



Aviva plc

Strategic report 2017

Foreword

This report differs from the format of previous publications. As we become more digitally focussed we have launched our new www.aviva.com website in Q4 2017. This enables us to give you news and insights into Aviva regularly throughout the year. We have therefore chosen to produce a simpler, more streamlined report for 2017 in line with our values of 'Never Rest' and 'Kill Complexity'. The updated report will also ensure we are ready for guidelines relating to the Financial Reporting Council's Digital Reporting and ESMA European Single Electronic Format.

The enhanced content on www.aviva.com supplements the regulatory disclosures within this report.

The Strategic report on pages 1 to 32, contains information about us, how we create value and how we run our business. It includes our strategy, business model, market outlook and key performance indicators, as well as our approach to sustainability and risk.

The Strategic report is only part of the Annual report and accounts 2017. The Strategic report was approved by the Board on 7 March 2018 and signed on its behalf by Mark Wilson, Chief Executive Officer.

Contents

Strategic Report

- 01 Chairman's statement
- 02 Group Chief Executive Officer's Review
- 05 Key performance indicators
- 07 The horizon
- 08 Business model
- 09 Our strategy
- 12 Our people
- 14 Chief Financial Officer's Review
- 18 Market review
- 24 Risk and risk management
- 28 Corporate responsibility
- 31 Our climate-related financial disclosure

Governance

- 33 Chairman's Governance Letter
- 35 Our Board of Directors biographies
- 38 Extract of Directors' remuneration report

IFRS financial statements

- 39 Independent auditors' statement
- 40 Summary of consolidated financial statements
- 43 Notes to the summary of consolidated financial statements

Other information

- 44 Alternative Performance Measures
- 50 Shareholder services
- 51 Cautionary statements

As a reminder

Reporting currency:

We use £ sterling.

Unless otherwise stated, all figures referenced in this report relate to Group.

A glossary explaining key terms used in this report is available on www.aviva.com/glossary.

The Company's registered office is St Helen's, 1 Undershaft, London, EC3P 3DQ
The Company's telephone number is +44 (0)20 7283 2000

Chairman's statement

Businesses need to know why they exist. All businesses need to generate value for their shareholders, of course, but some also have a clear social purpose. Aviva is one of those. Simply put we are here to help our customers Defy Uncertainty.

To ensure we can fulfil our purpose, both today and for the years to come, we depend on getting the fundamentals right. This means having a robust financial position, a clear strategy executed well, and strong values that inform all our decision making as part of a healthy corporate culture.

I am pleased this year's report demonstrates that the fundamentals are in good shape. These results come amidst unprecedented political, economic and technological changes that have an effect on all aspects of our society. Nevertheless, we remain focussed on delivering for our customers, so that they can navigate these uncertain times.

Our culture

I am pleased to report that our overall people engagement score in 2017 has increased to 75%. In 2017 the Board spent a lot of time developing metrics to assess the Company's culture and its ability to accelerate growth, and our focus on delayering, simplifying processes, and increasing the speed of execution all show signs of improvement. These measurements are used as part of a broad dashboard of metrics, providing the Board with a holistic view of the culture in our business and a view on the progress made. You can read more on our culture in the 'Our People' section of this report.

Our community

I am particularly proud of our commitment to act sustainably and responsibly as part of the wider community where we live and work. In 2017, the Aviva Community Fund supported over 800 inspirational projects from Canada to Poland. Our partnership with the British Red Cross has also seen Aviva provide support for those affected by the Manchester and London terrorist attacks and the tragic Grenfell Tower fire in London.

Climate change poses serious risks to our customers and in turn our business. In October 2017 we were awarded the United Nations Momentum for Change award in recognition of a decade of work in reducing the environmental impact of our business and helping inspire action on climate change. More information can be found in the 'Corporate Responsibility' sections of this report.

Our markets

In line with our strategy to focus on those markets and businesses that have the strongest returns and best prospects for growth, we have now finished the process of simplifying the Group.

This means we have focussed our business on eight major markets of the UK, Ireland, France, Poland, Italy, Canada, Singapore and Aviva Investors. We believe that here we are best placed to compete on the strength of our scale, brand and distribution. The Group adjusted operating profit from these markets (excluding divestitures and businesses held for sale) increased by 6%.

In addition, we also have six strategic investments, in China, Hong Kong, Indonesia, Vietnam, Turkey and India. These are markets with enormous potential for us and they represent the prospect of higher long-term growth in the future.

2017 challenges

Of course, the year has not been without its challenges. There is still market uncertainty and volatility to navigate. Although Brexit does not have a significant operational or financial impact on our business there is still a long way to go before the full implications become clear. In addition, performance across the Group has not been as universally strong as we would wish, notably in Canada due to a change in the trend of prior year reserve releases from favourable to unfavourable and increased claims frequency.

We have enjoyed three years of sustained high levels of customer advocacy, but this year's scores have marked a decline. We are working hard to boost customer's loyalty by making things simpler and putting them in control, for example with the launch of our simplified home insurance proposition. The industry is also facing risks around cyber crime and changes in public policy. You can read about these risk factors in the 'Risk and risk management' section of this report.

Our performance

We have grown Group adjusted operating profit¹ and cash remittances² and further strengthened our Solvency II capital position. The benefit from foreign exchange movements is offset by the sale of businesses in Europe. Excluding disposals profit has improved for the ongoing businesses despite experiencing significantly lower prior year reserves releases in general insurance. Profit before tax attributable to shareholders' profit increased to £2,003 million (2016: £1,193 million) reflecting higher Group adjusted operating profit¹, lower integration and restructuring costs and the impact of the Ogden discount rate change in 2016.

Dividend

The Board proposes a final dividend of 19.00 pence per share (2016: 15.88 pence per share) which corresponds to a 50% dividend payout ratio. In line with improved earnings quality and cash flows, in November 2017 we announced we would increase our dividend payout ratio target to a range of 55-60% of operating EPS³ by 2020.

Looking forward

2018 is the year where we will accelerate our plans for growth. At our Capital Markets Day in November 2017 we announced our intention to pay down debt in 2018, while continuing to invest in our future growth.

As disclosed in our 2016 Annual report, the Lord Chancellor announced the decision to lower the Ogden discount rate to -0.75%, from the previous level of 2.5% and we await the final outcome of the Ministry of Justice review. We will continue to monitor developments on this during 2018.

This year's performance is testament to the hard work and dedication of our nearly 30,000 people around the world. I have no doubt there will be more change in the year to come but I am equally confident in the skills and commitment of my colleagues to adapt and deliver for our customers and our shareholders, whatever 2018 has in store.

Sir Adrian Montague

Chairman
7 March 2018

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2. This is an Alternative Performance Measure (APM) which provides useful information to enhance the understanding of financial performance. Further information on APM's, including a reconciliation to the financial statements (where possible), can be found in the 'Other Information' section of the Annual report and accounts.
3. This measure is derived from the Group adjusted operating profit APM. Further details of this measure are included in the 'Other information' section.

Group Chief Executive Officer's Review

Overview

In 2017, Aviva delivered growth: in profits, in dividends, in capital and in cash.

Our headline results show broad-based growth. Operating earnings per share (EPS)^{1,2} gained 7% to 54.8 pence (2016: 51.1 pence), operating capital generation¹ remained strong at £2.6 billion (2016: £3.5 billion), Solvency II capital surplus^{1,4} rose to £12.2 billion (2016: £11.3 billion) and business unit cash remittances¹ increased 33% to £2.4 billion (2016: £1.8 billion).

Group adjusted operating profit³ increased 2% to £3,068 million (2016: £3,010 million). Excluding the impact of divestments, our eight major markets delivered a 6% increase in Group adjusted operating profit³, with double-digit growth contributed by the UK, Aviva Investors, France, Poland, Ireland and Singapore. Group adjusted operating profits³ also benefitted from a net positive impact from assumption changes in the UK. However, Canada reported a disappointing result reflecting adverse changes in prior year reserve development and higher current year claims inflation. We have implemented a detailed recovery plan in Canada, raising premium rates and taking actions on underwriting, claims, distribution and expense management.

In light of our results, we have increased our total dividend 18% to 27.4 pence (2016: 23.3 pence). This marks the fourth consecutive year of double-digit growth in the total dividend and we have reached our target of paying out 50% of operating EPS^{1,2}.

Having successfully executed our plan to strengthen the balance sheet and focus Aviva on those businesses with the strongest fundamentals, we have increased our growth ambitions. Our 2017 results provide evidence that we are capable of delivering consistent growth in operating EPS^{1,2} and dividends.

Capital allocation

A key element of Aviva's strategy is allocating capital towards businesses and segments with the strongest returns and growth prospects. We made further progress on this strategic objective in 2017, announcing divestments that will result in our withdrawal from Spain, Taiwan and Friends Provident International.

We have significantly simplified and focussed our geographic footprint over recent years, halving the number of markets in which we have operations. This process is now complete and we are no longer actively seeking to reduce our geographic footprint. As a result, Aviva's core business is now comprised of eight major markets and six strategic investments.

Our major markets are the UK, France, Canada, Poland, Ireland, Italy, Singapore and Aviva Investors. These markets have structural drivers of demand underpinned by economic growth, demographics and regulation. Within these markets, Aviva has competitive strength in distribution, brand, capability and scale efficiency that allows us to deliver consistent growth and attractive returns. The major markets are currently responsible for virtually all of Aviva's Group adjusted operating profit³ and cash remittances¹.

Our strategic investments are businesses where we are targeting long-term growth by working with leading local partners in populous countries with strong growth characteristics. Our strategic investment markets are China, Hong Kong, India, Turkey, Vietnam and Indonesia. While in aggregate these businesses make a modest contribution to Aviva's financial performance today, they are sources of long-term upside for Group adjusted operating profit³, cash-flow and value.

Aviva's capital strength provides us with significant flexibility in terms of future capital allocation. Our Solvency II capital surplus^{1,4} of £12.2 billion equates to a Solvency II cover ratio^{1,4} of 198%, well above our 150% to 180% working range. As a result, we have signalled plans to deploy £3 billion of excess cash in 2018 and 2019.

Our priorities for deployment remain unchanged. Our objective is to use surplus cash to deliver sustainable benefits to our long-term shareholders. For 2018, we have outlined our intent to repay approximately £900 million of expensive hybrid debt, saving more than £60 million in annual pre-tax interest expense. We have allocated approximately £600 million for bolt-on M&A, which includes the £130 million already committed to the Friends First acquisition in Ireland. And we have indicated that in excess of £500 million will be used for capital returns, which may include liability management, share buy-back or special dividends.

Meeting our customers' needs

Aviva has made significant, tangible progress in delivering our True Customer Composite strategy in 2017.

In the UK, Aviva is unique as the only large-scale composite insurer with top three positions across multiple product lines. In 2017, we moved to a unified management structure for our life, general and health insurance businesses under the leadership of Andy Briggs. This change has helped us to increase the collaboration between different product teams and improve our focus on the customer. The strength of our franchises is evident, with large mandate wins driving higher new business volumes across our major product segments. We saw continued success in our partnership channels, expanding our leading position in the bank market and delivering a significant uplift in net flows into our advisor platform. Meanwhile, we made further strong progress in our direct to consumer business, growing net written premiums by 14% and we increased the number of customers in the UK who have more than one product with Aviva by approximately 300,000.

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4 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 of £3.3 billion (2016: £2.9 billion) and staff pension schemes in surplus of £1.5 billion (2016: £1.1 billion). These exclusions have no impact on Solvency II surplus. The estimated Solvency II position includes the pro forma impacts of the disposals of Friends Provident International Limited (£0.1 billion increase to surplus) and the Italian Avipop Assicurazioni S.p.A (£0.1 billion increase to surplus). The 31 December 2016 Solvency II position included pro forma adjustments for the impact of the announced disposal of Antarius and the future impact of changes to UK tax rules announced by the Chancellor of the Exchequer's Autumn statement, which was removed following clarification in the 13 July 2017 Finance Bill. The 31 December 2016 Solvency II position also includes an adverse impact of a notional reset of the transitional provisions (TMTPT) to reflect interest rates at 31 December 2016 £0.4 billion decrease to surplus.

Our strength in distribution and manufacturing is also helping to strengthen our composite position in markets outside the UK. In France, our new leadership team intends to align our high quality distribution franchises under a single Aviva brand to deepen customer relationships. In Ireland, we have maintained positive momentum in both sales volume and Group adjusted operating profit³ in 2017 and the acquisition of Friends First will move our market share to mid-teens across both life and general insurance.

Italy has expanded IFA distribution and developed innovative hybrid products, which helped to underpin a doubling of value of new business and strong net fund flows. Singapore is drawing on our digital and distribution expertise to develop the Aviva Financial Advisors network, which has grown to more than 670 advisors.

Digital

Aviva is playing a leading role in the digital revolution of insurance and our intellectual property (IP) has had a significant impact on our business in the past 12 months. Our UK digital and direct business passed the £1 billion premium mark in 2017, delivering growth of 14%. Our digital IP played a pivotal role in helping us to secure long-term relationships with HSBC in the UK and Tencent in Hong Kong.

In 2017, we established Aviva Quantum, our artificial intelligence and global data science group, which now has 550 data scientists. This group has developed our Ask it Never IP, which allows us to reduce the number of questions we ask customers during the underwriting process, significantly improving their quote and buy experience. We are using this IP to develop a new generation of insurance products, called Aviva Plus. This proposition takes the subscription model and applies it to insurance and is expected to be progressively rolled out to our existing UK customers.

In the next few years, we will continue to invest heavily to grow revenue and fully digitise our business. Through this, we are targeting improvements in efficiency and customer experience that we expect to lead to higher sales, better retention, expanding margins and in turn growing profit over the medium to long term.

Outlook

The streamlining of our geographic perimeter is complete and the strength of our franchises is beginning to shine through. As a result, we have upgraded and bought forward our growth ambitions, and are now targeting greater than 5% growth in operating EPS^{1,2} from 2018. Together with our targets of £8 billion of cumulative remittances in 2016-2018 inclusive and increase in dividend payout ratio to 55-60% by 2020, we remain confident that we can continue to deliver cash flow plus growth for our shareholders.

Mark Wilson

Group Chief Executive Officer
7 March 2018

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Delivering on a clear plan of action

	Financial	Strategic	Cultural
What we achieved	<p>For our key metrics, we have:</p> <ul style="list-style-type: none"> Increased Group adjusted operating profit¹ by 2% to £3,068 million (2016: £3,010 million) Operating earnings per share (EPS)³ increased by 7% to 54.8p (2016: 51.1p) Profit before tax attributable to shareholders' profit increased by 68% to £2,003 million (2016: £1,193 million) and basic EPS increased by 19.7p to 35.0p (2016: 15.3p) Increased cash remittances² to Group by 33% to £2,398 million (2016: £1,805 million) Increased total dividend per share by 18% to 27.40 p (2016: 23.30p) delivering four consecutive years of double digit growth Delivered a strong Solvency II capital position with an estimated shareholder Solvency II cover ratio² of 198% (2016: 189%) up 9pp. This includes operating capital generation² surplus movement in the year of £2.6 billion Reported total assets under management² of £490 billion – an increase of £40 billion on last year 	<p>For our customers, we have:</p> <ul style="list-style-type: none"> In October, we launched an effortless home claims trial in the UK, settling home insurance claims by asking just three questions Launched 'The Ideas Hub' where new initiatives are trialled with customers using social media Delivered solutions to help customers 'feel safe again in their homes', for example offering a leak detector, camera or smart battery for customers who have made flood, theft or fire claims Partnered with Neos, inventor of a connected home service, which detects leaks, smoke and intruders and alert you instantly by app Launched the Aviva Wellbeing app to track and improve their overall health and wellbeing <p>In Digital, we have:</p> <ul style="list-style-type: none"> Expanded the reach of MyAviva to include corporate customers and IFAs. It is now available in the UK, Singapore, France, Poland and Canada Invested in Wealthify, a robo investment platform, in October 2017 Launched Aviva Quantum with a 500-strong team of data scientists <p>Not Everywhere:</p> <ul style="list-style-type: none"> During the year we announced the sale of Friends Provident International We also announced the sale of Spanish joint ventures Unicorp Vida, Caja España Vida and Aviva Vida y Pensiones In Taiwan we sold our joint venture, exiting the market 	<p>For our people, we have:</p> <ul style="list-style-type: none"> Continued to build a culture and environment which attracts and retains people with the right capabilities for the future Employee engagement is at 75% with 85% of colleagues seeing how their team's work aligns to Aviva's strategy Introduced CATS (Culture Action Team) globally with over 2,000 members committed to driving change to embed Aviva's values Delivered our Leadership Accelerator programme to 290 of our senior leaders Launched Equal Parental Leave to help build an inclusive workforce <p>For society, we have:</p> <ul style="list-style-type: none"> Supported 2,400 community projects, helping 792,000 people Spearheaded the establishment of the World Benchmarking Alliance and public, transparent and authoritative league tables of companies' contribution to the UN Sustainable Development Goals Awarded the UN Momentum for Change award in recognition of a decade of work reducing the environmental impact of our business and inspiring action on climate change Withdrew our investment from tobacco manufacturing companies Invested £527.5 million in lower carbon infrastructure as part of our strategic response to climate change
What we plan to do	<ul style="list-style-type: none"> Target higher than 5% increase in operating EPS³ from 2018 onwards Aim to deliver £8 billion of cash remittances² between 2016-2018 inclusive Focus on achieving a 55-60% dividend pay out ratio by 2020 Target a Solvency II cover ratio² working range of between 150%–180% 	<ul style="list-style-type: none"> Build and deepen engagement with our customers 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 	<ul style="list-style-type: none"> Continue to 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 Increase the impact of the Aviva Community Fund across the world Build on the success of our existing customer propositions, developing products and services that help our customers Defy Uncertainty in an increasingly sustainable way

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[Key performance indicators](#)

Key performance indicators

We use a range of financial and non-financial metrics to measure our performance, financial strength, customer advocacy, employee engagement and impact on society. These include Alternative Performance Measures (APMs) which are non-GAAP measures that are not bound by the requirements of IFRS. These metrics are reviewed annually and updated as appropriate to ensure they remain an effective measure of delivery against our objectives. For 2017, the review of these metrics resulted in the following changes:

- Digital convenience for our customers has been amended to 'Active registrations' instead of 'Registrations'. This change ensures we measure users who are actively engaging with MyAviva and other digital platforms every year.
- Following the introduction of Solvency II, the new prudential regulatory framework that came into force on 1 January 2016, we calculate Value of New Business (VNB) on an adjusted Solvency II basis rather than on an MCEV basis.
- As a result of feedback from the Financial Reporting Council's regular review and assessment of the quality of corporate reporting in the UK, we have relabelled 'Operating Profit' to 'Group Adjusted Operating Profit'.
- We have included profit before tax attributable to shareholders' profit (PBT). While not a metric that is used to measure the Group's ongoing financial performance, it is important to assess it alongside Group adjusted operating profit when evaluating our overall result.
- The estimated shareholder cover ratio is now shown inclusive of pro forma adjustments required to reflect the effect of planned acquisitions and disposals consistent with the metric used internally.

Further guidance in respect of the APMs used by the Group to measure our performance and financial strength is included within the 'Other Information' section of the Annual report and accounts. This guidance includes definitions and, where possible, reconciliations to relevant line items or sub-totals in the financial statements. The financial commentary included in this Strategic report should be read in conjunction with this guidance.

Customer Net Promoter Score® (NPS®)

NPS® is our measure of customer advocacy and we use it to measure the likelihood of a customer recommending Aviva in ten of our markets¹. Our relationship NPS® survey shows three years of sustained high levels of customer advocacy, but this year's scores have marked a decline. We are working hard to boost customers loyalty by making things simple for customers and putting them in control, for example with the launch of our simplified home insurance proposition.

Number of markets in 2017:

at or above market average: **7**
2016: 9 2015: 8

below market average: **3**
2016: 1 2015: 2

Engagement

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. Engagement is up one percentage point to 75% and is now consistent across the world after significant improvements for France and Singapore, and a solid four percentage point increase for UK Customer teams. Trust in the Group Executive is now at a historic high and 85% of colleagues see how their team's work aligns to Aviva's strategy.

2017:

75%

2016: 74%
2015: 70%

Carbon emissions reduction

Since 2010 we have reduced carbon emissions (CO₂e) from our day-to-day operations by 53% beating our 2020 target of a 50% reduction earlier than planned. We are a carbon neutral company, offsetting the remaining emissions through projects that have benefitted the lives of over one million people since 2012. In 2017 we were awarded the UN Momentum for Change award in recognition of a decade of work reducing the environmental impact of our business and helping inspire action on climate change. CO₂e data includes emissions from our buildings, business travel, water and waste to landfill.

2017:

53%

Reduction since 2010

2016: 46%
2015: 39%

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

¹ All comparators have been rebased as we have reduced the number of markets covered in the survey from 12 to 10 markets as we have combined our UK operations in line with our True Customer Composite strategy and no longer report on Spain.

My Aviva active registrations ^R

We continue to make progress with our digital transformation and MyAviva remains at its heart. Active registrations are the number of global users of MyAviva and other digital platforms, including customers and guests, who have registered or logged-in at least once during the previous 365 days. Active registrations have increased by 44% to 7.5 million. We will continue to monitor the progress we are making to engage with our customers through digital.

2017:
7.5 million

2016: 5.2 million
2015: n/a

Group adjusted operating profit¹ ^R

Group adjusted operating profit¹ increased by 2% to £3,068 million with the impact of foreign exchange and disposals largely offsetting. The impact of life assumption and modelling changes were higher in 2017 than in 2016, however, this was offset by a decrease in prior year reserve releases in our General Insurance business.

2017:
£3,068 million

2016: £3,010 million
2015: £2,688 million

Profit before tax attributable to shareholders' profit (PBT)

In 2016, PBT was heavily impacted by the Odgen discount rate change of £475 million. After adjusting for this one-off change the PBT has increased in line with increased Group adjusted operating profit, which also reflects reduced integration and restructuring costs and gains arising on the disposal of businesses.

2017:
£2,003 million

2016: £1,193 million
2015: £1,413 million

Cash remittances² ^R

Sustainable cash remittances² from our businesses are a key financial priority. Remittances from business units increased 33% to £2,398 million. This was primarily driven by the UK businesses which include an additional £500 million of Friends Life integration remittance (2016: £250 million) and increased remittances from the UK General Insurance business.

2017:
£2,398 million

2016: £1,805 million
2015: £1,507 million

Estimated shareholder Solvency II cover ratio²

We continue to maintain our strong financial position. The estimated shareholder Solvency II cover ratio² excludes the contribution from fully ring fenced with-profits funds (£3.3 billion) and staff pension schemes in surplus (£1.5 billion). The impact of the announced sales of FPI and the Italian joint venture Avipop Assicurazioni S.p.A have also been reflected in the estimated Solvency II position as pro forma adjustments. During the period the coverage ratio has strengthened from 189% to 198% primarily due to the positive impact of disposals and Operating Capital Generation (OCG)², a key remuneration metric for the Group, offset by the payment of dividends, share buy-back and redemption of hybrid debt.

2017:
198%

2016: 189%
2015: 180%

Solvency II value of new business²

Solvency II Value of New Business (SII VNB)² measures growth and is the source of future cash flows in our life businesses. SII VNB increased by 25% to £1,243 million and includes a £96 million benefit following a clarification to the Solvency II rules on the calculation of transitional measures made by the Prudential Regulation Authority. Excluding this benefit, SII VNB² has increased by 15% reflecting strong double digit growth in all segments and continued discipline on product mix and pricing across our markets.

2017:
£1,243 million

2016: £992 million
2015: n/a

Combined operating ratio²

The combined operating ratio (COR)² is a measure of general insurance profitability. The lower the COR is below 100%, the more profitable we are. Excluding the prior year impact of the Ogden discount rate change in the UK, COR deteriorated by 2.4 percentage points on 2016. This was driven by an increase in the claims ratio reflecting lower prior year reserve releases and an increase in claims severity and frequency in Canada. Outside Canada, there has been positive progress, with continued improvement in the underwriting result in the UK and Europe.

2017:
96.6%

2016: 100.1% (including Ogden)
2016: 94.2% (excluding Ogden)
2015: 95.0%

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

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[The horizon: where the world is going](#)

The horizon: where the world is going

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

My life, my way

Customers will continue to want to be much more in control, expecting self-service and simpler, faster access to products and services.

Expected increase in UK mobile transactions 2017 to 2022

121%

Source: CACI, June 2017

Winning through data & analytics

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.

Insurance customers willing to receive computer-generated advice about the type of insurance coverage to purchase

74%

Source: Accenture June 2017

The power of communities

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

Daily active Facebook users on average

1.4 billion

Source: facebook.com, stats, December 2017

Ever-changing planet

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

Economic loss in US dollars caused by global natural disasters in 2018

\$330 billion

Source: Munich Re, catastrophe losses, January 2018

Shifting wealth

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

Estimated Global Insurance premium share of growth from emerging economies by 2025

47%

Source: Munich Re, April 2017

Older and healthier

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

Increase in UK's average life expectancy at birth between 2010 and 2030

3 years

Source: Imperial College, London, February 2017

The age of disruption

New agile competitors will act faster to disrupt established businesses with customers embracing fintech providers.

Customers conducting business with at least one non-traditional firm

50.2%

Source: Cap Gemini world Fintech report 2017

New threats in a connected world

The proliferation of connected devices and the dominant role of social networks in modern life is raising the threat from cyber attacks and infringements to privacy.

Estimated global cost of Cybersecurity breaches by 2021

\$6 trillion

Source: EY Global Information Security Survey 2017-2018

Blurring of sector boundaries

The clear boundaries between sectors no longer exist, from technology players offering banking services to telecom providers creating media content.

Payment volumes in China processed by non-bank institutions

54%

Source: Global Financial Development Report 2017/2018

Read about where the world is going at www.aviva.com/about-us

[Business model](#)

Business model

Aviva exists to help our 33 million customers Defy Uncertainty. We give our customers the confidence and control to be ready for life's opportunities and challenges.

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

Strengths

We have unique strengths as a business that gives 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:

- Digital innovation
- Data science
- Customer experience
- Underwriting
- Risk management
- Claims management
- 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

... through our products, services and markets ...

Life insurance

Retirement income, savings and pensions

General insurance

Home, motor, travel, commercial and pet

Health and protection

Private medical life, critical illness, income protection

Asset management

Investing for external clients and investing for Aviva

... where premiums and cash are reinvested ...

Customers pay insurance premiums which we use to pay claims. Our scale enables us to pool the risks. We maintain capital strength so we can be there for our customers in the future

Customers invest their savings with us. We manage these investments to provide them with an income for a more secure future.

We also invest the insurance premiums we receive to generate income to meet our obligations to customers and to generate value for shareholders.

Making sure that customers stay with us for the long term is important to the future success of our business.

... creating sustainable value for ...

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

£34.6 billion

Paid out in benefits and claims to our customers in 2017

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

27.40 pence

Total dividend up 18%

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

75%

Increased our employee engagement score by one percentage point

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

2,400

Community projects supported in 2017.

Read about our business at www.aviva.com/about-us/our-businesses

Our strategy

Our strategy focuses on the things that really matter, puts the customer at the heart of everything we do and provides clear direction across all our markets for how we run our business. We have classified these in three key areas:

- True Customer Composite
- Digital First
- Not Everywhere

True Customer Composite

We are a True Customer Composite, giving customers the confidence and control to be ready for life's opportunities and challenges.

We can protect what's important to customers through life, general and health insurance and help customers save for the future through life and pension products underpinned by our asset management capability. We are the only composite insurer of scale in the UK.

Why it's important

Customers have a wide range of insurance, protection and savings needs, and can find it challenging to manage them all. They find themselves with multiple products from different providers. This is not what they tell us they want: what they want is a simple way to meet their insurance and savings needs. True Customer Composite means meeting all these needs individually or in tailored combinations in a convenient, easy to understand and timely manner.

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

For Aviva, this means increased customer engagement and retention, and driving towards more cost effective operations. While our overall global Net Promoter Score® (NPS®) has shown an unwelcome decline, there have been positive improvements in some areas. Customers with more than one Aviva product are far more likely to advocate the brand: multi-product customers have a NPS® of +47pts versus customers with one product.

In a digital world, being a True Customer Composite provides a tangible competitive advantage. Digital allows us to introduce our customers to our composite range of products and offerings in a more effective manner than traditional channels.

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

How we've progressed

Expanding our range

We are continuing to expand our range of customer propositions to be a True Customer Composite across our geographies, and making it easier and more rewarding for customers to manage multiple products with Aviva through digital.

We have made progress in the strategic partnership market, in particular with expanding the number of insurance products we provide to existing clients, such as HSBC.

Rewarding our customers' loyalty is central to our True Customer Composite strategy. For example, we give multiple-product discounts to customers who purchase products through MyAviva.

We are expanding our offerings to help our customers reduce their risks, for example we have launched a weather app in France which led to lower flood claims in motor compared to other insurers as it provided customers with foresight of weather warnings. We also offer the Wellbeing app in the UK to support a healthier lifestyle beyond just exercise and nutrition advice.

Enhancing My Aviva

With MyAviva, we give our customers access to all their products in one place and let them easily make changes to their policies or get the latest deal. We now have MyAviva in the UK, Canada, Ireland, France, Poland, Singapore and Italy.

We recognise customers often have relationships with Aviva through the companies they work for, through a financial adviser, or directly with us. MyAviva helps to bridge all three channels effortlessly and conveniently. This is particularly important when our customers change jobs or move house.

During 2017, we launched a pilot in the UK to work closely with some of our key corporate clients in order to develop a deeper, broader understanding of their business and objectives. This pilot successfully allowed us to align client objectives to Aviva's solutions.

Acquisitions

In 2017 we announced our acquisition of Friends First in Ireland, which will strengthen our life business in Ireland once the acquisition is completed in 2018. This supports our True Customer Composite model as it strengthens both capabilities and distribution for the Life business in Ireland.

Digital First

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

Why it's important

We want to be a 320+ year old disruptor in an industry dominated by complexity.

Our purpose is to help customers Defy Uncertainty – to face life's uncertainties with confidence. Digital tools allow Aviva to offer the convenience, simplicity and rewards to earn our customers' trust, so that we can help more customers protect what matters to them and save for anything from a comfortable retirement, to a new house or family members.

Aviva's digital investment delivers innovative propositions and a better experience for customers. Stronger digital capability leads to more efficient operational processes so that we can serve customers faster and cheaper.

Our strategy > [Continued](#)

Technology offers us the opportunity to do far more to help our customers Defy Uncertainty. Aviva will focus increasingly on delivering products and services to customers more in control and allow them to have a more active hand in steering what lies ahead.

In 2018, Aviva will offer more proactive ways for people to manage their health, wealth and safety – giving them the confidence to be ready for life's opportunities as well as its challenges.

How we've progressed

Space to innovate

We've created Digital Garages in London, Singapore and Canada, and digital spaces in our Paris, Warsaw, Bristol and Norwich offices. They are catalysts for digital innovation, where creative minds collaborate to turn ideas into new products and services. Examples of this are:

- Our chatbots help customers in seconds or provide an insurance quote in minutes
- Customers can make most claims online and we settle simple claims within seconds
- We give people a discount for driving safely through our Aviva Drive App
- We help people plan for the life they want in retirement with our Shape my Future tool
- We explain insurance jargon in a simple way through Our Alexa Skill

Quote me happy

Quotemehappy.com was our first success in the Digital First story and it keeps on growing – it now has over one million customers. 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.

What we are doing differently now and for the future

Working with others to benefit our customers

We're working with some of the brightest companies around the world to innovate so that our customers can benefit.

We invest in cutting edge tech start-ups that shape the future of insurance through Aviva Ventures, our corporate venture capital fund. An example being the investment in Owlstone Medical who developed a device that can read chemicals in breath and detect early stages of cancer.

We're partnering with start-ups to trial innovative customer solutions, including through Founders Factory who help start-ups build and scale.

In the UK we've agreed to make a strategic investment in start-up Wealthify – a robo-investment platform that allows customers to save from as little as £1 with transparent fees.

Ask it Never

Ask it Never is our ambition to make insurance simpler and easier for customers using data and analytics to improve the customer journey. In 2017 we launched a market leading Home Insurance proposition which allows customers to get an instant price in MyAviva and buy in less than two minutes with minimal questions. In 2018 we plan to extend our ambition to create a suite of customer friendly experiences on MyAviva.

How we measure success

We see digital experiences as one of the best ways to drive customer preference for the Aviva brand. While our overall global NPS® declined, digital scores were positive:

- Globally, our digital customers have NPS® that is +24 points higher than non-digital customers
- In the UK, Aviva's digital users are more positive about their customer experience than digital users of our competitors (+27 NPS® score for Aviva versus +19 NPS® for competitors)
- Globally, among our digital customers 69% are likely to consider Aviva for other products, compared to 52% of non-digital customers
- In the UK, 69% of MyAviva registered customers are likely to consider Aviva for other products and services compared to just 53% of those not registered on MyAviva

Reinventing insurance

We want to reinvent insurance for the digital age, to make it simple and accessible for our customers and to challenge traditional distribution 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 meets our customers' needs. We are planning to launch a joint proposition in the first half of 2018, pending regulatory approval.

Aviva Ventures builds portfolio

Aviva Ventures is our corporate venture capital fund. It looks for and makes investments in start-ups that have an alignment to the future of the insurance market. In 2017 it significantly expanded the portfolio as well as extending its appetite into making fund investments. We have made investments in six new companies: Roost (US), Casalova (Canada), Neos (UK), Owlstone Medical (UK), Savari and Biofourmis (both Singapore) bringing the total direct investments to ten. We have also deployed capital into Anthemis' Fintech fund and Aquiline's Technology Growth fund. By working with these innovative companies, Aviva is able to stay at the forefront of the fast paced world of digital innovation.

Not Everywhere

Not Everywhere means that we deploy our resources where we can be most competitive. We are not interested in planting flags or being in 100 countries. We 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.

Why it's important

It is about focussing our resources where we can be most competitive and doing a relatively small number of things well, rather than casting our net too widely.

Not Everywhere is also about capital allocation. 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.

How are we progressing?

In 2017 we largely completed the restructuring of our businesses to narrow our focus on what we can do best.

In 2017, we announced the sale of Friends Provident International, a major part of our Spanish business and our 49% stake in our joint venture in Taiwan.

Major Markets and Strategic Investments

Our Major Markets and Strategic investments categorisation shows how Aviva's markets and business lines contribute to our overall portfolio, either now or in the future.

Our strategy > [Continued](#)

Major markets: solid growth, sustainable cash

We are focussed on eight attractive, growing markets where we are, or have the potential to be the best in class. It is these businesses that will underpin the cash flow plus growth strategy. Our major markets are:

- UK – number one composite insurer providing a core growth engine and high levels of sustainable cash flow
- France – a cash generator underpinned by strong distribution
- Canada – leading general insurance franchise with attractive cross-cycle returns
- Poland – high ROE business with strong distribution and digital credentials
- Italy – rebounding economic opportunity providing strong net flows
- Ireland – a leading brand in a growth economy with accelerated development of the composite model
- Singapore – an innovative strategy to accelerate development of the financial advisory channel in an attractive growth market
- Aviva Investors – a growth engine underpinned by increasing third party assets and delivering rising income and falling costs

Strategic investments: future, fast growth

We have made a number of strategic investments that will accelerate growth and provide increased value over the long term. These investments are:

- Digital – leading intellectual property (IP) being rolled out across our markets
- China – delivering strong growth in sales and adjusted operating profit in one of the world's largest insurance markets
- Hong Kong – joint venture with Tencent and Hillhouse focussed on digital disruption
- Turkey – leading position in the life and pensions market and exposure to a large, young and growing population
- Indonesia – bancassurance venture in an under-penetrated, high growth emerging market
- India – we are reassessing our options given changes in market fundamentals
- Vietnam – leading business in one of the fastest growing Asian economies
- Global Corporate Solutions (GCS) – selective expansion provides a natural extension to our existing strength in retail and commercial lines

Read about our businesses at www.aviva.com/investors/our-strategy

[Our people](#)

Our people

We have a clear purpose. We help our customers Defy Uncertainty; this remains at the core of what our people do. This commitment to customers, high levels of people engagement and skills, and alignment to Aviva's values helped contribute to Aviva's strong financial performance.

The focus for 2017 has been on our culture; we want to be a business which is simple, innovative and customer centric in everything we do.

We employ 30,021 people globally and in the UK, we employ more than 14,600 people.

Our strategy

Our global people strategy sets out how we will accelerate our performance. 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
- Make leadership a way of life so all our people contribute to delivering our strategy and think independently. We want leaders who dream big and move fast in everything they do
- Create an inclusive and diverse environment so that everyone can be themselves
- Actively invest in the skills, mind-sets and future capabilities we need to win in a digital age

Our values

Our values 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 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.

Changes to business landscape

We continue to strengthen the leadership teams including restructuring the UK business to ensure the management structure reflects the True Customer Composite nature of the business.

During 2017 we have welcomed the employees from RBC General Insurance into Aviva Canada and successfully negotiated with unions to facilitate the sale of our Spanish business with 90% of people transferring across to the new buyer.

Developing our people

Investment in people remains an area of focus for us. In 2017, we:

- Developed a three year people strategy. This defines and sets direction for a simpler, global approach, identifying, assessing and developing our talent to mobilise their potential
- Moved 39% of our high potential senior leaders into new or broader roles to develop core experiences and strengthen our executive pipeline
- Delivered our Leadership Accelerator programme to 290 of our senior leaders. Feedback has been extremely positive and we are seeing a difference in leadership approach and capability. A version of this programme will be rolled out to people leaders from 2018
- Ensured that 83 high potential female leaders from a range of levels have attended 'Accelerate Leadership from the Inside out' (ALIO), our female-only leadership programme. The programme offers a unique opportunity to develop our female leaders, build their confidence and deepen their commitment to Aviva
- Launched our Digital Academy in Poland to help develop the next generation of programmers and future digital talent
- Established the Global Graduate Leadership Programme to create a high performing pipeline of globally mobile graduates, designed to build our long-term leadership capability and meet our future business needs. We currently have graduates located across UK, Singapore, Hong Kong, Vietnam, Canada, USA, France, Poland and Italy

Engaging our people

In 2017 our global Voice of Aviva survey focussed on key areas of insight to drive growth. Engagement is up one percentage point to 75% and is now consistent across all of our markets after significant improvements for France and Singapore, 85% of colleagues see how their team's work aligns to Aviva's strategy.

Our culture journey since 2014 has shown significant shifts towards a culture of more innovation and less bureaucracy. 70% of colleagues feel able to challenge complexity and 69% feel able to try out new and exciting ideas to benefit our customers. Nearly four in five employees believe that Aviva values their health and wellbeing, up nine percentage points in 2017 alone following the launch of a highly successful Health and Wellbeing programme.

Our culture journey will continue in 2018 with on-going focus on colleague engagement, giving people the freedom and room to operate and innovate, developing our leaders to lead for the future and creating the conditions where colleagues can perform at their best. We recognise that we still have more to simplify processes and systems within Aviva and this will be a key focus for 2018.

Within Aviva we take our responsibility to consult very seriously. We have a positive and constructive relationship with the trade union Unite as well as a fully elected all-employee representative body 'Your Forum'. The existence of Your Forum within Aviva is a key way of recognising that we all have a part to play in contributing to the debate on issues and opportunities impacting on our people and our organisation.

The representative bodies meet regularly with the CEO and members of the GEC throughout the year. We believe that by doing so we encourage a culture of trust and open and honest communication that will help us ensure that our organisation is a better place to be.

We continue to provide an employee share scheme and all employees have the opportunity to engage with senior leader through weekly #Uncut episodes 'our global streaming platform', results live and regular town halls. This ensures everyone at Aviva is aware of significant changes in the business and financial and economic factors affecting the business.

Our people > [Continued](#)

Inclusive diversity

Inclusive diversity is at the heart of how we do business and a key requirement for the workforce of the future. If people can be themselves, they'll be happier and contribute their best thinking. They will also be more in tune with our diverse customer base and better able to serve their evolving needs. Our staff engagement survey shows that 87% of our people feel that people from diverse backgrounds can succeed at Aviva and we want to see this reflected in the diversity of talent we attract and develop within the Company.

In 2017 we focussed our attention on gender and age, for the first time setting a 30% target to increase the proportion of women in senior roles across the Group by 2020. We have also published our gender pay gap in the UK and expect to see that close over time too. A key policy change to contribute to our inclusive culture was the launch of our new equal parental leave policy in Canada, UK, France, Ireland and Singapore. It enables any parent employed by Aviva to be eligible to the same amount of paid and unpaid time off, regardless of gender, sexual orientation or how they became a parent (birth, adoption or surrogacy).

We are an equal opportunities employer and ensure a consistent approach to recruitment and all areas of employment policies across all our markets. These policies apply to all Aviva directors and employees, business units, and operations, and it is the responsibility of CEOs (or equivalent) to ensure that their business operates in line with them.

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. We have a duty of care to make adjustments to roles and responsibilities which will allow a disabled person to work or continue working. For example, we adapt the working environment where we can and offer flexible working practices and appropriate training to take into account their personal circumstances.

As a member of The 'Business Disability Forum' we're committed to ensuring that all candidates for recruitment and employees are treated fairly throughout the employee lifecycle including opportunities for training, promotion and career development.

We continue to build on the existing strengths of our communities and partnerships with the launch of six global employee resource groups focussing on age, gender balance, caring, disability, sexual orientation, race and ethnicity in 2018. We will also be setting targets and tracking progress in these dimensions in our core markets and Group functions through agreed Statements of Intent overseen by our Global Inclusion Council.

To manage employment risk, we conduct pre-employment screening checking and operate regular performance appraisals for all employees at all levels, which are independently calibrated throughout an employee's career. Any exceptions to the policies are reported to line management and escalated via the appropriate channels.

As a financial services regulated entity, we have a compulsory and tailored annual risk-based training and awareness programme to ensure employees and others acting on Aviva's behalf know what is expected of them. Our people are regularly updated by the senior team through several mechanisms, such as our intranet and #Uncut episodes, giving employees equal and timely access to information on financial and economic factors affecting Aviva.

Health and wellbeing

We know our employees are a key factor in making our business successful and as such their wellbeing is key. We launched Wellbeing@Aviva in 2017, an integrated approach to Wellbeing covering mental health, physical health, financial education and social and community. This includes the Aviva Wellbeing app, which allows our people to set personalised action plans to create healthy new habits, link wearables and apps to track all activity in one place, take part in challenges and earn points to exchange for a range of rewards. We have initiatives in place such as leader training for mental health, physical health checks, and free membership to Headspace for mindfulness practice, an enhanced sickness policy and income protection scheme, key focus on nutrition and we also provide additional support via our essentials products for both physio and cancer. In 2017 we launched our new Carers Policy in the UK which offers paid time off for carers and we are shortly launching a new fitness proposition for all our people. 2018 will also see a higher focus on financial education.

Our plans for 2018

Innovation, simplicity, inclusion and developing winning capabilities will be key priorities for us as we continue to transform our business.

We recognise that we are on a journey to accelerate Aviva's transformation into a company that puts the customers at the centre of everything we do and our focus will be on ensuring our people can deliver in an innovative and simple way.

In 2018 we will continue to focus on developing an inclusive workforce which is fit for the future.

At 31 December 2017, we had the following gender split:

Board membership

Male

9

Female

3

Senior management

Male

521

Female

169

Aviva Group employees

Male

14,618

Female

15,403

The average number of employees employed by the Group during 2017 was 30,090.

Read about our approach to responsible and sustainable business in the 'Corporate Responsibility' section of this report and our people strategy at www.aviva.com/about-us/our-people

Chief Financial Officer's Review

Overview

In 2017, Aviva delivered growth in Group adjusted operating profit¹, generated increased cash-flow, further strengthened our Solvency II cover ratio^{2,4} and used excess cash and capital to repay debt and repurchase shares.

Group adjusted operating profit¹ increased 2% to £3,068 million (2016: £3,010 million) while operating earnings per share (EPS)^{2,3} advanced 7% to 54.8 pence (2016: 51.1 pence). The Board of Directors has proposed a final dividend of 19.0 pence per share. This takes the full year dividend per share to 27.4 pence, an increase of 18% and meeting our 2017 dividend payout ratio target of 50% of operating EPS^{2,3}.

IFRS profit after tax attributable to shareholders was £1,646 million and basic earnings per share 35.0 pence (2016: £859 million and 15.3 pence respectively). The year-on-year movement in these measures reflects the one-off exceptional charge of £475 million incurred in 2016 as a result of the change in the Ogden discount rate, a reduction in integration and restructuring expenses and gains on divestitures, offset by a re-measurement loss of £118 million arising from our recent announcement to dispose of Friends Provident International, which has been measured at fair value.

In 2017, Aviva repaid debt of US\$650 million and returned capital to shareholders via a £300 million share repurchase programme. With our Solvency II cover ratio^{2,4} remaining above our working range, we have plans to reduce hybrid debt by a further £900 million in 2018 and will consider other opportunities to deploy surplus capital to strengthen our businesses and enhance long-term shareholder returns.

During 2017, Aviva announced divestments of joint ventures in France, Spain, Taiwan, and Italy as well as the sale of Friends Provident International. Aviva invested in Vietnam, where we acquired 100% ownership of our joint venture with VietinBank, and we announced the acquisition of Friends First in Ireland, strengthening our position in the Irish life insurance market. In Hong Kong, regulatory approval was recently granted for our joint venture with Tencent and Hillhouse.

In 2017, our major markets demonstrated their competitive strength by growing assets, improving net flows and increasing premium volumes. Our priority is to accelerate the performance of our businesses and translate this into attractive and dependable growth in Group adjusted operating profit and dividends.

Operating performance: Major markets

Aviva currently derives virtually all of its Group adjusted operating profit¹ and cash flow from eight major markets: UK, Ireland, France, Poland, Italy, Canada, Singapore and Aviva Investors. This is where Aviva believes it is currently best positioned to compete on the basis of our scale, brand and leading distribution.

The Group adjusted operating profit¹ from these major markets (excluding divestitures) totalled £3,508 million (2016: £3,300 million), an increase of 6%. Growth was supported by higher adjusted operating profit¹ from our businesses in the UK, Aviva Investors, France, Ireland, Poland and Singapore. These more than offset the reduction in adjusted operating profit¹ from Canada.

United Kingdom

Aviva is unique as the only large-scale composite insurer in the UK market with a top three share across multiple product lines. In UK Insurance adjusted operating profit¹ increased 13% to £2,201 million (2016: £1,946 million) due to attractive growth across most of our core product lines together with favourable development of reserves.

In long-term savings, adjusted operating profit¹ rose 30% to £185 million (2016: £142 million) reflecting higher assets under management (AUM)², stable in-force profit margin and strict management of acquisition costs, despite increases in new business sales. Net fund flows almost doubled to £5.6 billion (2016: £2.9 billion) due to mandate wins in workplace pensions together with a sharp increase in net flows into the advisor platform, where AUM² increased by 56% to £20 billion.

Adjusted operating profit¹ from annuities and equity release grew 11% to £725 million (2016: £656 million) due to higher new business volumes and continued progress on optimising assets backing the in-force portfolio. New business volumes increased 58% to £4.3 billion (2016: £2.7 billion), mainly as a result of bulk purchase annuities, where sales more than tripled in 2017 to £2,045 million (2016: £620 million).

Life protection saw a reduction in adjusted operating profit¹ to £227 million (2016: £242 million). While increased volumes and margins supported growth in new business contribution from both the consumer and group protection portfolios, the result from the existing business declined due to unfavourable claims experience in group protection.

General insurance made continued progress in 2017, increasing net written premiums by 4% while further refining product and channel mix. Adjusted operating profit¹ grew 4% to £408 million (2016: £392 million) due to improved underwriting. Excluding the impact of the change in Ogden discount rate in the prior year, the combined operating ratio² was stable at 93.9%, helping to generate underwriting result of £246 million (2016: £232 million). The long term investment return was consistent with the prior year at £163 million (2016: £162 million). In 2017, we announced the extension and expansion of our relationship with HSBC in the UK, which is expected to provide additional impetus for growth in 2018.

Our legacy business of mature savings products maintained adjusted operating profit¹ at £331 million (2016: £332 million). AUM² in the legacy portfolio remained stable, with positive investment markets offsetting net fund outflows as policies matured. We continue to expect adjusted operating profit¹ from the legacy business to decline gradually over the medium term.

1 Group adjusted operating profit is an Alternative Performance Measure (APM) which is used by the Group to supplement the required disclosures under IFRS. Please refer to note B in the 'Accounting Policies' section, note 4 'Segmental Information' and 'Other Information' within the Annual report and accounts for further information.

2 This is an Alternative Performance Measure (APM) which provides useful information to enhance the understanding of financial performance. Further information on APM's, including a reconciliation to the financial statements (where possible), can be found in the 'Other Information' section of the Annual report and accounts.

3 This measure is derived from the Group adjusted operating profit APM. Further details of this measure are included in the other information section.

4 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 of £3.3 billion (2016: £2.9 billion) and staff pension schemes in surplus of £1.5 billion (2016: £1.1 billion). These exclusions have no impact on Solvency II surplus. The estimated Solvency II position includes the pro forma impacts of the disposals of Friends Provident International Limited (£0.1 billion increase to surplus) and the Italian Avipop Assicurazioni S.p.A (£0.1 billion increase to surplus). The 31 December 2016 Solvency II position included pro forma adjustments for the impact of the announced disposal of Antarius and the future impact of changes to UK tax rules announced by the Chancellor of the Exchequer's Autumn statement, which was removed following clarification in the 13 July 2017 Finance Bill. The 31 December 2016 Solvency II position also includes an adverse impact of a notional reset of the transitional provisions (TMPT) to reflect interest rates at 31 December 2016 £0.4 billion decrease to surplus.

In addition to the above core product lines, we have made changes to assumptions and methodology in 2017. The net effect of these changes increased to £290 million (2016: £151 million). This included changes in relation to longevity reserves, partially offset by increased provisions in other areas including expenses.

Aviva's UK business has unrivalled strength and depth and provides a blueprint for our digital composite strategy. Looking forward, our priorities are to grow adjusted operating profit¹ while generating significant levels of free cash-flow that can be invested or returned to deliver additional long-term benefits for shareholders.

The UK offers structural growth drivers including the shift in assets and savings flows from defined benefit (DB) pensions into defined contribution (DC), rising auto-enrolment pension contribution rates and the trend for corporates to seek insured solutions to manage (and outsource) their DB pension schemes. By leveraging the strength of our relationships with customers and partners, we are focussed on extending our track record of growth via higher net flows, increases in premium volumes and continued discipline in managing expenses.

Aviva Investors

Aviva Investors is targeting double digit growth by transforming its position and becoming a leading asset manager of both third party and Aviva assets. It is achieving this by focussing on three key areas:

- Providing solutions - where the AIMS range of funds seeks to achieve investors' desired outcomes with reduced volatility.
- Real Assets expertise - where our capability and expertise in real estate and infrastructure origination supports both the growing need of Aviva's annuity portfolio and the requirements of external investors, including defined benefit pension schemes.
- Improving investment performance - where we can capitalise on our strong fund performance track record, the strength of the Aviva brand and the acquisition of additional asset management talent to increase our presence in traditional asset classes.

In 2017, Aviva Investors achieved another year of strong growth, with fund management adjusted operating profit¹ rising 21% to £168 million (2016: £139 million). Revenue grew 14% to £577 million (2016: £506 million) due to higher average AUM², an increase in revenue margin associated with the expansion of the third party business and greater levels of infrastructure asset origination. Operating expenses² rose slower than revenues at 11%, leading to an improvement in the operating margin to 29% (2016: 27%).

AUM² rose to £353 billion (2016: £345 billion). Net inflows of £1.6 billion (2016: £1.0 billion) benefitted from higher inflows into internal core propositions while market and foreign exchange movements added £5.9 billion to AUM².

Looking forward, the priority for Aviva Investors is to continue the targeted shift toward external funds and Aviva core propositions, along with increased origination activity in infrastructure and real estate financing. This should further increase revenue margins and adjusted operating profits¹ and more than offset the net outflow in legacy Aviva life products that are no longer actively marketed.

Ireland

In Ireland, Aviva is a composite insurer with a leading market position in general insurance and a top four position in life insurance. Our strategy in Ireland is to leverage the strong capabilities of the Aviva group, bringing together leading digital propositions and a large-scale composite business model to capitalise on Aviva's strong brand recognition.

In 2017, Aviva Ireland delivered adjusted operating profit¹ of £86 million (2016: £80 million) an increase of 18% after excluding the contribution from the health insurance business divested in 2016. In general insurance, net written premiums increased 8% to £436 million (2016: £378 million) and the combined operating ratio² improved by one percentage point to 91.4%. This underpinned growth in general insurance adjusted operating profit¹ to £53 million (2016: £48 million). In life insurance, adjusted operating profit¹ was £33 million (2016: £32 million) with a modest increase in sales volumes offset by higher investment management charges.

Looking forward, the priority in Ireland is to maintain underwriting discipline and continue to develop our composite, multi-product franchise with brokers, partners and customers. We recently announced the acquisition of Friends First for €130 million (subject to regulatory approval), increasing the scale of our life insurance business.

France

In France, Aviva has strong distribution and a composite footprint, with increased brand recognition providing an opportunity to expand our presence with customers.

France adjusted operating profit¹ was flat in local currency terms at £529 million (2016: £499 million). However, this reflected a partial year contribution from Antarius, which was sold to Societe Generale in April 2017. Excluding Antarius, adjusted operating profit¹ increased 13% in local currency terms to £507 million (2016: £421 million).

In life insurance, adjusted operating profit¹ excluding Antarius increased 8% in local currency to £403 million (2016: £351 million). Fee revenues benefitted from higher average AUM² and our results were further supported by the continued evolution of business mix towards protection and unit linked products.

In general insurance, adjusted operating profit¹ gained 37% to £104 million (2016: £70 million). Net written premiums increased 3% to £1,053 million (2016: £957 million) due to growth in direct personal lines, while lower weather related claims helped the combined operating ratio² improve to 94.5% (2016: 97.0%).

In France, we intend to consolidate our distribution into four key channels under a single Aviva brand. This targets improved alignment and efficiency within the distribution network, strengthening Aviva's ability to develop relationships with customers in the French market across our composite product offering.

Canada

Aviva is a scale player in the Canadian general insurance market, with a circa 10% market share. We have a leading position in the broker channel and, following our recent acquisition of RBC General Insurance (RBCGI), have expanded our presence into the direct and bank channels. Canada has provided attractive returns on capital in most years and our current positioning provides a long-term opportunity to be a leader in the general insurance market while seeking to develop elements of a composite footprint for the benefit of customers.

In 2017, Canada had a very challenging year, with adjusted operating profit¹ falling to £46 million (2016: £269 million). Net written premiums grew 15% to £3,028 million (2016: £2,453 million) due to a full 12 month contribution from RBCGI (acquired in July 2016) and long term investment return rose to £115 million (2016: £105 million). However, the underwriting result deteriorated from a profit of £168 million in 2016 to a loss of £64 million in 2017.

1 Group adjusted operating profit is an Alternative Performance Measure (APM) which is used by the Group to supplement the required disclosures under IFRS. Please refer to note B in the 'Accounting Policies' section, note 4 'Segmental Information' and 'Other Information' within the Annual report and accounts for further information.

2 This is an Alternative Performance Measure (APM) which provides useful information to enhance the understanding of financial performance. Further information on APM's, including a reconciliation to the financial statements (where possible), can be found in the 'Other Information' section of the Annual report and accounts.

The increase in the combined operating ratio² to 102.2% (2016: 93.0%) was attributable to adverse prior year reserve development across auto and property insurance portfolios together with weaker accident year profitability in the auto insurance market, where bodily injury claims inflation rose sharply. In 2016, prior year reserve releases added £130 million to adjusted operating profit¹, while in 2017, reserves were strengthened by £37 million. The underwriting result in Canada also suffered from heightened levels of large losses in the commercial insurance portfolio, while weather and natural catastrophe claims remained at elevated levels.

Looking forward, the priority in Canada is to restore adjusted operating profit¹ to historical levels. We have undertaken a number of remedial actions, including increasing premium rates across a number of product classes. Our medium term objective is to return our combined operating ratio² to a 94-96% target range. However, the impact of these actions may take time to be reflected in our results, and our combined operating ratio² is likely to remain above our target range in 2018 and 2019.

Poland

Aviva is one of the leading composite insurers in Poland, with a number two position in life insurance underpinned by strong multi-channel distribution.

Aviva Poland increased adjusted operating profit¹ by 12% in local currency to £177 million (2016: £140 million). In life insurance, adjusted operating profit¹ rose 8% to £156 million (2016: £132 million) while general insurance adjusted operating profit¹ was £21 million (2016: £8 million).

Growth was supported by higher average AUM² in life insurance helped by improved productivity in our direct sales force and higher retention. In general insurance, increased volumes in direct retail and commercial lines together with lower motor claims frequency helped to support growth. Adjusted operating profit¹ from both the life insurance and general insurance businesses also benefitted from consolidating the joint venture with Bank Zachodni WBK SA for the first time in 2017.

The emphasis in Poland is maintaining positive momentum in the life insurance business and continuing to build scale across the composite.

Italy

Aviva has a composite position in the Italian market supported by joint ventures and distribution relationships with leading banks and a growing franchise among independent financial advisors. We have an opportunity to deploy our digital expertise in Italy to further strengthen our propositions for customers and distribution partners.

Aviva Italy has generated strong growth in life new business volumes and delivered £2.3 billion of net fund inflows reflecting the success of their hybrid product and expansion of the distribution footprint. However, this also gave rise to short term strain in profitability against what was a record result in 2016. As a result adjusted operating profit¹ from Aviva's Italian business was stable in 2017 at £213 million (2016: £212 million), despite a 7% benefit from foreign exchange translation. In life insurance, adjusted operating

profit¹ of £168 million (2016: £170 million) represented an 8% decline in local currency terms. General insurance adjusted operating profit¹ was stable at £45 million (2016: £42 million), reflecting an increase in net written premiums to £412 million (2016: £395 million) and a slight deterioration in combined operating ratio² to 94.2% (2016: 92.5%).

Aviva Italy is a leader in the market in terms of product design and this is translating into attractive new business volumes and net inflows. We remain focussed on strengthening our strategic positioning in Italy by expanding distribution and increasing emphasis on our composite business model.

Singapore

We are a major player in the Singapore life and health insurance market and our strategy is to encourage the evolution of distribution in the market towards financial advisors. We believe this will benefit customers, providing greater convenience, increased choice and superior value for money. Aviva Financial Advisors now has more than 670 financial advisors, to whom we provide technology, compliance and administrative support. Our ambition is the further expand this channel, where Aviva is a leading provider of long term savings and protection products.

In 2017, Singapore delivered adjusted operating profit¹ of £110 million (2016: £100 million), an increase of 5% in local currency terms. Life insurance adjusted operating profit¹ of £118 million (2016: £112 million) was stable in local currency terms. Aviva's financial advisor network began to build momentum in new business production, increasing value of new business² by 24% to £123 million. In general insurance and health, adjusted operating losses¹ narrowed to £8 million (2016: £12 million).

Strategic investments

In addition to its major markets, Aviva has strategic investments which are managed to produce long term growth in adjusted operating profit¹ and value. These strategic investments are in China, Hong Kong, Turkey, India, Vietnam and Indonesia. Within this, we are currently delivering attractive and growing profits in our joint ventures in China and Turkey, however these are offset by losses from less mature businesses in Indonesia and Vietnam, coupled with our acceleration of investment into Digital.

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2 This is an Alternative Performance Measure (APM) which provides useful information to enhance the understanding of financial performance. Further information on APM's, including a reconciliation to the financial statements (where possible), can be found in the 'Other Information' section of the Annual report and accounts.

3 This measure is derived from the Group adjusted operating profit APM. Further details of this measure are included in the other information section.

4 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 of £3.3 billion (2016: £2.9 billion) and staff pension schemes in surplus of £1.5 billion (2016: £1.1 billion). These exclusions have no impact on Solvency II surplus. The estimated Solvency II position includes the pro forma impacts of the disposals of Friends Provident International Limited (£0.1 billion increase to surplus) and the Italian Avipop Assicurazioni S.p.A (£0.1 billion increase to surplus). The 31 December 2016 Solvency II position included pro forma adjustments for the impact of the announced disposal of Antarius and the future impact of changes to UK tax rules announced by the Chancellor of the Exchequer's Autumn statement, which was removed following clarification in the 13 July 2017 Finance Bill. The 31 December 2016 Solvency II position also includes an adverse impact of a notional reset of the transitional provisions (TMTP) to reflect interest rates at 31 December 2016 £0.4 billion decrease to surplus.

Capital & cash

At 31 December 2017, Aviva's Solvency II capital surplus^{2,4} was £12.2 billion (2016: £11.3 billion), equivalent to a cover ratio^{2,4} of 198% (2016: 189%). We increased our Solvency II cover ratio^{2,4} by 9 percentage points, whilst also paying off approximately £500 million of subordinated debt and completing a £300 million share repurchase programme during 2017. Operating capital generation² of £2.6 billion (2016: £3.5 billion) remained well above underlying levels due to benefits associated with merging legal entities in the UK and other actions as we continue to adapt to the Solvency II regime. Underlying capital generation remained stable at £1.7 billion (2016: £1.7 billion), despite higher premium volumes in general insurance, increased new business sales in life insurance, lower profitability from our Canadian business and the impact of divestitures. Cash remittances² from our business units were £2,398 million (2016: £1,805 million). The increase in remittances was mainly attributable to the UK, which contributed £1,800 million (2016: £1,187 million). Remittances from the UK general insurance business increased and special remittances from the life business arising from the Friends Life integration doubled to £500 million. Remittances from Europe of £485 million (2016: £449 million) and Aviva Investors of £58 million (2016: £39 million) both grew in conjunction with adjusted operating profit¹ progression while Canada's weaker results led to a decline in remittances to £55 million (2016: £130 million).

At our Capital Markets Day event in Poland in November 2017, we upgraded our target for total cash remittances² to Group centre over the three year period from 2016 to 2018 inclusive to £8 billion (previously £7 billion). With cumulative remittances inclusive of announced divestiture proceeds at £5.4 billion, we remain on track to deliver this target.

Aviva's Group centre cash resources are £2.0 billion (February 2017: £1.8 billion). Our intention is to maintain this in a range of £1.0 billion to £1.5 billion over time. In view of our surplus capital and liquidity position and expected level of Group centre cash receipts over the coming year, we anticipate having £3 billion available for deployment in 2018 and 2019.

Our priorities for deployment of surplus cash and capital remain unchanged. We prioritise profitable organic growth in our existing businesses. After allowing for this, we will look to reduce debt balances, consider bolt-on acquisitions and provide additional capital returns.

In 2018, we have signalled our intention to reduce hybrid debt by £900 million. We are targeting more than £500 million in additional capital returns, incorporating liability management and returns to shareholders. In this regard, we have the ability to cancel preference shares⁴ at par value through a reduction of capital, subject to shareholder vote and court approval. The preference shares carry high coupons that are not tax-deductible and they will not count as regulatory capital from 2026. As we evaluate the alternatives, one of the things we are considering is how to balance the interests of ordinary and preferred shareholders. We have committed €130 million to acquire Friends First in Ireland and have further appetite for bolt-on acquisitions in our major markets. Any unused M&A budget will be diverted to further reduce debt balances or fund additional returns.

Outlook

Having strengthened our balance sheet and streamlined our business, Aviva is now at a turning point in terms of our capacity for growth. Our eight major markets are Aviva's strongest businesses, with leading distribution, brand strength, scale efficiency and underwriting expertise driving attractive growth potential.

We continue to invest in our businesses to build on Aviva's competitive advantage. We are strengthening our capabilities in data science and digital innovation to deliver leading propositions for customers. This is already providing tangible results in terms of engagement with customers and distribution partners. We have increased our investment in talent to support growth across the group, with notable examples being Aviva Investors, bulk-purchase annuity origination and Global Corporate and Specialty insurance. We also continue to develop our strategic partnerships in emerging markets.

This investment requires us to prioritise and reallocate resources. We are initiating a zero-based budgeting programme and are seeking improvements in efficiency by reorganising functional processes through global shared services. We have also chosen to exit markets or product segments, with proceeds from these divestitures, together with special remittances from UK Insurance, providing capacity for investment.

We have outlined an ambition to maintain higher growth in operating EPS^{2,3}. Aviva is now a more focussed business, with operations in countries that have attractive economic prospects and segments where there are sustainable and growing demand dynamics. Turning specifically to the drivers of our results and other large or notable items, we highlight the following factors for our 2018 results:

- Organic growth – we are targeting greater than 5% growth in Group adjusted operating profit¹ from our major markets;
- Canada – we expect a partial recovery in adjusted operating profit¹ to provide an approximately 1-2% incremental benefit for Group adjusted operating profit¹ in 2018;
- Capital management – the debt retirement and share repurchase undertaken in 2017 are expected to support operating EPS^{2,3} growth by approximately 2% in 2018. Additional actions in 2018, including additional planned debt retirement, are expected to provide a further 1% to 1.5% benefit to operating EPS^{2,3} in 2018.
- Divestitures – the expected completion of disposals in Spain, Italy and Friends Provident International are expected to reduce operating EPS^{2,3} by approximately 4% in 2018 depending upon the timing of completion;
- Tax rate – our operating tax rate, which was 21% in 2017, may be higher in 2018 depending on business mix of actual profitability. This may reduce operating EPS^{2,3} growth by approximately 1-2%.

With positive and negative items largely offsetting, we expect fundamental business performance in our major markets to drive our 2018 results. We are targeting greater than 5% growth in operating EPS^{2,3} subject to the impacts from foreign exchange, weather and other items.

Tom Stoddard
Chief Financial Officer
7 March 2018

1. Group adjusted operating profit is an Alternative Performance Measure (APM) which is used by the Group to supplement the required disclosures under IFRS. Please refer to note B in the 'Accounting Policies' section, note 4 'Segmental Information' and 'Other Information' within the Annual report and accounts for further information.

2. This is an Alternative Performance Measure (APM) which provides useful information to enhance the understanding of financial performance. Further information on APM's, including a reconciliation to the financial statements (where possible), can be found in the 'Other Information' section of the Annual report and accounts.

3. This measure is derived from the Group adjusted operating profit APM. Further details of this measure are included in the other information section.

4. Par value includes accrued interest, arrears and in the case of the General Accident plc preference shares, issue premium.

Market review

UK

Overview

Aviva is the UK's largest insurer with a 18%¹ share of the UK life and savings market, a 10%² share of the UK General Insurance and Health market. We offer a market leading range of propositions to individual and corporate customers covering their savings, retirement, insurance and health needs. We also have one of the largest legacy books in the UK life and pensions market.

We look after over £260 billion of assets for our customers, helping people save for their long-term goals, in particular their retirement. A key focus is on helping our customers provide for a more comfortable retirement. We support them with secure income from annuities, paying out over £2.6 billion each year. And we are a leading supplier of equity release (lifetime mortgages), lending over £700 million in 2017³.

Market leading service is at the heart of our business and we insure 2.6 million motor customers and 2.8 million home customers. Customers publicly review their claims experiences with Defaqto ratings of 5.0 for our Motor policies and 4.6 for Home policies. Over 4.5 million people rely on us to protect them and their families financially against death or illness and we keep those promises paying over £900 million in individual protection claims.

We are also a leading supplier of services to the corporate marketplace, servicing 5 million customers, including 21%⁴ of the workplace pensions market. We offer pensions, protection, and bulk annuity propositions to both large and small companies, as well as health and general insurance. Our relationship management teams work hard to ensure they understand our clients' needs so we can bring the best of what we have to offer so our corporate customers can fulfil more of their requirements with Aviva.

We continue to support our corporate clients and the health of their employees with the launch of our low cost 'Health Essentials' products and the Aviva Wellbeing app. Health Essentials enables employers to offer simple top-up cancer and physiotherapy cover to their employees, intended to complement care customers receive through NHS health services. The Wellbeing app helps employees track and improve their overall wellbeing and better manage specific conditions and fitness priorities.

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, brokers, employee benefit consultants, banks and we have single-tie agreements with three of the largest estate agencies.

Among our many awards, we have won the Insurance Times 'Insurer of the Year' award four years running, 'Health insurer of the year' at the Health Insurance Awards for the eighth year running in 2017, and 'Platform of the year' in 2017 from the LangCat.

Financial performance

£m	2017	2016
Adjusted operating profit ^{5,7}	2,201	1,946
Cash remittances ⁵	1,800	1,187
Operating expenses ⁶	1,493	1,408
Solvency II Value of New Business (VNB) ⁶	527	429
Combined Operating Ratio (COR) ^{5,8}	93.9%	93.9%

UK Insurance was created in 2017 by bringing our UK life, health and general insurance businesses together under a common leadership team to unlock the potential of our unique position as a large scale composite. The business delivered an increase of 13% in adjusted operating profit^{5,7} to £2,201 million (2016: £1,946 million), including a 6% increase from our legacy and core product segments. demonstrating the value of our market leading franchise. Dealing with the main components of UK Insurance in turn:

- UK life adjusted operating profit^{5,7} increased by 15% to £1,758 million (2016: £1,523 million) driven by an improvement in new business profit, continued growth of the long-term savings franchise, further optimisation of the annuity asset mix and an additional £139 million year on year benefit arising from the annual assumptions review, including longevity. Profit before tax attributable to shareholders' profits⁷ is broadly unchanged at £1,619 million (2016: £1,616 million), with the increase in adjusted operating profit^{5,7} primarily offset by more favourable life investment variances and economic assumption changes⁹.
- UK general insurance adjusted operating profit^{5,7} increased by 4% to £408 million (2016: £392 million) owing to an improvement in the underwriting result, reflecting broad-based organic premium growth of 4% and a continued focus on our core underwriting competencies. Adjusted operating profit^{5,7} in the prior year excludes an exceptional charge of £475 million associated with the change in the Odgen discount rate. As the impact of Odgen on our current year results is not material, this has resulted in a profit before tax attributable to shareholders' profits⁷ of £336 million (2016: loss before tax attributable to shareholders' profits⁷ of £246 million).

The Friends Life Part VII transfer was completed on 1 October 2017, delivering further capital benefits, with the final payment towards the £1 billion target to follow in 2018. Special cash remittances⁶ of £500 million (2016: £250 million) were made to Group during 2017 due to the Friends Life integration, taking the total paid to date to £750 million. These remittances were a key driver behind an overall increase in the cash remitted to Group to £1,800 million (2016: £1,187 million). UK general insurance cash remitted increased to £434 million (2016: £91 million), due to cash being used to fund an increase in the internal reinsurance arrangement in 2016.

Operating expenses⁶ increased by 6% to £1,493 million (2016: £1,408 million) as we invested in growth and simplification initiatives in the second half of 2017, and incurred the cost of increased general insurance levies. Excluding these initiatives and levies, UK Insurance operating expenses were broadly flat, reflecting tight control of the direct expense base as we absorb growth.

Solvency II VNB⁶ increased by 23% to £527 million (2016: £429 million) with growth across all segments. Annuities were impacted by a change in product and asset mix, offset by a £96 million benefit to VNB following a clarification to Solvency II transitional rules.

1 Association of British Insurers (ABI) 9 months to end Q3 2017.

2 GlobalData plc online database.

3 Equity Release Council and ABI.

4 PRA returns and Aviva analysis.

5 Adjusted operating profit is an Alternative Performance Measure (APM) which is used by the Group to supplement the required disclosures under IFRS. Please refer to note B in the 'Accounting Policies' section, note 4 'Segmental Information' and 'Other Information' within the Annual report and accounts for further information.

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7 The amounts shown above in respect of adjusted operating profit and profit before tax attributable to shareholders' profits do not reconcile to the corresponding amounts in note 4 'Segmental information' within the Annual report and accounts due to i) the inclusion of our Health business within UK general insurance and ii) the reclassification of non-insurance business to Other Group activities.

8 The 2016 Combined Operating Ratio above excludes the impact of Ogden.

9 Further information in respect of life investment variances is included within the APM section in the Annual report and accounts.

UK general insurance COR of 93.9% was stable year on year (excluding the one-off 2016 impact of the change in the Ogden discount rate), reflecting further improvement in the underlying underwriting performance and premium growth, offset by lower levels of prior year reserve releases, with weather experience broadly flat.

Operational highlights

- Combining our life, general insurance and health operations in the UK to form a single UK Insurance division. This is helping us to build deeper relationships with our customers, clients and partners.
- Transferring the Friends Life customers' policies to the Aviva brand and welcoming them to the wide range of Aviva services and products.
- All UK customers who are registered on MyAviva are able to manage their policies online, and we have 5.7 million active registered customers by the end of 2017.
- To support business customers wishing to reduce defined benefit (DB) pension risk from their balance sheets, we have built up our DB de-risking and bulk annuity capabilities from focussing on smaller, sub-£100 million schemes, to winning large schemes, for example the £600 million deal with Pearson covering around 2,400 members.
- We have secured a ten year distribution deal with HSBC to provide home and travel insurance to their customers through HSBC's extensive digital channels, the branch network and over the telephone. This partnership is one of the UK's largest general insurance bancassurance deals and presents us with significant growth opportunities.
- We continued to defend our customers against claims fraud, cancelling over 9,000 fraudulent policies and detecting more than £89 million of suspect and fraudulent claims in 2017.
- We've implemented our 'Ask It Never' technology to some of our products. Ask It Never uses advanced analytics, deep data and customer value to make smarter decisions. We ask fewer underwriting questions, making it as simple as possible for our customers to find the best solution to suit their needs.
- 'Aviva Plus' is an initiative to reward loyal customers and tackle industry wrongs. Customers often get a low first year premium, but see a much higher renewal quote in the second year. We are piloting a project with 50,000 customers to benefit from our industry-first renewal price promise, which means that customers who sign up will pay less than new customers for their home or motor insurance at renewal.

Market context and challenges

Brexit continues to drive uncertainty, but we are well placed to manage with the implications.

We are continuing to work for regulatory change in our UK markets, with the Markets in Financial Instruments Directive (MiFID), the Insurance Distribution Directive (IDD) and the General Data Protection Regulation (GDPR) coming into force in 2018.

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 in-house advice service, Aviva Financial Advice.

We look forward to further improvements in 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.

2018 will also see Auto-Enrolment minimum contributions start to increase from the current base of 1% employee contributions to 3% in April 2018, and then to 5% in April 2019. This is a key period in establishing better retirement prospects for all UK workers.

In general insurance, market conditions have remained competitive across our entire product range, and we expect that to continue. In 2017, the UK Government changed the Ogden discount rate, which is used by the courts to calculate awards for cases involving bodily injury. This increased the cost of bodily injury compensation claims significantly. However, the Government has agreed to review the way the rate is calculated. We believe 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 increases the cost of insurance premiums for individuals and businesses, large and small.

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.

To keep things simple, we're reviewing the number of variations of our products and intend to materially reduce them. We're also publishing guides to explain how an insurance premium is calculated and offering specialist training programmes to help our customer-facing teams recognise the needs of vulnerable customers.

We strongly believe in harnessing Digital capabilities to benefit customers and will continue to be at the forefront of using technology; we have made a strategic investment in start-up Wealthify – a robo-investment platform that allows customers to save from as little as £1 with transparent fees. Our chatbots help customers in seconds or provide an insurance quote in minutes. Customers can make most claims online and we settle simple claims within seconds. And we help people plan for the life they want in retirement with our Shape my Future tool.

Priorities for 2018

- We will deliver growth by leveraging the power of Aviva's breadth of offering within the UK to deliver compelling propositions to meet our customer needs.
- Driving digitisation of the Insurance business through customer services, propositions and ensuring we are easy for customers to do business with us, however they choose.
- Grow our business and deepen customer relationships by expanding our propositions in targeted markets such as corporate multinational, bulk purchase annuities, home, digital SME and wellbeing.
- We will drive simplicity across our operating model for example moving all savings products to a single platform to enable us to serve our customers simply through whichever channel they choose, whether they are employees of a group pension scheme, advised clients or direct customers.
- We will continue to lead the industry on the big customer issues by implementing what they've told us: simplifying our products and customer experience, increasing transparency and launching disruptive solutions to market. We will meet our customers' needs in ways that are easier and more convenient for them.

International

CANADA

Overview

We are the second largest general insurance provider in the market place, providing a range of personal and commercial lines products to over 2.8 million customers with an 10% market share⁴.

Our business is primarily intermediated, sold through a network of 1,100 independent broker partners. We diversified our distribution through the 2016 acquisition of RBC General Insurance (RBC GI) and through affinity partnerships such as Maple Leaf Sports Entertainment.

Our objective is to be the customer-centric leader in Canadian insurance by building on our strong service to customers and distributors, enhancing our digital capabilities and leading product innovation.

Financial performance

£m	2017	2016
Adjusted operating profit ^{1,5}	46	269
Cash remittances ²	55	130
Operating expenses ²	478	396
Combined Operating Ratio (COR) ²	102.2%	93.0%

All percentage movements below are quoted in constant currency unless otherwise stated.

In 2017, adjusted operating profit^{1,5} decreased by 84% to £46 million (2016: £269 million). The lower underwriting result was mainly driven by a change in the trend of prior year reserve development, which deteriorated from £130 million favourable to £37 million unfavourable. This change was the primary factor behind a current year loss before tax attributable to shareholders' profits⁵ of £54 million (2016: profit before tax attributable to shareholders' profit of £165 million).

Cash remittances² have decreased to £55 million (2016: £130 million) due to lower adjusted operating profit¹.

Operating expenses² increased to £478 million (2016: £396 million) mainly due to a full twelve months of RBC GI.

The combined operating ratio² was 102.2% (2016: 93.0%). Excluding prior year development and adverse weather experience, the COR was 3.0pp higher due to increased claims frequency and severity.

Operational highlights

- Integrated RBC GI with the implementation of Guidewire platform in 2017, an automated policy management and billing system.
- Launched an Accident & Health product for Commercial customers.
- Released the Aviva Fraud report, the first of its kind in the industry, raising public awareness on the impact of auto insurance fraud and the need for reforms.

Market context and challenges

During 2017 we experienced a number of challenges in the Canadian market which have impacted on performance. These included a second successive year of weather claims being adverse to the long-term average following numerous storms and the wildfires in British Columbia. We experienced unfavourable changes in claims patterns, predominantly in our motor business, which affected prior year reserve development.

Priorities for 2018

- Our primary focus is to return the business to target levels of profitability. We have a comprehensive plan to improve pricing, risk selection and indemnity management.
- We will continue to work with the regulator, leading the market changes motor product reform so that affordable insurance solutions can be provided to our customers.
- We will invest in innovative digital experiences and propositions to disrupt the market and better serve our customers and our broker partners.

EUROPE

Overview

Aviva has a focussed approach in Europe with insurance operations in France, Italy, Poland, Ireland³ and Turkey.

Our European markets are a major contributor to the Group, providing a valuable source of diversification.

We have over nine million customers and operate a composite model across all of our European businesses with the exception of Turkey where we offer life and savings products.

We are present in attractive markets where we have a competitive advantage and ability to source skills. We believe this offers us clear potential for future profitable growth whilst at the same time benefitting from positive economic outlook and resilient economies.

We remain cognisant of low interest rates and challenging regulatory environments, and believe we are well positioned to succeed.

Financial performance

£m	2017	2016
Adjusted operating profit ^{1,5}	1,096	1,044
Cash remittances ²	485	449
Operating expenses ²	820	765
Solvency II Value of New Business (VNB) ²	533	429
Combined Operating Ratio (COR) ²	93.3%	95.1%

All percentage movements below are quoted in constant currency unless otherwise stated.

At an overall level, adjusted operating profit^{1,5} is down by 2% compared to 2016. However, our continuing businesses have delivered an increase in adjusted operating profit^{1,5} of 7%, demonstrating the strength of our focussed approach. Profit before tax attributable to shareholders' profits⁵ has increased to £1,044 million (2016: £837 million), with the adverse impact of economic assumption changes in France partly offset by the profit of £180 million arising as a result of the disposal of Antarius⁶.

1 Adjusted operating profit is an Alternative Performance Measure (APM) which is used by the Group to supplement the required disclosures under IFRS. Please refer to note B in the 'Accounting Policies' section, note 4 'Segmental Information' and 'Other Information' within the Annual report and accounts for further information.

2 This is an Alternative Performance Measure (APM) which provides useful information to enhance the understanding of financial performance. Further information on APM's, including a reconciliation to the financial statements (where possible), can be found in the 'Other Information' section of the Annual report and accounts.

3 Following the launch of UK insurance which brings UK Life, UK General Insurance and UK Health into a combined business, the Ireland Life and General Insurance businesses have been aligned to the new management structure and reported within Europe. As a result, comparative balances have been restated. This realignment was not implemented for cash remitted to Group, as this metric is managed at a legal entity level and Ireland constitutes a branch of the United Kingdom business.

4 Market Security & Analysis Inc. 2016 online database.

5 The amounts shown above in respect of adjusted operating profit and profit before tax attributable to shareholders' profits do not reconcile to the corresponding amounts in note 4 - 'Segmental information' within the Annual report and accounts due to the reclassification of non-insurance business to Other Group activities.

6 Further information in respect of life investment variances is included within the APM section of the Annual report and accounts.

Cash remitted² to the Group increased to £485 million (2016: £449 million) mainly due to an increased dividend in France, partly offset by a reduction in cash remitted from Spain, following disposals.

The Solvency II Value of New Business (SII VNB)² increased by 17%, and by 27% excluding disposed businesses, with strong performance in Italy which was up 102% as a result of higher unit-linked and hybrid product volumes and an improved margin on with-profits products.

Operating expenses² of £820 million (2016: £765 million) were flat in constant currency, despite the significant increase in sales. This includes a decrease due to the disposal of Ireland Health in 2016, offset by the consolidation of the Polish joint ventures and investment in growth in our continuing businesses.

The European COR² has improved by 1.8pp primarily due to France's COR² reducing by 2.5pp due to lower large losses and improved claims experience. Our claims ratio has decreased by 2.9pp to 63.1 % (2016: 66.0%) with improvement across all markets except Italy.

FRANCE

We offer a full range of life, general, protection, health insurance and asset management products in France with significant strengths in distribution through large tied-agents, Financial Advisers, broker networks and direct to customers.

France is a mature and stable market with an improved growth outlook and strengthened business confidence as a result of pro-business reforms led by the new government.

Operational and financial highlights in 2017 include:

- Improved the customer experience by making it easier for our direct customers to do business with us and offering a composite set of products in our SME space.
- Completed the sale of our shareholding in Antarius to Crédit du Nord in April 2017.
- Excluding the Antarius disposal, delivered adjusted operating profit^{1,4} of £507 million (2016: £422 million).

In 2018, we aim to digitise across all channels and implement differentiated customer propositions under a single Aviva brand to grow our customer base significantly.

ITALY

We offer life, general and health insurance in Italy. We distribute through two major bancassurance partnerships, multi-agents and Independent Financial Advisers.

Aviva Italy continues to grow in a stable market with good asset flows of £2.3 billion and a positive economic outlook.

Operational and financial highlights in 2017 include:

- Grew volumes of our capital-light 'hybrid product' that combines unit-linked, with-profit and protection characteristics.
- Announced the termination of our distribution agreement with Banco BPM S.p.A.
- Delivered adjusted operating profit^{1,4} of £213 million (2016: £212 million).

In 2018, our priority is to implement a new strategy and increase digital capabilities to further enhance our customers' experience.

POLAND

We are a leading life insurer in Poland and also provides health and general insurance products through the largest direct sales networks, a financial adviser network and bancassurance partners.

Our results in 2017 were driven by a rebound in general insurance profitability. The government has recently announced its intention to launch mandatory pension auto-enrolment providing further impetus to grow our life insurance business.

Operational and financial highlights in 2017 include:

- Introduced innovative products and launched MyAviva, an online customer self-service platform, leveraging group capabilities.
- Delivered adjusted operating profit^{1,4} of £177 million (2016: £140 million).

In 2018, we will start developing a market leading composite insurance proposition via a mobile application while expanding functionalities of implemented digital solutions.

IRELAND³

We are a market leading composite insurer with a multi-distribution network and strong brand presence. With the announcement to acquire the life insurer, Friends First, we will become one of the largest composite insurers with market share of 15% in Life and General Insurance.

The Irish economy shows signs of continued growth¹ and we are well placed to benefit from government reform in general insurance compensation and pension auto-enrolment.

Operational and financial highlights in 2017 include:

- Launched a new composite offering that rewards customer loyalty.
- Delivered adjusted operating profit^{1,4} of £86 million (2016: £80 million).

In 2018, our plan is to integrate Friends First while continuing to deliver differentiated digital products and services.

1 Adjusted operating profit is an Alternative Performance Measure (APM) which is used by the Group to supplement the required disclosures under IFRS. Please refer to note B in the 'Accounting Policies' section, note 4 'Segmental Information' and 'Other Information' within the Annual report and accounts for further information.

2 This is an Alternative Performance Measure (APM) which provides useful information to enhance the understanding of financial performance. Further information on APM's, including a reconciliation to the financial statements (where possible), can be found in the 'Other Information' section of the Annual report and accounts.

3 Following the launch of UK insurance which brings UK Life, UK General Insurance and UK Health into a combined business, the Ireland Life and General Insurance businesses have been aligned to the new management structure and reported within Europe. As a result, comparative balances have been restated. This realignment was not implemented for cash remitted to Group, as this metric is managed at a legal entity level and Ireland constitutes a branch of the United Kingdom business.

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Asia

Overview and strategy

We have presence in six markets across Asia, from large populous nations like China, India and Indonesia, to advanced regional wealth management centres such as Hong Kong and Singapore. These markets provide an accessible population of around three billion, and most of them have relatively low insurance penetrations compared to more developed Western markets. This offers tremendous growth potential.

We currently provide life and health insurance solutions to around 4.2 million customers across our markets in Asia. We operate a multi-distribution strategy which includes tied agency, financial advisers, bancassurance, digital, telemarketing, direct sales force and group.

Our strategy is to disrupt current market practices by placing a greater emphasis on our customers. We offer products individually or in tailored combinations to meet their needs and create real value in line with our multi-distribution strategy.

Investment in distribution channels, digital and analytics capabilities continued throughout 2017. We are starting to see the benefits of earlier investments in Singapore and China, and the overall repositioning of Asia is now starting to take shape.

Financial performance

£m	2017	2016
Adjusted operating profit ^{1,3}	227	228
Cash remittances ²	–	–
Operating expenses ²	207	177
Solvency II Value of New Business (SII VNB) ²	162	106
Combined Operating Ratio (COR) ²	123.2%	109.9%

All percentage movements below are quoted in constant currency unless otherwise stated.

Adjusted operating profit^{1,3} from our Life and General Insurance and health businesses remained broadly flat at £227 million (2016: £228 million). Excluding Friends Provident International (FPI), life adjusted operating profit^{1,3} increased by 10% to £116 million (2016: £101 million) driven by higher profit generated from existing business in China, coupled with new business growth in Singapore from its financial advisory channel which was partially offset by our continued investments in digital and analytics capabilities. Including FPI, life adjusted operating profit^{1,3} was broadly unchanged at £235 million (2016: £241 million).

The general insurance and health business reported a £8 million loss (2016: £13 million loss) as a result of higher claims experience from our health business in Singapore partly offset by an input tax refund from the local authority.

Our announcement to dispose of FPI and Taiwan resulted in a loss of £125 million as these businesses have been remeasured at fair value. A further charge of £65 million has arisen as a result of an annual impairment review of our investment in India. These charges

have contributed to a loss before tax attributable to shareholders' profits³ of £146 million (2016: profit of £48 million).

No dividends were remitted to Group during the year (2016: £nil) as we continue to reallocate capital to support growth initiatives.

Operating expenses² increased by 13% to £207 million (2016: £177 million) reflecting the additional half year of expenses from Vietnam, higher distribution costs to support volume growth in Singapore and investment in digital and analytics capabilities.

The SII VNB² of our life businesses increased by 47% to £162 million (2016: £106 million) reflecting higher volumes from Singapore's financial advisory channel. In China, SII VNB² increased to £45 million (2016: £19 million) driven by sales growth in agency and broker channels and higher interest rates.

Net written premiums were £13 million (2016: £11 million). COR² deteriorated by 13.3pp to 123.2% (2016: 109.9%) due to unfavourable claims experience and the continued softening of market premium rates for motor insurance in Singapore.

Operational highlights

- We established Asia Digital (located in the Singapore Digital Garage) to accelerate the delivery of our 'Digital First' strategy using global assets such as MyAviva, websites, marketing and analytics systems.
- We continued to work with partners, Hillhouse Capital and Tencent, to create Hong Kong's first truly digital insurer
- We acquired the remaining 50% shareholding from VietinBank to form Aviva Vietnam in April and entered into a long-term distribution agreement with the bank to sell products through its network
- We announced the disposal of FPI which will enable us to focus on allocating capital to areas where we can generate strong returns

Market context and challenges

We believe the long-term favourable trends of the emerging middle-class, increasing awareness in retirement planning and a growing market share in healthcare will persist across the region. We also believe Asia will continue to outperform other markets in insurance growth.

The increased use of digital applications in our daily lives and a heightened sense of fintech development play to our strengths in digital and innovation. We are encouraged by multiple Asian governments' support in this area and we are ever more enthused in seeing consumers' rapid adoption.

Priorities for 2018

- We will continue to execute and accelerate the growth of our financial adviser platforms in Singapore and look to maximise the expertise to capture similar opportunities in other Asian markets
- We will continue to invest in our digital business and distribution channels so that we can improve customer experiences, innovate and respond quickly to the changing needs of our customers and broker partners
- We will accelerate our operational efficiency through digitalisation and optimisation of structures and processes

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Aviva Investors

Overview and strategy

We are Aviva's global asset management business with expertise in multi-asset, fixed income, equity, real estate and alternative investments. We currently invest more than £353 billion on behalf of our customers across a number of major markets. This gives us the size and scale to successfully seek out opportunities that will deliver specific investor outcomes.

Our aim is to be a global leader in outcome-oriented investing, leveraging our international reach and expertise to solve our clients' problems – most notably with the Aviva Investors Multi-Strategy (AIMS) range of funds – and increase investments in real assets such as real estate and infrastructure debt and equity.

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.

Aviva's development of the digital platform provides us with significant opportunities with direct clients: if these clients select Aviva Investor funds on Aviva's digital platforms, we are confident that they will benefit from a high quality solution and a seamless customer experience.

Financial performance

£m	2017	2016
Fund management adjusted operating profit ¹	168	139
Revenue	577	506
Operating expenses ²	409	367
Cash remittances ²	58	39
Assets under management ²	353bn	345bn

We have made progress in externalising the business and developing higher value outcome-oriented propositions for our clients.

Fund management adjusted operating profit¹ increased by 21% to £168 million driven by growth in revenue, with operating expenses increasing at a slower rate. This led to a 2pp improvement in the adjusted operating profit¹ margin, calculated as fund management adjusted operating profit¹ expressed as a percentage of revenue, to 29% (2016: 27%).

Revenue has increased by 14% to £577 million due to the full year impact of on-boarding £14 billion of Friends Life assets in 2016, a 40% growth in the AIMS assets under management to £12.6 billion (2016: £9.0 billion) and a 24% increase in the origination of infrastructure assets to £4.1 billion (2016: £3.3 billion). The share of revenue from external clients increased to 34% (2016: 32%).

Operating expenses² increased to £409 million (2016: £367 million). Cost increases have been controlled and reflect the investment required to support the growth of the business. Integration and restructuring costs were £3 million (2016: £19 million).

Cash remitted² to Group increased by 49% to £58 million (2016: £39 million) due to growth in the profitability of the business.

Assets under management² increased by 3% to £353.2 billion (2016: £344.5 billion) due to a combination of net fund inflows of £1.6 billion, favourable foreign exchange rate movements of £3.3 billion, favourable liquidity movements of £1.9 billion and the effect of market movements of £2.6 billion offset by the disposal of the Real Estate fund of £0.7 billion.

Operational highlights

- We achieved significant growth in our AIMS range of funds, with the combined assets under management² increasing from £9 billion to £12.6 billion.
- We added to our range of outcome-oriented funds with the launch of our Alternative Investment Solutions aimed at Institutional investors looking for long-term income and can invest in multiple illiquid asset classes.
- We secured significant mandate wins in global high yield, emerging market debt, long income real estate and illiquid alternatives.

Market context and challenges

The uncertainty of Brexit remains a challenge for the asset management industry. Aviva Investors already has a significant presence in France, Luxembourg and Warsaw and have been looking at all outcomes.

The asset management industry is under intense pressure to demonstrate value to customers and in June the Financial Conduct Authority (FCA) announced the findings of its asset management market study, highlighting that there is room for improvement. We believe outcome orientated investing aligns well with these findings and we support the push for greater transparency: it is imperative we can prove our value to society and demonstrate how we can support economic growth and development.

Market conditions have been benign despite considerable economic and geo-political uncertainty. These conditions have rewarded high levels of exposure to market risk, making strategies with good downside protection strategies look less attractive in the short term.

We continue to invest in our Global Responsible Investing credentials, winning the coveted Responsible Investor Innovation and Industry Leadership award. Environmental and social thinking and governance (ESG) is embedded within our investment decision making process across all asset classes. Read more in the 'Corporate responsibility' section later in this report.

Priorities for 2018

- We will improve our already strong investment performance through better research, challenge and debate, higher conviction and improved portfolio construction.
- We will grow and protect our asset base by investing in distribution and creating attractive savings solutions for the rest of the Group.
- We will simplify our business by removing complexity, introducing robotics for routine tasks and leveraging big data to give us better insights.
- We will accelerate our Real Assets business, with a particular emphasis on the origination of illiquid assets to support Aviva's expected growth in bulk purchase annuities.
- We will further embed our risk and control framework to look after customers and shareholders better and protect our reputation.

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2 This is an Alternative Performance Measure (APM) which provides useful information to enhance the understanding of financial performance. Further information on APM's, including a reconciliation to the financial statements (where possible), can be found in the 'Other Information' section of the Annual report and accounts.

Risk and risk management

Risk management is key to Aviva's success. We accept the risks inherent to our core business lines of life, accident and 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 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. The 'Principal risk trends and causal factors' table in this section describe what these trends are, their impact, future outlook and how we manage these risks.

How we manage risk

Rigorous and consistent risk management is embedded across the Group through our Risk Management Framework, comprising our systems of governance, risk management processes and risk appetite framework.

Our governance

This includes risk policies and business standards, risk oversight committees 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 Board Governance, Audit and Risk Committees and Management Disclosure, Asset Liability and Operational Risk Committees in the oversight of risk management and internal control is set out in the 'Directors' and corporate governance report' in the Annual report and accounts.

Our process

This comprises the processes we use to identify, measure, manage, monitor and report risks, including the use of our risk models and stress and scenario testing. Having identified and measured the risks of our business, depending on our risk appetite, we either accept these risks or take action to reduce, transfer or mitigate them.

Our risk appetite framework

This refers to the risks that we select in pursuit of return, the risks we accept but seek to minimise and the risks we seek to avoid or transfer, including quantitative expressions of the level of risk we can support (e.g. the amount of capital we are prepared to put at risk).

Types of risk inherent to our business model

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 risk is the risk arising from loss events (fire, flooding, windstorms, accidents etc)
- Accident and Health insurance risk covers healthcare costs and loss of earnings arising from customers falling ill

Risks arising from our 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

- 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

Principal risk types

The types of risk to which the Group is exposed, described in the table below, have not changed significantly over the year. All of the risks below, and in particular operational risks, may have an adverse impact on our brand and reputation.

Risk type	Risk preference	Mitigation
Credit risk <ul style="list-style-type: none"> • Credit spread¹ • Credit default 	We like credit risk as we believe we have the expertise to manage it and the structural investment advantages conferred to insurers with long-dated, relatively illiquid liabilities enable us to earn superior investment returns.	<ul style="list-style-type: none"> • Risk appetites set to limit overall level of credit risk • Credit limit framework imposes limits on credit concentration by issuer, sector and type of instrument • Investment restrictions on sovereign and corporate exposure to certain Eurozone countries • Credit risk hedging programme • Specific asset de-risking
Market risk <ul style="list-style-type: none"> • Equity price¹ • Property • Interest rate • Foreign exchange • Inflation 	We actively seek some market risks as part of our investment and product strategy. We have a limited appetite for interest rate, foreign exchange and inflation risks as we do not believe that these are adequately rewarded.	<ul style="list-style-type: none"> • Risk appetites set to limit exposures to key market risks • Active asset management and hedging in business units • Scalable Group-level equity and foreign exchange hedging programme • Pension fund de-risking • Asset and liability duration matching limits impact of interest rate changes and actions taken to manage guarantee risk, through product design
Life insurance risk <ul style="list-style-type: none"> • Longevity¹ • Persistency • Mortality • Expenses 	We take measured amounts of life insurance risk provided we have the appropriate core skills in underwriting and pricing. We like longevity risk as it diversifies well (i.e. has little/no correlation) against other risks we retain.	<ul style="list-style-type: none"> • Risk selection and underwriting on acceptance of new business • Aviva's staff pension scheme longevity swap covering approximately £5 billion of pensioner in payment scheme liabilities • Product design that ensures products and propositions meet customer needs • Use of reinsurance to mitigate mortality/morbidity risks
General insurance risk <ul style="list-style-type: none"> • GI catastrophe • GI reserving (latent and non-latent) • GI underwriting • Expenses 	We take general insurance risk in measured amounts for explicit reward, in line with our core skills in underwriting and pricing. We have a preference for those risks that we understand well, that are intrinsically well managed and where there is a spread of risks in the same category. GI risk diversifies well with our Life Insurance and other risks.	<ul style="list-style-type: none"> • Use of reinsurance to reduce the financial impact of a catastrophe and manage earnings volatility • Application of robust and consistent reserving framework to derive best estimate with results subject to internal and external review, including independent reviews and audit reviews • Extensive use of data, financial models and analysis to improve pricing and risk selection • Underwriting and claims management disciplines • Underwriting appetite framework linked to delegations of authority that govern underwriting decisions • Product development and management framework that ensures products and propositions meet customer needs • Formal and documented claims management philosophies and procedures
Liquidity risk²	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.	<ul style="list-style-type: none"> • Maintaining committed borrowing facilities (£1.65 billion) from banks • Asset liability matching methodology develops optimal asset portfolio maturity structures in our businesses to ensure cash flows are sufficient to meet liabilities • Commercial paper issuance • Use of the limit framework covering minimum liquidity cover ratio and minimum central liquidity • Contingency Funding Plan in place to address liquidity funding requirements in a significant stress scenario
Asset management risk <ul style="list-style-type: none"> • Fund performance, liquidity and margin, Product, and Persistency risks 	Risks specific to asset management should generally be reduced to as low a level as is commercially sensible, on the basis that taking-on these risks will rarely provide us with an upside.	<ul style="list-style-type: none"> • Product development and review process • Investment performance and risk management oversight and review process • Propositions based on customer needs • Client relationship teams managing client retention risk
Operational risk <ul style="list-style-type: none"> • Conduct • Legal & regulatory • People • Process • Data security • Technology 	Operational risk should generally be reduced to as low a level as is commercially sensible, on the basis that taking operational risk will rarely provide us with an upside.	<ul style="list-style-type: none"> • Application of enhanced business standards covering key processes • Our Operational Risk & Control Management Framework which includes the tools, processes and standardised reporting necessary to identify, measure, manage, monitor and report on the operational risks and the controls in place to mitigate those risks within centrally set tolerances • Enhanced scenario based approach to determine appropriate level of capital for operational risks • On-going investment in simplifying our technology estate to improve the resilience and reliability of our systems

¹ Top three risks ranked by diversified Solvency II Solvency Capital Requirement

² Not quantifiable in terms of economic capital

Principal risk trends and causal factors

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
<p>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.</p> <p>Trend: Reducing</p> <p>Risks impacted: Credit risk, Market risks, Liquidity risk</p>	<p>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), and shifting our sales towards protection and unit-linked products.</p>	<p>While interest rates are still well below pre-financial crisis levels, during 2017, the US Fed raised interest rates on three occasions, the Bank of England reversed its 2016 rate reduction and the ECB has begun to reduce its asset purchases. Although rates may remain below pre-2008 financial crisis levels in the EU and UK for some time to come, there is a risk that a rapid increase in rates could result in a collapse in bond prices, widening spreads and reducing asset prices.</p>
<p>UK-EU relations (Brexit uncertainty) – 18 months since the referendum result there remains considerable uncertainty over the UK's future relationship with the EU, economic growth and productivity, as well as the status of EU employees working in the UK and longer term implications for financial services regulation, including Solvency II.</p> <p>Trend: Volatile</p> <p>Risks impacted: Credit risk, Market risks, Operational risk</p>	<p>Brexit does not have a significant operational impact on Aviva. We are actively engaged to ensure the interests of our customers, the company and the industry are appropriately taken into account. Our plans to address the loss of the ability for UK firms to passport business into the EU are currently in progress. Given our corporate structure, this is not a major risk. We are also reviewing our data arrangements to ensure that adequate measures are in place to allow continued uninterrupted flow of personal data. Our Financial Event Response Plan ensures that we will be able to respond swiftly and effectively to any severe adverse financial event.</p>	<p>In December 2017, the UK and EU agreed separation terms, reducing the risk of a sudden departure in March 2019. In 2018, negotiations will begin on transitional arrangements and a future trade agreement. Uncertainty over the ultimate outcome is heightened by the UK Government's lack of parliamentary majority.</p>
<p>Medical advances and healthier life styles – these 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.</p> <p>Trend: Stable</p> <p>Risks impacted: Life insurance risk (longevity)</p>	<p>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 £5 billion of pensioner in payment liabilities. Since 2016 we have used longevity reinsurance for bulk purchase annuities and Aviva guaranteed annuity options. We continue to evaluate emerging reinsurance market solutions.</p>	<p>There is considerable uncertainty over the extent that improvements in life expectancy experienced over the last 40 years will continue into the future e.g. despite continued medical advances emerging, lifestyle changes and strains on public health services may begin to slow or even reverse this trend.</p>
<p>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 adversely impacting economic growth and investment markets.</p> <p>Trend: Increasing</p> <p>Risks impacted: General insurance risk, Credit risk, Market risk</p>	<p>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. Read more in respect of the physical, transition and liability risks we face as an asset owner, insurer and asset manager in our 'Climate-related financial disclosure'.</p>	<p>Global average temperatures over the last four years have been the hottest on record. Despite the UNFCCC Paris agreement, the current trend of increasing CO₂ 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 (with a possibility of more cluster events) and severity. Disclosure of impacts against various climate scenarios and time horizons will become increasingly common for all companies.</p>

Key trends and movement	Risk management	Outlook
<p>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.</p> <p>Trend: Increasing</p> <p>Risks impacted: Operational risk (developing the right strategy)</p>	<p>Aviva's strategy is focussed on transformation into a digital leader by taking a bold and enterprise-wide approach to digital and automation. Four years ago Aviva announced its strategic framework and embarked on a digital strategy using 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 now and in the future such as our Ask it Never initiatives. Refer to 'Our strategy' for further information on our digital strategy.</p>	<p>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.</p> <p>Artificial intelligence and robotic automation are likely to increasingly transform the efficiency of insurance operations such as underwriting and claims and will transform the customer experience and build deeper customer relationships.</p>
<p>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.</p> <p>Trend: Volatile</p> <p>Risks impacted: Operational risk (developing the right strategy, regulatory compliance)</p>	<p>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 customers and the company. 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 in the UK we have compensated for falling sales of individual annuities by increasing sales of other life and pension products including bulk purchase annuities.</p>	<p>The UK Government's lack of parliamentary majority increases the possibility of a general election and change of government resulting in a shift in public policy with consequences for the products we sell and our investment strategy. In other markets in which we operate: a general election will be held in Italy in March 2018; in Poland we face heightened uncertainty on public policy on pension reform; and in Ontario, Canada, further regulatory reform focussed on providing affordable motor insurance is required.</p>
<p>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.</p> <p>Trend: Increasing</p> <p>Risks impacted: Operational risk (fraud, business interruption)</p>	<p>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.</p>	<p>In 2017 there were a number of high profile cyber security incidents for corporates in the UK and elsewhere (most notably the global Wannacry attack), and we expect this to increase in 2018 as cyber criminals and rogue states become ever more sophisticated and given the growing importance of digital automation in business strategy.</p>
<p>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.</p> <p>Trend: Stable</p> <p>Risks impacted: Operational risk (developing the right strategy, regulatory compliance)</p>	<p>Not only do we listen to our customers to ensure we meet their needs, we also seek to transform the customer experience through our digital strategy, creating an effortless customer experience. For information on how we are mitigating this risk through the execution of Digital First and True Customer Composite strategies refer to 'Our strategy', with further examples provided in the 'Market review' section.</p>	<p>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.</p>
<p>Outsourcing – we rely on a number of outsourcing providers for business processes, customer servicing, investment operations and IT support. The failure of a critical outsourcing provider could significantly disrupt our operations.</p> <p>Trend: Stable</p> <p>Risks impacted: Operational Risk</p>	<p>Our businesses are required to identify business critical outsourced functions (internal and external) and for each to have exit and termination plans and business continuity and disaster recovery plans in the event of supplier failure, which are reviewed annually. Business continuity and disaster recovery plans are subject to annual testing. We also carry out supplier financial stability reviews at least annually.</p>	<p>The recent insolvency of Carillion, which was not a direct supplier of services to Aviva, has brought added focus to this risk and we expect regulatory scrutiny of outsourcing arrangements to increase.</p>

Corporate responsibility

Defying uncertainty in uncertain times

At Aviva we have an approach to business that is both responsible and sustainable and which aligns with our values and supports our strategy. With a clear purpose to Defy Uncertainty, we are using our bright ideas to help tackle some of the most important social and environmental challenges of our time, such as ageing populations and climate change, for the good of our customers, our communities and the world.

Meeting our customers' needs

We offer a wide range of insurance and savings products to help our 33 million customers protect what's important to them and save for a comfortable future.

In 2017, globally we paid out £34.6 billion in benefits and claims, supporting our customers when they needed us the most.

In addition, nearly two thirds of our markets offered our customers a product which enabled them to be more environmentally responsible or gave them easier access to the protection they needed for themselves and their families¹. For example, in Poland we funded 300 external air quality sensors which were added to the national network in places selected by local communities. By helping people monitor the air quality where they live, they can take action to protect themselves, their families, and their communities. We are also offering discounts for in-home air quality sensors to life and health insurance customers in Poland.

We continue to improve our processes for the benefit of our customers. For example, Aviva Singapore has implemented e-submission for new business applications for individual life and health customers. This has reduced the need for paper forms and made applications easier for customers and advisers by providing an immediate underwriting decision.

We work hard to offer great customer service and this is reflected in our NPS score® which shows that seven out of ten of our businesses are in or above the upper quartile relative to the local market average.

However, we know that we do not always get it right 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/social-purpose).

Ethical practice

We are committed to high standards of ethical behaviour. 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 (99% of our employees did so in 2017). In 2017, we also reviewed and improved our business ethics training that accompanies the Code, to reinforce its importance and practical application for our people.

We have a zero tolerance approach to acts of bribery and corruption. To manage bribery and corruption risks, Aviva operates within a risk management framework which sets high-level policies and standards across all markets. These policies and standards

apply to all Aviva directors and employees, business units, and operations, and it is the responsibility of CEOs (or equivalent) to ensure that their business operates in line with them.

The Financial Crime Business Standard guides our risk-based financial crime programmes, which seek to prevent, detect and report financial crime, including any instances of bribery and corruption, while complying fully with relevant legislation and regulation.

We implement a risk-based training and awareness framework to ensure employees and others acting on Aviva's behalf know what is expected of them and how they should manage bribery and corruption risks.

We conduct risk-based due diligence when recruiting and when engaging external partners. This includes background checks and a requirement to align to Aviva's anti-bribery and anti-corruption principles. Managed suppliers are asked to sign-up to our Supplier Code of Behaviour and are also made aware of our Business Ethics Code, both of which also include reference to human rights and modern slavery. In 2017, 81% of Group and UK managed suppliers agreed to our Code of Behaviour (or had their own equivalent code of behaviour) which requires compliance with all applicable financial crime laws and regulations, including bribery and corruption. In 2017, we engaged 88% of our managed suppliers on corporate responsibility issues.

To ensure that anti-bribery and anti-corruption controls are operating effectively we assess relevant management information such as key performance indicators on financial crime risks; compliance oversight; reporting to the appropriate local governance committee; annual attestation to compliance with the Standard; and inclusion in Internal Audit's risk based audit programme. At a Group level, the Chief Risk Officer provides Aviva's Board Governance Committee with regular reporting on financial crime matters, including Aviva's anti-bribery and anti-corruption programme.

Our malpractice helpline, Right Call, makes it easy to report any concerns in confidence, with all reports referred to an independent investigation team. In 2017, 41 cases were reported through Right Call (2016: 25), including one related to bribery and corruption concerns. 35 cases reached conclusion, and 6 remain under investigation. There has been no material litigation arising from any case reported in 2017.

Supporting communities

In 2017, we launched the Aviva Community Fund in more markets, giving hundreds of organisations across ten countries the chance to secure the support they need to make a difference in their local communities. We also increased our community investment by 5%, totalling £11.9 million (2016: £11.3 million) and the number of inspirational local projects we supported by 50%, totalling 2,400 (2016: 1,600). This in turn helped 792,000 people. We harnessed the passion and talent of our people at Aviva, with 13% of our employees contributing 48,400 hours of volunteering time and giving or fundraising over £1.2 million. Our Voice of Aviva results show that 88% of our people believe that Aviva is a good corporate citizen, up 8% since 2015 and 15% above the industry benchmark. These employees are 58% more likely to be proud of Aviva.

We are now two years into our strategic partnership with the British Red Cross (BRC), working together to help communities to be better informed, prepared, and therefore more resilient if disaster strikes. This year we identified and funded four new Red Cross community resilience projects across our markets in Canada, Singapore, Italy and Poland. In the UK we supported the BRC to help those impacted by the Grenfell Tower fire, and the terror

¹ For a definition of these products, please see www.aviva.com/CRreportingcriteria2017.

attacks in Manchester and Westminster. We are also the sponsor of the UK-wide BRC Community Reserve Volunteer project, which will create a network of 10,000 people to help out when disaster strikes their local communities and working together with the BRC during major emergencies such as flooding.

In 2018, we plan to increase the impact of the Aviva Community Fund across the world and aim to support 2.5 million beneficiaries through our community activities by 2020.

Reuniting our customers with their policies

Maintaining contact with our 10.6 million UK life and pension customers is extremely important to us and we work proactively to reunite them with their policies. Our focus in 2017 has been on re-engaging with customers whose policies are administered by our third party partners, or who are members of a Corporate Pension scheme. We have also worked closely with the life and pensions industry and the Association of British Insurers on developing a framework for dealing with 'gone away' customers.

By the end of 2017, we managed to re-establish contact with nearly 118,000 customers. Our work in the early part of 2018 will focus on re-establishing contact with those customers who hold annuity products.

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. As part of our commitment to responsible investment we use Environmental, Social and Governance (ESG) insight to re-orientate capital away from short-term thinking and towards longer term investment decisions.

We actively promote good practice among the companies we invest in. We aim to identify and reduce ESG risks in our portfolios. For example, by understanding the quality of the Board of directors of a company and its strategy on issues, such as climate change or the Living Wage, we can gauge how well prepared they are to deal with current or emerging ESG issues.

As an example of our work in this area, Aviva Investors, Aviva's global asset management company, is focussing on reducing antibiotic resistance at 40 large food producing and retailing companies with high exposure to excessive antibiotic use within their supply chains.

Our investments also support the transition to a low-carbon economy (see below for more details).

Investing with impact

Across the world, we are working with entrepreneurs to nurture their ideas and grow their businesses, with the aim of changing insurance for the better. In 2014 Aviva France launched 'Aviva Impact Investing France', becoming the first financial institution in the country to create an investment fund dedicated to financing socially and environmentally responsible companies. This fund is now endowed with €30 million. With this pioneering initiative, Aviva wants to participate in the development of social entrepreneurship, a particularly innovative sector that creates viable economic solutions to address major social issues. Aviva France also wants to demonstrate that investments can create social good as well as healthy financial earnings.

During 2017, Aviva Ventures, our global capital investment business, also invested in a number of start-ups having a positive social impact on people's lives. This included in the UK, investment in Owlstone Medical Ltd, a medical diagnostics company developing a breathalyser that can detect diseases at a very early stage. The company is currently developing tests for lung and colorectal cancer, two of the most common terminal cancer conditions worldwide.

Shaping markets for sustainability

We believe the UN Sustainable Development Goals (SDGs) can guide us, our customers and society towards a brighter, more sustainable future. However, it is only by changing the rules of capital markets and making finance longer-term and more sustainable that these ambitious goals will be met. We are therefore spearheading the creation of the World Benchmarking Alliance and the establishment of public, transparent and authoritative league tables, ranking companies on their contribution to the SDGs. In September 2017, we jointly launched a global consultation to shape this work and set-up the World Benchmarking Alliance. We continue to engage with a range of governments and wider stakeholders worldwide.

Aviva has been a member of the EU High Level Expert Group on Sustainable Finance, which is making recommendations to the European Commission on policy changes required to make the flows of finance more sustainable. Among these are proposals to consider capital adequacy rules for investments, reviewing European Supervisory Authorities and clarifying fiduciary duty in the EU through regulation. Aviva will continue to advocate for these changes at the global level too.

Starting with ourselves

In 2017, Aviva received a UN Momentum for Change Award recognising our work over the last decade to reduce the environmental impact of our business and help inspire action on climate change. We are a carbon neutral company, and continue to offset 100% of any remaining carbon emissions, with our offsetting projects helping over 1 million people since 2012 live better lives (e.g. through provision of clean cook-stoves in Kenya). We are also driving efficiency in our operations. For example, in 2017 our Canadian head office moved into a Gold LEED certified building and we are currently merging four other locations into one energy efficient office site. To date we have achieved a 53% reduction in CO₂e against the 2010 baseline, meeting our 2020 target (of 50%) early. We continue work towards our ambitious long-term target of a 70% reduction by 2030. Under the Carbon Reduction Commitment Energy Efficiency Scheme, we reported total emissions of 128,185 tonnes of CO₂e in 2017 costing £2.2 million. This mandatory scheme is limited to UK business emissions from building energy, and includes the property portfolio of our investment funds managed by Aviva Investors. We are also looking at ways to further reduce plastic use in our UK offices.

A challenge for today, not tomorrow

Aviva has a long-term commitment to tackle climate change. In 2015, we announced an investment target of £500 million annually for the next five years in low-carbon infrastructure. We also set an associated carbon savings target for this investment of 100,000 tonnes of CO₂e annually. In 2017, Aviva Investors signed £527.5 million of new investment in wind, solar, biomass and energy efficiency.

Aviva continues to manage the impact of our business on the environment. Our Corporate Responsibility, Environment and Climate change business standard focuses on the most material operational environmental impacts, which we have identified as greenhouse gas emissions. We report these as carbon dioxide equivalent emissions (CO₂e) on an operational basis in respect of Aviva's Group-wide operations. See the table below.

More details of our environmental KPI data and our independent assurance process can be found on www.aviva.com/CRkpisandassurance2017

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 (CO₂e) 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 2017.

Tonnes CO ₂ e	2017	2016	2015
Scope 1	17,915	19,210	19,112
Scope 2	31,280	41,008	49,595
Scope 3	19,305	19,193	19,991
Absolute CO ₂ e**	68,500	79,410	88,698
Carbon offsetting***	(68,500)	(79,410)	(88,698)
Total net emissions	-	-	-

Scope 1 – natural gas, fugitive emissions, oil, and company owned cars.

Scope 2 – electricity.

Scope 3 – business travel and grey fleet, waste and water.

	CO ₂ e tonnes per employee	CO ₂ e per £m GWP
2017	1.6	2.48
2016	2.0	3.12
2015*	2.2	4.05

* This includes Friends Life business operations for the whole of 2015.

** 2017 Assurance provided by PricewaterhouseCoopers LLP available at aviva.com/CRkpisandassurance2017

*** Carbon offsetting through the acquisition and surrender of emissions units on the voluntary and compliance markets.

Governance and risk management

Our Board Governance Committee oversees our responsible and sustainable business strategy and the policies that underpin it. As a company we are subject to the UK Corporate Governance Code (the Code), which we aim to comply with fully. Details of the Company's compliance with the Code can be found in the Directors' and Corporate Governance Report in the Annual report and accounts and online at www.aviva.com/investors/corporate-governance. The activities of the Board Governance Committee can be found in the Governance Committee Report in the Annual report and accounts.

We have assessed the environmental risks that we face as a business at a global and local level. The most significant of these is the potential impact of climate change on our customers' lives and our company's assets. More detail can be found in this report in the 'Risk and Risk Management' section and in our high level response to the recommendations of the Financial Stability Boards' Taskforce on Climate-related Financial Disclosure, in the 'Aviva's climate-related financial disclosure' section.

We also manage the risks associated with our community investment activities through the controls outlined in our Corporate Responsibility Business Standard. This includes a governance framework for our charitable donations and partnerships and details of how we manage the risks associated with employee volunteering (for example, through robust child safeguarding). This standard is reviewed each year and communicated to all Aviva businesses. We review compliance annually, and all businesses demonstrate how they are complying with the requirements. Where a gap is identified the business is required to produce an action plan to ensure that is rectified.

Respect for human rights

We have a human rights policy that identifies our main stakeholders as well as the most salient human rights issues for our business. The scope of this policy is group-wide and sets out the Group's commitment to respect human rights. It applies to all Aviva business units, operations, functions and staff, including but not limited to legal entities (including joint ventures), acquisitions, disposals, outsourcing arrangements, new products, new asset classes and strategic projects.

Our approach to modern slavery is part our overall approach to human rights. In 2017, we updated our human rights policy to make explicit mention of modern slavery as an area of focus. In addition, we:

- Engaged with our UK managed suppliers on their work to prevent modern slavery in their operations;
- Worked with our UK procurement teams to further improve their processes, ensuring that new suppliers are required to agree to abide by our Business Code of Behaviour and our Business Ethics Code (both make explicit reference to modern slavery);
- Reviewed the clauses in our supplier contract templates that reference modern slavery, to ensure they remain fit for purpose and continued providing training on modern slavery to employees;
- Created a page on our UK intranet dedicated to human rights and modern slavery to keep employees informed;
- Collaborated with the UN Global Compact as part of the UK working group on modern slavery (which brings together peers from across different industry sectors to share learnings; and information to support our work in tackling modern slavery) and are also a founding member of the Business Against Slavery working group convened by the UK Home Office.

As part of our human rights due diligence, in 2017 we have looked at how our community investment projects include women as beneficiaries. This is in line with our commitment to respect human rights and women empowerment.

We also have a set of internal policies (Business Standards) that support our commitment to respect human rights including:

- People Standard and supporting policies and procedures (covering non-discrimination, freedom of associations, access to grievance mechanisms); and
- Procurement and Outsourcing Standard (covering requirements from suppliers regarding human rights and wider corporate responsibility issues).

We will use the human rights due diligence data, covering all areas identified in our human rights policy, to inform our work on human rights in 2018. For our complete modern slavery statement, please see www.aviva.com/modernslaverystatement.

Corporate responsibility (CR) key performance indicators (including 2015-2017 figures) and the accompanying limited assurance statement by PwC can be found on www.aviva.com/social-purpose, alongside Aviva's 2017 CR Summary and Environmental, Social and Governance Data sheet.

More details of our internal diversity, inclusion and wellbeing approach can be found in the 'Our People' section of this report.

Our climate-related financial disclosure

As an international insurance group¹, our sustainability and financial strength is underpinned by an effective risk management system. Our business will be directly impacted by the effects of climate change and therefore we need to build resilience to and mitigate the risk of the impact of climate change for our customers and investors.

We believe unmitigated climate change presents a real threat to financial stability over the coming decades, both at a governmental and corporate level, to the point where it will permanently impair total asset value.

We have been reporting on climate change in our Annual report and accounts since 2004. This disclosure builds on our 2016 initial response and takes into account the final version of the Taskforce on Climate-related Financial Disclosure (TCFD) recommendations published in July 2017.

These pages, along with an expanded version (available at www.aviva.com/TCFD) are Aviva plc's second annual response to the TCFD framework in our multiple roles as an asset owner, insurer, investor and asset manager.

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 eight times in 2017 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 'Risk and risk management' section of this report and it is therefore assessed for its proximity and significance to Aviva via our local markets and group emerging risk processes. The Committee has incorporated emerging risk scenarios into our scenario planning, enabling us to review the most significant risks that would affect the Company's strategy.

Board governance committee

One of this Committee's responsibilities is to oversee the way Aviva meets its corporate and societal obligations. This includes setting the guidance, direction and policies for Aviva's customer and corporate responsibility agenda and advising the Board and management on this. This Committee met six times in 2017 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 (GI) has primarily an 18 month outlook (although recognising there are longer term risks) and focuses on the physical impacts of climate change. As a life insurer and pension provider we also make investments. This is, first and foremost, to

ensure we can cover our future commitments and meet the promises we have made to our customers, so insurance claims and pensions will be honoured. To do this we look very carefully at how different investments meet our risk appetite in the longer term, when transition risks become much more important.

Aviva's strategy to implement the TCFD recommendations includes conducting climate-related scenario analysis consistent with the recommendations, wherever possible using commonly agreed sector/subsector scenarios and time horizons. This will enable us to better anticipate and manage climate risks, as well as identify climate-related opportunities. This work will involve an inter-disciplinary team including Group Risk, Group Capital, Aviva Investors, Group Reinsurance, the General and Life insurance businesses, and the Corporate Responsibility and Public Policy team. We will partner with industry associations and sector peers to drive consistency in scenarios, including one for limiting average temperatures from rising by more than 2°C by the end of the century. We will report on the progress of our work on scenarios to Aviva's relevant board committees and aim to first report against scenarios in our disclosure next year.

We recognise that the increased severity and frequency of weather-related losses has the potential to change events that could benefit our earnings, to ones that will negatively impact our profitability. Consequently, large catastrophic (CAT) losses are already explicitly considered in our economic capital modelling to ensure we are resilient to such CAT scenarios.

We are closely monitoring sectors or subsectors particularly exposed to transition risk and analysing the risk to Aviva of our individual company level investments. In 2017, we worked with 2 Degree Investing Initiative to analyse how close we are as an asset owner to achieving a 2°C future. Using the European Commission's Sustainable Energy Investment metrics, the reports show how our equity and bond portfolios are aligned to the Paris Agreement, both now and in 5 years' time. We have fed them into the investment strategy review of our businesses to help further shape our ongoing response. Further strategic work is ongoing to understand the impacts of our investments through all asset classes and on a more granular basis. Climate change is part of our asset management House View, which outlines the framework we use to analyse the global financial markets. It is updated quarterly to provide key climate-related physical or policy trends and developments.

Over the past few years we have developed insurance products and services that support customers' choices to reduce their environmental impact, such as bespoke electric vehicle policies and a generation of domestic scale renewables. We are also building our support of commercial-level opportunities around environmental goods and services. In 2017, we had 20 such products across our markets.

Risk management – identification, assessment and management

When making investments we need to think long term, since many of our liabilities fall decades in the future. This means we need to be careful and considered in our investments. Within these constraints we have an appetite to invest in low carbon projects around the world.

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 focussed on the three risk factors that the Prudential Regulation Authority identified in its 2015 report² – Physical, Transition, and Liability.

1 Aviva is an asset owner with assets to the value of £490 billion and Aviva Investors has assets under management of £353 billion.

2 <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/publication/impact-of-climate-change-on-the-uk-insurance-sector.pdf?la=en&hash=EF9FE0FF9AEC940A2BA722324902FFBA49A5A29>

1. Physical risk

a. Insurance risks

We recognise that weather-related events may become more frequent, severe, clustered and persistent. These single and cumulative losses 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 and weather in financial planning and pricing. Our GI business exposure is limited by being predominantly in Northern Europe and Canada. We require our GI businesses to protect against all large, single catastrophe events in line with local regulatory requirements, or where none exist, to at least a 1 in 250 year event. Factors determining these decisions include: capital efficiency, appetite for GI earnings volatility, predictability of cash flows and dividend paying capability and reinsurance market competitiveness. Canada is moving to 1:500 reinsurance limits in line with government requirements.

We consider our top insurance climate-related risks to be:

- Our actuarial pricing assumptions and projections which may prove incorrect
- The levels of coverage available to make assets insurable
- Financial results volatility resulting from the potentially increasing scale of weather losses.

We purchase reinsurance to protect against the severity and frequency of large CAT events, and review the adequacy of the cover and the programme structure annually at renewal.

A change in climate can mean that disease may spread to new and expanded geographic areas. Therefore Aviva uses external reinsurance for its life business to manage its exposure to life insurance risks such as pandemics, and manages capital in an efficient manner in line with the Aviva Group's risk appetite.

b. Investment risks

When acquiring property, Aviva Investors' strategy is to commission an Environmental Assessment Report. This 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. The majority of our real estate and infrastructure investments are located in Europe.

2. Transition risk

With the Paris agreement to pursue limiting global temperature increases to below 2°C, there will be an increasing number of climate-related policies and regulations to assist this transition, which will impact sectors in different ways. We consider active stewardship to be a fundamental responsibility for us as investors. This includes considered voting at Annual General Meetings (AGMs) and engagement on climate risk, disclosure and performance. We have focussed 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 or co-filing shareholder 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.

3. 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, we may have holdings in companies that could be subject to regulatory and legal challenges due to their climate-related impacts and level disclosures. The direct impact from legal

challenges and any associated fines are likely to be limited to specific companies.

Metrics and targets

Operational

We have measured, monitored and reduced our operational carbon emissions since 2004, on an absolute and relative basis, and disclose related metrics on an annual basis in our public filings. Although we do not consider these material, we have a long-term reduction target of 70% by 2030, from a baseline of 2010. These figures can be found at www.aviva.com/ESGdatasheet 2017

Investment

We have enhanced our Environmental, Social, and Governance heat map to include proxy climate risk metrics. This heat map is available to our analysts and fund managers and updated on a monthly basis. It 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 CO₂e tonnes annually. In 2017, we signed £527.5 million of new investment into wind, solar, biomass and energy efficiency. Aviva holds over £744 million in green bonds.

In 2015, we identified 40 companies with more than 30% of their business revenue associated with thermal coal mining or coal power generation and undertook focussed engagement with them, including 51 in depth conversations. In 2017, we were asked to review our holdings against a list of 120 coal companies. We had beneficial holdings in 26 companies with a total market value of £55.6 million or 0.01% of our total assets. 11 of these companies are also part of the list of 40 companies identified and engaged with since 2015. More details of this engagement can be found on aviva.com/social-purpose.

More broadly, in 2017, we engaged with 989 companies on strategic, social and/or governance (ESG) issues. In the same period we supported 52% of climate change related shareholder resolutions.

Insurance

We build the possibility of extreme weather events into our planning to help us understand the impact and ensure our pricing is adequate. Catastrophic event model results are supplemented by in-house disaster scenarios. A 1:800 CAT event is required in order for Aviva to incur losses (after reinsurance) above £1 billion. Therefore, multiple very large CAT events would have to occur in a year in order to adversely impact Aviva's capital position (estimated pro forma Solvency II capital surplus £12.2 billion).

Each of our GI businesses has a Major Incident Response in place to provide customer service and manage costs of major claim events and service demand surges. We continue to invest in analytical solutions such as flood mapping, predictive analytics and risk mitigation techniques that help us better understand risks being transferred to us from our customers and to respond more rapidly when our customers need us.

Find out more about our approach at www.aviva.com/TCFD

Chairman's Governance Letter

Our governance

A strong system of governance, with effective and prudent controls to assess and manage risk, is central to helping any organisation anticipate and adapt to changing external circumstances. It is very pleasing that this year we ranked second in the FTSE 100 IOD/Cass Business School Good Governance Index 2017. This external recognition is testament to the dedication of the team and all our colleagues who work to ensure high standards of corporate governance throughout our business.

We are not, however, complacent and constantly assess and reassess how we are performing against the risks that we face. For example, in 2018 as we continue to implement our Digital First strategy, we are not only conscious of the benefit of the ever-evolving technological developments but alert to the risks they can represent. We strive to mitigate these risks by ensuring our controls continue to be strong and that we are well equipped to protect our business and customers from whatever new threats emerge. More information on our principal risks can be found in the 'Risk and risk management' section of this report.

Our culture

As Chairman, I am responsible for establishing and embedding the culture of the Board, which in turn sets the tone from the top for the culture for the Company. Culture has remained high on the Board's agenda in 2017 and I support the Financial Reporting Council's (FRC) proposals for the new UK Corporate Governance Code to give more prominence to the Board's role in considering the culture of the Company.

We are proposing to shareholders an updated remuneration policy to help achieve our aim of building a culture that promotes our ambitions for growth in both earnings and revenue, by encouraging innovation and reinforcing our strong values. The Board and I have a strong belief that the way we conduct business and the way we engage with our customers, shareholders and other stakeholders, needs to be aligned to our values and purpose to Defy Uncertainty, and this in turn will ensure our long-term success.

Changes to the Board

In line with our structured approach to succession planning, there have been a number of Board changes during the year. Maurice Tulloch joined as an Executive Director in June 2017, taking the role of Chief Executive Officer of International Insurance. Having worked for Aviva for over 25 years, Maurice's appointment is a great example of our investment in talent from within the Company.

Our succession planning has also been reflected at Non-Executive level. At the 2017 Annual General Meeting, Bob Stein and Sir Malcolm Williamson retired as Non-Executive Director and Senior Independent Director (SID) respectively, with Glyn Barker becoming SID, having been on the Board for five years. Following the 2017 half year results, Glyn stepped down as Chair of the Audit Committee to focus further on his role as SID, and Keith Williams assumed this role as the Chair of the Audit Committee and also joined the Risk Committee. Claudia Arney was appointed as Governance Committee Chair in January 2017 having been a member of the Committee since June 2016. To further the execution of our Digital First Strategy, Claudia was also appointed as Chair of UK Digital in September 2017.

Our stakeholders

In December 2017 the FRC issued proposals for a refresh of the UK Corporate Governance Code and we are participating in the consultation process and are largely supportive of the planned changes. We recognise the importance of responding to increased scrutiny on how companies are run and the emphasis on the importance of considering the interests of a broad stakeholder group in making business decisions.

During 2017, we began the process of creating an Evolution Council, which will comprise high calibre leaders from across the business with a specific focus on the generation X/Y view of our colleagues, and will be in operation from March 2018. The Council will receive a broad selection of materials ahead of each Board meeting with a focus on digital, brand and marketing, and will be asked to provide insight and comments on the matters covered. This will be an invaluable way of ensuring the views of our employees' are fed back to the Board on our strategic and business matters, and that we have insight from the heart of our operations. At the outset, I will Chair the Council, with a view to rotating this in due course around other Non-Executive Directors.

Additionally, the Board will be developing a programme to receive further input from employee forums, suppliers and the communities in which we operate during the 2018 year. An example of our planned interactions with the employee forum is set out in the Remuneration Committee report.

The Board remains focussed on all our stakeholders be they our people, our customers, our shareholders, and the communities which we are part of. I am proud that we put people at the heart of our business. You can read about the work that we do in these areas in the 'Corporate responsibility' and 'Our people' sections of this report.

Sir Adrian Montague CBE

Chairman
7 March 2018

Chairman's governance letter > [Continued](#)

Board and Group executive diversity

The charts below illustrate the diversity of the Board and senior management as at the date of this report.

Board of Directors		Group Executive	
Non-Executive	Executive		
Composition			
—	4	Executive	10
8	—	Non-Executive	—
Gender			
5	4	Male	7
3	—	Female	3
Experience and Skills*			
4	4	Insurance	9
8	4	Banking	5
3	4	Actuarial	6
8	4	Transformation	5
5	2	Law	3
7	3	Government	4
8	4	Customer	7
5	2	IT/Digital	3
8	4	Strategy	7
International experience*			
8	4	Europe	9
3	2	Asia Pacific	4
1	2	The Americas	3
1	1	Middle East & Africa	2
Tenure			
—	—	>10 years	—
3	1	5-10 years	2
2	1	4 years	3
—	1	3 years	2
2	—	2 years	2
1	—	1 year	—
—	1	<1 year	1
Age			
—	—	30-39	1
1	1	40-49	3
3	3	50-59	5
4	—	60+	1

*Individual directors may fall into one or more categories

*individual directors may fall into one or more categories

There has rightly been a continued focus on diversity during the year with the publication of the Hampton-Alexander review and McGregor Smith and Parker reviews during 2017. The Board and I support the increased spotlight on this area and are committed to improving diversity throughout the Company, not just with regards to gender and ethnicity, but in the broader sense to include diversity of thought, tenure, age, experience, skills, geographical expertise, educational and professional background.

We support the target for women to represent a minimum of 33% of Boards, and a minimum of 33% of Executive Committee members and direct reports, by 2020. As at the date of this report our percentage of women on the Board has increased from 23% in 2016 to 25% in 2017. The percentage of female representation on our Group Executive has fallen from 36% in 2016 to 30% in 2017, due to Monique Shivanandan leaving the Group. Future appointments to the Board and Group Executive will be made in line with our Global Inclusive Diversity Strategy, which is described in the Directors' and Corporate Governance report.

We welcome efforts to remove the barriers preventing women advancing into senior roles, and we are proud that we are part of the Future Boards Scheme, and that both myself and the Group Chief Executive Officer (Group CEO) are active members of the FTSE 100 30% Club.

The Board published a Board Diversity and Inclusion Statement in May 2017, to formalise our approach to diversity, and reflect the continued support for the diversity and inclusiveness programme

throughout the business. The statement can be found on our website at www.aviva.com/corporate-governance

The Board also recognise the issue of unconscious bias, which could affect decisions in our workplace. We are committed to increasing awareness throughout the Company and plan to deliver training to all senior leaders throughout the Group during 2018. The Board received training on this during the year, demonstrating our approach to lead from the top down.

[Our Board of Directors biographies](#)

Our Board of Directors

Sir Adrian Montague, CBE ▲

Position: Chairman**Nationality:** British**Committee Membership:** Nomination Committee (Chair)**Tenure:** 5 years 2 months. Appointed to the Board as a Non-Executive Director in January 2013, and as Chairman in April 2015**Qualifications:** MA, Law (Cambridge); Qualified Solicitor**Skills and Experience:** Having held appointments as Chair of Anglian Water Group Ltd, Friends Provident plc, British Energy Group plc, Michael Page International plc and Crossrail Ltd, Sir Adrian brings a wealth of experience as a Chairman. His diverse skill-set and strategic awareness facilitate open discussion and allow for constructive challenge in the Boardroom.**External Appointments:** Chairman of The Manchester Airports Group, Cadent Gas Ltd and The Point of Care Foundation.

Mark Wilson ■

Position: Group Chief Executive Officer**Nationality:** New Zealander**Committee Membership:** N/A**Tenure:** 5 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 a dynamic leader with extensive experience of leading major insurance companies. This included Asian insurance giant (AIA). At Aviva Mark has developed and driven the strategy for Aviva to put Digital First and be a leader in offering convenience to insurance customers. Mark is also a champion of sustainability and as a result of this was invited to speak at the United Nations in New York to further the efforts of companies in achieving the Sustainable Development Goals.**External Appointments:** N/A.

Thomas Stoddard ■

Position: Chief Financial Officer**Nationality:** American**Committee Membership:** N/A**Tenure:** 3 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 to attain its financial goals. As a result of Tom's work Aviva has strengthened its financial position and now has a capital surplus that it can deploy in the years to come. Prior to joining Aviva, Tom worked in senior positions as an investment banker 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.**External Appointments:** N/A

Andy Briggs ■

Position: Chief Executive Officer, UK Insurance**Nationality:** British**Committee Membership:** N/A**Tenure:** 2 years 11 months. Appointed to the Board as Executive Director in April 2015**Qualifications:** Fellow of the Institute of Actuaries**Skills and Experience:** Andy is the CEO of UK Insurance and is responsible for all Aviva's insurance businesses in the UK. Previously CEO of the Friends Life business, Andy's knowledge and experience of the UK insurance sector are invaluable to the Board. His role as chairman of the Association of British Insurers gives him a unique perspective of the UK insurance and regulatory environment.**External Appointments:** Chairman of the NSPCC's Fundraising Committee and a member of the Board of Trustees. Andy is also the Government's Business Champion for Older Workers.

Maurice Tulloch ■

Position: Chief Executive Officer, International Insurance**Nationality:** British/Canadian**Committee Membership:** N/A**Tenure:** 9 months. Appointed to the Board as an Executive Director in June 2017**Qualifications:** Maurice is a Chartered Professional Accountant (CPA,CMA), and he holds a Master's degree in Business Administration (MBA) from Heriot-Watt University, Edinburgh and a BA Economics (University of Waterloo, Ontario)**Skills and Experience:** Maurice has more than 25 years experience within Aviva and was appointed as CEO of International Insurance in June 2017. Maurice has responsibility for Aviva's insurance operations in France, Canada, Ireland, Italy, Poland, Spain, Turkey and India. His addition to the Board brings expertise and focus to the Group's International businesses.**External Appointments:** Non-Executive Director of Pool Re and a member of the Insurance Development Forum.

Claudia Arney ▲

Position: Independent Non-Executive Director**Nationality:** British**Committee Membership:** Governance Committee (Chair), Nomination Committee, Remuneration Committee, Risk Committee**Tenure:** 2 years 1 month. Appointed to the Board in February 2016**Qualifications:** MBA (INSEAD)**Skills and Experience:** Claudia has significant experience of building digital businesses, strategy formulation, business transformation and customer strategy. Claudia previously worked for the Financial Times, where she was part of the team that launched FT.com. In addition, Claudia acted as CEO of the internet start up, TheStreet.co.uk.**External Appointments:** Non-Executive Director of Derwent London plc, Halfords Group plc and the Premier League.

Our Board of Directors biographies > [Continued](#)

Glyn Barker ▲

Position: Senior Independent Non-Executive Director

Nationality: British

Committee Membership: Audit Committee, Nomination Committee, Risk Committee, Governance Committee, Remuneration Committee.

Tenure: 6 years 1 month. Appointed to the Board in February 2012 and became Senior Independent Non-Executive Director in May 2017

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

Skills and Experience: Glyn's knowledge of the Aviva Group brings an in depth understanding of the issues and concerns of shareholders. Glyn's experience enables him to support the Chairman and the Board by instilling the appropriate culture, values and behaviour in the Boardroom. Glyn was previously a vice chairman of PricewaterhouseCoopers LLP (PwC) and was responsible for leading the strategy and business development for Europe, the Middle East, Africa and India.

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

Patricia Cross ▲

Position: Independent Non-Executive Director

Nationality: Australian

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

Tenure: 4 years 3 months. Appointed to the Board in December 2013

Qualifications: BSc (Hons), International Economics (Georgetown University), Life Fellow of the Australian Institute of Company Directors

Skills and Experience: Patricia is an experienced company Director having served on six ASX-30 Boards, including National Australia Bank, AMP, and Qantas. She followed service in the U.S. Government working in foreign affairs with a long career in senior executive roles in banking and investment management, including large international treasury and markets operations. She has lived and worked in seven countries in Europe, the U.S. and Australia.

External Appointments: Chairman of the Commonwealth Superannuation Corporation, a Non-Executive director of Macquarie Group Ltd and Macquarie Bank Ltd. Chair of the 30% Club in Australia.

Belén Romana García ▲

Position: Independent Non-Executive Director

Nationality: Spanish

Committee Membership: Governance Committee, Nomination Committee, Risk Committee

Tenure: 2 years 8 months. Appointed to the Board in June 2015

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

Skills and Experience: Belén has governmental and regulatory experience and a detailed knowledge of the financial services industry and European regulation that together makes her an invaluable member of the Board. Belén has held senior positions at the Spanish Treasury and represented the Spanish government at the Organisation for Economic Co-operation and Development.

External Appointments: Independent Non-Executive Director of Banco Santander.

Michael Hawker, AM ▲

Position: Independent Non-Executive Director

Nationality: Australian

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

Tenure: 8 years 2 months. Appointed to the Board in January 2010

Qualifications: BSc (University of Sydney), Senior Fellow of the Financial Services Institute of Australia

Skills and Experience: Michael brings to the Board experience from his career in both the banking and insurance industries within Europe, Asia and Australia, which included 7 years as CEO of Australia's largest General Insurer (IAG). Michael's tenure at Aviva makes him well placed to determine the nature and extent of the potential risks that could stop Aviva achieving its strategic objectives and 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 Ltd. 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: 4 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 experience in business transformation. Formerly a senior partner at McKinsey & Company, Michael focussed on developing strategies for retail and financial services companies, which alongside his governmental experience at the Central Policy Review Staff (now the Number 10 Policy Unit), allows Michael to bring a unique perspective and insight to the Board.

External Appointments: Chairman of HM Land Registry, Non-Executive Director of the Department of Health and senior adviser to Lazard (investment bank).

Keith Williams ▲

Position: Independent Non-Executive Director

Nationality: British

Committee Membership: Audit Committee (Chair), Governance Committee, Nomination Committee, Risk Committee

Tenure: 1 year 7 months. Appointed to the Board in August 2016

Qualifications: Associate member of the Institute of Chartered Accountants

Skills and Experience: Keith has significant financial experience including a detailed knowledge of business planning, capital projects and project finance gained in a number of industries. Keith has more than 10 years of executive experience as Chief Financial Officer and CEO at British Airways plc and, during his time, Keith transformed the Company into a customer focussed organisation.

External Appointments: Non-Executive Deputy Chairman of John Lewis, Non-Executive Director of Royal Mail plc and member of the Audit Committee of the British Museum.

Our Board of Directors biographies > [Continued](#)

Kirstine Cooper ◆

Position: Group General Counsel and Company Secretary

Nationality: British

Committee Membership: N/A

Tenure: 7 years 3 months. Appointed as Company Secretary in December 2010

Qualifications: Bachelor of Laws degree (Glasgow University) and qualified solicitor. Graduate of the General Manager Programme (INSEAD)

Skills and Experience: Kirstine has over 25 years experience at Aviva and is a trusted advisor to the Board. As a qualified solicitor Kirstine is able to execute the role of Company Secretary by advising the Board on governance issues and the regulatory environment. Kirstine established the legal and secretarial function as a global team and is responsible for the provision of legal services to the Group. She also leads the team on public policy and corporate responsibility.

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

The full biographies for all our Board and Group Executive committee members are available online at www.aviva.com.

Key

■ Executive

▲ Non-Executive

◆ Group General Counsel and Company Secretary

Sir Malcolm Williamson and Bob Stein retired from the Board at the Annual General Meeting on 10 May 2017.

[Extract of Directors' remuneration report](#)

Extract of Directors' remuneration report

This section of the Strategic report shows a summary of the pay received by executive and non-executive directors in respect of 2017. For full details on both our proposed remuneration policy and our application of the current remuneration policy during 2017 please refer to the full Directors' Remuneration Report (DRR) section of the Annual report and accounts. The DRR also contains a detailed report from the Chairman of the Remuneration Committee, Patricia Cross.

Single total figures of remuneration for 2017

The table below sets out the total remuneration for 2017 and 2016 for each of our EDs.

Total 2017 remuneration – executive directors (audited information)

	Mark Wilson		Tom Stoddard		Andy Briggs		Maurice Tulloch ⁶		Total emoluments of Executive Directors ⁷	
	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000
Basic Salary ¹	1,028	1,002	708	690	726	707	373	—	2,835	2,399
Benefits ²	107	99	86	73	53	51	39	—	285	223
Annual Bonus ³	1,945	1,837	997	939	1,022	926	456	—	4,420	3,702
LTIP ⁴	966	1,304	499	673	511	—	70	—	2,046	1,977
Pension ⁵	288	281	198	193	203	198	104	—	793	672
Total	4,334	4,523	2,488	2,568	2,515	1,882	1,042	—	10,379	8,973

Notes

- 1 Basic salary received during 2017.
- 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 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.
- 3 Bonus payable in respect of the financial year including any deferred element at the face value at the date of award. The deferred element is made under the ABP.
- 4 The value of the LTIP for 2017 relates to the 2015 award, which had a three-year performance period ending 31 December 2017. 36.9% of the award will vest in March 2018. An assumed share price of 502.19 pence has been used to determine the value of the award based on the average share price over the final quarter of the 2017 financial year. The LTIP amounts shown in last year's report in respect of the LTIPs awarded in 2014 were also calculated with an assumed share price of 456.27 pence. The actual share price at vesting was 525.07 pence, leading to an increase in value. The estimated value of the awards for the EDs was £1,718,000; the actual value was £1,977,000 (increase of £259,000).
- 5 Pension contributions consist of employer defined contribution benefits, excluding salary exchange contributions made by the employees, plus cash payments in lieu of pension. EDs are eligible to participate in a defined contribution plan and receive pension contributions and/or a cash pension allowance from the Company in aggregate totaling 28% of basic salary.
- 6 For Maurice, his 2017 values only relate to his qualifying services as a Director of Aviva from 20 June 2017, when he was appointed as an ED. His basic salary, bonus and benefits are set in Canadian dollars and have been converted to sterling using an average exchange rate for 2017.
- 7 Year on year increase is due to an additional ED and the first payout under the LTIP for Andy.

Total 2017 remuneration for non-executive directors (audited information)

Table below sets out the total remuneration earned by each NED who served during 2017, for Group-related activities.

	Fees		Benefits ¹		Aviva plc total		Subsidiaries fees		Group total	
	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 ² £000	2017 £000	2016 £000	2017 £000	2016 £000
Chairman										
Sir Adrian Montague	550	550	67	77	617	627	—	—	617	627
Non-executive directors										
Claudia Arney ⁴	140	84	1	2	141	86	40	—	181	86
Glyn Barker	164	137	3	3	167	140	—	—	167	140
Patricia Cross	128	127	—	2	128	129	53	—	181	129
Belén Romana García	105	105	8	11	113	116	1	—	114	116
Michael Hawker	138	138	—	—	138	138	15	—	153	138
Michael Mire	117	117	1	2	118	119	—	—	118	119
Keith Williams ⁴	124	44	3	1	127	45	—	—	127	45
Former non-executive directors³										
Bob Stein	44	120	5	16	49	136	—	—	49	136
Sir Malcolm Williamson	56	152	2	7	58	159	—	—	58	159
Total emoluments of NEDs	1,566	1,574	90	121	1,656	1,695	109	—	1,765	1,695

- 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 Bob Stein and Sir Malcolm Williamson stepped down from the Board at the 2017 AGM.
- 4 2017 reflects Claudia and Keith's first full year on the Board.

The total amount paid in fees to NEDs in 2017 was £1,656,000, which is within the limits set in the Company's Articles of Association, as previously approved by shareholders.

[Independent auditors' statement](#)

Independent auditors' statement to the members of Aviva plc

We have examined the summary financial information included within the Strategic report for the year ended 31 December 2017, which comprises the Consolidated income statement, the Consolidated statement of comprehensive income, the Reconciliation of Group adjusted operating profit to profit for the year then ended, the Consolidated statement of financial position and related notes, and the auditable part of the Directors' Remuneration Report.

Respective responsibilities of the Directors and the Auditors

The directors are responsible for preparing the Strategic report, in accordance with the Companies Act 2006, which includes information extracted from the full annual financial statements and the auditable part of the Directors' Remuneration Report of Aviva plc for the year ended 31 December 2017.

Our responsibility is to report to you our opinion on the consistency of the summary financial information, included within the Strategic report with those full annual financial statements and the auditable part of the Directors' Remuneration Report.

This statement, including the opinion, has been prepared for and only for the Company's members as a body and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this statement is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Basis of Opinion

Our examination involved agreeing the balances disclosed in the summary financial information to full annual financial statements. Our audit report on the company's full annual financial statements and the auditable part of the Directors' Remuneration Report describes the basis of our opinion on those financial statements and the auditable part of that report.

Opinion

In our opinion the summary financial information is consistent with the full annual financial statements and the auditable part of the Directors' Remuneration Report of Aviva plc for the year ended 31 December 2017.

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors London
7 March 2018

1. 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 full annual financial statements or the supplementary financial information since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The auditors' report in the Annual report and accounts for the year ended 31 December 2017 was unqualified and does not contain any statement under section 498(2) (accounting records or returns inadequate or accounts or directors' remuneration report not agreeing with records or returns) or section 498(3) (failure to obtain necessary information and explanations) of the Companies Act 2006 and the auditors' statement in that Annual report and accounts under section 496 (whether Strategic report and directors' report is consistent with accounts) of that Act was unqualified.

[Summary of consolidated financial statements](#)

Consolidated income statement

For the year ended 31 December 2017

	2017 £m	2016 £m
Income		
Gross written premiums	27,606	25,442
Premiums ceded to reinsurers	(2,229)	(2,364)
Premiums written net of reinsurance	25,377	23,078
Net change in provision for unearned premiums	(153)	(210)
Net earned premiums	25,224	22,868
Fee and commission income	2,187	1,962
Net investment income	22,066	30,257
Share of profit after tax of joint ventures and associates	41	216
Profit/(loss) on the disposal and remeasurement of subsidiaries, joint ventures and associates	135	(11)
	49,653	55,292
Expenses		
Claims and benefits paid, net of recoveries from reinsurers	(24,113)	(23,782)
Change in insurance liabilities, net of reinsurance	(1,074)	(6,893)
Change in investment contract provisions	(13,837)	(14,039)
Change in unallocated divisible surplus	294	(381)
Fee and commission expense	(4,329)	(3,885)
Other expenses	(3,537)	(3,853)
Finance costs	(683)	(626)
	(47,279)	(53,459)
Profit before tax	2,374	1,833
Tax attributable to policyholders' returns	(371)	(640)
Profit before tax attributable to shareholders' profits	2,003	1,193
Tax expense	(728)	(974)
Less: tax attributable to policyholders' returns	371	640
Tax attributable to shareholders' profits	(357)	(334)
Profit for the year	1,646	859
Attributable to:		
Equity holders of Aviva plc	1,497	703
Non-controlling interests	149	156
Profit for the year	1,646	859
Earnings per share		
Basic (pence per share)	35.0p	15.3p
Diluted (pence per share)	34.6p	15.1p

Summary of consolidated financial statements > [Continued](#)

Consolidated statement of comprehensive income

For the year ended 31 December 2017

	2017 £m	2016 £m
Profit for the year	1,646	859
Other comprehensive income:		
<i>Items that may be reclassified subsequently to income statement</i>		
Investments classified as available for sale		
Fair value (losses)/gains	(7)	12
Fair value gains transferred to profit on disposals	(2)	(2)
Share of other comprehensive income of joint ventures and associates	6	(6)
Foreign exchange rate movements	68	1,128
Aggregate tax effect – shareholder tax on items that may be reclassified subsequently to income statement	5	(34)
<i>Items that will not be reclassified to income statement</i>		
Owner-occupied properties – fair value (losses)/gains	(1)	4
Remeasurements of pension schemes	(5)	311
Aggregate tax effect – shareholder tax on items that will not be reclassified subsequently to income statement	5	(70)
Total other comprehensive income, net of tax	69	1,343
Total comprehensive income for the year	1,715	2,202
Attributable to:		
Equity holders of Aviva plc	1,523	1,901
Non-controlling interests	192	301
	1,715	2,202

Reconciliation of Group adjusted operating profit to profit for the year

For the year ended 31 December 2017

	2017 £m	2016 £m
Group adjusted operating profit before tax attributable to shareholders' profits		
Life business	2,882	2,642
General insurance and health	700	833
Fund management	164	138
Other:		
Other operations	(169)	(94)
Corporate centre	(184)	(184)
Group debt costs and other interest	(325)	(325)
Group adjusted operating profit before tax attributable to shareholders' profits	3,068	3,010
Integration and restructuring costs	(141)	(212)
Group adjusted operating profit before tax attributable to shareholders' profits after integration and restructuring costs	2,927	2,798
Adjusted for the following:		
Investment return variances and economic assumption changes on long-term business	34	379
Short-term fluctuation in return on investments on non-long-term business	(345)	(518)
Economic assumption changes on general insurance and health business	(7)	(242)
Impairment of goodwill, associates and joint ventures and other amounts expensed	(49)	—
Amortisation and impairment of intangibles	(197)	(175)
Amortisation and impairment of acquired value of in-force business	(495)	(540)
Profit/(loss) on the disposal and remeasurement of subsidiaries, joint ventures and associates	135	(11)
Other ¹	—	(498)
Adjusting items before tax	(924)	(1,605)
Profit before tax attributable to shareholders' profits	2,003	1,193
Tax on Group adjusted operating profit	(639)	(706)
Tax on other activities	282	372
	(357)	(334)
Profit for the year	1,646	859

1 Other items include an exceptional charge of £nil (2016: £475 million) 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. Other items also include a charge of £nil (2016: £23 million), 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.

Summary of consolidated financial statements > [Continued](#)**Consolidated statement of financial position**

As at 31 December 2017

	2017 £m	2016 £m
Assets		
Goodwill	1,876	2,045
Acquired value of in-force business and intangible assets	3,455	5,468
Interests in, and loans to, joint ventures	1,221	1,604
Interests in, and loans to, associates	421	481
Property and equipment	509	487
Investment property	10,797	10,768
Loans	27,857	24,784
Financial investments	311,082	299,835
Reinsurance assets	13,492	26,343
Deferred tax assets	144	180
Current tax assets	94	119
Receivables	8,285	7,794
Deferred acquisition costs, pension surpluses and other assets	6,374	5,893
Prepayments and accrued income	2,860	2,882
Cash and cash equivalents	43,347	38,708
Assets of operations classified as held for sale	10,871	13,028
Total assets	442,685	440,419
Equity		
Capital		
Ordinary share capital	1,003	1,015
Preference share capital	200	200
	1,203	1,215
Capital reserves		
Share premium	1,207	1,197
Capital redemption reserve	14	—
Merger reserve	8,974	8,974
	10,195	10,171
Treasury shares	(14)	(15)
Currency translation reserve	1,141	1,146
Other reserves	(274)	(349)
Retained earnings	4,918	4,835
Equity attributable to shareholders of Aviva plc	17,169	17,003
Direct capital instrument and tier 1 notes	731	1,123
Equity excluding non-controlling interests	17,900	18,126
Non-controlling interests	1,235	1,425
Total equity	19,135	19,551
Liabilities		
Gross insurance liabilities	148,650	151,183
Gross liabilities for investment contracts	203,986	197,095
Unallocated divisible surplus	9,082	9,349
Net asset value attributable to unitholders	18,327	15,638
Pension deficits and other provisions	1,429	1,510
Deferred tax liabilities	2,377	2,413
Current tax liabilities	290	421
Borrowings	10,286	10,295
Payables and other financial liabilities	16,459	17,751
Other liabilities	2,791	2,719
Liabilities of operations classified as held for sale	9,873	12,494
Total liabilities	423,550	420,868
Total equity and liabilities	442,685	440,419

Approved by the Board on 7 March 2018

Thomas D. Stoddard
Chief Financial Officer

This Strategic report with supplementary material is only an extract from the company's Annual report and accounts. It does not contain sufficient information to allow as full an understanding of the results and state of affairs of the Group as would be provided by the full Annual report and accounts. A copy of the full accounts can be obtained free of charge as detailed in the 'Shareholder services' section.

Company number: 2468686

Notes to the summary of consolidated financial statements

Basis of preparation

This Strategic report comprises the Strategic report included in the full Annual report and accounts, and supplementary financial information.

The Summary Consolidated Financial Statements included in this Strategic report with supplementary material, have been extracted from the Consolidated Financial Statements of Aviva plc ('the Company') and its subsidiaries (collectively known as 'Aviva').

This is a summary of information in the consolidated financial statements set out in the Aviva plc Annual report and accounts 2017. It does not contain sufficient information to allow as full an understanding of the results and state of affairs of the Group as would be provided by the Annual report and accounts 2017.

The consolidated financial statements of the Company and those of Aviva have been prepared and approved by the Directors in accordance with International Accounting Standards (IFRS) as endorsed by the European Union (EU) and those parts of the Companies Act 2006 applicable to those reporting under IFRS.

Included in the Summary Consolidated Financial Statements, is the Reconciliation of Group adjusted operating profit to profit for the year. For management's decision-making and internal performance management of our operating segments, the Group focuses on Group adjusted operating profit, a non-GAAP Alternative Performance Measure (APM) which is not bound by the requirements of IFRS. The APM incorporates the expected return on investments which supports long-term and non-long-term businesses. Short-term realised and unrealised gains and losses are treated as adjusting 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. Details of these items, including an explanation of the rationale for their exclusion, are provided in the 'Other information' section. The Group adjusted operating profit APM should be viewed as complementary to IFRS GAAP measures. It is important to consider Group adjusted operating profit and profit before tax together to understand the performance of the business in the period.

During 2017, following the launch of UK Insurance which brings together the UK Life, UK General Insurance and UK Health businesses, the Ireland Life and General Insurance businesses have been aligned to the new management structure and reported within Europe. As a result of this change, comparative information in the Reconciliation of Group adjusted operating profit to profit for the year, note 4 – 'Segmental information' and note 10 – 'Employee information' have been restated. There is no impact on the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity or consolidated statement of cash flows.

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.

	2017 £m	2016 £m
Ordinary dividends declared and charged to equity in the year		
Final 2016 – 15.88 pence per share, paid on 17 May 2017	646	—
Final 2015 – 14.05 pence per share, paid on 17 May 2016	—	570
Interim 2017 – 8.40 pence per share, paid on 17 November 2017	337	—
Interim 2016 – 7.42 pence per share, paid on 17 November 2016	—	301
	983	871
Preference dividends declared and charged to equity in the year	17	17
Coupon payments on direct capital instrument and tier 1 notes	81	85
	1,081	973

Subsequent to 31 December 2017, the directors proposed a final dividend for 2017 of 19.00 pence per ordinary share (2016: 15.88 pence), amounting to £763 million (2016: £646 million) in total. Subject to approval by shareholders at the AGM, the dividend will be paid on 17 May 2018 and will be accounted for as an appropriation of retained earnings in the year ending 31 December 2018.

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 19.25% (2016: 20.00%).

Alternative Performance Measures

Alternative Performance Measures

In order to fully explain the performance of our business, we discuss and analyse our results in terms of financial measures which include a number of alternative performance measures (APMs). APMs are non-GAAP measures which are used to supplement the disclosures prepared in accordance with other regulations such as International Financial Reporting Standards (IFRS) and Solvency II. We believe these measures provide useful information to enhance the understanding of our financial performance. However, APMs should be viewed as complementary to, rather than as a substitute for, the figures determined according to other regulations.

The APMs utilised by Aviva may not be the same as those used by other insurers and may change over time. These metrics are reviewed annually and updated as appropriate to ensure they remain an effective measurement that underpins the objectives for the Group.

This section includes additional detail in respect of APMs utilised by the Group, including a reconciliation to the relevant amounts appearing in the Group's IFRS financial statements and, where appropriate, a commentary on the material reconciling items. This section should be read in conjunction with the Strategic report which includes an analysis of the development and performance of the Group's business during the year and its overall financial position at the end of the year.

1. Group adjusted operating profit (operating profit)

Operating profit is a non-GAAP APM which is reported to the Group chief operating decision maker for the purpose of decision making and internal performance management of the Group's operating segments that incorporates an expected return on investments supporting the life and non-life insurance businesses. The various items taken out of operating profit are:

Investment variances and economic assumptions changes

Operating profit for the life insurance 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.

- 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. This would include movements in liabilities due to changes in discount rate arising from management decisions that impact on product profitability over the lifetime of products. Changes due to economic items, such as market value movement and interest rate changes, which give rise to variances between actual and expected investment returns, and the impact of changes in economic assumptions on liabilities, are disclosed separately outside operating profit.

Operating profit for the non-life 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 separately outside operating profit. The impact of changes in the discount rate applied to claims provisions is also disclosed outside operating profit.

The exclusion of short-term investment variances from this APM reflects the long-term nature of much of our business. The operating profit which is used in managing the performance of our operating segments excludes the impact of economic factors, to provide a comparable measure year-on-year.

Impairment, amortisation and profit/loss on disposal

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; and the profit or loss on disposal and remeasurement of subsidiaries, joint ventures and associates. These items principally relate to merger and acquisition activity which we view as strategic in nature, hence they are excluded from the operating profit APM as this is principally used to manage the performance of our operating segments when reporting to the Group chief operating decision maker.

Other items

These items are, in the Directors' view, required to be separately disclosed by virtue of their nature or incidence to enable a full understanding of the Group's financial performance.

Operating profit is presented before and after integration and restructuring costs.

The Group adjusted operating profit APM should be viewed as complementary to IFRS GAAP measures. It is important to consider Group adjusted operating profit and profit before tax together to understand the performance of the business in the period.

The table below presents a reconciliation between our consolidated operating profit and profit before tax attributable to shareholders' profits.

	2017 £m	2016 £m
United Kingdom – Life	1,764	1,553
United Kingdom – General Insurance	411	395
Canada	46	270
Europe	1,059	1,019
Asia	191	201
Aviva Investors	201	160
Other Group activities	(604)	(588)
Operating profit before tax attributable to shareholders' profit	3,068	3,010
Integration and restructuring costs	(141)	(212)
Operating profit before tax after integration and restructuring costs	2,927	2,798
Adjusted for the following:		
Investment return variances and economic assumption changes on long-term business	34	379
Short-term fluctuation in return on investments on non-long-term business	(345)	(518)
Economic assumption changes on general insurance and health business	(7)	(242)
Impairment of goodwill, associates and joint ventures and other amounts expensed	(49)	—
Amortisation and impairment of intangibles	(197)	(175)
Amortisation and impairment of acquired value of in-force business	(495)	(540)
(Loss)/profit on the disposal and remeasurement of subsidiaries, joint ventures and associates	135	(11)
Other	—	(498)
Adjusting items before tax	(924)	(1,605)
Profit before tax attributable to shareholders' profits	2,003	1,193

Adjusting items

Integration and restructuring costs decreased to £141 million (2016: £212 million), as a result of lower transformation spend.

Life investment variances and economic assumption changes were £34 million positive (2016: £379 million positive). The variance in 2017 is driven by positive variances in the UK, which are partially offset by negative variances in France.

Positive variances in the UK are mainly due to economic modelling developments implemented in 2017. These include a one-off development to align the approach to calculating the valuation interest rate across the heritage Aviva and Friends Life portfolios and also a development to the approach to calculating the valuation interest rate for certain deferred annuity business. Positive variances also reflect fewer than expected defaults and downgrades on corporate bonds, better than expected experience on equity release mortgages (in terms of losses related to no negative equity guarantees) and a reduction in the default allowances for commercial mortgages.

The negative variance in France is primarily due to an increase in life annuity pension reserves, resulting from a reduction to the discount rate cap used in the calculation of these reserves. This economic assumption change reflects the current environment of

prolonged low interest rates. A further negative variance stems from losses realised in 2017 on derivative-based funds.

During 2017 the Group has kept its long-term assumptions for future property prices and rental income under review to allow for the possible future adverse impact of the decision for the UK to leave the European Union. The aim has been to maintain the same allowance in these assumptions in 2017 as was included in 2016, as the impact of the Brexit process on the UK economy remains uncertain.

In 2016, investment variances and economic assumption changes were £379 million positive. Positive variances in the UK reflected lower interest rates and narrowing credit spreads, which increased 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 was broadly offset in the second half of the year as expectations for future property price and rental growth increased. In addition, in the UK the investment variance reflected a refined approach of assuming best estimate expected credit defaults on corporate bonds, with a resulting increase in Group adjusted operating profit in the period. The positive variance in the UK was partially offset by negative variances in France and Italy. The negative variance in France reflected losses on equity hedges managed on an economic basis rather than an IFRS basis and falling interest rates, while the negative variance in Italy reflected widening credit spreads.

Short-term fluctuations on non long-term business were £345 million negative (2016: £518 million negative). The adverse movements during 2017 are mainly due to foreign exchange losses and adverse market movements on Group Centre holdings, including the centre hedging programme.

In the general insurance and health business, an adverse impact of £7 million (2016: £242 million adverse) mainly arises as a result of a slight decrease in the estimated future inflation rate used to value periodic payment orders offset by a slight decrease in the interest rates used to discount claim reserves for periodic payment orders and latent claims. During 2016 market interest rates used to discount periodic payment orders and latent claims reduced and the estimated future inflation rate used to value periodic payment orders was increased to be consistent with market expectations. This was, in part, 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.

Impairment of goodwill, associates and joint ventures expensed in the period comprised of £2 million in respect of an impairment of goodwill at Elite Insurance Company of Canada and £47 million in respect of the full impairment of goodwill in our investment in associate Aviva India (2016: £nil).

Amortisation and impairment of acquired value of in-force business ('AVIF') in the year is a charge of £495 million (2016: £540 million charge). The charge for the year includes £469 million of amortisation in respect of the Group's subsidiaries and joint-ventures and impairment charges of £26 million in relation to the FPI's reinsured book of business and Aviva India.

The total Group profit on disposal and remeasurement of subsidiaries, joint ventures and associates is £135 million (2016: £11 million loss). This consists of £23 million of remeasurement gains in respect of the joint venture operations in Poland and Aviva Vietnam; £237 million profit on the disposals of Antarius, France health, three businesses in Spain and other small operations; offset by £125 million of remeasurement losses in relation to FPI and Taiwan.

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. There were no other items in 2017.

In 2016, other items included a charge of £475 million in respect of the change in the Ogden discount rate. This was excluded from operating profit on the grounds that the change in rate from 2.5% to -0.75% reflects the Lord Chancellor's view of the development of interest rates in the period since 2001 when the rate was last adjusted. This was reported outside operating profit as it does not reflect the underlying performance of the Group for the year and would distort the trend in Group adjusted operating profit on a year-on-year basis. In 2017 the impact of Ogden was immaterial.

In 2016, other items also include £23 million relating to 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.

2. Solvency II

Solvency II, the European-wide prudential regulatory framework, came into force on 1 January 2016. Solvency II requires European insurers to calculate regulatory capital adequacy at the level of both individual regulated subsidiaries and in aggregate at Group level using a consistent prudential regulatory framework. The Aviva Group is regulated on a Solvency II basis and the Group Solvency II position reflects the consolidation of all underlying legal entities, including non-EEA subsidiaries, under Solvency II.

The Solvency II regime is underpinned by market-consistent principles whereby non-insurance assets and liabilities are typically measured using market value and liabilities arising from insurance contracts which are valued on a best estimate basis using market-implied assumptions. In addition, a risk margin is required to be held in respect of insurance contract liabilities to represent the additional amount an insurer would be expected to pay to transfer its obligations to another insurer. The combination of best estimate liabilities and the risk margin is referred to as 'technical provisions'. Subject to regulatory approval, insurers may utilise a transitional measure which spreads the increase in technical provisions arising as a result of the implementation of Solvency II over a period of sixteen years from 1 January 2016. During this year the transitional measures were utilised by three entities across the Aviva Group. No insurance undertakings within the Group use the transitional measure on risk-free interest rates.

Available capital resources determined under Solvency II are 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.

The Solvency II regime requires insurers to hold own funds in excess of the Solvency Capital Requirement (SCR). The SCR is calculated at Group level using a risk based capital model which is 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 a 1 in 200 year event – against financial and non-financial shocks. As a number of subsidiaries utilise the standard formula rather than a risk based capital model to assess capital requirements, the overall Aviva Group SCR is calculated using a partial internal model, and it is shown after the impact of diversification benefit.

The Solvency II Own Funds position is shown inclusive of pro forma adjustments to align it with the capital information presented to management internally. Pro forma adjustments are made when, in the opinion of the Directors, the cover ratio does not fully reflect the effect of transactions or capital actions that are known as at each reporting date. Such adjustments may be required in respect of planned acquisitions and disposals, group reorganisations and adjustments to the Solvency II valuation basis arising from changes to the underlying Regulations or updated interpretations provided by EIOPA.

The reconciliation from total Group equity on an IFRS basis to Solvency II Own Funds is presented below. This information is estimated and is therefore subject to change. The valuation differences reflect moving from IFRS valuations to a Solvency II shareholder view of Own Funds.

	2017 £bn	2016 £bn
Total Group equity on an IFRS basis	19.1	19.6
Elimination of goodwill and other intangible assets ¹	(9.8)	(10.0)
Liability valuation differences (net of transitional deductions) ²	22.0	22.1
Inclusion of risk margin (net of transitional deductions)	(3.3)	(4.4)
Net deferred tax ³	(1.3)	(1.6)
Revaluation of subordinated liabilities	(0.7)	(0.9)
Estimated Solvency II Net Assets (gross of non-controlling interests)⁴	26.0	24.8
Difference between Solvency II Net Assets and Own Funds ⁵	(1.3)	(0.8)
Estimated Solvency II Own Funds⁶	24.7	24.0

1 Includes £1.9 billion (2016: £2.0 billion) of goodwill and £7.9 billion (2016: £8.0 billion) of other intangible assets comprising acquired value of in-force business of £3.3 billion (2016: £3.9 billion), deferred acquisition costs (net of deferred income) of £2.9 billion (2016: £2.5 billion) and other intangibles of £1.7 billion (2016: £1.6 billion).

2 Includes the adjustments required to reflect market consistent principles under Solvency II whereby non-insurance assets and liabilities are measured using market value and liabilities arising from insurance contracts are valued on a best estimate basis using market-implied assumptions.

3 Net deferred tax includes the tax effect of all other reconciling items in the table above which are shown gross of tax.

4 The 31 December 2016 Solvency II position includes the pro forma impacts of the disposal of Aviva's 50% shareholding in Antarius to Sogecap, which completed on 5 April 2017 (£0.1 billion) and an anticipated future change to UK tax rules restricting the tax relief that can be claimed in respect of tax losses (£0.1 billion). However, under the amended tax rules published on 13 July 2017, this restriction will not be material, and as a result no corresponding pro forma impact is included in the estimated 31 December 2017 Solvency II position. The 31 December 2016 Solvency II position also includes an adverse impact of a notional reset of the transitional measure on technical provisions ('TMTP') to reflect interest rates at 31 December 2016 of £0.4 billion. The net pro forma impact on Own Funds arising from disposals of Friends Provident International Limited and the Italian joint venture Avipop Assicurazioni S.p.A in 2017 is £nil.

5 Regulatory adjustments to bridge from Solvency II Net Assets to Own Funds include recognition of subordinated debt capital and non-controlling interests.

6 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 £3.3 billion (2016: £2.9 billion) and staff pension schemes in surplus £1.5 billion (2016: £1.1 billion) – these exclusions have no impact on Solvency II surplus.

A number of key performance metrics relating to Solvency II are utilised to measure and monitor the Group's performance and financial strength:

- The Solvency II cover ratio is an indicator of the Group's balance sheet strength which is derived from own funds divided by the SCR using a 'shareholder view' which excludes the contribution of fully ring fenced with-profits funds and staff pension schemes in surplus. These adjustments have no impact on the Group's Solvency II surplus.
- Operating Capital Generation (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, non-economic assumption changes and non-recurring capital actions. It excludes economic variances, economic assumption changes and integration and restructuring costs which are included in non-operating capital generation. 'Underlying' OCG is the component of the OCG which excludes the effect of non-recurring capital actions and non-economic assumption changes and is therefore considered to be more representative of the long-term trend.
- The Solvency II value of new business (VNB) represents the increase in own funds arising from business written in the period, with adjustments made to i) include VNB not included in Solvency II (e.g. UK and Asia Healthcare business, retail fund management business and UK Equity Release business) ii) remove the impact of contract boundaries and iii) include a 'look through' to the value of profits arising in service companies (which would otherwise be excluded from Solvency II). These adjustments are considered to reflect a more realistic basis than the prudential Solvency II rules. The VNB is derived from the present value of projected pre-tax distributable profits generated by new business plus a risk margin.

Additional information relating to the component parts of these Solvency II key performance metrics is included below. The information in the following sections in respect of Solvency II is estimated and is therefore subject to change.

Solvency II position

The Solvency II position disclosed is based on a 'shareholder view'. This excludes the contribution to Group Solvency Capital Requirement (SCR) and Group Own Funds of fully ring fenced with-profits funds (£3.3 billion at 31 December 2017) and staff pension schemes in surplus (£1.5 billion at 31 December 2017). These exclusions have no impact on Solvency II surplus. The most material fully ring fenced with-profits funds and staff pension schemes are self-supporting on a Solvency II capital basis with any surplus capital above SCR not recognised in the Group position. The shareholder view is therefore 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 Solvency II risk margin is highly sensitive to movements in interest rates, which can be offset by a reset of the transitional measure on technical provisions ('TMTP'). The 31 December 2016 Solvency II position disclosed includes a notional reset of the TMTP to reflect interest rates at 31 December 2016. This presentation is in line with the Group's approach to manage its capital position assuming a dynamic TMTP in respect of the impact of interest rate movements on the risk margin, as this avoids step changes to the Solvency II position that arise only when the formal TMTP reset points are triggered. The estimated 31 December 2017 Solvency II position includes an estimated reset of the TMTP in line with the regulatory requirement to reset the TMTP every two years. This TMTP has also been amortised on a straight line basis over 16 years from 1 January 2016 in line with the Solvency II rules.

The 31 December 2017 Solvency II position disclosed includes two pro forma adjustments, to reflect known or highly likely events materially affecting the Group's solvency position post 31 December 2017. The adjustments consist of the disposals of Friends Provident International Limited and the Italian joint venture Avipop Assicurazioni S.p.A. These adjustments have been made in order to show a more representative view of the Group's solvency position.

The 31 December 2016 Solvency II Own Funds position includes the pro forma impacts of £0.1 billion in relation to the disposal of Aviva's 50% shareholding in Antarius to Sogecap, which completed on 5 April 2017, and a then anticipated future change to UK tax rules restricting the tax relief that could be claimed in respect of tax losses announced in the Chancellor of the Exchequer's Autumn statement of 23 November 2016, which has been removed in 2017 following a clarification in the 13 July 2017 Finance Bill.

Summary of Solvency II position

	2017 £bn	2016 £bn
Own Funds ^{1,2,3}	24.7	24.0
Solvency Capital Requirement ^{1,2,3,4}	(12.5)	(12.7)
Estimated Solvency II Surplus at 31 December^{2,3}	12.2	11.3
Estimated Shareholder Cover Ratio^{1,2,3}	198%	189%

- 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 £3.3 billion (2016: £2.9 billion) and staff pension schemes in surplus £1.5 billion (2016: £1.1 billion). These exclusions have no impact on Solvency II surplus.
- 2 The estimated Solvency II position includes the pro forma impacts of the disposals of Friends Provident International Limited (£0.1 billion increase to surplus) and the Italian joint venture Avipop Assicurazioni S.p.A. (£0.1 billion increase to surplus).
- 3 The 31 December 2016 Solvency II position includes the pro forma impacts of the disposal of Aviva's 50% shareholding in Antarius to Sogecap, which completed on 5 April 2017 (£0.2 billion increase to surplus) and an anticipated future change to UK tax rules restricting the tax relief that can be claimed in respect of tax losses (£0.4 billion decrease to surplus). However, under the amended tax rules published on 13 July 2017, this restriction will not be material, and as a result no corresponding pro forma impact is included in the estimated 31 December 2017 Solvency II position. The 31 December 2016 Solvency II position also includes an adverse impact of a notional reset of the transitional measure on technical provisions ('TMTP') to reflect interest rates at 31 December 2016 £0.4 billion decrease to surplus.
- 4 The Solvency Capital Requirement above represents the Solvency Capital Requirement after the impact of diversification benefit.

Movement in Group Solvency II surplus

An analysis of change in respect of the overall Group solvency position, including as a result of Operating Capital Generation, is included below.

	Total 2017 £bn	Total 2016 £bn
Group Solvency II Surplus at 1 January 2017	11.3	9.7
Operating Capital Generation	2.6	3.5
Non-operating Capital Generation	(0.3)	(1.8)
Dividends	(1.1)	(1.0)
Share buy-back	(0.3)	—
Foreign exchange variances	0.1	0.6
Hybrid debt issuance/repayment	(0.5)	0.4
Acquired/divested business	0.4	(0.1)
Estimated Solvency II Surplus at 31 December 2017	12.2	11.3

The estimated Solvency II surplus at 31 December 2017 is £12.2 billion, with a shareholder cover ratio of 198%. This is an increase of £0.9 billion compared to the 31 December 2016 surplus. In 2017 the beneficial impacts of Operating Capital Generation, disposals and foreign exchange variances have been partially offset by hybrid debt repayment, share buy-back and the impact of the Aviva plc dividend. The 2017 Operating Capital Generation includes the beneficial impact of the transfer of the Friends Life business into the main UK life insurance fund. The beneficial impact from divested businesses in 2017 includes the disposal of the Spanish joint ventures Unicorp Vida and Caja Espana Vida and its retail life insurance business Aviva Vida y Pensiones. Also included are pro-forma impacts of the disposals of Friends Provident International Limited and the Italian joint venture Avipop Assicurazioni S.p.A.

Analysis of Solvency II Operating Capital Generation

An analysis of the components of Operating Capital Generation, including as a result of new business written in the period (VNB), is presented below:

	2017 £bn	2016 £bn
Adjusted Solvency II VNB (gross of tax and non-controlling interests)	1.2	0.9
Allowance for Solvency II contract boundary rules	—	—
Differences due to change in business in scope	(0.2)	(0.2)
Tax & Other ¹	(0.3)	(0.2)
Solvency II Own Funds impact of new business (net of tax and non-controlling interests)	0.7	0.5
Solvency II SCR impact of new business	(0.8)	(0.7)
Solvency II surplus impact of new business	(0.1)	(0.2)
Life earnings from existing business	1.6	2.0
Life Other OCG ²	0.9	1.8
Life Solvency II operating capital generation	2.4	3.6
GI, Health, FM & Other Solvency II OCG	0.2	(0.1)
Total Solvency II operating capital generation	2.6	3.5

1 Other includes the impact of look through profits in service companies (where not included in Solvency II) and the reduction in value when moving to a net of non-controlling interests basis.

2 Other OCG includes the effect of non-recurring capital actions, non-economic assumption changes and Group diversification benefit.

The Group's VNB increased by 25% to £1.2 billion (2016: £0.9 billion). This was primarily driven by growth of new business in the UK, Europe and Asia.

The UK benefitted from strong growth in volumes across all segments. However, average margins reduced reflecting lower margins on individual annuities and equity release. Following a clarification to the Solvency II rules made by the Prudential Regulation Authority (PRA) in 2017, new business written from 1 January 2016 is now reflected in the calculation of UK Life's transitional measures. This increased the adjusted Solvency II VNB (and Solvency II Own Funds impact of new business and Solvency II Surplus from life new business within OCG) mainly for annuities business by £0.1 billion gross of tax and non-controlling interests as at the end of 2017.

The increase in Europe was mainly driven by a change in business mix towards more profitable unit-linked and protection business in France and Italy and favourable foreign exchange movements, partly offset by lower volumes of with-profits business in France and sale of Antarius. Asia benefitted from higher volumes of business in Singapore and China driven by sales growth in agency and broker channels and favourable foreign exchange movements.

3. Combined operating ratio (COR)

A financial measurement of general insurance underwriting profitability calculated as total underwriting costs (as detailed below) expressed as a percentage of net earned premiums. A COR below 100% indicates profitable underwriting.

A reconciliation of the Group COR to amounts appearing in the financial statements is shown below together with an explanation of material reconciling items, where appropriate.

	2017 £m	2016 ¹ £m
Incurring claims	(5,856)	(5,536)
Commissions	(1,912)	(1,644)
Expenses	(901)	(823)
Total underwriting costs (including Ogden)	(8,669)	(8,003)
Impact of change in Ogden discount rate	—	475
Total underwriting costs (excluding Ogden)	(8,669)	(7,528)
Net earned premiums	8,976	8,000
Combined operating ratio	96.6%	94.2%

1 The combined operating ratio is now reported on an earned basis. Comparatives have been realigned to reflect this change.

An exceptional charge of £475 million was included in 2016 underwriting costs as a result of the change in the Ogden discount rate from 2.5% set in 2001 to minus 0.75% in line with the announcement made by the Lord Chancellor on 27 February 2017. This charge was excluded from this APM as it was considered that the change made was one-off in nature and did not reflect the Group's underlying performance i.e. it would distort the trend in the COR on a year-on-year basis.

The definition of COR has been changed to an earned basis. It was previously calculated on a hybrid basis: the claims ratio was on an earned basis with the incurred claims expressed as a percentage of net earned premiums; while the commission and expense ratio was on a written basis with written commissions and written expenses expressed as a percentage of net written premiums. This did not consider the impact of deferred commissions and expenses, which are included in the underwriting result. The new method is calculated as claims incurred, earned commission and earned expenses as a percentage of net earned premiums which aligns better to our underwriting result. Comparatives have been realigned for 2016 on an earned basis.

4. Assets under management (AUM)

Assets under management represent all assets managed or administered by or on behalf of the Group, including those assets managed by third parties. AUM 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.

AUM is monitored as this reflects the potential earnings arising from investment interest and commission and measures the size and scale of the AUM business.

A reconciliation of this APM to amounts appearing in the Group's statement of financial position where possible is shown below.

	2017 £bn	2016 £bn
AUM managed on behalf of Group companies		
Assets included in statement of financial position ¹		
Financial investments	319	310
Investment properties	11	11
Loans	28	25
Cash and cash equivalents	44	39
Other	1	1
	403	386
Less: third party funds included above	(19)	(17)
	384	369
AUM managed on behalf of third parties²		
Aviva Investors	75	57
UK Platform	20	13
Other	11	11
	106	81
Total AUM	490	450

1 Includes assets classified as held for sale

2 AUM managed on behalf of third parties cannot be directly reconciled to the annual report and accounts.

5. 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.

NAV is used to monitor the value generated by the Company in terms of the equity shareholders face value per share investment and enables comparability.

A reconciliation of the component parts of this APM to amounts appearing in the financial statements is shown below.

	2017 £m	2016 £m
Equity attributable to shareholders of Aviva plc	17,169	17,003
Preference share capital	(200)	(200)
Net Asset Value	16,969	16,803
Actual number of shares in issue	4,013	4,062
Net asset value per share	423p	414p

6. Operating earnings per share (EPS)

Operating EPS is calculated based on the Group adjusted operating profit attributable to ordinary shareholders net of tax, deducting non-controlling interests, preference dividends, the direct capital instrument (DCI) and tier one note coupons divided by the weighted average number of ordinary shares in issue, after deducting treasury shares. Operating EPS is an important measure used by management to determine the dividend payout ratio target and hence a useful APM for the users of the financial statements.

A reconciliation of the components of this APM to amounts appearing in the financial statements is shown below. The components of operating and basic EPS are also detailed in note 14 – ‘Earnings per share’.

	2017 £m	2016 £m
Operating profit attributable to ordinary shareholders net of tax	2,429	2,304
Non-controlling interests	(134)	(147)
Preference dividends	(17)	(17)
Direct capital instrument and tier 1 notes ¹	(65)	(68)
Adjusted operating earnings	2,213	2,072
Weighted average number of shares (after deduction of treasury shares)	4,041	4,051
Operating EPS	54.8p	51.1p

¹ This relates to coupon payments in respect of the DCI and tier 1 notes (net of tax).

7. Operating expenses

The day-to-day expenses involved in running the business are classified as operating expenses and forms part of the disclosures within note 6 of annual report and accounts.

	2017 £m	2016 £m
Other expenses	3,481	3,279
Amortisation and impairment	(671)	(708)
Other acquisition cost ¹	892	846
Claims handling costs ²	330	290
Integration & restructuring costs	(141)	(212)
Less other costs ³	(113)	(87)
Operating expenses	3,778	3,408

- 1 Other acquisition cost excluding £66 million acquisition costs relating to commission on non-participating investment contracts
- 2 Claims handling costs includes £322 million (2016: £289 million) of claims handling expenses as included in the claims and benefits paid, net of recoveries from reinsurers and £8 million relating to the change in claims handling provision included in the change in insurance liabilities, net of reinsurance as per note 6 of the Annual report and accounts.
- 3 Other costs represent a reallocation of expenses to adjusting items based on management's assessment of on going maintenance of business units and includes movements in provisions set aside in respect of ongoing regulatory compliance (included in note 47 – Pension deficits and other provisions).

Operating expenses excludes impairment of goodwill, associates and joint ventures; amortisation and impairment of other intangibles; amortisation and impairment of acquired value of in-force business; and the profit or loss on disposal and remeasurement of subsidiaries, joint ventures and associates. These items principally relate to merger and acquisition activity which we view as strategic in nature, hence they are excluded from the operating profit APM as this is principally used to manage the performance of our operating segments.

Integration & restructuring costs are also excluded as these are considered non-recurring and can be considered as strategic in nature.

Other acquisition costs and claims handling costs are included as these are considered to be controllable by the operating segments and directly impact their performance.

8. Cash remittances

Amounts paid by our operating businesses to the Group, comprise dividends and interest on internal loans. Dividend payments by operating businesses may be subject to insurance regulations that restrict the amount that can be paid. The business monitors total cash remittances at a group level and in each of its markets. Net cash remittances represent group cash remittances after deducting capital injections. This metric is used in assessing the financial performance within the Directors bonus scorecard for remuneration purposes.

These amounts eliminate on consolidation and hence are not directly reconcilable to the Group's IFRS consolidated statement of cash flows.

9. Return on Equity (RoE)

The operating RoE calculation is based on Group adjusted operating profit after tax attributable to ordinary shareholders expressed as a percentage of weighted average ordinary shareholders' equity (excluding non-controlling interests, preference share capital and direct capital instrument and tier 1 notes).

[Shareholder services](#)

Shareholder services

2018 Financial Calendar

Ordinary dividend timetable:	Final	Interim**
Ordinary ex-dividend date	5 April 2018	16 August 2018
Dividend record date	6 April 2018	17 August 2018
Last day for Dividend Reinvestment Plan and currency election	25 April 2018	3 September 2018
Dividend payment date*	17 May 2018	24 September 2018
Other key dates:		
Annual General Meeting	11 am on 10 May 2018	
2018 interim results announcement	2 August 2018	

* Please note that the ADR local payment date will be approximately four business days after the proposed dividend date for ordinary shares.

** These dates are provisional and subject to change

Dividend payment options

Shareholders are able to receive their dividends in the following ways:

- Directly into a nominated UK bank account
- Directly into a nominated eurozone bank account
- The Global Payment Service provided by our Registrar, Computershare. This enables shareholders living outside of the Single European Payment Area 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 opposite, online at www.aviva.com/online or by returning a dividend mandate form. You must register for one of these payment options to receive any dividend payments from Aviva.

Annual General Meeting (AGM)

The 2018 AGM will be held at The Queen Elizabeth II Centre, Broad Sanctuary, Westminster, London SW1P 3EE, on Wednesday, 10 May 2018, 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 2018 AGM will be accessible on the Company's website at www.aviva.com/agm shortly after the meeting.

Aviva plc Annual report and accounts

Aviva plc Annual report and accounts are intended to provide information about the Company's activities and financial performance in the previous year. This Strategic report is only part of the Company's Annual report and accounts. You can view the full Aviva plc Annual report and accounts online at www.aviva.com/2017ar or order a printed copy by contacting Computershare using the contact details opposite.

Manage your shareholding online

www.aviva.com/shareholders:

General information for shareholders.

www.aviva.com/online:

You can access Computershare online services and log in using your Computershare details to:

- Change your address
- Change payment options
- Switch to electronic communications
- View your shareholding
- View any outstanding payments

www.aviva.co.uk/myaviva:

If you have 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.

Shareholder contacts:

Ordinary and preference shares – Contact:

For any queries regarding your shareholding, please contact Computershare:

- **By Telephone:** 0371 495 0105
We are open Monday to Friday, 8.30am to 5.30pm UK time, 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)
We are open Monday to Friday, 8.30am to 6pm US Eastern Standard Time, excluding public holidays. Please call +1 781 575 4555 if calling from outside of the US
- **By Email:** Citibank@shareholders-online.com
- **In Writing:** Citibank Shareholder Services, PO Box 43077, Providence, Rhode Island, 02940-3077 USA

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

Cautionary statements

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 the 'Risk and risk management' section of the strategic report.

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.

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Produced by MerchantCantos
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