Aviva plc

Strategic report 2019

Foreword

The Strategic report on pages 1 to 53 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 Strategic report is only part of the Annual report and accounts 2019. The Strategic report was approved by the Board on 4 March 2020 and signed on its behalf by Maurice Tulloch, Chief Executive Officer.

More information about Aviva can be found at www.aviva.com

Non-Financial Information Statement

Under sections 414CA and 414CB of the Companies Act 2006, Aviva is required to include, in its Strategic Report, a non-financial information statement. The information required by these regulations is included in Key performance indicators from page 7, Business model from page 9, Our people from page 17, Corporate responsibility from page 20 and Risk and risk management from page 44.

Contents

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

At a glance

We are a leading international Savings, Retirement and Insurance business serving 33 million customers. Our c.30,000 employees aim to earn customers' trust as the best place to save for the future, navigate retirement and insure what matters most to them.

Our purpose

'With you today, for a better tomorrow'
Aviva has been looking after customers for more than 300 years. We are deeply invested in our people, our communities and the planet. We're here to be with people today as well as working for a better tomorrow.

Our business

We offer a wide range of products and solutions to help our customers and partners with their Savings, Retirement and Insurance needs. From 2020, we have reorganised our business into five divisions:

Investments, Savings & Retirement
Aviva Investors and UK Savings & Retirement[1]

UK Life
Annuities & Equity Release, Protection & Health, Heritage

General Insurance
UK, Canada, Europe, Singapore

Europe Life
France, Italy, Poland, Ireland, Turkey

Asia Life
Singapore, China, India, Indonesia, Vietnam

Read more in the 'Business model' and 'Our strategy' sections.

In the 2019 Strategic Report and 2019 Annual Report and Accounts, we continue to report the results of our businesses by market[2] on the basis they were managed in 2019. Read more in the 'Market review' section.

Our strategy

Our strategy is to simplify Aviva into a leading international Savings, Retirement and Insurance business delivering for our customers, shareholders, communities and other stakeholders. We have three strategic priorities:

Deliver great customer outcomes:
Our focus is on being the best place to meet our customers savings, retirement and insurance needs

Excel at the fundamentals:
Our focus is on the core activities of our business: underwriting, claims management, investment performance and cost efficiency

Invest in sustainable growth:
Our focus is on generating economic returns and long- term value for our shareholders

Read more about our strategy in the 'Our strategy' section.

Our Performance

Adjusted operating profit[3]
£3,184 million
2018 restated[4]: £3,004 million

IFRS profit before tax[5]
£3,374 million
2018: £2,129 million

Total dividend
30.9 pence
2018: 30.0 pence

Cash remittances[6]
£2,597 million
2018: £3,137 million

Operating earnings per share[6,7]
60.5 pence
2018 restated[4]: 56.2 pence

Solvency II return on equity[6]
14.3%
2018: 12.5%

Solvency II cover ratio[6,8]
206%
2018: 204%

Carbon emissions reduction since 2010
66%
2018: 60%

Read more about our performance and financial targets in the 'Key performance indicators' and 'Chief Financial Officer's review' sections.

1 UK Savings & Retirement is reported within UK Life in 2019.
2 In 2019 our markets are: UK Life, Aviva Investors, UK General Insurance, Canada, Europe and Asia.
3 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.
4 During 2019 the Group adjusted operating profit APM has been revised and now includes the amortisation and impairment of internally generated intangible assets to better reflect the operational nature of these assets (see note 2(b)). Group adjusted operating profit continues to exclude amortisation and impairment of intangible assets acquired in business combinations. Comparative amounts have been restated resulting in a reduction in the prior period Group adjusted operating profit of £112 million. There is no impact on profit before tax attributable to shareholders' profit.
5 Profit before tax attributable to shareholders' profit.
6 This is an Alternative Performance Measure (APM) which provides useful information to enhance the understanding of financial performance. Further information on APM's, including a reconciliation to the financial statements (where possible), can be found in the 'Other Information' section of the Annual report and accounts.
7 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.
8 The estimated Solvency II position represents the shareholder view. Please refer to note 58 and the 'Other Information' section of the Annual report and accounts for more information.

Chairman's statement

2019 was a year of change for Aviva. We reshaped our strategy and senior leadership team, while also facing a period of uncertainty in the external business environment, driven by lower interest rates and the UK decision to exit from the European Union.

On 4 March 2019, after a competitive process that included highly respected and experienced internal and external candidates, the Board was delighted to appoint Maurice Tulloch as Group Chief Executive Officer (CEO). During the year, with the support of the Board, Maurice initiated a review of our strategy in order to simplify Aviva into a leading international savings, retirement and insurance business delivering sustainable growth for shareholders and support for our communities. This strategy will allow us to fulfil our vision to earn our customers' trust as the best place to save for the future, navigate retirement and insure what matters most to them.

Our purpose

Throughout all of this change, it has been and continues to be our core purpose which illuminates our path forward. We are proud to say not only to our customers but to our people, our partners and our communities, that we will be with you today, for a better tomorrow. This means our customers can count on us to be there for them if things go wrong and to put it right, and to help them plan for their future. While the exact words used to express our purpose may have evolved, this continues to be the underlying promise that we navigate our company by, just as it has been over the last 323 years of our corporate history.

Our customers

The absolute commitment our people show to our customers every day also remains unchanged. I have always believed that their determination to live up to our value of 'Care More' is one of our greatest assets. This is one of the reasons why it was so important to incorporate our people's perspective as we set about creating a new articulation of our shared purpose.

The human connections that our people forge with our customers really are special. We are there to support them through some of the most important decisions or emotional moments in their lives. By drawing on our expertise and empathy to give them the best possible outcome, we can make a real difference to people when it matters most. And in doing so, we will ensure our financial strength and long-term future.

Our stakeholders

In the Strategic report we describe how the Board takes into account the interests of all our stakeholders. As an insurance company, we also understand better than most the imperative to act with urgency and conviction to help combat climate change. Although our environmental credentials are well-established, we are committed to doing more, both on our own account and in alliance with others. We have invested £6 billion in green assets since 2015 alone, including £3.8 billion in low carbon infrastructure (predominantly solar and wind power) and £2.2 billion in green and sustainable bonds. We expect this to increase significantly in the future.

In November 2019, Aviva signed up to the United Nations-convened Net Zero Asset Owners Alliance which brings together some of the world's biggest pension funds and insurers to commit to net zero greenhouse gas emissions in their investment portfolios by 2050. We are also committed to aligning our business to the target set out in the Paris Climate Agreement of limiting global warming to 1.5°C above pre-industrial levels.

Our communities

As a company, we have always understood that our duty of care reaches far beyond our customers to encompass all those who may be touched by our actions. Whether it is through the use of the volunteering leave granted to every UK employee each year, or through our strategic partnership with the British Red Cross, our people combine forces to build a future we all want to live in. This year also saw the further development of the Aviva Foundation which was created to use unclaimed shareholder assets to support good causes. The Foundation has so far committed £3.7 million in funding to projects that will support our communities and vulnerable customers when they need it most. This has included donations to a pilot project to provide a counselling package to vulnerable home insurance customers experiencing trauma following a serious event such as flooding; and funding a national programme to help people over the age of 50 increase their employability skills and to promote, among businesses, the benefits of being an age-friendly employer.

Changes to the Board

We have made a number of changes to our Board composition during 2019 in addition to the appointment of Maurice Tulloch as Group CEO. Andy Briggs and Tom Stoddard stepped down from the Board and looked to pursue other opportunities; we wish them both every future success. After a period as interim Group Chief Financial Officer (CFO), Jason Windsor, formerly CFO of Aviva UK Insurance, was appointed permanently to the role and also joined the Board of Directors on 26 September 2019.

After nine years of distinguished service, including as Chair of the Risk Committee, Mike Hawker retired from the Board on 31 March 2019. Following his appointment as Chairman of the Royal Mail, Keith Williams stepped down from the Board on 23 May 2019. On 31 December 2019, Glyn Barker and Claudia Arney both retired from the Board; Glyn after eight years including a period as Senior Independent Director and Claudia to focus on her expanded non-executive roles elsewhere. I am extremely grateful to them all for the valuable contributions they have made to the Board and Committees of Aviva plc.

We were delighted to welcome three new Non-Executive Directors to our Board this year, all with deep knowledge and experience of the financial services industry. Patrick Flynn, previously Chief Financial Officer of both ING and HSBC Insurance joined our Board on 16 July 2019. Patrick became Audit Committee Chair on 4 November 2019. George Culmer was appointed as a Non-Executive Director of the Company on 25 September 2019, having previously been Chief Financial Officer of Lloyds Banking Group and RSA Insurance Group plc. George assumed the role of Senior Independent Director following the departure of Glyn Barker. We also announced the appointment of Amanda Blanc with effect from 2 January 2020. Amanda was previously CEO at AXA UK & Ireland, and CEO, EMEA & Global Banking Partnerships at Zurich Insurance Group.

Finally, on 21 January 2020, I announced my intention to retire as Chairman during 2020. When I became Chairman in 2015, the Board asked me to commit to serving for at least five years. Now that Maurice has launched Aviva's strategy, a new senior management team is in place and the Board has been refreshed, it is also time for a new Chairman. In the meantime, I remain committed to this great organisation which I am confident will deliver for all its stakeholders. It has been my privilege to serve as Chairman, and I would like to thank the Board and indeed all my colleagues at Aviva for their support during the last five years.

Our performance

In 2019, we further strengthened our Solvency II capital position[1] and grew Group adjusted operating profit[2] by 6% to £3,184 million *(2018 restated[3]: £3,004 million)*. Group adjusted operating profit[2] benefited from improved performance in Canada and lower expenses and debt costs. IFRS profit before tax[4] increased to £3,374 million *(2018: £2,129 million)*, including higher Group adjusted operating profit[2] and positive investment variances driven by lower interest rates and equity market gains.

Dividend

At the full year 2018 results, we announced our move to a progressive dividend policy. In line with this policy, the Board proposes a final dividend for 2019 of 21.40 pence per share *(2018: 20.75 pence per share)*.

Looking ahead

Aviva faces the future with great optimism – accepting that it will hold challenges, and confident that our strategy and resources mean that we are well positioned to meet them and to prosper. This has been a year of evolution for us. With our new leadership now in place, we are aligned behind our strategy to create great outcomes for our customers and other stakeholders, and to deliver sustainable growth for our shareholders.

Sir Adrian Montague CBE
Chairman
4 March 2020

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4 Profit before tax attributable to shareholders' profit.

Chief Executive Officer's review

Overview

Aviva made important changes to its business and leadership in 2019 and began to build operating momentum. This is reflected in our improved results, which included:

- Solvency II return on equity[1,2,3] of 14.3% *(2018: 12.5%)*;
- Growth in Solvency II net asset value per share, up 31 pence to 423 pence *(2018: 392 pence)*;
- Increased Solvency II capital surplus[2] and Solvency II shareholder cover ratio[2,3] at £12.6 billion and 206% respectively *(2018: £12.0 billion and 204% respectively)*;
- Group adjusted operating profit[4] up 6% to £3,184 million *(2018 restated[5]: £3,004 million)*; and
- Strong growth in operating earnings per share[3,6], up 8% to 60.5 pence *(2018 restated[5]: 56.2 pence)*.

The Board of Directors has declared a final dividend of 21.40 pence per share *(2018: 20.75 pence)*. This results in a full year dividend for 2019 of 30.9 pence per share *(2018: 30.0 pence)*, an increase of 3%.

Aviva has many positive attributes: high quality businesses, skilled and dedicated staff, a leading focus on sustainability and ESG and a large, loyal base of customers and intermediary partners. Our brand resonates with our customers and partners due to our track record of helping people to manage life's uncertainties by saving for the future, drawing a secure income in retirement and insuring what matters most to them.

My goal is for Aviva's portfolio of businesses to be best in class. We will achieve this through a relentless focus on the customer and commercial rigour as we execute our business plans and we will reallocate capital to maximise performance. In short, we will run Aviva better.

In 2019, our customer numbers were up 2% to 33.4 million and we improved growth in premiums and managed assets. There is much more to do, simplifying our business, reducing costs and navigating competitive markets to make Aviva a stronger, simpler and better company.

COVID-19 presents a new uncertainty in 2020. Our primary focus is the operational readiness and safety for our customers and staff, such that we continue to deliver on our promises. Our scale, diversity and the strength of our balance sheet allows us to meet any short-term challenges.

Structure, leadership and culture

In 2019, we made a number of changes to optimise our organisational structure and leadership. These changes were necessary to simplify our ways of working, improve operational efficiency and resilience. We now have greater focus, commercial rigour and accountability throughout the organisation.

In the UK, we separated management of our life and general insurance businesses, and our digital operations have been integrated back into the businesses to improve efficiency and customer delivery. Globally, we have reorganised our portfolio of major markets and strategic investments into five divisions with clear alignment of business model. Our objective is to compete and win in our markets by providing great customer outcomes and excelling at the fundamentals.

Aviva's leadership team has been strengthened and we have assembled a diverse and talented leadership group with proven success within their respective fields. With a mixture of internal promotions and external hires, my new team brings the expertise, ambition and focus required to grow our business profitably. The new team will help shape our culture, which remains focused on providing the highest standard of service and value for customers, maintaining leadership on environmental and social issues, while at the same time fostering greater commerciality, efficiency and accountability.

Progress against financial targets

At our capital markets day in November 2019, I outlined five key financial objectives that Aviva is targeting for 2022. Delivering these targets will provide a material enhancement in business performance and reinforce the sustainability of our progressive dividend policy and medium-term growth ambitions. In 2019, we made a strong start in pursuit of these objectives and we are on track to achieve our targets:

Solvency II Return on equity[1,2,3] (RoE) – 2022 target of 12%:
Aviva's RoE[1,2,3] was 14.3% in 2019, benefiting from favourable assumption changes. Meeting our 2022 ambition of a sustainable 12% RoE[1,2,3] will require improved underlying returns that will be achieved through cost reductions, organic business growth and active capital allocation to higher returning segments.

Operating capital generation[3] (OCG) – targeting £7.5 billion in 2019-22 inclusive:
In 2019, Group OCG[3] totalled £2.3 billion, representing approximately 30% of our four-year target.

Cash inflows[3] to centre – targeting £8.5 billion to £9.0 billion in 2019-22 inclusive:
Cash remittances[3] were £2.6 billion in 2019, representing approximately 30% of our four-year target.

Debt reduction – targeting £1.5 billion reduction in debt by 2022:
In 2019, we repaid £0.2 billion of subordinated debt, which was the total amount maturing during the year. With debt maturities of £2.7 billion in the next three years and continued strength in centre liquidity levels and cash generation, we expect to achieve our target, resulting in lower debt leverage[3] and declining interest expense.

Operating expenses[3] – targeting £300 million reduction in controllable costs[3] by 2022:
Controllable costs[3] were £3,939 million in 2019 *(2018: £3,968 million)*. Within this, we achieved net savings of £72 million[7] and incurred implementation costs of £59 million. We anticipate £150 million of savings (pre implementation costs) in our 2020 results, compared with our 2018 baseline.

1 Includes Group centre, debt costs and other items not allocated to the markets.
2 The estimated Solvency II position represents the shareholder view. Please refer to note 58 and the 'Other Information' section of the Annual report and accounts for more information.
3 This is an Alternative Performance Measure (APM) which provides useful information to enhance the understanding of financial performance. Further information on APM's, including a reconciliation to the financial statements (where possible), can be found in the 'Other Information' section of the Annual report and accounts.
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6 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.
7 Constant currency.

Deliver great customer outcomes

At Aviva, delivering great customer outcomes is one of our strategic priorities. In 2019, our performance demonstrates that customers continue to choose Aviva to meet their savings, retirement and insurance needs. Across the Group, we have increased premium volumes and customer fund inflows. We have made further progress in service quality, with positive trends in net promoter scores, customer retention and resolving customer complaints.

Our response to natural catastrophes such as the recent storms in the UK showed Aviva at its best. We provided support to several thousand customers, responding quickly by helping fix damaged properties and using the latest technology to settle claims. We also identified vulnerable customers and worked with our network of suppliers to ensure these claims were given priority.

Natural catastrophes are happening with increased frequency around the world and sustainability is now a key focus for governments, corporates and the wider community. For many years, Aviva has been at the forefront of efforts to combat climate change. The products and services we provide are crucial in helping customers to prepare for, and respond to the challenges that a changing climate brings. We are also a leader in ESG, whether actively investing our customers' savings, or managing their retirement income. Aviva has been carbon neutral since 2006, is a signatory to the UN sustainable development goals and is committed to being a net zero asset owner by 2050. ESG matters to our customers, and it matters to Aviva.

Excel at the fundamentals

We aim to excel at the fundamentals and our 2019 results show the progress we have made in running Aviva better.

In UK Life, we increased sales across our product suite. In annuities & equity release, our capability in longevity data analytics, asset origination and transaction structuring enabled us to grow new business volumes by 29% to £6.2 billion *(2018: £4.8 billion)*. We delivered strong growth in bulk annuity sales, which included the first tranche (£1.7 billion) from Aviva's own staff pension scheme. In protection, 2019 was more challenging. Whilst new business volumes increased 4% to £1.9 billion *(2018: £1.8 billion)*, adverse experience, and higher reinsurance costs contributed to a reduction in profitability. We responded to these challenges by increasing sophistication of our pricing, underwriting and customer segmentation models.

In Investments, Savings & Retirement (IS&R), we improved customer net inflows despite the uncertain backdrop weighing on investor sentiment. UK Savings and Retirement net inflows[1] were £7.5 billion *(2018: £6.8 billion)* as we maintained our leading position in workplace pensions, winning significant new mandates and delivering strong client retention. We also continued to build momentum and increase share in the platform market. In asset management, investment performance has strengthened, with 84% of Aviva Investors' funds beating benchmark over a twelve month time horizon, while third-party net inflows[1] rose to positive £2.3 billion *(2018: negative £0.1 billion)*. Although 2019 was a challenging year for profitability at Aviva Investors, with a lower opening asset position and reduced asset origination weighing on results, the significant improvement in investment performance and flows are a step in the right direction.

In general insurance, net written premiums (NWP) increased 2% to £9.3 billion *(2018: £9.1 billion)*. We have continued to gradually and deliberately shift our business mix, with NWP from commercial customers rising 7% in the UK and 17% in Canada. Our focus on providing superior service to customers and intermediaries in the SME and mid-market has supported growth in new client acquisition and attractive retention. Our general insurance combined operating ratio (COR)[1] increased to 97.5% *(2018 restated[2]: 97.2%)* though this included an additional £113 million of costs allocated to the general insurance business as a result of the realignment of our digital operations. Excluding the 1.2 percentage point impact from these costs, our COR would have been 96.3%. The key driver of improvement was Canada, where we successfully responded to challenges in the auto insurance market, resulting in a 5.3 percentage point improvement in COR to 97.8% *(2018 restated[2]: 103.1%)*.

Our life businesses in Europe and Asia also expanded their customer franchises in 2019, with new business volumes up 9% and 15% respectively and European net fund inflows[1] remaining robust at £4.5 billion *(2018: £4.2 billion)*. In France, in the face of significantly lower interest rates, we increased unit linked new business volumes 46% through targeted campaigns and active engagement with our distribution partners. In Poland, we successfully launched a new protection product in the direct market and made a strong start in auto-enrolment, winning nearly 400 new corporate pension schemes covering more than 70,000 employees. In Singapore, we continued to invest in our leading financial advisor network, which provides customers with high levels of service and a wider array of product and provider choice compared with the traditional agency model.

An important element of our programme to run Aviva better is improving our efficiency. In June, we announced plans to reduce our controllable cost[1] base by £300 million per annum, net of inflation. This requires gross (pre-inflation) savings of approximately £500 million relative to our 2018 expense baseline of £4 billion. We have made good progress so far, achieving savings of £72 million[3] in 2019 and laying the groundwork necessary to increase savings to approximately £150 million in 2020.

Invest in sustainable growth

There is no shortage of ambition at Aviva and we have continued to invest in sustainable growth. This investment has been both direct, through deploying capital to write new business, and indirect, to improve the quality and cost effectiveness of our customer propositions and further enhance our data and risk management capability.

In November, we announced plans for Aviva Investors and our UK savings businesses to form a combined business segment called Investments, Savings & Retirement (IS&R). Under the leadership of Euan Munro, IS&R will bring together Aviva's global asset management capabilities with Aviva's leading UK workplace pension and platform operations. In addition to the growth potential of each business, their alignment enables Aviva to provide customers with unique, comprehensive solutions from accumulation of pension wealth through to drawing a secure income in retirement. The combination of an ageing society and increased private provision for retirement make this an attractive long-term growth opportunity. The £7.5 billion of net in-flows[1] in savings and retirement and £2.3 billion of third party net inflows[1] in Aviva Investors demonstrates that Aviva has the capability and the customer franchise to capture this growth opportunity.

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2 Following the change in the definition of Group adjusted operating profit (see note 2(b)), COR now includes the amortisation and impairment of internally generated intangible assets to better reflect the operational nature of these assets. Comparative amounts have been restated resulting in an increase in the prior period underwriting costs of £53 million and an increase in Group COR of 0.6%.
3 Constant currency.

We continue to invest in digital and technology. The integration of our digital activities into our business units will facilitate expense savings as we scale back or stop some activities which are either duplicated or judged not to offer future economic returns. However, we are also aiming to improve the connectivity and co-ordination of digital with our core customer facing businesses. As a result, we are continuing to invest across the group in initiatives that reduce run costs, enhance IT resilience and ensure that our businesses are able to offer service to our customers and distribution partners that is fast, fair and efficient.

Looking ahead

Aviva has made important structural changes and achieved good progress in pursuing our first goal of operational improvement. Our 2019 results showed evidence of our potential, with improved momentum on customer flows, assets and premiums, and a good start on delivering our financial targets.

My objective remains to run Aviva better. We will improve business performance, enhancing returns through disciplined execution on expenses and underwriting. We will focus capital and resources where we can achieve competitive advantage and strong returns. We will take robust action across the portfolio where our performance falls short or where we can see a better way of delivering value to our shareholders.

Our foundations are strong and we have the necessary ingredients to succeed. Our franchises are well regarded by customers and partners, our capital position and risk management capabilities provide a secure footing. We have a team of talented colleagues across the group who are passionate about building a better tomorrow for our customers and providing attractive returns for our shareholders.

Maurice Tulloch
Group Chief Executive Officer
4 March 2020

Key performance indicators

We use a number of financial and non-financial metrics to help the Board and senior management assess performance against three dimensions: our strategic priorities (excel at the fundamentals, deliver great customer outcomes, invest in sustainable growth); our vision to earn our customers' trust as the best place to meet their savings, retirement and insurance needs; and our purpose: to be with you today, for a better tomorrow. These metrics are reviewed regularly to ensure that they remain appropriate.

These metrics include Alternative Performance Measures (APMs) which are non-GAAP measures that are not bound by the requirements of IFRS. 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.

Changes to KPIs

In November 2019 we announced our new strategy, which is set out in more detail in the 'Our strategy' section. We also announced five financial targets focussed on economic value:

- Solvency II return on equity[1] – 2022 target of 12%
- Operating Capital Generation[1] – targeting £7.5 billion in 2019-22 inclusive
- Cash inflows to Group[1] – targeting £8.5 billion– £9.0 billion in 2019-22 inclusive
- Cost reduction – targeting £300 million reduction in controllable costs[1] by 2022
- Debt leverage[1] – targeting £1.5 billion reduction in debt by 2022

The KPIs to assess performance against these new targets have been included in the analysis below and in the Chief Financial Officer's review. New KPIs are identified by the symbol N.

Non-financial KPIs

Customer Net Promoter Score® (NPS®) R

NPS® is our measure of customer advocacy and we use it in nine of our markets to measure the likelihood of a customer recommending Aviva relative to our competitors. Our relationship NPS® survey shows four years of sustained high levels of customer advocacy in a challenging marketplace. We are working hard to earn customers trust by making things simple for customers thereby improving customer outcomes.

Number of markets in 2019:
at or above market average: **7**
2018: 8 2017: 7

below market average: **2**
2018: 1 2017: 2

Employee engagement

We give our people the freedom to act in line with our values to create an environment in which they can thrive through collaboration and recognition. We measure this through our annual global 'Voice of Aviva' survey. Engagement is down three percentage points to 73%, due to a period of uncertainty and change, however, the proportion of employees recommending Aviva as a great place to work is at an all-time high.

2019:
73%
2018: 76%
2017: 75%

Carbon emissions reduction

Since 2010 we have reduced carbon emissions (CO_2e)[2] from our day-to-day operations by 66% beating our 2020 target of a 50% reduction and making strong progress to our 70% reduction by 2030 target. We are a carbon-neutral company, offsetting the remaining emissions through projects that have benefited the lives of over one million people since 2012. In 2019 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 £717 million in low carbon infrastructure investments over the year.

2019:
66%
Reduction since 2010
2018: 60%
2017: 53%

Financial KPIs

Group adjusted operating profit[3] R

Group adjusted operating profit[3] increased by 6% to £3,184 million, which included significantly improved performance in Canada and lower expenses and debt costs. See the Market review section for further details of the performance of our markets in the year.

2019:
£3,184 million
2018: £3,004 million[4]
2017: £2,975 million[4]

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

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

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

3 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.

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Financial KPIs continued

Profit before tax attributable to shareholders' profit (PBT)

Profit before tax attributable to shareholders' profit increased to £3,374 million mainly due to growth in adjusted operating profit[1], and positive investment variances driven by lower interest rates, narrowing credit spreads and equity market gains.

2019:
£3,374 million
2018: £2,129 million
2017: £2,003 million

Operating earnings per share[1,2] R

Operating earnings per share[1,2] increased by 8% to 60.5p, mainly reflecting the growth in adjusted operating profit[3].

2019:
60.5p
2018: 56.2p[4]
2017: 53.0p[4]

Solvency II Return on equity[1] N

Group Solvency II return on equity[1] has increased by 1.8pp over the year primarily as a result of significant favourable assumption and modelling changes. See the 'Market review' section for further details of the performance of our markets in the year.

2019:
14.3%
2018: 12.5%

Solvency II Operating Capital Generation[1] N R

Group Operating Capital Generation[1] is £0.9 billion lower due to management actions impacting the Solvency Capital Requirement. See the 'Market review' section for further details of the performance of our markets in the year.

2019:
£2,259 million
2018: £3,198 million

Cash remittances[1] R

In 2019 cash remittances[1] from our markets decreased to £2,597 million *(2018: £3,137 million, including £1.25 billion special remittances from UK Life)*. Within this, UK Life delivered £1,387 million (including £500 million of special remittances), and higher remittances were received from Canada, Europe and Asia.

2019:
£2,597 million
2018: £3,137 million
2017: £2,398 million

Controllable costs[1] N

Controllable costs[1] decreased by 1% to £3,939 million. The decrease in controllable costs[1] mainly reflects our focus on efficiency, partially offset by targeted spend on growth initiatives and IT simplification.

2019:
£3,939 million
2018: £3,968 million
2017: £3,840 million

Solvency II debt leverage[1] N

Solvency II debt leverage[1] has reduced by 2pp to 31%. This was due to a reduction in debt and an increase in Solvency II total regulatory own funds over 2019.

2019:
31%
2018: 33%

Estimated Solvency II shareholder cover ratio[1,5] R

We continue to maintain our strong financial position. During the year, the estimated Solvency II shareholder cover ratio[1,4] has strengthened by 2pp to 206% *(2018: 204%)* primarily as a result of total capital generation, partly offset by the payment of the Aviva plc dividend and repayment of hybrid debt.

2019:
206%
2018: 204%
2017: 198%

Value of new business on an adjusted Solvency II basis[1]

Value of new business on an adjusted Solvency II basis (VNB)[1] measures growth and is the source of future cash flows in our life businesses. VNB[1] increased by 2% to £1,224 million, mainly driven by growth in Bulk Purchase Annuity VNB[1] in the UK.

2019:
£1,224 million
2018: £1,202 million
2017: £1,243 million

Combined operating ratio[1]

The combined operating ratio (COR)[1] is a measure of general insurance profitability. The lower the COR[1] is below 100%, the more profitable we are. Reported COR[1] is broadly in line with 2018, with a better COR[1] in Canada offset by adverse movements in our other businesses. See the 'Market review' section for further details of the performance of our markets in the year.

2019:
97.5%
2018: 97.2%[4]
2017: 97.2%[4]

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

1 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.
2 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.
3 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.
4 During 2019 the Group adjusted operating profit APM has been revised and now includes the amortisation and impairment of internally generated intangible assets to better reflect the operational nature of these assets (see note 2(b)). Group adjusted operating profit continues to exclude amortisation and impairment of intangible assets acquired in business combinations. Comparative amounts have been restated resulting in a reduction in the prior period Group adjusted operating profit of £112 million *(2017: £93 million)*. There is no impact on profit before tax attributable to shareholders' profit. Following the change in the definition of Group adjusted operating profit, COR and operating earnings per share have also been restated to include the amortisation and impairment of internally generated intangible assets. Comparative amounts have been restated resulting in an increase in prior period COR of 0.6% *(2017: 0.6%)* and a reduction in the prior period operating earnings per share of 2.2 pence *(2017: 1.8 pence)*.
5 The estimated Solvency II position represents the shareholder view. Please refer to note 58 and the 'Other Information' section of the Annual report and accounts for more information.

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

Business model

Aviva exists to help our 33 million customers make the most out of life, to plan for the future, and to know that if things go wrong we will be with them to put it right. Aviva is a leading international Savings, Retirement and Insurance business and the largest multi-line insurer in the UK, our home market. We also operate in Europe, Canada and Asia.

Our business model defines us, differentiates us and helps us meet our customer's needs…

Our businesses
We have simplified our business into five new business divisions[1]:
- Investments, Savings & Retirement
- UK Life
- General Insurance
- Europe Life
- Asia Life

Our channels
Our customers can engage with us through multiple distribution and service channels:
- Digital applications
- Direct to customer
- Intermediaries, including tied agents and brokers
- Strategic partnerships and bancassurance arrangements

Our strengths
We have unique strengths as a business that gives us a significant competitive advantage:
- Strong technical skills
- Innovative analytical capabilities
- Diversified distribution
- Robust capital position
- Leading customer franchise
- Well recognised brand

Our skills
We have a wide range and blend of skills:
- Customer service
- Underwriting
- Risk management
- Claims management
- Digital innovation
- Data Science
- Asset and liability management

…through our products and solutions…

Investments and Savings
- Individual savings
- Workplace savings
- Advice and guidance
- Investments and asset management

Retirement
- Annuities
- Equity release mortgages
- Drawdown
- Pensions

Insurance
- Personal lines e.g. motor, home
- Commercial lines
- Protection
- Health

…from which cash and premiums are received…

Customers invest their savings with us. For a fee, we manage and administer their investments so they can grow their savings or secure an income in the future

Customers pay us premiums which we reinvest to provide them with income in their retirement, via a lump sum, regular payments or by releasing the money tied up in their property

Customers pay insurance premiums which we use to pay claims, protecting what matters to them. Our scale enables us to pool the risks and maintain capital strength, so we are there for our customers when they need us

…and sustainable value is created for…

Shareholders
We invest carefully so we can deliver sustainable, growing returns for our shareholders.

30.9 pence
Total 2019 dividend up 3%

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

£33.2 billion
Paid out in benefits and claims to our customers in 2019

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

Over 2,000
Community projects supported in 2019, helping over 1.2 million people

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

73%
Our employee engagement score in 2019

Read more about our business at www.aviva.com/about-us/who-we-are-and-what-we-do

1 From 2020.

The external environment

Our strategy has been developed to respond to and anticipate the following opportunities and challenges posed by the external environment and long-term trends impacting our industry. We acknowledge the risks these trends present and aim to turn these into opportunities for growth and delivery of our strategy.

Political and macroeconomic impact

Political and macroeconomic factors can impact the operating environment of our businesses in the UK and abroad. These include the continuation of modest economic growth, falling interest rates, political tensions in the UK and Europe around the finalisation of Brexit, trade pressure between the US and China, and potential volatility around the upcoming US elections.

In 2019, global GDP growth fell to its lowest rate since the financial crisis in 2008

2.8%

Source: IMF World Economic Outlook, October 2019

Active governments and regulators

Increasingly, governments are promoting private provision and reforms of services once funded by the State (e.g. pensions, healthcare) while regulators remain focused on customer outcomes, enforcing conduct and prudential supervision (e.g. Solvency II) as well as standardising insurance accounting (e.g. IFRS 17).

Increase in proportion of UK employees automatically enrolled in a workplace pension scheme between 2012 and 2019

32%

Source: Automatic enrolment, The Pensions Regulator, October 2019

Continuous advancement in technologies

'Big data' and advances in Artificial Intelligence are leading to new levels of simplicity, convenience and speed. These new technologies are offering advancements to traditional healthcare, allowing people to live longer, and access to new mobility options, in some cases moving from private ownership towards more efficient and cleaner modes of transport, while at the same time also increasing the challenges around the ethical use of data.

Expected increase in productivity caused by impact of Artificial Intelligence technologies by 2035.

40%

Source: Accenture, 2019

Climate change and sustainability

Climate change has increased the frequency of extreme weather events. These extreme weather events have resulted in an increase in political focus, regulation and focus on the economic and social impact of climate change. At the same time, customers have become more attentive to the environmental, social and governance (ESG) aspects of their saving and investment decisions.

Increase in annual inflows to ESG funds between 2018 and 2019

53%

Source: Morningstar, October 2019

New risks emerging in a connected world

New risks are emerging as a result of technological advancements in the provision and use of personal data, uninterrupted access to services, sharing of information, demise of traditional jobs, as well as development of new skills and capabilities – these changes can create demand for new saving, retirement and insurance products and solutions.

Estimated economic damage from cyber-attacks in 2018

$600 billion

Source: Munich Re, 2020

Read more about our risk management in the 'Risk and risk management' section of this Strategic report.

Our strategy

On 4 March 2019, Aviva announced Maurice Tulloch's appointment as Chief Executive Officer. Following his appointment, Maurice outlined his plans for a thorough review of the Group and business division strategies.

On 20 November 2019, we presented our refreshed strategy, purpose and vision, which are set out below.

'I am committed to running Aviva better. We will excel at the basics, giving customers a simpler, faster and more convenient service. Getting these fundamentals right will result in a simpler, stronger, better Aviva, while also improving returns for shareholders.'
– Maurice Tulloch, CEO

Our purpose

With you today, for a better tomorrow

Our purpose is the reason Aviva exists. Our roots reach back to 1696 and since those early days, we have been there for our customers when it really matters. We are here to help them make the most of life and know that if things go wrong, we will be with them to put it right. Our purpose inspires us to do the right thing. It reflects that we are deeply invested in our customers, our communities, our people and our planet. By caring more today we will leave a legacy to be proud of.

Our vision

To earn customers' trust as the best place to save for the future, navigate retirement and insure what matters most to them.

Our vision is ambitious but grounded. It is about being brilliant in our core areas of expertise and focusing where we have the strongest opportunities to make a meaningful difference.

Our strategy

Our strategy is to simplify Aviva into a leading international savings, retirement and insurance business delivering for our customers, shareholders, and communities.

We understand the fast-changing world around us and the implications these changes have on the needs of our customers. Our strategy aims to provide our customers with simplicity, speed and convenience, ensuring reliable service, good value products and transparent communication.

Under our new strategy we have set out three strategic priorities:
- Deliver great customer outcomes;
- Excel at the fundamentals;
- Invest in sustainable growth;

and we have simplified our operating model into five new business divisions.

We will deliver great customer outcomes

What this means

Our focus will be on meeting our customers' savings, retirement and insurance needs. We will simplify the way in which we interact with and serve our customers, promote resolution as early as possible and enhance our digital platforms. Through our well-known brand, it is our vision that customers will recognise Aviva as the best place to meet their savings, retirement and insurance needs.

We believe that this will lead to growth in new customers and improved retention of existing customers. We will monitor our progress through metrics including our trust and net promotor scores.

We will excel at the fundamentals

What this means

Our focus will be on the core activities of our business: underwriting, claims management, investment performance and cost efficiency. We will maximise our use of data and analytics and continue to digitise our business.

By pursuing strong performance across the fundamentals, we will embed a performance culture across our business.

We plan to achieve our cost saving target of £300 million over the next three years. We have achieved a £72 million saving in 2019 and initiatives are in place to deliver £150 million in our 2020 results, compared with our 2018 baseline.

We will invest in sustainable growth

What this means

Our focus will be investing with a clear commercial benefit. We will be selective with the opportunities we pursue and invest where we can generate economic returns and long-term value for our shareholders.

By adopting a rigorous investment framework, focused on value and capital return, we expect to generate increasing revenues, fund flows, capital, cash and profit.

We plan to invest £1.3 billion over the next three years in areas such as IT simplification, transformation of UK customer experience and mandated regulatory change.

When we get these priorities right, we succeed

Our three strategic priorities focus our actions to deliver our strategic and financial objectives. Evidence has shown that when we focus on these priorities, we deliver value for our customers, shareholders and communities, for example:
- By delivering great outcomes to our customers and their advisors we increased fund flows in our UK Advisor and Workplace Savings business, where assets under administration[1] grew by 73% (FY15 – 2019)
- By excelling at the fundamentals of underwriting in our General Insurance business, our UK digital aggregator QuoteMeHappy has grown by c.1.4 million customers since inception, while remaining efficient at a low expense ratio
- By being excellent at investment performance and technical expertise in our UK Life business, we have invested sustainably in the bulk purchase annuities market, growing new business from £2.6 billion in 2018 to £4.0 billion in 2019 as measured by the present value of new business premiums[1] (PVNBP).

As part of the strategy update in November 2019, we also set out new financial targets. These new targets focus on long-term economic value generation and confirm our commitment to deliver on our plan to reduce debt and maintain the progressive dividend policy and financial strength of the Group. Further information on the new financial targets can be found in the 'Key performance indicators' section.

Our values

Our four values are at the heart of how we do business. They are how we must operate:
- We **Care More** about our customers, our partners, our colleagues and the communities where we live and work
- We look for opportunities to **Kill Complexity**. We want to make things simpler for our customers and for each other so that we can all focus on what matters

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

- We **Never Rest** and have the ambition to be the best we can be
- And we **Create Legacy**, taking a long-term view to build a better and more sustainable future for everyone

Our businesses

Under our new strategy, we have simplified our operating model into five new business divisions[1]:

- Investments, Savings & Retirement
- UK Life
- General Insurance
- Europe Life
- Asia Life

This simplified operating model enables each business to focus on their strategic, commercial and operational priorities while still benefiting from overall synergies between divisions.

We expect all business divisions to deliver both cash flows and growth, however the balance will differ for each. This provides us with choices on how we allocate our capital and resources and ensures we generate the highest returns.

Below we set out an overview of each of these five new business divisions, including their updated strategy, key priorities and financial ambitions.

Investments, Savings & Retirement

Overview

Helping people meet their savings and retirement needs is one of the biggest challenges facing our communities. We have created a new division that will take on this challenge and provide us with an exciting growth opportunity. This division brings together our global asset manager, Aviva Investors, and our modern UK Savings & Retirement business[2] to create a wealth and asset management business. This business will serve a fast-growing market as consumers look to save for their future, safeguard against the unknown and enjoy income in their retirement years.

We are uniquely positioned to win in this business. We have a market leading brand, we are currently number one[3] in UK Workplace Pensions by assets under administration[4] (AuA) and as at 2019 Aviva Investors assets under management[4] (AuM) was £346 billion.

With a large customer base, scale of assets and strong advisor relationships, this division is well positioned for growth. It will also draw on our strong track record and expertise in the area of responsible investing.

'As we implement our plans, Aviva will become the leading provider of mass market savings and retirement solutions in the UK and the owner of a strong international asset management brand, serving third parties and global Aviva insurance businesses. I think it's an exciting future' – Euan Munro, CEO[5]

Key priorities for 2020:

- Realise value from the strong investment performance, environmental, social and governance (ESG) leadership, distribution reach and platform capability built over the last five years by: growing AuM by winning third party mandates at Aviva Investors, growing AuA by capturing more of the workplace and adviser markets in UK Savings & Retirement and growing Aviva Investors AuM across workplace and individual savings, by offering tailored and appropriate investment propositions to our customers
- Deliver holistic client and customer led propositions that unlock new segments of the market
- Build a strong Investments, Savings & Retirement brand to reposition ourselves in the market
- Deliver a market leading customer and client experience

Financial targets

- By 2022, annual net fund flows[4] of £10 billion from third party investors for Aviva Investors and £10 billion for UK Savings & Retirement.

UK Life

Overview

From 2020, our UK Life division incorporates three lines of business: annuities & equity release, protection & health and heritage. This division is key in generating sustainable cash flow.

We are already a leading provider within each of these three lines, evidenced by a strong franchise and leading market share positions, including: number one in individual annuities, number two in group protection and number two in individual protection. Across these lines we have a full suite of capabilities, including data analytics, underwriting, asset-liability management, scale efficiencies and access to Aviva Investors' solutions.

Our focus for UK Life is two-fold:

- Generate significant levels of capital and cash flow
- Recycle some of that capital to write profitable new business.

'UK Life is a fantastic business which I am incredibly proud to be leading. It has a central role to play in Aviva's success. My clear objective for this business is to deliver dependable growth in long-term cash flows' – Angela Darlington, CEO

Key priorities for 2020:

- Expand our annuity business with capital efficient growth in bulk purchase annuities to increase long-term cash-flows
- Capitalise on data analytics, scale and modelling techniques to better understand our target customers, distributors and risks, and to develop more focused pricing algorithms and services, which are attractive to new and existing customers and enhances overall performance
- Manage heritage savings to minimise operational complexity and optimise capital use
- Increase automation and digitisation to improve cost efficiency

Financial targets (Combined Investments, Savings & Retirement and UK Life)

- Solvency II return on capital[4] of 9.5% and cash inflows[4] to Group of £4.25-£4.75 billion (cumulative 2019 – 2022) and a special cash inflow[4] to Group of £0.5 billion (UK Life, 2019).

General Insurance

Overview:

Our General Insurance division helps protect our customers from loss in the event of damage to their property or assets, or injury to themselves or others for which they are responsible. We offer a wide a range of products to personal and business customers, including motor, home, travel and pet insurance, commercial property, liability and specialty covers such as classic car and boiler breakdown.

We provide General Insurance at scale in the UK and Canada and have an attractive European business operating in France, Ireland, Italy and Poland. We hold the number one market position in the UK, and number two in Canada and Ireland.

1 From 2020.
2 UK Savings & Retirement is reported within UK Life in 2019.
3 Number one by bundled workplace AuA, Broadridge UK DC & Retirement Income, 2018
4 This is an Alternative Performance Measure (APM) which provides useful information to supplement an understanding of our financial performance. Further information on APMs, including reconciliation to the financial statements (where possible), can be found in the 'Other information' section of the Annual report and accounts.
5 Subject to regulatory approval.

Our focus is on generating sustainable profitable growth through improving speed, simplicity and efficiency for our customers. In the UK, we have aligned our UK digital business with our UK General Insurance business to help deliver this. We will also build on our leading insurance expertise to expand our commercial lines business whilst continuing to optimise our potential in personal lines.

'We will be the best in the market at fundamentals. We will focus on speed of execution and we will simplify our business. Financial discipline in all decisions will be a core requirement. We will hold each other to account and there will be no excuses' – Colm Holmes, CEO

Key priorities for 2020:

- Focus on simplicity, speed and efficiency for our customers to strengthen growth and profitability across our business. To date we have already reduced the personal lines product suite by more than a quarter, and we continue to invest in our 'self-serve' claims technology
- Expand our commercial lines business by continuing to extend our strong small and medium enterprises position to mid-market and Global Corporate & Specialty portfolios
- Continue to deliver the recovery in Canada, following a 5.3pp improvement to combined operating ratio[1] in 2019 and expand by leveraging on our brokers and partnership with Royal Bank of Canada, which was recently extended to 2036

Financial targets

- Cash inflows[1] to Group of £2.0 – £2.5 billion (cumulative, 2019 – 2022), combined operating ratio[1] of 95% (2022), Solvency II return on capital[1] of 14% (2022) and achieve net written premium growth of 20% (2022 vs. 2018)

Europe Life

Overview:

Our Europe Life division offers a range of insurance savings, investment and protection products to customers who want to make the most of their money, plan for the future and protect against the unexpected. We operate across five countries, France, Italy, Poland, Ireland and Turkey and have eight million customers.

Europe Life has diverse distribution and focuses on maintaining a capital efficient product mix. We hold several strong market positions, including number two in Poland, number four in Ireland and number five in Italy. We have also grown our policyholder reserves to £120 billion at 2019.

Our focus will continue to be generating sustainable growth, while actively managing the low interest rate environment. We will achieve this by:

- Continuing to transform the product mix from guaranteed savings towards capital light products
- Expanding and investing in our distribution channels
- Focusing on the fundamentals of insurance to drive operational efficiencies, and
- Leveraging expertise and technology from across the Group

'It's my privilege to present our strategy for the European businesses, which continues to be a significant contributor to the Aviva Group. We contribute a material portion of the group operating profits and are an important part of the wider Aviva story' – Patrick Dixneuf, CEO

Key priorities for 2020:

- Further develop our multi-channel distribution capability and strengthen the awareness of our brand
- Continue to evolve the savings mix towards capital efficient unit linked and hybrid products
- Increase sales of protection products across our life customer base
- Simplify propositions and increase automation and digitisation to improve cost efficiency

Financial targets

- Solvency II return on capital[1] of 9.5% (2022) and cash inflows[1] to Group of £0.75 – £1.25 billion (cumulative 2019 – 2022)

Asia Life

Overview:

Asia Life comprises our businesses in Singapore, China, India, Indonesia, Vietnam and Hong Kong.

Our business in Singapore contributed 77% to Asia's total value of new business in 2019. Here, we are a leader in the financial advisor channel and operate a profitable business offering protection and savings products. Our aim is to continue to grow our market share and further extend our lead in the financial advisor and employee benefits segments with a broad customer footprint across private and public sectors.

In China, our joint venture company in partnership with COFCO continues to deliver strong growth, especially in the agency and broker channels, alongside margin expansion. Our plan is to further invest and extend these competitive advantages and continue to outperform our peers in value creation and profit growth.

In November 2019, we announced the sale of our stake in our Hong Kong joint venture, Blue, to our partner Hillhouse Capital, subject to regulatory approval. We are also in discussions with our partners in relation to our business in Vietnam and joint venture in Indonesia.

'Asia continues to be the growth engine for the insurance industry worldwide. Despite intense competition, Aviva focuses on leveraging our unique competitive advantages in individual Asian markets to continue to outperform our peers' – Chris Wei, CEO

Key priorities for 2020:

- Extend our lead in the financial advisor channel in Singapore
- Further invest in agency and productivity growth in China
- Maintain a value-focused approach in product mix and margins
- Streamline regional support functions to enhance efficiency

Financial targets (Singapore)

- Double digit Value of New Business[1] (VNB) and profit growth

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

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

Section 172 (1) statement and our stakeholders

Overview

We report here on how our directors have performed their duty under Section 172 (s.172) of the Companies Act 2006, and this statement reflects the contribution by the Aviva Group to the performance of Aviva plc. S.172 sets out a series of matters to which the directors' must have regard in performing their duty to promote the success of the Company for the benefit of its shareholders, which includes having regard to other stakeholders. Where this statement draws upon information contained in other sections of the Strategic report, this is signposted accordingly[1].

Our Board considers it crucial that the Company maintains a reputation for high standards of business conduct. The Board is responsible for setting, monitoring and upholding the culture, values, standards, ethics, brand and reputation of the Company to ensure that our obligations to our shareholders, employees, customers and others are met. Management drives the embedding of the desired culture throughout the organisation. The Board monitors adherence to our policies and compliance with local corporate governance requirements across the Group and is committed to acting where our businesses fail to act in the manner we expect of them.

Our Board is also focussed on the wider social context within which our businesses operate, including those issues related to climate change which are of fundamental importance to the planet's well-being. A detailed explanation of how Aviva continues to manage the impact of its business on the environment is outlined in the 'Corporate responsibility' section of the Strategic report.

Our culture

As the provider of financial services to millions of customers, Aviva seeks to earn their trust by acting with integrity and a deep sense of responsibility at all times. We look to build relationships with all our stakeholders based on openness and continuing dialogue.

Our culture is shaped by our clearly defined purpose – with you today, for a better tomorrow – to help ensure we do the right thing in Aviva. Throughout our business, we are proud that our people live by our core value of Care More for our customers, for each other and for the communities we serve. We value diversity and inclusivity in our workforce and beyond, and the 'Our people' section of this report sets out the strength of Aviva's culture in this regard and how that underpins everything we do every day.

Key strategic decisions in 2019

For each matter which comes before the Board, the Board considers the likely consequences of any decision in the long-term and identifies stakeholders who may be affected, and carefully considers their interests and any potential impact as part of the decision-making process.

In June 2019, we announced that our life and general insurance businesses in the UK will be managed separately, with our digital direct business integrated into UK General Insurance. This will enable stronger accountability and greater management focus on the UK's leading life and general insurance business. We also disclosed that we are targeting a £300 million per annum reduction in controllable costs[2] by 2022 (net of inflation), which will involve 1,800 role reductions across the Group.

In November 2019, we announced the outcome of a comprehensive strategic review of our business. Our strategy is to simplify Aviva into a leading international savings, retirement and insurance business delivering for our customers, shareholders and communities. We will achieve this by delivering great customer outcomes, excelling at the fundamentals and investing in sustainable growth. These actions will drive higher returns for our shareholders.

The Board determined that in order to progress its agreed strategic priorities, Aviva should be simplified into five operating divisions from 2020. This included the creation of a new business division; Investments, Savings & Retirement (IS&R). IS&R brings together Aviva Investors and our UK Life Savings & Retirement businesses to look after all stages of customers' savings and retirement needs.

As a result of our strategic review, we announced in November 2019 that we will retain our businesses in Singapore and China. We agreed the sale of our stake in our Hong Kong joint venture, Blue, to our partner Hillhouse Capital Group, and we are in discussions with our partners in relation to our business in Vietnam and joint venture in Indonesia. For further information on all these decisions, see 'Our strategy' in this Strategic report.

Our key financial decisions made during the year, including the adoption of a progressive dividend policy, our targeted £1.5 billion debt reduction and our planned investment of c.£1.3 billion in our operating businesses in the period to 2022, were all made in line with our long-term strategic goal of sustainable value creation. A full account of our financial performance is contained in the Chief Financial Officer's review within this Strategic Report.

1 The s.172 statements of our qualifying subsidiaries will be made available on the Aviva plc website.
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 reconciliation to the financial statements (where possible), can be found in the 'Other information' section of the Annual report and accounts.

Stakeholder engagement

The table below sets out our approach to stakeholder engagement during 2019:

Stakeholders	Why are they important to Aviva?	What is our approach to engaging with them?
Customers	Our purpose, 'with you today, for a better tomorrow,' captures the reason we exist as a business. Understanding what's important to our 33 million customers is key to our long-term success.	• The Board receives regular reporting on customer outcomes and customer-related strategic initiatives throughout the year. We conducted reviews of the 'customer journey' within Aviva and of trust in the Aviva brand. • The Board closely monitors customer metrics and engages with the leadership team to understand the issues if our performance does not meet our customers' expectations. This is also reflected at each of our subsidiary boards. • During 2019, we reviewed our Board committee structures and repurposed the Governance Committee to the Customer, Conduct and Reputation Committee to ensure comprehensive scrutiny of all customer-related areas. • The Board continues to monitor and review developments concerning changes to our IT platforms which will allow us to simplify and support service delivery to our customers. • For further information on how we engage with our customers, please see the reports from each of our business divisions in the 'Market review' section of this Strategic report.
Our people	Our people's commitment to serving our customers is essential for us to deliver on our vision to earn customers' trust as the best place to save for the future, navigate retirement, and insure what matters most to them.	• Through employee forums, global internal communications and informal meetings, the directors engage with our people on a wide range of matters and act on the outputs of our annual global engagement survey. • The Chairman also chairs the Evolution Council (a diverse group of high calibre leaders from across the business), involving them in discussions related to the Group strategy and incorporating their insight into their final decisions. Council meetings are attended by a number of Non-Executive Directors. • Our directors have also attended meetings of Your Forum, our fully elected employee forum representing UK employees. • We believe these methods of engagement with Aviva employees are effective in building and maintaining trust and communication; allowing for openness, honesty and transparency and increasing innovation and productivity within the business. These methods of engagement also act as a platform for Aviva employees to influence change in relation to matters that affect them. • In line with our talent management programme, talent breakfasts were held with the Board and high potential employees. • Our people share in the business' success as shareholders through membership of our global share plans. • We are committed to recruiting, training and retaining the best talent we can find. We are proud to have been a pioneer in some areas of employee benefits, including providing six months paid parental leave for all UK employees. The Chairman remains a member of the 30% Club, a business-led organistion committed to accelerating progress towards better gender balance at all levels of organisations. Further information on our approach can be found in the 'Our people' section of this Strategic report.
Suppliers	We operate in conjunction with a wide range of suppliers to deliver services to our customers. It is vital that we build strong working relationships with our intermediaries, including around risk management and customer service	• Our directors maintain oversight of the management of our most important suppliers and our operating subsidiary boards regularly review and report on their performance. During the year, we successfully progressed our migration to a new data centre infrastructure provider, including partial migration to the Cloud. • Our Board reviews the actions we have taken to prevent modern slavery and associated practices in any part of our supply chain and approves our Modern Slavery Statement each year. • All supplier-related activity is managed in line with the Group Procurement and Outsourcing business standard. This ensures that supply risk is managed appropriately in relation to customer outcomes, data security, corporate responsibility, and financial, operational, contractual and brand damage caused by inadequate oversight or supplier failure. • An important part of our culture is the promotion of high legal, ethical, environment and employee related standards within our business and also among our suppliers. Before working with any new suppliers, we provide them with our Supplier Code of Behaviour, and our interaction with them is guided by our Business Ethics Code. • In the UK, Aviva is a signatory of the Prompt Payment Code which sets high standards for payment practices. We are a Living Wage employer in the UK, and our supplier contracts include a commitment to paying eligible employees not less than the Living Wage in respect of work provided to Aviva in the UK.

Stakeholders	Why are they important to Aviva?	What is our approach to engaging with them?
Communities	We recognise the importance of contributing to our communities through volunteering, community investment, and long-term partnerships with non-governmental organisations, and as a major insurance company we are fully engaged in building resilience against the global impact of climate change.	• The Board receives regular updates on our community activities, including our strategic partnership with the British Red Cross, and our community investment directed through the Aviva Community Fund and the Aviva Foundation. • During the year, the Governance Committee supported the Board in this area by reviewing our Group Corporate Responsibility strategy and overseeing its implementation. This oversight will continue in 2020 through the Customer, Conduct and Reputation Committee. • Aviva and the British Red Cross have been working in partnership since 2016 to build safer and stronger communities in the UK and beyond, and many of our people have volunteered in support of this work including as Community Reserve Volunteers and through a Global Mapathon, to help map some of the world's most vulnerable communities, who otherwise could not easily be reached by aid organisations in crises. • Through the Aviva Foundation, we support the World Benchmarking Alliance which develops benchmarks to encourage sustainable business practices in relation to the UN Sustainable Development Goals. For further information, see the 'Corporate responsibility' section of this Strategic report. • Aviva was the first global insurer to become carbon neutral in 2006 and we continue to offset 100% of any remaining carbon emissions. • More on how the Board incorporates climate-related risks and opportunities into our governance, strategy and risk management operations is included in 'Our climate-related financial disclosures' in this Strategic report.
Regulators	As an insurance company, we are subject to financial services regulations and approvals in all the markets we operate in.	• As the subject of close and continuous supervision by our regulators, we maintain constructive and open relationships with them. We have a programme of regular meetings between the directors and our UK regulators. • This includes engagement on the management of our climate risk responsibilities to meet the requirements of the Prudential Regulation Authority's 2019 supervisory statement, 'Enhancing banks' and insurers' approaches to managing the financial risks from climate change'. • The Customer, Conduct and Reputation Committee enables continued focus in this area through its oversight of the regulatory landscape.
Shareholders	Our retail and institutional shareholders are the owners of the Company.	• The Board meets with shareholders at the Annual General Meeting which provides an opportunity, predominantly for our retail shareholders, to engage directly with the Board. • The Chairman, Senior Independent Director and Executive Directors have a programme of meetings with institutional investors during the year. The Board also receives regular briefings from our corporate brokers on investors' views. • A shareholder newsletter is published on aviva.com every quarter and provides shareholders with publicly available information including recent Board changes, financial or strategic updates, and information about our Aviva Foundation projects.

Our people

Our people are at the heart of our business. They play an integral role in fulfilling our purpose to be with you today, for a better tomorrow. Our focus for 2019 has been on continuing to transform Aviva's culture, making Aviva a great place to work with the people and skills we need to grow our business, and to simplify what we do and how we do it, so our people can maximise their focus on our customers.

Our diverse global workforce is made up of 31,181 colleagues, with more than 15,000 colleagues in our home market in the UK.

Our strategy

Our global people strategy sets out how we will accelerate the delivery of Aviva's strategy from the inside out. We will:

- Help our people to connect their work to our purpose and to our customers.
- Recruit, retain and develop the very best people, focusing especially on the fundamentals of insurance.
- Make our leaders accountable and empower them and their teams to act in line with our values, with an increased focus on performance.
- Embed inclusion throughout the business, making Aviva a place where everyone can be themselves.

Our values

Care More

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

Kill Complexity

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

Never Rest

We fail fast and learn fast, testing and learning at pace. We embrace digital. We are dissatisfied with the way things are done now. We challenge ourselves to learn about the cutting edge and harness it. We get it done at pace.

Create Legacy

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

Developing our people

Developing our people remains central to the work we do. We continue to build a digitally-enabled, life-long learning culture at Aviva, and focus on developing our talent and coaching capability. Highlights from 2019 include:

- We completed the global rollout of our flagship leadership programme – Leading for Growth. Over 2,000 leaders have now gone through the programme, and markets have been trained to provide ongoing delivery for remaining leaders and new recruits.
- We launched Emerging Leaders@Aviva – a new talent programme to spot and develop potential leaders early in their careers. There was significant interest with 1,000 applications for 134 places. There has been a strong gender and diversity mix (60% of participants are female), with very positive results to date.
- Our Women in Leadership Programme designed to accelerate high potential women for substantial business roles evolved. 170 women have now gone through the programme with 41% subsequently being promoted or taking on a broader role.
- It has been a very successful year for our Global Graduate Leadership Programme, with 51 graduates rolling off the programme and securing roles across the breadth of Aviva. 31 new graduates started in September (48% female).
- We've improved our on-demand learning offering with our migration to LinkedIn Learning, tying learning more closely to career progression and performance.
- We've continued to build and develop a professional internal global coaching faculty of around 100 "jobs-plus" coaches, providing valuable support and challenge to enhance the performance of our people.

Engaging our people

In 2019 our global Voice of Aviva survey focused on

- Business: Strategic Direction, Insurance Fundamentals, Leadership behaviours and
- People: Colleague Engagement, Colleague Wellbeing and Colleague Development.

Engagement remains high at 73% but is slightly down on 2018 (76%) due to a period of uncertainty and change. Although confidence in our strategy has fallen since the 2018 Voice of Aviva survey, this shift was to a 'wait and see' position as the 2019 survey was performed just before the new Aviva strategy was announced in November 2019. Verbatim comments reinforced this view with colleagues saying they were eagerly anticipating the new strategy and what this meant for them, as well as suggesting ways to improve customer service and how to make Aviva more commercially minded. However, colleagues also said they want more simplicity in processes and structures to help them to deliver this.

Pride, motivation and advocacy remain strong and consistent. The proportion of employees recommending Aviva as a great place to work is at an all-time high. Significantly more colleagues believe that Aviva cares for their health and wellbeing (up 6 points to 80%) and there have also been solid uplifts in the view that Aviva is a place where people are free from judgement or discrimination. This result in 2019 (82%) is now 13 points higher than in 2015 – a major improvement on Aviva's culture of inclusion in a short space of time. There is also a strong link between improvements on this metric and those colleagues who feel they have greater freedom to make decisions in their job.

Within Aviva we continue to take our responsibility to consult very seriously. We have a positive and constructive relationship with the trade union Unite as well as a fully elected all-employee representative body (Your Forum). The existence of Your Forum within Aviva is a key way of recognising that we all have a part to play in contributing to the debate on issues and opportunities impacting on our people and our organisation. During 2019, a full re-election process took place with the appointment of over ten employee representatives across the UK. We provided training and coaching for new and existing representatives to ensure that they had the skills and capabilities required to undertake this important role.

The representative bodies meet regularly with the Members of the Aviva Leadership Team 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. Following the launch of the Learning Agreement with Unite the Union in 2018, we have continued to see excellent examples of collaborative working, which has resulted in an increase in employees using the Apprenticeship Levy as well as building and fostering a culture of personal development and learning.

In 2019, we hosted a one-day conference on the topic of Redefining Resolution, following the successful launch and implementation of our Conflict Resolution and Mediation policy. The event was attended by nearly 200 external guests from a very broad spectrum of employers, highlighting how Aviva is helping to change the workplace and bring in new ideas through our policy agenda.

We have continued to attend and speak at a large number of public and governmental events to talk about Aviva policies, in particular around our market-leading Equal Parental Leave policy.

Diversity and Inclusion

Diversity and Inclusion are key to Aviva being a sustainable, successful business. An inclusive culture ensures employees are happier, can be 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 2019, we had 31% female leaders *(2018: 31%)*. This has been achieved through targeted female development programmes, diverse short lists and a leadership team committed to change. In the UK, our mean and median gender pay gap and gender bonus gaps have all reduced marginally compared to the last two years. Whilst we welcome this movement, the change is minimal. It's too early to tell whether the actions we're taking are having a sustainable impact. We're committed to driving long term change and continue to focus on recruitment, progression and retention.

We are also committed to improving our ethnic diversity representation within our employee population and have launched an Ethnic Minority Leadership programme as well as sponsoring Uncovering Different Women, a report highlighting ethnic minorities in female resource groups and networks.

In November, we saw the second anniversary of our Equal Parental Leave policy. This policy has seen us as a first mover in the majority of our markets.

One of our drivers for an inclusive culture comes through our employee communities which were launched across all markets in 2018. There are six communities covering race and religion and social mobility; gender; sexuality and gender identity; caring responsibilities; age and mental and physical health. Over 6,000 employees have joined these communities so far. They act as a lobby group and conscience to the organisation and are actively sponsored by all members of the Aviva Leadership Team. Aviva does not have just one accountable executive for Diversity and Inclusion; all members are. Some of the notable contributions from the communities have been participating for the first time in Poland Pride, a series of activities marking Black History month, an event on the topic of Menopause and making sunflower lanyards available to colleagues (a discreet way for people with hidden disabilities to show they need additional support).

We have over 31,000 people working in our offices from Norwich to Singapore. Each of our colleagues brings unique knowledge and experience, attitudes and ambitions. It's important to us that everyone is involved including those with visible and invisible disabilities. We make reasonable adjustments for our people and also for candidates who are interested in working for us. As a Disability Confident Employer; a Government scheme that supports employers to make the most out of the talents that disabled colleagues can bring to our organisation, we will interview every disabled applicant that meets the minimum criteria for the job and offer Workplace Adjustment Passports to colleagues. Our AvivAbility community is for all colleagues with an interest in disability and engages with Aviva and the wider community to build interest around the topic of Visible and Invisible disabilities to increase awareness and acceptance of all disabilities and highlight the value that these individuals bring.

Health and wellbeing

We remain focussed on our employee health and wellbeing as vital to our success and growth. Our employees believe we're getting it right, as our Voice of Aviva Survey in September 2019 saw global colleagues score 80% for "Aviva values my health and wellbeing" (rising from 74% the previous year), and for the UK specifically the score was 82%.

In 2019, we've continued to deliver our Wellbeing@Aviva programme in the UK. We reviewed elements in place since it launched in 2017, making sure it continues to meet our colleagues' needs, and adding to it where appropriate. We continue to support colleagues to Be Healthy, Be Mindful, Be Secure and Be Awesome – supporting their physical, mental, financial and social wellbeing.

Some specific highlights from 2019 include:

- The launch of Digital GP – giving our UK colleagues free access to a GP via an app 24/7. From January 2019 to September 2019, 4,185 colleagues had registered on the app, with 1,301 GP appointments, 1,093 prescriptions and 170 specialist referrals made.
- We continue to offer colleagues the yearly free Headspace app – with over a million minutes of meditation since the launch of the programme. We also continue to train our leaders on mental health awareness. As a result, over 90% of leaders now feel they are comfortable having conversations about mental health with their team/peers and managers. They also know about and are comfortable signposting colleagues to the resources available to them.
- We rolled out wider financial wellbeing support including
  - The Mid Life MOT – visiting each of our UK locations to support the wealth, work and wellbeing of our 45+ population. The sessions booked up quickly, and voluntary attendance averaged 82%. Designed to boost confidence in wealth, work and wellbeing, and to raise awareness of where colleagues could seek support, the sessions met their goal with attendees scoring a 22% increase in confidence and a 34% increase in awareness of where to get support.
  - Continued to deliver the My Retirement My Way seminar to colleagues close to retirement, with sessions booked up within a few days of being announced and oversubscribed.
  - Created new presentations on Company pension and Reward, to make sure colleagues understand what they receive from being an Aviva employee.

Our plans for 2020

In 2020, our People priorities will be focused around the role our people play in delivering Aviva's refreshed strategy. We will build on the best of our culture, becoming more performance led and focused on customer outcomes. We will help our people connect to our purpose and the difference we can all make to Aviva's success.

At 31 December 2019, we had the following gender split:

Board membership
Male
6

Female[1]
3

Senior management
Male
888

Female
402

Aviva Group employees
Male
15,193

Female
15,988

The average number of employees during 2019 was 31,791 *(2018: 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.

1 Independent Non-Executive Director Claudia Arney retired with effect from 31 December 2019. Amanda Blanc was appointed as an Independent Non-Executive Director with effect from 2 January 2020
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Corporate responsibility

At Aviva, we know that in order to earn the trust of our customers we need to act responsibly and sustainably every day. Only then will we be able to meet our strategic priorities and live out our purpose to be: 'with you today, for a better tomorrow.'

As a company we aim to do the right thing for the long term. We are deeply invested in our people, our customers, our communities and our planet. By caring more today, we can leave a legacy of which we can be proud.

A forward-looking approach

In 2019, as part of our commitment to bring our business into line with the Paris Agreement (a United Nations-backed global treaty to limit global warming), we committed to ensuring our assets have a 'net zero' carbon impact by 2050. Aligned to this we are also in the process of refreshing our wider responsible and sustainable business strategy (2020-2025), based on insight from over 9,000 stakeholders across the world. We look forward to sharing more on our new strategy in 2020.

This year also marks the end of our previous five-year Corporate Responsibility (CR) strategy. We are proud to have met or beaten a number of our ambitious targets over this period, including reducing our CO_2e emissions by 66% since 2010 (target: 50% reduction), supporting 4.8 million beneficiaries through our CR programmes (target: 2.5 million) and investing over £3.8 billion in low carbon infrastructure since 2015 (target: £2.5 billion).

The following sections outline the key areas of progress we have made over the course of 2019.

Putting the customer at the centre of everything we do.

In order to deliver great customer outcomes, we are committed to helping our 33 million customers protect what's important to them and save for a bright future. In 2019 we paid out £33.2 billion in benefits and claims around the world.

We know the importance of providing excellent customer service, as demonstrated through our businesses' Net Promoter Scores®, which are our measures of customer advocacy. Seven out of nine of our businesses are at or above the market average NPS®, which quantifies the likelihood of a customer recommending Aviva.

But 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).

Our more than 60 green or accessible products and services across the world enable our customers to be more environmentally responsible or give them easier access to the protection they need for themselves and their families. (More details can be found in our Corporate Responsibility Reporting Criteria 2019 on www.aviva.com/social-purpose).

In the UK last year, we launched a pilot with Moneyline (a leading not-for-profit social lender) offering a home contents insurance product. This is designed to support low-income, financially excluded customers and can be arranged at the same time as taking out a short-term loan.

This will provide lessons on how to encourage low income households to take up insurance protection against financial loss.

In Aviva Singapore, we are going beyond paying out critical illness claims and are partnering with the Singapore Red Cross to set up a pilot 'Disability Fund' for our customers. This fund will help them use their pay-out effectively by paying for subsidised services such as transport to and from medical appointments, rehabilitation at a day activity centre and digital home monitoring to keep people safe.

Aviva Poland's anti-smog campaign continues to benefit customers. Over the last two years the campaign has seen us fund the addition of 400 external air quality sensors to the national network, with over half of these sensors placed in areas voted for by the public. The sensors are accompanied by a downloadable app, to help people keep track of pollution in their city and adjust their actions accordingly for the good of their health.

Creating a better tomorrow for our planet

To create a better tomorrow, we need to look after the planet we call home. Our plan to help tackle climate change is backed by our long history as a leader in sustainable practices.

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.

Our operational global greenhouse gas emissions data 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) in respect of Aviva's Group-wide operations 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 2019. The table below shows the absolute operational carbon emissions:

Tonnes CO_2e	**2019**	2018	2017
Scope 1	**14,207**	16,198	17,915
Scope 2	**21,340**	25,012	31,280
Scope 3	**14,628**	17,739	19,305
Absolute CO_2e*	**50,175**	58,949	68,500
Carbon offsetting**	**(50,175)**	(58,949)	(68,500)
Total net emissions	**—**	—	—

* 2019 Assurance provided by PricewaterhouseCoopers LLP available at www.aviva.com/CRkpisandassurance2019
** Carbon offsetting through the acquisition and surrender of emissions units on the voluntary and compliance markets.

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
2019	**1.0**	**1.61**
2018	1.6	2.06
2017	1.6	2.48

To date globally we have achieved a 66% reduction in CO_2e against our 2010 baseline and we have committed to align our business to the 1.5°C Paris targets, as outlined in the climate-related financial disclosure section of this Strategic report.

As well as cutting our emissions every year, we have offset any remaining emissions to ensure our business impacts have been ‘carbon neutral’ since 2006. We have helped make over 1.2 million people’s lives better since 2012 through our carbon offsetting projects. This includes provision of household water filters in Laos and Cambodia, providing safe water.

In 2019 we completed the installation of an innovative solar car port at one of our UK offices – Norwich Horizon. From April until the end of October, 89% of the daytime electricity demand for the office was covered by the solar carport, with the rest coming from renewably sourced energy via the national grid. Our award-winning Smart Building Management approach in Ireland has also reduced electricity use by 3% and gas use by 25% from May to December 2019.

At the start of 2019, Aviva UK exited underwriting the standalone operational fossil fuel power market as part of its commitment to help tackle climate change. In July 2019 we became a founding signatory of the Powering Past Coal Alliance Finance Principles. Then in November we launched ‘Aviva Renewable Energy’ – an integrated package of insurance designed specifically to support large companies in the complex market of renewable energy, including onshore windfarms, solar power and battery storage. Overall, we have significantly reduced Aviva’s underwriting exposure to coal to practically zero.

Aviva has a proud heritage in sustainability and was the first global insurer to become carbon-neutral in 2006, while Aviva Investors has invested £6 billion in green assets on behalf of Aviva and external clients since 2015. This includes £3.8 billion in low-carbon infrastructure, such as wind farms and solar panels, and £2.2 billion in green bonds.

Under the Carbon Reduction Commitment Energy Efficiency Scheme, we reported total emissions of 55,374 tonnes of CO_2e in 2019 costing £1,013,344. 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.

Having acknowledged the growing numbers of our customers, colleagues and partners speaking up about the issue of plastics, our workplaces are now free of single-use plastic containers in all our markets bar one, which has a roadmap to do so in the first half of 2020.

More details of our environmental KPI data and our independent assurance process can be found at: www.aviva.com/CRkpisandassurance2019.

Making an impact in communities

Since 2015, we have invested over £67.6 million in our communities, including £16 million in 2019 *(2018: £17.6 million)*. This has helped 4.8 million people during the last five years (1.2 million in 2019) and supported over 9,800 local community projects (2,080 in 2019). This beats our 2015-2020 target of 5,000 projects.

The last five years of our Aviva Community Fund programme has supported over 3,000 local projects in ten Aviva markets, investing over £13 million to help build capability and capacity in the charity sector. In 2019 Aviva France continued their ambitious Aviva La Fabrique programme, which saw 46 social entrepreneurs awarded a share of one million euros following over 1.5 million public votes. The Aviva La Fabrique Impact Fund was also set up to allow investors the opportunity to invest in these social enterprises.

Aviva Canada, a major general insurer, is also linking its core business expertise to its community investment. In 2019, the business launched its new social impact platform, Aviva Take Back Our Roads, which aims to make Canadian roads and school zones safer for all. The data-driven platform includes on-the-ground community projects, adoption of innovative safety products and technology, and utilises our employees’ expertise to help solve road safety issues.

In total, 11,600 of our people globally have contributed more than 68,200 volunteering hours to support their local communities throughout 2019. They also gave or fundraised over £2.1 million.

Last year the Aviva Foundation in the UK invested unclaimed assets of shareholders through grants and social enterprise investments. In 2019 the Foundation has now committed to giving £3.7 million to nine non-profit organisations and social enterprises that, working with our business, can support our communities and vulnerable customers. This has included funding counselling for vulnerable home insurance customers who experience trauma following serious events such as flooding.

In 2019 we renewed our strategic partnership with the British Red Cross for a further two years. This has enabled us to continue to work together to make communities safer, stronger and more resilient in times of uncertainty and crisis. This in turn will help them to recover quicker when a disaster strikes. Projects in 2019 have included the launch of an innovative ‘forecast-based financing’ initiative. This resulted in Aviva supporting the Indonesian Red Cross in developing an early action protocol in Indonesia. Once completed, the protocol will be activated when severe flooding is forecasted, building resilience by enabling communities to act and be helped before crisis strikes and therefore reducing the impact it has on their lives. In support of this project, over 450 of our people mapped over 60,000 buildings in urban Indonesia in one week. These maps will help the Red Cross to prioritise who and what could be impacted during a disaster and determine the help they will receive ahead of time.

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 2019).

We have a zero-tolerance approach to acts of bribery and corruption. To manage this risk, 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, and supporting Minimum Compliance Standards, guide 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.

At a Group level, the Chief Risk Officer provides Aviva’s Board Governance Committee[1] 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 2019, 89 cases were reported through Speak Up *(2018: 50)*, with four related to bribery and corruption concerns. 59 cases reached conclusion, and 30 remain under investigation. There has been no material litigation arising from any case reported in 2019.

We conduct due diligence when recruiting and engaging external partners. At the end of 2019, 98% of our UK and Ireland registered suppliers have agreed to abide by our Code of Behaviour (or provided

1 From 2020 this Committee has become the Customer, Conduct and Reputation Committee. Further details are available in the Governance Report in the Annual Report and Accounts.

a reason why they didn't do so, for example, because they have their own existing code of behaviour). Our Code of Behaviour outlines the way in which we commit to behave in our dealings with each other and includes guidance on financial crime laws and regulations.

We continue to work with our suppliers to promote the real Living Wage and include a Living Wage clause in all appropriate contracts. We are also working with the Living Wage Foundation to pilot and implement the new Living Wage Foundation standard, 'Living Hours', to ensure that workers have sufficient, predictable hours, for which we won the Global Sourcing Association Award 2019 for Social Programme of the Year.

Our Board Governance Committee[1] 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. Kirstine Cooper, Group General Counsel and Company Secretary, is the Aviva Leadership Team member responsible for corporate responsibility and sustainability, and the topic has been covered by the Board Governance Committee[1] three times during the course of 2019, as well as once at the Aviva plc Board and twice at the Board Risk Committee.

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 the 'Risk and risk management' section and in 'Our climate-related financial disclosure' sections of this Strategic report.

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.

Our support for human rights

We are committed to supporting the human rights and anti-modern slavery agenda both within the organisation through our operations, and outside of it through partnerships and collaboration.

Our human rights policy[2] identifies our main stakeholders and 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.

Within our own operations, in 2019 we:

- Completed human rights due diligence in a number of key markets, reviewing their risk approach in areas including governance, employees, customers and investments. To date, 15 markets have completed an impact assessment including the UK, China, Turkey, Vietnam, Singapore, Italy and India. The assessments allow markets to prioritise the most important actions to enhance Aviva's work on human rights.
- Engaged key suppliers on the topic of human rights and conducted modern slavery threat assessments on a range of those suppliers who, based on their sector, are at a higher risk of being exposed to modern slavery. Since 2018 we have completed 18 assessments, with no cases of modern slavery being discovered at Aviva or in our supply chain. The assessments provide suppliers with the opportunity to spot any potential risks or control gaps which we then work with them to address. In 2019 we have conducted modern slavery training for key employees in five markets.

We also work with trusted partners to enhance our approach. This includes the Slave Free Alliance, whose insights we use to both improve our strategic approach to modern slavery, and to train our staff across different markets on human rights and modern slavery issues. These workshops have ensured our people understand the complexities of modern slavery and human trafficking, help them to spot the signs of it, and teach them how to respond in the event that a case is identified. We also continue our work with the UN Global Compact as part of the UK Working Group on modern slavery.

Finally, we use our influence and connections to bring others together and enhance the industry's wider understanding of, and impact on human rights. For example, we worked with the World Benchmarking Alliance (WBA) in 2019 to organise and host the official launch of the third Corporate Human Rights Benchmark (CHRB) 2019 rankings, in our role as funder and founding member.

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

Towards a more sustainable future

Aviva is not just an insurer but an investor in the economy, investing in buildings, infrastructure projects and companies around the world to help our customers save for their future. We do this, in part, through Aviva Investors (AI), our global asset management company with a heritage in responsible investing dating back to the early 1970s.

We invest responsibly with Environmental, Social and Governance (ESG) considerations a central pillar of our investment process[3], because we believe it minimises risk and allows us to spot opportunities for our customers, empowering them to make more informed decisions. This process includes areas like climate change, human rights, plastics and gender diversity.

During 2019 Aviva Investors enhanced their responsible investment processes and embarked on a global, company-wide initiative to fully embed them across all asset classes. We have reached some important milestones. These include:

- Establishing a new responsible investment philosophy, setting out our responsible investment commitments as a business.
- Agreeing and implementing specific ESG integration policies for each of our investment functions: Credit, Equities, Multi-Asset and Macro, Real Assets and Solutions.
- Developing a framework for new products and solutions that meet the specific needs and values of our clients including building a Sustainable Outcomes Funds Range linked to the United Nations Sustainable Development Goals (SDGs). We have already launched the first two products in the range – the Sustainable Income and Growth Fund and the Climate Transition European Equities Fund – and will develop several more in the next three years.
- Working with Aviva UK Life to design funds for customers who want more bespoke solutions. For example, in July 2019 Aviva UK launched the 'Stewardship lifestyle strategy' – a workplace pension default investment strategy, marking the first time an investment strategy has been solely based on the Aviva Investors Stewardship Funds. These funds were also then launched onto Aviva UK's Adviser Platform, providing a new ethical and ESG option for pension customers.

1 From 2020 this Committee has become the Customer, Conduct and Reputation Committee. Further details are available in the Governance Report in the Annual Report and Accounts
2 Our humans rights policy can be found at www.aviva.com/content/dam/aviva-corporate/documents/socialpurpose/pdfs/policies-responses/20171025-Human-Rights-Policy-Final.pdf
3 Please note there are no specific ESG restrictions on the Investment Manager's decision

We also continue to play our role as a responsible asset owner engaging with the companies, projects and assets we own on issues such as climate change, human rights and diversity. For example, Aviva Investors worked with other investors on a resolution encouraging the oil and gas company British Petroleum to do more to show how its strategy is consistent with meeting the Paris Agreement – which passed with 96% support at its AGM.

We believe in the need to encourage change not just with the companies we invest in, but in our industry and economy as a whole. In September 2019, Maurice Tulloch, Global CEO, attended the UN General Assembly in New York to demonstrate our commitment to be a company that makes a difference. We know that an unsustainable planet creates huge risks for our business and our customers – so we engage with governments and policymakers to try and fix the financial system and make sure more money goes towards building a sustainable future. At the event he talked about the need for a Marshall Plan for the planet, an ambitious plan to change the financial system for the better.

We continue our support of the World Benchmarking Alliance (WBA), alongside the United Nations Foundation. The Alliance is committed to establishing public, transparent and authoritative league tables, ranking companies on their contribution to the SDGs. In 2019 the WBA published their first two rankings on sustainable seafood and climate change. In 2020 this will be accelerated with the publication of a suite of rankings addressing food and agriculture, digital inclusion and gender equality and empowerment.

Corporate Responsibility (CR) key performance indicators (including 2017-2019 figures) and the accompanying limited assurance statement by PwC can be found in Aviva's Environmental, Social and Governance Data sheet on www.aviva.com/social-purpose. Our CR Summary 2019 will be released later in 2020. More details of our internal diversity, inclusion and wellbeing approach can be found in the 'Our people' section of this Strategic report.

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.

	2019 £m	Restated[7] 2018 £m	Sterling Change	Sterling% change
Group adjusted operating profit[1]	**3,184**	3,004	180	6%
Operating earnings per share[2,3]	**60.5p**	56.2p	4.3p	8%
IFRS profit before tax[4]	**3,374**	2,129	1,245	58%
Solvency II return on equity[2,5,6]	**14.3%**	12.5%	1.8pp	—
Solvency II operating own funds generation[2,6]	**2,257**	2,022	235	12%
Solvency II operating capital generation[2,6]	**2,259**	3,198	(939)	(29)%
Cash remittances[2]	**2,597**	3,137	(540)	(17)%
Controllable costs[2]	**3,939**	3,968	(29)	(1)%
Debt leverage[2]	**31%**	33%	(2)pp	—
Estimated Solvency II shareholder cover ratio[2,6]	**206%**	204%	2pp	—
Value of new business on an adjusted Solvency II basis[2]	**1,224**	1,202	22	2%
Combined operating ratio[2]	**97.5%**	97.2%	0.3pp	—

As set out in the 'Our strategy' section, in November 2019 we announced new financial targets focused on economic value. We also announced that we have simplified our operating model into five new business divisions from 2020. The 'Market review' section sets out the main changes relating to the new divisions and summarises the performance of our markets during 2019 on the basis on which they were managed during the year.

In the Business performance review on the next page, our 2019 performance against our new targets has been presented having regard to the new business divisions. UK Life and Investments, Savings & Retirement have been presented together for both the Solvency II operating capital generation[2] and Solvency II return on capital[2] metrics. This is consistent with the targets presented at the capital markets day in November 2019. Other key performance indicators have been presented separately for UK Life and Aviva Investors.

Overview

In 2019, the external environment provided both positives and challenges. Economic growth was subdued across most developed economies and government bond yields fell sharply in the second half of the year, moving into negative territory in a number of European countries. However, equity markets rebounded and were supportive for asset values. The political backdrop remained a source of uncertainty, particularly in the UK, where the December general election weighed on confidence and activity across the economy.

Aviva is designed to perform whatever the external environment and made good operational progress in 2019, delivering increases in customer activity levels and profitability across our businesses. Group adjusted operating profit[1] increased 6% to £3,184 million *(2018 restated[7]: £3,004 million)* while Solvency II return on equity[2,5,6] was 14.3% *(2018: 12.5%)*, continuing to benefit from favourable assumption changes.

We also further strengthened our financial position. Our Solvency II capital surplus[6] rose to £12.6 billion *(2018: £12.0 billion)*, with an increase in the cover ratio[2,6] to 206% *(2018: 204%)*. As planned, we reduced debt by £0.2 billion in 2019, leading to a reduction in our leverage ratio[2] to 31% *(2018: 33%)*. Cash remittances[2] of £2.6 billion *(2018: £3.1 billion)* were again very strong. At the end of February 2020, our centre liquidity was £2.4 billion *(February 2019: £1.6 billion)*.

Reflecting our operational momentum and strong financial fundamentals, the Board of Directors has declared a final dividend of 21.4 pence per share, resulting in a 3% increase in the full year dividend per share to 30.9 pence *(2018: 30.0 pence)*.

Economic returns

At our capital markets day in November 2019, we outlined our intention to increase Aviva's focus on economic performance in our financial communication. This reflects the importance of economic metrics in how we manage the business: the allocation of capital and other resources across the Group and the trading decisions we make each day. Economic returns ultimately support a sustainable dividend and our ability to invest to grow the company.

In 2019, Aviva generated Solvency II operating own funds[2,6] of £2.3 billion *(2018: £2.0 billion)* resulting in RoE[2,5,6] of 14.3% *(2018: 12.5%)*. Solvency II operating capital generation (OCG)[2] was £2.3 billion *(2018: £3.2 billion)*.

Our economic results continued to benefit from significant levels of longevity reserve reductions in our UK Life business, active balance sheet management and other modelling and assumption changes. As a result, net management actions added 6.2% to the Group return on equity[2,5,6] *(2018: 3.2%)* and £0.8 billion to OCG[2] *(2018: £1.7 billion)*. In 2018, OCG[2] also benefited from a number of actions such as model changes that reduced our solvency capital requirement (SCR).

We remain prudently reserved for life expectancy in our UK annuity portfolio, although in light of recent trends witnessed in 2019, we expect longevity reserve releases to be materially lower in future periods. As a result, while management actions are expected to make a positive contribution to capital generation and RoE over time, we reaffirm our guidance that this is likely to be at a much lower level than has been the case in 2018 and 2019.

On an underlying basis (excluding net management actions), return on equity[2,5,6] was 8.1% *(2018: 9.3%)* and OCG[2] was £1.4 billion *(2018: £1.5 billion)*. Our results benefited from improved returns in general insurance, particularly from Canada, and a reduction in debt interest and corporate centre expenditure. However, this was offset by lower returns from our life businesses which were affected by the loss of temporary transitionals on new business, experience variances in the UK, and lower new business profitability in Europe due to record low interest rates.

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 IFRS profit before tax attributable to shareholders' profit.
5 Includes Group centre, debt costs and other items not allocated to the markets.
6 The estimated Solvency II position represents the shareholder view. Please refer to note 58 and the 'Other information' section of the Annual report and accounts for more information.
7 During 2019 the Group adjusted operating profit APM has been revised and now includes the amortisation and impairment of internally generated intangible assets to better reflect the operational nature of these assets (see note 2(b)). Group adjusted operating profit continues to exclude amortisation and impairment of intangible assets acquired in business combinations. Comparative amounts have been restated resulting in a reduction in the prior period Group adjusted operating profit of £112 million. There is no impact on profit before tax attributable to shareholders' profit. Following the change in the definition of Group adjusted operating profit, COR and operating earnings per share have also been restated to include the amortisation and impairment of internally generated intangible assets. Comparative amounts have been restated resulting in an increase in prior period COR of 0.6% and a reduction in the prior period operating earnings per share of 2.2 pence.

To achieve our 12% RoE[3] target in 2022, an increase in underlying economic returns is planned. This improvement will include lower costs, improved operating experience, higher new business profitability and prioritisation of capital to product and business segments offering superior returns.

Business performance review

Our operational progress in 2019 was reflected in improved IFRS results. Group adjusted operating profit[1] increased 6% to £3,184 million *(2018 restated[2]: £3,004 million)*, which in turn gave rise to 8% growth in operating earnings per share[3,4] to 60.5 pence *(2018 restated[2]: 56.2 pence)*. IFRS profit before tax increased to £3,374 million *(2018: £2,129 million)* helped by positive investment variances, and this led to basic EPS of 63.8 pence *(2018: 38.2 pence)*.

UK Life and Investments, Savings & Retirement (IS&R)

In UK Life and Investments, Savings & Retirement, own funds generation[3,5] was £1,314 million *(2018: £1,663 million)*, giving rise to return on capital[3,5] of 9.5% *(2018: 11.3%)*. The reduction in results was due to the loss of transitional benefits on new business, adverse experience variances related to persistency, expenses and challenges in the protection market, and lower Group adjusted operating profit[1] from Aviva Investors where revenues were impacted by lower opening assets under management in higher margin propositions and divestment of our European indirect real estate business in 2018. Positive assumption changes related to longevity reserves of approximately £0.8 billion were partially offset by a £175 million provision in relation to a heritage pension product where certain pension policyholders may not have been adequately informed of switching options available to them. While financial results were lower, in 2019, we achieved higher sales and customer net inflows[1] across our life and savings businesses. This underpinned asset growth of 19% in long-term savings to £138 billion *(2018: £116 billion)*, 9% in annuities & equity release to £67 billion *(2018: £62 billion)* and 5% in Aviva Investors to £346 billion *(2018: £331 billion)*, supporting a positive outlook for future financial results in our UK Life and Savings segments.

General Insurance

General Insurance results improved in 2019, with own funds generation[3,5] increasing to £628 million *(2018: £532 million)* and return on capital[3,5] of 14.0% *(2018: 11.7%)*. The improvement in results was principally driven by a recovery in profitability in Canada where pricing and underwriting actions we took in response to industry-wide challenges in the auto insurance market helped drive a 5.3 percentage point improvement in the combined operating ratio (COR)[3] to 97.8% *(2018 restated[2]: 103.1%)*. We are continuing to aim for a 96% or better COR[3] in Canada in 2020. In the UK, reported COR[3] in 2019 has been affected by higher costs following its incorporation of UK Digital during the year. Adjusting for these changes, our UK COR[3] was up 0.6 percentage points to 97.9%, with solid results in commercial lines offset by weaker performance in personal lines. In Europe we maintained attractive profitability with a COR[3] of 95.7% *(2018 restated[2]: 93.5%)* despite adverse large loss experience. Weather had a favourable impact on our COR[3] of 1.0 percentage point relative to long-term average *(2018: 0.1% unfavourable)* while prior year reserve development (PYD) had a favourable 1.7% impact *(2018: 2.3% favourable)*.

Europe Life

In Europe Life, we have balanced long-term franchise value with the requirement to actively manage the current environment of very low, and in some cases, negative government bond yields. Own funds generation[3,5] increased to £574 million *(2018: £384 million)* and included assumption changes of £181 million spread across our France, Italy and Ireland businesses. This in turn gave rise to an improvement in return on capital to 10.3% *(2018: 6.9%)*. New business volumes (PVNBP)[3] rose 9% to £13.8 billion *(2018: £12.6 billion)* demonstrating the strength of our distribution networks and customer appetite for our products. Strong volume growth was achieved in France (+32%) and Poland (+28%). However, the own funds contribution from new business declined to £167 million *(2018: £253 million)* due to low yields. We will continue to address the challenges from low yields through proactive balance sheet management and a constructive approach to distribution and product mix management.

Asia Life

In Asia Life, own funds generation increased 30% to £187 million *(2018: £144 million)* and return on capital[3,5] rose to 12.7% *(2018: 9.7%)*. Our businesses in Asia have continued to grow profitably in our larger markets while successfully narrowing losses elsewhere. New business volumes from our continuing operations in Asia increased 22% to £2.7 billion *(2018: £2.2 billion)* with double digit growth achieved in Singapore and China. This gave rise to Value of new business on an adjusted Solvency II basis (VNB)[3] in Asia of £210 million *(2018: £194 million)*, representing growth of 9%.

Corporate centre

Corporate centre costs reduced to £183 million *(2018: £216 million)* as we commenced initiatives aimed at streamlining our head office and reducing project spending, while debt interest expense fell to £255 million *(2018: £280 million)*. The loss from other operations narrowed to £26 million (*2018: £212 million loss)* primarily as a result of digital and other costs being realigned to our business units.

Operating expenses[3]

Total operating expenses[3] were £4,119 million *(2018: £4,138 million)* with reductions in controllable costs[3] partly offset by an increase in levies and premium taxes to £180 million *(2018: £170 million)*. Controllable costs fell to £3,939 million *(2018: £3,968 million)*.

Savings of £72 million[6] were mainly derived from our lean group centre initiative and reduced project spend, although we reinvested some of these savings in other areas including IT modernisation and proposition development. Implementation costs associated with the cost reduction programme and our spend on IFRS 17 was £59 million.

Capital and liquidity

At the end of 2019, our Solvency II surplus[5] was £12.6 billion *(2018: £12.0 billion)*, giving rise to cover ratio[3,5] of 206% *(2018: 204%)*.

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 During 2019 the Group adjusted operating profit APM has been revised and now includes the amortisation and impairment of internally generated intangible assets to better reflect the operational nature of these assets (see note 2(b)). Group adjusted operating profit continues to exclude amortisation and impairment of intangible assets acquired in business combinations. Comparative amounts have been restated resulting in a reduction in the prior period Group adjusted operating profit of £112 million. There is no impact on profit before tax attributable to shareholders' profit. Following the change in the definition of Group adjusted operating profit, COR and operating earnings per share have also been restated to include the amortisation and impairment of internally generated intangible assets. Comparative amounts have been restated resulting in an increase in prior period COR of 0.6% and a reduction in the prior period operating earnings per share of 2.2 pence.
3 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.
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 58 and the 'Other information' section of the Annual report and accounts for more information.
6 Constant currency.

All of our principal operating entities are well capitalised and operating within their respective normal working ranges. In France, we added approximately 70 percentage points of solvency cover in the second half of 2019, including a 20 percentage point benefit from PPE[1], following changes to regulations. This, combined with our active management of capital, including the purchase of interest rate and other hedges, gives us headroom to manage volatility from falling bond yields.

Solvency II net asset value (NAV)[2] per share rose 31 pence to 423 pence *(2018: 392 pence)*. During 2019, we redeemed £0.2 billion of hybrid capital as part of our overall £1.5 billion debt reduction target. Together with the increase in Solvency II own funds[2,3], this has led to a reduction in our leverage ratio[3] to 31% *(2018: 33%)*.

Cash remittances[3] were once more very strong in 2019 at £2.6 billion *(2018: £3.1 billion)*. This represents approximately 30% of our four-year target for cash inflows[3] to centre (of £8.5-£9.0 billion), underpinning our confidence in meeting this objective. At the end of February 2020, centre liquidity[3] was £2.4 billion *(February 2019: £1.6 billion)*.

Dividend

Aviva has a progressive dividend policy, which means we aim to maintain or grow the dividend. In light of our 2019 performance and continued strength of our capital and liquidity, the Board has declared a final dividend of 21.40 pence per share *(2018: 20.75 pence),* bringing the full year dividend for 2019 to 30.9 pence *(2018: 30.0 pence).*

Looking ahead

As CFO of Aviva, my focus is on growing value of the company safely, by increasing sustainable return on equity[2,3], improving growth and avoiding volatility through prudent and proactive financial management. Our 2019 results show we are on the right path and I envisage significant upside in performance and value from delivering further progress.

So far 2020 has brought significant uncertainty, compounded by COVID-19, in relation to macro trends including the level of interest rates, investment market volatility and foreign exchange. However, we have a strong and resilient balance sheet that is designed to withstand volatility.

In the last three years, Group adjusted operating profit[4] and OCG[3] have benefited from large assumption changes and other actions, most notably a reduction of longevity reserves. We expect our results to benefit from some similar actions over the medium term, but from 2020, we expect this to be in a range of zero to £200 million per annum for IFRS and c.£200 million per annum for OCG[3], as we highlighted at our capital markets day in November.

We have set out our targets to improve returns, reduce debt leverage[3] and enhance sustainable capital generation while continuing to invest wisely to grow the company. We are committed to achieving these targets, and furthermore, we expect to make progress in 2020, with an increase in underlying OCG.

Jason Windsor
Chief Financial Officer
4 March 2020

1 Regulation was introduced in France that allows French insurers to place the Provision pour Participation aux Excedents (PPE) into Solvency II own funds. The PPE has been included in the France local regulatory own funds in 2019 but it is not included in the Group regulatory own funds.
2 The estimated Solvency II position represents the shareholder view. Please refer to note 58 and the 'Other information' section of the Annual report and accounts for more information.
3 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.
4 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.

Market review

This section summarises the performance of our markets (UK Life, Aviva Investors, General Insurance – UK General Insurance and Canada, Europe and Asia) during 2019 on the basis on which they were managed during the year.

On 20 November 2019, we presented our refreshed strategy which simplifies our operating model into five new business divisions effective from 2020 (UK Life; Investments, Savings & Retirement; General Insurance; Europe Life and Asia Life). The main changes are that:

- Investments, Savings & Retirement will bring together Aviva Investors and the UK Savings & Retirement business, which is currently reported within UK Life
- General Insurance will include our Europe and Asia general insurance operations as well as UK General Insurance and our Canadian general insurance business
- Europe Life and Asia Life will only include our Europe and Asia life and health businesses

An overview of each of our five new business divisions, including their updated strategy, key priorities and financial targets is included in the 'Our strategy' section.

UK Life

Overview

Aviva is one of the UK's largest insurers with a 17%[1] share of the UK life and savings markets. We are here to earn our customers' trust as the best place to save for their future, navigate retirement and protect what matters most to them. We are uniquely positioned to help our customers and are a trusted provider of a broad range of products to both individual and corporate customers covering their savings, retirement, insurance and health needs.

With over 11 million customers we have one of the largest customer bases in the UK life and savings markets. We have a strong core capability in managing legacy books of business. We have strong relationships with independent financial advisers, brokers, employee benefit consultants and banks, single-tie agreements with three of the largest estate agencies and a digital direct offering. One of our key priorities is to become the retirement solutions partner of choice and we aim to empower our customers to take control of their financial futures to help them enjoy a secure and happy retirement. We are a leading provider of individual annuities and provide a secure income to 1.2 million customers in the form of an annuity, paying out over £3 billion each year. We are also a leading supplier[1] of equity release (lifetime mortgages), lending £770 million in 2019, helping people to raise money to fund whatever matters most to them in life. During 2019 we won 'Best Equity Release Lender', 'Best Equity Release Lender Customer Service' and 'Best Financial Protection Provider' at the What Mortgage Awards.

We continue to build on our defined benefit de-risking and bulk purchase annuity capabilities, supporting our business customers looking to reduce risk. We have a strong brand and leading distribution, with market leading illiquid asset origination supported by a 20-year track record in commercial mortgages and equity release.

We are the largest UK corporate pensions provider[2], servicing over 26,000 schemes and 3.5 million customers, including 23%[1] of the workplace pensions market. We offer pensions, protection, and bulk purchase annuity propositions to both large and small companies, as well as health, wellness and employee benefits, creating a differentiated proposition. During 2019 we won 'Defined Contribution Provider of the Year' and 'Pensions Communication Initiative of the Year' at the Professional Pensions UK Pension Awards.

We are an emerging leader in the adviser platform market, currently servicing over 12,000 IFAs and over 260,000 customers. Our platform continues to grow with assets under administration[3] up 28% in 2019 to £29 billion and net fund flows[3] continue to be positive at £3.5 billion. In 2019 we have outgrown the market, ranked second[4] for net fund flows[3] and are a top 10 player[4] by assets under administration[3].

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. In 2018 we paid out 98.9% of life insurance claims[5] equating to £563 million[5]. We are one of the largest in the market for individual and group protection[6]. We protect over 5 million people during some of the most difficult times in their lives, such as bereavement and serious illness. We have won several awards recognising our achievements, including, for the second year running, 'Best Individual Critical Illness Provider' at both the Health Insurance & Protection Awards and the Cover Excellence awards, and also 'Best Group Critical Illness Provider' at the latter.

Health is a key concern for people in the UK. Our aim is to help our customers live more healthily, help them get better if they fall ill and to support them and their families when they can't. We have been recognised as Health Insurer of the year for the 10th year running[7].

1 Association of British Insurers (ABI) 12 months to end Q319.
2 Broadridge, UK DC and Retirement Income 2018.
3 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.
4 Fundscape advised platforms, 9 months to Q319.
5 Aviva individual protection claims report spring 2019.
6 Swiss Re Group Watch 2018.
7 Health & Insurance Protection Awards 2019.

Financial performance

	2019 £m	Restated[6] 2018 £m
Solvency II return on capital[1]	**9.3%**	10.9%
Solvency II operating capital generation (OCG)[1]	**1,170**	1,821
Cash remitted to Group[1]	**1,387**	2,152
Adjusted operating profit[2]		
Life	**1,820**	1,848
Health	**35**	38
	1,855	1,886
Profit before tax	**2,253**	1,436
Controllable Costs[1]	**1,045**	1,013
New business		
Present value of new business premiums (PVNBP)[1]	**27,570**	23,946
Value of new business on an adjusted Solvency II basis (VNB)[1]	**592**	481

Solvency II return on capital[1] and Solvency II operating capital generation[1] (OCG)

UK Life (including UK Savings & Retirement) Solvency II return on capital[1] reduced by 1.6pp to 9.3% *(2018: 10.9%)* and Solvency II own funds generation decreased to £1,244 million *(2018: £1,552 million)*. This is largely due to no benefit from transitional relief on new business together with adverse experience on protection business. In 2018, new business written contributed to the calculation of transitional measures (in line with clarification issued by the PRA since 2017) but it is no longer applicable to the Group in 2019. 2018 own funds generation included £218 million of transitional benefits.

UK Life Solvency II operating capital generation (OCG)[1] has reduced to £1,170 million *(2018: £1,821 million)*. This is mainly due to the absence of transitional benefits on new business together with adverse experience variances and a reduction in assumption changes and management actions. These have been partially offset by lower new business strain which has significantly reduced due to reinsurance actions. The impacts of longevity assumption changes are broadly comparable in 2018 and 2019, but 2019 includes adverse impacts from persistency and other non-economic assumption changes. 2018 also included positive impacts from modelling changes and additional equity volatility hedging that did not re-occur in 2019.

Cash

Cash remitted to Group[1] by UK Life was £1,387 million *(2018: £2,152 million)*, including a £500 million special remittance following recent longevity developments. 2018 included £1,250 million of special remittances, £750 million due to positive longevity developments and management actions and the final Friends Life integration remittance of £500 million.

Profit

Adjusted operating profit[2]	2019 £m	Restated[6] 2018 £m
Long-term savings[3]	**211**	187
Annuities & equity release	**866**	777
Protection	**166**	221
Legacy[4]	**274**	316
Health	**35**	38
Other[5]	**303**	347
Total adjusted operating profit[2]	**1,855**	1,886

UK Life & Health adjusted operating profit[2] decreased by 2% to £1,855 million *(2018 restated[6]: £1,886 million)*. Within this, lower profit in protection and our legacy book were offset by higher profit in annuities & equity release. There was a lower contribution from other items mainly due to the alignment of UK digital business costs within UK Life (which is neutral at Group level).

The decrease in adjusted operating profit[2] is more than offset by a favourable movement in economic variances leading to an increase in profit before tax attributable to shareholders' profit of £2,253 million *(2018: £1,436 million)*.

Long-term savings

Long-term savings managed assets[1] increased 19% to £138 billion *(2018: £116 billion)*, with net fund inflows[1] improving to £5.4 billion *(2018: £5.0 billion)*. Within this, heritage pensions net outflows were £2.1 billion *(2018: £1.9 billion)*. These were more than offset by workplace pension net fund flows which grew to £4.8 billion *(2018: £3.7 billion)*, driven by new scheme wins with large corporates, the benefits of higher auto enrolment contributions and improved retention.

Positive net fund flows[1] of £3.5 billion *(2018: £3.9 billion)* along with market movements have resulted in platform managed assets[1] growing 28% to £29.1 billion *(2018: £22.6 billion)*.

Adjusted operating profit[2] has increased by 13% to £211 million *(2018 restated[6]: £187 million)*.

Annuities & equity release

Annuities & equity release adjusted operating profit[2] increased to £866 million *(2018 restated[6]: £777 million)*. Within this, new business adjusted operating profit[2] increased to £506 million *(2018: £363 million)* as BPA volumes increased 55% to £4.0 billion *(2018: £2.6 billion)*, including the partial buy-in of the Aviva staff pension scheme (£1.7 billion). Volumes in Individual annuities were 5% lower as we took a selective approach to trading to focus on margins. Existing business adjusted operating profit[2] fell by £54 million to £360 million *(2018 restated[6]: £414 million)* as there has been no repeat of either the in-year favourable longevity experience in 2018 or the £24 million benefit seen in 2018 from asset mix optimisation.

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.
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.
3 Includes workplace, platform, individual personal pensions and heritage pensions.
4 Legacy represents products no longer actively marketed, including with-profits and bonds.
5 Other life represents changes in assumptions and modelling, non-recurring items and non-product specific overheads.
6 During 2019 the Group adjusted operating profit APM has been revised and now includes the amortisation and impairment of internally generated intangible assets to better reflect the operational nature of these assets (see note 2(b)). Group adjusted operating profit continues to exclude amortisation and impairment of intangible assets acquired in business combinations. Comparative amounts have been restated. There is no impact on profit before tax attributable to shareholders' profit.

Protection
Protection adjusted operating profit[1] decreased by 25% to £166 million *(2018 restated[4]: £221 million)* reflecting continued competitive trading conditions in the market, including the impact of hardening reinsurance rates and adverse claims experience in group protection.

Legacy
Legacy contributed adjusted operating profit[1] of £274 million *(2018 restated[4]: £316 million)*. 2019 fee income was impacted by lower asset values at the start of the year following weak investment markets towards the end of 2018. The fall in profits was broadly in line with the impact of expected net outflows.

Health
UK Health adjusted operating profit[1] decreased by 8% to £35 million *(2018: £38 million)*.

Other
Other adjusted operating profit[1] is £303 million *(2018 restated[4]: £347 million)*. During 2019, there was a net benefit from assumption changes of £574 million[2]. Within this, continued net positive longevity and mortality developments, including adopting CMI 2018, gave a benefit of £751 million which was partly offset by updates to persistency (£126 million charge) and other assumptions. A benefit to reflect changes to our unitised with profit reserving approach (£167 million) was largely offset by a number of other modelling changes. We have recognised a £175 million provision to allow for certain pension policyholders who may not have been adequately informed of switching options available to them. More detail is included in the 'market context and challenges' section.

Controllable costs[3]
Controllable costs[3] increased 3% to £1,045 million *(2018: £1,013 million)*, including the effect of realigning £52 million of UK digital business costs to UK Life. Excluding these costs, controllable costs[3] reduced by 2%. We have benefited from a continued focus on efficiency while continuing to invest in growth and simplification initiatives, including improvements to customer experience.

Life new Business

	PVNBP[3]		Solvency II VNB[3]		New Business Margin	
	2019 £m	2018 £m	**2019 £m**	2018 £m	**2019 %**	2018 %
Long-term savings	**18,884**	16,829	**141**	111	**0.7%**	0.7%
Annuities & equity release	**6,182**	4,784	**284**	196	**4.6%**	4.1%
Protection	**1,875**	1,799	**126**	140	**6.7%**	7.8%
Health and Other	**629**	534	**41**	34	**6.5%**	6.4%
Total	**27,570**	23,946	**592**	481	**2.1%**	2.0%

PVNBP[3] increased 15% to £27,570 million *(2018: £23,946 million)* as strong growth in BPA, workplace pensions, group protection and equity release was partly offset by lower platform and individual annuity volumes. VNB[3] increased by 23% to £592 million *(2018: £481 million)*, mainly reflecting growth in volumes and higher margins in annuities & equity release.

Long-term savings VNB[3] increased 27% to £141 million *(2018: £111 million)* as a result of growth in workplace pensions VNB[1]. Platform VNB[1] has been impacted by lower volumes driven by uncertain investment markets.

Annuities & equity release VNB[3] increased 45% to £284 million *(2018: £196 million)* despite the absence of new business transitional benefits in 2019. Growth has mainly been driven by higher BPA volumes written on a higher average margin due to pricing discipline, improved reinsurance rates and securing higher quality assets.

Protection VNB[3] decreased by 10% to £126 million *(2018: £140 million)* mainly due to hardening reinsurance rates with PVNBP[3] up 4% to £1,875 million *(2018: £1,799 million)*. Group protection volumes grew strongly driven by large corporates growth. Individual protection volumes were stable despite competitive trading pressures.

Health and Other VNB[3] improved to £41 million *(2018: £34 million)*, due to growth in health volumes.

Operational and customer highlights

During 2019 our operational highlights and examples of great customer outcomes we have delivered include:

Customer
- We continue to focus on the customer. Our transactional net promotor scores, a measure of the number of customers that would recommend us following a purchase, service or claim, has increased by 10 points to +43 *(2018: +33)*.
- We have received encouraging scores from a newly introduced Net Trust Index, showing we are above benchmark for consumer trust in our sector. We will continue working to improve consumer perception and trust levels.
- We constantly work to improve our customer service, taking learnings from dissatisfaction and analysing the root cause of complaints in order to improve our performance. In 2019 complaint volumes have fallen 21% compared to 2018.

Digital & Technology
- We have over 5.5 million customers in the UK registered on MyAviva, allowing them to manage their policies online. We are accessible to new and existing personal and corporate customers however they want to engage with us. In February 2019 we were awarded the Pension Age Innovation Award for Technology. Technology is at the heart of all our product offerings and this award recognises our work in helping to make members' pensions more accessible and manageable through MyAviva.
- We continue to improve connectivity with our intermediary partners, making it easier, simpler and more efficient to deal with us. For example, we have introduced a protection online advisor portal, enabling self-serve and reducing inbound call volumes. We have also launched MyPension into workplace to further capitalise on our market leading workplace position.

Products and solutions
- We have launched a new corporate mental health cover option, Mental Health Pathways Plus, enabling large companies and organisations in the UK to support employees with all addictions, including online gambling, gaming and social media.
- In 2019 we wrote over £4.0 billion of bulk purchase annuities, which included a £1.7 billion partial buy-in transaction with the Aviva Staff Pension Scheme, insuring the defined benefit pension liabilities and removing the investment and longevity risk of these members from the schemes.
- We have made significant changes to our lifetime mortgage proposition, introducing new flexible repayment options. With these new features, customers can take advantage of increased flexibility to make managing their finances in retirement even simpler.

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 Please refer to note 48 'Effect of changes in assumptions and estimates during the year' within the Annual report and accounts
3 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.
4 During 2019 the Group adjusted operating profit APM has been revised and now includes the amortisation and impairment of internally generated intangible assets to better reflect the operational nature of these assets (see note 2(b)). Group adjusted operating profit continues to exclude amortisation and impairment of intangible assets acquired in business combinations. Comparative amounts have been restated. There is no impact on profit before tax attributable to shareholders' profit.

- We continue to promote both financial and health wellbeing in the workplace through Aviva Wellbeing, our desktop and mobile app dedicated to helping people live their best lives. The programme offers a set of services aimed at helping employers strengthen the mental, physical and emotional wellbeing of their employees by inspiring positive behavioural change.
- We continue to receive external recognition for excellent service in the pensions marketplace, receiving a five-star rating in the Thomson's 2019 Pensions Provider Report. Our commitment to digital development, a solid Group Personal Pension product, improved retirement journey and our ambition to change benefits for the good were all cited as contributing factors.
- Aviva Financial Advice continues to expand its offering. We are also seeing positive engagement with large corporate schemes and SME businesses, connecting group scheme members with advice.
- We recognise the practical, financial and emotional costs many people in mid-life are facing in caring for relatives both young and old. To help support these employees we have introduced a carers' policy which provides up to 70 hours of additional annual leave for our people with caring responsibilities and are piloting a partnership with 'SuperCarers[1]' to help our people navigate the care landscape.
- The over-45s are the fastest growing working age-group in the UK. Aviva's mid-life MOT leads the market by providing its people with targeted guidance to help this population embrace the opportunities of a longer working life. We have also run sessions for a small number of corporate clients.

Market context and challenges

- In 2019, we recognised a £175 million provision after determining that past communications to a specific sub-set of pension policyholders may not have adequately informed them of switching options into with-profits funds that were available to them. The issue is restricted to a product acquired by Aviva through the purchase of Friends Life. It does not affect any other part of our business.
- The individual annuity market was particularly competitive during 2019. With bond yields tightening over the first half of the year, and the open market only growing by 2%[2], trading was difficult for Aviva and all of our competitors. With our disciplined approach to capital allocation, Aviva took a selective approach to trading to focus on margins.
- The highly competitive environment in the individual protection market continued into 2019 making for difficult trading conditions and the need to balance volume and margin. A focus on quality of business through Distributor Value Management and underwriting risk cost alongside enhancing pricing sophistication still allowed volume growth quarter on quarter throughout the year as we competed for quality share, but saw margin reductions against previous years.
- The Group Protection market continued to be highly price competitive in 2019. Despite the price competition, Aviva delivered strong trading results, especially in the first half of the year, whilst maintaining capital allocation and pricing discipline. Aviva's claims experience was weaker than expected, particularly across Group Life and Group Critical Illness products.
- In April 2019 auto-enrolment minimum contributions increased from 3% to 5%, supporting better retirement prospects for all UK workers. The 'secondary market', where businesses look to potentially change their workplace pension provider, continues to thrive as employers and employees increasingly recognise the value of a well-run pension scheme. In a recent survey pensions came second[3] in a poll of workplace benefits employees were most interested in, just behind annual leave.
- We are working with the PRA on the consultation process in respect of the capital required by firms offering equity release mortgages. We believe equity release is a valuable product for certain customers aged over 55, helping homeowners access money in their later life. We await clarification from the Financial Conduct Authority (FCA) into whether or not it intends to extend the scope of its review of the defined benefit transfer market. 2019 saw activity in this market fall significantly following the FCA's initial intervention.
- We promote strong regulation that is effectively targeted, efficiently delivered, and supports sustainable growth and innovation. We will continue to work closely with our regulator to bring further improvements to the market over the next two to three years.
- Many investors are cautious about short-term market movements and we have seen a growth in the popularity of funds which aim to address this need. The Aviva Smooth Managed Fund is designed to deliver growth over the medium to long term using a 'smoothing' process to shelter individuals from some of the impact of adverse market movements.
- In July we launched the 'Stewardship lifestyle strategy', a workplace pension default investment strategy that incorporates ethical and environmental, social and governance (ESG) considerations. The launch comes a year ahead of a significant ESG-related milestone in the UK in 2021 that means financial advisers will need to be more proactive with customers in relation to ESG considerations by asking them about their preferences. The funds have also been launched on the Adviser platform.

1 SuperCarers is an independent organisation that helps individuals and their families navigate the UK care system. www.supercarers.com
2 Association of British Insurers (ABI) 12 months to end Q319
3 Survey of 2,011 employed people carried out by Censuswide on behalf of Aviva in March 2019

Aviva Investors

Overview

We are Aviva's global asset management business with expertise in real assets, solutions, multi assets and macro[1], equity and credit. We currently invest £346 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 outcomes our investors are looking for.

Being an integral part of the Group, we provide asset management services and solutions to both internal and external customers. 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 retail clients.

In a world of low interest rates and Solvency II, we aim to provide the solutions for investors to achieve the returns they need.

In November 2019 Aviva announced the creation of the Investments, Savings & Retirement (IS&R) division effective from 2020. IS&R brings together Aviva Investors and the UK Savings & Retirement business, which in 2019 and prior years was presented within UK Life.

Financial performance

	2019 £m	Restated[5] 2018 £m
Assets under management[2]	**£346bn**	£331bn
Revenue	**542**	597
Adjusted operating profit[3,4]	**96**	147
Profit before tax	**91**	170
Cash remitted to Group[2]	**86**	92
Controllable Costs[2]	**446**	450
Solvency II return on capital[2]	**13.7%**	22.7%
Solvency II operating capital generation (OCG)[2]	**90**	126

During 2019, our investment capabilities have delivered consistently improving investment performance across all asset classes. The expansion in our distribution capability in the US led to significant new business wins, creating a more diversified client base across a broader range of products.

Following global growth in demand among institutional investors, we have also strengthened our focus on our real assets business.

Net flows and assets under management[2]
Assets under management[2] (AUM) 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 third parties on platforms administered by Aviva Investors.

Assets under management[2] increased during the year by £15.4 billion to £346.1 billion *(2018: £330.7 billion)*. This is due to £21.4 billion of favourable market and foreign exchange movements, external net inflows of £2.3 billion and £1.3 billion net flows into liquidity funds and cash, partly offset by outflows on our Aviva client of £6.4 billion and £3.2 billion of assets transferred to an external manager, which were previously managed by Aviva Investors under a legacy distribution agreement. Assets under management and administration[2] at 31 December 2019 were £382.4 billion *(2018: £359.8 billion)*.

Revenue[2]
Revenue[2] decreased by 9% to £542 million *(2018: £597 million)* driven by the effect of the 2018 disposals of an indirect real estate multi-manager business and our interest in the management of a pan-European commercial property fund, reduced internal client demand for originating assets, higher margin external outflows and run-off of the legacy Aviva client book of business.

Profit
Adjusted operating profit[3,4] decreased by £51 million to £96 million *(2018 restated[5]: £147 million)* mainly due to the reduction in revenue described above. Cost control by the business helped mitigate the impact on profitability.

Profit before tax attributable to shareholders' profit has reduced to £91 million *(2018: £170 million)* mainly due to the lower adjusted operating profit[3,4]. In 2018 there was also a £27 million one off gain on disposal relating to the Real Estate Multi-Manager business and the disposal of our interest in the pan-European commercial property fund.

Cash
Cash remitted[2] to Group was £86 million *(2018: £92 million)*.

Controllable costs[2]
Controllable costs[2] in Aviva Investors were £446 million *(2018: £450 million)*. The decrease includes £11 million cost savings partly offset by £7 million of non-recurring restructuring costs.

1 A global macro strategy bases its holdings primarily on the overall economic and political views of various countries or their macroeconomic principles. Holdings may include long and short positions in various equity, fixed income, currency, commodities, and futures markets.
2 This 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.
3 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.
4 Fund management adjusted operating profit excludes £nil *(2018: £1 million)* of profit relating to the Aviva Investors Pensions Limited business.
5 During 2019 the Group adjusted operating profit APM has been revised and now includes the amortisation and impairment of internally generated intangible assets to better reflect the operational nature of these assets (see note 2(b)). Group adjusted operating profit continues to exclude amortisation and impairment of intangible assets acquired in business combinations. Comparative amounts have been restated. There is no impact on profit before tax attributable to shareholders' profit.

Operational and customer highlights

- Positive net sales across our credit and real assets businesses in the second half of 2019 were very encouraging, with net positive external client flows of circa £2.3 billion at year end. However, redemptions from certain high margin funds in the first part of 2019 resulted in lower revenue for the year.
- Our key focus is on enhancing investment returns for our clients. With 84% of total AUM[1] ahead of benchmark as at 31 December, we have beaten our target objective of 70%, demonstrating the incremental value that we have achieved for our investors. We have also seen a significant improvement on the internal book of business, with 85% of AUM[1] ahead of benchmark as at the end of 2019, compared to 31% at the end of 2018.
- Our AIMS funds have materially improved in 2019, with AIMS Target Return fund up 9.9%, and the Target Income fund up 11.7% over the same period.
- We have also continued to see a strong long-term investment performance, with over 66% of our funds beating the benchmark over a five year period.
- We consistently integrated the environmental, social thinking and governance (ESG) investment processes across all our asset classes, with launches of several new ESG funds, such as Sustainable Income and Growth and Climate Transition European Equity Fund.
- We completed our Equity team build out in 2019, ensuring that we have the right expertise to deliver our global multi-asset and equity propositions.
- We launched the Credit Business Strategy, with continued focus on growth in the US and Canada, with $3.6 billion raised in US Investment Grade Credit in 2019.
- In Real Assets, we reshaped the team bringing investment, fund management and asset management together, and continued to focus on strengthening our capability.
- In November 2019 we merged Aviva Investors Real Estate SGP (Real Estate regulated business in France) into Aviva Investors France (all other regulated activities in France). This enabled us to simplify our Real Asset activities in France, and realise cost efficiencies.

Market context and challenges

- During the year our business has delivered improved investment performance despite the uncertainties arising from Brexit, the UK domestic political situation and trade pressure between the US and China.
- 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 central expectation is for a stabilisation and improvement of global growth (barring any excess negative implications relating to the Coronavirus). This is happening in an environment of supportive monetary conditions. This should be supportive of risk assets.

1 This 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.

General Insurance

Overview

Aviva's General Insurance business operates at scale in the UK and Canada and we have a European business that operates in France, Ireland, Poland and Italy.

From 2020, all of our general insurance businesses will be reported together as a General Insurance division. For further details of our strategy and key priorities for this division, refer to the 'Our strategy' section.

The overall results of our General Insurance business are as follows:

	2019 £m	Restated[1] 2018 £m
Net written premiums (NWP)		
UK	**4,218**	4,193
Canada	**3,061**	2,928
Europe	**2,017**	1,985
Asia	**13**	13
	9,309	9,119
Adjusted operating profit[2]		
UK	**250**	383
Canada	**191**	27
Europe	**154**	201
Asia	**(1)**	(2)
	594	609
Combined operating ratio (COR)[3]		
UK	**97.9%**	94.6%
Canada	**97.8%**	103.1%
Europe	**95.7%**	93.5%
Asia	**112.8%**	123.0%
	97.5%	97.2%
Solvency II return on capital[3]	**14.0%**	11.7%
Solvency II operating capital generation (OCG)[3]	**574**	647

The following sections provide additional details and performance analysis of our UK and Canada general insurance businesses. For detail on the Europe and Asia general insurance businesses, refer to the Europe and Asia 'Market review' sections.

UK GI

Overview

Aviva is a leading insurer in the UK general insurance market with £4.2 billion of net written premiums in 2019, equating to a c.11% market share.

We offer Personal lines (Home, Motor and Travel insurance products) and Commercial lines insurance to a wide range of businesses from micro through small and mid-market to large, multinational corporates.

Our capabilities in distribution, underwriting and digital are clear differentiators. During the year we integrated the majority of our UK digital business into UK GI.

We focus on our customers, with customer service at the heart of our business. The quality of our service has enabled us to win long-term relationships with four of the UK's five largest banks to provide their insurance solutions.

We have increased our Regional and Global Corporate Specialty (GCS) underwriting capability and enhanced our multinational proposition. The commercial lines speciality portfolio continues to grow with new products launched based on customer demand and maximisation of a hardening rate environment, while the completion of Guidewire implementation across SME is delivering digitisation and automation benefits.

We continued to win many awards in 2019, including 'General Insurer of the Year' from Insurance Times for the sixth year running.

Financial performance

	2019 £m	Restated[1] 2018 £m
Adjusted operating profit[2]	**250**	383
Profit before tax	**288**	413
Combined operating ratio (COR)[3]	**97.9%**	94.6%
Net written premiums (NWP)	**4,218**	4,193
Cash remitted to Group[3,4]	**248**	361
Controllable Costs[3]	**726**	600

During 2019, as part of our strategy to simplify our business, we aligned our UK digital business with UK General Insurance and UK Life. It has had a significant effect on a number of UK GI's headline metrics this year which is explained in the analysis below.

Profit

Adjusted operating profit[2]	2019 £m	Restated[1] 2018 £m
Underwriting result	**86**	221
Long-term investment return	**166**	161
Other	**(2)**	1
Total adjusted operating profit[2]	**250**	383

Overall, adjusted operating profit[2,3] was down 35% at £250 million *(2018 restated[1]: £383 million)*. Excluding an adverse impact of £113 million from alignment of UK digital, adjusted operating profit[2] was down 5% at £363 million *(2018 restated[1]: £383 million)*. Within this, there was a 10% fall in the underwriting result to £199 million *(2018 restated[1]: £221 million)* which included higher expenses reflecting continued investment in our IT infrastructure and less favourable prior year reserve releases but lower weather costs compared to 2018. Long-term investment return[3] was up 3% at £166 million *(2018: £161 million)*.

1 During 2019 the Group adjusted operating profit APM has been revised and now includes the amortisation and impairment of internally generated intangible assets to better reflect the operational nature of these assets (see note 2(b)). Group adjusted operating profit continues to exclude amortisation and impairment of intangible assets acquired in business combinations. Comparative amounts have been restated. There is no impact on profit before tax attributable to shareholders' profit. Following the change in the definition of Group adjusted operating profit, COR has also been restated to include the amortisation and impairment of internally generated intangible assets. Comparative amounts have been restated.
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.
3 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.
4 2019 General Insurance cash remittances include £83 million *(2018: £331 million)* received from UK General Insurance in February 2020 in respect of 2019 activity.

Profit before tax was 30% lower at £288 million *(2018: £413 million)*. In addition to the reduction in adjusted operating profit[2] described above, there was a £235 million adverse movement due to the change in the Ogden discount rate (2019: £45 million strengthening; *2018: £190 million release*) which is described in more detail below. This was mostly offset by a £251 million favourable movement in short term fluctuations in investment performance and the impact of changes in economic assumptions on insurance liabilities (2019: £74 million gain; *2018: £177 million loss*) driven by lower interest rates, tightening credit spreads and gains in equity markets.

Following the announcement by the Lord Chancellor on 15 July 2019 to increase the Ogden discount rate[4] from the -0.75% set in 2017 to -0.25%, balance sheet reserves in the UK were calculated using a discount rate of -0.25% at 31 December 2019. This compares to the Ogden discount rate applied at 31 December 2018 of 0.00%. This has resulted in a strengthening of claims reserves of £45 million. The negative impact of this reserve change has been excluded from adjusted operating profit[2,3] in line with previous periods. The Ogden discount rate is expected to be reviewed again by the Lord Chancellor within five years.

Net written premium (NWP) and combined operating ratio (COR)

United Kingdom General insurance	Net written premiums 2019 £m	Net written premiums 2018 £m	Combined operating ratio[3] 2019 %	Combined operating ratio[3] Restated[1] 2018 %
Personal motor	**1,067**	1,125		
Personal non-motor	**1,332**	1,369		
UK Personal lines	**2,399**	2,494	**99.3%**	92.9%
Commercial motor	**555**	532		
Commercial non-motor	**1,264**	1,167		
UK Commercial lines	**1,819**	1,699	**96.0%**	97.3%
Total	**4,218**	4,193	**97.9%**	94.6%

NWP

NWP increased by 1% to £4,218 million *(2018: £4,193 million)*.

UK Personal lines NWP reduced 4% to £2,399 million *(2018: £2,494 million)* as we maintained our pricing discipline in Motor and targeted reductions in poor performing segments, combined with the continued run-off of the Creditor book. Home premiums were broadly stable. UK Commercial lines NWP increased 7% to £1,819 million *(2018: £1,699 million)* driven by a combination of volume and above inflation rate increases. There was an 8% increase in Commercial non-motor NWP to £1,264 million *(2018: £1,167 million)* with solid growth in SME and Global Corporate Specialty (GCS), while Commercial motor NWP increased 4% to £555 million *(2018: £532 million)*.

COR[3]

Overall, UK GI COR[3] was 97.9% (2018 restated[1]: 94.6%). Excluding the 2.7pp effect of the alignment of UK digital, COR[3] was 0.6pp higher at 95.2% (2018: 94.6%) for the reasons described in relation to adjusted operating profit above.

Personal lines COR[3] of 99.3% *(2018: 92.9%)* was 6.4pp higher year-on-year, of which 4.6pp reflects the UK digital alignment. Excluding this, Personal lines COR[3] was 1.8pp higher reflecting higher expenses and lower prior year reserve releases, partly offset by lower weather costs.

Commercial lines COR[3] of 96.0% *(2018: 97.3%)* was 1.3pp better year-on-year, reflecting higher prior year reserve releases and lower weather costs.

Cash

Cash remitted to Group[3] was down 31% to £248 million *(2018: £361 million)*, reflecting lower Solvency II operating capital generation[3].

Controllable costs[3]

Controllable costs[3] increased to £726 million *(2018: £600 million)*. Excluding the impact from the alignment of UK digital, controllable costs[3] were up 3% to £619 million *(2018: £600 million)* reflecting continued investment in our IT infrastructure, partly offset by savings in the underlying costs of running the business.

Operational and customer highlights

Our operational and customer highlights in 2019 included:

- Our transactional Net Promoter Scores (TNPS) in Property Claims are strong and consistently lead the market.
- In underwriting, we introduced our 'Ask it Never' approach, reducing the number of questions we ask our customers from over 100 to just five.
- We launched our simple digital online underwriting tool at Barclays in November 2019 which we believe offers a blueprint for the future of integrating insurance into banking digital ecosystems.
- Our investment in digital and claims management has enabled customers to start and complete their claim online. 40% of people now notify their claims online.
- Global Corporate Specialty lines continues to grow and retention has increased to 89%. We are a leading property investors underwriter in the London market.
- In UK Personal lines our aggregator business, QuoteMeHappy, has acquired in excess of 1.4 million customers.
- Our UK Commercial business has been a key growth segment for us over the last few years, growing in the high single digits every year and in 2019 wrote over £1.8 billion in NWP. We are a leading player in the UK SME market.

1 Following the change in the definition of Group adjusted operating profit (see note 2(b)), COR now includes the amortisation and impairment of internally generated intangible assets to better reflect the operational nature of these assets. Comparative amounts have been restated.
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.
3 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
4 The Ogden discount rate in Scotland is still at -0.75%.

Market context and challenges

- The Commercial business is actively pursuing attractive growth opportunities in the market, with a focus on growing our heartland commercial book, supporting UK business with overseas risks and leveraging our strong regional distribution network to provide a full suite of products, including specialty lines to our existing customers. Growth and profitability are expected to continue at existing levels, supported by a hardening rating environment across the majority of our product lines.
- In GCS, the market has seen an increasing frequency of large property losses, natural catastrophes and adverse prior year development from non-UK casualty and financial lines. These conditions will be supportive of a sustained rate hardening, and we are well placed to take advantage.
- In SME, the sector continues to suffer from significant levels of under-insurance and we are actively supporting customers and brokers with our commercial intelligence tool in identifying gaps; a good customer outcome that will also deliver growth. We also continue to automate and digitise policy administration, reducing manual intervention and cost, while enabling our customers and brokers to access our service by their preferred means.
- We have created a single Personal lines business and taken a number of actions to improve the underlying performance of the book. Our plan is to reduce controllable costs[3]. We see a positive rating environment in motor and home and will drive growth in channels and products where we believe there is profit opportunity.
- During 2019, the FCA published their GI Pricing Market Study Interim Report. We have provided a comprehensive response to this outlining our recommended solution and the action we have already taken. We are broadly supportive of tackling the issues raised, including protecting vulnerable customers and highlighted our progress on safeguarding and AvivaPlus.

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 2.4 million customers with a 10% market share[1]. Our business is primarily intermediated, sold through a network of just over 900 independent broker partners and, following our acquisition of RBC General Insurance (RBC GI) in 2016, RBC insurance agents.

We have returned to profitability following the deterioration that began in early 2017 and continued into 2018, which was principally due to increased claims costs in our motor insurance line of business and less favourable prior year reserve releases. Working with our regulator, we successfully achieved rate increases in late 2018 which are now earning through the book. 2019 also saw natural catastrophe losses more in line with the historical 10-year average. As a result, adjusted operating profit[2,4] in 2019 has recovered from the 2018 level and profitability actions are taking hold.

Financial performance

	2019 £m	Restated[4] 2018 £m
Adjusted operating profit[2,4]	**191**	27
Profit/(loss) before tax	**211**	(75)
Combined operating ratio (COR)[3,4]	**97.8%**	103.1%
Net written premiums (NWP)	**3,061**	2,928
Cash remitted to Group[3]	**156**	28
Controllable costs[3]	**402**	391

During 2019, adjusted operating profit[2,4] of £191 million *(2018 restated[4]: £27 million)* improved due to the extensive profit remediation plan put in place towards the end of 2017 with actions around pricing, indemnity management and risk selection.

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

Profit

Adjusted operating profit[2]	2019 £m	Restated[4] 2018 £m
Underwriting result	**65**	(90)
Long-term investment return	**133**	120
Other[5]	**(7)**	(3)
Total adjusted operating profit[2]	**191**	27

In 2019, the underwriting result was a profit of £65 million *(2018 restated[4]: loss of £90 million)*, mainly driven by premium rate increases, lower claims frequency and severity in our personal lines business, better weather conditions compared to the long-term average and favourable prior year reserve development, partly offset by higher commission. Long-term investment return improved 11% due to higher yields on short-duration securities and actions to optimise returns within our fixed income portfolio.

The improvement in underwriting profit, along with favourable market movements were the key drivers of the current year profit before tax attributable to shareholders' profits[4] of £211 million *(2018: loss of £75 million)*.

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

	Net written premiums		Combined operating ratio[3]	
	2019 £m	2018 £m	2019 %	Restated[4] 2018 %
Personal lines	**2,100**	2,107	**97.8%**	105.0%
Commercial lines	**961**	821	**97.8%**	98.3%
Total	**3,061**	2,928	**97.8%**	103.1%

NWP

Net written premiums were £3,061 million *(2018: £2,928 million)*, up 3% on a constant currency basis. In personal lines, NWP was broadly stable at £2,100 million *(2018: £2,107 million)*. Commercial lines NWP increased to £961 million *(2018: £821 million)* due to growth in Global Corporate and Specialty new business and rate increases put through during renewals.

1 Market Security & Analysis inc. 2018 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.
3 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.
4 Following the change in the definition of Group adjusted operating profit (see note 2(b)), COR now includes the amortisation and impairment of internally generated intangible assets to better reflect the operational nature of these assets. Comparative amounts have been restated.
5 Includes unwind of discount and pension scheme net finance costs.

COR[1]

The COR[1] improved to 97.8% *(2018 restated[2]: 103.1%)* due to the improvement in the underwriting result described above.

Cash

Cash remittances[1] during the year increased to £156 million *(2018: £28 million)*, reflecting our improved underwriting performance.

Controllable costs[1]

Controllable costs[1] were 1% higher in constant currency at £402 million *(2018: £391 million)*, reflecting increased investment in claims personnel and processes, investment in our pricing capabilities and the Global Corporate and Specialty business and continued investment in our IT infrastructure, mostly offset by lower real estate and other operating expenses.

Operational and customer highlights

- In addition to improved profitability in our Personal lines business, we invested in our claims capability, which delivered significant synergies. Greater capacity and improved processes led to more claims handled by Aviva staff and better customer and financial outcomes. In Commercial lines, our focus continued to be more efficient processing for small policies, improved risk selection in our core and middle market business and growth in our Global Corporate and Specialty division, which has been able to provide capacity in a significantly hardening market. These actions, along with a focus on efficiency, has resulted in significant progress towards our sub-96% target combined operating ratio[1] by the end of 2020.

Other key operational and customer highlights during the year included:

- Launched Connex, our new Personal lines service model for brokers, including dedicated underwriting teams and web chat for faster service.
- Brand refresh of our Global, Corporate and Specialty line and rebranded Ovation, our high net worth home insurance offering, helping customers better identify with the products they need.
- Launched BuyOnline for RBC property business to help customers, improve sales capacity and reduce commission expenses.
- Extended the RBC distribution partnership by a further 5 years to 2036.
- In the second half of 2019, we undertook a national launch of a commercial digital solution which provides c.50% of SME quotes making the process more efficient for our customers and partners.

Market context and challenges

- During 2019, there were significant changes to the provincial regulatory landscape in Canada impacting the auto insurance industry.
- In Ontario, the Financial Services Regulatory Authority was launched in June 2019 with a streamlining of the auto rate regulation process announced as a priority for 2019-20.
- In Alberta the provincial government decided not to renew a 5% cap on auto rate increases, from Q4 2019.
- In Commercial lines, adverse experience, particularly in residential property, along with shrinking capacity has resulted in a hardening market.

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.
2 Following the change in the definition of Group adjusted operating profit (see note 2(b)), COR now includes the amortisation and impairment of internally generated intangible assets to better reflect the operational nature of these assets. Comparative amounts have been restated.

Europe

Overview

Aviva operates in a number of markets in Europe with insurance operations in France, Italy, Poland, Ireland and Turkey. During 2019 we have focused on the development and implementation of our market strategies for organic growth and the integration of 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 life and general insurance 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.

Low interest rates and regulatory pressures in some markets have presented challenges during the year, but through the actions we have taken we believe we are well positioned to succeed.

From 2020, our European general insurance businesses will be presented as part of our General Insurance division. The Europe general insurance businesses will be managed day to day by the CEOs in each country. Our life and health businesses will form the Europe Life division. Further details of our strategic priorities for these divisions are set out in the 'Our Strategy' section.

Financial performance

	2019 £m	Restated[1] 2018 £m
Adjusted operating profit[2,3]		
Life & Health	**827**	807
General insurance	**154**	201
	981	1,008
France	**473**	510
Poland	**194**	198
Italy, Ireland and Other	**314**	300
	981	1,008
Profit before tax		
France	**410**	426
Poland	**198**	178
Italy, Ireland and Other	**352**	304
	960	908

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

Overall adjusted operating profit[2,3] in Europe was down by 1% to £981 million *(2018 restated[1]: £1,008 million)*. Europe Life adjusted operating profit[2,3] increased to £827 million *(2018 restated[1]: £807 million)* driven by increased revenue, improved product mix and focus on expense efficiencies. Adjusted operating profit[2,3] from Europe General Insurance business was down 23% to £154 million *(2018 restated[1]: £201 million)* due to weather costs and higher large losses and lower favourable prior year reserve releases compared to 2018.

Profit before tax attributable to shareholders' profits[3] has increased to £960 million *(2018: £908 million)* as the benefit from positive investment variances *(2018: negative variances)* was partly offset by the reduction in operating profit. The 2018 profit before tax included gains from disposals in Italy and Spain and the write-off of negative goodwill arising on the acquisition of Friends First in Ireland.

Europe Life

Overview, market context and challenges

- In France we are number 11[4] in a life market dominated by mutuals and banks and are number four amongst the traditional insurers. We offer a full range of savings, investment, protection and health insurance products with strength in distribution through AFER, the number 1 savers association[5], and UFF the number 2 financial adviser network[5]. 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. The main challenge we face continues to be balancing the demand amongst French savers for low volatility guaranteed products with the pressure this places on our return on capital in the current low interest rate market environment. A key pillar of our strategy is to continue to adapt our business mix to position us for longer-term low interest rates whilst continuing to serve our customers' needs through the provision of attractive unit-linked and capital-light products.
- In Italy we are number five in the life market[6] and the second largest non-domestic insurer[6]. We offer savings, investments, pension and protection products with distribution through a major bancassurance partnership with UBI and also through independent financial advisor networks. Our hybrid proposition maintained its strong performance in the market in 2019, helping to improve our business mix that, together with other management actions and better market conditions, materially strengthened our capital position. In 2020, our current distribution agreements with our two principal bancassurance partners are reaching the end of their terms and we are in ongoing discussions about the future status of our relationships.
- In Poland we are the number two[7] life insurer in the market with one of the largest life tied agent salesforces and two key bancassurance partnerships with Santander and ING. The market in Poland has stagnated in recent years as insurers have moved away from single premium investment products and there has been an increased level of regulatory intervention in the market. Our Polish business is efficient, has very strong brand recognition, and through innovation in product development and digitisation we are in a strong position to outperform the market.
- In Ireland we are now number four[8] in the life market as a result of the acquisition of Friends First and continue to benefit from positive demographics and a strong macroeconomic environment with high GDP and low unemployment. The positive economic backdrop was muted for much of 2019 by concerns over a hard Brexit outcome but, once this risk dissipated, sales volumes have been encouraging. Aviva's Life business in Ireland is entirely distributed through intermediaries. The main challenge we face is improving the operational efficiency of the business and rationalising our product offering to improve margins.

1 During 2019 the Group adjusted operating profit APM has been revised and now includes the amortisation and impairment of internally generated intangible assets to better reflect the operational nature of these assets (see note 2(b)). Group adjusted operating profit continues to exclude amortisation and impairment of intangible assets acquired in business combinations. Comparative amounts have been restated. There is no impact on profit before tax attributable to shareholders' profit.
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.
3 The amounts shown above in respect of adjusted operating profit and profit before tax attributable to shareholders' profits reconcile to the corresponding amounts for Europe of France, Poland and Italy, Ireland and Other in note 5 – 'Segmental information' within the Annual report and accounts.
4 La Fédération Française de l'Assurance
5 AFER website, and UFF website and French Insurance Federation.
6 ANIA (Italian National Association of Insurance Companies)
7 Polska Izba Ubezpieczeń
8 Insurance Ireland

- In Turkey we have a life insurance business through our joint venture with Sabanci. We are number one in the market for pensions and the number three private auto-enrolment provider and we offer protection products through both bancassurance and retail channels including a direct sales force. Our business has responded well to the political instability and financial volatility in recent periods and we have seen strong growth in protection premiums during 2019.

Financial performance

	2019 £m	Restated[1] 2018 £m
Solvency II return on capital[3]	**10.3%**	6.9%
Solvency II operating capital generation (OCG)[3]	**754**	724
Cash remitted to Group[3]	**414**	336
Adjusted operating profit[2]	**827**	807
Controllable costs[3]	**548**	568
Life new business		
Present value of new business premiums (PVNBP)[3]	**13,772**	12,641
Value of new business on an adjusted Solvency II basis (VNB)[3]	**414**	517

Solvency II return on capital[3] and Solvency II operating capital generation (OCG)[3]

Europe Life Solvency II return on capital[3] has increased by 3.4pp to 10.3% *(2018: 6.9%)* and Solvency II operating own funds generation increased to £574 million *(2018: £384 million)*. This was primarily driven by modelling and assumption changes in Italy which are partly offset by a reduction in own funds generation from new business in France and Italy due to the impact of lower interest rates. 2018 included the adverse impact on own funds arising from the transfer of pensions business into a supplementary occupational pension fund (FRPS) in France (note the overall impact on capital generation was beneficial due to a significant reduction in solvency capital requirement).

Europe Life Solvency II operating capital generation[3] has increased by £30 million to £754 million *(2018: £724 million)*. Increases in management actions and higher returns on existing business have been partially offset by the increase in new business strain as a result of the low interest rate environment. In 2019, management actions included the beneficial impact of modelling and assumption changes in Italy as well as increased market risk hedging in France, while 2018 included the beneficial assumption changes and a benefit arising from the transfer of pensions business into a supplementary occupational pension fund (FRPS) in France.

Cash

Cash remitted to Group[3] was £414 million *(2018: £336 million)*. This includes a special remittance of £107 million following the disposal of Avipop in 2018. 2019 remittances from France are £141 million *(2018: £176 million)*, which are shown after adjusting for a capital injection of £139 million *(2018: £nil)*, as the net amount more appropriately reflects the overall remittances received from France during the year.

Profit

Adjusted operating profit[2]	Life & Health 2019 £m	Life & Health Restated[1] 2018 £m
France	**408**	418
Poland	**174**	177
Italy (excl. Avipop)	**173**	147
Ireland	**59**	40
Other Europe[4] (excl. Spain)	**13**	10
Total (excl. Avipop, Spain)	**827**	792
Disposals (Avipop, Spain)	**—**	15
Total	**827**	807

Excluding the impact of disposals, the adjusted operating profit[2] of our life and health businesses grew by 6% to £827 million *(2018 restated[1]: £792 million)*. Dealing with each of the markets in turn:

- In France, adjusted operating profit[2] reduced by 2% to £408 million *(2018: £418 million)*. Within this, the life result was down 5% to £387 million *(2018: £408 million)*, mainly due to lower protection profit (including adverse claims experience in 2019), partly offset by an increase in savings business profit. The health result was £21 million *(2018: £10 million)* following actions to improve profitability.
- In Poland, adjusted operating profit[2] was flat in constant currency terms at £174 million *(2018 restated[1]: £177 million)*, with lower fee income on assets under management as a result of weak equity markets towards the end of 2018 offset by a more favourable mix of new business, and an improved result on protection business.
- In Italy, adjusted operating profit[2] was £173 million *(2018 restated[1]: £147 million)*, an increase of 18% with significant net inflows to our hybrid product in 2017 and 2018 driving higher revenues on assets under management and an increase in profit from existing business.
- In Ireland, adjusted operating profit[2] increased to £59 million *(2018: £40 million)*, an increase of 49% mainly driven by a one-off benefit from methodology and assumption changes and the inclusion of a full year of Friends First in 2019.
- In Turkey, adjusted operating profit[2] was £13 million *(2018: £10 million)*, mainly driven by strong growth in our protection business.

Controllable costs[3]

Controllable costs[3] for Europe Life reduced by 2% to £548 million *(2018: £568 million)*. Excluding disposals, controllable costs[3] were down 3% to £548 million *(2018: £562 million)* mainly due to a reduction in project spend in France partly offset by increased marketing and IT spend in Italy.

Life new business

	PVNBP[3] 2019 £m	PVNBP[3] 2018 £m	Solvency II VNB[3] 2019 £m	Solvency II VNB[3] 2018 £m
France	**5,702**	4,335	**168**	210
Poland	**624**	486	**64**	58
Italy (excl. Avipop)	**5,537**	6,263	**147**	222
Ireland	**1,589**	1,208	**8**	11
Other Europe[4] (excl. Spain)	**320**	333	**27**	13
Total (excl. Avipop, Spain)	**13,772**	12,625	**414**	514
Disposals (Avipop, Spain)	**—**	16	**—**	3
Total	**13,772**	12,641	**414**	517

Excluding disposals, PVNBP[3] was up 10% to £13,772 million *(2018: £12,625 million)*. VNB[3] decreased by 18% to £414 million *(2018: £514 million)*.

1 During 2019 the Group adjusted operating profit APM has been revised and now includes the amortisation and impairment of internally generated intangible assets to better reflect the operational nature of these assets (see note 2(b)). Group adjusted operating profit continues to exclude amortisation and impairment of intangible assets acquired in business combinations. Comparative amounts have been restated. There is no impact on profit before tax attributable to shareholders' profit.
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.
3 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.
4 Includes Turkey.

In France, PVNBP[1] was up 33% reflecting growth in sales of with-profits savings products and the acquisition of a significant collective pension scheme with EDF. VNB[1] was down 19% primarily due to an adverse margin impact from lower interest rates. In Poland PVNBP[3] increased by 30% driven by the performance of our new protection product and pensions transfers. In Italy, PVNBP[1] was down by 11% due to a reduction in standalone with-profits and unit-linked volumes, partially offset by further growth in our hybrid product whilst VNB margins were adversely impacted by lower interest rates.

Operational and customer highlights

- In France we experienced strong inflows into with-profit funds as customers sought more stable returns in response to market volatility and record low interest rates. In response we undertook various commercial initiatives during the second half of the year to re-balance our new business inflows towards unit-linked products. These included targeted marketing campaigns and mix capping with some distributors. In parallel we undertook capital management actions to reduce the immediate pressure on our balance sheet resulting from low (and negative in early September) interest rates. These included interest rate hedging activities, further optimisation of our asset mix, and changes to our internal model. During the final quarter of 2019 we initiated the Savings Business Model Change programme to provide even greater focus on addressing the changes necessary to adapt and transform our business in the medium term.
- Other customer highlights in France included the launch of a new pension product (PERIN) which is compliant with the new French pension regime. In April, in conjunction with Aviva Investors France, we launched Aviva Solutions Durables a sustainable and responsible investment unit-linked life insurance offering. We are widely recognised as a leader in sustainable investing with the broadest range of propositions in the market. We continued our journey to improve the customer experience and during 2019 our funerals business made the switch from paper to nearly fully digital communication. Other digital innovations include the introduction of a chatbot to improve the customer journey and increase the sales conversion rate in our Eurofil distributor and we plan to widen deployment of this tool to retail motor, property and funeral products in 2020.
- We are also actively participating in several smaller acquisition opportunities as part of our strategy to expand our owned distribution network.
- In Italy, our Hybrid product offers customers a combination of attractive yields, stable performance with a partial capital guarantee together with protection and health riders. During the year we have consolidated on the success of the product and introduced further innovations in the structure of the product with an auto-switch with-profit to unit-linked mechanism. Commercial initiatives with our distributors allowed us to significantly reduce the mix of more capital-intensive standalone with-profit new business to 29% *(2018: 48%)*. Whilst the pressure on our balance sheet from higher Italian government bond spreads eased during the year, we undertook further de-risking activities to reduce the sensitivity of our balance sheet.
- Other highlights in Italy included investment in a multimedia marketing campaign which has resulted in a 16pp increase in our brand awareness. Overall customer numbers increased by 56%. Improvements to our customer segmentation capabilities will enhance our ability to design propositions in response to customer and distributor demand.
- Our Polish business has experienced growth despite contraction of the life insurance market. Growth has been supported by the launch of our new Twoje Życie (Your Life) protection product into our direct channels, the redesign of our CPI offering in the bancassurance channel, and the strengthening of our distribution relationships with Santander and ING. In the pension market, auto-enrolment commenced during the year and we have written nearly 400 contracts with companies employing 250+ employees since July (over 70,000 employees are covered). The MyAviva platform is very well embedded in Poland and 2019 has seen us reach over 400,000 active customers (a 71% increase), introduce 21 new functionalities, and hit 29,000 monthly transactions (an 86% increase).
- In Ireland we completed the integration of the Friends First business. We also successfully delivered the first phase of our new governance and operating model – separating the management of our Irish life and general insurance businesses – and shifted our focus to the realisation of further efficiency benefits and commercial initiatives to improve the margins on our unit-linked products. One of the key drivers here will be the consolidation of our IT administration systems and 50% of this work completed in 2019. We delivered the first phase of our Integrated Protection Product offering best of both Aviva and Friends First to our customers. Improvements were made to our annuity pricing process with a major re-price in August that improved our new business margins during the second half of the year, and the implementation of an annuity reinsurance solution in line with our longevity risk appetite. Our Irish business achieved first place in the annual Broker Service Excellence Awards in 2019 and our policyholder TNPS scores continue to be top quartile in our sector.
- In Turkey, we continued our market leadership in pensions and increased our market share in protection. While customer persistency actions played a key role in maintaining our pension leadership, we have increased our market share in protection driven by strong growth in our market leading "return of premium" endowment product and our new credit linked product, further assisted by a general market recovery in the second half of 2019. The new credit linked protection product is a very customer focused proposition and has positioned us favourably against our competition. We have increased our customer engagement through a new mobile app which has had nearly 500,000 downloads and enabled our customers to better manage their funds and offers a fully digitised sales process; providing an improved customer experience and driving process efficiency.

Europe GI

Overview, market context and challenges

- In France we are number 12[1] in the market and offer a full range of general insurance products with strength in distribution through our sizeable agent and broker networks and particular expertise in the construction sector. We have recognised an opportunity for profitable growth in SME commercial lines of business where the market is under-penetrated by our larger competitors and we have invested in our capabilities in this area during 2019.
- In Italy we dropped to number 18[2] in the market after the Avipop disposal in 2018. We offer general insurance across motor and non-motor lines of business. In the Italian market motor is the primary line of business representing nearly half of gross written premium in 2018 but has seen declining or flat premiums over the last five years with rising competition, customer churn, and loss ratios. Our response has been twofold: firstly in 2018 we took profitability actions on our motor book that reduced volumes but resulted in improvements in underlying loss ratios and a strong base from which to rebuild our book; secondly we have shifted our strategic focus to invest for growth in the under-penetrated but profitable SME commercial market, and in the growing non-motor personal lines segments, with expanded distribution through multi-agents and brokers.

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.
2 La Fédération Française de l'Assurance
3 Associazione Nazionale fra le Imprese Assicuratrici

- In Poland we are number ten[4] in the market and provide general insurance distributed through a direct sales network, brokers and two key bancassurance partnerships with Santander and ING. The market is showing another year of strong growth. We have chosen to focus our growth strategy more on the commercial market due to price competition in personal lines.
- In Ireland we are a market leading general insurance provider and continue to benefit from a strong macroeconomic environment with high GDP and low unemployment. Despite a continuing soft personal lines market, we achieved a 92.6% combined operating ratio (COR)[3] demonstrating the strength of our underwriting capability. The Irish market has capacity challenges across a number of sectors such as Child Care, Elderly Care, Sports and Hospitality. Business repatriating from the UK continues to form part of the new business pipeline. We continue to prudently underwrite this business, only writing better quality risks with strong rate strength.

Financial performance

	2019 £m	Restated[1] 2018 £m
Adjusted operating profit[2]	**154**	201
Net written premiums (NWP)	**2,017**	1,985
Combined operating ratio (COR)[3]	**95.7%**	93.5%
Cash remitted to Group[3]	**180**	147
Controllable costs[3]	**288**	273

Profit

	General insurance	
Adjusted operating profit[1,2]	**2019 £m**	Restated[1] 2018 £m
France	**65**	92
Poland	**20**	21
Italy (excl. Avipop)	**22**	30
Ireland	**47**	56
Total (excl. Avipop)	**154**	199
Disposals (Avipop)	**—**	2
Total	**154**	201

Excluding disposals, Europe general insurance adjusted operating profit[2] reduced by 22% to £154 million *(2018 restated[1]: £199 million)*. Dealing with each of the markets in turn:

- In France, adjusted operating profit[2] was £65 million *(2018 restated[1]: £92 million)*, with growth in net earned premiums of 6%, particularly in commercial lines, more than offset by higher large losses and less favourable prior year reserve development than 2018.
- In Poland, adjusted operating profit[2] was £20 million *(2018: £21 million)* with net earned premiums in line with 2018.
- In Italy, excluding disposals, adjusted operating profit[2] was down 23% to £22 million *(2018: £30 million)*. Within this net earned premiums were down 3% as underwriting actions taken on the personal motor book during 2018 earned through and there were higher large losses in commercial lines and higher expenses.
- In Ireland, adjusted operating profit[2] reduced to £47 million *(2018: £56 million)* driven by a soft market in personal lines with earned premiums 2% lower than 2018, and higher expenses (driven largely by the impact of the new motor levy of 2% applied to all motor policies since December 2018), partly offset by lower large losses and more benign weather than 2018.

Net written premiums (NWP) and combined operating ratio (COR)[4]

	Net written premiums		Combined operating ratio[3]	
	2019 £m	2018 £m	**2019 %**	Restated[1] 2018 %
France	**1,166**	1,118	**97.2%**	94.6%
Poland	**112**	106	**85.9%**	87.0%
Italy (excl. Avipop)	**319**	317	**97.7%**	95.2%
Ireland	**420**	430	**92.6%**	91.5%
Total (excl. Avipop)	**2,017**	1,971	**95.7%**	93.5%
Disposals (Avipop)	**—**	14	**—**	87.8%
Total	**2,017**	1,985	**95.7%**	93.5%

NWP

Excluding the disposal of Avipop, NWP increased by 3% to £2,017 million *(2018: £1,971 million)* with growth in France, Italy and Poland (particularly in commercial lines) partly offset by lower premiums in Ireland as we maintained strong underwriting discipline in a soft personal motor market.

COR[3]

COR[3] has increased by 2.2pp to 95.7% *(2018 restated[1]: 93.5%)* for the reasons described in the profit section above.

Cash

Cash remitted to the Group[3] was £180 million *(2018: £147 million)* which includes a £65 million special remittance from the disposal of Avipop in Italy in 2018.

Controllable costs[3]

Controllable costs[3] were up 8% to £288 million *(2018: £271 million)* excluding the disposal of Avipop, which includes investment in underwriting platforms in Italy.

1 During 2019 the Group adjusted operating profit APM has been revised and now includes the amortisation and impairment of internally generated intangible assets to better reflect the operational nature of these assets (see note 2(b)). Group adjusted operating profit continues to exclude amortisation and impairment of intangible assets acquired in business combinations. Comparative amounts have been restated. There is no impact on profit before tax attributable to shareholders' profit. Following the change in the definition of Group adjusted operating profit, COR has also been restated to include the amortisation and impairment of internally generated intangible assets. Comparative amounts have been restated.
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.
3 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.
4 Polska Izba Ubezpieczeń

Operational and customer highlights

- In France we continued to organically build out our SME broker team which resulted in strong growth in commercial lines volumes. We continued to improve our pricing sophistication, notably through use of the RADAR tool which has enhanced our view of margins and competitor pricing. Our innovative Client Unique proposition aims to simplify the sales journey for our retail customers with consistent products and pricing across all distribution channels, together with centralised and efficient claims processing. We launched a pilot phase with 50 agents during the year with results expected during the first quarter in 2020.
- In Italy, we have launched a new Guidewire based underwriting platform offering a simple and flexible range of products initially to smaller businesses and have been commended by the industry for our innovative implementation. In parallel, we commenced a review and renewal of our entire product catalogue and intend to launch across more of our distribution channels so that all our customers and distribution partners can benefit from the simplicity of the new platform. We have achieved strong customer feedback during the year and were ahead of the market on both our customer satisfaction score and retail net promoter score.
- Our Polish business has experienced growth, particularly SME focused commercial lines business where net written premiums grew by 60% assisted by the launch of new propositions including general third-party liability. We also continue to build on the strength of our distribution relationship with our bancassurance partners and further digitised the sales and claims processes including self-claims in personal accident and the reporting of motor third party liability claims online.
- In Ireland the general insurance business has been able to navigate the soft personal lines market with underwriting discipline. We improved the underlying performance of our commercial lines' portfolio (1pp COR[1] improvement). We continued to improve our personal lines pricing sophistication as well as retaining key distribution partners, including a two-year extension with our largest partner An Post Insurance. Our customer recognition remained strong and our RNPS is in the upper quartile and market leading.

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.

Market review > Continued

Asia

Overview

Following a strategic review in 2019, we have a selective approach in Asia, focused on high potential markets in Singapore and China. We are continuing to explore strategic options for our businesses in Vietnam and Indonesia.

All of our markets provide access to a combined population of over 3 billion people[1], with relatively low insurance penetration compared to more developed Western markets. We currently provide life and health insurance solutions to over 5 million customers across our markets in Asia.

In particular, as a composite insurer with around 1 million customers, Aviva is one the biggest providers of employee benefits and healthcare insurance in Singapore[2].

Across Asia, we operate a multi-distribution channel strategy which includes tied-agency, financial advisers, bancassurance, affinity partnerships, telemarketing and direct sales force. Our core strategy is to leverage strong partnerships and our distribution capability to grow long term value. We continue to place emphasis on earning customers' trust and delivering great customer outcomes. Investment in enhancing Asia's distribution and analytics capabilities continued throughout 2019.

Our FPI business and our business in Hong Kong are classified as held for sale at 31 December 2019.

Financial performance

	2019 £m	Restated[3] 2018 £m
Adjusted operating profit[3,4]		
Life & Health	**276**	263
General Insurance	**(1)**	(2)
	275	261
Profit before tax	**87**	90
Controllable costs[5]	**202**	187
Life:		
Solvency II return on capital[5]	**12.7%**	9.7%
Solvency II operating capital generation (OCG)[5]	**60**	55
Cash remitted to Group[5]	**51**	6
Life new business		
Present value of new business premiums (PVNBP)[5]	**3,057**	2,656
Value of new business on an adjusted Solvency II basis (VNB)[5]	**206**	189
General Insurance:		
Net written premiums (NWP)	**13**	13
Combined operating ratio (COR)[3,5]	**112.8%**	122.1%

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

Profit

	Life & Health		General insurance	
Adjusted operating profit[4]	2019 £m	Restated[3] 2018 £m	2019 £m	Restated[3] 2018 £m
Singapore	**145**	123	**(1)**	(2)
China	**25**	22	**—**	—
Other Asia (excl. FPI & Hong Kong)	**(13)**	(26)	**—**	—
Total (excl. FPI & Hong Kong)	**157**	119	**(1)**	(2)
FPI	**128**	151	**—**	—
Hong Kong	**(9)**	(7)	**—**	—
Total adjusted operating profit[4]	**276**	263	**(1)**	(2)

Adjusted operating profit[4] from our life and health businesses was £276 million *(2018 restated[3]: £263 million)*. Excluding FPI and Hong Kong, adjusted operating profit[4] increased by 29% to £157 million *(2018 restated[3]: £119 million)*. Within this, Singapore's result improved 14% to £145 million *(2018 restated[3]: £123 million)*, with continued investments in our financial advisory channel driving higher new business, and improving profitability in health insurance. China's adjusted operating profit improved by 18% to £25 million *(2018: £22 million)*.

Life adjusted operating profit for FPI was £128 million *(2018: £151 million)*, while Hong Kong reported an adjusted operating loss of £9 million *(2018: £7 million loss)*.

Singapore general insurance reported an adjusted operating loss of £1 million *(2018: £2 million loss)*.

Profit before tax attributable to shareholders' profit decreased by 3% to £87 million *(2018: £90 million)*, with the increase in operating profit more than offset by the effect of an impairment charge related to our associate in India and a £28 million remeasurement loss in relation to FPI.

Controllable costs[5]

Total controllable costs[5] for Asia subsidiaries was £202 million *(2018: £187 million)*. Excluding Hong Kong and FPI, controllable costs[5] were £155 million *(2018: £140 million)*. The increase was mainly to support Singapore's financial adviser development initiative and organic channel growth across Asia.

Solvency II return on capital[5] and Solvency II operating capital generation (OCG)[5]

Asia Life Solvency II return on capital[5] has increased by 3.0pp to 12.7% *(2018: 9.7%)*, Solvency II own funds generation increased by £43 million to £187 million *(2018: £144 million)* and Solvency II operating capital generation[5] has increased by £5 million to £60 million *(2018: £55 million)*. The increase is primarily due to growth and beneficial non-economic assumption changes in Singapore.

Cash

Cash remitted to Group[5] in 2019 has increased to £51 million *(2018: £6 million)*, mainly attributable to improved performance in Singapore. China paid its first dividend to Group of £5 million *(2018: £nil)* in 2019.

1 Swiss Re Institute sigma No 3/2019 publication
2 2018 Insurance statistics published by Monetary Authority of Singapore
3 During 2019 the Group adjusted operating profit APM has been revised and now includes the amortisation and impairment of internally generated intangible assets to better reflect the operational nature of these assets (see note 2(b)). Group adjusted operating profit continues to exclude amortisation and impairment of intangible assets acquired in business combinations. Comparative amounts have been restated. There is no impact on profit before tax attributable to shareholders' profit. Following the change in the definition of Group adjusted operating profit, COR has also been restated to include the amortisation and impairment of internally generated intangible assets. Comparative amounts have been restated.
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.

Life new business

	PVNBP[1]		Solvency II VNB[1]	
	2019 £m	2018 £m	2019 £m	2018 £m
Singapore	**1,580**	1,279	**159**	152
China	**718**	650	**43**	42
Other Asia (excl. FPI & Hong Kong)	**406**	279	**8**	—
Total (excl. FPI & Hong Kong)	**2,704**	2,208	**210**	194
FPI	**351**	448	**(1)**	(2)
Hong Kong	**2**	—	**(3)**	(3)
Total	**3,057**	2,656	**206**	189

Excluding FPI and Hong Kong, PVNBP[1] has increased by 20% to £2,704 million *(2018: £2,208 million)*, which was led by double digit growth in Singapore and China, and strong agency channel expansion in Vietnam. Solvency II VNB[1] increased by 6% to £210 million *(2018: £194 million)*.

Net written premiums (NWP) and combined operating ratio (COR)[1]

Singapore general insurance net written premiums were flat at £13 million *(2018: £13 million)*. Our general insurance combined operating ratio[1] improved by 10.2pp to 112.8% *(2018 : 122.1%)* as a result of a change in mix away from motor to travel and commercial lines.

Operational and customer highlights

During 2019 Singapore continued to grow its distribution network. Our financial adviser subsidiaries, Aviva Financial Advisers and Professional Investments Advisory Services now have a combined total of 1,819 advisers *(2018: 1,540 advisers)*.

In China, we continued to have an excellent relationship with our partner COFCO and in 2019 our joint venture continued to focus on its core agency channel, growing operating profit by 18% as the market recovered following a period of regulatory tightening in 2018.

Other key operational and customer highlights during 2019 included:

- Our business in Singapore received several major awards including the Sustainability & Corporate Social Responsibility Award from Asia Insurance Review and Singapore's Best Workplaces (Medium and Large Workplaces) 2019 Award from the Great Place to Work Institute.
- In July 2019, we were awarded the contract to provide insurance cover to the Singapore government's Public Officers Group Insurance Scheme (POGIS).
- In China, our joint venture won an award from the Project Management Institute recognising our efforts to promote an innovative culture and to reduce complexity for our customers, agents and employees.
- By leveraging Quantum capabilities, Aviva Singapore has integrated artificial intelligence driven solutions across both pricing and distribution. These have contributed to both top line growth and bottom-line profit generation.

Market context and challenges

Driven by robust macro fundamentals in Asia, regional insurance markets are expected to continue their growth despite global economic volatility. We continue to believe that the long-term favourable trends of the rising 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 in the coming decade.

Asia's rapid growth in internet, social media and mobile activities continued in 2019, and China is a leader in the technology revolution and digital applications. Today, digital has become an essential part of our daily lives and we are strongly encouraged by various Asian governments' support in Fintech, and consumers continued rapid adoption.

Following the outbreak of Coronavirus, our Asia business has implemented safeguards to ensure business continuity and supporting the wellbeing of our customers, colleagues and communities. We continue to monitor developments closely.

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.

Risk and risk management

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

We receive premiums which we invest 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 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 Committee[1], 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 and health 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).

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 when 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.

1 From 1 January 2020 the Committee has become Customer, Conduct and Reputation Committee. Further details are available in the Governance Report in the Annual Report and Accounts.

Principal risk types

The types of risk to which the Group is exposed have not changed significantly over the year and are described in the table below. 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 take a balanced approach to credit and believe we have the expertise to manage it and the structural investment advantages conferred to insurers with long-dated, relatively illiquid liabilities that enables 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 and property 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 and health insurance risk • Longevity[1] • Persistency • Mortality and morbidity • Expenses	We take measured amounts of life insurance risk provided we have the appropriate core skills in underwriting and pricing.	• Risk selection and underwriting on acceptance of new business • Longevity swaps covering pensioner-in-payment scheme liabilities • Product design that ensures products and propositions meet customer needs • Use of reinsurance on longevity risk for our annuity business, including the bulk annuity buy-in transaction with the Aviva staff pension scheme.
General insurance risk • Catastrophe • Reserving (latent and non-latent) • 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. General insurance 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 at 31 December 2019) 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 Group Centre 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 • Retention risks	Risks specific to asset management should generally be reduced to as low a level as is commercially sensible, on the basis that taking on these risks will rarely provide us with an upside.	• 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

1 Top three risks ranked by diversified Solvency II Solvency Capital Requirement
2 Not quantifiable in terms of economic capital

Risk type	Risk preference	Mitigation
Operational risk • Conduct • Legal & regulatory • People • Process • Data security • Technology • Brand and Reputation	Operational risk should generally be reduced to as low a level as is commercially sensible. 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 • During 2019 we transitioned IT services to new data centres bringing disaster recovery risk back into tolerance

Principal emerging trends and causal factors

This table describes the emerging 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 current low 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 going forwards and our ability to profitably meet our promises of the past. Trend: Increasing Risks impacted: Credit risk, Market risk, Liquidity risk	Over the last few years we have taken significant steps to reduce the sensitivity of our balance sheet to investment risks. While interest rate exposures are complex, 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.	During 2019, interest rates reached record lows in many eurozone economies, requiring further management action in our businesses in France and Italy. We expect rates to remain at low levels for some time to come and we continue to manage our key exposures, specifically in Italy, France and Asia. While asset returns had a strong run, a number of economists have warned we are approaching the end of this credit cycle. In addition, there continues to be significant geopolitical risks that will have knock on impacts to economies and financial markets, including Brexit and the threat of both trade wars and actual wars.
UK-EU relations (Free Trade Agreement uncertainty) – there remains considerable uncertainty over the outcome of negotiations over the UK's future relationship with the EU, and the implications for our operations, economic growth and productivity and in the longer term for financial services regulation, including Solvency II. Trend: Stable Risks impacted: Credit risk, Market risk, Operational risk	In preparing for the end of the transition period on 31 December 2020 under the UK-EU withdrawal agreement, we have already taken the operational measures necessary to ensure continuous service to our customers. This includes addressing 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, and amending contractual terms for data sharing to allow continued uninterrupted flow of personal data between our EU businesses and the UK. We have contingency plans to restructure our businesses in case the UK is not considered Solvency II equivalent and restrictions to asset management delegation rights as a non-EU manager.	As 2020 progresses we expect greater clarity to emerge over the terms of any future UK-EU free trade agreement and other aspects of the future relationship and the extent, if at all, to which financial and other services are included. There is a risk that financial services are included in a way that leaves the UK as a "rule taker" of EU regulation, which would negatively impact on the ability for the UK to calibrate financial services rules for UK market needs. There is also a risk that negotiations fail to conclude by 31 December 2020, the end of the transition period under the withdrawal agreement, and without an extension to negotiations the UK may need to revert to trading on World Trade Organisation terms. Any agreement may require an implementation period after 2020. While the ultimate outcome remains uncertain, we expect UK financial markets to be volatile and macroeconomic growth subdued.

Key trends and movement	Risk management	Outlook
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	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 the UK, we have compensated for falling sales of individual annuities by increasing sales of other pension products – particularly bulk purchase annuities.	Following the decisive general election victory, the new UK government has a clear mandate on Brexit, and a relatively pro-business stance more generally. We believe that a relatively hard Brexit with minimal alignment to the EU is likely by the end of 2020. Within the domestic agenda there are potential risks around tax, pensions legislation and increasing regulatory intervention (particularly on GI pricing). In the EU there is a review of Solvency II, the key regulatory regime for EU insurers. A new EU Commission has an ambitious agenda for climate change and Artificial Intelligence/data regulation which may bring regulatory changes directly impacting on our businesses in the EU and in a post Brexit UK indirectly.
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	Our data science capabilities facilitate market leading innovation in the use of data analytics to significantly improve the customer journey, 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.
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, in the absence of radical action by governments 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.
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	Aviva has invested significantly in Cyber security introducing additional automated controls to protect our data and critical IT services. This investment has enhanced our ability to identify, detect and prevent Cyber-attacks and we regularly test ourselves through our own 'white hat' hackers to test our Cyber defences and crisis management protocols. Aviva encourages a Cyber aware culture by regularly undertaking activities such as employee phishing exercises, computer-based training and more regular communications about specific Cyber threats.	In 2019 there continued to be high profile cyber security incidents for corporates in the UK and elsewhere and Cyber threat is expected to persist in 2020 from multiple sources, including cyber criminals and rogue states, with increasing levels of sophistication and industrialisation anticipated. Aviva continuously monitors the external threat environment to ensure that our Cyber investment remains appropriate to mitigate the continued and changing nature of the cyber threat.

Key trends and movement	Risk management	Outlook
Medical advances and healthier lifestyles – 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: Stable 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 for some of our individual annuity business.	There is considerable uncertainty as to whether the improvements in life expectancy that have 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 recent years. In the longer term this may even result in a reversal in the trend of increasing life expectancy. Although the latest analysis of population data indicates much lighter mortality in 2019 compared to 2018, which is a marked change to the experience seen during the past decade.
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	We listen to our customers to ensure we meet their savings, retirement and insurance needs. We also seek to improve the way we serve our customers by simplifying our interactions with them, resolving queries at their first point of contact where appropriate and enhancing our digital capabilities.	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 our existing customers fairly particularly those 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 disrupt our operations. Trend: Stable 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 place in the event of supplier failure, which are reviewed annually. We also carry out supplier financial stability reviews at least annually.	We expect regulatory scrutiny of outsourcing arrangements to remain following financial difficulties faced by some providers, as well as customer service issues following the migration of our third party provided IT platform in the UK.
Pandemic – in an increasingly globalised world, new or mutations of existing bacteria or viruses may be difficult for stretched healthcare systems to contain, disrupting national economies and affecting our operations and the health and mortality of our customers. Trend: Increasing Risk impacted: Market, Credit, Life Insurance risk (mortality, longevity, morbidity), General Insurance (business interruption, travel) and Operational risk.	We have taken significant steps to reduce the sensitivity of our balance sheet to market/credit risks and have contingency plans which are designed to reduce as far as possible the impact on operational service arising from mass staff absenteeism, travel restrictions and supply chain disruption caused by a pandemic. We reinsure much of the mortality risk arising from our Life Protection business and hold capital to cover the risk of a 1-in-200 year pandemic event. We model extreme pandemic scenarios such as a repeat of the 1918 Spanish Influenza pandemic. In the Group and commercial insurance business we limit our potential exposure through our policy wordings. As an investment manager and investor, we engage with companies to ensure the responsible use of antibiotics to reduce the risk that antimicrobial resistance negate the efficacy of medical treatment.	2020 has begun with the outbreak of a new strain of the Coronavirus in China. With confirmed cases in more than 50 countries, including all of those in which Aviva has material businesses. There is a risk of a significant global pandemic and economic disruption. We have imposed travel restrictions on staff and a work-from-home self-quarantine regime for staff who have recently visited infected regions. In addition we have reviewed the exposure of our balance sheet, and are taking actions to further reduce our sensitivity to economic shocks. Notwithstanding our robust capital and liquidity position and the operational and financial actions that we are taking, a deterioration in the situation, and the consequent impacts on financial markets, our insurance exposures and our operations, would have adverse implications for our businesses. Going forward, increasing migration and international travel is expected to make the containment of future pandemics more challenging.

Capital management

Overview

Group capital is represented by Solvency II own funds. The Group manages capital in conjunction with its solvency capital requirements (SCR), and seeks to, on a consistent basis:

- Maintain sufficient, but not excessive, financial strength in accordance with risk appetite, to support new business growth and satisfy the requirements of our regulators and other stakeholders giving both our customers and shareholders assurance of our financial strength
- Retain financial flexibility by maintaining strong liquidity, access to a range of capital markets and significant unutilised committed credit lines
- Manage an appropriate level of leverage to ensure an efficient capital structure
- Allocate capital rigorously to support value adding growth and repatriate excess capital where appropriate
- Operate a sustainable dividend policy with reference to factors including growth in cash flow and capital generation

The Solvency II position disclosed is based on 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, a number of adjustments are typically made to the regulatory Solvency II position. The Group Solvency II capital position, including these adjustments, is summarised in the table below:

	Own funds 2019 £m	SCR 2019 £m	Surplus 2019 £m	Own funds 2018 £m	SCR 2018 £m	Surplus 2018 £m
Estimated Solvency II regulatory surplus as at 31 December	**28,347**	**(15,517)**	**12,830**	27,567	(15,339)	12,228
Adjustments for:						
Fully ring-fenced with-profit funds	**(2,501)**	**2,501**	**—**	(2,634)	2,634	—
Staff pension schemes in surplus	**(1,181)**	**1,181**	**—**	(1,142)	1,142	—
Notional reset of the transitional measure on technical provisions (TMTP)	**—**	**—**	**—**	(127)	—	(127)
Pro forma adjustments[1]	**(117)**	**(75)**	**(192)**	(113)	(6)	(119)
Estimated Solvency II shareholder surplus at 31 December	**24,548**	**(11,910)**	**12,638**	23,551	(11,569)	11,982

1 The 31 December 2019 Solvency II position includes three pro forma adjustments that relate to the disposal of FPI (£nil impact on surplus), the disposal of Hong Kong (£nil impact on surplus) and the potential impact of an expected change to Solvency II regulations on the treatment of equity release mortgages (£0.2 billion decrease in surplus as a result of an increase in SCR). The 31 December 2018 Solvency II position includes the pro forma impact of the disposal of FPI (£0.1 billion increase in surplus) and the potential impact of an expected change to Solvency II regulations on the treatment of equity release mortgages (£0.2 billion reduction in surplus as a result of an increase in SCR).

The estimated Solvency II cover ratio[1] is 206% at 31 December 2019 *(2018: 204%)*.

The movement in the Solvency II shareholder surplus over the period is shown in the table below:

Shareholder view	Own funds 2019 £m	SCR 2019 £m	Surplus 2019 £m
Group Solvency II surplus at 1 January	**23,551**	**(11,569)**	**11,982**
Operating capital generation	**2,257**	**2**	**2,259**
Non-operating capital generation	**178**	**(362)**	**(184)**
Dividends	**(1,222)**	**—**	**(1,222)**
Share buy-back	**—**	**—**	**—**
Hybrid debt repayments	**(210)**	**—**	**(210)**
Acquired/divested business	**(6)**	**19**	**13**
Estimated Solvency II surplus at 31 December	**24,548**	**(11,910)**	**12,638**

Solvency II operating capital generation[1] (OCG) measures the amount of Solvency II capital the Group generates from operating activities. Capital generated enhances Solvency II surplus which can be used to support sustainable cash remittances[1] from our business, which in turn supports the Group's progressive dividend as well as funding investments that provide sustainable growth. The OCG[1] by market is summarised in the table below:

Operating capital generation[1]	2019 £m	2018 £m
UK Life (including UK Savings & Retirement)	**1,170**	1,821
Aviva Investors	**90**	126
General Insurance	**574**	647
Europe Life	**754**	724
Asia Life	**60**	55
Group centre, debt costs and Other	**(389)**	(175)
Total Group Solvency II operating capital generation1	**2,259**	3,198

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.

Solvency II own funds

One of the objectives of capital management is to maintain an efficient capital structure using a combination of equity shareholders' funds, preference share capital, subordinated debt and borrowings, in a manner consistent with our risk profile and the regulatory and market requirements of our business. The table below provides a summary of the Group's regulatory Solvency II own funds by Tier:

Regulatory view	2019 £m	2018 £m
Unrestricted Tier 1	**20,377**	19,312
Restricted Tier 1	**1,839**	2,096
Tier 2	**5,794**	5,811
Tier 3[1]	**337**	348
Total regulatory own funds[2]	**28,347**	27,567

1 Tier 3 regulatory own funds at 31 December 2019 consists of £259 million subordinated debt *(2018: £253 million)* plus £78 million net deferred tax assets *(2018: £95 million)*.
2 Regulation was introduced in France that allows French insurers to place the Provision pour Participation aux Excedents (PPE) into Solvency II own funds. The PPE has been included in the France local regulatory own funds in 2019 but it is not included in the Group regulatory own funds.

- Unrestricted Tier 1 capital includes Aviva's ordinary share capital and share premium which are high quality instruments with principal loss absorbing features such as permanence, subordination, undated, absence of redemption incentives, mandatory costs and encumbrances
- Restricted Tier 1 includes Aviva's direct capital instrument (DCI), preference shares and subordinated debt. None of these instruments include principal loss absorbency features and all qualify as restricted Tier 1 capital under transitional provisions
- Tier 2 capital consists of dated subordinated debt. The features of Tier 2 capital include subordination, a minimum duration of 10 years with no contractual opportunity to redeem within 5 years, absence of redemption incentives and mandatory costs and encumbrances
- Tier 3 capital consists of subordinated debt and net deferred tax assets after taking into account the ability to offset assets against deferred tax liabilities. The features of Tier 3 capital include subordination and a minimum duration of 5 years

Capital and liquidity risk appetite

The Group's economic capital risk appetite is set in terms of our Solvency II shareholder cover ratio[1]. Our Solvency II cover ratio[1] working range is 160%-180%.

More recently, our Solvency II cover ratio[1] has typically been in a range of 190-210%, above our working range. If the ratio was to remain above 200% for an extended period we have scope for additional actions such as further debt reduction or additional investment in business growth and change. Similarly, if the ratio reduced to below the bottom of the working range, we would consider improvement actions which include derisking and reprioritisation of growth initiatives.

Our businesses are capitalised based on their regulatory minimum levels with further prudent volatility buffers specific to each entity. Market local capital appetites and working ranges are reviewed regularly by local boards. Our Group cash remittance policy is that business units should pay down to the bottom of their respective working ranges based on up-to-date assessments of their capital positions. This is consistent with our preference to hold excess capital at centre to improve fungibility and underpins the upstreaming of excess business unit capital via additional remittances seen in recent years.

We actively manage our centre liquidity and we have defined a liquidity risk appetite that sets a minimum level of centre liquid assets to be held at all times. In addition, we stress our forecast levels of centre liquid assets in order to ensure that we would still able to meet our commitments to pay a progressive dividend and meet our deleveraging ambitions if a liquidity event were to occur.

Capital deployment and allocation framework

The Group's economic value-added (EVA) framework ensures that we deploy our capital based on a robust assessment of value creation. EVA is calculated as the own funds generated less the Group's cost of capital and this EVA approach is closely related to our Solvency II return on equity[1] metric.

We use EVA to support strategic decision making, such as transformation projects or M&A, business capital allocation, pricing, hedging, reinsurance and asset allocation. We also use EVA to support a detailed review of each segment of the group to inform strategic planning and performance management.

When making capital allocation decisions in addition to EVA we consider other key metrics including cash remittances[1], OCG[1] and Group adjusted operating profit[1].

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.

Our climate-related financial disclosure

As an international insurance group, our sustainability and financial strength is underpinned by an effective risk management framework. Our business is directly impacted by the effects of the climate crisis. We believe that unmitigated climate-related risks present a systemic threat to societal and financial stability and therefore to our business, over the coming decades.

This disclosure reflects Aviva's 2019 response to the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). It sets out how Aviva incorporates climate-related risks and opportunities into governance, strategy, risk management, metrics and targets and how we are responding to new regulatory requirements. These pages, along with the expanded report, are available at www.aviva.com/TCFD.

Governance

Aviva has built a strong system of governance, with effective and robust controls. In 2019 we updated the Senior Management Function's Statements of Responsibilities in line with the PRA's Supervisory Statement 3/19[1]. The regulated entities' Chief Risk Officers (CROs) are responsible for ensuring that climate-related risks and opportunities are identified, monitored and managed through Aviva's risk management framework and in line with our risk appetite. The Group CRO is responsible for overseeing, at Group level, the embedding of the risk management framework. To support the CROs in meeting regulatory expectations, we have initiated a group-wide climate-related risks and opportunities project. The Group CRO is the executive sponsor of the project.

The Board Risk Committee and Board Governance Committee[2] oversee our management of climate-related risks and opportunities. The Board Risk Committee[2] met six times in 2019 to review, manage and monitor all aspects of risk management, including climate-related risks and opportunities. The Board Governance Committee[2] met four times in 2019 to oversee how Aviva meets its corporate and societal obligations.

In 2019, we updated our risk policies and business planning process to ensure the assessment of climate-related risks and opportunities is integrated into our overall strategy, decision-making, risk management and reporting frameworks. Local markets have also responded to local regulations (e.g. Article 173 in France and the PRA's climate change Insurance Stress Test). In 2019 papers considering the impact of climate change on our business have been presented to Board committees across the group (e.g. the outcomes of the PRA's climate change Insurance Stress Test were presented to the UK Life and UK GI Risk Committees).

As part of our regular Board training programme, Aviva's climate-related risks and opportunities are presented to the Board. This training equips the Board to give appropriate direction to the company and ensure actions are taken to identify, measure, manage, monitor and report these risks and opportunities.

Strategy

Having achieved the targets set as part of our 2015 strategic response to climate change, this year our climate strategy took another important step forward. We are widening the scope from primarily focusing on investments, to create a broader, joined-up four-pillar approach covering investments, insurance, our operations and influence.

Aviva is a trusted climate leader. We commit to aligning our business to the 1.5°C Paris target[3] and to be a net zero asset owner by[4] 2050. Our businesses will seek to develop and offer further climate-friendly products. We also commit to further cutting our operational carbon impact, as well as using our influence to help tackle climate change. This strategy is aligned to our Company Purpose 'With you today, for a better tomorrow' and will be implemented as part of the Group Business Strategy.

Investments – There are three ways in which Aviva is involved in investments i.e. as an asset owner, a long-term savings and pensions provider and as an asset manager.

- **As an asset owner**, we seek to align our investments with a pathway towards net zero carbon emissions and ensure consistency with the Paris target. We have signed-up to key global commitments such as the UN Net Zero Asset Owners Alliance. We are working with the industry to define methodologies and milestones with respect to these commitments and plan to increase our level of investment in low carbon infrastructure through to 2030; in addition to our £3.8 billion investments since 2015. We use our shareholder influence to encourage companies to transition to a low carbon economy and divest from highly carbon-intensive fossil fuel companies where we consider they are not making sufficient progress towards the engagement goals set. We engaged with an initial set of 40 companies where Aviva has beneficial holdings, and which have >30% of their business (by revenue) associated with thermal coal mining or coal power generation. By the start of 2020 we had divested Aviva's own assets from 18 thermal coal mining and power generation companies; we are prepared to add further companies to our Investment Stoplist to limit our exposure to this and other carbon intensive sectors.
- **For long-term savings and pensions,** we integrate consideration of long-term issues into the products and services we offer. We continue to develop our customer Environmental, Social and Governance (ESG) strategy, and offer climate friendly and ethical funds such as the stewardship fund range.
- **As an asset manager,** Aviva Investors (AI) integrates consideration of ESG factors into the investment process to deliver long-term sustainable and superior investment outcomes for customers whilst adhering to their mandate. AI is developing a range of funds that support the climate change transition. In 2019, AI launched the European Equity Climate Transition Fund, which whilst excluding investments in companies with exposure to high carbon fossil fuels, invests in companies that provide solutions for climate mitigation/adaptation; or are orientating their business models to be successful in adapting to a warmer world, and supporting the transition to a low-carbon economy. In 2019 we integrated the T-Risk methodology[5] into our real assets' assessment process and continued to integrate climate issues into our voting strategy by withholding support for high carbon emitting companies that do not publish TCFD disclosures.

1 Prudential Regulation Authority's (PRA) Supervisory Statement – 'Enhancing bank's and insurers' approaches to managing the financial risks from climate change'
2 From 1 January 2020 the Committee has become Customer, Conduct and Reputation Committee. Further details are available in the Governance Report in the Annual Report and Accounts
3 The 1.5C target was set as an aspiration by the global Paris climate change deal in 2015 to limit the damage wreaked by acute events such as extreme weather and chronic events such as sea level rise.
4 Reduce the carbon emissions of our investment portfolio to net-zero
5 T-risk is a model using research inputs from in-house as well as academia, consultants, civil society, peers to rate the 159 GICS (Global Industry Classification System) sub-industries on their risk exposure to both physical and decarbonisation risks through their value chain

Insurance – We seek to grasp opportunities to support the transition to a low carbon economy and promote activities that will secure a better future for our customers and wider society. We develop 'climate conscious' products across Aviva, which reward customers for environmentally responsible actions, provide an element of adaptation/resilience or additional cover for those customers at risk of the extreme weather impacts of climate change. For example, we offer products and services that support customers' choices such as bespoke electric vehicle policies (France), reduce premiums for customers who opt to use public transport (France), support the sharing economy (Canada), cover solar panels on residential insurance policies without charging an additional premium (UK GI). Last year, Aviva confirmed we would stop underwriting fossil fuel power generation worldwide and has recently launched its whole lifecycle insurance for renewable energy companies. We continue to reduce the environmental impact of our claims process and implement changes which benefit the customer and minimise the amount of waste to landfill or recycling.

Operations – Our operations have been carbon neutral since 2006, through reducing our emissions year-on-year and offsetting any remaining emissions. Our ambition over time is that our business operations should have positive climate impact. We have already reduced our emissions by 66%[1] since 2010 and have a long-term reduction target of 70% by 2030. We are committed to using 100% renewable electricity by 2025 (via our RE100 commitment[2]). In 2019, we commissioned a 'first of its kind in the UK' solar carport installation for our Norwich office, which with the right weather conditions removes our reliance on the National Grid and feeds surplus electricity back into the grid. In 2019 our carport produced 40 GWh of electricity, of which 3.8 GWh was exported to the grid. We have identified two further locations for the installation of solar carports which will come on-stream in 2020. We have planning permission for a wind turbine at our Perth office, which through the combination of the existing solar array, new solar carport and battery storage will take the location off-grid.

Influence – 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 correct existing market failures with respect to climate change.

We encourage policymakers and regulators to change the financial system so markets reward sustainable investments and sustainable businesses. Aviva's CEO spoke about climate at the UN High-level Dialogue Financing for Development Forum, which was convened by the UN General Assembly in September 2019. He highlighted the need for strategic asset allocation for governments and the private sector, the need for free public league tables e.g. the World Benchmarking Alliance, the need for subsidies to be in the right places and the responsibility of financial advisors to have to ask customers for their views on how their money is invested. We launched our report "A Marshall Plan for the Planet", which develops these ideas, during the UN General Assembly.

Risk management

Rigorous and consistent risk management is embedded across Aviva through our risk management framework, comprising our systems of governance, and risk management processes. 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). Aviva considers climate change to be one of the most material long-term risks to our business model, and its impacts are already being felt.

Given its materiality and proximity, we are acting 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. Aviva has developed models and tools to assess the potential impact on our business of the four Intergovernmental Panel on Climate Change (IPCC) scenarios. Each IPCC scenario describes a potential trajectory for future levels of greenhouse gases and other air pollutants. These can be mapped to likely temperature rises: 1.5°C (aggressive mitigation), 2°C (strong mitigation), 3°C (some mitigation) and 4°C (business as usual).

Aviva calculates a Climate Value-at-Risk (Climate VaR) 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 to determine the overall impact across all scenarios by assigning relative likelihoods or probabilities to each scenario. 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 profits 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 chronic effects (e.g. the impact of rising sea levels and temperature), although we recognise that the most extreme physical effects will only be felt in the second half of the century. Our UK Life and UK GI businesses have also participated in the PRA's 2019 Insurance Stress Test. This included a climate stress test covering both physical and transition risk. Aviva also recognises that there is a growing trend in climate-related litigation and has assessed its potential exposure accordingly.

1 Scope 1 -natural gas, fugitive emissions, oil and company owned cars; Scope 2 – electricity, and Scope 3- business travel, grey fleets, waste and water. More details of this analysis can be found on www.aviva.com/social-purpose.
2 RE100's purpose is to accelerate change towards zero carbon grids, at global scale. Aviva has signed up to the commitment pledging to purchase or generate 100% of our global electricity from renewable sources by 2025

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. Whilst recognising the limitations of the metrics and tools used (e.g. the scope of emissions or sectors covered) and that some are backward looking, we believe they are still valuable in supporting our climate-related governance, strategy and risk management.

- We track our investment in green assets and low carbon infrastructure. We have already invested £6 billion in green assets (i.e. £3.8 billion in low carbon infrastructure and £2.2 billion in green and sustainable bonds).
- We use carbon foot-printing and weighted average carbon intensity data (tCO_2e/£m sales) to assess our assets exposure to a potential increase in carbon prices in shareholder funds and we continue to report on our operational carbon footprints.
- We use Carbon Delta's portfolio warming potential metric to assess our shareholder funds' alignment with the Paris target. This warming potential methodology captures Scope 1[1] emissions as well as revenues from low-carbon technology to provide a forward-looking perspective. We would like to extend this analysis to our whole portfolio over time.
- We use Notre-Dame University's Notre Dame-Global Adaptation Index (ND-GAIN) to measure and monitor our sovereign holdings exposure to climate change. ND-GAIN measures a country's vulnerability to climate change and its readiness by considering: economic, governance and social readiness.
- We build the possibility of extreme weather events into our pricing to ensure it is adequate and monitor actual weather-related losses versus planned weather losses by business (net of reinsurance). Catastrophic event model results are supplemented by in-house disaster scenarios. Our general insurance business exposure is limited by being predominantly in Northern Europe and Canada. We require our general insurance businesses to protect against all large, single catastrophe events in line with local regulatory requirements, or where none exist, to at least a 1-in-250-year event.

We are working closely with peers, academics, professional bodies, regulators, governments and international agencies to further develop our tools and approaches. For example, we are a member of the United Nations Environment Programme Finance Initiative insurance pilot and the PRA-FCA Climate Financial Risk Forum as well as the UN Net Zero Asset Owners Alliance.

1 Scope1- All direct emissions from the activities of an organisation or under their control, including fuel combustion onsite such as gas boilers, fleet vehicles and air-conditioning leaks

Chairman's Governance Letter

Our Governance

Good governance is of fundamental importance to Aviva. At Aviva we have a clear and shared purpose, which is to be with our customers today, for a better tomorrow. Without good governance, underpinned by our values and our culture, we would simply be unable to deliver on that promise for all our stakeholders. I also believe that our strong and consistent approach to governance will enable us to deliver on our strategy to simplify Aviva into a leading international savings, retirement and insurance business.

2018 Corporate Governance Code

We welcomed the introduction by the Financial Reporting Council of the revised and simplified 2018 UK Corporate Governance Code (the Code). This is our first year of reporting on our application of and compliance with the Code. Amongst other changes, the Code created a heightened requirement for boards to set and maintain a corporate culture rooted in a strong ethical base, and for directors, and the companies they lead, to build and maintain positive relationships with a diverse and comprehensive range of stakeholders. Considering our stakeholders when performing our duties as directors is not a new concept, and indeed was first codified into the Companies Act 2006, and this is a well-established feature of our Board processes. The Code reinforces the importance of the Board's consideration of the Company's stakeholders in its decision-making processes, which we describe our 'Section 172 (1) statement and our stakeholders' section in the Strategic report.

Board Changes

On 21 January 2020, I announced my intention to retire as Chairman of the Company during 2020 once a successor has been appointed. Having led the Board for five years and through the appointment of our new Chief Executive Officer (Group CEO) it feels that now is the right time for a new Group Chairman. This is an exciting time for Aviva, we have a refreshed purpose and strategy, a new senior management team and an experienced Board. The succession planning process to find the new Chairman is advancing and, in the meantime, I remain committed to this great organisation which I am confident will deliver for all its stakeholders.

The Board has led Aviva through a period of substantial change during 2019 to make sure our Company is fully fit for the future. From October 2018 when our former CEO stepped down until the appointment of Maurice Tulloch as Group Chief Executive Officer (Group CEO) on 4 March 2019, I operated in the capacity as Executive Chairman. This was a hugely challenging but rewarding experience that brought me even greater insight into the businesses of Aviva and which I continue to draw on after reverting to being Non-Executive Chairman.

As we reported last year, the process to select our Group CEO was a thorough and competitive process and the Board unanimously agreed that Maurice Tulloch was the right choice for the role. As we progressed through 2019, we continued to refresh the Board. Andy Briggs and Tom Stoddard stepped down from the Board as Chief Executive Officer, UK Insurance and Group Chief Financial Officer respectively, and we wish them every future success. After a period as Interim Group Chief Financial Officer, Jason Windsor, formerly Chief Financial Officer (CFO) of Aviva UK Insurance, was appointed permanently to the role and joined the Board of Directors on 26 September 2019.

There were also several changes amongst our Non-Executive Directors this year. After nine years of distinguished service, including as Chair of the Risk Committee, Mike Hawker retired from the Board on 31 March 2019 and, following his appointment as Chairman of Royal Mail, Keith Williams stepped down from the Board on 23 May 2019. On 31 December 2019, Glyn Barker and Claudia Arney both retired from the Board. Glyn retired after eight years and assisting with the Board refreshment process, and Claudia to focus on her expanded non-executive roles elsewhere. I am extremely grateful to them all for the valuable contributions they have made to the Board and Committees of Aviva plc.

We were delighted to welcome three new Non-Executive Directors to our Board this year, all with deep knowledge and experience of the financial services industry. Patrick Flynn, previously Chief Financial Officer of ING and of HSBC Insurance joined our Board on 16 July 2019 and became Audit Committee Chair on 4 November 2019. George Culmer was appointed as a Non-Executive Director of the Company on 25 September 2019, having previously been Chief Financial Officer of Lloyds Banking Group and of RSA Insurance Group plc. George assumed the role of Senior Independent Director on 1 January 2020 following the retirement of Glyn Barker. We also announced the appointment of Amanda Blanc to the Board with effect from 2 January 2020. Amanda was previously CEO at AXA UK & Ireland, and CEO, EMEA & Global Banking Partnerships at Zurich Insurance Group. I look forward to introducing our new Non-Executive Directors to our shareholders at our upcoming Annual General Meeting (AGM) on 26 May 2020.

Aviva Governance Framework

We recognise that good governance requires Board ownership and accountability for driving the necessary behaviours and culture that we are striving to achieve at Aviva. Good governance supports the sustainable growth and superior customer outcomes we are targeting.

During the year the Board introduced a new governance framework, which reflects how the Aviva plc Board, through the CEO and Aviva's leadership team, delivers key customer, shareholder and broader stakeholder outcomes and how this is oversighted through the organisation. The governance framework incorporates the legal and regulatory flow of accountability, prescribed delegations of authority and the supporting ancillary frameworks, policies and standards involved in the management of our business, including the three lines of defence model which assesses the effectiveness of controls and enables risks to be managed.

The governance framework will be applied to each subsidiary across the Group and attested to on an annual basis. This will underpin our focus on board effectiveness at every level of the organisation.

While much has gone well, the Board continues to focus on the Company's overall control environment. There remains considerable political and economic uncertainty which has led us to review and improve the Company's risk indicators and our financial and operational risk appetite monitoring, for example around interest rate risk exposures.

The improvements made in 2019 have been recognised by the Board, however, the downward risk and control adjustment to the Annual Bonus Plan scorecard is a clear statement of the need to keep a strong focus on improving in these areas and this is something the Board will be closely monitoring in 2020.

Our Strategy

The Board, together with the new Group CEO, reviewed the Group strategy in 2019. On 20 November 2019 we announced our refreshed purpose, vision and strategy. The strategy is designed to optimise our offering to our customers and to improve efficiencies by simplifying Aviva into five operating divisions: Investments, Savings and Retirement; UK Life; General Insurance; Europe Life; and Asia Life. We reaffirmed our commitment to our progressive dividend policy and we also set out a series of new financial metrics to allow investors to better measure our performance in relation to capital, cash and operating profit. The Board is committed to supporting the Group CEO and his team in executing on the strategy and in running a more commercially focused business.

Culture

The Board continues to focus on enhancing its understanding of the culture within the organisation. This includes broadening the measures which the Board uses to assess and drive the requisite culture. We are placing emphasis on four measures: accountability; psychological safety; diversity of thought; and customer focus. These measures are intended to provide both historic data as well as leading indicators. Evidence shows us that these specific cultural traits have a positive impact on workforce productivity and performance.

Diversity

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

	Board of Directors		
	Non-Executive	Executive	Aviva Leadership Team
Composition			
Total	7	2	14
Gender			
Male	4	2	9
Female	3	—	5
Experience and Skills[1]			
Insurance	6	2	9
Banking	6	1	5
Actuarial/Capital Management	3	1	6
Transformation	6	2	3
Law	2	—	2
Government	4	1	1
Customer	4	2	5
IT/Digital	3	2	3
Strategy	6	2	6
International Experience[1]			
Europe	7	2	13
Asia Pacific	2	1	3
The Americas	1	1	2
Middle East & Africa	1	1	1
Tenure			
>10 years	—	—	—
5-10 years	3	—	5
4 years	1	—	1
3 years	—	—	—
2 years	—	1	—
1 year	—	—	4
<1 year	3	1	4
Age			
30-39	—	—	2
40-49	—	1	4
50-59	4	1	7
60+	3	—	1

1 Individual directors may fall into one or more categories

The Code rightly continues to stress the importance of diversity in the composition of an effective Board. I continue to be committed to bringing diversity in its widest sense to the Board including gender, ethnicity, diversity of thought, tenure, age, experience, skills, and geographic, educational, social and professional background. I am very pleased that the Board has met its target for women to represent a minimum of 33% of our Board by 2020.

The Group Executive Committee was reconstituted as the Aviva Leadership Team (ALT) during 2019 and expanded to 14 members by the first quarter of 2020. As at the date of this report, females represented 35% of the ALT and our ambition remains to drive female representation on the ALT higher. The Board continues to monitor the pipeline of talent for both the Board and ALT with diversity in mind, aligned of course with our skills matrix, to ensure that we continue to develop a high performing and diverse top team. I am proud to continue to support the FTSE 100 30% Club and will continue to keep the diversity agenda at the forefront of the Board's mind.

Sir Adrian Montague CBE
Chairman
4 March 2020

Our Board of Directors

Sir Adrian Montague, CBE ▲

Position: Chairman
Nationality: British
Committee Membership: Nomination Committee[2] (Chair)
Tenure: 7 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 before reverting to Non-Executive Chairman.
Skills and Experience: 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 a 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. Chair of the Advisory Council of TheCityUK and a trustee of the Commonwealth War Graves Foundation.

Maurice Tulloch ■

Position: Group Chief Executive Officer (CEO)
Nationality: British/Canadian
Committee Membership: N/A
Tenure: 2 years 9 months. Appointed to the Board as an Executive Director in June 2017 and as CEO in March 2019.
Skills and Experience: Maurice has more than 25 years' experience within Aviva and knows the business inside out having led businesses in the UK and internationally. Maurice has a deep understanding of insurance and customer needs and his focus on the fundamentals and customer experience make him well qualified to re-energise Aviva and deliver long-term growth for shareholders. He most recently held the role of CEO of International Insurance and had responsibility for Aviva's life insurance and general insurance operations internationally, together with the Global Corporate and Speciality business.
External Appointments: Non-Executive Director of Pool Reinsurance Company Ltd, a member of the Insurance Development Forum and the Board of the Geneva Association.

Jason Windsor ■

Position: Chief Financial Officer
Nationality: British
Committee Membership: N/A
Tenure: 6 months. Appointed to the Board and as Chief Financial Officer in September 2019.
Skills and Experience: Jason became Interim Chief Financial Officer on 1 July 2019 and was previously Chief Financial Officer of Aviva UK Insurance. Jason joined Aviva in 2010 and has extensive experience of the group, including as Chief Capital and Investments Officer, and as a member of the Aviva Leadership Team. Jason has a proven track record as CFO of the UK Insurance business and a deep understanding of Aviva and its markets and brings a strong analytical and commercial perspective to his role as Group CFO.
External Appointments: N/A.

Amanda Blanc ▲

Position: Independent Non-Executive Director
Nationality: British
Committee Membership: Governance Committee[1] (Chair), Nomination Committee[2], Risk Committee
Tenure: 2 months. Appointed to the Board in January 2020.
Skills and Experience: Amanda brings extensive knowledge and experience of the insurance industry to her role at Aviva, having held several senior executive roles across the insurance industry. Amanda was most recently CEO, EMEA & Global Banking Partnerships at Zurich Insurance Group and before that CEO at AXA UK & Ireland. In 2018, Amanda was the first woman to be appointed as Chair of the Association of British Insurers and was also Chair of the Insurance Fraud Bureau and President of the Chartered Insurance Institute. Amanda's breadth and depth of experience of the UK and European insurance industry and her detailed understanding of insurance business and customers make her well placed to Chair the Governance Committee.
External Appointments: Non-Executive Director of the Welsh Rugby Union and Chair of the Professional Game Board.

Patricia Cross ▲

Position: Independent Non-Executive Director
Nationality: Australian
Committee Membership: Remuneration Committee (Chair), Audit Committee, Nomination Committee[2]
Tenure: 6 years 3 months. Appointed to the Board in December 2013.
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 several Australian government positions, including with the Financial Sector Advisory Council, Companies and Securities Advisory Committee, Panel of Experts to the Australian 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 large international banking and investment management organisations.
External Appointments: Chair of the Commonwealth Superannuation Corporation, and Ambassador for the Australian Indigenous Education Foundation.

George Culmer ▲

Position: Senior Independent Non-Executive Director
Nationality: British
Committee Membership: Audit Committee, Nomination Committee[2], Remuneration Committee, Risk Committee
Tenure: 6 months. Appointed to the Board in September 2019 and as Senior Independent Director on 1 January 2020.
Skills and Experience: George brings significant board-level experience with 15 years experience as a FTSE 100 Chief Financial Officer, and a deep understanding of insurance and wider financial services. George was previously Chief Financial Officer of Lloyds Banking Group plc and joined its board on 16 May 2012. He has extensive insurance experience and was previously a director and Chief Financial Officer of RSA Insurance Group plc; Head of Capital Management of Zurich Financial Services and Chief Financial Officer of its UK operations. George has a deep understanding of the challenges that affect the industry, Aviva's businesses, and the implications for shareholders, which enables him to support the Chairman and Board in driving the strategy, culture and values of the Company.
External Appointments: Non-Executive Director of Rolls Royce plc.

Patrick Flynn ▲

Position: Independent Non-Executive Director
Nationality: Irish
Committee Membership: Audit Committee (Chair), Nomination Committee[1], Risk Committee
Tenure: 8 months. Appointed to the Board in July 2019.
Skills and Experience: Patrick is an experienced finance executive and has significant experience of retail financial and insurance services. Patrick was previously Chief Financial Officer of ING, the Netherlands' largest financial services group, and was recognised for playing a key role in the transformation of the group to a well-capitalised and focused financial services provider with a significant retail offering. Prior to that Patrick was Chief Financial Officer of HSBC Insurance and served as a Non-Executive Director of the boards of two listed former ING insurance companies, and this experience thoroughly equips Patrick to chair the Audit Committee.
External Appointments: Non-Executive Director of the Royal Bank of Scotland.

Belén Romana García ▲

Position: Independent Non-Executive Director
Nationality: Spanish
Committee Membership: Risk Committee (Chair), Audit Committee, Governance Committee[2], Nomination Committee[1]
Tenure: 4 years 8 months. Appointed to the Board in June 2015.
Skills and Experience: Belén has extensive governmental and regulatory experience and brings a detailed knowledge of the financial services industry and regulations to the Board. Belén has held senior positions at the Spanish Treasury and represented the Spanish government at the Organisation for Economic Co-operation and Development. Belén's experience as both an executive and a non-executive in the financial services sector, and in international policy making and regulation provide a valuable perspective to the Board and in her role as Chair of the Risk Committee.
External Appointments: Independent Non-Executive Director of Banco Santander and a member of the advisory board of the Foundation Rafael del Pino (non-profit organisation) and Co-Chair of the Global Board of Trustees of the Digital Future Society.

Michael Mire ▲

Position: Independent Non-Executive Director
Nationality: British
Committee Membership: Governance Committee[1], Nomination Committee[2], Remuneration Committee, Risk Committee
Tenure: 6 years 6 months. Appointed to the Board in September 2013.
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. Michael was a senior partner at McKinsey & Company where he worked for more than 30 years, and alongside his governmental experience, he brings 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.

Kirstine Cooper ◆

Position: Group General Counsel and Company Secretary
Nationality: British
Committee Membership: N/A
Tenure: 9 years 3 months. Appointed as Company Secretary in December 2010 and a member of the Aviva Leadership Team in May 2012.
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 an expanded Dormant Assets scheme.

The full biographies for all our Board and Aviva Leadership Team are available online at www.aviva.com/about-us

Key

■ Executive

▲ Non-Executive

◆ Group General Counsel and Company Secretary

1 The Nomination Committee changed its name to the Nomination and Governance Committee with effect 1 January 2020
2 The Governance Committee changed its name to the Customer, Conduct and Reputation Committee with effect 1 January 2020

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 2019. For full details on both our proposed remuneration policy and our application of the current remuneration policy during 2019 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 2019 and 2018 for each of our EDs.

Total 2019 remuneration – Executive Directors (audited information)

	Executive Directors				Former Executive Directors					
	Maurice Tulloch[6]		Jason Windsor[7]		Tom Stoddard[8]		Andy Briggs[9]		Total emoluments of Executive Directors[10]	
	2019 £000	2018 £000	**2019 £000**	2018 £000	**2019 £000**	2018 £000	**2019 £000**	2018 £000	**2019 £000**	2018 £000
Basic Salary[1]	**946**	706	**177**	—	**370**	728	**241**	746	**1,734**	2,180
Benefits[2]	**443**	51	**10**	—	**47**	85	**19**	44	**519**	180
Annual Bonus[3]	**886**	598	**178**	—	**338**	616	**218**	632	**1,620**	1,846
Long Term Incentive Plan (LTIP)[4]	**588**	637	**82**	—	**559**	645	**—**	662	**1,229**	1,944
Pension[5]	**138**	198	**22**	—	**104**	204	**67**	209	**331**	611
Total	**3,001**	2,190	**469**	—	**1,418**	2,278	**545**	2,293	**5,433**	6,761

1 Basic salary received during the relevant year.
2 The benefits disclosure includes the cost, where relevant, of private medical insurance, life insurance, accommodation, travel and car benefits. In the case of Maurice, Jason and Andy this also includes benefits resulting from the UK HMRC tax-advantaged Aviva Savings Related Share Option Scheme 2019 (SAYE) plan, and for Andy only 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. As disclosed on appointment and in last year's report Maurice was provided with assistance with relocation from Canada to the UK, of an amount up to £250,000 exclusive of tax, payable against receipted costs incurred within a period of 24 months from date of appointment. During 2019, £139,000 of this allowance was used reflecting temporary accommodation, ongoing residential accommodation and flights between Canada and the UK. This is shown as £246,000 in the table above, grossed-up for tax. Other benefits include: Private medical insurance (£17,000), taxable travel and subsistence (£59,000,of which £50,000 is the grossed-up tax value of flights), accompanied travel (£32,000), car benefits (£40,000) and advisor fees (£40,000) in relation to tax assistance. Benefits for Tom and Andy include a small amount relating to the correction of an under deduction of NIC in relation to pension cash allowance.
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 With the exception of Jason, the value of the LTIP for 2019 relates to the 2017 award, which had a three-year performance period ending 31 December 2019. 50% of the award will vest in March 2020. An assumed share price of 411.2 pence has been used to determine the value of the award based on the average share price over the final quarter of the 2019 financial year. The proportion of the value of the LTIP that is attributable to share price depreciation (the depreciation being the difference between the face value at the date of award and the vested value of the award) is 22.4% for Maurice and Tom. In a similar manner, the LTIP amounts shown in last year's report in respect of the LTIPs awarded in 2016 were calculated with an assumed share price of 415.20 pence. The actual share price at vesting was 412.25 pence, and the table has been updated to reflect this change. The estimated value of the awards for the EDs was £1,958,000; the actual value was £1,944,000 (decrease of £14,000). Jason, prior to becoming an ED, was granted an Restricted Stock Unit (RSU) award. This award does not have performance conditions and in accordance with the regulations, a pro-rated amount is shown in respect of qualifying services during the year, using the share price at grant to determine the value of the award. Following confirmation of his role at Phoenix Group, Andy's 2017 LTIP award has lapsed. Additional information on these awards can be found in table 18.
5 Pension contributions consist of employer defined contribution benefits, excluding salary exchange contributions made by the employees, plus cash payments in lieu of pension. For Maurice, following his appointment as Group Chief Executive Officer (CEO) on 4 March 2019 and for Jason the total was 12.34% of basic salary (pension contribution of 14% which is reduced for the effect of employers' National Insurance contributions when paid as cash). For former EDs (and Maurice prior to his appointment as Group CEO) the aggregate total was 28% of basic salary. No ED has prospective entitlement to benefit in a defined benefit scheme.
6 Maurice was appointed as Group CEO on 4 March 2019. Prior to his appointment he was CEO of International Insurance and his basic salary and benefits were set in Canadian dollars, which have been converted to sterling using an average exchange rate for 2019 of CAD 1.70
7 Jason was appointed to the Board on 26 September 2019. For 2019, the values relate to the period while he was an ED
8 Tom stepped down from the Board on 30 June 2019; values for 2019 relate to the period while he was an ED. Details of Tom's leaving arrangements are set out on page 93 of the DRR.
9 Andy stepped down from the Board on 24 April 2019; values for 2019 relate to the period while he was an ED. Details of Andy's leaving arrangements are set out on page 93 of the DRR.
10 Year on year decrease is primarily driven by changes in Board membership.

Total 2019 remuneration for Non-Executive Directors (audited information)

The table below sets out the total remuneration earned by each NED who served during 2019 for Group-related activities.

	Fees		Benefits[1]		Aviva plc total		Subsidiaries fees		Group total	
	2019 £000	2018 £000	**2019 £000**	2018 £000	**2019 £000**	2018 £000	**2019 £000**	2018 £000	**2019 £000**	2018 £000
Chairman										
Sir Adrian Montague	**550**	550	**88**	88	**638**	638	**—**	—	**638**	638
Non-Executive Directors										
Claudia Arney[2]	**155**	155	**2**	2	**157**	157	**73**	78	**230**	235
Glyn Barker[2]	**177**	168	**2**	3	**179**	171	**—**	—	**179**	171
Patricia Cross	**128**	128	**—**	—	**128**	128	**60**	60	**188**	188
George Culmer[3]	**29**	—	**2**	—	**31**	—	**—**	—	**31**	—
Patrick Flynn[3]	**55**	—	**2**	—	**57**	—	**—**	—	**57**	—
Belén Romana García	**139**	105	**15**	10	**154**	115	**44**	40	**198**	155
Michael Mire	**118**	118	**3**	1	**121**	119	**—**	—	**121**	119
Former Non-Executive Directors[4]										
Michael Hawker	**34**	138	**—**	—	**34**	138	**—**	—	**34**	138
Keith Williams	**59**	150	**—**	2	**59**	152	**—**	—	**59**	152
Total emoluments of NEDs	**1,444**	1,512	**114**	106	**1,558**	1,618	**177**	178	**1,735**	1,796

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 Claudia Arney and Glyn Barker retired from the Board on 31 December 2019.
3 Patrick Flynn was appointed to the Board on 16 July 2019 and George Culmer on 25 September 2019.
4 Michael Hawker stepped down from the Board on 31 March 2019 and Keith Williams on 23 May 2019.

The Aviva plc total amount paid to NEDs in 2019 was £1,558,000 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 2019, 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 2019.

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 2019.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

London

4 March 2020

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 2019 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 2019

	2019 £m	Restated[1] 2018 £m
Income		
Gross written premiums	**31,243**	28,659
Premiums ceded to reinsurers	**(3,563)**	(2,326)
Premiums written net of reinsurance	**27,680**	26,333
Net change in provision for unearned premiums	**(209)**	(81)
Net earned premiums	**27,471**	26,252
Fee and commission income	**2,141**	2,178
Net investment income/(expense)	**40,577**	(10,912)
Share of profit after tax of joint ventures and associates	**85**	112
(Loss)/profit on the disposal and remeasurement of subsidiaries, joint ventures and associates	**(22)**	102
	70,252	17,732
Expenses		
Claims and benefits paid, net of recoveries from reinsurers	**(23,096)**	(23,142)
Change in insurance liabilities, net of reinsurance	**(5,702)**	6,246
Change in investment contract provisions	**(24,095)**	5,321
Change in unallocated divisible surplus	**(3,985)**	3,237
Fee and commission expense	**(5,536)**	(3,326)
Other expenses	**(3,329)**	(3,843)
Finance costs	**(576)**	(573)
	(66,319)	(16,080)
Profit before tax	**3,933**	1,652
Tax attributable to policyholders' returns	**(559)**	477
Profit before tax attributable to shareholders' profits	**3,374**	2,129
Tax (expense)/credit	**(1,270)**	35
Less: tax attributable to policyholders' returns	**559**	(477)
Tax attributable to shareholders' profits	**(711)**	(442)
Profit for the year	**2,663**	1,687
Attributable to:		
Equity holders of Aviva plc	**2,548**	1,568
Non-controlling interests	**115**	119
Profit for the year	**2,663**	1,687
Earnings per share		
Basic (pence per share)	**63.8**	38.2
Diluted (pence per share)	**63.1**	37.8

1 Following a review of the Group's presentation of consolidated investment funds, comparative amounts have been restated from those previously reported. The restatement has had no impact on the profit for the year or equity. See note 2(a) for further information.

Consolidated statement of comprehensive income

For the year ended 31 December 2019

	2019 £m	2018 £m
Profit for the year	**2,663**	1,687
Other comprehensive income:		
Items that may be reclassified subsequently to income statement		
Investments classified as available for sale		
Fair value gains	**39**	57
Fair value gains transferred to profit on disposals	**(19)**	(78)
Share of other comprehensive income/(loss) of joint ventures and associates	**22**	(10)
Foreign exchange rate movements	**(219)**	5
Aggregate tax effect – shareholder tax on items that may be reclassified subsequently to income statement	**6**	8
Items that will not be reclassified to income statement		
Owner-occupied properties – fair value gains	**3**	1
Remeasurements of pension schemes	**(867)**	(279)
Aggregate tax effect – shareholder tax on items that will not be reclassified subsequently to income statement	**103**	43
Total other comprehensive income, net of tax	**(932)**	(253)
Total comprehensive income for the year	**1,731**	1,434
Attributable to:		
Equity holders of Aviva plc	**1,655**	1,310
Non-controlling interests	**76**	124
	1,731	1,434

Reconciliation of Group adjusted operating profit to profit for the year

For the year ended 31 December 2019

	2019 £m	Restated[1] 2018 £m
Group adjusted operating profit before tax attributable to shareholders' profits		
Life business	**3,000**	2,976
General insurance and health	**644**	651
Fund management	**92**	143
Other:		
Other operations	**(114)**	(270)
Corporate centre	**(183)**	(216)
Group debt costs and other interest	**(255)**	(280)
Group adjusted operating profit before tax attributable to shareholders' profits	**3,184**	3,004
Adjusted for the following:		
Life business: Investment variances and economic assumption changes	**654**	(197)
Non-life business: Short-term fluctuation in return on investments	**167**	(476)
General insurance and health business: Economic assumption changes	**(54)**	1
Impairment of goodwill, joint ventures, associates and other amounts expensed	**(15)**	(13)
Amortisation and impairment of intangibles acquired in business combinations	**(87)**	(97)
Amortisation and impairment of acquired value of in-force business	**(406)**	(426)
(Loss)/profit on the disposal and remeasurement of subsidiaries, joint ventures and associates	**(22)**	102
Other[2]	**(47)**	231
Adjusting items before tax	**190**	(875)
Profit before tax attributable to shareholders' profits	**3,374**	2,129
Tax on group adjusted operating profit	**(668)**	(625)
Tax on other activities	**(43)**	183
	(711)	(442)
Profit for the year	**2,663**	1,687

1 During 2019 the Group adjusted operating profit APM has been revised and now includes the amortisation and impairment of internally generated intangible assets to better reflect the operational nature of these assets (see note 2(b)). Group adjusted operating profit continues to exclude amortisation and impairment of intangible assets acquired in business combinations. Comparative amounts have been restated resulting in a reduction in the prior period Group adjusted operating profit of £112 million. There is no impact on profit before tax attributable to shareholders' profit.

2 Other in 2019 relates to a charge of £45 million in relation to a change in the discount rate used for estimating lump sum payments in settlement of bodily injury claims and a charge of £2 million relating to negative goodwill which arose on the acquisition of Friends First. Other in 2018 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, 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, a charge of £63 million relating to the UK defined benefit pension scheme as a result of the requirements to equalise members' benefits of the effects of Guaranteed Minimum Pension and a charge of £10 million relating to goodwill payments to preference shareholders, which was announced on 30 April 2018, and associated administration costs.

Consolidated statement of financial position

As at 31 December 2019

	2019 £m	Restated[1] 2018 £m	Restated[1] 1 January 2018 £m
Assets			
Goodwill	**1,855**	1,872	1,876
Acquired value of in-force business and intangible assets	**2,800**	3,201	3,455
Interests in, and loans to, joint ventures	**1,227**	1,214	1,221
Interests in, and loans to, associates	**304**	304	421
Property and equipment	**889**	548	509
Investment property	**11,203**	11,482	10,797
Loans	**38,579**	36,184	37,227
Financial investments	**343,418**	319,825	331,690
Reinsurance assets	**12,356**	11,755	13,492
Deferred tax assets	**151**	185	144
Current tax assets	**132**	76	94
Receivables	**8,995**	8,639	8,151
Deferred acquisition costs	**3,156**	2,965	2,906
Pension surpluses and other assets	**2,799**	3,341	3,468
Prepayments and accrued income	**3,143**	3,149	3,117
Cash and cash equivalents	**19,524**	15,926	13,377
Assets of operations classified as held for sale	**9,512**	8,855	10,871
Total assets	**460,043**	429,521	442,816
Equity			
Capital			
Ordinary share capital	**980**	975	1,003
Preference share capital	**200**	200	200
	1,180	1,175	1,203
Capital reserves			
Share premium	**1,239**	1,214	1,207
Capital redemption reserve	**44**	44	14
Merger reserve	**8,974**	8,974	8,974
	10,257	10,232	10,195
Treasury shares	**(7)**	(15)	(14)
Currency translation reserve	**814**	1,122	1,141
Other reserves	**(101)**	(279)	(274)
Retained earnings	**5,065**	4,523	4,918
Equity attributable to shareholders of Aviva plc	**17,208**	16,758	17,169
Direct capital instrument and tier 1 notes	**500**	731	731
Equity excluding non-controlling interests	**17,708**	17,489	17,900
Non-controlling interests	**977**	966	1,235
Total equity	**18,685**	18,455	19,135
Liabilities			
Gross insurance liabilities	**149,338**	144,077	148,650
Gross liabilities for investment contracts	**222,127**	202,468	203,986
Unallocated divisible surplus	**9,597**	5,949	9,082
Net asset value attributable to unitholders	**16,610**	16,338	18,176
Pension deficits and other provisions	**1,565**	1,399	1,429
Deferred tax liabilities	**2,155**	1,885	2,377
Current tax liabilities	**569**	254	290
Borrowings	**9,039**	9,420	10,286
Payables and other financial liabilities	**18,138**	17,681	16,676
Other liabilities	**3,094**	3,074	2,856
Liabilities of operations classified as held for sale	**9,126**	8,521	9,873
Total liabilities	**441,358**	411,066	423,681
Total equity and liabilities	**460,043**	429,521	442,816

1 Following a review of the Group's presentation of consolidated investment funds, comparative amounts have been restated from those previously reported. The restatement has had no impact on the profit for the year or equity. See note 2(a) for further information.

Approved by the Board on 4 March 2020

Jason Windsor
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

1 – 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 2019. 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 2019.

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 (International Financial Reporting Standards (IFRS)) as adopted by the European Union (EU) and those parts of the Companies Act 2006 applicable to those reporting under IFRS.

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

For 2019, the Group adjusted operating profit APM has been revised and now includes amortisation and impairment of internally generated intangible assets to provide more relevant information by better reflecting the operational nature of these assets. Comparative amounts have been restated resulting in a reduction in the prior period Group adjusted operating profit of £112 million (see 2-Changes to comparative amounts). Group adjusted operating profit continues to exclude amortisation and impairment of intangible assets acquired in business combinations. There is no impact from this change on profit before tax attributable to shareholders' profits.

Following a review of the Group's presentation of consolidated investment funds, corrections to previous reported values on the consolidated statement of financial position and consolidated income statement have been identified and comparative amounts have been restated (see 2-Changes to prior year comparative figures). There has been no impact on profit for the year or equity for any of the periods presented.

2 – Changes to comparative amounts

(a) Presentation of consolidated investment funds

Following a review of the Group's presentation of consolidated investment funds, corrections to previous reported values on the consolidated statement of financial position and consolidated income statement have been identified (with corresponding impacts on the consolidated statement of cash flows) and comparative amounts have been restated. There has been no impact on profit for the period or equity for any of the periods presented. The nature of the restatements are as follows:

- Fixed maturity securities, loans, derivatives and receivables held indirectly through certain majority-owned fund investments in the UK and France, which in 2018 were presented as cash and cash equivalents, are now presented as financial investments, loans, receivables and payables and other financial liabilities which reflect the classification of the underlying holdings;
- Corrections to the calculation of minority ownership of certain fund investments have resulted in a restatement of net asset value attributable to unitholders and an adjustment to de-consolidate two investment funds where the Group was incorrectly deemed to have been the controlling entity in 2018;
- Corrections to the calculation of minority ownership have resulted in a restatement of the investment income attributable to minority shareholders recorded in fee and commission expense, net investment expense and fee and commission income for the period ending 31 December 2018; and
- Accrued interest on certain fixed maturity securities held indirectly through certain majority-owned funds, which in 2018 was presented within financial investments, is now presented in prepayments and accrued income (consistent with accrued interest on the Group's directly held fixed maturity securities).

The impact of the changes above on the following captions in the income statement for the prior period presented is shown below:

	31 December 2018		
	As reported £m	Effect of changes £m	Restated £m
Fee and commission income	2,180	(2)	2,178
Net investment expense	(10,847)	(65)	(10,912)
Fee and commission expense	(3,393)	67	(3,326)

The impact of the changes above on the statement of financial position for the prior periods presented is shown below:

	31 December 2018			1 January 2018		
	As reported £m	Effect of changes £m	Restated £m	As reported £m	Effect of changes £m	Restated £m
Assets						
Loans	28,785	7,399	36,184	27,857	9,370	37,227
Financial investments	297,585	22,240	319,825	311,082	20,608	331,690
Receivables	8,879	(240)	8,639	8,285	(134)	8,151
Prepayments and accrued income	2,947	202	3,149	2,860	257	3,117
Cash and cash equivalents	46,484	(30,558)	15,926	43,347	(29,970)	13,377
Other	45,798	—	45,798	49,254	—	49,254
Total assets	**430,478**	**(957)**	**429,521**	**442,685**	**131**	**442,816**
Liabilities						
Net asset value attributable to unit holders	18,125	(1,787)	16,338	18,327	(151)	18,176
Payables and other financial liabilities	16,882	799	17,681	16,459	217	16,676
Other liabilities	3,043	31	3,074	2,791	65	2,856
Other	373,973	—	373,973	385,973	—	385,973
Total liabilities	**412,023**	**(957)**	**411,066**	**423,550**	**131**	**423,681**
Total equity	**18,455**	**—**	**18,455**	**19,135**	**—**	**19,135**

(b) Amendment to Group adjusted operating profit

For 2019, the Group adjusted operating profit APM has been amended and now includes amortisation and impairment of internally generated intangible assets to provide more relevant information by better reflecting their operational nature. These assets include advisor platforms, digital distribution channels and claims and policy administration systems which are used to support operational activities. Group adjusted operating profit continues to exclude amortisation and impairment of intangible assets acquired in business combinations as these items principally relate to merger and acquisition activity which we view as strategic in nature. The effect of this change is to move £112 million relating to amortisation of internally generated intangible assets into Group adjusted operating profit for 2018. The 2018 comparative figures have been restated in the Reconciliation of Group adjusted operating profit to profit for the year. The relevant EPS metrics (operating EPS and diluted operating EPS) for 2018 have also been restated (see 'other information'). There is no impact from this change on profit before tax.

3 – 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.

	2019 £m	2018 £m
Ordinary dividends declared and charged to equity in the period		
Final 2018 – 20.75 pence per share, paid on 30 May 2019	**812**	—
Final 2017 – 19.00 pence per share, paid on 17 May 2018	**—**	764
Interim 2019 – 9.50 pence per share, paid on 26 September 2019	**372**	—
Interim 2018 – 9.25 pence per share, paid on 24 September 2018	**—**	364
	1,184	1,128
Preference dividends declared and charged to equity in the period	**17**	17
Coupon payments on DCI and tier 1 notes	**43**	44
	1,244	1,189

Subsequent to 31 December 2019, the directors proposed a final dividend for 2019 of 21.40 pence per ordinary share *(2018: 20.75 pence)*, amounting to £839 million *(2018: £812 million)* in total. Subject to approval by shareholders at the AGM, the dividend will be paid on 2 June 2020 and will be accounted for as an appropriation of retained earnings in the year ending 31 December 2020.

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. This year's tax relief is obtained at a rate of 19% *(2018: 19%)*.

4 – Subsequent events

2020 has begun with the outbreak of a new strain of the Coronavirus (COVID-19) in China, with confirmed cases in more than 50 countries, including all of those in which Aviva has material businesses. There is a risk of a significant global pandemic and economic disruption. We have reviewed the exposure of our balance sheet and are taking actions to further reduce our sensitivity to economic shocks. Notwithstanding our robust capital and liquidity position and the operational and financial actions that we are taking, a deterioration in the situation would have adverse implications for our businesses arising from the potential impacts on financial markets, our insurance exposures and our operations. As the situation is rapidly evolving it is not practicable to quantify the potential financial impact of the outbreak on the Group.

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 amounts 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.

At our capital markets day in November 2019, we announced new financial targets focussed on economic value, to measure our progress in meeting our key strategic initiatives. Consequently, we have introduced four APMs in 2019, that are based on Solvency II:

- Solvency II return on equity (ROE)‡
- Operating own funds generation
- Solvency II net asset value (NAV) per share‡
- Solvency II debt leverage ratio

These capital measures provide useful information as they are based on economic value which is used by the Group to assess performance and growth.

In addition, we have made certain changes to existing APMs to ensure that they remain relevant and useful for stakeholders.

The Group adjusted operating profit APM has been amended and now includes amortisation and impairment of internally generated intangible assets to provide more relevant information by better reflecting their operational nature. 2018 comparatives have been restated. For consistency with the change in Group adjusted operating profit, the combined operating ratio, operating earnings per share, operating expenses and IFRS return on equity have also been amended.

Furthermore, controllable costs is a new APM in 2019, based on operating expenses adjusted to exclude premium related costs such as premium based taxes, fees and levies that vary directly with premium volumes.

Further details on APMs derived from IFRS measures and APMs derived from Solvency II measures including changes that have been made in 2019, are provided in the following sections. A further section describes Other APMs.

APMs derived from IFRS measures

A number of APMs relating to IFRS are utilised to measure and monitor the Group's performance. Definitions and additional information, including reconciliations to the relevant amounts in the IFRS Financial Statements and, where appropriate, commentary on the material reconciling items are included within this section.

Group adjusted operating profit‡#

Group adjusted operating profit is an APM that supports decision making and internal performance management of the Group's operating segments that incorporates an expected return on investments supporting the life and non-life insurance businesses. The Group considers this measure meaningful to stakeholders as it enhances the understanding of the Group's operating performance over time by separately identifying non-operating items. 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. 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 long-term rate of return. This rate of return is the same as that applied for the long-term business expected returns. The long-term return for other investments (including debt securities) is the actual income receivable for the period. Actual income and long-term investment return both contain the amortisation of the discounts/premium arising on the acquisition of fixed income securities.

‡ denotes APMs which are key performance indicators.
# denotes key performance indicators used as a base to determine or modify remuneration.

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 variances, 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 intangible assets acquired in business combinations; 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.

In 2019, the Group adjusted operating profit APM has been amended and now includes amortisation and impairment of internally generated intangible assets to provide more relevant information by better reflecting their operational nature. These assets include advisor platforms, digital distribution channels and claims and policy administration systems which are used to support operational activities. Comparative amounts have been restated resulting in a reduction in the prior year Group adjusted operating profit of £112 million. Amortisation and impairment of intangible assets acquired in business combinations will continue to be excluded from the Group adjusted operating profit as these relate to merger and acquisition activity.

In addition, integration and restructuring costs are now included in Group adjusted operating profit. There is no impact on 2018 comparative figures.

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 2019 comprise:

- A charge of £45 million relating to a change in the discount rate used for estimating lump sum payments in settlement of bodily injury claims. Consistent with the presentation of the change in the Ogden discount rate in 2016 and 2018, this is disclosed outside of Group adjusted operating profit; and
- A charge of £2 million relating to the negative goodwill which arose on the acquisition of Friends First in 2018, which is excluded from Group adjusted operating profit for consistency with the treatment of impairment of goodwill.

Other items at 2018 comprised:

- 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. Consistent with the presentation of the change in the Ogden discount rate in 2016, this was disclosed 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. This was disclosed 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;
- 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; and
- A gain of £36 million relating to negative goodwill on the acquisition of Friends First, which was excluded from Group adjusted operating profit for consistency with the treatment of impairment of goodwill.

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

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

	2019 £m	Restated[1] 2018 £m
United Kingdom – Life	**1,855**	1,886
United Kingdom – General Insurance	**250**	383
Canada	**191**	27
Europe	**981**	1,008
Asia	**275**	261
Aviva Investors	**96**	148
Other Group activities	**(464)**	(709)
Group adjusted operating profit before tax attributable to shareholders' profit	**3,184**	3,004
Adjusted for the following:		
Investment return variances and economic assumption changes on long-term business	**654**	(197)
Short-term fluctuation in return on investments on non long-term business	**167**	(476)
Economic assumption changes on general insurance and health business	**(54)**	1
Impairment of goodwill, associates and joint ventures and other amounts expensed	**(15)**	(13)
Amortisation and impairment of intangibles acquired in business combinations	**(87)**	(97)
Amortisation and impairment of acquired value of in-force business	**(406)**	(426)
(Loss)/profit on the disposal and re-measurement of subsidiaries, joint ventures and associates	**(22)**	102
Other	**(47)**	231
Adjusting items before tax	**190**	(875)
Profit before tax attributable to shareholders' profits	**3,374**	2,129

1 During 2019 the Group adjusted operating profit APM has been revised, and now includes the amortisation and impairment of internally generated intangible assets to better reflect the operational nature of these assets (see note 2b). Group adjusted operating profit continues to exclude amortisation and impairment of intangible assets acquired in business combinations. Comparative amounts have been restated resulting in a reduction in the prior period Group adjusted operating profit of £112 million. There is no impact on profit before tax.

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.

In 2018 and 2019, 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.

In 2019, following the change in the definition of Group adjusted operating profit, the COR has been amended to include the amortisation and impairment of internally generated intangible assets to better reflect their operational nature. Comparative amounts have been restated resulting in an increase in the prior year underwriting costs of £53 million and an increase in COR of 0.6%. Amortisation and impairment of intangible assets acquired in business combinations will continue to be excluded from the COR as these relate to merger and acquisition activity.

The Group COR is shown below.

	2019 £m	Restated[1] 2018 £m
Incurred claims – GI & Health[2]	**(6,620)**	(6,400)
Adjusted for the following:		
Incurred claims – Health	**651**	633
Change in discount rate assumptions	**54**	—
Impact of change in the discount rate used in settlement of bodily injury claims	**45**	(190)
Total Incurred claims (included in COR)[3]	**(5,870)**	(5,957)
Commission and expenses – GI & Health[4]	**(3,321)**	(3,188)
Adjusted for the following:		
Amortisation and impairment of intangibles acquired in business combinations	**19**	31
Foreign exchange gains/losses	**(45)**	7
Commission income	**20**	19
Other	**5**	4
Commission and Expenses – Health & Other Non GI	**300**	309
Total commission and expenses (included in COR)[5]	**(3,022)**	(2,818)
Total underwriting costs	**(8,892)**	(8,775)
Net earned premiums – GI & Health	**10,015**	9,887
Adjusted for:		
Net earned premiums – Health	**(895)**	(857)
Net earned premiums (included in COR)[6]	**9,120**	9,030
Combined operating ratio	**97.5%**	97.2%

1 Following the change in the definition of Group adjusted operating profit, COR now includes the amortisation and impairment of internally generated intangible assets to better reflect the operational nature of these assets. Comparative amounts have been restated resulting in an increase in the prior period underwriting costs of £(53) million and an increase in COR of 0.6%.
2 Corresponds to the sum of claims and benefits paid, net of recoveries from reinsurers and the change in insurance liabilities, net of reinsurance.
3 Includes £(6) million *(2018: £1 million)* relating to incurred claims for Aviva Re.
4 Commission and expenses consists of fee and commission expense and other operating expenses included within the general insurance & health segmental income statement adjusted to an earned basis and to remove the health business.
5 Includes £(1) million *(2018: £3 million)* relating to commission and expenses for Aviva Re.
6 Includes £nil *(2018: £(5) million)* relating to net earned premiums for Aviva Re.

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.

Commission and expense ratio

A financial measure of the performance of our general insurance business which is derived from the sum of earned commissions and expenses expressed as a percentage of net earned premiums from the COR table above.

Operating earnings per share (EPS)[‡#]

Operating EPS is calculated based on the Group adjusted operating profit attributable to ordinary shareholders net of tax, deducting non-controlling interests, preference dividends 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 considered meaningful to stakeholders because it enhances the understanding of the Group's operating performance over time by adjusting for the effects of non-operating items.

Following the change in the definition of the Group adjusted operating profit APM in 2019, operating EPS has been amended and the 2018 comparative amount has been restated resulting in a reduction in the prior year from 58.4 pence to 56.2 pence.

Controllable costs[‡] and operating expenses

Controllable costs are the controllable operational overheads associated with maintaining our businesses. Controllable costs are calculated as operating expenses less premium based taxes, fees and levies that vary directly with premiums. These costs are by their nature a direct cost incurred as a result of generating premium income, and therefore not a controllable operational overhead. Operating expenses continues to be a useful measure alongside controllable costs.

Following the change in the definition of Group adjusted operating profit, operating expenses has been amended to include the amortisation and impairment of internally generated intangible assets to better reflect their operational nature. Comparative amounts have been restated resulting in an increase in prior year operating expenses of £112 million. Amortisation and impairment of intangible assets acquired in business combinations will continue to be excluded from operating expenses as these relate to merger and acquisition activity.

A reconciliation of other expenses in the IFRS consolidated income statement to operating expenses (restated) and controllable costs is set out below:

	2019 £m	2018 £m
Other expenses (IFRS income statement)	**3,329**	3,843
Less: impairment of goodwill, associates and joint ventures and other amounts expensed	**(15)**	(13)
Less: amortisation and impairment of intangibles acquired in business combinations[1]	**(87)**	(97)
Less: amortisation and impairment of acquired value of in-force business	**(406)**	(426)
Less: foreign exchange gains/(losses)	**109**	(28)
Add: other acquisition costs	**1,001**	954
Add: claims handling costs	**339**	336
Less: other costs	**(151)**	(431)
Operating expenses[1]	**4,119**	4,138
Less: premium based income taxes, fees and levies	**(180)**	(170)
Controllable costs	**3,939**	3,968

1 Following the change in the definition of Group adjusted operating profit, operating expenses now include the amortisation and impairment of internally generated intangible assets to better reflect the operational nature of these assets. Comparative amounts have been restated resulting in an increase in the prior period operating expenses of £112 million.

Operating expenses exclude impairment of goodwill, associates and joint ventures; amortisation and impairment of other intangible assets acquired in business combinations; 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 operating expenses as this is principally used to manage the performance of our operating segments.

Operating expenses include indirect acquisition costs, such as underwriting overheads, and claims handling costs. These are considered to be controllable by the operating segments and are therefore also included in controllable costs.

Operating expenses exclude other amounts that, in management's view, are not representative of underlying day-to-day expenses involved in running the business, and that would distort the year on year operating expenses trend, including historical product governance costs and GI instalment income. In 2019 other costs includes an additional £175 million product governance provision in our UK Life business relating to past communications to a specific sub-set of pension policyholders that may not have adequately informed them of switching options into with-profits funds that were available to them.

Other costs in 2018 included 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 sales by Friends Provident (of which over 90% of cases related to pre-2002).

IFRS Return on Equity (RoE)

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

Following the change in the definition of the Group adjusted operating profit APM in 2019, IFRS RoE has been amended and the 2018 comparative amount has been restated resulting in a reduction in the prior year from 13.3% to 12.8%.

IFRS net asset value (NAV) per share

IFRS 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 at the balance sheet date. IFRS NAV per share monitors the value generated by the Company in terms of the equity shareholders' face value per share investment.

Assets Under Management (AUM) and Assets Under Administration (AUA)

AUM represent all assets managed or administered by or on behalf of the Group, including those assets managed by Aviva Investors and 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, Aviva Investors AUA comprises AUM plus £36 billion *(2018: £29 billion)* of 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 amounts appearing in the Group's statement of financial position to AUM is shown below:

	2019 £bn	Restated[1] 2018 £bn
Assets managed on behalf of Group companies		
Assets included in statement of financial position[2]		
Financial investments	**351**	327
Investment properties	**11**	11
Loans	**39**	36
Cash and cash equivalents	**20**	17
Other	**1**	1
	422	392
Less: third party funds included above	**(17)**	(17)
	405	375
Assets managed on behalf of third parties[4]		
Aviva Investors	**67**	64
UK Platform[5]	**29**	23
Other	**9**	9
	105	96
Total AUM[3]	**510**	471

1 Following a review of the Group's presentation of consolidated investment funds, comparative amounts have been restated from those previously reported. The restatement has had no impact on the profit for the period or equity. See note 2a for further information.
2 Includes assets classified as held for sale.
3 Includes AUM of £346 billion *(2018: £331 billion)* managed by Aviva Investors.
4 AUM managed on behalf of third parties cannot be directly reconciled to the financial statements.
5 UK Platform relates to the assets under management in the UK long-term savings business.

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.

APMs derived from Solvency II measures

The Solvency II regime requires insurers to hold own funds in excess of the Solvency Capital Requirement (SCR). Own funds are available capital resources determined under Solvency II. This includes the excess of assets over liabilities in the Solvency II balance sheet, calculated on best estimate, market consistent assumptions and include transitional measures on technical provisions (TMTP), subordinated liabilities that qualify as capital under Solvency II, and off-balance sheet own funds.

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.

	2019 £m	2018 £m
Total Group equity on an IFRS basis	**18,685**	18,455
Elimination of goodwill and other intangible assets[1]	**(8,424)**	(7,828)
Insurance assets and liabilities valuation differences (net of transitional deductions)[2]	**19,564**	19,293
Inclusion of risk margin (net of transitional deductions)	**(3,122)**	(3,256)
Net deferred tax on valuation differences[3]	**(1,220)**	(1,149)
Revaluation of subordinated liabilities[4]	**(716)**	(649)
Other accounting differences[4]	**(99)**	(286)
Estimated Solvency II net assets (gross of non-controlling interests)	**24,668**	24,580
Difference between Solvency II net assets and own funds[5]	**3,659**	2,987
Estimated Solvency II regulatory own funds[6]	**28,347**	27,567

1 Includes £1,855 million *(2018: £1,872 million)* of goodwill and £6,569 million *(2018: £5,956 million)* of other intangible assets comprising acquired value of in-force business of £2,479 million *(2018: £2,916 million)*, deferred acquisition costs (net of deferred income) of £3,221 million *(2018: £2,858 million)* and other intangibles of £869 million *(2018: £182 million)*.
2 Includes valuation adjustments to reflect insurance assets and liabilities 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, non-controlling interests and adjustments for ring-fenced funds restrictions.
6 Regulation was introduced in France that allows French insurers to place the Provision pour Participation aux Excedents (PPE) into Solvency II own funds. The PPE has been included in the France local regulatory own funds in 2019 but it is not included in the Group regulatory own funds.

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

- Solvency II shareholder cover ratio‡
- Value of new business on an adjusted Solvency II basis (VNB)‡
- Operating Capital Generation (OCG)‡#
- Operating own funds generation
- Solvency II return on equity (ROE)‡
- Solvency II net asset value (NAV) per share‡
- Solvency II debt leverage ratio

Solvency II shareholder cover ratio‡

The estimated Solvency II shareholder cover ratio, which is derived from own funds divided by the SCR using a 'shareholder view', is one of the indicators of the Group's balance sheet strength. 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 31 December 2019 position is based on a formal reset of the TMTP, in line with the requirement to reset the TMTP at least every two years and hence no adjustment is required. 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 are made in order to show a more representative view of the Group's solvency position.

A reconciliation of the Solvency II regulatory surplus to the Solvency II shareholder surplus is provided below:

2019	Own funds 2019 £m	SCR 2019 £m	Surplus 2019 £m
Estimated Solvency II regulatory surplus	**28,347**	**(15,517)**	**12,830**
Adjustments for:			
Fully ring-fenced with-profit funds	**(2,501)**	**2,501**	**—**
Staff pension schemes in surplus	**(1,181)**	**1,181**	**—**
Notional reset of TMTP	**—**	**—**	**—**
Pro forma adjustments[1]	**(117)**	**(75)**	**(192)**
Estimated Solvency II shareholder surplus	**24,548**	**(11,910)**	**12,638**

1 The 31 December 2019 Solvency II position includes three pro forma adjustments that relate to the disposal of FPI (£nil impact on surplus), the disposal of Hong Kong (£nil impact on surplus) and the potential impact of an expected change to Solvency II regulations on the treatment of equity release mortgages (£0.2 billion decrease in surplus as a result of an increase in SCR).

2018	Own funds 2018 £m	SCR 2018 £m	Surplus 2018 £m
Estimated Solvency II regulatory surplus	27,567	(15,339)	12,228
Adjustments for:			
Fully ring-fenced with-profit funds	(2,634)	2,634	—
Staff pension schemes in surplus	(1,142)	1,142	—
Notional reset of TMTP	(127)	—	(127)
Pro forma adjustments[1]	(113)	(6)	(119)
Estimated Solvency II shareholder surplus	23,551	(11,569)	11,982

1 The 31 December 2018 Solvency II position includes the pro forma impact of the disposals of FPI (£0.1 billion increase in surplus) and the potential impact of an expected change to Solvency II regulations on the treatment of equity release mortgages (£0.2 billion reduction in surplus as a result of an increase in SCR).

A summary of the shareholder view of the Group's Solvency II position is shown in the table below:

	2019 £m	2018 £m
Own Funds	**24,548**	23,551
Solvency Capital Requirement	**(11,910)**	(11,569)
Estimated Solvency II Shareholder Surplus at 31 December	**12,638**	11,982
Estimated Shareholder Cover Ratio	**206%**	204%

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 life business written in the period, including the impact of interactions between in-force and new business, adjusted to:

- remove the impact of the contract boundary restrictions under Solvency II;
- include businesses which are not within the scope of Solvency II own funds (e.g. UK and Asia Healthcare, Retail fund management and UK equity release); and
- reflect a gross of tax and non-controlling interests basis, include the impact of 'look through profits' in service companies (where not included in Solvency II) and reflect the difference between locally applicable capital requirements for the smaller Asian markets (Indonesia, Vietnam, Hong Kong) and the value of new business on an adjusted Solvency II basis.

A reconciliation between VNB and the Solvency II own funds impact of new business is provided below:

2019	UK £m	Europe £m	Asia & Other £m	Group £m
VNB (gross of tax and non-controlling interests)	**592**	**414**	**218**	**1,224**
Solvency II contract boundary restrictions – new business	**(71)**	**(148)**	**(45)**	**(264)**
Solvency II contract boundary restrictions – increments / renewals on in-force business	**98**	**73**	**25**	**196**
Businesses which are not in the scope of Solvency II own funds	**(138)**	**(1)**	**(19)**	**(158)**
Tax and Other[1]	**(100)**	**(171)**	**(68)**	**(339)**
Solvency II own funds impact of new business (net of tax and non-controlling interests)	**381**	**167**	**111**	**659**

2018[1] Restated	UK £m	Europe £m	Asia & Other £m	Group £m
VNB (gross of tax and non-controlling interests)	481	517	204	1,202
Solvency II contract boundary restrictions – new business	(51)	(131)	(31)	(213)
Solvency II contract boundary restrictions – increments / renewals on in-force business	126	83	21	230
Businesses which are not in the scope of Solvency II own funds	(117)	(4)	(36)	(157)
Tax and Other[1]	(92)	(212)	(69)	(373)
Solvency II own funds impact of new business (net of tax and non-controlling interests)	347	253	89	689

1 Other includes the impact of 'look through profits' in service companies (where not included in Solvency II) of £(78) million *(2018: £(63) million)*, the reduction in value when moving to a net of non-controlling interests basis of £(57) million *(2018: £(81) million)* and the difference between locally applicable capital requirements for the smaller Asian markets (Indonesia, Vietnam, Hong Kong) and the value of new business on an adjusted Solvency II basis of £(37) million *(2018 restated: £(46) million)*.

The methodology underlying the calculation of VNB remains unchanged from the prior year. For 2018, new business written contributed to the calculation of the UK Life's transitional measures (in line with the clarification issued by the PRA in 2017), but this is no longer applicable to the Group in 2019.

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. The economic assumptions follow Solvency II rules for risk-free rates, volatility adjustment and matching adjustment. The operating assumptions are consistent with the Solvency II balance sheet, when these assumptions are updated, the year-to-date VNB will capture the impact of the assumption change on all business sold that year.

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 2019 UK new business (where applicable) was 95 bps *(2018: 105 bps)*.

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.

Present value of new business premiums (PVNBP)

PVNBP measures 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 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:

	2019 £m	2018 £m
Present value of new business premiums	**45,665**	40,763
Investment sales	**4,621**	4,799
General insurance and health net written premiums	**10,224**	9,968
Long-term health and collectives business	**(3,563)**	(3,840)
Total sales	**56,947**	51,690
Effect of capitalisation factor on regular premium long-term business[1]	**(15,294)**	(12,726)
JVs and associates[2]	**(286)**	(257)
Annualisation impact of regular premium long-term business[3]	**(327)**	(247)
Deposits[4]	**(10,917)**	(10,329)
Investment sales[5]	**(4,621)**	(4,799)
IFRS gross written premiums from existing long-term business[6]	**5,057**	4,776
Long-term insurance and savings business premiums ceded to reinsurers	**(2,879)**	(1,775)
Total IFRS net written premiums	**27,680**	26,333
Analysed as:		
Long-term insurance and savings net written premiums	**17,456**	16,365
General insurance and health net written premiums	**10,224**	9,968
	27,680	26,333

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.

Operating capital generation (OCG)‡#

OCG measures the amount of Solvency II capital the Group generates from operating activities and incorporates an expected return on investments supporting the life and non-life insurance businesses. The Group considers this measure meaningful to stakeholders as it enhances the understanding of the Group's operating performance over time by separately identifying non-operating items. The calculation of OCG is consistent with previous periods.

The expected investment returns assumed within OCG are consistent with the returns used for Group adjusted operating profit.

OCG includes the effect of variances in experience for non-economic items, such as mortality, persistency and expenses, the effect of changes in non-economic assumptions (for example, longevity), model changes that are non-economic in nature and the impact of capital actions, for example, strategic changes in asset mix including changes in hedging exposure. Consistent with the Group adjusted operating profit APM, OCG is determined on start of period economic assumptions and therefore excludes economic variances and economic assumption changes.

An analysis of the components of OCG is presented below, including an analysis of Solvency II operating own funds generation which is the own funds component of OCG (see the section below):

	2019 £m	2018 £m
Solvency II own funds impact of new business (net of tax and non-controlling interests)	**659**	689
Operating own funds generation from Life existing business	**507**	835
Operating own funds generation from non-life	**431**	299
Other own funds generation[1]	**944**	497
Group debt costs	**(284)**	(298)
Solvency II operating own funds generation	**2,257**	2,022
Solvency II operating SCR impact	**2**	1,176
Solvency II OCG	**2,259**	3,198

1 Other includes the impact of capital actions and non-economic assumption changes.

OCG is a key component of the movement in Solvency II shareholder surplus. The tables below provide an analysis of the change in Solvency II shareholder surplus.

2019 Shareholder view	Own funds 2019 £m	SCR 2019 £m	Surplus 2019 £m
Group Solvency II shareholder surplus at 1 January	**23,551**	**(11,569)**	**11,982**
Operating capital generation	**2,257**	**2**	**2,259**
Non-operating capital generation	**178**	**(362)**	**(184)**
Dividends[1]	**(1,222)**	**—**	**(1,222)**
Share buy-back	**—**	**—**	**—**
Hybrid debt repayments	**(210)**	**—**	**(210)**
Acquired/divested business	**(6)**	**19**	**13**
Estimated Solvency II shareholder surplus at 31 December	**24,548**	**(11,910)**	**12,638**

1 Dividends includes £17 million *(2018: £17 million)* of Aviva plc preference dividends and £21 million *(2018: £21 million)* of General Accident plc preference dividends.

2018 Shareholder view	Own funds 2018 £m	SCR 2018 £m	Surplus 2018 £m
Group Solvency II shareholder surplus at 1 January	24,737	(12,506)	12,231
Operating capital generation	2,022	1,176	3,198
Non-operating capital generation	(777)	(231)	(1,008)
Dividends[1]	(1,166)	—	(1,166)
Share buy-back	(600)	—	(600)
Hybrid debt repayments	(875)	—	(875)
Acquired/divested business	210	(8)	202
Estimated Solvency II shareholder surplus at 31 December	23,551	(11,569)	11,982

1 Dividends includes £17 million *(2018: £17 million)* of Aviva plc preference dividends and £21 million *(2018: £21 million)* of General Accident plc preference dividends.

Solvency II future surplus emergence

Solvency II future surplus emergence is a projection of the capital generation from existing long-term in-force life business. The projection is a static analysis as at a point in time and hence it does not include the potential impact of future new business or the potential impact of active management of the business (for example, active management of market, demographic and expense risk through investment, hedging, risk transfer, operational risk and expense management), which may affect the actual amount of OCG earned from existing business in future periods.

For business subject to short contract boundaries under Solvency II, allowance has been made for the impact of renewal premiums as and when they are expected to occur.

The projected surplus, which is primarily expected to arise from the release of risk margin (including transitional measures) and solvency capital requirement as the business runs off over time, is expected to emerge through OCG in future years. The cash flows are real-world cash flows, i.e. they are based on best estimate non-economic assumptions used in the Solvency II valuation and real-world investment returns rather than risk-free. The expected investment returns are consistent with the returns used in IFRS.

Operating own funds generation

Operating own funds generation measures the amount of Solvency II own funds generated from operating activities. Operating own funds generation is the own funds component of OCG and follows the methodology and assumptions outlined in OCG.

Solvency II Return on Equity (RoE)‡

Solvency II ROE is calculated as:

- Operating own funds generation less preference dividends, direct capital instrument (DCI) and tier 1 note coupons divided by;
- Opening value of unrestricted tier 1 shareholder own funds

Unrestricted tier 1 shareholder own funds represents the highest quality tier of capital and includes instruments with principal loss absorbing features such as permanence, subordination, undated, absence of redemption incentives, mandatory costs and encumbrances. The tables below provide a summary of the Group's regulatory Solvency II own funds by tier and a reconciliation between unrestricted tier 1 regulatory own funds and unrestricted tier 1 shareholder own funds:

Regulatory view	2019 £m	2018 £m
Unrestricted regulatory tier 1 own funds	**20,377**	19,312
Restricted Tier 1	**1,839**	2,096
Tier 2	**5,794**	5,811
Tier 3[1]	**337**	348
Estimated Solvency II regulatory own funds[2]	**28,347**	27,567

1 Tier 3 regulatory own funds at 31 December 2019 consists of £259 million subordinated debt *(2018: £253 million)* plus £78 million net deferred tax assets *(2018: £95 million)*.
2 Regulation was introduced in France that allows French insurers to place the Provision pour Participation aux Excedents (PPE) into Solvency II own funds. The PPE has been included in the France local regulatory own funds in 2019 but it is not included in the Group regulatory own funds.

Shareholder view	2019 £m	2018 £m
Unrestricted regulatory tier 1 own funds	**20,377**	19,312
Adjustments for:		
Fully ring-fenced with-profit funds	**(2,501)**	(2,634)
Staff pension schemes in surplus	**(1,181)**	(1,142)
Notional reset of TMTP	**—**	(127)
Pro forma adjustments[1]	**(117)**	(113)
Unrestricted shareholder tier 1 own funds	**16,579**	**15,296**

1 The 31 December 2019 Solvency II position includes two pro forma adjustments that relate to the disposal of FPI (£0.1 billion reduction in own funds) and the disposal of Hong Kong (£nil impact on own funds). The 31 December 2018 Solvency II position includes the pro forma impact of the disposal of FPI (£0.1 billion reduction in own funds).

Solvency II RoE provides useful information as it is used as an economic value measure by the Group to assess growth and performance.

The Solvency II return on equity is shown below:

	2019 £m	2018 £m
Solvency II operating own funds generation	**2,257**	2,022
Less preference share dividends	**(38)**	(38)
Less DCI and tier 1 note coupons	**(34)**	(36)
	2,185	1,948
Opening Unrestricted tier 1 shareholder Solvency II own funds	**15,296**	15,550
Solvency II Return on Equity	**14.3%**	12.5%

Solvency II return on capital (unlevered)

Solvency II return on capital (unlevered) is calculated as operating own funds generation excluding interest costs divided by opening shareholder Solvency II own funds. It is used as an economic value measure by business divisions to assess growth and performance.

Solvency II net asset value (NAV) per share‡

Solvency II NAV per share is used to monitor the value generated by the Group in terms of the equity shareholders' face value per share investment. This is calculated as the unrestricted tier 1 Solvency II shareholder own funds, divided by the actual number of shares in issue as at the balance sheet date. Consistent with Solvency II ROE, it is an economic value measure used by the Group to assess growth.

The Solvency II NAV per share is shown below:

	2019	2018
Unrestricted tier 1 shareholder Solvency II own funds (£m)	**16,579**	15,296
Number of shares in issue at 31 December (in millions)	**3,921**	3,902
Solvency II NAV per share	**423p**	392p

Solvency II debt leverage ratio

Solvency II debt leverage ratio is calculated as Solvency II debt expressed as a percentage of Solvency II regulatory own funds plus senior debt and commercial paper. Where Solvency II debt includes subordinated debt, preference share capital and direct capital instrument and tier 1 notes. The Solvency II debt leverage ratio provides a measure of the Group's financial strength.

	2019 £m	2018 £m
Solvency II regulatory debt	**7,892**	8,160
Senior notes	**1,052**	1,113
Commercial paper	**238**	251
Total solvency II debt	**9,182**	9,525
Estimated Solvency II regulatory own funds, senior debt and commercial paper	**29,637**	28,931
Solvency II debt leverage	**31%**	33%

A reconciliation from IFRS subordinated debt to Solvency II regulatory debt is provided below:

	2019 £m	2018 £m
IFRS borrowings	**9,067**	9,420
Less: borrowings not classified as Solvency II regulatory debt		
Senior notes	**(1,052)**	(1,113)
Commercial paper	**(238)**	(251)
Operational borrowings	**(1,571)**	(1,721)
Less: Amounts held by Group Companies	**—**	5
IFRS subordinated debt	**6,206**	6,340
Revaluation of subordinated liabilities	**716**	649
Other movements	**20**	(10)
Solvency II subordinated debt	**6,942**	6,979
Preference share capital, deferred capital instrument and tier 1 notes	**950**	1,181
Solvency II regulatory debt	**7,892**	8,160

Other APMs

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.

Centre liquidity

Centre liquidity represents cash remitted by the business units to the Group centre less centre operating expenses and debt financing costs. It includes cash disposal proceeds and capital injections. This provides meaningful information because it shows the liquidity at the Group centre available to meet debt interest and central costs and to pay dividends to shareholders.

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. Excess centre cash flow does not include cash movements such as disposal proceeds or capital injections.

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

Annual Premium Equivalent (APE)

APE is a measure of sales in our life insurance business. APE is calculated as the sum of new regular premiums plus 10% of new single premiums written in the period. This provides useful information on sales and new business when considered alongside VNB.

Operating expense ratio

The operating expense ratio expresses expenses as a percentage of operating income.

Operating income is calculated as Group adjusted operating profit before Group debt costs and operating expenses.

Spread margin
The spread margin represents the return made on the Group's annuity and other non-linked business, based on the expected investment return, less amounts credited to policyholders. While not a key performance metric of the Group, the spread margin is a useful indicator of the expected investment return arising on this business.

Underwriting margin
The underwriting margin represents the release of reserves held to cover claims, surrenders and administrative expenses less the cost of actual claims and surrenders in the period.

Unit-linked margin
The unit-linked margin represents the annual management charges on unit-linked business. This is an indicator of the return arising on this business.

Shareholder services

2020 Financial Calendar

Ordinary dividend timetable:	Final	Interim**
Ordinary ex-dividend date	23 April 2020	13 August 2020
Dividend record date	24 April 2020	14 August 2020
Last day for Dividend Reinvestment Plan and currency election	11 May 2020	3 September 2020
Dividend payment date*	2 June 2020	24 September 2020
Other key dates:		
Annual General Meeting		1.30pm on 26 May 2020
2020 interim results announcement		6 August 2020

* 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 can 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 Investor Services PLC (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; or
- 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
Log in to the Computershare Investor Centre to:
- Change your address
- Change payment options
- Switch to electronic communications
- View your shareholding
- View any outstanding payments

Annual General Meeting (AGM)

The 2020 AGM will be held at The Queen Elizabeth II Centre, Broad Sanctuary, Westminster, London SW1P 3EE, on Tuesday, 26 May 2020, at 1.30pm.

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 2020 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/2019ar 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're open Monday to Friday, 8.30am to 5.30pm UK time, excluding public holidays. Please call +44 117 378 8361 if calling from outside of the UK.
- **By email:** AvivaSHARES@computershare.co.uk
- **In writing:** Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZZ.

American Depositary Receipts (ADRs) – Contact:

For any queries regarding Aviva ADRs, please contact Citibank Shareholder Services (Citibank):
- **By telephone:** 1 877 248 4237 (1 877-CITI-ADR)
  We are open Monday to Friday, 8.30am to 6pm US Eastern Standard Time, excluding public holidays. Please call +1 781 575 4555 if calling from outside of the US.
- **By email:** Citibank@shareholders-online.com
- **In writing:** Citibank Shareholder Services, PO Box 43077, Providence, Rhode Island, 02940-3077 USA.

Group Company Secretary

Shareholders may contact the Group Company Secretary:
- **By email:** Aviva.shareholders@aviva.com
- **In writing:** Kirstine Cooper, Group Company Secretary, St Helen's, 1 Undershaft, London, EC3P 3DQ.
- **By telephone:** +44 (0)20 7283 2000

Cautionary statement

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 outcome of the negotiations on the future economic relationship between the UK and the EU); 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 (including the impact of COVID-19) 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; the impact of actual experience differing from estimates used in valuing and amortising deferred acquisition costs (DAC) and acquired value of in-force business (AVIF); the impact of recognising an impairment of our goodwill or intangibles with indefinite lives; changes in valuation methodologies, estimates and assumptions used in the valuation of investment securities; the effect of legal proceedings and regulatory investigations; the impact of operational risks, including inadequate or failed internal and external processes, systems and human error or from external events (including cyber attack); risks associated with arrangements with third parties, including joint ventures; our reliance on third-party distribution channels to deliver our products; funding risks associated with our participation in defined benefit staff pension schemes; the failure to attract or retain the necessary key personnel; the effect of systems errors or regulatory changes on the calculation of unit prices or deduction of charges for our unit-linked products that may require retrospective compensation to our customers; the effect of fluctuations in share price as a result of general market conditions or otherwise; the effect of simplifying our operating structure and activities; the effect of a decline in any of our ratings by rating agencies on our standing among customers, broker-dealers, agents, wholesalers and other distributors of our products and services; changes to our brand and reputation; changes in government regulations or tax laws in jurisdictions where we conduct business, including decreased demand for annuities in the UK due to changes in UK law; the inability to protect our intellectual property; the effect of undisclosed liabilities, integration issues and other risks associated with our acquisitions; and the timing/regulatory approval impact, integration risk and other uncertainties, such as non-realisation of expected benefits or diversion of management attention and other resources, relating to announced acquisitions and pending disposals and relating to future acquisitions, combinations or disposals within relevant industries, the policies, decisions and actions of government or regulatory authorities in the UK, the EU, the US or elsewhere, including the implementation of key legislation and regulation. For a more detailed description of these risks, uncertainties and other factors, please see the 'Risk and risk management' section of the strategic report.

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

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