,467	6,713	6,931
Core structural borrowings	**8,577**	6,912	5,310	5,125	5,139
Other liabilities	**54,664**	32,200	27,981	32,159	70,105
Total liabilities	**420,868**	369,561	273,357	270,610	305,760
Total equity	**19,551**	18,270	12,296	11,017	11,360

1 Following a correction to accounting and modelling for annual management charge rebates in UK Life, prior year comparatives have been restated. This has led to an increase in operating profit and profit before tax of £23 million for 2015 and an increase in opening retained earnings for 2015 of £20 million with an increase in equity at 31 December 2015 of £38 million. See note 1 to the Consolidated Financial Statements for further details.

Other information

History and development of Aviva

General

Aviva plc, a public limited company incorporated under the laws of England and Wales, is the holding company of the Aviva Group. The Group provides customers with long-term insurance and savings, general and health insurance, and fund management products and services. Our purpose is to help people defy uncertainty so they can get on with their lives with confidence.

Our history

The Group was formed by the merger of CGU plc and Norwich Union plc on 30 May 2000. CGU plc was renamed CGNU plc on completion of the merger, and subsequently renamed Aviva plc on 1 July 2002. CGU plc and Norwich Union plc were both major UK-based insurers operating in the long-term insurance business and general insurance markets. Both companies had long corporate histories.

CGU plc was formed in 1998 from the merger of Commercial Union plc and General Accident plc. General Accident plc was incorporated in 1865. Commercial Union was incorporated in 1861 and in 1905 acquired Hand in Hand, which was incorporated in 1696.

Norwich Union plc was founded as a mutual society in 1797, and had expanded as a global business by the 20th century. In 1997 it demutualised and became an English public limited company.

On 10 April 2015, the Group completed the acquisition of Friends Life Group Limited through an all share exchange.

On 1 July 2016, Aviva Canada Inc. acquired 100% of the issued and outstanding shares of RBC. Further details can be found in 'IFRS Financial Statements – Note 3 – Subsidiaries'.

Business overview

Our plan

Our strategic framework increases the focus on the things that really matter and puts the customer clearly at the heart of all we do. It provides clear direction across all our markets for how we run our business. Our overarching purpose is to defy uncertainty. And we have a clear strategy to deliver our investment thesis of cash flow growth by always putting our customers first. Our Strategic Anchor is the "what we do, how we do it and where we do it" of our strategy as set out below:

- **True Customer Composite**
  Meeting all customer needs across life, general, accident and health insurance and asset management.
- **Digital First**
  Emphasising customer experience driven by digital – online mobile, and tablet
- **Not everywhere**
  Focusing on markets and segments where we can win.

This is all underpinned by our values of kill complexity, care more, never rest and create legacy, the core beliefs at the heart of how we do business.

Our business

Overview

Our business operates across four main market sectors – life insurance, general insurance, accident and health insurance and asset management, providing services to over 33 million customers worldwide. We operate in 16 different countries and have approximately 29,500 employees.

The Group's operating segments are determined along market reporting lines and internal management reporting. The operating segments are: UK & Ireland Life and UK & Ireland General Insurance; France; Poland; Italy, Spain and Other; Canada; Asia; and Aviva Investors. Further details can be found in "IFRS Financial Statements – Note 4 – Segmental information".

Life insurance business

Long-term insurance business accounted for approximately 80% of our total worldwide sales for the year ended 31 December 2016. We reported total long-term insurance, savings and health new business sales of £37.3 billion[1].

Market position

In the UK, we have a market share of 14.5%[2] based on annual premium equivalent (APE) as at 30 September 2016. We also have life insurance businesses in Ireland, France, Italy, Spain, Poland, Turkey and Asia. Further details of our position in each market are set out in the market sections below.

Brands and products

In 2010, we brought all our businesses together under the Aviva brand, which remains the case for the vast majority of our products and services.

Our long-term insurance businesses offer a broad range of life insurance and savings products. Our products are split into the following categories:

- Annuities – a type of policy that pays out regular amounts of benefit, either immediately and for the remainder of a person's lifetime, or deferred to commence from a future date. Immediate annuities may be purchased for an individual and his or her dependants or on a bulk purchase basis for groups of people. Deferred annuities are asset accumulation contracts, which may be used to provide benefits in retirement, and may be guaranteed, unit-linked or index-linked.
- Equity Release – a range of products that allows you to access the equity tied up in your home.
- Pensions – a means of providing income in retirement for an individual and possibly his or her dependants. Our pension products include personal and group pensions, stakeholder pensions and income drawdown.
- Protection – an insurance contract that protects the policyholder or his or her dependants against financial loss on death or ill-health. Our product ranges include term assurance, mortgage life insurance, flexible whole of life and critical illness cover and group schemes.
- Bonds and savings – accumulation products with single or regular premiums and unit-linked or guaranteed investment returns. Our product ranges include single premium investment bonds and regular premium savings plans.
- Investment sales –retail sales of mutual fund type products such as unit trusts, individual savings accounts (ISAs) and open ended investment companies (OEICs).

Some of our insurance and investment contracts contain a discretionary participation feature, which is a contractual right to receive additional benefits as a supplement to guaranteed benefits. These are referred to as "participating" contracts.

General insurance and health insurance

General insurance and health insurance accounted for 20% of our total worldwide sales for the year ended 31 December 2016. In the year ended 31 December 2016, we reported

[1] See 'financial and operating performance' for further details.
[2] Association of British Insurers (ABI) Stats published Q3 2016.

general and health insurance net written premiums of £9.1 billion[1].

Market position
We are a leading general insurer in the United Kingdom and Canada with 10.9%[3] and 10.6%[4] market share respectively. We also have general insurance operations in France, Italy, Ireland, and Poland. We sell health products in the UK, France, Singapore and Indonesia. In the year ended 31 December 2016, 42% of our total general insurance and health new business was written in the UK.

Brands and products
Our general insurance business operates under the Aviva brand globally and concentrates on the following products:
- Personal lines – motor, household, travel and creditor;
- Commercial lines – fleet, liability and commercial property insurance;
- Health insurance – private health insurance, income protection and personal accident insurance, as well as a range of corporate healthcare products; and
- Corporate and specialty risks – products for large clients or where the risk is specialised.

Asset management
Aviva Investors, our asset management business, provides asset management services to Aviva's long-term insurance and savings, and general insurance operations as well as to third-party investors. The fund management operations are in the UK, Europe, North America and Asia. All sales of retail fund management products are included in our long-term insurance and savings business sales.

Market position
Aviva Investors was ranked 45th globally by assets under management[5]. Total worldwide funds managed by Aviva Investors, at 31 December 2016, was £345 billion. The substantial majority of this relates to Aviva's insurance and savings operations.

Brands and products
Aviva Investors operates under a single brand across the majority of the Aviva Group's markets. Its products cover a broad range of asset classes. In Europe, this includes open-ended collective investment schemes which are domiciled in France, Luxembourg and Poland; while in the United Kingdom, this includes segregated mandates and specialist funds for pension schemes, local authorities and insurance companies, as well as retail and wholesale products. Other offerings include specialist property funds and money market funds.

Distribution
Customers can buy our products through a range of distribution channels, including:
- Direct – In many of our markets, customers can buy our products over the telephone or via the internet. This method of distribution is most commonly available for simple products which do not require advice.
- Direct sales force – In some of our European and Asian markets we operate direct sales forces that only sell Aviva's products and the sales forces receive commission on the products they sell.
- Intermediaries – We offer a range of long-term insurance, savings, retirement, general insurance and health insurance products which can be bought through an intermediary, such as an independent financial adviser or an insurance broker. Subject to regulatory requirements, intermediaries receive a commission on sales of Aviva's products.
- Corporate partnerships, bancassurance and joint ventures – Aviva is a corporate partner for many organisations, including banks and other financial institutions, who wish to offer their customers insurance products. We have various distribution agreements with bancassurance partners and joint ventures across the markets in which we operate. In return for offering our products to their customers, the bank or joint venture partners receive a commission as a percentage of sales and in some cases achieve extra commission if agreed target levels of sales are met. Certain agreements have a profit sharing element based on a predetermined percentage. In some cases, if the agreed targets are not met, certain terms of the contract can be renegotiated. Under the joint venture agreements, the cost of running the venture are often split between the partners.

Further details of the distribution channels specific to each market are included in the following market analysis.

UK & Ireland Life
Business overview and strategy
The UK business is a leading long-term insurance provider with an overall market share of 14.5%[2], based on annual premium equivalent (APE) data as at 30 September 2016. The Irish business is the fourth largest life and pensions provider in Ireland, with an overall market share of 8.4%[6].

In the UK we offer a market leading range of propositions to individual and corporate customers, including long term savings, Equity Release and Annuities, Protection and Health, and we have one of the largest back books in the UK Life and Pensions market. We have competitive advantages through the strength of our balance sheet and diversification we achieve, economies of scale in our cost base, our brand and the 16 million UK & Ireland Aviva customer base. Our aim is to generate cash and deliver profitable growth, while continuing to drive the composite model and our digital strategy. On 10 April 2015, the Group completed the acquisition of Friends Life Group. In 2016, we delivered the integration benefits of Friends Life UK a year ahead of schedule.

Our Irish long-term business is solely focused on distribution through intermediaries.

In Ireland, we continue to deliver on our strategy of growing annuity and investment business, as we progress towards being the provider of choice for pre and post retirement solutions.

Market and competition
The fundamental growth drivers of UK insurance remain attractive and have not changed post Brexit. The UK has a large, ageing and affluent population and is the third largest insurance market globally[7]. Over the last few years, Auto-Enrolment, pension freedoms, exit fee caps and the Department of Work and Pensions (DWP) charge cap have transformed the way that long-term savings products are bought and sold in the UK.

The capping of early exit pension charges at 1% will come into effect from 31 March 2017. New schemes entered into after 31 March 2017 cannot impose any kind of early exit charges. The vast majority of our products do not have early termination charges, but where an early termination charge does apply, the cap will be in place by the implementation date. We believe the cap on new entrants will have no impact on Aviva.

The Department of Work and Pensions (DWP) charge cap of 75 basis points came into force in April 2015, and the removal of active member discounts (AMDs) commenced in April 2016.

3 Verdict Financial Intelligence 2015
4 Market Security Analysis & Research Inc, 2015 online database
5 Willis Towers Watson World 500 largest asset manager's study 2015

6 Milliman Consolidated Sales APE Market Analysis 2016.
7 UK Insurance and Long Term Key Facts 2015.

Other information

We implemented these changes in 2014, ahead of the regulatory requirement.

The UK long-term savings market is highly competitive and we consider our main competitors to be Legal & General, Standard Life, Prudential, Scottish Widows, JRP Group and Royal London.

We believe our Irish business is now market leader in the annuity space and continues to grow market share. We consider our main competitors to be Bank of Ireland Life, Irish Life, Zurich Life and Friends First.

Products

In the UK, we provide a comprehensive product range focused on both the consumer and corporate markets. The pensions and retirement products we offer include personal pensions, equity release, annuities and income drawdown. Our annuity offerings include immediate life, enhanced, fixed-term annuities and with-profits pension annuities. We provide a number of traditional life insurance products, including level-term, decreasing-term (with or without critical illness), guaranteed whole of life insurance, over 50s life cover and income protection. Our savings and investment products include ISAs, investment bonds, funds, base rate trackers, investments with guarantees and with-profits products.

In Ireland, our long-term insurance and business offers a wide range of products with our focus being on protection, annuities, investment and a discrete set of accumulation products. Our protection products include life insurance, mortgage protection and specified illness. The pensions and savings range covers pre and post retirement products and investment products and are delivered by collaborating with Aviva Investors to ensure we offer products which align to their fund offering.

Distribution

We have a multi-distribution strategy, which means we sell our products through intermediaries, corporate partners, in the workplace, and directly to customers.

In the UK, we have exclusive distribution deals for the sale of protection products with several long term partnerships including Santander, Barclays, Connells, Countrywide, and LSL estate agents.

We remain committed to building on our existing relationships and distribution partnerships as well as growing our workplace and direct channels.

UK & Ireland General Insurance

Business overview and strategy

We are a leading general insurer in both the UK and Ireland with market shares of 10.9%[3] and 12.3%[8] respectively. We employ around 6,700 people and operate from a number of locations throughout the UK and Ireland, including Norwich, Perth, Glasgow, London and Dublin.

We focus on personal and commercial insurance. In the UK we hold the top position in the motor and property markets[7].

We believe our key strengths include underwriting and pricing sophistication, claims and cost management and excellent customer service. Our aim is to deliver cash and profitable growth by focusing on the fundamentals of the insurance business to maximise underwriting returns and we have a portfolio strategy to deliver greater stability of earnings.

Market and competition

The UK is the second largest non-life insurance market in the world[9]. In 2015, the top five companies had a 37% share of the UK general insurance market[3].

The UK and Ireland general insurance markets are cyclical in nature and remain very competitive, particularly in personal lines, where the market is highly commoditised.

During 2016, the UK personal motor market saw prices initially continue to rise strongly, although later in the year there were signs that the increases had begun reducing in size. The market conditions continue to be challenging in other UK classes of business as insurers seek to diversify and gain share in segments with better margin, putting pressure on rates and extent of cover.

The Ogden discount rate is used by courts in the UK to calculate awards for cases involving bodily injury. On 27 February 2017, the Lord Chancellor announced a reduction to the Ogden discount rate, which will see the cost of bodily injury compensation claims increase significantly. In Ireland, there is continued market-wide pressure on profitability. However, material rate increases have resulted in 7.8% market growth in 2015[10].

In the UK our main competitors are Direct Line Group, RSA, AXA, Zurich, Allianz, Ageas, LV= and NFU Mutual. In Ireland, our competitors include RSA, AXA, Zurich, FBD, Allianz, Liberty and AIG.

Products

We provide a wide range of general insurance products both in the UK and Ireland. In the UK we have a business mix of approximately 61% personal lines and 39% commercial lines.

Our UK personal products include motor, home, travel, home emergency, pet and Mobile Device Interface insurance. Our UK commercial products include motor, property and liability insurance for small and medium size enterprises (SMEs) and larger UK corporate customers as well as products in the specialty risks market.

In Ireland our products include property, motor, travel, agricultural and business insurance and our health insurance business products for both the personal and commercial sector were offered until the sale of our health business to Irish Life in the third quarter of 2016.

Distribution

We have a multi-distribution strategy. Our personal products are sold digitally through the internet and MyAviva, directly to customers over the phone, via brokers and through Partnership arrangements. Our QuoteMeHappy and General Accident insurance products are also available through price comparison websites. For commercial insurance, we focus on broker distribution and believe that independent brokers remain the best source of advice for business customers. Many of our brokers and customers prefer to deal online now and in line with our Digital First strategy, we've been developing our digital channels to deal with that demand with around 24% of our UK gross written premiums now coming through that route.

We are expanding our digital capability through allowing customers to view their policies, purchase simple products, and receive risk prevention support, as well as purchase new products using the MyAviva app.

France

Business overview and strategy

We have a significant presence in the French insurance market and we operate through two main companies: Aviva Vie, ranked 10th in life insurance, based on premiums collected, and Aviva Assurance, ranked 11th in general insurance, as measured by gross written premiums[11].

Our strategy is to deliver sustainable dividends to Group by increasing profitability in our life business and targeted growth

[8] Central Bank of Ireland Insurance statistics.
[9] McKinsey & co.

[10] Insurance Ireland Factfile Report 2015.
[11] L'Argus de l'Assurance, May 2016.

in profitable general insurance segments while developing our digital capabilities.

Market and competition

France is the second largest insurance market in Europe[12]. The life insurance market is driven by individual savings and dominated by bancassurance, which accounted for 64% of the life insurance premiums collected in 2015[13]. We believe that the long-term insurance and savings market in France has long-term growth potential due to an ageing population and the growing need for private pensions and protection. We also believe that in a low interest and Solvency II regulatory environment, product diversification and multi-funds policies are the best drivers of performance over a longer period.

The general insurance market in France is mature. In personal lines, the digital transformation occurring in the market is increasing competition through multi-access and direct distribution models, and through advanced analytics, whereas in commercial lines the market still mainly relies on local physical distribution networks.

Products

We provide a wide range of insurance solutions: life and long-term savings, general and health insurance and asset management through Aviva Investors France. The products sold through our life channel are long-term savings, pensions and regular premium products, with a focus on the unit-linked market and a broad range of protection products, primarily for individuals.

We have a longstanding relationship with the Association Française d'Epargne et de Retraite (AFER) which is the largest retirement savings association in France with 720,000 members as at December 2015, to manufacture and distribute the AFER savings product.

In the general insurance market our product range includes household, motor, health and legal protection products and also a range of insurance products for small to medium sized entities, farms, craftsmen and tradesmen, and specific products for building firms and motor fleets.

Distribution

We have developed a multi-distribution model combining retail, direct and bancassurance networks through owned distribution channels, independent networks and partnerships. Our retail network sells through over 920 tied agents, a direct sales force made up of approximately 1,200 Union Financière de France (UFF) consultants and direct advisors (Aviva France also holds a majority stake in UFF), and through brokers in the life, health and construction markets.

Direct distribution is managed through the Eurofil brand for personal general insurance, the Aviva Direct brand for protection and Epargne Actuelle for the AFER product.

We operate in the bancassurance market through our arrangement with Crédit du Nord, a subsidiary of Société Générale, selling life, savings and protection products. This will cease upon completion of the sale of Aviva's 50% share as our partner exercised its call option.

Poland

Business overview and strategy

Aviva is the second largest insurer in the Life market in terms of gross written premiums with a market share of 8%[14]. Our general insurance business is the 12th largest with a market share of 2% on the same basis. Our focus in Poland is to grow the value of life new business and in general insurance we aim to grow our portfolio while maintaining the portfolio quality and combined operating ratio.

Market and competition

The key forces shaping the insurance market in Poland are:

- Regulatory changes driven by the Polish government, including a new Insurance Act that implements Solvency II into the local regulatory framework, as well as introducing other changes designed to strengthen policyholder protection and extend the powers of the regulator.
- Increasing regulatory focus from governmental agencies, such as the Financial Supervisory Authority (KNF) and the Office of Competition and Consumer Protection (UOKiK) on unit-linked products.
- At the beginning of 2016, the introduction of a levy on finance sector assets of 0.44% per annum.

Products

Our life business in Poland provides a broad range of protection, savings and pension products as well as health insurance and mutual funds. For institutions we offer group life insurance and employee pension programmes, which are both mostly unit-linked products. We offer a standard product as part of our privately managed pension business. We offer general insurance products to both commercial entities and individuals. For individuals, our offer consists of home, accident and travel insurance, which are primarily sold by tied agents, as well as motor insurance, which is sold primarily through our direct operation. For institutions, we offer selected commercial lines risks.

Distribution

The direct sales force and bancassurance are the main distribution channels for most of the Polish business and are made up of almost 2,200 tied insurance agents. Our biggest relationship is with Bank Zachodni WBK (a subsidiary of Santander Group) that sells both life and general insurance products through the bank's network of 666 branches[15]. We are also exploring the IFA market through Expander Advisors, the second largest network in Poland which we acquired in 2015[16]. We also co-operate with independent insurance agencies and brokers. Our mutual funds are also sold in brokerage houses and our individual products are supported by call centre and website sales.

Italy, Spain and Other

Italy

Business overview and strategy

Aviva is Italy's 10th largest life insurer, with a market share of 2.75%[17] based on 2015 premiums and the 12th largest General Insurance company with a market share of 1.34%[17].

We have approximately 2.2 million customers across both the life and general insurance businesses.

During 2016 we continued to develop our business, the focus of which is to:

- Renew and refocus our distribution agreements with UBI Banca and Unicredit to maintain the level of value of new business and extend our product range (protection, accident and health) with Banca Popolare. Aviva signed a five year agreement with Banca Populare di Bari in April 2016.
- Boost the IFA distribution channel especially in hybrid (unit-linked and with-profit) products.
- Accelerate general insurance organic growth of our Agents network with specific focus on non-motor.
- Implement our Digital strategy, with new digital services provided to customers and distributors through MyAviva and Telematics.

12 European Insurance – Key Facts, August 2016
13 Les assurances de personnes – Donnees cles 2015
14 Polish FSA ('KNF') report as at 30 June 2016, excluding joint ventures with Bank Zachodni WB
15 Bank Zachodni WBK 30 June 2016 results
16 Association of Polish intermediaries
17 Infobila, ANIA database. Classification "Gruppo per Unico soggetto".

Other information

Market and competition

The Italian life and general insurance markets are highly concentrated with the top three providers holding c.50%[17] and c.52%[17] market share respectively. The life insurance industry in Italy is reporting decreased volumes, with new business down by c. 11.7%[18] in September 2016 compared to the same period in 2015. The general insurance segment decreased by 1.5%[19] in the first half 2016 compared to the previous year, this is mainly due to a continuous decline of motor business (4.3%[19]) driven by lower average prices.

Products

Our life business offers a wide range of products covering protection, savings and pensions, with a continued focus on less capital intensive products, to optimise the product mix and further improve our hybrid product offering for our networks.

The focus of our general insurance business remains on balancing the weight of motor with non-motor business, widening our offer e.g. in health products (Salute Advance in Bancassurance channel and Salute Smart in agents network).

Distribution

Our products are distributed through bancassurance partnerships with Unicredit Group (life), Banca Popolare Group (life and general insurance), UBI Banca (life) and Banco Popolare di Bari (life and general insurance). These partnerships give us access to about 3,500 branches. In addition, we also have approximately 1,500 active financial advisors (life), and a retail network of c.700 insurance (multi-mandate) agencies and brokers (general insurance and life) as at 30 June 2016.

Spain

Business overview and strategy

We are Spain's 10th largest long-term insurer by gross written premiums[20] with a market share of 3% as at 30 September 2016[20]. We sell protection, long-term savings and pensions, health and accident insurance through a bancassurance network based on four joint ventures with three banks. We also sell through Aviva Vida y Pensiones, the wholly-owned Aviva branded long-term insurance company and through our Spanish mutual insurance company Pelayo.

Our strategy is to maintain the franchise value in Spain and to develop our retail operations with new distribution agreements. The ongoing focus is on less capital intensive products.

Market and competition

We have seen the Spanish insurance market continue to recover with improved lending conditions, and expect this to benefit our credit linked insurance product sales.

The top positions in the long-term life insurance market are dominated by bank-owned or bank-insurer joint ventures, with the overall bancassurance channel accounting for more than 66% of gross written premiums at the end of 2015 in the Spanish life insurance market[19].

Customers in Spain are accustomed to receiving advice through banking channels, and we continue to use our relationship with our partners to capitalise on this while developing our retail agents and broker distribution network.

Products

We offer a wide range of bonds, savings, and protection products. Investment products include both unit-linked and traditional plans, where profit sharing is regularly used to increase the policy return. Our traditional plans include savings schemes and income products. Pension savings products have valuable tax advantages. We offer a flexible range of individual and group pension plans with alternative investment choices. We also offer protection products, covering both mortgages and credit loans, typically providing cover for the family.

Distribution

Through bancassurance partnerships we have established subsidiaries to distribute our products with each of the banks as set out below:

- Unicorp Vida – in conjunction with Unicaja since 2001.
- Caja España Vida – in conjunction with Caja España (now part of Unicaja Group) since 2001
- Caja Granada Vida – in conjunction with Caja Granada (now part of Banco Mare Nostrum (BMN)) since 2002
- Cajamurcia Vida – in conjunction with Cajamurcia (now part of Banco Mare Nostrum (BMN)) since 2007

Aviva Vida y Pensiones distributes our products through professional intermediaries (agents and brokers), supported by a branch office network and call centres, and through Pelayo´s network.

Other

The Italy, Spain, and Other segment includes our business in Turkey.

Aviva's business in Turkey sells life and savings products including unit-linked pensions through its life joint venture, AvivaSA, which is listed as 'AVISA' on Borsa Istanbul.

AvivaSA has an exclusive bancassurance agreement with Akbank until 2029. Akbank sells AvivaSA's life and pensions products on an exclusive basis through its leading banking network in Turkey.

Canada

Business overview and strategy

We are Canada's second largest general insurer[21]. Through our distribution partners we provide a range of personal and commercial lines general insurance products to 2.9 million policyholders. We have a 10.6%[21] market share and a top five position in all major provinces[20]. We employ over 4,000 people and operate from a head office in Toronto, with other offices located throughout Canada.

On 1 July 2016, Aviva Group acquired RBC General Insurance Company and entered into an exclusive 15 year strategic agreement with RBC Insurance.

We believe that we are well placed for continued growth and that our success is underpinned by our focus on the insurance fundamentals of pricing, risk selection, distribution, claims indemnity and expense management. We are broadening our distribution reach and strengthening our business mix, as well as taking a 'Digital First' approach to our business.

We believe the transformation of our commercial lines business over the last few years has ensured the business is highly competitive. We expect that continued refinement to our models will allow us to leverage this position to positively react to market opportunities. We will continue to address increasing customer demand for choice, simplicity and self-service by working with our broker partners on processes and technology solutions in order to help them compete with other channels.

Market and competition

Canada is the 8th largest non-life insurance market[22] in the world and is established and stable. The Canadian general insurance industry is highly fragmented with many small players and no dominant consumer brand.

18 ANIA monthly reporting on Life. "Newsletter-Vita_settembre-2016"
19 ANIA quarterly reporting on general Insurance. "Newsletter_DANNI secondo trimestre 2016"
20 Investigación Co-operativa entre Entidades Asegurados y Fordos de Pensiones ('ICEA').
21 Market Security Analysis & Research Inc, 2015 online database.
22 Swiss Re Sigma Study (World Insurance 2015)

The four largest provinces generate around 88% of total premiums with Ontario, the largest, representing 46% of total Canadian premiums[21].

Steady consolidation has resulted in the top five companies representing 49% of the market and the top two companies, Intact Financial and Aviva, separately responsible for 27% of the market[21].

The rest of the industry includes several national carriers as well as smaller, provincially based or niche companies.

While direct and affinity channels are gradually increasing in market share, the traditional broker channel accounts for a high proportion of distribution (particularly in commercial lines). In addition to the growth of direct and affinity channels, insurance carriers are increasingly supporting and controlling distribution through investment in brokers.

Products

The general insurance products that we provide through our Canadian companies are:

- Mass personal lines, including personal motor and home insurance;
- Niche personal insurance products including holiday trailers, boats as well as antique, classic and custom cars;
- Small and medium-size enterprise commercial insurance, including motor, property, and liability; and
- Large commercial insurance, including motor, property, liability, boiler and machinery, and surety.

Distribution

Independent brokers are our largest distribution channel, with approximately 1,300 independent group and retail brokers distributing our core personal and commercial line products. We also built our own direct distribution capability and, with the acquisition of RBC, we now have exposure to customers who choose to deal directly with their insurer.

Asia

Business overview and strategy

In Asia, we are focused on growth. Increasing the value of our new business remains our first priority in Asia. We are achieving this through scale benefits, strengthening our distribution platforms and by focusing our product mix on higher margin products.

In Singapore, we are a top tier insurer in the market, providing employee benefit, individual life and health insurance through a multi-distribution model. We are the pioneer in online general insurance, with our own investment platform, Navigator Investment Services, Ltd.

In China, through our 50% joint venture with COFCO Capital Investment Co., Ltd, we are ranked number 9 among 27 foreign life insurers in terms of APE as at 30 September 2016[23]. We have presence in 13 provinces with over 80 branches. We operate a multi-distribution platform including agency, bancassurance, direct marketing, and brokerage channels offering a wide range of protection and savings products.

In Indonesia, through our 50% joint venture with PT Astra International Tbk, we distribute our products primarily through our bancassurance arrangement with Permata Bank. We are also focused on strengthening our partnership with Astra International.

In Taiwan and Vietnam, through our joint ventures with First Financial Holdings Co., Ltd and Vietnam Joint Stock Commercial Bank for Industry and Trade, respectively, we aim to grow our bancassurance businesses and continue the diversification of our distribution networks.

[23] National Insurance Industry Communication Club (30 September 2016).

In India, with a distribution network of 109 branches, we operate in partnership with the Dabur Group through an interest in Aviva Life Insurance Company India Ltd, which increased by 26% to 49% during 2016. As at 31 October 2016, we ranked 19th among the private life insurance companies in India based on total APE (including Group Business)[24].

In Hong Kong, our wholly owned subsidiary, Aviva Hong Kong, operates primarily through IFA distribution networks. On 20 January 2017, we agreed to develop a joint venture with Hillhouse Capital and Tencent Holdings Limited, which will focus on digital insurance. Aviva and Hillhouse will each hold 40% and Tencent will hold 20% shareholdings in Aviva Hong Kong.

Market and competition

The Asian markets are strategically important to Aviva, owing to large populations in fast-growing economies, coupled with relatively low insurance penetration rates and social insurance coverage. Life insurance penetration (as measured by insurance premium as a proportion of GDP) in most Asian countries is typically less than 6% (1.9% in China, 1.3% in Indonesia, 0.8% in Vietnam, and 5.5% in Singapore)[22]. The Asian markets are expected to deliver GDP growth of 5.7% in 2017, ranging from 2.2% in Singapore to 6.3% in China[25].

Products

Our Asian businesses offer a wide range of protection, savings, and pension products, including universal life, participating and non-participating endowments, unit-linked single, regular premium life insurance, a range of accident and health insurance products, single premium investment products, and individual assurance policies.

Distribution

Across Asia, we operate a multi-distribution strategy. In Singapore, we operate across multiple proprietary, affinity and financial advisory channels, owning Aviva Financial Advisers Pte., Ltd and a majority interest in Professional Investment Advisory Services Pte Ltd, Singapore's financial advisory arms. In China, our products are sold mainly through agents, brokers, telemarketing, and bancassurance channels. In Indonesia, individual business is primarily sold through our bancassurance channel and group business is sold through our direct sales force. In Taiwan, bancassurance is our main distribution channel and our products are also sold through direct marketing. In Vietnam, our products are sold through bancassurance and agents. We are also investing in other channels such as direct marketing and digital to differentiate ourselves from competitors. In Hong Kong, we have operated primarily through IFA networks. In 2017, we will also operate in the digital space through the joint venture with Hillhouse and Tenent.

On 31 December 2015, our 15 year regional bancassurance agreement with DBS Bank Ltd was discontinued. Aviva retains the existing book of business, associated profits, and customer rights and relationships which were purchased in the original transaction with DBS in 2001.

FPI's products are targeted towards affluent expatriate individuals and are sold via distribution hubs in Hong Kong, Singapore and the United Arab Emirates.

Aviva Investors

Business overview and strategy

Aviva Investors offers a range of asset management services, operating in the UK, Europe, North America and Asia and had £345 billion in assets under management at the end of 2016 *(2015: £290 billion)*.

[24] Insurance Regulatory and Development Authority of India (31 October 2016).
[25] Asian Development Bank, Asian Development Outlook 2016 update.

Other information

Our largest clients are the long-term insurance, savings, and general insurance businesses of Aviva, to whom we provide bespoke asset management services across a broad spectrum of asset classes.

We provide external clients with bespoke segregated solutions or offer access to a variety of fund ranges. Our principal target clients for the larger segregated solutions tend to be large pension funds and financial institutions such as insurance companies and banks. Our strategy is to offer a range of investment propositions to deliver the specific outcomes that our clients value most.

Market and competition

At the end of 2015, the global asset management market was estimated at USD$71.4 trillion in size, half of which was accounted for by North America and almost a third by Europe[26]. The global market is highly fragmented, with the top ten managers accounting for around a third of total assets, and the remainder managed by hundreds of other managers. As a result, the commercial landscape in asset management is highly competitive. Aviva Investors is ranked 45th in "The World's 500 Largest Asset Managers[5]."

Our main competitors are large global active asset managers including Blackrock, Schroders, Aberdeen, M&G, Standard Life Investments and Invesco, in addition to other specialist managers for specific asset class capabilities such as Real Estate.

Products

Our products cover a broad range of asset classes. In Europe, we have a range of open-ended collective investment schemes which are domiciled in France, Luxembourg and Poland. These funds have different share classes depending on the size and type of investor. Our traditional distribution model for these funds focuses on wholesale distributors, asset allocators and small to mid-size institutional investors.

In the UK, we largely sell segregated mandates and specialist funds to pension schemes, local authorities and insurance companies. We also supply products to the retail and wholesale markets, principally through UK domiciled bond, real estate, equity, multi-asset and multi-strategy OEIC funds. The Aviva Investors Multi-Strategy ('AIMS') range of funds seek to provide outcome-focused strategies for an uncertain environment. In addition, we have a range of pooled pension funds which are aimed at the smaller pension fund market. We also have a range of specialist property funds and money market funds.

Distribution

Aviva Investors has a Global Client Solutions team based in 14 locations. We manage relationships with a diverse range of clients including corporate and public sector pension funds, sovereign wealth funds, financial institutions, charities, insurance companies, wealth managers and national and local government bodies.

Our distribution model for our open-ended collective investment schemes focuses on wholesale distributors, asset allocators and small to mid-size institutional investors.

In the UK, our retail products are promoted to investors via independent financial advisors, fund platforms, fund supermarkets and discretionary asset managers. In the United States, we have a strategic partnership with Virtus Investment Partners which provides Aviva Investors' strategies to US customers in US open-ended mutual funds.

Our property funds are targeted at specialist real estate buyers and large institutions (mostly pension funds and local authorities), and our money market funds are sold by a specialist sales team and target corporate treasury functions.

[26] Boston Consulting Group – Global Asset Management 2016. "Doubling down on data".

Analysis of investments

We invest our policyholders' funds and our own funds in order to generate a return for both policyholders and shareholders. The financial strength of the Group and both our current and future operating results and financial performance are, therefore, in part dependent on the quality and performance of our investment portfolios in the UK, Europe, North America and Asia.

For additional information on our financial investments, see 'IFRS Financial statements – Note 26 – Financial investments'.

Investment strategy

Our investment portfolio supports a range of businesses operating in a number of geographical locations. Our aim is to match the investments held to support a line of business to the nature of the underlying liabilities, while at the same time considering local regulatory requirements, the level of risk inherent within different investments, and the desire to generate superior investment returns, where compatible with this stated strategy and risk appetite.

Long-term insurance and savings business

As stated above, we aim to optimise investment returns while ensuring that sufficient assets are held to meet future liabilities and regulatory requirements. As different types of life insurance business vary in their cash flows and in the expectations placed upon them by policyholders, we need to hold different types of investments to meet these different cash flows and expectations.

The UK with-profits business is comprised largely of long-term contracts with some guaranteed payments. We are therefore able to invest a significant proportion of the funds supporting this business in equities and real estate. This is because the long-term nature of these contracts allows us to take advantage of the long-term growth potential within these classes of assets, while the level of guaranteed payments is managed to mitigate the level of risk that we bear in relation to the volatility of these classes of assets.

Non-UK participating business, annuities and non-participating contracts in all countries, have a high level of guaranteed future payments. We endeavour to match the investments held against these types of business to future cash flows. We therefore have a policy of generally holding fixed income securities and mortgage loans with appropriate maturity dates.

With unit-linked business, the primary objective is to maximise investment returns, subject to following an investment policy consistent with the representations that we have made to our unit-linked product policyholders.

General insurance and health business

The general insurance and health business is comprised of shorter-term liabilities than the long-term insurance business. Furthermore, all the risk attaching to the investments is borne by our shareholders. As a result, the investment portfolio held to cover general insurance liabilities contains a higher proportion of fixed income securities than the portfolio held to cover life insurance liabilities.

Property partnerships

As part of their investment strategy, the UK and certain European policyholder funds have invested in a number of property limited partnerships ('PLPs'), either directly or via property unit trusts ('PLPs'), through a mix of capital and loans. The nature of our involvement in property partnerships is set out in the second and third paragraphs of the Investment vehicles section of 'IFRS Financial Statements – Accounting policies – (D) Consolidation principles'. Property partnerships are accounted for as subsidiaries, joint ventures or financial investments depending on our participation and the terms of each partnership agreement. For each property partnership accounted for as a subsidiary, joint venture or financial investment, we are exposed to falls in the value of the underlying properties which are reflected as unrealised gains/losses on investment properties, our share of joint venture results and unrealised gains/losses on financial investments, respectively. However, the majority of these are in policyholder funds (rather than shareholder funds) so such losses are offset by changes in the amounts due to policyholders or unitholders, or UDS.

Analysis of investments

The Group's exposure to investment return varies according to the characteristics of the liability the assets are held to support. We distinguish between policyholder, participating fund and shareholder investments, which are terms used to reflect the differing exposure to investment gains and losses. Policyholder assets are connected to our unit-linked business, where the policyholder bears the investment risk on the assets in the unit-linked funds. Our 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. Participating fund assets relate to some of our insurance and investment contracts which contain a discretionary participation feature, which is a contractual right to receive additional benefits as a supplement to guaranteed benefits. Our exposure to investment losses on participating funds is generally limited to our participation in the fund. Shareholder assets are other assets held within our businesses that are not backing unit-linked liabilities or participating funds.

Investments held at 31 December 2016 and 31 December 2015 are listed below:

2016	Policyholder assets £m	Participating fund assets £m	Shareholder assets £m	Total assets analysed £m	Less assets of operations classified as held for sale £m	Carrying value in the statement of financial position £m
Investment property	**6,625**	**3,664**	**527**	**10,816**	**(48)**	**10,768**
Loans	**1,027**	**2,470**	**21,362**	**24,859**	**(75)**	**24,784**
Financial investments						
Debt securities	**27,048**	**102,511**	**53,715**	**183,274**	**(7,738)**	**175,536**
Equity securities	**52,571**	**15,771**	**670**	**69,012**	**(664)**	**68,348**
Other investments	**45,630**	**9,119**	**3,506**	**58,255**	**(2,304)**	**55,951**
Total	**132,901**	**133,535**	**79,780**	**346,216**	**(10,829)**	**335,387**
Total %	**38.4%**	**38.6%**	**23.0%**	**100.0%**	**—**	**100.0%**
2015	117,941	119,874	70,136	307,951	—	307,951
2015 %	38.3%	38.9%	22.8%	100.0%	—	100.0%

As the table indicates, approximately 23.0% of total investments can be directly attributed to shareholders. The apportionment of our shareholder assets is predominantly weighted towards debt securities and loans. In comparison, policyholder assets contain a greater proportion of equities and other investments (e.g. unit trusts), and participating funds contain a greater proportion of debt and equity securities, reflecting the underlying investment mandates.

We carry investments on our statement of financial position at either fair value or amortised cost. At 31 December 2016, approximately 99% of the Group's total investments were carried at fair value on the statement of financial position.

For more information about financial investments analysed according to their accounting classification and valuation approach, as well as the cost, unrealised gains and losses, impairments, fair value and other information concerning financial investments, see 'IFRS Financial statements – Note 26 – Financial investments'.

Debt securities

Participating fund asset and shareholder debt securities analysed by credit rating and sector

Participating fund asset and shareholder debt securities analysed by credit rating and product type as at 31 December 2016 are set out in the tables below. Government and corporate debt securities are further analysed by type of issuer.

	Ratings						
2016 – Participating fund assets	AAA £m	AA £m	A £m	BBB £m	Less than BBB £m	Non-rated £m	Total £m
Government							
UK Government	**—**	**11,644**	**—**	**—**	**—**	**8**	**11,652**
Non-UK Government	**5,466**	**16,786**	**2,828**	**9,917**	**517**	**352**	**35,866**
Corporate							
Public utilities	**3**	**156**	**1,481**	**3,170**	**253**	**83**	**5,146**
Convertibles and bonds with warrants	**—**	**—**	**—**	**180**	**—**	**—**	**180**
Other corporate bonds	**6,554**	**4,882**	**10,883**	**13,691**	**3,197**	**2,579**	**41,786**
Certificate of deposits	**—**	**—**	**—**	**7**	**37**	**—**	**44**
Structured	**527**	**248**	**309**	**210**	**37**	**1**	**1,332**
Wrapped credit	**—**	**10**	**111**	**26**	**7**	**—**	**154**
Other	**46**	**73**	**478**	**2,179**	**2,382**	**1,193**	**6,351**
Total	**12,596**	**33,799**	**16,090**	**29,380**	**6,430**	**4,216**	**102,511**
Total %	**12.3%**	**33.0%**	**15.6%**	**28.7%**	**6.3%**	**4.1%**	**100.0%**
2015	12,453	32,793	15,007	22,818	3,911	4,024	91,006
2015 %	13.7%	36.0%	16.5%	25.1%	4.3%	4.4%	100.0%

2016 – Shareholder assets	AAA £m	AA £m	A £m	BBB £m	Less than BBB £m	Non-rated £m	Total £m
	Ratings						
Government							
UK Government	**—**	**11,369**	**61**	**—**	**—**	**80**	**11,510**
Non-UK Government	**4,644**	**4,154**	**1,289**	**1,270**	**3**	**13**	**11,373**
Corporate							
Public utilities	**—**	**207**	**3,065**	**2,109**	**30**	**309**	**5,720**
Convertibles and bonds with warrants	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Other corporate bonds	**2,175**	**3,440**	**8,639**	**5,554**	**311**	**2,294**	**22,413**
Certificate of deposits	**—**	**—**	**—**	**2**	**10**	**—**	**12**
Structured	**486**	**611**	**411**	**64**	**50**	**10**	**1,632**
Wrapped credit	**—**	**12**	**433**	**48**	**58**	**47**	**598**
Other	**2**	**3**	**90**	**118**	**118**	**126**	**457**
Total	**7,307**	**19,796**	**13,988**	**9,165**	**580**	**2,879**	**53,715**
Total %	**13.6%**	**36.8%**	**26.0%**	**17.1%**	**1.1%**	**5.4%**	**100.0%**
2015	6,770	16,271	13,145	8,347	691	2,712	47,936
2015 %	14.1%	34.0%	27.4%	17.4%	1.4%	5.7%	100.0%

Debt securities are graded according to external credit ratings issued at the balance sheet date. The credit rating used for each individual security is the median rating of the available ratings from the major credit rating agencies. If a credit rating is available from only one of these rating agencies then this rating is used. If an individual security has not been given a credit rating by any of the major rating agencies, the security is classified as 'non-rated'.

For the table above we have expressed our rating using a rating scale whereby investment grade debt securities are classified within the range of AAA (extremely strong) to BBB (good) ratings, with AAA being the highest possible rating. Debt securities which fall outside this range are classified as less than BBB. This rating scale is analogous with that used by major rating agencies.

At 31 December 2016, the proportion of our shareholder debt securities that are investment grade increased to 93.5% *(2015: 92.9%)*. The remaining 6.5% of shareholder debt securities that do not have an external rating of BBB or higher can be split as follows:

- 1.1% are debt securities that are rated as below investment grade; and
- 5.4% are not rated by the major rating agencies.

Of the securities not rated by an external agency most are allocated an internal rating using a methodology largely consistent with that adopted by an external rating agency, and are considered to be of investment grade credit quality; these include £2.3 billion *(2015: £2.5 billion)* of debt securities held in our UK Life business, predominantly made up of private placements and other corporate bonds, which have been internally rated as investment grade.

Total wrapped credit

In respect of the wrapped credit investments, the table below shows the credit rating of the securities as they are officially rated, and an estimate of their rating without the guarantee. As rating agencies do not provide credit ratings for individual wrapped credit securities without consideration of the insurance guarantee, the credit ratings disclosed in the table below are based on internal best estimates.

	2016				2015			
	Rating with insurance guarantee		Rating without insurance guarantee		Rating with insurance guarantee		Rating without insurance guarantee	
	Fair value £m	% of total	Fair value £m	% of total	Fair value £m	% of total	Fair value £m	% of total
Wrapped credit								
AAA	**—**	**0.0%**	**—**	**0.0%**	—	0.0%	—	0.0%
AA	**23**	**3.0%**	**26**	**3.3%**	24	3.1%	24	3.1%
A	**559**	**72.0%**	**451**	**58.1%**	543	69.8%	516	66.3%
BBB	**82**	**10.5%**	**176**	**22.7%**	98	12.6%	120	15.4%
Less than BBB	**65**	**8.4%**	**65**	**8.4%**	68	8.7%	68	8.7%
Non-rated	**47**	**6.1%**	**58**	**7.5%**	45	5.8%	50	6.5%
Not available without insurance guarantee	**—**	**0.0%**	**—**	**0.0%**	—	0.0%	—	0.0%
	776	**100.0%**	**776**	**100.0%**	778	100.0%	778	100.0%

Exposures to peripheral European countries

Included in our debt securities and other financial assets are exposures to peripheral European countries. All of these assets are valued on a mark to market basis under IAS 39, and therefore our statement of financial position and income statement already reflect any change in value between the date of purchase and the balance sheet date. The significant majority of these holdings are within our participating funds where the risk to our shareholders is governed by the nature and extent of our participation within those funds.

Net of non-controlling interests, our direct shareholder and participating fund asset exposure to the government (and local authorities and agencies) of Italy is £5.8 billion *(2015: £4.7 billion)*.

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

	Participating		Shareholder		Total	
	2016 £bn	2015 £bn	**2016 £bn**	2015 £bn	**2016 £bn**	2015 £bn
Greece	**—**	—	**—**	—	**—**	—
Ireland	**0.7**	0.6	**0.1**	0.1	**0.8**	0.7
Portugal	**0.1**	0.1	**—**	—	**0.1**	0.1
Italy	**5.4**	4.4	**0.4**	0.3	**5.8**	4.7
Spain	**1.0**	0.8	**0.4**	0.4	**1.4**	1.2
Total Greece, Ireland, Portugal, Italy and Spain	**7.2**	5.9	**0.9**	0.8	**8.1**	6.7

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

	Participating		Shareholder		Total	
	2016 £bn	2015 £bn	**2016 £bn**	2015 £bn	**2016 £bn**	2015 £bn
Greece	**—**	—	**—**	—	**—**	—
Ireland	**0.7**	0.6	**0.1**	0.1	**0.8**	0.7
Portugal	**0.1**	0.1	**—**	—	**0.1**	0.1
Italy	**7.5**	6.1	**0.5**	0.5	**8.0**	6.6
Spain	**1.4**	1.1	**0.7**	0.6	**2.1**	1.7
Total Greece, Ireland, Portugal, Italy and Spain	**9.7**	7.9	**1.3**	1.2	**11.0**	9.1

Equity securities

The table below analyses our investments in equity securities by sector.

2016	**Policyholder £m**	**Participating £m**	**Shareholder £m**	**Total £m**
Public utilities	**3,448**	**874**	**6**	**4,328**
Banks, trusts and insurance companies	**11,523**	**3,664**	**206**	**15,393**
Industrial, miscellaneous and all other	**37,509**	**11,225**	**252**	**48,986**
Non-redeemable preferred shares	**91**	**8**	**206**	**305**
Total	**52,571**	**15,771**	**670**	**69,012**
Total %	**76.2%**	**22.8%**	**1.0%**	**100.0%**
2015	47,394	15,627	537	63,558
2015 %	74.6%	24.6%	0.8%	100.0%

Other investments

The table below analyses other investments by type:

2016	**Policyholder £m**	**Participating £m**	**Shareholder £m**	**Total £m**
Unit trusts and other investment vehicles	**44,642**	**4,164**	**1,384**	**50,190**
Derivative financial instruments	**95**	**4,102**	**1,922**	**6,119**
Deposits and credit institutions	**294**	**28**	**3**	**325**
Minority holdings in property management undertakings	**172**	**825**	**189**	**1,186**
Other	**427**	**—**	**8**	**435**
Total	**45,630**	**9,119**	**3,506**	**58,255**
Total %	**78.3%**	**15.7%**	**6.0%**	**100.0%**
2015	39,795	5,739	2,161	47,695
2015 %	83.5%	12.0%	4.5%	100.0%

Property

Our global headquarters are located in St. Helen's, 1 Undershaft, London, England, EC3P 3DQ. In addition, we have major offices in the following locations:

- UK: UK Life, York and Bristol; UK General Insurance, Norwich; Aviva Investors, London;
- Asia: Singapore;
- North America: Scarborough, Ontario, Canada.
- Europe: Paris, France; Dublin, Ireland; Madrid, Spain; Warsaw, Poland; and Milan, Italy.

As of 31 December 2016, we owned and occupied land and buildings for our own use with a total book value of £321 million *(2015: £337 million)*. We believe that these facilities are adequate for our present needs in all material respects. We also hold other properties, both directly and indirectly, for investment purposes, valued at £9,169 million at 31 December 2016 *(2015: £9,372 million)*.

Contractual obligations

Contractual obligations with specified payment dates at 31 December 2016 included the following:

	Less than one year £m	Between one & three years £m	Between three & five years £m	After five years £m	Total £m
Insurance and investment contracts					
Long-term business					
– Insurance contracts – non-linked[1]	**9,583**	**17,680**	**13,997**	**100,506**	**141,766**
– Investment contracts – non-linked[2]	**68,203**	**—**	**—**	**—**	**68,203**
– Linked business[2]	**153,774**	**—**	**—**	**—**	**153,774**
General Insurance[3]	**6,764**	**4,393**	**2,190**	**3,628**	**16,975**
	238,324	**22,073**	**16,187**	**104,134**	**380,718**
Other contractual obligations[4]					
Borrowings	**1,173**	**1,315**	**1,816**	**16,269**	**20,573**
Operating lease obligations	**103**	**179**	**157**	**423**	**862**
Capital commitments	**98**	**55**	**20**	**112**	**285**
Payables and other financial liabilities[5]	**12,030**	**1,178**	**965**	**4,155**	**18,328**
Net assets attributable to unit holders	**15,638**	**—**	**—**	**—**	**15,638**
Total	**267,366**	**24,800**	**19,145**	**125,093**	**436,404**

Reconciliation to the statement of financial position	£m
Total contractual obligations above	**436,404**
Effect of discounting contractual cash flows for insurance contracts	**(32,440)**
Contractual undiscounted interest payments[6]	**(9,925)**
Difference between carrying value of borrowings and undiscounted cash flows of principle	**(353)**
Contractual cash flows under operating leases and capital commitments	**(1,147)**
Difference between derivative liabilities contractual cash flows and carrying value	**(577)**
Liabilities of operations classified as held for sale	**12,494**
Unallocated divisible surplus[7]	**9,349**
Provisions[8]	**1,510**
Current and deferred tax liabilities	**2,834**
Other liabilities	**2,719**
Total liabilities per statement of financial position	**420,868**

1. Amounts shown in respect of long-term insurance contracts represent estimated undiscounted cash flows for the Group's life assurance contracts. In determining the projected payments, account has been taken of the contract features, in particular that the amount and timing of the contractual payments reflect either surrender, death or contract maturity. In addition, the undiscounted amounts shown include the expected payments based on assumed future investment returns on assets backing insurance and investment contract liabilities. The projected cash flows exclude the unallocated divisible surplus of with-profits funds (see below).
2. All linked contracts and almost all non-linked investment contracts may be surrendered or transferred on demand. For such contracts the earliest contractual maturity is therefore at the current statement of financial position date, for a surrender amount approximately equal to the current statement of financial position liability. Although we expect surrenders, transfers and maturities to occur over many years, the total liability for linked and non-linked investment contracts is shown in the less than one year column above.
3. Amounts shown in respect of general insurance contracts are based on undiscounted estimates of future claim payments, including for those classes of business for which discounted provisions are held, see 'Financial statements IFRS – Note 40 – Insurance liabilities'. The timing of cash flows reflects a best estimate of when claims will be settled.
4. The Group has no material finance leases for property and equipment.
5. Includes obligations for repayment of collateral received under stock lending arrangements and derivative transactions amounting to £7,433 million.
6. When subordinated debt is undated or loan notes perpetual, the interest payments have not been included beyond 15 years. Annual interest payments for these borrowings are £82 million. Contractual undiscounted interest payments are calculated using fixed interest rates or prevailing market floating rates as applicable.
7. The unallocated divisible surplus represents the excess of assets over liabilities, including policyholder 'asset share' liabilities in the UK, which reflect the amount payable under the realistic Peak 2 reporting regime of the Prudential Regulatory Authority. Although accounted for as a liability, as permitted by IFRS 4, there is currently no expected payment date for the unallocated divisible surplus.
8. Provisions include pension obligations, which have been excluded from the contractual obligations table above, due to the uncertainty of the amount and timing of future cash flows. The Group operates both funded defined benefit and funded defined contribution pension schemes, full details of which are provided in 'IFRS Financial Statements – Note 48 – Pension obligations'. We have a contractual obligation to fund these schemes. However, the amount and timing of the Group's cash contributions to these schemes is uncertain and will be affected by factors such as future investment returns and demographic changes. Our cash funding of defined contribution schemes is based on percentages of salary. Our cash contribution to defined benefit schemes is agreed in advance with scheme trustees. The Company and trustees have agreed to a long-term funding plan where contributions, together with anticipated growth on scheme investments are expected to eliminate the funding deficits over time. Contributions to these and the other schemes are regularly reviewed in light of changes in expectations of investment returns and other assumptions. The discounted scheme liabilities have an average duration of 21 years in the main UK scheme, 20 years in the RAC scheme, 19 years in the Irish scheme, 12 years in the Canadian scheme and 21 years in the Friends Provident Pension Scheme (FPPS).

Risk management objectives

As a global insurance group, risk management is at the heart of what we do and is the source of value creation as well as a vital form of control. It is an integral part of maintaining financial stability for our customers, shareholders and other stakeholders.

Our sustainability and financial strength are underpinned by an effective risk management process which helps us identify major risks to which we may be exposed, establish appropriate controls and take mitigating actions for the benefit of our customers and investors. The Group's risk strategy is to invest its available capital to optimise the balance between return and risk while maintaining an appropriate level of economic (i.e. risk-based) capital and regulatory capital in accordance with our risk appetite. Consequently, our risk management objectives are to:

- Embed rigorous risk management throughout the business, based on setting clear risk appetites and staying within these;
- Allocate capital where it will make the highest returns on a risk-adjusted basis; and
- Meet the expectations of our customers, investors and regulators that we will maintain sufficient capital surpluses to meet our liabilities even if a number of extreme risks materialise.

Aviva's risk management framework has been designed and implemented to support these objectives. The key elements of our risk management framework comprise our risk appetite; risk governance, including risk policies and business standards, risk oversight committees and roles and responsibilities; and the processes we use to identify, measure, manage, monitor and report (IMMMR) risks, including the use of our risk models and stress and scenario testing. These elements are expanded in the IFRS Financial statements – Note 56.

Principal risks and uncertainties

In accordance with the requirements of the FCA Handbook (DTR 4.1.8) we provide a description of the principal risks and uncertainties facing the Group here and in note 56 to the IFRS Financial statements. More detail on the risks and uncertainties facing the Group can be found in the shareholder information section 'Risks relating to our business'.

Risk environment

The outcome of the UK referendum resulted in sterling falling to a 31 year low against the US dollar, widening credit spreads and a reduction in yields on eurozone and UK government treasuries to all time lows. However, the new Trump US administration announced intention to favour fiscal stimulus over accommodative monetary policy to support economic growth, raises the prospect of rising inflation, commodity prices and bond yields next year, continuing the rebound from record lows earlier in the year, as well as further strengthening of the US dollar, as the US Federal raises interest rates and the European Central Bank (ECB) and Bank of England maintain their loose monetary policy stances.

Looking forward to 2017 there are a number of events which have the potential to disrupt the economy and financial markets. These include uncertainty over the outcome of the UK's future relationship with the EU as negotiations commence after Article 50 is exercised, elections in Netherlands, France and Germany, US trade policy and further divergence between US, eurozone and UK monetary policy exacerbating macroeconomic imbalances in the global economy.

Despite recent increases in interest rates by the US Federal Reserve the current low interest rate environment compared to historical norms is likely to persist in the intermediate future at least.

2016 also saw further high profile cyber security breaches for corporates in the UK and elsewhere and this risk is expected to continue to increase in the future.

In Poland the Government began consultation in 2016 on potentially significant pension reforms, while in the UK a 1% charge cap has been introduced on personal and stakeholder pensions. Further changes to public policy on pensions savings is likely in the UK and Poland. In most of our markets conduct regulation and enforcement has received increased focus from national supervisors, as well as international supervisory bodies such as EIOPA and IAIS. This is expected to continue into the future.

On 1 January 2016, the Solvency II capital regime became effective. During 2016, the Group applied for regulatory approval to extend use of its internal model to the non-profit business of Friends Life. Formal approval was provided in February 2017, with a beneficial impact on the Group and its UK Life business' capital requirement at 31 December 2016. Over the next year or two the Group plans to apply to further extend use of its internal model, subject to supervisory approval.

In November 2016 the Group's designation as a Global Systemically Important Insurer (G-SII) was re-confirmed. Among other policy requirements, this may result in new loss absorbency capital requirements, which are still under development, to be applied from January 2019, if the Group remains a G-SII.

Risk profile

The types of risk to which the Group is exposed have not changed significantly over the year and remain credit, market, insurance, asset management, liquidity, operational and reputational risks as described in note 56 of the IFRS financial statements.

The Group continues to manage its risk profile to reflect Aviva's objective of maintaining financial strength and reducing capital volatility. Steps to amend the Group's risk profile include successfully completing a number of management actions. These include: continuing to reduce the sensitivity of the balance sheet to interest rates, including reducing sales of products with guarantees (in particular in Italy and France) and shifting our sales towards protection and unit-linked product; starting to use longevity reinsurance for bulk purchase annuities and guaranteed annuity options, while continuing to evaluate emerging reinsurance market solutions; and reducing our operational risk exposures through continued investment in our Security Transformation programme in response to the increasing cyber security risk and on-going investment in simplifying our technology estate to improve resilience and reliability of our systems. Restrictions on non-domestic investment in sovereign and corporate debt from Greece, Italy, Portugal and Spain remain in place. As described in note 56 to the IFRS Financial statements, a number of foreign exchange, credit and equity hedges are also in place. These are used to mitigate the Group's foreign exchange, credit and equity risk exposure, and enable the Group to accept other credit risks offering better risk adjusted returns while remaining within appetite. In addition, we renewed our catastrophe reinsurance programme to reduce the Group's potential loss to an extreme insurance loss event.

During 2016, the Group significantly increased the amount of business ceded to Aviva International Limited, its primary on-shore internal reinsurance mixing vehicle, with the objective of promoting greater capital efficiency and realising the benefits of group diversification of risk through lower solo capital requirements in the ceding entities.

During 2016 the Group has continued maintain its external financial leverage consistent with the requirements for achieving the Group's target credit rating of AA.

Low interest rate environment

The Group continues to be impacted by the low interest rate environment in a number of markets around the world. This has resulted in reduced interest spread on participating contracts (the difference between the amounts that we are required to pay under the contracts and the investment income we are able to earn on the investments supporting our obligations under those contracts), and current reinvestment yields being lower than the overall current portfolio yield, primarily for our investments in fixed income securities and commercial mortgage loans. We anticipate that interest rates may remain below historical averages for an extended period of time and that financial markets may continue to have periods of high volatility. As a result we continue to rebalance the Group's revenues towards product lines, such as protection, that are not significantly sensitive to interest rate or market movements. Further information on the Group's exposure to low interest rates is included in the sensitivity analysis in Note 56 of the IFRS Financial Statements.

Capital management

Capital management objectives

Group capital is represented by Solvency II Own Funds[1]. At 31 December 2016, the estimated Solvency II Own Funds (shareholder view) amounts to £24.1 billion *(1 January 2016: £21.8 billion)*. This excludes the estimated marginal contribution to Group Own Funds of fully ring fenced with-profits funds of £2.9 billion *(1 January 2016: £2.7 billion)* and staff pension schemes in surplus of £1.1 billion *(1 January 2016: £0.7 billion)*, such that the impact on the Solvency II surplus is nil. The most material fully ring fenced with-profit funds and staff pension schemes are self-supporting on a Solvency II capital basis with any surplus capital above Solvency Capital Requirement (SCR) not recognised in the Group position. The Solvency II Own Funds figure also includes the estimated adverse impact of £0.4 billion from a notional reset of transitional measure on technical provision (TMTP) to reflect interest rates at 31 December 2016. The shareholder view is considered by Management to be more representative of the shareholders' risk exposure and the Group's ability to cover the SCR with eligible own funds. The Group manages its capital position assuming a dynamic TMTP in respect of interest rate movements on the risk margin, to avoid step changes to the Solvency II position that arise only when a formal TMTP reset is triggered (as specified by the PRA).

Own Funds is financed by a combination of shareholders' funds, preference share capital, direct capital instrument, tier 1 notes, subordinated debt, and deferred tax assets measured on a Solvency II basis.

Previously, the Group used a risk based capital model to assess economic capital requirements for a number of years. This risk based capital model formed the foundation of the Group's Solvency II partial internal model application and supported the transition to the new capital regime. The Solvency II partial internal model application was approved in December 2015.

Management also consider a capital employed metric prepared on an IFRS basis in managing capital and measure business unit performance. The total capital employed comprises of similar items to Own Funds but measured in accordance with IFRS and includes senior debt. In particular, analysis of return on equity calculated based on the capital employed has been used as one of the inputs to Management's decision making process for capital allocation purposes.

The primary objective of capital management is to maintain an efficient capital structure, in a manner consistent with our risk profile and the regulatory and market requirements of our business.

Capital is a primary consideration across a wide range of business activities, including product development, pricing, business planning, merger and acquisition transactions and asset & liability management. A Capital Management Standard, applicable group-wide, sets out minimum standards and guidelines over responsibility for capital management including considerations for capital management decisions and requirements for management information, capital monitoring, reporting, forecasting, planning and overall governance.

The Group manages capital in conjunction with solvency capital requirements, and seeks to; on a consistent basis:

- Match the profile of our assets and liabilities, taking into account the risks inherent in each business;
- Maintain sufficient, but not excessive, financial strength in accordance with risk appetite, to support new business growth and satisfy the requirements of our regulators and other stakeholders giving both our customers and shareholders assurance of our financial strength. Refer to Note 56 for more information about the Group's risk management approach;
- Retain financial flexibility by maintaining strong liquidity, access to a range of capital markets and significant unutilised committed credit lines;
- Allocate capital rigorously to support value adding growth and repatriate excess capital where appropriate; and
- Declare dividends with reference to factors including growth in cash flow and earnings.

In 2016, the Group maintained a strong capital position through a combination of increased profits, new business and management actions contributing to a higher operating capital generation offset by adverse market movements and dividend distributions.

At 31 December 2016, total capital employed prepared on an IFRS basis amounted to £28.1 billion *(2015: £25.2 billion)*. This comprises of:

	2016 Capital employed £m	Restated[1] 2015 Capital employed £m
Equity shareholders' funds	**16,803**	15,802
Non-controlling interests	**1,425**	1,145
Direct capital instrument & tier 1 notes	**1,123**	1,123
Preference shares	**200**	200
Subordinated debt[2]	**7,213**	6,427
Senior debt	**1,364**	485
Total capital employed[3]	**28,128**	25,182

1 Following a correction to accounting and modelling for annual management charge rebates in UK Life, prior year comparatives have been restated. This has led to an increase in operating profit and profit before tax of £23 million for 2015 and an increase in opening retained earnings for 2015 of £20 million with an increase in equity at 31 December 2015 of £38 million. See note 1 for further details.

2 Subordinated debt excludes amounts held by Group companies of £9 million (*2015: £42 million*).

3 Goodwill, AVIF and other intangibles are maintained within the capital base. Goodwill includes goodwill in subsidiaries of £2,045 million (*2015: £1,955 million*), goodwill in joint ventures of £20 million (*2015: £19 million*) and goodwill in associates of £47 million (*2015: £26 million*). AVIF and other intangibles comprise £5,468 million (*2015: £5,731 million*) of intangibles in subsidiaries, £72 million (*2015: £71 million*) of intangibles in joint ventures and £18 million (*2015: Nil*) of intangibles in associates, net of deferred tax liabilities of £(783) million (*2015: £(814) million*) and the non-controlling interest share of intangibles of £(226) million (*2015: £(195) million*).

The increase in the capital employed is primarily driven by the increase in the equity shareholders' funds and new issuances of subordinated debt and senior debt.

In May 2016 the Group issued C$450 million of subordinated debt to part fund the acquisition of RBC General Insurance Company. In September 2016 the Group issued £400 million of subordinated debt which was used in part to finance the redemption of $400 million of subordinated debt redeemed at its first call date in December 2016. The Group maintained strong liquidity throughout the year, which was enhanced by the issuance of €350 million and €500 million of senior debt in 2016.

To support value adding growth by efficient capital allocation, the Group continued to reallocate capital from businesses where the capital returns were low; for example the Group withdrew capital from Ireland through the sale of the private health insurance operations and separately invested in Canada through the acquisition of RBC General Insurance Company.

Regulatory capital – overview

Solvency II, the new European-wide prudential regulatory framework, came into force on 1 January 2016. The Solvency II regime puts in place a consistent solvency framework for insurers across Europe. The Aviva Group is regulated on a Solvency II basis and the Group Solvency II position reflects a consolidation of all legal entities on a Solvency II basis.

The Solvency II regime is underpinned by market-consistent principles. For assets this typically means the market value is used, whereas liabilities are valued on a best estimate basis using market-implied assumptions. In addition, a risk margin is required to be held, designed to represent the additional amount an insurer would be expected to pay to transfer its obligations to another insurer. The combination of the valuation of liabilities and the risk margin is known as 'technical provisions'. Subject to regulatory approval, firms may utilise a transitional measure which spreads the increase in technical provisions that resulted from the move to the Solvency II regime, over a period of 16 years. Available capital resources is referred to as 'own funds' under Solvency II. This includes the excess of assets over technical provisions in the Solvency II balance sheet, subordinated liabilities that qualify as capital under Solvency II, and off-balance sheet own funds approved by the regulator.

The Solvency II regime requires firms to hold own funds in excess of the solvency capital requirement (SCR). The SCR is calculated using a risk-based capital model, calibrated to reflect the cost of mitigating the risk of insolvency to a 99.5% confidence level over a one year time horizon (equivalent to events occurring in 1 out of 200 years) against financial and non-financial shocks.

The Aviva Group had used a risk-based capital model to assess economic capital requirements for a number of years which helped to prepare for the Solvency II regime. Aviva's Group Solvency II internal model was approved in December 2015 by the Prudential Regulation Authority (PRA) for use in calculating the Group SCR. An extension of the scope of the internal model to include the non-profit funds of Friends Life Limited and Friends Life and Pensions Limited, was effective 31 December 2016. While the majority of Aviva's Group SCR is calculated using the Group's internal model, the SCR for some business units is valued using the standard formula, and hence the Aviva Group SCR is calculated using a partial internal model.

Summary of Solvency II position

	2016 £bn	2015 £bn
Own Funds[1,2]	**24.1**	21.8
Solvency Capital Requirement before diversification[1]	**(18.0)**	(16.3)
Diversification benefit	**5.4**	4.2
Diversified Solvency Capital Requirement[1]	**(12.6)**	(12.1)
Estimated Solvency II Surplus at 31 December[2]	**11.5**	9.7
Estimated Shareholder Cover Ratio[1,2]	**191%**	180%

1 The estimated Solvency II position represents the shareholder view. This excludes the contribution to Group Solvency Capital Requirement (SCR) and Group Own Funds of fully ring fenced with-profits funds £2.9 billion *(2015: £2.7 billion)* and staff pension schemes in surplus £1.1 billion *(2015: £0.7 billion)* – these exclusions have no impact on Solvency II surplus.
2 The estimated Solvency II position includes an estimated adverse impact of a notional reset of the transitional measure on technical provisions ('TMTP') to reflect interest rates at 31 December 2016. Removing this notional reset of TMTP would increase the estimated Solvency II surplus by £0.4 billion. Amortisation of TMTP since 1 January 2016 is also reflected.

Movement in Group Solvency II Surplus

2016	Total £bn
Group Solvency II Surplus at 1 January 2016	**9.7**
Operating Capital Generation	3.5
Non-operating Capital Generation	(1.4)
Dividends	(1.0)
Foreign exchange variances	0.6
Hybrid debt issuance	0.4
Acquired/divested business	(0.3)
Estimated Solvency II Surplus at 31 December 2016	**11.5**

The estimated Solvency II surplus at 31 December 2016 is £11.5 billion, with a shareholder cover ratio of 191%. This is an increase of £1.8 billion compared to the 31 December 2015 surplus. The beneficial impacts of operating capital generation, foreign exchange variances and hybrid debt issuance have been partially offset by the impact of the Aviva plc dividend, acquisitions and the adverse non-operating capital generation, driven by adverse market movements, notably falls in interest rates over the year. The operating capital generation includes the beneficial impact of increasing the scope of the Group's internal model to include the non-profits funds of Friends Life Limited and Friends Life and Pensions Limited, effective 31 December 2016. The non-operating capital generation includes a notional reset of the transitional measure on technical provisions ('TMTP') to reflect interest rates at 31 December 2016.

Reconciliation of IFRS total equity to Solvency II Own Funds

The reconciliation from total Group equity on an IFRS basis to Solvency II Own Funds is presented below. The valuation differences reflect moving from IFRS valuations to a Solvency II regulatory basis. The Solvency II Own Funds represents a shareholder view, excluding the impact of ring-fenced With-Profit funds, and staff pension schemes in surplus.

	2016 £bn	Restated[1] 2015 £bn
Total Group equity on an IFRS basis	**19.6**	18.3
Elimination of goodwill and other intangible assets[2]	**(10.0)**	(9.9)
Liability valuation differences (net of transitional deductions)[3]	**22.1**	20.4
Inclusion of risk margin (net of transitional deductions)[3]	**(4.4)**	(4.0)
Net deferred tax	**(1.5)**	(1.3)
Revaluation of subordinated liabilities	**(0.9)**	(0.7)
Solvency II Net Assets (gross of non-controlling interests)	**24.9**	22.8
Difference between Solvency II Net Assets and Own Funds[4]	**(0.8)**	(1.0)
Solvency II Own Funds[5]	**24.1**	21.8

1 Following a correction to accounting and modelling for annual management charge rebates in UK Life, prior year comparatives have been restated. This has led to an increase in operating profit and profit before tax of £23 million for 2015 and an increase in opening retained earnings for 2015 of £20 million with an increase in equity at 31 December 2015 of £38 million. See note 1 for further details
2 Includes £2.0 billion *(2015: £1.9 billion)* of goodwill and £8.0 billion *(2015: £8 billion)* of other intangible assets comprising acquired value of in-force business of £3.9 billion *(2015: £4.4 billion)*, deferred acquisition costs (net of deferred income) of £2.5 billion *(2015: £2.3 billion)* and other intangibles of £1.6 billion *(2015: £1.3 billion)*.
3 Includes an estimated adverse impact of a notional reset of the transitional measure on technical provisions ('TMTP') to reflect interest rates at 31 December 2016. Removing this notional reset of TMTP would increase the estimated Solvency II Own Funds by £0.4 billion
4 Regulatory adjustments to bridge from Solvency II Net Assets to Own Funds include recognition of subordinated debt capital and non-controlling interests.
5 The estimated Solvency II position represents the shareholder view. It excludes the contribution to Group SCR and Group Own Funds of fully ring-fenced with-profits funds £2.9 billion *(2015: £2.7 billion)* and staff pension schemes in surplus £1.1 billion *(2015: £0.7 billion)* – these exclusions have no impact on Solvency II surplus.

Rating agency

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

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

The Group's overall financial strength is reflected in our credit ratings. The Group's rating from Standard and Poor's is A+ (strong) with a Stable outlook; A1 (good) with a Stable outlook from Moody's; AA- (very strong) with a Stable outlook from Fitch Ratings; and A (excellent) with a Stable outlook from A.M. Best.

Financial flexibility

The Group's borrowings are comprised primarily of long dated hybrid instruments with maturities spread over many years, minimising refinancing risk. In addition to central liquid asset holdings of £1.5 billion, the majority of which was held within Aviva Group Holdings Limited at the 2016 year end, the Group also has access to unutilised committed credit facilities of £1.7 billion provided by a range of leading international banks.

Key indicators

Indicator	2014	2015	**2016**	2016 target	Change	Met target	2017 target
Trust							
⊛% of employees who confirm that they have read, understood, and accepted the Business Ethics Code annually; and all employees in Aviva France who are obliged to comply with the Business Ethics Code as a term of their employment[1]	96%	98%	**98%**	100%	=	N	100%
% of business that are in or above the upper quartile relative to the local market average (NPS score®)[2]	50%	50%	**58%**	Improve past performance	8pp	Y	Improve past performance

1 All employees are required to read, understand and sign their acceptance of the Code annually, except in France where the Code is included as part of their employment contracts.
2 Net Promoter Score ® (NPS) is the difference between the percentage of customers who are our promoters (i.e. advocates who would recommend Aviva to friends and colleagues) and those who are our detractors (i.e. customers who would not recommend Aviva or would even speak out against Aviva). The percentage figures are based on those markets within which Aviva has continued to operate from 2012, which are: UK, Ireland, Canada, France, Italy, Spain, Poland, Lithuania, Singapore, China, and India.

Indicator	2014	2015	**2016**	2016 target	Change	Met target	2017 target
Environment							
⊛% of CO_2e emissions offset annually	100%	100%	**100%**	Offset 100% CO_2e emissions	=	Y	Offset 100% CO_2e emissions
⊛% reduction of CO_2e emissions relative to our 2010 baseline[1]	32%	39%	**46%**	50% reduction by 2020 and 70% reduction by 2030	7pp	N/A	50% reduction by 2020 and 70% reduction by 2030
⊛CO_2e emissions (tonnes) – absolute	83,924	88,698	**79,410**	Reduce by 5%	(10)%	Y	Reduce by 5%
⊛CO_2e emissions (tonnes) – relative[2]	N/A	88,698	**79,410**	Reduce by 5%	(10)%	Y	Reduce by 5%
⊛Water consumption (m^3) – absolute[3]	468,097	449,913	**373,402**	Reduce by 4%	(17)%	Y	Reduce by 4%
⊛Waste generated (tonnes) – absolute[4]	9,255	5,821	**4,994**	Reduce by 4%	(14)%	Y	Reduce by 4%

1 Our 2010 baseline is 146,248 tCO_2e. We have two long term CO2e reduction targets in place, 50% by 2020 and 70% by 2030 from the baseline.
2 There were no structural changes in the organisation which had a material impact on operational CO2e emissions this year.
3 We have restated 2015 figures after an overstatement was found in the data reported by one of our markets. This was due to an overstatement within the estimated water calculation identified through our market audit. Before restatement the figure for 2015 was 483,635m^3.
4 We have restated 2015 figures after an overstatement was found in the data reported by one of our markets. This was due to an overstatement within the estimated waste calculation identified through our market audit. Before restatement the figure for 2015 was 9,564 tonnes.

Indicator	2014	2015	**2016**	2016 target	Change	Met target	2017 target
Responsible investment							
£ invested in low-carbon infrastructure[1]	New KPI	New KPI	**£450m**	Invest an average of £500m annually	N/A	N/A	Invest £2.5bn by 2020
tCO_2e savings from annual investment in low-carbon infrastructure[2]	New KPI	New KPI	**150,000**	100,000 tCO_2e annually	N/A	Y	100,000 tCO_2e annually

1 This includes new investment in wind, solar, biomass and energy efficiency.
2 This KPI relates to tCO_2e savings from our Infrastructure Income Fund only.

Indicator	2014	2015	**2016**	2016 target	Change	Met target	2017 target
People							
⊛% of women in senior management (including subsidiary boards)	21%	22%	**22%**	N/A	=	N/A	N/A
% of employees who feel Aviva is a place where people from diverse backgrounds can succeed[1]	76%	76%	**87%**	Improve from previous year	11pp	Y	Maintain performance
% of employees who rate us favourably on engagement index[2]	70%	70%	**74%**	Improve from previous year	4pp	Y	Maintain performance
% of employees who believe Aviva is a good corporate citizen	New KPI	80%	**84%**	Improve from previous year	4pp	Y	Improve from previous year

1 The question 'Aviva is a place where people from diverse backgrounds can succeed' has improved across all demographic classes.
2 We refined the methodology for calculating employee engagement in 2016. We have therefore restated 2014 and 2015 data using this new methodology. In 2016 we saw strong uplifts in engagement in UK, France, Ireland and within our Aviva Investors and Digital businesses. Before restatement the figure for 2014 and 2015 was 76%.

Indicator	2014	2015	**2016**	2016 target	Change	Met target	2017 target
Suppliers							
⊛% of managed supply that has agreed to the supplier Code of Behaviour	43%	43%	**57%**	Increase scope/ % from previous year	14pp	Y	Increase scope/ % from previous year
⊛% of managed supply that has been engaged on Corporate Responsibility during the term of their contract with Aviva[1]	83%	99%	**84%**	Increase scope/ % from previous year	(15)pp	Partially met	Increase scope/ % from previous year

1 Target marked as partially met because we increased the scope of our managed supply population in 2016 to include suppliers to our Ireland business, Heritage Friends Life and Sesame Bankhall Group. In 2017, we will be providing further guidance to our Supplier Managers to help improve engagement on CR matters with our Managed Suppliers.

Indicator	2014	2015	**2016**	2016 target	Change	Met target	2017 target
Community							
⊛Amount of community investment[1]	£6.3m	£10.8m	**£11.3 m**	Maintain or improve investment	5%	Y	Maintain or improve investment
% of employees participating in volunteering[2]	23%	12%	**18%**	Increase % of employee volunteering	6pp	Y	Increase % of employees volunteering
Number of employee hours spent volunteering[2]	40,200	40,800	**41,700**	Increase volunteering hours	2%	Y	200,000 by 2020
Total beneficiaries of corporate responsibility programmes[3]	511,600	587,200	**939,000**	Increase number of beneficiaries	60%	Y	2.5m by 2020
Number of local community projects supported through our corporate responsibility programmes[3]	New KPI	700	**1,600**	Support 1,000 projects annually	129%	Y	5,000 by 2020

1 We report following the LBG methodology.
2 The increase in the number of employees engaged is due to increased participation and improvements in reporting. Our strategy includes a target of 200,000 volunteering hours to be achieved by 2020. This includes hours volunteered from January 2015 onwards. All numbers have been rounded down to the nearest hundred.
3 Our strategy includes targets of 2.5 million people benefitted, and 5,000 local community projects supported, to be achieved by 2020. We count beneficiaries and projects supported from January 2015 onwards. This includes our carbon offsetting programme. The increase in these KPIs is due to our growing Aviva Community Fund activity, our new partnership with the British Red Cross, and reporting improvements. All numbers have been rounded down to the nearest hundred.
⊛ 2016 data has been subject to independent assurance by PwC. See pages 311 to 312.
For details on the methodology followed to report on these KPIs, please refer to our Reporting Criteria document (http://www.aviva.com/investor-relations/reports/)

Independent Limited Assurance Report to the Directors of Aviva plc

The Board of Directors of Aviva plc ('Aviva') engaged us to provide limited assurance on the information described below and set out in Aviva's Annual Report and Accounts for the year ended 31 December 2016.

Our conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Selected Information for the year ended 31 December 2016 has not been prepared, in all material respects, in accordance with the Reporting Criteria.

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

Selected Information

The scope of our work was limited to assurance over the information marked with the symbol Ⓐ in Aviva's Annual Report and Accounts for the year ended 31 December 2016 (the "Selected Information" as found on page 310).

The Selected Information has been listed below and the Reporting Criteria against which it was assessed can be found at http://www.aviva.com/investor-relations/reports/.[1]

1. % of employees who confirm that they have read, understood, and accepted the Business Ethics Code annually; and all employees in Aviva France who are obliged to comply with the Business Ethics Code as a term of their employment
2. % of CO_2e emissions offset annually
3. % reduction of CO_2e emissions relative to our 2010 baseline
4. CO_2e emissions (tonnes) – absolute
5. CO_2e emissions (tonnes) – relative
6. Water consumption (m^3) – absolute
7. Waste generated (tonnes) – absolute
8. % of women in senior management (including subsidiary boards)
9. % of managed supply that has agreed to the supplier Code of Behaviour
10. % of managed supply that has been engaged on Corporate Responsibility during the term of their contract with Aviva
11. Amount of community investment, £

Our assurance does not extend to information in respect of earlier periods or to any other information included in the Annual Report and Accounts 2016.

Professional standards applied and level of assurance

We performed a limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) 'Assurance Engagements other than Audits and Reviews of Historical Financial Information' and, in respect of the greenhouse gas emissions, in accordance with International Standard on Assurance Engagements 3410 'Assurance Engagements on Greenhouse Gas Statements', issued by the International Auditing and Assurance Standards Board. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

Our independence and quality control

We applied the Institute of Chartered Accountants in England and Wales (ICAEW) Code of Ethics, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

We apply International Standard on Quality Control (UK & Ireland) 1 and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our work was carried out by an independent team with experience in sustainability reporting and assurance.

Understanding reporting and measurement methodologies

The Selected Information needs to be read and understood together with the Reporting Criteria, which Aviva is solely responsible for selecting and applying. The absence of a significant body of established practice on which to draw to evaluate and measure non-financial information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time. The Reporting Criteria used for the reporting of the Selected Information are as at 31 December 2016.

Work done

We are required to plan and perform our work in order to consider the risk of material misstatement of the Selected Information. In doing so, we:

- made enquiries of Aviva's management, including the Corporate Responsibility (CR) team and those with responsibility for CR management and group CR reporting;
- evaluated the design of the key structures, systems, processes and controls for managing, recording and reporting the Selected Information. This included visiting head offices in two out of sixteen markets, and performing alternative testing procedures for the remaining fourteen markets, selected on the basis of their inherent risk and materiality to the group, to understand the key processes and controls for reporting site performance data to the group CR team;
- performed limited substantive testing on a selective basis of the Selected Information to check that data had been appropriately measured, recorded, collated and reported; and
- considered the disclosure and presentation of the Selected Information.

Aviva's responsibilities

The Directors of Aviva are responsible for:

- designing, implementing and maintaining internal controls over information relevant to the preparation of the Selected Information that is free from material misstatement, whether due to fraud or error;
- establishing objective Reporting Criteria for preparing the Selected Information;
- measuring and reporting the Selected Information based on the Reporting Criteria; and
- the content of the Annual Report and Accounts 2016.

Our responsibilities

We are responsible for:

- planning and performing the engagement to obtain limited assurance about whether the Selected Information is free from material misstatement, whether due to fraud or error;
- forming an independent conclusion, based on the procedures we have performed and the evidence we have obtained; and
- reporting our conclusion to the Directors of Aviva.

This report, including our conclusions, has been prepared solely for the Board of Directors of Aviva in accordance with the agreement between us, to assist the Directors in reporting Aviva's corporate responsibility performance and activities. We permit this report to be disclosed in the Annual Report and Accounts for the year ended 31 December 2016, to assist the Directors in responding to their governance responsibilities by obtaining an independent assurance report in connection with the Selected Information. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board of Directors and Aviva for our work or this report except where terms are expressly agreed between us in writing.

PricewaterhouseCoopers LLP,
Chartered Accountants, London
8 March 2017

1 The maintenance and integrity of Aviva's website is the responsibility of the Directors; the work carried out by us does not involve consideration of these matters and, accordingly, we accept no responsibility for any changes that may have occurred to the reported Selected Information or Reporting Criteria when presented on Aviva's website.

Initial response to the Financial Stability Board's Taskforce on Climate-related Financial Disclosure (TCFD)

As an international insurance group, risk management is at the heart of what we do. It is an integral part of maintaining financial stability for our customers, shareholders and other stakeholders. Our sustainability and financial strength is underpinned by an effective risk management process which helps us identify major risks to which we may be exposed, establish appropriate controls and take mitigating actions for the benefit of our customers and investors.

We believe that unmitigated climate change presents a real threat to financial stability over the coming decades both at a governmental and corporate level to the point of permanent impairment to total assets. We have been reporting on climate change in our Annual Report & Accounts since 2004 and we recognise the financial implications of climate change and the associated risks for Aviva.

We strongly welcome the Financial Stability Board's interest in the implications of climate change, and we were pleased to be represented and involved in the Taskforce's work to help businesses disclose climate-related financial risks and opportunities within their existing disclosure requirements, both as a responder, and as users of such disclosures.

This response, along with an expanded version[1] constitutes Aviva plc's initial response to the TFCD framework in our multiple roles as an asset owner, insurer, investor and asset manager. We note this framework is subject to change.

Governing climate-related risks

At the Aviva plc Board level, the following two Committees oversee our management of climate related risks.

- Board Risk Committee – this Committee met six times in 2016 and reviews, manages and monitors all aspects of risk management in the Group, including climate risk. Climate change is highlighted as an emerging risk in the 2016 Annual Report & Accounts, as it has been in previous years. It is therefore assessed for its proximity and significance to Aviva via our embedded market and group emerging risk processes. Emerging risks are regularly reviewed and their potential impact is evaluated to understand if they are significant at an Aviva level over longer time periods than the current business plan. This is to ensure all risks to both the medium and long term future of Aviva receive appropriate attention.
- Board Governance Committee – one of this Committee's key responsibilities is to oversee Aviva's conduct in relation to its corporate and societal obligations, including setting the guidance, direction and policies for Aviva's customer and corporate responsibility agenda and advising the Board and management on these matters. This Committee met six times in 2016 and formally considered Aviva's strategic approach to climate change during the year. The Committee continues to ensure the Board remains informed on the issue.

Strategy

While Aviva's climate change strategy relates to the entire Group, the businesses that form Aviva work to different risk horizons. For example, general insurance has primarily an 18 month outlook (although recognising there are longer term risks) compared to the much longer term outlook taken by Aviva's life and asset management businesses, as providers of pensions and long term savings.

We recognise that the increased severity and frequency of weather related losses has the potential to turn earnings events into capital events. Consequently, large catastrophic losses are explicitly considered in economic capital modelling to ensure Aviva and its subsidiaries are resilient to such scenarios.

In July 2015, we published Aviva's Strategic Response to Climate Change setting out our approach to acting on climate-related investment risk over the next five years (2015-2020)[2]. This encompasses how we allocate our capital and how we use our influence to support the transition to a lower carbon – '2°C aligned' – economy. We provided an update to this Response in 2016[3].

We are closely monitoring our exposure to sectors or subsectors particularly exposed to transition risk and analysing at a more granular level the individual company level risk. We are therefore particularly supportive of the Financial Stability Board's TCFD as we believe this would provide the ideal framework for this type of disclosure.

We remain deeply committed to ensuring environmental, social and governance issues are included in our investment analysis and decision making and continue to drive better integration of carbon and climate risk factors into investment decisions. The dynamic and interconnected nature of climate risk, in addition to current limitations in some necessary data sets, means understanding and managing climate related risks remains an important focus for our business.

Climate change is part of our asset management House View, which outlines our view of the economic outlook and is updated on a quarterly basis to provide key climate-related physical or policy trends and developments. We have held a number of briefing sessions with fund managers and analysts to discuss the implications of climate change across asset classes. We have explicitly incorporated corporate responsibility disclosure and performance into Aviva's voting policy since 2001 and we were one of the first asset managers to do so globally.

Risk Management – identification, assessment and management

The ways in which the insurance sector could be impacted by climate change are diverse, complex and uncertain. However, for the purposes of our response we have focused on the three risk factors that the Prudential Regulation Authority identified in its 2015 report – Physical, Transition, and Liability.

Physical Risk

- Insurance risks – We recognise that the increased severity and frequency of weather-related losses is a driver of results volatility and may impact our ability to write profitable new business over the longer term. This has driven a focus on explicitly considering the impact of climate/weather in financial planning and pricing. Our exposure is limited by our general insurance business being predominantly in Northern Europe and Canada. Large catastrophic losses are explicitly considered in economic capital modelling to make sure the Group and its subsidiaries are resilient to such scenarios. We consider our top three insurance climate-related risks to be:

1 http://www.aviva.com/responsible-sustainable-business/policies/
2 http://www.aviva.com/media/upload/Avivas-strategic-response-to-climate_change_Ga2clqW.pdf
3 http://www.aviva.com/media/upload/Avivas_strategic_response_to_climate_change_-_2016_update_ysSf6TN.pdf

  - Adverse impact to validity of actuarial pricing assumptions and projections
  - Potential need to restrict coverage levels to make assets insurable
  - Managing volatility of financial results emanating from increased severity and frequency of weather related losses.
- Reinsurance – We purchase reinsurance to protect against the severity and frequency of large catastrophe losses (CAT) events, and review the adequacy of the cover and programme structure annually at renewal.
- Investment risks – When acquiring property, Aviva Investors' strategy is to commission an Environmental Assessment, as well as a standard Building Defects Report. The former covers important potential risks, such as flood exposure and historic and potential pollution. Within our real estate portfolio, we use the Global Real Estate Sustainability Benchmark (GRESB) to understand the climate resilience and broader sustainability of individual properties and funds. Our real estate and infrastructure investments are located predominantly in Europe.

Transition Risk

With the Paris agreement to pursue efforts to limit the temperature increases to well below 2ºC, there will be an increasing number of climate–related policies and regulations to assist this transition; these will impact sectors in different ways. We consider active stewardship to be a fundamental responsibility for us as investors. This includes considered voting and engagement on climate risk, disclosure and performance. We have focused on in-depth engagement with companies strategically exposed to climate related risks due to their significant carbon impact and exposure to transition risks (and opportunities). We undertake this engagement individually and collaboratively, actively supporting shareholder resolutions, and co-filing similar resolutions as appropriate.

We continue to be committed to increasing our investment in low carbon infrastructure and to considering how best we support the financing of the transition to a lower carbon economy.

Liability Risk

Aviva has negligible exposure to litigation risks on the insurance side through liability contracts such as professional indemnity for Directors' and Officers' and Pension Trustee Liability insurances. However, in certain jurisdictions we are aware of regulatory and legal challenges with respect to corporate climate related impacts and disclosures, which may impact us given our equity and corporate debt exposures. Direct impact from legal challenges and any associated fines are likely to be limited to specific companies.

Metrics and Targets used to assess and manage relevant climate-related risks and opportunities

Investment

We have enhanced our ESG heat map to include proxy climate risk metrics. This heat map is available to our analysts and fund managers via Bloomberg and updated on a monthly basis. This includes a composite carbon exposure metric based on the carbon-intensity of business activities, the extent of operations in jurisdictions with stringent carbon emissions regulations and the quality of a company's carbon management.

We targeted a £500 million annual investment in low-carbon infrastructure from 2015-2020, and an associated carbon saving target of 100,000 CO_2 tonnes annually. In 2016 we signed £450 million of new investment into wind, solar, biomass and energy efficiency, and our Infrastructure Income Fund will deliver over 150,000 tonnes of CO_2e savings annually when the projects are operational. Aviva holds over £247 million in green bonds.

In July 2015, we identified an initial set of 40 companies with more than 30% of their business (by revenue) associated with thermal coal mining or coal power generation. We undertook focused engagement with these companies setting out our expectations on their governance, business strategy, operational efficiency, responsible climate and energy policy advocacy and crucially whether any of those companies have any plans for new investment in coal generating capacity. Since then we have had meaningful engagement, often with multiple meetings or calls with 80% of the companies concerned.

In 2016, we met with a further 127 companies to discuss sustainability governance, sustainability disclosure and climate change, and environment.

Over the same period, we supported 86.8% of climate change-related shareholder resolutions. In 2015, we actively supported the 'Strategic Resilience for 2035 and beyond' shareholder resolutions, lead by the Aiming4A Coalition, proposed at the BP, Shell, and Statoil AGMs. We attended both the BP and Shell AGMs in support of the resolution and to question the Board. In 2016, we co-filed similar resolutions at the AGMs of Anglo American, Glencore and Rio Tinto.

In September 2015, we signed the Montreal Investment carbon foot-printing pledge. At the time, we were one of the largest asset managers to support this initiative. In November 2015, we published the carbon footprint of our four largest equity portfolios collectively totalling £13 billion. This represented one third of our equity assets and 5% of our total assets under management.

Insurance

We build the possibility of extreme weather events into our planning to help us understand the impact and ensure our pricing is adequate. Whist there may be incremental changes in the level of risk during the planning period these are not considered to be material.

Catastrophic event model results are supplemented by in-house disaster scenarios to quantify cross class accumulation risks such as a major weather event, aggregation of major weather events and a scenario of a long dry summer driving a subsidence event year; these have been considered as Realistic Disaster Scenarios (RDSs) and have had their potential impact assessed. To date activity has been limited to stress and scenario testing; for example in 2016 we have examined the impact of an extreme windstorm in Northern Europe.

We continue to invest in analytical solutions such as flood mapping, predictive analytics and risk mitigation techniques that help us better understand risk being transferred to us from our customers and to respond more rapidly when our customers need us.

OTHER INFORMATION – SHAREHOLDER INFORMATION

IN THIS SECTION

Company address

The Company's registered office is St Helens, 1 Undershaft, London, EC3P 3DQ.
The Company's telephone number is +44 (0)20 7283 2000.

Share capital

The Company has two classes of shares in issue:

- Ordinary shares of £0.25 each which constitute equity security and hold voting rights
- Cumulative irredeemable preference shares of £1 each, which entitle holders to attend and vote at general meetings only when dividends on such shares are in arrears. Cumulative irredeemable preference shareholders may also attend general meetings and vote on particular proposals when such proposals relate to an alteration of the rights attaching to such shares, a reduction of capital (other than through a redemption or repurchase of shares) or a winding up of business. On a winding up, they carry a preferential right of return of capital ahead of the ordinary shares

Issued share capital

The Company had an aggregate issued and outstanding ordinary share capital of £1,015 million as of 31 December 2016. The following table sets out information about the issued and outstanding classes of equity as of 31 December 2016.

	Shares issued and outstanding			Shares covered by outstanding options		
Share class	**2016 Million**	2015 Million	2014 Million	**2016 Million**	2015 Million	2014 Million
Ordinary shares, nominal value 25p	**4,062**	4,048	2,950	**24**	18	17
8.375% Cumulative irredeemable preference shares, nominal value £1	**100**	100	100	**—**	—	—
8.75% Cumulative irredeemable preference shares, nominal value £1	**100**	100	100	**—**	—	—

The Companies Act 2006 abolished the requirement for a company to have an authorised share capital and the Company's current articles of association reflect this. Directors are still limited as to the number of shares they can allot, as the allotment authority continues to be required under the Act, save in respect of employee share schemes. Details of existing authorities to allot shares are set out in notes 30 and 33. Ordinary shares in issue in the Company rank pari passu. All the ordinary shares in issue carry the same right to receive all dividends and other distributions declared, made or paid by the Company.

The Company is presently authorised to repurchase up to 404 million ordinary shares and any shares that are repurchased may be held as Treasury shares or cancelled. Details of the Company's dividends are set out in the section 'Dividend data'. The Company's preference shares rank, as to the payment of dividends and capital, as set out in note 33 of the IFRS Financial statements.

Share options and awards

The Company maintains a number of active stock option and share award schemes. Details of any outstanding awards under these schemes are set out in 'IFRS Financial statements – note 31 – Group's share plans'. Details of employee share schemes are set out in Note 31 and/or the directors' remuneration report. In addition to the share schemes mentioned in note 31 and the DRR, we operate the following share schemes:

The global matching share plan

Aviva has launched a global variation of the Aviva all employee share ownership plan (the global plan) during 2016. Eligible employees can invest up to £40 per month out of their net salary in the Company's shares. There is a matching element through which the Company matches every purchased share with two matching shares. Matching shares are subject to forfeiture if purchased shares are withdrawn from the Global Plan within three years of the end of the year of purchase, as long as the employee remains employed by the Company. Participants are also eligible to receive dividend shares through the global plan. The operation of the Aviva matching share plan in the UK is described in the DRR.

Aviva Group employee share ownership scheme

Aviva Group operates an Irish Revenue approved share scheme for employees of the Aviva Group in Ireland. Under the Aviva Group Employee Share Ownership Scheme, eligible employees can elect to forego some of their gross bonus and gross salary (up to a maximum of €12,700 per tax year) in exchange for the Company's shares. The shares are held in trust for three years.

Aviva France employee profit sharing scheme

Aviva France operates an employee profit sharing scheme where employees are given an award based on a percentage of salary, which can be either received in cash or invested in one of four mutual funds. One of the four mutual funds is invested solely in Aviva plc ordinary shares. Any investment in a mutual fund must be held for at least five years.

Additional information

For the purposes of Listing Rule (LR) 9.8.4C R, the information required to be disclosed by LR 9.8.4 R can be found in the following locations:

Section in LR 9.8.4C R	Topic	Location in the annual report and accounts
1	Interest capitalised	N/A
2	Publication of unaudited financial information	N/A
3	Requirement deleted from the listing rules	
4	Details of long-term incentive schemes	DRR and IFRS Financial Statements – note 31
5	Waiver of emoluments by a director	N/A
6	Waiver of future emoluments by a director	N/A
7	Non-pre-emptive issues of equity for cash	N/A
8	Item (7) in relation to major subsidiary undertakings	N/A
9	Parent participation in a placing by a listed subsidiary	N/A
10	Contracts of significance	N/A
11	Provision of services by a controlling shareholder	N/A
12	Shareholder waivers of dividends	IFRS Financial Statements – note 32
13	Shareholder waivers of future dividends	IFRS Financial Statements – note 32
14	Agreements with controlling shareholders	N/A

History of share capital

The following table sets out information about the history of the Company's ordinary shares over the last three full calendar years.

	Number of shares outstanding
At 31 December 2013	**2,946,939,622**
Shares issued under the Group's Employee and Executive Share Option Schemes[1]	3,547,718
At 31 December 2014	**2,950,487,340**
Shares issued under the Group's Employee and Executive Share Option Schemes[1]	11,651,227
Shares issued in relation to the acquisition of Friends Life	1,086,326,606
At 31 December 2015	**4,048,465,173**
Shares issued under the Group's Employee and Executive Share Option Schemes[1]	13,074,033
At 31 December 2016	**4,061,539,206**

1. For more information on our various option schemes, see note 31 in the financial statements.

There were no changes to the voting rights of any class of shares during 2014, 2015 and 2016, other than issuances in connection with our various employee option schemes and in relation to the acquisition of Friends Life. The Company did not issue shares for consideration other than cash during 2014, 2015 and 2016, with the exception of the acquisition of Friends Life in 2015. In addition, at the Company's general meetings in 2014, 2015 and 2016, shareholders authorised the limited dis-application of section 561 of the Companies Act 2006 to permit the Company to issue new equity securities for cash without applying shareholders' statutory pre-emptive rights.

Related party disclosures

Related party transactions

For more information relating to related party transactions, including more information about the transactions described below, please see 'IFRS Financial Statements – note 59 – Related party transactions'.

Subsidiaries

Transactions between the Company and its subsidiaries are eliminated on consolidation.

Key management compensation

The total compensation to those employees classified as key management, being those having authority and responsibility for planning, directing and controlling the activities of the Group, including the executive and non-executive directors is as follows:

	2016 £m	2015 £m	2014 £m
Salary and other short-term benefits	**14.6**	13.3	8.9
Other long term benefits	**5.3**	5.2	4.1
Post-employment benefits	**1.5**	1.7	1.0
Equity compensation plans	**9.3**	10.6	1.9
Termination benefits	—	2.0	—
Total	**30.7**	32.8	15.9

Various directors and key management of Aviva may from time to time purchase insurance, asset management or annuity products from Aviva Group companies in the ordinary course of business on substantially the same terms, including interest rates and security requirements, as those prevailing at the time for comparable transactions with other persons.

Apart from the disclosed transactions discussed above and in the 'Governance' section of this report, no director had an interest in shares, transactions or arrangements that requires disclosure under applicable rules and regulations.

Other related parties

The Group received income from and paid expenses to other related parties from transactions made in the normal course of business. Loans to other related parties are made on normal arm's length commercial terms.

Services provided to other related parties

	2016		2015		2014	
	Income earned in year £m	**Receivable at year end £m**	Income earned in year £m	Receivable at year end £m	Income earned in year £m	Receivable at year end £m
Associates	**4**	—	9	—	7	—
Joint ventures	**46**	**2**	27	192	28	154
Employee pension schemes	**16**	**5**	13	3	11	3
	66	**7**	49	195	46	157

In addition to the amounts disclosed for associates and joint ventures above, at 31 December 2016 amounts payable at year-end were £nil *(2015: £nil)*, and expenses incurred during the period were £3 million *(2015: £7 million)*.

Transactions with joint ventures in the UK relate to the property management undertakings, the most material of which are listed in note 18(a)(iii). Our interest in these joint ventures comprises a mix of equity and loans, together with the provision of administration services and financial management to many of them. Our UK life insurance companies earn interest on loans advanced to these entities, movements in which may be found in note 18(a)(i).

Our fund management companies also charge fees to these joint ventures for administration services and for arranging external finance.

Our UK fund management companies manage most of the assets held by the Group's main UK staff pension scheme, for which they charge fees based on the level of funds under management. The main UK scheme holds investments in Group-managed funds and insurance policies with other Group companies, as explained in note 48(b)(ii).

The related parties' receivables are not secured and no guarantees were received in respect thereof. The receivables will be settled in accordance with normal credit terms. Details of guarantees, indemnities and warranties provided on behalf of related parties are given in note 52(f).

Loans to joint ventures

We make loans to our property management joint ventures to fund property developments which we undertake with our joint venture partners. Movements in these loans may be found in 'IFRS Financial Statements – note 18 – Interests in, and loans to, joint ventures'. Total loans to joint ventures at 31 December 2016 were £nil, with the loans being repaid during 2016. Total loans to joint ventures at the end of each of the last three financial years are shown in the table below:

	2016 £m	2015 £m	2014 £m
Loans to joint ventures	—	94	73

Dividend data

The Company has a policy to pay a progressive dividend with reference to growth in cash flows and earnings. Under UK company law, we may only pay dividends if the Company has 'distributable profits' available. 'Distributable profits' are accumulated, realised profits not previously distributed or capitalised, less accumulated, unrealised losses not previously written off based on IFRS. Even if distributable profits are available, we pay dividends only if the amount of our net assets is not less than the aggregate of our called-up share capital and undistributable reserves and the payment of the dividend does not reduce the amount of our net assets to less than that aggregate.

As a holding company, the Company is dependent upon dividends and interest from our subsidiaries to pay cash dividends. Many of the Company's subsidiaries are subject to insurance regulations that restrict the amount of dividends that they can pay to us.

Historically, the Company has declared an interim and a final dividend for each year (with the final dividend being paid in the year following the year to which it relates). Subject to the restrictions set out above, the payment of interim dividends on ordinary shares is made at the discretion of our Board, while payment of any final dividend requires the approval of the Company's shareholders at a general meeting. Preference shares are irredeemable and dividends on preference shares are made at the discretion of our Board.

The Company pays cash dividends in pounds sterling, although the articles of association permit payment of dividends on ordinary shares in other currencies and in forms other than cash, such as ordinary shares. If dividends on ordinary shares held by the American Depositary Shares (ADS) depositary are paid in pounds sterling, the ADS depositary will convert the pounds sterling that it receives on behalf of the ADS holders into US dollars according to the prevailing market rate on the date that the ADS depositary actually receives the dividends.

From the 2009 interim dividend to the 2012 interim dividend, shareholders on record were provided the opportunity to elect to receive dividends in the form of newly issued ordinary shares through the Aviva Scrip Dividend Scheme. For the 2012 final and subsequent dividends, the Aviva Scrip Dividend Scheme has been withdrawn.

An interim dividend is generally paid in November of each year. A final dividend is typically proposed by the Company's Board after the end of the relevant year and generally paid in May. The following table shows certain information regarding the dividends that we paid on ordinary shares for the periods indicated in pounds sterling and converted into US dollars at the noon buying rate in effect on each payment date.

Year	Interim dividend per share (pence)	Interim dividend per share (cents)	Final dividend per share (pence)	Final dividend per share (cents)
2010	9.50	15.20	16.00	25.80
2011	10.00	15.70	16.00	25.27
2012	10.00	15.85	9.00	13.67
2013	5.60	9.01	9.40	15.79
2014	5.85	9.15	12.25	19.21
2015	6.75	10.21	14.05	20.35
2016	**7.42**	**9.20**	**15.88**	N/A

Guarantees, securitised assets and off-balance sheet arrangements

As a normal part of our operating activities, various Group companies have given financial guarantees and options, including interest rate guarantees, in respect of certain long-term assurance and fund management products, as set out in Note 42 to the IFRS Financial Statements. These are accounted for on-balance sheet as either part of the host insurance contract or as financial instruments under IFRS.

Information on operating lease commitments can be found in Note 53(b) to the IFRS Financial Statements.

It is standard business practice for our Group companies to give guarantees, indemnities and warranties in connection with disposals of subsidiaries, joint ventures and associates to third parties. As of 31 December 2016, we believe no material unprovisioned loss will arise in respect of these guarantees, indemnities and warranties. Principal warranties include the accuracy and completeness of the statement of financial position at an agreed specified date, details of outstanding litigation, regulatory matters, material contractual commitments, the position on tax filings and other customary matters together with any specific items identified during due diligence. In addition, specific clauses cover such items as regulatory approvals and licences, the basis of calculation regarding actuarial insurance liabilities, reinsurance contracts and the status of employee pension plans. Their exact terms are tailored to each disposal and are set out in the respective sale and purchase agreement. Similarly, the open warranty periods, within which the purchaser could claim, and limits on the maximum amount potentially recoverable will vary for each item covered in each disposal.

We have received notice of a number of claims on recent disposals, and where appropriate, hold provisions in respect of such claims. There are also open claim periods on other recent disposals in respect of which we have neither received, nor have any reason to believe we will receive, any claims. Accordingly, as of 31 December 2016, we believe that appropriate provisions have been made regarding known and expected material warranty and indemnity claims relating to recent disposal activity.

We have loans receivable, secured by mortgages, which have then been securitised through non-recourse borrowings by special purpose entities in our UK Life business, as set out in Note 24 to the IFRS Financial Statements. These special purpose entities have been consolidated and included in the statement of financial position, as we retain the residual interest in them.

Limited liability partnerships classified as joint ventures

As part of their investment strategy, the UK and certain European long-term business policyholder funds have invested in a number of property limited partnerships (PLP), either directly or indirectly via property unit trusts (PUT), through a mix of capital and loan instruments. The PLPs are managed by general partners (GP), in which the long-term business shareholder companies hold equity stakes and which themselves hold nominal stakes in the PLPs. The PUTs are managed by a Group subsidiary.

Accounting for the PUTs and PLPs as subsidiaries, joint ventures, associates or other financial investments depends on whether the Group is deemed to have control or joint control over the PUTs and PLPs'. The terms of each partnership agreement are considered along with other factors which determine control.

Note 18 to the IFRS Financial Statements provides a list of the principal PLPs accounted for as joint ventures, as well as summarised information on the income, expenses, assets and liabilities of the Group's interests in its joint ventures in aggregate. In respect of these PLPs, there are no significant contingent liabilities to which we are exposed, nor do we have any significant contingent liabilities in relation to our interests in them. External debt raised by the PLPs is secured on their respective property portfolios, and the lenders are only entitled to obtain payment of both interest and principal to the extent there are sufficient resources in the respective PLPs. The lenders have no recourse whatsoever to the policyholder and shareholders' funds of any companies in the Aviva Group. At 31 December 2016, we had £6 million capital commitments to these PLP joint ventures.

Liquidity and capital resources

Treasury function

The treasury function of our business is managed by our centralised treasury team, headed by the Group treasurer. The Group treasurer acts as owner of the Group business standard for liquidity risk management within the Group risk governance and oversight framework. Changes in policy require the agreement of the Chief Risk Officer. This policy is independently implemented and monitored by each of our businesses. Our central treasury team is split into distinct functions: a Group team, which develops our overall treasury strategy and our treasury team at Aviva Investors, which manages and monitors our treasury and cash flow positions for our holding companies. Each business unit is responsible for monitoring its own cash and liquidity positions, as well as its ongoing funding requirements. It is our policy to make the majority of our financing arrangements for our business units at the parent company level, primarily through external borrowings and equity offerings. This enables us to achieve the efficiencies afforded by our collective size. A small number of our business units also raise debt on their own behalf.

Our principal objective in managing our liquidity and capital resources is to maximise the return on capital to shareholders, while enabling us to pay dividends, service our debt and our holding companies' cash flows. In the context of a financial services company where our working capital is largely representative of our liquidity, we believe that our working capital is sufficient for our present operational requirements. For additional information, see 'IFRS Financial statements – note 56 – Risk management – liquidity risk'.

Extraordinary market conditions

While management believes that we have liquidity and capital resources to meet business requirements under current and stressed market conditions, a return to adverse financial market conditions such as those seen in late 2008 could significantly affect our ability to meet liquidity needs and obtain capital.

At 31 December 2016, total consolidated cash and cash equivalents net of bank overdrafts amounted to £38,405 million, an increase of £5,235 million from £33,170 million in 2015.

Processes for monitoring and managing liquidity risk, including liquidity stress models, have been enhanced to take into account the extraordinary market conditions, including the impact on policyholder and counterparty behaviour, the ability to sell various investment assets and the ability to raise incremental funding from various sources. Management has taken steps to strengthen liquidity in light of its assessment of the impact of market conditions and intends to continue to monitor liquidity closely.

Management of capital resources

We seek to maintain an efficient capital structure using a combination of equity shareholders' funds, preference capital, subordinated debt and senior borrowings. This structure is consistent with our risk profile and the regulatory and market requirements of our business.

In managing our capital, we seek to:

- match the profile of our assets and liabilities, taking into account the risks inherent in each business;
- maintain financial strength to support new business growth while still satisfying the requirements of policyholders, regulators and rating agencies;
- retain financial flexibility by maintaining strong liquidity, access to a range of capital markets and significant unutilised committed credit lines;
- allocate capital efficiently to support growth and repatriate excess capital where appropriate; and
- manage exposures to movements in exchange rates by aligning the deployment of capital by currency with our capital requirements by currency.

We are subject to a number of regulatory capital tests and employ realistic scenario tests to allocate capital and manage risk. The impact of these regulatory capital tests on our ability to transfer capital around the Group through dividends and capital injections is discussed later in this section under the headings 'Sources of liquidity' and 'Capital injections'.

At 31 December 2016, the Group had £28.1 billion (*31 December 2015: £25.2 billion*) of total capital employed on an IFRS basis in our trading operations which is financed by a combination of equity shareholders' funds, preference share capital, a direct capital instrument, subordinated debt and internal and external borrowings.

In addition to external funding sources, we have a number of internal debt arrangements in place. All internal loans satisfy arm's length criteria and all interest payments have been made when due.

Management of debt

Aviva plc is the principal financing vehicle in our centralised funding strategy. We aim to maintain a balance of fixed and floating rate debt, and manage the maturity of our borrowings and our undrawn committed facilities to avoid bunching of maturities. We aim to maintain access to a range of funding sources, including the banking market, the commercial paper market and the long-term debt capital markets. We issue debt in a variety of currencies, predominantly sterling and euro, based on investor demand at the time of issuance and management of the Group's foreign exchange translation exposures in the statement of financial position.

In May 2016 Aviva plc issued C$450 million of subordinated debt at 4.50% which matures in May 2021. In September 2016 Aviva plc issued £400 million of subordinated debt at 4.375%, with a final maturity in September 2049 and first call in September 2029, and €350 million of senior debt at 0.100% which matures in December 2018. In October 2016 Aviva plc issued a further €500 million of senior debt at 0.625% with a maturity in October 2023. On 1 December 2016 Aviva plc redeemed, at first call, the 8.25% $400 million subordinated debt originally issued in 2011.

At 31 December 2016, our total external borrowings, including subordinated debt and securitised mortgage loans, amounted to £10.3 billion *(2015: £8.8 billion)*. Of the total borrowings, £8.6 billion *(2015: £6.9 billion)* are considered to be core borrowings and are included within the Group's capital employed. The balance of £1.7 billion *(2015: £1.9 billion)* represents operational debt issued by operating subsidiaries. We also have substantial committed credit facilities available for our use. At 31 December 2016, we had no undrawn committed credit facilities expiring within one year *(2015: £0.6 billion)* and £1.7 billion in credit facilities expiring after more than one year *(2015: £1.1 billion)*.

Further information on the maturity, currency and interest rate structure of our borrowings is presented in 'IFRS Financial statements – note 34 – Direct capital instrument and tier 1 notes and note 49 – Borrowings'. Commercial paper is issued for terms up to 12 months and is generally reissued at maturity. Other than commercial paper, the earliest available repayment date for a debt instrument is the first call date of 3 November 2017 for the 8.25% $650 million fixed rate tier one notes. At this time Aviva will have the option of repaying the debt or deferring repayment until future coupon dates. Further information on this particular issuance is presented in 'IFRS Financial statements – note 34 – Direct capital instrument and tier 1 notes'.

The table below presents our debt position for the periods indicated:

	2016 £m	2015 £m
Core structural borrowings		
Subordinated debt	**7,222**	6,469
Senior notes	**722**	—
Commercial paper	**642**	485
	8,586	6,954
Less: Amounts held by Group Companies	**(9)**	(42)
	8,577	6,912
Operating borrowings		
Operational borrowings at amortised cost	**608**	550
Operational borrowings at fair value	**1,110**	1,308
	1,718	1,858
	10,295	8,770
Less: Amounts classified as held for sale	**—**	—
Total	**10,295**	8,770

In the UK, we have raised non-recourse funding secured against books of mortgages. This funding has been raised through the use of special-purpose entities. The beneficial interest in the books of mortgages has been passed to these special-purpose entities. These entities, which are owned by independent trustees, have funded this transfer through the issue of loan notes.

The value of the secured assets and the corresponding non-recourse funding was £1,110 million *(2015: £1,308 million)*. We continue to receive fees from these special purpose entities in respect of loan administration services.

These special purpose entities have been consolidated as we retain the residual interest in them. The transactions and reasons for consolidation are discussed further within 'IFRS Financial statements – Note 24 – Securitised mortgages and related assets'.

Undrawn borrowing facilities

At 31 December 2016, we had £1.7 billion *(2015: £1.7 billion)* undrawn committed central borrowing facilities available to us, provided by a range of leading international banks, all of which have investment grade credit ratings. These borrowings are used to support Aviva's commercial paper programme. Undrawn borrowing facilities are analysed below:

	2016 £m	2015 £m
Expiring within one year	**—**	575
Expiring beyond one year	**1,650**	1,075
Total	**1,650**	1,650

Following the renewal of terms undertaken in 2015 our committed central borrowing facilities have no financial covenants.

Sources of liquidity

In managing our cash flow position, we have a number of sources of liquidity, including:

- dividends from operating subsidiaries;
- external debt issuance;
- internal debt and central assets; and
- funds generated by the sale of businesses.

Our principal source of liquidity is cash remittances in the form of dividends and debt interest receipts from our subsidiaries. The level of dividends is based on two primary factors: the financial performance and the local solvency and capital requirements of our individual business units.

The table below shows liquid resources provided to Group Centre during the year:

Amounts received in respect of 2016 activity	£m
UK & Ireland life[1]	**1,096**
UK & Ireland general insurance & health[1]	**91**
France	**185**
Poland	**138**
Italy	**76**
Spain	**47**
Other Europe	**3**
Canada	**130**
Asia, Aviva Investors & Other[2]	**39**
Total	**1,805**

1 Cash remittances include amounts of £100 million received from UK & Ireland Life and £83 million from UK & Ireland General Insurance in February 2017 in respect of 2016 activity. 2016 cash remittances also include £159 million received from France in January 2017 in respect of 2016 activity.
2 Other includes Group Reinsurance.
3 Cash remittances are eliminated on consolidation and are hence not directly reconcilable to the Group's IFRS statement of cash flows.

Excess centre cash flow represents cash remitted by business units to the Group centre less central operating expenses and debt financing costs. It is an important measure of the cash that is available to pay dividends, reduce debt, pay exceptional charges or invest back into our business units. It does not include non-operating cash movements such as disposal proceeds or capital injections.

	2016 £m	2015 £m
Dividends received[1]	**1,635**	1,378
Internal interest received	**170**	129
Cash remitted to Group	**1,805**	1,507
External interest paid	**(540)**	(554)
Internal interest paid	**(85)**	(138)
Central spend	**(227)**	(252)
Other operating cash flows[1]	**(24)**	136
Excess centre cash flow[2]	**929**	699

1 Other operating cash flows include central investment income and group tax relief payments and other financial cash flows previously reported under central spend.
2 Before non-operating items and capital injections.

Excess centre cash flow of £929 million has increased by £230 million when compared with the prior period. The increase is primarily driven by higher cash remittances, coupled with lower internal interest paid and other operating cash outflows. Internal interest paid decreased primarily due to the reduction in the internal loan between UK & Ireland general insurance and the Group centre. Other operating cash outflows were £24 million (*2015: £136 million cash inflows*) mainly due to adverse margin movements on derivatives and the cost of renewing hedges.

Under UK company law, dividends can only be paid if a company has distributable reserves sufficient to cover the dividend. At 31 December 2016, Aviva plc itself had distributable reserves of £3,746 million, which would have covered five years of historic dividend payments to our shareholders. In UK Life, our largest operating subsidiary, distributable reserves, which could be paid to Aviva plc via its intermediate holding company, are based on the updated Companies Act 2006 (Distributions of Insurance Companies) Regulations 2016 which uses an adjusted Solvency II Own Funds measure in determining profits available for distribution. While the UK insurance regulatory laws applicable to UK Life and our other UK subsidiaries impose no statutory restrictions on an insurer's ability to declare a dividend, the rules require maintenance of each insurance company's solvency margin, which might impact their ability to pay dividends to the parent company. Our other life and general insurance, and fund management subsidiaries' ability to pay dividends and make loans to the parent company is similarly restricted by local corporate or insurance laws and regulations. In all jurisdictions, when paying dividends, the relevant subsidiary must take into account its capital position and must set the level of dividend to maintain sufficient capital to meet minimum solvency requirements and any additional target capital expected by local regulators. These minimum solvency requirements, are discussed later in this section under the heading 'Regulatory capital position'. We do not believe that the legal and regulatory restrictions constitute a material limitation on the ability of our businesses to meet their obligations or to pay dividends to the parent company, Aviva plc.

The Group has received proceeds on completion of the disposals as disclosed in 'IFRS Financial statements – note 3 – Subsidiaries'.

Aviva plc maintains two £2 billion commercial paper programmes, one of which is guaranteed by Aviva Insurance Limited, which allow debt to be issued in a range of currencies. At 31 December 2016, outstanding debt issued under the unguaranteed programme was £642 million *(2015: £485 million).* No commercial paper has been issued under the guaranteed programme in 2015 or 2016. More details of movements in debt can be found in the 'Management of debt section'.

Aviva plc has also issued longer term debt under a Euro Note Programme. Debt issued under this programme may be senior debt or regulatory qualifying debt and may have a fixed or floating interest rate. At 31 December 2016, the outstanding debt (including equity accounted tier 1 notes) issued under this programme was £5,542 million *(2015: £3,838 million)*.

Application of funds

We use funds to pay dividends to our shareholders, to service our debt and to pay our central Group cash flows.

In 2016, total cash paid by the Company as ordinary and preference dividends and coupon payments on the direct capital instrument and tier 1 notes amounted to £973 million, compared with £724 million in 2015.

In 2016, our total interest costs on central borrowings were £388 million. This compared with £350 million of interest paid on central borrowings in 2015. Total corporate centre expenses in 2016 were £184 million compared with £180 million in 2015.

An additional application of our funds is the acquisition of businesses. In 2016, cash paid in the acquisition of subsidiaries, joint ventures and associates net of cash received amounted to £432 million, compared with cash received of £7,783 million in 2015.

Capital injections

We make capital injections into our businesses where necessary to ensure that they meet their local solvency requirements and also to support development of their operations. Capital is provided either by equity or, where a local holding company is in place, may be via loans with the holding company subsequently injecting equity capital in the regulated operating company. Each capital injection is subject to central review and approval by the Board of the relevant holding company and needs to meet our required internal rates of return. To the extent that capital injections are provided or funded by regulated entities, then we have to consider the impact on regulatory capital of the capital injection.

Otherwise our ability to make capital injections into our businesses is not materially limited by applicable legal and regulatory restrictions. Total capital injections into the business units were £509 million and £469 million in 2016 and 2015 respectively. Payments during the year include initial capitalisation of the Group's internal reinsurance vehicle and other restructuring activity.

Consolidated cash flows

The cash and cash equivalents consist of cash at banks and in hand, deposits held at call with banks, treasury bills 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.

For the purposes of the cash flow statement, cash and cash equivalents also include bank overdrafts, which are included in payables and other financial liabilities on the balance sheet.

Year ended 31 December 2016

Net cash from operating activities

Total net cash from operating activities decreased by £8 million to a £4,747 million inflow in 2016 *(2015: £4,755 million inflow)*. The net operating cash inflow reflects a number of factors, including the level of premium income, payments of claims, creditors and surrenders and purchases and sales of operating assets including financial investments. It also includes changes in the size and value of consolidated cash investment funds and changes in the Group's participation in these funds.

Net cash from investing activities

Net cash from investing activities was a £407 million outflow *(2015: £7,641 million inflow)*. The decrease of £8,048 million is mainly due to the reduced level of acquisitions in 2016 following the acquisition of Friends Life in 2015. Cash flows in respect of acquisitions in 2016 mainly related to RBC General Insurance Company in Canada.

Net cash outflow on financing activities

Net cash used in financing activities decreased by £977 million to an outflow of £388 million *(2015: £1,365 million outflow).* The decrease is mainly due to the net drawdown of borrowings partially offset by an increase of the dividend payment.

Net cash and cash equivalents

At 31 December 2016, total consolidated net cash and cash equivalents, net of bank overdrafts, amounted to £38,405 million, an increase of £5,235 million over £33,170 million in 2015.

Year ended 31 December 2015

Net cash from operating activities

Total net cash from operating activities (continuing operations) increased by £5,299 million to a £4,755 million inflow in 2015 *(2014: £544 million outflow)*. The increase mainly reflected net cash inflows arising from purchases and sales of operating assets including financial investments.

Net cash from investing activities

Net cash from investing activities (continuing operations) was £7,641 million inflow *(2014: £228 million outflow)*. The increase of £7,869 million was mainly due to cash balances brought into the Group following the acquisition of Friends Life.

Net cash outflow on financing activities

Net cash used in financing activities (continuing operations) decreased by £590 million to an outflow of £1,365 million *(2014: £1,955 million outflow)*. The decrease was mainly due to the redemption of a direct capital instrument in 2014.

Net cash and cash equivalents

At 31 December 2015, total consolidated net cash and cash equivalents, net of bank overdrafts, amounted to £33,170 million, an increase of £10,606 million over £22,564 million in 2014.

Currency

Our exposures to movements in exchange rates and the management of these exposures is detailed in 'Performance review – Financial and operating performance – Exchange rate fluctuations'.

Other information

Regulatory capital position

Solvency II, the new European-wide prudential regulatory framework, came into force on 1 January 2016. The Solvency II regime puts in place a consistent solvency framework for insurers across Europe. The Aviva Group is regulated on a Solvency II basis and the Group Solvency II position reflects a consolidation of all legal entities on a Solvency II basis.

The Solvency II regime is underpinned by market-consistent principles. For assets this typically means the market value is used, whereas liabilities are valued on a best estimate basis using market-implied assumptions. In addition, a risk margin is required to be held, designed to represent the additional amount an insurer would be expected to pay to transfer its obligations to another insurer. The combination of the valuation of liabilities and the risk margin is known as 'technical provisions'. Subject to regulatory approval, firms may utilise a transitional measure which spreads the increase in technical provisions that resulted from the move to the Solvency II regime, over a period of 16 years. Available capital resources is referred to as 'own funds' under Solvency II. This includes the excess of assets over technical provisions in the Solvency II balance sheet, subordinated liabilities that qualify as capital under Solvency II, and off-balance sheet own funds approved by the regulator.

The Solvency II regime requires firms to hold own funds in excess of the solvency capital requirement (SCR). The SCR is calculated using a risk-based capital model, calibrated to reflect the cost of mitigating the risk of insolvency to a 99.5% confidence level over a one year time horizon (equivalent to events occurring in 1 out of 200 years) against financial and non-financial shocks.

The Aviva Group had used a risk-based capital model to assess economic capital requirements for a number of years which helped to prepare for the Solvency II regime. Aviva's Group Solvency II internal model was approved in December 2015 by the Prudential Regulation Authority (PRA) for use in calculating the Group SCR. An extension of the scope of the internal model to include the non-profit funds of Friends Life Limited and Friends Life and Pensions Limited, was effective 31 December 2016. While the majority of Aviva's Group SCR is calculated using the Group's internal model, the SCR for some business units is valued using the standard formula, and hence the Aviva Group SCR is calculated using a partial internal model.

Summary of Solvency II position

	2016 £bn	2015 £bn
Own Funds[1,2]	**24.1**	21.8
Solvency Capital Requirement before diversification[1]	**(18.0)**	(16.3)
Diversification benefit	**5.4**	4.2
Diversified Solvency Capital Requirement[1]	**(12.6)**	(12.1)
Estimated Solvency II Surplus at 31 December[2]	**11.5**	9.7
Estimated Shareholder Cover Ratio[1,2]	**191%**	180%

1 The estimated Solvency II position represents the shareholder view. This excludes the contribution to Group Solvency Capital Requirement (SCR) and Group Own Funds of fully ring fenced with-profits funds £2.9 billion *(2015: £2.7 billion)* and staff pension schemes in surplus £1.1 billion *(2015: £0.7 billion)* – these exclusions have no impact on Solvency II surplus.
2 The estimated Solvency II position includes an estimated adverse impact of a notional reset of the transitional measure on technical provisions ('TMTP') from interest rate movements in the second half of 2016. Removing this notional reset of TMTP would increase the estimated Solvency II surplus by £0.4 billion. Amortisation of TMTP since 1 January 2016 is also reflected.

Movement in Group Solvency II Surplus

2016	Total £bn
Group Solvency II Surplus at 1 January 2016	**9.7**
Operating Capital Generation	3.5
Non-operating Capital Generation	(1.4)
Dividends	(1.0)
Foreign exchange variances	0.6
Hybrid debt issuance	0.4
Acquired/divested business	(0.3)
Estimated Solvency II Surplus at 31 December 2016	**11.5**

The estimated Solvency II surplus at 31 December 2016 is £11.5 billion, with a shareholder cover ratio of 191%. This is an increase of £1.8 billion compared to the 31 December 2015 surplus. The beneficial impacts of operating capital generation, foreign exchange variances and hybrid debt issuance have been partially offset by the impact of the Aviva plc dividend, acquisitions and the adverse non-operating capital generation, driven by adverse market movements, notably falls in interest rates over the year. The operating capital generation includes the beneficial impact of increasing the scope of the Group's internal model to include the non-profits funds of Friends Life Limited and Friends Life and Pensions Limited. The non-operating capital generation includes a notional reset of the transitional measure on technical provisions ('TMTP') to reflect interest rates at 31 December 2016.

Capital commitments

Contractual commitments for acquisitions or capital expenditures of investment property, property and equipment and intangible assets, which have not been recognised in our consolidated financial statements, are as follows:

	2016 £m	2015 £m	2014 £m
Investment property	**46**	71	97
Property and equipment	**37**	61	8
Other investment vehicles	**202**	202	—
Total	**285**	334	105

Contractual obligations for future repairs and maintenance on investment properties are £nil *(2015: £nil, 2014: £nil).* We have capital commitments to joint ventures and associates of £9 million *(2015: £62 million, 2014: £91 million)*. These commitments are expected to be funded through operational cash flow without recourse to core structural borrowings.

Regulation

Compliance

In both our insurance and fund management businesses, matters may arise as a result of industry-wide issues, inspection visits or other regulatory activity, requiring discussion and resolution with industry regulators. The Group needs to ensure that procedures are in place to address any regulatory concerns, and that such procedures are properly planned, managed and resourced. Corrective action is undertaken, when necessary, with progress reported to relevant regulatory bodies in a timely manner.

Overview of regulation as it affects our business

Our principal insurance and fund management operations are in the UK, Europe, Canada and Asia. We are therefore subject to financial services regulation and local regulatory supervision in all these areas, as individually covered below.

As the Group's parent company is based in the UK, both EU legislation and UK regulatory rules can impact Aviva's business practices worldwide. Regulators supervising the Group co-ordinate on a cross-border basis through a 'college'.

The European Union

In addition to its UK businesses, Aviva is active in other EU member states through wholly owned subsidiary and joint venture companies. These companies are subject to the laws and regulations of the EU member state in which they are based, but are also affected by higher level EU legislation. In future years the regulatory landscape in the UK will depend on the nature of the ongoing relationship between the UK and its EU partners (following the UK referendum on EU membership). This will be determined in the forthcoming negotiations. Up until the UK leaves the European Union EU law continues to have force in the UK.

The EU operates by promulgating directives that must be implemented into local national legislation within each EU member country. These directives can either be framed as minimum or maximum harmonisation for the standards for national legislatures to meet. National governments may not pass laws which fail to meet the standards set out in a directive, but are generally free to impose legal requirements which go beyond those required other than where a directive on a maximum harmonisation basis applies. Even greater detail may be imposed through the rules and regulations of national regulators and, for financial services businesses these rules can be extensive.

The EU may also impose requirements directly on countries through regulation. EU financial services regulation is based on the principle of 'home country control', which makes the home country regulator responsible for monitoring compliance with all applicable regulation.

Key directives of particular relevance to the financial services industry, and so to Aviva's businesses in the EU include:

European System for Financial Supervision

The European System for Financial Supervision comprises European Supervisory Authorities, including the European Insurance and Occupational Pensions Authority (EIOPA). Its aims include achieving consistent regulation and supervision within the European Union. In this respect it is able to issue supervisory guidelines on a comply or explain basis to National Competent Authorities and where European Directives provide Delegated Acts, it may propose Regulatory Technical Standards to the Commission.

Solvency II

The Solvency II Directive which governs insurance industry regulation and prudential capital requirements within the European Union, including associated Implementing Technical Standards and guidelines became effective from 1 January 2016. Solvency II is a European prudential framework that reflects risk management practices to define required capital and manage risk. The framework has three main pillars:

- Pillar 1 consists of the quantitative requirements (for example the amount of capital an insurer should hold);
- Pillar 2 sets out requirements for the governance and risk management of insurers, as well as their supervision; and
- Pillar 3 focuses on disclosure and transparency requirements.

Distance Marketing Directive

Under the Distance Marketing Directive, EU member states are required to implement a framework of rules and guidance in order to protect consumers by:

- setting minimum standards for information that must be provided to consumers before entering into a financial services contract by 'distance means'; and
- for certain products and services, giving a cooling-off period in which a consumer may cancel a contract without penalty.

Insurance Mediation Directive

This requires EU member states to establish a framework to:

- ensure that insurance and reinsurance intermediaries have been registered on the basis of a minimum set of professional and financial requirements;
- ensure that registered intermediaries will be able to operate in other member states by availing themselves of the freedom to provide services or by establishing a branch; and
- impose requirements on insurance intermediaries to provide specified minimum information to potential customers.

Markets in Financial Instruments Directive (MIFID)

MIFID became law in the UK in November 2007 and superseded the earlier Investment Services Directive. It sets the conditions for initial authorisation and the ongoing regulatory requirements that investment firms must meet, and expands the range of investment services that investment firms can provide across the EU on the basis of their authorisation in the country where they are established. It also introduces greater harmonisation governing the organisation and conduct of business of investment firms.

Systemic Risk

In July 2013, the Financial Stability Board (FSB) designated nine insurance groups, including Aviva as Global Systemically Important Insurers G-SIIs. The designation is reviewed on an annual basis, with the FSB re-affirming Aviva as a G-SII in November 2016. The International Association of Insurance Supervisors (IAIS) has published policy measures that apply to G-SIIs. The policy measures include enhanced supervision, recovery and resolution planning, the preparation of systemic risk management and liquidity risk management plans. The policy measures also include higher loss absorbency requirements (HLA). In the absence of a global capital framework for insurers, the IAIS has developed a Basic Capital Requirement (BCR) to provide a comparable foundation for the application of HLA to G-SIIs. The IAIS intend that the BCR will be superseded by the ICS once finalised as a foundation for HLA. The IAIS plans that its approach to HLA will be applicable to G-SIIs from 2019.

Insurance Capital Standard (ICS)

The Financial Stability Board (FSB) has stated that a sound capital and supervisory framework for the insurance sector is essential for supporting financial stability. In this respect the IAIS will develop a work plan to develop a comprehensive, group-wide supervisory and regulatory framework for Internationally Active Insurance Groups (IAIGs), including a quantitative capital standard. The ICS will be incorporated into the global framework for the supervision of internationally active insurance groups (ComFrame) that the IAIS is developing. The IAIS plans to develop the ICS for adoption by the IAIS in 2019 along with the rest of ComFrame.

Future EU developments

There are a number of European dossiers that are expected to continue to progress during 2017, including Packaged Retail and Insurance-based Investment Products (PRIIPs) that will introduce common product disclosure standards, the Insurance Distribution Directive (IDD) that will introduce new standards for insurance distribution and MIFID 2 that introduces new conduct and market transparency requirements.

United Kingdom

The regulatory structure

On 1 April 2013 the Financial Services Authority was replaced by the Prudential Regulation Authority (the 'PRA') and the Financial Conduct Authority (the 'FCA').

The PRA is currently a subsidiary of the Bank of England and is responsible for the micro-prudential regulation of banks, building societies, credit unions, insurers and major investment firms. The PRA has two statutory objectives:

- to promote the safety and soundness of regulated firms; and
- in the case of insurers, to contribute to securing an appropriate degree of protection for policyholders.

The FCA is a company limited by guarantee, accountable to the UK Treasury, and through the Treasury, to the UK Parliament. It is operationally independent of government and entirely funded by the firms it regulates. The FCA's strategic objective as set out in the Financial Services Act 2012 is to ensure that markets "function well" and it is responsible for the conduct regulation of all financial services firms (including those prudentially regulated by the PRA, such as insurers). In addition, the FCA prudentially regulates those financial services firms not supervised by the PRA, including most asset managers. The FCA has three operational objectives:

- securing an appropriate degree of protection for consumers;
- protecting and enhancing the integrity of the UK financial system; and
- promoting effective competition in the interests of consumers in the markets for financial services.

Within their respective jurisdictions, the PRA and FCA have authority to make rules and issue guidance, taking into account relevant EU directives, impacting individuals and firms authorised to conduct regulated activities ('Authorised Persons' and 'Authorised Firms').

Under the Financial Services and Markets Act 2000 (FSMA) no person may carry on, or purport to carry on, a regulated activity by way of business in the UK unless he is an Authorised Person or an exempt person. A firm granted permission to carry on regulated activities becomes an Authorised Person for the purposes of FSMA. 'Regulated activities' are prescribed in the FSMA (Regulated Activities) Order 2001 and include banking, insurance and investment business, stakeholder pension schemes, insurance mediation and certain mortgage mediation and lending activities.

Authorised Firms must at all times meet specified threshold conditions, including possession of adequate resources for the carrying on of their business, and being fit and proper to conduct that business, having regard to all the circumstances. Authorised Firms must also operate in accordance with the FCA's Principles for Business if solo regulated and the PRA's Fundamental Rules and FCA's Principles for Business if dual regulated. The FCA has 11 high level principles for conducting financial services business in the UK, including maintenance of adequate systems and controls, treating customers fairly, and communicating with customers in a manner that is clear, fair and not misleading. The PRA has 9 Fundamental Rules including organising and controlling its affairs responsibly and effectively and acting in a prudent manner.

The PRA and FCA regulatory regimes are based on the principle that firms should have effective systems and controls, including robust risk management, which are appropriate to the size, complexity and diversity of their business.

UK Regulation of the Aviva Group

A number of the Groups' UK subsidiaries are 'dual regulated' (directly authorised by both the PRA (for prudential regulation) and the FCA (for conduct regulation)) while others are solo regulated (regulated solely by the FCA for both prudential and conduct regulation).

Aviva plc, although not directly authorised, does come within the scope of some regulation as the ultimate insurance holding company in the Group. The PRA and FCA have powers under the FS Act in relation to unregulated parent undertakings ('qualifying parent undertakings') that control and exert influence over regulated firms. The powers include the ability to make directions imposing requirements on parent undertakings, take enforcement action where such directions are breached and gather information from parent undertakings.

As Aviva is a UK-based group, the PRA has the responsibility of acting as lead regulator (i.e. the cross-sector supervisory coordinator) for the Group.

Aviva was designated as a Global Systemically Important Insurer (G-SII) by the IAIS. The IAIS has developed a framework of policy measures for G-SIIs. The policy framework includes:

- The recovery and resolution planning requirements under the Financial Stability Board's Key Attributes of Effective Resolution Regimes;
- Enhanced group-wide supervision; and
- Higher loss absorbency requirements (HLA).

The enhanced group-wide supervision of G-SIIs introduces more tailored regulation, greater supervisory resources and more thorough use of existing supervisory tools compared to the supervision of non-systemically important insurers. For G-SIIs, the group-wide supervisor has specific powers over holding companies to ensure that a direct approach to group-wide supervision can be applied. In addition, other involved supervisors may have direct or indirect powers over holding companies in their jurisdiction.

UK regulated entities within Aviva plc

DUAL REGULATED	SOLO REGULATED
Aviva Annuity UK Ltd	Aviva Equity Release UK Ltd
Aviva Insurance Ltd	Aviva Health UK Ltd
Aviva International Insurance Ltd	Aviva Insurance Services UK Ltd
Aviva Investors Pensions Ltd	Aviva Investors Global Services Ltd
Aviva Life & Pensions UK Ltd	Aviva Investors UK Fund Services Ltd
Friends Annuities Ltd	Aviva Investors UK Funds Ltd
Friends Life and Pensions Ltd	Aviva Life International Ltd
Friends Life FPLMA Ltd	Aviva Life Services UK Ltd
Friends Life Ltd	Aviva Pension Trustees UK Ltd
Gresham Insurance Company Ltd	Aviva Wrap UK Ltd
The Ocean Marine Insurance Company Ltd	Bankhall PMS Ltd
	Friends Life Funds Ltd
	Friends Life Investment Solutions Ltd
	Friends Life Investments Ltd
	Friends Life Marketing Ltd
	Friends Life Services Ltd
	Friends Provident International Ltd
	Optimum Investment Management Ltd
	ORN Capital LLP
	Sesame Ltd
	TenetConnect Ltd
	TenetConnect Services Ltd
	TenetLime Ltd

Approved persons and controllers

From 1 January 2016, the Approved Person regime (APER) was replaced with Senior Insurance Managers Regime (SIMR) for the UK Solvency II firms. Although in substance similar to APER, SIMR will result in a greater transparency with a narrower focus on individuals running Solvency II companies.

Both the PRA and FCA place great emphasis on the principle of senior management responsibility. The directors of, and senior managers carrying out controlled function roles (as defined in the PRA and FCA handbooks) in, any of the Group's regulated entities are individually registered with either the PRA or FCA under the 'Senior Insurance Managers Regime' or the 'Approved Person' regime, and can be held directly accountable to the relevant regulator for control failings in those entities. For solo regulated entities, individuals applying for approval in a controlled function make their application to the FCA and if successful, are registered with the FCA. For dual regulated entities, responsibility for applying the approved persons regime to controlled functions is split between the PRA and FCA, with the PRA having responsibility for all of the Governing Functions. However, the PRA cannot approve an application without the consent of the FCA. Each regulator can apply its Statements of Principles and Code of Practice for Approved Persons to the conduct expected of approved persons, and each can discipline an approved person who has breached a statement of principle, regardless of which regulator gave approval.

A number of senior managers at Group are registered as Approved Persons with either the PRA or FCA for the regulated subsidiaries, even though they are neither directors nor senior managers of these firms. This recognises that these managers exert significant influence over the regulated subsidiaries, because they are responsible for key parts of the Group's control framework on which the regulated subsidiaries place reliance.

The PRA and FCA regulate from a legal entity perspective, even though Aviva tends to operate by business unit. However, both regulators expect that Aviva's regulated subsidiaries will operate within an overall framework of Group governance and controls. PRA and FCA rules expressly provide that any systems and controls which operate on a Group basis will be taken into account in determining the adequacy of a regulated subsidiary's systems and controls. The robustness of these Group controls is therefore subject to scrutiny and challenge by both regulators.

PRA and FCA rules regulate the acquisition and increase of control over Authorised Firms. Under FSMA, any person proposing to acquire control of, or increase control over certain thresholds of, an Authorised Firm must first obtain the consent of the appropriate regulator. The Authorised Firm must also inform the appropriate regulator of any such proposed acquisition or increase. In considering whether to grant or withhold its approval of the acquisition or increase of control, the appropriate regulator must be satisfied both that the acquirer is a fit and proper person and that the interests of consumers would not be threatened by this acquisition or increase of control.

Control over a UK Authorised Firm is acquired if the acquirer:

- holds 10% (or 20% if the Authorised Firm is an insurance intermediary) or more of the shares, or voting power, in that firm, or a parent undertaking of the firm; or
- is able to exercise significant influence over the management of the firm by virtue of the acquirer's shares or voting power in that company or a parent undertaking of the firm.

Increases in control require the consent of the appropriate regulator when they reach thresholds of 20%, 30% and 50% of the shares or voting power of the firm (or its parent).

In order to determine whether a person or a group of persons is a 'controller' for the purposes of FSMA, the holdings (shares or voting rights) of the person and any other person 'acting in concert', if any, are aggregated.

Conduct of business rules

The FCA's Conduct of Business (COBS) and Insurance: Conduct of Business (ICOBS) Rules apply to every Authorised Firm carrying on relevant regulated activities, and regulate the day-to-day conduct of business standards to be observed by all Authorised Persons in carrying out regulated activities.

The COBS and ICOBS Rules imposed on an Authorised Firm will vary according to the scope of its business and range of the Authorised Firm's clients. Generally speaking, however, the obligations imposed on an Authorised Firm by the COBS and ICOBS Rules will include the need to classify its clients according to their level of sophistication, provide them with information about the Authorised Firm, meet certain standards of product disclosures (including fee and remuneration arrangements), ensure that promotional material which it produces is clear, fair and not misleading, assess suitability when advising on certain products, control the range and scope of advice given, manage conflicts of interest, report appropriately to its clients and provide certain protections in relation to client assets.

The PRA's COBS rule book is limited to with-profits business and linked long-term insurance business as these classes of business are regulated by both the PRA and FCA. For with-profits business the FCA is concerned with ensuring fairness between policyholders and shareholders while the PRA has ultimate responsibility in respect of decisions which have material consequences for both affordability and fairness. For linked long-term business, the FCA is concerned with ensuring benefits are determined by reference to an approved index, while the PRA is concerned with linked assets being capable of being realised in time to meet obligations to policyholders and the matching of linked assets with linked liabilities.

Capital and solvency rules for insurers

Qualitative and quantitative requirements for calculating technical provisions and capital requirements are set out in the pillar 1 framework of Solvency II. Technical provisions include the best estimate of liabilities and a risk margin. A Solvency Capital Requirement (SCR) is required to reflect risk based capital required to meet obligations over 12 months with a 99.5% probability. This can be calculated either using a prescribed standard formula or an internal model that has been approved by the regulator.

Aviva has received approval from the PRA to use an internal model for its largest businesses in the UK, France and Canada, but uses the standard formula for its smaller businesses.

Solvency II also requires the calculation of a Minimum Capital Requirement (MCR) which along with the SCR constitutes a ladder of supervisory intervention.

Day-to-day supervision

Both the PRA and FCA take a risk-based approach to supervision, with the PRA focusing on those issues and authorised firms posing the greatest risk to the stability of the UK financial system and policyholders, and the FCA conducting in-depth structured supervision work with those firms with the potential to cause the greatest risk to its objectives. Given our size and our share of the UK retail market, a major issue within our business which causes concern for the regulators may have a significant impact on these objectives.

Both regulators therefore maintain proactive engagement with us, with day-to-day supervision of Aviva conducted by dedicated teams within the PRA and FCA. In practice, this means that a wide range of Group and UK business unit senior managers have regular scheduled meetings with the UK regulators, and other meetings and discussions on specific issues take place as the need occurs. This adds up to frequent regulatory interaction at business unit and Group level, and the sharing of detailed information about the Group.

Areas of potential risk or weakness where the regulators particularly require Aviva to focus attention are formally set out in a Risk Mitigation Plan (RMP) from the FCA and key actions from the PRA.

All open actions are progressed in accordance with timescales agreed with the PRA and FCA.

Outside of the UK, each Aviva business is regulated by its own national regulator(s). However, overseas operations are also within the remit of the PRA to the extent that they have an interest in the systems and controls by which the Group manages its overseas businesses to mitigate the risk of financial shocks arising overseas flowing through to the UK.

The PRA monitors the strategy and performance of the Group's international businesses through its programme of regular meetings and reviews.

The UK regulators aim to play a leading role in the development of both EU and international regulation.

Intervention and enforcement

The PRA and FCA have extensive powers to investigate and intervene in the affairs of Authorised Firms. In relation to dual regulated firms, under the terms of a Memorandum of Understanding entered into in April 2013, the PRA and FCA will consult each other before taking enforcement action. The PRA has the right to veto certain FCA regulatory actions in relation to dual regulated firms, but the FCA is not required to comply if in its opinion it would be incompatible with any EU or other international obligation of the UK.

The regulators' enforcement powers, which may be exercised against both Authorised Firms and Approved Persons, include public censure, imposition of unlimited fines and, in serious cases, the variation or revocation of permission to carry on regulated activities or of an Approved Person's status. The FCA may also vary or revoke an Authorised Firm's permissions to protect the interests of consumers or potential consumers if the Authorised Firm has not engaged in regulated activity for 12 months, or if it is failing to meet the threshold conditions for authorisation. The FCA has further powers to obtain injunctions against Authorised Persons and to impose or seek restitution orders where consumers have suffered loss.

In addition to applying sanctions for market abuse, the FCA has the power to prosecute criminal offences arising under FSMA and insider dealing under Part V of the Criminal Justice Act 1993, and breaches of money laundering regulations. The FCA's stated policy is to pursue criminal prosecution in all appropriate cases.

The Financial Services Compensation Scheme (FSCS)

The FSCS is intended to compensate individuals and small businesses for claims against an Authorised Firm where the Authorised Firm is unable or unlikely to be able to meet those claims (generally, when it is insolvent or has gone out of business). The FSCS levy is to split into twelve broad classes:

- the deposits class;
- the life and pensions provision class;
- the general insurance provision class;
- the investment provision class;
- the life and pensions intermediation class;
- the home finance intermediation class;
- the investment intermediation class;
- the general insurance intermediation class;
- the deposit acceptor's contribution class;
- the insurers – life contribution class;
- the insurers – general contribution class; and
- the home finance providers and administrators' contribution class.

The permissions held by each firm determine into which class, or classes, it falls.

Restrictions on business

UK regulatory rules restrict an insurance company from carrying on any commercial business other than insurance business and activities directly arising from that business. Therefore, authorised insurance companies in the Group are bound by this restriction.

Distribution of profits and with-profits business

For UK authorised life insurers carrying on with-profits business, such as Aviva Life and Pensions UK Ltd ('AVLAP'), the FCA's rules require that where a firm decides to make a distribution of surplus from the with-profits fund it must distribute at least the required percentage (as defined in the FCA Handbook) of the total amount distributed to policyholders, with the balance of the total amount to be distributed being payable to the shareholders.

In addition, at least once a year the AVLAP Board must consider whether a distribution is required to be made from the Old with-profits sub-fund ('Old WPSF') inherited estate. Such a distribution will ordinarily be required if the level of the inherited estate of the Old WPSF exceeds the Required Distribution Threshold as described in the Reattribution Scheme of Transfer effective from 1 October 2009 ('The Scheme') on any such annual investigation from the third such investigation after 1 October 2009. No distributions were made during 2016 in relation to the Old WPSF.

An Annual investigation may also be carried out to determine if a Release to shareholders can be made from the RIEESA. Releases can only be made:

- if the Reattributed Inherited Estate exceeds the Permitted Release Threshold as defined in the Scheme;
- the AVLAP Board (based on appropriate actuarial advice including that of the With-Profits Actuary) are of the opinion that the Release will not give rise to a significant risk that the New with-profits sub-fund (including the RIEESA) would be unable to meet its obligations to policyholders and its capital requirements or the Old WPSF would be unable to meet its obligations to policyholders; and
- following the sixth annual investigation after 1 October 2009 or later investigation and provided that investigation and investigations made in the previous two years determined that the Reattributed Inherited Estate exceeded the Permitted Release Threshold.

No release to shareholders from the RIEESA was made during 2016.

The AVLAP Board set aside £150 million as at 31December 2016 to enhance the with-profits benefits for customers as they leave the AVLAP With-Profits Sub Fund ('AVLAP WPSF').

Reporting requirements

The Solvency II Pillar 3 reporting requirements require two key reports. The Solvency and Financial Condition Report (SFCR) that contains qualitative and quantitative information is reported publically on an annual basis. The Regulatory Supervision Report (RSR) is a private report to the PRA including qualitative and quantitative information that must be submitted in full at least every three years and in summary every year. This report is not publically disclosed. In addition data templates are completed and submitted to the PRA on a quarterly and annual basis.

UK winding up rules

The general insolvency laws and regulations applicable to UK companies are modified in certain respects in relation to UK insurance companies where direct insurance claims will have priority over the claims of other unsecured creditors (with the exception of preferred creditors), including reinsurance creditors, on a winding up by the court or a creditors' voluntary winding up of the insurance company. Furthermore, instead of making a winding-up order when an insurance company has been proved unable to pay its debts, a UK court may reduce the amount of one or more of the insurance company's contracts on terms and subject to conditions (if any) which the court considers fit. Where an insurance company is in financial difficulties but not in liquidation, the FSCS may take measures to secure the transfer of all or part of the business to another insurance company.

FSMA provides further protection to policyholders of insurance companies effecting or carrying out contracts of long-term insurance. Unless the court orders otherwise, a liquidator and/or administrator must carry on the insurer's business so far as it consists of carrying out the insurer's contracts of long-term insurance with a view to it being transferred as a going concern to a person who may lawfully carry out those contracts. In carrying on the business, the liquidator/administrator may agree to the variation of any contracts of insurance in existence when the winding-up order is made, but must not effect any new contracts of insurance.

Canada

We write property and casualty business in Canada via a number of wholly owned companies.

Insurance business in Canada is regulated federally by the Office of the Superintendent of Financial Institutions (OSFI) for prudential supervision (i.e. capital adequacy, solvency, etc). OSFI derives its powers from the federal Insurance Companies Act (Canada) which governs the structure and operation of federally incorporated insurance companies.

The capital adequacy of insurance companies is monitored under the Minimum Capital Test ('MCT'), a risk-based framework allowing for capital to be assessed on the basis of an individual company's risk profile taking account of the investments held and insurance business being written. Companies have their own internal MCT target that is communicated to OSFI, which is set to ensure that they maintain capital in excess of 150% of the OSFI minimum requirement.

Market conduct regulation is conducted at the provincial level through ten independent provincial regulators. Those regulators derive their powers from insurance acts enacted by provincial legislatures. Market conduct regulation focuses on personal lines products and business practices, including rating formulas, underwriting and policy terms and conditions. Commercial lines insurance is not subject to as extensive regulations.

Asia

We operate in Asia through a network of subsidiary companies either wholly owned or established as a joint venture with a local partner. Our business is predominantly long-term and savings business, with small general insurance and health operations.

During 2016, there were wholly owned businesses in Singapore and Hong Kong. Aviva also operated businesses in China, India, Taiwan, Indonesia and Vietnam which, depending on the nature and extent of the control exerted by Aviva, were accounted for as joint ventures or associates. In 2015, following the acquisition of the Friends Life Group, one of its subsidiaries, Friends Provident International Limited (which is domiciled in the Isle of Man) also operates in Asia through branches in Singapore, Hong Kong and United Arab Emirates.

The Asia area is made up of a number of widely differing and independent markets. The markets tend to be at various different stages in their economic and regulatory development but each has its own regulatory structures and Aviva must ensure it complies with the local regulation in each of the countries in which it operates.

Industry regulation typically focuses on financial stability and market conduct i.e. minimum capital and the basis for calculating solvency, reserves and policyholder liability. In many of the markets, regulators have the power to revoke operating licences, regulate shareholder structures and the participation in and the payment of dividends. Asia markets are moving quickly to modernise insurance regulation with an increasing focus on governance and conduct risk.

Intellectual property

Our primary brands (the Aviva name and logo) are registered trademarks in the UK and are registered or pending in all other countries where Aviva has operations.

Aviva has an active programme of review of marks and watching for infringements. There are no material infringements in the UK known to us as at the date of this report, either by the Group or third parties.

Risks relating to our business

You should carefully review the following risk factors together with other information contained in this Annual Report before making an investment decision relating to our ordinary shares or ADSs. Our business, financial position, results of our operations and cash flow could be materially affected by any of these risks, the trading price of our ordinary shares or ADSs could decline due to any of these risks and investors may lose part or all of their investment.

Ongoing difficult conditions in the global financial markets and the economy generally may adversely affect our business and results of operations, and these conditions may continue.
Our results of operations are materially affected by uncertainty in the worldwide financial markets and macro-economic conditions generally. A wide variety of factors, including concerns over slowing growth, high sovereign debt within, and to a lesser degree outside, the eurozone, the stability and solvency of financial institutions, longer-term low interest rates in developed markets, inflationary threats as well as geopolitical issues in, and emanating from, the Middle East (in particular Syria), Russia, Ukraine and North Africa, have contributed to increased volatility in the financial markets in recent years and have diminished growth expectations for the global economy. Global fixed income markets continue to experience periods of both volatility and limited market liquidity, which have affected a broad range of asset classes and sectors.

Factors relating to general economic conditions (such as consumer spending, business investment, government spending, and high sovereign debt levels, exchange rates and commodity prices), uncertainty over the United Kingdom's future relationship with the European Union ('EU'), the outcome of national elections in several European Union member states, the volatility and strength of both debt and equity markets, and inflation, all affect the profitability of our business. In a sustained economic phase of low growth and high public debt, characterised by higher unemployment, lower household income, lower corporate earnings, lower business investment and lower consumer spending, the demand for financial and insurance products could be adversely affected. In addition, we may experience an elevated incidence of claims or surrenders of policies or claims of misselling. Any potential material adverse effect on us will also be dependent upon customer behaviour and confidence.

As a result of these market exposures, our financial position and results of operations may be subject to significant volatility and negative effects, particularly if it is prolonged. Such effects may include, inter alia: (i) a general reduction in business activity and market volumes which affects fees, commissions and margins from customer driven transactions and revenues, and from sales of insurance products; (ii) market downturns which are likely to reduce the level and valuations of assets managed on behalf of clients, thereby reducing asset based and performance based fees; (iii) reduced market liquidity, limiting trading and arbitrage opportunities and presenting impediments for managing risks, impacting both trading income and performance based fees; (iv) a reduced value in assets held for our own account if trading positions fall in value; (v) increased impairments and defaults on credit exposures and on trading and investment positions, which losses may be exacerbated by falling collateral values; (vi) increased collateral requirements under derivative and other financial instruments; (vii) increased costs of hedging against market risks such as equity or interest rate exposure; (viii) pressure to reduce equity and/or debt investments or maintain additional capital in respect of such holdings; (ix) an increase in technical provisions and capital requirements in response to market related stress tests; and (x) a requirement to hold a larger proportion of liquid assets in order to offset the impact of a reduction in market liquidity on a company's ability to meet payment obligations.

The interdependence of global financial institutions means that the failure of a sufficiently large and influential financial institution could materially disrupt global securities markets or clearance and settlement systems in the markets. This could cause severe market decline or volatility. Such a failure could also lead to a chain of defaults by counterparties that could materially adversely affect the Group. This risk, known as "systemic risk", could adversely impact our future product sales as a result of reduced confidence in the financial services industry. It could also adversely impact our results because of market declines and write downs of assets.

Following the UK's referendum vote to withdraw from the EU, uncertainty surrounding the UK's future relationship with the EU may have a negative effect on global economic conditions, financial markets and our business.
On 23 June 2016, the UK voted in a national referendum to withdraw from the EU. The UK government has indicated that it intends during March 2017 to formally serve notice to the European Council of its desire to withdraw, a process that could involve lengthy negotiation to draft and approve a withdrawal agreement in accordance with Article 50 of the Treaty on European Union.

Considerable uncertainty exists over the arrangements which will be put in place between the UK and the EU as the UK departs from the EU including the UK's continued access to the EU single market in relation to trade in goods and services. Adverse outcomes from the UK's negotiations with the EU could have a material impact on the regulatory and legal framework within which our UK and European businesses operate.

The UK referendum on EU membership has also increased the risk of a number of other political events occurring both in the UK and the EU, including similar referendums in other EU member states and a new Scottish referendum on independence. The possible occurrence of such events and the uncertain outcome of the arrangements which will be put in place for the UK to exit the EU could result in heightened market volatility and a significant risk of macroeconomic deterioration. The Bank of England has also responded by loosening its monetary policy causing a reduction in the long term interest rates on UK gilts with the possibility that such rates could stay at record low levels for a prolonged period. The European Central Bank may also follow suit causing a reduction in the interest rates on European government securities. While we actively manage our risk exposure, sustained low yields alongside macroeconomic uncertainty and heightened volatility could impact our business.

As a global business, we are exposed to various local political, regulatory and economic conditions, business risks and challenges which may affect the demand for our products and services, the value of our investment portfolios and the credit quality of local counterparties.
We offer our products and services in Europe (including the United Kingdom ('UK')), North America and the Asia Pacific region through wholly owned and majority owned subsidiaries, joint ventures, companies in which we hold non-controlling equity stakes, agents and independent contractors. Our international operations expose us to local political, regulatory, business and financial risks and challenges which may affect the demand for our products and services, the value of our investment portfolio, the required levels of capital and surplus, and the credit quality of local counterparties. These risks

include, for example, political, social or economic instability in countries in which we operate, discriminatory regulation, credit risks of our counterparties, lack of local business experience in certain markets, risks associated with exposure to insurance industry insolvencies through policyholder guarantee funds or similar mechanisms set up in markets in which we are present and, in certain cases, risks associated with the potential incompatibility with foreign partners, especially in countries in which we are conducting business through entities which we do not control. Some of our international insurance operations are, and are likely to continue to be, in emerging markets where these risks are heightened. Our overall success as a global business and our results of operations depend, in part, upon our ability to succeed in different economic, social and political conditions.

Credit risks relating to Aviva's business

Market developments and government actions regarding the sovereign debt crisis in Europe, particularly in Greece, and concerns over the solvency of European banks, particularly in Italy, could have a material adverse effect on our results of operations, financial condition and liquidity.

Continued uncertainty over the outcome of EU and the international financial support programme for Greece, and the possibility that other EU member states may experience similar financial pressures, could disrupt global markets. In particular, any re-emergence Greece's sovereign debt crisis could disrupt equity and fixed income markets, and result in volatile bond yields on the sovereign debt of EU members.

There are concerns over the solvency of some European banks, particularly in Italy, and their resilience to any deterioration in macroeconomic conditions. Possible measures which could be taken by governments to restore the solvency of their banks may breach EU rules or significantly increase sovereign indebtedness, and act as a trigger for a re-emergence of the sovereign debt and banking crisis in Europe, all of which could have a material adverse effect on our financial condition and results of operations.

The issues arising out of a re-emergence of the sovereign debt crisis in Europe may transcend Europe, cause investors to lose confidence in the safety and soundness of European financial institutions and the stability of European member economies, and likewise affect UK and U.S. based financial institutions, the stability of the global financial markets and any economic recovery.

If an EU member state were to default on its obligations or to seek to leave the eurozone, or if the eurozone were broken up entirely, the impact on the financial and currency markets would be significant and could impact materially all financial institutions, including the Group.

Past political negotiations in the United States over raising the U.S. debt ceiling indicate that the risks associated with record levels of government debt and sovereign debt default and the potential adverse impact on global markets which could result from this is not limited to the eurozone. Such events could adversely affect our business, results of operations, financial condition and liquidity.

Credit spread volatility may adversely affect the net unrealised value of our investment portfolio and our results of operations.

Our exposure to credit spreads primarily relates to market price variability associated with changes in credit spreads in our investment portfolio. These are largely held to maturity, so although our financial statements reflect the market value of assets, our priority remains the management of assets and liabilities over the longer term. Credit spread moves may be caused by changes in the perception of the creditworthiness of a company, or from market factors such as the market's risk appetite and liquidity. A widening of credit spreads will generally reduce the value of fixed income securities we hold. Conversely, credit spread tightening will generally increase the value of fixed income securities we hold. It can be difficult to value certain of our securities if trading becomes less liquid. Accordingly, valuations of investments may include assumptions or estimates that may have significant period to period changes that could have a material adverse effect on our consolidated results of operations or financial condition. Downturns in the net unrealised value of our investment portfolio may also have a material adverse effect on our regulatory capital surplus.

Losses due to defaults by counterparties, or changing market perceptions as to the risk of default, including potential sovereign debt defaults or restructurings, could adversely affect the value of our investments and reduce our profitability and shareholders' equity.

We choose to take and manage credit risk through investment assets partly to increase returns to policyholders whose policies the assets back, and partly to optimise the return for shareholders.

We have a significant exposure to third parties that owe us money, securities or other assets, and which may not perform under their payment obligations. These parties include private sector and government (or government-backed) issuers whose debt securities we hold in our investment portfolios (including mortgage-backed, asset-backed, government bonds and other types of securities), borrowers under residential and commercial mortgages and other loans, re-insurers to which we have ceded insurance risks, customers, trading counterparties, and counterparties under swap and other derivative contracts. We also execute transactions with other counterparties in the financial services industry, including brokers and dealers, commercial and investment banks, hedge funds and other investment funds, insurance groups and institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty.

In addition, with respect to secured transactions, our credit risk may be increased when the collateral held by us cannot be realised or is liquidated at prices insufficient to recover the full amount of the loan or other value due. We also have exposure to financial institutions in the form of unsecured debt instruments and derivative transactions. Such losses or impairments to the carrying value of these assets could materially and adversely affect our financial condition and results of operations.

We use reinsurance and hedging programmes to hedge various risks, including certain guaranteed minimum benefits contained in many of our long-term insurance and fund management products. These programmes cannot eliminate all of the risks and no assurance can be given as to the extent to which such programmes will be effective in reducing such risks. We enter into a variety of derivative instruments, including options, forwards, interest rate and currency swaps, with a number of counterparties. Our obligations under our fund management and life products are not changed by our hedging activities and we are liable for our obligations even if our derivative counterparties do not pay us. Defaults by such counterparties could have a material adverse effect on our financial condition and results of operations.

We are also susceptible to an adverse financial outcome from a change in third-party credit standing. As well as having a potential impact on asset values and, as a result, our financial condition and results of operations, credit rating movements can also impact our solvency position where regulatory capital requirements are linked to the credit rating of the investments held. Such movements in the credit standing of third parties could impact on the Group's solvency, profitability and shareholders' equity.

Market risks relating to Aviva's business

Changes in interest rates may cause policyholders to surrender their contracts, reduce the value of our investment portfolio and may have an adverse impact on our asset and liability matching, which could adversely affect our results of operation and financial condition.

Interest rates are highly sensitive to many factors, including governmental, monetary and tax policies, domestic and international economic and political considerations, inflationary factors, fiscal deficits, trade surpluses or deficits, regulatory requirements and other factors beyond our control.

Our exposure to interest rate risk relates primarily to the market price and cash flow variability of assets and liabilities associated with changes in interest rates.

Some of our products, principally traditional participating products, universal life insurance and annuities expose us to the risk that changes in interest rates will reduce our 'spread', or the difference between the amounts that we are required to pay under the contracts and the rate of return we are able to earn on investments intended to support obligations under the contracts. Our spread is a key component of our net income.

As interest rates decrease or remain at low levels, we may be forced to reinvest proceeds from investments that have matured or have been prepaid or sold at lower yields, reducing our investment return. Moreover, borrowers may prepay or redeem the fixed-income securities, commercial mortgages and mortgage-backed securities in our investment portfolio with greater frequency in order to borrow at lower market rates, which increases this risk. Lowering interest crediting or policyholder bonus rates can help offset decreases in investment margins on some products. However, our ability to lower these rates could be limited by competition or by contractually guaranteed minimum rates and may not match the timing or magnitude of changes in asset yields. As a result, our spread could decrease or potentially become negative. Our expectation for future spreads is an important component in the amortisation of policy acquisition costs and significantly lower spreads may cause us to accelerate amortisation, thereby reducing net income in the affected reporting period. In addition, during periods of declining interest rates, the guarantees within existing life insurance and annuity products may be more attractive to consumers, resulting in increased premium payments on products with flexible premium features, and a higher percentage of insurance policies remaining in force from year to year, during a period when our new investments carry lower returns. Accordingly, during periods of declining interest rates, profitability may suffer as the result of a decrease in the spread between interest rates credited to policyholders and returns on our investment portfolio.

Increases in market interest rates could also negatively affect our profitability. This could arise as the accommodative monetary policies of central banks, in particular the US Federal Reserve and the Bank of England, are wound down or stopped. Surrenders of life insurance policies and contracts may increase as policyholders seek higher returns and higher guaranteed minimum returns. Obtaining cash to satisfy these surrenders may require us to liquidate fixed maturity investments at a time when market prices for those assets are depressed which may result in realised investment losses. Regardless of whether we realise an investment loss, these cash payments would result in a decrease in total invested assets, and may decrease our net income. Premature withdrawals may also cause us to accelerate amortisation of policy acquisition costs, which would also reduce our net income.

Our mitigation efforts with respect to interest rate risk are primarily focused on maintaining an investment portfolio with diversified maturities that has a weighted average duration approximately equal to the duration of our estimated liability cash flow profile. However, it may not be possible to hold assets that will provide cash flows to exactly match those relating to policyholder liabilities, in particular in jurisdictions with less developed bond markets and in certain markets where regulated surrender value or maturity values are set with reference to the interest rate environment prevailing at the time of policy issue. This is due to the duration and uncertainty of the liability cash flows and the lack of sufficient assets of suitable duration. This results in a residual asset/liability mismatch risk that can be managed but not eliminated. In addition, our estimate of the liability cash flow profile may be inaccurate for other reasons, such as varying mortality, morbidity or general insurance claims, and we may be forced to liquidate investments prior to maturity at a loss in order to cover the liability. Such a loss could have a material adverse effect on our results of operations and financial condition.

Changes in short or long term inflation may cause policyholders to surrender their contracts, increase the size of our claims payments and expenses and reduce the value of our investments, which could adversely affect our results of operations and financial condition.

We are subject to inflation risk through our holdings of fixed interest and other investments and as a result of the potential for the cost of claims and expenses to rise faster than anticipated in our pricing or reserving. Changes in inflation could also affect the value perceived to be offered by our policies and so adversely affect persistency levels.

Falls in equity or property prices could have an adverse impact on our investment portfolio and impact on our results of operations and shareholders' equity.

We are subject to equity and property price risk due to holdings of equities and investment properties in a variety of locations worldwide. Downturns in equity markets will depress equity prices and have a negative impact on our capital position in that unrealised losses in our net investment portfolio will increase, and our defined benefit pension scheme surplus/deficit will reduce/increase as the market value of scheme assets invested in equities decreases.

Downturns and volatility in equity markets can have a material adverse effect on the revenues and returns from our unit-linked, participating and fund management business. The unit-linked and fund management business depends on fees related primarily to the value of assets under management and would therefore be reduced by declines in equity and property markets. Profit could also be reduced as a result of current investors withdrawing funds or reducing their rates of on-going investment with our fund management companies, or switching to lower risk funds generating lower income, or as a result of our fund management companies failing to attract funds from new investors. Similarly, bonuses credited to participating policyholders will reduce following declines in equity and property markets and this will generally also lead to reductions in transfers to shareholders.

Downturns in equity markets may also have a material adverse effect on our regulatory capital surplus as measured under the EU Solvency II Insurance Directive.

We provide certain guarantees within some of our products that protect policyholders against significant downturns in the equity markets. In volatile or declining equity market conditions, we may need to increase liabilities for future policy benefits and policyholder account balances, negatively affecting net income.

For property investment, we are subject to counterparty, valuation and liquidity risks. These investments may be adversely affected by weakness in property markets and increased mortgage delinquencies. We are also subject to property risk indirectly in our investments in residential mortgage-backed securities and commercial mortgage-backed securities and covered bonds. There is the risk that the underlying collateral may fall in value causing the investment in securities to fall in value. The markets for these property investments and instruments can become illiquid, and issues relating to counterparty credit ratings and other factors may increase pricing and valuation uncertainties. We are also indirectly exposed to property risk through our UK commercial finance lending. The fall in prices of any such investments due to such risks could adversely affect our results of operations, shareholders' equity and financial condition.

Fluctuations in currency exchange rates may adversely affect our results of operations and financial condition.
We operate internationally and are exposed to foreign currency exchange risk arising from fluctuations in exchange rates of various currencies. For the year ended 31 December 2016, approximately 63% of our premium income from continuing operations arose in currencies other than sterling, and our net assets were denominated in a variety of currencies, of which the largest are the euro, sterling and Canadian dollar. In managing our foreign currency exposures, we do not hedge revenues as these are substantially retained locally to support the growth of the business and meet local regulatory and market requirements. Nevertheless, the effect of exchange rate fluctuations on local operating results could lead to significant fluctuations in our consolidated financial statements upon translation of the results into sterling. Although we take certain actions to address this risk, foreign currency exchange rate fluctuation could materially adversely affect our reported results due to unhedged positions or the failure of hedges to effectively offset the impact of the foreign currency exchange rate fluctuation. Any adverse foreign currency exchange fluctuation may also have a material adverse effect on our regulatory capital surplus based on the EU Solvency II Insurance Directive.

Market fluctuations may cause the value of options and guarantees embedded in some of our life insurance products to exceed the value of the assets backing their reserves, which could adversely affect our results of operations or financial condition.
As a normal part of their operating activities, various Group companies have given guarantees and options, including interest rate and investment return guarantees, in respect of certain long-term insurance and fund management products. In providing these guarantees and options, our capital position is sensitive to fluctuations in financial variables, including foreign currency exchange rates, interest rates, property values and equity prices.

Interest rate guaranteed returns, such as those available on guaranteed annuity options ('GAOs'), are sensitive to interest rates falling below the guaranteed level. Other guarantees, such as maturity value guarantees and guarantees in relation to minimum rates of return, are sensitive to fluctuations in the investment return below the level assumed when the guarantee was made.

Periods of significant and sustained downturns in equity markets, increased equity volatility or reduced interest rates could result in an increase in the valuation of the future policy benefits or policyholder account balance liabilities associated with such products, resulting in a reduction to net income. We use reinsurance and derivative instruments to mitigate some of the liability exposure and the volatility of net income associated with these liabilities, and while we believe that these and other actions mitigate the risks related to these benefit, we remain liable for the guaranteed benefit in the event that reinsurers or derivative counterparties are unable or unwilling to pay.

We are also subject to the risk that the cost of hedging these guaranteed minimum benefit increases, resulting in a reduction to net income. In addition, we are subject to the risk that unanticipated policyholder behaviour or mortality, combined with adverse market events, produces economic losses beyond the scope of the risk management techniques employed. These, individually or collectively, may have a material adverse effect on our results of operations, financial condition or liquidity.

Asset management risks relating to Aviva's business

Our fund management business may be affected by the poor investment performance of the funds we manage
Poor investment returns in our investment management business, due either to general market conditions or underperformance (relative to competitors or to benchmarks) by funds or accounts that we manage, may adversely affect our ability to retain existing assets and to attract new clients or additional assets from existing clients. The ability of our investment team to deliver strong investment performance depends in large part on our ability to identify appropriate investment opportunities in which to invest client assets. If the investment team for any of our strategies is unable to identify sufficient appropriate investment opportunities for existing and new client assets on a timely basis, the investment performance of the strategy could be adversely affected. The risk that sufficient appropriate investment opportunities may be unavailable is influenced by a number of factors, including general market conditions. This could adversely affect the management and incentive fees that we earn on assets under management and our results of operations.

Failure to comply with client contractual requirements and/or guidelines could result in damage awards against us and our fund management operations and loss of revenues due to client terminations.
When clients retain us to manage assets on their behalf, we must comply with contractual obligations and guidelines agreed with such clients in the provision of our services. A failure to comply with these guidelines or contractual requirements could result in damage to our reputation or in our clients seeking to recover losses, withdrawing their funds or terminating their contracts, any of which could cause our revenues and earnings to decline.

Failure to manage risks in operating securities lending of Group and third party client assets could adversely affect our results of operations and financial condition and for our fund management operations lead to a loss of clients and a decline in revenues and liquidity.
In operating securities lending of Group and third party client assets, our fund management operations must manage risks associated with (i) ensuring that the value of the collateral held against the securities on loan does not decline in value or become illiquid and that its nature and value complies with regulatory requirements and investment requirements; (ii) the potential that a borrower defaults or does not return a loaned security on a timely basis; and (iii) errors in the settlement of securities, daily mark-to-market valuations and collateral collection. The failure of our fund management controls to mitigate these risks could result in financial losses for us and third party clients that participate in our securities lending programmes.

Liquidity risks relating to Aviva's business

Adverse capital and credit market conditions may adversely affect our financial flexibility in addressing liquidity needs, as well as access to and the cost of capital which could adversely affect our results of operations or financial condition.
At Group level, we need some of our invested assets to be liquid to pay our operating expenses, taxes, interest on our debt, dividends on our capital stock and to repay maturing debt. At an operational level we also need liquidity and sufficient cash flow sources to meet insurance claims. Without sufficient

liquidity, we could be forced to curtail our operations and our business would suffer. The principal sources of our liquidity are insurance premiums, annuity considerations, deposit funds and cash flow from our investment portfolio and assets, consisting mainly of cash or assets that are readily convertible into cash. Sources of liquidity in normal markets also include a variety of short and long-term instruments, including repurchase agreements, commercial paper, medium and long-term debt, junior subordinated debt, securities, capital securities and stockholders' equity.

We hold certain investments that may lack liquidity such as commercial mortgages, real estate, privately placed fixed-maturity securities, and unlisted equities. The valuations of such assets are based on inputs which are not directly observable in the market. The inputs used reflect the assumptions that we consider market participants would normally use based on a combination of independent third party evidence and internally developed models, intended to be calibrated to market observable data where possible. These are known as Level 3 asset classes in our fair value hierarchy and represented 15.8% of total financial assets and investment properties held at fair value as of 31 December 2016. Even some higher-quality assets may become more illiquid as has been experienced in challenging market conditions in the past.

The reported value of our relatively illiquid types of investments, our investments in the asset classes described in the paragraph above and, at times, our higher-quality, generally liquid asset classes, do not necessarily reflect the lowest current market price for the asset. If we were forced to sell certain of our assets in the current market, there can be no certainty that we would be able to sell them for the prices at which we have recorded them and we may be forced to sell them at significantly lower prices.

We may refinance existing financing arrangements and may, in exceptional circumstances, need to seek additional financing to supplement liquidity available from internal resources. The availability of additional financing will depend on a variety of factors such as market conditions, the general availability of credit, the overall availability of credit to the financial services industry and the market's perception of our financial condition. Disruptions and uncertainty or volatility in the capital and credit markets, as has been experienced in the past, in particular throughout the eurozone, may exert downward pressure on availability of liquidity and credit capacity for certain issuers and, if access to liquidity is constrained for a prolonged period of time, may limit our access to capital required to operate and grow our business at a sustainable cost. Adverse market conditions may limit our ability to replace, in a timely manner, maturing debt, satisfy statutory capital requirements and generate fee income and market related revenue to meet liquidity needs.

As such, we may be forced to reduce our dividends, defer interest payments or redemptions, delay raising capital, issue shorter-term securities than we prefer, or bear an unattractive cost of capital which could decrease profitability and reduce financial flexibility. Our results of operations, financial condition and cash flows could be materially adversely affected.

As a holding company, Aviva plc is dependent over the medium to long term on its operating subsidiaries to cover operating expenses and dividend payments.

As a holding company, Aviva plc has no substantial operations of its own. Its principal sources of funding are dividends from subsidiaries, shareholder-backed funds and any amounts that may be raised through the issuance of debt and commercial paper. Our insurance and fund management operations are generally conducted through direct and indirect subsidiaries. Certain subsidiaries have regulatory restrictions that may limit the payment of dividends and could prompt a decision to inject capital, which in some more adverse circumstances and over the longer term could limit our ability to pay dividends to shareholders. In the future, following completion of the UK's negotiations to withdraw from the EU, such restrictions imposed by local EU supervisors on dividend payments to Group, by which time would be a non-EU parent, might increase. This could have a material adverse impact on our business.

Any restrictions on the transferability and fungibility of capital between subsidiaries and Aviva plc may result in restrictions to Group Solvency II Own Funds recognised to the extent these funds cannot be made available to Aviva plc within nine months and thus adversely impact the Group's solvency position.

Insurance risks relating to Aviva's business

The cyclical nature of the insurance industry may cause fluctuations in our results.

Historically, the insurance industry has been cyclical and operating results of insurers have fluctuated because of volatile and sometimes unpredictable developments, many of which are beyond the direct control of any insurer. Although we have a geographically diverse group of businesses providing a wide range of products, we expect to experience the effects of this cyclical nature, including changes in sales and premium levels. The unpredictability and competitive nature of the general insurance business has contributed historically to significant quarter-to-quarter and year-to-year fluctuations in underwriting results and net earnings.

The use of inaccurate assumptions in pricing and reserving for insurance business may have an adverse effect on our business profitability.

Our life insurance companies are required to make a number of assumptions in relation to the business written, including the mortality and morbidity rates of our customers (the proportion of customers dying or falling sick or recovering from illness), the development of interest rates, persistency rates (the proportion of customers retaining existing policies and continuing to pay premiums up to their maturity dates), the exercise by customers of options included within their policies and future levels of expenses. By their nature, these assumptions may prove to be incorrect.

When establishing their liabilities, our life insurance companies allow for changes in the assumptions made, monitor their experience against the actuarial assumptions used and assess the information gathered to refine their long-term assumptions, together with taking actual claims experience into account. However, it is not possible to determine precisely the total amounts that will ultimately be paid under the policies written by the business as amounts may vary from estimates. Changes in assumptions may also lead to changes in the level of capital required to be maintained, meaning that we may need to increase the amount of our reserves. This could have a material adverse impact on our value, the results of our operations and financial condition.

Additionally, our management of the general insurance business requires the general insurance companies to make a number of assumptions in relation to the business written. These assumptions include the costs of writing the business and settling claims, and the frequency and severity of claims. The assumptions may turn out to be incorrect, thereby adversely impacting on our profit. Additionally, man-made disasters, including accidents and intentional events, are particularly difficult to predict with a high degree of accuracy. These would also have an adverse impact on our profit due to higher than expected claims.

Furthermore, outstanding claims provisions for the general insurance business are based on the best-estimate ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with related claims handling costs. Any provisions for re-opened claims are also included. A range of methods, including stochastic projections, may be used to determine these provisions. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement pattern of claims.

If the assumptions underlying the reserving basis were to prove incorrect, we might have to increase the amount of the general insurance provisions, which would adversely impact our financial condition or results of operations.

In the UK, lump sum payments in settlement of bodily injury claims decided by the UK courts are calculated in accordance with the Ogden Tables. The Ogden Tables contain a discount rate that is set by the Lord Chancellor and that is applied when calculating the present value of loss of earnings for claims settlement purposes. On 27 February 2017, the Lord Chancellor announced that the discount rate will be reduced from 2.5% to minus 0.75% with effect from 20 March 2017. The impact of the change in the discount rate on IFRS shareholders' equity at 31 December 2016 is £380 million.

The Lord Chancellor has also announced that the framework for setting this discount rate is also under review and a public consultation will be launched before the end of April 2017.

The timing of the conclusion of this review and its outcome and impact on future Ogden discount rates is unclear.

We have a significant exposure to annuity business and a significant life insurance risk is associated with longevity.
Longevity statistics are monitored in detail, compared with emerging industry trends, and the results are used to inform both the reserving and pricing of annuities. It is likely that uncertainty will remain in the development of future longevity that cannot be mitigated.

A strengthening in the longevity assumption, either to reflect changes in the underlying life expectancy (for example, as a result of healthier lifestyles, improved screening programmes or increased availability or effectiveness of medical treatments) of the population or of our particular portfolio used to calculate our long-term business liabilities, would result in an increase in these reserves and reduce shareholders' equity.

If our business does not perform well or if actual experience versus management estimates used in valuing and amortising Deferred Acquisition Costs ('DAC') and Acquired value of in-force business ('AVIF') varies significantly, we may be required to accelerate the amortisation and/or impair the DAC and AVIF which could adversely affect the results of operations or financial condition.
We incur significant costs in connection with acquiring new and renewal business. Those costs that vary with and are driven by the production of new and renewal business are deferred and referred to as DAC. The recovery of DAC is dependent upon the future expected profitability of the related business. The amount of future profit or margin is dependent principally on expected investment returns in excess of the amounts credited to policyholders, mortality, morbidity, persistency, general insurance underwriting profit and expenses to administer the business. Of these factors, investment margins and general insurance underwriting profit are most likely to impact the rate of amortisation of such costs. The aforementioned factors enter into management's estimates of gross profit or margins, which generally are used to amortise such costs. If the estimates of gross profit or margins were overstated, then the amortisation of such costs would be accelerated in the period the actual amount is known and would result in a charge to income. Significant or sustained equity market declines could result in an acceleration of amortisation of the DAC related to unit-linked business, resulting in a charge to income. Such adjustments could have a material adverse effect on the results of operations or financial condition.

AVIF reflects the estimated present value of future profit that will emerge over the remaining life of certain in-force contracts in a life insurance company, acquired either directly or through the purchase of a subsidiary, associate or joint venture, and represents the portion of the purchase price that is allocated to the value of the right to receive future cash flows from the insurance and investment contracts in-force at the acquisition date. AVIF is based on actuarially determined projections. Actual experience may vary from the projections. Revisions to estimates result in changes to the amounts expensed in the reporting period in which the revisions are made and could result in impairment and a charge to net income. Such adjustments could have an adverse effect on our results of operations or financial condition.

Catastrophic events, which are often unpredictable by nature, could result in material losses and abruptly and significantly interrupt our business activities and results of operations.
Our business is exposed to volatile natural and man-made disasters such as pandemics, hurricanes, windstorms, earthquakes, terrorism, riots, fires and explosions. Such events may not only affect insurance claims, but could also adversely impact investment markets and cause declines in the value of our investment portfolio. Over the past several years, changing weather patterns and climatic conditions have added to the unpredictability and frequency of natural disasters in certain parts of the world and created additional uncertainty as to future trends and exposure.

Our life insurance operations are exposed to the risk of catastrophic mortality, such as a pandemic or other event that causes a large number of deaths. The effectiveness of external parties, including governmental and non-governmental organisations, in combating the spread and severity of such a pandemic could have a material impact on the losses experienced by us.

The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Most catastrophes are restricted to small geographic areas; however, pandemics, hurricanes, earthquakes and man-made catastrophes may produce significant damage in larger areas, especially those that are heavily populated. Catastrophic events could also harm the financial condition of our reinsurers and thereby increase the probability of default on reinsurance recoveries and could also reduce our ability to write new business. Furthermore, pandemics, natural disasters, terrorism and fires could disrupt our operations and result in significant loss of property, key personnel and information about our clients and our business if our business continuity plans fail to cope with the scale or nature of the catastrophe. Such events could adversely affect our business, results of operations, corporate reputation and financial condition for a substantial period of time.

Furthermore, market conditions beyond our control determine the availability and cost of the reinsurance protection we purchase. Accordingly, we may be forced to incur additional expenses for reinsurance or may not be able to obtain sufficient reinsurance on acceptable terms, which could adversely affect our ability to write future business.

Operational risks relating to Aviva's business

All of our businesses are subject to operational risks, including the risk of direct or indirect loss resulting from inadequate or failed internal and external processes, systems and human error or from malicious acts by third parties or external events.
Our business is dependent on processing a large number of complex transactions across numerous and diverse products.

Furthermore, the long-term nature of the majority of our business means that accurate records have to be maintained for significant periods.

Our systems and processes on which we are dependent to serve our customers are designed to identify appropriately and address the operational risks associated with our activities. However, they may nonetheless fail due to IT malfunctions, human error, intentional disruption through the hacking of our IT systems, phishing attacks, or planting of malware by third parties or by other means, business interruptions, non-performance by third parties or other external events and failure of disaster recovery arrangements. This could disrupt business operations resulting in material reputational damage and the loss of customers, and have a consequent material adverse effect on our results of operations and financial condition. Although we have taken steps to upgrade systems and processes to reduce these operational risks, we cannot anticipate the details or timing of all possible operational and systems failures which may adversely impact our business. The increasing sophistication of cyber criminals and the importance of digital interaction with our customers to our strategy means the inherent risk of failure of our operations due to the malicious acts of third parties is expected to increase.

Our businesses are exposed to risk from potential non-compliance with policies, employee misconduct or negligence and fraud, which could result in regulatory sanctions and serious reputational or financial harm. In recent years, a number of multinational financial institutions have suffered material losses due to the actions of "rogue traders" or other employees. It is not always possible to completely deter employee misconduct, and the precautions we take to prevent and detect this activity may not always be effective.

Our risk management methods may leave us exposed to unidentified, unanticipated or incorrectly quantified risks, which could lead to material losses or material increases in liabilities. In particular, our risk mitigation strategies may prove less effective than anticipated, including in relation to our reinsurance arrangements.

We have in place risk management policies, procedures and assessment methods to identify, assess and control risks to avoid or limit potential losses or liabilities. However, such policies, procedures and assessment methods may not be fully effective in identifying and mitigating the risk exposure of such businesses in all market environments or against all types of risk. Unanticipated or incorrectly quantified risk exposures and/or inadequate or incorrect responses to these risk exposures could result in a material adverse effect on our business, results of operations and/or financial condition.

We employ a range of risk mitigation strategies including the use of equity, interest rate and credit derivatives and reinsurance arrangements to reduce market, credit and insurance risk. A range of different modelling approaches are used to derive and evaluate the strategies adopted. The breakdown of the assumptions used in these modelling approaches, which may occur during market dislocations, could cause these risk mitigation strategies to be less effective than anticipated and thereby adversely affect our financial condition and results of operations.

We currently use the reinsurance markets primarily to limit our risk, to support growth and to manage our capital more efficiently. We are exposed to concentrations of risk with individual reinsurers due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings. We operate a policy to manage our reinsurance counterparty exposures, by limiting the reinsurers that may be used and applying strict limits to each reinsurer. Reinsurance exposures are aggregated with other exposures to ensure that the overall counterparty risk is within appetite. Our asset and liability management and risk functions have an active monitoring role with escalation to the Chief Financial Officer, the Group's asset liability committee and the Board's risk committee as appropriate. Our largest reinsurance counterparty is BlackRock Life Ltd (including subsidiaries) arising as a result of BlackRock funds offered to UK Life customers via unit-linked contracts. At 31 December 2016, the reinsurance asset recoverable, including debtor balances, from BlackRock Life Ltd was £17,087 million. While the risk of default is considered remote due to the nature of the arrangement and the counterparty, the Group is in the process of restructuring the agreements with BlackRock Life Ltd to significantly reduce this exposure. Excluding potential exposures arising from reinsurance of unit-linked funds, our largest reinsurance counterparty is Swiss Reinsurance Company Ltd. At 31 December 2016, the reinsurance asset recoverable, including debtor balances, from Swiss Reinsurance Company Ltd (including subsidiaries) was £3,035 million.

Reductions in risk appetite among reinsurers may result in changes in price or willingness to reinsure certain risks, which could have a material adverse effect on our results of operations or financial condition. If reinsurers do not offer to renew their products and services, in whole or in part, for any reason, there is a risk that we may be unable to procure replacement cover for any reinsurance agreements terminated at rates equivalent to those of the terminated cover, or at all, and we may be exposed to un-reinsured losses during any interim period between termination of the existing agreements and the start of any replacement cover.

While reinsurance makes the assuming reinsurer liable to the Group to the extent of the risk ceded, it does not discharge us from our primary obligation to pay under an insurance policy for losses incurred. We are therefore subject to credit risk with respect to our current and future reinsurers. The insolvency of any reinsurers or their inability or refusal to pay claims under the terms of any of their agreements with us could therefore have a material adverse effect on the Group. Collectability of reinsurance is largely a function of the solvency of reinsurers. Significant reinsurance purchases are reviewed annually by us to verify that the levels of protection being bought reflect any developments in exposure and our risk appetite.

There is a risk that customer data could be stolen, lost or misused.

As a financial services group, we maintain significant amounts of sensitive customer data. Despite the controls put in place, there remains a risk that this data could be stolen, lost and or misused as a result of an intentional or unintentional act by parties internal or external to us, including through the hacking of our IT systems and failure to adequately encrypt data. This could result in fines, the need to compensate customers, the cost of remediation and a negative impact on our reputation with the consequential impact on sales volumes, persistency levels, and third party managed funds, and hence adversely impact our results of operations.

We operate in several markets through arrangements with third parties, and this may expose us to additional risks.

Our ability to exercise management control or influence over our partnership operations, our joint ventures and our investment in them depends on the terms of the legal agreements. In particular, the relationships depend on the allocation of control among, and continued co-operation between, the participants.

We may also face financial or other exposure in the event that any of our partners fail to meet their obligations under their partnership agreements or encounter financial difficulty. Partnership agreements may also be terminated on certain dates or subject to certain conditions and could be subject to renewal on less favourable terms. In addition, a significant proportion of our product distribution, such as bancassurance, is carried out through arrangements with third parties not controlled by us and is dependent upon the continuation of these relationships. A temporary or permanent disruption to these distribution arrangements could affect our financial condition. Some of these arrangements require our third-party partners to participate in and provide capital to our joint venture, associate and subsidiary undertakings. Our partners may change their strategic priorities or encounter financial difficulties preventing them from providing the necessary capital to promote future growth.

In addition, we outsource certain customer service, technology and legacy policy administration functions to third parties and may do so increasingly in the future. If we do not effectively develop, implement and maintain our outsourcing strategy, third-party providers do not perform as anticipated or we experience technological or other problems with a transition to or between such providers, we may not realise the full extent of productivity improvements or administration and cost efficiencies and, as a result, may experience operational difficulties, increased costs and a loss of business. In particular, failings by our outsource partners to perform outsourced functions, or to perform them to the required standards, may adversely affect our reputation and lead to the loss of customers and operating profit or to regulatory fines.

Our fund management operation depends on a number of key vendors, for various fund administration, accounting, valuations, custody and transfer agent roles and other operational needs. The failure or inability to diversify sources for key services or the failure of any key vendors to fulfil their obligations could lead to operational issues for us and in certain products, which could result in financial losses for our clients and impact our results of operations.

The failure to attract or retain the necessary personnel, or to keep existing personnel's skills up to date and in line with our strategy, could have a material adverse effect on our results of operations and/or our businesses.

As an international financial services organisation with a decentralised management structure, we rely to a considerable extent on the quality of local management in the countries in which we operate. The success of our operations is dependent, among other things, on our ability to attract and retain highly qualified professional employees. Competition for such key employees is intense. Our ability to attract and retain key employees is dependent on a number of factors, including prevailing market conditions, working environment and compensation packages offered by companies competing for the same talent. This may be affected by any change to the freedom of movement of UK and other EU citizens between the UK and other EU countries.

There are inherent funding risks associated with our participation in defined benefit staff pension schemes.

We operate both defined benefit and defined contribution staff pension schemes. In the UK, we operate three main pension schemes: the Aviva Staff Pension Scheme ('ASPS'), the Friends Provident Pension Scheme ('FPPS') and the RAC (2003) Pension Scheme. The defined benefit section of the ASPS was closed to new members in 2002 other than on an exceptional basis, and closed to future accruals for all existing members from 1 April 2011. The FPPS has been closed to new members since July 2007 and closed to active membership on 31 December 2012. The defined benefit section of the RAC (2003) Pension Scheme was also closed to new members and closed to future accrual in April 2011.

Closure of the defined benefit schemes removes some of the volatility associated with additional future accrual for active members.

There are still inherent funding risks associated with the defined benefit schemes. Events could result in a material reduction in the funding position of such schemes and may result in a materially increased deficit between the pension scheme's assets and liabilities. The factors that affect the scheme's position include: poor performance of pension fund investments; greater life expectancy than assumed; adverse changes in interest rates or inflation or discount rates; and other events occurring that increase the costs of past service benefits over the amounts predicted in the actuarial assumptions. In the short term, the funding position is inherently volatile due to movements in the market value of assets. Where a funding deficit or surplus arises, the position will be discussed with the scheme trustees to agree appropriate actions. This may include a plan to fund the deficit over a period of years. Any surplus or deficit in the defined benefit pension scheme will affect shareholders' equity, although the IFRS position may diverge from the scheme funding position.

The UK pension schemes are subject to statutory requirements with regards to funding and other matters relating to the administration of the schemes. Compliance with these requirements is subject to regular review. A determination that we have failed to comply with applicable regulations could have an adverse impact on our results of operations or our relationship with current and potential contributors and employees, and adverse publicity.

The determination of the amount of allowances and impairments taken on our investments is highly subjective. Our process for valuing investments may include methodologies, estimations and assumptions which require judgement and could result in changes to investment valuations. If our business does not perform well, we may be required to recognise an impairment of our goodwill or intangibles with indefinite and finite useful lives, which could adversely affect our results of operations or financial condition.

The determination of the amount of allowances and impairments varies by investment type and is based upon our periodic evaluation and assessment of known risks associated with the respective asset class. Such evaluations and assessments are revised as conditions change and new information becomes available and additional impairments may need to be taken or allowances provided for in the future. If the carrying value of an investment is greater than the recoverable amount, the carrying value is reduced through a charge to the income statement in the period of impairment. There can be no assurance that management has accurately assessed the level of impairments taken and allowances reflected in our financial statements.

We value our fair value securities using designated methodologies, estimations and assumptions. These securities, which are reported at fair value on the consolidated statement of financial position, represent the majority of our total cash and invested assets. We have categorised the measurement basis for assets carried at fair value into a 'fair value hierarchy' in accordance with the valuation inputs and consistent with IFRS 13: Fair Value Measurement. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1); the middle priority to fair values other than quoted prices based on observable market information (Level 2); and the lowest priority to unobservable inputs that reflect the assumptions that we consider market participants would normally use (Level 3). The majority of our financial assets are valued based on quoted market information (Level 1) or observable market data (Level 2). At 31 December

2016, 15.8% of total financial investments, loans and investment properties at fair value were classified as Level 3, amounting to £54.0 million. Where estimates were used for inputs to Level 3 fair values, these were based on a combination of independent third-party evidence and internally developed models, intended to be calibrated to market observable data where possible.

An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to our valuation.

Goodwill represents the excess of the amounts paid to acquire subsidiaries and other businesses over the fair value of their net assets at the date of acquisition. We test goodwill and intangible assets with indefinite useful lives at least annually for impairment or when circumstances or events indicate there may be uncertainty over this value. We test intangibles with finite lives when circumstances or events indicate there may be uncertainty over this value. For impairment testing, goodwill and intangibles have been allocated to cash-generating unit by geographical reporting unit and business segment.

The fair value of the reporting unit is impacted by the performance of the business. Goodwill, negative unallocated divisible surplus and indefinite life intangibles are written down for impairment where the recoverable amount is insufficient to support our carrying value. Such write downs could have a material adverse effect on our results of operations or financial condition.

Systems errors or regulatory changes may affect the calculation of unit prices or deduction of charges for unit-linked products which may require us to compensate customers retrospectively.

A significant proportion of our product sales are unit-linked contracts, where product benefit are linked to the prices of underlying unit funds. While comprehensive controls are in place, there is a risk of error in the calculation of the prices of these funds due to human error in data entry, IT-related issues or other causes. Additionally, it is possible that policy charges which are deducted from these contracts are taken incorrectly, or the methodology is subsequently challenged by policyholders or regulators and changed retrospectively. Any of these can give rise to compensation payments to customers. Controls are in place to mitigate these risks, but errors could give rise to future liabilities. Payments due to errors or compensation may negatively impact our results of operations or financial condition.

Moves to simplify the operating structure and activities of the Group increases the reliance placed on core businesses and is subject to execution risk.

As part of our move to a more simplified structure, a number of business disposals, operating entity mergers and operational restructures have taken place, and may continue to occur in the future. This includes the potential sale of a number of non-core businesses. These changes are intended to reduce the operational costs of the Group and allow resources to be re-deployed in more capital efficient businesses. There is a risk that these expected benefits may not be realised. These changes may reduce operating profit in the short-term and will lead to changes in the geographical and product risk profile of the Group. The execution risk including the risks relating to securing the necessary regulatory approvals, could result in the failure to achieve cost savings, the loss of key staff, and disruption to core business activities and governance structures which could have a material adverse effect on our business, results of operations and financial condition.

The proceeds received from disposals may not reflect the values that management believes are achievable and/or may cause substantial accounting losses (particularly if the disposals are done in difficult market conditions), each of which may result in our failure to realise the anticipated benefits and gains from any such disposal. In addition, disposals of businesses, which may be cash generative and profitable, may adversely affect our short term cash flows until the medium to long term strategic benefits of such disposals are realised, as well as gives rise to a corresponding potential impact on capital requirements and liquidity. Preparation of businesses for disposal, and the disposal process more generally, may divert management time and attention away from the operation of the business in the ordinary course and may be disruptive to the business. We retain a residual exposure in respect of disposed business as a result of any representations, warranties or indemnities provided.

Execution risk is inherent in the completion of all strategic transactions. Such risks include uncertainty in relation to obtaining the required regulatory approvals on satisfactory terms for the change of control envisaged by such transactions. Such execution risk gives rise to a corresponding potential impact on capital requirements and liquidity.

We are reliant on IT systems and there are risks that our current and legacy systems cannot be made to adapt to growth in the business or new styles of doing business.

Key IT initiatives may not deliver what is required either on time or within budget or provide the performance levels required to support the current and future needs of the business. Significant resources are devoted to maintaining and developing IT systems to keep pace with developments within the insurance and fund management industries and to maintain service levels and availability at acceptable levels. Failure to do so could result in the inability to gather information for pricing, underwriting and reserving, to attract and retain customers or meet regulatory requirements or only to do so at excessive cost.

Risk relating to the execution of our strategy, and corporate disposals and acquisitions

Our acquisitions and other corporate transactions may not realise expected benefits and may divert management attention and other resources and involve risks of undisclosed liabilities and integration issues.

In past years, we have completed a number of acquisitions. In 2015 the Group acquired Friends Life Group together with its subsidiary undertakings and in 2016 the Group acquired RBC General Insurance Company and the Group may undertake further acquisitions in the future. Growth by acquisition involves risks that could adversely affect our operating results, including the substantial amount of management time and other resources that may be diverted from operations to pursue and complete acquisitions, or risks of undisclosed liabilities or integration or separation issues. The integration of any future acquisition may not be successful or in line with our expectations and any acquired businesses may fail to achieve, in the near or long term, the financial results projected or the strategic objectives of the relevant acquisition (such as cost savings or synergies) and, once acquired, may continue to divert further management attention and resources or necessitate changes in group strategy. The inability to realise expected benefits from such transactions may adversely affect our results of operations.

The implementation of our strategy may not proceed as expected.

Our strategy, which may be revised from time to time, may involve carrying on business in new markets, developing capabilities to carry out new business activities, expanding or reducing the scope of certain types of business activity or products and reorganising the Group in a manner which is appropriate for such business development changes, taking into account legal, regulatory, operational, capital and other requirements. The implementation of any strategy, changes in strategy, adoption of any new strategy and/or entry into new markets could entail significant changes in our business which may entail higher levels of risk or could adversely affect the results of operations, the financial condition and/or the credit and financial strength ratings of the Group.

We may be unable to execute, or may encounter difficulties or delays in successfully executing, our business and strategic goals which are subject to the risks set out herein and other factors that are currently unforeseen and which may be beyond their control. Failure to achieve any or all strategic goals, or the encounter of undue delay or unforeseen costs in implementing such goals, could adversely affect our results of operations and financial condition, as well as our reputation and standing in the marketplace.

Brand and reputation risks relating to Aviva's business

We are rated by several rating agencies, and a decline in any of these ratings could affect our standing among customers, broker-dealers, agents, wholesalers and other distributors of our products and services and cause our sales and earnings to decrease.

A rating downgrade, or the perceived potential for such a downgrade, of Aviva plc or any of our rated insurance subsidiaries may, among other things, materially increase the number of policy surrenders and withdrawals by policyholders of cash values from their policies. The outcome of such activities may be cash payments requiring the sale of invested assets, including illiquid assets, at a price that may result in realised investment losses. These cash payments to policyholders would result in a decrease in total invested assets and a decrease in net income. Among other things, early withdrawals may also cause us to accelerate amortisation of policy acquisition costs, which would reduce net income. A rating downgrade may also impact sales volumes, particularly in Canada, where there is more focus by brokers on ratings when evaluating similar products. The ratings provided by AM Best and Standard & Poor's ('S&P') are considered to be the most important for distribution in Canada, and a downgrade could lead to a significant loss of sales and could lead to the termination of some distribution agreements. A significant rating downgrade may also increase our cost of borrowing or limit our access to some forms of financing.

We are dependent on the strength of our brand, the brands of our partners and our reputation with customers and agents in the sale of our products and services.

Our results are, to a certain extent, dependent on the strength of our brand and reputation. While we are well recognised, we are vulnerable to adverse market and customer perception. We operate in an industry where integrity, customer trust and confidence are paramount. We are exposed to the risk that litigation, employee misconduct, operational failures, the outcome of regulatory investigations, press speculation and negative publicity, disclosure of confidential client information, inadequate services, amongst others, whether true or not, could impact our brand or reputation. Our brand and reputation could also be affected if products or services recommended by us (or any of our intermediaries) do not perform as expected (whether or not the expectations are founded) or in line with the customers' expectations for the product range. Such a change to our brand strength could adversely affect our results of operations and financial condition.

We may not be able to protect our intellectual property and may be subject to infringement claims by a third party.

Our primary brand in the UK ('Aviva') is a registered trade mark in the UK and elsewhere. We own and trade under other registered or pending trade marks in the UK and elsewhere (such as Friends Provident, General Accident and Quotemehappy), including Community trade marks having effect in the entire EU. We rely on a combination of contractual rights, copyright and trademark laws to establish and protect our intellectual property. Although we use a broad range of measures to protect our intellectual property rights, third parties may infringe or misappropriate our intellectual property. The loss of intellectual property protection or the inability to secure or enforce the protection of our intellectual property assets could have a material adverse effect on our business and our ability to compete.

Third parties may have, or may eventually be issued, patents or other protections that could be infringed by our products, methods, processes or services or could limit our ability to offer certain product features. In recent years, there has been increasing intellectual property litigation in the financial services industry challenging, among other things, product designs and business processes. If a third party were to successfully assert an intellectual property infringement claim against us, or if we were otherwise precluded from offering certain features or designs, or utilising certain processes, it could have a material effect on our business, results of operations and financial condition.

Our businesses are conducted in highly competitive environments.

There are many factors which affect our ability to sell our products, including fiscal incentives, price and yields offered, financial strength and ratings, range of product lines and product quality, brand strength and name recognition, service levels to customers, fund management performance and historical bonus levels. In some of our markets, we face competitors that are comparable in size, scope and brand recognition. In some markets, competitors have greater financial resources or greater market share, offer a broader range of products, benefit from more advantageous tax treatments, or have higher bonus rates or claims paying ratios. Further, heightened competition for talented and skilled employees with local experience, particularly in the emerging, high growth markets, may limit our ability to grow businesses as quickly as planned. In certain non-UK markets, we face intense competition from local and international financial institutions, which may be more established in these markets and may have other competitive advantages, such as greater size and breadth, which may limit our ability to be successful in these markets. In addition, local laws and regulations may be tailored to domestic providers, which may pose additional challenges to our business.

Our principal competitors in the life market include many of the major financial services businesses including, in particular, Axa, Allianz, CNP, Generali, Prudential, Legal & General, Standard Life, Unum and Zurich. Our principal competitors in the general insurance market include Direct Line Insurance, Intact, RSA, Zurich, Axa and Allianz. Our principal competitors in the fund management market include BlackRock, State Street Global, Fidelity Investments, Schroders and Aberdeen, as well as the fund management divisions of our principal competitors in the life market.

We also face competitors who specialise in many of the niche markets in which we operate. We believe that competition will intensify across all regions in response to consumer demand, technological advances, the impact of consolidation, regulatory actions and other factors.

Our ability to generate an appropriate return depends significantly upon our capacity to anticipate and respond appropriately to these competitive pressures.

Regulatory and legislative risks relating to our businesses

Our regulated business is subject to extensive regulatory supervision both in the UK and internationally.

We are subject to extensive laws and regulations that are administered and enforced by a number of different governmental authorities and non-governmental agencies, including the PRA, the FCA and other regulators. These authorities may seek to exercise their supervisory or enforcement authority in new or more robust ways. All of these possibilities, if they occurred, could affect the way we conduct our business and manage our capital, and may require us to satisfy increased capital requirements.

Insurance regulation in the UK and our European subsidiaries is largely based on the requirements of EU directives. Inconsistent application of directives by regulators in different EU member states may place us at a competitive disadvantage to other European financial services groups. In addition, changes in the local regulatory regimes of designated territories could affect the calculation of our solvency position. While the UK negotiates its new relationship with the EU, there will remain uncertainty as to the extent current and future requirements of EU directives and regulations will apply to the UK operations of the Group. The Group will have limited ability to influence future developments in those EU directives and regulations, that might still apply to its UK operations, both during and after the completion of the UK's negotiations with the EU.

Our insurance subsidiaries and branches worldwide are subject to detailed and comprehensive government regulation in each of the jurisdictions in which they conduct business. Regulatory agencies have broad administrative power over many aspects of the insurance business, which may include premium rates, marketing and selling practices, advertising, licensing agents, policy forms, capital adequacy and permitted investments. Government regulators are concerned primarily with the protection of policyholders rather than our shareholders or creditors.

The failure of any of our subsidiaries to meet minimum capital and surplus requirements could subject us to further examination or corrective action imposed by insurance regulators, including limitations on our ability to write additional business, increased supervision by regulators or the implementation of resolution plans. Any corrective action imposed could have a material adverse effect on our business, results of operations and financial condition. A decline in minimum capital and surplus amounts may also limit the ability of an insurance subsidiary to make dividend payments or distributions and could be a factor in causing rating agencies to downgrade our financial strength ratings, which could have a material adverse effect on our business, results of operations and financial condition.

In the UK, our business is subject to regulation by both the PRA and the FCA, which 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, to make product intervention rules and to require the maintenance of adequate financial resources. The PRA and the FCA have the power to undertake a range of investigative, disciplinary or enforcement actions, including public censure, restitution, fines or sanctions and to require firms to pay compensation.

The PRA and the FCA may make enquiries of the companies which they regulate regarding compliance with regulations governing the operation of business and, similar to the other UK regulated financial services companies, we face the risk that the PRA or the FCA could find that we have failed to comply with applicable regulations or have not undertaken corrective action as required.

Issues and disputes may arise from time to time from the way in which the insurance industry or fund management industry has sold or administered an insurance policy or other product or in the way in which they have treated policyholders or customers, either individually or collectively, which may result in investigative, disciplinary or enforcement actions by the FCA or PRA or require the making of redress to customers.

There has been an increased focus in the EU on the fair treatment of customers, in particular on the way in which the insurance industry or fund management industry sells and administers insurance policies or other products. The European Commission is currently in the process of preparing delegated regulations under the Insurance Distribution Directive ('IDD') and has also been working on an initiative in relation to Packaged Retail and Insurance based Investment Products ('PRIIPs') with the aim of harmonising pre contractual disclosures and selling practices for such products. There is a risk that any new rules required in due course to implement the IDD and any new rules relating to PRIIPs will lead to restrictions on our ability to distribute our products within the EU and additional distribution and compliance costs, which could have a material adverse effect on our results, operations, and/or costs or otherwise negatively impact on our distribution arrangements.

Where larger groups or matters of public policy are concerned, the PRA and the FCA may intervene directly to provide redress to customers. There have been several industry-wide issues in recent years in which the PRA or the FCA (or previously the Financial Services Authority) has intervened directly, including the sale of personal pensions, the sale of mortgage-related endowments and investments in split capital investment trusts and sale of payment protection insurance.

Outside of the UK, our businesses are regulated by local regulators that often have similar powers to the PRA and the FCA and the exercise of these powers could therefore have a similar negative impact on perceptions of our businesses or have a material adverse effect on our business.

Furthermore, various jurisdictions in which we operate, including the UK, have created investor compensation schemes that require mandatory contributions from market participants in some instances in the event of a failure of another market participant. As a major participant in the majority of our chosen markets, circumstances could arise where we, along with other companies, may be required to make such contributions. We (like all other groups in which an entity is PRA and/or FCA regulated) contribute to the Financial Services Compensation Scheme and the levels of contribution to the Financial Services Compensation Scheme may change over time.

A determination that we have failed to comply with applicable regulation could have a negative impact on our results of operations or on our relations with current and potential customers. Regulatory action against a member of the Group could result in adverse publicity for, or negative perceptions regarding, the Group, or could have a material adverse effect on our business, our results of operations and financial condition and divert management's attention from the day-to-day management of the business.

We will not always be able to predict the impact of future legislation or regulation or changes in the interpretation or operation of existing legislation or regulation on our business, results of operations and financial condition. Changes in government policy, legislation or regulatory interpretation applying to companies in the financial services and insurance industries in any of the markets in which we operate, which may be applied retrospectively, may adversely affect the range of products offered, the terms and conditions applicable to these products (including retrospectively), distribution channels, capital requirements, dividends payable by subsidiaries and, consequently, results and financing requirements.

On 1 October 2015 the FCA published a consultation paper setting out proposed changes to FCA rules and guidance in relation to the UK government's pension reforms which came into effect in April 2015. The purpose of the paper is to consult on the FCA's expectations about how existing rules and guidance will operate in the new environment as well as bring forward proposals for further changes to the FCA's rules. Following receipt of feedback, the FCA has yet to publish its rules. The consequences of the FCA's work in this area remains uncertain but could include requirements to pay redress to customers who could have obtained a more favourable annuity rate by exercising their open market option to buy an annuity or purchasing an enhanced annuity and/or the imposition of greater obligations on annuity providers to treat customers fairly and provide increased levels of information on alternative options available to customers at retirement. Regulatory action of this type could have consequences for the Group and have a material adverse effect on our business, results of operations and/or financial condition.

In November 2016, the FCA published its Asset Management Market Study interim report (MS15/2.2). The report provisionally proposed the following possible remedies: a strengthened duty on asset managers to act in the best interest of investors; introducing an all-in fee approach to quoting charges; requiring asset managers to be clear about the objectives of their funds; clarifying and strengthening the appropriate use of benchmarks; providing tools for retail investors to identify persistent underperformance; making it easier for retail investors to move into better value share classes, requiring clearer communication of fund charges; requiring increased transparency and standardisation of costs and charges; and requiring clearer disclosure of fiduciary management fees and performance. Any rule changes will require the publication of a final report and consultation paper, so it is uncertain which of the proposed remedies might result in rule changes or when they might take effect. Any rule changes could have consequences for our UK asset management business and UK Life self-investment platform business and have a material adverse effect on our business, results of operations and/or financial condition.

Following a market study by the Office of Fair Trading ('OFT') and the Department of Work and Pensions ('DWP'), since April 2015, a 0.75% charge cap has come into effect on auto-enrolment schemes. The cap covers member-borne deductions which include all charges on member savings other than transaction costs. In November 2016, the FCA published its rules on introducing a 1% cap to early exit charges for personal and stakeholder pension schemes. Other measures arising out of the recommendations from the OFT and DWP's market study will be implemented in coming years, but how these will be implemented remains uncertain. The extent of the measures, including the impact of any further charge caps on pension providers remain uncertain and the industry response to these measures could have a range of possible impacts on the Group's trading and financial performance.

We may face increased compliance costs due to the need to set up additional compliance controls or the direct cost of such compliance because of changes to financial services legislation or regulation.

The Solvency II Directive, which governs insurance industry regulation and prudential capital requirements in the European Union, including associated Implementing Technical Standards and guidelines, became effective on 1 January 2016. There remains uncertainty as to how the Directive and associated standards and guidelines will be interpreted and implemented by national supervisory authorities ('NSAs') in individual member states, which may adversely impact the amount of capital required to support the business. There is a risk that inconsistent interpretation and application of the Directive and associated standards and guidelines by NSAs could put us at competitive disadvantage in some markets by adversely impacting the Group and subsidiary capital requirements compared to domestic competitors, for example application of rules pertaining to the dynamic volatility adjustment.

The PRA has approved use of the Group's partial internal model to calculate the regulatory capital requirement under Solvency II for much of the Group's businesses. Over the next year or two the Group plans to apply to extend use of the Internal model to other businesses within the Group, with a beneficial impact on the Group's capital requirement. There is a risk that the PRA and the NSAs responsible for these businesses do not approve extension to the use of the Internal model or apply conditions that result in the anticipated capital benefits failing to materialise.

In July 2013 the Group was designated by the Financial Stability Board ('FSB') as a global systemically important insurer ('G-SII'). The initial list of nine insurance groups that have been designated as G-SIIs also includes a number of our competitors. The list will be updated annually and the Group's inclusion on the list was reconfirmed in November 2016. For so long as it is designated as a G-SII, the Group is within the scope of policy requirements issued by the International Association of Insurance Supervision ('IAIS'), including: enhanced supervision requiring the maintenance of a "Systemic Risk Management Plan"; a liquidity risk management plan; a recovery plan; a resolution plan; and higher loss absorbency capital requirements, which will apply from January 2019, subject to implementation by NSAs, for those insurers still designated as G-SIIs in November 2017. While details of the higher loss absorbency capital requirements developed by the IAIS have been published it's likely that the requirements will be amended before 2019 leading to uncertainty over their impact. There is a risk that, if we continue to be designated as a G-SII, this could lead to a significant increase in capital required to support our business which may give rise to a need for us to delay deleveraging plans or to issue additional debt. Similarly we could be required to reduce or discontinue activities which contribute to systemic riskiness, restructure to facilitate resolvability and/or remove or reduce (or accelerate the planned reduction of) intercompany debts or guarantees within the Group. Such requirements could have negative consequences for our business and results of operations and, in particular, could impact on the ability of subsidiaries to remit dividends to Aviva and consequently on the Aviva's ability to remit dividends to shareholders.

The IAIS is also developing a common framework for the supervision of internationally active insurance groups ('ComFrame'). The framework is designed to develop common principles for supervision. In addition, it is not clear how ComFrame will interact with existing regimes of group-wide supervision. The intention is that an insurance capital standard ('ICS'), currently being developed and applicable to globally active insurers, will ultimately form part of ComFrame. The final ICS is planned to be adopted by the IAIS in 2019. Subsequently implementation at a national level may require incorporation into EU or UK law and/or regulation.

We are involved in various legal proceedings, regulatory investigations and examinations and may be involved in more in the future.

We have been named as defendants in lawsuits, including class actions and individual lawsuits. We have been subject to regulatory investigations or examinations in the various jurisdictions in which we operate. These actions arise in various contexts, including in connection with our activities as an insurer, securities issuer, employer, investment adviser, investment manager, investor and taxpayer.

Lawsuits and investigations may also arise which could seek significant or unspecified amounts of damages, including punitive damages, and certain of the regulatory authorities involved in these proceedings have substantial powers over the conduct and operations of our business.

Due to the nature of certain of these lawsuits and investigations, we cannot make an estimate of loss or predict with any certainty the potential impact of these lawsuits or investigations.

In the course of conducting insurance business, we receive general insurance liability claims, and become involved in actual or threatened related litigation arising therefrom, including claims in respect of pollution and other environmental hazards. Given the significant delays that are experienced in the notification of these claims, the potential number of incidents that they cover and the uncertainties associated with establishing liability and the availability of reinsurance, the ultimate cost cannot be determined with certainty.

Additionally, it is possible that a regulator in one of our major markets may conduct a review of products previously sold, either as part of an industry-wide review or specific to it. The result of this review may be to compensate customers for losses they have incurred as a result of the products they were sold.

As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. Examples of emerging claims and coverage issues include adverse changes in loss trends, judicial expansion of policy coverage and the impact of new theories of liability; growth of claims culture; legislative or judicial action that affects policy coverage or interpretation, claim quantification, or pricing; a growing trend of plaintiffs targeting property and casualty insurers in purported class action litigation relating to claims handling and other practices; new causes of liability or mass claims; claims in respect of directors' and officers' coverage, professional indemnity and other liability covers; and climate change related litigation.

All of the above could adversely impact our results of operations or financial condition.

From time to time, changes in the interpretation of existing tax laws, amendments to existing tax rates or the introduction of new tax legislation may adversely impact our business.

We operate in numerous tax jurisdictions around the world and face risks associated with changes in tax law, interpretation of tax law, changes in tax rates and the risk of failure to comply with procedures required by tax authorities. Failure to manage tax risks could lead to an additional tax charge or a financial penalty.

If, as a result of a particular tax risk materialising, the tax costs associated with certain transactions are greater than anticipated, it could affect the profitability of those transactions.

In the UK, HM Customs and Excise (HMRC) published its draft 2017 Finance Bill, containing legislation on the reform of the new UK loss relief regime with effect from 1 April 2017 and the restriction of the deductibility of interest also with effect from 1 April 2017. The legislation is still being consulted on, but the new loss relief regime could potentially have an adverse impact on our IFRS profits from 2017 onwards. The rules are also expected to reduce available Solvency II regulatory capital for our UK businesses.

In 2005 the European Court of Justice ('ECJ') judgement in the case of Staatssecretaris van Financien v. Arthur Andersen, Case C-472/03, held that the UK and some other EU member states were granting a VAT exemption for a wider range of insurance related services than the Sixth VAT Directive (77/288/EEC) allowed. The European Commission then initiated a project to update the insurance VAT exemption in light of current market conditions, which project was discontinued in late 2015. On 23 December 2015 the EU Advocate General's opinion in the case of Minister Finansów v. Aspiro SA, Case C-40/15, confirmed the ECJ's 2005 judgement. Following this judgement the UK government was expected to enact legislation that would result in services outsourced to parties who have no contractual relationship with the insured not benefiting from the VAT exemption for insurance services. However, following the result of the UK referendum on EU membership the UK government has stated it does not propose to make any imminent change to UK VAT law. Ultimately whether any restrictions on VAT exemption are applied depends on the outcome of negotiations on the UK's future relationship with the EU. Any restrictions may increase the irrecoverable VAT incurred by the Group negatively impacting our results of operations or financial condition.

There are also specific rules governing the taxation of policyholders. We are unable to predict accurately the impact of future changes in tax law on the taxation of life insurance and pension policies in the hands of policyholders. Amendments to existing legislation, particularly if there is the withdrawal of any tax relief, or an increase in tax rates, or the introduction of new rules, may affect the future long-term business and the decisions of policyholders. The impact of such changes upon us might depend on the mix of business in-force at the time of such change.

The design of life insurance products by our life insurance companies takes into account a number of factors, including risks and taxation and is based on the tax legislation in force at that time. Changes in tax legislation or in the interpretation of tax legislation may therefore, when applied to such products, have a material adverse effect on the financial condition of the relevant long-term business fund of the Company in which the business was written.

We may face increased compliance costs in jurisdictions in which we operate as a result of the adoption of the OECD's Common Reporting Standard and legislation passed in the United States and globally

The U.S. Foreign Account Tax Compliance Act ('FATCA') requires 30% withholding on payments of U.S. source dividends, interest, and other fixed payments (including as of 1 January 2017 premiums for 'foreign-to-foreign' insurance of US risk and, no earlier than 1 January 2019, payments of gross proceeds) made to a non-United States financial institution ('FFI') unless the FFI has entered into an agreement with the Internal Revenue Service to report account information for any of the FFI's US accountholders. An intergovernmental agreement between the U.S. and certain other jurisdictions will allow FFIs in those jurisdictions to report U.S. accountholder information only to local revenue authorities, rather than to the IRS.

A number of other jurisdictions, in which we operate, have introduced or announced that they intend to introduce similar measures requiring financial institutions in their territory to report account information. The OECD Common Reporting Standard ('CRS'), which was endorsed by the G20 in July 2014, calls on jurisdictions to obtain information from their financial institutions regarding non-resident account holders and automatically exchange that information with other participating jurisdictions on an annual basis. To date, over 101 jurisdictions have committed to participating in automatic exchange by reference to CRS requirements, 56 of those jurisdictions committing to implement legislation to implement CRS and require first reporting by financial institutions in 2017 of 2016 information. Despite commitments, certain participating jurisdictions have yet to implement domestic legislation and there is a lack of concrete domestic implementation guidance in many jurisdictions. As there remains uncertainty over the precise scope of these measures, the Group is at risk of late changes to interpretation of implementation requirements and consequently an increase in its compliance costs.

Changes to IFRS generally or specifically for insurance companies may materially adversely affect the reporting of our financial results

Changes to IFRS for insurance companies have been proposed in recent years and further changes may be proposed in the future. While the UK remains a member of the EU, any changes to IFRS will be applicable to the extent they are endorsed by the EU, and subsequent to the UK's withdrawal from the EU the applicability of changes to IFRS will be subject to the outcome of the UK government's negotiations with the EU and those arrangements that are put in place. The International Accounting Standards Board has published proposals that would introduce significant changes to the statutory reporting of insurance entities that prepare financial statements according to IFRS. The accounting proposals, which are not expected to be finalised until May 2017 with a likely effective date of 1 January 2021, will change the presentation and measurement of insurance contracts, including the effect of technical reserves and reinsurance on the value of insurance contracts. It is uncertain how the proposals may affect the Group should they become definitive standards and their full impact. Current proposals may have an adverse effect on the manner in which we report insurance provisions and, therefore, identify and report revenues, costs and distributable reserves. The changes could, therefore, have an adverse effect on our financial performance and condition (including through changes affecting the calculation of taxation). These and any other changes to IFRS, to the extent applicable, that may be proposed in the future, whether or not specifically targeted at insurance companies, could materially adversely affect our reported results of operations and financial position.

Risks related to ownership of the ADSs and ordinary shares

The trading price of our ADRs and dividends paid on our ADSs may be materially adversely affected by fluctuations in the exchange rate for converting sterling into US dollars.

An ADS (as evidenced by an American Depository Receipt (ADR)) is a negotiable US security representing two ordinary shares in the Company. An ADR is denominated in US dollars and represents ownership of any number of ADSs. ADRs generally could be listed on a national securities exchange or may trade in the over-the-counter market. From October 2009 to 22 December 2016, the Company's ADSs were listed on the NYSE. The ADSs are currently traded only in the U.S. over-the-counter market under the symbol "AVVIY". Any dividends are paid to investors in US dollars. ADRs are specifically designed to facilitate the purchase, holding and sale of non-US securities by US investors. The term ADR is often used to mean both the certificates and the securities themselves.

Fluctuations in the exchange rate for converting pound sterling into US dollars may affect the value of our ADRs. Specifically, as the relative value of the pound sterling against the US dollar declines, each of the following values will also decline:

- the US dollar equivalent of the pound sterling trading price of our ordinary shares on the London Stock Exchange which may consequently cause the trading price of our ADRs in the US to also decline;
- the US dollar equivalent of the proceeds that a holder of
- our ADSs would receive upon the sale in the UK of any our ordinary shares withdrawn from the depositary; and
- the US dollar equivalent of cash dividends paid in pound sterling on our ordinary shares represented by our ADSs.

The ADSs may be illiquid.

The Company currently intends to maintain its ADR facility with Citibank, N.A. as a Level I programme. This means that the Company's ADS could continue be traded on the over-the-counter market. Accordingly, the Company has not arranged for the listing of its ADSs or ordinary shares on a national securities exchange or for the quotation of its ADSs or ordinary shares in a quotation medium in the United States. The Company's ordinary shares will remain listed on the London Stock Exchange, which will continue to be the primary trading market for such ordinary shares. The lack of an active and liquid trading market in the ADSs could therefore make it more difficult to sell such ADSs in such form, as compared to the underlying ordinary shares.

The holders of our ADSs may not be able to exercise their voting rights due to delays in notification to, and by, the depositary.

The depositary for our ADSs may not receive voting materials for our ordinary shares represented by our ADSs in time to ensure that holders of our ADSs can instruct the depositary to vote their shares. In addition, the depositary's liability to holders of our ADSs for failing to carry out voting instructions or for the manner of carrying out voting instructions is limited by the Deposit Agreement governing our ADR facility. As a result, holders of our ADSs may not be able to exercise their right to vote and may have limited or no recourse against the depositary or us, if their shares are not voted according to their request.

Holders of our ADSs will have limited recourse if we or the depositary fail to meet our respective obligations under the Deposit Agreement.

The Deposit Agreement expressly limit our obligations and liability and those of the depositary. Neither we nor the depositary will be liable if either of us:

- are prevented from or delayed in performing any obligation by circumstances beyond our/their control;
- exercise or fail to exercise discretion under the Deposit Agreement; or
- take any action based upon the advice of, or information from, legal counsel, accountants, any person presenting ordinary shares for deposit, any person in whose name the ADSs are registered on the books of the depository, any person or entity having a beneficial interest deriving from the ownership of ADRs, or any other person believed by us or the depositary in good faith to be competent to give such advice or information.

In addition, the depositary has the obligation to participate in any action, suit or other proceeding with respect to our ADSs which may involve it in expense or liability only if it is indemnified. These provisions of the Deposit Agreement will limit the ability of holders of our ADSs to obtain recourse if we or the depositary fail to meet our obligations under the Deposit Agreement or if they wish to involve us or the depositary in a legal proceeding.

The holders of our ADRs in the US may not be able to participate in offerings of rights, warrants or similar securities to holders of our ordinary shares on the same terms and conditions as holders of our ordinary shares.

In the event that we offer rights, warrants or similar securities to the holders of our ordinary shares or distribute dividends payable, in whole or in part, in securities, the Deposit Agreement provides that the depositary (after consultation with us) shall have discretion as to the procedure to be followed in making such rights or other securities available to ADR holders, including disposing of such rights or other securities and distributing the net proceeds in US dollars to ADR holders. Given the significant number of our ADR holders in the US, we generally would be required to register with the SEC any public offering of rights, warrants or other securities made to our ADR holders unless an exemption from the registration requirements of the US securities laws is available. Registering such an offering with the SEC can be a lengthy process which may be inconsistent with the timetable for a global capital raising operation. Consequently, we have in the past elected and may in the future elect not to make such an offer in the US, including to our ADR holders in the US, and rather only conduct such an offering in an 'offshore' transaction in accordance with 'Regulation S' under the US Securities Act of 1933, as amended (the 'Securities Act'). Therefore, there can be no assurance that our ADR holders will be able to participate in such an offering in the same manner as our ordinary shareholders.

The ADR and ordinary share price of Aviva has been, and may continue to be volatile.
The share price of our ADRs and ordinary shares has been volatile in the past and the share price and trading volume of our ADRs may continue to be subject to significant fluctuations due, in part, to changes in our actual or forecast operating results and the inability to fulfill the profit expectations of securities analysts, as well as to the high volatility in the securities markets generally and more particularly in shares of financial institutions. Other factors, besides our financial results, that may impact our share price include, but are not limited to:

- market expectations of the performance and capital adequacy of financial institutions in general;
- investor perceptions of the success and impact of our strategies;
- a downgrade or review of our credit ratings;
- potential litigation or regulatory action involving Aviva or sectors we have exposure to through our insurance and fund management activities;
- the operations, accounting practices or regulatory investigations, and share price performance of other companies in the insurance and fund management markets in which we operates; and
- conjecture about our business in the press, media or investment communities.
- strategic actions by competitors, including acquisitions and/or restructurings;
- changes in market conditions and regulatory changes in any number of countries, whether or not the Company derives significant revenue therefrom; and
- shifts in macro-economic or geopolitical conditions generally.

As a 'foreign private issuer' the Company is not subject to US proxy rules and is subject to Exchange Act reporting obligations that, to some extent, are less detailed and less frequent than those of a US issuer. In addition, once the deregistration of the ADSs and the underlying ordinary shares under Section 12(g) of the Exchange Act has taken effect, the Company's duty to file reports under Section 13(a) or Section 15(d) of the Exchange Act will be permanently terminated. This may afford less protection and less detailed and less frequent information to investors in the Company's securities than those afforded to shareholders of US public companies.
Until the termination of the Section 12(g) registration is effective, 90 days after the Form 15F was filed (or such shorter period as the SEC may determine), certain other obligations will continue to apply. However, as a 'foreign private issuer' the Company is already exempt from those rules under the US Securities Exchange Act of 1934, as amended (the 'Exchange Act'), that impose certain disclosure obligations and procedural requirements for proxy solicitations under Section 14 of the Exchange Act. In addition, the Company's officers, directors and principal shareholders are already exempt from the reporting and 'short-swing' profit recovery provisions of Section 16 of the Exchange Act and the rules under the Exchange Act with respect to their purchases and sales of the Company's ordinary shares and ADRs. Moreover, the Company, as a 'foreign private issuer', is not required to file periodic reports and financial statements with the SEC as frequently or as promptly as US companies whose securities are registered under the Exchange Act, nor is it required to comply with Regulation FD, which restricts the selective disclosure of material information. Although the Company must comply with UK Listing Rules on insider reporting of share ownership and on protection of inside information, there may be less publicly available information concerning the Company than there is for US public companies.

The over-the-counter market where the Company's ADSs are to be traded following the NYSE delisting and SEC deregistration of the ADSs and the underlying ordinary shares is an electronic quotation system operated by OTC Markets Group that displays quotes from broker-dealers for many over-the-counter securities. The over-the-counter market is not a stock exchange. To be quoted in the over-the-counter market, companies do not need to file periodic reports or audited financial statements with the SEC. Rule 12g3-2(b) under the Exchange Act permits non-U.S. companies with securities listed primarily on a qualified non-US exchange to make publicly available to US investors in English the same information that is made publicly available in their home countries as an alternative to SEC reporting. The Company will rely on the exemption provided by Rule 12g3-2(b) in connection with its ADSs. Although the Company must comply with the conditions of Rule 12g3-2(b), on an on-going basis, to promptly publish its non-US disclosure documents in English on the Company's website, there may be less publicly available information concerning the Company than there is for US public companies.

Aviva plc is an English company and it may be difficult to enforce judgements against us or our directors and executive officers.
Aviva plc is incorporated under the laws of England and Wales and our business is based in the UK. In addition, certain of our directors and officers reside outside the US, and a substantial portion of our assets and the assets of such persons are located in jurisdictions outside the US. As such, it may be difficult or impossible to effect service of process within the US upon us or those persons or to recover against us or them on judgements of US courts, including judgements predicated upon civil liability provisions of the US federal securities laws.

Shareholder rights under English law differ from the US.
Individual shareholders of an English company (including US persons) have the right under English law to bring lawsuit on behalf of the Company in which they are a shareholder, and on their own behalf against the Company, in certain limited circumstances. English law does not permit class action lawsuit by shareholders, except in limited circumstances.

OTHER INFORMATION

IN THIS SECTION

Product definitions

Annuity
A type of policy that pays out regular amounts, either immediately and for the remainder of a person's lifetime, or deferred to commence from a future date. Immediate annuities may be purchased for an individual and his or her dependants or on a bulk purchase basis for groups of people. Deferred annuities are accumulation contracts, which may be used to provide benefits in retirement and may be funded by a policyholder by payment of a series of contributions or by a capital sum. Annuities may be guaranteed, unit-linked or index-linked.

Bonds and savings
These are accumulation products with single or regular premiums and unit-linked or guaranteed investment returns.

Collective investment scheme (SICAVs)
This is an open-ended investment fund, structured as a legally independent joint stock company, whose units are issued in the form of shares.

Critical illness cover
Pays out a lump sum if the insured person is diagnosed with a serious illness that is specified within the insurance policy.

Equity Release
Equity release mortgages allow a homeowner to receive a lump sum in return for a mortgage secured on their house. No interest is payable on the loan; instead, interest is rolled-up on the loan and the loan and accrued interest are repayable at redemption (upon death or moving into long-term care).

General insurance
Also known as non-life or property and casualty insurance. Property insurance covers loss or damage through fire, theft, flood, storms and other specified risks. Casualty insurance primarily covers losses arising from accidents that cause injury to other people or damage to the property of others.

Group pension
A pension plan that covers a group of people, which is typically purchased by a company and offered to their employees.

Health insurance
Provides cover against loss from illness or bodily injury. It can pay for medicine, visits to the doctor, hospital stays, other medical expenses and loss of earnings, depending on the conditions covered and the benefits and choices of treatment available on the policy.

Income drawdown
The policyholder can transfer money from any pension fund to an income drawdown plan from which they receive an income. The remainder of the pension fund continues to be invested, giving it the potential for growth.

Individual savings account (ISAs)
Tax-efficient plans within the UK for investing in stocks and shares, cash deposits or life insurance investment funds, subject to certain limits.

Investment sales
Comprise retail sales of mutual fund-type products such as unit trusts, individual savings accounts (ISAs) and open ended investment companies (OEICs).

Mortgage endowment
An insurance contract combining savings and protection elements which is designed to repay the principal of a loan or mortgage.

Mortgage life insurance
A protection contract designed to pay off the outstanding amount of a mortgage or loan in the event of the death of the insured.

Open ended investment company (OEIC)
A collective investment fund structured as a limited company in which investors can buy and sell shares.

Pension
A means of providing income in retirement for an individual and possibly his/her dependants.

Personal pension
A pension plan tailored to the individual policyholder, which includes the options to stop, start or change their payments.

Protection
An insurance contract that protects the policyholder or his/her dependants against financial loss on death or ill-health.

Regular premium
A series of payments are made by the policyholder, typically monthly or annually, for part of or all of the duration of the contract.

Single premium
A single lump sum is paid by the policyholder at the start of the contract.

Stakeholder pensions
Low cost and flexible pension plans available in the UK, governed by specific regulations.

Term assurance
A simple form of life insurance, offering cover over a fixed number of years during which a lump sum will be paid out if the life insured dies within the specified time period.

Unit trusts
A form of open ended collective investment constituted under a trust deed, in which investors can buy and sell units.

Whole life
A protection policy that remains in force for the insured's whole life with a lump sum paid out on death. Traditional whole life contracts have fixed premium payments that typically cannot be missed without lapsing the policy. Flexible whole life contracts allow the policyholder to vary the premium and/or amount of life cover, within certain limits.

General terms

Alternative performance measures
Alternative performance measures ('APMs') are non-GAAP measures used by the Aviva Group within its financial publications to supplement disclosures prepared in accordance with other regulations such as International Financial Reporting Standards (IFRS) and Solvency II. We believe that these measures provide useful information to enhance the understanding of financial performance. The APMs should be viewed as complementary to, rather than a substitute for, the figures determined according to other regulatory measures.

The Group's APMs have been referenced within the strategic report using the following symbol '‡'.

The Group's most recent financial publications are available online at http://www.aviva.com/investor-relations/ which includes the Aviva plc 2016 Preliminary Results Announcement. For further details on useful links for shareholders, please refer to the 'Shareholder services' section.

Acquired value of in force (AVIF)
The present value of future profits on a portfolio of long-term insurance and investment contracts, acquired either directly or through the purchase of, or investment in, a business.

Annual premium equivalent (APE)
Used as a measure of life sales. It is calculated as the sum of new regular premiums plus 10% of new single premiums written in the period.

Assets under management‡
Assets under management represents all assets managed or administered by or on behalf of the Group, including those assets managed by third parties. Assets under management include managed assets that are included within the Group's statement of financial position and those assets belonging to external clients outside the Aviva Group which are therefore not included in the Group's statement of financial position.

Association of British Insurers (ABI)
A major trade association for UK insurance companies, established in July 1985.

Available for sale (AFS)
Securities that have been acquired neither for short-term sale nor to be held to maturity and are not classified as other than trading. These are shown at fair value on the statement of financial position and changes in value are taken straight to equity instead of the income statement.

Bancassurance/Affinity
An arrangement whereby banks and building societies sell insurance and investment products to their customers on behalf of other financial providers.

Best Estimate Liabilities (BEL)
The expected present value of future cash flows for a company's current insurance obligations, calculated using best estimate assumptions, projected over the contract's run-off period, taking into account all up-to-date financial market and actuarial information.

Big data
Large volumes of data which are a valuable source of information used to identify customer behaviours.

Cash remittances‡
Amounts paid by our operating businesses to the Group, comprising dividends and interest on internal loans. These amounts eliminate on consolidation and are hence not directly reconcilable to the Group's IFRS consolidated statement of cash flows.

CFO Forum
The CFO Forum (www.cfoforum.nl) is a group formed by the chief financial officers of major European listed and non-listed insurance companies. Its aim is to discuss issues relating to proposed new accounting regulations for their businesses and how they can create greater transparency for investors.

Combined operating ratio (COR)‡
A financial measurement of general insurance underwriting profitability calculated as incurred claims expressed as a percentage of net earned premiums, plus written commissions and written expenses expressed as a percentage of net written premiums. A COR below 100% indicates profitable underwriting.

The components used to calculate COR for the Group are detailed in note 7.ii – General insurance and health, within the Aviva plc 2016 Preliminary Results Announcement.

Contract boundaries
A contract boundary is the first point in time in the lifetime of an insurance policy at which the insurer has the ability to review the premiums charged at the individual policy level, without any contractual constraints. For policies in which such a point does not exist, the contract boundary is the same as the full term of the contract. Under Solvency II, if a contract boundary on an insurance contract is less than the full term of the contract the expected future premiums and obligations that relate to cover which may be provided after that date are not recognised in the measurement of the insurance liabilities.

Cost of non-hedgeable risks (CNHR)
This is the cost of undertaking those risks for which a deep and liquid market in which to hedge that risk does not exist. This can include both financial risks and non-financial risks such as mortality, persistency and expense. The cost of non-hedgeable risks reduces the MCEV value of new business.

Covered business
The contracts to which the MCEV basis has been applied.

Deferred acquisition costs (DAC)
The costs directly attributable to the acquisition of new business for insurance and investment contracts may be deferred to the extent that they are expected to be recoverable out of future margins in revenue on these contracts.

Excess centre cash flow‡
A measure of excess cash flow, calculated by deducting central operating expenses and debt financing costs from cash remittances by business units. It is a measure of the cash available to pay dividends, reduce debt, pay exceptional charges or invest back into our business. The cash remittances from business units eliminate on consolidation and hence the excess centre cash flow is not directly reconcilable to the Group's IFRS consolidated statement of cash flows.

Fair value
The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price).

Financial Conduct Authority (FCA)
The FCA is an independent public body and is independent of the Bank of England. It is responsible for the conduct business regulation of financial services firms (including those firms subject to prudential regulation by the PRA) and the prudential regulation of firms not regulated by the PRA. The FCA has three statutory objectives: securing an appropriate degree of protection for consumers, protecting and enhancing the integrity of the UK financial system and promoting effective competition in the interests of consumers.

Financial Reporting Council Guidance on Internal Control
The Guidance on Risk Management, Internal Control and Related Financial and Business Reporting sets out best practice on risk management and internal controls for UK listed companies, and provides additional guidance on applying certain sections of the UK Corporate Governance Code.

Frictional costs
The additional taxation and investment costs incurred by shareholders through investing required capital in the Company rather than directly. Frictional costs reduce the MCEV value of new business.

Gross written premiums
The total earnings or revenue generated by sales of insurance products, before any reinsurance is taken into account. Not all premiums written will necessarily be treated as income in the current financial year, because some of them could relate to insurance cover for a subsequent period.

Independent Financial Advisers (IFAs)
A person or organisation authorised to give independent advice on financial matters. IFAs are authorised by the FCA in the UK.

Inherited estate
In the UK, the assets of the long-term with-profit funds less the realistic reserves for non-profit policies written within the with-profit funds, less asset shares aggregated across the with-profit policies and any additional amounts expected at the valuation date to be paid to in-force policyholders in the future in respect of smoothing costs and guarantees.

International financial reporting standards (IFRS)
These are international accounting regulations that all publicly listed companies in the European Union are required to use.

Latent claims
General insurance claims that are often not made until many years after the period of cover provided, due to the impact of perils or causes not becoming evident for a number of years. Sources of latent claims include asbestos-related diseases, environmental pollution and industrial deafness.

Life business
Businesses selling life and pensions contracts that are classified as covered business within MCEV VNB.

Liquidity premium
An addition to the risk-free rate used when projecting investment returns and discounting cash flows on certain types of contracts where the liabilities are illiquid and have cash flows that are predictable.

Longevity risk
Risk associated with increasing life expectancy trends among policyholders and pensioners.

Long-term and savings business
Collective term for life insurance, pensions, savings, investments and related business.

Market consistent embedded value (MCEV)
A measure of the value of a life business to its shareholders. It is the sum of shareholders net assets and today's value of the future profits that are expected to emerge from business already written, where the assumptions used to calculate future profits are consistent with current market prices for traded assets.

MCEV value of new business (VNB)‡
VNB is the present value of future profits from new business written at the point of sale and any changes to existing contracts which were not anticipated at the outset of the contract that generate additional shareholder risk and associated premium income, of the nature of a new policy. An example of a change to existing contracts that is considered to be generating value of new business is an internal transfer of annuities from with-profits funds to a non-profit fund. It is calculated on a market consistent basis using economic assumptions set at the start of each quarter or more frequently and best estimate operating assumptions. It is stated after the effect of any frictional costs and the cost of non-hedgeable risks.

MCEV VNB can be reconciled to adjusted Solvency II VNB and to Solvency II Own Funds impact of new business; however there is no equivalent IFRS metric.

Minimum capital requirement (MCR)
The Minimum Capital Requirement is the minimum amount of capital that an insurer needs to hold to cover its risks under the Solvency II regulatory framework. If an insurer's capital falls below the MCR then authorisation will be withdrawn by the regulator unless a firm is able to meet the MCR within a short period of time.

Morbidity
Rate of disease or how likely someone will fall ill, varying by such parameters as age, gender and health, used in pricing and calculating liabilities for policyholders of life and annuity products.

Mortality
Rate of death, varying by such parameters as age, gender and health, used in pricing and calculating liabilities for policyholders of life and annuity products, which contain mortality risks.

Net asset value (NAV) per share‡
Net asset value (NAV) per share is calculated as the equity attributable to shareholders of Aviva plc, less preference share capital (both within the Consolidated statement of financial position), divided by the actual number of shares in issue as at the balance sheet date.

Net written premiums
Total gross written premiums for the given period, minus premiums paid over or 'ceded' to reinsurers.

Ogden discount rate
The Ogden discount rate is used by courts in the UK to calculate awards for cases involving bodily injury. The UK Government announced a reduction to the Ogden discount rate in February 2017 which will see the cost of bodily injury compensation claims increase significantly as a result.

Operating capital generation (OCG)‡
OCG is the Solvency II surplus movement in the period due to operating items including the impact of new business, expected investment returns on existing business, operating variances, operating assumption changes and management actions. It excludes economic variances, economic assumption changes and integration and restructuring costs.

Operating earnings per share (EPS)‡
Operating EPS is calculated based on the operating profit attributable to ordinary shareholders net of tax, non-controlling interests, preference dividends, the direct capital instrument (DCI) and tier one notes divided by the weighted average number of ordinary shares in issue, after deducting treasury shares.

The components used to calculate the operating EPS are detailed in note 14 – Earnings per share.

Operating expense ratio‡
The Group operating expense ratio expresses operating expenses as a percentage of operating income. Operating income is calculated as operating profit before Group debt costs and operating expenses.

The components used to calculate the operating expense ratio are detailed in note 1 – Operating profit, note 3 – Expenses and note A3 – Group debt costs and other interest within the Aviva plc 2016 Preliminary Results Announcement.

Operating expenses‡
The day-to-day expenses involved in running the business including staff costs. For the avoidance of doubt, operating expenses excludes commission, non-operating integration and restructuring costs, and amortisation and impairment of AVIF and intangible assets. The components of operating expenses are detailed in note 3 – Expenses, within the Aviva plc 2016 Preliminary Results Announcement.

Operating profit‡
This is a non-GAAP financial performance measure. It is based on expected investment returns and stated before tax and before non-operating items including impairment of goodwill and amortisation and impairment of acquired value of in-force business, the profit or loss on disposal and remeasurement of subsidiaries, joint ventures and associates, integration and restructuring costs and other items. Other items are those items that, in the Directors' view, are required to be separately disclosed by virtue of their nature or incidence to enable a full understanding of the Group's financial performance.

A reconciliation of Group operating profit to profit for the year is presented in the primary financial statements and is also defined in the accounting policies (refer to section B).

Own Funds
Under Solvency II, capital available to cover the SCR and MCR is referred to as own funds. This includes the excess of assets over liabilities in the Solvency II balance sheet (calculated on best estimate, market consistent assumptions and net of transitional measures on technical provisions), subordinated liabilities that qualify as capital under Solvency II, and off-balance sheet own funds approved by the regulator. Own funds eligible to cover the SCR and MCR also reflect any tiering restrictions.

Paid out in benefits and claims
Paid out in benefits and claims comprise claims and expenses per the IFRS financial statements (net of reinsurance) and amounts paid relating to investment contracts which are not included within the income statement. This measure is not directly reconcilable to the IFRS financial statements.

Persistency
The rate at which policies are retained over time and therefore continue to contribute premium income and assets under management.

Present value of new business premiums (PVNBP)
Present value of new regular premiums plus 100% of single premiums from new business written at the point of sale and any changes to existing contracts, which were not anticipated at the outset of the contract that generates additional shareholder risk and associated premium income of the nature of a new policy. An example of a change to existing contracts that is considered to be generating PVNBP is an internal transfer of annuities from with-profits funds to a non-profit fund. PVNBP is calculated using assumptions consistent with those used to determine the MCEV value of new business.

Prudential Regulatory Authority (PRA)
The PRA is a part of the Bank of England and is responsible for the prudential regulation of deposit taking institutions, insurers and major investment firms. The PRA has three statutory objectives: to promote the safety and soundness of these firms, specifically for insurers, to contribute to the securing of an appropriate degree of protection for policyholders and secondary objective to facilitate effective competition.

Required capital
The amount of assets, over and above the value placed on liabilities in respect of covered business, whose distribution to shareholders is restricted.

Risk-adjusted returns
Adjusting profits earned and investment returns by how much risk is involved in producing that return or profit.

Risk Margin
The amount an insurance company would require, in excess of best estimate liabilities, in order to take over and meet the whole portfolio of insurance and reinsurance obligations. It reflects the cost of providing capital equal to the Solvency II capital requirement for non-hedgable risks necessary to support the insurance obligations over their lifetime. Risk Margin represents the value of deviation risk of the actual outcome compared with the best estimate, expressed in terms of a defined risk measure.

Solvency II
These are insurance regulations designed to harmonise EU insurance regulation. Primarily this concerns the amount of capital that European insurance companies must hold under a measure of capital and risk. Solvency II became effective from 1 January 2016.

Solvency II cover ratio‡
Own funds divided by the Solvency Capital Requirement, as calculated on a shareholder view. The shareholder view excludes the contribution to Group Solvency Capital Requirement (SCR) and Group own funds of fully ring fenced with-profits funds and staff pension schemes in surplus – these exclusions have no impact on Solvency II surplus.

Solvency II cover ratio is detailed in the Capital Management, Regulatory Capital overview section within the Annual Report and Accounts.

Solvency II surplus
Own funds less the Solvency Capital Requirement.

Solvency Capital Requirement (SCR)

The Solvency Capital Requirement is the amount of capital the regulator requires an insurer to hold to meet the requirements under the Solvency II regulatory framework. Holding capital in excess of the SCR demonstrates an insurer has adequate financial resources in place to meet all its liabilities as and when they fall due and that there is sufficient capital to absorb significant losses. Firms may use their own internal model, the European Insurance and Occupational Pensions Authority (EIOPA) prescribed standard formula or a partial internal model to determine SCR.

Total shareholder return (TSR)

A measure of company performance based on the overall value to shareholders of their investment in a stock over a given period of time. TSR includes movement in the share price and dividends paid and reinvested, expressed as a percentage of the initial value of the investment or share price at the beginning of the period. There is no equivalent GAAP measure.

Transitional Measures on Technical Provisions (TMTP)

TMTP is an adjustment to Solvency II technical provisions to bring them into line with the pre-Solvency II equivalent as at 1 January 2016 when the regulatory basis changed, to smooth the introduction of the new regime. This will decrease linearly over the 16 years following Solvency II implementation but may be recalculated to allow for material changes to the risk profile of the relevant business, subject to agreement with the regulator. TMTP may also be recalculated every 24 months at the request of either the firm or the regulator.

Underwriting result

The profit or loss from general insurance and health activities, excluding investment performance. It is calculated as net earned premiums less net insurance claims, commission and expenses. The underwriting result is calculated in note 7ii – General insurance and health, within the Aviva plc 2016 Preliminary Results Announcement.

UK Corporate Governance Code

The code sets out guidance in the form of principles and provisions on how companies should be directed and controlled to follow good governance practice.

DON'T MISS OUT ON YOUR FUTURE DIVIDENDS!

From November 2017, we are simplifying the way we pay dividends to shareholders by only paying cash dividends directly into a nominated bank account. This provides shareholders with the following benefits:

- A faster, more secure, environmentally friendly way of paying dividends – we currently send out over 200,000 cheques for each dividend
- No more fees for the replacement of lost cheques – one in five dividend cheques issued in 2015 remains uncashed

If you are currently receiving your dividend by cheque, take action now and choose from the dividend payment options detailed below. If you already receive your dividend directly to your bank account, your current payment instruction will apply.

DIVIDEND PAYMENT OPTIONS

Shareholders will be able to receive their dividends in the following ways:

- Directly into your nominated UK bank account
- Directly into your nominated eurozone bank account
- The Global Payment Service provided by our Registrar, Computershare Investor Services PLC (Computershare). This enables shareholders living outside of the Single European Payment Area (SEPA) to elect to receive their dividends or interest payments in a choice of over 60 international currencies
- The Dividend Reinvestment Plan enables eligible shareholders to reinvest their cash dividend in additional Aviva ordinary shares

You can find further details regarding these payment options at www.aviva.com/dividends and register your choice by contacting Computershare using the contact details on the next page, online at www.aviva.com/online or by returning a dividend mandate form. You must register for one of these payment options to receive dividend payments from November 2017.

PARTNERING WITH THE BRITISH RED CROSS

We are a year into our three year strategic partnership with the British Red Cross and already we have achieved a huge amount together to help communities in the UK and globally, be safer and stronger in times of uncertainty and crisis.

This includes training our people to spot the signs of stress in our customers during times of crisis, and continuing our support of the British Red Cross emergency app. Together, we are helping to make people better informed, prepared and therefore more resilient if disaster should strike.

HELP AVIVA SUPPORT THE BRITISH RED CROSS

During November and December 2016, Aviva shareholders completed 1,500 online dividend mandate instructions, meaning a donation of £1,500 to the British Red Cross to help people become safer and stronger in times of uncertainty and crisis.

You can help achieve even more – for every online dividend mandate and every voting instruction received online for the 2017 Annual General Meeting, Aviva will donate £1 to the British Red Cross.

DIVIDEND CHANGES TIMELINE

25 April 2017	Last date to complete a mandate instruction for the dividend payable in May 2017
17 May 2017	Last dividend payment that can be made by cheque
27 October 2017*	Last date to complete a mandate instruction to receive the dividend payable in November 2017
17 November 2017*	First dividend where direct credit is the only method of payment for cash dividends – a reminder will be sent to shareholders who have not received their dividend
Spring 2019	An annual dividend confirmation will be sent to shareholders who have had dividends withheld during the previous year

* Any dates marked with an asterisk are provisional and may be subject to change

MANAGE YOUR SHAREHOLDING ONLINE

www.aviva.com/online:
You can access Computershare online services directly using the above address where you can log in using your Computershare details to:

- Change your address
- Change payment options
- Switch to electronic communications
- View your shareholding
- View any outstanding payments
- Access useful information and view your Aviva policies

www.aviva.co.uk/myaviva:
If you've already registered for MyAviva you'll be able to view useful shareholder information. You can also check the details of Aviva policies you may have. Our online portal brings all this information together into one safe and secure place at a time that suits you. Just login as normal using your email address via **www.aviva.co.uk/myaviva**.

MyAviva also includes a link to the Investor Centre, where you can log in and manage your shareholding as outlined above.

www.aviva.com/shareholders:
For access to our shareholder services centre.

www.aviva.com/dividends:
To find the latest information on Aviva dividends.

www.aviva.com/agm:
To find the latest information on our Annual General Meeting.

www.investorcentre.co.uk/eproxy:
For access to electronic voting for our Annual General Meeting.

www.aviva.com/reports:
To access our latest reports, such as our annual report and accounts.

www.aviva.com/shareprice:
To find out the latest Aviva plc Ordinary share price.

www.londonstockexchange.com:
To find out the latest Aviva plc Preference share price.

SHAREHOLDER UPDATES

In 2017, we want to keep you informed with quarterly online shareholder updates. This will provide a summary on how Aviva is doing as well as information for shareholders. Sign up for email communications at **www.aviva.com/online** to receive a notification when the latest update is available.

SHAREHOLDER PROFILE AS AT 31 DECEMBER 2016

By category of shareholder	Number of shareholders	%*	Number of shares	%*
Individual	578,993	98.22	248,881,261	6.13
Banks and nominee companies	7,906	1.34	3,758,032,990	92.53
Pension fund managers and insurance companies	221	0.04	1,040,014	0.03
Other corporate bodies	2,368	0.40	53,584,941	1.32
Total	**589,488**	**100**	**4,061,539,206**	**100**

By size of shareholding	Number of shareholders	%*	Number of shares	%*
1–1,000	539,400	91.50	134,735,003	3.32
1,001–5,000	44,611	7.57	83,697,278	2.06
5,001–10,000	3,000	0.51	20,785,611	0.51
10,001–250,000	1,861	0.32	78,749,554	1.94
250,001–500,000	154	0.03	54,803,042	1.35
500,001 and above	461	0.08	3,648,142,024	89.82
American Depositary Receipts (ADRs)+	1	0.00	40,626,694	1.00
Total	**589,488**	**100**	**4,061,539,206**	**100**

+ The number of registered ordinary shares represented by ADRs. Please note that each Aviva ADR represents two (2) ordinary shares.
* Percentages do not necessarily add up due to rounding.

2017 FINANCIAL CALENDAR

Ordinary 2016 final dividend ex-dividend date*	6 April 2017
2016 final dividend record date (Ordinary and ADR)	7 April 2017
Last day for Dividend Reinvestment Plan and currency election for 2016 final dividend	25 April 2017
Annual General Meeting	11am on 10 May 2017
2016 final dividend payment date*	17 May 2017

The full financial calendar is available at **www.aviva.com/financial-calendar**

* Please note that the ADR local payment date will be approximately five business days after the proposed dividend date for ordinary shares. The ex-dividend date for ADR holders will be 5 April 2017.

GROUP COMPANY SECRETARY
Shareholders may contact the Group Company Secretary:

By Email: Aviva.shareholders@aviva.com

In Writing: Kirstine Cooper, Group Company Secretary, St Helen's, 1 Undershaft, London, EC3P 3DQ

By Telephone: +44 (0)20 7283 2000

ORDINARY AND PREFERENCE SHARES – CONTACT:
For any queries regarding your shareholding, please contact Computershare:

By Telephone: 0371 495 0105 – Lines are open 8.30am to 5.30pm (UK time), Monday to Friday (excluding public holidays). Please call +44 117 378 8361 if calling from outside of the UK

By Email: AvivaSHARES@computershare.co.uk

In Writing: Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZZ

AMERICAN DEPOSITARY RECEIPTS (ADRS) – CONTACT:
For any queries regarding Aviva ADRs, please contact Citibank Shareholder Services (Citibank):

By Telephone: 1 877 248 4237 (1 877-CITI-ADR), or +1 781 575 4555 if calling from outside of the US – Lines are open 8.30am to 6pm, Monday to Friday US Eastern Standard Time

By Email: Citibank@shareholders-online.com

In Writing: Citibank Shareholder Services, PO Box 43077, Providence, Rhode Island, 02940-3077 USA

ANNUAL GENERAL MEETING (AGM)
The 2017 AGM will be held at The Queen Elizabeth II Centre, Broad Sanctuary, Westminster, London SW1P 3EE, on Wednesday, 10 May 2017, at 11am.

Details of each resolution to be considered at the meeting and voting instructions are provided in the Notice of AGM, which is available on the Company's website at www.aviva.com/agm. The voting results of the 2017 AGM will be accessible on the Company's website at **www.aviva.com/agm** shortly after the meeting.

AVIVA PLC STRATEGIC REPORT
The strategic report sets out a review of Aviva's business, addressing key issues such as its business model, strategy and principal risks and uncertainties facing the business. The strategic report forms part of the annual report and accounts. However, shareholders can also elect to receive Aviva's standalone strategic report as an alternative to the full annual report and accounts by contacting Computershare.

FORM 20-F
On 1 December 2016, the Company announced that it had resolved to voluntarily delist its American Depositary Shares (ADS) from the NYSE and to terminate the registration of its ADS and the underlying ordinary shares under the Exchange Act and to continue its ADS programme as a 'Level 1' sponsored programme, which will enable investors to trade ADS in the US over-the-counter market. The last day of trading on the NYSE was 22 December 2016 and the Company's obligations to file certain reports with the SEC were suspended on the same date. The Company expects the deregistration of its ADS and the underlying ordinary shares to become effective on 22 March 2017. Copies of the Company's Form 20-F for the financial year ended 31 December 2015 and for prior financial years can be found at www.aviva.com/reports.

This document should be read in conjunction with the documents distributed by Aviva plc (the 'Company' or 'Aviva') through The Regulatory News Service (RNS).

This announcement contains, and we may make other verbal or written 'forward-looking statements' with respect to certain of Aviva's plans and current goals and expectations relating to future financial condition, performance, results, strategic initiatives and objectives. Statements containing the words 'believes', 'intends', 'expects', 'projects', 'plans', 'will', 'seeks', 'aims', 'may', 'could', 'outlook', 'likely', 'target', 'goal', 'guidance', 'trends', 'future', 'estimates', 'potential' and 'anticipates', and words of similar meaning, are forward-looking. By their nature, all forward-looking statements involve risk and uncertainty. Accordingly, there are or will be important factors that could cause actual results to differ materially from those indicated in these statements. Aviva believes factors that could cause actual results to differ materially from those indicated in forward-looking statements in the 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 UK membership of the European Union); the effect of credit spread volatility on the net unrealised value of the investment portfolio; the effect of losses due to defaults by counterparties, including potential sovereign debt defaults or restructurings, on the value of our investments; changes in interest rates that may cause policyholders to surrender their contracts, reduce the value of our portfolio and impact our asset and liability matching; the impact of changes in 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 options and guarantees embedded in some of our life insurance products and the value of the assets backing their reserves; the amount of allowances and impairments taken on our investments; the effect of adverse capital and credit market conditions on our ability to meet liquidity needs and our access to capital; 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 mortality and morbidity trends, lapse rates and policy renewal rates), longevity and endowments; 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 Group's internal model for calculation of regulatory capital under the European Union's Solvency II rules; the impact of actual experience differing from estimates used in valuing and amortising deferred acquisition costs ('DAC') and acquired value of in-force business ('AVIF'); the impact of recognising an impairment of our goodwill or intangibles with indefinite lives; changes in valuation methodologies, estimates and assumptions used in the valuation of investment securities; the effect of legal proceedings and regulatory investigations; the impact of operational risks, including inadequate or failed internal and external processes, systems and human error or from external events (including cyber attack); risks associated with arrangements with third parties, including joint ventures; 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 systems errors or regulatory changes on the calculation of unit prices or deduction of charges for our unit-linked products that may require retrospective compensation to our customers; the effect of 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, including decreased demand for annuities in the UK due to changes in UK law; the inability to protect our intellectual property; the effect of undisclosed liabilities, integration issues and other risks associated with our acquisitions; and the timing/regulatory approval impact, integration risk and other uncertainties, such as non-realisation of expected benefits or diversion of management attention and other resources, relating to announced acquisitions and pending disposals and relating to future acquisitions, combinations or disposals within relevant industries, the policies, decisions and actions of government or regulatory authorities in the UK, the EU, 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 'Other information – Shareholder Information – Risks relating to our business' above.

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

This Annual Report and Accounts has been prepared for, and only for, the members of the Company, as a body, and no other persons. The Company, its directors, employees, agents or advisers do not accept or assume responsibility to any other person to who this document is shown or into whose hands it may come, and any such responsibility or liability is expressly disclaimed.

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www.merchantcantos.com

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In this report we have included genuine examples of people whose experiences bring to life what we do every day for our customers. We would like to thank the customers who took part and invited us into their homes and businesses, to allow us to share their stories, and our people for their dedication to our customers.

View our online summary and download the full report at **www.aviva.com/AR16**