AVIVA

Aviva plc

Strategic report 2018

Foreword

The Strategic report on pages 1 to 38 contains information about Aviva, 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 digital format of this report ensures we are ready for guidelines relating to the Financial Reporting Council's Digital Reporting and ESMA European Single Electronic Format.

To supplement the regulatory disclosures in this report, you can find more regular news and insights into Aviva throughout the year on our website at www.aviva.com.

The Strategic report is only part of the Annual report and accounts 2018. The Strategic report was approved by the Board on 6 March 2019 and signed on its behalf by Sir Adrian Montague, Chairman.

Non-Financial Reporting Regulations

Under sections 414CA and 414CB of the Companies Act 2006, as introduced by the Companies, Partnerships and Groups (Accounts and Non-Financial Reporting) Regulations 2016, Aviva is required to include, in its Strategic Report, a non-financial statement. Information required by these Regulations is included in Key performance indicators from page 5, Business model from page 8, Our people from page 11, Risk and risk management from page 30 and Corporate responsibility from page 34.

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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

Aviva has a vital social purpose; we help people to handle life's uncertainties with confidence. Last year we paid £32.9 billion in claims and benefits on behalf of our 33 million customers. This purpose is becoming all the more important when one considers the growing pace of global change. Whether it is economic, political, technological or environmental challenge, our customers are facing unprecedented change in the way our societies work.

Against this backdrop, Aviva has the experience and strength, the values and the people to do the right thing for our customers and our shareholders. By working harder to deliver outstanding service, we also have the potential do to even better.

New leadership

I am delighted that on 4 March 2019 we announced the appointment of Maurice Tulloch as Aviva's new Chief Executive Officer. Maurice joined Aviva in 1992 and was previously Aviva's Chief Executive Officer, International Insurance with responsibility for our life insurance and general insurance operations in France, Canada, Ireland, Italy, Poland, Turkey and India. Prior to that he was Chief Executive Officer of Aviva UK and Ireland General Insurance, one of the largest businesses in the Aviva group. Having spent 26 years with the Company, Maurice knows the Aviva business inside out, knows our strengths, and where we need to improve. He is exceptionally well qualified to re-energise Aviva and deliver long-term growth.

Maurice's appointment follows on from the announcement in October that Mark Wilson would step down from the Board. Mark was brought in to deliver the turnaround of Aviva. He succeeded admirably, leaving us in a strong financial position and with an enduring set of values. But the time is right for new leadership to take us to the next phase of Aviva's development.

Board changes

We announced in January that Michael Hawker will retire from the Board as a Non-Executive Director, and as Chairman of the Risk Committee and as a member of the Audit and Nominations Committees, with effect from 31 March 2019. He has served as a Non-Executive Director since January 2010. We would like to thank Michael for his enormous contribution to Aviva over the past nine years. He has brought to the Board a wealth of knowledge and experience gained over a long career in the banking and insurance industries in both executive and non-executive roles in Europe, Asia and Australia, and has been a distinguished Chairman of the Risk Committee. The appointment of the new Risk Committee Chair is well advanced, and will be announced following the completion of the relevant regulatory approval process.

Our people

Ultimately, I am confident we can and will unlock our full potential, both through the focus of our new Chief Executive Officer and the skills, commitment and values of our people.

It is our people who make Aviva and who are there to deliver on our purpose, which is why a strong culture is so important. Overall our employee engagement score is consistent with 2017 at 76% globally. I'm pleased to note that in the last year, colleagues have seen significant positive shifts in the culture at Aviva with a 12-point increase in the headline culture measure which is an output of a suite of metrics including customer focus, leadership and operational simplicity. For 2019 we will work to further strengthen the culture through simplifying the way we do things and further promoting inclusive diversity, on which you can read more in the people section on page 11.

Our communities

We also remain determined to be a responsible, sustainable business. It is important for us to contribute to the communities where we work as well as the customers we are here to serve.

We have campaigned successfully on behalf of consumers to tackle fraud in Canada, Ireland and the UK. We have reduced our carbon footprint by 60% since 2010 and have developed our relationship with the British Red Cross to sign up volunteers to help their neighbours when a crisis hits. The Aviva Community Fund is active in ten markets around the world and our newly created Aviva Foundation has ambitious plans, helping us support over 2.5 million people through our community activities by 2020.

As a long-term business, we care not only about today's communities, but also tomorrow's. To that end, I am particularly proud that in October 2018 the United Nations Foundation presented Aviva with its prestigious leadership award, recognising our work to promote the UN's Sustainable Development Goals.

Looking ahead

At the time of writing, Brexit is looming large as the biggest change that many will have experienced for a generation. We still do not know how events will play out, but our structure means that we expect Britain's departure from the EU to have no significant operational impact on Aviva. We have put in place detailed plans to make sure we will be there for our customers, come what may.

There will no doubt be more shifts in our operating environment in the months and years to come, just as there has been in our more than 300-year history. Amidst the change, our strategy will evolve, but our commitment to our customers remains constant.

Sir Adrian Montague
Chairman
6 March 2019

Chairman's review

Overview

Saving for the future, drawing a secure pension income, or protecting against unforeseen events, all these are fundamental to our customers' well-being. Supporting customers in these areas, and more, is Aviva's lifeblood and, through this commitment to serving customers, we will earn the returns our shareholders expect.

To provide customers with security and peace of mind, it is imperative to have strong financial foundations. Our capital position makes Aviva a partner that our customers can count on. In 2018, our Solvency II capital surplus[4] remained strong at £12.0 billion, equivalent to a Solvency II shareholder cover ratio[2,4] of 204%. We increased our Solvency II shareholder cover ratio[2,4] in 2018 despite weaker investment markets and deploying £1.5 billion to repay debt and repurchase shares. And, in 2018, Group adjusted operating profit[1] rose 2% to £3.1 billion, while operating earnings per share[2,3] increased 7% to 58.4 pence. IFRS profit before tax attributable to shareholders' profits was £2,129 million (*2017: £2,003 million*).

In view of Aviva's continued financial strength and steady performance, the Board of Directors has proposed a 9% increase in the full year dividend to 30.0 pence per share. We are moving to a progressive dividend policy. Moderating the rate of dividend per share growth will enhance our flexibility to repay debt and invest in business improvement. The future trajectory of the dividend will reflect performance against our strategic objectives.

There were a number of operational highlights during the year

In 2018, Aviva's businesses maintained a disciplined approach in competitive markets.

In the UK, our business has consolidated its position and we are seeing encouraging results across long-term savings, bulk purchase annuity and general insurance product lines. In 2018, a strong pipeline of workplace pension scheme wins helped to sustain long-term savings flows and we wrote our largest ever bulk purchase annuity contract, a £925 million transaction with Marks and Spencer. We launched AvivaPlus, our new subscription style insurance that offers greater flexibility and choice, giving our customers even more control and rewarding their loyalty.

Our European businesses have been invigorated through intelligent choices on product design and mix and a focus on expanding our distribution footprint. In France, we have begun the process of bringing our multi-channel distribution under the Aviva brand, and there is more work to do on that in the coming year. In Italy, our success in the financial adviser channel has paved the way for sustained growth in sales volumes. In Ireland, we completed the acquisition of Friends First, strengthening our position in life insurance.

In our general insurance businesses, we have continued to prioritise profitability over sales volumes. While our Canadian motor insurance portfolio is in the early stages of its recovery and an increase in weather related claims provided a headwind for profits across all of our general insurance businesses, the Group combined operating ratio[2] of 96.6% remained acceptable.

In Asia, we have a mix of established and emerging businesses and we have continued to invest in their development. In our largest Asian business, Singapore, our advisory distribution network has continued to expand, providing customers with wider product choice and stimulating growth in sales and profits.

Digital remains an important element of Aviva's strategy of improving customer experience. In the UK, the number of active customers registered on MyAviva rose 48% to 4.2 million with 700,000 customers logging into MyAviva each month to transact online or to check policy information. We have launched new propositions with AvivaPlus, MyAviva Workplace and Wealthify creating a strong platform for the future. In Hong Kong, following receipt of regulatory approval, we launched "Blue", our digital insurance venture with Tencent and Hillhouse, which offers customers in Hong Kong a new way to buy insurance.

But we also faced a number of challenges

Externally, uncertainty in the political and economic backdrop intensified during the year and this was reflected in a difficult year for investment market performance across most asset classes. In our home market, the UK, the prolonged and fraught process of negotiating Britain's exit from the European Union has weighed down on growth in the economy. But Aviva is well placed to deal with this; our locally incorporated and locally regulated businesses in Europe have prepared to minimise the potential operational impact.

The regulatory environment also continues to evolve, requiring our businesses to adapt and, in some cases, provide remediation for past practices. The shifting external environment, coupled with competitive insurance and savings markets, has provided a challenging macro-environment in which to operate. The resilience built into Aviva's capital position and operating model over recent years has allowed us to overcome these challenges and continue to serve customers across all our markets.

There were also challenges of our own making, including our announcement in March 2018 that we were "evaluating alternatives" for the Aviva plc and General Accident plc preference shares. While we responded quickly to certain investor concerns by withdrawing from further action and paid £10 million in goodwill and administration costs to compensate those who incurred losses from selling these securities during this period, it was a disappointing episode and lessons have been learned.

We also responded to challenges in our UK business. We encountered disruption during the migration of our independent financial adviser platform to a new supplier, which adversely affected our service standards. Our teams worked hard to resolve these challenges and advisers are now starting to benefit from the improved functionality and processing capability that the new platform offers. We also increased the amount set aside for customer redress in relation to historical advised sales by Friends Provident to £250 million *(2017: £75 million)*. Over 90% of cases identified are pre-2002.

Financial performance was steady

2018 has been a year of steady performance overall for Aviva. Our businesses have delivered broad-based growth, with six out of our eight major markets increasing adjusted operating profit[1] in 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 and to the 'Other Information' section within the Annual report and accounts for further information.
2 This is an Alternative Performance Measure (APM) which provides useful information to supplement an understanding of our financial performance. Further information on APMs, 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 of the Annual report and accounts.
4 The estimated Solvency II position represents the shareholder view. Please refer to note 57 and the 'Other information' section of the Annual report and accounts for more information.

We have maintained profit momentum in our UK and European insurance businesses and Canada has responded well to the challenges in the auto insurance portfolio that emerged in 2017. Aviva Investors was set back by a difficult investment market backdrop, though we have chosen to continue investing to facilitate the long-term expansion of our third-party franchise.

In the UK, our results have continued to benefit from releases of provisions arising from changes in UK longevity trends. However, as in 2017, we continued to use this additional profitability to increase spending to advance our digital innovation agenda and accelerate the transformation programme in IT and Finance that will provide benefits to Aviva in the years to come.

Leadership and priorities

In October 2018, we announced that Mark Wilson would step down from his role as Chief Executive Officer. In almost six years under Mark's leadership, Aviva transformed its capital strength, refined its focus towards those markets with the strongest returns and growth prospects and invested in digital capabilities and propositions that will differentiate Aviva in the insurance and savings market place in the coming years.

From these strong foundations, Aviva is entering a new phase of its development. We recently announced the appointment of Maurice Tulloch as Chief Executive Officer. Maurice will work with the Board to establish and refine the strategy that will take Aviva forward in the coming years.

Maurice will be an outstanding Chief Executive of Aviva. He knows the business inside out. He has led our businesses in the UK and internationally and built strong teams across life insurance and general insurance. Maurice knows our strengths, knows where we need to improve and has a deep understanding of insurance and customers' needs. He is exceptionally well qualified to re-energise Aviva and deliver long-term growth.

Having made Aviva stronger, the focus of the next phase is to make Aviva a better company. This means re-emphasising the fundamentals: customer service, distribution, product mix and pricing, and managing expenses. There is much more we can and will achieve.

Outlook

The coming year is shaping up as an important period for Aviva. The arrival of our new Chief Executive will have a galvanising effect on our organisation, providing renewed clarity of purpose. Aviva has abundant strengths: committed and energetic staff, depth in technical expertise, supportive partners and most importantly, 33 million customers. Our challenge is to capitalise on these strengths to become a better, simpler, more efficient company known for excellence in serving customers. This will require significant improvements by Aviva. It will also entail choices with respect to resource allocation. However, our strong existing foundations give us all we need to ensure the new phase Aviva is embarking on will be a success.

Sir Adrian Montague
Chairman
6 March 2019

Delivering on a clear plan of action

What we achieved

Financial & Strategic

For our key metrics, we have:

- Increased Group adjusted operating profit[1] by 2% to £3,116 million *(2017: £3,068 million)*
- Increased operating earnings per share (EPS)[2,3] by 7% to 58.4p *(2017: 54.8p)*
- Increased profit before tax attributable to shareholders' profit by 6% to £2,129 million *(2017: £2,003 million)* and increased basic EPS by 9% to 38.2p *(2017: 35.0p)*
- Increased cash remittances[2] to Group by 31% to £3,137 million *(2017: £2,398 million)*
- Increased total dividend per share by 9% to 30.00p *(2017: 27.40p)*
- Delivered a robust Solvency II capital position with an estimated Solvency II shareholder cover ratio[2,5] that has increased by 6pp to 204% *(2017: 198%)*, despite £1.5 billion of capital deployment. This includes operating capital generation[2] in the year of £3.2 billion
- Reported total assets under management[2] of £470 billion – a decrease of £17 billion on 2017
- Grown MyAviva active customer registrations to 5.3 million (*2017: 3.6 million*[4])

Acquisitions and disposals:

- We completed our acquisition of Friends First in Ireland
- We completed the sale of our Spanish joint ventures: Caja Murcia Vida, Caja Granada Vida and Pelayo Vida; our Taiwanese joint venture First Aviva Life; and completed the sale of our joint venture in Italy, Avipop Assicurazioni S.p.A., and its wholly owned subsidiary Avipop Vita S.p.A.
- We sold a Real Estate Multi-Manager business which was strategically non-core to our Aviva Investors business

Customers

For our customers, we have:

- Paid out £32.9 billion in claims and benefits
- Supported our customers through difficult times including notable UK storm "the Beast from the East", as well as poor weather in Canada
- Launched AvivaPlus in the UK in December 2018, our new subscription style insurance that offers greater flexibility and choice, giving our customers even more control and rewarding their loyalty
- Announced a majority shareholding in Neos, the smart technology insurance provider which helps customers to monitor and protect their homes through connected devices
- Successfully piloted "Mid-life MOT" which offers guidance and help to over 45s on the topics of wealth, work and wellbeing
- Our successful Road to Reform campaign helped bring significant changes to the personal injury compensation system in the UK, culminating in the civil liability bill passing into law
- Launched Blue, our new digital insurance joint venture in Hong Kong, offering zero commission insurance
- Introduced a smartphone dashcam through our UK Aviva Drive app
- Won a number of awards including Insurance Times General Insurer of the year and Insurance Post customer care award

Culture and Society

For our people, we have:

- Improved employee engagement to 76% (*2017: 75%*) and we have achieved a 12-point increase in our Organisational Health questionnaire (our headline culture metric)
- Extended our flagship leadership programme to all leaders with 1,500 people leaders starting it in 2018
- Launched our employee inclusion communities across all markets
- Continued to build a culture and environment which attracts and retains people with the right capabilities for the future

For society, we have:

- Supported over 3,000 community projects, helping over 1.5 million people on a range of issues from social inclusion and diversity to supporting SMEs and water sanitation
- Won the UN Foundation's leadership award in recognition of Aviva's work to support the UN's Sustainable Development Goals (SDGs)
- Launched the World Benchmarking Alliance to establish public, transparent and authoritative league tables of companies' contribution to the SDGs
- Since 2010 we have reduced carbon emissions (CO_2e) from our day-to-day operations by 60% beating our 2020 target early. We are a carbon neutral company, offsetting the remaining emissions through projects that have benefitted the lives of over one million people
- Invested £1.8 billion in the transition to a low carbon economy
- Over 7,000 of our employees contributed more than 57,500 hours of volunteering time, giving and fundraising to the total of £2.1 million

What we plan to do

Financial & Strategic

- Further simplify processes and operating model, investing in modernisation to improve agility and efficiency
- Aim to repay £1.5 billion of maturing debt between 2019-2022
- Move to a progressive dividend policy
- Target an estimated Solvency II shareholder cover ratio[2,5] working range of 160%-180%

Customers

- Improve customer experience through simplification of customer journeys, digitisation and automation
- Roll out AvivaPlus for our UK customers
- Continue to reallocate capital to focus on what we do best and drive higher returns

Culture and Society

- Allow our people to manage the fundamentals to ensure we can deliver continued growth for Aviva
- Develop great leaders with a focus on agility and execution
- Continue to focus on developing an inclusive workforce which is fit for the future

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 and to the 'Other Information' section within the Annual report and accounts for further information.
2 This is an Alternative Performance Measure (APM) which provides useful information to supplement an understanding of our financial performance. Further information on APMs, 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 of the Annual report and accounts.
4 The 2017 MyAviva active registrations number (7.5 million as previously reported) has been restated to now only include customers who hold at least one policy with us and have been active on MyAviva in the last 365 days. On the restated basis, 2017 active customer registrations were 3.6 million.
5 The estimated Solvency II position represents the shareholder view. Please refer to note 57 and the 'Other information' section of the Annual report and accounts for more information.

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.

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®) R

NPS® is our measure of customer advocacy and we use it in nine of our markets[1] to measure the likelihood of a customer recommending Aviva. Our relationship NPS® survey shows three years of sustained high levels of customer advocacy, with modest improvement in the last 12 months. 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 AvivaPlus.

Number of markets in 2018:
at or above market average: **8**
2017: 7 2016: 9

below market average: **1**
2017: 2 2016: 0

Engagement R

We give our people the freedom to act in line with our values to create an environment in which they can thrive through collaboration and recognition. We measure this through our annual global 'Voice of Aviva' survey. Engagement is up one percentage point to 76%. In the last year, colleagues have seen significant positive shifts in the culture at Aviva with a 12-point increase in the headline culture measure reflecting this although we recognise there is still plenty of opportunity to reduce complexity across the business.

2018:
76%

2017: 75%
2016: 74%

Carbon emissions reduction

Since 2010 we have reduced carbon emissions (CO_2e) from our day-to- day operations by 60% 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 2018 we have continued to reduce our operational carbon emissions through energy efficient technology, buildings and development of onsite renewable electricity generation. We have also added £1.8 billion in low carbon infrastructure investments over the year. CO_2e data includes emissions from our buildings, business travel, water and waste to landfill.

2018:
60%
Reduction since 2010

2017: 53%
2016: 46%

MyAviva active customer registrations[2] R

We continue to make progress with our digital transformation and MyAviva remains at its heart. Active customer registrations is the number of global users of MyAviva and other digital platforms, who have at least one product and have logged-in at least once during the previous 365 days. Active customer registrations have increased by 47% to 5.3 million *(2017: 3.6 million[2])* driven mainly by growth in the UK.

2018:
5.3 million

2017: 3.6 million[2]
2016: 2.7 million[2]

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

1 All comparators have been restated as we have reduced the number of markets covered in the survey from ten to nine markets as India was not surveyed in 2018.
2 The 2017 and 2016 MyAviva active registrations numbers (7.5 million and 5.2 million respectively as previously reported) have been restated to now only include customers who hold at least one policy with us and have been active on MyAviva in the last 365 days. On the restated basis, 2017 active customer registrations were 3.6 million (*2016: 2.7 million*). Active registrations previously included guests as well as customers.

Group adjusted operating profit[1] R

Group adjusted operating profit[1] increased by 2% to £3,116 million. Major markets' Group adjusted operating profit[1] increased by 7% to £3,669 million, with all major markets except Aviva Investors and Canada experiencing earnings growth.

2018:
£3,116 million

2017: £3,068 million
2016: £3,010 million

Operating earnings per share[2,4] R

Operating earnings per share[2,4] increased by 7% to 58.4p. This reflects the growth in Group adjusted operating profit[1] and the impact of our share buy-back and debt reduction programme. We have met our target to deliver higher than 5% growth in operating earnings per share[2,4] in 2018.

2018:
58.4p

2017: 54.8p
2016: 51.1p

Profit before tax attributable to shareholders' profit (PBT)

Profit before tax attributable to shareholders' profit increased by 6% to £2,129 million due to an increase in Group adjusted operating profit[1] and other items, partly offset by adverse investment variances.

2018:
£2,129 million

2017: £2,003 million
2016: £1,193 million

Cash remittances[2] R

Sustainable cash remittances[2] from our businesses are a key financial priority. Remittances from markets increased 31% to £3,137 million. This was primarily driven by the UK[3] businesses which contributed £2,549 million including £1.25 billion special remittances, comprising a £500 million special remittance following the Friends Life integration and an additional £750 million special remittance. Including disposal proceeds from Spain and Avipop, we achieved £7.9 billion in cash remittances for 2016-2018 falling slightly short of our £8.0 billion target. This primarily reflects the delay in the completion of the disposal of Friends Provident International Limited and our decision to retain proceeds from the sale of Avipop in our Italian subsidiary given the high market volatility environment.

2018:
£3,137 million

2017: £2,398 million
2016: £1,805 million

Estimated Solvency II shareholder cover ratio[2,5]

We continue to maintain our strong financial position. During the year the estimated Solvency II shareholder coverage ratio[2,5] has strengthened from 198% to 204% primarily due to the positive impact of Operating Capital Generation (OCG)[2], a key remuneration metric for the Group, partly offset by the payment of dividends, the £600 million share buy-back programme and the repayment of hybrid debt.

2018:
204%

2017: 198%
2016: 189%

Value of new business on an adjusted Solvency II basis[2]

Value of new business on an adjusted Solvency II basis (VNB)[2] measures growth and is the source of future cash flows in our life businesses. VNB[2] decreased by 3% to £1,202 million, however excluding disposals VNB[2] increased by 2%. Growth was mainly driven by the hybrid savings product in Italy and bulk purchase annuities in the UK.

2018:
£1,202 million

2017: £1,243 million
2016: £992 million

Combined operating ratio[2]

The combined operating ratio (COR)[2] is a measure of general insurance profitability. The lower the COR[2] is below 100%, the more profitable we are. Reported COR[2] is broadly in line with 2017 for all markets.

2018:
96.6%

2017: 96.6%
2016: 94.2%

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

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2 This is an Alternative Performance Measure (APM) which provides useful information to supplement an understanding of our financial performance. Further information on APMs, including a reconciliation to the financial statements (where possible), can be found in the 'Other Information' section of the Annual report and accounts.
3 Cash remitted to Group is managed at a legal entity level. As Ireland constitutes a branch of the United Kingdom business, cash remittances from Ireland were not aligned to the management structure within Europe, but they were reported within the United Kingdom.
4 This measure is derived from the Group adjusted operating profit APM. Further details of this measure are included in the 'Other Information' section of the Annual report and accounts.
5 The estimated Solvency II position represents the shareholder view. Please refer to note 57 and the 'Other information' section of the Annual report and accounts for more information.

Read about our performance at www.aviva.com/about-us

The horizon: where the world is going

Our strategy has been defined to anticipate these long-term trends which will impact our industry in the future. We acknowledge the risks they present and aim to turn these trends into opportunities for future growth.

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 **1.5 billion** Source: facebook.com, stats, September 2018
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 **$160 billion** Source: Munich Re, catastrophe losses, January 2019
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 and pressures on social care increase.	Increase in UK's average life expectancy at birth between 2016 and 2066 **6.6 years** Source: Office for National Statistics, December 2017
Health across an evolving world The way people access healthcare is evolving, with many markets shifting towards a more self-reliant model and private healthcare.	Average increase in UK and French doctors recommending smartphone apps to patients (for their own use/evaluation) between 2015 and 2017 **30%** Source: Ipsos Mori, May 2017
No place like home Home ownership, and its place as a wealth accumulation vehicle, begins to evolve as mindsets towards ownership shift and affordability affects accessibility.	Proportion of UK households that will be rented privately by 2021 **25%** Source: Knight Frank, August 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.	Average cost of a data breach **US$3.62 million** Source: EY Global Information Security Survey 2018-2019
Mobility Disruption to radically change the transport ecosystem, with consumers accessing, owning and using transport in different ways.	Number of fewer cars required in the US and Europe by 2030 **138 million** Source: PWC, January 2018
Blurring of sector boundaries The clear boundaries between sectors no longer exist, from technology companies offering financial services to telecom providers creating media content.	Increase in Apple Pay transactions in 2018 vs 2017 **3x** Source: Apple, November 2018

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

Business model

Aviva exists to help our 33 million customers have the confidence and control to be ready for life's opportunities and challenges. We are the only large-scale multi-line insurer in the UK, our home market. We also have a strong presence in Europe, North America and South-East Asia.

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:
- Distinctive brand
- Financial strength
- Customer understanding
- Multi-distribution
- Multi-product

Skills
We have a wide range and blend of skills:
- Customer experience
- Underwriting
- Risk management
- Claims management
- Digital innovation
- Data science
- Asset & liability management
- Capital allocation

Strategy
Our strategy 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 and commercial

Health and protection
Private medical, life, critical illness and 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.

Enabling customers to 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.

£32.9 billion
Paid out in benefits and claims to our customers in 2018

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

30.0 pence
Total dividend up 9%

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

76%
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.

Over 3,000
Community projects supported in 2018, helping over 1.5 million people

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

Our strategy

Since 2014, we have defined our strategy in three key areas:

- True Customer Composite
- Digital First
- Not Everywhere

Following the appointment of our new Group CEO, Maurice Tulloch, on 4 March 2019, he will undertake a review of the Group's strategic priorities. We will update the market on our future strategic priorities later in 2019. The following section takes a look at developments in 2018 across the key areas of our existing strategy.

True Customer Composite

We are a True Customer Composite: multi-channel and multi-product. Our customers are at the core of what we do, and drive all our thinking. We believe in delivering what our customers truly need in a dynamic and ever-changing world.

We help protect what matters the most to our customers through life, general and health insurance products while helping people save for their future through our savings and asset management offerings.

Why it's important

Customers often find themselves dealing with multiple insurers. This makes things complicated, adding to the time they have to spend arranging for their needs rather than enjoying the things that matter most in life.

True Customer Composite means that we can support the well-being of our customers in many ways. We bring simplicity. We add value. We can both protect our customers and help them save for their futures. We can also reward our customers for their loyalty, offering multi-product discounts.

True Customer Composite gives us a real competitive advantage in a digital world. Our digital solutions, such as MyAviva, are simple and intuitive, allowing customers to access multiple products and discounts and supporting our partners and intermediaries in an evolving distribution landscape.

How we've progressed

We continue to expand our range of customer propositions to be a True Customer Composite across our markets, making it easy and more rewarding for customers to manage multiple products through Aviva.

Systems thinking

True Customer Composite is also about creating the right customer experiences across our business. Systems thinking is a global method for us to re-think and re-design customer journeys. Systems thinking brings together colleagues throughout the organisation to help solve problems and make it easier for customers to interact with us.

UK Workplace

We continue to improve our offerings in the UK where we offer corporate clients pensions, protection, bulk purchase annuities, as well as health and general insurance.

With financial and health wellbeing of employees an increasingly important area for employers, we have continued to increase our capability to help our customers through the workplace. For example, we have further developed our Aviva Wellbeing proposition, including the launch in 2018 of the Digital GP app. This offers a range of services such as digital consultations and repeat prescriptions. By offering this support we are becoming increasingly engaged with employers and their employees.

Ireland

In Ireland, we completed the acquisition of Friends First where the integration is progressing ahead of schedule. This acquisition strengthens our life insurance capability and extends our range of investment products, enhancing our position as a True Customer Composite in Ireland.

AvivaPlus

In December 2018, we announced we were launching AvivaPlus, an industry-first, subscription-style insurance for our UK customers. AvivaPlus is the way insurance should be.

We are breaking free of insurance industry norms, rewarding our customers for their loyalty. We are putting the customer in control with monthly payments which can be cancelled anytime, allowing customers to get the cover they need when they need it. AvivaPlus customers pay the same or less at renewal than if they were new to AvivaPlus.

Offered initially on certain general insurance products, we aim to build this into our broader True Customer Composite offering. AvivaPlus is a significant shift for insurance, creating value, and driving engagement.

AvivaPlus creates one of our simplest customer journeys yet. We believe that simple propositions, designed with customer ease at their heart, will increase customers' loyalty and advocacy.

Digital First

In an increasingly digital, data-driven world, our customers' needs are changing. From individual customers, to intermediary partners and large corporate clients, our customers want innovative products and services, which are easy-to-use and provide a positive customer experience. Digital First is our strategic approach to creating a group which can respond to those demands.

Why it's important

Digital First is about making sure Aviva is an, efficient insurance company which delivers attractive products and services for our customers. The launch of AvivaPlus at the end of the year is an example of our commitment to lead the way to meet this challenge.

We are in an age of rapid increases in data production and availability. The ability to assess and use this data appropriately and responsibly is a key competitive advantage today, allowing us to design, create and underwrite the best possible products for our customers. Investing in our data science capabilities at Aviva Quantum ensures that we can stay ahead of the game.

How we've progressed

In 2018, our focus on being Digital First moved from a period of significant innovation and development into launch and increasing scale, providing our customers with the right set of products through an enhanced multi-channel experience.

MyAviva
Our focus on scaling digital growth in the year was best demonstrated by MyAviva in the UK, which achieved growth in active registrations to 4.2 million, representing more than a quarter of all our UK customers. MyAviva lets customers deal with us in a direct, efficient way across a wide range of product needs from general insurance, health insurance, life insurance, pensions to long-term savings and helped drive strong growth in digital interactions.

Quantum
Digital First is not only about engaging with customers online but about harnessing the benefits of data. Aviva Quantum is our internal data science team. They work to improve our understanding of risks, allow more accurate pricing, increase fraud prevention and personalise MyAviva quotes. Quantum is at the heart of developing Ask-it-Never, our ambition to make insurance simpler and easier for customers by asking fewer questions when they buy a policy.

Blue
2018 was an intense period for launch activity of disruptive, new services. Our new joint venture in Hong Kong, with our partners Hillhouse and Tencent, launched in September with a simple proposition, designed to disrupt traditionally expensive distribution through intermediaries. Blue is the first digital life insurer in Hong Kong and offers three simple, flexible and fully online life protection products.

Not Everywhere

Not Everywhere means that we focus our capital where we can achieve the greatest return. We do not aspire to offer everything, to everyone. We are focused in the places where we will win. Having largely reshaped the Group in recent years, we are now focused on our major markets and strategic investments.

Why it's important

We aspire to be the best at what we do in all our markets. This means being focused and committed to the right markets and the right products.

How we've progressed

In 2018, we completed the latest restructuring phase of our businesses.

As well as the completion of the acquisition of Friends First in Ireland and the launch of our Blue joint venture (see above), we completed the exit of our three remaining businesses in Spain, Caja Murcia Vida, Caja Granada Vida and Pelayo Vida, ending our involvement here. In Italy, we completed the sale of our joint venture, Avipop Assicurazioni S.p.A., and its wholly owned subsidiary Avipop Vita S.p.A. We completed our exit from Taiwan, following the sale of our joint venture First Aviva Life. Lastly, Aviva Investors sold a Real Estate Multi-Manager business which was strategically non-core.

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, both now and in the future.

Major markets: solid growth, sustainable cash
We are focused on eight attractive, growing markets where we are, or have the potential to be the best in class. 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 returns over the long term
- Poland – high return on equity (ROE) business with strong distribution and digital credentials
- Italy – composite player in large European insurance market
- Ireland – a leading brand with an improved composite model
- Singapore – composite player with distribution through growing financial advisory channel
- Aviva Investors – global asset manager with expertise and solutions in real assets, multi-assets, equity and fixed income

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 – developing intellectual property (IP) to be rolled out across our markets
- China – delivering growth in sales and adjusted operating profit[1] in one of the world's largest insurance markets
- Hong Kong – Blue, our joint venture with Tencent and Hillhouse focused on digital disruption
- Turkey – leading position in the life and pensions market and exposure to a large, young and growing population
- Indonesia – bancassurance joint venture in an under-penetrated, high growth emerging market
- India – continuing to assess our options
- 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

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 and to the 'Other Information' section within the Annual report and accounts for further information.

Our people

We have a clear purpose to give our customers the confidence and control to be ready for life's opportunities and challenges. This commitment to customers, high levels of people engagement and skills, and Aviva's values helps contribute to our strong financial performance.

The focus for 2018 has been on our culture and ensuring we are an inclusive workforce who put the customer first.

We employ 31,703 people globally and continue to support the regional economies in our home market the UK, where we employ more than 15,000 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 are ambitious and achieve results 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 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.

Developing our people

Developing our people remains core to the work we do. In 2018, we continued to implement our three-year talent programme by:

- Our flagship leadership programme has been extended to all leaders in Aviva. 1,500 leaders have started Leading For Growth (of which 900 have completed the programme so far) with a further 500 scheduled to commence in Q1 2019. The programme is expected to roll out to the remaining 2,000 leaders during 2019. We believe this investment has contributed to our strong engagement scores and our improvement in the healthiness of our culture. We continue to invest in talent throughout the business and this year launched a programme to spot and develop our new generation of leaders much earlier in their career.
- 'Grow', our global digital learning portal, has 100% adoption in all our key markets. We continue to improve our digital based learning with a plan in place to deliver innovative bite-sized content, mobile learning and curated external thought leadership. Our online Leadership hub has received over 245,000 views. We are co-creating an online coaching tool with our Digital Garage partners at Founders Factory. Quantum University, our global data science learning practice, is now established and is building capability with c.700 practitioners globally.
- Over 120 women in Aviva have completed our 'women in leadership' programme. Since the programme launched we have seen more women take on broader roles and being promoted. This is one of the initiatives that will help us close the gender pay gap.
- We continue to have a successful year with our Global Graduate scheme with 36 people starting in September 2018, including 17 females.
- In 2018, we adapted our approach to Performance Management, especially in our customer-facing roles. A bigger emphasis was placed on coaching and in-the-moment recognition, either by immediate management or the Group Executive, removing the need for unnecessary calibration of our people.

Engaging our people

In 2018 our global Voice of Aviva survey focused on key areas of insight to drive growth: engagement, culture and leadership. Employee engagement in Aviva remains strong and steady with continued notable improvements in our UK and France markets, as well as across our finance function globally, although slightly down in Canada and Ireland following integration and restructuring. Overall, however, employee engagement is consistent with 2017 at 76% globally.

In the last year, colleagues have seen significant positive shifts in the culture at Aviva with a 12-point increase in the headline culture measure reflecting this. Colleagues are much more likely to say that people around them are moving quickly to put good ideas into action, have the freedom to make decisions in their jobs and are comfortable taking appropriate risks/trying new ideas. The focus in 2019 will be to continue to embed a culture of greater customer focus, innovation and simplicity.

Feedback on people leaders living up to Aviva's 'Leadership Expectations' is mostly very positive. These are the behaviours we expect all leaders to demonstrate, with over 1,000 leaders receiving a rating of over 80% from their teams on related metrics. Leaders rate most positively on metrics related to taking action to remove barriers to their teams doing their job and encouraging them to think and make decisions from the customer's point of view. The data also gives us clear areas to focus on. Developing great leadership and improving engagement with our strategy continue to be priorities for 2019. We are also working on fostering more of a listening culture characterised by open and honest conversations with front line teams.

At Aviva we have a positive and constructive relationship with the trade union Unite as well as a fully elected all-employee representative body (Your Forum). Within Aviva we take our responsibility to consult very seriously. 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 Members of the Group Executive Committee (GEC) throughout the year as well as the Chair of the Remuneration Committee. 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. In 2018, we cemented our relationship with Unite the Union by signing a Learning Agreement. This is a collaborative approach to the ongoing development of our people and jointly encourages employees of all ages and genders to seek out opportunities through our Apprenticeship Levy contribution. In addition, we also launched a new Conflict Resolution and Mediation approach as part of our cultural transformation to move away from an adversarial approach to fostering greater dialogue amongst our people.

We continue to provide an employee share scheme and all employees have the opportunity to engage with senior leaders through weekly #Uncut (a 30 minute no holds barred interview with senior leaders) and our live results presentations. This ensures everyone at Aviva is aware of significant changes in the business as well as financial and economic factors affecting the business.

Inclusive diversity

Inclusive diversity is key to Aviva being a sustainable, successful business. An inclusive culture ensures employees are happier, act as themselves and work towards achieving their and the organisation's goals. Aviva's employees need to reflect our customer base and we continue to make sure all our customers are represented inside the organisation.

At the end of 2018, we exceeded our target of achieving 30% female leaders (leaders are the top 1,300 employees) by 2020; we reached 31% across all markets by the end of 2018. This is being achieved through targeted female development programmes, diverse shortlists and a leadership team committed to change. We are also committed to improving ethnic diversity within our leadership population.

In November, we celebrated the first anniversary of our equal parental leave policy. This policy has seen us as a first-mover in the majority of our markets, with the result that our people can see our commitment to them outside, as well as inside the workplace.

Our drive to have an inclusive culture comes through our employee communities which were launched across all markets in 2018. There are six communities covering: race and religion, gender, sexuality, caring responsibilities, age, and mental and physical health. In the first year over 5,000 employees have joined these communities. They act as a lobby group and conscience to the organisation and are actively sponsored by members of the Group Executive. Some of the notable contributions from the communities have been the Workplace Adjustment Passport (an individual record of any adjustments an employee requires to their working arrangements, for example accessibility or caring commitments), Black History month events and a part-time transition to retirement scheme in Canada.

Health and wellbeing

We remain focused on our employee health and wellbeing as a key driver to our success and growth. 2018 has been a year of embedding for our Wellbeing@Aviva strategy, and continues to deliver under our four areas – mental, physical and financial wellbeing and community connectivity. All the activities we launched in 2017 continued in 2018, but some specific highlights include:

Mental wellbeing

- 70% of our people leaders have now received mental health training. As a result, over 90% of leaders feel that they are comfortable having conversations about mental health with their team/peers and managers, know about and are comfortable signposting colleagues to the resources available to them
- 4,000 colleagues have taken advantage of the free access to Headspace (a global meditation app) offered, collectively completing over 66,000 sessions since launch

Physical wellbeing

- 8% of colleagues have taken advantage of our discounted fitness proposition which launched in 2018, and they've certainly been active, clocking up over 31,000 gym visits, and the equivalent of 970 days worth of exercise!
- 21% of colleagues use our digital health checks each time they visit the office, with support then offered on an individual basis for issues identified by the health checks

Financial wellbeing

- After successful pilot seminars for employees (Mid-Life MOT and My Retirement, My Way) we will be rolling these out more widely in 2019
- We have provided access to Aviva Financial Advice for colleagues during working hours for an initial, or more detailed discussion, to help with their personal financial planning

Our plans for 2019

In 2019, the People function's focus will be around managing the fundamentals of our business and enabling growth to ensure Aviva and its people are best set to deliver the future strategy.

We are still on a journey to make Aviva a company that puts the customers at the heart of everything we do and our focus will be on ensuring our people can deliver in an innovative and simple way.

In 2019 we will continue to focus on developing an inclusive workforce which is fit for the future.

At 31 December 2018, we had the following gender split:

Board membership
Male
8

Female
3

Senior management
Male
938

Female
423

Aviva Group employees
Male
15,575

Female
16,128

The average number of employees during 2018 was 31,232.

Read more 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

Key financial metrics

A summary of the financial metrics used to measure our performance, including key performance indicators and alternative performance measures (APMs) where appropriate, is shown below. Further guidance in respect of the APMs used by the Group is included in the 'Other information' section of the Annual report and accounts.

	2018 £m	2017 £m	Sterling Change	Sterling% change
Group adjusted operating profit[1]	**3,116**	3,068	48	2%
Operating earnings per share[2,3]	**58.4p**	54.8p	3.6p	7%
Profit before tax attributable to shareholders' profit	**2,129**	2,003	126	6%
Cash remittances[2]	**3,137**	2,398	739	31%
Estimated Solvency II shareholder cover ratio[2,4]	**204%**	198%	—	6.0pp
Value of new business on an adjusted Solvency II basis[2]	**1,202**	1,243	(41)	(3)%
Combined operating ratio[2]	**96.6%**	96.6%	—	—

Overview

In 2018, Aviva delivered growth while investing to improve the fundamentals of the business and maintaining a prudent approach to pricing and risk management.

Group adjusted operating profit[1] increased 2% to £3,116 million (*2017: £3,068 million*) while operating earnings per share[2,3] rose 7% to 58.4 pence (*2017: 54.8 pence*). IFRS profit after tax was £1,687 million (*2017: £1,646 million*), leading to basic earnings per share of 38.2 pence (*2017: 35.0 pence*). Our operating results continue to benefit from broad based growth from our major markets together with releases of longevity provisions in our UK annuity portfolio. However, as in previous years, we have used the additional profitability provided by longevity releases to accelerate investment in digital, IT and finance change initiatives and to strengthen provisions in areas related to past practices.

In late 2018, the Civil Liability Bill, which determines how personal injury compensation awards are set in the UK, received Royal Assent. While confirmation of the new "Ogden" rate will be provided in 2019, following passage of the legislation we have revised the discount rate used in determining our personal injury claims reserves in the UK to 0%, from -0.75% previously, giving rise to non-operating profit of £190 million. Offsetting this are adverse investment variances due to widening sovereign and corporate credit spreads and a mark-to-market impact from our hedging programme, which protects Solvency II capital[4]. Despite heightened investment market volatility in late 2018, investment variances were broadly flat in the second half of the year despite an increase in the Brexit related property allowance to c.£400 million (*2017: c.£300 million*) in addition to other customary reserves.

During 2018, we repaid £0.9 billion of subordinated debt and completed a £0.6 billion share repurchase programme, leading to the cancellation of approximately 3% of our shares in issue. Despite this £1.5 billion of capital deployment, our solvency capital surplus[4] remained robust at £12.0 billion (*2017: £12.2 billion*) and Solvency II shareholder cover ratio[2,4] increased to 204% (*2017: 198%*).

As we embark on the next phase under a new Chief Executive, we do so from strong foundations, with businesses that are well established in their respective markets, a capital position that provides security for today and flexibility for the future and a well funded, sustainable dividend. However, there are opportunities to reignite the self-help agenda, focusing on cost efficiency, business complexity and prioritising further reduction in debt leverage.

United Kingdom

Aviva is the UK's largest insurer and is unique in operating at scale across life insurance, savings, general insurance, health insurance and retirement markets. In 2018, adjusted operating profit[1] from our UK Insurance businesses increased 7% to £2,324 million (*2017: £2,164 million*). The UK Insurance result continued to benefit from elevated levels of reserve releases relating to the slowing rate of improvement in life expectancy in our annuity portfolio and this is reflected in a higher contribution from "other". Excluding the contribution from "other", our five main operating segments in the UK delivered aggregate adjusted operating profit[1] of £1,974 million (*2017: £1,904 million*), an increase of 4%.

Annuity and equity release provides significant long-term growth opportunities as companies look to transfer their defined benefit pension obligations to the insurance sector and individuals seek to secure income and unlock equity in their retirement. In 2018, annuity and equity release sales rose 12% to £4.8 billion (*2017: £4.3 billion*) due to higher volumes in bulk purchase annuities. The increase in sales helped to deliver a 7% increase in adjusted operating profit[1] to £779 million (*2017: £725 million*). The result benefitted from favourable experience variances relating to longevity trends though this was offset by lower income from asset mix optimisation. While we have increased our annuity and equity release sales volumes in 2018, we have been selective in expanding our appetite and reflected the uncertain political and economic backdrop in our investment portfolio. We will maintain a prudent approach in 2019.

In long-term savings, adjusted operating profit[1] rose 7% to £198 million (*2017: £185 million*). Net fund inflows[2] were £5.0 billion (*2017: £5.6 billion*) equating to 4.2% of opening assets under administration[2]. Having integrated digital features into our workplace pension propositions, we increased new scheme wins with large corporates and delivered higher net fund flows[2]. This was offset by lower net fund flows[2] into the adviser platform, as migration to a new IT service provider caused disruption for both IFAs and customers. Weak investment markets towards the end of 2018 constrained growth in assets under administration[2], which ended the year at £116 billion (*2017: £118 billion*). As fee income is linked to assets under administration[2], this may weigh on adjusted operating profit[1] growth in 2019. Nonetheless, we see compelling long-term growth opportunities from rising participation and higher contribution rates in workplace savings.

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 5 '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 supplement an understanding of our financial performance. Further information on APMs, 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 of the Annual report and accounts.
4 The estimated Solvency II position represents the shareholder view. Please refer to note 57 and the 'Other information' section of the Annual report and accounts for more information.

In protection, we adapted to changing market conditions, resulting in adjusted operating profit[1] remaining stable at £226 million (*2017: £227 million*). Results from group protection improved in 2018 following actions taken to address adverse claims experience in 2017. This offset weaker results in individual protection, where new business volumes fell 8% in response to heightened competition while margins were compressed by higher reinsurance costs. We will continue to manage our protection business with a focus on maximising profit over the cycle rather than volume.

Aviva's UK general insurance business maintained its track record of delivering consistent, attractive underwriting results in 2018. The combined operating ratio[2] was 93.8% (*2017: 93.9%*) as higher levels of prior year reserve releases offset an increase in weather related claims. Net written premiums rose 3% to £4,193 million (*2017: £4,078 million*) due to progress in Global Corporate and Specialty (GCS) and Small and Medium Sized Enterprise (SME) markets. The underwriting result rose 3% to £253 million (*2017: £246 million*), which in turn helped to underpin a 4% increase in adjusted operating profit[1] to £415 million (*2017: £400 million*).

Our legacy portfolio performed in line with expectations in 2018, with adjusted operating profit[1] declining 4% to £318 million (*2017: £331 million*). The UK with-profits portfolio, which makes a significant contribution to the legacy performance, saw total assets decline to £48.9 billion (*2017: £58.2 billion*) reflecting the weak investment market environment.

Each year, our UK results include the impact of assumption changes, adjustments to provisions and management actions to increase or accelerate value emergence from our capital-intensive businesses. We ordinarily expect this to provide between £150 million and £200 million per annum benefit to our results. In 2018, the contribution remained above this range at £350 million (*2017: £260 million*). The largest driver of this result was the release of longevity provisions totalling £728 million (*2017: £710 million*) due to changes in life expectancy trends. This was partially offset by increased provisions and remediation costs, including those pertaining to historical advised sales by Friends Provident, with over 90% of cases identified being pre-2002, where we increased the amount set aside for customer redress to £250 million *(2017: £75 million).*

International

Aviva's International markets comprise Europe, where we have focused multi-line franchises, and Canada, where we are the second largest general insurer by premiums written. Excluding the impact of businesses divested in 2017 and 2018, adjusted operating profit[1] from our International businesses increased 9% to £1,080 million (*2017: £990 million*).

In France, we maintained our operating momentum in 2018, delivering higher sales, improved product mix and better efficiency. Adjusted operating profit[1] in France was £546 million (*2017: £507 million*), up 7% in local currency terms. In our life insurance business, increased demand for savings products helped to deliver 6% growth in new business volumes to £4.3 billion (*2017: £4.0 billion*). With higher average asset balances supporting fee revenues and operating expense[2] growth of just 1%, our French life insurance business grew adjusted operating profit[1] 7% to £436 million (*2017: £403 million*). In general insurance, adjusted operating profit[1] rose 5% to £110 million (*2017: £104 million*). Net written premiums were £1,118 million (*2017: £1,053 million*) with growth mainly derived from commercial lines. The combined operating ratio[2] was maintained at 94.5% (*2017: 94.5%*) despite higher claims from weather and natural catastrophe events. Our French leadership team have begun to align our distribution channels under the Aviva brand and we expect to increase investment in brand, distribution and digitisation in 2019.

In Poland, Aviva responded to subdued trends in the life insurance market by implementing a targeted product strategy with our distribution partners, delivering record levels of customer retention and managing expenses tightly. As a result, despite lower industry sales, our life insurance business increased new business volumes by 3% and adjusted operating profit[1] rose 8% to £170 million. The higher life insurance result helped propel our total adjusted operating profit[1] in Poland to £190 million (*2017: £177 million*), an increase of 6% in local currency terms. In general insurance, adjusted operating profit[1] was £20 million (*2017: £21 million*) due to lower profitability in motor insurance. Our general insurance business lacks scale, though we are targeting growth through multi-cover policies, encouraging digital engagement, utilising our existing distribution scale in life insurance and developing the price comparison website market.

In Canada, the focus of our team in 2018 was on setting the business on the path to recovery following the challenges experienced in 2017, where results were adversely affected by heightened claims inflation in motor insurance. We have taken a range of actions including increases in premium rates, cancellation of some broker relationships and adjustments to underwriting appetite. While these actions have begun to yield results, adjusted operating profit[1] in Canada was flat at £46 million (*2017: £46 million*). Elevated weather and large loss experience, persistent challenges in motor insurance and costs relating to the completion of the RBC Insurance integration kept the combined operating ratio[2] elevated at 102.4% (*2017: 102.2%*), despite an improvement in prior year development.

Aviva recently received regulatory approval for further increases in premium rates in Ontario motor insurance which will move us toward rate adequacy. The regulatory approved premium rate increase of 8.6% in the Aviva portfolio and 16.8% in the RBC portfolio will be implemented from the first quarter of 2019 and should begin to benefit results in the latter part of this year and in 2020. In addition, we will continue to work with provincial governments and regulators to drive much needed reform in the Canadian insurance market. In summary, we expect our actions to deliver progress in our financial results in 2019 and we remain confident that we can achieve our sub-96% combined operating ratio[2] goal in 2020.

Aviva made further strategic and financial progress in Italy in 2018. Our focus on diversifying distribution and providing customers with innovative products has delivered higher sales, positive net fund flows[2] and growth in adjusted operating profit[1]. On a like-for-like basis (excluding the divested Avipop business), adjusted operating profit[1] increased 16% to £188 million (*2017: £162 million*). In life insurance, sales rose 37% in local currency terms to £6.3 billion (*2017: £4.5 billion*). Hybrid products, which provide customers a combination of with-profit, unit linked and protection coverage, achieved growth of 161% and contributed 44% of our total life sales *(2017: 23%)*. We also expanded our distribution capability; in 2018, non-bank channels accounted for greater than 40% of life insurance sales.

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 5 '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 supplement an understanding of our financial performance. Further information on APMs, including a reconciliation to the financial statements (where possible), can be found in the 'Other Information' section of the Annual report and accounts.

The sustained strength in sales has taken our new business share of the Italian life insurance market to approximately 6% and generated significant positive net fund flows[2]. As a result, life insurance adjusted operating profit[1] rose 14% to £156 million (*2017: £136 million*). In general insurance, Aviva has a niche position in the Italian market. Net written premiums in this business fell 7% to £317 million (*2017: £337 million*) as we took underwriting actions on the motor insurance portfolio. These actions contributed to improved underwriting margins, which helped lift adjusted operating profit[1] to £32 million (*2017: £26 million*).

In Ireland, adjusted operating profit[1] was £100 million (*2017: £86 million*) and we extended our sponsorship of the Aviva Stadium, a key element of our Group brand strategy. The main driver of growth in adjusted operating profit[1] was the Friends First business, which was acquired by Aviva on 1 June 2018. Benefits from the integration of Friends First supported higher adjusted operating profit[1] in life insurance, compensating for lower sales in annuities. In general insurance, Aviva has continued to focus on protecting profitability as the pricing cycle has begun to soften. Net written premium fell 2% to £430 million (*2017: £436 million*) though underwriting margins remained attractive, with a combined operating ratio[2] of 91.5% (*2017: 91.4%*). As a result, general insurance adjusted operating profit[1] rose slightly to £56 million (*2017: £53 million*). During 2018, we also completed important structural changes in our Irish business, with the establishment of a locally incorporated legal entity. This was an important component of our Brexit preparations.

Aviva Investors

In a challenging year for the fund management industry, Aviva Investors top-line growth slowed, with revenue up 4% to £597 million *(2017: £577 million)*. However, we chose to continue to invest in building a more valuable diversified long-term business, particularly in our Equities and Real Assets capabilities. This continued investment, together with the absorption of MiFID II costs, which we did not pass onto clients, resulted in adjusted operating profit[1] of £150 million *(2017: £168 million)*. We also realised a non-operating profit of £27 million on the sale of a part of our real estate business. Over the year, assets under management[2] declined due to the aforementioned business disposal, adverse market movements and expected net outflows on Aviva's legacy life insurance books. The AIMS range of funds saw assets reduce to £10.3 billion *(2017: £12.6 billion)* as difficult market conditions weighed on performance.

Singapore

In Singapore, we continue to grow our distribution network, including Aviva Financial Advisors with 816 advisers *(2017: 673)* and Professional Investment Advisory Services Pte Ltd, with 724 advisers *(2017: 593)*. As a result, we have maintained positive momentum in life insurance. New business volumes increased 11% to £1,279 million (*2017: £1,164 million*) and adjusted operating profit[1] from our life insurance operations grew 21% in local currency terms to £141 million (*2017: £118 million*). We believe the financial advisory model provides enhanced flexibility and choice for both advisers and customers and we will continue to invest in its development in 2019. In general insurance and health, adjusted operating loss[1] widened to £16 million (*2017: £8 million*) due to adverse claims experience in our health insurance portfolio. We are taking steps to improve the health insurance portfolio and this will continue in 2019.

Strategic investments

Aviva's strategic investments include our Digital operations together with our joint venture businesses in China, Hong Kong, India, Turkey, Vietnam and Indonesia. In 2018, the aggregate adjusted operating loss[1] from these businesses widened to £142 million *(2017: £85 million)*. The primary driver of this was our digital business in the UK, where we invested further in digital innovation, and customer proposition development and engagement. This has given rise to a sharp uplift in customer activity levels; UK MyAviva active customer registrations have risen 48% and we are seeing higher volumes of online customer traffic. However, this did not translate through to higher levels of profitability reflecting the soft market conditions in 2018. Excluding Digital, results from our Strategic Investment markets improved. In China and Turkey, we delivered growth in adjusted operating profit[1] in local currency terms while losses narrowed in our less mature businesses in South East Asia.

Capital and cash

At the end of 2018, our Solvency II shareholder cover ratio[2,3] was 204% (*2017: 198%*). The increase in the ratio was achieved despite significant capital management actions undertaken during the year, with the £0.9 billion repayment of subordinated debt and £0.6 billion share repurchase equating to a 13 percentage point drag on the opening solvency position.

Operating capital generation[2] totalled £3.2 billion (*2017: £2.6 billion*). Underlying operating capital generation[2] was £1.5 billion (*2017: £1.7 billion*), the decline resulting from business disposals, higher capital strain from new business growth and increased business investment spend. Other operating capital generation[2] of £1.7 billion (*2017: £0.9 billion*) comprised UK longevity releases together with capital benefits from the inclusion of dynamic volatility adjustment in our Group Solvency II position and model changes in France, Poland and the UK.

Net cash remittances[2] increased to £3.1 billion (*2017: £2.4 billion*) on the back of a significant uplift in dividends from the UK Insurance business. Special remittances from UK Insurance were £1.25 billion *(2017: £500 million)* and comprised £500 million related to Friends Life integration synergies and an additional £750 million that was made possible by the strength of our local entity solvency position.

At our Capital Markets Day in November 2017, we upgraded our target for cumulative cash remittances[2] over the three year period ending in December 2018 to £8 billion (from £7 billion previously). We fell slightly short of the upgraded target, achieving £7.9 billion of cumulative cash flows to Group centre from remittances and divestiture proceeds. This reflects the delay in completing the sale of Friends Provident International and our decision to retain the £0.2 billion of proceeds from the sale of Avipop in our Italian subsidiary to support capital given growth in the business and recent trends in Italian Government bond spreads.

In conjunction with the higher remittances, excess centre cash flow[2] in 2018 was £2,437 million (*2017: £1,656 million*). Even after adjusting for special remittances, recurring excess centre cash flow[2] was sufficient to fund Aviva's ordinary dividend. At the end of February 2019, Group centre liquidity was £1.6 billion (*2017: £2.0 billion*). Our intention is to maintain the Group centre liquidity balance in a range of £1 billion to £2 billion over time. Additional cash may also be set aside at Group centre for the purpose of defeasing subordinated debt maturities in 2020 and beyond. In 2018, we raised €750 million of senior debt with maturity in 2027 and a coupon of 1.875%. This was used to redeem €350 million of maturing senior debt and reduce commercial paper balances and was therefore neutral to our net debt position, while extending our liability profile.

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2 This is an Alternative Performance Measure (APM) which provides useful information to supplement an understanding of our financial performance. Further information on APMs, including a reconciliation to the financial statements (where possible), can be found in the 'Other Information' section of the Annual report and accounts.
3 The estimated Solvency II position represents the shareholder view. Please refer to note 57 and the 'Other information' section of the Annual report and accounts for more information.

In November 2017, we outlined an ambition to deploy £3 billion of cash by the end of 2019. In 2018, our deployment initiatives totalled £1.7 billion, comprising £0.9 billion of subordinated debt retirement, £0.6 billion of capital returned to shareholders via a share repurchase programme and £0.2 billion on M&A initiatives, the largest of which was the acquisition of Friends First in Ireland. Of the remaining £1.3 billion of cash we had anticipated deploying, we are extending the time-line beyond 2019 and will prioritise reinvestment in our existing operations and debt deleveraging. Based on our current outlook, there is less appetite for bolt-on acquisitions in 2019.

Between 2019 and 2022, Aviva has c£3.0 billion of maturing debt, of which we currently expect to repay without refinancing £1.5 billion. On a pro forma basis, this would reduce our outstanding debt balances by approximately 20%, reduce our ratio of debt to Solvency II own funds by 4 percentage points to 29%, and reduce our Solvency II shareholder cover ratio[2,4] by 10 percentage points to 194%. We estimate this would give rise to cash interest expense savings of approximately £90 million per annum, improving Group adjusted operating profit[1], operating capital generation[2] and excess centre cash flow[2]. We continue to manage the company consistent with double-A financial metrics.

We expect to fund the reduction of debt balances from internal sources, including regular cash remittances from our business units, special remittances associated with our capital structure optimisation initiatives and proceeds from divestiture activity.

Dividend

In light of our results and the strength of our financial position, we have increased our total dividend per share by 9% to 30.0 pence (*2017: 27.4* pence). This is the fifth consecutive year of significant annual growth in the dividend, with the 2018 level representing double the level paid for 2013 (15.0 pence).

Having achieved our 50% dividend payout ratio target relative to operating EPS[2,3] in 2017, this year we have increased the dividend payout ratio to 51.4%. Looking forward, the Board of Directors has decided to move from a policy targeting a pay-out ratio tied to operating EPS[2,3] to a progressive dividend policy. This change will afford the new CEO greater flexibility to implement his strategic agenda while protecting the current dividend per share for our existing shareholders.

At Aviva, a "progressive" dividend policy means that, under ordinary circumstances, the Board of Directors would at least maintain the then-current annual ordinary dividend per share, while seeking to grow the dividend per share over time based on the Board of Directors' periodic assessment of the Group's financial performance and future outlook. In practice, this might result in a higher or lower dividend pay-out ratio relative to earnings, which could fluctuate, while the dividend per share remains steady or grows under ordinary circumstances. Aviva's annual ordinary dividend per share has doubled from 2013 to 2018, and the Company expects that future percentage growth rates of the dividend per share will be more modest than those in the recent past.

Outlook

Given current uncertainties, including the unknown future impacts of Brexit on the economies of the United Kingdom and Europe, our near-term outlook entering 2019 is more muted than our outlook a year ago. While we achieved 7% operating EPS[2,3] growth in each of the past two years, it will be difficult to sustain this momentum in 2019.

In terms of currently identifiable result drivers, we cite potential headwinds from weak investment markets in late 2018 on fee income in our asset gathering businesses including UK long-term savings, European life and Aviva Investors, and a possible increase in the blended tax rate due to changes in the business mix of Group adjusted operating profit[1]. On the other side of the ledger, we expect results to benefit from improved profitability in Canada in addition to lower interest expense and a reduction in weighted average shares in issue following capital management initiatives undertaken in 2018. Our results will also depend on the degree of offset between benefits from changing longevity trends in the UK and costs associated with investment and change spend.

In conjunction with the appointment of a new Chief Executive, we are reallocating resources and making changes to our priorities. This process has begun, though it will receive further impetus now that the new Chief Executive has been appointed. Areas of focus include potential changes to our business model to drive further efficiency, opportunities to optimise our product and market portfolio and the prioritisation of debt deleveraging announced in today's results. The new Chief Executive will expand on our plans and outline refreshed targets in the near future.

In conclusion, we approach 2019 with strong fundamentals; our balance sheet is robust and resilient, our businesses are well positioned in their respective markets and overall performance has been steady. This provides a strong platform on which the incoming Chief Executive can build, with renewed focus on efficiency, complexity and customer to drive future performance.

Thomas D. Stoddard

Chief Financial Officer
6 March 2019

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2 This is an Alternative Performance Measure (APM) which provides useful information to supplement an understanding of our financial performance. Further information on APMs, 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 within the Annual report and accounts.
4 The estimated Solvency II position represents the shareholder view. Please refer to note 57 in the Annual report and accounts and the 'Other information' section for more information.

UK

Overview

Aviva is the UK's largest insurer with a 17%[1] share of the UK Life and savings market and a 10%[2] share of the UK General insurance and health market, with 15 million customers in the UK. As a 'multi-line' insurer we have a clear strategic advantage, providing individual and corporate customers with a wide range of insurance and savings products, from car, home and health insurance to pensions, investments and asset management. We have a strong core capability in managing existing books of business and have one of the largest customer bases in the UK life and pensions market.

We are here to help our customers, protect what's important to them and to help save for their long-term goals. Helping our customers provide for a more comfortable retirement and with a better understanding of the financial choices they face is a priority for us. We provide a secure income to 1.2 million customers in the form of an annuity, paying out over £2.6 billion each year. We are also a leading supplier[1] of equity release (lifetime mortgages), lending over £700 million in 2018, helping people to raise money to fund whatever matters most in life.

We focus on the customer, with market leading service at the heart of our business. We insure 2.5 million motor customers and 3.2 million home customers. Through the launch of AvivaPlus, an innovative general insurance proposition, customers can pick and choose the cover they need, with no interest or administration fees. The renewal price guarantee means we review each customer's price at renewal to make sure they pay no more than if they were new to AvivaPlus.

Over 5 million people rely on us to protect them and their families during some of the most difficult times in their lives, such as bereavement and serious illness. We are proud not only of the scale of the financial and wider support that our protection products provide, but the care with which claims are managed. We continue to win several awards recognising our achievements, including Best Protection Provider for the second consecutive year from Money Marketing and Best Individual Critical Illness Provider at both the Cover Excellence and Health Insurance awards.

In 2018 we published our first UK claims report, encouraging the industry to join us in publishing comprehensive information about how insurers manage customer claims, why some claims are declined and how consumers can do more themselves to understand whether the cover they have is what they need. In the UK, we paid out 96% of all claims received in 2017 and as high as 99% in motor and life insurance. That equated to £3.6 billion to help our customers across motor, home, travel, protection, health and commercial business insurance.

We are the largest UK corporate pensions provider[1], servicing over 3.8 million customers, including 22%[1] of the workplace pensions market. We are proud to receive external recognition[3] for excellent service in the pensions marketplace. We offer pensions, protection, and bulk purchase annuity propositions to both large and small companies, as well as health and general insurance.

We also provide general insurance to a wide range of businesses, with over 650,000 policies in force. In addition to our well established Small and Medium Enterprise (SME) client base, our Global Corporate & Specialty (GCS) business is focused on building the right solutions for large corporate clients and their brokers, working together to provide a tailor-made package that meets their requirements in the UK and across the globe. In 2018 retention of our existing customer base was over 90% and we were successful in winning the multi-national business of large UK corporates. We continue to support clients in improving their risk management through our prevention agenda and our highly valued claims service.

Financial and health wellbeing is top of employer agendas and we continue to support them and their employees with further development of Aviva Wellbeing, a set of services aimed at helping employers build healthier, happier and more productive workforces. In 2018 we launched Aviva Digital GP, an innovative proposition offering around the clock access to GP video consultations and chat features, pharmacy services and repeat NHS prescriptions.

We have 4.2 million customers in the UK actively registered on MyAviva, allowing them to manage their policies online, an increase of 48% on 2017. We are accessible to new and existing personal and corporate customers however they want to engage with us. We have an 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 other partners such as estate agencies.

We continue to win many awards, including 'General Insurer of the Year' from Insurance Times for the fifth year running and Insurance Post for the second year, and 'Health Insurer of the Year' at the Health Insurance Awards for the ninth year running. We also won Moneywise's 'Best Pensions Education Initiative', an award to highlight the efforts being made by financial providers to educate their customers, and the public, about pensions and retirement planning.

Financial performance

	2018 £m	2017 £m
Adjusted operating profit[4,6]		
Life	**1,871**	1,728
General Insurance	**415**	411
Health	**38**	36
	2,324	2,175
Cash remitted to Group[5,7,8]		
Life	**2,170**	1,366
General Insurance and Health	**379**	434
	2,549	1,800
Expenses		
Operating expenses[5]	**1,613**	1,493
Integration and restructuring costs	**—**	76
	1,613	1,569
New business		
Present value of new business premiums (PVNBP)[5]	**23,946**	23,764
Value of new business on an adjusted Solvency II basis (VNB)[5]	**481**	527
General Insurance		
Combined operating ratio (COR)[5]	**93.8%**	93.9%
Net written premiums (NWP)	**4,193**	4,078

1 Association of British Insurers (ABI) 12 months to end Q318.
2 GlobalData plc online database.
3 Aviva Corporate Operations were awarded the Thomson Online Benefits 5-star service rating in May 2018.
4 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 5 'Segmental Information' and 'Other Information' within the Annual report and accounts for further information.
5 This is an Alternative Performance Measure (APM) which provides useful information to enhance the understanding of financial performance. Further information on APMs, including a reconciliation to the financial statements (where possible), can be found in the 'Other Information' section of the Annual report and accounts.
6 The amounts shown above in respect of adjusted operating profit do not reconcile to the corresponding amounts in note 5 'Segmental information' within the Annual report and accounts due to the inclusion of our Health business within UK General insurance.
7 2018 general insurance cash remittances include amounts of £331 million received from UK General Insurance in February 2019 in respect of 2018 activity.
8 Cash remitted to Group is managed at legal entity level. As Ireland constitutes a branch of the United Kingdom business, cash remittances from Ireland were not aligned to our management structure within Europe, but they were reported within United Kingdom.

Profit

UK Life adjusted operating profit[1,7] increased by 8% to £1,871 million *(2017: £1,728 million)* due to further benefits from changes in longevity assumptions and the continued growth of long-term savings and bulk purchase annuities (BPA).

The UK's adjusted operating profit[1,7] across new and existing business can be analysed by segment as shown below:

Adjusted operating profit[1,7]	2018 New business £m	2018 Existing business £m	2018 Total £m	2017 New business £m	2017 Existing business £m	2017 Total £m
Long-term savings[2]	**(96)**	**294**	**198**	(74)	259	185
Annuities and equity release	**363**	**416**	**779**	335	390	725
Protection	**91**	**135**	**226**	130	97	227
Legacy[3]	**—**	**318**	**318**	—	331	331
Other[4]	**—**	**350**	**350**	—	260	260
Life	**358**	**1,513**	**1,871**	391	1,337	1,728
Underwriting result			**253**			246
Long-term investment return			**161**			163
Other[5]			**1**			2
General Insurance			**415**			411
Health			**38**			36
Total adjusted operating profit[1,7]			**2,324**			2,175

The increase in adjusted operating profit[1,7] is offset by an adverse movement in investment variances and economic assumption changes leading to a reduction in profit before tax attributable to shareholders' profits[7] of our life business of £1,399 million *(2017: £1,619 million)*.

UK General Insurance adjusted operating profit[1,7] was up 1% at £415 million *(2017: £411 million)*, including a 3% increase in underwriting profit as the business has grown while maintaining a stable COR[6].

UK Health adjusted operating profit[1,7] increased by 6% to £38 million *(2017: £36 million)* due to improved underlying margins.

Long-term savings

Long-term savings adjusted operating profit[1,7] increased by 7% to £198 million *(2017: £185 million)* with positive net fund inflows[6] of £5.0 billion *(2017: £5.6 billion)* while maintaining a stable in-force profit margin. Average assets under management (AUM[6]) across the year grew to £118 billion *(2017: £111 billion)*. However, weak investment markets towards the end of 2018 constrained growth in AUM[6], which ended the year at £116 billion *(2017: £118 billion)*. Along with growth in workplace pension net fund flows[6], driven by new scheme wins with large corporates, we delivered continued positive platform net fund flows[6] of £3.9 billion *(2017: £6.2 billion)* despite a difficult market environment and functionality problems impacting advisers and customers during the migration of the adviser platform to a new service provider. Platform assets under management[6] grew by 12% in the year to £22.6 billion *(2017: £20.2 billion)*. The increase in new business strain reflects our workplace pensions growth and the continued investment in the Aviva Financial Advisers network.

Annuities and Equity Release

Annuities and equity release adjusted operating profit[1,7] increased by 7% to £779 million *(2017: £725 million)*. BPA trading drove a 12% increase in volumes to £4,784 million *(2017: £4,287* million*)*, including Aviva's largest BPA deal to date of £925 million with Marks and Spencer, leading to an 8% increase in new business profits to £363 million *(2017: £335 million)*. Existing business adjusted operating profit[1,7] increased by £26 million to £416 million *(2017: £390 million)* due to favourable longevity experience partly offset by a reduction to £24 million *(2017: £86 million)* in the benefit from the optimisation of the asset mix by increasing the proportion of illiquid assets backing the in-force portfolio.

Protection

Protection adjusted operating profit[1,7] remained stable at £226 million *(2017: £227 million)*. The benefit of improved claims experience in Group Protection following actions taken to mitigate 2017 adverse experience was offset by an 8% reduction in new business volumes to £1,799 million PVNBP[6] *(2017: £1,964 million)* and fall in new business profits in a competitive individual protection market including the impact of hardening reinsurance rates.

Legacy

Legacy contributed adjusted operating profit[1,7] of £318 million *(2017: £331 million)*. The expected reduction in AUM[6] as policies mature was partly offset by favourable market movements in 2017 that drove higher opening 2018 AUM[6]. We continue to expect adjusted operating profit[1] from the legacy business to decline by approximately 10% per annum over the medium term.

Other

In 2018, the contribution from Other was £350 million. The largest driver of this result was the release of longevity provisions totalling £728 million due to changes in life expectancy trends[8]. This was partly offset by the recognition of an additional £175 million provision relating to potential redress for advised sales by Friends Provident (of which over 90% of cases relate to pre-2002, with the total provision recognised being £250 million) and a £119 million adverse impact in respect of the settlement of certain legacy reinsurance arrangements.

In 2017, Other of £260 million mainly related to the release of longevity assumptions totaling £710 million[8]. This was partly offset by the impact of recognition of a £75 million provision relating to potential redress for advised sales by Friends Provident, strengthening of maintenance expense reserves of £89 million, recognition of future costs reserves of £125 million and modelling impacts totalling £131 million.

General insurance

UK General Insurance adjusted operating profit[1,7] was up 1% at £415 million *(2017: £411 million)*.

The underwriting result increased 3% to £253 million (*2017: £246 million)*, reflecting an improved underlying performance, as we maintained a disciplined approach to underwriting and distribution. The impact of less favourable weather compared to 2017, (although weather remained favourable to the long-term average), was offset by higher prior year reserve releases.

Long-term investment return (LTIR) declined by £2 million to £161 million *(2017: £163 million)*, with the reduction in the internal loan return (net neutral to Group) broadly offset by the impact of an updated investment mix.

Adjusted operating profit[1,7] is a key driver for the improvement in profit before tax attributable to shareholders' profits of £450 million *(2017: £336 million)*, partially offset by increased adverse market movements.

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 5 'Segmental Information' and 'Other Information' within the Annual report and accounts for further information.
2 Includes pensions and the savings Platforms.
3 Legacy represents products no longer actively marketed, including With-Profits and Bonds.
4 Other Life represents changes in assumptions and modelling, non-recurring items, and non-product specific items.
5 Other General Insurance includes unwind of discount and pension scheme net finance costs.
6 This is an Alternative Performance Measure (APM) which provides useful information to enhance the understanding of financial performance. Further information on APMs, including a reconciliation to the financial statements (where possible), can be found in the 'Other Information' section of the Annual report and accounts.
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 5 'Segmental information' within the Annual report and accounts due to reclassification of health business to general insurance.
8 Please refer to note 47 'Effect of changes in assumptions and estimates during the year' within the Annual report and accounts.

In December 2018, the Civil Liability Bill became an Act of Parliament, which includes a change in the way the discount rate used to calculate lump sum compensation in personal injury cases (the 'Ogden rate') is set. Although the rate remains uncertain, it is anticipated that the Government will set a discount rate which is higher than the current -0.75% rate. At this stage, following a review of a range of outcomes, Aviva has adopted a rate of 0.0% within the full year 2018 reserves. The positive impact of this reserve change (£190 million) has been excluded from the 2018 adjusted operating profit[1], a consistent treatment with the previous rate change in 2016.

Cash

Cash remitted to Group[2] was £2,549 million *(2017: £1,800 million)*. 2018 includes an additional £500 million *(2017: £500 million)* of Friends Life integration remittance taking the total Friends Life integration remittances to £1.25 billion, exceeding the target of £1 billion, along with further special remittances of £750 million, reflecting the strong capital position of UK Life following recent positive longevity developments and management actions.

Expenses

Total expenses increased 3% year on year to £1,613 million *(2017: £1,569 million)* as we continue to focus on operational efficiency and invest in growth and simplification initiatives including building our BPA capability, updating our IT infrastructure, improvements to customer experience while also implementing mandatory requirements such as IFRS 17 and GDPR. Excluding these initiatives, expenses were broadly flat.

New business

Gross of tax and non-controlling interests	PVNBP[2] 2018 £m	PVNBP[2] 2017 £m	VNB[2] 2018 £m	VNB[2] 2017 £m	New Business Margin 2018 %	New Business Margin 2017 %
Long-term savings	**16,829**	16,813	**111**	153	**0.7%**	0.9%
Annuities and equity release	**4,784**	4,287	**196**	157	**4.1%**	3.7%
Protection	**1,799**	1,964	**140**	183	**7.8%**	9.3%
Health and Other	**534**	700	**34**	34	**6.4%**	4.9%
Total	**23,946**	23,764	**481**	527	**2.0%**	2.2%

PVNBP[2] increased 1% to £23,946 million *(2017: £23,764 million)* as the growth in BPA and workplace pensions was offset by lower Platform, Protection and Health volumes. However, VNB[2] decreased by 9% to £481 million *(2017: £527 million)*. The increase in PVNBP[2] is primarily due to BPA growth, including Aviva's largest BPA deal to date of £925 million with Marks and Spencer, while the overall reduction in VNB[2] reflects falls in protection and long-term savings.

Long-term savings VNB[2] reduction is mainly driven by lower Savings Platform volumes during and after service provider transition. It also reflects a reduction in workplace pension VNB[2], as an increase in volumes has been offset by a change in mix towards lower margin, larger pension schemes.

Annuities and equity release VNB[2] increased 25% to £196 million *(2017: £157 million)* driven by growth in BPA volumes with improved margins as we continued to participate in the market on a selective basis. Annuity VNB[2] includes an £85 million *(2017: £96 million)* impact of new business on the calculation of UK Life's transitional measures.

Protection VNB[2] reduced by 23% to £140 million *(2017: £183 million)* driven by an 8% reduction in sales to £1,799 million *(2017: £1,964 million)* in a competitive individual protection market and the impact of hardening reinsurance rates.

Health and Other VNB[2] was stable at £34 million *(2017: £34 million)* with a fall in volumes, as we exited the International PMI market, offset by increased margins.

Net written premiums (NWP) and combined operating ratio (COR)[2]

United Kingdom General insurance	Net written premiums 2018 £m	Net written premiums 2017 £m	Combined operating ratio 2018 %	Combined operating ratio 2017 %
Personal motor	**1,125**	1,142		
Personal non-motor	**1,369**	1,359		
UK Personal lines	**2,494**	2,501	**92.4%**	92.0%
Commercial motor	**532**	514		
Commercial non-motor	**1,167**	1,063		
UK Commercial lines	**1,699**	1,577	**96.1%**	96.7%
Total	**4,193**	4,078	**93.8%**	93.9%

NWP

NWP increased 3% to £4,193 million *(2017: £4,078 million)*, the fourth consecutive year of growth, as we continue to focus on our preferred products and channels.

UK Personal lines was broadly in line with the prior year with a 1% fall in motor reflecting lower average premiums in the softer market, while non-motor increased 1% driven by growth in home.

UK Commercial lines increased 8%, driven by a 10% increase in Commercial non-motor, with solid growth in SME and Global Corporate Specialty (GCS) while commercial motor increased 4%.

COR[2]

UK General Insurance COR[2] of 93.8% is a 0.1pp improvement on prior year against the backdrop of the Beast from the East and the softer motor market. Improved underlying performance and higher prior year reserve releases, primarily from favourable experience in attritional and large injury claims, was partly offset by less favourable weather experience compared to prior year, although this was still favourable to the long term average.

UK Personal lines COR[2] of 92.4% was 0.4pp higher year on year, reflecting higher weather costs partly offset by higher prior year reserve releases and improved business mix.

UK Commercial lines COR[2] of 96.1% improved 0.6pp year on year, as our underlying performance improved from the continued disciplined underwriting and growth combined with higher prior year reserve releases, partly offset by higher weather costs.

Operational highlights

- Following the phased launch in 2018, we continue to deliver our new AvivaPlus proposition to more customers. The innovative general insurance proposition is simple to use, flexible and rewards loyalty. Our revolutionary new approach to insurance ensures existing home and motor customers get the same or better price than new customers, instant claims, no fees for paying monthly, fast quotes with fewer questions and customisable cover to ensure they stay in control.
- Through Quantum, our data science practice, we continue to simplify how customers buy from us. This capability is being used across life and general insurance, for individual, SME and partners such as HSBC and Barclays. We ask fewer questions and make it as simple as possible for our customers to find the best solution to suit their needs.

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 5 'Segmental Information' and 'Other Information' within the Annual report and accounts for further information

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- Our GCS business has continued to build capability that allows us to better service UK corporates with overseas exposure, delivering a multi-national proposition, which is important in future-proofing our business. Additionally, our client council is a market first, and helping to drive strong loyalty. Prevention is at the heart of our client proposition, with risk management improvements and innovative technological advancements that we have provided to our clients in 2018 having delivered over £60 million in known loss avoidance. Advancements include the use of drones, thermographic cameras and leak detection sensors.
- In January 2019 we launched our new SME Midmarket proposition, offering personalised advice, business insights based on data analytics and access to innovative technology to support mid-market brokers and customers access the right risk management expertise and insight to manage growth, as well as existing and emerging risks.
- We continue to invest in digital technology to help customers protect what's important to them; with our award winning Aviva Drive app with DashCam functionality, customers can get a discount on their car insurance and have an independent witness on-board to help in the event of an accident. With our Alexa skill we make it easier for our pensions customers to get their latest pension value from the comfort of their sofa and we can help customers protect their home while away with smart devices that alert you to leaks, smoke and intruders via our new Connected Home app.
- We are using robotics and automation to simplify our processes. Our protection customers are now able to provide consent to obtain medical information digitally, with 73% of customers responding within 24 hours, compared to a previous average of 30 days. We have used robotics to move almost 40,000 employees for one of our largest workplace pension clients onto our pension platform, reducing a 150-hour manual process to 10 hours and we have digitised payment and fund switching for around 1.75 million pension customers as part of our new easy transfer process for customers with pots below £30,000.
- In January 2018 we made a significant investment in our platform technology and migrated over 200,000 customers with 345,000 accounts and £20 billion of assets to a new provider. Despite some technical issues, our customers are now benefiting from improved reporting, extended investment choice and simpler online processes. Significant progress has been made to address the problems caused by the migration and to ensure any customers are not disadvantaged. Growth of the platform has been resilient throughout this period with assets under administration[1] up 12% in 2018 to £22.6 billion and net fund flows[1] continue to be positive at £3.9 billion.
- We are a trusted partner for individuals to manage their transition into and through retirement, with market leading propositions (investment, drawdown, annuity, equity release), online guides and tools and our in-house advice service, Aviva Financial Advice. In 2018 we launched a 'Mid-Life MOT' service for our own employees aged 45 and over, providing targeted guidance on wealth, work and wellbeing. We will use the findings from this pilot to help inform discussions with government and the business community about how best to support UK employees more broadly as they approach retirement.
- We continue to build on our defined benefit (DB) de-risking and bulk purchase annuity capabilities, supporting our business customers looking to reduce risk. In 2018 we wrote £2.6 billion of bulk purchase annuities, an increase of over 27% on 2017.

Market context and challenges

- We are well prepared for Britain's exit from the EU, despite the continued uncertainties as to the outcome of the negotiations.
- 2018 saw significant 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.
- We promote strong regulation that is effectively targeted, efficiently delivered, and supports sustainable growth and innovation. Through active engagement with our regulator, we hope to see further improvements in the market over the next two to three years, including a fairer pension taxation system and a simpler regulatory environment which allows us to better serve the needs of our customers.
- April 2019 will see a further rise in auto-enrolment minimum contributions from 3% in 2018 to 5%, supporting better retirement prospects for all UK workers. Enquiries from small and medium sized businesses or their advisers about moving to a new auto-enrolment workplace pension provider have increased 80% year on year as companies realise the importance of workplace benefits.
- In 2018 the PRA launched a consultation process in respect of the capital required by firms offering equity release mortgages. We will continue to engage with the PRA throughout the consultation. We believe equity release is a valuable product for certain customers aged over 55, helping homeowners access money in their later life.
- In general insurance, market conditions have remained competitive across our entire product range, particularly a softening personal motor market. We believe injured motor claimants should be fully compensated for any 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 continued to support the need for motor insurance reform through our Road to Reform campaign. In 2018 the Civil Liability Bill, which will reform compensation for whiplash injuries from 2020, and the Ogden rate, used by the courts to determine awards for significant bodily injury claims, completed its passage through Parliament. Aviva has promised to pass on 100% of the savings to its customers.
- We fully support the FCA review on pricing practices for new and existing customers in the general insurance industry and are leading the market in tackling unfair pricing through our AvivaPlus proposition.
- We continue to improve prevention and detection of general insurance fraud for our customers. In 2018 we avoided over 15,000 fraudulent policies (20% more than 2017). We also repudiated £85 million in suspect fraudulent claims and have prosecuted 58 cases.
- We are committed to providing an excellent service for all our customers, but we know that sometimes things can go wrong. Where we fail to meet customers' expectations our first priority is to resolve the matter as quickly as possible and to act on the feedback we receive. We constantly work to improve our customer service, taking learnings from dissatisfaction and analysing the root cause of complaints in order to improve our customer performance. Following an industry wide miscategorisation issue in 2018 we have been working to ensure we categorise our complaints correctly, which has resulted in an increase in our regulated complaint numbers.

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Priorities for 2019

- To deliver growth in the UK by extending our advantage across products and intermediary partners, leveraging the power of Aviva's breadth of offering, while investing in future growth strategies.
- Build on our strong employer proposition and become the provider of choice in the workplace for employee investments and insurance.
- Build on our reputation as a trusted partner for individuals managing their transition into and through retirement.
- Focus on simplicity for customers and build simple digital solutions using our data and analytics capabilities (Quantum) to make it easier for our customers to do business with us.
- Drive operational efficiency, underpinned by a sustainable and robust IT infrastructure. Completing our data centre migration will be fundamental to supporting the level of service we offer.
- Build on our strong position with intermediaries by striving to be their partner of choice.
- We will continue to lead the industry on the big customer issues: simplifying our products and customer experience, increasing transparency and putting the customer at the heart of everything we do.

Market review > Continued

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 2.7 million customers with a 10% market share[1]. Our business is primarily intermediated, sold through a network of 1,000 independent broker partners and, following our acquisition of RBC General Insurance (RBC GI) in 2016, RBC insurance agents.

Profitability of the business deteriorated in early 2017, principally due to increased physical damage and injury claims costs in our motor insurance line of business, and the trend of favourable reserve releases ceased. As Canadian motor insurance is heavily regulated, we had difficulty achieving rate increases quickly enough to offset the claims costs. In addition, 2017 and 2018 saw natural catastrophe losses above budget. As a result, adjusted operating profit[2,4] in 2018 did not recover from the 2017 level despite the actions taken.

In 2018, we achieved significant rate increases in personal lines business, not all of which will have earned into the 2018 adjusted operating profit[2,4]. We also reduced the number of intermediaries with access to our products as well as tightened underwriting criteria where appropriate. In commercial lines, our focus was on better risk selection which has hampered net written premium growth, although we are receiving higher premium for much of our renewed business. We expect the combination of rate increases, pricing sophistication and expense management to continue until we achieve our sub-96% target combined operating ratio[3].

Financial performance

	2018 £m	2017 £m
Adjusted operating profit[2,4]	**46**	46
Cash remitted to Group[3]	**28**	55
Expenses		
Operating expenses[3]	**477**	478
Integration and restructuring costs	**—**	15
	477	493
Combined operating ratio (COR)[3]	**102.4%**	102.2%
Net written premiums (NWP)	**2,928**	3,028

During 2018, adjusted operating profit[2,4] remained flat compared to the prior year at £46 million *(2017: £46 million)*. The business also continued to experience challenges in the Canadian motor market and adverse weather conditions. Towards the end of 2017, an extensive profit remediation plan was put in place with ongoing actions around pricing, indemnity management and risk selection. The impacts of our extensive profitability actions have started to flow through our 2018 results. In the second half of the year, our combined operating ratio[3] for the six months to December 2018 improved to 100.2% *(HY18: 104.6%)*.

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

Profit

Adjusted operating profit[2,4]	2018 £m	2017 £m
Underwriting result	**(70)**	(64)
Long-term investment return	**121**	115
Other[5]	**(5)**	(5)
Total adjusted operating profit[2,4]	**46**	46

In 2018, the underwriting result was a loss of £70 million *(2017: loss of £64 million)*, mainly driven by increased claims frequency and severity in our personal motor business, slightly adverse weather conditions compared to the long-term average and the inclusion of RBC GI integration costs within operating expenses[3], partially offset by favourable prior year reserve development.

The underwriting loss, along with adverse market movements were the key drivers of the current year loss before tax attributable to shareholders' profits[4] of £74 million *(2017: £54 million)*.

Cash
Cash remittances[3] during the year decreased to £28 million *(2017: £55 million)*, reflective of our underwriting performance.

Expenses
Operating expenses[3] remained broadly flat at £477 million *(2017: £478 million)*, which includes costs of £11 million related to the completion of RBC GI systems migration and staff relocation. These costs were reported within integration and restructuring costs in 2017.

Net written premiums (NWP) and combined operating ratio (COR)[3]

	Net written premiums		Combined operating ratio[3]	
	2018 £m	2017 £m	2018 %	2017 %
Personal lines	**2,107**	2,171	**104.2%**	102.5%
Commercial lines	**821**	857	**97.8%**	101.2%
Total	**2,928**	3,028	**102.4%**	102.2%

NWP
Net written premiums were down 3% to £2,928 million *(2017: £3,028 million)* but flat on a constant currency basis. In personal lines, lower new business sales were offset by rate increases. Commercial lines premiums reduced slightly over the prior year as rate increases were offset by lower new business sales and retention as we tightened our underwriting risk appetite.

COR[3]
The COR[3] increased slightly to 102.4% *(2017: 102.2%)* due to elevated claims frequency and severity, particularly in motor, partially offset by favourable prior year reserve development.

1 Market Security & Analysis inc. 2017 online database
2 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 5 – 'Segmental Information' and 'Other Information' within the Annual report and accounts for further information
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5 Includes unwind of discount and pension scheme net finance costs

Operational highlights

- Launched a profitability action plan with over 30 distinct actions to improve financial performance.
- Completed 155 rate changes in personal lines.
- Piloted automated quoting for small commercial lines business.
- Completed the integration of RBC GI, decommissioning legacy RBC GI systems and processes and successfully migrated all RBC GI policies into our Guidewire (policy and claims) system.
- Reduced our number of offices from 27 to 21 which reduced our operational footprint (square footage) by 25%.

Market context and challenges

During 2018, adjusted operating profit[1] remained flat compared to the prior year as we continue to experience poor results in the Canadian motor market. Regulatory challenges, including restrictions on price increases, are faced in both the provinces of Ontario and Alberta, affecting the speed of our turnaround. Impacts from adverse weather conditions continue with current year catastrophe losses of £77 million well above the 5-year historical average of £58 million.

Priorities for 2019

- Our primary focus is to improve profitability across all lines of business.
- We will diversify our products more towards commercial lines and personal property.
- We will continue to invest in pricing analytics and claims management.

EUROPE

Overview

Aviva has a focused approach in Europe with insurance operations in France, Italy, Poland, Ireland and Turkey. In the year we have completed our disposal of Spain and one of our joint ventures in Italy and acquired Friends First in Ireland.

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

We have over 10 million customers and operate a multi-line model across all our European businesses except for 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.

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

Financial performance

	2018 £m	2017 £m
Adjusted operating profit[1,2]		
Life	**831**	873
General insurance & health	**220**	223
	1,051	1,096
Cash remitted to Group[3,4]	**447**	485
Expenses		
Operating expenses[3]	**847**	820
Integration and restructuring costs	**—**	36
	847	856
New business		
Present value of new business premiums (PVNBP)[3]	**12,641**	12,065
Value of new business on an adjusted Solvency II basis (VNB)[3]	**517**	533
General Insurance		
Combined operating ratio (COR)[3]	**93.4%**	93.3%
Net written premiums (NWP)	**1,985**	2,018

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

Overall adjusted operating profit[1,2] in Europe was down by 5% to £1,051 million *(2017: £1,096 million)*. However excluding disposals, adjusted operating profit[1,2] grew 10% to £1,034 million (*2017: £944 million*), driven primarily by our life businesses which continue to grow revenue, improve product mix and focus on expense efficiencies.

Profit

	Life		General insurance & health	
Adjusted operating profit[1,2]	**2018 £m**	2017 £m	**2018 £m**	2017 £m
France (excl. Antarius)	**436**	403	**110**	104
Poland	**170**	156	**20**	21
Italy (excl. Avipop)	**156**	136	**32**	26
Ireland	**44**	33	**56**	53
Other Europe (excl. Spain)[5]	**10**	12	**—**	—
Total (excl. Antarius, Avipop, Spain)	**816**	740	**218**	204
Antarius	**—**	22	**—**	—
Avipop	**6**	32	**2**	19
Spain	**9**	79	**—**	—
Total adjusted operating profit[1,2]	**831**	873	**220**	223

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 5 'Segmental Information' and 'Other Information' within the Annual report and accounts for further information
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4 Cash remitted to Group is managed at legal entity level. As Ireland constitutes a branch of the United Kingdom business, cash remittances from Ireland are not aligned to our management structure within Europe, but they are reported within the United Kingdom
5 Includes Turkey.

Excluding the impact of disposals, the adjusted operating profit[1,2] of our life businesses grew by 10% to £816 million *(2017: £740 million)*. Dealing with each of the markets in turn:

- In France, adjusted operating profit[1,2] was up 7% to £436 million (*2017: £403 million*), due to increase in new business volumes of our unit-linked savings products.
- In Poland, adjusted operating profit[1,2] was £170 million (*2017: £156 million*), an increase of 8% as a result of the favourable impact of equity market movements on assets under management[3] increasing fee income and an improved mix towards protection business.
- In Italy, adjusted operating profit[1,2] was £156 million (*2017: £136 million*), an increase of 14% with significant net inflows mainly driven by an increase in new business volumes of our hybrid product.
- In Ireland, adjusted operating profit[1,2] increased to £44 million (*2017: £33 million*), an increase of 31% mainly driven by the acquisition of Friends First, longevity releases and asset mix optimisation on the annuity book, partially offset by lower sales of annuity products.
- In Turkey, adjusted operating profit[1,2] was lower at £10 million (*2017: £12 million*), due to adverse foreign exchange movements. However on a constant currency basis, profits were up 8% due to growth in protection products.

Excluding disposals, the adjusted operating profit[1,2] of our General insurance businesses grew by 6% to £218 million *(2017: £204 million)*. Dealing with each of the markets in turn:

- In France, adjusted operating profit[1,2] was £110 million (*2017: £104 million*), an increase of 5%, due to growth, particularly in commercial lines, turnaround of the health business and expense efficiencies, partially offset by higher large losses and weather-related claims.
- In Poland, adjusted operating profit[1,2] was £20 million (*2017: £21 million*) with the slight decrease mainly due to motor business with improved performance in other lines of business.
- In Italy, adjusted operating profit[1,2] increased to £32 million (*2017: £26 million*) mainly driven by claims management actions on the motor book.
- In Ireland, adjusted operating profit[1,2] increased to £56 million (*2017: £53 million*) driven by improvements to product mix and higher earned premiums, partially offset by an increase in large claims.

Profit before tax attributable to shareholders' profits[2] has reduced to £995 million *(2017: £1,044 million)* as a result of lower profits on disposal compared to 2017, partially offset by lower adverse investment variances and economic assumption changes.

Cash

Cash remitted to the Group[3,4] was £447 million (*2017: £485 million*). Higher dividends from France and Poland were offset by Italy, where the dividend was withheld to withstand the volatile market conditions experienced in the year.

Expenses

Total operating expenses[3] were up 2% to £847 million *(2017: £820 million)* due to the inclusion of the Friends First business in Ireland for the first time and the absorption of integration costs into operating expenses[3] in 2018, partly offset by a reduction due to the disposal of our Spanish businesses. Excluding these items, operating expenses[3] are flat year on year.

New business

Excluding disposals, PVNBP[3] was up by 20% to £12,625 million (*2017: £10,552 million*) and VNB[3] increased by 13%. In Italy VNB[3] growth of 36% was mainly due to continued growth in sales of our hybrid savings product. In France, PVNBP[3] was up 6% reflecting growth in sales of savings products, although VNB[3] was down 4% primarily due to reduced protection volumes and new business margin reflecting increased competition in this market.

Net written premiums (NWP)

Excluding Avipop, NWP was broadly flat with growth in France offset by decreases in Poland, Italy and Ireland, as we maintained strong underwriting discipline. In France, NWP grew to £1,118 million (*2017: £1,053 million*) with growth mainly in commercial lines. In Poland, NWP decreased by 10% to £106 million (*2017: £117 million*) reflecting a change in product mix from bancassurance business. In Italy, NWP decreased by 7% due to continued underwriting action taken on segments of the motor book. In Ireland, NWP was down 2% mainly due to rate reductions in a softening motor market.

Combined operating ratio (COR)[3]

Excluding the disposal of Avipop, COR[3] in Europe has improved by 0.4pp to 93.5% primarily reflecting an improved performance in Italy as underwriting action on the motor book takes effect.

Operational highlights

- In 2018, we completed the sale of our shareholdings in Caja Murcia Vida, Caja Granada Vida and Pelayo Vida, concluding the exit of our Spanish businesses. In Italy, we completed the sale of our shareholdings in Avipop Assicurazioni S.p.A and Avipop Vita S.p.A. (collectively known as Avipop) in March 2018. In Ireland, we completed our acquisition of Friends First Life Assurance Company in June 2018.
- In France we achieved strong profit growth and continued to outperform the market by shifting our product mix towards capital-efficient unit-linked products. In 2018, we realigned under a single brand and made it easy for our customers to get the same products at the same price no matter which distribution channel they choose. We were also the first insurer to be granted a license to transfer our pensions business into a supplementary occupational pension fund (known as FRPS), improving our capital efficiency and providing a unique offering to retirement and pensions customers.
- In Italy our hybrid product continued to be highly successful, supported by our continued innovation and top performing funds, driving strong value of new business on an adjusted Solvency II basis (VNB)[3] growth and net flows in the Group.
- Our Polish business has experienced profit growth due mainly to positive macroeconomic factors and supported by a strong reputation in the market. MyAviva platform has increased both the unique user base and the number of online transactions. The Santander relationship in Poland has been improved and there is a good level of growth from ING Poland.

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4 Cash remitted to Group is managed at legal entity level. As Ireland constitutes a branch of the United Kingdom business, cash remittances from Ireland are not aligned to our management structure within Europe, but they are reported within the United Kingdom

- In Ireland we completed the acquisition of Friends First and made significant progress with the integration. The integration programme is ahead of expectations with benefits in 2018 continuing in 2019 and 2020. Our strong brand continued to shine as we achieved the most trusted insurance brand of 2018[1].
- In Turkey we developed a new distribution model, launched in February 2019, that allows our direct sales force to sell general insurance and health products, manufactured by other insurers, alongside Aviva life insurance products

Market context and challenges

- In France we offer a full range of life, general insurance, protection and health insurance products with strength in distribution through AFER, the number 1 savers association[2], UFF the number 2 financial adviser network[2] and through our number 2 direct general insurance business[2]. In late 2018 the French government proposed new laws that seek to shift savings and investment towards the real economy, bringing about further opportunities for our savings and retirement business.
- In Italy we offer life, general and health insurance, with distribution through two major bancassurance partnerships, multi-agents and independent financial advisers. Political uncertainty and a change of government have caused volatility in financial markets.
- In Poland we are one of the leading life insurers[3] with one of the largest tied agent salesforces on the market. We provide general insurance distributed through a direct sales network, financial advisers and two key bancassurance partnerships.
- In Ireland we are a market leading composite insurer[4], and continue to benefit from a strong macroeconomic environment with high GDP and low unemployment. Despite softening in the general insurance market, we achieved a 92% combined operating ratio (COR)[5] demonstrating the strength of our underwriting capability.
- In Turkey we have a life insurance business through our joint venture with Sabanci. Our business has responded well to the political instability and financial volatility in the second half of 2018.

Priorities for 2019

- In France we will leverage the benefits of our single brand with focus on four customer propositions (digital, professionals, affluent and partnerships). We will also look to strengthen our broker distribution and develop savings solutions aligned to customer needs and the real economy, continuing to shift our product mix towards unit-linked products and grow our protection business.
- In Italy we will focus on brand awareness, growing the non-motor general insurance business in an under-penetrated market; invest in our direct channel to drive forward our new SME propositions, and continue growth in hybrid sales.
- In Poland we remain focused on digitising through both self-service and IFA platforms. We will continue expansion of bancassurance partnerships with additional product launches in pipeline and also look to exploit profitable and growing niches in group life business and commercial lines general insurance.
- In Ireland we will focus on delivering the benefits of a strong combined life insurance business with the integration of Friends First. In particular, we will invest in new propositions and improved customer journeys to meet the changing needs of our customers. We will maintain a market leading position in general insurance by leveraging our best-in-class underwriting, pricing and indemnity management capabilities, and will continue to invest in digitisation to improve efficiency and our customer experience.
- In Turkey we will closely monitor the impact of current political and financial uncertainty and take action where required. We will simplify our portfolio and implement cross-sell initiatives to maximise the potential of our partnership with Sabanci.

1 Aviva Global Brand Tracker Quarter 4 2018 – Ireland
2 AFER website, UFF website and French Insurance Federation
3 Polish Insurance association.
4 Insurance Ireland Industry Statistics, GI and Milliman Temperature Gauge, Life.
5 This is an Alternative Performance Measure (APM) which provides useful information to enhance the understanding of financial performance. Further information on APMs, including a reconciliation to the financial statements (where possible), can be found in the 'Other Information' section of the Annual report and accounts.

Asia

Overview

We are focused on six key markets: four large populous nations China, India, Indonesia and Vietnam, and two advanced regional wealth management centres in Hong Kong and Singapore. These markets provide an accessible population of over 3 billion people with relatively low insurance penetrations compared to more developed Western markets. This offers us tremendous growth opportunities in the region.

We currently provide life and health insurance solutions to over 4.5 million customers across our markets in Asia and a multi-product offering including general insurance in Singapore. We operate a multi-distribution strategy which includes tied agency, financial advisers, bancassurance, digital, affinity partnerships, telemarketing and direct sales force.

Our core strategy is to disrupt current market practices by placing a greater emphasis on our customers and offering products, individually or in tailored combinations, to meet their preferences to create real value.

Investment in Asia's distribution, digital and analytics capabilities continued throughout 2018. Singapore continues to grow its distribution network, including our financial adviser subsidiaries Aviva Financial Advisers with 816 *(2017: 673)* advisers and Professional Investment Advisory Services with 724 *(2017: 593)* advisers on board. Aviva-COFCO, our joint venture in China, posted a modest growth in adjusted operating profit[1,3] amid regulatory tightening and an economic slowdown. In Hong Kong, we launched Blue, our new digital life joint venture with Tencent and Hillhouse in September 2018, which is expected to disrupt the insurance market. Aviva Vietnam, which is now a wholly owned subsidiary, is accelerating its business via a stronger partnership with Vietinbank. In 2018, we also completed the sale of our entire 49% shareholding in a joint venture in Taiwan.

Financial performance

	2018 £m	2017 £m
Adjusted operating profit[1,3]		
Life	**300**	235
General insurance & health	**(16)**	(8)
	284	227
Cash remitted to Group[2]	**6**	—
Expenses		
Operating expenses[2,4]	**186**	207
Integration and restructuring costs	**—**	—
	186	207
New business		
Present value of new business premiums (PVNBP)[2]	**2,656**	2,719
Value of new business on an adjusted Solvency II basis (VNB)[2]	**189**	162
General Insurance		
Combined Operating Ratio (COR)[2]	**122.1%**	123.2%
Net written premiums (NWP)	**13**	13

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

Profit

Adjusted operating profit[1,3]	2018 £m	2017 £m
Life adjusted operating profit[1,3]		
Singapore	**141**	118
Other Asia (excl. FPI, Taiwan)	**8**	(3)
Total (excl. FPI, Taiwan)	**149**	115
General insurance & health adjusted operating profit[1,3]	**(16)**	(8)
Total adjusted operating profit[1,3] (excl. FPI, Taiwan)	**133**	107
FPI[5]	**151**	119
Taiwan[6]	**—**	1
Total adjusted operating profit[1,3]	**284**	227

Adjusted operating profit[1,3] from our life and general insurance and health businesses was £284 million *(2017: £227 million)*. Excluding FPI and Taiwan, life adjusted operating profit[1,3] increased by 31% to £149 million *(2017: £115 million)*. Within this, Singapore's adjusted operating profit[1,3] improved by 21% to £141 million *(2017: £118 million)*, which was mainly due to a higher contribution from the financial advisory channel. Improved results in China, Indonesia and Vietnam were partly offset by the initial set up costs of Blue in Hong Kong. Life adjusted operating profit[1,3] for FPI improved from £119 million to £151 million as a result of improved operational performance and cost reductions.

The general insurance and health business reported a £16 million adjusted operating loss[1,3] *(2017: £8 million loss)* as a result of higher claims experience in our health business in Singapore. Management has identified a number of actions, including re-pricing, product design changes and cost containment measures to improve the portfolio performance. These remediation actions have commenced in 2018 and will continue throughout 2019.

Profit before tax attributable to shareholders' profit[3] of £101 million has increased from a loss of £146 million in 2017, due in part to the improved adjusted operating profit[1,3] and also to the non-recurrence of the £118 million initial remeasurement loss recognised on FPI in 2017.

Cash

Cash remitted to Group[2] in 2018 was £6 million *(2017: £nil)* as the successful progress of our business in Singapore has allowed the business to resume paying a dividend.

Expenses

Total operating expenses[2] for Asia were £186 million *(2017: £207 million)*. Excluding FPI, operating expenses[2] were £143 million *(2017: £150 million)*. The decrease is mainly as a result of cost saving initiatives as well as lower project development and IT costs.

New business

	PVNBP		VNB[2]		New Business Margin	
Gross of tax and non-controlling interests	2018 £m	2017 £m	2018 £m	2017 £m	2018 %	2017 %
Singapore	**1,279**	1,164	**152**	123	**11.9%**	10.6%
Other Asia	**929**	930	**39**	38	**4.2%**	4.0%
Total (excl. FPI, Taiwan)	**2,208**	2,094	**191**	161	**8.6%**	7.7%
FPI[5]	**448**	467	**(2)**	(6)	**(0.3)%**	(1.2)%
Taiwan[6]	**—**	158	**—**	7	**—**	4.4%
Total	**2,656**	2,719	**189**	162	**7.1%**	6.0%

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 5 '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 APMs, including a reconciliation to the financial statements (where possible), can be found in the 'Other Information' section of the Annual report and accounts.
3 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 5 – 'Segmental information' within the Annual report and accounts due to the reclassification of non-insurance business to Other Group activities.
4 Operating expenses relate to subsidiaries and exclude joint ventures.
5 In July 2017, Aviva announced the sale of Friends Provident International Limited (FPI). The subsidiary has been classified as held for sale from July 2017, when management were committed to a plan to sell the business.
6 In 2018 Aviva completed the sale of our entire 49% shareholding in a joint venture in Taiwan.

While PVNBP[1] has remained stable at £2,656 million in 2018, estimated VNB[1] increased by 18% to £189 million *(2017: £162 million).* Excluding FPI and Taiwan, VNB[1] increased 22% to £191 million *(2017: £161 million)*, primarily driven by Singapore where higher new business volumes from the financial advisory channel and an improved product mix towards protection products improved VNB[1] to £152 million *(2017: £123 million)*.

Net written premiums (NWP) and combined operating ratio (COR[1])
General insurance NWP were flat at £13 million *(2017: £13 million)*. The general insurance COR[1] improved by 1.1pp to 122.1% *(2017: 123.2%)* as a result of improved claims experience.

Operational highlights
- In May 2018, we were the first and only insurer in Singapore to launch eCall assistance service in collaboration with Bosch for our motor clients. This eCall assistance is expected to be quicker by 40% compared to the average emergency response
- In July 2018, we launched Aviva's global data science practice in Singapore, Quantum Asia Hub, to use data and technology to better understand customer experience and provide tailored products and services to help our customers manage uncertainty
- We launched Blue, our digital insurance joint venture with Hillhouse Capital and Tencent in Hong Kong, in September 2018 to fundamentally change the traditional insurance market with zero commission, no intermediaries and easy-to-use, digital insurance.

Market context and challenges
We continue to believe that the long-term favourable trends of the emerging middle-class, increasing awareness of retirement planning and a growing market in healthcare will persist across the region. We also believe Asia will continue to outperform other markets in insurance growth towards 2020. Rising interest rates could also potentially benefit life insurers.

Asia is experiencing rapid growth in internet, social media and mobile activity, and China is leading in the technology revolution and digital applications. Today, digital has become an essential part of our daily lives and we are strongly encouraged by the Asian governments' support of Fintech and consumers' continued rapid adoption.

Priorities for 2019
- We will continue to invest in our independent financial adviser model in Singapore to accelerate growth while looking to capture similar opportunities in other Asian markets
- We will continue to invest in our digital capabilities which will help us to drive customer engagement, improve customer experiences and increase operational efficiency
- We will further embrace the True Customer Composite model in Asia to serve our customers in life, health, general insurance and asset management
- Our focus in China is to accelerate growth by enhancing our agency programme and geographical branch expansion
- We will continue to implement remediation actions to improve the portfolio performance of our health business in Singapore.

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

Aviva Investors

Overview

We are Aviva's global asset management business with expertise in multi-asset, fixed income, equity, real assets and solutions. We currently invest £331 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.

Aviva Investors' strategy is to be a global leader in outcome-orientated solutions. Being an integral part of the Group, we provide asset management services and solutions to both internal and external customers, while at the same time building our external base of institutional and wholesale clients around the world. We combine our insurance heritage and DNA with our skills and experience in asset allocation, portfolio construction and risk management to provide asset management solutions to institutional, wholesale and Aviva's end retail clients. These solutions deliver the investment outcomes clients are looking for.

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

Financial performance

	2018 £m	2017 £m
Revenue: Fee income	**597**	577
Expenses		
Operating expenses[2]	**447**	409
Integration and restructuring costs	**—**	3
	447	412
Adjusted operating profit[1,2]		
Fund management	**150**	168
Other operations	**—**	32
	150	200
Assets under management[2]	**331bn**	351bn
Cash remitted to Group[2]	**92**	58

We continue to invest in growing our investment capabilities across all asset classes and propositions, particularly in strengthening Equities. During the year, we created a new Real Assets division, focused on direct real estate and infrastructure investing. We further expanded our distribution capability, particularly in the US. As a result, we have experienced new business wins across a broader range of products, creating a more diversified client base.

Revenue

Revenue increased by 4% to £597 million *(2017: £577 million)* driven by sales across the business including £2.3 billion of Stewardship fund assets in 2018 which were previously externally managed.

Expenses

Operating expenses[2] in Aviva Investors were £447 million *(2017: £409 million)*. The increase in expenses reflects our investment in our front office capabilities and expanded distribution reach. It also reflects increased costs due to regulatory changes.

Profit

Fund management adjusted operating profit[1] decreased by £18 million to £150 million *(2017: £168 million)* due to continued investment in capabilities (equities and real assets), expansion of our global distribution reach and absorption of regulatory costs (particularly MiFID II) which we did not pass on to our clients. Profit before tax attributable to shareholders' profit has reduced to £170 million *(2017: £188 million)* due to the lower fund management adjusted operating profit[1]. £32 million of insurance recoveries included in 2017 adjusted operating profit[1] are largely offset by the 2018 gain on disposal recognised on the transfer of the Real Estate Multi-Manager business and our interest in the management of a pan-European commercial property fund to another leading real estate global asset manager[3].

Cash

Cash remitted to Group[2] was £92 million in 2018, an increase of £34 million from 2017 *(2017: £58 million)*.

Assets under management and under administration[2]

Assets under management[2] represents all assets managed by Aviva Investors. These comprise Aviva (internal) assets which are included within the Group's statement of financial position and those belonging to external clients outside the Aviva Group which are therefore not included in the Group's statement of financial position. These assets under management[2] exclude those funds that are managed by third parties. Assets under administration[2] comprise assets managed by Aviva Investors and by third parties on platforms administered by Aviva Investors.

Assets under management[2] decreased by £20.0 billion to £330.7 billion *(2017: £350.7 billion)* during the period. This is due to £6.3 billion of disposals[3], £12.4 billion adverse market and foreign exchange movements and £1.3 billion net outflows. Assets under management and administration[2] at 31 December 2018 were £359.8 billion *(2017: £381.2 billion)*.

Operational highlights

- We took a decision to strengthen our Equity team in 2018. David Cumming was hired to head the area and we added an additional 14 portfolio managers to bolster both our standalone Equity propositions and idea generation for our multi-asset solutions.
- We created an integrated Real Assets business in May, combining our Real Estate and Alternative Income Solutions functions. We are already at a position of strength, as we have a long history in this area and £40 billion of assets under management[2]. With global allocations to private assets expected to double by 2025, we now have the right structure in place to deliver opportunities for clients.
- As part of the integration of our Real Assets business, we transferred our indirect Real Estate Multi-Manager business and our interest in the management of a pan-European commercial property fund to another leading real estate global asset manager.
- We successfully onboarded the management of £2.3 billion in Stewardship funds in 2018, which had previously been outsourced.
- We also created a new solutions function under Al Denholm, focused on insurance solutions and environmental, social thinking and governance (ESG) capabilities while working across our broad capability set to deliver tailored outcome-orientated solutions for the Group and external clients.

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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 APMs, including a reconciliation to the financial statements (where possible), can be found in the 'Other Information' section of the Annual report and accounts.
3 On 5 November 2018, Aviva Investors completed the sale of an indirect Real Estate Multi-Manager business and our interest in the management of a pan-European commercial property fund to another leading real estate global asset manager.

Market context and challenges

Brexit uncertainty continues to present challenges for the asset management industry. We continue to plan for all eventualities but believe Aviva Investors is already well placed both globally, and particularly within Europe, as we have a significant and long-standing established presence in France, Luxembourg and Poland. Our preparations are also well underway for the outcomes of the FCA's Asset Management Market Study and the Senior Manager and Certification Regime.

Market conditions have been volatile due to uncertainty around Brexit and growing trade tensions between the US and the rest of the world. This led to investment performance in certain areas of the business not meeting expectations. We have however taken steps to enhance our investment capabilities in 2018, including adding additional resource to our Multi-Asset team and investing heavily in our Equities capability, primarily to enhance our equity performance but also idea generation into our broader solutions including AIMS. We believe we are at something of an inflection point in markets as the period of quantitative easing draws to a close and we transition to an environment of quantitative tightening. We expect global growth to ease in 2019.

In a slowing growth environment, market participants are likely to focus even more on the downside risks. That should provide a basis for positive, but likely mixed returns across risk assets.

Priorities for 2019

We will continue to build our investment capabilities, while also selectively diversifying our business. Our key focus is on enhancing investment returns for our clients. We will do this by:

- Building our Real Asset manufacturing capability across Europe
- Continuing to invest in our Equity proposition to add value to our Multi-Asset propositions
- Continuing to build our solutions business. Our insurance DNA for both the Group and our external clients should help us win in this space
- Continuing to build out our distribution efforts in key markets including third party insurers and partnerships with global financial institutions
- Continuing to simplify and streamline our operating model delivering a single Middle office, reducing fund complexity and using proprietary digital tools as a foundation to enhance our client and staff experience.

Risk and risk management

Risk management is key to Aviva's success. We accept the risks inherent to our core business lines of life, general, health and protection 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 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 (for example, climate change, cyber crime and political risks, such as Brexit) 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 describes these trends, 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'. The roles and responsibilities of the Board Governance, Audit and Risk Committees and management's Disclosure, Asset Liability and Operational Risk Committees in relation to 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

The processes we use to identify, measure, manage, monitor and report risks, including the use of our risk models, and stress and scenario testing, are designed to enable dynamic risk-based decision-making and effective day-to-day risk management. 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 on capital deployed, the risks we accept but seek to minimise and the risks we seek to avoid or transfer to third parties, 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 (annuity customers 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 • Credit spread[1] • 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.	• 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 certain sovereign and corporate exposures • Credit risk hedging programme • Specific asset de-risking
Market risk • Equity price[1] • 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.	• 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 active risk management • Asset and liability duration matching limits impact of interest rate changes and actions taken to manage guarantee risk, through product design
Life insurance risk • Longevity[1] • 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 or no correlation against other risks we retain).	• 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 and, since 2016, longevity risk for bulk purchase annuities and guaranteed annuity options
General insurance risk • 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.	• 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 appetite framework linked to delegations of authority that govern underwriting decisions and underwriting limits • Product development and management framework that ensures products and propositions meet customer needs • Formal and documented claims management procedures
Liquidity risk[2]	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.	• 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 our 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 • Fund liquidity, performance and margin, Product, and Persistency risks	Operational 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.	• 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 • 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.	• 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 to be held in respect of operational risks • On-going investment in simplifying our technology estate to improve the resilience and reliability of our systems and in IT security to protect ours and our customers' data

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
Economic & credit cycle – uncertainty over prospects for future macroeconomic growth, credit and interest rates, and the response of Central Banks, could adversely impact the valuation of our investments or credit default experience as well as the level of the returns we can offer to customers. Trend: Increasing Risks impacted: Credit risk, Market risks, Liquidity risk	Over the last few years we have taken significant steps to reduce the sensitivity of our balance sheet to investment risks. We aim to closely duration-match assets and liabilities and take additional measures to limit interest rate risk. We hold substantial capital against market risks, and we protect our capital with a variety of hedging strategies to reduce our sensitivity to shocks. We regularly monitor our exposures and employ both formal and ad hoc processes to evaluate changing market conditions. Other actions taken in the past include reducing sales of products with guarantees and shifting our sales towards protection and unit-linked products.	While interest rates are still well below pre-financial crisis levels, during 2018 the US Federal Reserve raised interest rates on four occasions, in August the Bank of England raised its base rate and in December the European Central Bank ended its asset purchase programme. While 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 and a deterioration in companies' fundamentals could result in a re-rating of financial assets leading to a collapse in bond prices, widening spreads or credit defaults and reducing asset prices.
UK-EU relations (Brexit uncertainty) – there remains considerable uncertainty over the UK's future relationship with the EU, and the implications for economic growth and productivity and in the longer term for financial services regulation, including Solvency II. Trend: Volatile Risks impacted: Credit risk, Market risks, Operational risk	Brexit is not expected to have a significant operational impact on Aviva. We have been actively engaged to ensure the interests of our customers, the Company and the industry are appropriately taken into account. We have addressed the loss of our ability to passport business into the EU through insurance portfolio transfers to our business in Ireland and expansion of our business in Luxembourg to serve our EEA asset management clients and funds. We have reviewed and are amending contractual terms for data sharing and transfers to allow continued uninterrupted flow of personal data between our EU businesses and the UK. Our Financial Event Response Plan ensures that we will be able to respond swiftly and effectively to any severe adverse financial event.	UK Parliamentary approval of the EU Withdrawal agreement remains uncertain and there are a number of possible alternative outcomes including departure from the EU without a deal, deferral of the UK's departure and a renegotiated deal or even continuing membership of the EU after a second referendum. Uncertainty over UK-EU relations will continue if as planned the UK withdraws on 29 March 2019, as the UK and EU start to negotiate their future free trade agreement. While these negotiations are intended to complete by 31 December 2020, the end of the transition period under the withdrawal agreement, there is a risk they may need to be extended.
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. Trend: Volatile Risks impacted: Operational risk (developing the right strategy, regulatory compliance)	We actively engage with governments and regulators in the development of public policy and regulation. We do this to understand how public policy may change and to help ensure better outcomes for our 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.	The UK government's lack of parliamentary majority and Brexit divisions could trigger 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. Planned key UK regulatory changes include Guaranteed Minimum Pension equalisation, renewal pricing, Equity Release Mortgage regulation, changes to the Ogden rate and Whiplash Reform. In our other markets: general elections will be held in Canada and Poland in 2019; in France the Pacte Law 1 will significantly change the French savings market; and Italy-EU relations may remain volatile over Italian fiscal policy.
New technologies & data – 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. 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. Trend: Increasing Risks impacted: Operational risk (developing the right strategy)	Aviva's strategy is focused on transformation into a digital leader by taking an enterprise-wide approach to digital and automation, focused on: [1] Digital customer centric propositions (e.g. AvivaPlus) [2] A single view of the customer, consolidating individual and company data on a single platform [3] MyAviva, our digital portal for customers and intermediaries [4] Quantum, our data science practice facilitating market leading innovation in use of data analytics to significantly improve the customer journey (e.g. Ask it Never), improve our understanding of how customers interact with us, and improve underwriting margins. Our Data Charter sets out our public commitment to use data responsibly and securely. Considerable work is going into modernising our legacy infrastructure.	Data creation is likely to continue to grow, while effective use of "Big data" through artificial intelligence and advanced analytics will increasingly become a critical driver of competitive advantage for insurers, and subject to increasing regulatory scrutiny. The competitive threat to traditional insurers is likely to increase with the potential for big technology companies and low cost innovative digital start-ups to enter the insurance market, where previously underwriting capability, risk selection and required capital have proven to be a sufficient barrier to entry.

Key trends and movement	Risk management	Outlook
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. Trend: Increasing Risks impacted: General insurance risk, Credit risk, Market risk	We are actively engaged in public policy debate on the risks and impacts of climate change to our business and customers. We use reinsurance to reduce the financial impact of catastrophic weather events. In the UK, 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. You can read more about the physical, transition and liability risks we face as an asset owner, insurer and asset manager in our 'Climate-related financial disclosure'.	Global average temperatures over the last five years have been the hottest on record. Despite the UNFCCC Paris agreement, the current trend of increasing CO_2e emissions is expected to continue with global temperatures likely to exceed pre-industrial levels by at least 2°C and weather events (floods, droughts, windstorms) increasing in frequency and severity. Disclosure of potential impacts against various climate scenarios and time horizons will become increasingly common for all companies.
Medical advances and healthier life styles – these contribute to an increase in life expectancy of our annuity customers and thus future payments over their lifetime may be higher than we currently expect. Trend: Decreasing Risks impacted: Life insurance risk (longevity)	We monitor our own experience carefully and analyse external population data to identify emerging trends. Detailed analysis of the factors that influence mortality informs our pricing and reserving policies. We add qualitative medical expert inputs to our statistical analysis and analyse factors influencing mortality and trends in mortality by cause of death. We also use longevity swaps to hedge some of the longevity risk from the Aviva Staff Pension Scheme and longevity reinsurance for bulk purchase annuities and guaranteed annuity options.	There is considerable uncertainty as to whether the improvements in life expectancy that has been experienced over the last 40 years will continue into the future. Despite continued medical advances emerging, dietary changes, increasing obesity and strains on public health services have begun to slow this trend, leading in the UK to some significant industry-wide longevity reserve releases in 2018, and in the longer term may even result in a reversal in the trend of increasing life expectancy.
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. Trend: Increasing Risks impacted: Operational risk (fraud, business interruption)	We are not complacent. We continue to invest significantly in IT Security, introducing additional automated controls to protect our data, detect and prevent cyber-attacks. In addition to implementing secure development practices we employ our own 'white hat' hackers to regularly test our IT security defences. We undertake regular activities with our people to promote awareness of cyber and data security, including: employee phishing exercises, computer-based training and more regular communications about specific threats as they are identified.	In 2018 there continued to be several high profile cyber security incidents for corporates in the UK and elsewhere, and we expect this to further increase in 2019 as the multiple threat sources, including cyber criminals and rogue states, become ever more sophisticated and given the growing importance of digital automation in business strategy. We will continuously review the near-to-mid-term threat environment to ensure that our cyber investment remains appropriate to mitigate the continued and changing nature of the cyber threat.
Changes in customer behaviour – will impact how customers wish to interact with us and the product offering they expect, including the exercise of options embedded in contracts already sold by us. Trend: Stable Risks impacted: Operational risk (developing the right strategy, regulatory compliance)	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. Our new vulnerable customer policy recognises the needs of our less digitally aware customers. For information on how we are mitigating this risk through the execution of Digital First and True Customer Composite strategies refer to 'Our strategy'.	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. However, we also expect regulatory scrutiny to increase to ensure we continue to serve and treat fairly our existing customers who are vulnerable and less digitally aware.
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. Trend: Increasing Risks impacted: Operational risk	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 at least annual testing. We also carry out supplier financial stability reviews at least annually.	In 2018, the insolvency of Carillion, which was not a direct supplier of services to Aviva, and financial difficulties faced by other outsourcing providers, as well as customer service issues following the migration of our third party provided investment platform has brought added focus to this risk and we expect regulatory scrutiny of outsourcing arrangements to increase.

Corporate responsibility

Defying uncertainty

Aviva's purpose to Defy Uncertainty means helping our customers look to the future with confidence. To do that we have to be a responsible, sustainable business so that we can help protect and improve the future for everyone.

Doing the right thing for our customers, our communities and the wider society we serve underpins the long-term growth of our business. We need a healthy planet, strong communities and a sustainable global economy so that we can all continue to thrive.

As a result we are committed to helping tackle some of the world's most pressing social and environmental challenges, from the implications of aging populations to climate change. We were particularly proud this year to receive the UN Foundation's leadership award in recognition of our work to support the UN's Sustainable Development Goals (SDGs).

Putting the customer at the centre of everything we do

It all starts with helping our 33 million customers protect what's important to them and save for the future. In 2018 we paid out £32.9 billion in benefits and claims around the world. We pay out 98%[1] of all claims. We are improving our digital technology to pay our customers more quickly and simplifying language so our customers can better understand what their policy covers. We have also enhanced our support for vulnerable customers.

Globally, we have 50 environmental and social products or services which enable our customers to be more environmentally responsible or gives them easier access to the protection they need for themselves and their families.

For example, the 'Build back better' programme in Canada uses 10% of the total loss to commercial property to upgrade the rebuild and ensure it is more resilient to prevent future losses. In Poland, we launched an anti-smog campaign and funded 300 external air quality sensors. Also in Poland, we extended our cover to include cancer treatments during the early stages of the illness. In the UK, we are working in partnership with a leading cancer charity to speed up the handling of critical illness claims for cancer patients from 60 days to just 24 hours.

During 2018, Aviva Ventures, our global capital investment business, invested in a number of start-ups that have a positive social impact such as Biofourmis, a personalised healthcare analytics platform that uses Artificial Intelligence and Machine Learning to predict health deterioration.

We work hard to offer great customer service and this is reflected in our NPS score® which measures the likelihood of our customers to recommend Aviva. Eight out of nine of our businesses are at or above the market average which is an increase on last year. We have renewed our strategic partnership with the British Red Cross (BRC) for a further two years. Through this partnership, we have trained our frontline service team in crisis response to better respond to our customers' personal emergencies (watch the video at https://youtu.be/KRUDNSvmmfI). As a result, those who received the psychosocial training from the BRC secured a 6% uplift in customer satisfaction.

We know that we do not always get it right and we take any complaints and feedback we receive seriously and investigate them thoroughly. Our customer service commitment is reflected in the Customer Experience Business Standard all our markets abide by (see the policies section of www.aviva.com/social-purpose).

Making a difference in communities

The Aviva Community Fund (ACF) is now launched in ten markets and helps local communities on a range of issues from social inclusion and diversity to supporting small and medium enterprises (SMEs) and water sanitation.

In 2018, we increased our community investment by 47%, totalling £17.6 million *(2017: £11.9 million)*, helping to benefit more than 1.5 million people and supporting over 3,000 local projects. We have now helped over 7,000 projects since 2015, exceeding our target of 5,000 projects by 2020. Aviva France is incorporating La Fabrique Aviva, their local version of ACF, into their Corporate and SME strategy, offering discounts on essential insurances needed by start-ups. ACF applications for funding in Canada are up almost 20%, with more than 800 high-quality powerful social purpose projects submitted.

Aviva's people continue to make a difference in communities around the world. Over 7,000 employees contributed more than 57,500 hours of volunteering time and gave or fundraised over £2.1 million.

In 2018, through the British Red Cross partnership, our #mapamillion campaign mapped buildings in North Indonesia following the devastating earthquake and tsunami. In 2018 we reached our goal of putting one million people on the map, ensuring future aid work can be channelled to the point of need.

The Community Reserve Volunteer project aims to register 10,000 volunteers by the end of 2019 to support their local communities in times of need. We have already signed up nearly 6,000 volunteers including customers and our people. In 2019, we will increase the impact of the Aviva Community Fund and BRC work across the world and aim to support over 2.5 million beneficiaries through our community activities by 2020.

Good governance and business ethics

We are committed to the highest standards of ethical behaviour as outlined by our Business Ethics Code. This underscores our commitment to 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 2018).

We have a zero-tolerance approach to acts of bribery and corruption and to manage this we have a risk management framework which sets policies and standards across all markets. These policies and standards apply to everyone at Aviva 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. These seek to prevent, detect and report financial crime, including any instances of bribery and corruption, while complying fully with relevant legislation and regulation. We use risk-based training 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.

1 The percentage was calculated by dividing all paid and rejected claims by the total number of claims received between 1 January and 31 December 2017. The figure includes all insurance product lines across all our businesses and excludes benefits and pensions, which have a payout ratio of 100%. It also excludes invalid or incomplete claims, such as instances where claims were opened in error, abandoned or withdrawn by customers.

At a Group level, the Chief Risk Officer provides Aviva's Board Governance Committee with regular reporting on financial crime matters. These include Aviva's anti-bribery and anti-corruption programme.

Our malpractice helpline, Speak Up, makes it easy to report any concerns in confidence, with all reports referred to an independent investigation team. In 2018, 50 cases were reported through Speak Up (previously known as Right Call) *(2017: 25)*, with zero related to bribery and corruption concerns. 37 cases reached conclusion, and 13 remain under investigation. There has been no material litigation arising from any case reported in 2018.

We conduct due diligence when recruiting and when engaging external partners. In 2018, 82% 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. In 2018, we engaged 95% of our managed suppliers on corporate responsibility issues (including modern slavery).

Our Board Governance Committee oversees our responsible and sustainable business strategy and the policies that underpin it. Aviva plc is 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. 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 climate-related financial disclosure' section below.

We also manage the risks associated with our community investment activities through the controls outlined in our overarching 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 safeguarding). This standard is reviewed each year and communicated to all Aviva businesses.

Caring more about human rights: Respecting human rights is the right thing to do and it makes commercial sense. We support initiatives such as the Corporate Human Rights Benchmark and participate in forums, such as the UK Home Office 'Business Against Slavery'.

Our human rights policy (www.aviva.com/content/dam/aviva-corporate/documents/socialpurpose/pdfs/policies-responses/20171025-Human-Rights-Policy-Final.pdf) 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.

Our approach to modern slavery is part our overall approach to human rights. In 2018, we:

- Expanded the scope of our work to include Canada, Poland, Ireland, France, Italy and Singapore. Procurement teams, company secretaries, and corporate responsibility representatives from these markets were briefed on our responsibilities regarding modern slavery. We engaged our key suppliers in these markets covering areas such as diversity and inclusion, awareness of the Sustainable Development Goals (SDGs), human rights and modern slavery issues
- Completed modern slavery threat assessments on eight suppliers to include a review of recruitment processes, policies and procedures. These assessments were carried out with two suppliers in Singapore, two in Poland, and four in the UK across the following services: car valeting, cleaning, media production and digitisation
- 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 information to support our work in tackling modern slavery). We peer-reviewed participants' modern slavery statements, received training and shared experiences from within civil society and government organisations
- Contributed to the review of the Modern Slavery Act (MSA) 2015 commissioned by the UK Government to strengthen and enhance the current legislation. We participated in a number of high level forums in 2018, including a workshop organised by the Home Office and the Modern Slavery Review Secretariat 2015. Our Group Company Secretary also participated in the UN Forum on Business and Human Rights in Geneva to discuss due diligence, emerging practice and challenges to accelerate progress and support survivors.

We have adopted the following performance indicators to track Aviva's impact on preventing modern slavery issues.

	2018
Number of cases of modern slavery discovered at Aviva or in our supply chain	–
Number of risk of modern slavery assessments conducted on suppliers	**8**

From 2019, we will also report on two additional KPIs: % of supplier and contract owners in Aviva that have received training on modern slavery during the year and number of suppliers engaged by Aviva that declare they have improved their management of MSA risks as a result of this engagement[1].

For our complete modern slavery statement, please see: www.aviva.com/modernslaverystatement

Towards a more sustainable future

Responsible investment is central to the way we deliver on Aviva's values to care more and create legacy. We use Environmental, Social and Governance (ESG) insight to re-orientate capital away from short-term thinking and actively promote good practice among the companies in which we invest. We aim to identify and reduce ESG risks in our portfolios by understanding the quality of the Board of directors of a company and its strategy on issues, such as climate change, human rights or the Living Wage. This helps us gauge how well prepared they are to deal with current or emerging ESG issues.

We believe the UN Sustainable Development Goals (SDGs) can guide us, our customers and society towards a brighter, more sustainable future. In September 2018 Aviva launched the World Benchmarking Alliance, along with the Index Initiative and the United Nations Foundation. The Alliance will establish public, transparent and authoritative league tables, ranking companies on their contribution to the SDGs. The first set of benchmarks will be published in 2020 and will address food and agriculture, climate and energy, digital inclusion and gender equality and empowerment. The alliance is supported by the Governments of the UK, the Netherlands and Denmark and was named as one of the 10 winning initiatives at the November 2018 Paris Peace Forum.

1 Includes assessments, training, and other meaningful engagement with suppliers

We continue to engage with a range of governments and wider stakeholders worldwide, to drive market reform. This work included co-convening a Finance Summit in July with HRH the Prince of Wales at St James' Palace and participating in the G20 Investor Summit in Buenos Aires.

In 2014 Aviva France launched Aviva Impact Investing France. It became 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 and has invested in 48 enterprises. At the 7th edition of the 'Instil Invest Crowns' Aviva France was awarded 'Best Initiative in Impact Investing' in the 'Major Themes' category. This reward recognises that investments can create social good as well as healthy financial earnings.

We use our role as responsible shareholders to engage on issues such as Anti Microbial Resistance (AMR) and climate change. We worked with our investee companies, predominantly in the pharmaceutical and food sectors, to develop a robust policy on AMR and phase out antibiotic use across their supply chains. We also fulfilled the Chairman's promise made at the AGM, working with other investors, to engage with the Polish coal mining sector on climate risk and the need for greater transparency and disclosure.

As a further example of our commitment to the environment, Aviva Investors became one of the largest shareholders in DS Smith, a disruptor in the packaging and recycling industry with the majority of their packaging materials now coming from recovered resources, contributing to a reduction in waste to landfill. Aviva's operations in the UK continue to uphold our zero to landfill commitment which we achieved in 2015. In 2018 we pledged to avoid single-use plastics in all our sites which has resulted in a 50-tonne reduction in waste per year.

Our investments also support the transition to a low-carbon economy (see below for more details). In 2018, Aviva assigned £1.8 billion of new investment in wind, solar, biomass and energy efficiency. We also set an associated carbon savings target for this investment of 100,000 tonnes of CO_2e annually. Aviva also hold nearly £1.3 billion in green bonds to support the transition to a low-carbon economy.

Leading by example on our own sustainability record

As the first financial services company to be a carbon neutral company we continue to offset 100% of any remaining carbon emissions. Our offsetting projects have helped over one million people since 2012 live better lives (e.g. through provision of clean cook-stoves in Kenya, providing safe water, improving health, creating jobs and stimulating local economies).

We continue 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 (CO_2e) on an operational basis in respect of Aviva's Group-wide operations. See the table below.

For example, in 2017 our Canadian head office moved into a Gold LEED certified building and in 2018 we merged four other locations into one energy efficient office site. Over 1,800 employees were merged into the new office space reducing our operational footprint (square footage) by 25%.

To date globally we have achieved a 60% reduction in CO_2e against our 2010 baseline, meeting our 2020 target (of 50%) early. We continue to 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 82,278 tonnes of CO_2e in 2018 costing £1.4 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.

Across the UK more than 400 employees have signed up to our car share programme and there are 180 active car-sharing groups. We have also introduced electric vehicle charging points at eight UK locations and moved 30% of our car fleet to hybrid. In the past year this has helped save 4,257 kg of CO_2 emissions.

In addition to the car share, we have been granted planning permission to install a car park solar system at our Horizon building in Norwich. This will be the first of its kind anywhere in the UK and will make Horizon energy self-sufficient when the sun is shining. The array will be made up of 1,908 solar panels which will generate 528,148 kWh per year. The Horizon building will consume 68% of this clean energy and will export the remainder into the national grid. The annual carbon emissions saved will be around 232 tonnes per annum. Last year, Aviva Investors made a £400 million investment to help fund the construction of what will be the world's largest offshore windfarm (www.avivainvestors.com/en-gb/about/company-news/2018/11/aviva-investors-finances-construction-of-hornsea-1).

More details of our environmental KPI data and our independent assurance process can be found at www. aviva.com/CRkpisandassurance2018

Operational global greenhouse gas emissions data boundaries

Our carbon footprint boundaries show the scope of the data we monitor and the emissions we offset. We report on Greenhouse Gas (GHG) emission sources on a carbon dioxide emissions equivalents basis (CO_2e) as required under the Companies Act 2006 (Strategic report and Directors' reports) 2013 Regulations. We also refer to the GHG Protocol Corporate Accounting and Reporting Standard, and emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2018. The table below shows the absolute operational carbon emissions:

Tonnes CO_2e	**2018**	2017	2016
Scope 1	**16,198**	17,915	19,210
Scope 2	**25,012**	31,280	41,008
Scope 3	**17,739**	19,305	19,193
Absolute CO_2e*	**58,949**	68,500	79,410
Carbon offsetting**	**(58,949)**	(68,500)	(79,410)
Total net emissions	**—**	—	—

Scope 1 – natural gas, fugitive emissions (leakage of gases from air conditioning and refrigeration systems), oil, and company owned cars.

Scope 2 – electricity.

Scope 3 – business travel and grey fleet (private cars used for business), waste and water.

The following table shows the carbon intensity of our operations:

	CO_2e tonnes per employee	CO_2e per £m GWP
2018	**1.6**	**2.06**
2017	1.6	2.48
2016	2.0	3.12

* 2018 Assurance provided by PricewaterhouseCoopers LLP available at www.aviva.com/CRkpisandassurance2018

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

Corporate responsibility (CR) key performance indicators (including 2016-2018 figures) and the accompanying limited assurance statement by PwC can be found on www.aviva.com/social-purpose, alongside Aviva's 2018 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 group[1], our sustainability and financial strength is underpinned by an effective risk management framework. Our business is directly impacted by the effects of climate change. Aviva believes that unmitigated climate-related risks present a systemic threat to financial stability over the coming decades.

We have reported on climate change in our Annual Report and Accounts since 2004. Our 2018 disclosure reflects Aviva's response to the recommendations of the Taskforce on Climate-related Financial Disclosures, published in June 2017, and reflects our multiple roles as an asset owner, an insurer and an asset manager. This response sets out how Aviva incorporates climate-related risks and opportunities into our governance, strategy, risk management, metrics and targets and how we disclose our exposure. These pages, along with the expanded version of our response, are available at www.aviva.com/TCFD.

Governance

Acknowledging the increasing impact of climate-related changes, Aviva has built a strong system of governance, with effective and robust controls. Aviva's Chief Risk Officer and Group General Counsel and Company Secretary are the executive sponsors overseeing this disclosure. However, other group executives and local markets are responsible for managing specific areas of the business which may impact or be impacted by climate change: insurance, asset management, operations and finance.

At Board level, the Board Risk Committee and Board Governance Committee oversee our management of climate-related risks and opportunities.

- **The Board Risk Committee** met 5 times in 2018 to review, manage and monitor all aspects of risk management, including climate-related risks. Climate change is classified as an emerging risk and it is assessed for its proximity and significance to Aviva as part of our emerging risk processes.
- **The Board Governance Committee** met 4 times in 2018 to oversee how Aviva meets its corporate and societal obligations and formally considered Aviva's strategic approach to climate change during the year. This includes setting the guidance, direction and policies for Aviva's customer and corporate responsibility agenda and advising the Board and management.

In December 2018, as part of our regular training programme, Aviva's climate-related risks and opportunities were presented to the Board. The Board will use this training to give appropriate direction to the Company and ensure actions are taken to identify, measure, manage, monitor and report these risks and opportunities.

Strategy

This response focuses on the key climate-related risk factors and related opportunities (i.e. physical, transition, and liability) described in the Prudential Regulation Authority 2015 report[2]. The materiality and horizons over which these risks and opportunities impact our business depend on the specific insurance products, geographies and investments being considered or decisions being made.

For example, our general insurance business considers risks in the underwriting and pricing processes and setting the reinsurance strategy based on a relatively short time horizon (one to three years). Aviva recognises that the increased severity and frequency of weather-related losses has the potential to negatively impact our profitability. Consequently, large catastrophic losses are already explicitly considered in our economic capital modelling to ensure resilience to such catastrophic scenarios.

In contrast, when developing our new product strategy and updating Aviva's overall business plan, the impacts of these risks need to be considered over the medium term (three to five years). With respect to life and pensions, when setting premium rates and reserves for annuities in payment as well as our investment strategy to back those insurance liabilities, the impacts of these risks need to be considered over a much longer time horizon (five years plus).

In our Strategic Response to Climate Change, published in 2015, we have focused on five pillars:

- **Integrating climate risk into investment considerations** – Aviva committed in 2012 to integrate Environmental, Social and Governance factors across all asset classes and regions, to deliver long-term sustainable and superior investment outcomes for our customers
- **Investment in lower carbon infrastructure** – Aviva announced in 2015 an investment target of £500 million annually for the next five years in lower carbon infrastructure
- **Supporting strong policy action** – Aviva continues to provide strong and vocal support for capital market reform, to mobilise the trillions of pounds required to transition to a low carbon economy and properly correct existing market failures with respect to climate change
- **Active stewardship on climate risk –** Aviva actively engages with companies to achieve climate resilient business strategies
- **Divestment where necessary** – Aviva aims to use our shareholder influence to encourage companies to transition to a low carbon economy and divest highly carbon-intensive fossil fuel companies where they are not making sufficient progress towards the engagement goals set.

Alongside this strategic investment response, Aviva has continued to further integrate consideration of climate-related risks and opportunities into our insurance products. For example:

- **GI reinsurance** is now set on an annual aggregate basis and on a per occurrence basis, taking into account the possibility of extreme weather events
- **Our exposure to flood risk** for UK residential customers is managed by ceding policies to FloodRe
- Promote **customer awareness** and risk prevention measures of climate-related issues such as air pollution. For example, Aviva Poland has installed air monitors in local communities to enable their customers to access up to date information about air pollution levels on their smartphones.
- **Help customers to build resilience** to extreme weather such as the upgrade to Commercial Property Insurance in Canada which provides a 'build back better' element
- Provide **products and services that support customers' choices** to reduce their environmental impact, such as bespoke electric vehicle policies and supporting the sharing economy
- **Limit our exposure** to underwriting the most carbon intensive elements of the economy through restrictions in the terms of our Group Underwriting Boundaries for sectors such as mining and power generation. In line with our commitments to manage climate change, Aviva's Global Corporate and Specialty team has announced an immediate move away from insuring fossil fuel power production to renewable energy generation in the UK.

1 Aviva is an asset owner with assets under management to the value of £470 billion, an insurer with gross written premiums of £28.7 billion, and Aviva Investors has assets under management of £331 billion.
2 www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/publication/impact-of-climate-change-on-the-uk-insurance-sector.pdf

Aviva continues to deliver in all areas of our current climate change strategy. However, in the light of the latest Intergovernmental Panel on Climate Change (IPCC) report[1] and the risk of climate tipping points being reached that could cause runaway warming, as well as the findings from our internal analysis of potential climate change impacts, our strategy is being refreshed to accelerate our ambition to be aligned to a 2°C (or lower) transition.

Risk management

Rigorous and consistent risk management is embedded across Aviva through our Risk Management Framework, comprising our systems of governance, risk management processes and risk appetite framework. This framework sets out how Aviva identifies, measures, manages, monitors and reports on the risks to which it is, or could be, exposed (including climate-related risks). It also defines the accountabilities of management, the risk function and internal audit with respect to enterprise-wide risk management.

Aviva considers climate change to be a material long-term risk to our business model, and a proximate risk, because its impacts are already being felt. We are therefore taking action now to mitigate and manage the impacts of climate change both today and in the future. Through these actions, Aviva continues to build resilience to climate-related transition, physical and liability risks.

In conjunction with the United Nations Environment Programme Finance Initiative (UNEP FI), Aviva has developed models and scenario analysis tools to assess the potential impact on our business of the four IPCC scenarios. Outputs include financial metrics such as direct/indirect emission costs, additional capital expenditure, and revenue implications broken down by sector and geography. Each scenario describes a potential trajectory for future levels of greenhouse gases and other air pollutants and can be mapped to likely temperature rises (levels of mitigation required): 1.5°C (emissions halved by 2050), 2°C (emissions stabilise at half today's levels by 2060), 3°C (emissions rise to 2080 then fall) and 4°C (emissions continue rising at current rates).

To assess the impact of climate change on our business, Aviva is calculating a Climate Value-at-Risk (Climate VaR) from the model outputs for each IPCC scenario to assess the climate-related risks and opportunities over the next 15 years with the ability to look at shorter time periods (three to five years) where appropriate. A range of different financial indicators are used to assess the impact on our investments and insurance liabilities. These impacts are aggregated together to determine the overall impact of climate-related risks and opportunities across all scenarios by assigning relative likelihoods or probabilities to each scenario.

The Climate VaR includes the financial impact of **transition** risks and opportunities. This covers the projected costs of policy action related to limiting greenhouse gas emissions as well as projected profit from green revenues arising from developing new technologies and patents. In addition, it captures the financial impact of **physical** risks from extreme weather (e.g. flood, windstorm and wildfires) as well as the impact of rising sea levels and mean temperatures, although we recognise that the most extreme physical effects may only be felt in the second half of the century. Aviva also recognises the growing trend in climate-related litigation and has assessed its potential exposure to **litigation** risks accordingly.

Metrics and targets

In addition to Climate VaR, Aviva uses a variety of other metrics to manage, monitor and report its alignment with global or national targets on climate change mitigation and the associated potential financial impact on our business. These are covered below.

We **use carbon foot-printing** and weighted average carbon intensity data (tCO_2e/£m sales) to assess and manage the exposure of our assets to a potential increase in carbon prices. In addition, we measure our operational carbon emissions and we have already reduced our emissions by 60% since 2010 and have a long-term reduction target of 70% by 2030 compared to this baseline. In 2018, Aviva was recognised as one of 20 companies that reported 100% of their Scope 1[2] emissions. These figures can be found in the expanded version of this report (www.aviva.com/social-purpose/policies).

We divest where necessary. To date we have divested Aviva's own assets from 17 thermal coal mining and power generation companies from the Coal 40[3]. In addition in 2018, we were asked by Urgewald, an environmental and human rights non-governmental organisation (NGO), to review our holdings against their CoalExit list of 120 coal companies. Aviva actively-manages positions within our beneficial holdings in 15 of these companies with a total market value of £415 million or 0.09% of our total assets. Ten of the 120 companies on the list are companies that we have put on our investment stoplist. More details of this engagement can be found on www.aviva.com/social-purpose.

Aviva is also committed to investing in **lower carbon infrastructure**, amounting to £2.5 billion in the period between 2015-2020, with the intention of delivering 100,000 tonnes of CO_2 savings per year. Aviva currently holds more than £4.3 billion of green assets, including £3.1 billion in low carbon infrastructure investments (mainly solar, wind and waste-to-heat biomass) and £1.3 billion in green bonds.

Aviva has used Carbon Delta's **warming potential** metric to assess our corporate bond and equity holdings' alignment with the Paris agreement 2°C target. This warming potential methodology captures investments' Scope 1[2] emissions as well as investments in low-carbon technology to provide a forward-looking perspective. We plan to extend this analysis to our whole portfolio over time.

Aviva has used Notre-Dame University's Notre Dame-Global Adaptation Index measure for country climate change risk to assess the physical risk profile of **Sovereign holdings**. This measure considers exposure and vulnerability to climate change; readiness and adaptation; ability to raise money for mitigation and post-disaster repair; ability to raise money via taxation and debt; reliance on foreign aid and support of the International Monetary Fund and other supra-national bodies.

Aviva uses the **Global Real Estate Sustainability Benchmark** to understand climate resilience and broader sustainability performance of individual properties and real estate funds within our investment portfolio. In 2018, we assessed the performance of 18 property funds and Aviva Investors have achieved 32 green stars. Whilst three funds have improved their performance over the year, the remaining fifteen recorded a small reduction in their overall score. This is because the benchmark is designed to encourage continual improvement in the entities that it is assessing, and as such the scoring methodology becomes more challenging each year. We will continue to work in new areas to maintain and improve our scores.

We build the possibility of **extreme weather events** into our planning to ensure our pricing is adequate. Catastrophic event model results are supplemented by in-house disaster scenarios. We have purchased property catastrophe protection up to a 1-in-250-year return period or beyond that limits Aviva's losses depending on the territory to a relatively low retention level (£150 million on a per occurrence basis and £175 million on an annual aggregate basis).

1 www.ipcc.ch/sr15/
2 Scope 1 emissions cover: natural gas, fugitive emissions, oil and company owned cars
3 Coal 40 – 40 thermal coal mining and power generation companies selected from Aviva's beneficial holdings for targeted engagement in an effort to influence the transition to a lower carbon economy

Chairman's Governance Letter

Our governance

Good governance is the foundation of what we do at Aviva. It underpins our values, our culture and the way we operate our businesses. Without good governance, we would be unable to deliver on our core purpose to help our customers 'Defy Uncertainty.'

In July 2018 the Financial Reporting Council introduced a revised UK Corporate Governance Code. The revised Code emphasises the requirement for boards to adopt a longer-term time horizon when considering issues and making decisions. Our company has been operating successfully for more than three hundred years because we understand the importance of long-term thinking, and the Board will continue to govern the Company in this way.

The revised Code also places emphasis on the role the Board plays in creating a positive, responsible and responsive culture and we welcome the importance the new Code affords to workforce engagement and the representation of the employee voice in the boardroom. We have a wide range of processes and mechanisms that speak to this requirement and are particularly proud of the ongoing dialogue between board members and the Evolution Council (a diverse group of high calibre leaders from across the business), and Your Forum, a broad-based body which represents UK and European employees and includes trade union representatives. A description of our stakeholder engagement activities appear later in this report.

Our Preference shareholders

There were challenges of our own making during the year, including our announcement in March 2018 that we were "evaluating alternatives" for the Aviva plc and General Accident plc preference shares. While we responded quickly to certain investor concerns by confirming we would take no action, and put in place a goodwill payments scheme for eligible preference shareholders who incurred losses from selling these securities during the period, it was a disappointing episode and lessons have been learned.

Our external environment

We constantly strive to make sure that our approach to risk management is effective, extending beyond financial risk to a wider range of operational risks. There is a full report on our activities in this area in our 'Risk and risk management report.' We have worked hard to ensure that Aviva is appropriately positioned for all eventualities in relation to Brexit. The political climate in the UK is possibly the most uncertain it has been for several decades, and we have factored that uncertainty into our Board discussions and specifically into determining how we can best position our business to continue providing excellent service to all our customers. The range of outcomes on Brexit, and the consequences of the final decision, will continue to be a focus for the Board during our strategic discussions in 2019.

The Board also remains committed to ensuring that Aviva operates as a responsible corporate citizen, and we have taken steps to minimise our impact on the environment wherever we operate. This includes our commitment to avoid the use of single use plastics in our offices. We also see it as a vital part of our wider corporate purpose to support organisations such as the Red Cross, providing funds and volunteers to help victims of natural disasters and other emergencies both in the UK and globally (see our 'Corporate responsibility' report for more detail). In uncertain times our core purpose to 'Defy Uncertainty' is more pertinent and more important than ever.

During 2018 we have created the Aviva Foundation. Its goals are to promote financial capability and inclusion, develop community resilience and enable sustainable finance. To support the Foundation we have released dormant assets held on our share register for a minimum of twelve years. This is an ongoing programme, and I look forward to being able to provide further updates on the achievements of the Foundation.

Changes to the Board

On 9 October 2018, Mark Wilson stepped down as Group CEO of Aviva and I became Executive Chairman whilst the search for a new CEO was underway. We were pleased to be able to interview a number of excellent internal and external candidates for the position in a thorough and highly competitive process. In this task, we were guided by the recommendations of our Nomination Committee who ensured that there was a diverse selection of candidates and that all the candidates aligned with the culture and value set of the company. This process led to a unanimous conclusion with the appointment of Maurice Tulloch as Group Chief Executive on 4 March 2019.

Maurice is appointed at a time of great challenge but also of great possibility, and we look forward to the future under his leadership with confidence and excitement.

Maurice joined Aviva in 1992 and was appointed to the Board of Aviva plc in June 2017. Maurice was previously Aviva's Chief Executive Officer, International Insurance. Maurice had responsibility for Aviva's life insurance and general insurance operations in France, Canada, Ireland, Italy, Poland, Turkey and India. Prior to that Maurice was Chief Executive Officer of Aviva UK and Ireland General Insurance, one of the largest businesses in the Aviva group.

Following the appointment of Maurice as Group CEO, I returned to my previous role of Non-Executive Chairman.

We announced in January 2019 that, following nine years on the Board, Michael Hawker would retire from the Board as a Non-Executive Director, and as Chairman of the Risk Committee and as a member of the Audit and Nomination Committees with effect from 31 March 2019. Michael has brought to the Board a wealth of knowledge and experience gained over a long career in the banking and insurance industries in both executive and non-executive roles in Europe, Asia and Australia, and was a distinguished Chairman of the Risk Committee. I would like to thank him for the enormous contribution he has made to Aviva. The appointment of the new Risk Committee Chair is well advanced, and will be announced following completion of the relevant regulatory approval process.

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

1 Individual directors may fall into one or more categories

Diversity remains an important area of focus, with the revised Code stressing the importance of diversity in creating a successful and sustainable business. The Board and I are committed to improving diversity in its widest sense, including gender, ethnicity, diversity of thought, tenure, age, experience, skills, geographical expertise, educational and professional background.

We continue to support the target for women to represent a minimum of 33% of our Board, and a minimum of 33% of Executive Committee members and direct reports, by 2020. As at the date of this report the percentage of women on the Board is 27%. Female representation on our Group Executive stands at 33%.

I am proud to be an active member of the FTSE 100 30% Club and that we are part of the Future Boards Scheme. Our Board Diversity and Inclusion Statement was published in May 2017 and reflects the continued support for the diversity and inclusiveness programme throughout the business. You can find the statement on our website at www.aviva.com/corporate-governance.

Future appointments to the Board and Group Executive will be made in line with the Board Diversity and Inclusion Statement, and for the Group Executive to be consistent with our Global Inclusive Diversity Strategy, which is described in the Directors' and corporate governance report.

Sir Adrian Montague CBE
Chairman
6 March 2019

Our Board of Directors: biographies

Our Board of Directors

Sir Adrian Montague, CBE ▲

Position: Chairman
Nationality: British
Committee Membership: Nomination Committee (Chair)
Tenure: 6 years 2 months. Appointed to the Board as a Non-Executive Director in January 2013, as Chairman in April 2015 and Executive Chairman from October 2018 to March 2019
Qualifications: MA, Law (Cambridge); Qualified Solicitor
Skills and Experience: In October 2018 Sir Adrian was asked by the Board to assume executive responsibilities during the search for, and transition period to, a new Group Chief Executive Officer. After the appointment of the new Group Chief Executive Officer, Sir Adrian reverted to the role of Non-Executive Chairman. Having held appointments as Chairman of Anglian Water Group Ltd, Friends Provident plc, British Energy Group plc, Michael Page International plc and Crossrail Ltd, Sir Adrian possesses a wealth of experience as a Chairman. He has extensive leadership skills, together with deep knowledge of the financial services industry, government affairs and regulatory matters. 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 and Cadent Gas Ltd and trustee of the Commonwealth War Graves Foundation.

Maurice Tulloch ■

Position: Group Chief Executive Officer (CEO)
Nationality: British/Canadian
Committee Membership: N/A
Tenure: 1 year 9 months. Appointed to the Board as an Executive Director in June 2017 and as CEO in March 2019
Qualifications: Chartered Professional Accountant (CPA, CMA); Master's degree in Business Administration (MBA) (Heriot-Watt University, Edinburgh); BA Economics (University of Waterloo, Ontario)
Skills and Experience: Maurice has more than 25 years' experience within Aviva and most recently held the role of CEO of International Insurance. Maurice had responsibility for Aviva's life insurance and general insurance operations in France, Canada, Ireland, Italy, Poland, Turkey and India, together with our Global Corporate and Speciality (GCS) business. He brings deep expertise of general insurance and the Group's International businesses into the Boardroom.
External Appointments: Non-Executive Director of Pool Reinsurance Company Ltd and a member of the Insurance Development Forum.

Thomas Stoddard ■

Position: Chief Financial Officer
Nationality: American
Committee Membership: N/A
Tenure: 4 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 sufficient financial flexibility to withstand stress and invest in opportunity. 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: 3 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 is invaluable to the Board. His role as Senior Independent Director, and previously Chairman, of the Association of British Insurers gives him a unique perspective of the UK insurance industry and regulatory environment.
External Appointments: Chairman of the NSPCC's Fundraising Committee and a member of the Board of Trustees and Senior Independent Director of the Association of British Insurers. Andy is also the Government's Business Champion for Older Workers.

Claudia Arney ▲

Position: Independent Non-Executive Director
Nationality: British
Committee Membership: Governance Committee (Chair), Nomination Committee, Remuneration Committee, Risk Committee
Tenure: 3 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 Kingfisher plc, Derwent London plc, Halfords Group plc (until 1 March 2019) and the Premier League.

Glyn Barker ▲

Position: Senior Independent Non-Executive Director
Nationality: British
Committee Membership: Audit Committee, Nomination Committee, Risk Committee, Governance Committee, Remuneration Committee
Tenure: 7 years 1 month. Appointed to the Board in February 2012 and became Senior Independent Non-Executive Director in May 2017
Qualifications: Member of the Institute of Chartered Accountants of England and Wales (ICAEW); BSc Economics and Accounting (Bristol University)
Skills and Experience: Glyn's knowledge of the Aviva Group and his in depth understanding of the issues that may affect shareholders and other stakeholders of the company provides him with the skills to fulfil the role of Senior Independent Director. His experience enables him to support the Chairman and the Board in driving the appropriate culture and values throughout the Company. 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 Holdings Ltd and Interserve plc, Senior Independent Non-Executive Director of Berkeley Group Holdings plc and Non-Executive Director of Transocean Ltd.

Patricia Cross ▲

Position: Independent Non-Executive Director
Nationality: Australian
Committee Membership: Remuneration Committee (Chair), Audit Committee, Nomination Committee
Tenure: 5 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 with over 20 years' experience of serving on multiple ASX-30 Boards including Macquarie Group Ltd and Macquarie Bank Ltd, National Australia Bank, Wesfarmers Ltd, AMP Ltd, and Qantas Airways Ltd. She is the founding Chair of the 30% Club in Australia. Patricia has held a number of Australian government positions, including with the Financial Sector Advisory Council, Companies and Securities Advisory Committee, Panel of Experts to Australia as a Financial Centre Forum and Sydney APEC Business Advisory Council. Patricia has served on a wide range of not for profit boards, including the Murdoch Children's Research Institute, and she was a founding Director of The Grattan Institute. In 2001, Patricia received the Australian Centenary Medal for service to Australian society through the finance industry and was awarded Life Fellowship of the Australian Institute of Company Directors in 2018. Having started her career in the U.S. Government working in foreign affairs, Patricia had a long career in senior executive roles in very large international banking and investment management organisations. She has lived and worked in seven countries in Europe, the U.S. and Australia.
External Appointments: Chair of the Commonwealth Superannuation Corporation, and Ambassador for the Australian Indigenous Education Foundation.

Belén Romana García ▲

Position: Independent Non-Executive Director
Nationality: Spanish
Committee Membership: Governance Committee, Nomination Committee, Risk Committee
Tenure: 3 years 8 months. Appointed to the Board in June 2015
Qualifications: BSc, Business and Economics (Universidad Autonomo de Madrid)
Skills and Experience: Belén has extensive governmental and regulatory experience and a detailed knowledge of the financial services industry and European regulation and she brings this expertise to the Boardroom. 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: 9 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 broad experience from his career in both the banking and insurance industries within Europe, Asia and Australia, which included seven 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 Limited (an investment house) and Rugby World Cup Ltd. Michael is also Chairman of The George Institute for Global Health.

*Michael Hawker will retire from the Board with effect from 31 March 2019.

Michael Mire ▲

Position: Independent Non-Executive Director
Nationality: British
Committee Membership: Governance Committee, Nomination Committee, Remuneration Committee, Risk Committee
Tenure: 5 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 a wealth of experience in business transformation and developing strategies for retail and financial services companies, which alongside his governmental experience, 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 Social Care, and senior adviser to Lazard.

Keith Williams ▲

Position: Independent Non-Executive Director
Nationality: British
Committee Membership: Audit Committee (Chair), Governance Committee, Nomination Committee, Risk Committee
Tenure: 2 years 7 months. Appointed to the Board in August 2016
Qualifications: Associate member of the Institute of Chartered Accountants (ICAEW)
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 ten years of executive experience as CFO and CEO at British Airways plc until 2016 and, during that time, Keith transformed the company into a customer focused organisation.
External Appointments: Non-Executive Chairman of Halfords Group plc, Non-Executive Deputy Chairman of the John Lewis Partnership, Non-Executive Director of Royal Mail plc and member of the Audit Committee of the British Museum. Keith is also Independent Chair of the UK Transport Department's Rail Review.

Kirstine Cooper ◆

Position: Group General Counsel and Company Secretary
Nationality: British
Committee Membership: N/A
Tenure: 8 years 3 months. Appointed as Company Secretary in December 2010 and a member of the Group Executive in May 2012
Qualifications: Bachelor of Laws degree (Glasgow University); 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. During March 2016 to March 2017, Kirstine was the Commissioner on the Cabinet Office's Dormant Assets Commission which was tasked with identifying new pools of dormant assets and working with industry to encourage the contribution of these assets to good causes.
External Appointments: Trustee of the Royal Opera House and Non-Executive Director of HM Land Registry. Kirstine is also Insurance and Pension champion for the Dormant Assets Commission.

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

Key
■ Executive
▲ Non-Executive
◆ Group General Counsel and Company Secretary

Mark Wilson stepped down from the Board and as Chief Executive Officer of the Group on 9 October 2018 and will remain with the Group until April 2019.

Extract of Directors' remuneration report

This section of the Strategic report shows a summary of the pay received by Executive Directors (ED) and Non-Executive Directors (NED) in respect of 2018. For full details on both our proposed remuneration policy and our application of the current remuneration policy during 2018 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.

Committee membership

The table below sets out the total remuneration for 2018 and 2017 for each of our EDs.

Total 2018 remuneration – Executive Directors (audited information)

	Former Executive Director Mark Wilson[6]		Tom Stoddard		Andy Briggs		Maurice Tulloch[7]		Total emoluments of Executive Directors[8]	
	2018 £000	2017 £000	**2018 £000**	2017 £000	**2018 £000**	2017 £000	**2018 £000**	2017 £000	2018 £000	2017 £000
Basic Salary[1]	**816**	1,028	**728**	708	**746**	726	**706**	373	**2,996**	2,835
Benefits[2]	**99**	107	**85**	86	**44**	53	**51**	39	**279**	285
Annual Bonus[3]	**692**	1,945	**616**	997	**632**	1,022	**598**	456	**2,538**	4,420
LTIP[4]	**–**	950	**650**	491	**666**	503	**642**	69	**1,958**	2,013
Pension[5]	**229**	288	**204**	198	**209**	203	**198**	104	**840**	793
Total	**1,836**	4,318	**2,283**	2,480	**2,297**	2,507	**2,195**	1,041	**8,611**	10,346

1 Basic salary received during 2018.
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, the 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 Annual Bonus Plan (ABP).
4 The value of the LTIP for 2018 relates to the 2016 award, which had a three-year performance period ending 31 December 2018. 50% of the award will vest in March 2019. An assumed share price of 415.20 pence has been used to determine the value of the award based on the average share price over the final quarter of the 2018 financial year. In a similar manner, the LTIP amounts shown in last year's report in respect of the LTIPs awarded in 2015 were calculated with an assumed share price of 502.19 pence. The actual share price at vesting was 493.78 pence, and the table has been updated to reflect this change. The estimated value of the awards for the EDs was £2,046,000; the actual value was £2,013,000 (decrease of £33,000). Additional information on these awards can be found in Table 18 of the DRR.
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 (14% of salary for Maurice following appointment as Group CEO). No ED has prospective entitlement to benefit in a defined benefit scheme.
6 Mark stepped down as Group CEO and left the Board on 9 October 2018; values for 2018 relate to the period whilst he was an ED.
7 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 2018 of CAD 1.73.
8 Year on year decrease is primarily driven by the lower bonus outcomes and prorating of Mark and the lapse of his LTIP award.

Total 2018 remuneration for Non-Executive Directors (NED) (audited information)

The table below sets out the total remuneration earned by each NED who served during 2018 for Group-related activities.

	Fees		Benefits[1]		Aviva plc total		Subsidiaries fees		Group total	
	2018 £000	2017 £000	**2018 £000**	2017 £000	**2018 £000**	2017 £000	**2018 £000**	2017 £000	**2018 £000**	2017 £000
Chairman										
Sir Adrian Montague	**550**	550	**88**	67	**638**	617	**—**	—	**638**	617
Non-Executive Directors										
Claudia Arney[2]	**155**	140	**2**	1	**157**	141	**78**	40	**235**	181
Glyn Barker	**168**	164	**3**	3	**171**	167	—	—	**171**	167
Patricia Cross	**128**	128	—	—	**128**	128	**60**	53	**188**	181
Belén Romana García	**105**	105	**10**	8	**115**	113	**40**	1	**155**	114
Michael Hawker	**138**	138	—	—	**138**	138	**—**	15	**138**	153
Michael Mire	**118**	117	**1**	1	**119**	118	**—**	—	**119**	118
Keith Williams	**150**	124	**2**	3	**152**	127	**—**	—	**152**	127
Total emoluments of NEDs	**1,512**	1,466	**106**	83	**1,618**	1,549	**178**	109	**1,796**	1,658

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 2018 Aviva plc fee payment includes £15,000 in arrears from Risk Committee fees which were omitted from payment in 2017 and paid in Q1 2018. The 2018 subsidiaries fees includes £7,345 in arrears from 2017 Chair fees paid in 2018.

The Aviva plc total amount paid to NEDs in 2018 was £1,618,000 which is within the limits set in the Company's Articles of Association, as previously approved by shareholders.

Independent auditors' statement to the members of Aviva plc

We have examined the supplementary financial information included within the Strategic Report for the year ended 31 December 2018, 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 2018.

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 Opinon

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 supplementary 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 2018.

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

6 March 2019

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 2018 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 2018

	2018 £m	2017 £m
Income		
Gross written premiums	**28,659**	27,606
Premiums ceded to reinsurers	**(2,326)**	(2,229)
Premiums written net of reinsurance	**26,333**	25,377
Net change in provision for unearned premiums	**(81)**	(153)
Net earned premiums	**26,252**	25,224
Fee and commission income	**2,180**	2,187
Net investment (expense)/income	**(10,847)**	22,066
Share of profit after tax of joint ventures and associates	**112**	41
Profit on the disposal and remeasurement of subsidiaries, joint ventures and associates	**102**	135
	17,799	49,653
Expenses		
Claims and benefits paid, net of recoveries from reinsurers	**(23,142)**	(24,113)
Change in insurance liabilities, net of reinsurance	**6,246**	(1,074)
Change in investment contract provisions	**5,321**	(13,837)
Change in unallocated divisible surplus	**3,237**	294
Fee and commission expense	**(3,393)**	(4,329)
Other expenses	**(3,843)**	(3,537)
Finance costs	**(573)**	(683)
	(16,147)	(47,279)
Profit before tax	**1,652**	2,374
Tax attributable to policyholders' returns	**477**	(371)
Profit before tax attributable to shareholders' profits	**2,129**	2,003
Tax credit/(expense)	**35**	(728)
Less: tax attributable to policyholders' returns	**(477)**	371
Tax attributable to shareholders' profits	**(442)**	(357)
Profit for the year	**1,687**	1,646
Attributable to:		
Equity holders of Aviva plc	**1,568**	1,497
Non-controlling interests	**119**	149
Profit for the year	**1,687**	1,646
Earnings per share		
Basic (pence per share)	**38.2p**	35.0p
Diluted (pence per share)	**37.8p**	34.6p

Consolidated statement of comprehensive income

For the year ended 31 December 2018

	2018 £m	2017 £m
Profit for the year	**1,687**	1,646
Other comprehensive income:		
Items that may be reclassified subsequently to income statement		
Investments classified as available for sale		
Fair value gains/(losses)	**57**	(7)
Fair value gains transferred to profit on disposals	**(78)**	(2)
Share of other comprehensive (loss)/income of joint ventures and associates	**(10)**	6
Foreign exchange rate movements	**5**	68
Aggregate tax effect – shareholder tax on items that may be reclassified subsequently to income statement	**8**	5
Items that will not be reclassified to income statement		
Owner-occupied properties – fair value gains/(losses)	**1**	(1)
Remeasurements of pension schemes	**(279)**	(5)
Aggregate tax effect – shareholder tax on items that will not be reclassified subsequently to income statement	**43**	5
Total other comprehensive income, net of tax	**(253)**	69
Total comprehensive income for the year	**1,434**	1,715
Attributable to:		
Equity holders of Aviva plc	**1,310**	1,523
Non-controlling interests	**124**	192
	1,434	1,715

Reconciliation of Group adjusted operating profit to profit for the year

For the year ended 31 December 2018

	2018 £m	2017 £m
Group adjusted operating profit before tax attributable to shareholders' profits		
Life business[1]	**2,999**	2,852
General insurance and health[1]	**704**	704
Fund management	**146**	164
Other:		
Other operations[1]	**(237)**	(143)
Corporate centre	**(216)**	(184)
Group debt costs and other interest	**(280)**	(325)
Group adjusted operating profit before tax attributable to shareholders' profits	**3,116**	3,068
Integration and restructuring costs	**—**	(141)
Group adjusted operating profit before tax attributable to shareholders' profits after integration and restructuring costs	**3,116**	2,927
Adjusted for the following:		
Life business: Investment variances and economic assumption changes	**(197)**	34
Non-life business: Short-term fluctuation in return on investments	**(476)**	(345)
General insurance and health business: Economic assumption changes	**1**	(7)
Impairment of goodwill, joint ventures, associates and other amounts expensed	**(13)**	(49)
Amortisation and impairment of intangibles	**(209)**	(197)
Amortisation and impairment of acquired value of in-force business	**(426)**	(495)
Profit on the disposal and remeasurement of subsidiaries, joint ventures and associates	**102**	135
Other[2]	**231**	—
Adjusting items before tax	**(987)**	(924)
Profit before tax attributable to shareholders' profits	**2,129**	2,003
Tax on operating profit	**(647)**	(639)
Tax on other activities	**205**	282
	(442)	(357)
Profit for the year	**1,687**	1,646

1 Non-insurance businesses in the UK previously included within 'Other operations', such as the savings business, have been reclassified to life business and general insurance and health segments as this presentation is consistent with how the business is managed. See note 1 for further details. The impact of this change was to reduce life business operating profit by £80 million *(2017: £30 million)* and increase general insurance and health operating profit by £4 million *(2017: £4 million)*.

2 Other includes a movement in the discount rate used for estimating lump sum payments in the settlement of bodily injury claims which resulted in a gain of £190 million (see note 43(b)), a provision release of £78 million relating to the sale of Aviva USA in 2013, a gain of £36 million relating to negative goodwill on the acquisition of Friends First (see note 3), a charge of £63 million relating to the UK defined benefit pension scheme as a result of the requirement to equalise members' benefits for the effects of Guaranteed Minimum Pension (see note 51(b)) and a charge of £10 million relating to goodwill payments to preference shareholders, which was announced on 30 April 2018, and associated administration costs (see note 35). All notes referred to can be found in the Annual report and accounts.

Consolidated statement of financial position

As at 31 December 2018

	2018 £m	2017 £m
Assets		
Goodwill	**1,872**	1,876
Acquired value of in-force business and intangible assets	**3,201**	3,455
Interests in, and loans to, joint ventures	**1,214**	1,221
Interests in, and loans to, associates	**304**	421
Property and equipment	**548**	509
Investment property	**11,482**	10,797
Loans	**28,785**	27,857
Financial investments	**297,585**	311,082
Reinsurance assets	**11,755**	13,492
Deferred tax assets	**185**	144
Current tax assets	**76**	94
Receivables	**8,879**	8,285
Deferred acquisition costs	**2,965**	2,906
Pension surpluses and other assets	**3,341**	3,468
Prepayments and accrued income	**2,947**	2,860
Cash and cash equivalents	**46,484**	43,347
Assets of operations classified as held for sale	**8,855**	10,871
Total assets	**430,478**	442,685
Equity		
Capital		
Ordinary share capital	**975**	1,003
Preference share capital	**200**	200
	1,175	1,203
Capital reserves		
Share premium	**1,214**	1,207
Capital redemption reserve	**44**	14
Merger reserve	**8,974**	8,974
	10,232	10,195
Treasury shares	**(15)**	(14)
Currency translation reserve	**1,122**	1,141
Other reserves	**(279)**	(274)
Retained earnings	**4,523**	4,918
Equity attributable to shareholders of Aviva plc	**16,758**	17,169
Direct capital instrument and tier 1 notes	**731**	731
Equity excluding non-controlling interests	**17,489**	17,900
Non-controlling interests	**966**	1,235
Total equity	**18,455**	19,135
Liabilities		
Gross insurance liabilities	**144,077**	148,650
Gross liabilities for investment contracts	**202,468**	203,986
Unallocated divisible surplus	**5,949**	9,082
Net asset value attributable to unitholders	**18,125**	18,327
Pension deficits and other provisions	**1,399**	1,429
Deferred tax liabilities	**1,885**	2,377
Current tax liabilities	**254**	290
Borrowings	**9,420**	10,286
Payables and other financial liabilities	**16,882**	16,459
Other liabilities	**3,043**	2,791
Liabilities of operations classified as held for sale	**8,521**	9,873
Total liabilities	**412,023**	423,550
Total equity and liabilities	**430,478**	442,685

Approved by the Board on 6 March 2019

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 service' 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 2018. 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 2018.

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 adoptedby 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 2018, a number of non-insurance businesses in the UK which were previously reported within the Other products and services segment are now reported within the Long-term business or General insurance and health segments, as appropriate, as this is more reflective of the Group's operating segments and consistent with how the businesses are managed. As a result of this change, comparative information in the products and services segmental note 5(b) has been restated. There is no impact on the Group's adjusted operating profit, profit before tax, net assets or on the operating segmental disclosures in note 5(a).

Dividends and appropriations

This note analyses the total dividends and other appropriations 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.

	2018 £m	2017 £m
Ordinary dividends declared and charged to equity in the year		
Final 2017 – 19.00 pence per share, paid on 17 May 2018	**764**	—
Final 2016 – 15.88 pence per share, paid on 17 May 2017	**—**	646
Interim 2018 – 9.25 pence per share, paid on 24 September 2018	**364**	—
Interim 2017 – 8.40 pence per share, paid on 17 November 2017	**—**	337
	1,128	983
Preference dividends declared and charged to equity in the year	**17**	17
Coupon payments on DCI and tier 1 notes	**44**	81
	1,189	1,081

Subsequent to 31 December 2018, the directors proposed a final dividend for 2018 of 20.75 pence per ordinary share *(2017: 19.00 pence)*, amounting to £810 million *(2017: £764 million)* in total. Subject to approval by shareholders at the AGM, the dividend will be paid on 30 May 2019 and will be accounted for as an appropriation of retained earnings in the year ending 31 December 2019.

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% *(2017: 19.25%)*.

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 a definition of each APM and additional information, including a reconciliation to the relevant amounts in the IFRS Financial Statements and, where appropriate, commentary on the material reconciling items.

There are no new APMs or changes to existing APMs in 2018.

Assets under management (AUM) and assets under administration (AUA)

Assets under management (AUM) 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 reported 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.

Consistent with previous years, assets under administration (AUA) comprise AUM plus assets managed by third parties on platforms administered by Aviva Investors.

Both AUM and AUA are monitored as they reflect the potential earnings arising from investment returns and fee and commission income and measure the size and scale of the Group's fund management business.

A reconciliation of AUM to amounts appearing in the Group's statement of financial position is shown below.

	2018 £bn	2017 £bn
AUM managed on behalf of Group companies		
Assets included in statement of financial position[1]		
Financial investments	**305**	319
Investment properties	**11**	11
Loans	**29**	28
Cash and cash equivalents	**47**	44
Other	**1**	1
	393	403
Less: third party funds included above	**(19)**	(19)
	374	384
AUM managed on behalf of third parties[2]		
Aviva Investors[3]	**64**	72
UK Platform[4]	**23**	20
Other	**9**	11
	96	103
Total AUM	**470**	487

1 Includes assets classified as held for sale.
2 AUM managed on behalf of third parties cannot be directly reconciled to the financial statements.
3 Following a review of AUM managed on behalf of third parties, comparative amounts for Aviva Investors have been amended from those previously reported to reflect the fact that certain crossholdings had not been correctly eliminated on consolidation. The effect of this change is to reduce total AUM by £2.5 billion at 31 December 2017.
4 UK Platform relates to the assets under management in the UK long-term savings business.

Cash remittances‡

Cash paid by our operating businesses to the Group, comprised of 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.

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

Combined operating ratio (COR)‡

A financial measure of general insurance underwriting profitability calculated as total underwriting costs in our insurance entities expressed as a percentage of net earned premiums. A COR below 100% indicates profitable underwriting.

The COR does not include the impact of any changes in the discount rate used for estimating lump sum payments in settlement of bodily injury claims.

The Group reported COR is shown below.

	2018 £m	2017 £m
Incurred claims – GI & Health[1]	**(6,400)**	(6,533)
Adjusted for the following:		
Incurred claims – Health	**633**	677
Impact of change in the discount rate used in settlement of bodily injury claims	**(190)**	—
Total incurred claims (included in COR)	**(5,957)**	(5,856)
Total commissions and expenses (included in COR)[2]	**(2,765)**	(2,813)
Total underwriting costs	**(8,722)**	(8,669)
Net earned premiums – GI & Health[3]	**9,887**	9,882
Adjusted for:		
Net earned premiums – Health	**(857)**	(906)
Net earned premiums (included in COR)	**9,030**	8,976
Combined operating ratio	**96.6%**	96.6%

1 Corresponds to the sum of claims and benefits paid, net of recoveries from reinsurers and the change in insurance liabilities, net of reinsurance per note 5 in the Annual report and accounts.
2 Commission and expenses consists of fee and commission income, fee and commission expense and other operating expenses included within the general insurance & health segmental income statement (per note 5 in the Annual report and accounts) adjusted to an earned basis and to remove the health business.
3 As per note 5 in the Annual report and accounts.

symbol denotes key performance indicators used as a base to determine or modify remuneration.
‡ denotes APMs which are key performance indicators. There have been no changes to the APMs used by the Group during period under review

The normalised accident year combined operating ratio is derived from the COR (as defined in this section) with adjustments made to exclude the impact of prior year reserve development and weather claims variations versus expectations, gross of the impact of profit sharing arrangements. These adjustments are made so that the underlying performance of the Group can be assessed excluding factors that might distort the trend in the claims ratio on a year on year basis.

Claims ratio
A financial measure of the performance of our general insurance business which is calculated as incurred claims expressed as a percentage of net earned premiums, which can be derived from the COR table above.

Excess centre cash flow
This represents the cash remitted by business units to the Group centre less central operating expenses and debt financing costs. Excess centre cash flow is a measure of the cash available to pay dividends, reduce debt or invest back into our business.

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

Group adjusted operating profit‡#
Group adjusted operating profit is a non-GAAP APM which is reported to the Group chief operting decision maker for the purpose of decision making and for 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 excluded from group adjusted operating profit, but included in IFRS profit before tax, are:

Investment variances, economic assumption changes and short-term fluctuation in return on investments
Group adjusted 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 risk. 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.

Group adjusted 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 discretionary 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 Group adjusted operating profit.

Group adjusted 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 movements and interest rate changes, which give rise to variances between actual and expected investment returns, are disclosed separately outside Group adjusted operating profit. The impact of changes in the discount rate applied to claims provisions is also disclosed outside Group adjusted operating profit.

The exclusion of short-term investment variances from this APM reflects the long-term nature of much of our business. The Group adjusted 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 or loss on disposal
Group adjusted 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 Group adjusted 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. Other items at 2018 comprise:

- A movement in the discount rate used for estimating lump sum payments in settlement of bodily injury claims which resulted in a gain of £190 million (see note 43(b) in the Annual report and accounts). Consistent with the presentation of the change in the Ogden discount rate in 2016, this is reported outside of Group adjusted operating profit.
- A charge of £63 million relating to the UK defined benefit pension scheme as a result of the requirement to equalise members' benefits for the effects of Guaranteed Minimum Pension (see note 51(b) in the Annual report and accounts). This is reported outside of Group adjusted operating profit as the additional liability arose as a consequence of a High Court judgement in October 2018 in the case involving Lloyds Banking Group; and does not reflect the financial performance of the Group for the year.
- A charge of £10 million relating to goodwill payments to preference shareholders, which was announced on 30 April 2018, and associated administration costs (see note 35 in the Annual report and accounts).
- A release of a provision of £78 million relating to the sale of Aviva USA in 2013, which represents the reversal of an item previously excluded from Group adjusted operating profit.
- A gain of £36 million relating to negative goodwill on the acquisition of Friends First (see note 3 in the Annual report and accounts), which is excluded from Group adjusted operating profit for consistency with the treatment of impairment of goodwill.

There were no Other items in 2017.

Group adjusted operating profit is presented before and after integration and restructuring costs. These costs are only reported to the extent that they are significant, and not otherwise absorbed within operating 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 shareholder's profits.

	2018 £m	2017 £m
United Kingdom – Life	**1,909**	1,764
United Kingdom – General Insurance	**415**	411
Canada	**47**	46
Europe	**1,011**	1,059
Asia	**262**	191
Aviva Investors	**151**	201
Other Group activities	**(679)**	(604)
Group adjusted operating profit before tax attributable to shareholders' profit	**3,116**	3,068
Integration and restructuring costs	**—**	(141)
Group adjusted operating profit before tax after integration and restructuring costs	**3,116**	2,927
Adjusted for the following:		
Investment return variances and economic assumption changes on life business	**(197)**	34
Short-term fluctuation in return on investments on non-life business	**(476)**	(345)
Economic assumption changes on general insurance and health business	**1**	(7)
Impairment of goodwill, associates and joint ventures and other amounts expensed	**(13)**	(49)
Amortisation and impairment of intangibles	**(209)**	(197)
Amortisation and impairment of acquired value of in-force business	**(426)**	(495)
Profit on the disposal and re-measurement of subsidiaries, joint ventures and associates	**102**	135
Other	**231**	—
Adjusting items before tax	**(987)**	(924)
Profit before tax attributable to shareholders' profits	**2,129**	2,003

Net asset value (NAV) per share

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

Net fund flows

Net fund flows is one of the measures of growth used by management and is a component of the movement in the life and platform business managed assets (excluding UK with-profits) during the period. It is the difference between the inflows (being IFRS net written premiums plus deposits received under investment contracts) and outflows (being IFRS net paid claims plus redemptions and surrenders under investment contracts). It excludes market and other movements.

Operating expenses

The day-to-day expenses involved in running the business are classified as operating expenses. A reconciliation of operating expenses to the IFRS consolidated income statement is set out below:

	2018 £m	2017 £m
Other expenses (IFRS income statement)	**3,843**	3,537
Less: amortisation and impairment	**(658)**	(678)
Less: foreign exchange gains/(losses)	**(28)**	(49)
Other acquisition costs	**954**	892
Claims handling costs	**336**	330
Integration and restructuring costs	**—**	(141)
Less: Other costs	**(421)**	(113)
Operating expenses	**4,026**	3,778

Operating expenses exclude impairment of goodwill, associates and joint ventures; amortisation and impairment of other intangible assets; 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 relate to merger and acquisition activity which we view as strategic in nature, hence they are excluded from the operating expenses APM as this is principally used to manage the performance of our operating segments.

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.

There have been no costs classified as integration and restructuring in the year. In 2017, these costs relate to integration costs in the UK and Canada, and restructuring costs in the UK and Europe. It is possible that significant integration and restructuring activity undertaken in the future may result in the related costs being excluded from operating profit.

Operating expenses excludes other costs based on management's assessment of their nature or incidence that are not representative of underlying operating expenses and would distort the year on year operating expenses trend. Other costs represent a reallocation based on management's assessment of ongoing maintenance of business units and in 2018 includes movements in provisions set aside in respect of ongoing regulatory compliance as well as an increase of £175 million product governance provision relating to a historical issue over pension arrangement advised sales by Friends Provident, of which over 90% of cases relate to pre-2002 (included in note 50 – Pension deficits and other provisions in the Annual report and accounts).

Operating earnings per share (EPS)‡#

Operating EPS[1] is calculated based on the Group adjusted operating profit attributable to ordinary shareholders net of tax, deducting non-controlling interests, preference dividends and the direct capital instrument (DCI) and tier 1 note coupons divided by the weighted average number of ordinary shares in issue, after deducting treasury shares. Operating EPS is used by management to determine the dividend payout ratio target and hence a useful APM for users of the financial statements. A reconciliation between Operating EPS and Basic EPS can be found in note 15 in the Annual report and accounts.

1 In 2016 and 2017 adjustments were made to the Group calculation of Operating EPS for the purposes of calculating Executive Directors' bonus and long-term incentive plans. These adjustments are described in the Annual Report on Remuneration.

Present value of new business premiums (PVNBP)

PVNBP measures the additional value to shareholders of sales in the Group's life insurance business. PVNBP is derived from the present value of new regular premiums expected to be received over the term of the new contracts plus 100% of single premiums from new business written in the financial period and is expressed at the point of sale. The discounted value of regular premiums is calculated using the same methodology as for Value of new business on an adjusted Solvency II basis (VNB). PVNBP also includes any changes to existing contracts which were not anticipated at the outset of the contract that generate additional shareholder risk and associated premium income of the nature of a new policy.

The table below presents a reconciliation of sales to IFRS net written premiums.

	2018 £m	2017 £m
Present value of new business premiums	**40,763**	40,795
Investment sales	**4,799**	7,888
General insurance and health net written premiums	**9,968**	10,035
Long-term health and collectives business	**(3,840)**	(5,213)
Total sales	**51,690**	53,505
Effect of capitalisation factor on regular premium long-term business[1]	**(12,726)**	(11,412)
JVs and associates[2]	**(257)**	(618)
Annualisation impact of regular premium long-term business[3]	**(247)**	(281)
Deposits[4]	**(10,329)**	(10,953)
Investment sales[5]	**(4,799)**	(7,888)
IFRS gross written premiums from existing long-term business[6]	**4,776**	4,765
Long-term insurance and savings business premiums ceded to reinsurers	**(1,775)**	(1,741)
Total IFRS net written premiums	**26,333**	25,377
Analysed as:		
Long-term insurance and savings net written premiums	**16,365**	15,342
General insurance and health net written premiums	**9,968**	10,035
	26,333	25,377

1 Discounted value of regular premiums expected to be received over the term of the new contract, adjusted for expected levels of persistency.
2 Total long-term new business sales include our share of sales from joint ventures and associates. Under IFRS, premiums from these sales are excluded.
3 The impact of annualisation is removed in order to reconcile the non-GAAP new business sales to IFRS premiums.
4 Under IFRS, only the margin earned from non-participating investment contracts is recognised in the IFRS income statement.
5 Investment sales included in total sales represent the cash inflows received from customers investing in mutual fund type products such as unit trusts and OEICs.
6 The non-GAAP measure of sales focuses on new business written in the period under review while the IFRS income statement includes premiums received from all business, both new and existing.

Return on Equity (RoE)#

The RoE[1] 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).

1 In 2016 and 2017 adjustments were made to the Group calculation of RoE for the purposes of calculating Executive Directors' bonus and long-term incentive plans. These adjustments are described in the Annual Report on Remuneration.

Solvency II

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 (TMTP), 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 Group SCR is calculated using a partial internal model, and it is shown after the impact of diversification benefit.

The reconciliation from total Group equity on an IFRS basis to Solvency II own funds is presented below.

	2018 £bn	2017 £bn
Total Group equity on an IFRS basis	**18.5**	19.1
Elimination of goodwill and other intangible assets[1]	**(7.8)**	(9.8)
Liability valuation differences (net of transitional deductions)[2]	**19.2**	22.0
Inclusion of risk margin (net of transitional deductions)	**(3.3)**	(3.2)
Net deferred tax[3]	**(1.1)**	(1.3)
Revaluation of subordinated liabilities	**(0.6)**	(0.7)
Other accounting differences[4]	**(0.3)**	(0.1)
Estimated Solvency II net assets (gross of non-controlling interests)	**24.6**	26.0
Difference between Solvency II net assets and own funds[5]	**(1.0)**	(1.3)
Estimated Solvency II own funds[6]	**23.6**	24.7

1 Includes £1.8 billion *(2017: £1.9 billion)* of goodwill and £6.0 billion *(2017 £7.9 billion)* of other intangible assets comprising acquired value of in-force business of £2.9 billion *(2017: £3.3 billion)*, deferred acquisition costs (net of deferred income) of £2.8 billion *(2017: £2.9 billion)* and other intangibles of £0.3 billion *(2017: £1.7 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 Includes valuation adjustments and the impact of the difference between consolidation methodologies under Solvency II and IFRS.
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 only.

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

- Solvency II shareholder cover ratio‡
- Value of new business on an adjusted Solvency II basis (VNB)‡
- Operating Capital Generation (OCG)#

Definitions and additional information in respect of each of these metrics is included within this section.

Solvency II shareholder cover ratio‡

The estimated Solvency II shareholder 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'. The shareholder view is considered by management to be more representative of the shareholders' risk-exposure and the Group's ability to cover the SCR with eligible own funds, and aligns with management's approach to dynamically manage its capital position. In arriving at the shareholder position, the following adjustments are typically made to the regulatory Solvency II position:

- The contribution to the Group's SCR and own funds of the most material fully ring fenced with-profits funds and staff pension schemes in surplus are excluded. These exclusions have no impact on Solvency II surplus as these funds are self-supporting on a Solvency II capital basis with any surplus capital above SCR not recognised.
- A notional reset of the transitional measure on technical provisions (TMTP), calculated using the same method as used for formal TMTP resets. This presentation avoids step changes to the Solvency II position that arise only when the formal TMTP reset points are triggered. The TMTP is amortised on a straight-line basis over 16 years from 1 January 2016 in line with the Solvency II rules.
- Pro forma adjustments are made if the Solvency II shareholder 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. These adjustments have been made in order to show a more representative view of the Group's solvency position.

A summary of the Group's Solvency II position is shown in the table below.

	2018 £bn	2017 £bn
Own Funds	**23.6**	24.7
Solvency Capital Requirement	**(11.6)**	(12.5)
Estimated Solvency II Surplus at 31 December	**12.0**	12.2
Estimated Shareholder Cover Ratio	**204%**	198%

Value of new business on an adjusted Solvency II basis (VNB)‡

VNB measures the additional value to shareholders created through the writing of new life business in the period. It reflects Solvency II assumptions and allowance for risk and is defined as the increase in Solvency II own funds resulting from business written in the period, including the impact of interactions between in-force and new business, adjusted to:

i) remove the impact of the contract boundary restrictions under Solvency II;
ii) allow for businesses which are not within the scope of the Solvency II own funds (e.g. UK and Asia Healthcare, retail fund management and UK equity release); and
iii) include the impacts of tax and 'look through profits' in service companies (where not included in Solvency II) and deduct the impacts of non-controlling interests.

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.

Operating assumptions

The operating assumptions used are derived from an analysis of recent operating experience to give a best estimate of future experience. When these assumptions are updated, the year-to-date VNB will capture the impact of the assumption change on all business sold that year.

Economic assumptions

VNB is calculated using economic assumptions as at the point of sale, taken as those appropriate to the start of each quarter. For contracts that are repriced more frequently, weekly or monthly economic assumptions have been used. Dealing with each of the principal economic assumptions in turn:

- The risk-free interest rate curves used to calculate VNB reflect the basic risk-free interest rate curves (including the credit risk adjustment) published by EIOPA on their website.
- The volatility adjustment is intended to reflect temporary distortions in spreads on government bonds based on rates prescribed by EIOPA.
- The matching adjustment (MA) is an increase applied to the risk-free rate used to value insurance liabilities where the cash flows are relatively fixed and well matched by assets intended to be held to maturity with relatively fixed cash flows (resulting in additional yield from illiquidity risk).

Matching adjustment (MA)

A MA is applied to certain obligations based on the expected allocation of assets backing new business at each year-end date. This allocation may be different to the MA applied at the portfolio level. Aviva applies a MA to certain obligations in UK Life, using methodology which is set out in the Solvency and Financial Condition Report.

The matching adjustment used for 2018 UK new business (where applicable) was 105 bps *(2017 restated[1]: 132 bps)*.

1 The 2017 matching adjustment has been restated to reflect an allowance for credit risk and investment expenses.

New business margin

New business margin is calculated as value of new business on an adjusted Solvency II basis (VNB) divided by the present value of new business premiums (PVNBP), and expressed as a percentage.

Operating capital generation (OCG)#

OCG is the Solvency II surplus movement in the period due to operating items. The calculation of OCG is consistent with previous years.

For life business, OCG is split into the impact of new business, earnings from existing business and other OCG, where other OCG includes the impact of capital actions and non-economic assumption changes. OCG excludes economic variances and economic assumption changes. The expected investment returns assumed within earnings from existing business are consistent with the returns within Group adjusted operating profit.

An analysis of the components of OCG is presented below:

	2018 £bn	2017 £bn
Adjusted Solvency II VNB (gross of tax and non-controlling interests)	**1.2**	1.2
Allowance for Solvency II contract boundary rules	**—**	—
Differences due to change in business in scope	**(0.2)**	(0.2)
Tax & Other[1]	**(0.3)**	(0.3)
Solvency II Own Funds impact of new business (net of tax and non-controlling interests)	**0.7**	0.7
Solvency II SCR impact of new business	**(0.9)**	(0.8)
Solvency II surplus impact of new business	**(0.2)**	(0.1)
Life earnings from existing business	**1.6**	1.6
Life Other OCG[2]	**1.8**	0.9
Life Solvency II OCG	**3.2**	2.4
GI, Health, FM & Other Solvency II OCG	**—**	0.2
Total Solvency II OCG	**3.2**	2.6

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 impact of capital actions and non-economic assumption changes.

Shareholder services

2019 Financial Calendar

Ordinary dividend timetable:	Final	Interim**
Ordinary ex-dividend date	11 April 2019	15 August 2019
Dividend record date	12 April 2019	16 August 2019
Last day for Dividend Reinvestment Plan and currency election	8 May 2019	5 September 2019
Dividend payment date*	30 May 2019	26 September 2019
Other key dates:		
Annual General Meeting		11 am on 23 May 2019
2018 interim results announcement		8 August 2019

* 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 UK and the Single Euro Payments Area to elect to receive their dividends or interest payments in a choice of over 125 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.

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

Annual General Meeting (AGM)

The 2019 AGM will be held at The Queen Elizabeth II Centre, Broad Sanctuary, Westminster, London SW1P 3EE, on Thursday, 23 May 2019, 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 2019 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/2018ar or order a printed copy by contacting Computershare using the contact details below.

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

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.

This report has been prepared for, and only for, the members of the Company, as a body, and no other persons. The Company, its directors, employees, agents or advisers do not accept or assume responsibility to any other person to who this document is shown or into whose hands it may come, and any such responsibility or liability is expressly disclaimed.

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