

Our **33** million **customers**

What's important and
how we help them
every step of the way

What makes us **different?**

Our strategy in action
and the benefits it
brings to our customers

What's our plan of **action?**

How we're doing – and how
we're going to do better

Your **Aviva**

**“Aviva has
thought about
absolutely
everything”**

CUSTOMER FOCUS

Read
**Anna's
story**

Page 4



Creating a
bright and
sustainable future
for our customers,
investors, employees
and communities

14.05p

Final dividend, a 15% increase

£30.7bn

Paid out in benefits and claims
to our customers in 2015

587,000+

Number of people who have benefited from our
corporate responsibility programmes in 2015

320 years

Protecting our customers since 1696

29,600

Number of employees worldwide

39%

Reduction in our carbon footprint since 2010

Who we are

At Aviva, we help our 33 million customers save for the future and manage the risks of everyday life. Our 29,600 people are focused on helping to free our customers from fear of uncertainty

Our businesses

We have businesses across 16 markets in:

Read more on
pages 30-45



UK, Europe, Asia and Canada

We offer:

Life insurance

Retirement income, Savings & Pensions, Life cover, Protection

General insurance

Home, Motor, Travel, Pet and Commercial

Accident & health insurance

Private Medical Insurance, Accident & Health

Asset management

Investing for Aviva and external clients

Our performance¹

Our investment thesis of cash flow plus growth sets out why investors should choose us:

Read more on
pages 12-13



£2,665m

Operating profit on IFRS basis up 20%^{1,2}

£1,507m

Cash remittances up 5%¹

£1,192m

Value of new business up 19%¹

94.6%

Combined operating ratio improved by 1.1pp

50.0%

Operating expense ratio improved by 1.1pp^{1,2}

¹ 2015 numbers include Friends Life from 10 April 2015, the acquisition completion date. 2014 numbers are Aviva stand-alone as previously reported (i.e. do not include Friends Life).

Further details can be found on pages 58-61.

² 2014 operating profit on an IFRS basis was restated to exclude amortisation and impairment of acquired value of in-force business which is now shown as a non-operating item.

Our plan

We have a clear strategy to deliver sustainable and progressive cash flows underpinned by good potential for growth, by ensuring our people always put customers first

Our strategy

Read more on
pages 20-27



True customer composite

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

Digital first

Emphasising customer experience driven by digital – online and mobile

Not everywhere

Focusing only in markets and segments where we can win

Our values and our people

Read more on
pages 48-51



To provide the best possible service to our customers today and in the future, Aviva must disrupt, lead and transform the industry. And it is our people who will achieve this by living our values every day:



Care more

We care like crazy about our customers, our communities and each other



Kill complexity

We are obsessed with making things simpler for our customers and each other



Never rest

We are driven to think bigger and do better for our customers and each other



Create legacy

We strive to create a sustainable future for our customers and each other

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“
What really makes us different is our ability to offer customers a wide range of life insurance, general insurance, health insurance and investment solutions
”

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Mark Wilson
Group Chief Executive Officer



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Our people
Pages 48-51

A milestone year for Aviva

Aviva has made remarkable progress in the past three years – and has moved from turnaround to transform and grow. We are well on the way to successfully integrating Friends Life and are focused on delivering to our customers the benefits of the True Customer Composite model



It has been an honour to serve you, our shareholders, on the Board, first as Senior Independent Director, and then, since April 2015, as your Chairman following John McFarlane's move to Barclays. I want to thank John particularly, as he made an immense contribution to Aviva and its recovery, and to wish him well in his new role.

2015 saw the Group move into a new phase – from turning round the business to transforming it. In 2016 I am confident that we will see the true potential of the Group emerge ever more clearly. Aviva has a clear strategy, strong values, a distinct advantage as a composite insurer, a developing reputation as a digital innovator, an outstanding management team, and an unequivocal mission to deliver much more for customers and shareholders alike.

Our people

It is thanks to our people and their dedication, loyalty and hard work that we've been able to achieve the progress we have. In the past three years they've had to absorb many changes. But they have faced the challenge professionally, recognised the rationale behind the direction we are taking and focused on seizing the opportunities that are opening up for the Group. They live our values every day (Care More; Kill Complexity; Never Rest; and Create Legacy) and support us in building a high-performance and collaborative culture.

It's a measure of our people that they care, not just in the workplace but outside it too. The Aviva Community Fund, which started in 2008, is now active in six of our global markets and supports inspirational local community projects, not only with grants but also with the hard work of committed volunteers from the staff.

Our customers

As an insurer and asset manager we are entrusted with a tremendous responsibility by our 33 million customers. We are pledged to help people save for the future and manage the risks of everyday life. As we move progressively into the digital world, we will have more direct contact with the customer than in the more traditional, intermediated forms of business relationship. To all our customers, particularly those digital customers, an essential prerequisite of their relationship with us, as their insurer and asset manager, is that they should feel safe in

HIGHLIGHTS

IFRS net asset value per share

389p

IFRS profit before tax
attributable to shareholders'
profits

£1,390m

Total dividend

20.80p

Total shareholder return

10.4%

our hands. Everyone in the organisation knows that, and we all strive to be worthy of the trust our customers place in us.

Our community

Aviva has become a leading contributor to the role of business in society, speaking out on the impact and costs associated with climate change, the creation of sustainable capital markets and promoting responsible investment. For example, in October 2015 Mark Wilson had the opportunity to address the United Nations General Assembly to call for the UN to agree a resolution on sustainable finance.

Friends Life integration

Over 2015 we continued to perform strongly against all our targets. The £6 billion acquisition of Friends Life in April 2015 and the ongoing integration work since then have been especially noteworthy features of the last year. The acquisition is in line with our strategic direction, and positions us well to capitalise on the opportunities that exist in the UK.

The integration of Friends Life is progressing well. This will continue to be an area of focus in 2016.

Regulatory change

We also continue to manage considerable regulatory change, not least from the new Solvency II (SII) regime and the reforms to pensions in the UK. I am confident that the Board and the management team are well equipped to meet these challenges.

Board composition and governance

The membership of the Board changed during the course of the year. I was appointed Chairman, taking over from John McFarlane, and Sir Malcolm Williamson and Andy Briggs joined the Board following the acquisition of Friends Life, with Sir Malcolm becoming Senior Independent Director. Gay Huey Evans retired from the Board after serving diligently since October 2011 and we wish her well for the future. In June 2015, Belén Romana García was appointed as an Independent Non-Executive Director and we will benefit from her wide experiences in insurance, financial services and European and global regulation. And, since the year end, we have appointed Claudia Arney as an Independent Non-Executive Director, whose experience of the digital world will be of great value to the Board.

I want to thank the entire Board for their significant contribution, commitment and service and I look forward to working with them during 2016 as we continue to guide the Group's strategic transformation.

During the year, we have continued our focus on reviewing and improving our governance, conduct and risk management processes, with customers always central to everything we do. Further details are contained in the directors' and corporate governance report in the annual report and accounts.

Performance and dividend

Overall operational performance improved in the year, despite having been impacted by a weaker euro exchange rate. The acquisition of Friends Life in April 2015 has had a significant effect on most metrics¹.

Operating profit on an IFRS basis was up 20% to £2,665 million, including a £554 million contribution from Friends Life and adverse foreign exchange of £117 million. Net asset value increased to 389 pence per share and total shareholder return was 10.4%.

The Board is proposing a final dividend of 14.05 pence per share (2014: 12.25 pence per share), taking the full year dividend to 20.80 pence per share (2014: 18.10 pence per share). This is a 15% increase and reflects the Board's progressive dividend policy and continuing confidence in the Group's medium-term growth prospects.

Our future

2015 was a milestone year for Aviva. In 2016 we will continue to exercise the same drive and determination we have shown in the turnaround to achieve our strategic goals. ■

Sir Adrian Montague CBE

Chairman

9 March 2016

¹ For the avoidance of doubt, 2015 numbers include Friends Life from 10 April 2015, the acquisition completion date. 2014 numbers are Aviva stand-alone as previously reported (i.e. do not include Friends Life). Further details can be found on pages 58-61.

We launched our new "You, Me, We" package in Poland in 2015. It's tailored to meet different people's needs at different times in their lives.

We can offer this to customers because we're a True Customer Composite. And we think it means simplicity and convenience for our customers, delivered digitally.

"You" is for young people and offers everything from life insurance to health benefits in the event of injuries like breaks, twists or sprains.

"Me" provides the full spectrum of insurance to single people – with additional benefits like pet care and even housekeeping. And "We" is for young families. It's not just insurance but offers things like child care and tutoring – and even someone to call when you want advice on caring for your baby.

Anna loves our "Me" package. In addition to the protection and accident cover, she knows her much-loved dog will be cared for if she has to go into hospital. As someone

who looks after herself, she also appreciates the healthy eating recipes we send her every week.

Anna thinks "You, Me, We" shows that "Aviva has thought about absolutely everything". She describes herself as someone who smiles a lot. We hope Aviva has made her smile that much wider. ■

"Aviva has thought about absolutely everything"

Anna



Stability, strength and growth

INTERVIEW – MARK WILSON, GROUP CHIEF EXECUTIVE OFFICER

How would you describe 2015?

2015 saw us complete the fix phase of Aviva's transformation, progress the integration of Friends Life and move to a different phase, offering stability and predictability in performance with sustainable growth. Against the backdrop of market volatility, our diversity and strong balance sheet position us well.

Let's look back three years. Then Aviva was complex, sprawling and volatile, with high levels of debt and a lack of clear strategy.

“

We are demonstrating stability and strength and performing consistently

”

Mark Wilson
Group Chief Executive Officer

Now we have a clear strategy for investors, anchored in our investment thesis of cash flow plus growth. We have financial strength and we focus on markets where we can deliver good financial returns.

A glance at the numbers highlights the point. Not so long ago we were in 28 markets. Now we are in 16. We have grown our economic capital surplus from £3.6 billion in 2011 to £11.6 billion. At the end of 2012, our liquidity was £203 million. Now, at 29 February 2016, it is £1,341 million.

That's not bad for three years' work. But we have hardly begun to make the most of our

significant competitive advantages. One of our Aviva values is "never rest" – and we are certainly not doing that in any shape or form.

Talk us through some of the numbers for 2015?

Operating profit was up by 20% to £2.7 billion despite headwinds from foreign exchange.

In life insurance, despite the focus on the integration of Friends Life and numerous regulatory developments, we achieved a 19% increase in the Value of New Business. We've now achieved 12 consecutive quarters of VNB growth. That speaks for itself.

In general insurance, we have achieved a Combined Operating Ratio of 94.6%, the best in nine years, despite major weather events like the recent floods in the UK.

I used to call some of our turnaround markets my problem children. Now Ireland and Italy are among our star performers, while Poland and Turkey have shown why we believe they have a big future.

At our investment arm, Aviva Investors, we grew operating profits by 33% to £105 million and the flagship AIMIS range of products has continued to deliver, in challenging market conditions. Hitting a three figure profit for Aviva Investors is an important milestone – but it is now in the past. Now our focus is on building on the momentum.

Clearly, the acquisition and integration of Friends Life was a big focus in 2015. The integration has gone faster and better than expected. We are well ahead of schedule in extracting the savings we expected; we have already secured run rate synergies of £168



To hear Mark talk about our preliminary results, visit: www.aviva.com/AR15

million. We have added c.£45 billion of assets to Aviva Investors. And we expect £1.2 billion of capital benefits, £400 million of which we realised in 2015. Let me be clear, there's still much to do, but we have changed our target and now expect to deliver the £225 million cost target by the end of 2016 – 12 months earlier than we originally said. I would describe that as a highly satisfactory result.

I should also mention the huge amount of effort that's gone into preparing for the new Solvency II capital regime. We have taken a cautious approach to managing our capital and have been proactive in reducing risk – so we took this in our stride and have made a smooth transition to the new regime. Our Solvency II capital ratio of 180% is strong and certainly one of the strongest and most resilient in the UK market.

As a result of this sustained performance and financial strength, we have increased the final dividend by 15% to 14.05p.

What will you be focusing on in 2016?

With our strong financial position, we will continue to focus on providing customers with the very best of life, general and health insurance and asset management, through the convenience of our digital channels.

I am crystal clear there is no room for complacency – and this is not something you see in the new Aviva. Yes, we have come a long way. But we have much still to do – whether that's becoming more efficient or getting better at allocating our capital where it's going to deliver the best returns or making the most of the composite model as a digital insurer.





Integration of Friends Life

We completed the acquisition of Friends Life in 2015 to create the largest life insurer in the UK. As a result we are in a strong position to look after our customers' entire savings, pensions and retirement needs. For example, we offer the full range of pension freedoms; we are the number one corporate pension provider and have recently launched our new combined Group protection proposition. The integration is progressing well and we're focused on delivering the benefits of the acquisition.

HIGHLIGHTS

Operating profit up 20% on an IFRS basis to

£2,665m

Cash remittances increase of 5% to

£1,507m

Value of new business up 19% to

£1,192m

General insurance combined operating ratio improved 1.1 percentage points to

94.6%

Final dividend per share

14.05p

In terms of capital, we will continue to be rigorous in reallocating our capital and strengthening our positions in the markets where we can win. We can still do a whole lot more on that. We have announced the proposed acquisition of RBC's General Insurance Company operations in Canada – a good example of a bolt-on acquisition in our general insurance business, bolstering our position in an attractive market.

As a composite, we are only starting to scratch the surface of our potential. What really makes us different is our ability to offer customers a wide range of life insurance, general insurance, health and investment solutions. I want customers to see Aviva as their provider of choice for more and more of their insurance and savings needs – so we improve our current average product holding per customer.

And we'll deliver the benefits of the composite model for our customers by putting Digital First – it's what customers want and it's more efficient. Our first task is to increase the number of customers registered with MyAviva. We're only just starting to unlock our digital potential – we're a very long way from where I want us to be.

I should also say that we will continue to focus on being Not Everywhere. That's not just a matter of geographies. It's also about making choices about optimising our business mix and which business we will focus on – markets like accident and health. This is a market where we have historically been underweight. It's a big opportunity – and we can make a real difference for our customers. We've launched our new UK Essentials range – but it is only just the start.

So my message is that we have done a lot in three years – but we will always seek to exceed expectations of what we can achieve. And we'll do this by always being guided by our strategy and values – they are the cornerstones of how we do business.

What's your final message?

To our shareholders, I say Aviva offers stability and security – and also sustainable cash flows and growth. We have made good progress on efficiency and our balance sheet is strong and resilient, but we have much further to go to unlock our full potential – and deliver consistent, reliable growth in profits and dividends. That's a pretty enticing prospect – and we're not there yet.

To our 29,600 people, I say thank you for your continuing dedication, achievement and service to our customers.

To our 33 million customers, I say you are our greatest asset. We put you at the heart of everything we do – whether that's in the quality of the products and services we offer or the success we've had in campaigning in your interests such as slamming the brakes on the UK's culture of fraudulent whiplash claims. But we know we can do a lot more for you in 2016 and beyond. ■

Mark Wilson
Group Chief Executive Officer
9 March 2016

Delivering on a clear plan of action

	Doing what we said we would in 2015	Our plan of action
Financial Cash flow plus growth Strong balance sheet	<p>We said we would improve:</p> <ul style="list-style-type: none"> ▶ Cash remittances to Group – increased 5% to £1,507 million ▶ Value of New Business (VNB) – up 19% to £1,192 million ▶ General insurance Combined Operating Ratio (COR) improved by 1.1 percentage points to 94.6% <p>The acquisition of Friends Life has:</p> <ul style="list-style-type: none"> ▶ Delivered £168 million run rate synergies ▶ Added c.£45 billion of funds to Aviva Investors <p>As planned, we achieved:</p> <ul style="list-style-type: none"> ▶ Smooth transition to new Solvency II reporting with a solvency capital ratio of 180%¹ ▶ Reduced leverage – S&P leverage now 27% ▶ Reduced internal loan to £1.5 billion² 	<ul style="list-style-type: none"> ▶ Continue to improve cash remittances ▶ Drive further increases in VNB from our life business ▶ Deliver Friends Life costs savings target one year early, and complete the integration ▶ Continue to improve our general insurance underwriting result ▶ Focus on external fund flows at Aviva Investors ▶ Maintain a resilient Solvency II capital position
Strategy True Customer Composite Digital First Not Everywhere	<p>For our customers, we have:</p> <ul style="list-style-type: none"> ▶ Developed new multi-product solutions ▶ Increased the total number of registrations on MyAviva to 1.8 million in the UK, improved functionality and extended to France and Italy <p>In Digital, we have:</p> <ul style="list-style-type: none"> ▶ Opened a second digital garage in Singapore ▶ Invested in digital and made strong senior management appointments into the business ▶ Developed the MyAgent cloud-based tool globally for our 30,000 direct sales force agents <p>Not Everywhere:</p> <ul style="list-style-type: none"> ▶ Strengthened distribution in the UK, with the acquisition of Friends Life and deals with TSB and Homeserve, reinforcing our home market position ▶ Diversified distribution in existing markets with deals in Poland and Canada³ 	<ul style="list-style-type: none"> ▶ Build engagement with our customers by increasing registrations on MyAviva and extending it to other countries ▶ Make life easier for customers by offering more products digitally through MyAviva ▶ Develop more digital multi-product solutions, focused on customer needs, across more markets ▶ Extend our Accident & Health offer with simple, accessible products ▶ Continue to reallocate capital between business lines and countries to focus on what we do best and drive higher returns
Culture Care more Kill complexity Never rest Create legacy	<p>For our people, we have:</p> <ul style="list-style-type: none"> ▶ Made good progress with the integration of Friends Life ▶ Introduced a new goal setting and performance management approach ▶ Launched a new leadership development programme called Leading@Aviva <p>For society, we have:</p> <ul style="list-style-type: none"> ▶ Led debates on sustainable finance and the risk of climate change ▶ Increased community investment by 71% to £10.8 million by extending Aviva's Community Funds around the world 	<ul style="list-style-type: none"> ▶ Further develop leaders across Aviva through greater agility, innovation and accountability ▶ Continue to build a culture where we consider our customers in every decision ▶ Develop an inclusive workforce that reflects the diversity of our customer base ▶ Create an environment that attracts and retains talented, committed, entrepreneurial people ▶ Continue to lead the debate and take action on sustainable finance and the risk of climate change ▶ Extend Community Funds to more countries, targeting 2.5 million beneficiaries and 250,000 hours of volunteering by 2020

¹ The estimated Solvency II ratio represents the shareholder view. This ratio excludes the contribution to Group SCR and Group Own Funds of fully ring-fenced with-profits funds (£2.7 billion) and staff pension schemes in surplus (£0.7 billion) – these exclusions have no impact on Solvency II surplus. The impact from internal reinsurance arrangements between UK Life, UK and Ireland General Insurance and Aviva International Insurance Limited and the securitisation of equity release mortgages held by UK Life, effective 1 January 2016, have also been reflected in the Solvency II position.

² This was achieved by the end of February 2016.

³ We announced the proposed acquisition of RBC's General Insurance Company operations in Canada on 21 January 2016.



Life was good for Ricky, his wife, Sarah, and their daughter, Isabella.

He enjoyed his job as a teacher and they'd just bought a family home with space for brothers and sisters for Isabella.

Then Ricky found he had testicular cancer.

Everything was thrown up in the air. They didn't know what treatment he'd need, what the prognosis was or how they'd pay the mortgage if he was too ill to work.

Their financial adviser told them to check whether they had critical illness cover as part of their life insurance with Aviva. They did – and it would clear their mortgage if either of them fell seriously ill or died.

Ricky talked to us and we paid out on their policy. It was a huge weight off their minds.

Then the best news of all. After an operation, Ricky learnt that his cancer hadn't spread and he wouldn't need chemotherapy.

Ricky encourages people to go to the doctor so illness can be caught early – and he's a convert to insurance: "I was amazed by how many people aren't covered – I've told all my friends they must think about it."

We're delighted that he's better and that, in his words, "everyone at Aviva has been brilliant." Now the Lovelace family can look forward to the future. And they have a new addition – a little sister for Isabella, named Darla. ■



“Everyone at Aviva has been brilliant”

Ricky

The metrics to measure our performance

We use both financial and non-financial metrics to measure our performance, efficiency, customer advocacy, employee engagement and impact on society

Cash remittances[‡]

Improved cash flow from our businesses

Sustainable cash remittances from our businesses are a key financial priority. The improvement in cash remittances was driven by our UK businesses and includes £101 million from Friends Life. This was partly offset by lower remittances from Canada, where cash generated was largely retained to part fund the proposed acquisition of RBC General Insurance Company, and Europe which mainly reflects adverse foreign exchange movements.

£1,507m

2014: £1,431m¹
2013: £1,309m¹

- ¹ Restated to include interest remitted on internal loans.
- ² Dividend from UKGI remitted to Group in January 2014, February 2015 and February 2016 respectively.

Value of new business (VNB)[‡]

Growing our life insurance business

This measures growth and is the source of future cash flows in our life businesses.

VNB increased by 19% (24% on a constant currency basis) with growth in the UK, Europe and Asia. The result includes a £96 million contribution from Friends Life. In the UK, VNB increased reflecting higher margins on pension and health business and higher sales and improved margins on bulk purchase annuities, offset by lower sales of individual annuities.

£1,192m

2014: £1,005m⁵
2013: £899m⁵

- ⁵ Excludes Eurovita, Aseval, CxG, South Korea and Malaysia, which have been sold.

Adjusted operating profit: IFRS basis[‡]

Measure of operating profitability

Overall, operating profit was £2,665 million which included a £554 million contribution from the Friends Life businesses acquired in April 2015 and an adverse foreign exchange impact of £117 million.

See pages 30 to 45 for further details of the performance of our markets in the year.

£2,665m

2014: £2,213m³
2013: £2,097m^{3,4}

- ³ Restated to exclude amortisation and impairment of acquired value of in-force business which is now shown as a non-operating item.
- ⁴ On a continuing basis.

Combined operating ratio (COR)[‡]

Underwriting that delivers profits

This is a key measure of underwriting profitability of our general insurance business.

Our COR improved by 1.1 percentage points with improvements in Canada, Europe and Ireland primarily driven by higher positive prior year development and better weather experience. The UK result was broadly stable despite the adverse impact of the December storms.

94.6%

2014: 95.7%
2013: 97.3%

In 2015 we successfully navigated regulatory change and turbulent external conditions to deliver a stronger, cleaner balance sheet and continued operating momentum



Tom Stoddard
Chief Financial Officer

Operating expense ratio[‡]

Focusing on our operating efficiency

This measure expresses operating expenses as a percentage of operating income and improved by 1.1 percentage points to 50.0% during 2015.

Within this, operating expenses were £3,030 million (2014: £2,795 million), including £350 million of expenses from Friends Life post-acquisition and a foreign exchange benefit of £100 million.

50.0%

2014: 51.1%⁶
2013: 53.6%^{6,7}

- ⁶ Restated to exclude amortisation and impairment of acquired value of in-force business which is now shown as a non-operating item.
⁷ On a continuing basis.

- See pages 30-45 for further details of the financial performance of our markets during the year.
- For definitions of our financial performance indicators, turn to the glossary on pages 348-350.
- [‡] Symbol denotes key performance indicators used as a base to determine remuneration.

Customer advocacy[‡]

Making a difference to our customers

Our Relationship Net Promoter Score® (RNPS) measures the likelihood of a customer recommending Aviva.

Our 2015 survey scores remained stable and the majority of our markets are ranked at either upper quartile or market average. However, there is more to do and we are committed to putting our customers first to improve their experience.

50% 33% 17%

In upper quartile	At or above market average	Below market average
2014: 50%	2014: 33%	2014: 17%

Employee engagement[‡]

Listening to our people

We are focused on creating an environment in which our people can thrive through collaboration and recognition. We measure this through our annual global 'Voice of Aviva' survey.

In the September 2015 survey, on a like-for-like basis excluding Friends Life, engagement rose from 65% in 2014 to 66%. As anticipated, uncertainty during the integration of Friends Life meant overall engagement remained broadly stable at 63%.

63%

2014: 65%
2013: 56%



Read more on
pages 48-51

Carbon emissions (CO₂e)

Reducing our carbon footprint

Aviva has been carbon neutral for the past ten years and this year, we agreed a new emissions reduction target of 40% by 2020 and 50% by 2030, based on a restated 2010 baseline.

We made strong progress in 2015 and are pleased to say we have already achieved a 39% reduction against a restated 2010 baseline to include Friends Life data.

CO₂e data includes emissions from our buildings, business travel, outsourced data centres, water and waste to landfill.

39%

2014: 32%
2013: 20%



Read more on
pages 52-55

Where the world is going

We have identified six long-term trends which will impact our industry over the next few years

My life, my way

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

Smartphone users worldwide by 2020¹

6.1bn



The power of communities

The economic power of governments will decline further and the power of 'communities' of mutual interests, both virtual and local, will increase.

Daily active Facebook users²

1bn



Winning through data

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

"Internet of things" – connected devices by 2020³

50bn



The age of disruption

Agile companies which can make the most of new digital technologies will succeed.

Daily Uber rides completed worldwide⁴

1m



Older and healthier

The emergence of a generation aged 50 plus who will live longer and who are healthier. Markets will be driven increasingly by this group's attitudes and needs.

% of population aged over 65 in 2050 versus today⁵

2x



Shifting wealth

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

Insurance premium growth from emerging economies 2005-2015⁶

58%

Our response

The True Customer Composite and Digital First elements of our Strategic Framework respond to and anticipate the rapid pace of technological change, changing customer expectations, and the potential impact on our business model.

At the same time, our customers need help navigating the increasing complexities of a world in which they need to be more self-reliant when planning for a retirement which could last much longer than previous generations. This can provide opportunities for insurers and asset managers.

As part of the Not Everywhere component of our strategy, we will continue to allocate capital selectively to our growth businesses in Poland, Turkey and Asia, as wealth continues to shift to faster-growing developing markets.

In addition to the six long-term horizons, Aviva closely monitors two further trends which remain relevant to our industry: climate and regulation.

Climate

We pay close attention to weather patterns and climate change. There is growing evidence that a gradual long-term change in the Earth's weather patterns and average temperatures is occurring due to increased quantities of greenhouse gas in the atmosphere and other man-made causes.

One impact of climate change is an increase in extreme weather events. For example in 2015 there were significant flooding events in parts of the world (including in our home market of the UK), and it was the hottest year on record globally⁷.

Climate change will have a significant impact on both society and our business. Some risks are changing, more complex risk management is required and greater losses can be incurred.

Our business is about helping people prepare for the future, which is why we're helping society respond to the challenges of climate change.

For more information on our response to climate change see pages 52-55

Regulation

We continue to experience regulatory change across many of our markets, for example UK pensions market reform, auto reform in Ontario, Canada and the Financial Advisory Industry Review in Singapore.

In line with our own strategic goals, our regulators are increasingly holding us to high standards of conduct, to protect our customers.

We also face increased scrutiny as a Global Systemically Important Insurer, and as a result of the Solvency II regime, which is intended to harmonise solvency rules across the European Union.

Aviva will continue to work closely with key regulatory bodies on these and on other industry matters. ■

1 Ericsson Mobility Report, June 2015.

2 Facebook.com, stats, September 2015.

3 Association of British Insurers, A Brave New World, 2015.

4 Uber.com, usage statistics and revenue, September 2015.

5 Organisation for Economic Co-operation and Development, population data and projections, December 2015.

6 Swiss Re, Sigma insurance research, May 2015.

7 World Meteorological Organisation, January 2016.

We're delighted we can meet so many of our customers' insurance and savings needs. You could say we offer all the colours of the rainbow!

That's especially apt for one of our customers in Changsha, in the province of Hunan, China, known to her friends as Rainbow.

Rainbow has been with us since 2008 to meet her financial and insurance needs – from savings to health cover. And she even goes shopping and eats out with our agent, Ms Liu. Rainbow isn't just a customer, she's a friend.

She's also a fan of our Chunyu Online Doctor, part of her critical illness cover through Aviva. This allows her to hold an online consultation with a doctor when it suits her. She finds it far quicker and more efficient than a time-consuming visit to a hospital or clinic.

Her top priority is her family, not least caring for her elderly parents. But she also has a business to run and must travel for work. So, when she's away and her father has had some of the inevitable aches and pains of age, she can make sure he is getting the right care through the online doctor service.

Rainbow told us about an ancient Chinese saying 未雨绸缪 which roughly translates as "save something for a rainy day" – so you feel safe and can enjoy your life. That's our philosophy too. ■



For video case study visit:
www.aviva.com/AR15

“My policy makes me feel safe”

Rainbow



Helping our customers every step of the way

...offering simple and convenient products and services to meet customers' insurance, protection, health, savings, retirement and investment needs...

Life insurance

Retirement income, Savings & Pensions, Life cover, Protection

Customers buy life insurance products to save for the future, to provide reassurance their savings will last through retirement, and to protect against the risks to their family income after illness or death.

Accident & health insurance

Private Medical Insurance, Accident & Health

Customers buy accident insurance products to provide benefit in the event of an accident, injury or disability, health insurance products to protect their health, supplementing any healthcare provision they receive from the state, and use wellness services to motivate and reward healthier living.



General insurance

Home, Motor, Travel, Pet and Commercial

General insurance policies protect customers from loss in the event of damage to their property or assets, or injury to themselves or others for which they are responsible.

Asset management

Investing for Aviva and external clients

We aim to deliver the investment outcomes that matter most to our customers; whether that's capital growth, securing reliable income or meeting future liabilities.

...operating across 16 markets...

UK & Ireland

Europe

Asia

Canada

France, Italy, Spain,
Poland, Turkey,
Lithuania

Singapore, China, India,
Indonesia, Hong Kong,
Taiwan, Vietnam



Read more on
pages 30-45

...using our skills in...

Underwriting

Underwriting and pricing expertise coupled with our analytics capability allow us to underwrite risk in a way that better reflects our customers' profiles making it more price competitive.

Risk management

Our scale enables us to manage risk optimally, pooling different risks, maintaining capital strength and working with reinsurance specialists so we will be there for our customers when they need us.

Customer service

Our strategy is to delight our customers, providing them with simple and convenient products and services that meet their insurance, protection, health, savings, retirement and investment needs.

Big Data & analytics

Our analytics capability enables us to use Big Data to better serve our customers through accurate risk assessment and to present relevant opportunities to customers at every stage of their lives.

Multi-distribution

We sell our products through multiple channels, so that customers can access our products and services in the way that they choose.



Read more on pages 62-65

...underpinned by...

Our values

Our values of *Care More, Kill Complexity, Never Rest and Create Legacy* lie at the heart of how we do business.

Brand strength

The strength of our brand gives customers confidence when they do business with us. Our new brand strategy, "Good Thinking", places the customer firmly at the heart of our business.

Asset & liability management

Customer premiums are invested by specialist teams to balance investment return with risk and to maintain sufficient funds to pay claims. We match liabilities to assets whenever possible.

Financial strength

Our financial strength gives customers confidence that we will pay out in the event of a claim and meet our promises many years into the future, as we have done for over 300 years.

Capital allocation

We focus on markets and products where we have scale, profitability or competitive advantage. We deploy capital selectively to focus on the things we're good at.



Read more on pages 48-51



Read more on page 27

...which enables sustainable value creation for

Customers

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

Shareholders

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

Our people

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

Society

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

£30.7bn

Paid in benefits and claims to customers in 2015

10.4%

Total shareholder return in 2015

29,600

Employees worldwide

£10.8m

Total community investment in 2015



Read more on pages 21-22



Read more on pages 48-51



Read more on pages 52-55

A clear strategic framework

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

Our Purpose The role we play in customers' lives

Our Commitment The investment thesis

Our Strategy What we will deliver

Our Culture How we will deliver it



Not Everywhere

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



True Customer Composite

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

We free people from fear of uncertainty
Cash flow plus growth
True customer composite

Create legacy
Kill complexity

Digital first

Care more
Not everywhere
Never rest



Digital First

We put Digital First. This is how we will capitalise on being a True Customer Composite. With their busy everyday lives, customers are increasingly turning to digital to make things more convenient, easier and quicker. So, if it is a choice of where we invest, it will be in Digital First across all our distribution channels – it's how customers want to do business with us.



True Customer Composite

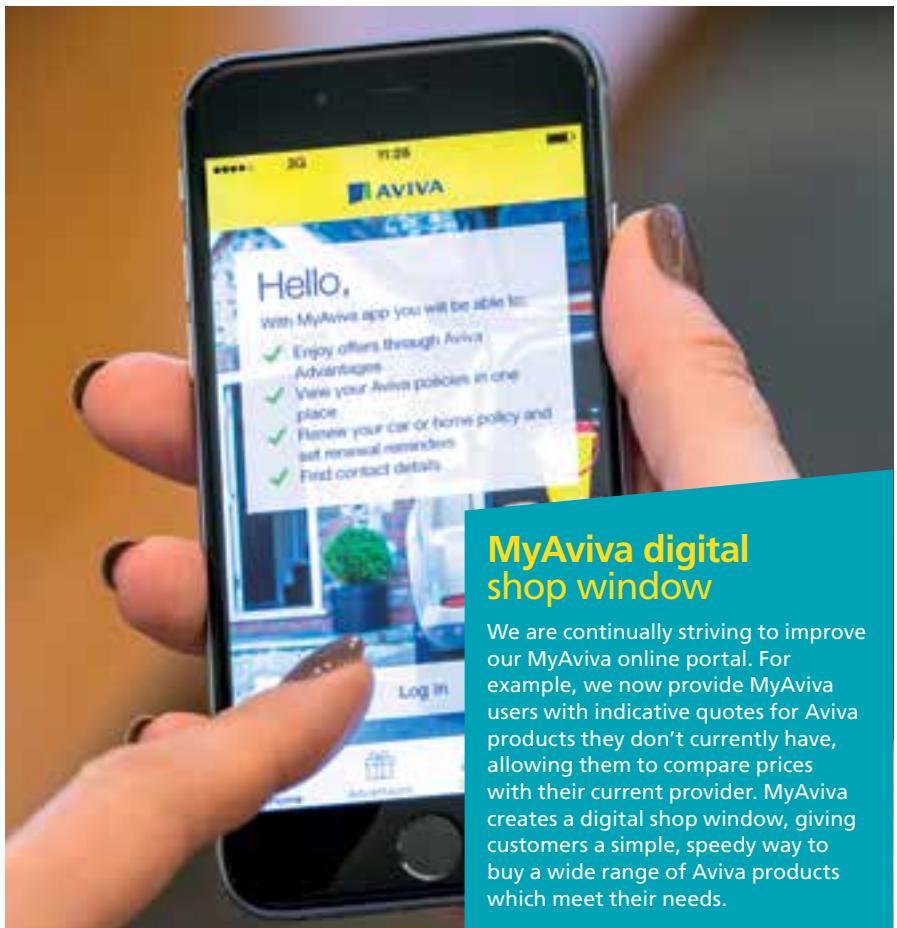
We are a True Customer Composite, offering customers life, general, accident & health insurance and asset management. We will provide our customers with tailored offerings to recognise, reward and delight them, in return for their trust and loyalty.

Why it's important

Operating as a True Customer Composite enables us to deliver more effectively our purpose of 'freeing people from fear of uncertainty'. We understand that customers have a wide range of insurance, protection and savings needs, and can find it challenging to manage all of these.

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

Furthermore, True Customer Composite means valuing and rewarding customers for making the choice to have a



MyAviva digital shop window

We are continually striving to improve our MyAviva online portal. For example, we now provide MyAviva users with indicative quotes for Aviva products they don't currently have, allowing them to compare prices with their current provider. MyAviva creates a digital shop window, giving customers a simple, speedy way to buy a wide range of Aviva products which meet their needs.

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

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

the last year, we have been working hard to improve the user experience and provide additional functionality for customers. This has included pre-calculated quotes for travel insurance if not currently held by the customer, and a no claims discount online upload functionality which takes away the pain of sending us documents. As at the end of December 2015, we had a total of 1.8 million registered MyAviva customers and an average of two million logins per month.

In 2015, we started to roll-out MyAviva across other Aviva markets. In France, Aviva et Moi was launched in July and most recently, our business in Italy has launched MyAviva. We will extend MyAviva to other markets in 2016.

True Customer Composite is more than MyAviva. For example, in Poland, we have created "You, Me and We", three integrated packages of products which reflect what customers need at different stages of their lives, across life, general, accident & health insurance.

In Singapore, we have an existing life insurance scheme with the Singapore Armed Forces and have now extended a general insurance discount and upgrade scheme to policyholders and their families.

In Canada, we sold over 200,000 Ontario home and auto combined policies in 2015, which means that over 45% of our Ontario customers now have combined policies.

“

At the very heart of it, True Customer Composite is about making life easy for our customers. It is building propositions that are really relevant to them and will add value to their lives

”

Chris Wei

Executive Chairman, Aviva Asia and Global Chairman, Aviva Digital

deeper, more loyal relationship with us, supported by the benefits of increased customer retention and engagement, and lower-cost administration.

Why now?

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

In the past, although the financial

they want. What they want is a simple way to meet all their insurance needs.

Aviva is the only composite of scale in the UK that can offer life, general, accident & health insurance and asset management, and one of only a few international insurers that can do this.

How we've progressed

Since its UK launch in February 2014, MyAviva (see case study above) has enabled customers to see an increasing number of their products, from car insurance to pensions, in one place. Over

“Good thinking is a different way to demonstrate what Aviva is all about – it is not a new concept, it is what we do naturally”

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

In Italy, we developed a composite life and general insurance proposition tailored specifically for female customers, with over 13,000 policies sold in 2015. We also launched other combinations of life and protection products, including with-profit, unit-linked and protection, with more than £345 million (€450 million) of premiums in that market in 2015.

Good thinking

In 2015, we launched a new global brand strategy which supports our True Customer Composite and Digital First ambition by placing the customer firmly at the heart of our business. The essence of the idea is “everything we do is full of good thinking for you”, summarised in the brand line “Good thinking”.

It aims to inspire our people to keep coming up with ideas to solve customers’ problems and informs the way we develop future services and propositions so that the customer experience is easy and intuitive. It is anticipated that by the end of 2016 we will have launched

“Good thinking” in all markets in which we have a wholly-owned brand.

What we plan to do next

We will continue to develop our True Customer Composite proposition across our markets. As well as the further roll-out of MyAviva, we will look to extend our asset management and accident & health offer. The latter is a key part of our composite proposition and an area in which we have historically been under-represented (see Spotlight on page 23).

As part of “Good thinking”, we will continue to develop propositions which make it simple, convenient and intuitive for customers to meet their needs across our full set of life, general insurance, accident & health insurance and asset management products. This will be underpinned by our Digital First strategy as we make the most of digital technology to improve customer experience, increase engagement and reduce cost, leading to longer and more valuable relationships with customers. ■

Health Essentials

Everyone likes to feel protected – but not everyone can afford a comprehensive policy. So, we believe it’s good thinking to offer healthcare that doesn’t include things our customers would rather not pay for. That’s why we’ve launched Essentials in the UK, with three simple, low cost products: “Cancer”, “Child” and “Physio”. These are available digitally, so customers can easily buy the cover they need with just a few clicks.

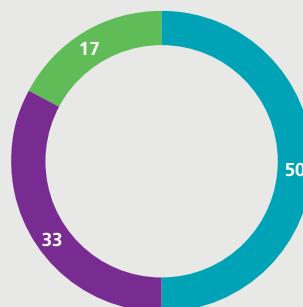


Ask it once

One of the ways we can make things easier for customers is by never asking for information we already have from another product they hold with us. We’ve already reduced the range of questions we typically ask by two-thirds across our combined products, as well as identifying how our broader understanding of customers can help our underwriting and pricing.



Customer advocacy %



● in upper quartile

● at or above market average

● below market average

Our Relationship Net Promoter Score® measures the likelihood of a customer recommending Aviva. In 2015 the majority of markets were at upper quartile or market average. Each market develops its own Customer Action Plan in order to improve the customer experience further.

Spotlight on... Accident & Health

Our vision is to offer a suite of innovative, simple, low cost products that are accessible and relevant to all our customers – whatever their life stage

Our customers' number one concern is their health¹.

People are living longer and chronic conditions are more common, but in many countries state funding is under pressure, leaving people with a gap in their healthcare provision. By offering products which are easy to understand, affordable and accessible, we feel we can make a real difference to our customers' wellbeing and peace of mind.

Accident & Health has not previously been a focus for us and as a result we are currently subscale. But that's now changing. The Accident & Health market is large and fast



growing and we believe we are well positioned to take advantage of this growth. We have a trusted brand, powerful distribution networks and an existing customer base of 33 million.

We are developing low cost, digital products, such as Essentials in the UK and MyFamily in Singapore, which have the potential to disrupt the market. We will complement these with wellness services which help our customers to manage and improve their health.

Accident & Health is a key priority for Aviva. We know we have more to do – and we are excited about the opportunities in this space. ■

Our products

Personal accident

Benefit in the event of an accident, injury or disability.

Supplemental health

Fixed benefits in the event of sickness; to supplement state health provision.

Private medical insurance

Domestic and international comprehensive covers which pay for medical treatments.

Wellness

Services which encourage and reward healthier living, whilst offering guidance on health and lifestyle.

Priorities

Growth potential

We provide Accident & Health products to 2.5 million customers in the UK, Singapore, China, France and Poland, and have small businesses with growth potential in six other countries.

In 2015 we generated sales of over £1.5 billion².

Clear strategy

We will unlock value from our existing business; mainly through automation and improved supply chain management; and invest this cash to grow through:

- ▶ Product innovation
- ▶ Wider distribution networks
- ▶ Digital wellness services

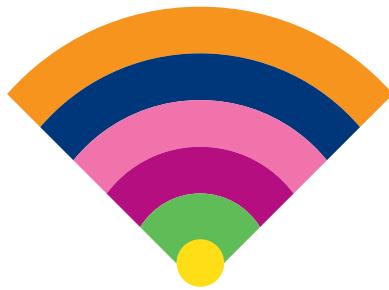
Integral to Aviva

Accident & Health is a key component of being a True Customer Composite. It completes and differentiates our insurance package and has the potential to drive deeper customer engagement.



¹ Aviva's Consumer Attitudes Survey (CAS) in 2015 reported that 56% of our customers stated health as their number one concern.

² Accident & Health sales include life new business sales (PVNBP) and net written premiums currently reported within our life, general insurance and health business results.



Digital First

Digital remains crucial to our future success and our position as a True Customer Composite gives us a strategic advantage. We put Digital First because our customers are increasingly choosing this as their preferred way to deal with us. Through digital we can support customers more quickly with their enquiries and transactions, wherever they are in the world.

Why it's important

The environment in which we operate is changing rapidly due to recent advances in technology and digital distribution. Aviva puts Digital First – this is how we will capitalise on being a True Customer Composite. We have to think Digital First across all our distribution channels – it's how customers want to connect and do business with us.

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

Putting Digital First means putting

Increase in visits to Aviva.co.uk via mobile and tablet devices in 2015

79%

digital at the forefront of all change and development activity across Aviva. This includes working to maintain and improve our IT security and data encryption, because in the evolving digital environment, cyber security is increasingly important to reassure our customers that they can deal with us digitally with confidence.

We will also seek out and apply new ways of doing business, and we are working in partnership with a range of new and existing players in the digital space, including active involvement with Fintech start-ups.

The Digital Garages

Our Digital Garage in London is up and running – and now we've opened another Garage in Singapore. Singapore is a tech savvy market – and our Garages are like Aviva campuses, where our creative minds bring their best ideas and make them happen. The result? Great digital products for our customers at every stage of their lives. That's increasingly what customers want from us – and it means we can help them more quickly and more efficiently. We're in the middle of a digital revolution. And we want our customers to benefit from it.

Digital distribution

Increasingly customers want to be able to self-serve: researching, buying policies and making changes online. Digital allows customers to connect with us directly, allowing us to improve customer experience, increase interaction with our customers and reduce the cost to serve them.

How we've progressed

In 2015, we continued to develop our digital infrastructure across our key markets. Our second Digital Garage opened in Singapore in December 2015, building on the successful operation of our first Digital Garage in Hoxton, London. The Digital Garages act as catalysts for our digital innovation effort, where creative minds from across Aviva and the industry come together to turn innovative ideas into real products and services for our customers.

At the same time, good progress has

been made in hiring our global digital leadership team, bringing industry-leading expertise in digital design and digital marketing from outside financial services.

We are seeing encouraging growth in the volume of customer interactions online, for example, logins to MyAviva in December 2015 were 37% higher than the same month the previous year, and visits to Aviva.co.uk through mobile and tablet devices increased by 79% in 2015. We continue to develop our suite of digital propositions to be used across our business units.

UK Digital and Direct

We have established a new business, based in the UK Digital Garage, to take the lead on Digital First in the UK, and we are making good progress as we continue to develop our digital service and capability. For more information on UK Digital see Spotlight on page 26.

“Our ambition is to allow customers to access all our services and products on any device, 24/7, 365 days a year”

Andrew Brem
Chief Digital Officer

“
Through MyAviva we can present our full range of Aviva products and services, including distinctive composite propositions

Andrew Brem
Chief Digital Officer

Digital talent

Digital First is crucial to our future success and we've been working hard to find world class talent to complement the great people we have already. We've made a number of senior appointments in our digital business, who bring expertise from a range of sectors, including retail, media and technology. However, the shortage of digital skills in the current marketplace is unprecedented, and alongside recruitment, we are using more innovative approaches to access the skills we need, such as collaborating with and investing in start-ups, and working with universities. For example in 2015, we held an innovation event, DigitalOn, with the Politecnico university in Milan, and continued to work with start-ups in our Digital Garage.

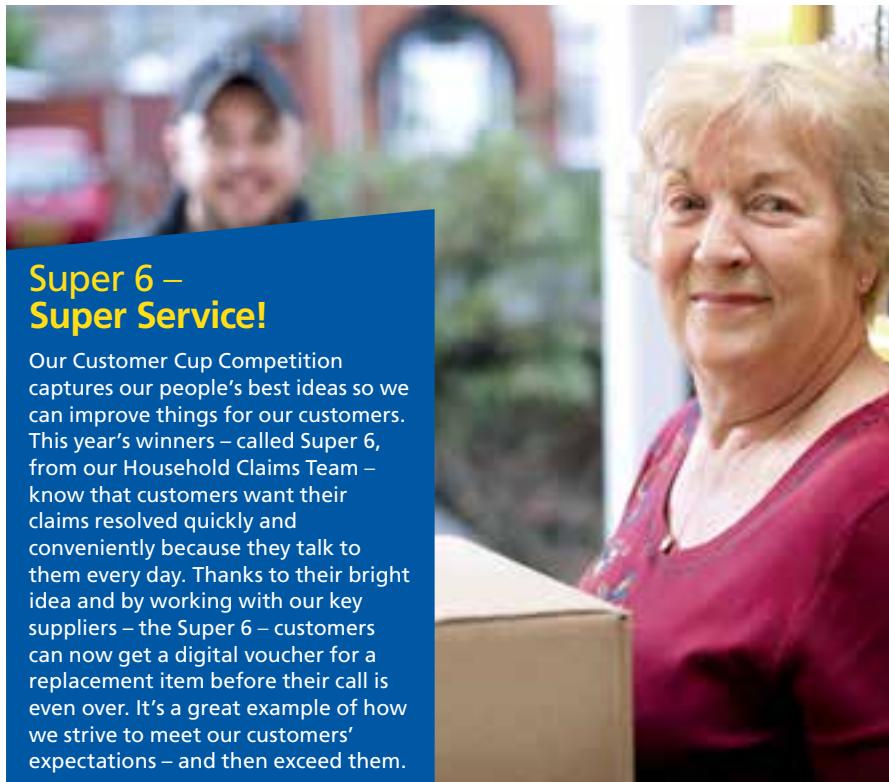
Greater digital support for our partners

Digital is also a key part of improving our support to our intermediaries. For example, we have developed MyAgent, a cloud-based sales tool for our 30,000 direct sales force agents. This work has

been led by sales and IT teams from Poland and China, alongside colleagues from France, Turkey, Italy, Singapore and the UK. This will change the life of an agent. Instead of traditional paper-based tools, new applications will be available on tablets, smartphones and laptops making their life easier and much more efficient. This launched first in Poland and China and will be reused in the future by up to nine markets across the globe.

In Ireland, we pioneered a life protection product without the need for a customer signature, a first for the Irish market. This builds on our existing digital platform for brokers – WriteNow – and is an important step in our simplification process to make us the easiest insurance company to do business with.

In the UK, Fast Trade, our proposition for the SME eTrading market, won the Technology Award for Customer Experience from trade magazine Insurance Times. The new tool allows brokers to request business using automatic pre-population of customer information, making the sales process easier and more efficient.



Super 6 – Super Service!

Our Customer Cup Competition captures our people's best ideas so we can improve things for our customers. This year's winners – called Super 6, from our Household Claims Team – know that customers want their claims resolved quickly and conveniently because they talk to them every day. Thanks to their bright idea and by working with our key suppliers – the Super 6 – customers can now get a digital voucher for a replacement item before their call is even over. It's a great example of how we strive to meet our customers' expectations – and then exceed them.

Beware Hazard!

Simple and accessible – that's what our customers want. Aviva France's Aviva Risques Meteo (Aviva Weather Hazards) app is exactly that – and it's free for our customers. It's simplicity itself: in the event of a major weather hazard such as flooding, the user receives a smartphone alert, giving them time to take preventive action before the event. It's a great example of Digital First – and Aviva putting prevention first.



Aviva Ventures

In December we announced the launch of our venture capital business, Aviva Ventures, which will look to commit around £20 million per year over five years. It's a wholly owned business which will provide early-stage investment to back entrepreneurs with high growth businesses.

Housed at the Digital Garage in London, Aviva Ventures will target investments in digital and technology companies operating in four areas: 'the internet of things', for example in connected homes, health and cars; data and analytics; innovative customer experiences; and distribution, for example new 'sharing economy' platforms.

It's about identifying new opportunities and making sure we're always learning and up to speed with new developments in technology.

What we plan to do next

We will continue to focus on developing our digital offering to customers to support True Customer Composite propositions, including the continued development and roll-out of MyAviva and MyAgent. This is an area where there is intense competitor activity and digital is the key to unlocking the potential competitive advantage of our True Customer Composite proposition.

We will also continue to develop our digital infrastructure and talent as we harness the power of digital throughout the organisation and across all our distribution channels to improve processes, reduce costs and improve user experience.

Spotlight on... UK Digital

UK Digital was established in 2015 to help our UK businesses provide an outstanding experience and innovative propositions for our 16 million UK customers

UK Digital is currently focused on designing innovative composite propositions which meet customer needs across our different business lines, and supporting the UK business units in distributing their products (with a focus on direct digital distribution through MyAviva). Our ambition is to create an outstanding experience for customers, whenever and however they contact us.

The focus in the second half of 2015 was on working with the UK business units to improve the experience for customers, for example easier registrations, an enhanced MyRetirement planner, a single view of products held and improved self-service online capability. We now have good foundations for the further development of MyAviva and Aviva.co.uk in 2016, which will enhance navigation and connectivity for customers. This will support our composite proposition and put customers' needs first.

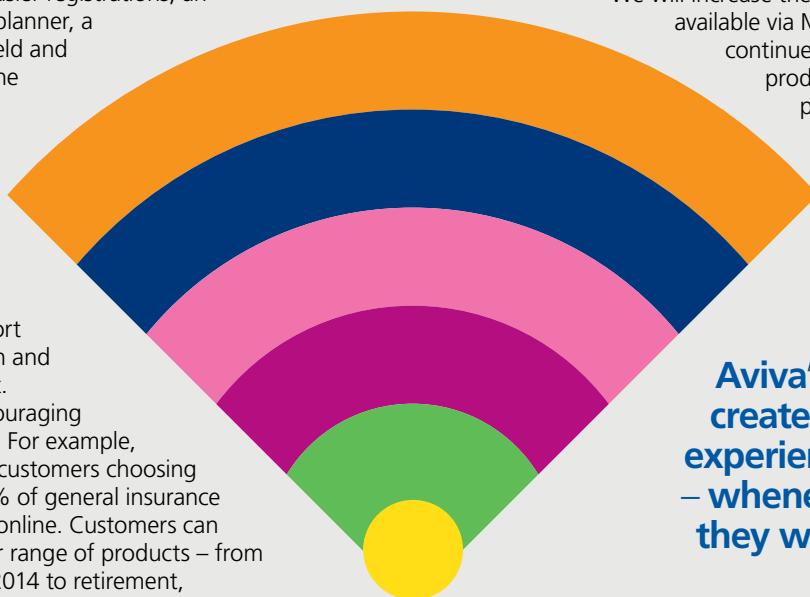
We have seen an encouraging response from customers. For example, we continue to see more customers choosing to renew online: over 40% of general insurance renewals now take place online. Customers can 'quote and buy' a broader range of products – from just general insurance in 2014 to retirement,

investments and an expanded protection range in 2015; and we made a full composite offering available online in January 2016 with the launch of Health Essentials (see case study on page 22).

MyAviva enables our customers to have all of their insurance documentation in one place – making it easier than ever to view policies, make changes or claim.

Looking forward, once it has all the necessary regulatory approvals, UK Digital will take on full responsibility for the distribution of a range of digital products in the UK.

We will increase the range of products available via MyAviva and we will continue to develop innovative products and composite propositions. This will be supported by incentives and offers for existing individual and business customers. ■



“Aviva’s ambition is to create an outstanding experience for customers – whenever and however they want to contact us”

“

Blair Turnbull
Managing Director, UK Digital

Highlights and priorities

We have a dedicated team working to revamp and improve the customer experience. In an increasingly digital world, we need to be agile and respond to our customers' needs

We're making good progress:

2m

The average number of monthly visits to Aviva.co.uk

4.5

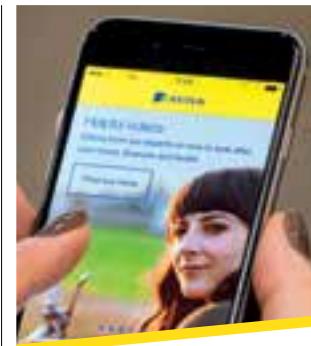
The average number of visits to MyAviva per customer in 2015

1.8m

The total number of registrations on MyAviva

11

The average number of visits to MyAviva per pension customer in 2015





Not Everywhere

Our Chief Capital & Investments Officer, Jason Windsor, talks about the Not Everywhere strand of Aviva's strategy.

What does Not Everywhere mean to you?

Not Everywhere is about focusing on where we can make a difference. It goes without saying that for insurance companies diversification both in products and geography is a good thing. That is the whole premise behind insurance. But we don't want to be too broad or complicated, or we will lose focus.

We believe there is an optimal balance between sufficient diversification to enable us to use our capital efficiently, and maintaining the necessary level of expertise, oversight and risk management.

We think we've got it about right. We are in 16 markets. We are also a British champion – the UK is our home base. We're the largest player in the market. And as a composite we've got an in-built advantage which few can match.

And being the largest player in the UK brings economies of scale which gives us a competitive advantage and enables us to invest in new services and technology, and in our other businesses.

Our strength in our home market also provides reassurance and security that is valued in many of our other markets.

Not Everywhere is also about capital allocation – we see it as a competitive sport. Cash is paid up to the Group, which we then reallocate to markets



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

—
Jason Windsor
Chief Capital & Investments Officer

and businesses which will offer the most attractive returns.

How does Not Everywhere support other parts of Aviva's strategy?

It is integral. We will only deliver the full benefits of the composite model by putting Digital First if we focus our resources where we can be most competitive. This is underpinned by our core strengths in areas such as underwriting, risk management, asset and liability management, and understanding and using Big Data.

One of our Aviva values is to "Kill complexity". That is exactly what Not Everywhere is all about. It is about focus. It is about working out where you can best create value – and then delivering.

How do you decide which markets to focus on?

We are not trying to be all things to all people. We are not interested in planting flags or being in 100 countries or providing every product in every market. Our focus is on a select number of markets where we can have critical mass – scale or profitability or a distinctive competitive advantage.

For example, in January 2016 we announced a new general insurance partnership with the Royal Bank of Canada, Canada's leading bank, including a 15 year distribution deal. We are one of the leading general insurers in Canada and this deal opens up a new distribution channel, complementing the strong broker partnerships that we have in this market.

Can you give an example of what Aviva has stopped doing?

Given the strength of our relationship with DBS, we would have liked to renew our bancassurance agreement in Singapore, which concluded at the end of 2015.

However, we remain highly disciplined regarding capital allocation, and the cost to renew the agreement was far in excess of what we saw as economically viable or justifiable to our shareholders.

We already have an excellent growth franchise in Asia, with a strong network of leading local partners, and look forward to a bright future in Asia. ■

How do we decide where to allocate capital?

We look at capital allocation through three lenses: strategic, financial and execution



Does it fit with our strategy?

We focus our efforts on delivering our strategic ambitions and providing our customers with propositions that they value.



Does this investment create value?

We aim to invest our Group capital efficiently to get the right balance of risk and return, consistent with our Investment Thesis of cash flow plus growth.



Can we deliver it?

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



Imagine if 70 businesses in your community vanished overnight: livelihoods lost, lost income for suppliers, and thousands of disappointed customers.

That's what happened in St Jacob's, Ontario, when the much-loved St Jacob's Farmers' Market burnt down. Overnight, local people lost the place where they went for everything from antiques to livestock. One business owner said it "felt like losing a home – like you weren't going to see your family anymore."

But local people resolved that the market would rise

again and, as the local mayor said "everybody came together to make it work" – that included Aviva, as the Market's insurer.

Marcus, the Market's President, said "one of the best decisions we made was to review our insurance with our broker regularly, which resulted in us having the right coverage to be able to recover." This was a complex case, but John, our loss adjuster, quickly agreed a plan of action and we made a substantial advance so the resurrection of the Farmers' Market could begin. Within a

few weeks a temporary market was operating. In total, Aviva paid out around £2.7 million or just under \$CAD5 million.

Now a bigger, better St Jacob's Farmers' Market is back as a bustling much-loved place, with a huge diversity of shops and stalls, where people can meet their friends and family. We're proud we helped St Jacob's Farmers' Market to rise from the ashes – and take its place back at the heart of the community. ■



For video case study visit:
www.aviva.com/AR15

Marcus

“One of the best decisions we made was to review our insurance regularly”



UK & Ireland Life insurance

Aviva is a leading insurer in the UK and Ireland life insurance markets, with a 13%¹ share of the UK life and pensions market



“
I've been in insurance for 28 years and I've not seen an insurer with Aviva's potential
”

”

”

AN INTERVIEW WITH...

Andy Briggs, Chief Executive Officer, UK&I Life and Chairman, Global Life Insurance

What's your strategy?

We help people enjoy a secure and prosperous retirement, and look after them and their loved ones should they fall ill or die. It's a pretty noble endeavour.

I'm keen to make the most of the True Customer Composite model. So, for example, we're working with Aviva Investors so that a greater proportion of our funds flow to them where it is in the best interests of our customers.

We're also helping to build market share in protection, accident and health, focusing on products which require less capital backing. And in line with our strategic goal of being Not Everywhere, we're reinvesting capital from the UK in selected international markets.

We have one of the largest books of existing pensions, savings and protection customers in the UK, and manage this efficiently through rigorous capital management, automation, reducing our costs and improving customer service and retention.

In Ireland our primary focus is to increase our operating profit and value of new business (VNB).

How is the life business helping to deliver the True Customer Composite model?

We're bringing together the products we offer customers, to make their lives easier. We seek to build deep and enduring relationships which support our customers through different stages of their lives.

We're also benefiting from relationships built elsewhere by the Group. For example, we won a group protection contract on the strength of the existing relationship with the general insurance business.

How are you putting Digital First?

We put Digital First so that our customers can deal with us online and through their mobile devices using the MyAviva portal.

As a result we are simplifying how we do business and improving the service we offer customers, while reducing costs and improving efficiency.

¹ Association of British Insurers (ABI) statistics published Q3, 2015.



The life business can be the Group's anchor for delivering the benefits of the True Customer Composite model to our customers



Andy Briggs

Chief Executive Officer, UK&I Life and Chairman, Global Life Insurance

HIGHLIGHTS

Cash remitted to Group

£667m
(2014: £437m)

Life operating profit

£1,432m
(2014: £1,049m)²

Operating expenses

£815m
(2014: £565m)

Value of new business

£625m
(2014: £482m)

What are your highlights for 2015?

Obviously, the acquisition of Friends Life. We're well into the integration – it's hard work, but vitally important. We're due to deliver the savings we promised by the end of 2016, one year earlier than planned.

While the integration of Friends Life caused some disruption to the business, we have endeavoured to move as quickly as possible to reduce the uncertainty for our people. As we took forward the integration in 2015, we were able to give clarity to three quarters of our people on their futures. We now have the best of both leadership teams in place.

I'd say we're showing strong progress and good growth – and that's before our digital innovations come on stream. Once they do, I'm looking for our growth to accelerate.

Solvency II has also been a big focus. I think we've handled its introduction well. Tom Stoddard talks more about this in the Chief Financial Officer's report on pages 58-61.

What about the challenges and risks?

For us to achieve the full potential of the True Customer Composite, we will need to deepen our relationship with our customers and increase the average number of products they buy from us. But to do this, we will need to respond to

and anticipate the rapid pace of technological change and changing customer expectations.

By securing a strong, long-term relationship with our customers, the life business can be the Group's anchor for delivering the benefits of the composite model to our customers.

Here in the UK, we've had the challenge of the biggest reform to the pensions market for a generation. But we've managed it well and still grew as a result of our strength, breadth and expertise.

What are your impressions of Aviva?

It's a hugely exciting time. We've finished the fix phase. Now we are in the transform and grow phase. We've got a strong balance sheet and capital strength, some great people, and a material cost and capital advantage over our peers given we are a composite insurer with scale.

I've been in insurance for 28 years and I've not seen an insurer with Aviva's potential.

As a leading insurer in the UK, we bring to market a number of advantages:

- Our size means we benefit from economies of scale, and so can offer products and services to customers more efficiently than some smaller insurers.

Our progress and future plans

What we achieved in 2015

- ▶ Delivered £113 million of integration run-rate synergies and ahead of our target for the year
- ▶ Supported our customers in taking advantage of the UK Government's reforms to the pensions market by providing the full range of retirement products
- ▶ Launched a new Direct-to-Consumer investment platform which provides customers with digital access to easy, ready-made packages, through the MyAviva portal
- ▶ Successfully prepared for Solvency II requirements
- ▶ We won the Gold Standard for Group Pensions, Pension Provider of the Year at the European Pension Awards, Best Equity Release Lender and Best Lifetime Mortgage Provider at the What Mortgage Awards, and Best Protection Provider Service

What we plan to do in 2016

- ▶ Complete the integration of Friends Life:
 - continue to align Aviva and Friends Life propositions
 - deliver the total cost savings we have promised one year early
 - transfer further Friends Life assets to Aviva Investors where that is in the best interests of our customers
 - complete the cultural transformation
- ▶ Ensure that, following the implementation of Solvency II, we continue to make our balance sheet as capital efficient as possible
- ▶ Continue the transformation of the business to make the most of digital technology, and ensure our products and services are accessible to all our customers, new and existing, including the continuing enhancement of MyAviva

² Operating profit has been restated to exclude amortisation and impairment of acquired value of in-force business, which is now shown as a non-operating item.

UK and Ireland

Life insurance continued

- Our diversity of business means that (under the new Solvency II regime) we benefit from lower capital requirements than insurers who just offer one product line.
- The breadth of our business means that we understand the range of needs of our customers better than others, and can bring them connected propositions and rewards for loyalty that other insurers simply can't, for instance by offering pension customers a discount on their home or motor insurance.

By the end of next year, I want us to be delivering our purpose better and for more people, to be a stronger more diversified business, with a market-leading, engaged workforce, and strong and growing cash flows.

What's your final message?

I want our customers to know we're good at three things: we deliver what they want; we're easy to do business with; and we're the natural choice – the insurance company customers can trust and turn to first.

For investors, my message is we've got the right strategy, we're ahead of schedule on the integration and we're delivering cash flow plus growth. Aviva's British heartland is in good health.

Overview

Aviva is a leading insurer in the UK and Ireland life insurance markets, with a 13%¹ share of the UK life and pensions market. We offer a comprehensive range of products to individuals and companies, including pensions, retirement solutions, life insurance, and savings and investment products.

In Ireland, we continue to deliver our strategy of growing annuity and investment business, progressing towards being the provider of choice for pre and post retirement solutions.

We are also one of the UK's leading providers of protection insurance. Aviva's UK Life business has around £214 billion of assets under management.

“We’re ahead of schedule on the integration of Friends Life, we’re growing and we’re delivering cash flow plus growth”



Andy Briggs
Chief Executive Officer, UK&I Life and Chairman, Global Life Insurance

We offer customers:

- Retirement solutions which help people plan, save for and enjoy a financially secure retirement including annuities, investments, income drawdown, equity release and long-term care insurance.
- Protection insurance which provides peace of mind to customers should they die or fall ill – including life insurance, critical illness cover and income protection.
- Services for companies, both large and small – including workplace pensions, group protection, and bulk annuities.

We deliver our products and services through multiple distribution channels – building on and maintaining our strong existing relationships with intermediaries including independent financial advisers, employee benefit consultants, banks and

estate agents. Increasingly we are offering customers the option of dealing with Aviva directly.

Ireland has made significant progress towards becoming the provider of choice in the retirement market, winning the "Innovation in Pensions" award for the second year running at the Irish Pension Awards.

Completing the acquisition of Friends Life has allowed us to accelerate our turnaround and our ability to deliver cash flow plus growth. Strategically, this transaction secures our position in our home market, and puts us in a strong position to look after our customers' entire insurance, savings and retirement needs.

Financial performance

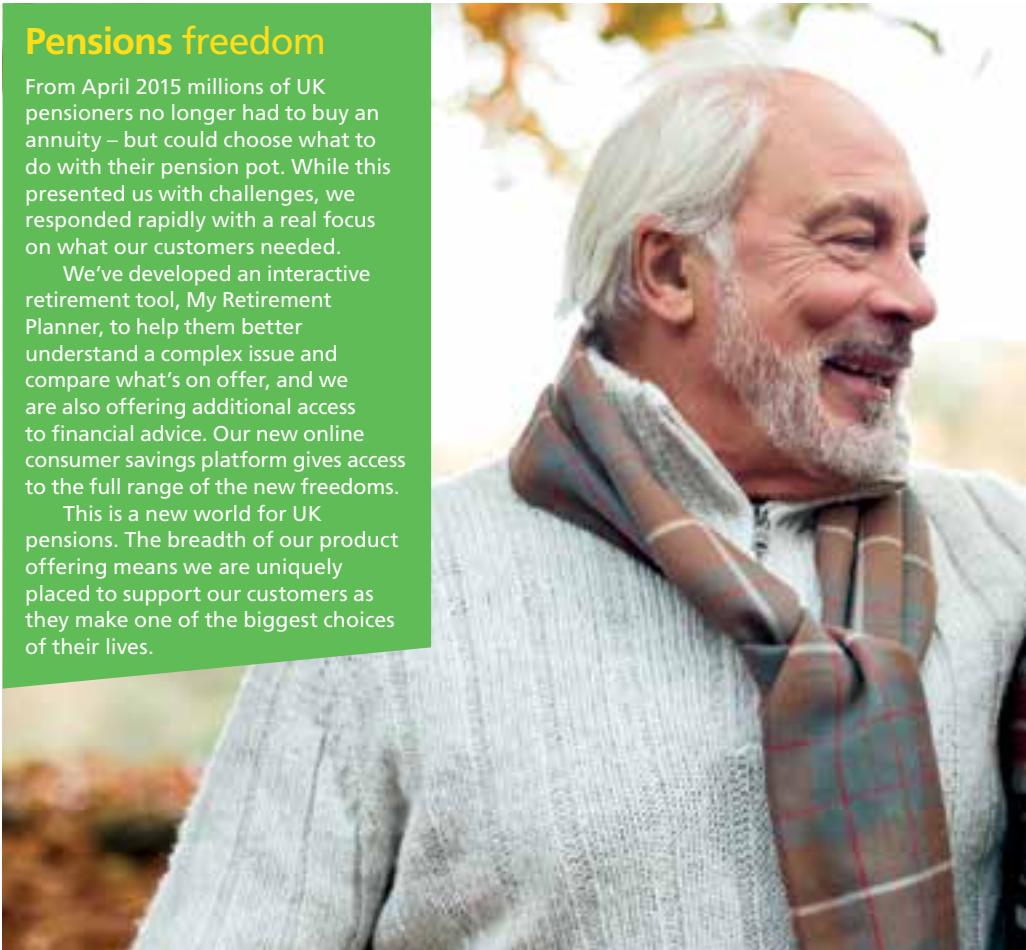
During the year total cash remitted to Group was £667 million, up 53% from 2014.

Pensions freedom

From April 2015 millions of UK pensioners no longer had to buy an annuity – but could choose what to do with their pension pot. While this presented us with challenges, we responded rapidly with a real focus on what our customers needed.

We've developed an interactive retirement tool, My Retirement Planner, to help them better understand a complex issue and compare what's on offer, and we are also offering additional access to financial advice. Our new online consumer savings platform gives access to the full range of the new freedoms.

This is a new world for UK pensions. The breadth of our product offering means we are uniquely placed to support our customers as they make one of the biggest choices of their lives.



Overall UK & Ireland Life operating profit increased to £1,432 million (2014: £1,049 million²). UK life operating profit was £1,408 million (2014: £1,025 million), including a contribution of £358 million from Friends Life following its acquisition in April 2015. Excluding Friends Life, UK profits increased 2% to £1,050 million (2014: £1,025 million), benefitting from lower operating expenses as well as improved new business profitability. In Ireland, profits were stable at £24 million (2014: £24 million).

Overall UK & Ireland Life operating expenses were £815 million (2014: £565 million). In the UK, operating expenses of £788 million (2014: £529 million) included £286 million of post-acquisition expenses from Friends Life. Excluding Friends Life, UK operating expenses decreased by 5% to £502 million (2014: £529 million) reflecting cost savings as a result of process automation and simplification. In Ireland, operating expenses reduced to £27 million (2014: £36 million).

VNB increased to £625 million (2014: £482 million). In the UK, VNB was £609 million (2014: £473 million). Excluding a £91 million contribution from Friends Life, UK VNB improved 10% to £518 million (2014: £473 million), mainly reflecting higher margins on pension and health business, together with increased sales and margins on bulk purchase

annuities. This increase was partly offset by lower individual annuity sales compared to 2014, following the announcements made in the 2014 UK budget. In Ireland, VNB increased to £16 million (2014: £9 million) as a result of higher sales and improved margins on pensions and annuities, partly offset by lower protection sales.

Market context and challenges

The UK is Aviva's home base and we are a British champion. It is a mature market, but one which offers good prospects for profitable growth.

2015 has been a year of unprecedented change in the market, creating opportunities and challenges. The UK Government's reforms have allowed people more freedom over how they take their pension fund. As a result, we have made significant improvements to our core systems for administering our customers' pensions and how we support our customers as they decide how they wish to take advantage of these reforms.

We focus our resources on providing our customers with the appropriate support and blended solutions to best meet their needs for retirement, supported by our Retirement Centre, available online at www.aviva.co.uk and on the telephone. In this way, we support these customers at, and through, retirement with income drawdown, annuities, equity release and other investments.

Looking ahead, we expect further significant changes in the market over the next two to three years. The Government is expected to announce the outcome of the Financial Advice Market Review (FAMR) which could have significant implications for how we engage with our customers, and their advisers. In addition, the UK Chancellor has indicated he may announce reforms to the taxation of pensions. We expect continued evolution of regulation around retirement income, and 2017 will see the introduction of a secondary market in annuities, as well as a review of Auto-Enrolment. With so much change on the horizon, it is vital that we are engaged with Government and regulators to ensure that their reforms

Innovative protection platform

ALPS isn't just a mountain range. It's Aviva Life Protection Solutions – our new protection platform for advisers and customers in the UK. It helps them make the right choice when arranging life protection by offering a flexible menu of cover which can be tailored to meet a customer's circumstances – with all the policy documents stored online. 75% of applications are immediately accepted online – and that equals certainty and convenience for customers. It's the biggest change in how we offer life insurance for years. We think ALPS is a game changer for Aviva – and our customers.



are designed to benefit customers, and to help more of them to enjoy a prosperous retirement.

At the same time, our customers themselves are changing. The UK population is growing, and getting older – with people living longer and healthier lives in retirement. More people are renting, and fewer people own their own home. Customers are increasingly using mobile and digital technology to access financial services. Advances in data analytics, wearable technology and the 'Internet of Things' create new opportunities – but also new risks for insurers and their customers. All of this means we need to be agile in anticipating and responding to customers' changing needs, and be innovative in our design of propositions to meet those needs. ■

**We welcome the UK pensions freedoms.
With our broad product range we are well
placed to meet customers' needs**

“ ”

Andy Briggs

Chief Executive Officer, UK&I Life and Chairman, Global Life Insurance

UK & Ireland General insurance

We are the leading general insurer in both the UK and Ireland, with a market share of 12%¹ in the UK and 13%² in Ireland



AN INTERVIEW WITH...

Maurice Tulloch, Chief Executive Officer, UK&I GI and Chairman, Global GI

What's your strategy?

Our strategy positions Aviva for future profitable growth by meeting our customers' changing needs. We are building an increasingly digital global General Insurance (GI) business, through our strong direct brand and our partnership with brokers and banks.

We have market leading capabilities in the insurance fundamentals: underwriting, pricing, claims management and predictive analytics. We utilise the strength and expertise around the businesses to use and share best practice. For example, we've created a single centre of excellence to combat insurance fraud.

Bad things will always happen – and we will be there for our customers when they do. Our aim is to build long-term relationships with customers so we are developing products and services that go beyond insurance to mitigate and prevent – whether that's delivering risk management advice

to a large corporate customer or using leak-prevention technology in customers' homes. That's the future of insurance.

We will grow our business by focusing on our distribution through UK direct and partners, and also through tailoring the range of products we offer to meet customers' needs.

We will continue to be a customer champion by taking an industry lead on issues that increase costs for our customers, such as our "Road to Reform" campaign which highlights the issues of fraudulent claims. And also help provide industry solutions to meet pressing needs, such as Flood Re securing affordable insurance for properties at risk of flooding.

How are you helping to deliver the True Customer Composite Model?

We start with the customer and understand their needs and habits at different stages of their lives. As a composite, what Aviva can offer customers is unique in many parts of the world. Take the UK, where we have 16 million GI and Life customers. We already make the lives of our GI customers easier by meeting their insurance needs but we

1 Datamonitor UK Insurance Competitor Analytics 2015

2 Irish Insurance Federation, 2015

can also engage with our Life customers who might not have GI products with us, especially through the MyAviva app. That's a huge number of customers who already have long-term relationships with Aviva. We can better understand their needs by using our existing knowledge. Understanding more about our customers using the vast amount of data already available, without having to ask them more questions, allows us to offer them the right products at the right price, in the best way possible. That's what the composite model could look like – this will change insurance.

How are you putting Digital First?

It's how we'll deliver the composite model, especially through MyAviva. But we're also putting Digital First in how we deal with our brokers and partners – especially through the major investments we've made in Fast Trade, our online tool for brokers and Guidewire, which brings together underwriting, administration and claims into a single system.

What have been the highlights of 2015?

We delivered a satisfactory underwriting result. We're also growing the business – premiums are up. And we've seen some great deals for Aviva and our customers – for example, through our agreements with Homeserve and TSB in the UK.

We've also received many accolades, including General Insurer of the Year at the Insurance Times Awards for the second year running.

We have transformed the claims experience – many domestic claims can now be handled in a single call.

We also scored a major victory in the fight against fraudulent whiplash claims with the UK Government's announcement that it plans to put a stop to cash compensation for minor whiplash injuries.

HIGHLIGHTS

Cash remitted to Group

£358m
(2014: £294m)

General insurance and Health operating profit

£430m
(2014: £499m)

Operating expenses

£697m
(2014: £755m)

Combined operating ratio

95.0%
(2014: 94.9%)

That's a great result – for us and for honest customers.

But one of our Aviva values is to "Never rest" – and we're certainly not resting. We need to continue to exceed customer expectations and to grow our business.

What about the challenges and risks?

The challenge of delivering what our customers want is always there – and we're in a highly competitive market. We've got to be more efficient and competitive year on year, delivering what our customers want and how they want it – not least because disruptors will enter

UK floods

In December 2015, the UK suffered the wettest month ever recorded, with almost double the average rainfall. Our people were with flooded customers right from the start with command centres set up in the worst hit areas to support customers and communities. We received excellent customer feedback. Gary Byrne tweeted "Aviva again goes above and beyond #amazing customer service".



the market and beat us if we don't.

I'm the Chair of Climatewise – the insurance industry's body on climate change. The risks of unmitigated global warming are pretty stark, for individuals, for business and for communities. We need to do all we can to address this challenge. For insurers, a temperature increase of four degrees effectively means insurers will have to bow out. Insurers will not be able to cover the risks. Climate change would be the greatest market failure of all time, the greatest inequality of all time, and it will represent a social catastrophe.

Our progress and future plans

What we achieved in 2015

- ▶ Achieved our best ever Customer Satisfaction scores for household claims (Transaction Net Promoter Score® +57)
- ▶ Returned to growth, securing significant new distribution deals, notably TSB (4.7 million UK customers) and Homeserve (Home Emergency Cover – two million UK customers)
- ▶ Made progress in delivering the benefits of the True Customer Composite model for our customers, making our first healthcare and pension sales through GI brokers
- ▶ Implemented Guidewire, our new policy and claims system, across our commercial lines business
- ▶ Invested in using new technologies so that we can settle claims on the same day they are made
- ▶ In Ireland we won three Irish Broker Association awards for most improved service to small medium-sized enterprises and large corporate brokers and for most improved non-life service ranking

What we plan to do in 2016

- ▶ Grow our business profitably in the UK and Ireland and provide new products and services in areas such as pet insurance, warranty, home services and for high net worth customers
- ▶ Expand the distribution reach of our corporate and speciality commercial lines business to maintain our existing business and provide opportunities to expand into new markets
- ▶ Deliver simpler digital solutions which improve our automated processes and make it even easier for our customers to do business with us
- ▶ Working with the industry as a whole to launch Flood Re in April 2016, securing affordable insurance for millions of properties in England
- ▶ Continue to campaign on issues that are important to our customers, such as motor reforms and tackling insurance fraud

UK & Ireland

General insurance continued

What's your final message?

I believe passionately that our customers have made the right choice by protecting what matters most to them with Aviva. Our promises are not made lightly.

Overview

We provide a wide 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.

Customers can access our products and services in the manner that they choose through our multi-distribution network; directly from us over the phone or digitally, or via our broker, intermediary and strategic partners.

The quality of the service we provide to our customers is reflected in the number of awards we have received. Most notably, we were the Insurance Times Insurer of the Year in 2014 and 2015, and voted number one for underwriting and claims in both personal and commercial lines in the 2015 Insurance Age Sentiment Survey.

In Ireland we won the Irish Broker Association awards for most improved service.

Financial performance

Total cash remitted to Group was £358 million (2014: £294 million).

UK and Ireland general insurance (GI) and health operating profit was £430 million (2014: £499 million).

In the UK, GI operating profit was £368 million (2014: £455 million). Within this, investment return reduced mainly as a result of reductions in the internal loan. The underwriting result was £154 million (2014: £199 million) with adverse weather experience due to the December floods being partly offset by the benefit of expense savings and more favourable prior year claims development. In UK Health, operating profit increased to £21 million (2014: £11 million).

In Ireland, operating profit increased to £41 million (2014: £33 million) mainly driven by favourable weather experience, partly offset by lower prior year claims reserve releases.

UK and Ireland operating expenses reduced by 8% to £697 million (2014: £755 million) reflecting a focus on efficiency and discipline in our cost control as we pushed through the expansion of digital and automation across our business, and a reduction in headcount.

The UK and Ireland GI combined operating ratio (COR) remained stable at 95.0% (2014: 94.9%), reflecting higher claims across both personal and commercial lines, partly offset by cost savings and lower sales commissions.

(SME) sector has remained challenging as increased insurance capacity has heightened competition. Aviva is uniquely well-placed to be a trusted advisor and offer a complete one-stop-shop for SMEs, and we have continued to succeed in this market because of the quality of our

service and relationship management for SMEs.

The UK motor market has suffered from insurance fraud at an ever increasing rate over recent years. We welcome the UK Government's decision to act and will continue to work with them and the industry to create and implement effective solutions.

We still have much more to do in this space, including addressing the noise-induced hearing loss epidemic of claims.

The UK's recent large scale flood events have highlighted the need for affordable home insurance. Flood Re, an industry solution, being launched in April 2016, will help support those households with the highest flood risk. The Flood Re scheme will help people better understand their risk of flood and what they can do to reduce that risk. ■

Our customers have made the right choice by protecting what matters most to them with Aviva. Our promises are not made lightly

Maurice Tulloch

Chief Executive Officer, UK&I GI and Chairman, Global GI

Market context and challenges

Market conditions for personal motor and home insurance have remained competitive, and whilst motor premiums are rising, we expect conditions in both markets to remain highly competitive. We have responded to this challenge by developing increasingly sophisticated pricing, market-leading products and services, and investing in digital to sharpen our competitive edge.

The small medium-sized enterprise



Our "Road to Reform" campaign

We have long championed the need to tackle the fraud pandemic in the UK motor insurance market. We applauded the UK Government's bold announcement in the Autumn Statement to implement measures to stop people claiming fraudulently for neck injuries in motor insurance. When it's implemented we expect average motor premiums to go down by around £40 to £50 and have committed to pass on this benefit to customers – and challenge other insurers to do the same. It's a victory for the honest customer against the fraudster – and we will continue to campaign on behalf of our customers.

Canada General insurance

We are Canada's second largest general insurer¹ providing a range of personal and commercial lines products to over 2.8 million customers

Overview

We have an 8.4%¹ market share and a top five position in all major provinces.

In 2015, 39% of sales were personal auto, 26% personal property and the remainder in commercial insurance.

Most of our business is intermediated, with our products sold through a network of independent broker partners.

Strategy

Our objectives are to build on our existing service to customers and distributors, build our digital capabilities, and lead product innovation in Canada.

In January 2016, we announced the proposed acquisition of the Royal Bank of Canada General Insurance Company (RBC General Insurance) and a 15-year distribution agreement with RBC Insurance. Through this agreement, Aviva Canada will provide underwriting, pricing and claims services, and RBC Insurance customers will be able to access our full suite of general insurance products. This diversifies our distribution, giving us exposure to the direct channel in Canada.

We also continue to support our broker partners to help them integrate

digital technology, to better serve our customers and stay competitive.

We were the first in Canada to launch an Overland Water Coverage Option for home insurance, providing water damage coverage for fresh water flooding due to storms and run-off, demonstrating our commitment to our customers.

We will build our digital capabilities and lead product innovation in Canada

Maurice Tulloch
Chief Executive Officer, UK&I GI and
Chairman, Global GI

Financial performance

Canada retained its dividend within the business in anticipation of the proposed acquisition of RBC General Insurance. The £6 million cash remittance represents interest on an internal loan.

Operating profit increased by 13% to £214 million (2014: £189 million), a 22% increase on a constant currency basis driven by more benign weather compared to last year and favourable prior year development.

Operating expenses were lower at £298 million (2014: £316 million), but up 1% on a constant currency basis, reflecting growth in the business.

Combined operating ratio improved by 2.3 percentage points to 93.8% (2014: 96.1%) reflecting improved underwriting performance.

HIGHLIGHTS

Cash remitted to Group

£6m
(2014: £138m)

General insurance operating profit

£214m
(2014: £189m)

Operating expenses

£298m
(2014: £316m)

Combined operating ratio

93.8%
(2014: 96.1%)

Market context and challenges

As the industry continues to evolve, those insurers who increase their digital capabilities will lead the pack. More business will be purchased via digital channels, so the ability of companies to innovate and adopt new technologies will be crucial. The industry needs to adapt to meet customers' evolving needs in the years ahead.

In our opinion, further regulatory and product reforms are necessary in the Ontario auto market to drive both costs and fraud out of the system. We support the steps taken by the Government so far and will continue to work with them to help customers. ■

¹ Market Security Analysis & Research Inc, 2014 online database

Our progress and future plans

What we achieved in 2015

- ▶ Expanded our range of product offering, including Overland Water Coverage and developed an insurance solution for ride sharing drivers
- ▶ Broadened our distribution reach by launching Aviva Direct for Home and Auto
- ▶ Made the most of telematics to develop a usage based insurance product for young drivers
- ▶ Utilised new technology to enhance claims management through predictive analytics and anti-fraud capabilities

What we plan to do in 2016

- ▶ Complete the proposed acquisition of RBC General Insurance Company
- ▶ Integrate the RBC General Insurance Company business and people into Aviva Canada
- ▶ Continue to work with regulators to influence a positive outcome for customers in Ontario auto
- ▶ Continue to invest in digital so our services and propositions are better for our broker partners and customers
- ▶ Continue to invest in Guidewire technology to make it easier to do business with us

Europe

We offer a wide range of life, general insurance, health and asset management products to more than ten million customers in five markets – France, Italy, Poland¹, Turkey and Spain. We operate a composite model in France, Italy and Poland



AN INTERVIEW WITH...

David McMillan, Chief Executive Officer, Aviva Europe and Chairman, Global Health Insurance

What is Europe's contribution?

Europe is a big part of Aviva. We are the second largest cash contributor to the Group, remitting £431 million in 2015, and contributed over 30% of total 2015 Group operating profits.

We have continued to grow our Value of New Business (VNB), as a result of our strategic initiatives to reshape our portfolio, focus on less capital intensive products and improvements in operating efficiency.

We have turned around our general insurance businesses and this is reflected in our general insurance combined operating ratio which improved by 2.3 percentage points to 95.4%.

What's your strategy for Europe?

Over the last few years, we have completed the turnaround of our mature composite businesses in France and Italy, improving margins, refocusing on capital-light products and harnessing our distribution. Our turnaround in Spain is well progressed, benefitting from an

improving economic environment.

In 2015, we have started to shift the emphasis towards digital and True Customer Composite, deploying MyAviva, increasing sales of protection and Accident & Health (A&H), and digitising distribution channels.

Poland and Turkey are our growth markets, with relatively low levels of insurance penetration. We are focused on securing leadership positions in these markets, by deepening and diversifying distribution and building innovative digital solutions for our customers.

How are you helping to deliver the True Customer Composite model?

The customer composite model
Our focus is on deepening our relationship with customers by offering them the whole range of our products.

The approach has varied by market. For example, in France and Italy, where we have strong agency businesses, we have implemented multi-access capabilities, allowing customers to choose how they

1 Aviva Poland also has management responsibility for Aviva's operation in Lithuania.

transact with us through face-to-face meetings, telephone and digital.

I'm excited by the "You, Me and We" composite product packages we have launched in Poland. These propositions combine life, general and health insurance components and are focused on the needs of customers at different stages of their lives. Anna took out a policy recently and you can read her story on page 4.

How are you putting Digital First?

Digital is the future of insurance, and our customers and agents are increasingly looking for more direct interactions and customised digital services.

We made some big strides in 2015. We successfully launched MyAviva in France and Italy so customers can access all their contract details in a single place and self-serve on policy administration.

In 2016, we will do even more. We will build digital solutions for our distribution channels. For example, we will implement MyAgent for our sales network in Turkey and develop digitised sales tools in Poland.

What about challenges and risks?

In the mature savings markets, we continue to face a low interest rate environment but benefit from the early and proactive actions we have taken to reduce product guarantees and shift our mix towards protection, A&H and unit-linked.

In Poland and Turkey, we have had to adapt to a more volatile regulatory environment, with significant changes in the pension system in both countries.

You are taking responsibility for Ireland – what are the challenges and opportunities there?

Aviva Ireland has undergone a turnaround

over the last couple of years and we are now benefitting from the cost economies and expertise from being branched into the UK Life and General Insurance businesses.

The focus moving forward is to capitalise on our strong brand and market position and build a leadership position across the composite product range.

What's your final message?

The first stage of the European turnaround is largely complete and we are now moving into a 'transform and grow' phase. We have good businesses and are in a strong position to grow our franchises – digital and True Customer Composite will be at the heart of this.

Financial performance

Our headline financial performance was impacted across all metrics by a weaker euro (11% down on average) and low interest rates. Prior year results include the benefits of one-off pension changes in Poland and Lithuania.

However we continued to make reasonable progress on a constant currency basis.

Cash remittances were £431 million, up 1% in constant currency terms.

We continued to grow our Value of New Business (VNB) which was up 14%⁴ to £400 million, an improvement of 48% over the last three years, while maintaining our expenses at £526 million (broadly flat in constant currency, excluding disposals). Protection VNB improved by 27%⁴ in 2015 and now represents 49% of total VNB.

Life operating profit decreased to £766 million. Excluding disposals last year and the one-off regulatory pension

HIGHLIGHTS

Cash remitted to Group

£431m
(2014: £473m)

Life operating profit

£766m
(2014: £882m²)

General insurance and Health operating profit

£114m
(2014: £113m)

Operating expenses

£526m
(2014: £596m)

Value of new business³

£400m
(2014: £392m)

Combined operating ratio

95.4%
(2014: 97.7%)

Our progress and future plans

What we achieved in 2015

- ▶ Launched MyAviva in France and Italy, delivering digital services for customers, distributors and agents, utilising new technologies
- ▶ Strengthened and diversified our distribution networks by increasing our agency network in France, acquiring Expander in Poland and securing a new bancassurance agreement in Turkey
- ▶ Improved the profitability of our new business, focusing on protection in all markets and launching new unit-linked funds in France and Italy, capitalising on Aviva Investors experience
- ▶ Completed the turnaround in Italy and refocused our distribution agreements
- ▶ Launched innovative products, such as "You, Me and We" in Poland and use of telematics on motor and home in Italy
- ▶ Improved the profitability of our general insurance businesses, rebalanced new business towards the SMEs segment in France and strengthened analytics and anti-fraud capabilities in all markets

What we plan to do in 2016

- ▶ Expand MyAviva in France, Italy and Poland to increase customer registrations, introducing a suite of additional services and features for our customers and distributors
- ▶ Diversify our distribution, through new partnerships and affinity relationships, and expand the product and service offerings with our current partners, such as AFER in France, Sabanci Group in Turkey and bank partners in Italy, Poland, Spain and Turkey
- ▶ Maintain our leadership positions in life insurance and protection in Poland, pensions in Turkey, GI in Ireland and protection in Italy
- ▶ Grow our position in accident and health through product innovation, wider distribution and digital wellness services
- ▶ Capitalise on our composite potential in France, Italy, Ireland and Poland by offering integrated and innovative solutions
- ▶ Continue to deliver profitable growth in general insurance by improving our underwriting and analytics capabilities

² Operating profit has been restated to exclude amortisation and impairment of acquired value of in-force business, which is now shown as a non-operating item.

³ Excluding Eurovita and CxG.

⁴ On a constant currency basis.

Europe continued

change in Poland in 2014, life operating profit grew by 6% on a constant currency basis. This increase was driven by actions to improve the efficiency of our back book and focus on a profitable mix of new business.

We have grown our general insurance premiums by 3% in constant currency excluding disposals whilst improving our combined operating ratio to a healthy 95.4%. General insurance and health operating profit was £114 million (2014: £113 million), up 12% on a constant currency basis mainly driven by the disposal of the loss-making Turkey GI business in December 2014.

France

Overview

We have more than 3.3 million customers in France and offer a full range of life, protection, pension, general insurance, health and asset management products.

We have a well-diversified distribution model, with half of our profits generated from channels we own or control. We enjoy a long-standing relationship with Association Française d'Epargne et de Retraite (AFER), the largest retirement and savings association in France.

Our tied agency network is growing with over 920 agents. In 2015, we started to build multi-access capabilities, enabling customers to interact with us when and where they want, through our existing face to face channels, online or via call centres.

We also have a majority stake in Union Financière de France (UFF), the largest financial adviser network in France with around 1,200 advisers, and strong direct businesses with Aviva Direct, a leading direct provider of funeral protection, and Eurofil, one of the largest direct general insurers.

Financial performance

France continued to deliver cash flow and growth, with a robust performance across most metrics, despite low interest rates. The weakening of the euro affected all metrics from a group perspective.

Cash remittances were £252 million (2014: £264 million), up 6% in constant currency. Total operating profit was £449 million (2014: £470 million), a 6% improvement in constant currency, driven by a strong performance in the life business. Operating expenses of £360 million remained broadly stable⁵.

VNB was £198 million (2014: £205 million), up 7% in constant currency, due to increased volumes and an improved margin on protection business.

The combined operating ratio improved by 1.2 percentage points to 95.7% mainly due to better weather experience compared to the prior year.

Market context and challenges

France is a mature and stable market with a large and well-developed insurance sector. Although GDP growth has been weak at 1.1% in 2015⁶, the life insurance market continued to grow at 4.7%⁷. We expect demand for savings, protection and retirement products to continue to grow ahead of GDP.

In general insurance, regulatory changes ended the tacit renewal practice, transforming the landscape for personal lines and creating new opportunities and challenges. In this context, we strengthened our motor direct business (9% premium growth vs. motor market average of 1.5%)⁸.

Aviva et Moi

We want our customers to be able to engage with us when and where they want. The new 'Aviva et Moi' platform is transforming our current distribution model to adapt to our customers' needs. It enables our customers to view all their Aviva products in a single place, choose how they want to engage with us (online, through their agents or via call centre), as well as download statements, change their personal details and have access to our products. And what's more, we drew on our experience in developing MyAviva in the UK, so we could bring 'Aviva et Moi' to our French customers that much more quickly. It's a great example of Aviva delivering what our customers want – and it's all the better because of our international expertise and experience.

Italy

Overview

We are a composite insurer, offering life, general and health insurance to 2.2 million customers.

We operate through strong bancassurance partnerships with three of the five top banks in Italy – Banco Popolare, UBI Banca and UniCredit. We are focused on protection and are in the top four in the market with c.11% market share⁹. In 2016, we will continue to increase our distribution footprint in specific segments and geographical areas.

We also operate through a distribution network of around 700 multi-agents and brokers, and a growing IFA network of over 1,500 advisors.

We have completed our turnaround actions, including lowering the cost of guarantees on with-profit products, improving margins in general insurance and exiting unprofitable distribution agreements.

Financial performance

Our turnaround strategy delivered continued improvements in profits and cash.

Cash remittances improved to £45 million (2014: £32 million), representing an increase of 55% in constant currency. Total operating profit⁹ was £165 million (2014: £166 million), an increase of 11% in constant currency, with growth in the life business more than offsetting lower profits in general insurance. Operating expenses⁹ were



⁵ On a constant currency basis.

⁶ Institut national de la statistique et des études économiques.

⁷ Fédération Française des Sociétés d'Assurances.

⁸ IVASS – Istituto per la Vigilanza sulle Assicurazioni.

⁹ Excludes Eurovita.

broadly stable on a constant currency basis at £71 million.

VNB⁹ improved to £79 million (2014: £63 million), despite low interest rates, due to improved margins on all product lines and management actions to reduce the cost of guarantees on with-profit products.

In general insurance business, the combined operating ratio of 94.3% remained broadly stable.

Market context and challenges

The Italian economy showed signs of recovery. Although GDP growth remains limited, the life insurance market grew by 5.8%¹⁰.

In general insurance, we mitigated competitive pricing in motor and increased claims frequency through rigorous agent and portfolio selection and improved pricing capabilities.

Poland

Overview

We are a leading life insurer, also providing health and general insurance products, to more than 1.5 million customers.

We have particular strengths in distribution and own the largest life insurance direct sales network with more than 2,100 advisers. In 2015, we diversified our distribution model through the acquisition and integration of Expander, the second largest financial adviser network. We also have a bancassurance agreement with BZ WBK, the third largest bank in Poland which is part of the Santander Group.

We will continue to build on our existing distribution strengths and diversify our channels, while developing our digital and multi-access capabilities to make all products available online and to capitalise on the potential of our composite model.

We also operate a subsidiary in Lithuania, where we are the largest life insurer¹¹.

Financial performance

VNB of £65 million (2014: £64 million) remained stable despite the weakening of the zloty. VNB grew in Poland by 29% in constant currency due to increased sales of higher margin protection but fell by 33% in Lithuania as the prior year result included a one-off benefit from regulatory pension changes.

Operating profit reduced to £141 million (2014: £194 million), down 19%

on a constant currency basis largely due to a £39 million one-off regulatory pension change which benefitted the prior period.

Operating expenses remained stable¹² at £65 million and our combined operating ratio improved to 94.7% (2014: 96.0%).

Market context and challenges

Despite political and economic uncertainties, the relatively low insurance penetration continues to represent a significant opportunity for further growth, driven in life insurance by favourable demographics and growing disposable incomes. In general insurance, competitive pricing on motor continues.

Legislative changes in pension funds in 2014 significantly reduced the size of our pensions business in Poland, affecting our life profits in 2015. We are assessing the impacts of an asset-based levy for bank and insurance companies, introduced in February 2016.

Turkey

Overview

Our joint venture with Sabancı Group, one of Turkey's leading conglomerates, offers pension and life insurance to two million customers. In 2015, we became the largest pension provider with 19%¹³ market share in assets under management.

The main distribution channel is Akbank, one of the largest privately owned banks, with over 900 branches – part of the Sabancı Group.

We also employ the largest direct sales force and have a fast growing agency channel with over 300 agencies.

We are focused on diversifying our distribution model. We recently secured an exclusive distribution agreement with Odeabank, and launched a number of pilot schemes with large retail companies.

Financial performance

Life operating profit of £11 million (2014: £13 million) was broadly stable in constant currency. VNB was £27 million (2014: £30 million) up 4% in constant currency despite a lower ownership share of the business following the partial IPO in the second half of 2014. Excluding the effect of this dilution, VNB in Turkey grew 24%¹² mainly driven by higher sales of pension products.

Market context and challenges

Despite uncertainties and new regulations on pension pricing, Turkey offers strong long-term potential for profitable growth. It is the second largest population in Europe with a young demographic and we anticipate an increasing demand for financial products. The introduction of auto-enrolment pension reform

We've got you covered

It's part of our job to prevent bad things happening. That's why Aviva Italia offers customers a special white box for their home. It alerts them if there's gas or smoke or if a burst pipe is causing water damage. Your home is monitored and you can access the experts you need through MyAviva. So relax and enjoy your life – we've got you covered.



anticipated in mid-2016 may accelerate further growth in the market and offer additional opportunities.

Spain

Overview

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

We have made some progress in the turnaround actions and in improving our operating efficiencies, but we still have more to do. Our objective is to continue the recovery of our protection business, which benefits from improving economic conditions, and to secure the perimeter of our distribution franchises following previous market consolidation.

Financial performance

VNB¹⁴ was stable at £31 million (2014: £30 million) but up 17% in constant currency, mainly driven by a shift towards higher margin protection business, partly offset by lower sales and reduced margins on with-profits products.

Operating profit¹⁴ of £92 million (2014: £101 million) was up 2% in constant currency with lower operating expenses reflecting ongoing focus on efficiency.

Market context and challenges

We have seen the Spanish insurance market recover with improved lending conditions, and expect this to benefit our credit linked insurance product sales. ■

¹⁰ ANIA – Associazione Nazionale fra le Imprese Assicuratrici.

¹¹ Bank of Lithuania.

¹² On a constant currency basis.

¹³ Pension Monitoring Center, Turkey.

¹⁴ Excluding CXG.

Asia

We have wholly-owned subsidiaries in Singapore and Hong Kong, affinity joint ventures in China, Indonesia and India, and bancassurance joint ventures in Taiwan and Vietnam. Through the acquisition of Friends Life, our presence also covers Friends Provident International Limited (FPI), which has branches in Singapore, Hong Kong and the United Arab Emirates



I'm confident we're going to carry on doing well for our shareholders and customers

“ ”

In markets where we meet the needs of a rapidly ageing population, such as China, Hong Kong and Singapore, we're focused on savings, protection, healthcare and planning for customers' retirement.

In Vietnam and Indonesia – markets with low insurance penetration and young populations – we can help customers with saving for things like their first home or paying for their child's education, and protecting them against life's uncertainties.

FPI complements Aviva's existing propositions, broadening our reach into the high net worth segment.

Why should customers choose Aviva?

The British brand is very strong – and it really helps that Aviva is its national champion of insurance. But that's not enough. We're different because we're embedding our capabilities in digital and analytics across the business – and are transforming our customers' experience.

What are the highlights for 2015?

We've brought some great ideas to our customers – such as digitising our group employment benefit claims in Singapore – which has transformed our customers' experience and improves efficiency. In China, our Digital Wellness Platform has been well received by customers. In Indonesia – one of the world's fastest growing insurance markets – the first year of our joint venture, Astra-Aviva Life, has gone well.

AN INTERVIEW WITH...

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

What's your strategy?

Our strategy is about recognising our customers as individuals, giving them a seamless experience with solutions tailored to their needs and reflecting what's important to them. In Asia, we're in different markets in different stages of maturity.

Each requires a different approach – but with the seam of Aviva's strategy running throughout. So we're a composite where appropriate – and Digital First where that's appropriate.

We will deliver Aviva's strengths across life, health, general insurance and asset management, to make the most of the depth of our partnerships.

In markets where we meet the needs of a rapidly ageing population, such as China, Hong Kong and Singapore, we're focused on savings, protection, healthcare and planning for customers' retirement.

In Vietnam and Indonesia – markets with low insurance penetration and young populations – we can help customers with saving for things like their first home or paying for their child's education, and protecting them against life's uncertainties.

FPI complements Aviva's existing propositions, broadening our reach into the high net worth segment.

What are the risks and challenges?

Our partnership with DBS in Singapore has come to an end – but we were always clear we weren't going to overpay. That's a challenge – but it's also a great opportunity for us to rethink our business and deepen our relationship with customers by investing in platforms and direct digital channels.

It's also a volatile time in Asian markets. But all the work we've done as a Group on capital management and product design bodes well for us.

What's your final message?

We're not following conventional norms on how insurance businesses are grown, but are going to provide solutions, service and propositions in new ways. I'm confident we're going to carry on doing well for our shareholders and customers.

Overview

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

Financial performance

In 2015, cash remittances remained broadly stable at £21 million.

Value of new business¹, a key measure of growth, increased to £151 million (2014: £122 million) mainly reflecting higher sales of protection in Singapore and a continued shift towards higher margin protection products in China.

Life operating profits were £244 million (2014: £87 million), which includes £151 million from FPI post-acquisition. Net of amortisation of AVIF, FPI's contribution to Asia operating profits was £15 million. Excluding FPI, life profits were up to £93 million (2014: £87 million) reflecting higher profits in Singapore and China.

Operating expenses increased to £141 million (2014: £80 million), principally due to £46 million of FPI expenses and investment to support business growth

Astra-Aviva Life

We are Not Everywhere – only in markets where we can win. That's certainly true of our joint venture with Astra, a hugely respected household name and one of the largest companies in Indonesia – one of the world's fastest growing insurance markets. We can offer Astra's 10 million customers high quality products – and Astra benefits from our insurance expertise. The early signs are excellent. That's good for Aviva, good for Astra and, most importantly, good for our customers.



across Asia. The general insurance COR was 101.6% (2014: 97.8%), mainly as a result of higher expenses.

Market context and challenges

Our markets in Asia are expected to continue to deliver moderate GDP growth and interest rate conditions are expected to remain challenging in 2016.

Favourable demographic trends, large protection gaps and low insurance penetration provide us with an opportunity to continue to develop health, retirement and protection propositions for customers. The implementation of C-ROSS (China Risk Oriented Solvency System) in 2016 is expected to promote better industry discipline in product pricing and risk management in China.

Our challenge in this competitive environment is to differentiate ourselves by delighting our customers and delivering an excellent customer experience. ■

HIGHLIGHTS

Cash remitted to Group

£21m
(2014: £23m)

Life operating profit

£244m
(2014: £87m)

General insurance and Health operating profit

£6m loss
(2014: £2m loss)

Operating expenses

£141m
(2014: £80m)

Value of new business¹

£151m
(2014: £122m)

General insurance combined operating ratio

101.6%
(2014: 97.8%)

¹ Excludes South Korea.

² AAJI, on an APE basis, as at Q3 2015.

Our progress and future plans

What we achieved in 2015

- ▶ Grew our business in Indonesia with Annual Premium Equivalent of £6 million and an overall bancassurance market ranking of 12², following its launch in November 2014
- ▶ Achieved VNB growth from key distribution channels across priority markets, with strong increases in Protection business
- ▶ Our financial advisers in Singapore strengthened their market leading position in Protection with VNB up 20%
- ▶ Grew our agency force in China and Vietnam (a new channel with 1,415 agents) focusing on quality
- ▶ In Singapore, we digitised our group employment benefit claims processes and opened our Digital Garage

What we plan to do in 2016

- ▶ Further embrace the True Customer Composite model by delivering Aviva's strengths in Life and Health, plus Aviva Investors and general insurance, tailored to different markets
- ▶ Make the most of Group digital solutions and capabilities to deliver seamless customer and distributor experiences while improving efficiency
- ▶ Generate value by strengthening our distribution platforms and building affinity models.
- ▶ Strengthen capabilities across the region focusing on digital, analytics and customer insights

Aviva Investors

We are Aviva's investment management business, with £290 billion assets under management



“Everything we do is anchored in putting our customers’ interests first – providing solutions to meet their needs”



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We're benefiting – and so are our customers – by being able to distribute our range of investment solutions through Aviva channels. That can only help us grow our business.

We also upgraded our distribution capabilities with the addition of Mike Cranston as Global Head of Business Development and Louise Kay as Global Head of Client Solutions.

Tell us about your Digital First strategy?

Digital First sets us apart. We want all our clients to be able to invest through us with confidence, by anticipating their needs and being easy to do business with – so digital is critical.

HIGHLIGHTS

Cash remitted to Group

£24m
(2014: £16m)

Aviva Investors fund management operating profit

£105m
(2014: £79m)

Operating expenses

£345m
(2014: £298m)

Assets under management

£290bn
(2014: £246bn)

We want to be a market leader, providing new solutions, backed by cutting edge technology, to make our customers' lives easier. To do this, we are simplifying our processes and personalising the service we offer customers.

What's your final message?

We are only two years into our transformation so there is a lot further for us to go in terms of our long-term potential. We have transformed our senior leadership team and invested heavily in risk management and controls to ensure that the interests of shareholders and our customers are safeguarded. Our ambition remains to be the global leader in outcome-oriented solutions. It will require a lot of hard work to get there, but we are making good progress.

Financial performance

Cash remitted to Group during the year increased by 50% to £24 million, primarily reflecting a higher remittance by Aviva Investors France.

Fund management operating profit generated by Aviva Investors was £105 million (2014: £79 million), an increase of £26 million compared with the prior year. This included a £9 million contribution from Friends Life Investments (FLI). Excluding FLI, the increase of £17 million was driven by higher performance fees partly offset by higher operating expenses.

Operating expenses were £345 million (2014: £298 million), including £11 million expenses from FLI. Excluding FLI, operating expenses increased by £36 million to £334 million, primarily due to investment to support the business.

Assets under management increased by £44 billion to £290 billion, driven by acquisitions. Our flagship AIMS fund range has achieved net external inflows of £1 billion during the year and had £3 billion assets under management at the end of 2015.

Being a good ancestor

Being a responsible business is just good business. So we've committed to invest £500 million each year for five years in renewable energy and energy efficiency – with an annual carbon reduction target of 100,000 tonnes. 90% of our investments are already covered by environmental, social and governance factors – ESG. Now we're further embedding climate risk in our decisions. We're going to be even more active as shareholders – encouraging companies to look long term and low carbon. Simple steps for good returns today – and tomorrow.



Market context and challenges

After a sustained period of positive returns in most asset classes, volatility has returned in recent months, with fears of a China slowdown and the slump in commodity prices adding to fears over the global economy. This has caused steep drops in many benchmark indices, and with negligible rates available on low risk assets, such as government bonds, the task of delivering the returns investors expect has become more difficult.

Ultimately, the key challenge for any asset manager is how to stand out from the crowd in a highly competitive market. We operate in an uncertain world – and this means asset managers must deliver solutions that can perform in all market conditions. That is a challenge – but also an opportunity. ■

Our progress and future plans

What we achieved in 2015

- ▶ We redefined our client proposition around outcome-oriented solutions, spearheaded by our AIMS funds
- ▶ We improved our investment organisational structure, establishing Global Investment Solutions and Liquid Market teams
- ▶ We signed a strategic partnership with Virtus to give us access to the US retail market
- ▶ The AIMS Target Return and Target Income funds respectively delivered returns of 4.54% and 6.29% in 2015, compared to a 1.37% drop in the FTSE 100 over the same period
- ▶ We made significant investment to strengthen our risk management and controls systems, including comprehensive conduct risk and compliance training for all employees

What we plan to do in 2016

- ▶ Add to our range of outcome-oriented funds
- ▶ Grow and protect our asset base by investing in distribution and through True Customer Composite initiatives with the rest of the Group
- ▶ Look at further opportunities to form strategic partnerships in key overseas markets
- ▶ Broaden our operating model across all regions and products
- ▶ Continue to invest in our risk and compliance teams to protect customers, shareholders and our reputation



**“Our goal
is to deliver better
outcomes
for our
customers”**

ian

At Aviva, we put our customers at the heart of everything we do. That's certainly true at Aviva Investors, where our flagship fund range, AIMS, continues to deliver positive returns in volatile investment markets.

We often work with strong partners who complement our business and in the United States we've found one such partner – Virtus Investment Partners, which provides Aviva Investors' strategies to US customers in US open-ended mutual funds.

It's a great match. Virtus can draw on Aviva's know-how in investing across different markets and asset classes in order to deliver the outcomes customers want.

And Aviva benefits from Virtus's success in articulating sophisticated investment

strategies to financial advisers and clients.

The first fruit of our promising partnership is a mutual fund available to US investors which employs the AIMS investment approach. The fund is managed by a great team – like Ian Pizer, the Head of Investment Strategy, who helps develop the ideas for our partnership with Virtus.

The goal is to deliver a return of 5% per annum above the federal funds target rate (gross of fees), on average, over rolling three-year periods, with a volatility target of less than half that of global equities, over the same rolling three-year periods.

That's a technical way of saying its absolute focus is on achieving the right outcome for customers, regardless of the prevailing stock market environment. ■

Helping our people do the best work of their lives

To provide the best possible products and service for our customers today and in the future, Aviva must disrupt, lead and transform the industry. And it is our people who will achieve this

Our ambition

To succeed in transforming and growing the business, delivering our strategy, and living our values, we must continue to transform our culture.

We must make Aviva the most attractive choice for talented, committed, entrepreneurial people. We need the best people from diverse backgrounds and with an evolving range of skills, expertise and insight, especially as we put Digital First.

Our goal is to give our people the tools and the freedom to flourish, do the best work of their lives, and successfully compete in a fast-changing marketplace. This is how they can make a real and positive difference to the lives of our customers.

Our culture is anchored in connecting our people with our purpose and in a common commitment to being guided by our values in every decision we take. It demands that our people think and act differently, and can lead and develop through change and uncertainty.

Turnaround to transformation

During Aviva's turnaround phase we focused our people on alignment, achievement, potential and collaboration, increasing engagement with our strategy and providing clarity on what we expected from them.

And in 2015 we continued to make strong progress, while being clear about how much further we still have to travel.

2015 saw difficult but necessary decisions that had a significant impact on our people as we integrated Friends Life into Aviva. By bringing our people together in core locations we continue to enhance our expertise and collaboration. Current plans remain within the 1,500 role reductions announced in 2015.



“We want our people to fulfill their potential and do the best work of their lives – providing truly excellent service to our customers and helping Aviva achieve outstanding performance”

Sarah Morris
Chief People Officer

We have also continued to focus on engaging with our people, with local and group wide activities to illustrate how their work supports our strategy and values. This has included a programme of discussions within all teams to see how their goals and local plans support the group strategy, and using technology to reach and engage with our global teams, through live interviews, in which senior leaders answer questions posed by colleagues around the world. At the end of 2015, 82% of employees felt they could make a personal connection to our strategy and purpose (up 7 percentage points on 2014).

Learning and development

In 2015, we maintained our commitment to our people and achieved:

- A focus on learning – learning from our mistakes, learning how to serve our customers better and learning new skills to improve customers' experience. In 2015 alone, over 2,000 of our people experienced our "Moving to Great" programme, more than 250 managers were trained to apply Systems Thinking, to develop better ways of working and simpler processes for our customers, and to their jobs and 500 trained in Agile methodology, which helps them to think differently, kill complexity and deliver solutions quickly.
- A fresh approach to helping new colleagues understand the business and their role within it, through our "Explore Our Strategy" course, with the pre-joining work winning the Employee Engagement Award at the Rad Awards for recruitment communications.
- Investment in our leaders, equipping

Number of employees

29,639

Our people who felt they could make a personal connection with our strategy

82%

People attended our "Moving to Great" programme

2,000+

them with the skills they need to lead their teams today and our company tomorrow, especially through our signature leadership programme, "Leading@Aviva".

Listening to Our People

We use the Voice of Aviva survey as the main formal tool to understand our people's engagement, one of our key measures of progress, and listen to their insight and feedback.

In the September 2015 survey, on a like-for-like basis excluding Friends Life, engagement rose from 65% in 2014 to 66%. As anticipated, uncertainty during the integration of Friends Life meant overall engagement remained broadly stable at 63%.

However, in 2015 78% believed Aviva will achieve its priorities and 75% thought their manager does a good job of recognising individuals who go the extra



Leading@Aviva

Some courses can feel like you've just ticked a box. Not Leading@Aviva! It's about helping our leaders to inspire our people to do the best work of their lives. We've had great feedback: one participant said he'd learned "some really practical advice around performance and development", while another said "I came away feeling very motivated and empowered". That's great for them, for their teams, and ultimately for our customers too.

mile, improvements against the 2014 figures of 75% and 67% respectively.

Our senior leaders are focused on significantly improving these scores in 2016.

Broadening our perspective

Becoming a more diverse and inclusive business is integral to Aviva's future. Our ambition is that our workforce reflects our increasingly diverse customers around the world. Diversity of thought, experience and backgrounds are critical ingredients as we strive to innovate and make the best decisions. Our people are happier and more successful when they feel they are able to be themselves at work.

We are continuing to build a truly inclusive workplace for our lesbian, gay, bisexual and transgender (LGBT) employees. We are the only insurer in Stonewall's ranking of the UK's most LGBT friendly workplaces – although we

I am extremely proud to work for Aviva. I believe in our strategy and see that the customer is at the heart of what we do

Voice of Aviva employee comment

Our values

At the heart of how we do business



Care more

We care like crazy about our customers, our communities and each other.



Kill complexity

We are obsessed with making things simpler for our customers and each other.



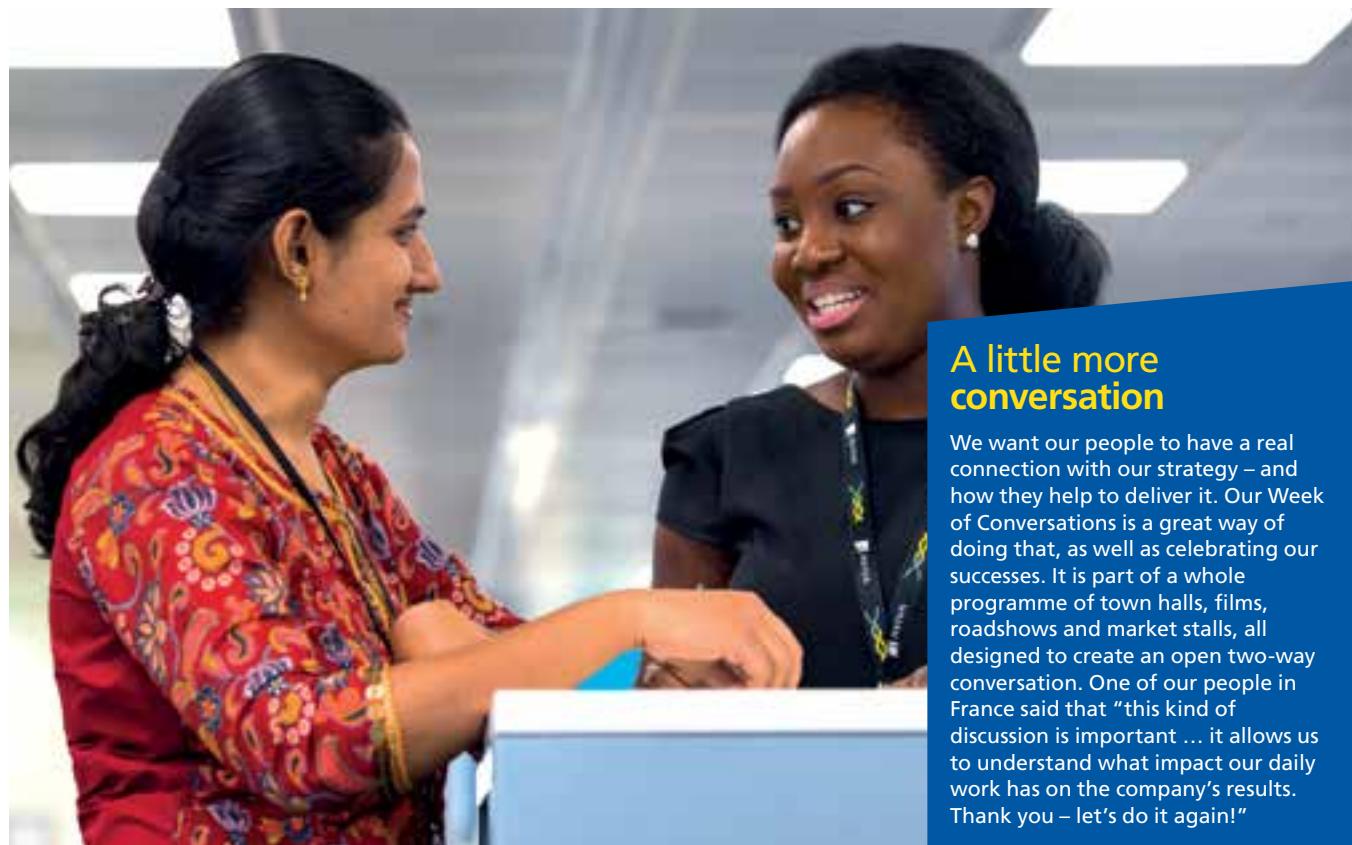
Never rest

We are driven to think bigger and do better for our customers and each other.



Create legacy

We strive to create a sustainable future for our customers and each other.



A little more conversation

We want our people to have a real connection with our strategy – and how they help to deliver it. Our Week of Conversations is a great way of doing that, as well as celebrating our successes. It is part of a whole programme of town halls, films, roadshows and market stalls, all designed to create an open two-way conversation. One of our people in France said that “this kind of discussion is important ... it allows us to understand what impact our daily work has on the company’s results. Thank you – let’s do it again!”

recognise this bar is rising fast – and our LGBT employee network, “Aviva Pride”, with nearly 600 members, has been highly commended by Stonewall. We are committed to developing our LGBT leaders and allies and, in partnership with OUTstanding (the professional network for LGBT and ally senior executives), will enable their development and connect them to peers across other industries.

In 2015, we expanded our Women’s Network to include networks in Italy, Spain, Scotland, Ireland, India and Canada. While 52% of our workforce are women, women are under-represented on the Board, on the Group Executive and in senior management. At Aviva we believe firmly that diversity at every level improves innovation, decision making and our customer focus. We will therefore strengthen our focus on improving the gender balance across the Group by supporting and developing the next generations of female leaders.

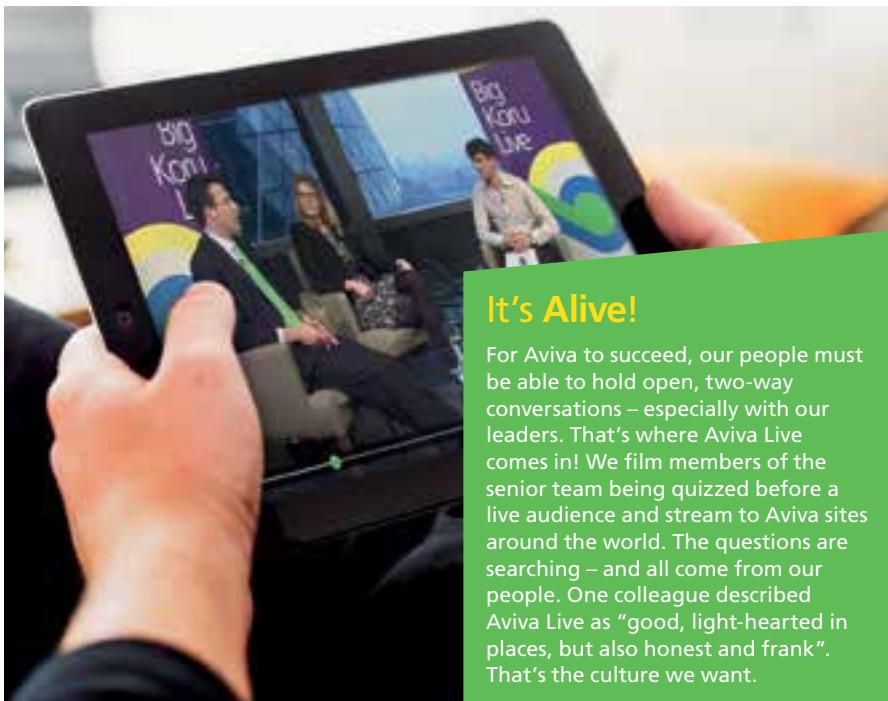
We are also contributing to the UK Government’s work on retaining, retraining and recruiting workers aged 50 and over. Underlining our commitment, Andy Briggs, Chief Executive Officer of Aviva UK Life and Chairman of Global Life, is Chair of Business in the Community’s Age at Work Campaign.

We are committed to ensuring we provide full and fair consideration for job applications from people with disabilities, as well as supporting any of our people who become disabled while working for Aviva. For example, we adapt the working

I’m pleased we’ve maintained a position in the Stonewall Top 100, and continue to lead the way in the insurance industry. We certainly can’t be complacent and we will never rest in making Aviva a great place to work for LGBT people

“
”

Angela Darlington
Chief Risk Officer



It's Alive!

For Aviva to succeed, our people must be able to hold open, two-way conversations – especially with our leaders. That’s where Aviva Live comes in! We film members of the senior team being quizzed before a live audience and stream to Aviva sites around the world. The questions are searching – and all come from our people. One colleague described Aviva Live as “good, light-hearted in places, but also honest and frank”. That’s the culture we want.



Women's network

2015 was a milestone year for our Women's Network – with new networks set up in Italy, Spain, Scotland, Ireland, India and Canada and deeper collaboration between our UK networks. In 2016 all the networks are going to share common aims and objectives. To innovate and succeed, Aviva must be inclusive and diverse, stay relevant to our customers and reflect their rich diversity. Our global Women's Network has a big part to play in achieving this!

environment where we can and offer flexible working practices to take into account their personal circumstances. We are also continuing to focus on attracting and keeping the talent we need to deliver the services our customers want and create value for our shareholders. We are focusing in particular on attracting the talented people we need in digital, predictive analytics and actuarial.

In 2016 we will build on our investment in young people who want to learn while they earn, rather than attend university full-time, by launching an apprenticeship scheme, approved by the UK Government, which will be rolled out across different parts of Aviva, including our general insurance, life and digital businesses. This will be aimed at creating opportunities for 16-18 year olds, but also for applicants of all ages and backgrounds who wish to return to work.

Safety and wellbeing

We want our people to achieve a healthy balance between their working life and

life outside work. We therefore offer our people initiatives such as flexible working hours, career breaks and employee assistance programmes. All colleagues take part in our Essential Learning programme.

Taking forward our transformation

Our People Strategy for 2016 and beyond sets out how our people will deliver our purpose of freeing customers from the fear of uncertainty by transforming and growing the business. It puts our people and customers at the heart of everything we do.

We are committed to:

- Developing leaders with greater courage to think independently, innovate and lead in times of uncertainty.
- Evolving our culture so we are absolutely focused on the role we play in our customers' lives and letting our values guide every decision we make.



We are evolving our culture so we are absolutely focused on the role we play in our customers' lives and letting our values guide every decision we make



Sarah Morris
Chief People Officer

¹ Claudia Arney was appointed to the Board on 8 February 2016.

Diversity

At 31 December 2015, we had the following gender split:

Board membership¹

Males

10

Females

2

Senior management

Males

540

Females

153

Aviva Group employees

Males

14,397

Females

15,242

- Empowering our people to take decisions that balance risk and results.
- Combining our existing deep technical expertise with the skills we need to create new, market-leading digital products, services and experiences for our customers.
- Developing talented people so that, through purposeful moves across products, markets and geographies, they have the agility, knowledge and collaborative skills to help Aviva make the most of the composite model.
- Rewarding and recognising outperformance, but balance this against the risks we take, and identify and learn from any mistakes we make.
- Focusing our efforts on developing an inclusive workforce.
- Helping our people to build their careers by improving how we highlight global opportunities and supporting them in thinking through their goals for their careers.
- Providing the opportunities for our people to learn and develop so they are better able to deliver the True Customer Composite model, put Digital First and drive growth.



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

Creating a bright and sustainable future

At Aviva we focus on tackling the most important issues of our time with bright ideas, for our customers, their communities and the world

We live in a time of complex global challenges. Changing customer needs, ageing populations, climate change and the power of communities will increasingly affect our customers' lives and, in turn, our business performance. We also know that some of the biggest problems facing the world today are some of the least understood. That is why we are using Good thinking in our new strategy to simplify and tackle the most important issues of our time. We are focusing on:

- Good thinking for you today – protecting the people and things you love and strengthening your local community through the Aviva Community Fund
- Good thinking for your future – acting now for tomorrow by helping you live well for longer, tackling climate change and supporting the United Nations' Sustainable Development Goals
- Good thinking for our industry – championing responsible investment and challenging our industry to work better for everyone.

1 Excludes Friends Life employees



**“
Corporate responsibility is integral to our business, it supports the delivery of our strategy and aligns with our values**

Kirstine Cooper
Group General Counsel
and Company Secretary



Please visit www.aviva.com/corporate-responsibility to find out more about the different aspects of our corporate responsibility strategy.

Doing the right thing for our customers

Trust is vital when it comes to building strong and healthy relationships with all of our stakeholders. We are committed to communicating with our customers in a simple, clear and helpful way. Complaints and feedback are taken seriously and investigated thoroughly. This commitment is reflected in our customer business standard.

Business ethics

We aim to uphold the highest ethical standards in the way that we do business. This commitment is set out in our business ethics code which ensures that we operate responsibly and transparently. In 2015, 98% of Aviva employees confirmed they had read, understood and accepted the code (2014: 96%).

Financial crime can severely impact businesses, increasing costs for customers. To manage and mitigate this risk across our business every Aviva employee – from the boardroom to our contact centres – receives training on financial crime prevention, in areas such as market abuse, anti-money laundering and fraud.

Our global malpractice helpline 'Right Call' enables employees to report any

Our progress and future plans

What we achieved in 2015

- ▶ Reduced our CO₂e by 39% since 2010 versus restated baseline
- ▶ Became the first insurer to achieve the Carbon Trust Supply Chain Standard, in recognition of work to measure, manage and reduce carbon emissions outside own direct operational control
- ▶ Replicated the Aviva Community Fund in six markets (target five) around the world helping increase community investment by 71%
- ▶ A leading business voice in the debate around the Sustainable Development Goals and the Climate Change Summit in Paris
- ▶ Addressed the UN General Assembly on sustainable finance
- ▶ Published research on the risk of climate change to global assets

What we plan to do in 2016

- ▶ Replicate the Aviva Community Fund in more markets, targeting 2.5m beneficiaries and 250,000 hours of volunteering by 2020
- ▶ Collaborate with the UN and others to build global capability around sustainable finance
- ▶ Continue progress towards our £2.5 billion target in low carbon infrastructure investment by 2020
- ▶ Continue progress towards our long-term CO₂e reduction target of 50% by 2030
- ▶ Design simple products and services that meet our customers' needs, help people take control of their finances and also benefit society and the environment
- ▶ We will challenge our industry, leading the fight to cut fraud and cut costs for our customers

Increase in community investment

71%

malpractice issues in confidence. All reported cases are referred for independent investigation. In 2015, 25 cases were reported through Right Call (2014: 39²). 20 cases reached conclusion, and five remain under investigation. There has been no material litigation arising from any cases reported in 2015.

Protecting the things that matter

Our products and services help to make sure that the people and things our customers love are protected if the worst happens. In 2015, we paid out more than £30 billion in benefits and claims to customers. We were also the first insurer in the UK to publish transparent customer reviews of our products and services. (December 2015: overall rating for home: 4.6 out of 5, overall rating for motor: 4.5 out of 5).

We want to make the benefits of insurance more accessible to more people. This way, we can help boost financial resilience across every part of society. For example in the UK, we are the largest provider of social housing tenants' contents insurance and in India, we are one of the largest providers of life micro insurance². Aviva was also the first to offer overland water protection for private domestic insurance in Canada.

We also want our products and services to bring environmental benefits. In the UK, we are working to improve our claims processes to reduce our environmental impact whilst improving customer service and reducing costs.

Strengthening our local communities

Aviva has a long history of investing in communities. Following its success in Canada and Poland, we launched the Aviva Community Fund in the UK, France, Italy, and Hong Kong in 2015.

In 2015, our community investment increased by 71% and totalled £10.8 million (2014: £6.3 million³). Across our community development activity, we helped 587,203 people. 12% of our employees contributed 40,828 hours of volunteering. They also gave and fundraised £1.5 million. As part of our new strategy, we aim to deliver 250,000 hours of volunteering and help 2.5 million people between 2015 and 2020.

Our employees play a big role in supporting local communities. All Aviva employees are entitled to paid



Backing the causes you care about

Our online Community Fund invites the public to nominate and vote for inspirational projects in their local communities. The Fund has been a great success for Aviva Canada and Poland so we've replicated it in the UK, France, Italy and Hong Kong. It's already making a big difference – in the UK we made 430 awards from £1,000 to £25,000, supporting projects from community safety to young people befriending dementia sufferers. One winner, Purple Patch Arts, said "it's amazing. It's going to allow us to do so much". We're in business to create legacy, for our customers and communities – so we'll be launching the Community Fund in more countries in the future.

volunteering leave each year, and matched giving and fundraising enable our people to make a difference for the causes they are passionate about. This helps us attract, engage and develop talented people. Our Voice of Aviva results show 80% of employees believe that Aviva is a good corporate citizen (the equivalent Financial Services Benchmark for social responsibility is 75%).

In 2015 we agreed a new global disaster response and resilience partnership with the British Red Cross. We are bringing our experience of managing risks to the partnership and we are working together to build community resilience at a local level. Additionally, during 2015 Aviva matched employee donations to global disasters such as the Nepal Earthquake and the European refugee crisis. Together we contributed over £135,000.

Acting now for a sustainable future

Climate change is one of society's biggest and most complex challenges. Protecting the environment today is the only way to make sure we can enjoy a bright and sustainable future. We have assessed our potential environmental risks and have focused our strategy on the issues with the greatest impact on our customers, our business and our stakeholder community.

We are working hard to understand the long-term impact of our investments and to ensure that assets do not become uninsurable due to environmental risks. We also know that extreme weather events can lead to variations in the claims we receive and potentially impact the pricing of our products. We use our expertise as an insurer – such as our knowledge of historical weather events, flood mapping and predictive modelling – to advise customers on risk reduction and prevention.

Tackling climate change

Aviva has a long-term commitment to tackle climate change but in December 2015 this commitment featured even more prominently given the critical importance of the United Nations Framework Convention on Climate Change (UNFCCC) negotiations in Paris.

In July 2015 we published a report commissioned from the Economist Intelligence Unit which quantified the value of investments at risk from climate change. We launched this report, as well as Aviva's strategic response to climate change, at an event with a keynote

Total community investment in 2015

£10.8m

² Micro-insurance promotes financial inclusion by providing affordable protection for those on a low-income.
³ 2014 data excludes Friends Life employees.

Human rights

Respect for human rights is embedded in the way we do business. In 2015 we updated our group-wide Human Rights policy in accordance with the UN Guiding Principles on Business and Human Rights (including the ILO Principles). Our new policy sets out our global commitment in the following areas:



Customers

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



Employees

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



Due diligence

We conduct human rights due diligence processes periodically to ensure that we are not complicit in human rights abuses in the countries in which we operate.



Investment

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

In 2016, we will continue work on implementation of the requirements of our human rights policy across the business and to consider our obligations under the UK Modern Slavery Act.

speech by the UK Secretary of State for Energy & Climate Change.

Championing responsible investment

At Aviva we are an active and responsible investor. With £290 billion assets under management at Aviva Investors, we finance important economic assets, such as infrastructure, which support the wider economy and we promote sustainable business practices in the global markets, encouraging greater transparency and better corporate governance. This helps us to reduce risk and enhance the long term value of our clients' investments. Aviva Investors was a founding signatory to the UN Principles for Responsible Investment. We were also one of the first global fund



Suppliers

We have a robust due diligence process which enables us to evaluate, select and ask suppliers to disclose their human rights policies as part of our selection criteria. In the UK, we were an early adopter in achieving accreditation by the Living Wage Foundation and we ensure that suppliers pay at least the Living Wage to employees subcontracted to Aviva.



Governance

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



Reporting

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



Grievance mechanisms

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

COP 21 Summit in Paris

One of our values is to create legacy and unchecked climate change would create a catastrophic legacy. The December 2015 UN Paris Climate Change negotiations were vital in securing a sustainable future for our business and the communities we serve. Unchecked climate change equals risks too great to insure and limited returns on investments. The ambitious agreement reached at Paris is significant, with international commitment to "limit temperature rise to well below 2 degrees" and in addition "to pursue efforts to limit to 1.5 degrees". We think the Paris Conclusions are a good outcome. Now it's time to deliver.



“Volunteering through Aviva has really helped me to grow as a person and develop my skills”

Christina
Aviva employee

2030. This year we have achieved a 39% reduction against the restated 2010 baseline. We were the first carbon neutral insurer worldwide in 2006. We also continue to offset any remaining carbon emissions and our offsetting projects have benefitted over 800,000 people since 2012 through improved health and livelihoods (e.g. through the provision of clean cookstoves in Kenya).

Our carbon footprint

Each year we publish group performance data for our greenhouse gas emissions, waste and water consumption. Our carbon footprint boundaries identify the scope of the data we monitor and the emissions we offset. We report on Greenhouse Gas (GHG) emission sources

Aviva plc – Global greenhouse gas emissions data boundaries

Tonnes CO ₂ e	2015*	2014	2013
Scope 1	19,112	20,031	21,787
Scope 2	49,595	46,231	56,842
Scope 3	19,991	17,662	26,688
Absolute CO ₂ e footprint**	88,698	83,924	105,317
CO ₂ e tonnes per employee	2.2	2.4	2.8
CO ₂ e tonnes per £m GWP	4.05	3.87	4.78
Carbon offsetting***	(88,698)	(83,924)	(115,889)
Total net emissions	0	0	(10,572)

Scope 1 – operational emissions from owned sources e.g. gas, vehicle fleet as part of product/service.

Scope 2 – operational emissions from non-owned sources e.g. electricity.

Scope 3 – business activity emissions from non-owned sources – e.g. business travel.

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

** Assurance provided by PricewaterhouseCoopers LLP in the Independent Limited Assurance Report to the Directors of Aviva plc.

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

Reduction in CO₂ since 2010

39%

on a carbon dioxide emissions equivalents basis (CO₂e) as required under the Companies Act 2006 (Strategic Report and Directors' Reports) 2013 Regulations.

We follow the GHG Protocol Corporate Accounting and Reporting Standard, and emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2015. We do not have responsibility for any emission sources that are not included in our business operations.

Aviva Investors signed the Montreal Carbon Pledge in 2015, one of the largest asset managers at the time to do so.

As well as reporting in line with the 2013 Regulations, we also report on business travel and other scope three emissions (see table above). 62%

Creating legacy at the United Nations

The United Nations' Sustainable Development Goals really chimed with us – creating the legacy of an end to extreme poverty, and tackling injustice and inequality and climate change. We've been at the forefront of the debate – and our Group Chief Executive Officer, Mark Wilson, addressed the UN General Assembly in New York, at the launch of the Goals. He talked about the central role of business and the financial markets if we're to succeed. We are also founding partners of Project Everyone, which aims to get the debate into every home in the world.



Prevention is protection

The best form of protection is prevention. We can't stop bad weather, but we can help to minimise its impact. We recently helped sponsor the free British Red Cross emergency app. It helps you keep an eye on the risks of severe weather or other emergencies affecting you, your friends and family through alerts and practical advice, as well as handy tools such as a strobe light to attract attention if you are in difficulty. We want to improve our communities' resilience to severe weather – this is a practical way of doing exactly that.

of our electricity is purchased from renewable sources.

We offset 100% of unavoidable carbon emissions through the acquisition and surrender of emission units on the voluntary carbon market (VERs).

Under the Carbon Reduction Commitment Energy Efficiency Scheme, we reported total emissions of 312,925 CO₂e in 2015, costing £2.1 million. This scheme is restricted to UK businesses emissions from building energy, and includes the property portfolio of our investment funds managed by Aviva Investors.



We are in the top 10% for our sector in the Dow Jones Sustainability Index and FTSE4Good.

“It doesn’t feel like
Aviva is just an
insurance company”

Michael

Everyone knows that life is full of surprises – some of them unwelcome. And Michael, an employee management consultant from Yorkshire, had a very unwelcome surprise in 2012. He was involved in a multi-car accident, leaving him with physical and psychological injuries.

Michael was very fond of his car and thought it was a write-off, but had a more welcome surprise when Aviva, as his insurer, found a way to repair it. The physical and psychological scars, as he said, “took quite a lot of time to deal with.”

As part of his rehabilitation he joined a gym, and has seen his fitness levels soar. So now it’s a healthier, happier Michael who drives to work every day.

We were with him every step of the way. He told us that “the way Aviva treated me throughout the process and the way they dealt with the claim – not just the legal aspects but the health side of things as well – was very personal. It will be a long time before I leave Aviva – it doesn’t feel like Aviva is just an insurance company.”

Michael also said “I have motor insurance, income protection and property

insurance with Aviva.” We’re delighted to have a long-term relationship with him which allows us to show him the benefits of our True Customer Composite model.

Michael – it’s a pleasure to help get you back on the road! ■

New capital rules bring new opportunities

TOM STODDARD, CHIEF FINANCIAL OFFICER

Overview

In 2015 we successfully navigated regulatory change and turbulent external conditions to deliver a stronger, cleaner balance sheet and continued operating momentum.

Under the new Solvency II capital rules, we ended the year with an estimated £9.7 billion surplus¹, which translates to a 180% cover ratio¹, at the top end of our working range. Our transition to Solvency II has avoided

surprises and sudden changes. Aviva strengthened the methodology of its economic capital models over the course of the year, resulting in what we believe to be a conservatively stated cover ratio under both our economic capital model (181%)² and the new rules (180%)¹.

We have benefitted from the £6 billion acquisition of Friends

Life in April 2015. IFRS net asset value per share (NAV) increased 14% to 389p at year end, largely as a result of this acquisition. We are ahead of schedule on the integration, and expect to realise the £225 million of run-rate synergies by the end of 2016 – a year ahead of schedule.

In 2015, operating profit^{3,4} increased 20% to £2,665 million, with a significant contribution from Friends Life. Operating earnings per share^{3,4} (EPS) increased 2% to 49.2p, after the dilutive impact of issuing shares to fund the Friends Life acquisition. Weighted average shares outstanding for the year were 3,741 million, up 27% from 2,943 million in 2014.

In 2016 the full impact of the Friends Life acquisition will affect Aviva, with year end 2015 shares outstanding of 4,048 million.

Operating profit^{3,4} after integration and restructuring costs was up 10% from £2,073 million to £2,286 million. Integration and restructuring costs were much higher in 2015, at £379 million reflecting the Friends Life acquisition, Solvency II costs and other restructuring, primarily in the UK. IFRS profit after tax, after economic variances and the expense of amortising acquired value of in-force (AVIF), was down 38% to £1,079 million from £1,738 million.

Excess centre cash flow of £699 million in 2015 did not show improvement from the £692 million in 2014, but this also reflects our decision to retain cash in Canada, rather than pay a planned dividend, to partly fund the proposed acquisition of Royal Bank of Canada General Insurance Company.

Based on our overall stronger capital, cash flow and liquidity position this year, we increased the shareholder total dividend by 15% to 20.8p, following last year's 21% increase to 18.1p.

Balance Sheet

In addition to transitioning to Solvency II at year end, during 2015 we took a number of steps to reduce risk and free up under-utilised capital, further improving our balance sheet.

In UK Life, we sold £2.2 billion of non-core commercial mortgages. As a result, the average mortgage loan-to-value ratio in our portfolio decreased 24 points from 85% a year ago to 61% at 31 December 2015. In UK general insurance we transferred out £0.7 billion of latent exposures by purchasing an adverse development cover. We also undertook additional equity and credit risk hedging activity

Our financial discipline and careful management have paid off in 2015: lots of good news and no bad news surprises

Tom Stoddard
Chief Financial Officer

¹ The estimated Solvency II ratio represents the shareholder view. This ratio excludes the contribution to Group SCR and Group Own Funds of fully ring-fenced with-profits funds (£2.7 billion) and staff pension schemes in surplus (£0.7 billion) – these exclusions have no impact on Solvency II surplus. The impact from internal reinsurance arrangements between UK Life, UK and Ireland General Insurance and Aviva International Insurance Limited and the securitisation of equity release mortgages held by UK Life, effective 1 January 2016, have also been reflected in the Solvency II position.

² The economic capital surplus represents an estimated position. The economic capital requirement is based on Aviva's own internal assessment and capital management policies. The term 'economic capital' does not imply capital as required by regulators or other third parties.



during the year, which has moderated the impact of recent market volatility on our capital position.

Through a series of non-cash and cash actions, we reduced the balance of the intercompany loan between our main UK general insurance legal entity, Aviva Insurance Limited, and the Group, from £2.8 billion as at the end of February 2015 down to £1.5 billion as at the end of February 2016, below our target of £2.2 billion. Further reductions are possible, but none are planned or considered necessary at this point.

Our external debt leverage improved slightly from 28% to 27% on an S&P basis. It remains under the 30% threshold commensurate with an AA rating, which continues to be our target for debt leverage.

Liquidity at the centre is £1.3 billion as at the end of February 2016 (*February 2015: £1.1 billion*) and within our risk appetite. We took steps during the year to further develop our internal reinsurance company, domiciled in the UK, to enhance our future capital and liquidity management.

Efficiency gains

We hit our operating expense ratio target of 50% in 2015, a year earlier than expected. On a constant currency basis and excluding Friends Life, operating expenses reduced by 1%. In our business segments, our expense ratios improved in general insurance to 13.9% (FY14: 14.8%) and in health to 14.5% (FY14: 15.7%).

However, the impact of the Friends Life acquisition increased the life insurance expense ratio³ for the life segment to 32.2% (FY14: 29.7%). We expect to achieve more efficiency gains in UK Life over the next few years.

Operating expenses have increased in Aviva Investors and Asia as we have funded growth



³ Operating profit has been restated to exclude amortisation and impairment of acquired value of in-force business, which is now shown as a non-operating item. There is no impact on the result or the total equity for any period presented as a result of this restatement.

⁴ Excludes the impact from an outward quota share reinsurance agreement completed in 2015 in Aviva Insurance Limited (AIL).

It all adds up

Do you know a polygon from a dodecahedron? How many milligrams in a gram? That's what 7 to 9 year olds are being taught in the UK. We're helping them through Aviva Tackling Numbers; it uses rugby to make learning about numbers fun, exciting and rewarding. It is run by the 12 Aviva Premiership Rugby clubs and integrates classroom maths with practical, number-based rugby games. After taking part in the programme an extra 20% of children described themselves as "really confident in maths". See how Aviva Tackling Numbers really adds up at www.aviva.co.uk/tacklingnumbers.



in those businesses and our group expenses include a significant investment in digital.

Having achieved an overall operating expense ratio of 50%, we are shifting our focus more toward improving the segmental expense ratios across all our businesses. The overall Group ratio will be in part a function of our business mix. General insurance, health insurance and fund management tend to raise the overall Group ratio, so as we reallocate resources to those businesses, the overall Group expense ratio may rise. But so should profits and capital generation. We continue to believe that there is more room to rationalise our property, IT, overhead and other costs, especially in the UK and the Group centre.

Capital generation

In 2015, operating capital generation (OCG) was £2.5 billion (FY14: £1.9 billion) under the former regulatory capital regime. This no longer drives our capital management policies, and we will not report this figure in the future. It is also not directly comparable to our economic surplus generation (ESG) under the new Solvency II capital rules.

Although Solvency II did not apply during 2015, we estimate, based on unaudited figures, that Aviva generated approximately £2.7 billion of economic surplus in 2015, primarily from management actions and operating activity, partly offset by adverse economic variances. This figure is before dividends paid, centre costs and external interest paid, and excludes the impact of both hybrid debt financing in 2015 and the impact of the Friends Life acquisition.

We expect to realise a further £0.8 billion

of capital benefits in UK Life, with liquidity benefits to follow. This should enable UK Life to remit an extra £1 billion of cash, over and above its normal level of remittances, to the Group centre over the next three years. We expect to reallocate and reinvest some of this cash to support growth in other business units. The actions to achieve these capital benefits include Part VII transfers to combine our UK Life business (subject to PRA and court approvals), moving Friends Life to an internal model, Solvency II optimisation and hedging of the Friends Life business.

Since our Solvency II model application was approved in December, we have turned our attention to optimising our business. We start with a Solvency II cover ratio¹ of 180% to begin the year. Additional management actions and operating activities should enable us to add 5 to 10 points to this ratio in 2016 after paying a progressive dividend and before the impact of economic variances.

Dividend policy

Our commitment is to deliver on the Aviva investment thesis of cash flow plus growth. After rebasing the shareholder dividend in 2013, we have increased it by 21% and 15% over the last two years. This rate of increase exceeds our return on equity and our rate of reinvestment in the business, so we expect dividend increases to moderate in the future.

In 2014 our dividend cover was 2.7x³ and our payout ratio was 37.5%. In 2015 we improved this to a payout ratio of 42.3% with a cover ratio of 2.4x. As we reduce spending on Solvency II costs, integration and other restructuring costs in

HIGHLIGHTS

Leverage – S&P basis

27%
(2014: 28%)

Solvency II ratio¹

180%



HIGHLIGHTS

IFRS profit for the year

£918m
(2014: £1,569m)

Excess centre cash flow

£699m
(2014: £692m)

the coming years, this cover ratio should move towards our target of approximately 2:1 coverage.

This cover ratio target is neither a floor nor a ceiling. Rather, it indicates a balance between yield and growth over time, seeking to pay out approximately 50% of operating EPS as a current dividend. Accordingly, once we reach our target coverage ratio, dividend growth will more closely align to our growth of operating EPS and economic surplus generation.

Aviva plans on delivering stable, secure dividend growth for many years to come. Our capital generation may be uneven over time, and we may extract capital from businesses or product lines that do not make the cut under our "Not Everywhere" focus on excellence. In that case, we will consider a range of options including reinvesting in our business and additional distributions to shareholders. The potential for additional distributions will also depend on economic conditions, our view of markets, and having excess capital and liquidity. We are not there yet.

Future Earnings Growth

We now have strong businesses backed by a stronger balance sheet. In 2016, our focus will be on Solvency II optimisation and increasing operating profit after integration and restructuring costs.

Based on our current positioning, and subject to all the usual caveats about weather and economic conditions, we would normally expect Aviva's operating EPS to average in the mid-single digit growth rates annually. In 2016 operating EPS will suffer the dilutive impact of a full year of shares outstanding from the Friends Life acquisition, which closed 10 April 2015.

To deliver earnings growth and increase economic surplus generation, management will prioritise (1) additional expense efficiencies in all our markets, (2) business mix shift to less capital intensive products, (3) realising volume and margin benefits from our True Customer Composite and Digital strategies, (4) reallocating capital, (5) Solvency II optimisation, and (6) growth in Aviva Investors and our growth markets of Poland, Turkey and Asia. We are not satisfied with normal results, and will keep repositioning Aviva to outperform.

Thomas D. Stoddard
Chief Financial Officer
9 March 2016

IFRS net asset value

The table below shows the movement in IFRS net asset value (NAV) during 2015, which increased to 389 pence per share.

The acquisition of Friends Life has had a significant effect⁵ on all our metrics this year, including NAV. We issued 1,086 million shares for a consideration of £5,975 million, increasing NAV by 55 pence per share. Further details, including details of the amount of goodwill, acquired value of in-force business (AVIF) and other intangible assets arising on the transaction, can be found in note 3 of the financial statements.

2015 results were also adversely affected by foreign exchange, mainly due to the euro weakening against sterling by 11%. The NAV impact of foreign exchange was a reduction of 8 pence.

IFRS profit for the year⁶ was £918 million (2014: £1,569 million). Within this, operating profit, one of our key financial metrics, was £2,665 million (2014: £2,213 million⁷). Details of operating performance in our markets can be found on pages 30-45.

Non-operating profit items were a charge of £1,275 million (2014: £68 million profit). The adverse movement includes higher integration and restructuring costs of £379 million (2014: £140 million) and AVIF and intangible asset amortisation charges of £653 million (2014: £130 million). It also includes a charge of £53 million relating to a UK reinsurance transaction (which provides significant protection against claims volatility), lower profits from disposal of subsidiaries and negative investment variances (2014: positive variances). Further details can be found in the "Reconciliation of group operating profit to profit for the year" in the financial statements.

Dividends and appropriations⁶ were £709 million.

	£m	pence per share
At 31 December 2014	10,018	340p
Operating profit	2,665	66p
Non-operating items	(1,275)	(30)p
Tax and non-controlling interests	(472)	(12)p
Profit for the year	918	24p
Acquisition of Friends Life	5,975	55p
Dividends and appropriations	(709)	(18)p
Foreign exchange movements	(325)	(8)p
Other net equity movements	(113)	(4)p
At 31 December 2015	15,764	389p

⁵ For the avoidance of doubt, 2015 numbers include Friends Life from 10 April 2015, the acquisition completion date. 2014 numbers are Aviva stand-alone as previously reported (i.e. do not include Friends Life).

⁶ Net of tax and non-controlling interests.

Rigorous and consistent risk management

As a True Customer Composite, we have chosen to accept the risks inherent in our core business lines of life, accident & health, general insurance and asset management

We achieve significant diversification of risk through our scale, our multi-product offering to customers, the differing countries we choose to operate in and through the different distribution channels we use to sell products to our customers.

Our business is about protecting our customers from the impact of risk.

We receive premiums which we invest in order to maximise risk-adjusted returns, so that we can fulfil our promises to customers whilst providing a return to our shareholders. In doing so, we accept the inherent risks set out below, with a preference for those risks we believe we are capable of managing to generate a return:

Inherent risks to our chosen lines of business	Risks customers transfer to us	Risks from investments	Risks from our operations and other business risks
<p>General insurance risk is the risk arising from loss events (fire, flooding, windstorms, accidents etc).</p> <p>Accident & Health insurance risk covers healthcare costs and loss of earnings arising from customers falling ill.</p> <p>Life insurance risk includes longevity risk (annuitants living longer than we expect), mortality risk (customers with life protection dying), critical illness risk, expense risk (the amount it costs us to administer policies) and persistency risk (customers lapsing or surrendering their policies).</p>	<p>General insurance risk is the risk arising from loss events (fire, flooding, windstorms, accidents etc).</p> <p>Accident & Health insurance risk covers healthcare costs and loss of earnings arising from customers falling ill.</p> <p>Life insurance risk includes longevity risk (annuitants living longer than we expect), mortality risk (customers with life protection dying), critical illness risk, expense risk (the amount it costs us to administer policies) and persistency risk (customers lapsing or surrendering their policies).</p>	<p>Uncertain returns on our investments as a result of credit risk (actual defaults and market expectation of defaults) and market risks (resulting from fluctuations in asset values, including equity prices, property prices, foreign exchange, inflation and interest rates) affect our ability to fund our promises to customers and other creditors, as well as pay a return to our shareholders.</p> <p>Some of our life and savings contracts provide guaranteed minimum investment returns to customers and as a result we accept from them investment type risks such as credit and market risk in order to offer upside potential but provide protection against the downside.</p> <p>Liquidity risk is the risk of not being able to make payments as they become due because there are insufficient assets in cash form.</p>	<p>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.</p> <p>Such operational failures may impact our customers or our reputation with the public, customers, agents and the regulator, and impair our ability to attract new business.</p> <p>Asset management risk is the risk of customers redeeming funds, not investing with us, or switching funds, resulting in reduced fee income. We manage funds on behalf of our customers so they do not have to manage the credit, market and operational risks which otherwise they would have to manage themselves.</p>
<p>The risks we prefer</p> <p>We take measured amounts of life, health and general insurance risks, in line with our core skills in underwriting and pricing.</p> <p>We have a preference for those risks that we understand well, which are intrinsically well-managed and where there is a spread of risks in the same category.</p> <p>We like longevity risk as it diversifies well (i.e. has little or no correlation) against other risks we retain. General insurance risk diversifies well with our life insurance and other risks.</p>	<p>We like credit risk because we believe we have the expertise to manage it. As an insurer, our long-dated, relatively illiquid liabilities enable us to earn superior investment returns by allowing us to invest in higher-yielding, but less liquid, assets such as commercial mortgages.</p> <p>While actively seeking some market risks as part of our investment and product strategy, we have a limited appetite for interest rate, foreign exchange and inflation risks as we do not believe that these are adequately rewarded.</p>	<p>We aim to reduce operational and asset management risks to as low a level as is commercially sensible, on the basis that taking operational risk will rarely provide us with an upside.</p>	



“
We believe a strong system of risk management is essential in ensuring that our business runs smoothly, supports good decision making and helps to deliver our strategic aims

”
Angela Darlington
Chief Risk Officer

Principal risk types

While the types of risk to which the Group is exposed, set out on the previous page, have not changed significantly over the year, the successful completion of the acquisition of Friends Life has increased our relative exposure to equity price risk and UK life insurance risks, in particular persistency risk. Our top three risks assessed on the basis of their potential impact on our economic balance sheet are credit risk, longevity risk and persistency risk.¹

We also assess risks on the basis of their potential impact on the value of our franchise, which is supported by our reputation, brand and good customer relationships. Conduct and operational risks, such as cyber security breaches, data loss and IT systems failure, in particular have the potential to significantly impact our franchise value.

How we manage our risks

Our core expertise is in understanding and managing risks, so that we can competitively price our products, deliver on our promises to customers and provide sustainable earnings growth to our shareholders.

Rigorous and consistent risk management is embedded across the group through our Risk Management Framework and is underpinned by:

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

► **Our risk governance:** Includes risk policies and business standards, risk oversight committees and roles and responsibilities. Line management in the business is accountable for risk management which, together with the risk function and internal audit, form our ‘three lines of defence’ of risk management.

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



¹ Ranked by diversified Solvency II Solvency Capital Requirement

Conduct risk Management

This is about delivering good outcomes for our customers at each stage of the product lifecycle: the design and development of our products, the sales process, servicing policies and handling claims. Failure to do so undermines our reputation and as a result our ability to attract new customers. As part of our conduct risk management framework, we have been developing more granular and relevant conduct risk management information, insights from which have resulted in changes to product terms and conditions as well as improving key customer related processes.



Risk mitigation

The risks we have a preference for are managed principally through:

- extensive use of data, financial models and analysis at point of risk selection (i.e. investment or underwriting)
- setting underwriting and investment limits to our underwriting exposures to single risks and classes of business and investment exposures by asset class, counterparty, geography, sector and other pre-established risk criteria, such as credit rating

“

For us, conduct risk management is all about doing the right thing for our customers

”

Kirstie Caneparo
Group Compliance Officer

To help ensure our risk exposures are within appetite, specific risk mitigation actions taken in 2015 included:

- Renewal of catastrophe reinsurance programme
- Reinsurance of our exposure, currently estimated at £0.7 billion, to future claims arising from historic UK employers' liability business which may take a number of years to emerge
- Hedging activity, including use of interest rate swaps, to match our cashflow to our annuity portfolio more effectively, as well as continuation of our equity, credit and foreign exchange risk hedging programmes
- RAC staff pension scheme longevity swap covering circa £0.6 billion of pensioner in payment scheme liabilities reducing our longevity risk exposure
- Investment in our Security Transformation programme to improve our residual risk position for cyber security
- On-going investment in simplifying our technology estate to improve the resilience and reliability of our systems

90%

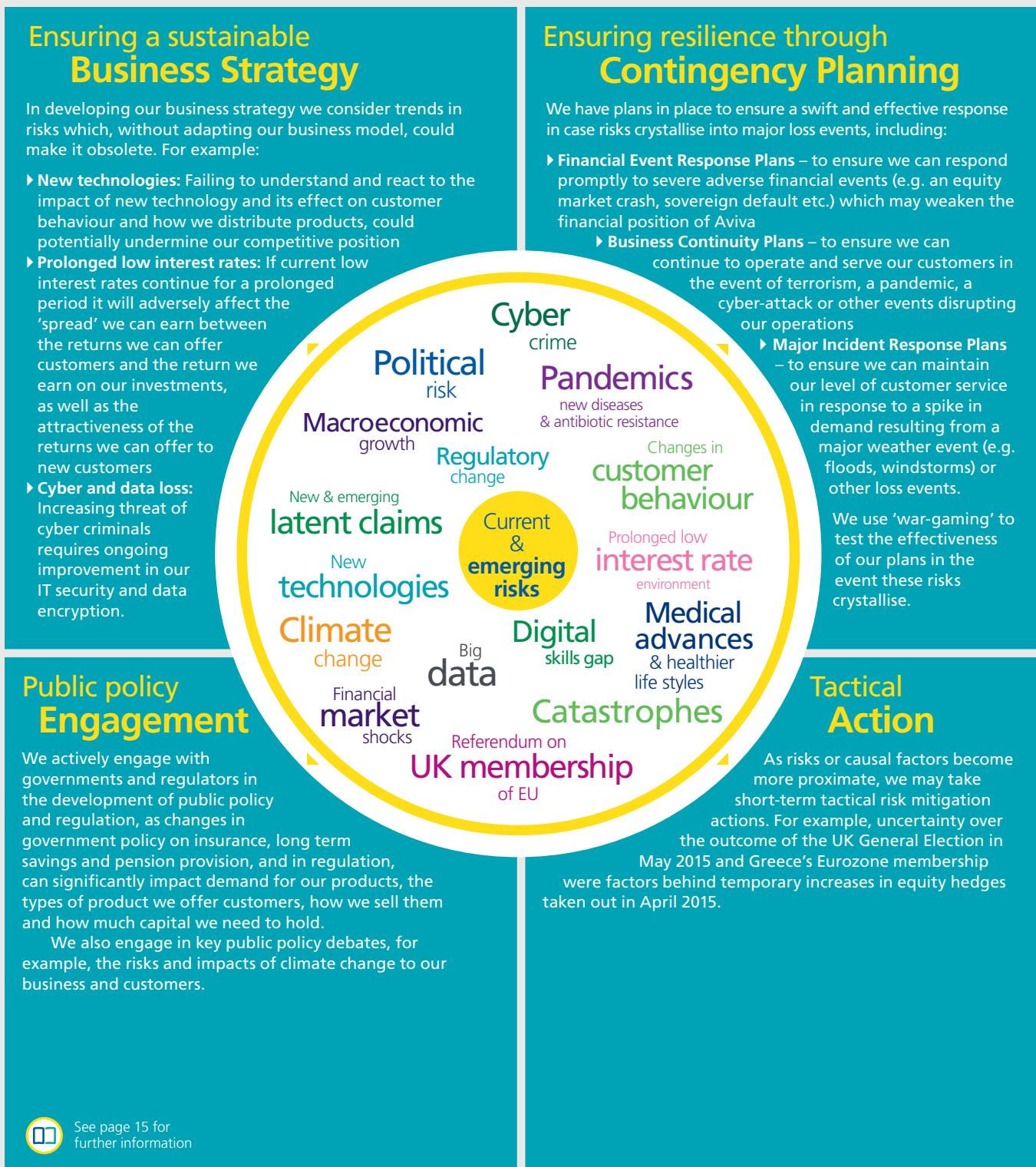
of major UK businesses had a cyber breach of security in the last year¹

Current and emerging risks and causal factors

We also manage and monitor risks and causal factors which may impact our current and longer term profitability and viability, in particular our ability to write profitable new business. We take account of these risks and possible causal factors when developing our long-term business strategy and contingency plans. We may take short-term tactical risk mitigation actions as these risks become proximate, and, if appropriate, engage with governments and regulators to help inform the development of public policy, as set out on the following page. ■

¹ Research quoted by UK Government's Department for Culture, Media and Sport

Risks and causal factors



This Strategic Report (on pages 1 – 65) was approved by the Board of Directors on 9 March 2016 and signed on its behalf by

Mark Wilson
Group Chief Executive Officer

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Governance

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Dear Shareholder

I am pleased to present this year's directors' and corporate governance report, which is my first as Chairman



As Chairman and as a Board, we take our governance responsibilities extremely seriously: we take pride not only in what we do but also in the way that we conduct our business and deliver our strategy. Our governance structure is key to this: good governance helps to deliver value for customers and shareholders and to manage the inherent risks of the business prudently.

Governance in 2015

During the year, we have sought to ensure that our governance structures at Board, committee and subsidiary company levels continue to be appropriate for the businesses and the markets in which we operate around the world, while supporting our overall strategy and culture. It is important that our approach to governance matches our values: Care More; Kill Complexity; Never Rest; and Create Legacy.

In 2015, we have strengthened governance within the Group by codifying the principles for subsidiary governance and issuing specific guidance for individual legal entities. This has supported effective decision-making by providing clarity on the relationship between Aviva plc, as ultimate shareholder and subsidiary boards. These

principles also articulate our governance expectations at every level in our corporate structure.

In other areas of the business, we have announced our desire to maximise our competitive advantage as a composite insurer and asset manager by launching UK Digital, a new business structure to develop our digital service and capability. UK Digital has required an evolution in our governance processes. An example of how our governance structure has adapted over the year to support our work on UK Digital is

contained within this report. Other areas of business focus which have featured on our governance agenda have included Solvency II readiness, IT infrastructure, conduct risk and the integration of Friends Life.

Good governance helps to deliver value for customers and shareholders and to manage the inherent risks of the business prudently

Sir Adrian Montague
Chairman

In April 2015.

During 2015, the Board and each committee conducted its annual evaluation of its own performance. This was externally facilitated and the findings provided a clear agenda for us to continue to improve as a Board, including the opportunity to focus on succession

Board changes and succession planning

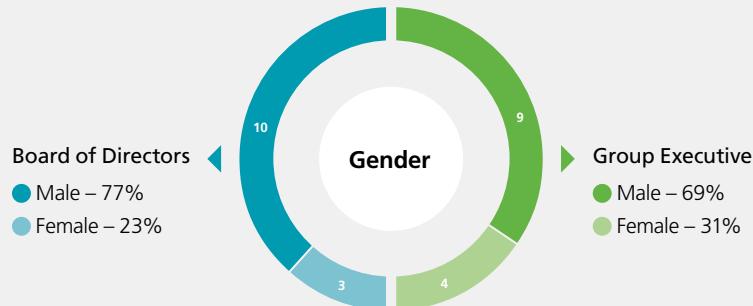
There were several changes to the composition of the Board in 2015 which are detailed in the directors' and corporate governance report in this report. During the year, the Nomination Committee discussed matters relating to Board composition, succession and talent planning at executive level and this is an area that will continue to be part of its agenda during 2016. In addition to those changes made in 2015, on 8 February 2016 we were pleased to announce the appointment of Claudia Arney to the Board as an Independent Non-Executive Director. Our Board and executive team have a wide and diverse range of skills as indicated in the charts opposite. Gender diversity is considered as one aspect of those discussions: we have made progress towards achieving our target of 25% female representation on the Board, and we remain committed to improving this position further when the appropriate opportunity arises. The Nomination Committee report contains further information on our approach.

Effectiveness and evaluation

As Chairman it is my role to provide leadership to ensure that it is possible to make high-quality decisions and ensure the operation of an effective Board. I am supported by all the directors but particularly by Sir Malcolm Williamson, the Senior Independent Director, who meets independently with the other directors and with the Company's major shareholders when required. This report contains an interview with Sir Malcolm who reflects on his impressions of Aviva since joining the Board

Board and Group Executive Diversity

At Aviva we believe that diverse leadership in terms of experience, skills, tenure and gender is important. The charts below illustrate our diversity at both Board and senior management level. Figures are correct as of 9 March 2016



planning and on the quantity and quality of information being presented to the Board. Further detail on the results of the Board evaluation can be found in this report.

Governance framework

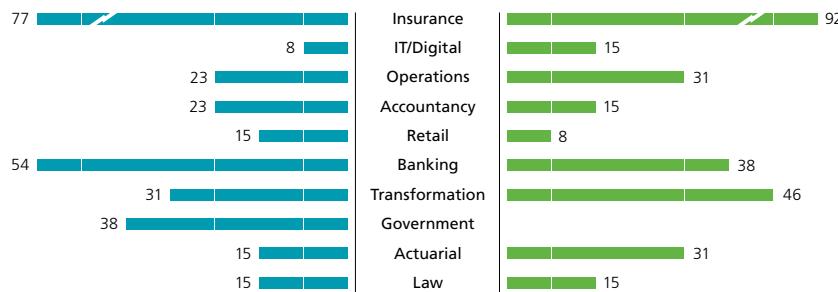
This year the Board and each of its committees have applied the revised UK Corporate Governance Code (the Code), to the Group for the 2015 financial year. Whilst many of the recommendations were adopted in our 2014 annual report, one new element for 2015 is that the Board is required to make a statement of Aviva's longer-term viability. The Board has decided to present a viability statement that will cover the three year period to 2018 and the assessment of the Group's prospects are underpinned by management's 2016-2018 business plan. The longer-term viability statement can be found in Other Statutory Information later in this report.

The directors' and corporate governance report and the directors' remuneration report have been prepared in order to provide shareholders with a comprehensive understanding of how the Board and its committees operate within Aviva's governance framework. The reports demonstrate how we meet the requirements of the Code and other guidance and how we structure ourselves to meet the changing regulatory environment and deliver value for customers and shareholders.

Communication with shareholders is extremely important to the Board and I very much look forward to discussing the Group's progress with you at our forthcoming Annual General Meeting.

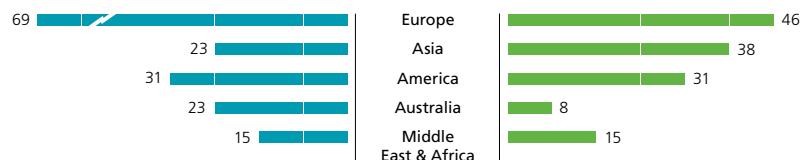
Sir Adrian Montague CBE
Chairman
9 March 2016

Experience & skills %



Note: percentages are shown as a proportion of the Board/Group Executive and do not equal 100%.

International experience %



Note: percentages are shown as a proportion of the Board/Group Executive and do not equal 100%.

Tenure



Age



Board of Directors

We have a strong, experienced and diverse Board with a good balance of skills



- **Sir Adrian Montague, CBE**
- Chairman

Nationality:
British

Appointment date:
14 January 2013
8 May 2013 as Senior Independent Director
29 April 2015 as Chairman

Committee membership:
Nomination Committee (Chair)

Skills and Experience:
Sir Adrian's previous experience as a Board member and as Senior Independent Director brings continuity to the Board and a deep knowledge of the Company and its businesses.

Sir Adrian has significant experience of the financial services industry, government affairs and regulatory matters. He has previously been the chairman of a number of companies across a variety of sectors including Friends Provident plc, Anglian Water Group Ltd, British Energy Group plc, Michael Page International plc, UK Green Investment Bank plc, 3i Group plc and Cross London Rail Links Ltd.

He was formerly a partner at Linklaters & Paines.

External Appointments:
Sir Adrian is currently chairman of The Manchester Airports Group plc and The Point of Care Foundation (charity) and non-executive director of Cellmark Holdings AB (forest products).



- **Mark Wilson**
- Group Chief Executive Officer

Nationality:
New Zealander

Appointment date:
1 December 2012
1 January 2013 as Chief Executive Officer

Committee membership:
N/A

Skills and Experience:
Mark has extensive experience of leading major international insurance companies and has an excellent track record as a focused and inspirational business leader.

Under his leadership, Aviva has emerged with a strong financial position and a clear strategy to fully maximise the potential of the business. In 2015 Mark led the £6 billion acquisition by Aviva of the Friends Life Group and the subsequent integration which is progressing ahead of schedule.

Mark continues to lead campaigns on issues of importance to Aviva's customers and has emerged as a major commentator in debates about the role of business in society.

Previously, Mark worked for 14 years in Asia, including as chief executive officer of AIA Group, based in Hong Kong. He repositioned AIA into the leading pan-Asian insurance company, creating a stronger and significantly more valuable independent entity, leading to the largest initial public offering in the corporate history of Hong Kong.

External Appointments:
None.



- **Tom Stoddard**
- Chief Financial Officer

Nationality:
American

Appointment date:
28 April 2014

Committee membership:
N/A

Skills and Experience:
Tom brings to his position as Chief Financial Officer diverse experience, having held senior positions in highly respected US firms including his role as head of Global Financial Institutions Advisory at the investment and advisory firm Blackstone Advisory Partners LP.

Tom has played a fundamental role in our strategic decision making and has continued to drive forward our investment thesis of cash flow plus growth. Tom's considerable experience and financial expertise has also been invaluable in the Board's deliberations concerning the acquisition of the Friends Life business and in our preparations for Solvency II.

Prior to joining the Company, Tom worked primarily as an investment banker, which included advising Aviva. He also has experience as a corporate lawyer and as an asset based lender. His other senior positions were at Credit Suisse; Donaldson, Lufkin & Jenrette; and Cravath, Swaine & Moore LLP.

External Appointments:
Tom is a trustee of Trout Unlimited (conservation).



- **Andy Briggs**
- Chief Executive Officer of Aviva UK Life and Chairman of Global Life

Nationality:
British

Appointment date:
29 April 2015

Committee membership:
N/A

Skills and Experience:
Andy joined the Board to lead Aviva's enlarged UK Life business following the acquisition of Friends Life where he was group chief executive.

He has more than 25 years of operational and executive experience across life assurance and general insurance, both in the UK and overseas. He has extensive knowledge of the UK regulated environment combined with experience in capital and risk management. At Friends Life he led the transformation of the three acquired businesses and brings his strategic and business skills, experience of organisational change, and knowledge of the Friends Life business, to the Board.

Andy was formerly chief executive officer of Scottish Widows plc, the life insurance business of Lloyds Banking Group plc and the Prudential Group's retirement income business.

External Appointments:
Andy is deputy chair of the board of the Association of British Insurers (ABI) and represents the ABI at the Financial Conduct Authority Practitioner Panel. He is also a member of the NSPCC's fundraising committee.



● **Sir Malcolm Williamson**
► Senior Independent
Non-Executive Director

Nationality:
British

Appointment date:
29 April 2015

Committee membership:
Audit Committee
Governance Committee
Nomination Committee
Remuneration Committee

Skills and Experience:
Sir Malcolm brings to the Board more than 50 years' leadership experience in the insurance and banking sectors and has extensive knowledge of the UK life insurance market. Sir Malcolm also brings a detailed knowledge of Friends Life, providing vital continuity during the integration of the businesses.

Sir Malcolm gained extensive experience while fulfilling a number of senior positions including his role as chairman of Clydesdale Bank plc, group chief executive of Standard Chartered plc and deputy chairman of Resolution plc.

External Appointments:
Sir Malcolm is currently chairman of Cass Business School's Strategy and Development Board, the Board of Trustees of Youth Business International Ltd, the Governing Council of the Centre for the Study of Financial Innovation and NewDay Group Ltd (banking).



● **Claudia Arney**
► Independent
Non-Executive Director

Nationality:
British

Appointment date:
8 February 2016

Committee membership:
Nomination Committee

Skills and Experience:
Claudia has a wide range of experience as both an executive and non-executive director across a number of sectors including financial services, digital and government.

Previously Claudia was deputy chairman and senior independent director of Telecity plc, chairman of the Public Data Group and a non-executive director of Which?, Doctors.net.uk, Transport for London and Partnerships UK. In her executive career, Claudia was group managing director of Emap and was responsible for transforming the predominantly print trade publishing business into a digital data and information business.

External Appointments:
Currently Claudia is a non-executive director of Derwent London plc (commercial real estate), Halfords Group plc and the Premier League. She is also a member of the Advisory Board of the Shareholder Executive.

- Executive
- Non-Executive



● **Glyn Barker**
► Independent
Non-Executive Director

Nationality:
British

Appointment date:
27 February 2012

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

Skills and Experience:
Glyn has extensive experience as a business leader and a trusted adviser to FTSE100 companies and their boards on a wide variety of corporate and finance issues. He possesses a deep understanding of accounting and regulatory issues together with in-depth transactional and financial services experience.

Glyn was formerly vice chairman, UK of PricewaterhouseCoopers LLP with responsibility for leading the executive team for the Europe, Middle East, Africa and India regions.

External Appointments:
Currently Glyn is chairman of Interserve plc (support services and construction), Irwin Mitchell (law firm) and Transocean Partners LLC (offshore drilling); non-executive director of Transocean Ltd and Berkeley Group Holdings plc (construction); and a trustee of English National Opera.



● Patricia Cross
 ▶ Independent
 Non-Executive Director

Nationality:
 Australian

Appointment date:
 1 December 2013

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

Skills and Experience:
 Patricia brings a broad range of experience and skills to the Board, gained over more than 30 years across financial services and other regulated industries in the United States, Europe and Australia.

She was previously group executive, wholesale banking and finance at National Australia Bank Ltd and has worked in senior roles with JP Morgan Chase and BNP Paribas.

Patricia was formerly a non-executive director at Suncorp-Metway Ltd (insurance and banking), AMP Ltd (insurance), Westfarmers Ltd (ASX10 conglomerate including insurance), Qantas Airways Ltd and National Australia Bank Ltd.

External Appointments:
 Patricia is currently chair of the Commonwealth Superannuation Corporation and a non-executive director of Macquarie Group Ltd and Macquarie Bank Ltd. She is an ambassador for the Australian Indigenous Education Foundation.



● Belén Romana García
 ▶ Independent
 Non-Executive Director

Nationality:
 Spanish

Appointment date:
 26 June 2015

Committee membership:
 Governance Committee
 Nomination Committee
 Risk Committee

Skills and Experience:
 Belén brings to the Board significant experience of the financial services industry, including a detailed knowledge of insurance and European regulation.

As a former Spanish civil servant, Belén has held senior positions at the Spanish Treasury, the International Monetary Fund, the European Central Bank, the Organisation for Economic Co-operation and Development and the European Commission.

Belén has held non-executive positions at Ageas (insurance), Acerinox (stainless steel manufacturing conglomerate) and Banesto (banking).

External Appointments:
 Belén is currently an independent non-executive director of Banco Santander.



● Michael Hawker, AM
 ▶ Independent
 Non-Executive Director

Nationality:
 Australian

Appointment date:
 1 January 2010

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

Skills and Experience:
 Michael brings to the Board a wealth of knowledge and experience gained over a long career in the banking and insurance industries, in both executive and non-executive roles in Europe, Asia and Australia.

He was formerly chief executive and managing director of Insurance Australia Group, group chief executive of business and consumer banking at Westpac Banking Corporation and chairman of the Insurance Council of Australia.

External Appointments:
 Michael is currently a non-executive director of Macquarie Group Ltd, Macquarie Bank Ltd and Washington H Soul Pattinson Pty and Company Ltd (investment).

Michael is chairman of The George Institute for Global Health.



● Michael Mire
 ▶ Independent
 Non-Executive Director

Nationality:
 British

Appointment date:
 12 September 2013

Committee membership:
 Governance Committee
 Nomination Committee
 Remuneration Committee
 Risk Committee

Skills and Experience:
 Michael has extensive experience of implementing transformation programmes and also brings an in-depth understanding of the financial services sector.

He has more than 30 years of experience in the financial services and retail sectors. He was formerly a senior partner at McKinsey & Company and started his career at N M Rothschild as an analyst.

Michael also gained governmental experience at the Central Policy Review Staff (now the Number 10 Policy Unit).

External Appointments:
 Michael is currently the senior independent director at the Care Quality Commission.

- Executive
- Non-Executive
- Group General Counsel and Company Secretary



● **Bob Stein**
► Independent Non-Executive Director

Nationality:
American

Appointment date:
28 January 2013

Committee membership:
Audit Committee
Nomination Committee
Remuneration Committee
Risk Committee

Skills and Experience:
Bob brings significant accounting and financial services experience to the Board from his roles in actuarial, insurance and financial services practices.

He has had a number of managing partner roles at Ernst & Young, culminating in being managing partner, Global Actuarial Practice.

Bob is a certified public accountant and a fellow of the Society of Actuaries. He is a member of the American Institute of Certified Public Accountants and a member of the American Academy of Actuaries.

External Appointments:
Bob is currently a non-executive director of Assurant, Inc (US specialty insurance), a director of Resolution Life Holdings, Inc. and is a trustee emeritus of the board of trustees of the US Actuarial Foundation.



● **Scott Wheway**
► Independent Non-Executive Director

Nationality:
British

Appointment date:
5 December 2007

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

Skills and Experience:
Scott has a wealth of business experience in the retail sector and a good understanding of customer priorities. He brings expertise in driving excellence in customer service within the business.

Scott has served on the Board for more than eight years giving him extensive historical knowledge of the Company and providing valuable continuity to the Board.

He was former chief executive officer of Best Buy Europe, director of The Boots Company plc (now known as The Boots Company Ltd), managing director and retail director of Boots the Chemist at Alliance Boots plc, and director of the British Retail Consortium. He formerly held a number of senior executive positions at Tesco plc, including chief executive of Tesco in Japan.

External Appointments:
Scott is currently a non-executive director of Santander UK plc.



● **Kirstine Cooper**
► Group General Counsel and Company Secretary

Nationality:
British

Appointment date:
22 December 2010

Committee membership:
N/A

Skills and Experience:
Kirstine joined Aviva in 1991 and is the Group General Counsel and Company Secretary for Aviva plc and heads the Office of the Chairman.

She established the legal and secretarial function as a global team and is responsible for the provision of legal services to the Group, legal risk management, regulatory compliance, public policy and corporate responsibility. She also supports the Chairman and the Board in the discharge of their responsibilities.

Kirstine is a lawyer and held a number of legal and senior management roles within Aviva's legacy companies before leading the Group legal function of Aviva for eight years.

External Appointments:
Kirstine is a board member of the English National Ballet, ENB Productions Ltd and English National Ballet Enterprises Ltd.

Group Executive

The Group Executive focuses on our strategy, business model, financial and business performance and ensures that the Group remains committed to being a True Customer Composite


Mark Wilson

- ▶ Group Chief Executive Officer

Go to page 70 to read Mark's biography.


Tom Stoddard

- ▶ Chief Financial Officer

Go to page 70 to read Tom's biography.


Andy Briggs

- ▶ Chief Executive Officer of Aviva UK Life and Chairman of Global Life

Go to page 70 to read Andy's biography.


Kirstine Cooper

- ▶ Group General Counsel and Company Secretary

Go to page 73 to read Kirstine's biography.


Nick Amin

- ▶ Chief Operations and Transformation Officer

Joined Aviva in 2013

Nick is responsible for the transformation programme across the Group, which includes driving the integration and cost synergies associated with the Friends Life integration. Nick has a strong international background in consumer banking, insurance and transformation projects over a 40 year career.


Angela Darlington

- ▶ Chief Risk Officer

Joined Aviva in 2001

Angela is responsible for Aviva's risk function, providing oversight and challenge on the Group's management of risks, and the continual development of the Solvency II internal model and risk management framework. Angela has held a variety of actuarial roles within Aviva, including UK Life chief actuary.


David McMillan

- ▶ Chief Executive Officer, Aviva Europe and Chairman Global Health Insurance

Joined Aviva in 2002

David is responsible for Aviva's European, Indian and health business across the Group. David was previously group transformation director with responsibility for managing the implementation of Aviva's strategic plan across the Group.


Sarah Morris

- ▶ Chief People Officer

Joined Aviva in 2015

Sarah is responsible for the leadership of Aviva's people and communication strategy. Sarah has significant international experience, particularly in transformation and change across a number of industries. She was most recently global human resources director for a division of Thomson Reuters.


Euan Munro

- ▶ Chief Executive Officer, Aviva Investors

Joined Aviva in 2014

Euan is responsible for driving Aviva Investors' expertise in managing Aviva's own funds, and has widened Aviva Investors' distribution network whilst achieving scalability within the organisation. Euan has significant experience in fixed income and multi-asset management in an insurance environment.


Monique Shivanandan

- ▶ Chief Information Officer

Joined Aviva in 2014

Monique has led the transformation of Aviva's information security capability, and established a three year programme to simplify Aviva's IT estate, whilst continuing to deliver a high-volume of change to support the business. Monique previously worked as chief technology officer at Capital One and had responsibility for defining and driving their technology strategy.


Maurice Tulloch

- ▶ Chief Executive Officer, Aviva UK & Ireland General Insurance and Chairman Global General Insurance

Joined Aviva in 1992

Maurice has repositioned the global General Insurance business within the Group, whilst championing the "Road to Reform" campaign to reform the UK motor insurance market to the benefit of customers. Prior to his appointment Maurice held the role of chief executive officer of Aviva Canada.


Chris Wei

- ▶ Executive Chairman of Aviva Asia and Global Chairman of Aviva Digital

Joined Aviva in 2014

Chris is responsible for the strategic growth of Aviva's Asian businesses and overall leadership of Aviva's digital product transformation. Prior to joining Aviva, Chris was group chief executive officer and executive director of Great Eastern Holdings Ltd.


Jason Windsor

- ▶ Chief Capital and Investments Officer

Joined Aviva in 2010

Jason is responsible for the Group's strategy, capital and insurance investments, which includes capital management and allocation, asset liability management, treasury, reinsurance and mergers & acquisitions. He was previously managing director in the Financial Institutions Group at Morgan Stanley, with management responsibility for the European asset management sector.

Directors' and corporate governance report

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

The UK Corporate Governance Code

As a UK premium listed company, Aviva has adopted a governance structure based on the principles of the UK Corporate Governance Code 2014 (the Code). Further details of how the Company has applied the Code principles and complied with its provisions, are set out in this report and the directors' remuneration report.

The Board's view is that the Company was compliant throughout the accounting period with the relevant provisions of the Code. Further information on the Code can be found on the Financial Reporting Council's website www.frc.org.uk



The Board believes that a strong system of governance throughout the Group is essential in ensuring that the business runs smoothly



Sir Adrian Montague
Chairman

The Board

The Board's role is to provide entrepreneurial leadership within a framework of prudent and effective controls which enable risk to be assessed and managed. The Board believes that a strong system of governance throughout the Group is essential in ensuring that the business runs smoothly. This aids effective decision-making and supports the achievement of the Group's objectives for the benefit of customers and shareholders.

The Board is responsible to shareholders for promoting the long-term success of the Company and, in particular, for setting the Group's strategic aims, monitoring management's performance against those strategic aims, setting the Group's risk appetite, ensuring the Group is adequately resourced, and that effective

controls are in place. The Board, supported by the Governance Committee, also sets the values and supports the culture of the Group.

The duties of the Board are set out in its terms of reference which address a wide range of corporate governance matters and list those items that are specifically reserved for decision by the Board. They also set out those matters that must be reported to the Board, such as senior leadership changes, significant litigation or material regulatory breaches and explain how matters that arise between scheduled meetings should be dealt with. The Board delegates clearly defined responsibilities to various committees and reports from the Audit, Governance, Nomination and Risk Committees are contained in this report. A report from the Remuneration Committee is included in the directors' remuneration report.

The terms of reference for each of the committees can be found on the Company's website at www.aviva.com/committees and are also available from the Group Company Secretary.

We have included a number of case studies in the report this year to highlight areas of interest. For example, later in this report you will find an interview with Sir Malcolm Williamson who joined the Aviva Board in April 2015 following the completion of the Friends Life acquisition and opposite, details of the governance oversight we are applying to the digital business.

Digital Governance

Our strategy is to maximise our competitive advantage as a composite insurer and asset manager by putting digital first. That means integrating digital throughout our businesses so that we can provide better products and services for our customers.

We are applying the same logic to our governance. Previously different areas of the business would operate separate risk and governance arrangements. This would not work for UK Digital (UKD) which incorporates different business lines and product segments and as a composite insurer requires a different governance model.

UKD has its own board of directors, drawn from the senior management across the Group, which is responsible for making all strategic and governance decisions together with an executive committee and executive risk committee. The Group Governance Committee oversees and advises UKD on regulatory and conduct risks. The ability to escalate governance issues directly to Group provides speed and agility in decision-making and the required oversight, in a fast developing area. Other risks such as finance and IT are dealt with through the normal reporting arrangements to the Group Risk Committee and Group Audit Committee. This is a good example of using Aviva's robust and mature governance structure and adapting it to business needs.



Board Responsibilities and allocation of agenda time

People, Board effectiveness and succession planning – 5%

Ensure adequate succession planning including changes to the composition of the Board and its committees, and undertaking the annual effectiveness review.

To set and uphold the values and standards of the Company.

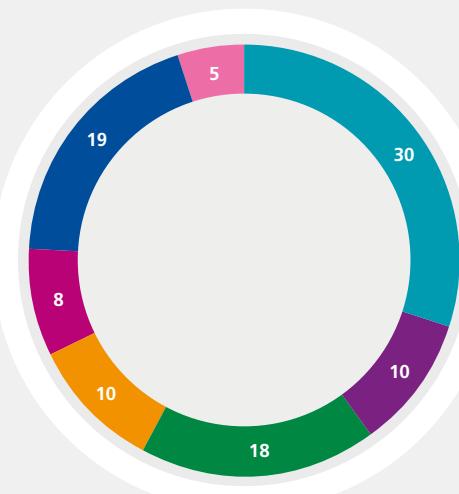
Financial reporting and controls, capital structure and dividend policy – 19%

Review the financial results and forecasts; reports on performance against the financial plan; competitor results and treasury activities.

Solvency II – 8%

Approve the Group's Partial Internal Model Application Package (IMAP).

Apply Solvency II (SII) principles to manage risk and capital. Define risk management practices and measure progress.



Group strategy and business plans – 30%

Set the Group's strategic aims and approve the Group Plan; monitor the performance of the Group and its management against its strategic aims; receive reports on changes in senior management; regulatory developments; and the control environment.

Group risk appetite and framework – 10%

Set the Group's risk appetite and monitor the Group's significant risks; the Group's capital and liquidity position; and compliance with business standards and controls.

Corporate governance – 18%

Review and approve all financial results announcements; the annual report and accounts and significant shareholder communications. Receive regular reports from each committee and updates on proposed changes to legislation and regulatory matters.

Activities during 2015

Group strategy and business plans

- ▶ Approved the 2016-2018 Group Plan and received presentations and reports from business units in respect of strategy execution and performance against Plan
- ▶ The Board received regular reports from the Group Chief Executive Officer which contained updates on the Group's financial performance; discussions of any proposed corporate transactions; changes in senior management; regulatory developments; and the control environment, together with progress against the Group Plan and the Group's strategy

Group risk appetite and framework

- ▶ The Board received reports from the Chief Risk Officer on the Group's significant risks and regulatory issues; monitored the Group's risk appetite; ensured compliance with business standards and controls; and received updates on the Group's capital and liquidity position

Corporate governance

- ▶ The Board received regular updates from its committees and management on legislation and proposed consultations that may affect the Company's legal and regulatory obligations
- ▶ The Board ensured that governance structures remained appropriate for the businesses and the markets in which we operate around the world, while supporting the overall strategy and culture. The Board supported the development of the Subsidiary Governance Principles

Significant transactions and expenditure

- ▶ The Board agreed the Aviva content of the prospectus and circular that was sent to shareholders in connection with the acquisition of Friends Life
- ▶ Regular updates regarding the progress of the Friends Life integration were made to the Board
- ▶ Consideration and recommendation of the proposed acquisition of RBC General Insurance Company by Aviva Canada, which was announced on 21 January 2016

Solvency II

- ▶ The Board approved the IMAP and received tailored training on SII including Pillar 3 with Risk Committee members receiving more detailed training on specific areas

Financial reporting and controls, capital structure and dividend policy

- ▶ As part of its annual work plan, the Board reviewed the financial performance of the Company and approved all financial results announcements, the annual report and accounts and dividend payments
- ▶ The Board considered the Group capital and liquidity requirements arising from the Company's strategy and Group Plan

People, Board effectiveness and succession planning

- ▶ Succession planning was a focus for the Board in 2015 and further details are provided in the Nomination Committee report
- ▶ The Board undertook an external evaluation of its effectiveness and the effectiveness of each committee and the individual directors during 2015. Further details are included later in this report

The directors

2015 Board changes

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

On 29 April 2015, the date of the 2015 Annual General Meeting (AGM), Sir Adrian Montague CBE, who was the Company's Senior Independent Director, was appointed as Chairman of the Board in place of John McFarlane who retired on the same date. As explained in the Company's 2014 annual report, and given the well developed succession plan that had been put in place for this position the Board decided not to use an external search consultancy or open advertising for this appointment.

Prior to Sir Adrian's appointment as Chairman, the Nomination Committee reviewed the time commitment required for the role and noted that Sir Adrian intended to reduce his external commitments to give him sufficient time to dedicate to the role. During the year, Sir Adrian retired as Chairman of Anglian Water Group Ltd and 3i Group plc and also resigned as a non-executive director from Skanska AB.

In addition, following the acquisition of Friends Life, Sir Malcolm Williamson and Andy Briggs joined the Board on 29 April 2015. Sir Malcolm replaced Sir Adrian as the Company's Senior Independent Director and Andy Briggs became Chief Executive Officer of the enlarged UK Life business.

Gay Huey Evans retired from the Board on 29 April 2015 and Belén Romana García was appointed as a NED on 26 June 2015. Since the year end, the Company has announced the appointment of Claudia Arney as a NED with effect from 8 February 2016.

NED appointments

The Board's policy is to appoint and retain NEDs who can apply their wider business knowledge and experiences to their oversight of the Group and to review and progressively refresh the skills on the Board. The report of the Nomination Committee sets out the work carried out during the year on succession planning for the Board. Committee membership is also regularly refreshed.

Appointments of NEDs are made by the Board subject to the usual regulatory approvals and continued satisfactory performance following the Board's annual performance evaluation. Their appointment is also subject to the Company's articles of association which prescribe that all serving directors will retire and stand for re-election at each AGM.

NEDs are required to be able to present objective, rigorous and constructive challenge to management, drawing on their wider experiences to question assumptions and viewpoints. The NEDs should also assist management in the development of the Company's strategy. To be effective, it is the Board's view that the majority of our NEDs should have a sound understanding of the financial services industry so as to be able to evaluate properly the information provided.

Board independence

Each NED must be able to devote sufficient time to the role in order to discharge his or her responsibilities effectively.

The Board, having considered the matter carefully, is of the opinion that all of the current NEDs remain independent and free from any relationship or circumstances that could affect, or appear to affect, their independent judgement. Scott Wheway has served on the Board since his appointment in December 2007 and Mike Hawker since his appointment in January 2010, and accordingly in early 2016 their performance, including their independence, was the subject of a particularly rigorous review pursuant to the requirements of the Code. The Board remains satisfied that they remain independent and that they continue to make valuable contributions in their various roles. Scott will remain on the Board until the end of 2016 at which point he will retire.

Over half of the Board members, excluding the Chairman, are independent NEDs. Biographical details including a summary of the skills and experience the directors bring to the Board are set out in their biographies on pages 70 to 73 and in the Company's 2016 Notice of Annual General Meeting.

Time commitment

In considering the time commitment required from directors the Board takes into account the number of other external commitments that each director has. The time commitments of the NEDs are assessed as part of the annual review of their effectiveness and each director has demonstrated that they have sufficient time to devote to their present role with Aviva. Under the Board's policy on this matter, executive directors may hold one external directorship and must obtain the prior consent of the Board before accepting a non-executive directorship in any other company. Executive directors may retain the fees from any such directorship. Details of any external non-executive directorships held by executive directors during 2015 are shown in the directors' remuneration report.

Board diversity

The diversity charts, that are contained within the governance letter earlier in this report, show that Aviva has a strong Board with a range of different skills. One of the benefits arising from the Friends Life acquisition was the opportunity to invite Sir Malcolm Williamson and Andy Briggs to join the Board. Both have a wide range of industry experience which is now benefiting the enlarged Group. In addition, the Group has benefitted from appointing three new NEDs, who were formerly on the Board of Friends Life, to the UK Life subsidiary boards which retains valuable knowledge and experience within the Group.

Independent advice

All directors have access to the advice and services of the Group Company Secretary and the Board has established a procedure whereby directors wishing to do so in furtherance of their duties may take independent professional advice at the Company's expense. No such requests were made during 2015.

The Company arranges appropriate insurance cover in respect of legal actions against its directors. The Company has also entered into indemnities with its directors as described on page 99.

The Chairman and Group CEO

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

Senior Independent Director

The Senior Independent Director's (SID) role is to act as a sounding board for the Chairman, to serve as an intermediary for the other directors where necessary and to be available to shareholders should they have concerns that they have been unable to resolve through normal channels, or when such channels would be inappropriate. During the year the NEDs, led by Sir Adrian Montague prior to 29 April 2015, and following this date, by Sir Malcolm Williamson, met several times without the Chairman present. An interview with Sir Malcolm follows on the next page.

The role of the Board and role profiles for the Chairman, SID, Group CEO and NEDs can be found on the Company's website at www.aviva.com/roles.

AN INTERVIEW WITH...

Sir Malcolm Williamson – Senior Independent Director

Sir Malcolm discusses his initial impressions of Aviva and the importance of the Board induction process



You have joined the Aviva Board and have significant leadership experience in the financial services sector. What are your first impressions of Aviva?

Moving to Aviva has meant moving from a life insurer to a composite and the opportunities for Aviva are exciting. Some challenges are common to all insurers – sustainability, a revolution in how customers want to deal with us and issues like Solvency II.

I've been particularly impressed by the drive, technical expertise and strength of the workforce across the Company, and not least in the management team and amongst my Board colleagues, as well as the robustness of the governance arrangements. The new Subsidiary Governance Principles help support this and bring further clarity to our structure.

I strongly believe in effective corporate governance and see this as a definite strength in Aviva and key to its success going forward. Good succession planning, both at Board level and

throughout the organisation, is also essential – these areas I am pleased to say are a focus at Aviva.

What do you think you have brought to the Aviva Board and as Aviva's Senior Independent Director?

I bring considerable experience of the insurance sector, particularly life insurance. As its former Chairman, I specifically bring a detailed knowledge of the Friends Life business, which is also the case for Andy Briggs. I think this continuity is essential with any type of transaction and the subsequent integration of the business and the issues it faces. I am pleased my former Friends Life non-executive directors, Belinda Richards, Mel Carvill and David Allvey remain on the UK Life boards to support this. I also believe I add an independence of judgement and challenge to Board discussions which is vital to being an effective SID.

Since the acquisition I have chaired meetings of my fellow NEDs as part of the ongoing effectiveness process and

reviewed the workings of the Board and of the Chairman and this is something I will continue.

Finally I bring a great enthusiasm to continue the journey we have started together!

Aviva has highlighted the importance of a comprehensive induction process for all. Have you found this valuable?

I have always believed that a good induction process is essential not just at Board level. Throughout the organisation there has been a big drive to improve this and recent efforts to recruit and develop new talent, for example through the new programmes for graduates, make this even more important.

My experience, along with Andy Briggs', has been slightly different from the induction a member of the Board would normally receive as I had already met with Aviva's directors and senior executives and received a lot of information about the Group as part of the due diligence undertaken on the transaction.

Nevertheless, I have received a comprehensive induction with a series of meetings with individual Board members and senior management to gain a more detailed and tailored understanding of Aviva's business. This has included visits to several business unit operations such as Canada and Poland and meetings with the Company's major shareholders and advisors.

What do you look forward to at Aviva in 2016?

I look forward to continuing to build the enlarged Group. As a business Aviva is well placed to seize the opportunities out there, especially as a composite insurer. I'm looking forward to working to deliver even more for our customers and shareholders.

Board membership and attendance at Board and Committee meetings

The Company requires directors to attend all meetings of the Board and the committees on which they serve and to devote sufficient time to the Company in order to effectively perform their duties. All meetings were attended unless stated in the footnotes below the table. Fuller details on the operation of each committee are contained in the committee reports.

Board and committee meetings attendance during 2015							
Number of meetings held	Board 11	Audit Committee 13	Governance Committee 7	Nomination Committee 7	Remuneration Committee 5	Risk Committee 8	
Chairman							
John McFarlane ¹	5/5	–	–	2/2	–	–	
Sir Adrian Montague ²	10/11	6/6	3/3	7/7	–	–	
Executive directors							
Mark Wilson	11/11	–	–	–	–	–	
Tom Stoddard	11/11	–	–	–	–	–	
Andy Briggs ³	6/6	–	–	–	–	–	
Non-executive directors							
Glyn Barker ⁴	10/11	13/13	–	7/7	–	8/8	
Patricia Cross	11/11	13/13	–	7/7	5/5	–	
Gay Huey Evans ⁵	5/5	–	–	2/2	1/1	3/3	
Belén Romana García ⁶	5/5	–	3/3	4/4	–	3/3	
Michael Hawker ⁷	11/11	11/13	–	7/7	–	8/8	
Michael Mire ⁸	11/11	–	7/7	7/7	4/4	8/8	
Bob Stein ⁹	11/11	7/7	–	7/7	5/5	8/8	
Scott Wheway ¹⁰	11/11	6/6	7/7	7/7	–	4/4	
Sir Malcolm Williamson ¹¹	6/6	7/7	4/4	5/5	4/4	–	

1 John McFarlane retired from the Board and the Nomination Committee on 29 April 2015.

2 Sir Adrian Montague was appointed as Chairman of the Company on 29 April 2015 and Chairman of the Nomination Committee on 14 May 2015. He resigned as a member of the Audit and Governance Committees on 14 May 2015. Sir Adrian was unable to participate in one ad hoc Board call due to a prior engagement which could not be altered.

3 Andy Briggs was appointed as a director on 29 April 2015.

4 Glyn Barker was unable to participate in one ad hoc Board call due to a prior engagement which could not be altered.

5 Gay Huey Evans retired as a director of the Company and as a member of the Nomination, Remuneration and Risk Committees on 29 April 2015.

6 Belén Romana García was appointed as a NED and as a member of the Nomination, Governance and Risk Committees on 26 June 2015.

7 Michael Hawker was unable to attend two meetings of the Audit Committee due to having prior engagements which could not be altered.

8 Michael Mire was appointed as a member of the Remuneration Committee on 14 May 2015.

9 Bob Stein was appointed as a member of the Audit Committee on 14 May 2015.

10 Scott Wheway stepped down from the Audit Committee and was appointed as a member of the Risk Committee on 14 May 2015.

11 Sir Malcolm Williamson was appointed as the Company's SID on 29 April 2015 and as a member of the Audit, Governance, Nomination and Remuneration Committees on 14 May 2015.

Board and Committee evaluation and effectiveness

The effectiveness of the Board is vital to the success of the Group and the Company undertakes a rigorous evaluation process each year in order to assess how well the Board, its committees, the directors and the Chairman are performing. The aim is to continually improve the Board's effectiveness and the Group's overall performance.

The Board's focus over the past year has been spent on a number of issues, notably the Friends Life acquisition, the Chairman's succession and SII readiness. Due to these major events it was felt best practice to bring forward to early 2015 our plan to hold an external evaluation. Our normal cycle would have been to hold this in 2016; the last such external review being held in 2013.

The 2015 evaluation was conducted by Independent Board Evaluation, a specialist consultancy which undertakes no other business for the Company.

In March 2015, interviews were conducted with every then Board member. All participants were interviewed by Ffion Hague, a director of Independent Board Evaluation, according to a set agenda tailored for the Aviva Board, which had been agreed with the Chairman and the Group Company Secretary. In addition, interviews were held with senior managers and advisers together with former Board members and also Andy Briggs and Sir Malcolm Williamson to gain additional feedback. The main actions that we have taken from the evaluation in 2015 are shown in the table on the next page.

The review of the performance of John McFarlane, who was Chairman until the Company's AGM, concluded that he continued to operate to a high level, exhibiting positive leadership and ensuring that the necessary conditions for effective discussion both on an individual and Board level were met.

The review recognised that Sir Adrian Montague would be appointed as the

Company's new Chairman following the 2015 AGM. Board members were united in welcoming Sir Adrian as the Company's new Chairman and felt positive about the year ahead. The evaluation also recognised that following the Friends Life acquisition, the new Board would be a very visible role model to the business in terms of integration and should show a positive example by adapting quickly and embracing the 'best of both' principle.

The then Chairman and SID assessed the performance of the other NEDs and the Executive Directors in their capacity as directors. The Chairman concluded that each director had contributed effectively and demonstrated full commitment to their duties. To assess the Group CEO in respect of his executive duties a separate process was carried out by the Chairman and in respect of the Chief Financial Officer (CFO), by the Group CEO. The process involved measuring performance against each Executive Director's objectives.

Board and committee evaluation and effectiveness

Outcomes and steps taken in 2015

Board debate

- The evaluation indicated that open and productive debate was widespread across the Board and its committees. Overall, the Board and its committees were found to be functioning well with a collaborative and professional atmosphere around the Board table

Boardroom information

- The evaluation highlighted the significant level of agenda time and Boardroom discussion spent on the changing regulatory environment. In order to allow more strategic debate, efforts were made during the year to streamline agendas and enable deeper discussion on strategy, for example through separate off-agenda business unit reviews. Seven such sessions are currently planned for 2016
- In addition to the structure of agendas, the content and makeup of Board and committee packs was reviewed and a new reporting approach is being implemented with the aim of improving the quality of information presented at meetings and creating more time for discussion and decision-making. This will remain a focus in 2016

Improvements in committee collaboration

- Committee collaboration was discussed in the output of the 2014 effectiveness review, and in 2015, the Board has continued to successfully strengthen the relationship between each Board committee
- During 2015 the collaboration between the Board and the boards of subsidiary companies continued. NED attendance at subsidiary board meetings is an example of this together with the Subsidiary Independent Non-Executive Directors' conference which furthers the collaboration between directors. Further details on the conference can be found in the Risk Committee report
- The Subsidiary Governance Principles were developed and launched during the year to strengthen and provide further clarity on the relationship between Aviva plc and the subsidiary boards. Further details can be found in the Governance Committee report

Succession planning

- The response to the evaluation indicated that succession planning at both Board and executive level should remain a priority. During 2015, succession plans were further developed and discussed at the Board and Nomination Committee. This succession programme resulted in a number of appointments to the Board, including that of the Chairman
- The Nomination Committee will continue to review the Board skills matrix during 2016 to enable the Board to enhance its support of the transformation of the business. The Nomination Committee report sets out further information on our succession planning process

Commitment to Board diversity

- The evaluation suggested further focus on improving the representation of female NEDs on the Board was required. The appointments that have been made during the year result in 23% female representation. The Nomination Committee will retain its focus on diversity in 2016 as part of its approach to succession planning

Strengthening the Board's connection to the Business

- The evaluation identified that the Board's engagement with the business had improved. The new Board appointees completed their induction programmes which included business unit visits and in 2016 the Board will continue this trend and place further emphasis on discussing areas such as customer experience and product design

Work to broaden the remit of the Governance Committee was continued during 2015

- The changes to the remit of the Governance Committee that had been implemented in 2014, for example adding the oversight of customer outcomes, were identified as being very positive. In 2015 the Committee scope was further broadened to cover UKD, as set out in the case study at the beginning of this report

Induction, training and development

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

During the year, directors attended a number of internal training sessions, including sessions on various aspects of SII, the Senior Insurance Managers Regime (SIMR), Pillar 3 reporting, remuneration developments and matters affecting our IT architecture and related technical platforms. In addition the Board attended in-depth sessions on Aviva France, Aviva Asia, UK and Ireland General Insurance and our digital business. Training sessions have been built into the Board's and committees' annual plans for 2016.

The Chairman ensures that all new directors receive a comprehensive induction programme tailored to their particular needs and which consists of

several separate training sessions over a number of months. Induction programmes were put in place for Andy Briggs, Sir Malcolm Williamson and Belén Romana García on their new appointment to the Board in 2015. This comprehensive induction included meetings with Board members, presentations from key members of senior management, and visits to the Group's main operating businesses and functions to gain a more detailed and tailored understanding of our business. In addition meetings with the External Auditor and some of the Company's advisors were held. The SID also met with a number of the Company's major shareholders.

Further meetings are arranged where a director requires a deeper understanding of a particular issue. All new directors also receive induction materials, which include the current strategic and operational plan; recent Board and committee minutes and meeting packs; organisation structure charts; role profiles; a history of the

Group; and relevant policies, procedures and governance material. Any knowledge or skills gaps identified during the director's approved person application process are also addressed through their induction programme.

During 2015, 11 Board meetings were held, of which, nine were scheduled Board meetings and two were additional Board meetings called at short notice. In addition the Board delegated responsibility for certain items, such as giving final approval to proposals broadly agreed by the full Board, to specially created committees of the Board which met six times during 2015.

The Chairman and the NEDs met several times in the absence of the Executive Directors and the NEDs met in the absence of the Chairman, including one meeting chaired by the SID to appraise John McFarlane's performance as Chairman.

The Group Company Secretary assisted the Chairman of the Board and the Chair of each committee in planning the work for each meeting and ensuring

that Board and committee members received information and papers in a timely manner. Members of senior management regularly attend Board meetings to present items of business.

It is the Board's practice to visit different business units whenever it can and during 2015, one Board meeting was held in Poland and one in York. This gave the Board the opportunity to meet the senior management teams and to also gain a deeper understanding of the operations of each of the businesses. During 2016, it is planned that the Board will visit the Group's business in Asia.

Conflicts of interest

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

Board Priorities for 2016

2015 was a transformational year for the Company. The Board made good progress against its objectives, including the Friends Life integration, UK Life strategy, continued oversight of conduct risk, True Customer Composite, digital and the proposed acquisition of RBC General Insurance Company by Aviva Canada. This was in addition to the annual cycle of matters dealt with including risk management, financial reporting and strategic planning. Some of these areas will remain a focus for the Board during 2016, together with SII as this is embedded into the business.

As part of the 2016-2018 Plan, the Board anticipates that IT, the digital strategy and use of 'MyAviva' will each be areas of focus during 2016 as the Group builds on the progress in these areas achieved to date. The Audit, Governance and Risk Committees will continue to carefully consider the risks associated with each area of the business and also the quality of the Group's cyber security. The Board will continue to provide oversight and challenge to management in its execution of the 2016-2018 Plan. As in previous years, this and future strategic priorities will be a focus of the Board Strategy day in June.

The Board has taken positive steps in the last few years to embed the purpose

and values throughout the organisation and has feedback from employees through our annual, all employee survey, 'Voice of Aviva' and this is an area the Board will remain close to during 2016.

The Governance and Nomination Committees will continue the focus they began during 2015 in connection with succession planning and talent development both at Board and senior management level throughout the Group to ensure the right people are in place across the business to deliver on the strategic plans.

Frameworks for risk management and internal control

The Board is responsible for promoting the long-term success of the Company for the benefit of shareholders. This includes ensuring that an appropriate system of governance is in place throughout the Group. To discharge this responsibility, the Board has established frameworks for risk management and internal control using a 'three lines of defence' model and reserves to itself the setting of the Group's risk appetite. Details of the Group's approach to risk and risk management are contained on pages 62 to 65.

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

A robust assessment was also conducted of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency and liquidity.

The frameworks for risk management and internal control play a key role in the management of risks that may impact the fulfilment of the Board's objectives. They are designed to identify and manage, rather than eliminate, the risk of Aviva failing to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or losses. These frameworks are regularly reviewed and comply with the Financial Reporting Council's updated guidance on Risk Management, Internal Controls and related financial and business reporting.

Risk Management Framework

The Risk Management Framework (RMF) is designed to identify, measure, manage, monitor and report the principal risks to the achievement of the Group's business objectives and is embedded throughout

the Group. The RMF has been in place for the year under review and up to the date of the approval of the annual report and accounts. It is codified through risk policies and business standards which set out the risk strategy, appetite, framework and minimum requirements for the Group's worldwide operations. Further detail is set out in note 57.

Internal controls

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

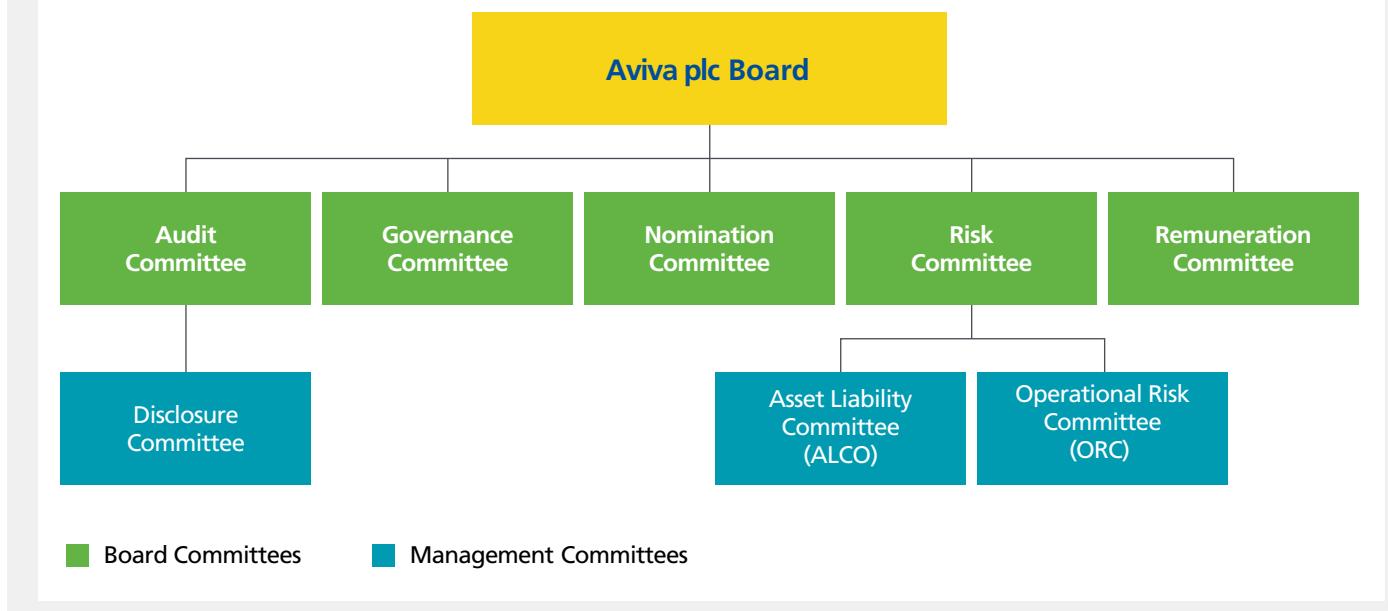
A Group reporting manual including International Financial Reporting Standards (IFRS) requirements and a Financial Reporting Control Framework (FRCF) are in place across the Group. FRCF relates to the preparation of reliable financial reporting and preparation of local and consolidated financial statements in accordance with applicable accounting standards and with the requirements of the Sarbanes-Oxley Act of 2002. The FRCF process follows a risk-based approach, with management identification, assessment (documentation and testing), remediation (as required), reporting and certification over key financial reporting-related controls. Management regularly undertakes quality assurance procedures over the application of the FRCF process and FRCF controls. The Friends Life Group had an established framework of financial reporting controls in place at the time of acquisition and work is now underway to align this with the Aviva Group's FRCF methodology. This work will be completed in 2016.

First line

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

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

Board Oversight of Risk Management



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

The Disclosure Committee is chaired by the CFO and reports to the Audit Committee. It oversees the design and effectiveness of the Group's disclosure controls, for both financial and non-financial information, evaluates the Group's disclosure controls and reviews and endorses the Group's key periodic external reports, including the consolidated financial statements. The results of the FRCF process are signed off by business unit chief executive officers and chief financial officers and compliance with the FRCF is reported to the Disclosure and the Audit Committees.

Second line

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

As the business responds to changing market conditions and customer needs, the Risk function regularly monitors the appropriateness of the Company's risk policies and the RMF to ensure they remain up to date. This helps to provide assurance to the various risk oversight committees that there are appropriate controls in place for all core business activities, and that the processes for managing risk are understood and followed consistently across the Group.

The second line Risk function as a whole also includes the Compliance and Actuarial functions. The Actuarial function

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

Third line

The Internal Audit function provides independent and objective assessment on the robustness of the RMF and the appropriateness and effectiveness of internal control to the Audit, Governance and Risk Committees, business unit audit committees and the Board. Further information on the activities of the Internal Audit function is contained within the Audit Committee report.

Board oversight

The Board has established and delegated responsibilities to various committees to assist in its oversight of risk management and the approach to internal controls. There is a good working practice between each committee and they make regular reports to the Board. The responsibilities and activities of each Board committee are set out in the committee reports that follow. The principal committees that oversee risk management are as follows:

- The Audit Committee, working closely with the Risk Committee, is responsible for assisting the Board in discharging its responsibilities for the integrity of the Company's financial

statements, the effectiveness of the system of internal financial controls and for monitoring the effectiveness, performance and objectivity of the internal and external auditor.

- The Governance Committee also works closely with the Risk Committee and is responsible for assisting the Board in its oversight of operational risk across the Group, particularly in respect of the risk of not delivering good customer outcomes.
- The Risk Committee assists the Board in its oversight of risk and risk management across the Group and makes recommendations on risk appetite to the Board.

The Audit, Governance and Risk Committees report regularly to the Board on their activities and make recommendations and escalate significant risk exposures to the Board as appropriate. They ensure that mitigating actions are taken when risks are, or are expected to move, out of appetite.

The chart above shows the Board and committee structure that oversees the Company's frameworks for risk management and internal control.

Further details on procedures for the management of risk operated by the Group are given in note 57.

Assessment of effectiveness

To support an assessment of the effectiveness of the Group's governance, internal control and risk management requirements, the chief executive officer of each business unit is required to certify that:

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

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

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

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

The effectiveness assessment also draws on the regular cycle of assurance activity carried out during the year, as well as the results of the certification process. The results of the certification process and details of key failings or weaknesses are reported to the Audit Committee and the Board annually to enable them to carry out an effectiveness assessment.

The Audit Committee, working closely with the Risk Committee, on behalf of the Board, last carried out a full review of the effectiveness of the systems of internal control and risk management in March 2016, covering all material controls, including financial, operational and compliance controls and the RMF and processes. The review identified a number of areas for improvement and the necessary actions have been or are being taken.

The committee reports refer to a number of areas where control issues have been identified and describes the mitigating actions to address them.

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

Communication with shareholders

The Company places considerable importance on communication with shareholders and engages with them on a wide range of issues.

The directors have an ongoing dialogue and a programme of meetings with institutional investors, fund managers and analysts which are managed by the Company's Investor Relations function. At these meetings a wide range of issues are discussed including strategy, financial performance, management, remuneration and governance, within the constraints of information already made public, to understand any issues of concern to investors. Shareholders' views are regularly shared with the Board through the Group CEO's and CFO's reports and the Company's corporate brokers also periodically brief the Board on investor views.

Prior to his retirement in April 2015, John McFarlane, as Chairman, met with the Company's major institutional investors. This included consultation on the appointment of Sir Adrian Montague as Chairman and in respect of the proposed Friends Life acquisition. Since his appointment, Sir Adrian Montague has also met with the Company's major shareholders. In addition, the SID was available to meet with major investors to discuss any areas of concern that could not be resolved through normal channels of investor communication.

Interim Management Statements

In November 2014, the Financial Conduct Authority removed the requirement in the Disclosure and Transparency Rules to publish quarterly interim management statements (IMS). After careful consideration, the Board has determined that Aviva should no longer provide IMS disclosures for quarter one and quarter three, with immediate effect.

2016 AGM

The 2016 AGM will be held on Wednesday 4 May 2016 and the Notice of the AGM and related papers will, unless otherwise noted, be sent to shareholders at least 20 working days before the meeting. The AGM provides a valuable opportunity for the Board to communicate with private shareholders. All directors normally attend the Company's AGM, however, Patricia Cross was unable to attend the 2015 AGM due to illness and

being unable to travel. All serving directors plan to attend the 2016 AGM.

There is a dedicated email address which shareholders can use to ask questions on the business of the AGM at aviva.shareholders@aviva.com and this address is included in the shareholder information section of the Notice of AGM.

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

Shareholders are invited to ask questions related to the business of the meeting at the AGM and have an opportunity to meet with the directors following the conclusion of the meeting. Further details on the AGM are provided in the Shareholder services pages later in the Annual report and accounts.

Nomination Committee report

In my role as Chairman, I am pleased to present the Nomination Committee's report for the year ended 31 December 2015

This year the Committee has continued to review the composition of the Board and the succession plans for executive management.

Committee Membership

	Member since:
Sir Adrian Montague, Chairman	06/03/2013
Claudia Arney	08/02/2016
Glyn Barker	01/07/2012
Patricia Cross	01/12/2013
Belen Romana Garcia	26/06/2015
Michael Hawker	01/07/2012
Michael Mire	12/09/2013
Bob Stein	06/03/2013
Scott Wheway	01/07/2012
Sir Malcolm Williamson	14/05/2015

During 2015, we welcomed Sir Malcolm Williamson and Belén Romana García to the Committee and on 8 February 2016, Claudia Arney was appointed to the Committee. John McFarlane and Gay Huey Evans retired from the Committee on 29 April 2015. I am grateful to all members for their support and dedication.

What is the main function of the Nomination Committee?

The Committee has overall responsibility for succession planning and leading the process for new appointments to the Board and the senior executive team. Its purpose is to ensure that the succession planning process and any appointments made bring a balance of skills, knowledge, experience and diversity to the Board and senior management of the Company.

What have been the main challenges faced in 2015?

2015 has been a period of significant activity and the Committee held seven meetings during the year. Its main priority was to oversee the smooth succession of the Chairman and to consider the

proposed changes to the Board following the acquisition of Friends Life. The process to appoint the Chairman was led by Scott Wheway, Chairman of the Governance Committee, and I withdrew from all discussions regarding the appointment process.

The other appointments to the Board made during the year were that of Sir Malcolm Williamson as our Senior Independent Director, Andy Briggs as an Executive Director and Belén Romana García as an Independent Non-Executive Director (NED). Sir Malcolm's and Andy's appointments were made against the backdrop of the successful completion of the acquisition of Friends Life, and Aviva is now benefiting from the industry wide experience that they both bring to the Board. With the addition of Belén, who has strong financial and European regulatory experience, there is a good balance of skills, knowledge, experience and diversity on the Board.



The Committee's purpose is to ensure that the succession planning process and any appointments made bring a balance of skills, knowledge, experience and diversity to the Board



Sir Adrian Montague
Chairman, Nomination Committee

Subsequent to the year-end we have also appointed Claudia Arney who brings extensive digital experience to the Board. Further information on each director can be found in their biographies and on the Company's website at www.aviva.com/board.



How does the Group consider the issue of succession planning?

The Group has a history of developing talent from within. The transition of Angela Darlington, our Chief Risk Officer whose case study is featured later in this report, is a good example of the benefits this policy can bring.

The Board takes succession planning very seriously and following the changes that were made at Board level we increased our focus to ensure that both the Board and the Committee conducted a detailed review and debate on the subject. It was agreed that further attention to executive succession planning and contingency plans for a range of situations, including key personnel loss, was required and we have developed longer-term plans that we are now

implementing. The initial work we embarked upon in 2015 in relation to succession planning and development will continue to remain a focus for the Committee in 2016.

What prompted the changes to the composition of the Board committees in May 2015?

We review the membership of each Board committee annually and, following the 2015 review, recommended a number of changes for approval by the Board. This was with the intention of refreshing and strengthening the performance of each committee. Details of the members of each committee and their attendance at meetings are shown in the table in the directors' and corporate governance report.

Will you appoint more women to the Board?

Aviva continues to have an aspiration to increase female representation on the Board and the Committee acknowledges that the Board is currently just below its policy of 25% female representation, at 23%. We are committed to improving this position as soon as is reasonably possible and have made good progress in the diversity balance at senior management level as shown in the charts earlier in my governance letter.

Having said that, diversity at Aviva includes but is not limited to gender. Within the topic of diversity there are a variety of different aspects, including professional and industry experience, understanding of different geographical regions and ethnic background as well as different perspectives and skills. Each of these components is equally important and ensuring that we have the right mix of each is also vital. In making new appointments, the Board will have regard to gender but will remain focused on recruiting, on merit, the best candidate for any future roles.

What are the steps you take to identify and appoint new directors?

The process is rigorous and transparent. The Committee identifies the skills and experience that it would like to have at both Board and executive level and these qualities are recorded into a skills matrix. The steps we took to identify Belén Romana García, whom we appointed to the Board in June 2015, were broadly as follows.

During the year the Committee expressed the desire to appoint an additional NED to the Board with financial services experience and engaged the global executive headhunting firm, JCA Group, which has no other connection to the Aviva Group and is a signatory to the Voluntary Code of Conduct for Executive Search Firms.

Following several meetings with them and after reviewing our skills matrix, we agreed a detailed candidate brief which included consideration for candidates with different backgrounds and they undertook the search process to identify a list of

suitable candidates. From the initial interviews, a shortlist was submitted to the Committee for consideration.

For selected candidates further interviews were held and, for the preferred candidate, interviews with the Chairman, Group Chief Executive Officer (CEO), Chief Financial Officer (CFO) and all NEDs were held. Interviews focused on testing whether the candidates had the required skills, experience and competencies for the role as well as assessing whether candidates would be a good fit for the Board.

In view of Belén's background and industry experience the Committee considered that Belén possessed the required skills and experience and invited her to become a NED and a member of the Governance, Nomination and Risk Committees on 26 June 2015.

A similar process, also supported by JCA Group, was followed in the appointment of Claudia Arney.

Do you think it is important to have a Board evaluation each year?

The assessment of the Board and its committees through an annual evaluation has now become a part of the normal governance cycle and we do consider it to be a very useful process. We plan our evaluation on the basis that at least every three years we will conduct an external evaluation. External evaluations were held in both 2013 and in 2015 as we felt that it was beneficial to bring forward our external evaluation given the Board changes and the Friends Life acquisition last year.

For our evaluation in 2016, we have engaged with the external facilitator we used in both 2013 and 2015 to help us design the questionnaire that we will use for our internal evaluation to ensure that we have a level of consistency and build on the themes of previous reviews. We welcome the opportunity to assess what we do and to look at how effectively we operate. It is also useful to review the commitment of individual directors to ensure that they have enough time and energy available to devote to the job. I am satisfied that all our directors do so.

What are the Committee's priorities in 2016?

The Committee made a recommendation to the Board that Claudia Arney be appointed as a NED and this appointment was made on 8 February 2016. This appointment is in line with the Committee's plans for succession that were identified during 2015 and has helped the Company move nearer to its target of having 25% of female representation on the Board.

The Committee has in place a skills matrix which it uses to review and reflect on the skills that individual directors

currently possess. During 2016, the skills matrix will be integral to the Committee's planning and discussions for developing further the Board's succession plans.

As part of this ongoing process the Committee will consider the skills and experience of the Board, taking into account all relevant aspects of diversity, to ensure that there remains a good balance on the Board which supports the Group's values and culture. As set out earlier in the report, Scott Wheway is due to retire from the Board on 31 December 2016 and the composition of the Board will continue to be reviewed.

The Committee will also review the outcomes of the 2016 effectiveness review in respect of its performance, agree any actions and monitor these going forward.

Sir Adrian Montague CBE

Chairman of the Nomination Committee
9 March 2016

Nomination Committee Responsibilities and allocation of agenda time

Evaluation and annual assessment –

10%

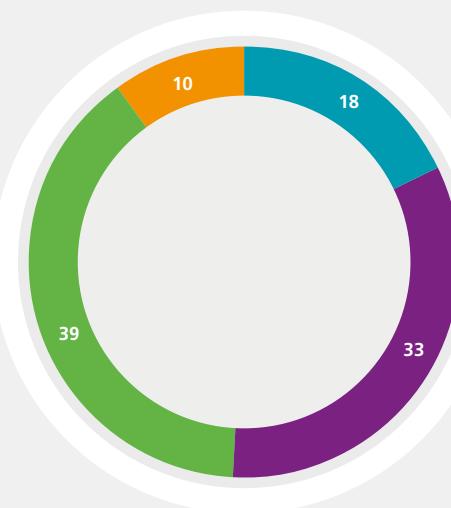
Review the results of the annual Board performance evaluation process.

Assess the independence of each of the NEDs and to make recommendations regarding the directors' actual or potential conflicts of interest.

Succession planning – 39%

Monitor succession plans for the appointment of executive directors and NEDs to the Board and senior executives below Board level.

Ensure the Audit Committee has members with recent and relevant financial experience who meet SEC requirements.



Board composition – 18%

Evaluate and review the composition of the Board including the balance of skills, knowledge, experience and diversity taking into account the Company's risk appetite and strategy.

Ensure that on appointment a director has sufficient time to undertake the role.

Board pipeline – 33%

Identify and nominate suitable candidates for appointment to the Board, including chairmanship of the Board and its committees, against a specification for the role and capabilities required for the position.

Activities during 2015

Board composition

- The Committee reviewed the composition of the Board and in particular, whether the Board required additional skills and experience which would complement those of the existing Board members. It also managed the transition of the Chairman and the induction process for three new directors

Board pipeline

- The Board appointments of Sir Adrian Montague (as Chairman), Sir Malcolm Williamson and Andy Briggs were agreed with effect from 29 April 2015. The Committee concluded that the appointments would be beneficial and complement the composition of the Board given their knowledge and experience
- The Committee also engaged in an extensive search and interview process with the intention of appointing another NED to the Board. Belén Romana García was subsequently appointed as a NED on 26 June 2015. In addition, Claudia Arney was appointed as a NED on 8 February 2016

Succession planning

- Succession planning at both Board level and at executive level has been an area of focus for the Committee during the year
- In 2015 a number of senior management changes were made to strengthen the Group Executive team including the appointments of Andy Briggs and Angela Darlington

Evaluation and annual assessment

- During the year, the effectiveness review of the Board, its committees, the Chairman and individual directors was conducted through an external evaluation process
- As part of the year-end review, the Committee reviewed the independence of each NED including each director's actual, potential or perceived conflicts of interest
- The Committee concluded that each NED was independent in character and judgement and that there were no circumstances that were likely to affect their judgement

Angela Darlington – Succession Planning in Action

Following the Friends Life acquisition and the appointment of John Lister as Chief Financial Officer of the enlarged UK Life business, Angela was appointed as Chief Risk Officer and as a member of the Group Executive in June 2015. Angela has had a 15 year career with Aviva in a wide variety of leadership roles, most notably as UK Life Chief Actuary and UK Life Chief Risk Officer. Angela's career at Aviva is a great example of how we support development and provide our best people with the opportunities to progress their careers across the Group.

Angela is a visible role model at Aviva and a good example of succession planning in action.



Risk Committee report

As Chairman of the Committee, I am pleased to present the Risk Committee's report for the year ended 31 December 2015

The Company's approach to risk and risk management together with the principal risk types that face the Group are explained on pages 62 to 65.

During the year, market conditions generally have offered some challenges and the acquisition and integration of the Friends Life business, ensuring our readiness for Solvency II (SII) and the evolving cyber risk environment have all required close attention.

Committee Membership

	Member since:
Michael Hawker, Chairman	01/01/2010
Glyn Barker	02/05/2012
Belen Romana Garcia	26/06/2015
Michael Mire	12/09/2013
Bob Stein	06/03/2013
Scott Wheway	14/05/2015

Scott Wheway was appointed to the Committee on 14 May 2015 and Belén Romana García was appointed as a member of the Committee on 26 June 2015. Gay Huey Evans served on the Committee until she retired on 29 April 2015. The members of the Committee are shown in the table above and details of members' attendance at Committee meetings are shown in the table earlier in the directors' and corporate governance report.

What is the main function of the Risk Committee?

The Committee oversees all aspects of risk management in the Group, save for conduct, financial crime, brand and reputation risk oversight, responsibility for which lies with the Governance Committee.

The principal purpose of the Committee is to assist the Board in its oversight of risk within the Group, with particular focus on the Group's risk appetite, risk profile and the effectiveness of the Group's risk management

framework including the risk management function itself.

As part of our activities, we review the risks inherent in our investment portfolios and in the insurance products we offer our clients, as well as the operational risks present in the business.

We consider the effectiveness of the ways in which the risks are managed, the strength of contingency planning and the adequacy of our capital and liquidity resources in the context of the residual risks facing the Group and recommend risk appetites to the Board.

We also monitor potential changes to the prudential regulations applicable to the Group and how the Group is responding to them. In recent years this has been a significant activity due to the preparations for SII and as a result of Aviva's designation as a Global Systemically Important Insurer, and this will continue during 2016.



What have been some of the highlights from the year?

During the year the Committee spent time on the following areas:

- strengthening the capital and liquidity position of the Group ensuring the effective implementation of the new SII framework (an undertaking which has seen the Company spend in excess of £400m), and understanding the transferability of capital and seeking to address the potential liquidity traps that the new regime creates
- reviewing the asset portfolio for its positioning to perform in the current low growth, low interest rate and volatile market environment
- ensuring that the strategy is sensible in light of the evolutionary changes occurring to our businesses through changing customer preferences and regulatory change
- reviewing that our systems are fit for purpose to manage our business in the evolving digital world.



The Committee reviews the risks inherent in our investment portfolios and in the insurance products we offer our clients, as well as the operational risks present in the business



Michael Hawker
Chairman, Risk Committee

The Committee oversees due diligence appraisals carried out on strategic or material transactions, such as the Friends Life acquisition, and also works with the Remuneration Committee to ensure that risk management is properly considered in setting the Group's remuneration policy.

Who attends meetings of the Committee?

During 2015, the Committee met on eight occasions. The Chairman of the Company, the Group Chief Executive Officer, Chief Audit Officer (CAO), Chief Financial Officer and Chief Risk Officer (CRO) regularly attended Committee meetings. Other members of senior management were also invited to attend as appropriate to present reports, and the Committee had access to the services of regular attendees as well as external professional advisers.

The Committee holds regular private sessions with the CRO and the CAO to enable them to raise any matters of concern to them without any other members of management present. The Group Company Secretary acted as the secretary to the Committee.

How would you assess the Company's approach and readiness for SII?

SII has been many years in the making and the Company has operated a structured, Group-wide SII programme throughout this time and the Committee has provided oversight. The approach has generally been to build on our existing, effective risk management framework and model, rather than start from scratch. This has had the benefit of leveraging several years of experience of using risk-based economic capital models to support decision-making. The outcome has been that our partial internal model has been approved by the regulators and that we are well placed to succeed in a SII world.

What action during the year has the Committee taken to review the Friends Life acquisition?

The majority of the Committee's work in reviewing the risks associated with the transaction itself was actually carried out in 2014. Following the completion of the acquisition, the integration risks and the risks in the former Friends Life business were all included in the business as usual risk reporting that we received and discussed with management.

In addition, as Chairman of the Committee, I received all of management's Integration Steering Committee papers in connection with the integration of Friends Life.

How does the Committee report to the Board and how does it plan its work schedule?

The work of the Committee follows an agreed annual work plan, which evolves throughout the year in response to the changing macro-economic, business and regulatory environment and changes in the Company's strategy.

The Group Company Secretary and the CRO assisted me in planning the Committee's work, and ensured that the

Committee received information and papers in a timely manner.

As Chairman of the Committee, I reported to subsequent meetings of the Board on the Committee's work and the Board received a copy of the CRO's report, the meeting agenda and the minutes of each meeting of the Committee.

The Committee is satisfied that it has the resources and expertise necessary to fulfil its responsibilities.

How do you ensure that risk is appropriately managed across the various committees?

We ensure that there is cross-membership between the committees and this was reviewed during 2015 to ensure that risk issues continue to be appropriately considered in the decisions of each committee. The appointments to the Risk Committee made in May 2015 have increased the cross-membership between the Audit, Governance, Remuneration and Risk Committees.

Throughout the year both Glyn Barker and I were members of the Audit Committee (Glyn as Chairman of the Audit Committee), ensuring that there was efficient and complete coverage of the effectiveness of the systems of internal control and risk management across the two committees.

In addition, attendance by Committee members is encouraged at subsidiary risk committee meetings and there is a schedule of attendance maintained centrally to ensure equal distribution and oversight. In support of this, I annually speak to the chairs of each subsidiary risk committee and local CROs to maintain linkage to the matters being considered at subsidiary level.

We have seen the benefits of these initiatives with an increased understanding of the work of each committee and improved communication and reporting both at Group and subsidiary company level. This was also evidenced once again in November 2015 when I, together with the Chairman of the Board and the Chairmen of the Audit and Governance Committees co-hosted a two-day conference for the chairmen of the boards and audit, conduct and risk committees of the Group's principal subsidiaries, their chief audit officers, chief financial officers and chief risk officers. Further details can be found in the case study opposite.

What are the Committee's priorities in 2016?

Given the volatile and weak performance of the financial markets at the start of 2016, the Committee will be monitoring the positioning and performance of the Group's investment portfolio and its hedging policy closely. This will link in with contingency planning work considering the impact of various scenarios on our

investments, business and operations, including for example UK exit from the European Union (EU). In addition, against the backdrop of an ever changing cyber threat environment, our continued drive for efficiency and the Group's strategic ambitions with respect to digital, the Committee will continue to focus on the quality of the Group's cyber security, its disaster recovery plans, the simplification of our IT estate and the development of our digital business.

Finally, the Committee's focus on SII did not end with it coming into force in January 2016 and the Committee will spend time reviewing plans to expand the perimeter of the Group's approved partial internal model and ensuring that changes to the risk management framework made in response to SII are embedded within the business.



Michael Hawker

Chairman of the Risk Committee
9 March 2016

Subsidiary Independent Non-Executive Directors' Conference

In December 2015 the Chairmen of the Aviva plc Board, Audit, Governance and Risk Committees co-hosted a conference for 32 independent non-executive directors of our principal subsidiaries.

The topics discussed included the Group's strategy, the implementation of Solvency II, our approach to managing operational risk and controls, our digital developments and the Group's control environment and culture.

The conference has become an annual event building upon the successful risk and audit conferences previously held.

In 2016, it is intended that the conference will extend to include all independent non-executive directors of our subsidiary companies, to ensure a consistent understanding of Group strategy, customer philosophy, regulatory developments and risk and control processes.

Risk Committee Responsibilities and allocation of agenda time

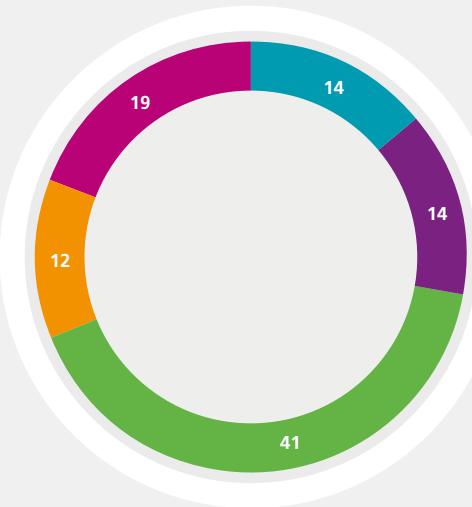
Regulatory, Governance and Internal Audit – 19%

Review developments in the prudential regulatory environment, the Group's external risk and capital disclosures and the assessment of the internal control environment as it relates to risk.

Ensure due diligence appraisals are carried out on strategic or significant transactions.

External Factors – 12%

Review the external risk environment (for example macroeconomic and cyber risk), the impact on the Company's risk profile and how those risks are being managed and mitigated with a particular focus on the impact on the Group's asset portfolio and disaster recovery planning.



Risk Appetite, Risk Management and Risk Reporting – 14%

Review and robustly assess the design and the effectiveness of the risk management framework and any proposed changes to it including recommending updated risk appetites to the Board.

Ensure that risk management is considered in setting the Company's overall remuneration policy.

Group Capital, Financial Plan, Liquidity and Stress Testing – 14%

Review and monitor the risks to and arising from the Company's strategy and business plan and major transactions.

Solvency II – 41%

Satisfy itself that the SII partial internal model is fit for purpose and meets all required regulations.

Activities during 2015

Risk Appetite, Risk Management and Risk Reporting

- ▶ The Committee reviewed and monitored how potential risks connected with increased cost efficiency were being managed; considered the risks associated with the 2016-2018 Group Plan and how management was proposing to mitigate them
- ▶ The Committee received a report from the risk function on the performance of business units against the risk and control objectives approved by the Committee. The Committee debated an update to the Group's liquidity risk appetite and proposed new SII capital risk appetites and recommended these to the Board
- ▶ The Committee reviewed and approved changes to the Group-wide risk policies and selected business standards to reflect changes to the risk target operating model for SII and reflecting Financial Stability Board guidance. The Committee selected the extreme stress scenarios to be used in the Group's recovery plan and liquidity risk management plan and reviewed and recommended those plans and the systemic risk management plan to the Board for approval

Group Capital, Financial Plan, Liquidity and Stress Testing

- ▶ The Committee also reviewed proposals to materially increase the use of an internal composite reinsurer to enhance capital transferability and efficiency and a number of strategic transactions including the reinsurance of a block of the UK General Insurance latent reserves
- ▶ The Committee reviewed proposed hybrid debt issuance and redemption
- ▶ The Committee also reviewed capital and liquidity projections on a quarterly basis and the results of the Group's stress and scenario testing

Solvency II

- ▶ The Committee carried out a series of deep reviews of the key internal model components, reviewed proposed model changes, received independent internal model validation reports, reviewed and recommended approval of the partial internal model application and received reports on the application of the standard formula for those businesses not covered by the internal model
- ▶ The Committee also provided oversight of the SII programme's preparations for the implementation of SII including Pillar 2 and Pillar 3 and confirmed that the Own Risk and Solvency Assessment (ORSA) requirements had been met

External Factors

- ▶ The Committee received regular updates on the external economic environment and considered the implications for the Group's asset portfolio
- ▶ The Committee conducted deeper thematic reviews into cyber security, broader IT risks, derivatives usage, outsourcing arrangements and general insurance exposure accumulation management

Regulatory, Governance and Internal Audit

- ▶ The Committee monitored closely the developments of the more detailed SII requirements and proposals for higher loss absorbency capital requirements for Global Systemically Important Insurers as well as progress made by the International Association of Insurance Supervisors towards a Global Insurance Capital Standard
- ▶ The Committee reviewed the effectiveness of the risk management function and approved the appointment of the CRO and the appointment of a number of subsidiary board risk committee members
- ▶ The Committee received regular updates from the Group's Asset and Liability Committee and Operational Risk Committee
- ▶ The Committee monitored certain Major Control Improvement Topics identified by management namely, IT security, disaster recovery in UK datacentres, GI underwriting risk accumulation and outsourcing. Actions on these topics include the provision of more detailed controls on information security, business continuity and physical security, the completion of a GI risk accumulation data accuracy and capture project, and work to improve the management and oversight of outsourcing arrangements Group-wide

Audit Committee report

As Chairman of the Committee, I am pleased to present the Audit Committee's report for the year ended 31 December 2015

The challenges of adopting Solvency II (SII) were a major focus area during the year in readiness for implementation on 1 January 2016. The Committee also continued to focus on the control environment and developing and strengthening the internal control framework, including the integration of the Friends Life entities following their acquisition in April 2015.

Committee Membership

Member since:

Glyn Barker, Chairman	08/08/2012
Patricia Cross	01/12/2013
Michael Hawker	01/09/2011
Bob Stein	14/05/2015
Sir Malcolm Williamson	14/05/2015

This year we welcomed Sir Malcolm Williamson and Bob Stein to the Committee and I am grateful to all members of the Committee for their support and dedication in 2015. Sir Adrian Montague and Scott Wheway retired from the Committee on 14 May 2015. The members of the Committee are shown in the table above and details of members' attendance at Committee meetings during the year are shown earlier in the directors' and corporate governance report.

What is the purpose of the Committee and what is its role?

The Committee's principal role is to assist the Board in discharging its responsibilities for monitoring the integrity of the Company's financial statements; the oversight of internal controls and the performance of internal and external audit.

The Committee acts independently of management and works closely with the Governance, Remuneration and Risk Committees. There is cross-membership between each committee which provides better understanding and more efficient communication of the work of each

committee. Details of the Committee's responsibilities are shown later in the report.

What topics has the Committee focused on during the year?

The Committee has a number of standing items that it considers each year affecting the Company's financial statements and policies, financial risks, internal control matters and internal and external audit. In addition, each year the Committee focuses on a number of operational matters. Some of the items the Committee spent time on during 2015 were:

- preparing for SII
- consideration of the financial statement assumptions and judgements in relation to the annual report and accounts and the Group's interim results. Further details of these can be found in the table on page 94

“The challenges of adopting Solvency II were a major focus area during the year”

Glyn Barker
Chairman, Audit Committee

- significant issues such as the valuation of life insurance contract liabilities for the UK life business (UK Life). Areas of focus were the annuitant mortality, credit and expense assumptions. In addition the Committee considered the valuation of non-life insurance contract liabilities for the general insurance business, valuation of hard to value investments and the valuation of finite intangible assets and goodwill in relation to the Friends Life acquisition



- recommending to the Board that the annual report and accounts are fair, balanced and understandable
- agreeing the Group's approach to the Longer-Term Viability Statement (LTVS) as required under the UK Corporate Governance Code (the Code). Further details on the LTVS are contained in Other Statutory Information
- the Major Control Improvement Topics (MCITs) identified by management. The MCITs that were allocated to the Committee related to control issues in Aviva UK Commercial Finance and Turkey Life. The Committee tracked the progress that has been made in connection with these issues and the remedial actions implemented by management. These included the documentation of loan management activity in the UK Commercial Finance business, and actions to enhance the core operating systems for the Turkey Life business and develop its risk and control framework. Both topics have now been closed and removed from the list of MCITs.

What has the Committee done to assess the impact of the acquisition of Friends Life on the financial reports and control environment of the Group?

Following the successful completion of the Friends Life acquisition in April 2015, the Committee has spent time considering the alignment and adoption of the Group's Market Consistent Embedded Value (MCEV) and International Financial Reporting Standards (IFRS) accounting policies and methodologies, the restructuring provisions and the key issues and judgements which resulted from the acquisition. The Committee received reports on the Friends Life acquisition from Internal Audit in July and November which focused on the impact of the acquisition on the overall control environment of the Group and closely monitored the integration plan that was put in place.

How does the Committee satisfy itself that its members meet the requirements of the UK Corporate Governance Code, the Disclosure and Transparency Rules and the US requirements for financial expertise?

As part of the annual review of the effectiveness of the Committee, the expertise of the members is considered and reviewed based on their recent and relevant experience against each of the criteria as set out in the Code, the Disclosure and Transparency Rules and the US requirements.

Following the review in respect of 2015, a recommendation was made to the Board, which confirmed that I, as Chairman of the Audit Committee, fulfilled each of the requirements and that Patricia Cross, Michael Hawker and Bob Stein met the US requirements to be an audit committee financial expert.

How does the Committee monitor the control environment across the Group?

The Committee receives quarterly updates on the effectiveness of the Financial Reporting Control Framework (FRCF). During the year these have included updates on the progress to align financial reporting controls processes within the heritage-Friends Life businesses with the FRCF methodology. In addition, it receives regular updates on progress to embed the new approach to managing operational risks and controls (formerly Integrated Assurance Implementation) and reports on the Group's MCITs.

The Committee also receives quarterly control reports from Internal Audit and reviews and challenges management on the actions being taken to improve the quality of the overall control environment and the control culture across the Group.

The Committee reviews and approves the semi-annual Internal Audit Plan and conducts an annual review of the Internal Audit function. The Committee concluded that for 2015 the function was performing well and it continued to deliver an objective and independent service.

Regular reports are provided to the Committee through the Group's malpractice reporting service on issues of malpractice that have been raised and the Committee was satisfied that none of the reports received in 2015 made allegations of financial malpractice.

In response to the new regulatory requirement for whistleblowing in large financial services firms, including insurers, I agreed to be the whistleblowers' champion for the Group.

How does the Committee satisfy itself that the External Auditor remains independent, effective and objective?

PricewaterhouseCoopers LLP (PwC) was appointed as the Group's External Auditor (Auditor) in 2012 following a formal tender process. The external audit contract will be put out to tender at least every ten years.

The Committee conducts an annual review of the Auditor through completion of a questionnaire by the Committee, senior management across the Group and members of the Group's finance community. The questionnaire seeks opinions on the importance of certain criteria and the performance of the Auditor against those criteria. The Committee concluded that PwC continued to perform effectively and is recommended for re-appointment.

The Company has complied during the financial year under review and up to the date of this report with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Uses of Competitive Tender Process and Audit Committee Responsibilities) Order 2014.

The Company has an External Auditor Business Standard in place which is aimed at safeguarding and supporting the independence and objectivity of the Auditor Standard. This Standard is in full compliance with all UK, US and International Federation of Accountants rules and takes into account the Auditing Practices Board Ethical Standards for Auditors.

The Standard regulates the appointment of former audit employees to senior finance positions in the Group and sets out the approach to be taken by the Group when using the non-audit services of the Auditor.

The Standard distinguishes between (i) those services where an independent view is required and services that should be performed by the Auditor (such as statutory and non-statutory audit and assurance work); (ii) prohibited services where the independence of the Auditor could be threatened and the Auditor must not be used; and (iii) other non-audit services where the Auditor may be used which include non-recurring internal controls and risk management reviews (excluding outsourcing of internal audit work), advice on financial reporting and regulatory matters, due diligence on acquisitions and disposals project assurance and advice, tax compliance services and employee tax services.

In 2015 the Group paid PwC £19.3 million (2014: £14.7 million) for audit and audit-related assurance services¹, with the overall increase due to the fee for the audit of the acquired Friends Life subsidiaries, including the acquisition balance sheet.

In addition, PwC were paid £15.2 million (2014: £11.5 million) for other services, giving a total fee to PwC of £34.5 million (2014: £26.2 million). This included £11.6 million relating to SII implementation assurance fees. SII implementation is a major project requiring substantial model validation assurance that the Company believes is most appropriately performed by the principal Auditor. In view of the significance and scale of this work, the Committee specifically assessed the suitability of PwC to provide this service.

In line with the Standard, the Committee satisfied itself that for all non-audit engagements, robust controls were in place to ensure that PwC's objectivity and independence was safeguarded, and concluded that it was in the interests of the Company to purchase these services from PwC due to their specific expertise. Further details are provided in note 12 of the financial statements.

¹ Including the statutory audit of the Group and Company financial statements, the audit of Group subsidiaries, additional fees relating to the prior year audit of Group subsidiaries and audit-related assurance services.

What are the Committee's main priorities for 2016?

During 2016 the Committee will continue to focus on the following issues:

- the appropriateness of the significant issues and judgements and the methodology and assumptions used in relation to the Group's financial statements
- review of the formal announcements on the Group's financial performance to ensure significant issues are appropriately disclosed
- developments in the market around the LTVs to ensure the Company's approach remains appropriate for 2017
- the review of the services provided by the Auditor, the ongoing independence of the Auditor, legal and regulatory developments relating to external audit services and the application and appropriateness of the External Auditor Business Standard
- the performance of the Chief Audit Officer (CAO) and the Internal Audit function and the appropriateness of the remuneration of the CAO
- the 2016 Internal Audit Plan
- the review of management's progress in addressing the MCITs, in particular the Fraud Management MCIT which has been allocated to the Committee
- the inclusion of the heritage-Friends Life entities in the scope of Aviva's attestation for 2016 to meet the financial control requirements for the 2002 Sarbanes-Oxley (SOx) Act for its US Listing
- the impact of the revised model used to value equity release mortgage loans held by the UK Life Annuity business
- in line with the focus by the regulator on increasing the level of challenge that an audit committee should pose in its review of risk management and internal controls; the Committee will consider how best it can look to improve this area of activity during 2016.

Glyn Barker

Chairman of the Audit Committee

9 March 2016

Audit Committee Responsibilities and allocation of agenda time

Internal Controls, including the financial reporting control framework and financial reporting developments – 36%

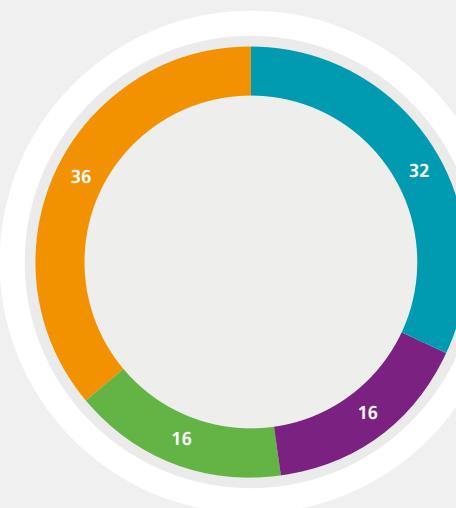
Assess the effectiveness of the Group's system of internal control and risk management.

Internal Audit – 16%

Approve and monitor the application of the Internal Audit Charter and Business Standard.

Discuss control issues identified by Internal Audit and review reports on the Group's malpractice reporting.

Assess the effectiveness of the Internal Audit function, review the performance of the CAO, and agree his remuneration.



Financial Statements and accounting policies – 32%

Review the significant issues and judgements of management, and the methodology and assumptions used in relation to the Group's financial statements and formal announcements on the Group's financial performance.

Review the Group's going concern assumptions and the assumptions for the LTVs.

External Audit, auditor engagement and policy – 16%

Consider and make recommendations to the Board on the appointment, reappointment, dismissal or resignation, effectiveness, independence and objectivity of the External Auditor and agree their remuneration.

Consider and monitor the application and appropriateness of the External Auditor Business Standard.

Activities during 2015

Financial Statements and accounting policies

- ▶ The Committee monitored the impact of the acquisition of Friends Life on the Group's MCEV and IFRS Consolidated Financial Statements, including the adoption of the Group's accounting policies and methodologies
- ▶ Following the acquisition of Friends Life, the UK Life business now represents a significant proportion of the Group and the Committee has focused on the key issues and judgements applied in UK Life, in particular the key economic and demographic assumptions. These include expenses, longevity, pensions and bond lapses, which were considered at an ad hoc meeting of the Committee in December 2015 and the impact of the revised equity release model adopted in 2014
- ▶ The Committee considered the implications of preparing for SII on the Company's Financial Statements and the suitability of PwC to perform the model validation assurance
- ▶ The provisions relating to commercial mortgages, in particular relating to credit default, and corporate bonds were fully reviewed together with the sale of a portfolio of higher risk mortgages in the second half of 2015
- ▶ The reserving position relating to the Group's life assurance and general insurance operations were reviewed
- ▶ The Committee reviewed goodwill and other intangible assets
- ▶ The Committee reviewed the going concern assumptions for 2015 and the principles underpinning the LTVs

External audit, auditor engagement and policy

- ▶ A formal response was submitted to the regulator in relation to the Prudential Regulatory Authority (PRA) consultation on implementing audit committee requirements under the revised Statutory Audit Directive in the European Union
- ▶ The Committee reviewed the effectiveness of the External Auditor and was satisfied that the services provided by the External Auditor remained effective, objective and fit for purpose
- ▶ The Committee reviewed PwC's compliance with the independence criteria and the steps taken by PwC to ensure that it was able to act for the larger Group following the acquisition of Friends Life
- ▶ The Committee monitored compliance with the External Auditor Business Standard on a quarterly basis and three minor breaches of our Internal Standard were identified during the year relating to pre-approvals and an employment screening. In each case the processes were reviewed and improved to prevent reoccurrence. These were not breaches of the SEC independence rules and did not impact PwC's formal independence of the Group
- ▶ The Committee reviewed the Group's External Auditor Business Standard and refreshed it in November 2015 to align the presentation with the requirements of its Group-wide operational risks and control programme

Internal Audit

- ▶ The Committee reviewed and approved the Internal Audit Charter and Business Standard
- ▶ The Committee concluded that the Internal Audit function was performing well, was sufficiently resourced and had demonstrated continued improvement
- ▶ The Committee reviewed and agreed that the CAO's independence had been maintained and was satisfied that his annual performance related bonus was unconnected to the Group's financial performance

Internal Controls, including the financial reporting control framework

- ▶ The Committee received quarterly updates on the effectiveness of the FRCF framework and rectification of controls
- ▶ The Committee monitored progress to address the MCITs allocated to the Committee
- ▶ The Committee reviewed the Internal Audit function report and the Internal Audit Plan for 2015 and 2016 to ensure adequacy of the systems of control
- ▶ The Committee undertook a benchmarking exercise of the Group's IT controls and assessed the impact of the integration of the heritage-Friends Life entities on the overall control environment

Governance Committee report

I am pleased to present the Governance Committee's report for the year ended 31 December 2015

The Board strongly believes that good governance and strong, responsible leadership is critical to creating long-term shareholder value and business success. During the year the Committee continued its oversight of conduct risk throughout the Group and also focused on the development of the Subsidiary Governance Principles and the governance of the Company's digital business.

the governance processes within our UK Digital business.

The Committee's remit also includes employee talent management and development programmes to create a sustainable future workforce. The Committee receives a summary of the 2015 Voice of Aviva employee survey results, further details on this can be found in the 'Our People and Communities' section of the Strategic Report.



Committee Membership

Member since:

Scott Wheway, Chairman	05/12/2007
Belen Romana Garcia	26/06/2015
Michael Mire	12/09/2013
Sir Malcolm Williamson	14/05/2015

This year we welcomed Sir Malcolm Williamson and Belén Romana García to the Committee and I am grateful to all members for their support and dedication in 2015. Sir Adrian Montague retired from the Committee on 14 May 2015. The members of the Committee are shown in the table above and details of members' attendance at Committee meetings during the year are shown in the table in the directors' and corporate governance report.

What is the main function of the Governance Committee and what is its role?

The Committee's role is to help the Board to shape and direct the culture and ethical values of the Aviva Group by overseeing and advising on conduct, reputation, corporate responsibility and sustainability, people, regulatory and financial crime matters. The focus of the Committee adapts as the business and regulatory environment evolves – for example, in 2014 we extended the remit to oversee all forms of risk that impact customer outcomes and during 2015 to oversee

During 2015 the Committee established the Subsidiary Governance Principles. What are the main benefits of these Principles?

We believe that effective and accountable subsidiary boards are critical to ensuring best practice corporate governance throughout the Group. In 2015 we produced the Aviva Subsidiary Governance

How has the Committee reviewed and challenged the Group's delivery of good outcomes for customers during the year?

During the year the treatment of customers has continued to be a significant focus for the Committee. Core to this has been the quarterly review by the Committee on the performance of a series of key risk indicators in relation to customer outcomes and experience in each of the Group's business units. The Committee also receives a report from the Group Regulatory Director at each meeting in relation to any material concerns regarding the treatment of customers that may have arisen within the Group, and the adequacy of management's response in addressing these issues.

The Group's business units continually reassess and reappraise their performance in delivering good customer outcomes. As part of reinforcing this discipline, the Committee has reviewed the action plans developed to further embed the Conduct Risk Management Framework into each business and address any issues regarding the treatment of customers. During the

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We believe that effective and accountable subsidiary boards are critical to ensuring best practice corporate governance throughout the Group

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Scott Wheway

Chairman, Governance Committee

Principles which provide a framework for the governance standards expected of subsidiary companies within the Group. They cover a range of topics including strategy and planning, remuneration, shareholder interaction and governance accountability. Our case study later in the report provides further information on the development of the Principles and their implementation.

year the Committee has discussed with the chief executive officers of our UK life business, UK & Ireland general insurance business, Aviva Investors business, Canada, France, Poland and Turkey their plans for further enhancing and embedding conduct risk management within their businesses.

With the development of the Group's digital strategy and the decision to establish UK Digital to drive forward the strategy in the UK, the Committee has taken a central role in overseeing the development of UK Digital as a legal entity and monitoring the customer risks that the new business will encounter. To ensure this is achieved in a robust way the Committee has reviewed and challenged the business's plans and progress on a regular basis. Further detail can be seen in the digital governance case study earlier in the directors' and corporate governance report.

The Committee is responsible for the oversight of talent development within the Group. How do you view progress?

The Nomination Committee is responsible for Board and executive level recruitment and succession planning and the Governance Committee has responsibility for developing talent below this level.

The development of talent is critical to delivering the Group's strategy. In 2015, the Committee actively supported progress in this area, including the creation and launch of a new international general management programme for graduates, with the aim of attracting and developing future talent into the Company.

We recognise that further work in this area remains to be done, especially around developing a robust talent pipeline for critical senior leadership roles. A new programme to assess and develop potential successors to these senior roles will be a focus for 2016. We believe that Aviva has a very talented pool of people from which it can develop leaders and the Committee will continue to provide appropriate oversight and guidance in this area.

The Committee agreed the refreshed Aviva Group Corporate Responsibility (CR) strategy during 2015. Why was this important?

As the Group heads into a new phase of transformation we need a CR strategy that supports our strategic anchor and helps us deliver on our purpose. We can use CR in digital channels and communications to help build life long relationships with customers, and we can use our influence to help tackle the big issues in our industry and our world such as sustainability and climate change. The new strategy, which is outlined earlier in the Strategic Report, builds on our historic strengths, ensures we have a strong governance foundation

and focuses our attention on where we can make the biggest difference for our customers and communities.

The CR strategy was considered and approved by the Committee because CR is integral to the way we run our whole business and we recognise that our CR performance and reputation helps build the pride of our employees and win the trust of our customers. Customers are at the heart of the new CR strategy and our new Good Thinking brand. The strategy is designed to inspire good thinking that benefits our customers, wider communities and the world in which we operate.

What are the Committee's priorities in 2016?

The Committee will retain its focus on the areas outlined earlier in the report with continued attention on the treatment of customers.

The Committee will, in addition, focus on embedding its oversight of the governance structure of the UK Digital business; monitoring the application of the Subsidiary Governance Principles; providing guidance and oversight in the area of talent development and building an internal pipeline for senior leadership roles. Furthermore, the Committee will retain its oversight of the Group's relationship with the Financial Conduct Authority and other regulatory bodies and monitor the implementation of the Senior Insurance Managers Regime.

Scott Wheway
Chairman of the Governance Committee
9 March 2016

Governance structure

We take our responsibilities as a business very seriously – and that includes having robust oversight arrangements so that decisions are debated, challenged and the business is held to account. That means better decisions – and better products and services for our customers.

We believe good governance is a two way process, and we have drawn up a set of Subsidiary Governance Principles which provide clarity on the relationship of Aviva plc, as the ultimate shareholder, and subsidiary boards to articulate expectations in respect of governance.

The Principles cover a range of topics including strategy and planning, remuneration, shareholder interaction with Aviva plc and governance accountability. They are designed to provide clarity and co-operation, and help support better business decisions – which provides better results for shareholders and customers. The Principles were reviewed externally, by the chairs of the subsidiary boards and the independent directors of the audit, conduct and risk committees. The Committee sponsored this process and will spend time in 2016 ensuring the Principles are embedded throughout the Group.



Governance Committee Responsibilities and allocation of agenda time

Regulatory and Financial Crime – 24%

Review relationships with the conduct regulatory and competition authorities and the actions taken in respect of regulatory developments.

Review the reporting process in respect of any material regulatory breaches.

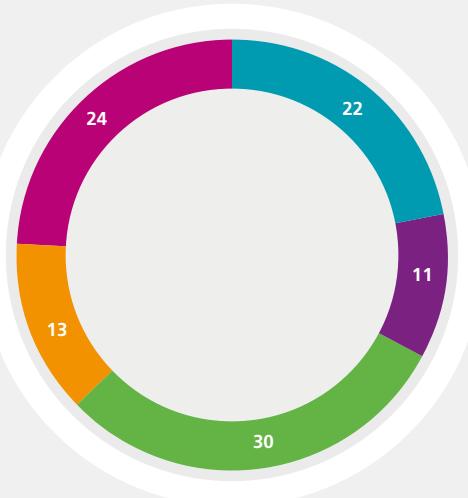
Set and monitor the effectiveness of the Group's procedures and controls relating to the Group's conduct and financial crime risk appetite and the prevention of financial crime.

People – 13%

Review and approve the Business Ethics Code and the Group's policies on diversity, employees, suppliers and the communities in which it operates to ensure these are in line with the Group's ethical values.

Review senior and critical talent development programmes for leadership.

Review the key themes and management of action plans from the annual employee survey.



Governance – 30%

Shape the corporate governance principles, culture and ethical values of the Group in line with the Group's strategic priorities.

Oversee subsidiary governance throughout the Group including UK Digital and review any legal or litigation risks for the Group and the associated action plans.

Customer, Conduct and Reputational Risk – 22%

Review and monitor strategy, the Group's risk profile and the effectiveness of the risk management control framework as it relates to customer outcomes, franchise value and reputation.

Work with the Risk Committee in respect of the impact of any material conduct and reputation risks on the Group's capital and liquidity position.

Review the Group's overall culture and values as they influence risk to reputation.

Corporate Responsibility – 11%

Recommend and review the Group's CR strategy and monitor external developments and environmental regulations.

Review the Group's Environment and Climate Change Business Standard and monitor compliance with the CR strategy.

Work with the Risk Committee to monitor any CR risk exposures.

Activities during 2015

Customer, Conduct and Reputational Risk

- The Committee received reports on conduct risk management at each meeting to enable it to monitor compliance with regulatory standards and to ensure good customer outcomes
- Under the Group-wide framework for the consistent management and reporting of conduct risk, different business units were invited to attend meetings to discuss their progress in ensuring good customer outcomes. In 2015 this included the UK life, UK & Ireland general insurance, Aviva Investors, Aviva Canada, Aviva France, Aviva Poland and Aviva Turkey
- Reports detailing ongoing and possible reputational risks and brand and franchise risks were considered by the Committee. These also included any media or public policy issues
- The Committee received regular updates on the customer outcome metrics relating to sales, retention, claims experience and complaints

Corporate Responsibility

- The Committee received reports from management during the year on the Aviva Community Fund, the Group's low carbon investment strategy, the Group's health and safety compliance and the Group's Human Rights Policy
- CR strategy and particularly the link to the brand strategy were regularly reviewed during the year
- The Committee reviewed and approved the Aviva Investors' Voting Policy and Stewardship Statement
- For the 2015 reporting year, independent assurance on the Group's CR reporting was provided by PricewaterhouseCoopers

Governance

- The Committee received regular updates from the Group Company Secretary on governance matters, legal and litigation risks which had the potential to impact the reputation of the Group and reviewed and approved changes to the composition of the material subsidiary boards. The Committee oversaw the development of the Subsidiary Governance Principles
- Other matters reviewed included reviewing and monitoring the Group's compliance with the UK Corporate Governance Code and other areas of regulation and guidance; monitoring the integration of the Friends Life business with regard to governance issues; subsidiary board and committee effectiveness review outcomes and associated actions; and the governance oversight framework for the UK Digital business and specifically its application to the Financial Conduct Authority to act as a regulated intermediary
- Monitored certain Major Control Improvement Topics – data governance/protection, fraud management and conduct risk, including the significant enhancement of the Group's Business Protection Business Standard in 2015, the progress to improve fraud and conduct control awareness and training and the Group-wide rollout of a consistent sanction screening tool

People

- The Committee has continued to monitor progress regarding embedding Aviva's values and the engagement of employees and has considered regular reports on talent development and the Group's diversity and inclusion strategy. In monitoring employee engagement the Committee reviewed the results of the annual Voice of Aviva survey prior to discussion at the Board
- Approved the Business Ethics code

Regulatory and Financial Crime

- Received regular regulatory updates from the Group Compliance Officer
- The Committee was responsible for oversight of the Group's relationship and interaction with the Financial Conduct Authority and has monitored preparations to implement the Senior Insurance Managers' Regime
- Reviewed regular reports on the Group's financial crime prevention procedures and controls and any associated actions and the effectiveness of the anti-bribery controls

Other statutory information

The directors submit their annual report and accounts for Aviva plc, together with the consolidated financial statements of the Aviva group of companies, for the year ended 31 December 2015.

The directors' report required under the Companies Act 2006 comprises this directors' and corporate governance report; the directors' remuneration report and the following disclosures in the strategic report:

- Environment and climate change for disclosure of our greenhouse gas emissions
- Increasing diversity and inclusion for details of our policy on employment of disabled persons
- Engaging with our people for details of employee involvement
- The proposed acquisition of the RBC General Insurance Company since the end of the year

The management report required under Disclosure and Transparency Rule 4.1.5R comprises the strategic report, shareholder information (which includes the risks relating to our business), and details of material acquisitions and disposals made by the Group during the year which are included in note 3. This directors' and corporate governance report fulfils the requirements of the corporate governance statement under Disclosure and Transparency Rule 7.2.1.

Our Policy on Hedging

The hedging policy can be found in note 58 and details of likely future developments are set out in the strategic report.

Results

The Group's results for the year are shown in the consolidated income statement.

Related Party Transactions

Related party transactions are disclosed in note 60 which is incorporated into this report by reference.

2016 Annual general meeting (AGM)

Details are provided in the shareholder services section on page 351.

Post balance sheet events that occurred subsequent to 31 December 2015

Details of significant events that have occurred subsequent to 31 December 2015 are disclosed in notes 3, 24 and 63.

Dividends

Dividends for ordinary shareholders of Aviva plc are as follows:

- Paid interim dividend of 6.75 pence per ordinary share (2014: 5.85 pence)
- Proposed final dividend of 14.05 pence per ordinary share (2014: 12.25 pence)
- Total ordinary dividend of 20.80 pence per ordinary share (2014: 18.1 pence),
- Total cost of ordinary dividends paid in 2015 was £635 million (2014: £449 million)

Subject to shareholder approval at the 2016 AGM, the final dividend for 2015 will become due and payable on 17 May 2016 to all holders of ordinary shares on the Register of Members at the close of business on 8 April 2016 (approximately five business days later for holders of the Company's American Depository Receipts). Further details on the company's dividend policy is set out on pages 320 to 321 and details of any dividend waivers are disclosed in note 32.

Share class and listing

All the Company's shares in issue are fully paid up and the ordinary and preference shares have a Premium and Standard listing respectively on the London Stock Exchange. The Company is listed on the New York Stock Exchange (NYSE) in the form of American Depository Shares, referenced to ordinary shares, under a depositary agreement with Citibank. Details of the Company's share capital and shares under option at 31 December 2015 and shares issued during the year are given in notes 30 to 33.

Share capital

The issued ordinary share capital of the Company was increased by 1,097,977,833 ordinary shares during the year which were allotted in respect of the acquisition of Friends Life and to satisfy amounts under the Group's employee share and incentive plans.

At 31 December 2015 the:

- issued ordinary share capital totalled 4,048,465,173 shares of 25 pence each
- issued preference share capital totalled 200,000,000 shares of £1 each

Further details on the ordinary share capital of the Company are shown in Note 30.

Rights and obligations attaching to the Company's ordinary shares and preference shares

Rights and obligations together with the powers of the Company's directors are set out in the Company's articles of association, copies of which can be obtained from Companies House and the Company's website at www.aviva.com/articles, or by writing to the Group Company Secretary. The powers of the Company's directors are

subject to relevant legislation and, in certain circumstances (including in relation to the issue or buying back by the Company of its shares), are subject to authority being given to the directors by shareholders in general meeting.

At the 2016 AGM, shareholders will be asked to renew the directors' authority to allot new securities. Details are contained in the 2016 Notice of Annual General Meeting (Notice of AGM).

Restrictions on transfer of securities

With the exception of restrictions on the transfer of ordinary shares under the Company's employee share incentive plans, whilst the shares are subject to the rules of the plans, there are no restrictions on the transfer rights attaching to the Company's ordinary shares or the transfer of securities in the Company.

Where, under an employee share incentive plan operated by the Company, participants are the beneficial owners of shares but not the registered owners, the voting rights are normally exercised at the discretion of the participants. No person holds securities in the Company carrying special rights with regard to control of the Company. The Company is not aware of any agreements between holders of securities that may result in restrictions in the transfer of securities or voting rights.

Significant agreements – change of control

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid, such as commercial contracts and joint venture agreements. None are considered to be significant in terms of their potential impact on the business of the Group as a whole. All of the Company's employee share incentive plans contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions and pro rata reduction as may be applicable under the rules of the employee share incentive plans.

Authority to purchase own shares

At the Company's 2015 AGM, shareholders renewed the Company's authorities to make market purchases of up to 295 million ordinary shares, up to 100 million 8¾% preference shares and up to 100 million 8⅓% preference shares. These authorities were not used during the year or up to the date of this report. At the 2016 AGM, shareholders will be asked to renew these authorities for another year and the resolution will once again propose a maximum aggregate number of ordinary shares which the Company can purchase of less than 10%

of the issued ordinary share capital. Details are contained in the Notice of AGM. The Company held no treasury shares during the year or up to the date of this report.

Disclosure and Transparency Rule 5 – major shareholders

The table below shows the holdings of major shareholders in the Company's issued ordinary share capital in accordance with the Disclosure and Transparency Rules as at 31 December 2015 and 8 March 2016.

Shareholding interest				
	At 31 December 2015		At 8 March 2016	
Shareholder	Notified holdings	Nature of holding	Notified holdings	Nature of holding
BlackRock, Inc ¹	Above 5%	Above Indirect	Above 5%	Indirect

1 Holding includes holdings of subsidiaries.

Directors

The directors as at the date of this report are shown together with their biographical details earlier in the report. During the year and up to the date of this report, the following Board appointments, resignations and retirements occurred:

Appointments:		
Director	Position	Effective Date
Sir Malcolm Williamson	Senior Independent Director	29/04/2015
Andy Briggs	Chief Executive Officer of Aviva UK Life and Chairman of Global Life	29/04/2015
Belén Romana García	Independent Non-Executive Director	26/06/2015
Claudia Arney	Independent Non-Executive Director	08/02/2016

Retirement / Resignation:		
Director	Position	Effective Date
John McFarlane	Chairman	29/04/2015
Gay Huey Evans	Independent Non-Executive Director	29/04/2015

The rules regarding the appointment and replacement of directors are contained in the Company's articles of association (the articles). Under the Company's articles, the Board can appoint additional directors or appoint a director to fill a casual vacancy. The new director must retire at the first AGM following their appointment and can

only continue as a director if they are elected by shareholders at the AGM.

At no time during the year did any director hold a material interest in any contract of significance with the Company or any of its subsidiary undertakings other than an indemnity provision between each director and the Company and employment contracts between each executive director and a Group company. The Company has purchased and maintained throughout the year directors' and officers' liability insurance in respect of itself and its directors. The Company has also executed deeds of indemnity for the benefit of each director of the Company, and each person who was a director of the Company during the year, in respect of liabilities that may attach to them in their capacity as directors of the Company or of associated companies. The articles of association allow such indemnities to be granted.

These indemnities were granted at different times according to the law in place at the time and where relevant are qualifying third-party indemnity provisions as defined by section 234 of the Companies Act 2006. These indemnities were in force throughout the year and are currently in force. Details of directors' remuneration, service contracts, employment contracts and interests in the shares of the Company are set out in the directors' remuneration report.

The Company has also granted indemnities by way of a deed poll to the directors of the Group's subsidiary companies, including former directors who retired during the year.

Financial instruments

Group companies use financial instruments to manage certain types of risks, including those relating to credit, foreign currency exchange, cash flow, liquidity, interest rates, and equity and property prices. Details of the objectives and management of these instruments are contained in the risk and capital management section, the shareholder information section and in note 57 on risk management.

Political donations

At the 2015 AGM, shareholders passed a resolution, on a precautionary basis, to authorise the Company and its subsidiaries to make political donations and/or incur political expenditure (as such terms are defined in sections 362 to 379 of the Companies Act 2006), in each case in amounts not exceeding £100,000 in aggregate. As the authority granted will expire at the 2016 AGM, renewal of this authority will be sought at this year's AGM. Further details are available in the Notice of AGM. It is not the policy of the Company to make donations to European Union (EU) political organisations or to

incur any other political expenditure. However, definitions of political donations and political expenditure used in the Companies Act 2006 are broad in nature and this authority is sought to ensure that any activities undertaken throughout the Group, which could otherwise be construed to fall within these provisions, can be undertaken without inadvertently infringing the rules. During the year, Aviva Canada Inc. spent a total of CA\$5,650 (£2,757 based on the exchange rate as at 31 December 2015) on tickets to attend events hosted by Canadian Members of Provincial Parliament. Attendance at these events enabled representatives from Aviva Canada to engage with local parties in relation to certain issues including Ontario auto reforms, a review of the Ontario regulator and the introduction of a new auto product. No other political expenditure was incurred by the Aviva Group during 2015.

Disclosure of information to the auditor

In accordance with section 418 of the Companies Act 2006, the directors in office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's External Auditor, PricewaterhouseCoopers (PwC), is unaware and each director has taken all reasonable steps that ought to have been taken as a director to be aware of any relevant audit information and to establish that PwC is aware of that information.

Annual general meeting

The 2016 AGM of the Company will be held on Wednesday, 4 May 2016 at the Queen Elizabeth II Centre, Broad Sanctuary, Westminster, London SW1P 3EE at 11am. The Notice of AGM convening the meeting describes the business to be conducted thereat. Further details can be found in the shareholder information section of the Notice of AGM.

Articles of association

Unless expressly stated to the contrary in the articles, the Company's articles may only be amended by special resolution of the shareholders. The Company's current articles were adopted on 29 April 2015.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report. The performance review includes the risk and capital management section. In addition, the financial statements sections include notes on the Group's borrowings (note 49); its contingent liabilities and other risk factors (note 52); its capital structure and position (note 54); management of its risks including market, credit and liquidity risk

(note 57); and derivative financial instruments (note 58).

The Group has considerable financial resources together with a diversified business model, with a spread of businesses and geographical reach. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully.

After making enquiries, the directors have a reasonable expectation that the Company and the Group as a whole have adequate resources to continue in operational existence for a period of at least 12 months from the date of approval of the financial statements. For this reason, they continue to adopt, and to consider appropriate, the going concern basis in preparing the financial statements.

Longer-term viability statement

It is fundamental to the Group's longer-term strategy that the directors manage and monitor risk taking into account all key risks the Group faces, including longer-term insurance risks, so that it can continue to meet its obligations to policyholders. The Group is also subject to extensive regulation and supervision including, from 1 January 2016, Solvency II and as a result of being designated a Global Systemically Important Insurer by the Financial Stability Board.

Against this background, the directors have assessed the prospects of the Group in accordance with provision C.2.2 of the 2014 UK Corporate Governance Code, with reference to the Group's current position and prospects, its strategy, risk appetite, and the potential impact of the principal risks and how these are managed (as detailed on pages 62-65 of the Strategic Report as well as note 57 of the IFRS financial statements).

The assessment of the Group's prospects by the directors covers the three years to 2018 and is underpinned by management's 2016-2018 business plan which includes projections of the Group's capital, liquidity and solvency.

The Group's stress and scenario testing considers the Group's capacity to respond to a series of relevant financial, insurance (e.g. catastrophe) or operational shocks should future circumstances or events differ from these current assumptions. The Group also addresses the impacts of contingent management actions designed to maintain or restore key capital, liquidity and solvency metrics to within the Group's approved risk appetites over the planning period.

Based on this assessment, the directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three year assessment period.

Fair, balanced and understandable

To support the directors' statement below that the Annual report and accounts,

taken as a whole, is fair, balanced and understandable, the Board considered the process followed to draft the Annual report and accounts:

- each section of the Annual report and accounts is prepared by a member of management with appropriate knowledge, seniority and experience. Each preparer receives guidance on the requirement for content included in the Annual report and accounts to be fair, balanced and understandable
- the overall co-ordination of the production of the Annual report and accounts is overseen by the Chief Accounting Officer to ensure consistency across the document
- an extensive verification process is undertaken to ensure factual accuracy
- comprehensive reviews of drafts of the Annual report and accounts are undertaken by members of the Group Executive and, other members of senior management, and in relation to certain parts of the report external legal advisers and the External Auditor
- an advanced draft is considered and reviewed by the Disclosure Committee
- the final draft is reviewed by the Audit Committee prior to consideration by the Board
- our Board members also receive drafts of the Annual report and accounts in sufficient time to facilitate their review and input. This includes the opportunity to discuss the draft Annual report and accounts with both management and the External Auditor and where appropriate challenging the disclosures as appropriate

Directors' responsibilities

The directors are responsible for preparing the Annual report, the directors' remuneration report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and parent company financial statements in accordance with IFRSs as adopted by the EU. In preparing these financial statements, the directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and accounting estimates that are reasonable and prudent

- state whether applicable IFRSs as adopted by the EU and IFRSs issued by IASB have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the directors' remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for making, and continuing to make, the Company's Annual report and accounts available on the website maintained by the Company. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors consider that the Annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and the Company's position and performance, business model and strategy.

Each of the directors, whose names and functions are listed on pages 70 to 73 in the directors' and corporate governance report confirm that, to the best of their knowledge: the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and the strategic report and the directors' and corporate governance report in this annual report include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

By order of the Board on 9 March 2016.

Mark Wilson
Group Chief Executive Officer

Tom Stoddard
Chief Financial Officer

New York Stock Exchange listing requirements

The Company's ordinary shares are admitted to the NYSE and are traded as American Depository Shares. As a foreign company listed on the NYSE, the Company is required to comply with the NYSE corporate governance rules to the extent that these rules apply to foreign private issuers. As a foreign private issuer, the Company is therefore required to comply with NYSE Rule 303A.11 by making a disclosure of the significant differences between the Company's corporate governance practices and NYSE corporate governance rules applicable to US companies listed on NYSE. The Company complied with the UK Corporate Governance Code 2014 (the Code) in respect of its 2015 financial year and other relevant best practice principles and guidelines. The significant differences between UK and US requirements are summarised below together with Aviva's approach to compliance:

NYSE Listing Rules	UK Corporate Governance Code	Aviva approach
Independence criteria for directors		
Independent directors must form the majority of the board of directors. A director cannot qualify as independent unless the Board affirmatively determines that the director has no material relationship with the company. NYSE rules prescribe a list of specific factors and tests that US-listed companies must use for determining independence.	At least half the Board, excluding the Chairman, should comprise independent Non-Executive Directors, as determined by the Board. The Code sets out its own criteria that may be relevant to the independence determination, but the Board is permitted to conclude affirmative independence notwithstanding the existence of relationships or circumstances which may appear relevant to its determination, so long as it states its reasons.	The majority of the Board comprises independent Non-Executive Directors (NEDs) who are deemed independent under the Code and meet the independence criteria in the NYSE rules.
Non-executive director meetings		
Non-management directors of each listed company must meet at regularly scheduled executive sessions without management and, if that group includes directors who are not independent, listed companies should at least once a year schedule an executive session including only independent directors.	The Chairman should hold meetings with the NEDs without the Executive Directors present.	The NEDs meet without Executive Directors present at least once annually.
Committees		
US companies are required to have a Nominating/Corporate Governance Committee comprised of independent directors. In addition to identifying individuals qualified to become Board members, this committee must develop and recommend to the Board a set of corporate governance principles and oversee the evaluation of the Board and management.	The Company is required to have a Nomination Committee but not a Corporate Governance Committee. A majority of the members of the Nomination Committee should be independent NEDs. The Board is required to undertake a formal and rigorous annual appraisal of its own performance, externally facilitated at least every three years.	The Company has a Nomination Committee and a Governance Committee, each of which are comprised of Independent NEDs. The Governance Committee assists the Board in shaping the culture and values of the Group, however the Board as a whole is ultimately responsible for the corporate governance of the Group and oversees this through reports to the Board and its committees. The Board conducts an annual appraisal of its own performance, as well as the performance of each of its committees and of individual directors.
US companies are required to have a Compensation Committee made up entirely of independent directors.	The Company is required to have a Remuneration Committee and under the Companies Act 2006 is required to obtain shareholder approval of the remuneration policy for Executive Directors. The Committee should be comprised of independent NEDs.	The Company has a Remuneration Committee comprised of independent NEDs which covers all NYSE and Code requirements and recommends the remuneration policy for Executive Directors to the Board and shareholders for approval.
US companies are required to have an audit committee comprised of independent directors and that one member must meet the requirements to be an Audit Committee financial expert. The Audit Committee should also cover risk matters.	The Company must have an Audit Committee and at least one member must have recent and relevant financial experience. The Committee should be comprised of independent NEDs.	The Company has an Audit Committee comprised of independent NEDs and at least one member meets both the NYSE and Code requirements on financial experience. The Audit Committee does not review risk management as this is covered by the Risk and Governance Committees.
Code of business conduct and ethics		
Companies are required to adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers.	Not required under the Code.	The Company has adopted a Business Ethics Code to which all employees are bound and a Code of Ethics for senior management, which complies with the Sarbanes-Oxley Act of 2002.
Shareholder approval of equity-compensation plans		
Shareholders must be given the opportunity to vote on all equity-compensation plans and 'material revisions' to those plans, with limited exceptions. Detailed definitions of 'material revisions' are provided by NYSE.	Shareholder approval is necessary for certain equity compensation plans and 'significant changes' thereto, subject to certain exceptions. The Code does not provide a detailed definition or explanation of what are considered to be 'significant changes'.	All new equity-compensation plans or amendments to existing plans that are required to be approved by shareholders under the Code are put to shareholders for approval.

By order of the Board

Sir Adrian Montague
Chairman
9 March 2016

Aligning performance and remuneration

Dear shareholder, on behalf of the Remuneration Committee, I am pleased to present the Directors' Remuneration Report (DRR) for the year ended 31 December 2015

After a thorough review of our remuneration framework, we received strong levels of shareholder support for both our Policy Report and Annual Report on Remuneration at last year's Annual General Meeting (AGM).

The acquisition has improved our positioning on both liquidity and capital. The synergies associated with the acquisition are being realised ahead of schedule; a testament to the hard work undertaken by our management team on the integration. It has provided unique growth opportunities for Aviva as we continue to pursue our strategic ambitions.

Committee Membership

Member since:

Patricia Cross, Chairman	01/12/2013
Michael Mire	14/05/2015
Bob Stein	06/03/2013
Sir Malcolm Williamson	14/05/2015

We believe that ongoing engagement with all relevant stakeholders is fundamental to ensure that our remuneration framework remains fit for purpose, and delivers outcomes that are appropriate in the context of Group and individual performance. We are committed to being open and transparent on all remuneration related decisions, and therefore we continued to engage with shareholders and other key stakeholders following last year's AGM.

Key 2015 performance highlights and acquisition of Friends Life Group (FLG)

2015 was a milestone year for the Group and saw a renewed focus on the transformation of the business, securing the balance sheet and growing profitability. Our Solvency II (SII) cover ratio is 180%, operating profit grew 20% to £2,665 million, value of new business increased for the 12th consecutive quarter, and the combined operating ratio improved 1.1 points to 94.6%. The improved financial strength, and sustained operational performance underpin the 15% increase in our final dividend.

New Executive Director

Andy Briggs, who had been Chief Executive Officer at FLG, was appointed to the Board of Aviva in April 2015 when he took on the role of CEO of the enlarged UK Life business (CEO UK Life). Andy did not receive an increase to his basic salary on appointment and his incentive awards granted in respect of his employment with Aviva in 2015 are in line with our Policy and pro-rated to reflect his period of employment.

“We will continue to focus on the alignment between the remuneration framework and the Group’s strategy”

Patricia Cross

Chairman, Remuneration Committee

Andy had long-term awards granted by FLG which vested as a result of the acquisition, for services provided to FLG. These awards were disclosed in FLG's acquisition documents and the payments were approved by the FLG Remuneration Committee on acquisition. Details of these awards can be found on page 111.



Key decisions on remuneration in respect of 2015

2015 Long Term Incentive Plan (LTIP)

Last year, in line with our Remuneration Policy, we proposed awards of 350% of salary and 250% of salary to Mark Wilson, Group Chief Executive Officer (Group CEO) and Tom Stoddard, Chief Financial Officer (CFO), respectively, under the LTIP.

Following feedback from a shareholder proxy agency on the proposed awards, the Group CEO and CFO decided not to accept these awards.

Consequently, the Committee approved new LTIP awards to be granted at 300% of salary to the Group CEO and 225% of salary to the CFO, which both individuals accepted.

Adjustment of LTIP targets

Following the acquisition of FLG in April 2015, we considered our LTIP targets for the outstanding 2013 and 2014 awards (50% based on Relative Total Shareholder Return (TSR); 50% based on Return on Equity (ROE)). After a process of shareholder consultation, we decided to

re-calibrate them to reflect the enlarged Group and its increased capital base.

Shareholders indicated to us that they were satisfied with the approach of making mechanical adjustments to the ROE targets, so they would be no less challenging than those that were originally set.

Shareholders were also comfortable with the approach taken to adjusting the comparator group used for assessing relative TSR performance to take into account the de-listing of FLG. These adjustments to targets are as described on page 109.

2015 Bonus

The annual bonus awards made to the Executive Directors (EDs) reflect a strong year for the Company under their leadership. The Group exceeded target performance overall for the financial measures (operating profit, cash remittances, value of new business (VNB), economic surplus generation, operating expense ratio and combined operating ratio (COR)). The continued progress of the integration with FLG has strengthened and stabilised our position in terms of capital and liquidity.

Performance against non-financial measures (customer, employee and risk) has also been taken into account, together with personal performance. Further information is provided on page 108.

When determining bonus payouts, the Committee also took into account the wider performance of Aviva, together with the experience of our shareholders to ensure that the payments are a fair reflection of performance achieved during the year.

The Committee awarded a bonus of 91% of maximum to the Group CEO in light of the strong financial performance and the progress on our strategic objectives achieved during the year. The CFO received an award of 87% of maximum and the CEO UK Life received a pro-rated award of 90% of maximum. The Committee recognised the critical role that all three EDs have played in the integration of FLG. The integration is ahead of schedule and at the end of 2015, we have delivered £168 million of run-rate savings and we expect to achieve the targeted £225 million of synergies one year earlier than our original plan.

To provide longer-term alignment with our shareholders, two-thirds of these awards will be deferred into shares for three years under the Annual Bonus Plan (ABP).

2013 LTIP

Given the dates of appointment of our EDs, only the Group CEO will receive shares under this award. Awards under the 2013 LTIP vested subject to Aviva's ROE and relative TSR performance over the period 1 January 2013 to 31 December 2015. 53.0% of the maximum vested. Full details can be found on page 109.

Application of Policy in 2016

No significant changes are proposed for the 2016 financial year, and we continue to take a market leading approach in terms of the time period over which pay is earned and delivered.

The EDs' salaries have been reviewed by the Committee and an increase of 3% will be made to the Group CEO's salary effective from 1 April 2016; his first increase since he was appointed in 2013. Increases of 3% will also be applied to the salaries of the CFO and CEO UK Life. All increases are in line with the general increase applied across our UK-based employee population.

2016 Bonus

In line with our stated Group strategy, our progress in developing our digital capabilities and interfaces will be foundational for our future profit growth, and our ambition to provide a world class customer experience. For 2016, 25% of the annual bonus scorecard will therefore be linked to our progress on the expansion of a digital interface with our customers. The remaining 75% will continue to be based on the financial performance of the Group as set out on pages 117. Non-financial modifiers, risk, conduct and individual performance will also be considered when determining payments.

2016 LTIP

In 2016, awards under the LTIP will be 300% of salary for the Group CEO and 225% of salary for the Group CFO and CEO UK Life. These awards will vest subject to Aviva's ROE and relative TSR performance over a three year period to 31 December 2018. Any shares vesting based on long-term performance to this date will be subject to an additional two year holding period.

Committee changes during the year

Gay Huey Evans stepped down from the Board and the Committee in 2015 and I would like to thank Gay for her hard work and commitment since joining the Committee in 2011. I would also like to take this opportunity to welcome Michael Mire and Sir Malcolm Williamson to the Committee.

Committee priorities for 2016

The key priority of the Committee in 2016 is to direct the ongoing development of a remuneration system which is fair to executives and aligned to long term, sustainable growth in shareholder value. In light of a heightened international competition for talent, the Committee faces significant challenge in this endeavour.

Other priorities will include monitoring compliance with evolving regulatory requirements, including SII provisions.

Our core values provide a compelling foundation on which to continue to shape our Policy. We continue to:

- Care More - we care about how our executives feel about our remuneration framework just as we care about how our broad community of stakeholders view this framework
- Kill Complexity - we have a constant task to remove undue complexity from our remuneration systems, not easy given continuing disclosure changes and regulatory requirements
- Never Rest - because our competitors won't and all of our stakeholders require our constant engagement; and
- Create Legacy - perhaps this is the value that resonates the most strongly with the Remuneration Committee. We want to create a Remuneration ecosystem that we can all be proud of, the Board, the executives, our staff and all of our stakeholders.

We are committed to maintaining an open and transparent dialogue with our shareholders. The objective of this report is to communicate our approach to pay in light of the Group's performance and regulatory landscape. As always, I welcome any comments that you may have and look forward to seeing shareholders at the 2016 AGM.

Patricia Cross

Chairman, Remuneration Committee
9 March 2016

Our remuneration framework at a glance

Remuneration philosophy

The key principles of our approach to executive remuneration are:

Align
to Aviva's purpose and strategy.

Incentivise
achievement of Aviva's annual business plan and longer term sustainable growth of the business.

Recognise
the leaders who achieve the required business results through living Aviva values and behaviours.

Ensure
risk based decision making and good governance.

Salary

2016

2017

2018

2019

2020

2021

Phasing of payments (based on CEO's remuneration)

17% of total package

Overview of Policy (approved in 2015)

- ▶ Set by reference to relevant pay data, levels of increase for the broader UK employee population and individual and business performance

Remuneration in respect of 2015

- ▶ Group CEO: £980,000 p.a.
- ▶ CFO: £675,000 p.a.
- ▶ CEO UK Life: £691,875 p.a. (pro-rated since appointment)

Application of Policy in 2016

- ▶ Group CEO: £1,009,400
- ▶ CFO: £695,250
- ▶ CEO UK Life: £712,631

Annual bonus

2016

2017

2018

2019

2020

2021

Phasing of payments (based on CEO's remuneration)

11% of total package

Cash element
(1/3 of total bonus)

23% of total package

Deferred element – delivered in shares
(2/3 of total bonus for 3 years)

Overview of Policy (approved in 2015)

- ▶ Maximum of 200% of salary for CEO and 150% of salary for other EDs
- ▶ Performance is assessed against a range of relevant financial, employee, customer and risk measures designed to incentivise the achievement of our strategy, as well as individual strategic objectives as set by the Committee
- ▶ Malus and clawback provisions apply to all awards granted from 2015

Remuneration in respect of 2015

- ▶ Group CEO: 91% of maximum (£1,783,600)
- ▶ CFO: 87% of maximum (£877,500)
- ▶ CEO UK Life: 90% of maximum (£673,014)
- ▶ Pro-rated to reflect period of employment with Aviva during the year

Application of Policy in 2016

- ▶ Award opportunities will be fully in line with the Policy
- ▶ Payments will be determined after taking into consideration a scorecard based on a split of 75% on Group financial performance, and 25% on the expansion of a digital interface with our customers. Performance against non-financial modifiers and individual performance will also be taken into account

LTIP

2016

2017

2018

2019

2020

2021

Phasing of payments (based on CEO's remuneration)

3 year performance period
(100% of LTIP)

49% of total package

2 year holding period – delivered in shares
(100% of LTIP)

Overview of Policy (approved in 2015)

- ▶ Maximum of 350% of salary
- ▶ Shares vest subject to performance over a three-year period. Once vested, shares are typically subject to an additional two-year holding period
- ▶ Malus and clawback provisions apply to all awards granted from 2015

Remuneration in respect of 2015

- ▶ 2013 LTIP award vested at 53.0% of maximum based on:
 - Cumulative three-year ROE of 39.7% resulting in vesting of 32.3%
 - Aviva ranked between 6 and 7 in terms of TSR against a group of international insurers, vs. median rank of 7.5, resulting in 20.7% vesting
- ▶ Given the timing of appointment, the CEO is the only ED to receive shares in respect of this grant

Application of Policy in 2016

- ▶ Group CEO: 300% of salary
- ▶ CFO: 225% of salary
- ▶ CEO UK Life: 225% of salary
- ▶ Performance measured over 1 January 2016 to 31 December 2018
- ▶ 50% based on three-year cumulative ROE and 50% based on relative TSR against a group of international insurers
- ▶ Two-year post vesting holding period.

Annual Report on Remuneration

This section of the report sets out how Aviva has implemented its Remuneration Policy for EDs during the course of 2015, and how the approved Policy will be implemented for 2016. This is in accordance with the requirements of the Large & Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended).

The full terms of reference for the Committee can be found on the Company's website at www.aviva.com/terms-of-reference and are also available from the Group General Counsel and Company Secretary.

Consideration by the Committee of matters relating to directors' remuneration

The Committee met five times during 2015. Details of attendance at Committee meetings are shown on page 80.

The Group Chairman attended all meetings of the Committee. The Group General Counsel and Company Secretary acted as secretary to the Committee. The Chairman of the Committee reported to subsequent meetings of the Board on the Committee's work and the Board received a copy of the agenda and the minutes of each meeting of the Committee.

The Committee received assistance in considering executive remuneration from the Group Chairman, the Group CEO, the Group Chief People Officer, the Group Reward Director, the Chief Accounting Officer, the Chief Capital & Investments Officer, the CEO – Aviva Investors, the Remuneration Committee Chairman of Aviva Investors and the Chief Audit Officer. These people attended meetings by invitation during the year. No person was present during any discussion relating to their own remuneration.

During the year, the Committee received advice on executive remuneration matters from Deloitte LLP who were appointed by the Committee. They are a member of the Remuneration Consultants' Group and adhere to its Code of Conduct. The Group received advice on remuneration matters, taxation and other consulting services (including advice in relation to SII) during the year.

Deloitte LLP were paid fees totalling £112,500, during the year for the provision of advice to the Committee on senior executive remuneration matters, and views on shareholder perspectives. Fees were charged on a time plus expenses basis.

The Committee reflects on the quality of the advice provided and whether it properly addresses the issues under consideration as part of its normal deliberations. The Committee is satisfied that the advice received during the year was objective and independent.

- the review recognised there had been a focus on the alignment of remuneration and risk, with the introduction of more formal input from Group Risk. In addition, the implementation of SII across the Group has contributed to an improvement in how risk is taken into account in remuneration related decisions, and that this would continue to be a key area of focus for the Committee in 2016.

Committee performance and effectiveness

In March 2015, the Committee undertook an annual review of its performance and effectiveness which concluded that; overall the Committee was effective in carrying out its duties with the areas of development identified being consistent with the outcomes of the Board evaluation process, as set out earlier in the report. The 2015 review was carried out by Independent Board Evaluation as described on page 80.

In addition, the effectiveness review highlighted some areas for further consideration by the Committee:

- there should be an on-going focus on the link between the remuneration framework and the strategic objectives of the Group. This includes taking into account non-financial and strategic measures of performance, as well as financial measures, to ensure that the right culture and behaviours are encouraged. Conduct and risk outcomes are both key considerations in the assessment of performance and the determination of bonus outcomes. A formal process for making risk adjustments at individual and business unit level was implemented for the 2015 annual bonus
- in line with recent comments made in the external environment, it is recognised that simplicity is favoured to ensure that there is sufficient line of sight between performance and remuneration within the Group

Remuneration Committee Responsibilities and allocation of agenda time

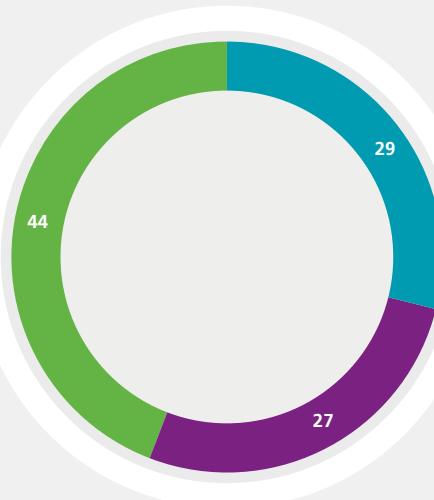
Senior management objectives and pay decisions – 44%

Recommend to the Board the Group's Policy in respect of remuneration of the Board Chairman, EDs, members of the Group Executive (GE) and members of senior management, taking account of all legal and regulatory requirements and provisions of best practice and remuneration trends across the Group.

Review the general principles applying to relevant employees under SII and oversee remuneration decisions relating to these employees to ensure they are aligned to the agreed Policy.

Review and recommend to management the level and structure of senior management remuneration.

Approve the Aviva Investors' reward strategy, including any changes to the strategy.



Governance, regulatory issues and reporting policy – 29%

Work with the Risk Committee to ensure that risk and risk appetite are considered in setting the Remuneration Policy and reflected appropriately in pay outcomes.

Obtain information about remuneration in other companies to act as one of many reference points considered.

Select, appoint and determine the terms of reference for independent remuneration consultants, to advise on Remuneration Policy and levels of remuneration.

Review and determine the remuneration of the Board Chairman and the terms of employment and remuneration of individual EDs and GE members, including any specific recruitment or severance terms.

Share plans, performance testing and targets operations – 27%

Recommend to the Board the establishment of any employee share plans and exercise all the Board's powers in relation to the operation of all employee share and incentive plans.

Activities during 2015

Governance, regulatory issues and reporting

- The Committee reviewed and agreed the Remuneration Policy, Principles and Framework Business Standard (the Framework). The Framework has been designed to take into account both the integrated assurance implementation programme framework and the SII regulations. Under SII, it is a requirement for the Group's Remuneration Policy to be made available to all staff members, and therefore the Framework has been created as a separate document in a simple and understandable format
- The Committee received and considered a report from Internal Audit following an internal review of the adequacy and effectiveness of controls over the preparation, validation and evaluation of financial and non-financial bonus metrics and noted that no material issues had been identified
- The Committee received regular updates and briefings from management and the external advisor on regulatory issues
- The Committee considered and approved the implementation of malus and clawback provisions on incentive plans

Share plans, performance testing and targets

- The Committee approved the 2015 LTIP and considered annual bonus targets for 2016
- The Committee reviewed and amended plan rules where necessary
- The Committee considered the impact of the FLG acquisition on outstanding 2013 and 2014 LTIP targets and subsequently engaged with shareholders on adjustments to targets. Consideration was also given to the appropriateness of the 2015 bonus targets, in light of the acquisition
- The Committee reviewed and approved the performance achieved for 2012 LTIP awards

Senior management objectives and pay decisions

- The Committee benchmarked, reviewed and set salaries for the Group CEO, CFO and GE members from 1 April 2015
- The Committee reviewed and approved the Group bonus pool for 2014, taking into account performance against financial KPIs and non-financial modifiers
- The Committee reviewed and approved the key individual objectives for 2015 for each member of the GE
- The Committee reviewed the detail and methodology for assessing the bonus pool for Aviva Investors, approving the maximum bonus pool and allocations. Remuneration proposals for 2015 were considered and approved, including formal approval of the bonus targets and consideration of a new Aviva Investors LTIP
- The Committee ensured that remuneration outcomes were aligned with delivery against the strategic anchor, long-term sustainable growth, shareholder experience and the risk profile of the Group

Single total figures of remuneration for 2015 – Executive Directors (audited information)

The table below sets out the total remuneration for 2015 and 2014 for each of our EDs.

1 Total 2015 remuneration – Executive Directors		Mark Wilson		Tom Stoddard		Andy Briggs ⁵		Total emoluments of Executive Directors	
		2015 £000	2014 £000	2015 £000	2014 £000	2015 £000	2014 £000	2015 £000	2014 £000
Basic salary	980	980	675	458	466	—	—	2,121	1,438
Benefits	65	54	152	83	30	—	—	247	137
Annual bonus ¹	1,783	1,274	877	526	673	—	—	3,333	1,800
LTIP ²	2,562	—	—	—	—	—	—	2,562	—
Buyout award – CFO Award 2014 ³	—	—	1,000	—	—	—	—	1,000	—
Pension ⁴	280	292	185	120	139	—	—	604	412
Total	5,670	2,600	2,889	1,187	1,308	—	—	9,867	3,787

Notes

- 1 Bonus payable in respect of the financial year including any deferred element at face value at date of award.
- 2 The value of the LTIP for 2015 relates to the 2013 award, which had a three-year performance period ending 31 December 2015. 53.0% of the award will vest in April 2016. An assumed share price of 491.68p has been used to determine the value of the award based on the average share price over the final quarter of the 2015 financial year.
- 3 As disclosed in last year's report, Tom was eligible to receive a buyout award on a strict "like for like" basis to replace deferred compensation he had forfeited on resignation from his previous employer. This award was made in 2015 once share dealing restrictions that applied during 2014 because of the FLG acquisition had lifted.
- 4 Pension contributions consist of employer contributions into the defined contribution section of the Aviva Staff Pension Scheme, excluding salary exchange contributions made by the employees, plus payments in lieu of pension above the lifetime or annual allowance caps. From 1 May 2015, EDs are eligible to participate in a defined contribution plan and receive pension contributions or a cash pension allowance from the Company of 28% of basic salary. The cash pension allowance is payable where the annual or lifetime limits have been reached.
- 5 Remuneration in relation to services to Aviva from 29 April 2015.

Additional disclosures in respect of the single total figure of remuneration table (audited information)

Benefits

The benefits disclosure includes the cost, where relevant, of private medical insurance, life insurance, accommodation, travel and car benefits. In the case of Mark and Andy this also includes benefits resulting from the Save As You Earn (SAYE) plan, in which they participate on the same basis as all eligible employees. All numbers disclosed include the tax charged on the benefits, where applicable. In line with previous disclosure, the benefits figure for Tom includes some expenditure in respect of his relocation from the US to the UK. (£200,000 limit inclusive of benefit in kind charges against appropriate receipts or other evidence of expenditure.)

2015 annual bonus outcome

The Group's financial performance, together with non-financial modifiers and personal performance have been used to determine ED bonuses paid in respect of 2015. As communicated to shareholders, the targets were reviewed and adjusted to take into account the impact of the FLG acquisition. The Committee is comfortable that the revised targets were no less difficult to achieve. Targets and our performance against them for 2015 will be disclosed in next year's report when they are no longer considered commercially sensitive. The Committee believes that disclosing them so soon after the end of the relevant financial year may adversely impact the Group's business.

We have provided an indication of performance against the performance measures for 2015 in table 2. As set out in this table, the bonuses reflect a year of strong financial performance for the Group, with performance against all financial measures (with the exception of cash remittances) exceeding target.

As initiated last year, the assessment of performance against financial targets for Annual Bonus outcomes has included a Quality of Earnings "checkpoint" step – i.e. to provide further assurance that the performance reflects sustainable value for shareholders. (Equivalent considerations are applied in assessing the ROE performance for the LTIP, i.e. to ensure that LTIP outcomes are consistent with the experience of shareholders). Shareholders approved increased "at target" and maximum annual bonus opportunities for the CEO as part of the Remuneration Policy adopted at the 2015 AGM. In proposing the changes, we undertook that we would not "pay more for the same performance" and 2015 annual bonus outcomes reported here have been achieved against appropriately challenging hurdles.

New Executive Director

Remuneration in relation to employment with Aviva

Andy Briggs joined the Group as an employee on 13 April 2015, and was appointed to the Board as an ED on 29 April 2015. His remuneration is in line with the approved Policy with details for 2015 provided below:

- Basic salary - £691,875 p.a.
- Benefits in line with our approved Policy, including a cash car allowance, pension contribution and the provision of Private Medical Insurance (PMI)
- Annual bonus - 100% of basic salary for target performance and 150% of basic salary for maximum performance. Two-thirds of any bonus awarded is deferred into Aviva shares for three years
- LTIP - eligible for an LTIP grant with a face value (at grant) of up to 350% of basic salary. The LTIP is subject to performance conditions and vests after three years to the extent that those conditions have been met. Vested shares are subject to a two-year holding period post vesting. Andy received an LTIP grant in 2015 of 225% of basic salary

2 | Assessment of 2015 ED performance and impact on bonus (audited information)

Group Financial Performance

Weighting 100%	Metric	Minimum	Target	Stretch	FY 2015 Outcome
25%	Adjusted IFRS operating profit				£1,610m
25%	Cash remittances				£1,420m
15%	Economic surplus generation				£1,000m
20%	VNB				£869m
5%	COR				94.6%
10%	Operating expense ratio				50.0%
Overall achievement against Group financial scorecard					160%

Under Aviva's Annual Bonus Plan – this outcome can be modified by the performance on the Employee, Customer and Risk and Controls modifiers.

Typically, adjustments (if made) would be in the range of +/- 15% but for major Risk or Controls or Customer issues (eg concerning Conduct) a considerably greater adjustment could be made.

Non-Financial Element	Assessment
Employee Engagement and Enablement scores.	Employee engagement improved by 1% during 2015, on a same population basis of employees who were with Aviva year-on-year, to 66%. It is recognised that there are challenges around employee engagement following the acquisition of FLG with significant change being experienced by some of our employees and the EDs recognise this is a critical area of focus.
Customer Performance against Relationship Net Promoter Score (RNPS) targets and, if these are met, against Average Product Holding (APH) targets reflecting progress against the True Customer Composite strategic goal.	Against RNPS, upper quartile performance has been maintained in our key markets, including the UK. The decision was taken, during the year, to coordinate our approach on APH to our progress in implementing our Digital strategy. A system of monitoring and assessment known as Conduct Management Information has been established for reporting and monitoring on conduct issues across the Group.
Risk & Controls Aviva's reward strategy includes specific risk and control objectives for senior management and Directors. The aim is to help drive and reward effective risk management and a robust control environment across the Group.	In 2015, almost all business units were assessed as 'on target' against the goal of maintaining an appropriate and clearly effective risk management and control environment. Two business units have been identified as needing to make improvements and action has been taken within the relevant units to address this. The signal achievement in relation to risk in 2015 was the successful implementation of SII across the Group, including the approval of the internal model. This demonstrates the importance placed on how risk is managed and reported within the Group.

For the 2015, no adjustments were made in relation to the modifier factors.

While the modified outcome against the Group Financial Scorecard provides a pool of funding for bonuses, actual bonus decisions are made based on individual contribution and achievements, how the person has assisted the Group achieve progress against its strategic objectives, the leadership they have exhibited and how the individual has demonstrated the Aviva values.

Each individual has a target and maximum bonus opportunity against which this is assessed.

Individual bonus outcomes for EDs

Mark Wilson – CEO

The Aviva Group had a strong year under Mark Wilson's leadership.

- The financial results for 2015 exceeded target on all metrics, except for cash remittances (primarily due to the retention of the dividend from the Canadian business to fund the acquisition of RBC General Insurance in that market).
- The CEO was at the forefront of the Group's digital ambitions, driving the establishment of the Digital Garage operations in London and Singapore, and continuing to provide a strong strategic lead to Aviva.
- The SII outcome and approval of the internal model was a major achievement and followed a long process of engagement with the regulator and the Government in which the CEO was prominently engaged.
- The acquisition of FLG was another major achievement and the progress with its integration has made the Group stronger as regards capital and liquidity.

Bonus award : £1,783,600

Bonus as a % of basic salary: 182%

Bonus as a % of max opportunity: 91%

Tom Stoddard – CFO

Tom Stoddard provided outstanding leadership to the Finance function and drove many initiatives to ensure Aviva is making solid progress on its strategic ambitions, including:

- Playing a key role in the acquisition of Friends Life and in Aviva getting ahead of schedule on the integration and benefits delivery;
- Raising £1bn hybrid capital and protecting the Group's capital position in volatile markets through additional hedging activity and divesting £2bn of non-core commercial property assets to Lone Star;
- Strategic acquisitions in Canada and Poland;
- Reducing claims volatility by reinsuring £800m of UK General Insurance latent risks;
- Launching Aviva Ventures, which made its first startup investment during the year;
- Ranking highest in UK insurance sector for Investor Relations team; and
- Securing PRA approval of Aviva's internal model for SII, which went live on 1 January 2016.

Bonus award : £877,500

Bonus as a % of basic salary: 130%

Bonus as a % of max opportunity: 87%

Andy Briggs – CEO UK Life¹

Since commencing with Aviva post the acquisition of Friends Life, Andy Briggs has quickly established himself as a key member of the Group's leadership team, making a valuable contribution across the Group and in the successful integration of the Friends Life business.

- The UK Life business was again one of the major profit contributors for Aviva, and this has been achieved while responding to structural changes affecting the UK pensions industry.
- UK Life has been a key partner in the development of a scalable Digital Direct strategy across the UK, along with the General insurance business and the newly formed UK Digital Board within Aviva.

Bonus award : £673,014

Bonus as a % of basic salary: 135%

Bonus as a % of max opportunity: 90%

In determining the bonus awards, the Committee took into account the wider performance of Aviva and the experience of shareholders during the year, and is satisfied that the bonus awards above are fair in the light of those considerations.

One-third of the bonus award for all EDs will be delivered in cash, with two-thirds being deferred into shares for three years.

Notes

1 Andy's bonus has been pro-rated to reflect his period of employment with Aviva.

2014 Annual bonus – disclosure of performance against targets

As stated in last year's report, we have provided details on the targets and the achievement against these targets for the purposes of determining 2014 annual bonus awards in the table below, as they are no longer considered to be commercially sensitive.

3 2014 Performance against targets for Group CEO				2014 bonus as a % of basic salary	2014 bonus as a % of maximum
Financial KPI	Threshold	Maximum	Outcome		
Cash Remittances (35% Financial KPI weighting at target)	£1,267m	£1,472m	£1,412m	30.9%	20.6%
IFRS Profit Before Tax ¹ (25% weighting)	£1,832m	£2,129m	£1,919m	13.8%	9.2%
IFRS ROCE (10% weighting)	8.2%	9.5%	9.9%	15%	10%
VNB ² (14% weighting)	£859m	£998m	£1,009m	30%	20%
COR (6% weighting)	95.6%	93.5%	95.7%	—	—
Operating Expense Ratio ³ (10% weighting)	55.1%	51.2%	51.5%	17.1%	11.4%
Financial KPIs				106.8%	71.2%
Customer and Employee ⁴				+8.2%	+5.5%
Company performance				115%	76.7%
Personal performance⁴				+15%	+10%
Total bonus % outcome				130%	86.7%

1 IFRS profit before tax is calculated as IFRS operating profit before tax attributable to shareholders' profits (continuing and discontinued operations) after integration and restructuring costs, impairment of goodwill, joint ventures and associates and other amounts expensed and amortisation and impairment of intangibles.

2 MCEV value of new business is for both continuing and discontinued operations.

3 Total expenses include operating expenses and integration and restructuring costs for both continuing and discontinuing operations.

4 Commentary on performance against these components of assessment was included in last years report.

2013 LTIP award vesting in respect of performance period 2013-2015

As mentioned in the Chairman's letter, the targets for both the 2013 and 2014 LTIPs were adjusted to ensure that they were appropriately calibrated for the enlarged Group to support the realisation of benefits from the acquisition and the achievement of the Group's strategic agenda.

Due to the de-listing of FLG during the performance period, for the purposes of assessing TSR performance over the period, FLG's performance was re-invested in Aviva reflecting the subsequent conversion of FLG shares to Aviva shares. Performance for the 2013 grant was assessed against the following companies: Aegon, Allianz, Assicurazioni Generali, Axa, CNP Assurances, Direct Line Group, FLG (with performance subsequently reinvested in Aviva), Legal & General, MetLife, Old Mutual, Prudential, RSA Insurance Group, Standard Life and Zurich Financial.

The Committee are satisfied that the targets are no less challenging in the context of the enlarged Group, and shareholders were supportive during the consultation process.

Given the timing of the appointment dates of our EDs, Mark is the only ED who will receive shares under the 2013 LTIP award. As indicated in the table below, 53.0% of the award will vest in April 2016.

4 2013 LTIP award – performance conditions					
	Weighting	Threshold (20% vests)	Maximum (100% vests)	Outcome	Vesting (% of maximum)
ROE performance	50%	35.5%	43%	39.7%	32.3%
Relative TSR performance	50%	Median	Upper quintile and above	Between rank 6 and 7	20.7%

Share awards made during the financial year (audited information)

Share awards granted to EDs during the year are set out in the table below.

As disclosed last year, Tom joined Aviva in April 2014. Share dealing restrictions applied during 2014 because of the FLG acquisition and as a result it was not possible to make share awards during the 2014 financial year, therefore awards were based on the following share prices:

- A share price of 509.00 pence was used to calculate the CFO award, being the average of the middle-market closing price of an Aviva ordinary share on the three consecutive business days immediately preceding Tom's start date.
- A share price of 489.00 pence was used to calculate the LTIP award, being the average of the middle-market closing price of an Aviva ordinary share on the three consecutive business days immediately preceding the date of the main grant, on 24 March 2014.

The table below therefore includes some awards made in respect of 2014, but granted in 2015.

5 Share awards granted during the year						
	Date of award	Award Type	Face value (% of basic salary)	Face value (£)	Amount vesting	
					Threshold performance (% of face value)	Maximum performance (% of face value)
					End of performance period	
Mark Wilson	18.05.2015	LTIP	300%	£2,939,997	20%	100% 31.12.2017
Mark Wilson	18.05.2015	ABP	87%	£849,333	N/A	
Tom Stoddard	23.03.2015	LTIP	225%	£1,518,746	20%	100% 31.12.2016
Tom Stoddard	23.03.2015	CFO Award	148%	£999,997	N/A	
Tom Stoddard	18.05.2015	LTIP	225%	£1,518,745	20%	100% 31.12.2017
Tom Stoddard	18.05.2015	ABP	52%	£350,966	N/A	
Andy Briggs	18.05.2015	LTIP	225%	£1,556,719	20%	100% 31.12.2017

Due to our Remuneration Policy being put to shareholders for approval in 2015, the proposed LTIP grant for the EDs was delayed until the Policy was approved. Face value for the awards granted on 18 May 2015 has been calculated using the average of the middle-market closing price of an Aviva ordinary share on the three consecutive business days immediately preceding the date of the main grant, on 23 March 2015 (564.00 pence).

ROE targets for awards made in 2015

ROE targets determine the vesting of 50% of the LTIP award and are set annually within the context of the Company's three-year business plan. Vesting depends upon performance over the three-year period against a target return. The 2015 targets are provided below and have been set in the context of the enlarged Group.

6 2015 LTIP ROE targets	
Achievement of ROE targets over the three-year performance period	Percentage of shares in award that vests based on achievement of ROE targets
Less than 24.5%	0%
24.5%	10%
Between 24.5% and 30%	Pro rata between 10% and 50% on a straight line basis
30% and above	50%

ROE is calculated as the IFRS profit after tax and non-controlling interest, excluding the impact of investment variances pension scheme income/charge and economic assumption changes, over average IFRS equity (excluding pension scheme net surplus/deficit) attributable to the ordinary shareholders of the Company.

TSR targets for awards made in 2015

Relative TSR determines the vesting of the other 50% of the LTIP award. Historically, FLG were a constituent of our TSR comparator group, however they de-listed in April 2015 and so will be excluded for awards from 2015. NN Group will be included in the comparator group going forward and it is considered an appropriate company for inclusion given its size, importance of life insurance within its portfolio and its mix of strong home position and multi-market presence.

Performance for the 2015 grant will therefore be assessed against the following companies: Aegon, Allianz, Assicurazioni Generali, Axa, CNP Assurances, Direct Line Group, Legal & General, MetLife, NN Group, Old Mutual, Prudential, RSA Insurance Group, Standard Life and Zurich Financial.

The performance period for the TSR performance condition will be three years beginning 1 January 2015. For the purposes of measuring the TSR performance condition, the Company's TSR and that of the comparator group will be based on the 90-day average TSR for the period immediately preceding the start and end of the performance period.

The vesting schedule is set out in table 7 below.

7 TSR vesting schedule for the 2015 LTIP award	
TSR position over the three-year performance period	Percentage of shares in award that vests based on achievement of TSR targets
Below median	0%
Median	10%
Between median and upper quintile	Pro-rata between 10% and 50% on a straight line basis
Upper quintile and above	50%

Payments to past directors (audited information)

Trevor Matthews resigned from the Board with effect from 8 May 2013 and left the Company on 6 June 2013.

- As disclosed in the 2013 Annual Report and Accounts, Trevor's 2012 LTIP award was pro-rated to reflect his service during the performance period and vested to the extent that the performance conditions had been achieved at the end of the period
- There was a maximum of 230,073 shares (not inclusive of shares awarded in lieu of dividends accrued) available to vest in March 2015. The vesting percentage was 50% which resulted in 128,891 shares, (inclusive of shares awarded in lieu of dividends accrued), vesting at a share price of 549.85 pence. The value realised was £708,708.56. This is the final payment made to Trevor

Russell Walls retired from the Board with effect from 8 May 2013.

- Russell was appointed as Chairman and Non-Executive Director (NED) of Aviva Insurance Limited on 1 May 2013 and subsequently resigned on 13 April 2015
- He was appointed as a NED of Aviva Italia Holdings S.p.A on 4 December 2014 and on 30 April 2015 was appointed as Chairman
- On 13 April 2015 Russell was also appointed as Chairman of Aviva Annuity UK Limited, Aviva Life Holdings UK Limited, Aviva Life Services UK Limited and Aviva Life & Pensions UK Limited each of which are subsidiary companies of Aviva plc
- The emoluments he received in respect of these directorships for the 2015 financial year were £107,105 and €64,058

Richard Karl Goeltz retired from the Board with effect from 8 May 2013

- Richard was appointed as Chairman and NED of Aviva Life Holdings UK Limited, a subsidiary company of Aviva plc on 14 May 2013.
- He is a NED of Aviva Life & Pensions UK Limited, Aviva Annuity UK Limited and Aviva Life Services UK Limited, each of which are subsidiary companies of Aviva plc
- Richard resigned from these positions on 13 April 2015
- The emoluments he received in respect of these directorships for the 2015 financial year were £29,481

FLG Payments to current directors

Remuneration in relation to employment with FLG

In the interests of transparency with our shareholders, we are making an additional voluntary disclosure and details of awards relating to Andy's employment with FLG are set out below. This is in line with the disclosure previously made in FLG acquisition documents. All awards relate to the performance of FLG, and payments were determined by the FLG Remuneration Committee prior to the completion of the acquisition and relate to contractual arrangements between Andy and FLG.

In April 2015 Andy received an annual bonus paid by FLG in respect of services provided to FLG prior to the acquisition. It was pro-rated for the period 1 January 2015 to 10 April 2015 and amounted to £157,461 (50% of the maximum bonus available for that period taking into account achievement against performance measures).

Following the completion of the acquisition of FLG by Aviva, there were a number of long-term awards which vested as a result of the acquisition.

- FLG Deferred Share Award Plan (DSAP) 116,362 shares - all awards vested in full (one-third of annual bonuses in respect of 2013 and 2014 were deferred into shares)
- FLG Performance Share Plan (PSP) 82,598 shares - PSP awards vested on the acquisition. Performance was tested at the point of vesting, with 75% of the maximum paying out. The awards were subject to time pro-rating to take into account the period between grant and vesting, and therefore the number of vested shares was reduced by 70%

Whilst these awards were originally satisfied in FLG shares, they converted to Aviva shares at the point of acquisition given the structure of the transaction. As set out in the announcement to the London Stock Exchange, on 14 April 2015, Andy sold these shares in April 2015 on the open market. Andy retained a reportable interest in 222,903 Aviva shares post the acquisition and therefore met his shareholding requirement of 150% of salary at 31 December 2015. In addition, Andy retains an interest in the FLG Long Term Incentive Plan.

- FLG Long Term Incentive Plan (FLG LTIP) - the FLG LTIP was originally implemented by Resolution Ltd in 2009 and approved by Resolution Ltd shareholders in 2013 following modification. It was structured as a private equity type arrangement to support a strategy of consolidation within the Life sector and an IPO of the consolidated businesses and, was therefore not a conventional share plan. It was instead structured to reward growth in the value of the company if a stretching threshold level of performance was achieved, and was the only long-term incentive plan operated from 2009 to May 2014

The acquisition of FLG triggered payments under the plan rules. The payments to participants were based on the offer price and achievement of a threshold level of performance (i.e. percentage of absolute total return to shareholders) and so were strongly aligned to shareholder value created. Under the terms of the FLG LTIP, Andy is due to receive a total of £5.3 million under the plan (50% paid in September 2015, with the remaining 50% to be paid in September 2016). Prior to Aviva's acquisition of FLG, the FLG Remuneration Committee determined that payments under the plan would be in cash as permitted under the rules, and in line with the original plan design.

Single total figure of remuneration for 2015 – Non-Executive Directors (NED) (audited information)

The table below sets out the total remuneration earned by each NED who served during 2015.

8 Total 2015 remuneration – Non-Executive Directors		Fees		Benefits		Total	
		2015 £000	2014 £000	2015 £000	2014 £000	2015 £000	2014 ¹ £000
Chairman	Sir Adrian Montague ²	417	138	64	15	481	153
Non-executive directors							
Glyn Barker		138	136	2	1	140	137
Patricia Cross		128	123	—	1	128	124
Belén Romana García ²		54	—	—	—	54	—
Michael Hawker		138	136	—	1	138	137
Michael Mire		113	103	—	1	113	104
Bob Stein		114	104	—	1	114	105
Scott Wheway ³		128	124	—	1	128	125
Sir Malcolm Williamson ²		101	—	7	—	108	—
Former non-executive directors							
John McFarlane ²		182	550	19	61	201	611
Gay Huey Evans ²		35	104	5	1	40	105
Total emoluments of NEDs		1,548	1,518	97	83	1,645	1,601

- 1 The prior year total has been recalculated to show the directors that continued in office during all or part of the current year and excludes remuneration of directors that left in the prior year.
- 2 Sir Adrian Montague was appointed Chairman at the 2015 AGM, when John McFarlane and Gay Huey Evans stepped down from the Board. Sir Malcolm Williamson was appointed on 29 April 2015. Subsequently, Belén Romana García was appointed to the Board on 26 June 2015.
- 3 Scott Wheway acts as non-executive chairman to Aviva Insurance Limited and was appointed on 13 April 2015. The emoluments he received in respect of this directorship for the 2015 financial year was £75,654.

The total amount paid to NEDs in 2015 was £1,645,000, which is within the limits set in the Company's Articles of Association, as previously approved by shareholders.

Payments for loss of office (audited information)

There were no payments for loss of office during the year.

Percentage change in remuneration of Group CEO

The table below sets out the increase in the basic salary, bonus and benefits of the Group CEO and that of the wider workforce. The UK employee workforce was chosen as a suitable comparator group, as all EDs are based in the UK (albeit with global responsibilities), and pay changes across the Group vary widely depending on local market conditions.

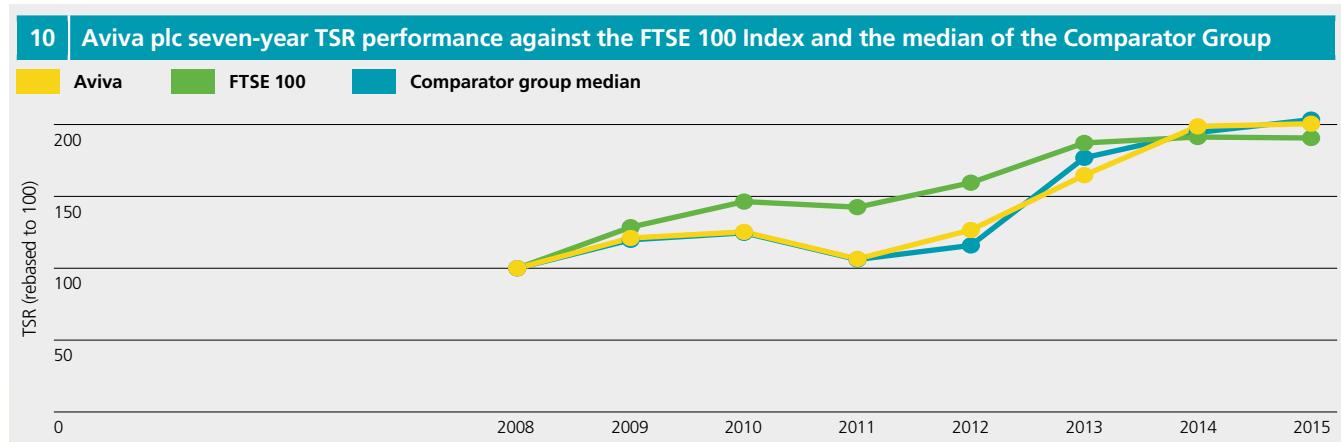
9 Percentage change in remuneration of Group CEO		% change in basic salary 2014–2015	% change in bonus 2014–2015	% change in benefits 2014–2015
Group CEO		0%	40%	24%
All UK-based employees		5%	-4%	12%

Notes

Basic salary increase for the CEO was nil, whereas the average UK employee had an increase of 5%. Mark's bonus level was increased, as approved by shareholders in 2015 and his outcome reflects strong performance across the Group. In comparison, for the major business units, performance during 2015 continued to be strong, but was not as strong as the outstanding results achieved in 2014, and the lower bonus outcomes for the individuals in these business units reflect that.

Historical TSR performance and Group CEO remuneration outcomes

Table 10 compares the TSR performance of the Company over the past seven years with the TSR of the FTSE 100 Return Index. This index has been chosen because it is a recognised equity market index of which Aviva is a member. In addition, median TSR performance for the LTIP comparator group has been shown. The companies which comprise the current LTIP comparator group for TSR purposes are listed in the 'TSR Targets' section on page 110.



The table below summarises the Group CEO single figure for total remuneration, annual bonus pay-out and LTIP vesting as a percentage of maximum opportunity over this period.

11 Historical Group CEO remuneration outcomes

	Group CEO	2009	2010	2011	2012	2013	2014	2015
Annual bonus payout (as a % of maximum opportunity)	Mark Wilson	—	—	—	—	75%	86.7%	91%
	Andrew Moss	74.2%	74.3%	81.0%	—	—	—	—
LTIP vesting (as a % of maximum opportunity)	Mark Wilson	—	—	—	—	—	—	53%
	Andrew Moss	50.0%	72.3%	81.7%	—	—	—	—
Group CEO Single figure of remuneration (£'000)	Mark Wilson ¹	—	—	—	—	2,615	2,600	5,670
	Andrew Moss ²	2,591	2,748	3,477	554	—	—	—

Notes

1 Mark joined the Board as an ED with effect from 1 December 2012, and became Group CEO on 1 January 2013. He received no emoluments in respect of 2012.

2 Andrew Moss resigned from the Board with effect from 8 May 2012 and left the Company on 31 May 2012.

Relative importance of spend on pay

The table below outlines adjusted operating profit before tax attributable to shareholders' profits after integration and restructuring costs, dividends paid to shareholders and buybacks compared to overall spend on pay (in total and per capita). The measure of profit has been chosen as a straightforward measure reflecting the performance of the Company, showing both gross income, and also taking into account integration and restructuring costs.

12 Relative importance of spend on pay

	Restated Year end 31 December 2014 £m	Year end 31 December 2015 £m	% change
Adjusted operating profit before tax ^{1,2}	2,073	2,286	10%
Dividends paid ³	449	635	41%
Share buybacks ⁴	—	—	—
Total staff costs ⁵	1,534	1,628	6%

Notes

1 Operating profit has been restated to exclude amortisation and impairment of acquired value of in-force business, which is now shown as a non-operating item.

2 Operating profit before tax attributable to shareholders' profits for continuing operations after integration and restructuring costs.

3 The total cost of ordinary dividends paid to shareholders.

4 There were no share buybacks in 2014 or 2015.

5 Total staff costs from continuing operations includes wages and salaries, social security costs, post-retirement obligations, profit sharing and incentive plans, equity compensation plans and termination benefits. The average number of employees in continuing operations was 26,937 (2014) and 30,007 (2015).

External Board appointments

Tom Stoddard is a Trustee of Trout Unlimited (a non-profit conservation organisation).
 Andy Briggs is a Director of the Association of British Insurers.

Neither Tom nor Andy received any fees or other compensation for these appointments.

Statement of directors' shareholdings and share interests (audited information)

Executive directors' share ownership requirements

The Company requires the Group CEO to build a shareholding in the Company equivalent to 300% of basic salary and each ED to build a shareholding in the Company equivalent to 150% of basic salary.

- The EDs are required to retain 50% of the net shares released from deferred annual bonuses and LTIPs until the shareholding requirement is met
- Shareholding requirement needs to be built up over a five-year period
- Unvested share awards, including shares held in connection with bonus deferrals, are not taken into account in applying this test

13 Executive Directors – share ownership requirements

Executive Directors	Owned outright ¹	Shares held		Options held				Requirement met
		Unvested and subject to performance conditions ²	Unvested and subject to continued employment ³	Unvested and subject to continued employment	Vested but not exercised ⁴	Shareholding requirement (% of salary)	Current shareholding ⁵ (% of salary)	
Mark Wilson	150,000	2,105,779	300,897	3,615	—	300	79	No
Tom Stoddard	28,487	579,863	207,611	—	—	150	22	No
Andy Briggs	222,903	276,014	—	2,368	—	150	166	Yes

Notes

1 Shares 'Owned outright' are the directors' beneficial holdings in the ordinary shares of the Company. This information includes holdings of any connected persons.

2 Shares 'Unvested and subject to performance conditions' are awards granted under the Aviva LTIP which vest only if the performance conditions are achieved.

3 Shares 'Unvested and subject to continued employment' are awards arising through the ABP and CFO award in the case of Tom. Under this plan, some of the earned bonuses are paid in the form of conditional shares and deferred for three years. The transfer of the shares to the director at the end of the period is not subject to the attainment of performance conditions but the shares can be forfeited if the ED leaves service before the end of the period.

4 'Options vested but not exercised' are options over shares granted under the Aviva SAYE Scheme.

5 Based on the closing middle-market price of an ordinary share of the Company on 31 December 2015 of 516.00 pence. The closing middle-market price of an ordinary share of the Company during the year ranged from 428.40 pence to 571.50 pence.

There were no changes to the current directors' interests in Aviva shares during the period 1 January 2016 to 8 March 2016.

14 Non-Executive Directors' shareholdings¹

		1 January 2015	31 December 2015
Sir Adrian Montague		22,068	25,266
Sir Malcolm Williamson		—	41,421
Glyn Barker		11,700	11,700
Patricia Cross		7,000	7,000
Belén Romana García		—	—
Michael Hawker		20,000	20,000
Michael Mire		7,500	7,500
Bob Stein ²		17,000	21,000
Scott Wheway		13,579	13,579
Former non-executive directors			
John McFarlane ³		10,000	10,000
Gay Huey Evans ³		5,000	5,000

Notes

1 This information includes holdings of any connected persons.

2 Bob Stein's holding includes 2,000 ADRs (representing 4,000 ordinary shares).

3 John McFarlane and Gay Huey Evans stepped down from the Board at the 2015 AGM. Shares held are as at 29 April 2015 being the date the former NEDs stepped down from the Board.

Share awards and share options (audited information)

Details of the EDs who were in office for any part of the 2015 financial year and hold or held outstanding share awards or options over ordinary shares of the Company pursuant to the Company's share based incentive plans are set out in the below table. Savings-related share options refer to options granted under the HMRC tax advantaged Aviva 2007 SAYE Plan and are normally exercisable during the six month period following the end of the relevant (3, 5 or 7 year) savings contract.

15 LTIP, ABP, CFO Award and options over Aviva Shares									
	At 1 January 2015 Number	Options/ Awards granted during year ¹ Number	Options/ Awards exercised/ vesting during year Number	Options/ Awards lapsing during year Number	At 31 December 2015 ² Number	Market price at date awards Granted ³ Pence	Exercise Price (Options) Pence	Market price at date awards vested/option exercised Pence	Normal Vesting Date/Exercise Period ⁶
Mark Wilson									
Aviva long term incentive plan ^{4,5}									
2013	983,277	—	—	—	983,277	294.20	—	—	Apr-16
2014	601,226	—	—	—	601,226	476.40	—	—	Mar-17
2015	—	521,276	—	—	521,276	535.00	—	—	Mar-18
Aviva annual bonus plan									
2014	150,306	—	—	—	150,306	476.40	—	—	Mar-17
2015	—	150,591	—	—	150,591	535.00	—	—	Mar-18
Savings-related options 2014 ⁷	3,615	—	—	—	3,615	—	419.00	—	Dec 19 - May 20
Tom Stoddard									
Aviva long term incentive plan ^{4,5}									
2014	—	310,582	—	—	310,582	564.50	—	—	Mar-17
2015	—	269,281	—	—	269,281	535.00	—	—	Mar-18
Aviva annual bonus plan									
2015	—	62,228	—	—	62,228	535.00	—	—	Mar-18
Aviva Chief Financial Officer Award 2014	—	196,463	53,033 ⁸	—	145,383	564.50	523.00	—	Jul 15 - Jul 17
Andy Briggs									
Aviva long term incentive plan ^{4,5}									
2015	—	276,014	—	—	276,014	535.00	—	—	Mar-18
Savings-related options 2015 ⁷	—	2,368	—	—	2,368	—	380.00	—	Dec 18 - May 19

Notes

- The aggregate net value of share awards granted to the directors in the period was £9.7 million (2014: £3.6 million). The net value has been calculated by reference to the closing middle-market price of an ordinary share of the Company at the date of grant.
- The information given in this column is at 31 December 2015 or the date on which a director ceased to be a director of the Company.
- The actual price used to calculate the ABP and LTIP awards is based on a three day average closing middle-market price of an ordinary share of the Company, prior to grant date. These were in 2013: 299.00 pence, 2014: 489.00 pence and 2015: 564.00 pence. The actual price used to calculate the CFO Award is based on a three day average closing middle-market price of an ordinary share of the Company, prior to employment start date, which was 509.00 pence.
- For the 2013 and 2014 LTIP grant, the TSR comparator group consisted of the following companies: Aegon, Allianz, Assicurazioni Generali, Axa, CNP Assurances, Direct Line Group, Friends Life Group, Legal & General, Met Life, Old Mutual, Prudential, RSA Insurance Group, Standard Life and Zurich Financial. For the 2015 LTIP grant, the TSR comparator group consisted of the following companies: Aegon, Allianz, Assicurazioni Generali, Axa, CNP Assurances, Direct Line Group, Legal & General, MetLife, NN Group, Old Mutual, Prudential, RSA Insurance Group, Standard Life and Zurich Financial.
- The performance periods for these awards begin at the commencement of the financial year in which the award is granted.
- Any unexercised options will lapse at the end of the exercise period.
- Options are not subject to performance conditions (the savings related options being granted under the SAYE plan). The option price was fixed by reference to a three day average closing middle-market price of an ordinary share of the Company, prior to grant date, with a discount of 20% as permitted under the SAYE plan.
- The shares compromised in these vested awards include shares issued in lieu of dividends accrued during the deferral period.

All employee share plans

EDs are eligible to participate in two HMRC tax advantaged all employee share plans on the same basis as other eligible employees.

Details of options granted to EDs under these plans are included in table 15. More information around HMRC tax advantaged plans can be found in note 31.

Dilution

Awards granted under the Aviva all employee share plans are currently met by issuing new shares as agreed by the Board. Shares are still held in employee trusts, details of which are set out in note 32.

The Company monitors the number of shares issued under the Aviva employee share plans and their impact on dilution limits. The Company's usage of shares compared to the relevant dilution limits set by the Investment Association in respect of all share plans (10% in any rolling ten-year period) and executive share plans (5% in any rolling ten-year period) was 2.16% and 1.32% respectively on 31 December 2015.

Governance

Regulatory remuneration code

The Financial Conduct Authority's (FCA) remuneration code applies to Aviva Investors and two small 'firms' (as defined by the FCA) within the UK & Ireland Life business. From 1 January 2014 the majority of these firms are subject to the Capital Requirements Directive IV (CRD IV) and the Remuneration Code (SYSC 19A), having previously been subject to the Capital Requirements Directive III (which remains the active regulatory directive for two BIPRU 'firms'). Additionally, there are three Aviva Investors 'firms' subject to the Alternative Investment Fund Management Directive (AIFMD). The FCA remuneration requirements of AIFMD take effect in the first full performance year following registration i.e. January – December 2015. Remuneration Code requirements include an annual disclosure. For Aviva Investors this can be found in the Chapter 4 of the Pillar 3 Disclosure which can be found at www.avivainvestors.com/about_us/our_corporate_governance/index.htm and for the UK & Ireland Life firms at www.aviva.com/media/news/item/fsa-remuneration-code-disclosure-17350/.

Aviva's reward principles and arrangements are designed to incentivise and reward employees for achieving stated business goals in a manner that is consistent with the Company's approach to sound and effective risk management.

Statement of voting at AGM

The result of the shareholder vote at the Company's 2015 AGM in respect of the 2014 DRR is set out in the table below.

16 Result of the vote at 2015 AGM		Percentage of Votes Cast		
		For	Against	Votes withheld
Directors' Remuneration Policy		97.46%	2.54%	82,821,178
Directors' Remuneration Report		98.68%	1.32%	12,079,913

Following the 2015 AGM, the Committee Chairman continued dialogue with major institutional shareholders, including consulting on the proposed adjustment to LTIP targets.

Implementation of Remuneration Policy in 2016

The implementation of the policy will be consistent with that outlined in the Policy Report, with no significant changes from how the Policy was implemented during 2015.

Basic salaries

The basic salary for the Group CEO £1,009,400 per annum.

The basic salary for the CFO £695,250 per annum.

The basic salary for the CEO UK Life £712,631 per annum.

Annual bonus

The maximum annual bonus opportunity will be in line with the levels set out in the Policy section of this report (i.e. 200% of salary for the Group CEO and 150% of salary for other EDs). As discussed in the Chairman's letter, from 2016, a target is being introduced linked to our strategic progress on expanding our digital interface with our customers. The performance measures and weightings for the 2016 bonus will therefore be as follows:

- IFRS Adjusted Earnings per Share (EPS) (22.50%)
- Cash Remittance (18.75%)
- Economic Surplus generation (11.25%)
- VNB (15.00%)
- COR (7.50%)
- Progress on strategy – Digital (25.00%)

For the financial element, a quality of earnings assessment will be undertaken by the Remuneration Committee to provide assurance that bonus payouts appropriately reflect the shareholder experience.

Performance against a number of other non-financial measures will be considered when determining bonus payouts (employee engagement, customer and risk). In addition, each ED's personal performance during the year will be taken into account.

LTIP

LTIP grants in 2016 will be in line with the levels set out in the Policy report. The CEO will receive an award of 300% of salary and the other two EDs will receive an award of 225% of salary. The LTIP will vest subject to performance against two equally weighted performance measures, absolute ROE and relative TSR performance, which have been chosen to reflect shareholders' long-term interests.

Approach to Non-Executive Directors' fees for 2016

NED fees were last reviewed in March 2016. No changes are made to the current fee levels, as set out in the table below:

17 Non-Executive Directors' fees		Fee from 1 April 2016	Fee from 1 April 2015
Role			
Chairman of the Company ¹		£550,000	£550,000
Board membership fee			
Additional fees are paid as follows:		£70,000	£70,000
Senior Independent Director		£35,000	£35,000
Committee Chairman (inclusive of committee membership fee)			
– Audit		£45,000	£45,000
– Governance		£35,000	£35,000
– Remuneration		£35,000	£35,000
– Risk		£45,000	£45,000
Committee membership			
– Audit		£15,000	£15,000
– Governance		£12,500	£12,500
– Nomination		£7,500	£7,500
– Remuneration		£12,500	£12,500
– Risk		£15,000	£15,000

Notes

1 Inclusive of Board membership fee and any committee membership fees.

Directors' Remuneration Policy

This section sets out Aviva's remuneration Policy for directors, in accordance with the requirements of the Companies Act 2006 (as amended) and the Large & Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended).

This Policy was approved by shareholders at Aviva's 2015 AGM, held on 29 April 2015. We have included the Policy below, but have updated the scenario charts and details of our Directors' dates of appointment. The full Policy, as approved by shareholders, can be found on the Aviva plc website.

Alignment of Group strategy with executive remuneration

The Committee considers alignment between Group strategy and the remuneration of its EDs is critical. Our Remuneration Policy provides market competitive remuneration, and incentivises EDs to achieve both the annual business plan and the longer-term strategic objectives of the Group. Significant levels of deferral and an aggregate shareholding requirement align EDs' interests with those of shareholders and aid retention of key personnel. As well as rewarding the achievement of objectives, variable remuneration can be zero if performance thresholds are not met.

Table 18 below provides an overview of our Remuneration Policy for EDs. For an overview of the Remuneration Policy for NEDs see table 20.

18 Remuneration Policy for Executive Directors – overview				
Element	Purpose and link to strategy	Operation and recovery provisions (if applicable)	Maximum opportunity	Performance measures
Basic salary	To provide core market related pay to attract and retain the required level of talent.	<p>Annual review, with changes normally taking effect from 1 April each year. The review is informed by:</p> <ul style="list-style-type: none"> Relevant pay data including market practice among relevant FTSE listed companies of comparable size to Aviva in terms of market capitalisation, large European and global insurers; and UK financial services companies Levels of increase for the broader UK employee population Individual and business performance 	<p>Current basic salaries are disclosed on page 104.</p> <p>There is no maximum increase within the Policy. However, basic salary increases take account of the average basic salary increase awarded to UK employees. Different levels of increase may be agreed in certain circumstances at the Committee's discretion, such as:</p> <ul style="list-style-type: none"> An increase in job scope and responsibility Development of the individual in the role A significant increase in the size, value or complexity of the Group 	Any movement in basic salary takes account of performance of the individual and the Group.
Annual bonus	<p>To incentivise EDs to achieve the annual business plan.</p> <p>To reward EDs who achieve the Company's strategic objectives and demonstrate the Aviva values and behaviours.</p> <p>Deferral provides alignment with shareholder interests and aids retention of key personnel.</p>	<p>Awards are based on performance in the year. Targets are set annually and pay-out levels are determined by the Committee based on performance against those targets.</p> <p>Two-thirds of any bonus awarded is deferred into shares which vest after three years.</p> <p>Additional shares are awarded at vesting in lieu of dividends paid on the deferred shares.</p> <p>Cash and deferred awards are subject to malus and clawback. Details of when these may be applied are set out in the notes below.</p> <p>The Committee retains discretion to amend annual bonus pay-outs for a range of factors, including financial, market and other considerations. The Committee will exercise its discretion to reduce otherwise unreasonable reward outcomes. If extraordinary circumstances were to arise where the Committee felt an adjustment upwards is warranted, it would consult with major stakeholders before making any adjustment. Any exceptional adjustment would not exceed the stated maximum.</p>	<p>Maximum bonus opportunity for the Group CEO is 200% of basic salary with 100% of basic salary payable for performance in line with target.</p> <p>Maximum bonus opportunity for other EDs is 150% of basic salary with 100% of basic salary payable for performance in line with target.</p> <p>Threshold performance would result in a bonus payment of no more than 25% of basic salary.</p> <p>Performance below threshold would result in no bonus being paid.</p>	<p>Performance is assessed against a range of relevant financial, employee, customer and risk targets designed to incentivise the achievement of our strategy, as well as individual strategic objectives as set by the Committee. Although financial performance is the major factor in considering overall expenditure on bonuses, performance against non-financial measures including behaviours in line with our values will also be taken into consideration.</p>

18 Remuneration Policy for Executive Directors – overview

Element	Purpose and link to strategy	Operation and recovery provisions (if applicable)	Maximum opportunity	Performance measures
Long-term incentive plan	To motivate EDs to achieve the Company's longer-term objectives, to align EDs' interests with those of shareholders and to aid the retention of key personnel.	<p>Shares are awarded which vest dependent on the achievement of performance conditions over a three year period. Additional shares are awarded at vesting in lieu of dividends on any shares which vest.</p> <p>Shares are typically subject to a two year holding period after vesting, creating a total of five years between the award being granted, and the first opportunity to sell.</p> <p>Awards are subject to malus and clawback. Details of when these may be applied are set out in the notes below.</p> <p>The Committee has discretion to amend vesting levels to prevent unreasonable outcomes, which it may use taking into account a range of factors, including the management of risk and good governance and, in all cases, the experience of shareholders.</p>	<p>The plan rules allow for awards to be made up to a maximum of 350% of basic salary.</p> <p>Threshold performance would result in a vesting level of 20% of maximum.</p> <p>Performance below threshold on both targets would result in the award lapsing in its entirety.</p>	<p>Currently, performance targets over three years are:</p> <ul style="list-style-type: none"> • 50% vest based on targets for absolute Return on Equity (ROE) performance • 50% vest based on relative Total Shareholder Return (TSR) against a comparator group <p>Actual targets for ROE and the appropriate TSR comparator group are agreed by the Committee annually and disclosed in the annual remuneration report section.</p>
Pension	To give a market competitive level of provision for post-retirement income.	EDs are eligible to participate in a defined contribution plan up to the annual limit. Any amounts above the annual or lifetime limits are paid in cash.	If suitable employee contributions are made, employer contributes 28% of basic salary (into pension or as cash as applicable).	N/A
Benefits	<p>To provide EDs with a suitable but reasonable package of benefits as part of a competitive remuneration package. This involves both core executive benefits, and the opportunity to participate in flexible benefits programmes offered by the Company (via salary sacrifice). This enables us to attract and retain the right level of talent necessary to deliver the Company's strategy.</p>	<p>Benefits are provided on a market related basis. The Company reserves the right to deliver benefits to EDs depending on their individual circumstances, which may include a cash car allowance, life insurance and private medical insurance. In the case of non-UK executives, the Committee may consider additional allowances in line with standard relevant market practice.</p> <p>EDs employed under UK contracts are eligible to participate in any HMRC approved all employee share plans operated by the Company on the same basis as other eligible employees.</p>	<p>Set at a level which the Committee considers appropriate against comparable roles in companies of a similar size and complexity to provide a reasonable level of benefit.</p> <p>Costs would normally be limited to providing a cash car allowance, private medical insurance, life insurance, and reasonable travel benefits, including the tax cost where applicable. In addition, there may be one-off or exceptional items on a case by case basis, which would be disclosed in the DRR.</p>	N/A
Relocation and mobility	To assist with mobility across the Group to ensure the appropriate talent is available to execute strategy locally.	Employees who are relocated or reassigned from one location to another receive relevant benefits to assist them and their dependants in moving home and settling in to the new location.	<p>Dependent on location and family size, benefits are market related and time bound. They are not compensation for performing the role but to defray costs of a relocation or residence outside the home country.</p> <p>The Committee would pay no more than it judged reasonably necessary, in the light of all applicable circumstances.</p>	N/A
Shareholding requirement	To align EDs' interests with those of shareholders.	<p>A requirement to build a shareholding in the Company equivalent to 300% of basic salary for the Group CEO and 150% of basic salary for other EDs.</p> <p>This shareholding is normally to be built up over a period not exceeding 5 years (subject to the Committee's discretion where personal circumstances dictate).</p>	N/A	N/A

Notes to the table:

Performance measures

For the annual bonus, performance measures are chosen to align to the Group's KPIs and include financial, risk, employee and customer measures. Achievement against individual strategic objectives is also taken into account.

LTIP performance measures are chosen to provide an indication of both absolute and relative return generated for shareholders. In terms of target setting, a number of reference points are taken into account each year including, but not limited to, the Group's business plan and external market expectations of the Company. Maximum payouts require exceptional performance that significantly exceeds performance targets or expected performance, under both the annual bonus and LTIP.

Malus and Clawback

The circumstances when malus and clawback may apply include (but are not limited to) where the Committee considers that the employee concerned has been involved in or partially or wholly responsible for:

- A materially adverse misstatement of the Company's financial statements, or a misleading representation of performance; or
- A significant failure of risk management and/or controls; or
- A scenario or event which causes material reputational damage to the Company; or
- Misconduct which, in the opinion of the Committee, ought to result in the complete or partial lapse of an award

The clawback period runs for two years from the date of vesting (or from the date of payment in the case of annual bonus awards).

Clawback was introduced in 2015 so applies to the annual bonus from 2015 (paid March 2016) and the LTIP awards granted in 2015 and any future awards.

Discretions

The discretions the Committee has in relation to the operation of the ABP and LTIP are set out in the plan rules. These include (but are not limited to) the ability to set additional conditions (and the discretion to change or waive those conditions) in exceptional circumstances. In relation to the LTIP, in accordance with its terms, the Committee has discretion in relation to vesting and in exceptional circumstances to waive or change a performance condition if anything happens which causes the Committee reasonably to consider it appropriate to do so. Any use of the discretions will be disclosed, where relevant, in the annual report and, where appropriate be subject to consultation with Aviva's shareholders.

Change in control

In the event of a change in control, unless a new award is granted in exchange for an existing award, or if there is a significant corporate event like a demerger, awards under the LTIP would normally vest to the extent that the performance conditions have been satisfied as at the date of the change in control, and unless the Committee decides otherwise, would be pro-rated to reflect the time between the start of the performance period and the change in control. Awards under the ABP would normally vest on the date of the change in control and may vest if there is a significant corporate event.

Consistency of executive Remuneration Policy across the Group

The Remuneration Policy for our EDs is designed as part of the remuneration philosophy and principles that underpin remuneration for the wider Group. Remuneration arrangements for employees below the EDs take account of the seniority and nature of the role, individual performance and local market practice. The components and levels of remuneration for different employees may therefore differ from the Policy for EDs. Any such elements are reviewed against market practice and approved in line with internal guidelines and frameworks.

Differentiation in reward outcomes based on performance and behaviour that is consistent with the Aviva values is a feature of how Aviva operates its annual bonus plan for its senior leaders and managers globally. A disciplined approach is taken to moderation across the Company in order to recognise and reward the key contributors. The allocation of LTIP awards also involves strong differentiation, with expected contribution and ability to collaborate effectively in implementation of the strategy driving award levels.

The Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out above where the terms of the payment were agreed (i) before the Policy came into effect or (ii) at a time when the relevant individual was not a director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a director of the Company. For these purposes "payments" includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted.

Approach to recruitment remuneration

On hiring a new ED, the Committee would align the proposed remuneration package with our Remuneration Policy.

In determining the actual remuneration for a new ED, the Committee would consider the package in totality, taking into account elements such as the likely contribution of the individual, local market benchmarks, remuneration practice, and the existing remuneration of other senior executives. The Committee would ensure any arrangements agreed would be in the best interests of Aviva and its shareholders. It would seek not to pay more than necessary to secure the right candidate.

The Committee may make awards on hiring an external candidate to 'buyout' remuneration arrangements forfeited on leaving a previous employer. In doing so, the Committee would take account of relevant factors including any performance conditions attached to these awards, the form in which it was paid (e.g. cash or shares) and the timeframe of awards. The Committee considers that a buyout award is a significant investment in human capital by Aviva, and any buyout decision will involve careful consideration of the contribution that is expected from the individual. Buyout awards would be awarded on a "like for like" basis compared to remuneration being forfeited, and would be capped to reflect the value being forfeited.

The maximum level of variable pay which could be awarded to a new ED, excluding any buyouts, would be in line with the Policy set out above and would therefore be no more than 550% of basic salary for the Group CEO (200% of basic salary annual bonus opportunity and 350% of basic salary as the face value of a LTIP grant) and 500% of basic salary for other EDs (150% of basic salary annual bonus opportunity and 350% of basic salary as the face value of a LTIP grant).

All other elements of remuneration will also be in line with the Policy set out above.

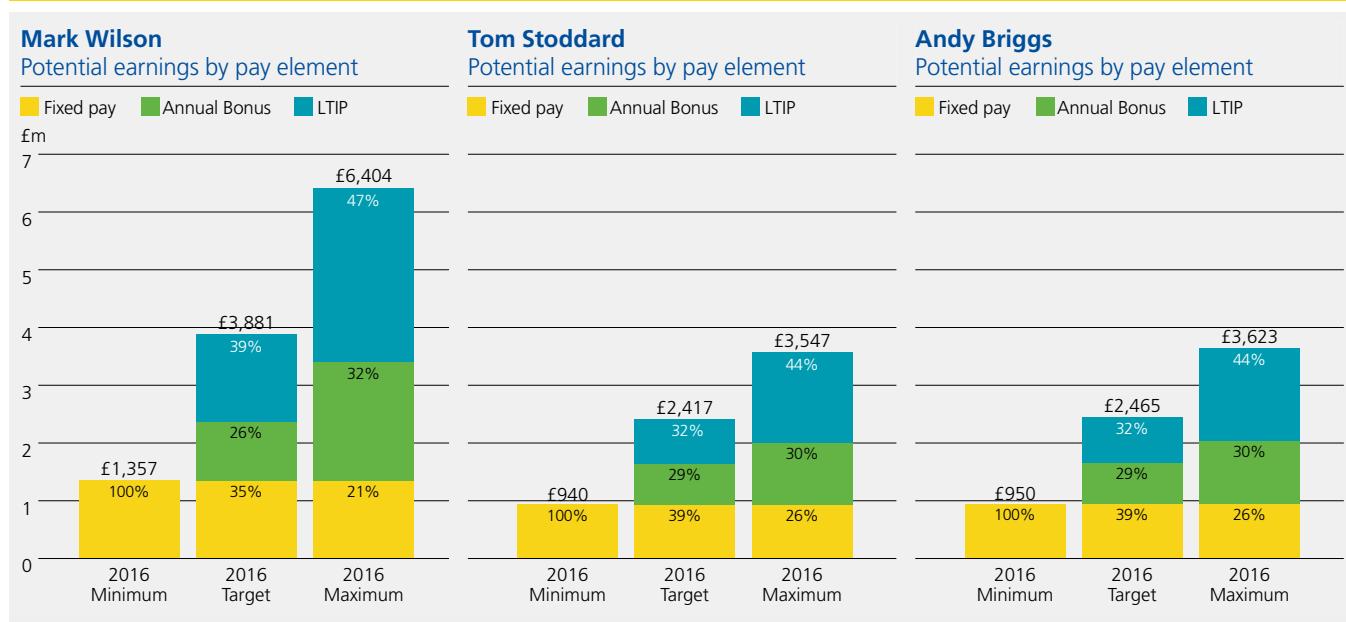
Should the Company have any prior commitments outside of this Policy in respect of an employee promoted internally to an ED position, the Committee may continue to honour these for a period of time. Where an ED is appointed from within the organisation, the normal policy of the Company is that any legacy arrangements would be honoured in line with the original terms and conditions. Similarly, if an ED is appointed following Aviva's acquisition of, or merger with, another company, legacy terms and conditions may be honoured.

On hiring a new NED, the Committee would align the remuneration package with the Remuneration Policy for NEDs, outlined in table 20, including fees and travel benefits.

Illustration of the Policy

The charts below illustrate how much EDs could earn under different performance scenarios in one financial year:

- Minimum – basic salary, pension or cash in lieu of pension and benefits, no bonus and no vesting of the LTIP
- Target – basic salary, pension or cash in lieu of pension, benefits, and:
 - A bonus of 100% and an LTIP of 300% of basic salary (with notional LTIP vesting at 50% of maximum) for the Group CEO;
 - A bonus of 100% and an LTIP of 225% of basic salary (with notional LTIP vesting at 50% of maximum) for the CFO; and
 - A bonus of 100% and an LTIP of 225% of basic salary (with notional LTIP vesting at 50% of maximum) for the CEO UK Life.
- Maximum – basic salary, pension or cash in lieu of pension, benefits, and:
 - A bonus of 200% and an LTIP of 300% of basic salary (with notional LTIP vesting at maximum) for the Group CEO;
 - A bonus of 150% and an LTIP of 225% of basic salary (with notional LTIP vesting at maximum) for the CFO; and
 - A bonus of 150% and an LTIP of 225% of basic salary (with notional LTIP vesting at maximum) for the CEO UK Life.



Notes to the charts

- Fixed pay consists of basic salary, pension as described in table 18, and estimated value of benefits provided under the Remuneration Policy, excluding any one offs. This therefore excludes the relocation assistance for Tom, in connection with his relocation to the UK. Actual figures may vary in future years.
- The value of the LTIP and deferred element of the annual bonus assumes a constant share price and does not include additional shares awarded in lieu of dividends, that may have been accrued during the vesting period.
- LTIP as awarded in 2016.

Employment contracts and letters of appointment

ED employment contracts and NED letters of appointment are available for inspection at the Company's registered office during normal hours of business, and at the place of the Company's 2016 AGM from 10.45am on 4 May 2016 until the close of the meeting.

The key employment terms and conditions of the current EDs, and those who served during the year, as stipulated in their employment contracts, are set out in the table 19 below.

19 Executive Directors' conditions of employment	
Provision	Policy
Notice period	
By the ED	6 months.
By the Company	12 months, rolling. No notice or payment in lieu of notice to be paid where the Company terminates for cause.
Termination payment	Pay in lieu of notice up to a maximum of 12 months' basic salary. Any payment is subject to phasing and mitigation requirements. An ED would be expected to mitigate the loss of office by seeking alternative employment. Any payments in lieu of notice would be reduced, potentially to zero, by any salary received from such employment.
Remuneration and benefits	The operation of the annual bonus and LTIP is at the Company's discretion.
Expenses	Reimbursement of expenses reasonably incurred in accordance with their duties.
Car allowance	A cash car allowance is received, as varied from time to time.
Holiday entitlement	30 working days plus public holidays.
Private medical insurance	Private medical insurance is provided for the ED and their family. The ED can choose to opt out of this benefit or take a lower level of cover. However, no payments are made in lieu of reduced or no cover.
Other benefits	Other benefits include private medical insurance and participation in the Company's staff pension scheme.
Sickness	100% of basic salary for 52 weeks, and 75% thereafter for a further 52 weeks.
Non-compete	During employment and for six months after leaving (less any period of garden leave) without the prior written consent of the Company.
Contract dates	Director: Date current contract commenced: Mark Wilson 1 January 2013 Tom Stoddard 28 April 2014 Andy Briggs 13 April 2015

Policy on payment for loss of office

There are no pre-determined ED special provisions for compensation for loss of office. The Committee has the ability to exercise its discretion on the final amount actually paid. Any compensation would be based on basic salary, pension entitlement and other contractual benefits during the notice period, or a payment made in lieu of notice, depending on whether the notice is worked.

Where notice of termination of a contract is given, payments to the ED would continue for the period worked during the notice period. Alternatively, the contract may be terminated and phased monthly payments made in lieu of notice for, or for the balance of, the 12 months' notice period. During this period, EDs would be expected to mitigate their loss by seeking alternative employment. Payments in lieu of notice would be reduced by the salary received from any alternative employment, potentially to zero. The Company would typically make a reasonable contribution towards an ED's legal fees in connection with advice on the terms of their departure.

There is no automatic entitlement to an annual bonus for the year in which loss of office occurs. The Committee may determine that an ED may receive a pro rata bonus in respect of the period of employment during the year loss of office occurs based on an assessment of performance. Where an ED leaves the Company by reason of death, disability or ill health, or any other reason determined by the Committee, there may be a payment of a pro rata bonus for the relevant year at the discretion of the Committee.

The treatment of leavers under our ABP and LTIP is determined by the rules of the relevant plans. Good leaver status under these plans would be granted in the event of, for example, the death of an ED, or their departure on ill health grounds. Good leaver status for other leaving reasons is at the discretion of the Committee, taking into account the circumstances of the individual's departure, but would typically include planned retirement. In circumstances where good leaver status has been granted, awards may still be subject to malus and clawback in the event that inappropriate conduct of the ED is subsequently discovered post departure. If good leaver status is not granted, all outstanding awards will lapse.

In the case of LTIPs, where the Committee determines EDs to be good leavers, vesting is normally based on the extent to which performance conditions have been met at the end of the relevant performance period, and the proportion of the award that vests is pro-rated for the time from the date of grant to final date of service (unless the Committee decides otherwise). Any decision not to apply this would only be made in exceptional circumstances, and would be fully disclosed. It is not the practice to allow such treatment.

Consideration of wider employee pay and shareholder views

When determining the Remuneration Policy and arrangements for our EDs, the Committee considers:

- Pay and employment conditions elsewhere in the Group to ensure that pay structures are suitably aligned and that levels of remuneration remain appropriate. The Committee reviews levels of basic salary increases for other employees and executives based in the UK. It reviews changes in overall bonus pool funding and long-term incentive grants. The Committee does not directly consult with employees on pay issues but it does consider feedback from sources including the employee opinion survey. The Committee also takes into account information provided by the people function and external advisers
- Its ongoing dialogue with shareholders. It seeks shareholder views and takes them into account when any significant changes are being proposed to remuneration arrangements and when formulating and implementing Remuneration Policy. For example, during 2014 and continuing in 2015, the Committee has had detailed engagement with our largest shareholders to discuss amendments to targets for existing LTIP awards and 2015 annual bonus plan following the acquisition of FLG

Non-Executive Directors

The table below sets out details of our Remuneration Policy for NEDs.

20 Remuneration Policy for Non-Executive Directors – overview				
Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Chairman and NEDs' fees	To attract individuals with the required range of skills and experience to serve as a Chairman and as a NED.	NEDs receive a basic annual fee in respect of their Board duties. Further fees are paid for membership and, where appropriate, chairmanship of Board committees. The Chairman receives a fixed annual fee. Fees are reviewed annually taking into account market data and trends and the scope of specific Board duties. The Chairman and NEDs do not participate in any incentive or performance plans or pension arrangements and do not receive an expense allowance. NEDs are reimbursed for reasonable expenses, and any tax arising on those expenses is settled directly by Aviva. To the extent that these are deemed taxable benefits, they will be included in the annual remuneration report, as required.	The Company's Articles of Association provide that the total aggregate remuneration paid to the Chairman of the Company and NEDs will be determined by the Board within the limits set by shareholders and detailed in the Company's Articles of Association.	N/A
Chairman's Travel Benefits	To provide the Chairman with suitable travel arrangements for him to discharge his duties effectively.	The Chairman has access to a company car and driver for business use. Where these are deemed a taxable benefit, the tax is paid by the Company.	N/A	N/A
NED Travel and Accommodation	To reimburse NEDs for appropriate business travel and accommodation, including attending Board and committee meetings.	Reasonable costs of travel and accommodation for business purposes are reimbursed to NEDs. On the limited occasions when it is appropriate for a NED's spouse or partner to attend, such as to a business event, the Company will meet these costs. The Company will meet any tax liabilities that may arise on such expenses.	N/A	N/A

The NEDs, including the Chairman of the Company, have letters of appointment which set out their duties and responsibilities. The key terms of the appointments are set out in table below.

21 Non-Executive Directors' key terms of appointment

Provision	Policy
Period	In line with the requirement of the UK Corporate Governance Code, all NEDs, including the Chairman, are subject to annual re-election by shareholders at each AGM.
Termination	By the director or the Company at their discretion without compensation upon giving one month's written notice for NEDs and three months' written notice for the Chairman of the Company.
Fees	As set out in table 17.
Expenses	Reimbursement of travel and other expenses reasonably incurred in the performance of their duties.
Time commitment	Each director must be able to devote sufficient time to the role in order to discharge his or her responsibilities effectively.

Appointment dates	Director	Committee appointments	Date of last appointment on letter of appointment ¹	Appointment end date in accordance with letter of appointment
	Glyn Barker	A N R	3 May 2012	AGM 2016
	Patricia Cross	A N R	1 December 2013	AGM 2016
	Michael Hawker	A N R	3 May 2012	AGM 2016
	Belén Romana García	G N R	26 June 2015	AGM 2016
	Sir Adrian Montague	N	15 January 2013	AGM 2016
	Michael Mire	G N R R	12 September 2013	AGM 2016
	Bob Stein	A N R R	15 January 2013	AGM 2016
	Scott Wheway	G N R	3 May 2012	AGM 2016
	Sir Malcolm Williamson	A G N R	21 May 2015	AGM 2016

Key

- A Audit Committee member
- G Governance Committee member
- N Nomination Committee member

- R Remuneration Committee member
- R Risk Committee member
- Denotes chair of committee

Notes

1 The dates shown above reflect actual appointment dates where agreed following signature of the letter as all appointments are subject to regulatory approval.

Approval by the Board

This Directors' remuneration report was reviewed and approved by the Board on 9 March 2016.

Patricia Cross

Chairman, Remuneration Committee

IFRS financial statements

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Report on the financial statements

Our opinion

In our opinion, Aviva plc's Consolidated financial statements and parent company financial statements (the 'financial statements'):

- Give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2015 and of the Group's and the parent company's profit and cash flows for the year then ended;
- Have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union; and
- Have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited

The financial statements, included within the Annual Report and Accounts (the 'Annual Report') comprise:

- The Consolidated and Company statements of financial position as at 31 December 2015;
- The Consolidated and Company income statements and statements of comprehensive income for the year then ended;
- The Reconciliation of Group operating profit to profit for the year then ended;
- The Consolidated and Company statements of changes in equity and statements of cash flows for the year then ended;
- The principal accounting policies adopted in the preparation of the financial statements; and
- The notes to the financial statements, which include other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in the Accounting policies to the financial statements, the Group, in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB). In our opinion the financial statements comply with IFRSs as issued by the IASB.

Our audit approach

Context

This year's audit continued to focus on the valuation of insurance contract liabilities and the valuation of hard to value investments. Developments in the year included a focus on the valuation of finite lived intangible assets and goodwill related to the acquisition of Friends Life Group Limited.

Overview

- Overall Group materiality: £114 million which represents 5% of Operating profit before tax and after the deduction of integration and restructuring costs.
- Based on the outputs of a risk assessment, along with our understanding of the Aviva structure, we performed full scope audits over the following markets; UK Life (including Friends Life), UK General Insurance, Canada, and France Life.
- We identified a further six markets where specific account balances are considered to be significant in size in relation to the Group, and scoped our audit to include detailed testing of those account balances.
- Further audit procedures were performed by the Group engagement team, including over the head office operations and the consolidation process, to ensure that sufficient coverage was obtained.
- Our risk assessment analysis identified the following as areas of focus:
 - Valuation of life insurance contract liabilities.
 - Valuation of non-life insurance contract liabilities.
 - Valuation of hard to value investments.
 - Valuation of finite lived intangible assets and goodwill relating to the Friends Life Group Limited acquisition.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK and Ireland)').

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Valuation of life insurance contract liabilities <small>Refer to page 91 (Audit Committee Report), page 138 (Accounting policies) and page 205 (notes)</small>	<p>The Directors' valuation of the provisions for the settlement of future claims involves complex and subjective judgements about future events, both internal and external to the business, for which small changes in assumptions can result in material impacts to the valuation of these liabilities.</p> <p>The work to address the valuation of the UK Life (including Friends Life) insurance contract liabilities included the following procedures:</p> <ul style="list-style-type: none"> • We tested the underlying company data to source documentation. • Using our actuarial specialist team members, we applied our industry knowledge and experience and we compared the methodology, models and assumptions used against recognised actuarial practices. • We performed reasonableness checks on the modelled results of management's analysis of change, including testing over the controls improvements implemented in Friends Life in the second half of the year to respond to limitations in the analysis. • We tested the key judgements and controls over the preparation of the manually calculated components of the liability. We focused on the consistency in treatment and methodology period-on-period, across life insurance funds and with reference to recognised actuarial practice. • Further testing was also conducted on the Annuitant Mortality, Credit Default and Expense assumptions as set out below. • We used the results of an independent PwC annual benchmarking survey of assumptions which allowed us to further challenge the assumption setting process by comparing certain assumptions used relative to the Group's industry peers. <p><i>Based on the work performed, we considered the assumptions used to be in line with recognised market practices and, where appropriate, industry peers.</i></p>
As part of our consideration of the entire set of assumptions we focused particularly on the following three within the UK Life market (including Friends Life) given their significance to the Group's result and the level of judgement involved.	<p>As part of our consideration of the entire set of assumptions we focused particularly on the following three within the UK Life market (including Friends Life) given their significance to the Group's result and the level of judgement involved.</p> <p>Annuitant Mortality Assumptions</p> <p>Annuitant mortality assumptions require a high degree of judgement due to the number of factors which may influence mortality experience. The differing factors which affect the assumptions are underlying mortality experience (in the portfolio), industry and management views on the future rate of mortality improvements and external factors arising from developments in the annuity market.</p> <p>In addition to the procedures above, in respect of the annuitant mortality assumptions:</p> <ul style="list-style-type: none"> • We understood and tested the governance process in place to determine the annuitant mortality methodology and assumptions. • We tested the methodology and the model for rate of improvements used by management to derive the assumptions with reference to relevant rules and actuarial guidance and by applying our industry knowledge and experience. • We assessed the results of the experience investigations carried out by UK Life (including Friends Life) management for the annuity business to determine whether they provided support for the assumptions used by management. • We compared the mortality assumptions selected by UK Life (including Friends Life) against those used by their peers. <p><i>Based on the work performed and the evidence obtained, we considered the assumptions used for annuitant mortality to be reasonable.</i></p>

Area of focus	How our audit addressed the area of focus
<p>Credit Default Assumptions UK Life (including Friends Life) holds significant commercial mortgage, corporate bond and other loan asset portfolios to support the annuity liabilities. In line with relevant rules, the current yield on these assets less a prudent deduction for credit default and reinvestment risk is used to discount the annuity liabilities. Additional supplementary liabilities are held particularly in respect of the use of higher risk assets. These liabilities are to cover <i>inter alia</i> the risk of increased short-term default rates and in the event of default, the availability of assets yielding similar returns. The assumptions used require significant judgement.</p>	<p>In respect of the credit default assumptions:</p> <ul style="list-style-type: none"> • We understood and tested the governance process in place to determine the credit default risk methodology and assumptions. • We tested the methodology and credit risk pricing models used for commercial mortgages by management to derive the assumptions with reference to relevant rules and actuarial guidance, and by applying our industry knowledge and experience. • We validated assumptions used by management against market observable data and our experience of market practices. <p><i>Based on the work performed, we considered the allowance for credit default risk to be appropriate.</i></p>
<p>Expense Assumptions Future maintenance expenses and expense inflation assumptions are used in the measurement of insurance and participating investment contract liabilities and any associated reinsurance assets. The assumptions used require significant judgement.</p>	<p>In respect of the expense assumptions:</p> <ul style="list-style-type: none"> • We understood and tested the governance process in place to determine the maintenance expense and expense inflation assumptions. • We tested the methodology used by management to derive the assumptions with reference to relevant rules and actuarial guidance and by applying our industry knowledge and experience. • We validated assumptions used by management against past experience, market observable data and our experience of market practices. <p><i>Based on the work performed, we considered the allowance for expense risk to be appropriate.</i></p>
<p>Valuation of non-life insurance contract liabilities <small>Refer to page 91 (Audit Committee Report), page 139 (Accounting policies) and page 205 (notes)</small></p> <p>The estimation of non-life insurance contract liabilities involves a significant degree of judgement. The liabilities are based on the best-estimate ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling costs. A range of methods, including stochastic projections, may be used to determine these provisions. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims. Regulators across the globe continue to focus on reserving adequacy for non-life insurers, particularly in the current market.</p> <p>Given their size in relation to the consolidated Group and the complexity of the judgements involved our work focused on the liabilities in the UK General Insurance and Canada markets.</p>	<p>In the UK General Insurance and Canada markets, we assessed the Directors' calculation of the non-life insurance liabilities by performing the following procedures:</p> <ul style="list-style-type: none"> • We tested the underlying company data to source documentation. • Using our actuarial specialist team members, we applied our industry knowledge and experience and we compared the methodology, models and assumptions used against recognised actuarial practices. • Understood and tested the governance process in place to determine the insurance contract liabilities, including testing the associated financial reporting control framework. • Our actuarial specialist team members performed independent re-projections on selected classes of business, particularly focusing on the largest and most uncertain reserves. For these classes we compared our re-projected claims reserves to those booked by management, and sought to understand any significant differences. • For the remaining classes we evaluated the methodology and assumptions, or performed a diagnostic check to identify and follow up any anomalies. <p><i>Based on the work performed, we considered the methodology and assumptions used by management to be appropriate.</i></p>

Area of focus	How our audit addressed the area of focus
Valuation of hard to value investments Refer to page 183 (notes).	<p>Given the ongoing market volatility and macroeconomic uncertainty, investment valuation continues to be an area of inherent risk. The risk is not uniform for all investment types and is greatest for the following, where the investments are hard to value because quoted prices are not readily available:</p> <ul style="list-style-type: none"> • Commercial mortgage loans (UK Life) • Equity release and UK securitised mortgage loans (UK Life) • Structured bond-type investments (France Life) • Collateralised loan obligations and non-recourse loans (UK Life) • Private placements (UK Life) • Swaps for equity release and related Special Purpose Vehicles (UK Life) <p>For these hard to value investments we assessed both the methodology and assumptions used by management in the calculation of the year end values as well as testing the governance controls that the Directors have in place to monitor these processes.</p> <p>The testing included performing the following procedures:</p> <ul style="list-style-type: none"> • Evaluated the methodology and assumptions in particular, yield curves, discounted cash flows, property growth rates and liquidity premium used within the valuation models. • Compared the assumptions used against appropriate benchmarks and investigated significant differences. • Tested the operation of data integrity and change management controls for the models. • Used our valuation experts to perform independent valuations, where applicable. <p><i>Based on the work performed, we considered the assumptions used by management to be appropriate.</i></p>
Valuation of finite intangible assets and goodwill in relation to the Friends Life Group Limited Acquisition Refer to page 91 (Audit Committee Report), page 140 (Accounting policies) and page 154 (notes).	<p>On acquisition of Friends Life Group Limited, Aviva recognised the Acquired Value of In Force Business 'AVIF' (£4,790 million) in respect of the insurance and investment contract portfolios. In addition, further intangible assets were recognised consisting of distributor and customer relationships (£484 million) and goodwill (£671 million).</p> <p>These intangible assets represent an area of significant judgement and therefore we performed work to assess the valuation of these assets, as well as any amortisation or impairments charged since the acquisition date.</p> <p>For the finite lived intangible assets and goodwill we performed the following procedures:</p> <ul style="list-style-type: none"> • Tested the acquisition balance sheet prepared by management in accordance with the requirements of IFRS 3 Business Combinations to: <ul style="list-style-type: none"> - Check the recording at fair value of the Friends Life Group Limited assets and liabilities at the date of acquisition; - Check the pre-existing intangible assets of Friends Life Group Limited were written off on acquisition; - Agree the alignment of accounting policies of Friends Life Group Limited with Aviva; and - Recalculate the value of goodwill recognised in the acquisition balance sheet. • Challenged management's judgements, through the engagement of PwC valuation experts to: <ul style="list-style-type: none"> - Test the completeness of identification of potential intangible assets recognised and valued; - Test the valuation methodologies and assumptions used to value each intangible asset on acquisition. • Examined the amortisation and impairment methodology to check it is in accordance with IFRS requirements • Tested management's application of the methodology at year end by re-performing the amortisation and impairment calculation. <p><i>Based on our work and the evidence obtained, we found that the recognition of goodwill, AVIF and other intangible assets and management's basis for the valuations as at 31 December were appropriate.</i></p>

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Using the outputs of a risk assessment, along with our understanding of the Aviva structure, we scoped our audit based on the significance of the results and financial position of individual markets relative to the Group result and financial position. In doing so, we also considered qualitative factors and checked that we obtained sufficient coverage across all financial statement line items in the Consolidated financial statements. This scope provided us with audit coverage in excess of 86% for Operating profit before tax and, after the deduction of integration and restructuring costs, 79% for Gross Written Premiums and 88% for Total Assets.

The Group's primary reporting format is along market reporting lines with supplementary information being given by business activity. The operating segments of the Group are 'United Kingdom & Ireland' (Life and General Insurance), France, Poland, 'Italy, Spain and Other', Canada, Asia, Aviva Investors and 'Other Group Activities'. The results of the Friends Life Group Limited businesses from the date of acquisition, have been included in the UK & Ireland Life (Friends Life UK), Asia (Friends Provident) and 'Other Group activities' segments.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at each of the markets by us, as the Group audit team, or auditors of the markets within PwC UK or from other PwC network firms operating under our instructions. Work was performed by local engagement teams in the following markets; UK Life, Friends Life, UK General Insurance, Canada, France Life, Aviva Investors UK, Spain, Italy, Poland, Singapore Life and Friends Provident International.

Where the work was performed by auditors of the markets, we determined the level of involvement we needed as the Group audit team to have in the audit work at those markets to be able to conclude whether sufficient audit evidence had been obtained as a basis for our opinion on the financial statements as a whole. The Group audit team kept in regular communication with reporting market audit teams including visits to teams based in Aviva operating locations at Bristol, York and Norwich in the United Kingdom, France, Canada, Italy, Spain, Poland and Singapore, regular phone calls, discussions and written instructions, where appropriate.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality	£114 million (2014: £102 million).
How we determined it	5% of Operating profit before tax and after the deduction of integration and restructuring costs.
Rationale for benchmark applied	<p>In determining our materiality, we considered financial metrics which we believed to be relevant, and concluded, consistent with last year, that operating profit before tax and after the deduction of integration and restructuring costs was the most relevant benchmark.</p> <p>Operating profit presents a longer-term assessment of the performance of the entity which is more in line with the operations and time horizons of an insurer where insurance contracts and customer relationships span over multiple years. We believe that it is appropriate to deduct integration and restructuring costs as Aviva incur a base level of restructuring costs, even outside times of significant restructuring.</p>

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £5 million (2014: £5 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on pages 99 to 100, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group and parent company have adequate resources to remain in operation, and that the Directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and parent company's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 opinion

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- Information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and parent company acquired in the course of performing our audit; or
- otherwise misleading.

We have no exceptions to report.

- The statement given by the Directors on page 100, in accordance with provision C.1.1 of the UK Corporate Governance Code (the 'Code'), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and parent company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and parent company acquired in the course of performing our audit.

We have no exceptions to report.

- The section of the Annual Report on page 91, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report.

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

- The Directors' confirmation on page 82 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

We have nothing material to add or to draw attention to.

- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.

We have nothing material to add or to draw attention to.

- The Directors' explanation on page 100 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the Directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' remuneration report – Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 100, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- Whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed;
- The reasonableness of significant accounting estimates made by the Directors; and
- The overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Marcus Hine (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

9 March 2016

a The maintenance and integrity of the Aviva plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

b Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Aviva plc (the 'Company'), a public limited company incorporated and domiciled in the United Kingdom (UK), together with its subsidiaries (collectively, the 'Group' or 'Aviva') transacts life assurance and long-term savings business, fund management and most classes of general insurance and health business through its subsidiaries, joint ventures, associates and branches in the UK, Ireland, continental Europe, Canada, Asia and other countries throughout the world.

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(A) Basis of preparation

The consolidated financial statements and those of the Company have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU), and those parts of the Companies Act 2006 applicable to those reporting under IFRS. In addition to fulfilling their legal obligation to comply with IFRS as adopted by the EU, the Group and the Company have also complied with IFRS as issued by the IASB applicable at 31 December 2015. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, investment property, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

In accordance with IFRS 4 *Insurance Contracts*, the Group has applied existing accounting practices for insurance and participating investment contracts, modified as appropriate to comply with the IFRS framework and applicable standards. Further details are given in accounting policy G.

Items included in the financial statements of each of the Group's entities are measured in the currency of the primary economic environment in which that entity operates (the functional currency). The consolidated financial statements are stated in pounds sterling, which is the Company's functional and presentational currency. Unless otherwise noted, the amounts shown in these financial statements are in millions of pounds sterling (£m). The separate financial statements of the Company are on pages 270 to 278.

There is a presentation change related to the definition of operating profit detailed in note 1 for which comparative figures have been restated. There is no impact on reported profit or equity as a result of this.

New standards, interpretations and amendments to published standards that have been adopted by the Group

The Group has adopted the following amendments to standards which became effective for the annual reporting period beginning on 1 January 2015.

(i) Amendments to IAS 19, Employee Benefits – Employee Contributions

These narrow scope amendments simplify accounting for defined benefit plans that require contributions from employees or third parties. The adoption of the amendments has no impact on the Group's consolidated financial statements as the Group does not have defined benefit plans that require employees or third parties to contribute to the cost of the plan.

(ii) Annual Improvements to IFRSs 2011-2013

These improvements to IFRSs consist of amendments to four IFRSs including IFRS 3 *Business Combinations* and IFRS 13 *Fair Value Measurement*. The amendments clarify

existing guidance and there is no impact on the Group's consolidated financial statements.

Standards, interpretations and amendments to published standards that are not yet effective and have not been adopted early by the Group

The following new standards, amendments to existing standards have been issued, are not yet effective and have not been adopted early by the Group:

(i) Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation

These amendments provide additional guidance on how the depreciation or amortisation of property, plant and equipment and intangible assets should be calculated. The amendments to IAS 16 and IAS 38 prohibit the use of revenue-based depreciation for property, plant and equipment and significantly limit the use of revenue-based amortisation for intangible assets.

The adoption of these amendments is not expected to have a significant impact for the Group's consolidated financial statements as the Group does not apply revenue-based depreciation or amortisation. These amendments are effective for annual reporting periods beginning on or after 1 January 2016 and have been endorsed by the EU.

(ii) Amendments to IAS 27, Equity Method in Separate Financial Statements

The amendments to IAS 27 allow investments in subsidiaries to be accounted for using the equity method within the Company's financial statements. The Company does not intend to use the equity method in its separate financial statements. The amendments to IAS 27 are effective for annual reporting periods beginning on or after 1 January 2016 and have been endorsed by the EU.

(iii) Narrow scope amendments to IFRS10, IFRS 12 and IAS 28 – Applying the Consolidation Exception

These narrow scope amendments clarify the application of the requirements for investment entities to measure subsidiaries at fair value instead of consolidating them. There are no implications for the Group's consolidated financial statements as the Group does not meet the definition of an investment entity. These amendments are effective for annual reporting periods beginning on or after 1 January 2016 and have not yet been endorsed by the EU.

(iv) Amendments to IAS 1 – Disclosure Initiative

These amendments clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendments form part of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The adoption of these amendments will have no impact on the Group's profit or loss or equity. The amendments are effective for annual reporting periods beginning on or after 1 January 2016 and have been endorsed by the EU.

(v) Annual Improvements to IFRSs 2012-2014

These improvements consist of amendments to five IFRSs including IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, IFRS 7 *Financial Instruments: Disclosures* and IAS 19 *Employee Benefits*. The amendments clarify existing guidance. The adoption of these amendments is not expected to have a significant impact on the Group's consolidated financial statements.

The amendments are effective for annual reporting periods beginning on or after 1 January 2016 and have been endorsed by the EU.

(vi) IFRS 15, Revenue from Contracts with Customers

IFRS 15 will replace IAS 18 *Revenue* and establishes a principle based five-step model to be applied to all contracts with customers, except for insurance contracts, financial instruments and lease contracts. IFRS 15 also includes enhanced disclosure requirements. The impact of the adoption of the new standard has yet to be fully assessed by the Group. This standard applies to annual reporting periods beginning on or after 1 January 2018 and has not yet been endorsed by the EU.

(vii) IFRS 9, Financial Instruments

In July 2014, the IASB published IFRS 9 *Financial Instruments* which will replace IAS 39 *Financial Instruments: Recognition and Measurement*. The standard incorporates new classification and measurements requirements for financial assets, the introduction of an expected credit loss impairment model which will replace the incurred loss model of IAS 39, and new hedge accounting requirements. Under IFRS 9, all financial assets will be measured at either amortised cost or fair value. The basis of classification will depend on the business model and the contractual cash flow characteristics of the financial assets. The standard retains most of IAS 39's requirements for financial liabilities except for those designated at fair value through profit or loss whereby that part of the fair value changes attributable to own credit is to be recognised in other comprehensive income instead of the income statement. The hedge accounting requirements are more closely aligned with risk management practices and follow a more principle based approach.

In December 2015, the IASB published an Exposure Draft to consult on amendments to IFRS 4 *Insurance Contracts* that would address the accounting consequences of the application of IFRS 9 to insurers prior to the publication of the new accounting standard for insurance contracts. The ED introduces two alternative options to insurers: the overlay approach and the deferral approach. The deferral approach provides an entity, if eligible, with a temporary exemption from applying IFRS 9 until the earlier of the effective date of a new insurance contract standard or 2021. The overlay approach allows an entity to remove from profit or loss the effects of some of the accounting mismatches that may occur before the new insurance contracts standard is applied. These amendments are expected to be finalised and issued in 2016.

Until the forthcoming ED is finalised, and the interaction with the new insurance contracts standard is clear, it is not possible to fully assess the effect of the adoption of IFRS 9. IFRS 9 has not yet been endorsed by the EU.

(viii) Amendments to IFRS 10 and IAS 28 – Sale of Contribution of Assets between an Investor and its Associate or Joint Venture

Amendments to IFRS 10 and IAS 28 clarify that for transactions between an investor and its associate or joint venture, full gains are to be recognised where the assets sold or contributed constitute a business as defined in IFRS 3 *Business Combinations*. Where the assets sold or contributed do not constitute a business, gains and losses are recognised only to extent of other investors' interests in associate or joint venture. The adoption of these amendments is not expected to have significant

implications for the Group's consolidated financial statements. In December 2015, the IASB postponed the effective date of these amendments indefinitely pending the outcome of its research project on the equity method of accounting.

(ix) IFRS 16 Leases

In January 2016, the IASB published IFRS 16 *Leases* which will replace IAS 17 *Leases*. IFRS 16 introduces a definition of a lease with a single lessee accounting model eliminating the classification of either operating or finance leases. Lessees will be required to account for all leases in a similar manner to the current financial lease accounting recognising lease assets and liabilities on the statement of financial position. Lessor accounting remains similar to current practice. The impact of the adoption of IFRS 16 has yet to be fully assessed by the Group. This standard applies to annual reporting periods beginning on or after 1 January 2019 and has not yet been endorsed by the EU.

(x) Narrow scope amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses

The revisions to IAS 12 *Income Taxes* clarify the accounting for deferred tax assets on unrealised losses and state that deferred tax assets should be recognised when an asset is measured at fair value and that fair value is below the asset's tax base. It also provides further clarification on the estimation of probable future taxable profits that may support the recognition of deferred tax assets. The adoption of this amendment is not expected to have an impact on the consolidated financial statements as the clarifications to IAS 12 are consistent with our existing interpretation. The amendment is effective from 1 January 2017 and has not yet been endorsed by EU.

(xi) Amendments to IAS 7 – Disclosure initiative

The amendments to IAS 7, *Statement of Cash Flows*, which form part of the IASB's Disclosure Initiative, require disclosure of the movements in liabilities arising from financing activities with cash and non-cash changes presented separately. The adoption of this amendment is not expected to have an impact on the consolidated financial statements as the Group already voluntarily discloses this information in note 49. The amendment is effective from 1 January 2017 and has not yet been endorsed by EU.

(B) Operating profit

The long-term nature of much of the Group's operations means that, for management's decision-making and internal performance management, short-term realised and unrealised investment gains and losses are treated as non-operating items. The Group focuses instead on an operating profit measure (also referred to as adjusted operating profit) that incorporates an expected return on investments supporting its long-term and non-long-term businesses.

Operating profit for long-term business is based on expected investment returns on financial investments backing shareholder and policyholder funds over the reporting period, with allowance for the corresponding expected movements in liabilities. Variances between actual and expected investment returns, and the impact of changes in economic assumptions on liabilities, are disclosed separately outside operating profit. For non-long-term business, the total investment income, including realised and unrealised gains, is analysed between that calculated using a longer-term return and short-term fluctuations from that level. Further details of this analysis and the assumptions used are given in notes 8 and 9.

Operating profit also excludes impairment of goodwill, associates and joint ventures; amortisation and impairment of other intangibles; amortisation and impairment of acquired value of in-force business; the profit or loss on disposal and remeasurement of subsidiaries, joint ventures and associates; integration and restructuring costs; and other. Other items are those items that, in the Directors' view, are required to be separately disclosed by virtue of their nature or incidence to enable a full understanding of the Group's financial performance. Details of these items are provided in the relevant notes.

(C) Critical accounting policies and the use of estimates

Critical accounting policies

The preparation of financial statements requires the Group to select accounting policies and make estimates and assumptions that affect items reported in the consolidated income statement, consolidated statement of financial position, other primary statements and notes to the consolidated financial statements.

The Audit Committee reviews the reasonableness of judgements and assumptions applied and the appropriateness of significant accounting policies. Details of significant issues considered by the Committee in the year are included within the Audit Committee Report on page 94.

These major areas of judgement on policy application are summarised below:

Item	Critical accounting judgement	Accounting policy
Consolidation	Assessment of whether the Group controls the underlying entities including consideration of its decision making authority and the rights the variable returns from the entity	D
Insurance and participating investment contract liabilities	Assessment of the significance of insurance risk transferred to the Group in determining whether a contract should be accounted for as insurance or investment contract	G
Financial investments	Classification of investments including the application of the fair value option	T

All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and their predictions of future events and actions. Actual results may differ from those estimates, possibly significantly.

The table below sets out those items considered particularly susceptible to changes in estimates and assumptions, and the relevant accounting policy and note disclosures.

Item	Critical accounting assumptions	Accounting policy	Note
Measurement of insurance and investment contract liabilities	Principal assumptions will include those in respect of mortality, morbidity, persistency, expense, valuation interest rates, credit default allowances on corporate bonds and valuation of guarantees	L	40b
Acquired value of in-force business ('AVIF') and intangible assets	AVIF is recognised, amortised and tested for impairment by reference to the present value of estimated future profits. Other acquired intangible assets are recognised and tested for impairment using an income approach method. Significant estimates include forecast cash flows and discount rates	O	17
Fair value of financial investments, derivative	Where quoted market prices are not available, valuation techniques are used to value financial investments, derivatives and investment property.	F,T,U	22,26

Item	Critical accounting assumptions	Accounting policy	Note
financial instruments and investment property	These include broker quotes and models using both observable and unobservable market inputs.		
Impairment of financial assets	Factors considered when assessing whether there is objective evidence of impairment include industry risk factors, financial condition, credit rating and whether there has been a significant or prolonged decline in fair value	T,V	23,26
Deferred acquisition costs	Management use estimation techniques to determine the amortisation profile and impairment test by reference to the present value of estimated future profits	X	28
Provisions and contingent liabilities	When evaluating whether a provision or a contingent liability should be recognised the Group assesses the likelihood of a constructive or legal obligation to settle a past event and whether the amount can be reliably estimated. The amount of provision is determined based on the Group's estimation of the expenditure required to settle the obligation at the statement of financial position date	AA	47,52
Pension obligations	The Group uses a number of estimates when calculating its pension obligations, including mortality assumptions, discount rates and inflation rates	AB	48
Deferred income taxes	Calculation and recognition of temporary differences giving rise to deferred tax balances includes estimates of the extent to which future taxable profits are available against which the temporary differences can be utilised	AC	46

(D) Consolidation principles Subsidiaries

Subsidiaries are those entities over which the Group has control. The Group controls an investee if and only if the Group has all of the following:

- power over the investee,
- exposure, or rights, to variable returns from its involvement with the investee, and
- the ability to use its power over the investee to affect its returns.

The Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including: the purpose and design of an investee, relevant activities, substantive and protective rights, and voting rights and potential voting rights.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Subsidiaries are consolidated from the date the Group obtains control and are excluded from consolidation from the date the Group loses control. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between Group companies have been eliminated. Accounting policies of subsidiaries are aligned on acquisition to ensure consistency with Group policies.

The Group is required to use the acquisition method of accounting for business combinations. Under this method, the cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the

acquiree. For each business combination, the Group has the option to measure the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. The excess of the consideration transferred over the fair value of the net assets of the subsidiary acquired is recorded as goodwill (see accounting policy O below). Acquisition-related costs are expensed as incurred.

Transactions with non-controlling interests that lead to changes in the ownership interests in a subsidiary but do not result in a loss of control are treated as equity transactions.

Merger accounting and the merger reserve

Prior to 1 January 2004, the date of first time adoption of IFRS, certain significant business combinations were accounted for using the 'pooling of interests method' (or merger accounting), which treats the merged groups as if they had been combined throughout the current and comparative accounting periods. Merger accounting principles for these combinations gave rise to a merger reserve in the consolidated statement of financial position, being the difference between the nominal value of new shares issued by the Parent Company for the acquisition of the shares of the subsidiary and the subsidiary's own share capital and share premium account. These transactions have not been restated, as permitted by the IFRS 1 transitional arrangements.

The merger reserve is also used where more than 90% of the shares in a subsidiary are acquired and the consideration includes the issue of new shares by the Company, thereby attracting merger relief under the Companies Act 1985 and, from 1 October 2009, the Companies Act 2006.

Investment vehicles

In several countries, the Group has invested in a number of specialised investment vehicles such as Open-ended Investment Companies (OEICs) and unit trusts. These invest mainly in equities, bonds, cash and cash equivalents, and properties, and distribute most of their income. The Group's percentage ownership in these vehicles can fluctuate from day to day according to the Group's and third-party participation in them. When assessing control over investment vehicles, along with the factors determining control outlined above, the Group considers the scope of its decision-making authority including its ability to direct the relevant activities of the fund and exposure to variability of returns from the perspective of an investor in the fund and of the asset manager. In addition, the Group assesses rights held by other parties including substantive removal rights that may affect the Group's ability to direct the relevant activities and indicate that the Group does not have power. Where the Group is deemed to control such vehicles, they are consolidated, with the interests of parties other than Aviva being classified as liabilities. These appear as 'Net asset value attributable to unitholders' in the consolidated statement of financial position.

Where the Group does not control such vehicles, and these investments are held by its insurance or investment funds, they are carried at fair value through profit or loss within financial investments in the consolidated statement of financial position, in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*.

As part of their investment strategy, the UK and certain European and Asian long-term business policyholder funds have invested in a number of property limited partnerships (PLPs), either directly or via property unit trusts (PUTs), through a mix of capital and loans. The PLPs are managed by general partners (GPs), in which the long-term business shareholder companies hold equity stakes and which themselves hold nominal stakes in the PLPs. The PUTs are managed by a Group subsidiary.

Accounting for the PUTs and PLPs as subsidiaries, joint ventures, associates or other financial investments depends on whether the Group is deemed to have control or joint control over the PUTs and PLPs' shareholdings in the GPs and the terms of each partnership agreement are considered along with other factors that determine control, as outlined above. Where the Group exerts control over a PUT or a PLP, it has been treated as a subsidiary and its results, assets and liabilities have been consolidated. Where the partnership is managed by an agreement such that there is joint control between the parties, notwithstanding that the Group's partnership share in the PLP (including its indirect stake via the relevant PUT and GP) may be lower or higher than 50%, such PUTs and PLPs have been classified as joint ventures. Where the Group has significant influence over the PUT or PLP, as defined in the following section, the PUT or PLP is classified as an associate. Where the Group holds non-controlling interests in PLPs, with no significant influence or control over their associated GPs, the relevant investments are carried at fair value through profit or loss within financial investments.

Associates and joint ventures

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control. Generally, it is presumed that the Group has significant influence if it has between 20% and 50% of voting rights. Joint ventures are joint arrangements whereby the Group and other parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. In a number of these, the Group's share of the underlying assets and liabilities may be greater or less than 50% but the terms of the relevant agreements make it clear that control is not exercised. Such jointly controlled entities are referred to as joint ventures in these financial statements.

Gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the associates and joint ventures. Losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred between entities.

Other than investments in investment vehicles which are carried at fair value through profit or loss, investments in associates and joint ventures are accounted for using the equity method of accounting. Under this method, the cost of the investment in a given associate or joint venture, together with the Group's share of that entity's post-acquisition changes to shareholders' funds, is included as an asset in the consolidated statement of financial position. As explained in accounting policy O, the cost includes goodwill identified on acquisition. The Group's share of their post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. Equity accounting is discontinued when the Group no longer has significant influence or joint control over the investment.

If the Group's share of losses in an associate or joint venture equals or exceeds its interest in the undertaking, the Group does not recognise further losses unless it has incurred obligations or made payments on behalf of the entity.

The Company's investments

In the Company's statement of financial position, subsidiaries, associates and joint ventures are stated at their fair values, estimated using applicable valuation models underpinned by the Company's market capitalisation. These investments are classified as available for sale (AFS) financial assets, with

changes in their fair value being recognised in other comprehensive income and recorded in a separate investment valuation reserve within equity.

(E) Foreign currency translation

Income statements and cash flows of foreign entities are translated into the Group's presentation currency at average exchange rates for the year while their statements of financial position are translated at the year-end exchange rates. Exchange differences arising from the translation of the net investment in foreign subsidiaries, associates and joint ventures, and of borrowings and other currency instruments designated as hedges of such investments, are recognised in other comprehensive income and taken to the currency translation reserve within equity. On disposal of a foreign entity, such exchange differences are transferred out of this reserve and are recognised in the income statement as part of the gain or loss on sale. The cumulative translation differences were deemed to be zero at the transition date to IFRS.

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

Translation differences on debt securities and other monetary financial assets measured at fair value and designated as held at fair value through profit or loss (FVTPL) (see accounting policy T) are included in foreign exchange gains and losses in the income statement. For monetary financial assets designated as available for sale (AFS), translation differences are calculated as if they were carried at amortised cost and so are recognised in the income statement, whilst foreign exchange differences arising from fair value gains and losses are recognised in other comprehensive income and included in the investment valuation reserve within equity. Translation differences on non-monetary items, such as equities which are designated as FVTPL, are reported as part of the fair value gain or loss, whereas such differences on AFS equities are included in the investment valuation reserve.

(F) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. This presumes that the transaction takes place in the principal (or most advantageous) market under current market conditions. Fair value is a market-based measure and in the absence of observable market prices in an active market, it is measured using the assumptions that market participants would use when pricing the asset or liability.

The fair value of a non-financial asset is determined based on its highest and best use from a market participant's perspective. When using this approach, the Group takes into account the asset's use that is physically possible, legally permissible and financially feasible.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price i.e. the fair value of the consideration given or received. In certain circumstances, the fair value at initial recognition may differ from the transaction price. If the fair value is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging), or is based on a valuation technique whose variables include only data from observable markets, then the difference between the fair value at initial recognition and the transaction price is recognised as a gain or loss in the income statement. When unobservable market data has a significant

impact on the valuation of financial instruments, the difference between the fair value at initial recognition and the transaction price is not recognised immediately in the income statement, but deferred and recognised in the income statement on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out or otherwise matured.

If an asset or a liability measured at fair value has a bid price and an ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances is used to measure fair value.

(G) Product classification

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. Contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant. Any contracts not considered to be insurance contracts under IFRS are classified as investment contracts. Some insurance and investment contracts contain a discretionary participation feature, which is a contractual right to receive additional benefits as a supplement to guaranteed benefits. These are referred to as participating contracts.

As noted in accounting policy A, insurance contracts and participating investment contracts in general continue to be measured and accounted for under existing accounting practices at the later of the date of transition to IFRS ('grandfathered') or the date of the acquisition of the entity, in accordance with IFRS 4. IFRS accounting for insurance contracts in UK companies was grandfathered at the date of transition to IFRS and determined in accordance with the Statement of Recommended Practice issued by the Association of British Insurers (subsequently withdrawn by the ABI in 2015).

In certain businesses, the accounting policies or accounting estimates have been changed, as permitted by IFRS 4 and IAS 8 respectively, to remeasure designated insurance liabilities to reflect current market interest rates and changes to regulatory capital requirements. When accounting policies or accounting estimates have been changed, and adjustments to the measurement basis have occurred, the financial statements of that year will have disclosed the impacts accordingly. One such example is our adoption of Financial Reporting Standard 27 *Life Assurance* (FRS 27) which was issued by the UK's Accounting Standards Board (ASB) in December 2004 (subsequently withdrawn by the ASB in 2015). The additional requirements of FRS 27 are detailed in accounting policy L below.

(H) Premiums earned

Premiums on long-term insurance contracts and participating investment contracts are recognised as income when receivable, except for investment-linked premiums which are accounted for when the corresponding liabilities are recognised. For single premium business, this is the date from which the policy is effective. For regular premium contracts, receivables are recognised at the date when payments are due. Premiums are shown before deduction of commission and before any sales-based taxes or duties. Where policies lapse due to non-receipt of premiums, then all the related premium income accrued but not received from the date they are deemed to have lapsed is offset against premiums.

General insurance and health premiums written reflect business incepted during the year, and exclude any sales-based taxes or duties. Unearned premiums are those proportions of

the premiums written in a year that relate to periods of risk after the statement of financial position date. Unearned premiums are calculated on either a daily or monthly pro rata basis. Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience, and are included in premiums written.

Deposits collected under investment contracts without a discretionary participation feature (non-participating contracts) are not accounted for through the income statement, except for the fee income (covered in accounting policy I) and the investment income attributable to those contracts, but are accounted for directly through the statement of financial position as an adjustment to the investment contract liability.

(I) Other investment contract fee revenue

Investment contract policyholders are charged fees for policy administration, investment management, surrenders or other contract services. The fees may be for fixed amounts or vary with the amounts being managed, and will generally be charged as an adjustment to the policyholder's balance. The fees are recognised as revenue in the period in which they are collected unless they relate to services to be provided in future periods, in which case they are deferred and recognised as the service is provided.

Initiation and other 'front-end' fees (fees that are assessed against the policyholder balance as consideration for origination of the contract) are charged on some non-participating investment and investment fund management contracts. Where the investment contract is recorded at amortised cost, these fees are deferred and recognised over the expected term of the policy by an adjustment to the effective yield. Where the investment contract is measured at fair value, the front-end fees that relate to the provision of investment management services are deferred and recognised as the services are provided.

(J) Other fee and commission income

Other fee and commission income consists primarily of fund management fees, distribution fees from mutual funds, commissions on reinsurance ceded, commission revenue from the sale of mutual fund shares and transfer agent fees for shareholder record keeping. Reinsurance commissions receivable are deferred in the same way as acquisition costs, as described in accounting policy X. All other fee and commission income is recognised as the services are provided.

(K) Net investment income

Investment income consists of dividends, interest and rents receivable for the year, movements in amortised cost on debt securities, realised gains and losses, and unrealised gains and losses on fair value through profit or loss investments (as defined in accounting policy T). Dividends on equity securities are recorded as revenue on the ex-dividend date. Interest income is recognised as it accrues, taking into account the effective yield on the investment. It includes the interest rate differential on forward foreign exchange contracts. Rental income is recognised on an accruals basis, and is recognised on a straight line basis unless there is compelling evidence that benefits do not accrue evenly over the period of the lease.

A gain or loss on a financial investment is only realised on disposal or transfer, and is the difference between the proceeds received, net of transaction costs, and its original cost or amortised cost, as appropriate.

Unrealised gains and losses, arising on investments which have not been derecognised as a result of disposal or transfer, represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year, less the reversal of previously recognised

unrealised gains and losses in respect of disposals made during the year. Realised gains or losses on investment property represent the difference between the net disposal proceeds and the carrying amount of the property.

(L) Insurance and participating investment contract liabilities

Claims

Long-term business claims reflect the cost of all claims arising during the year, including claims handling costs, as well as policyholder bonuses accrued in anticipation of bonus declarations.

General insurance and health claims incurred include all losses occurring during the year, whether reported or not, related handling costs, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

Long-term business provisions

Under current IFRS requirements, insurance and participating investment contract liabilities are measured using accounting policies consistent with those adopted previously under existing accounting practices, with the exception of liabilities remeasured to reflect current market interest rates to be consistent with the value of the backing assets, and those relating to UK with-profit and non-profit contracts.

The long-term business provisions are calculated separately for each life operation, based either on local regulatory requirements or existing local GAAP (at the later of the date of transition to IFRS or the date of the acquisition of the entity); and actuarial principles consistent with those applied in each local market. Each calculation represents a determination within a range of possible outcomes, where the assumptions used in the calculations depend on the circumstances prevailing in each life operation. The principal assumptions are disclosed in note 40(b). For the UK with-profit funds, FRS 27 requires liabilities to be calculated on the realistic basis as set out by the UK's Prudential Regulation Authority (PRA), adjusted to remove the shareholders' share of future bonuses. For UK non-profit insurance contracts, the Group applies PRA regulatory requirements, adjusted to remove certain regulatory reserves and margins in assumptions, notably for annuity business.

Unallocated divisible surplus

In certain participating long-term insurance and investment business, the nature of the policy benefits is such that the division between shareholder reserves and policyholder liabilities is uncertain. Amounts whose allocation to either policyholders or shareholders has not been determined by the end of the financial year are held within liabilities as an unallocated divisible surplus.

If the aggregate carrying value of liabilities for a particular participating business fund is in excess of the aggregate carrying value of its assets, then the difference is held as a negative unallocated divisible surplus balance, subject to recoverability from margins in that fund's participating business. Any excess of this difference over the recoverable amount is charged to net income in the reporting period.

Embedded derivatives

Embedded derivatives that meet the definition of an insurance contract or correspond to options to surrender insurance contracts for a set amount (or based on a fixed amount and an

interest rate) are not separately measured. All other embedded derivatives are separated and measured at fair value if they are not considered closely related to the host insurance contract or do not meet the definition of an insurance contract. Fair value reflects own credit risk to the extent the embedded derivative is not fully collateralised.

Liability adequacy

At each reporting date, an assessment is made of whether the recognised long-term business provisions are adequate, using current estimates of future cash flows. If that assessment shows that the carrying amount of the liabilities (less related assets) is insufficient in light of the estimated future cash flows, the deficiency is recognised in the income statement by setting up an additional provision in the statement of financial position.

General insurance and health provisions

Outstanding claims provisions

General insurance and health outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the statement of financial position date, whether reported or not, together with related claims handling costs. Significant delays are experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, including environmental and pollution exposures, the ultimate cost of which cannot be known with certainty at the statement of financial position date. As such, booked claim provisions for general insurance and health insurance are based on the best estimate of the cost of future claim payments plus an explicit allowance for risk and uncertainty. Any estimate represents a determination within a range of possible outcomes. Further details of estimation techniques are given in note 40(c).

Provisions for latent claims are discounted, using rates based on the relevant swap curve, in the relevant currency at the reporting date, having regard to the expected settlement dates of the claims. The discount rate is set at the start of the accounting period with any change in rates between the start and end of the accounting period being reflected below operating profit as an economic assumption change. The range of discount rates used is described in note 40(c)(ii). Outstanding claims provisions are valued net of an allowance for expected future recoveries. Recoveries include non-insurance assets that have been acquired by exercising rights to salvage and subrogation under the terms of insurance contracts.

Provision for unearned premiums

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as a provision for unearned premiums. The change in this provision is taken to the income statement as recognition of revenue over the period of risk.

Liability adequacy

At each reporting date, the Group reviews its unexpired risks and carries out a liability adequacy test for any overall excess of expected claims and deferred acquisition costs over unearned premiums, using the current estimates of future cash flows under its contracts after taking account of the investment return expected to arise on assets relating to the relevant general business provisions. If these estimates show that the carrying amount of its insurance liabilities (less related deferred acquisition costs) is insufficient in light of the estimated future cash flows, the deficiency is recognised in the income statement by setting up a provision in the statement of financial position.

Other assessments and levies

The Group is subject to various periodic insurance-related assessments or guarantee fund levies. Related provisions are

established where there is a present obligation (legal or constructive) as a result of a past event. Such amounts are not included in insurance liabilities but are included under 'Provisions' in the statement of financial position.

(M) Non-participating investment contract liabilities

Claims

For non-participating investment contracts with an account balance, claims reflect the excess of amounts paid over the account balance released.

Contract liabilities

Deposits collected under non-participating investment contracts are not accounted for through the income statement, except for the investment income attributable to those contracts, but are accounted for directly through the statement of financial position as an adjustment to the investment contract liability.

The majority of the Group's contracts classified as non-participating investment contracts are unit-linked contracts and are measured at fair value. Certain liabilities for non-linked non-participating contracts are measured at amortised cost.

The liability's fair value is determined in accordance with IAS 39, using a valuation technique to provide a reliable estimate of the amount for which the liability could be transferred in an orderly transaction between market participants at the measurement date, subject to a minimum equal to the surrender value. For unit-linked contracts, the fair value liability is equal to the current unit fund value, including any unfunded units. In addition, if required, non-unit reserves are held based on a discounted cash flow analysis. For non-linked contracts, the fair value liability is based on a discounted cash flow analysis, with allowance for risk calibrated to match the market price for risk.

Amortised cost is calculated as the fair value of consideration received at the date of initial recognition, less the net effect of payments such as transaction costs and front-end fees, plus or minus the cumulative amortisation (using the effective interest rate method) of any difference between that initial amount and the maturity value, and less any write-down for surrender payments. The effective interest rate is the one that equates the discounted cash payments to the initial amount. At each reporting date, the amortised cost liability is determined as the value of future best estimate cash flows discounted at the effective interest rate.

(N) Reinsurance

The Group assumes and cedes reinsurance in the normal course of business, with retention limits varying by line of business. Premiums on reinsurance assumed are recognised as revenue in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. The cost of reinsurance related to long-duration contracts is accounted for over the life of the underlying reinsured policies, using assumptions consistent with those used to account for these policies.

Where general insurance liabilities are discounted, any corresponding reinsurance assets are also discounted using consistent assumptions.

Gains or losses on buying retroactive reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised. Premiums ceded and claims reimbursed are presented on a gross basis in the consolidated income statement and statement of financial position as appropriate.

Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance and investment contract liabilities. This includes balances in respect

of investment contracts which are legally reinsurance contracts but do not meet the definition of a reinsurance contract under IFRS. Amounts recoverable from reinsurers are estimated in a manner consistent with the underlying contract liabilities, outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.

Reinsurance of non-participating investment contracts and reinsurance contracts that principally transfer financial risk are accounted for directly through the statement of financial position. A deposit asset or liability is recognised, based on the consideration paid or received less any explicitly identified premiums or fees to be retained by the reinsured. These deposit assets or liabilities are shown within reinsurance assets in the consolidated statement of financial position.

If a reinsurance asset is impaired, the Group reduces the carrying amount accordingly and recognises that impairment loss in the income statement. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Group may not receive all amounts due to it under the terms of the contract, and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

(O) Goodwill, AVIF and intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill arising on the Group's investments in subsidiaries is shown as a separate asset, whilst that on associates and joint ventures is included within the carrying value of those investments.

Goodwill on acquisitions prior to 1 January 2004 (the date of transition to IFRS) is carried at its book value (original cost less cumulative amortisation) on that date, less any impairment subsequently incurred. Goodwill arising before 1 January 1998 was eliminated against reserves and has not been reinstated.

Acquired value of in-force business (AVIF)

The present value of future profits on a portfolio of long-term insurance and investment contracts, acquired either directly or through the purchase of a subsidiary, is recognised as an asset.

If the AVIF results from the acquisition of an investment in a joint venture or an associate, it is held within the carrying amount of that investment. In all cases, the AVIF is amortised over the useful lifetime of the related contracts in the portfolio on a systematic basis. The rate of amortisation is chosen by considering the profile of the additional value of in-force business acquired and the expected depletion in its value.

Non-participating investment contract AVIF is reviewed for evidence of impairment, consistent with reviews conducted for other finite life intangible assets. Insurance and participating investment contract AVIF is reviewed for impairment at each reporting date as part of the liability adequacy requirements of IFRS 4 (see accounting policy L). AVIF is reviewed for evidence of impairment and impairment tested at product portfolio level by reference to a projection of future profits arising from the portfolio.

Intangible assets

Intangible assets consist primarily of contractual relationships such as access to distribution networks, customer lists and software. The economic lives of these are determined by considering relevant factors such as usage of the asset, typical product life cycles, potential obsolescence, maintenance costs, the stability of the industry, competitive position and the period of control over the assets. These intangibles are amortised over

their useful lives, which range from three to 30 years, using the straight-line method.

The amortisation charge for the year is included in the income statement under 'Other expenses'. For intangibles with finite lives, impairment charges will be recognised in the income statement where evidence of such impairment is observed. Intangibles with indefinite lives are subject to regular impairment testing, as described below.

Impairment testing

For impairment testing, goodwill and intangible assets with indefinite useful lives have been allocated to cash-generating units. The carrying amount of goodwill and intangible assets with indefinite useful lives is reviewed at least annually or when circumstances or events indicate there may be uncertainty over this value. Goodwill and indefinite life intangibles are written down for impairment where the recoverable amount is insufficient to support its carrying value. Further details on goodwill allocation and impairment testing are given in note 16. Any impairments are charged as expenses in the income statement.

(P) Property and equipment

Owner-occupied properties are carried at their revalued amounts, and movements are recognised in other comprehensive income and taken to a separate reserve within equity. When such properties are sold, the accumulated revaluation surpluses are transferred from this reserve to retained earnings. These properties are depreciated down to their estimated residual values over their useful lives. All other items classed as property and equipment within the statement of financial position are carried at historical cost less accumulated depreciation.

Investment properties under construction are included within property and equipment until completion, and are stated at cost less any provision for impairment in their values until construction is completed or fair value becomes reliably measurable.

Depreciation is calculated on the straight-line method to write down the cost of other assets to their residual values over their estimated useful lives as follows:

• Properties under construction	No depreciation
• Owner-occupied properties, and related mechanical and electrical equipment	25 years
• Motor vehicles	Three years, or lease term (up to useful life) if longer
• Computer equipment	Three to five years
• Other assets	Three to five years

The assets' residual values, useful lives and method of depreciation are reviewed regularly, and at least at each financial year end, and adjusted if appropriate. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount.

Borrowing costs directly attributable to the acquisition and construction of property and equipment are capitalised. All repair and maintenance costs are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing asset will flow to the Group and the renovation

replaces an identifiable part of the asset. Major renovations are depreciated over the remaining useful life of the related asset.

(Q) Investment property

Investment property is held for long-term rental yields and is not occupied by the Group. Completed investment property is stated at its fair value. Changes in fair values are recorded in the income statement in net investment income.

As described in accounting policy P above, investment properties under construction are included within property and equipment, and are stated at cost less any impairment in their values until construction is completed or fair value becomes reliably measurable.

(R) Impairment of non-financial assets

Property and equipment and other non-financial assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows. Non-financial assets except goodwill which have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(S) Derecognition and offset of financial assets and financial liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired.
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement.
- The Group has transferred its rights to receive cash flows from the asset and has either transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a currently enforceable legal right to set off the recognised amounts and there is the ability and intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(T) Financial investments

The Group classifies its investments as either FVTPL or AFS. The classification depends on the purpose for which the investments were acquired, and is determined by local management at initial recognition. The FVTPL category has two subcategories – those that meet the definition as being held for trading and those the Group chooses to designate as FVTPL (referred to in this accounting policy as 'other than trading') upon initial recognition.

In general, the other than trading category is used as, in most cases, the Group's investment or risk management strategy is to manage its financial investments on a fair value basis. Debt securities and equity securities, which the Group acquires with the intention to resell in the short-term, are classified as trading, as are non-hedge derivatives (see

accounting policy U below). The AFS category is used where the relevant long-term business liability (including shareholders' funds) is passively managed, as well as in certain fund management and non-insurance operations.

Purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the assets, at their fair values. Debt securities are initially recorded at their fair value, which is taken to be amortised cost, with amortisation credited or charged to the income statement. Investments classified as trading, other than trading and AFS, are subsequently carried at fair value. Changes in the fair value of trading and other than trading investments are included in the income statement in the period in which they arise.

Changes in the fair value of securities classified as AFS are recognised in other comprehensive income and recorded in a separate investment valuation reserve within equity. When securities classified as AFS are sold or impaired, the accumulated fair value adjustments are transferred out of the investment valuation reserve to the income statement with a corresponding movement through other comprehensive income.

Impairment

The Group reviews the carrying value of its AFS investments on a regular basis. If the carrying value of an AFS investment is greater than the recoverable amount, the carrying value is reduced through a charge to the income statement in the period of impairment. The following policies are used to determine the level of any impairment, some of which involve considerable judgement:

AFS debt securities: An AFS debt security is impaired if there is objective evidence that a loss event has occurred which has impaired the expected cash flows, i.e. where all amounts due according to the contractual terms of the security are not considered collectible. An impairment charge, measured as the difference between the security's fair value and amortised cost, is recognised when the issuer is known to be either in default or in financial difficulty. Determining when an issuer is in financial difficulty requires the use of judgement, and we consider a number of factors including industry risk factors, financial condition, liquidity position and near-term prospects of the issuer, credit rating declines and a breach of contract. A decline in fair value below amortised cost due to changes in risk-free interest rates does not necessarily represent objective evidence of a loss event.

For securities identified as being impaired, the cumulative unrealised loss previously recognised within the investment valuation reserve is transferred to realised losses for the year, with a corresponding movement through other comprehensive income. Any subsequent increase in fair value of these impaired securities is recognised in other comprehensive income and recorded in the investment valuation reserve unless this increase represents a decrease in the impairment loss that can be objectively related to an event occurring after the impairment loss was recognised in the income statement. In such an event, the reversal of the impairment loss is recognised as a gain in the income statement.

AFS equity securities: An AFS equity security is considered impaired if there is objective evidence that the cost may not be recovered. In addition to qualitative impairment criteria, such evidence includes a significant or prolonged decline in fair value below cost. Unless there is evidence to the contrary, an equity security is considered impaired if the decline in fair value relative to cost has been either at least 20% for a continuous six-month period or more than 40% at the end of the reporting period, or been in an unrealised loss position for a continuous period of

more than 12 months at the end of the reporting period. We also review our largest equity holdings for evidence of impairment, as well as individual equity holdings in industry sectors known to be in difficulty. Where there is objective evidence that impairment exists, the security is written down regardless of the size of the unrealised loss.

For securities identified as being impaired, the cumulative unrealised loss previously recognised within the investment valuation reserve is transferred to realised losses for the year with a corresponding movement through other comprehensive income. Any subsequent increase in fair value of these impaired securities is recognised in other comprehensive income and recorded in the investment valuation reserve.

Reversals of impairments on any of these assets are only recognised where the decrease in the impairment can be objectively related to an event occurring after the write-down (such as an improvement in the debtor's credit rating), and are not recognised in respect of equity instruments.

(U) Derivative financial instruments and hedging

Derivative financial instruments include foreign exchange contracts, interest rate futures, currency and interest rate swaps, currency and interest rate options (both written and purchased) and other financial instruments that derive their value mainly from underlying interest rates, foreign exchange rates, credit or equity indices, commodity values or equity instruments.

All derivatives are initially recognised in the statement of financial position at their fair value, which usually represents their cost. They are subsequently remeasured at their fair value, with the method of recognising movements in this value depending on whether they are designated as hedging instruments and, if so, the nature of the item being hedged. Fair values are obtained from quoted market prices or, if these are not available, by using valuation techniques such as discounted cash flow models or option pricing models. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative. Premiums paid for derivatives are recorded as an asset on the statement of financial position at the date of purchase, representing their fair value at that date.

Derivative contracts may be traded on an exchange or over-the-counter (OTC). Exchange-traded derivatives are standardised and include certain futures and option contracts. OTC derivative contracts are individually negotiated between contracting parties and include forwards, swaps, caps and floors. Derivatives are subject to various risks including market, liquidity and credit risk, similar to those related to the underlying financial instruments. Many OTC transactions are contracted and documented under International Swaps and Derivatives Association (ISDA) master agreements or their equivalent, which are designed to provide legally enforceable set-off in the event of default, reducing the Group's exposure to credit risk.

The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities on the statement of financial position as they do not represent the fair value of these transactions. These amounts are disclosed in note 58(b).

The Group has collateral agreements in place between the individual Group entities and relevant counterparties. Accounting policy W covers collateral, both received and pledged, in respect of these derivatives.

Interest rate and currency swaps

Interest rate swaps are contractual agreements between two parties to exchange fixed rate and floating rate interest by means of periodic payments, calculated on a specified notional amount and defined interest rates. Most interest rate swap

payments are netted against each other, with the difference between the fixed and floating rate interest payments paid by one party. Currency swaps, in their simplest form, are contractual agreements that involve the exchange of both periodic and final amounts in two different currencies. Both types of swap contracts may include the net exchange of principal. Exposure to gain or loss on these contracts will increase or decrease over their respective lives as a function of maturity dates, interest and foreign exchange rates, and the timing of payments.

Interest rate futures, forwards and options contracts

Interest rate futures are exchange-traded instruments and represent commitments to purchase or sell a designated security or money market instrument at a specified future date and price. Interest rate forward agreements are OTC contracts in which two parties agree on an interest rate and other terms that will become a reference point in determining, in concert with an agreed notional principal amount, a net payment to be made by one party to the other, depending upon what rate prevails at a future point in time. Interest rate options, which consist primarily of caps and floors, are interest rate protection instruments that involve the potential obligation of the seller to pay the buyer an interest rate differential in exchange for a premium paid by the buyer. This differential represents the difference between current rate and an agreed rate applied to a notional amount. Exposure to gain or loss on all interest rate contracts will increase or decrease over their respective lives as interest rates fluctuate. Certain contracts, known as swaptions, contain features which can act as swaps or options.

Foreign exchange contracts

Foreign exchange contracts, which include spot, forward and futures contracts, represent agreements to exchange the currency of one country for the currency of another country at an agreed price and settlement date. Foreign exchange option contracts are similar to interest rate option contracts, except that they are based on currencies, rather than interest rates.

Derivative instruments for hedging

On the date a derivative contract is entered into, the Group designates certain derivatives as either:

- (i) a hedge of the fair value of a recognised asset or liability (fair value hedge);
- (ii) a hedge of a future cash flow attributable to a recognised asset or liability, a highly probable forecast transaction or a firm commitment (cash flow hedge); or
- (iii) a hedge of a net investment in a foreign operation (net investment hedge).

Hedge accounting is used for derivatives designated in this way, provided certain criteria are met. At the inception of the transaction, the Group documents the relationship between the hedging instrument and the hedged item, as well as the risk management objective and the strategy for undertaking the hedge transaction. The Group also documents its assessment of whether the hedge is expected to be, and has been, highly effective in offsetting the risk in the hedged item, both at inception and on an ongoing basis.

Changes in the fair value of derivatives that are designated and qualify as net investment or cash flow hedges, and that prove to be highly effective in relation to the hedged risk, are recognised in other comprehensive income and a separate reserve within equity. Gains and losses accumulated in this reserve are included in the income statement on disposal of the relevant investment or occurrence of the cash flow as appropriate.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the income

statement. The gain or loss on the hedged item that is attributable to the hedged risk is recognised in the income statement. This applies even if the hedged item is an available for sale financial asset or is measured at amortised cost. If a hedging relationship no longer meets the criteria for hedge accounting, the cumulative adjustment made to the carrying amount of the hedged item is amortised to the income statement, based on a recalculated effective interest rate over the residual period to maturity. In cases where the hedged item has been derecognised, the cumulative adjustment is released to the income statement immediately.

For a variety of reasons, certain derivative transactions, while providing effective economic hedges under the Group's risk management positions, do not qualify for hedge accounting under the specific IFRS rules and are therefore treated as derivatives held for trading. Their fair value gains and losses are recognised immediately in net investment income.

(V) Loans

Loans with fixed maturities, including policyholder loans, mortgage loans on investment property, securitised mortgages and collateral loans, are recognised when cash is advanced to borrowers. Certain loans are carried at their unpaid principal balances and adjusted for amortisation of premium or discount, non-refundable loan fees and related direct costs. These amounts are deferred and amortised over the life of the loan as an adjustment to loan yield using the effective interest rate method. Loans with indefinite future lives are carried at unpaid principal balances or cost.

However, for the majority of mortgage loans, the Group has taken advantage of the fair value option under IAS 39 to present the mortgages, associated borrowings and derivative financial instruments at fair value, since they are managed as a portfolio on a fair value basis. This presentation provides more relevant information and eliminates any accounting mismatch that would otherwise arise from using different measurement bases for these three items. The fair values of these mortgages are estimated using discounted cash flow models, based on a risk-adjusted discount rate which reflects the risks associated with these products. They are revalued at each period end, with movements in their fair values being taken to the income statement.

At each reporting date, we review loans carried at amortised cost for objective evidence that they are impaired and uncollectable, either at the level of an individual security or collectively within a group of loans with similar credit risk characteristics. To the extent that a loan is uncollectable, it is written down as impaired to its recoverable amount, measured as the present value of expected future cash flows discounted at the original effective interest rate of the loan, taking into account the fair value of the underlying collateral through an impairment provision account. Subsequent recoveries in excess of the loan's written-down carrying value are credited to the income statement.

(W) Collateral

The Group receives and pledges collateral in the form of cash or non-cash assets in respect of stock lending transactions, certain derivative contracts and loans, in order to reduce the credit risk of these transactions. Collateral is also pledged as security for bank letters of credit. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

Collateral received in the form of cash, which is not legally segregated from the Group, is recognised as an asset in the statement of financial position with a corresponding liability for the repayment in financial liabilities (note 59). However, where the Group has a currently enforceable legal right of set-off and the ability and intent to net settle, the collateral liability and

associated derivative balances are shown net. Non-cash collateral received is not recognised in the statement of financial position unless the Group either (a) sells or repledges these assets in the absence of default, at which point the obligation to return this collateral is recognised as a liability; or (b) the counterparty to the arrangement defaults, at which point the collateral is seized and recognised as an asset.

Collateral pledged in the form of cash, which is legally segregated from the Group, is derecognised from the statement of financial position with a corresponding receivable recognised for its return. Non-cash collateral pledged is not derecognised from the statement of financial position unless the Group defaults on its obligations under the relevant agreement, and therefore continues to be recognised in the statement of financial position within the appropriate asset classification.

(X) Deferred acquisition costs and other assets

Costs relating to the acquisition of new business for insurance and participating investment contracts are deferred in line with existing local accounting practices, to the extent that they are expected to be recovered out of future margins in revenues on these contracts. For participating contracts written in the UK, acquisition costs are generally not deferred as the liability for these contracts is calculated in accordance with the PRA's realistic capital regime and FRS 27 (see accounting policy L). For non-participating investment and investment fund management contracts, incremental acquisition costs and sales enhancements that are directly attributable to securing an investment management service are also deferred.

Where such business is reinsured, an appropriate proportion of the deferred acquisition costs is attributed to the reinsurer, and is treated as a separate liability.

Long-term business deferred acquisition costs are amortised systematically over a period no longer than that in which they are expected to be recoverable out of these future margins. Deferrable acquisition costs for non-participating investment and investment fund management contracts are amortised over the period in which the service is provided. General insurance and health deferred acquisition costs are amortised over the period in which the related revenues are earned. The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset.

Deferred acquisition costs are reviewed by category of business at the end of each reporting period and are written-off where they are no longer considered to be recoverable.

Other receivables and payables are initially recognised at cost, being fair value. Subsequent to initial measurement they are measured at amortised cost.

(Y) Statement of cash flows

Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are those with less than three months' maturity from the date of acquisition, or which are redeemable on demand with only an insignificant change in their fair values.

For the purposes of the statement of cash flows, cash and cash equivalents also include bank overdrafts, which are included in payables and other financial liabilities on the statement of financial position.

Operating cash flows

Purchases and sales of investment property, loans and financial investments are included within operating cash flows as the purchases are funded from cash flows associated with the

origination of insurance and investment contracts, net of payments of related benefits and claims.

(Z) Leases

Leases, where a significant portion of the risks and rewards of ownership is retained by the lessor, are classified as operating leases. Where the Group is the lessee, payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the term of the relevant leases.

Where the Group is the lessor, lease income from operating leases is recognised in the income statement on a straight-line basis over the lease term.

When assets are subject to finance leases, the present value of the lease payments, together with any unguaranteed residual value, is recognised as a receivable. The Group has not entered into any material finance lease arrangements either as lessor or lessee.

(AA) Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more probable than not that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Restructuring provisions include lease termination penalties and employee termination payments. They comprise only the direct expenditures arising from the restructuring, which are those that are necessarily entailed by the restructuring; and not associated with the ongoing activities of the entity. The amount recorded as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Where the effect of the time value of money is material, the provision is the present value of the expected expenditure. Provisions are not recognised for future operating losses.

Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

The Group recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract. Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

(AB) Employee benefits

Annual leave

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the statement of financial position date.

Pension obligations

The Group operates a number of pension schemes, whose members receive benefits on either a defined benefit or defined contribution basis. Under a defined contribution plan, the Group's legal or constructive obligation is limited to the amount it agrees to contribute to a fund and there is no obligation to pay further contributions if the fund does not hold sufficient assets to pay benefits. A defined benefit pension plan is a pension plan that is not a defined contribution plan and typically defines the amount of pension benefit that an employee will receive on retirement.

The defined benefit obligation is calculated by independent actuaries using the projected unit credit method. The pension

obligation is measured as the present value of the estimated future cash outflows, using a discount rate based on market yields for high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. The resultant net surplus or deficit recognised as an asset or liability on the statement of financial position is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets.

If the fair value of plan assets exceeds the present value of the defined benefit obligation, the resultant asset is limited to the asset ceiling defined as present value of economic benefits available in the form of future refunds from the plan or reductions in contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group.

Remeasurements of defined benefit plans comprise actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions, the return on plan assets (excluding net interest) and the effect of the asset ceiling (if any). The Group recognises remeasurements immediately in other comprehensive income and does not reclassify them to the income statement in subsequent periods.

Service costs comprising current service costs, past service costs, gains and losses on curtailments and net interest expense/(income) are charged or credited to the income statement.

Past service costs are recognised at the earlier of the date the plan amendment or curtailment occurs or when related restructuring costs are recognised.

The Group determines the net interest expense/(income) on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to the net defined benefit liability/(asset). Net interest expense is charged to finance costs, whereas, net interest income is credited to investment income.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension plans. Once the contributions have been paid, the Group, as employer, has no further payment obligations. The Group's contributions are charged to the income statement in the year to which they relate and are included in staff costs.

Equity compensation plans

The Group offers share award and option plans over the Company's ordinary shares for certain employees, including a Save As You Earn plan (SAYE plan), details of which are given in the Directors' Remuneration Report and in note 31.

The Group accounts for options and awards under equity compensation plans, which were granted after 7 November 2002, until such time as they are fully vested, using the fair value based method of accounting (the 'fair value method'). Under this method, the cost of providing equity compensation plans is based on the fair value of the share awards or option plans at date of grant, which is recognised in the income statement over the expected vesting period of the related employees and credited to the equity compensation reserve, part of shareholders' funds. In certain jurisdictions, awards must be settled in cash instead of shares, and the credit is taken to liabilities rather than reserves. The fair value of these cash-settled awards is recalculated each year, with the income statement charge and liability being adjusted accordingly.

Shares purchased by employee share trusts to fund these awards are shown as deduction from shareholders' equity at their weighted average cost.

When the options are exercised and new shares are issued, the proceeds received, net of any transaction costs, are credited to share capital (par value) and the balance to share premium. Where the shares are already held by employee trusts, the net proceeds are credited against the cost of these shares, with the difference between cost and proceeds being taken to retained earnings. In both cases, the relevant amount in the equity compensation reserve is then credited to retained earnings.

(AC) Income taxes

The current tax expense is based on the taxable profits for the year, after any adjustments in respect of prior years. Tax, including tax relief for losses if applicable, is allocated over profits before taxation and amounts charged or credited to components of other comprehensive income and equity, as appropriate.

Provision is made for deferred tax liabilities, or credit taken for deferred tax assets, using the liability method, on all material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

The principal temporary differences arise from depreciation of property and equipment, revaluation of certain financial assets and liabilities including derivative contracts, technical provisions and other insurance items, provisions for pensions and other post-retirement benefits and tax losses carried forward; and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base. The rates enacted or substantively enacted at the statement of financial position date are used to value the deferred tax assets and liabilities.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. In countries where there is a history of tax losses, deferred tax assets are only recognised in excess of deferred tax liabilities if there is convincing evidence that future profits will be available.

Deferred tax is provided on temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Deferred taxes are not provided in respect of temporary differences arising from the initial recognition of goodwill, or from the initial recognition of an asset or liability in a transaction which is not a business combination and affects neither accounting profit nor taxable profit or loss at the time of the transaction.

Current and deferred tax relating to items recognised in other comprehensive income and directly in equity are similarly recognised in other comprehensive income and directly in equity respectively. Deferred tax related to fair value re-measurement of available for sale investments, pensions and other post-retirement obligations and other amounts charged or credited directly to other comprehensive income is recognised in the statement of financial position as a deferred tax asset or liability. Current tax on interest paid on direct capital instruments and tier 1 notes is credited directly in equity.

In addition to paying tax on shareholders' profits ('shareholder tax'), the Group's life businesses in the UK, Ireland and Singapore pay tax on policyholders' investment returns ('policyholder tax') on certain products at policyholder tax rates. The incremental tax borne by the Group represents income tax on policyholder's investment return. In jurisdictions where policyholder tax is applicable, the total tax charge in the income statement is allocated between shareholder tax and policyholder tax. The shareholder tax is the corporate tax charge calculated on shareholder profit. The difference between the total tax charge

and shareholder tax is allocated to policyholder tax. The Group has decided to show separately the amounts of policyholder tax to provide a meaningful measure of the tax the Group pays on its profit. In the pro forma reconciliations, the operating profit has been calculated after charging policyholder tax.

(AD) Borrowings

Borrowings are classified as being for either core structural or operational purposes. They are recognised initially at their issue proceeds less transaction costs incurred. Subsequently, most borrowings are stated at amortised cost, and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method. All borrowing costs are expensed as they are incurred except where they are directly attributable to the acquisition or construction of property and equipment as described in accounting policy P.

Where loan notes have been issued in connection with certain securitised mortgage loans, the Group has taken advantage of the fair value option under IAS 39 to present the mortgages, associated liabilities and derivative financial instruments at fair value, since they are managed as a portfolio on a fair value basis. This presentation provides more relevant information and eliminates any accounting mismatch which would otherwise arise from using different measurement bases for these three items.

(AE) Share capital and treasury shares

Equity instruments

An equity instrument is a contract that evidences a residual interest in the assets of an entity after deducting all its liabilities. Accordingly, a financial instrument is treated as equity if:

- (i) there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable; and
- (ii) the instrument is a non-derivative that contains no contractual obligation to deliver a variable number of shares or is a derivative that will be settled only by the Group exchanging a fixed amount of cash or other assets for a fixed number of the Group's own equity instruments.

Share issue costs

Incremental external costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds of the issue and disclosed where material.

Dividends

Interim dividends on ordinary shares are recognised in equity in the period in which they are paid. Final dividends on these shares are recognised when they have been approved by shareholders. Dividends on preference shares are recognised in the period in which they are declared and appropriately approved.

Treasury shares

Where the Company or its subsidiaries purchase the Company's share capital or obtain rights to purchase its share capital, the consideration paid (including any attributable transaction costs net of income taxes) is shown as a deduction from total shareholders' equity. Gains and losses on own shares are charged or credited to the treasury share account in equity.

(AF) Fiduciary activities

Assets and income arising from fiduciary activities, together with related undertakings to return such assets to customers, are excluded from these financial statements where the Group has no contractual rights in the assets and acts in a fiduciary capacity such as nominee, trustee or agent.

(AG) Earnings per share

Basic earnings per share is calculated by dividing net income available to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding the weighted average number of ordinary shares purchased by the Group and held as Treasury shares.

Earnings per share has also been calculated on the adjusted operating profit before impairment of goodwill and other adjusting items, after tax, attributable to ordinary shareholders, as the directors believe this figure provides a better indication of operating performance. Details are given in note 14.

For the diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares, such as convertible debt and share options granted to employees.

Potential or contingent share issuances are treated as dilutive when their conversion to shares would decrease net earnings per share.

(AH) Operations held for sale

Assets and liabilities held for disposal as part of operations which are held for sale are shown separately in the consolidated statement of financial position. Operations held for sale are recorded at the lower of their carrying amount and their fair value less the estimated selling costs.

Consolidated income statement

For the year ended 31 December 2015

	Note	2015 £m	2014 £m
Income			
Gross written premiums	5	21,925	21,670
Premiums ceded to reinsurers		(2,890)	(1,614)
Premiums written net of reinsurance		19,035	20,056
Net change in provision for unearned premiums		(111)	1
Net earned premiums	H	18,924	20,057
Fee and commission income	I & J	1,797	1,230
Net investment income	K	2,825	21,889
Share of profit after tax of joint ventures and associates		180	147
Profit on the disposal and remeasurement of subsidiaries, joint ventures and associates	3b	2	174
		23,728	43,497
Expenses			
Claims and benefits paid, net of recoveries from reinsurers	6	(21,985)	(19,474)
Change in insurance liabilities, net of reinsurance	40a(ii)	6,681	(5,570)
Change in investment contract provisions		(1,487)	(6,518)
Change in unallocated divisible surplus	45	984	(3,364)
Fee and commission expense		(3,347)	(3,389)
Other expenses		(2,784)	(1,979)
Finance costs	7	(618)	(540)
		(22,556)	(40,834)
Profit before tax		1,172	2,663
Tax attributable to policyholders' returns	13d	218	(382)
Profit before tax attributable to shareholders' profits		1,390	2,281
Tax expense	AC & 13	(93)	(983)
Less: tax attributable to policyholders' returns	13d	(218)	382
Tax attributable to shareholders' profits	13d	(311)	(601)
Profit after tax		1,079	1,680
Profit from discontinued operations¹		—	58
Profit for the year		1,079	1,738
Attributable to:			
Equity holders of Aviva plc		918	1,569
Non-controlling interests	38	161	169
Profit for the year		1,079	1,738
Earnings per share	AG & 14		
Basic (pence per share)		22.6p	50.4p
Diluted (pence per share)		22.3p	49.6p
Continuing operations – Basic (pence per share)		22.6p	48.4p
Continuing operations – Diluted (pence per share)		22.3p	47.7p

¹ Discontinued operations relates to the US Life and related internal asset management businesses (US Life) sold in 2013.

The accounting policies (identified alphabetically) on pages 133 to 146 and notes (identified numerically) on pages 154 to 269 are an integral part of the financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2015

	Note	2015 £m	2014 £m
Profit for the year from continuing operations		1,079	1,680
Profit for the year from discontinued operations¹		—	58
Total profit for the year		1,079	1,738
Other comprehensive income from continuing operations:			
<i>Items that may be reclassified subsequently to income statement</i>			
Investments classified as available for sale			
Fair value (losses)/gains	(9)	62	
Fair value losses transferred to profit on disposals	—	(7)	
Share of other comprehensive income of joint ventures and associates	(14)	22	
Foreign exchange rate movements	(378)	(396)	
Aggregate tax effect – shareholder tax on items that may be reclassified into profit or loss	13	(9)	
<i>Items that will not be reclassified to income statement</i>			
Owner-occupied properties – fair value gains	27	7	
Remeasurements of pension schemes	(235)	1,662	
Aggregate tax effect – shareholder tax on items that will not be reclassified into profit or loss	93	(347)	
Other comprehensive income, net of tax from continuing operations		(503)	994
Other comprehensive income, net of tax from discontinued operations¹		—	—
Total other comprehensive income, net of tax		(503)	994
Total comprehensive income for the year from continuing operations		576	2,674
Total comprehensive income for the year from discontinued operations¹		—	58
Total comprehensive income for the year		576	2,732
Attributable to:			
Equity holders of Aviva plc		460	2,642
Non-controlling interests		116	90
		576	2,732

¹ Discontinued operations relates to the US Life and related internal asset management businesses (US Life) sold in 2013.

The accounting policies (identified alphabetically) on pages 133 to 146 and notes (identified numerically) on pages 154 to 269 are an integral part of the financial statements.

Reconciliation of Group operating profit to profit for the year

For the year ended 31 December 2015

	Note	2015 £m	Restated ¹ 2014 £m
Operating profit before tax attributable to shareholders' profits			
Life business		2,419	2,019
General insurance and health		765	808
Fund management		106	86
Other:			
Other operations		(84)	(105)
Corporate centre		(180)	(132)
Group debt costs and other interest		(361)	(463)
Operating profit before tax attributable to shareholders' profits	6	2,665	2,213
Integration and restructuring costs		(379)	(140)
Operating profit before tax attributable to shareholders' profits after integration and restructuring costs		2,286	2,073
Adjusted for the following:			
Investment return variances and economic assumption changes on long-term business		8	14
Short-term fluctuation in return on investments on non-long-term business		9a	(84)
Economic assumption changes on general insurance and health business		9a	(100)
Impairment of goodwill, associates and joint ventures and other amounts expensed		16a, 19a	(22)
Amortisation and impairment of intangibles			(155)
Amortisation and impairment of acquired value of in-force business		17, 18	(498)
Profit on the disposal and remeasurement of subsidiaries, joint ventures and associates		3b	2
Other ²			(53)
Non-operating items before tax		(896)	208
Profit before tax attributable to shareholders' profits		1,390	2,281
Tax on operating profit		14a(i)	(598)
Tax on other activities		14a(i)	287
			(311)
Profit after tax		1,079	1,680
Profit from discontinued operations ³			—
Profit for the year		1,079	1,738

¹ Operating profit has been restated to exclude amortisation and impairment of acquired value of in-force business, which is now shown as a non-operating item. See note 1 for further details. There is no impact on the result or the total equity for any period presented as a result of this restatement.

² Other items represents a day one loss upon the completion of an outwards reinsurance contract by the UK General Insurance business, which provides significant protection against claims volatility from mesothelioma, industrial deafness and other long tail risks. The £53 million loss comprises £712 million in premiums ceded less £659 million in reinsurance recoverables recognised.

³ Discontinued operations relates to the US Life and related internal asset management businesses (US Life) sold in 2013.

The accounting policies (identified alphabetically) on pages 133 to 146 and notes (identified numerically) on pages 154 to 269 are an integral part of the financial statements.

Reconciliation of Group operating profit to profit for the year continued

Operating profit can be further analysed into the following segments (details of segments can be found in note 4):

Year ended 31 December 2015	Long-term business £m	General insurance and health £m	Fund management £m	Other operations £m	Total £m
United Kingdom & Ireland	1,432	430	—	(24)	1,838
France	395	71	—	(17)	449
Poland	129	10	—	2	141
Italy, Spain and Other	242	33	—	(7)	268
Canada	—	214	—	—	214
Asia	244	(6)	1	(16)	223
Aviva Investors	1	—	105	—	106
Other Group activities	(24)	13	—	(22)	(33)
	2,419	765	106	(84)	3,206
Corporate Centre					(180)
Group debt costs and other interest					(361)
Total – continuing operations					2,665

Year ended 31 December 2014	Restated ¹ Long-term business £m	General insurance and health £m	Fund management £m	Other operations £m	Restated ¹ Total £m
United Kingdom & Ireland	1,049	499	6	—	1,554
France	412	78	—	(20)	470
Poland	183	9	—	3	195
Italy, Spain and Other	287	26	—	(9)	304
Canada	—	189	—	2	191
Asia	87	(2)	1	(8)	78
Aviva Investors	2	—	79	(18)	63
Other Group activities	(1)	9	—	(55)	(47)
	2,019	808	86	(105)	2,808
Corporate Centre					(132)
Group debt costs and other interest					(463)
Total – continuing operations					2,213

¹ Operating profit has been restated to exclude amortisation and impairment of acquired value of in-force business, which is now shown as a non-operating item. See note 1 for further details. There is no impact on the result or the total equity for any period presented as a result of this restatement.

The accounting policies (identified alphabetically) on pages 133 to 146 and notes (identified numerically) on pages 154 to 269 are an integral part of the financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2015

	Ordinary share capital £m	Preference share capital £m	Share premium £m	Merger reserve £m	Treasury shares £m	Other Reserves ¹ £m	Retained earnings £m	Equity attributable to shareholders of Aviva plc £m	DCI and tier 1 notes £m	Non-controlling interests £m	Total equity £m
Balance at 1 January	737	200	1,172	3,271	(8)	229	4,617	10,218	892	1,166	12,276
Profit for the year	—	—	—	—	—	—	918	918	—	161	1,079
Other comprehensive income	—	—	—	—	—	(316)	(142)	(458)	—	(45)	(503)
Total comprehensive income for the year	—	—	—	—	—	(316)	776	460	—	116	576
Issue of share capital - acquisition of Friends Life	272	—	—	5,703	—	—	—	5,975	—	—	5,975
Non-controlling interests in acquired subsidiaries ²	—	—	—	—	—	—	—	—	—	504	504
Reclassification of non-controlling interests to financial liabilities ³	—	—	—	—	—	—	—	—	—	(272)	(272)
Reclassification of non-controlling interests to tier 1 notes ⁴	—	—	—	—	—	—	—	—	231	(231)	—
Owner-occupied properties fair value gains transferred to retained earnings on disposals	—	—	—	—	—	(33)	33	(724)	(724)	—	—
Dividends and appropriations	—	—	—	—	—	—	(724)	—	—	—	(724)
Non-controlling interests share of dividends declared in the year	—	—	—	—	—	—	—	—	—	(142)	(142)
Transfer to profit on disposal of subsidiaries, joint ventures and associates	—	—	—	—	—	1	—	1	—	—	1
Capital contributions from non-controlling interests	—	—	—	—	—	—	—	—	—	5	5
Changes in non-controlling interests in subsidiaries	—	—	—	—	—	—	—	—	—	(1)	(1)
Treasury shares held by subsidiary companies	—	—	—	—	(27)	—	—	(27)	—	—	(27)
Reserves credit for equity compensation plans	—	—	—	—	—	40	—	40	—	—	40
Shares issued under equity compensation plans	3	—	13	—	6	(35)	19	6	—	—	6
Aggregate tax effect – shareholder tax	—	—	—	—	—	—	15	15	—	—	15
Balance at 31 December	1,012	200	1,185	8,974	(29)	(114)	4,736	15,964	1,123	1,145	18,232

1 Refer to note 36 for further details of balances included in Other reserves.

2 Includes Friends Life's Step up Tier one Insurance Capital Securities ('STICS') issuances classified as equity instruments within non-controlling interests at the date of acquisition. See Note 3a for further detail.

3 On 29 May 2015, notification was given that the Group would redeem the 2005 STICS issuance. At that date the instrument was reclassified as a financial liability. The instrument was redeemed on 1 July 2015, £272 million represents the fair value of instruments recognised on acquisition, made up of the £268 million outstanding principal redeemed on 1 July 2015 and £4 million amortised subsequent to the reclassification and included within finance costs in the income statement.

4 On 1 October 2015 Aviva plc replaced Friends Life Holdings plc as issuer of the 2003 STICS issuance which resulted in a reclassification of the STICS from non-controlling interests to DCI and tier 1 notes.

For the year ended 31 December 2014

	Ordinary share capital £m	Preference share capital £m	Share premium £m	Merger reserve £m	Treasury shares £m	Other Reserves ¹ £m	Retained earnings £m	Equity attributable to shareholders of Aviva plc £m	DCI and tier 1 notes £m	Non-controlling interests £m	Total equity £m
Balance at 1 January	736	200	1,165	3,271	(31)	475	2,348	8,164	1,382	1,471	11,017
Profit for the year	—	—	—	—	—	—	1,569	1,569	—	169	1,738
Other comprehensive income	—	—	—	—	—	(242)	1,315	1,073	—	(79)	994
Total comprehensive income for the year	—	—	—	—	—	(242)	2,884	2,642	—	90	2,732
Owner-occupied properties fair value gains transferred to retained earnings on disposals	—	—	—	—	—	(2)	2	(551)	(551)	—	—
Dividends and appropriations	—	—	—	—	—	—	(551)	(551)	—	—	(551)
Non-controlling interests share of dividends declared in the year	—	—	—	—	—	—	—	—	—	(189)	(189)
Transfer to profit on disposal of subsidiaries, joint ventures and associates	—	—	—	—	—	(13)	2	(11)	—	—	(11)
Changes in non-controlling interests in subsidiaries	—	—	—	—	—	—	(36)	(36)	—	(206)	(242)
Reserves credit for equity compensation plans	—	—	—	—	—	39	—	39	—	—	39
Shares issued under equity compensation plans	1	—	7	—	23	(28)	6	9	—	—	9
Aggregate tax effect – shareholder tax	—	—	—	—	—	—	19	19	—	—	19
Redemption of direct capital instrument ²	—	—	—	—	—	—	(57)	(57)	(490)	—	(547)
Balance at 31 December	737	200	1,172	3,271	(8)	229	4,617	10,218	892	1,166	12,276

1 Refer to note 36 for further details of balances included in Other reserves.

2 £57 million relates to the foreign exchange loss on redemption of €700 million direct capital instrument on 28 November 2014.

The accounting policies (identified alphabetically) on pages 133 to 146 and notes (identified numerically) on pages 154 to 269 are an integral part of the financial statements.

Consolidated statement of financial position

As at 31 December 2015

	Note	2015 £m	2014 £m
Assets			
Goodwill	O & 16	1,955	1,302
Acquired value of in-force business and intangible assets	O & 17	5,731	1,028
Interests in, and loans to, joint ventures	D & 18	1,590	1,140
Interests in, and loans to, associates	D & 19	329	404
Property and equipment	P & 20	449	357
Investment property	Q & 21	11,301	8,925
Loans	V & 23	22,433	25,260
Financial investments	S, T, U & 26	274,217	202,638
Reinsurance assets	N & 43	20,918	7,958
Deferred tax assets	AC & 46	131	76
Current tax assets		114	27
Receivables	27	6,875	5,933
Deferred acquisition costs and other assets	X & 28	5,061	5,091
Prepayments and accrued income	X & 28	3,094	2,466
Cash and cash equivalents	Y & 55d	33,676	23,105
Assets of operations classified as held for sale	AH & 3c	—	9
Total assets		387,874	285,719
Equity			
Capital	AE		
Ordinary share capital	30	1,012	737
Preference share capital	33	200	200
		1,212	937
Capital reserves			
Share premium	30b	1,185	1,172
Merger reserve	D & 35	8,974	3,271
		10,159	4,443
Treasury shares	32	(29)	(8)
Other reserves	36	(114)	229
Retained earnings	37	4,736	4,617
Equity attributable to shareholders of Aviva plc		15,964	10,218
Direct capital instrument and tier 1 notes	34	1,123	892
Equity excluding non-controlling interests		17,087	11,110
Non-controlling interests	38	1,145	1,166
Total equity		18,232	12,276
Liabilities			
Gross insurance liabilities	L & 40	140,556	113,445
Gross liabilities for investment contracts	M & 41	181,173	117,245
Unallocated divisible surplus	L & 45	8,811	9,467
Net asset value attributable to unitholders	D	11,415	9,482
Provisions	AA, AB & 47	1,416	879
Deferred tax liabilities	AC & 46	2,074	1,091
Current tax liabilities		177	169
Borrowings	AD & 49	8,770	7,378
Payables and other financial liabilities	S & 50	12,448	12,012
Other liabilities	51	2,802	2,273
Liabilities of operations classified as held for sale	AH & 3c	—	2
Total liabilities		369,642	273,443
Total equity and liabilities		387,874	285,719

Approved by the Board on 9 March 2016

Thomas D. Stoddard
Chief Financial Officer

Company number: 2468686

The accounting policies (identified alphabetically) on pages 133 to 146 and notes (identified numerically) on pages 154 to 269 are an integral part of the financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2015

The cash flows presented in this statement cover all the Group's activities and include flows from both policyholder and shareholder activities. All cash and cash equivalents are available for use by the Group.

	Note	2015 £m	2014 £m
Cash flows from operating activities¹			
Cash generated from/(used in) continuing operations	55a	5,197	(87)
Tax paid		(442)	(457)
Net cash from/(used in) operating activities - continuing operations		4,755	(544)
Total net cash from/(used in) operating activities		4,755	(544)
Cash flows from investing activities			
Acquisitions of, and additions to, subsidiaries, joint ventures and associates, net of cash acquired	55b	7,783	(79)
Disposals of subsidiaries, joint ventures and associates, net of cash transferred	55c	(3)	110
New loans to joint ventures and associates	18a(i)	(21)	(73)
Repayment of loans to joint ventures and associates	18 & 19	—	33
Net new loans to joint ventures and associates		(21)	(40)
Purchases of property and equipment		(58)	(116)
Proceeds on sale of property and equipment		51	19
Other cash flow related to intangible assets		(111)	(122)
Net cash from/(used in) investing activities - continuing operations		7,641	(228)
Net cash from/(used in) investing activities - discontinued operations²		—	(20)
Total net cash from/(used in) from investing activities		7,641	(248)
Cash flows from financing activities			
Redemption of Direct Capital Instrument		—	(547)
Proceeds from issue of ordinary shares		16	8
Treasury shares purchased for employee trusts		(1)	—
New borrowings drawn down, net of expenses		2,049	2,383
Repayment of borrowings ³		(1,979)	(2,442)
Net drawdown/(repayment) of borrowings	49	70	(59)
Interest paid on borrowings		(588)	(527)
Preference dividends paid	15	(17)	(17)
Ordinary dividends paid ⁴	15	(635)	(447)
Coupon payments on the direct capital instruments and tier 1 notes	15	(72)	(88)
Capital contributions from non-controlling interests of subsidiaries	38	5	—
Dividends paid to non-controlling interests of subsidiaries ⁵	38	(142)	(189)
Changes in controlling interest in subsidiaries		(1)	(89)
Net cash used in financing activities - continuing operations		(1,365)	(1,955)
Total net cash used in financing activities		(1,365)	(1,955)
Total net increase/(decrease) in cash and cash equivalents		11,031	(2,747)
Cash and cash equivalents at 1 January		22,564	25,989
Effect of exchange rate changes on cash and cash equivalents		(425)	(678)
Cash and cash equivalents at 31 December	55d	33,170	22,564

1 Cash flows from operating activities include interest received of £5,251 million (2014: £4,986 million) and dividends received of £2,353 million (2014: £1,442 million).

2 Discontinued operations represent the results of the US life and related internal asset management businesses (US Life) sold in 2013.

3 Includes redemption of 2005 STICS of £268 million.

4 Ordinary dividends paid amounted to £635 million (2014: £449 million. £2 million of unclaimed and waived dividends has been set off against this above).

5 Dividends paid to non-controlling interests of subsidiaries included £7 million on the 2003 STICS and £17 million on the 2005 STICS prior to reclassification.

The accounting policies (identified alphabetically) on pages 133 to 146 and notes (identified numerically) on pages 154 to 269 are an integral part of the financial statements.

1 – Presentation changes

Management has changed the definition of Group operating profit on an IFRS basis to exclude amortisation and impairment of acquired value of in-force business ('AVIF'), aligning the presentation of this item with the amortisation and impairment of intangible assets as non-operating items. Comparatives have been restated as shown below. This change in presentation had no impact on reported profit or loss or equity, the statement of financial position or the statement of cash flows.

Effect of restatements from change in definition of operating profit – IFRS basis

	2014		
	As previously reported £m	Effect of change £m	Restated £m
Operating profit before tax attributable to shareholders' profits	2,173	40	2,213
Non-operating items before tax	108	(40)	68
Profit before tax attributable to shareholders' profits	2,281	—	2,281
Tax on operating profit	(561)	(2)	(563)
Tax on other activities	(40)	2	(38)
	(601)	—	(601)
Profit after tax	1,680	—	1,680
Operating profit per share (p)	47.0	1.3	48.3
Diluted operating profit per share (p)	46.3	1.3	47.6

As a result of this change comparative information in note 4 Segmental Information and note 14 Earnings per Share has been restated.

2 – Exchange rates

The Group's principal overseas operations during the year were located within the eurozone, Canada and Poland. The results and cash flows of these operations have been translated into sterling at the average rates for the year and the assets and liabilities have been translated at the year end rates as follows:

	2015	2014
Eurozone		
Average rate (€1 equals)	£0.72	£0.81
Year end rate (€1 equals)	£0.74	£0.78
Canada		
Average rate (\$CAD1 equals)	£0.51	£0.55
Year end rate (\$CAD1 equals)	£0.49	£0.55
Poland		
Average rate (PLN1 equals)	£0.17	£0.19
Year end rate (PLN1 equals)	£0.17	£0.18

3 – Subsidiaries

This note provides details of the acquisitions and disposals of subsidiaries, joint ventures and associates that the Group has made during the year, together with details of businesses held for sale at the year end.

(a) Acquisitions

(i) Friends Life

On 10 April 2015, the Group completed the acquisition of 100% of the outstanding ordinary shares of Friends Life Group Limited ('Friends Life') through an all share exchange which gave Friends Life shareholders 0.74 Group shares for every Friends Life share held. In total, 1,086,326,606 Group shares were issued and commenced trading on 13 April 2015.

Friends Life is a leading insurance business which provides a range of pension, investment and insurance products and services to both individual customers and corporates. Prior to the acquisition, Friends Life operated through three distinct divisions: the Heritage division which administers products which are no longer actively marketed for new business; the UK division whose main lines of business are corporate benefits, retirement income and protection; and the International division which provides savings, investment and protection products for customers in Asia and the Middle East. The acquisition accelerates the Group's investment thesis of cash flow plus growth and is expected to benefit the Group over time through the realisation of significant incremental capital, financial and revenue synergies as well as supporting the Group to secure its position as a leading insurance and savings business.

£768 million of the shares transferred to the shareholders of Friends Life represents the fair value of the liabilities, based on discounted cash flows substantiated against internally modelled and external market values, held by the Group related to the settlement of a pre-existing insurance contract between the Group and Friends Life held by the Friends Provident pension scheme (refer to note 48). The remaining £5,207 million represents the consideration exchanged for £4,536 million of net assets of Friends Life and £671 million of goodwill, as follows:

3 – Subsidiaries continued

	Book Value £m	Fair Value and Accounting Policy Adjustments £m	Fair Value £m
Assets			
Acquired value of in-force business and intangible assets	3,055	2,219	5,274
Investment property	2,685	—	2,685
Financial investments	97,580	(11,314)	86,266
Reinsurance assets	1,254	11,251	12,505
Deferred tax assets	51	54	105
Other assets	2,619	(854)	1,765
Cash and cash equivalents	7,878	—	7,878
Total assets	115,122	1,356	116,478
Liabilities			
Insurance liabilities	36,068	12	36,080
Liability for investment contracts	68,778	(129)	68,649
Unallocated divisible surplus	724	—	724
Net asset value attributable to unitholders	212	—	212
Deferred tax liabilities	1,203	240	1,443
Borrowings	1,064	243	1,307
Other liabilities	2,355	668	3,023
Total liabilities	110,404	1,034	111,438
Net assets	4,718	322	5,040
Non-controlling interests (NCI) including tier 1 notes	329	175	504
Net assets excluding NCI	4,389	147	4,536
Goodwill arising on acquisition			671
Fair value of shares exchanged for net assets			5,207
Fair value of Group liabilities related to pre-existing relationship			768
Fair value of total shares exchanged¹			5,975

1 Fair value of consideration based on the opening market price on the date of acquisition.

The issue of new shares in the Company in exchange for shares of Friends Life has attracted merger relief under section 612 of the Companies Act 2006. Of the £5,975 million, £272 million (25 pence per ordinary share) has been credited to share capital and the remaining £5,703 million has been credited to the merger reserve within equity, increasing the reserve from £3,271 million to £8,974 million. Refer to note 35 for further detail regarding the merger reserve.

Acquired value of in-force business and intangible assets

An asset of £4,790 million was recognised upon acquisition representing the present value of future profits from the acquired in-force business ('AVIF') as of 10 April 2015. This will be amortised in accordance with the Group's accounting policies. Deferred acquisition costs ('DAC') are not recognised upon acquisition.

Intangible assets of £484 million represent Friends Life's distribution agreements and customer contracts. These assets have been assessed as having a useful life of between five and ten years and will be amortised over that period in accordance with the Group's accounting policies, along with the corresponding release of the applicable deferred tax provision.

Fair value and accounting policy adjustments

A reclassification of £11.3 billion was made from financial investments to reinsurance assets to align to the Group's presentation policy for reinsurance assets.

The adjustments to other liabilities are primarily related to a Group insurance contract held within the Friends Provident pension scheme (refer to note 48(b)(i)).

The adjustment to non-controlling interests represents the fair value adjustment of the 2003 and 2005 Step-up Tier one Insurance Capital Securities ('STICS') issuances based on the market quoted price which were classified as equity instruments within NCI on acquisition (refer to note 38).

Goodwill

The residual goodwill on acquisition of £671 million, none of which is expected to be deductible for tax purposes, represents future synergies expected to arise from combining the operations of Friends Life with those of the Group as well as the value of the workforce in place and other future business value. Refer to note 16 for changes to the carrying amount of goodwill during the year.

3 – Subsidiaries continued

Profit and loss

In the period from 10 April 2015 to 31 December 2015 the acquired Friends Life subsidiaries contributed net earned premiums and fee and commission income of £1,338 million and a loss before tax attributable to shareholders of £371 million, including £160 million of integration and restructuring costs, to the consolidated results of the Group.

If the acquisition had been effective on 1 January 2015, on a pro-forma basis the Group's net earned premiums and fee and commission income is estimated at £21.1 billion and profit before tax attributable to shareholders is estimated at £1,391 million. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 January 2015. The pro-forma results are provided for information purposes only and do not necessarily reflect the actual results that would have occurred had the acquisition taken place on 1 January 2015, nor are they necessarily indicative of the future results of the combined Group.

Acquisition costs of £29 million related to legal and professional fees incurred to support the transaction have been recognised within other expenses in the income statement.

(ii) Other acquisitions

The Group also completed other minor acquisitions in 2015. The aggregate consideration paid in these transactions was £97 million. Goodwill of £23 million and intangible assets of £29 million were recognised in relation to these transactions. With the exception of the acquisition of additional shares in unconsolidated Polish entities (refer to note 18) and the acquisition of an associate within Canada, the acquired entities were consolidated as subsidiaries. The acquired subsidiaries contributed no material profit or loss in 2015.

(b) Profit on the disposal and re-measurement of subsidiaries, joint ventures and associates

The profit on the disposal and re-measurement of subsidiaries, joint ventures and associates comprises:

	2015 £m	2014 £m
Spain – long-term business	—	132
Italy – long-term business	—	(6)
Korea	—	2
Turkey – general insurance	—	(16)
Aviva Investors	—	35
Turkey – long-term business	1	15
Indonesia	—	(3)
Other small operations	1	15
Profit on disposal and remeasurement from continuing operations	2	174
Profit on disposal and remeasurement from discontinued operations	—	58
Total profit on disposal and remeasurement	2	232

The total Group profit on disposal and re-measurement of subsidiaries, joint ventures and associates from continuing operations is £2 million (2014: £174 million). This includes a gain of £1 million (2014: £15 million) recognised on the further sale of shares in the Turkey Life business and profits on the disposal of small reinsurance operations in Asia of £1 million. There was no profit or loss recognised relating to discontinued operations in 2015 (2014: £58 million profit).

(c) Assets and liabilities of operations classified as held for sale

There were no operations classified as held for sale as at 31 December 2015.

	2015 £m	2014 £m
Assets		
Cash and cash equivalents	—	9
Total assets	—	9
Liabilities		
Insurance liabilities	—	(1)
Other liabilities	—	(1)
Total liabilities	—	(2)
Net assets	—	7

(d) Subsequent events

On 21 January 2016, Aviva plc announced that its Canadian business Aviva Canada will acquire 100% ownership of RBC General Insurance Company, the existing home and motor insurance business of RBC Insurance, and enter into an exclusive 15 year strategic agreement with RBC Insurance. Aviva will pay £281 million (\$CAD 581 million) upon completion, subject to customary completion adjustments. The proposed transaction is subject to closing conditions including receipt of required regulatory approvals and is expected to complete in the third quarter of 2016.

On 9 March 2016 the Group agreed to sell its entire 70% stake in its Irish private medical insurance business, Aviva Health Insurance Ireland Limited, to Irish Life Group Limited. The proposed transaction will be subject to customary closing conditions including receipt of required regulatory approvals and is expected to complete in the third quarter of 2016. The subsidiary has been classified as held for sale from 9 March 2016.

3 – Subsidiaries continued

(e) Significant restrictions

In certain jurisdictions the ability of subsidiaries to transfer funds to the Group in the form of cash dividends or to repay loans and advances is subject to local corporate or insurance laws and regulations and solvency requirements. There are no protective rights of non-controlling interests which significantly restrict the Group's ability to access or use the assets and settle the liabilities of the Group.

4 – Segmental information

The Group's results can be segmented either by activity or by geography. Our primary reporting format is on market reporting lines, with supplementary information being given by business activity. This note provides segmental information on the consolidated income statement and consolidated statement of financial position.

The Group has determined its operating segments along market reporting lines. These reflect the management structure whereby a member of the Executive Management team is accountable to the Group CEO for the operating segment for which they are responsible.

United Kingdom & Ireland

United Kingdom and Ireland comprises two operating segments – Life and General Insurance. The principal activities of our UK and Ireland Life operations are life insurance, long-term health (in the UK) and accident insurance, savings, pensions and annuity business, and include the UK insurance operations acquired as part of the acquisition of Friends Life (refer to note 3). UK and Ireland General Insurance provides insurance cover to individuals and businesses, for risks associated mainly with motor vehicles, property and liability (such as employers' liability and professional indemnity liability) and medical expenses. UK & Ireland General Insurance includes the results of our Ireland Health business.

France

The principal activities of our French operations are long-term business and general insurance. The long-term business offers a range of long-term insurance and savings products, primarily for individuals, with a focus on the unit-linked market. The general insurance business predominantly sells personal and small commercial lines insurance products through agents and a direct insurer.

Poland

Activities in Poland comprise long-term business and general insurance operations, including our long-term business in Lithuania.

Italy, Spain and Other

These countries are not individually significant at a Group level, so have been aggregated into a single reporting segment in line with IFRS 8. This segment includes our operations in Italy (including Eurovita up until the date of disposal in June 2014) and Spain (including CxG up until the date of disposal in December 2014). The principal activities of our Italian operations are long-term business and general insurance. The life business offers a range of long-term insurance and savings products, and the general insurance business provides motor and home insurance products to individuals, as well as small commercial risk insurance to businesses. The principal activity of the Spanish operation is the sale of long-term business, accident and health insurance and a selection of savings products. Our Other European operations include our life operations in Turkey (including our reduced joint venture share following IPO in November 2014) and our Turkish general insurance business (up until the date of disposal in December 2014).

Canada

The principal activity of the Canadian operation is general insurance. In particular it provides personal and commercial lines insurance products principally distributed through insurance brokers.

Asia

Our activities in Asia principally comprise our long-term business operations in China, India, Singapore, Hong Kong, Vietnam, Indonesia, Taiwan and the international operations of Friends Life. This segment also includes general insurance and health operations in Singapore, health operations in Indonesia and the results of South Korea (until the date of disposal in June 2014).

Aviva Investors

Aviva Investors operates in most of the markets in which the Group operates, in particular the UK, France, North America, Asia Pacific and other international businesses, managing policyholders' and shareholders' invested funds, providing investment management services for institutional pension fund mandates and managing a range of retail investment products, including investment funds, unit trusts, OEICs and ISAs. This segment also includes the results of River Road Asset Management LLC until the date of its disposal in June 2014.

Other Group activities

Investment return on centrally held assets and head office expenses, such as Group treasury and finance functions, together with certain taxes and financing costs arising on central borrowings are included in 'Other Group activities', along with central operations of Friends Life, central core structural borrowings and certain tax balances in the segmental statement of financial position. The results of our internal reinsurance operations are also included in this segment.

Discontinued operations

In October 2013 the Group sold its US life operations (including the related internal asset management operations of Aviva Investors), which has been presented as a discontinued operation for the comparative periods in the income statement, statement of comprehensive income and statement of cash flows. In 2014 this represented the settlement of the purchase price adjustment, in conjunction with the aggregate development of other provisions in the year.

4 – Segmental information continued

Measurement basis

The accounting policies of the segments are the same as those for the Group as a whole. Any transactions between the business segments are subject to normal commercial terms and market conditions. The Group evaluates performance of operating segments on the basis of:

- (i) profit or loss from operations before tax attributable to shareholders
- (ii) profit or loss from operations before tax attributable to shareholders, adjusted for non-operating items outside the segment management's control, including investment market performance and fiscal policy changes.

(a) (i) Segmental income statement for the year ended 31 December 2015

	United Kingdom & Ireland		Europe						Aviva Investors ² £m	Other Group activities ³ £m	Total £m
	Life £m	GI £m	France £m	Poland £m	Italy, Spain and Other £m	Canada £m	Asia £m				
Gross written premiums	5,402	4,503	5,777	484	2,733	2,109	917	—	—	21,925	
Premiums ceded to reinsurers	(1,355)	(1,163)	(75)	(6)	(42)	(117)	(132)	—	—	(2,890)	
Internal reinsurance revenue	(5)	(1)	—	(1)	(4)	—	(2)	—	—	13	—
Premiums written net of reinsurance	4,042	3,339	5,702	477	2,687	1,992	783	—	13	19,035	
Net change in provision for unearned premiums	(1)	(53)	(11)	(13)	(7)	(15)	(14)	—	3	(111)	
Net earned premiums	4,041	3,286	5,691	464	2,680	1,977	769	—	16	18,924	
Fee and commission income	810	160	232	40	115	28	134	281	(3)	1,797	
	4,851	3,446	5,923	504	2,795	2,005	903	281	13	20,721	
Net investment income/(expense)	448	159	1,949	(1)	444	49	(325)	155	(53)	2,825	
Inter-segment revenue	—	—	—	—	—	—	—	195	—	—	195
Share of profit of joint ventures and associates	149	—	7	5	8	—	11	—	—	—	180
Profit/(loss) on the disposal and remeasurement of subsidiaries, joint ventures and associates	2	—	—	—	(1)	—	1	—	—	—	2
Segmental income¹	5,450	3,605	7,879	508	3,246	2,054	590	631	(40)	23,923	
Claims and benefits paid, net of recoveries from reinsurers	(10,663)	(2,533)	(4,454)	(302)	(2,343)	(1,240)	(415)	—	(35)	(21,985)	
Change in insurance liabilities, net of reinsurance	7,070	492	(1,093)	17	264	(12)	(68)	—	11	6,681	
Change in investment contract provisions	943	—	(1,915)	18	(702)	—	328	(159)	—	(1,487)	
Change in unallocated divisible surplus	22	—	841	12	93	—	16	—	—	984	
Fee and commission expense	(585)	(1,195)	(623)	(57)	(252)	(571)	(114)	(26)	76	(3,347)	
Other expenses	(1,369)	(223)	(205)	(51)	(111)	(81)	(250)	(365)	(129)	(2,784)	
Inter-segment expenses	(169)	(5)	(9)	(6)	—	(4)	—	—	(2)	(195)	
Finance costs	(214)	(1)	(1)	—	(4)	(4)	(3)	—	(391)	(618)	
Segmental expenses	(4,965)	(3,465)	(7,459)	(369)	(3,055)	(1,912)	(506)	(550)	(470)	(22,751)	
Profit/(loss) before tax from continuing operations	485	140	420	139	191	142	84	81	(510)	1,172	
Tax attributable to policyholders' returns	232	—	—	—	—	—	(14)	—	—	218	
Profit/(loss) before tax attributable to shareholders' profits from continuing operations	717	140	420	139	191	142	70	81	(510)	1,390	
Profit from discontinued operations										—	—
Adjusted for non-operating items:											
Reclassification of corporate costs and unallocated interest	7	(1)	20	—	—	6	—	4	(36)	—	
Investment return variances and economic assumption changes on long-term business	—	—	(17)	—	14	—	(11)	—	—	(14)	
Short-term fluctuation in return on investments backing non-long-term business	53	84	2	(2)	31	47	—	—	(131)	84	
Economic assumption changes on general insurance and health business	—	98	—	—	—	2	—	—	—	100	
Impairment of goodwill, joint ventures and associates and other amounts expensed	—	—	—	—	9	—	13	—	—	22	
Amortisation and impairment of intangibles	84	14	—	2	14	10	9	10	12	155	
Amortisation and impairment of AVIF	350	—	5	2	5	—	136	—	—	498	
(Profit)/loss on the disposal and remeasurement of subsidiaries, joint ventures and associates	(2)	—	—	—	1	—	(1)	—	—	(2)	
Integration and restructuring costs	215	26	19	—	3	7	7	11	91	379	
Adjusted for non-operating items from discontinued operations	—	—	—	—	—	—	—	—	—	—	
Other ⁴	—	53	—	—	—	—	—	—	—	53	
Operating profit/(loss) before tax attributable to shareholders	1,424	414	449	141	268	214	223	106	(574)	2,665	

¹ Total reported income, excluding inter-segment revenue, includes £9,031 million from the United Kingdom (Aviva plc's country of domicile). Income is attributed on the basis of geographical origin which does not differ materially from revenue by geographical destination, as most risks are located in the countries where the contracts were written.

² Aviva Investors operating profit includes £1 million profit relating to the Aviva Investors Pooled Pensions business.

³ Other Group activities include Group Reinsurance.

⁴ Other items represents a day one loss upon the completion of an outwards reinsurance contract by the UK General Insurance business, which provides significant protection against claims volatility from mesothelioma, industrial deafness and other long tail risks. The £53 million loss comprises £712 million in premiums ceded less £659 million in reinsurance recoverables recognised.

4 – Segmental information continued

(a) (ii) Segmental income statement for the year ended 31 December 2014

	United Kingdom & Ireland			Europe				Aviva Investors ² £m	Other Group activities ³ £m	Total £m
	Life £m	GI £m	France £m	Poland £m	Italy, Spain and Other £m	Canada £m	Asia £m			
Gross written premiums	4,306	4,484	5,756	490	3,514	2,176	942	—	2	21,670
Premiums ceded to reinsurers	(784)	(454)	(70)	(7)	(68)	(70)	(161)	—	—	(1,614)
Internal reinsurance revenue	(7)	(2)	(2)	(1)	(2)	(2)	—	—	16	—
Premiums written net of reinsurance	3,515	4,028	5,684	482	3,444	2,104	781	—	18	20,056
Net change in provision for unearned premiums	23	43	(27)	6	10	(54)	(3)	—	3	1
Net earned premiums	3,538	4,071	5,657	488	3,454	2,050	778	—	21	20,057
Fee and commission income	398	160	203	87	115	15	9	243	—	1,230
	3,936	4,231	5,860	575	3,569	2,065	787	243	21	21,287
Net investment income/(expense)	13,301	362	5,174	147	2,392	180	125	267	(59)	21,889
Inter-segment revenue	—	—	—	—	—	—	—	158	—	158
Share of profit/(loss) of joint ventures and associates	139	—	7	4	9	—	(12)	—	—	147
Profit/(loss) on the disposal and remeasurement of subsidiaries, joint ventures and associates	—	—	—	—	125	14	(1)	35	1	174
Segmental income¹	17,376	4,593	11,041	726	6,095	2,259	899	703	(37)	43,655
Claims and benefits paid, net of recoveries from reinsurers	(7,522)	(2,745)	(4,594)	(331)	(2,572)	(1,276)	(362)	—	(72)	(19,474)
Change in insurance liabilities, net of reinsurance	(3,955)	88	(1,119)	(70)	(212)	(70)	(294)	—	62	(5,570)
Change in investment contract provisions	(3,036)	—	(1,881)	8	(1,347)	—	—	(262)	—	(6,518)
Change in unallocated divisible surplus	(62)	—	(2,182)	(6)	(1,055)	—	(59)	—	—	(3,364)
Fee and commission expense	(462)	(1,294)	(564)	(65)	(289)	(570)	(60)	(24)	(61)	(3,389)
Other expenses	(674)	(228)	(232)	(59)	(127)	(81)	(61)	(332)	(185)	(1,979)
Inter-segment expenses	(137)	(4)	(4)	(7)	—	(4)	—	—	(2)	(158)
Finance costs	(191)	(4)	(3)	—	(4)	(5)	—	(2)	(331)	(540)
Segmental expenses	(16,039)	(4,187)	(10,579)	(530)	(5,606)	(2,006)	(836)	(620)	(589)	(40,992)
Profit/(loss) before tax from continuing operations	1,337	406	462	196	489	253	63	83	(626)	2,663
Tax attributable to policyholders' returns	(357)	—	—	—	—	—	(25)	—	—	(382)
Profit/(loss) before tax attributable to shareholders' profits from continuing operations	980	406	462	196	489	253	38	83	(626)	2,281
Profit from discontinued operations ⁴									58	58
Adjusted for non-operating items:										
Reclassification of corporate costs and unallocated interest	—	11	16	—	1	—	—	—	(28)	—
Investment return variances and economic assumption changes on long-term business	13	—	9	(4)	(101)	—	11	—	—	(72)
Short-term fluctuation in return on investments backing non-long-term business	—	(82)	(50)	(1)	13	(65)	—	—	(76)	(261)
Economic assumption changes on general insurance and health business	—	145	—	—	—	3	—	—	(3)	145
Impairment of goodwill, joint ventures and associates and other amounts expensed	—	—	—	—	—	—	24	—	—	24
Amortisation and impairment of intangibles	31	1	—	—	17	10	3	11	17	90
Amortisation and impairment of AVIF ⁵	10	—	18	3	9	—	—	—	—	40
(Profit)/loss on the disposal and remeasurement of subsidiaries, joint ventures and associates	—	—	—	—	(125)	(14)	1	(35)	(1)	(174)
Integration and restructuring costs	28	11	15	1	1	4	1	4	75	140
Adjusted for non-operating items from discontinued operations ⁴	—	—	—	—	—	—	—	—	(58)	(58)
Operating profit/(loss) before tax attributable to shareholders⁵	1,062	492	470	195	304	191	78	63	(642)	2,213

¹ Total reported income, excluding inter-segment revenue, includes £20,816 million from the United Kingdom (Aviva plc's country of domicile). Income is attributed on the basis of geographical origin which does not differ materially from revenue by geographical destination, as most risks are located in the countries where the contracts were written.

² Aviva Investors operating profit includes £2 million profit relating to Aviva Investors Pooled Pensions business.

³ Other Group activities include Group Reinsurance.

⁴ In 2014 the Group paid a settlement of £200 million related to the purchase price adjustment relating to the disposal of the US Life business in 2013. The settlement and the aggregate development of other provisions related to the discontinued operations in 2014 resulted in a net £58 million gain which has been presented as profit on disposal of discontinued operations.

⁵ Operating profit has been restated to exclude amortisation and impairment of acquired value of in-force business, which is now shown as a non-operating item. See note 1 for further details. There is no impact on the result or the total equity for any period presented as a result of this restatement.

4 – Segmental information continued

(a) (iii) Segmental statement of financial position as at 31 December 2015

	United Kingdom & Ireland		Europe					Aviva Investors £m	Other Group activities £m	Total £m
	Life £m	GI £m	France £m	Poland £m	Italy, Spain and Other £m	Canada £m	Asia £m			
Goodwill	663	1,026	5	23	172	21	45	—	—	1,955
Acquired value of in-force business and intangible assets	3,600	139	86	12	539	69	1,206	15	65	5,731
Interests in, and loans to, joint ventures and associates	1,291	—	138	39	72	7	372	—	—	1,919
Property and equipment	130	27	225	3	5	10	8	1	40	449
Investment property	7,483	198	2,089	—	1	—	—	1,146	384	11,301
Loans	21,502	5	733	1	26	135	31	—	—	22,433
Financial investments	163,987	4,715	65,413	2,575	19,176	3,187	9,684	515	4,965	274,217
Deferred acquisition costs	1,394	418	227	32	77	255	57	4	—	2,464
Other assets	42,636	5,301	9,678	239	1,480	860	1,351	901	4,959	67,405
Total assets	242,686	11,829	78,594	2,924	21,548	4,544	12,754	2,582	10,413	387,874
Insurance liabilities										
Long-term business and outstanding claims provisions	99,435	5,439	16,487	2,308	7,699	2,058	2,865	—	18	136,309
Unearned premiums	226	2,083	393	45	237	1,016	48	—	—	4,048
Other insurance liabilities	—	76	44	—	—	77	—	—	2	199
Liability for investment contracts	114,143	—	47,834	2	9,770	—	7,681	1,743	—	181,173
Unallocated divisible surplus	2,575	—	4,941	55	1,047	—	193	—	—	8,811
Net asset value attributable to unitholders	203	—	2,863	—	413	—	—	—	7,936	11,415
External borrowings	1,903	—	—	—	49	—	—	—	6,818	8,770
Other liabilities, including inter-segment liabilities	12,261	(1,240)	4,066	99	715	596	565	370	1,485	18,917
Total liabilities	230,746	6,358	76,628	2,509	19,930	3,747	11,352	2,113	16,259	369,642
Total equity										18,232
Total equity and liabilities										387,874

4 – Segmental information continued

(a) (iv) Segmental statement of financial position as at 31 December 2014

	United Kingdom & Ireland		Europe			Canada £m	Asia £m	Aviva Investors £m	Other Group activities £m	Total £m
	Life £m	GI £m	France £m	Poland £m	Italy, Spain and Other £m					
Goodwill	—	1,031	—	8	190	23	50	—	—	1,302
Acquired value of in-force business and intangible assets	127	103	96	5	581	60	2	25	29	1,028
Interests in, and loans to, joint ventures and associates	953	—	145	10	82	2	352	—	—	1,544
Property and equipment	74	33	214	3	6	9	4	1	13	357
Investment property	5,558	95	1,758	—	1	—	—	1,120	393	8,925
Loans	24,178	84	788	—	58	122	30	—	—	25,260
Financial investments	97,410	5,415	66,484	2,829	19,959	3,483	3,192	660	3,206	202,638
Deferred acquisition costs	1,310	438	227	23	89	280	4	7	—	2,378
Other assets	19,092	4,895	10,009	171	1,585	937	459	784	4,346	42,278
Assets of operations classified as held for sale	—	—	—	—	—	—	—	—	9	9
Total assets	148,702	12,094	79,721	3,049	22,551	4,916	4,093	2,597	7,996	285,719
Insurance liabilities										
Long-term business and outstanding claims provisions	71,619	5,515	16,179	2,444	8,414	2,317	2,598	—	36	109,122
Unearned premiums	225	2,038	402	34	247	1,114	46	—	1	4,107
Other insurance liabilities	—	79	46	—	—	89	—	—	2	216
Liability for investment contracts	57,201	—	48,316	10	9,867	—	—	1,851	—	117,245
Unallocated divisible surplus	1,879	—	6,104	71	1,202	—	211	—	—	9,467
Net asset value attributable to unitholders	19	—	2,928	—	317	—	—	—	6,218	9,482
External borrowings	2,016	—	—	—	52	—	—	—	5,310	7,378
Other liabilities, including inter-segment liabilities	9,539	(1,787)	3,673	120	662	404	388	377	3,048	16,424
Liabilities of operations classified as held for sale	—	—	—	—	—	—	—	—	2	2
Total liabilities	142,498	5,845	77,648	2,679	20,761	3,924	3,243	2,228	14,617	273,443
Total equity										12,276
Total equity and liabilities										285,719

(b) Further analysis by products and services

The Group's results can be further analysed by products and services which comprise long-term business, general insurance and health, fund management and other activities.

Long-term business

Our long-term business comprises life insurance, long-term health and accident insurance, savings, pensions and annuity business written by our life insurance subsidiaries, including managed pension fund business. Long-term business also includes our share of the other life and related business written in our associates and joint ventures, as well as lifetime mortgage business written in the UK.

General insurance and health

Our general insurance and health business provides insurance cover to individuals and to small and medium sized businesses, for risks associated mainly with motor vehicles, property and liability, such as employers' liability and professional indemnity liability, and medical expenses.

Fund management

Our fund management business invests policyholders' and shareholders' funds and provides investment management services for institutional pension fund mandates. It manages a range of retail investment products, including investment funds, unit trusts, OEICs and ISAs. Clients include Aviva Group businesses and third-party financial institutions, pension funds, public sector organisations, investment professionals and private investors.

Other

Other includes service companies, head office expenses such as Group treasury and finance functions, and certain financing costs and taxes not allocated to business segments.

4 – Segmental information continued

(b) (i) Segmental income statement – products and services for the year ended 31 December 2015

	Long-term business £m	General insurance and health ² £m	Fund management £m	Other £m	Total £m
Gross written premiums ¹	13,187	8,738	—	—	21,925
Premiums ceded to reinsurers	(1,529)	(1,361)	—	—	(2,890)
Premiums written net of reinsurance	11,658	7,377	—	—	19,035
Net change in provision for unearned premiums	—	(111)	—	—	(111)
Net earned premiums	11,658	7,266	—	—	18,924
Fee and commission income	1,161	61	274	301	1,797
Net investment income/(expense)	12,819	7,327	274	301	20,721
Inter-segment revenue	2,667	240	(5)	(77)	2,825
Share of profit of joint ventures and associates	—	—	201	—	201
Profit/(loss) on the disposal and remeasurement of subsidiaries, joint ventures and associates	177	3	—	—	180
Segmental income	15,664	7,571	470	224	23,929
Claims and benefits paid, net of recoveries from reinsurers	(16,809)	(5,176)	—	—	(21,985)
Change in insurance liabilities, net of reinsurance	6,205	476	—	—	6,681
Change in investment contract provisions	(1,487)	—	—	—	(1,487)
Change in unallocated divisible surplus	984	—	—	—	984
Fee and commission expense	(1,121)	(2,118)	(23)	(85)	(3,347)
Other expenses	(1,663)	(368)	(367)	(386)	(2,784)
Inter-segment expenses	(190)	(11)	—	—	(201)
Finance costs	(202)	(5)	—	(411)	(618)
Segmental expenses	(14,283)	(7,202)	(390)	(882)	(22,757)
Profit/(loss) before tax from continuing operations	1,381	369	80	(658)	1,172
Tax attributable to policyholder returns	218	—	—	—	218
Profit/(loss) before tax attributable to shareholders' profits	1,599	369	80	(658)	1,390
Adjusted for:					
Non-operating items from continuing operations	820	396	26	33	1,275
Operating profit/(loss) before tax attributable to shareholders' profits from continuing operations	2,419	765	106	(625)	2,665
Operating profit/(loss) before tax attributable to shareholders' profits	2,419	765	106	(625)	2,665

1 Gross written premiums include inward reinsurance premiums assumed from other companies amounting to £146 million, of which £80 million relates to property and liability insurance and £66 million relates to long-term business.

2 General insurance and health business segment includes gross written premiums of £1,092 million relating to health business. The remaining business relates to property and liability insurance.

4 – Segmental information continued

(b) (ii) Segmental income statement – products and services for the year ended 31 December 2014

	Long-term business £m	General insurance and health ² £m	Fund management £m	Other £m	Total £m
Gross written premiums ¹	12,727	8,943	—	—	21,670
Premiums ceded to reinsurers	(971)	(643)	—	—	(1,614)
Premiums written net of reinsurance	11,756	8,300	—	—	20,056
Net change in provision for unearned premiums	—	1	—	—	1
Net earned premiums	11,756	8,301	—	—	20,057
Fee and commission income	705	54	256	215	1,230
Net investment income/(expense)	12,461	8,355	256	215	21,287
Inter-segment revenue	21,295	666	5	(77)	21,889
Share of profit of joint ventures and associates	—	—	158	—	158
Profit/(loss) on the disposal and remeasurement of subsidiaries, joint ventures and associates	144	3	—	—	147
Segmental income	34,040	9,008	454	153	43,655
Claims and benefits paid, net of recoveries from reinsurers	(13,861)	(5,613)	—	—	(19,474)
Change in insurance liabilities, net of reinsurance	(5,604)	34	—	—	(5,570)
Change in investment contract provisions	(6,518)	—	—	—	(6,518)
Change in unallocated divisible surplus	(3,364)	—	—	—	(3,364)
Fee and commission expense	(977)	(2,247)	(26)	(139)	(3,389)
Other expenses	(920)	(402)	(321)	(336)	(1,979)
Inter-segment expenses	(148)	(10)	—	—	(158)
Finance costs	(191)	(11)	(2)	(336)	(540)
Segmental expenses	(31,583)	(8,249)	(349)	(811)	(40,992)
Profit/(loss) before tax from continuing operations	2,457	759	105	(658)	2,663
Tax attributable to policyholder returns	(382)	—	—	—	(382)
Profit/(loss) before tax attributable to shareholders' profits	2,075	759	105	(658)	2,281
Adjusted for:					
Non-operating items from continuing operations ³	(56)	49	(19)	(42)	(68)
Operating profit/(loss) before tax attributable to shareholders' profits from continuing operations³	2,019	808	86	(700)	2,213
Operating profit/(loss) before tax attributable to shareholders' profits³	2,019	808	86	(700)	2,213

1 Gross written premiums include inward reinsurance premiums assumed from other companies amounting to £164 million, of which £81 million relates to property and liability insurance and £83 million relates to long-term business.

2 General insurance and health business segment includes gross written premiums of £1,146 million relating to health business. The remaining business relates to property and liability insurance.

3 Operating profit has been restated to exclude amortisation and impairment of acquired value of in-force business, which is now shown as a non-operating item. See note 1 for further details. There is no impact on the result or the total equity for any period presented as a result of this restatement.

4 – Segmental information continued

(b) (iii) Segmental statement of financial position – products and services as at 31 December 2015

	Long-term business £m	General insurance and health £m	Fund management £m	Other £m	Total £m
Goodwill	862	1,035	—	58	1,955
Acquired value of in-force business and intangible assets	5,369	309	15	38	5,731
Interests in, and loans to, joint ventures and associates	1,878	34	—	7	1,919
Property and equipment	299	95	1	54	449
Investment property	10,582	335	—	384	11,301
Loans	22,292	141	—	—	22,433
Financial investments	258,995	10,280	23	4,919	274,217
Deferred acquisition costs	1,647	812	5	—	2,464
Other assets	52,844	7,315	769	6,477	67,405
Assets of operations classified as held for sale	—	—	—	—	—
Total assets	354,768	20,356	813	11,937	387,874
Gross insurance liabilities	127,050	13,506	—	—	140,556
Gross liabilities for investment contracts	181,173	—	—	—	181,173
Unallocated divisible surplus	8,811	—	—	—	8,811
Net asset value attributable to unitholders	3,479	—	—	7,936	11,415
External borrowings	1,857	—	—	6,913	8,770
Other liabilities, including inter-segment liabilities	15,387	(307)	346	3,491	18,917
Liabilities of operations classified as held for sale	—	—	—	—	—
Total liabilities	337,757	13,199	346	18,340	369,642
Total equity					18,232
Total equity and liabilities					387,874

(b) (iv) Segmental statement of financial position – products and services as at 31 December 2014

	Long-term business £m	General insurance and health £m	Fund management £m	Other £m	Total £m
Goodwill	216	1,043	—	43	1,302
Acquired value of in-force business and intangible assets	691	270	25	42	1,028
Interests in, and loans to, joint ventures and associates	1,526	16	—	2	1,544
Property and equipment	230	100	1	26	357
Investment property	8,310	223	—	392	8,925
Loans	25,053	207	—	—	25,260
Financial investments	188,094	11,435	23	3,086	202,638
Deferred acquisition costs	1,519	852	7	—	2,378
Other assets	29,839	6,270	657	5,512	42,278
Assets of operations classified as held for sale	—	9	—	—	9
Total assets	255,478	20,425	713	9,103	285,719
Gross insurance liabilities	99,453	13,992	—	—	113,445
Gross liabilities for investment contracts	117,245	—	—	—	117,245
Unallocated divisible surplus	9,467	—	—	—	9,467
Net asset value attributable to unitholders	3,264	—	—	6,218	9,482
External borrowings	2,068	—	—	5,310	7,378
Other liabilities, including inter-segment liabilities	12,689	(952)	354	4,333	16,424
Liabilities of operations classified as held for sale	—	2	—	—	2
Total liabilities	244,186	13,042	354	15,861	273,443
Total equity					12,276
Total equity and liabilities					285,719

5 – Details of income

This note gives further detail on the items appearing in the income section of the consolidated income statement.

	2015 £m	2014 £m
Gross written premiums (note 4a and 4b)		
Long-term:		
Insurance contracts	8,577	7,898
Participating investment contracts	4,610	4,829
General insurance and health	8,738	8,943
Less: premiums ceded to reinsurers (note 4a and 4b)	21,925	21,670
Gross change in provision for unearned premiums (note 40e)	(2,890)	(1,614)
Reinsurers' share of change in provision for unearned premiums (note 43ci)	(125)	(8)
Net change in provision for unearned premiums	14	9
Net earned premiums	(111)	1
Fee and commission income	18,924	20,057
Fee income from investment contract business	922	459
Fund management fee income	342	320
Other fee income	310	344
Reinsurance commissions receivable	74	81
Other commission income	134	13
Net change in deferred revenue	15	13
	1,797	1,230
Total revenue	20,721	21,287
Net investment income		
Interest and similar income		
From financial instruments designated as trading and other than trading	5,219	4,945
From AFS investments and financial instruments at amortised cost	49	36
Dividend income	5,268	4,981
Other income from investments designated as trading	2,238	1,444
Realised gains/(losses)on disposals	1,264	208
Unrealised gains and losses (policy K)	107	795
Gains/(Losses) arising in the year	(1,264)	(208)
(Gains)/Losses recognised now realised	(1,157)	587
	107	795
Other income from investments designated as other than trading		
Realised gains on disposals	2,150	2,829
Unrealised gains and losses (see policy K)	(6,279)	13,403
Gains/(Losses) arising in the year	(2,150)	(2,829)
(Gains) recognised now realised	(8,429)	10,574
	(6,279)	13,403
Realised gains and losses on AFS investments	—	7
Losses/(gains) recognised in prior periods as unrealised in equity	—	7
Net income from investment properties		
Rent	590	521
Expenses relating to these properties	(52)	(42)
Realised (losses)/gains on disposal	120	49
Fair value gains on investment properties (note 21)	778	678
	1,436	1,206
Realised gains/(losses) on loans	(10)	(4)
Foreign exchange gains and losses on investments other than trading	176	146
Other investment expenses	(111)	(89)
Net investment income	2,825	21,889
Share of profit after tax of joint ventures (note 18)	162	129
Share of profit/(loss) after tax of associates (note 19a)	18	18
Share of profit after tax of joint ventures and associates	180	147
Profit on disposal and remeasurement of subsidiaries, joint ventures and associates (note 3b)	2	174
Income from continuing operations	23,728	43,497
Income from discontinued operations	—	58
Total income	23,728	43,555

6 – Details of expenses

This note gives further detail on the items appearing in the expenses section of the consolidated income statement.

	2015 £m	2014 £m
Claims and benefits paid		
Claims and benefits paid to policyholders on long-term business		
Insurance contracts	12,443	10,085
Participating investment contracts	5,270	4,431
Non-participating investment contracts	368	27
Claims and benefits paid to policyholders on general insurance and health business	5,522	5,917
	23,603	20,460
Less: Claim recoveries from reinsurers		
Insurance contracts	(1,563)	(933)
Participating investment contracts	(55)	(53)
Claims and benefits paid, net of recoveries from reinsurers	21,985	19,474
Change in insurance liabilities		
Change in insurance liabilities (note 40)	(6,442)	5,890
Change in reinsurance asset for insurance provisions (note 40)	(239)	(320)
Change in insurance liabilities, net of reinsurance	(6,681)	5,570
Change in investment contract provisions		
Investment income allocated to investment contracts	1,958	2,629
Other changes in provisions		
Participating investment contracts (note 41)	1,270	3,218
Non-participating investment contracts	(2,957)	678
Change in reinsurance asset for investment contract provisions	1,216	(7)
Change in investment contract provisions	1,487	6,518
Change in unallocated divisible surplus (note 45)	(984)	3,364
Fee and commission expense		
Acquisition costs		
Commission expenses for insurance and participating investment contracts	2,220	2,103
Change in deferred acquisition costs for insurance and participating investment contracts	(127)	(59)
Deferrable costs for non-participating investment contracts	30	63
Other acquisition costs	819	828
Change in deferred acquisition costs for non-participating investment contracts	(11)	38
Investment income attributable to unitholders	17	112
Reinsurance commissions and other fee and commission expense	399	304
	3,347	3,389
Other expenses		
Other operating expenses		
Staff costs (note 10b)	944	848
Central costs and sharesave schemes	181	132
Depreciation	24	19
Impairment of goodwill on subsidiaries (note 16)	22	—
Amortisation of acquired value of in-force business on insurance/investment contracts	496	37
Amortisation of intangible assets	131	76
Impairment of intangible assets	18	10
Integration and restructuring costs (see below)	379	140
Other expenses	764	773
	2,959	2,035
Impairments		
Net impairment on loans	2	(9)
Net impairment on financial investments	—	1
Net impairment on receivables and other financial assets	3	5
Net impairment on non-financial assets	2	—
	7	(3)
Other net foreign exchange (gains)/losses	(182)	(53)
Finance costs (note 7)	618	540
Total expenses	22,556	40,834

Integration and restructuring costs

Integration and restructuring costs were £379 million (2014: £140 million), principally driven by transaction and integration activities in relation to the acquisition of Friends Life. In addition, expenses associated with the Solvency II programme were £82 million (2014: £94 million).

7 – Finance costs

This note analyses the interest costs on our borrowings (which are described in note 49) and similar charges.

Finance costs comprise:

	2015 £m	2014 £m
Interest expense on core structural borrowings		
Subordinated debt	335	289
Long-term senior debt	14	19
Commercial paper	1	2
	350	310
Interest expense on operational borrowings		
Amounts owed to financial institutions	48	48
Securitised mortgage loan notes at fair value	84	87
	132	135
Interest on collateral received	13	18
Net finance charge on pension schemes (note 48(b)(i))	25	13
Unwind of discount on GI reserves	2	6
Extinguishment of debt	13	—
Other similar charges	83	58
Total finance costs	618	540

8 – Long-term business economic volatility

The long-term nature of much of the Group's operations means that, for management's decision-making and internal performance management, the effects of short-term economic volatility are treated as non-operating items. The Group focuses instead on an operating profit measure that incorporates an expected return on investments supporting its long-term business, as described below.

(a) Definitions

Operating profit for long-term business is based on expected investment returns on financial investments backing shareholder and policyholder funds over the reporting period, with consistent allowance for the corresponding expected movements in liabilities. Operating profit includes the effect of variance in experience for non-economic items, such as mortality, persistency and expenses, and the effect of changes in non-economic assumptions, where not treated as exceptional. Changes due to economic items, such as market value movements and interest rate changes, which give rise to variances between actual and expected investment returns, and the impact of changes in economic assumptions on liabilities, are disclosed separately outside operating profit.

(b) Economic volatility

The investment variances and economic assumption changes excluded from the long-term business operating profit are as follows:

	2015 £m	2014 £m
Life business		
Investment variances and economic assumptions	14	72

Investment variances were £14 million positive (2014: £72 million positive) with positive movements in France and Asia, partially offset by a negative variance in Italy. The positive variance in France reflects realised bond gains and equity outperformance, while the positive variance in Asia is driven by increasing interest rates in Singapore, which have reduced liabilities by more than asset values. The negative variance in Italy is driven by widening credit spreads. The investment variance was largely neutral in the UK, reflecting the positive variance from the reduction in equity release asset default provisions following favourable property market performance, offset by the negative impact of widening credit spreads.

In 2014, positive variances were mainly driven by lower risk-free rates and narrowing credit spreads on government and corporate bonds in Italy and Spain. Negative variances in the UK were due to the adverse impact of falling reinvestment yields net of improved underlying property values on commercial mortgages partly offset by a change to the model used to value certain equity release assets and the consequential impact on the liabilities that they back.

(c) Methodology

The expected investment returns and corresponding expected movements in long-term business liabilities are calculated separately for each principal long-term business unit.

The expected return on investments for both policyholders' and shareholders' funds is based on opening economic assumptions applied to the expected funds under management over the reporting period. Expected investment return assumptions are derived actively, based on market yields on risk-free fixed interest assets at the end of each financial year. The same margins are applied on a consistent basis across the Group to gross risk-free yields, to obtain investment return assumptions for equities and properties. Expected funds under management are equal to the opening value of funds under management, adjusted for sales and purchases during the period arising from expected operating experience.

The actual investment return is affected by differences between the actual and expected funds under management and changes in asset mix, as well as movements in interest rates. To the extent that these differences arise from the operating experience of the long-term business, or management decisions to change asset mix, the effect is included in the operating profit. The residual difference between actual and expected investment return is included in investment variances, outside operating profit but included in profit before tax.

8 – Long-term business economic volatility continued

The movement in liabilities included in operating profit reflects both the change in liabilities due to the expected return on investments and the impact of experience variances and assumption changes for non-economic items.

The effect of differences between actual and expected economic experience on liabilities, and changes to economic assumptions used to value liabilities, are taken outside operating profit. For many types of long-term business, including unit-linked and with-profits funds, movements in asset values are offset by corresponding changes in liabilities, limiting the net impact on profit. For other long-term business the profit impact of economic volatility depends on the degree of matching of assets and liabilities, and exposure to financial options and guarantees.

(d) Assumptions

The expected rate of investment return is determined using consistent assumptions between operations, having regard to local economic and market forecasts of investment return and asset classification under IFRS.

The principal assumptions underlying the calculation of the expected investment return for equities and properties are:

	Equities		Properties	
	2015 %	2014 %	2015 %	2014 %
United Kingdom	5.4	6.6	3.9	5.1
Eurozone	4.3	5.7	2.8	4.2

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. These are the same assumptions as are used in MCEV reporting to calculate the longer-term investment return for the Group's long-term business.

For fixed interest securities classified as fair value through profit or loss, the expected investment returns are based on average prospective yields for the actual assets held less an adjustment for credit risks; this includes an adjustment for credit risk on all eurozone sovereign debt. Where such securities are classified as available for sale, the expected investment return comprises the expected interest or dividend payments and amortisation of the premium or discount at purchase.

9 – Longer-term investment return and economic assumption changes for non-long-term business

For non-long-term business, the total investment income, including realised and unrealised gains, is split between a calculated longer-term return, which is included in operating profit, and short-term fluctuations from this, which are disclosed outside operating profit but are included in profit before tax. This note gives details of the longer-term return calculation and the relevant assumptions, as well as the economic assumption changes on our general insurance and health business.

(a) The short-term fluctuations in investment return and economic assumption changes attributable to the non-long-term business result and reported outside operating profit were as follows:

Non-long-term business	2015 £m	2014 £m
Short-term fluctuations in investment return (see (b) below)	(84)	261
Economic assumption changes (see (g) below)	(100)	(145)
	(184)	116

(b) The longer-term investment return and short-term fluctuation are as follows:

Non-long-term business	2015 £m	2014 £m
Analysis of investment income:		
Net investment income	327	754
Foreign exchange gains/losses and other charges	(10)	(8)
	317	746
Analysed between:		
Longer-term investment return, reported within operating profit	401	485
Short-term fluctuation in investment return, reported outside operating profit		
General insurance and health	(166)	181
Other operations ¹	82	80
	(84)	261
	317	746

¹ Represents short-term fluctuations on assets backing non-long-term business in Group centre investments, including the centre hedging programme.

(c) The longer-term investment return is calculated separately for each principal non-long-term business unit. In respect of equities and properties, the return is calculated by multiplying the opening market value of the investments, adjusted for sales and purchases during the year, by the longer-term rate of investment return.

The longer-term rate of investment return is determined using consistent assumptions between operations, having regard to local economic and market forecasts of investment return. The allocated longer-term return for other investments is the actual income receivable for the year. Actual income and longer-term investment return both contain the amortisation of the discounts/premium arising on the acquisition of fixed income securities. For other operations, the longer-term return reflects assets backing non-long-term business held in Group centre investments.

9 – Longer-term investment return and economic assumption changes for non-long-term business continued

Market value movements which give rise to variances between actual and longer-term investment returns are disclosed separately in short term fluctuations outside operating profit.

The impact of realised and unrealised gains and losses on Group centre investments, including the centre hedging programme which is designed to economically protect the total Group's capital against adverse equity and foreign exchange movements, is included in short-term fluctuations on other operations.

The adverse movement in short-term fluctuations during 2015 compared with 2014 is mainly due to an increase in risk-free rates reducing fixed income security market values.

(d) The total assets supporting the general insurance and health business, which contribute towards the longer-term return, are:

	2015 £m	2014 £m
Debt securities	9,608	10,858
Equity securities	217	251
Properties	335	223
Cash and cash equivalents	969	1,300
Other ¹	3,008	3,767
Assets supporting general insurance and health business	14,137	16,399
Assets supporting other non-long-term business ²	538	562
Total assets supporting non-long-term business	14,675	16,961

1 Includes the internal loan.

2 Represents assets backing non-long-term business in Group centre investments, including the centre hedging programme.

The principal assumptions underlying the calculation of the longer-term investment return are:

	Longer-term rates of return Equities		Longer-term rates of return Properties	
	2015 %	2014 %	2015 %	2014 %
United Kingdom	5.4	6.6	3.9	5.1
Eurozone	4.3	5.7	2.8	4.2
Canada	5.8	6.8	4.3	5.3

To calculate the longer-term investment return for its non-long-term business in 2014 and 2015, the Group has applied the same economic assumptions for equities and properties as are used under MCEV principles.

(e) The table below compares the actual return on investments attributable to the non-long-term business, after deducting investment management expenses and charges, with the aggregate longer-term return over a five-year period.

	2011-2015 £m	2010-2014 £m
Actual return attributable to shareholders	2,527	2,760
Longer-term return credited to operating results	(2,945)	(3,293)
Excess of longer-term returns over actual returns	(418)	(533)

(f) The table below shows the sensitivity of the Group's non-long-term business operating profit before tax to changes in the longer-term rates of return:

Movement in investment return for	By	Change in	2015 £m	2014 £m
Equities	1% higher/lower	Group operating profit before tax	3	3
Properties	1% higher/lower	Group operating profit before tax	2	1

(g) The economic assumption changes arise as a result of an increase in the expected future inflation rates used to calculate claims reserves for periodic payment orders and a decrease in the swap rates used to discount latent claim reserves and periodic payment orders.

As explained in accounting policy L, provisions for latent claims are discounted, using rates based on the relevant swap curve, in the relevant currency at the reporting date, having regard to the duration of the expected settlement of the claims. The discount rate is set at the start of the accounting period, with any change in rates between the start and end of the accounting period being reflected below operating profit as an economic assumption change. The range of discount rates used is disclosed in note 40.

10 – Employee information

This note shows where our staff are employed throughout the world, excluding staff employed by our joint ventures and associates, and analyses the total staff costs.

(a) Employee numbers

The number of persons employed by the Group, including directors under a service contract, was:

	At 31 December		Average for the year ¹	
	2015 Number	Restated ² 2014 Number	2015 Number	Restated ² 2014 Number
United Kingdom & Ireland	16,222	14,144	16,695	14,333
France	4,161	4,082	4,122	4,135
Poland	1,677	1,380	1,706	1,342
Italy, Spain and Other	950	932	958	1,169
Canada	3,558	3,461	3,542	3,455
Asia	1,486	999	1,517	1,021
Aviva Investors	1,204	953	1,095	957
Other Group Activities	381	413	372	525
Total employee numbers	29,639	26,364	30,007	26,937

1 Average employee numbers have been calculated using a monthly average that takes into account recruitment, leavers, transfers, acquisitions and disposals of businesses during the year.

2 Following a move of certain employees within the Group, to facilitate comparison the 2014 comparatives above have been restated as follows: 180 employees (at 31 December 2014) and 284 employees (average for 2014) previously reported within United Kingdom & Ireland have been reclassified to Other Group Activities. There is no impact on total employee numbers as a result of this restatement.

(b) Staff costs

	2015 £m	Restated ¹ 2014 £m
Wages and salaries	1,047	1,016
Social security costs	190	177
Post-retirement obligations		
Defined benefit schemes (note 48d)	13	30
Defined contribution schemes (note 48d)	123	110
Profit sharing and incentive plans	188	145
Equity compensation plans (note 31d)	48	40
Termination benefits	19	16
Total staff costs	1,628	1,534

1 Following a review of the staff costs disclosure, £51 million previously reported within wages and salaries in 2014 has been reclassified to profit sharing and incentive plans. There is no impact on total staff costs in 2014 as a result of this restatement.

Staff costs are charged within:

	2015 £m	2014 £m
Acquisition costs	447	478
Claims handling expenses	131	131
Central costs and sharesave schemes	76	61
Other operating expenses	944	848
Integration and restructuring costs	30	16
Total staff costs	1,628	1,534

11 – Directors

Information concerning individual directors' emoluments, interests and transactions is given in the Directors' Remuneration Report in the 'Corporate governance' section of this report. For the purposes of the disclosure required by Schedule 5 to the Companies Act 2006, the total aggregate emoluments of the directors in respect of 2015 was £11.5 million (2014: £5.6 million). Employer contributions to pensions for executive directors for qualifying periods were £57,581 (2014: £62,257). The aggregate net value of share awards granted to the directors in the period was £9.7 million (2014: £3.6 million). The net value has been calculated by reference to the closing middle market price of an ordinary share at the date of grant. During the year no share options were exercised by directors (2014: 2,903 share options).

12 – Auditors' remuneration

This note shows the total remuneration payable by the Group, excluding VAT and any overseas equivalent thereof, to our principal auditors, PricewaterhouseCoopers LLP.

	2015 £m	2014 £m
Fees payable to PwC LLP and its associates for the statutory audit of the Aviva Group and Company financial statements	3.8	2.5
Fees payable to PwC LLP and its associates for other services		
Audit of Group subsidiaries	12.4	9.8
Additional fees related to the prior year audit of Group subsidiaries	0.5	0.1
Total audit fees	16.7	12.4
Audit related assurance	2.6	2.3
Other assurance services	13.3	9.8
Total audit and assurance fees	32.6	24.5
Tax compliance services	0.1	0.1
Tax advisory services	0.1	0.1
Services relating to corporate finance transactions	0.2	—
Other non audit services not covered above	1.5	1.5
Fees payable to PwC LLP and its associates for services to Group companies	34.5	26.2

The table above reflects the disclosure requirements of SI2011/2198 – The Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) (Amendment) Regulations 2011.

In addition to the fees shown above, during 2015 the Group paid PwC £0.2 million (2014: £0.2 million) in relation to the audit of Group occupational pension schemes.

Fees payable for the audit of the Group's subsidiaries include fees for the statutory audit of the subsidiaries, both inside and outside the UK, and for the work performed by the principal auditors in respect of the subsidiaries for the purpose of the consolidated financial statements of the Group.

Total audit fees (excluding additional fees relating to the prior year audits of Group subsidiaries), audit-related assurance fees and fees for the audit of the Group's MCEV reporting were £20.2 million (2014: £15.8 million). The main driver of the increase is the audit fee in respect of the acquired Friends Life subsidiaries. The fee also includes £1.1 million in respect of the audit work relating to the acquisition balance sheet.

Audit related assurance comprises services in relation to statutory and regulatory filings. These include audit services for the audit of regulatory returns in the UK and review of interim financial information under the Listing Rules of the UK Listing Authority.

Fees for other assurance services comprise non-statutory assurance work which is customarily performed by the external auditor, including the audit of the Group's MCEV reporting. Although embedded value is a key management reporting basis and our disclosures are audited, the relevant fees are not classified as being for statutory audit.

Other assurance services in 2015 of £13.3 million (2014: £9.8 million) includes fees relating to the audit of the Group's MCEV reporting of £1.4 million (2014: £1.2 million) and £11.6 million (2014: £6.4 million) associated with assurance services related to Solvency II implementation. Solvency II implementation is a major project requiring substantial model validation assurance that the Company believes is most appropriately performed by the principal auditors. In view of the significance and scale of this work, the Audit Committee specifically assessed the suitability of PwC to provide this service.

The 2015 fees for other non-audit services of £1.5 million includes £0.3 million relating to a controls review, £0.3 million relating to a regulatory advice engagement and £0.9 million for a number of other, individually smaller services.

Details of the Group's process for safeguarding and supporting the independence and objectivity of the external auditors are given in the Audit Committee report.

13 – Tax

This note analyses the tax charge for the year and explains the factors that affect it.

(a) Tax charged to the income statement

(i) The total tax charge comprises:

	2015 £m	2014 £m
Continuing operations		
Current tax		
For the year	500	680
Prior period adjustments	(68)	12
Total current tax	432	692
Deferred tax		
Origination and reversal of temporary differences	(227)	315
Changes in tax rates or tax laws	(82)	(17)
Write back of deferred tax assets	(30)	(7)
Total deferred tax	(339)	291
Total tax charged to income statement	93	983

(ii) The Group, as a proxy for policyholders in the UK, Ireland and Singapore, is required to record taxes on investment income and gains each year. Accordingly, the tax benefit or expense attributable to UK, Irish and Singapore life insurance policyholder returns is included in the tax charge. The tax credit attributable to policyholder returns included in the charge above is £218 million (2014: *charge of £382 million*).

(iii) The tax charge above, comprising current and deferred tax, can be analysed as follows:

	2015 £m	2014 £m
UK tax	(294)	462
Overseas tax	387	521
Total	93	983

(iv) Unrecognised tax losses and temporary differences of previous years were used to reduce the current tax expense and deferred tax expense by £5 million and £30 million (2014: *£5 million and £nil*), respectively.

(v) Deferred tax (credited)/charged to the income statement represents movements on the following items:

	2015 £m	2014 £m
Long-term business technical provisions and other insurance items	517	(1,209)
Deferred acquisition costs	(46)	34
Unrealised gains/(losses) on investments	(847)	1,254
Pensions and other post-retirement obligations	(4)	7
Unused losses and tax credits	34	32
Subsidiaries, associates and joint ventures	4	5
Intangibles and additional value of in-force long-term business	(149)	(7)
Provisions and other temporary differences	152	175
Total deferred tax (credited)/charged to income statement	(339)	291

(b) Tax (credited)/charged to other comprehensive income

(i) The total tax (credit)/charge comprises:

	2015 £m	2014 £m
Current tax from continuing operations		
In respect of pensions and other post-retirement obligations	(44)	(77)
In respect of foreign exchange movements	(7)	(12)
Total	(51)	(89)
Deferred tax from continuing operations		
In respect of pensions and other post-retirement obligations	(49)	424
In respect of unrealised (losses)/gains on investments	(6)	21
Total	(55)	445
Total tax (credited)/charged to other comprehensive income	(106)	356

(ii) The tax charge attributable to policyholders' returns included above is £nil (2014: *£nil*).

13 – Tax continued

(c) Tax credited to equity

Tax credited directly to equity in the year amounted to £15 million (2014: £19 million). This is in respect of coupon payments on the direct capital instrument and tier 1 notes.

(d) Tax reconciliation

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate of the home country of the Company as follows:

	Shareholder £m	Policyholder £m	2015 £m	Shareholder £m	Policyholder £m	2014 £m
Total profit/(loss) before tax	1,390	(218)	1,172	2,339	382	2,721
Tax calculated at standard UK corporation tax rate of 20.25% (2014: 21.5%)	281	(44)	237	503	82	585
Reconciling items						
Different basis of tax – policyholders	—	(174)	(174)	—	302	302
Adjustment to tax charge in respect of prior periods	(46)	—	(46)	(36)	—	(36)
Non-assessable income and items not taxed at the full statutory rate	19	—	19	(22)	—	(22)
Non-taxable loss/(profit) on sale of subsidiaries and associates	1	—	1	(31)	—	(31)
Disallowable expenses	67	—	67	76	—	76
Different local basis of tax on overseas profits	126	—	126	138	(2)	136
Change in future local statutory tax rates	(82)	—	(82)	(17)	—	(17)
Movement in deferred tax not recognised	(52)	—	(52)	3	—	3
Tax effect of profit from joint ventures and associates	(6)	—	(6)	(4)	—	(4)
Other	3	—	3	(9)	—	(9)
Total tax charged/(credited) to income statement	311	(218)	93	601	382	983

The tax (credit)/charge attributable to policyholder returns is removed from the Group's total profit before tax in arriving at the Group's profit before tax attributable to shareholders' profits. As the net of tax profits attributable to with-profit and unit-linked policyholders is zero, the Group's pre-tax profit attributable to policyholders is an amount equal and opposite to the tax (credit)/charge attributable to policyholders included in the total tax charge. The difference between the policyholder tax (credit)/charge and the impact of this item in the tax reconciliation can be explained as follows:

	2015 £m	2014 £m
Tax attributable to policyholder returns	(218)	382
UK corporation tax at a rate of 20.25% (2014: 21.5%) in respect of the policyholder tax deduction	44	(82)
Different local basis of tax of overseas profits	—	2
Different basis of tax - policyholders per tax reconciliation	(174)	302

UK legislation was substantively enacted in July 2013 to reduce the main rate of corporation tax from 21% to 20% from 1 April 2015, resulting in an effective rate for the year ended 31 December 2015 of 20.25%.

As legislated in Finance (No 2) Act 2015, which was substantively enacted on 26 October 2015, the UK corporation tax rate will reduce further to 19% from 1 April 2017 and to 18% from 1 April 2020. The reductions in rate from 20% to 19% and then to 18% have been used in the calculation of the UK's deferred tax assets and liabilities as at 31 December 2015. In addition, the calculation of deferred tax assets and liabilities in France and Italy reflect the reduction in corporation tax rates from 38% to 34.43% (effective 1 January 2016) and from 34.3% to 30.8% (effective 1 January 2017) respectively. The effect of the reduction in the future corporation tax rates in the UK, France and Italy on the Group's net deferred tax liabilities is £120 million, comprising an £82 million credit included in the income statement and a £38 million credit included in the statement of comprehensive income.

14 – Earnings per share

This note shows how we calculate earnings per share, based both on the present shares in issue (the basic earnings per share) and the potential future shares in issue, including conversion of share options granted to employees (the diluted earnings per share). We have also shown the same calculations based on our operating profit as we believe this gives a better indication of operating performance.

(a) Basic earnings per share

(i) The profit attributable to ordinary shareholders is:

	2015			Restated ¹ 2014	
	Operating profit £m	Non- operating items £m	Total £m	Operating profit ¹ £m	Non- operating items ¹ £m
Continuing operations					
Profit before tax attributable to shareholders' profits	2,665	(1,275)	1,390	2,213	68
Tax attributable to shareholders' profit	(598)	287	(311)	(563)	(38)
Profit for the year	2,067	(988)	1,079	1,650	30
Amount attributable to non-controlling interests	(152)	(9)	(161)	(143)	(26)
Cumulative preference dividends for the year	(17)	—	(17)	(17)	—
Coupon payments in respect of the direct capital instrument (DCI) and tier 1 notes (net of tax)	(57)	—	(57)	(69)	—
Profit/(loss) attributable to ordinary shareholders from continuing operations	1,841	(997)	844	1,421	4
Profit/(loss) attributable to ordinary shareholders from discontinued operations	—	—	—	—	58
Profit/(loss) attributable to ordinary shareholders	1,841	(997)	844	1,421	62
					1,483

¹ Operating profit has been restated to exclude amortisation and impairment of acquired value of in-force business, which is now shown as a non-operating item. See note 1 for further details. There is no impact on the result or the total equity for any period presented as a result of this restatement.

(ii) Basic earnings per share is calculated as follows:

	2015			Restated ¹ 2014	
	Before tax £m	Net of tax, non- controlling interests, preference dividends and DCI ² £m	Per share p	Before tax £m	Net of tax, non- controlling interests, preference dividends and DCI ² £m
Continuing operations					
Operating profit attributable to ordinary shareholders	2,665	1,841	49.2	2,213	1,421
Non-operating items:					
Investment return variances and economic assumption changes on long-term business	14	(37)	(1.0)	72	4
Short-term fluctuation in return on investments backing non-long-term business	(84)	(62)	(1.7)	261	197
Economic assumption changes on general insurance and health business	(100)	(80)	(2.1)	(145)	(114)
Impairment of goodwill, joint ventures and associates and other amounts expensed	(22)	(22)	(0.6)	(24)	(24)
Amortisation and impairment of intangibles	(155)	(121)	(3.2)	(90)	(61)
Amortisation and impairment of acquired value of in-force business ¹	(498)	(376)	(10.1)	(40)	(38)
Profit on disposal and remeasurement of subsidiaries, joint ventures and associates	2	2	0.1	174	170
Integration and restructuring costs and other	(432)	(301)	(8.0)	(140)	(130)
Profit attributable to ordinary shareholders from continuing operations	1,390	844	22.6	2,281	1,425
Profit attributable to ordinary shareholders from discontinued operations	—	—	—	58	58
Profit attributable to ordinary shareholders	1,390	844	22.6	2,339	1,483
					50.4

¹ Operating profit has been restated to exclude amortisation and impairment of acquired value of in-force business, which is now shown as a non-operating item. See note 1 for further details. There is no impact on the result or the total equity for any period presented as a result of this restatement.

² DCI includes the direct capital instrument and tier 1 notes

(iii) The calculation of basic earnings per share uses a weighted average of 3,741 million (2014: 2,943 million) ordinary shares in issue, after deducting treasury shares. The actual number of shares in issue at 31 December 2015 was 4,048 million (2014: 2,950 million) and 4,042 million (2014: 2,948 million) excluding treasury shares.

14 – Earnings per share continued

(b) Diluted earnings per share

(i) Diluted earnings per share is calculated as follows:

	2015			2014		
	Total £m	Weighted average number of shares million	Per share p	Total £m	Weighted average number of shares million	Per share p
Profit attributable to ordinary shareholders	844	3,741	22.6	1,425	2,943	48.4
Dilutive effect of share awards and options	—	39	(0.3)	—	44	(0.7)
Diluted earnings per share from continuing operations	844	3,780	22.3	1,425	2,987	47.7
Profit attributable to ordinary shareholders	—	3,741	—	58	2,943	2.0
Dilutive effect of share awards and options	—	39	—	—	44	(0.1)
Diluted earnings per share from discontinued operations	—	3,780	—	58	2,987	1.9
Diluted earnings per share	844	3,780	22.3	1,483	2,987	49.6

(ii) Diluted earnings per share on operating profit attributable to ordinary shareholders is calculated as follows:

	2015			Restated ¹ 2014	
	Total £m	Weighted average number of shares million	Per share p	Total £m	Weighted average number of shares million
Operating profit attributable to ordinary shareholders	1,841	3,741	49.2	1,421	2,943
Dilutive effect of share awards and options	—	39	(0.5)	—	44
Diluted operating profit per share from continuing operations	1,841	3,780	48.7	1,421	2,987
Operating profit attributable to ordinary shareholders	—	3,741	—	—	2,943
Dilutive effect of share awards and options	—	39	—	—	44
Diluted operating profit per share from discontinued operations	—	3,780	—	—	2,987
Diluted operating profit per share	1,841	3,780	48.7	1,421	2,987
					47.6

¹ Operating profit has been restated to exclude amortisation and impairment of acquired value of in-force business, which is now shown as a non-operating item. See note 1 for further details. There is no impact on the result or the total equity for any period presented as a result of this restatement.

15 – Dividends and appropriations

This note analyses the total dividends and other appropriations we paid during the year. The table below does not include the final dividend proposed after the year end because it is not accrued in these financial statements.

	2015 £m	2014 £m
Ordinary dividends declared and charged to equity in the year		
Final 2014 – 12.25 pence per share, paid on 15 May 2015	362	—
Final 2013 – 9.40 pence per share, paid on 16 May 2014	—	277
Interim 2015 – 6.75 pence per share, paid on 17 November 2015	273	—
Interim 2014 – 5.85 pence per share, paid on 17 November 2014	—	172
	635	449
Dividends waived/unclaimed returned to the Company	—	(3)
Preference dividends declared and charged to equity in the year	17	17
Coupon payments on the direct capital instruments and tier 1 notes	72	88
	724	551

Subsequent to 31 December 2015, the directors proposed a final dividend for 2015 of 14.05 pence per ordinary share (2014: 12.25 pence), amounting to £569 million (2014: £362 million) in total. Subject to approval by shareholders at the AGM, the dividend will be paid on 17 May 2016 and will be accounted for as an appropriation of retained earnings in the year ending 31 December 2016.

Interest on the direct capital instrument and tier 1 notes is treated as an appropriation of retained profits and, accordingly, is accounted for when paid. Tax relief is obtained at a rate of 20.25% (2014: 21.50%).

16 – Goodwill

This note analyses the changes to the carrying amount of goodwill during the year, and details the results of our impairment testing on both goodwill and intangible assets with indefinite lives.

(a) Carrying amount

	2015 £m	2014 £m
Gross amount		
At 1 January	1,503	1,770
Acquisitions and additions	694	3
Disposals	—	(191)
Movements in contingent consideration	—	(39)
Foreign exchange rate movements	(27)	(40)
At 31 December	2,170	1,503
Accumulated impairment		
At 1 January	(201)	(290)
Impairment losses charged to expenses	(22)	—
Disposals	—	73
Foreign exchange rate movements	8	16
At 31 December	(215)	(201)
Carrying amount at 1 January	1,302	1,480
Carrying amount at 31 December	1,955	1,302

Goodwill from acquisitions and additions primarily arose on the acquisition of Friends Life (£671 million), a network of independent financial advisors in Poland (£15 million) and a property fund in France (£5 million).

The total impairment of goodwill in subsidiaries, joint ventures and associates is a charge of £22 million as management determined that goodwill in subsidiaries of £13 million in Hong Kong and £9 million in Italy was impaired. Impairment tests on goodwill were conducted as described in note 16(b).

Movements in contingent consideration in 2014 relate to contingent consideration received in respect of acquisitions of subsidiaries made prior to 1 January 2010.

(b) Goodwill allocation and impairment testing

A summary of the goodwill and intangibles with indefinite useful lives allocated to cash generating units is presented below.

	Carrying amount of goodwill		Carrying amount of intangibles with indefinite useful lives (detailed in note 17)		Total	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
United Kingdom - long-term business	663	—	—	—	663	—
United Kingdom - general insurance and health	924	924	—	—	924	924
Ireland - general insurance and health	102	107	—	—	102	107
France - long-term business	5	—	46	48	51	48
Poland	23	8	6	—	29	8
Italy - long-term business	7	14	—	—	7	14
Italy - general insurance and health	24	28	—	—	24	28
Spain - long-term business	141	148	—	—	141	148
Canada	21	23	—	—	21	23
Asia	45	50	—	—	45	50
	1,955	1,302	52	48	2,007	1,350

Goodwill in all business units is tested for impairment by comparing the carrying value of the cash generating unit to which the goodwill relates, to the recoverable value of that cash generating unit. The recoverable amount is the value in use of the cash generating unit unless otherwise stated.

Long-term business

Value in use is calculated as an actuarially determined appraisal value, based on the embedded value of the business calculated in accordance with market consistent embedded value ('MCEV') principles, together with the present value of expected profits from future new business. If the embedded value of the business tested is sufficient to demonstrate goodwill recoverability on its own, then it is not necessary to estimate the present value of expected profits from future new business.

If required, the present value of expected profits arising from future new business written over a given period is calculated on an MCEV basis, using profit projections based on the most recent three year business plans approved by management. These plans reflect management's best estimate of future profits based on both historical experience and expected growth rates for the relevant cash generating unit. The underlying assumptions of these projections include market share, customer numbers, mortality, morbidity and persistency.

16 – Goodwill continued

Future new business profits for the remainder of the given period beyond the initial three years are extrapolated using a steady growth rate. Growth rates and expected future profits are set with regards to management estimates, past experience and relevant available market statistics.

Expected profits from future new business are discounted using a risk adjusted discount rate. The discount rate is a combination of a risk-free rate and a risk margin to make prudent allowance for the risk that experience in future years for new business may differ from that assumed.

Key Assumptions

	Embedded value basis		Future new business profits growth rate		Future new business profits discount rate	
	2015	2014	2015 %	2014 %	2015 %	2014 %
Italy long-term business	MCEV	MCEV	1.3	2.0	8.1	8.4
Spain long-term business	MCEV	MCEV	1.5	1.5	10.0	10.0

For the goodwill in the UK Life long-term business that arose on the Friends Life acquisition, the embedded value of the business was sufficient to demonstrate goodwill recoverability on its own. Therefore it was not necessary to estimate the present value of expected profits from future new business.

General insurance, health, fund management and other businesses

Value in use is calculated as the discounted value of expected future profits of each business. The calculation uses cash flow projections based on business plans approved by management covering a three year period. These plans reflect management's best estimate of future profits based on both historical experience and expected growth rates for the relevant cash generating unit. The underlying assumptions of these projections include market share, customer numbers, premium rate and fee income changes, claims inflation and commission rates.

Cash flows beyond that three year period are extrapolated using a steady growth rate. Growth rates and expected future profits are set with regards to past experience and relevant available market statistics.

Future profits are discounted using a risk adjusted discount rate.

Key assumptions

	Extrapolated future profits growth rate		Future profits discount rate	
	2015 %	2014 %	2015 %	2014 %
United Kingdom general insurance and health	1.3	1.3	6.4	6.7
Ireland general insurance and health	1.3 – 2.5	1.3	6.1	5.9
Italy general insurance and health	1.3	2.0	6.5 – 7.8	6.8 – 7.9

France – indefinite life intangible asset

The recoverable amount of the indefinite life intangible asset has been assessed based on the fair value less costs to sell of the cash generating unit to which it relates. The fair value less costs to sell was determined based on the quoted market value of Aviva's share of the subsidiary to which it relates.

Results of impairment testing

The goodwill associated with the Italian long-term and general insurance cash generating units was reviewed in the first half of the year due to prevailing economic conditions in Italy. As a result of revised estimates, management concluded that the goodwill was no longer fully recoverable. Impairments of £6 million and £3 million were recognised in the Italian long-term and general insurance cash generating units respectively reducing the carrying values to their recoverable amounts. Subsequently, management reviewed the goodwill at 31 December 2015 and concluded that no further impairment was required as the recoverable amount exceeded the carrying amount.

The goodwill of £13 million associated with Hong Kong was fully impaired in the first half of the year as management concluded that goodwill was no longer recoverable based on revised estimates.

Other than the cash generating units noted above, the recoverable amount exceeds the carrying value of the cash generating units including goodwill. Furthermore, a reasonably possible change in assumptions would not cause the carrying amount to exceed its recoverable amount.

17 – Acquired value of in-force business (AVIF) and intangible assets

This note shows the movements in cost, amortisation and impairment of the acquired value of in-force business and intangible assets during the year.

	AVIF on insurance contracts ¹ (a) £m	AVIF on investment contracts ² (a) £m	Other intangible assets with finite useful lives (b) £m	Intangible assets with indefinite useful lives (c) £m	Total £m
Gross amount					
At 1 January 2014	562	140	1,378	118	2,198
Additions	—	—	161	—	161
Disposals	(70)	(21)	(67)	—	(158)
Foreign exchange rate movements	(27)	(1)	(51)	(8)	(87)
At 31 December 2014	465	118	1,421	110	2,114
Additions	2,205	2,585	596	6	5,392
Disposals	(21)	—	(20)	—	(41)
Foreign exchange rate movements	(18)	—	(49)	(5)	(72)
At 31 December 2015	2,631	2,703	1,948	111	7,393
Accumulated amortisation					
At 1 January 2014	(383)	(78)	(433)	—	(894)
Amortisation for the year	(32)	(5)	(76)	—	(113)
Disposals	30	21	34	—	85
Foreign exchange rate movements	22	1	7	—	30
At 31 December 2014	(363)	(61)	(468)	—	(892)
Amortisation for the year	(259)	(237)	(131)	—	(627)
Disposals	21	—	13	—	34
Foreign exchange rate movements	15	—	12	—	27
At 31 December 2015	(586)	(298)	(574)	—	(1,458)
Accumulated Impairment					
At 1 January 2014	(85)	(24)	(61)	(66)	(236)
Impairment losses charged to expenses	—	—	(10)	—	(10)
Disposals	40	—	6	—	46
Foreign exchange rate movements	2	—	—	4	6
At 31 December 2014	(43)	(24)	(65)	(62)	(194)
Impairment losses charged to expenses	—	—	(18)	—	(18)
Disposals	—	—	5	—	5
Foreign exchange rate movements	—	—	—	3	3
At 31 December 2015	(43)	(24)	(78)	(59)	(204)
Carrying amount					
At 1 January 2014	94	38	884	52	1,068
At 31 December 2014	59	33	888	48	1,028
At 31 December 2015	2,002	2,381	1,296	52	5,731

1 On insurance and participating investment contracts.

2 On non-participating investment contracts.

- (a) Additions relate to the acquisition of Friends Life. AVIF on insurance and investment contracts is generally recoverable in more than one year. Of the total AVIF of £4,383 million (£2,002 million on insurance contracts, £2,381 million on investment contracts), £3,962 million is expected to be recovered more than one year after the statement of financial position date. Non-participating investment contract AVIF is reviewed for evidence of impairment, consistent with reviews conducted for other finite life intangible assets. Insurance and participating investment contract AVIF is reviewed for impairment at each reporting date as part of the liability adequacy requirements of IFRS 4. AVIF is reviewed for evidence of impairment and impairment tested at product portfolio level by reference to the value of future profits. No impairment charges for AVIF were recognised in the year.
- (b) Other intangible assets with finite useful lives consist mainly of the value of bancassurance and other distribution agreements and capitalised software. Additions of intangibles with finite lives primarily relate to distribution agreements and customer lists acquired as part of Friends Life and capitalised software in the UK and Canadian general insurance businesses. Disposals primarily comprise the derecognition of exhausted assets which are fully amortised or impaired with nil carrying value. Impairment losses on intangible assets with finite lives of £18 million arose from impairments of capitalised software in the UK long-term business and Aviva Investors.
- (c) Intangible assets with indefinite useful lives primarily comprise the value of the Union Financière de France Banque distribution channel, where the existing lives of the assets and their competitive position in, and the stability of, their respective markets support this classification. Impairment testing of these intangible assets is covered in note 16(b).

18 – Interests in, and loans to, joint ventures

In several businesses, Group companies and other parties jointly control certain entities. This note analyses these interests and describes the principal joint ventures in which we are involved.

(a) Carrying amount and details of joint ventures

(i) The movements in the carrying amount comprised:

	2015				2014			
	Goodwill and intangibles £m	Equity interests £m	Loans £m	Total £m	Goodwill and intangibles £m	Equity interests £m	Loans £m	Total £m
At 1 January	87	980	73	1,140	60	1,145	24	1,229
Share of results before tax	—	174	—	174	—	138	—	138
Share of tax	—	(4)	—	(4)	—	(3)	—	(3)
Share of results after tax	—	170	—	170	—	135	—	135
Amortisation of intangibles ¹	(8)	—	—	(8)	(6)	—	—	(6)
Share of (loss)/profit after tax	(8)	170	—	162	(6)	135	—	129
Reclassification (to)/from subsidiary	—	(1)	—	(1)	43	21	—	64
Reclassification from associate	—	9	—	9	—	—	—	—
Additions	21	587	21	629	—	7	73	80
Disposals	—	(292)	—	(292)	—	(311)	—	(311)
Reduction in Group interest	(1)	(1)	—	(2)	(10)	(26)	—	(36)
Share of gains/(losses) taken to other comprehensive income	—	(14)	—	(14)	—	22	—	22
Loans repaid	—	—	—	—	—	—	(25)	(25)
Dividends received from joint ventures	—	(28)	—	(28)	—	(22)	—	(22)
Foreign exchange rate movements	(9)	(4)	—	(13)	—	9	1	10
At 31 December	90	1,406	94	1,590	87	980	73	1,140

¹ Comprises amortisation of AVIF on insurance contracts of £2 million (2014: £3 million) and other intangibles of £6 million (2014: £3 million).

Additions and disposals primarily relate to the Group's holdings in property management undertakings.

The Group also increased its holdings in two Polish operations from 34% to 51%, as a result of which the entities have been reclassified from associates to joint ventures reflecting the Group's joint control. This transaction gave rise to £21 million of additions to goodwill and intangibles.

Reduction in Group interest in 2015 relates to the sale of a 1.28% share in our life operations in Turkey AvivaSA Emeklilik ve Hayat A.S.

The Group's share of total comprehensive income related to joint venture entities is £148 million (2014: £151 million).

(ii) The carrying amount at 31 December comprised:

	2015				2014			
	Goodwill and intangibles £m	Equity interests £m	Loans £m	Total £m	Goodwill and intangibles £m	Equity interests £m	Loans £m	Total £m
Property management undertakings	—	1,097	94	1,191	—	692	73	765
Long-term business undertakings	77	288	—	365	87	278	—	365
General insurance and health undertakings	13	21	—	34	—	10	—	10
Total	90	1,406	94	1,590	87	980	73	1,140

The property management undertakings perform property ownership and management activities, and are incorporated and operate in the UK. All such investments are held by subsidiary entities. The loans are not secured and no guarantees were received in respect thereof. They are interest-bearing and are repayable on termination of the relevant partnership.

The long-term business undertakings perform life insurance activities. All investments in such undertakings are unlisted with the exception of Aviva SA Emeklilik ve Hayat A.S. which has issued publicly a minority portion of shares. All investments in such undertakings are held by subsidiaries, except for the shares in the Chinese joint venture, Aviva-COFCO Life Insurance Co. Limited, which are held by Aviva plc. The Group's share of net assets of that company is £214 million (2014: £208 million) and has a fair value of £322 million (2014: £208 million).

The investment in general insurance and health undertakings relates to the health insurance operations in our Indonesian joint venture and the general insurance operations in our Polish joint venture.

18 – Interests in, and loans to, joint ventures continued

(iii) No joint ventures are considered to be material from a Group perspective (2014: *none*). The Group's principal joint ventures are as follows:

Name	Nature of activities	Principal place of business	Proportion of ownership interest	
			2015	2014
Airport Property Partnership	Property management	UK	50.00%	50.00%
Ascot Real Estate Property LP	Property management	UK	50.00%	—
2-10 Mortimer Limited Partnership	Property management	UK	50.00%	45.54%
BZ WBK-Aviva Towarzystwo Ubezpieczen Ogolnych SA ¹	General insurance	Poland	51.00%	34.00%
BZ WBK-Aviva Towarzystwo Ubezpieczen na Zycie SA ¹	Life insurance	Poland	51.00%	34.00%
Aviva-COFCO Life Insurance Co. Ltd	Life insurance	China	50.00%	50.00%
PT Astra Aviva Life	Life and Health insurance	Indonesia	50.00%	50.00%
First-Aviva Life Insurance Co. Ltd	Life insurance	Taiwan	49.00%	49.00%
AvivaSA Emeklilik ve Hayat A.S	Life insurance	Turkey	40.00%	41.28%
Vietinbank Aviva Life Insurance Co. Ltd	Life insurance	Vietnam	50.00%	50.00%

¹ During 2015, the Group increased its interest in Poland and the associate holdings were reclassified to joint ventures reflecting the Group's joint control.

The Group has one joint venture whose non-controlling interest (NCI) is material on the basis of their share of profit/(loss), as follows:

	Proportion of ownership interests held by NCI		Proportion of voting rights held by NCI		Profit/(loss) allocated to NCI		Accumulated NCI	
	2015	2014	2015	2014	2015 £m	2014 £m	2015 £m	2014 £m
Airport Property Partnership	50%	50 %	50%	50%	77	53	324	258

(iv) The joint ventures have no significant contingent liabilities to which the Group is exposed. The Group has commitments to provide funding to property management joint ventures of £47 million (2014: £70 million).

In certain jurisdictions the ability of joint ventures to transfer funds in the form of cash dividends or to repay loans and advances made by the Group is subject to local corporate or insurance laws and regulations and solvency requirements.

b) Impairment testing

Joint ventures are tested for impairment by comparing the carrying value of the cash generating unit to which the goodwill or intangible relates to the recoverable value of that cash generating unit.

The recoverable amount of long-term business undertakings is the value in use of the joint venture. This is calculated according to the methodology for the calculation of the value in use of long-term business cash generating units for the impairment testing of goodwill, as set out in note 16(b).

The recoverable amount of property management undertakings is the fair value less costs to sell of the joint venture, measured in accordance with the Group's accounting policy for Investment Property (see accounting policy Q).

There is no impairment in the goodwill and intangible amounts within the joint ventures.

19 – Interests in, and loans to, associates

This note analyses our interests in entities which we do not control but where we have significant influence.

(a) Carrying amount and details of associates

(i) The movements in the carrying amount comprised:

	2015				2014			
	Goodwill and intangibles £m	Equity interests £m	Loans £m	Total £m	Goodwill and intangibles £m	Equity interests £m	Loans £m	Total £m
At 1 January	—	404	—	404	—	262	5	267
Share of results before tax	—	18	—	18	—	44	—	44
Share of tax	—	—	—	—	—	(2)	—	(2)
Share of results after tax	—	18	—	18	—	42	—	42
Impairment	—	—	—	—	(24)	—	—	(24)
Share of results after tax	—	18	—	18	(24)	42	—	18
Acquisitions	—	4	—	4	—	—	—	—
Additions	26	6	—	32	24	34	—	58
Loans repaid by associate	—	—	—	—	—	—	(8)	(8)
Reduction in Group interest	—	(94)	—	(94)	—	(43)	—	(43)
Reclassification from subsidiary	—	—	—	—	—	125	—	125
Reclassification from investment	—	—	—	—	—	25	—	25
Reclassification to joint venture	—	(9)	—	(9)	—	—	—	—
Dividends received from associate	—	(17)	—	(17)	—	(30)	—	(30)
Foreign exchange rate movements	—	(9)	—	(9)	—	(11)	3	(8)
Movements in carrying amount	26	(101)	—	(75)	—	142	(5)	137
At 31 December	26	303	—	329	—	404	—	404

b) Impairment testing

The addition of goodwill relates to Aviva Life Insurance Company India Limited ('Aviva India'). There is no impairment of goodwill in 2015 (2014: £24 million).

The recoverable amount of property management undertakings is the fair value less costs to sell of the associate, measured in accordance with the Group's accounting policy for Investment Property (see accounting policy Q).

Other movements

Additions of equity interests and reduction in Group interests relate to the purchase and sale of portions of the Group's holdings in various property management undertakings.

Reclassification to joint venture relates to the increase in the Group's interest in Poland from an associate.

The Group's share of total comprehensive income related to associates is £18 million (2014: £18 million).

(i) No associates are considered to be material from a Group perspective (2014: none). All investments in principal associates are held by subsidiaries. The Group's principal associates are as follows:

Name	Nature of activities	Principal place of business	Proportion of ownership interest	
			2015	2014
Aviva Life Insurance Company India	Life insurance	India	26.00%	26.00%
SCPI Ufifrance Immobilier	Property Management	France	20.40%	20.40%
AI UK Commercial Real Estate Debt Fund	Property Management	UK	20.72%	26.33%
Encore+ ¹	Property Management	UK	10.19%	10.82%

1 The Group has significant influence over Encore+ and it is therefore accounted for as an associate.

(ii) The associates have no significant contingent liabilities to which the Group is exposed. The Group has commitments to provide funding to property management associates of £15 million (2014: £21 million).

In certain jurisdictions the ability of associates to transfer funds in the form of cash dividends or to repay loans and advances made by the Group is subject to local corporate or insurance laws and regulations and solvency requirements.

20 – Property and equipment

This note analyses our property and equipment, which are primarily properties occupied by Group companies.

	Properties under construction £m	Owner-occupied properties £m	Motor vehicles £m	Computer equipment £m	Other assets £m	Total £m
Cost or valuation						
At 1 January 2014	8	258	3	596	166	1,031
Additions	—	100	—	9	7	116
Disposals	(13)	(4)	—	(39)	(5)	(61)
Transfers to investment property (note 21)	—	—	—	—	—	—
Fair value gains	5	4	—	—	—	9
Foreign exchange rate movements	—	(15)	—	(3)	(9)	(27)
At 31 December 2014	—	343	3	563	159	1,068
Additions	3	53	—	8	30	94
Disposals ¹	—	(51)	—	(300)	(2)	(353)
Transfers (to)/from investment property (note 21)	—	(13)	—	—	55	42
Fair value gains	—	39	—	—	—	39
Foreign exchange rate movements	—	(11)	—	(4)	(6)	(21)
At 31 December 2015	3	360	3	267	236	869
Depreciation and impairment						
At 1 January 2014	—	(1)	(2)	(569)	(146)	(718)
Charge for the year	—	—	—	(13)	(6)	(19)
Disposals	—	—	—	37	5	42
Impairment charge	—	(26)	—	—	—	(26)
Foreign exchange rate movements	—	—	—	5	5	10
At 31 December 2014	—	(27)	(2)	(540)	(142)	(711)
Charge for the year	—	—	—	(11)	(13)	(24)
Disposals ¹	—	4	—	300	2	306
Impairment charge	—	—	—	—	—	—
Foreign exchange rate movements	—	—	—	3	6	9
At 31 December 2015	—	(23)	(2)	(248)	(147)	(420)
Carrying amount						
At 31 December 2014	—	316	1	23	17	357
At 31 December 2015	3	337	1	19	89	449

¹ Disposals of computer equipment primarily comprise exhausted assets within Aviva Corporate Services.

Total net fair value gains of £39 million on owner occupied properties consist of £27 million gains (2014: £7 million gains) which have been taken to other comprehensive income, £13 million reversal of losses taken to the income statement in previous years and £1 million of losses in the year (2014: £3 million losses) which have been taken to the income statement.

Owner-occupied properties are stated at their revalued amounts, as assessed by qualified external valuers. These values are assessed in accordance with the relevant parts of the current Royal Institute of Chartered Surveyors Appraisal and Valuation Standards in the UK, and with current local valuation practices in other countries. This assessment is in accordance with UK Valuations Standards ('Red book'), and is the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction, after proper marketing wherein the parties had acted knowledgeably and without compulsion, on the basis of the highest and best use of asset that is physically possible, legally permissible and financially feasible. The valuation assessment adopts market-based evidence and is in line with guidance from the International Valuation Standards Committee and the requirements of IAS 16, *Property, Plant and Equipment*.

Similar considerations apply to properties under construction, where an estimate is made of valuation when complete, adjusted for anticipated costs to completion, profit and risk, reflecting market conditions at the valuation date.

If owner-occupied properties were stated on a historical cost basis, the carrying amount would be £361 million (2014: £329 million).

The Group has no material finance leases for property and equipment.

21 – Investment property

This note gives details of the properties we hold for long-term rental yields or capital appreciation.

	2015			2014		
	Freehold £m	Leasehold £m	Total £m	Freehold £m	Leasehold £m	Total £m
Carrying value						
At 1 January	7,521	1,404	8,925	8,207	1,244	9,451
Additions ¹	2,813	685	3,498	606	56	662
Capitalised expenditure on existing properties	94	22	116	57	6	63
Fair value gains/(losses)	638	140	778	545	133	678
Disposals	(1,549)	(318)	(1,867)	(1,733)	(29)	(1,762)
Transfers (to)/from property and equipment (note 20)	(42)	—	(42)	—	—	—
Foreign exchange rate movements	(103)	(4)	(107)	(161)	(6)	(167)
At 31 December	9,372	1,929	11,301	7,521	1,404	8,925

¹ Additions include investment property bought as part of the acquisition of Friends Life in 2015.

Please refer to note 22 'Fair value methodology' for further information on the fair value measurement and valuation techniques of investment property.

The fair value of investment properties leased to third parties under operating leases at 31 December 2015 was £11,149 million (*2014: £8,828 million*). Future contractual aggregate minimum lease rentals receivable under the non-cancellable portion of these leases are given in note 53(b)(i).

22 – Fair value methodology

This note explains the methodology for valuing our assets and liabilities measured at fair value, and for fair value disclosures. It also provides an analysis of these according to a 'fair value hierarchy', determined by the market observability of valuation inputs.

(a) Basis for determining fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the 'fair value hierarchy' described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1

Inputs to Level 1 fair values are quoted prices (unadjusted) in active markets for identical assets and liabilities that the entity can access at the measurement date.

Level 2

Inputs to Level 2 fair values are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the instrument. Level 2 inputs include the following:

- Quoted prices for similar assets and liabilities in active markets.
- Quoted prices for identical or similar assets and liabilities in markets that are not active, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly.
- Inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, implied volatilities, and credit spreads).
- Market-corroborated inputs.

Where we use broker quotes and no information as to the observability of inputs is provided by the broker, the investments are classified as follows:

- Where the broker price is validated by using internal models with market observable inputs and the values are similar, we classify the investment as Level 2.
- In circumstances where internal models are not used to validate broker prices, or the observability of inputs used by brokers is unavailable, the investment is classified as Level 3.

Level 3

Inputs to Level 3 fair values are unobservable inputs for the asset or liability. Unobservable inputs may have been used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability.

Therefore, unobservable inputs reflect the assumptions the business unit considers that market participants would use in pricing the asset or liability. Examples are investment properties, certain private equity investments and private placements.

22 – Fair value methodology continued

The majority of the Group's assets and liabilities measured at fair value are based on quoted market information or observable market data. 16.1% of assets and 4.2% of liabilities measured at fair value are based on estimates and recorded as Level 3. Where estimates are used, these are based on a combination of independent third-party evidence and internally developed models, calibrated to market observable data where possible. Third-party valuations using significant unobservable inputs validated against Level 2 internally modelled valuations are classified as Level 3, where there is a significant difference between the third-party price and the internally modelled value. Where the difference is insignificant, the instrument would be classified as Level 2.

(b) Changes to valuation techniques

There were no changes in the valuation techniques during the year compared to those described in the 2014 annual consolidated financial statements, other than those noted below.

(c) Comparison of the carrying amount and fair values of financial instruments

Set out below is a comparison of the carrying amounts and fair values of financial assets and liabilities. These amounts may differ where the asset or liability is carried on a measurement basis other than fair value, e.g. amortised cost.

	2015		2014	
	Fair value £m	Carrying amount £m	Fair value £m	Carrying amount £m
Financial assets				
Loans ¹ (note 23 (a))	22,307	22,433	25,135	25,260
Financial Investments (note 26 (b))	274,217	274,217	202,638	202,638
Fixed maturity securities	162,964	162,964	131,661	131,661
Equity securities	63,558	63,558	35,619	35,619
Other investments (including derivatives)	47,695	47,695	35,358	35,358
Financial liabilities				
Non-participating investment contracts (note 41(a))	103,125	103,125	50,013	50,013
Net asset value attributable to unitholders	11,415	11,415	9,482	9,482
Borrowings ¹ (note 49 (a))	9,091	8,770	8,080	7,378
Derivative liabilities (note 58 (b))	3,881	3,881	3,481	3,481

¹ Within the fair value total, the estimated fair value has been provided for the portion of loans and borrowings that are carried at amortised cost as disclosed in note 22 (h).

Fair value of the following assets and liabilities approximate to their carrying amounts:

- Receivables
- Cash and cash equivalents
- Payables and other financial liabilities

(d) Fair value hierarchy analysis

An analysis of assets and liabilities measured at amortised cost and fair value categorised by fair value hierarchy is given below.

2015	Fair value hierarchy					
	Level 1 £m	Level 2 £m	Level 3 £m	Sub-total fair value £m	Amortised cost £m	Total carrying value £m
Recurring fair value measurements						
Investment Property (note 21)	—	—	11,301	11,301	—	11,301
Loans (note 23 (a))	—	950	18,129	19,079	3,354	22,433
Financial investments measured at fair value (note 26 (b))						
Fixed maturity securities	89,158	59,203	14,603	162,964	—	162,964
Equity securities	62,622	—	936	63,558	—	63,558
Other investments (including derivatives)	39,485	4,057	4,153	47,695	—	47,695
Total	191,265	64,210	49,122	304,597	3,354	307,951
Financial liabilities measured at fair value						
Non-participating investment contracts ¹ (note 41(a))	99,459	245	3,421	103,125	—	103,125
Net asset value attributable to unit holders	11,393	—	22	11,415	—	11,415
Borrowings (note 49 (a))	—	781	527	1,308	7,462	8,770
Derivative liabilities (note 58 (b))	304	2,484	1,093	3,881	—	3,881
Total	111,156	3,510	5,063	119,729	7,462	127,191

¹ In addition to the balances in this table, included within Reinsurance assets in the Statement of financial position and note 43 are £13,967 million of non-participating investment contracts, which are legally reinsurance but do not meet the definition of a reinsurance contract under IFRS. These assets are financial instruments measured at fair value through profit and loss and are classified as Level 1 assets.

22 – Fair value methodology continued

	Fair value hierarchy			
	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
2015				
Non-recurring fair value measurement¹				
Properties occupied by group companies	—	—	337	337
Total	—	—	337	337

¹ Non-recurring fair value measurements of assets or liabilities are those fair value measurements that other IFRSs permit or require in particular circumstances.

Owner-occupied properties are stated at their revalued amounts, as assessed by qualified external valuers in line with the Group's policy. Further details on the valuation of these properties can be found in note 20.

	Fair value hierarchy				Amortised cost £m	Total carrying value £m
	Level 1 £m	Level 2 £m	Level 3 £m	Sub-total fair value £m		
2014						
Recurring fair value measurements						
Investment Property (note 21)	—	—	8,925	8,925	—	8,925
Loans (note 23 (a))	—	3,895	17,000	20,895	4,365	25,260
Financial investments measured at fair value (note 26 (b))						
Fixed maturity securities	75,078	45,274	11,309	131,661	—	131,661
Equity securities	35,460	—	159	35,619	—	35,619
Other investments (including derivatives)	25,139	7,153	3,066	35,358	—	35,358
Total	135,677	56,322	40,459	232,458	4,365	236,823
Financial liabilities measured at fair value						
Non-participating investment contracts ¹ (note 41(a))	49,791	222	—	50,013	—	50,013
Net asset value attributable to unit holders	9,463	—	19	9,482	—	9,482
Borrowings (note 49 (a))	—	812	560	1,372	6,006	7,378
Derivative liabilities (note 58 (b))	180	2,310	991	3,481	—	3,481
Total	59,434	3,344	1,570	64,348	6,006	70,354

¹ In addition to the balances in this table, included within Reinsurance assets in the Statement of financial position and note 43 are £2,533 million of non-participating investment contracts, which are legally reinsurance but do not meet the definition of a reinsurance contract under IFRS. These assets are financial instruments measured at fair value through profit and loss and are classified as level 1 assets.

	Fair value hierarchy				Total fair value £m
	Level 1 £m	Level 2 £m	Level 3 £m	Sub-total fair value £m	
2014					
Non-recurring fair value measurement¹					
Properties occupied by group companies	—	—	316	316	316
Total	—	—	316	316	316

¹ Non-recurring fair value measurements of assets or liabilities are those fair value measurements that other IFRSs permit or require in particular circumstances.

(e) Transfers between levels of the fair value hierarchy

For financial instruments that are recognised at fair value on a recurring basis, the Group determines whether transfers have occurred between levels of the fair value hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of the reporting period.

Transfers between Level 1 and Level 2

For the year ended 31 December 2015, changes in the level of market activity for certain investments funds have resulted in transfers of financial assets from Level 1 to Level 2 of £0.1 billion and transfers from Level 2 to Level 1 of approximately £20 million.

Transfer to/from Level 3

Transfers out of Level 3 of £0.6 billion relate principally to debt securities held by our businesses in the UK and France which were transferred to Level 2 as observable inputs became available.

Transfers of assets into Level 3 of £4.3 billion included:

- £2.9 billion of Primary Healthcare, Private Finance Initiative (PFI) and infrastructure loans. During the year, these loans were valued using a Portfolio Credit Risk Model in place of the previous discounted cash flow model. As the liquidity premium input in this model has been deemed to be non-market observable and significant, the loans have been classified as Level 3 and transferred from Level 2.
- £0.9 billion of debt securities held in the UK and £0.3 billion held in France were transferred from Level 2 due to the unavailability of significant observable market data or sufficiently significant differences between the valuation provided by the counterparty and broker quotes and the validation models.
- The remaining £0.2 billion relate to assets transferred into Level 3 from Level 1 and Level 2 as observable prices are no longer available.

Transfers of liabilities into and out of Level 3 (£(62) million and £13 million respectively) relate to non-participating investment contract liabilities where the underlying assets have been transferred due to a change in the observability of the inputs.

22 – Fair value methodology continued

(f) Valuation approach for fair value assets and liabilities classified as Level 2

Please see note 22(a) for a description of typical Level 2 inputs.

Debt securities, in line with market practice, are generally valued using an independent pricing service. These valuations are determined using independent external quotations from multiple sources and are subject to a number of monitoring controls, such as monthly price variances, stale price reviews and variance analysis. Pricing services, where available, are used to obtain the third-party broker quotes. Where pricing services providers are used, a single valuation is obtained and applied. When prices are not available from pricing services, quotes are sourced from brokers.

Over the counter derivatives are valued using broker quotes or models such as option pricing models, simulation models or a combination of models. The inputs for these models include a range of factors which are deemed to be observable, including current market and contractual prices for underlying instruments, period to maturity, correlations, yield curves and volatility of the underlying instruments.

Unit Trusts and other investment funds included under the Other investments category are valued using net assets values which are not subject to a significant adjustment for restrictions on redemption or for limited trading activity.

(g) Further information on Level 3 assets and liabilities:

The table below shows movement in the Level 3 assets and liabilities measured at fair value:

	Assets							Liabilities	
	Investment Property £m	Loans £m	Debt securities £m	Equity securities £m	Other investments (including derivatives) £m	Financial assets of operations classified as held for sale £m	Non participating investment contracts £m	Net asset value attributable to unitholders £m	Derivative liabilities £m
2015									
Opening balance at 1 January 2015	8,925	17,000	11,309	159	3,066	—	—	(19)	(991)
Total net gains/(losses) recognised in the income statement ¹	898	(467)	172	29	236	—	42	4	26
Purchases ²	3,627	—	4,909	993	2,227	—	(3,644)	(5)	(145)
Issuances	—	2,464	—	—	—	—	(79)	(2)	—
Disposals	(2,042)	(2,275)	(1,916)	(242)	(1,373)	—	253	—	16
Settlements ³	—	(1,461)	(161)	—	—	—	69	—	92
Transfers into Level 3	—	2,868	1,302	6	75	—	(62)	—	—
Transfers out of Level 3	—	—	(624)	(2)	(22)	—	13	—	—
Foreign exchange rate movements	(107)	—	(388)	(7)	(56)	—	(13)	—	1
Balance at 31 December 2015	11,301	18,129	14,603	936	4,153	—	(3,421)	(22)	(1,093)
									(527)

1 Total net gains/(losses) recognised in the income statement includes realised gains/(losses) on disposals.

2 Purchases include Friends Life's Level 3 assets and liabilities at the date of acquisition.

3 Settlements include effective settlements of Group holdings.

	Assets							Liabilities	
	Investment Property £m	Loans £m	Debt securities £m	Equity securities £m	Other investments (including derivatives) £m	Financial assets of operations classified as held for sale £m	Non participating investment contracts £m	Net asset value attributable to unitholders £m	Derivative liabilities £m
2014									
Opening balance at 1 January 2014	9,451	15,362	8,879	441	3,017	148	—	—	(201)
Total net gains/(losses) recognised in the income statement ¹	727	829	209	(2)	74	—	—	—	(135)
Purchases	725	1,675	1,550	28	1,017	—	—	—	(400)
Issuances	—	—	—	—	—	—	—	—	(20)
Disposals	(1,811)	(1,049)	(1,482)	(292)	(998)	(148)	—	—	56
Settlements	—	—	—	—	—	—	—	—	—
Transfers into Level 3	—	183	3,169	2	19	—	—	(19)	(292)
Transfers out of Level 3	—	—	(469)	—	—	—	—	—	2
Foreign exchange rate movements	(167)	—	(547)	(18)	(63)	—	—	—	1
Balance at 31 December 2014	8,925	17,000	11,309	159	3,066	—	—	(19)	(991)
									(560)

1 Total net gains/(losses) recognised in the income statement includes realised gains/(losses) on disposals.

Total net gains recognised in the income statement in the year ended 31 December 2015 in respect of Level 3 assets measured at fair value amounted to £868 million (2014: net gains of £1,837 million) with net gains in respect of liabilities of £12 million (2014: net losses of £227 million). £901 million of net gains (2014: net gains of £1,733 million) attributable to assets and £27 million net gains (2014: net losses of £227 million) attributable to liabilities relate to those still held at the end of the year.

22 – Fair value methodology continued

The principal assets classified as Level 3, and the valuation techniques applied to them, are described below.

(i) Investment property

- Investment property amounting to £11.3 billion (2014: £8.9 billion) is valued in the UK at least annually by external chartered surveyors in accordance with guidance issued by The Royal Institution of Chartered Surveyors, and using estimates during the intervening period. Outside the UK, valuations are produced by external qualified professional appraisers in the countries concerned. Investment properties are valued on an income approach that is based on current rental income plus anticipated uplifts at the next rent review, lease expiry, or break option taking into consideration lease incentives and assuming no further growth in the estimated rental value of the property. The uplift and discount rates are derived from rates implied by recent market transactions on similar properties. These inputs are deemed unobservable.

(ii) Loans

- Commercial mortgage loans, Primary Healthcare, Infrastructure and PFI loans held by our UK Life business amounting to £10.8 billion (2014: £10.4 billion), were valued using a Portfolio Credit Risk Model (PCRM). This model calculates a Credit Risk Adjusted Value (CRAV) for each loan. The risk adjusted cash flows are discounted using a yield curve, taking into account the term dependent gilt yield curve, and global assumptions for the liquidity premium. Loans valued using this model have been classified as Level 3 as the liquidity premium is deemed to be non-market observable. The liquidity premium used in the discount rate ranges between 110 bps to 280 bps.
- Equity release and securitised mortgage loans held by our UK Life business amounting to £6.7 billion (2014: £5.9 billion) comprise:
 - £4.3 billion (2014: £3.6 billion) of equity release mortgages held by our UK Life annuity business valued using an internal model. Inputs to the model include property growth rates, mortality and morbidity assumptions, cost of capital and liquidity premium which are not deemed to be market observable. The assumed property growth is approximately 2% per annum.
 - £2.4 billion (2014: £2.3 billion) of securitised and equity release mortgages are valued using a discounted cash flow model. The inputs include liquidity risk and property risk premium which are deemed unobservable. The liquidity premium used ranges between 158 bps to 185 bps.
- Collateralised non-recourse loans of £0.6 billion (2014: £0.5 billion) have been valued using internally developed models incorporating a significant number of modelling assumptions including the probability of counterparty default and the expected loss in the event of counterparty default. These inputs are deemed unobservable.

(iii) Debt securities

- Privately placed notes held by our UK Life business of £3.3 billion (2014: £1.8 billion) have been valued using broker quotes or a discounted cash flow model using discount factors based on swap curves of similar maturity, plus internally derived spreads for credit risk. As these spreads have been deemed to be unobservable these notes have been classified as Level 3.
- Structured bond-type and non-standard debt products held by our business in France amounting to £5.8 billion (2014: £7.4 billion) and bonds held by our UK business of £2.2 billion (2014: £1.0 billion) have no active market. These debt securities are valued either using counterparty or broker quotes and validated against internal or third-party models. These bonds have been classified as Level 3 because either (i) the third-party models included a significant unobservable liquidity adjustment, or (ii) differences between the valuation provided by the counterparty and broker quotes and the validation model were sufficiently significant to result in a Level 3 classification.
- Collateralised loan obligations of £0.4 billion (2014: £0.4 billion) have been valued using internally developed discounted cash flow models incorporating a significant number of modelling assumptions and unobservable market data including assumptions regarding correlation among the underlying loans, a probability of default and liquidity premium.
- Corporate debt securities held by our French business of £1.5 billion (2014: £0.3 billion) and debt securities of £0.9 billion held by our UK and Asia businesses (2014: £nil) which are not traded in an active market have been valued using third party or counterparty valuations. These prices are considered to be unobservable due to infrequent market transactions.

(iv) Equity securities

- Equity securities which primarily comprise private equity holdings of £0.8 billion (2014: £0.1 billion) held in the UK are valued by a number of third party specialists. These are valued using a range of techniques, including earnings multiples, forecast cash flows and price/earnings ratios which are deemed to be unobservable.

(v) Other investments

- The following Other investments are valued based on external valuation reports received from fund managers:
 - Private equity investment funds amounting to £1.4 billion (2014: £1.0 billion);
 - Other investment funds including property funds amounting to £1.0 billion (2014: £0.5 billion);
 - External hedge funds held principally by businesses in the UK and France amounting to £0.5 billion (2014: £1.2 billion); and
 - Discretionary managed funds held in Asia amounting to £1.2 billion (2014: £nil);

Where these valuations are at a date other than balance sheet date, as in the case of some private equity funds, we make adjustments for items such as subsequent draw-downs and distributions and the fund manager's carried interest.

Remaining Level 3 investments amount to £0.7 billion (2014: £1.1 billion) within debt securities, equity securities and other investments held by a number of businesses throughout the Group.

22 – Fair value methodology continued

Where possible, the Group tests the sensitivity of the fair values of Level 3 investments to changes in unobservable inputs to reasonable alternatives. Valuations for Level 3 investments are sourced from independent third parties when available and, where appropriate, validated against internally-modelled valuations, third-party models or broker quotes. Where third-party pricing sources are unwilling to provide a sensitivity analysis for their valuations, the Group undertakes, where feasible, sensitivity analysis on the following basis:

- For third-party valuations validated against internally-modelled valuations using significant unobservable inputs, the sensitivity of the internally modelled valuation to changes in unobservable inputs to a reasonable alternative is determined.
- For third-party valuations either not validated or validated against a third-party model or broker quote, the third-party valuation in its entirety is considered an unobservable input. Sensitivities are determined by flexing inputs of internal models to a reasonable alternative, including the yield, NAV multiple or other suitable valuation multiples of the financial instrument implied by the third-party valuation. For example, for a fixed income security the implied yield would be the rate of return which discounts the security's contractual cash flows to equal the third-party valuation.

On the basis of the methodology outlined above, the Group is able to perform sensitivity analysis for £49.0 billion of the Group's Level 3 assets. For these Level 3 assets, changing unobservable valuation inputs to a reasonable alternative would result in a change in fair value by + £2.0 billion / – £2.1 billion. Of the £0.1 billion Level 3 assets for which sensitivity analysis is not provided, it is estimated that a 10% change in valuation assumptions downwards of these assets would result in a change in fair value of approximately £10 million.

(vi) Liabilities

The principal liabilities classified as Level 3, and the valuation techniques applied to them, are:

- £3.4 billion (2014: £nil) of non-participating investment contract liabilities are classified as Level 3, either because the underlying unit funds are classified as Level 3 or because the liability relates to unfunded units or other non-unit adjustments which are based on a discounted cash flow analysis using unobservable market data and assumptions.
- Derivative liabilities of £0.9 billion (2014: £1.0 billion) comprising over-the-counter derivatives such as credit default swaps and inflation swaps. These swaps are valued using either discounted cash flow models or other valuation models. Cash flows within these models may be adjusted based on assumptions reflecting the underlying credit risk and liquidity risk and these assumptions are deemed to be non-market observable.
- £0.5 billion (2014: £0.6 billion) of securitised mortgage loan notes, presented within Borrowings, are valued using a similar technique to the related Level 3 securitised mortgage assets.
- Remaining Level 3 liabilities amount to £0.3 billion (2014: £nil) and relate to a range of liabilities held by a number of businesses throughout the Group.

Where possible, the Group tests the sensitivity of the fair values of Level 3 liabilities to changes in unobservable inputs to reasonable alternatives. Sensitivities are determined by flexing inputs of internal models to a reasonable alternative, including the yield, NAV multiple or other suitable valuation multiples of the financial instrument implied by the third-party valuation.

On the basis of the methodology outlined above, the Group is able to perform sensitivity analysis for £5.1 billion of the Group's Level 3 liabilities. For these Level 3 liabilities, changing unobservable valuation inputs to a reasonable alternative would result in a change in fair value by approximately ± £0.5 billion.

(h) Assets and liabilities not carried at fair value for which fair value is disclosed

The table below shows the fair value and fair value hierarchy for those assets and liabilities not carried at fair value.

	Fair value hierarchy			Total fair value £m
	Level 1 £m	Level 2 £m	Level 3 £m	
2015				
Asset and liabilities not carried at fair value				
Loans	—	1,046	2,181	3,227
Borrowings	7,295	176	312	7,783
2014				
Asset and liabilities not carried at fair value				
Loans	—	984	3,256	4,240
Borrowings	5,928	402	378	6,708

Borrowings classified as Level 1 have increased by 23% due to the inclusion of Friends Life Group subordinated debt.

23 – Loans

This note analyses the loans our Group companies have made, the majority of which are mortgage loans.

(a) Carrying amounts

The carrying amounts of loans at 31 December 2015 and 2014 were as follows:

		2015			2014	
	At fair value through profit or loss other than trading £m	At amortised cost £m	Total £m	At fair value through profit or loss other than trading £m	At amortised cost £m	Total £m
Policy loans	1	778	779	1	835	836
Loans to banks	572	2,151	2,723	599	3,164	3,763
Healthcare, infrastructure & PFI other loans ¹	1,246	—	1,246	1,107	—	1,107
UK securitised mortgage loans (see note 24)	2,452	—	2,452	2,406	—	2,406
Non-securitised mortgage loans ¹	14,808	—	14,808	16,782	77	16,859
Loans to brokers and other intermediaries	—	135	135	—	123	123
Other loans	—	290	290	—	166	166
Total	19,079	3,354	22,433	20,895	4,365	25,260

¹ Following a review of classification of mortgage loans £1.1 billion in 2014 has been reclassified from Non-securitised loans to Healthcare, Infrastructure and PFI other loans. The net impact on total loans is £nil.

Of the above loans, £20,948 million (2014: £23,771 million) are due to be recovered in more than one year after the statement of financial position date.

Loans at fair value

Fair values have been calculated by discounting the future cash flows using appropriate current interest rates for each portfolio of mortgages. Further details of the fair value methodology are given in note 22.

The cumulative change in fair value of loans attributable to changes in credit risk to 31 December 2015 was a £1,994 million loss (2014: £3,070 million loss). The significant reduction in this figure of £1,076 million (2014: £361 million increase) is predominantly owing to UK Life's commercial mortgage loans restructure and recovery programme, which completed in October 2015 with the sale of £2.2 billion of commercial mortgage loans to Lone Star.

Non-securitised mortgage loans include £3.3 billion (2014 Restated¹: £3.5 billion) relating to UK primary healthcare and PFI businesses which are secured against General Practitioner premises, other primary health-related premises or other emergency services related premises. For all such loans, government support is provided through either direct funding or reimbursement of rental payments to the tenants to meet income service and provide for the debt to be reduced substantially over the term of the loan. Although the loan principal is not government-guaranteed, the nature of these businesses and premises provides considerable comfort of an ongoing business model and low risk of default.

Healthcare, Infrastructure and PFI other loans of £1.2 billion (2014 Restated¹: £1.1 billion) are secured against the income from healthcare and educational premises.

Loans at amortised cost

The fair value of these loans at 31 December 2015 was £3,228 million (2014: £4,240 million).

(b) Analysis of loans carried at amortised cost

		2015			2014	
	Amortised Cost £m	Impairment £m	Carrying Value £m	Amortised Cost £m	Impairment £m	Carrying Value £m
Policy loans	778	—	778	835	—	835
Loans to banks	2,151	—	2,151	3,164	—	3,164
Non-securitised mortgage loans	6	(6)	—	138	(61)	77
Loans to brokers and other intermediaries	135	—	135	123	—	123
Other Loans	290	—	290	166	—	166
Total	3,360	(6)	3,354	4,426	(61)	4,365

The movements in the impairment provisions on these loans for the years ended 31 December 2015 and 2014 were as follows:

	2015 £m	2014 £m
At 1 January	(61)	(151)
(Decrease)/increase during the year	(2)	9
Write back following sale or reimbursement	57	81
At 31 December	(6)	(61)

(c) Collateral

Loans to banks include cash collateral received under stock lending arrangements (see note 59 for further discussion regarding these collateral positions). The obligation to repay this collateral is included in payables and other financial liabilities (note 50).

The Group holds collateral in respect of loans where it is considered appropriate in order to reduce the risk of non-recovery. This collateral generally takes the form of liens or charges over properties and, in the case of policy loans, the underlying policy for the majority of the loan balances above. In all other situations, the collateral must be in a readily realisable form, such as listed securities, and is held in segregated accounts.

24 – Securitised mortgages and related assets

The Group, in its UK Life business has loans receivable, secured by mortgages, which have then been securitised through non-recourse borrowings. This note gives details of the relevant transactions.

(a) Description of current arrangements

In a UK long-term business subsidiary, Aviva Equity Release UK Limited (AER), the beneficial interest in certain portfolios of lifetime mortgages has been transferred to five special purpose securitisation companies (the ERF companies), in return for initial consideration and, at later dates, deferred consideration. The deferred consideration represents receipts accrued within the ERF companies after meeting all their obligations to the note holders, loan providers and other third parties in the priority of payments. The purchases of the mortgages were funded by the issue of fixed and floating rate notes by the ERF companies.

All the shares in the ERF companies are held by independent companies, whose shares are held on trust. Although AER does not own, directly or indirectly, any of the share capital of the ERF companies or their parent companies, it has control of the securitisation companies, and they have therefore been treated as subsidiaries in the consolidated financial statements. AER has no right to repurchase the benefit of any of the securitised mortgage loans, other than in certain circumstances where AER is in breach of warranty or loans are substituted in order to effect a further advance.

AER has purchased subordinated notes and granted subordinated loans to some of the ERF companies. In addition, Group companies have invested in loan notes issued by the ERF companies. These have been eliminated on consolidation through offset against the borrowings of the ERF companies in the consolidated statement of financial position.

In all of the above transactions, the Company and its subsidiaries are not obliged to support any losses that may be suffered by the note holders and do not intend to provide such support. Additionally, the notes were issued on the basis that note holders are only entitled to obtain payment, of both principal and interest, to the extent that the available resources of the respective special purpose securitisation companies, including funds due from customers in respect of the securitised loans, are sufficient and that note holders have no recourse whatsoever to other companies in the Aviva Group.

On 1 January 2016 a UK subsidiary, Aviva Annuity UK Limited, securitised £4,179 million of equity release mortgages by transferring them to a wholly owned subsidiary, Aviva ERFA 15 UK Limited. In return, Aviva Annuity UK Limited received £4,154 million of loan notes issued by Aviva ERFA 15 UK Limited.

(b) Carrying values

The following table summarises the securitisation arrangements:

		2015	2014
	Securitised assets £m	Securitised borrowings £m	Securitised assets £m
Securitised mortgage loans			
At fair value (note 23)	2,452	(1,564)	2,406
Other securitisation assets/(liabilities)	297	(1,185)	319
	2,749	(2,749)	2,725

Loan notes held by third parties are as follows:

	2015 £m	2014 £m
Total loan notes issued, as above	1,564	1,539
Less: Loan notes held by Group companies	(256)	(167)
Loan notes held by third parties (note 49(c)(i))	1,308	1,372

25 – Interests in structured entities

A structured entity is defined as an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, or when the relevant activities are directed by means of contractual arrangements. The Group has interests in both consolidated and unconsolidated structured entities as described below.

The Group holds redeemable shares or units in investment vehicles, which consist of:

- Debt securities comprising securitisation vehicles that Aviva does not originate. These investments are comprised of a variety of debt instruments, including asset-backed securities and other structured securities.
- Investment funds which include: hedge funds, liquidity funds, private equity funds, unit trusts, mutual funds and Private Finance Initiative (PFIs).
- Specialised investment vehicles include Open Ended Investment Companies (OEICs), Property Limited Partnerships (PLPs), Sociétés d'Investissement à Capital Variable (SICAVs) and other investment vehicles.

The Group's holdings in investment vehicles are subject to the terms and conditions of the respective investment vehicle's offering documentation and are susceptible to market price risk arising from uncertainties about future values of those investment vehicles. The investment manager makes investment decisions after extensive due diligence of the underlying investment vehicle including consideration of its strategy and the overall quality of the underlying investment vehicle's manager.

All of the investment vehicles in the investment portfolio are managed by portfolio managers who are compensated by the respective investment vehicles for their services. Such compensation generally consists of an asset-based fee and a performance-based incentive fee, and is reflected in the valuation of the investment vehicles.

25 – Interests in structured entities continued

(a) Interests in consolidated structured entities

The Group has determined that where it has control over investment vehicles, these investments are consolidated structured entities. As at 31 December 2015 the Group has granted loans to consolidated PLPs for a total of £174 million (2014: £210 million). The purpose of these loans is to assist the consolidated PLPs to purchase or construct properties within the funds business activity. The Group has also provided support, without having a contractual obligation to do so, to certain consolidated PLPs via letters of support amounting to £121 million (2014: £124 million). The Group has commitments to provide funding to consolidated structured entities of £53 million (2014: £9 million).

The Group has also given support to the consolidated structured entity Aviva Equity Release UK Limited (AER). As set out in note 24, at the inception of the securitisation vehicle, the UK subsidiary, Aviva Equity Release UK Limited (AER), has granted subordinated loan facilities to some of the ERF companies. AER receives various fees in return for the services provided to the entities. Aviva receives cash management fees based on the outstanding loan balance at the start of each quarter for the administration of the loan note liabilities. AER receives portfolio administration fees as compensation for managing the mortgage assets. Refer to note 24 for details of an equity release securitisation on 1 January 2016.

As at the reporting date, the Group has no intentions to provide financial or other support in relation to any other investment vehicles.

(b) Interests in unconsolidated structured entities

As part of its investment activities, the Group invests in unconsolidated structured entities. As at 31 December 2015, the Group's total interest in unconsolidated structured entities was £49.6 billion (2014: £34.4 billion) on the Group's statement of financial position, which are classified as financial investments held at fair value through profit or loss. The increase in the balance is due primarily to the acquisition of Friends Life.

The Group does not sponsor any of the unconsolidated structured entities.

As at 31 December 2015, a summary of the Group's interest in unconsolidated structured entities is as follows:

	2015 £m				2014 £m			
	Interest in, and loans to, joint ventures	Interest in, and loans to, associates	Financial investments	Total assets	Interest in, and loans to, joint ventures	Interest in, and loans to, associates	Financial investments	Total assets
Structured debt securities ¹	—	—	4,260	4,260	—	—	2,549	2,549
Other investments	1,191	258	43,907	45,356	765	361	30,731	31,857
Analysed as:								
Unit trust and other investment vehicles	—	—	42,641	42,641	—	—	29,640	29,640
PLPs and property funds	1,191	258	960	2,409	765	361	754	1,880
Other funds	—	—	306	306	—	—	337	337
Total	1,191	258	48,167	49,616	765	361	33,280	34,406

¹ Reported within 'other debt securities' in note 26a.

The Group's maximum exposure to loss related to the interests presented above is the carrying amount of the Group's investments.

The majority of debt securities above are investment grade securities held by the UK business. In some cases, the Group may be required to absorb losses from an unconsolidated structured entity before other parties when and if Aviva's interest is more subordinated with respect to other owners of the same security.

At 31 December 2015 the Group has granted loans to PLPs classified as joint ventures and associates totalling £94 million (2014: £73 million). This amount has been provided for the purpose of short-term liquidity funding. For commitments to property management joint ventures and associates, please refer to Notes 18 and 19, respectively. The Group has not provided any other financial or other support in addition to that described above as at the reporting date, and there are no intentions to provide support in relation to any other unconsolidated structured entities in the foreseeable future.

In relation to risk management, disclosures on debt securities and investment vehicles are given in note 57(b)(iii). In relation to other guarantees and commitments that the Group provides in the course of its business, please refer to Note 52(f) 'Contingent liabilities and other risk factors'.

Aviva's interest in unconsolidated structured entities that it also manages at 31 December 2015 is £2.3 billion (2014: £2.1 billion) and the total funds under management relating to these investments at 31 December 2015 is £15.3 billion (2014: £16.1 billion).

25 – Interests in structured entities continued

(c) Other interests in unconsolidated structured entities

The Group receives management fees and other fees in respect of its asset management businesses. The Group does not sponsor any of the funds or investment vehicles from which it receives fees. Management fees received for investments that the Group manages but does not have a holding in also represent an interest in unconsolidated structured entities. As these investments are not held by the Group, the investment risk is borne by the external investors and therefore the Group's maximum exposure to loss relates to future management fees. The table below shows the assets under management of entities that the Group manages but does not have a holding in and the fees earned from those entities. The reduction in total assets under management is primarily the result of a reduction in total pension fund assets managed by Poland.

		2015		2014	
		Assets Under Management £m	Investment Management Fees £m	Assets Under Management £m	Investment Management Fees £m
Investment funds¹		7,621	59	10,251	92
Specialised investment vehicles:		2,886	11	2,831	12
Analysed as:					
OEICs		812	6	1,185	5
PLPs		2,042	5	1,609	7
SICAVs		32	—	37	—
Total		10,507	70	13,082	104

¹ Investment funds relate primarily to the Group's Spanish and Polish pension funds.

26 – Financial investments

This note analyses our financial investments by type and shows their cost and fair value. These will change from one period to the next as a result of new business written, claims paid and market movements.

(a) Carrying amount

Financial investments comprise:

	2015					2014		
	At fair value through profit or loss			At fair value through profit or loss				
	Trading £m	Other than trading £m	Available for sale £m	Total £m	Trading £m	Other than trading £m	Available for sale £m	Total £m
Fixed maturity securities								
<i>Debt securities</i>								
UK government	—	33,279	—	33,279	—	20,590	—	20,590
UK local authorities	—	18	—	18	—	18	—	18
Non-UK government (note 26e)	—	41,952	712	42,664	—	44,140	815	44,955
Corporate bonds								
Public utilities	—	10,634	19	10,653	—	8,419	24	8,443
Other corporate	—	63,012	187	63,199	—	47,003	182	47,185
Convertibles and bonds with warrants attached	—	158	—	158	—	170	—	170
Other	—	10,765	—	10,765	—	8,177	—	8,177
	159,818	918	160,736		—	128,517	1,021	129,538
Certificates of deposit	—	2,228	—	2,228	—	2,123	—	2,123
	162,046	918	162,964		—	130,640	1,021	131,661
Equity securities								
<i>Ordinary shares</i>								
Public utilities	—	3,367	—	3,367	—	2,929	—	2,929
Banks, trusts and insurance companies	—	14,016	10	14,026	—	7,267	8	7,275
Industrial miscellaneous and all other	—	45,961	3	45,964	—	25,127	2	25,129
	63,344	13	63,357		—	35,323	10	35,333
Non-redeemable preference shares	—	201	—	201	—	286	—	286
	63,545	13	63,558		—	35,609	10	35,619
Other investments								
Unit trusts and other investment vehicles	—	42,641	—	42,641	—	29,636	4	29,640
Derivative financial instruments (note 58)	3,328	—	—	3,328	4,088	—	—	4,088
Deposits with credit institutions	—	460	—	460	—	539	—	539
Minority holdings in property management undertakings	—	960	—	960	—	754	—	754
Other investments – long-term	—	305	—	305	—	335	1	336
Other investments – short-term	—	1	—	1	—	1	—	1
	3,328	44,367	—	47,695	4,088	31,265	5	35,358
Total financial investments	3,328	269,958	931	274,217	4,088	197,514	1,036	202,638

Of the above total, £174,362 million (2014: £120,743 million) is due to be recovered in more than one year after the statement of financial position date.

Other debt securities of £10,765 million (2014: £8,177 million) include residential and commercial mortgage-backed securities, as well as other structured credit securities.

26 – Financial investments continued

(b) Cost, unrealised gains and fair value

The following is a summary of the cost/amortised cost, gross unrealised gains and losses and fair value of financial investments:

	2015					2014	
	Cost/amortised cost £m	Unrealised gains £m	Unrealised losses and impairments £m	Fair value £m	Cost/amortised cost £m	Unrealised gains £m	Unrealised losses and impairments £m
Fixed maturity securities	155,247	10,864	(3,147)	162,964	118,245	14,130	(714)
Equity securities	60,124	7,663	(4,229)	63,558	29,701	7,114	(1,196)
Other investments							
Unit trusts and other investment vehicles	41,620	2,155	(1,134)	42,641	27,304	2,152	184
Derivative financial instruments	928	2,698	(298)	3,328	917	3,660	(489)
Deposits with credit institutions	460	—	—	460	539	—	539
Minority holdings in property management undertakings	938	132	(110)	960	740	120	(106)
Other investments – long-term	316	20	(31)	305	344	22	(30)
Other investments – short-term	1	—	—	1	1	—	1
	259,634	23,532	(8,949)	274,217	177,791	27,198	(2,351)
These are further analysed as follows:							
At fair value through profit or loss	258,777	23,447	(8,938)	273,286	176,843	27,098	(2,339)
Available for sale	857	85	(11)	931	948	100	(12)
	259,634	23,532	(8,949)	274,217	177,791	27,198	(2,351)
							202,638

All unrealised gains and losses and impairments on financial investments classified as fair value through profit or loss have been recognised in the income statement.

Unrealised gains and losses on financial investments classified as at fair value through profit or loss, recognised in the income statement in the year, were a net loss of £9,586 million (2014: £11,161 million net gain). Of this net loss, £1,157 million net loss (2014: £587 million net gain) related to financial investments designated as trading and £8,429 million net loss (2014: £10,574 million net gain) related to investments designated as other than trading.

The movement in the unrealised gain/loss position reported in the statement of financial position during the year, shown in the table above, includes foreign exchange movements on the translation of unrealised gains and losses on financial investments held by foreign subsidiaries, which are recognised in other comprehensive income, as well as transfers due to the realisation of gains and losses on disposal and the recognition of impairment losses.

The total accumulated impairment provision for financial investments classified as available-for-sale included in the table above within unrealised losses and impairments was £9 million (2014: £9 million).

(c) Impairment of financial investments

The movements in impairment provisions on available-for-sale financial investments for the years ended 31 December 2015 and 2014 were as follows:

	2015					2014		
	Fixed maturity securities £m	Equity securities £m	Other Investments £m	Total £m	Fixed maturity securities £m	Equity securities £m	Other Investments £m	Total £m
At 1 January	—	—	(9)	(9)	—	(5)	(8)	(13)
Charge for the year taken to the income statement	—	—	—	—	—	—	(2)	(2)
Write back following sale or reimbursement	—	—	—	—	—	5	—	5
Foreign exchange rate movements	—	—	—	—	—	—	1	1
At 31 December	—	—	(9)	(9)	—	—	(9)	(9)

26 – Financial investments continued

(d) Financial investment arrangements

(i) Stock lending arrangements

The Group has entered into stock lending arrangements in the UK and overseas in accordance with established market conventions. The majority of the Group's stock lending transactions occur in the UK, where investments are lent to EEA-regulated, locally domiciled counterparties and governed by agreements written under English law.

The Group receives collateral in order to reduce the credit risk of these arrangements, either in the form of securities or cash. See Note 59 for further discussion regarding collateral positions held by the Group.

(ii) Other arrangements

In carrying on its bulk purchase annuity business, the Group's UK Life operation is required to place certain investments in trust on behalf of the policyholders. Amounts become payable from the trust funds to the trustees if the Group were to be in breach of its payment obligations in respect of policyholder benefits. At 31 December 2015, £1,501 million (2014: £1,447 million) of financial investments were restricted in this way.

Certain financial investments are also required to be deposited under local laws in various overseas countries as security for the holders of policies issued in those countries. Other investments are pledged as security collateral for bank letters of credit.

(e) Non-UK Government Debt Securities (gross of non-controlling interests)

The following is a summary of non-UK government debt by issuer as at 31 December 2015, analysed by policyholder, participating and shareholder funds.

Non-UK Government Debt Securities	Policyholder		Participating		Shareholder		Total	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
Austria	14	11	697	705	140	107	851	823
Belgium	34	28	1,195	1,368	166	165	1,395	1,561
France	139	103	10,673	11,182	1,846	1,950	12,658	13,235
Germany	145	142	1,470	1,590	590	591	2,205	2,323
Greece	—	—	—	—	—	—	—	—
Ireland	12	5	595	613	100	155	707	773
Italy	319	330	6,090	6,666	442	485	6,851	7,481
Netherlands	31	43	1,156	1,336	302	414	1,489	1,793
Poland	559	571	689	823	399	443	1,647	1,837
Portugal	7	6	110	173	—	—	117	179
Spain	98	104	1,093	1,263	636	694	1,827	2,061
European Supranational debt	72	61	2,798	2,952	1,760	1,826	4,630	4,839
Other European countries	167	133	1,107	1,040	520	473	1,794	1,646
Europe	1,597	1,537	27,673	29,711	6,901	7,303	36,171	38,551
Canada	49	16	178	164	1,917	2,376	2,144	2,556
United States	323	94	100	48	409	347	832	489
North America	372	110	278	212	2,326	2,723	2,976	3,045
Singapore	16	11	762	598	264	277	1,042	886
Other	648	493	1,752	1,917	75	63	2,475	2,473
Asia Pacific and other	664	504	2,514	2,515	339	340	3,517	3,359
Total	2,633	2,151	30,465	32,438	9,566	10,366	42,664	44,955

At 31 December 2015, the Group's total government (non-UK) debt securities stood at £42.7 billion (2014: £45.0 billion), a decrease of £2.3 billion. The significant majority of these holdings are within our participating funds where the risk to our shareholders is governed by the nature and extent of our participation within those funds.

Our direct shareholder asset exposure to government (non-UK) debt securities amounts to £9.6 billion (2014: £10.4 billion). The primary exposures, relative to total shareholder (non-UK) government debt exposure, are to Canadian (20%), French (19%), Spanish (7%), German (6%) and Italian (5%) government debt securities.

The participating funds exposure to (non-UK) government debt amounts to £30.5 billion (2014: £32.4 billion), a decrease of £1.9 billion. The primary exposures, relative to total (non-UK) government debt exposures included within our participating funds, are to the (non-UK) government debt securities of France (35%), Italy (20%), Germany (5%), Belgium (4%), Netherlands (4%) and Spain (4%).

26 – Financial investments continued

(f) Exposure to worldwide banks – debt securities

Direct shareholder and participating fund assets exposures to worldwide bank debt securities (net of non-controlling interests, excluding policyholder assets)

	Shareholder assets			Participating fund assets		
	Total senior debt £bn	Total subordinated debt £bn	Total debt £bn	Total senior debt £bn	Total subordinated debt £bn	Total debt £bn
2015						
Australia	0.2	—	0.2	0.9	0.2	1.1
Denmark	—	—	—	1.1	—	1.1
France	0.5	—	0.5	2.8	0.6	3.4
Germany	0.1	—	0.1	0.4	0.2	0.6
Ireland	—	—	—	—	—	—
Italy	0.1	—	0.1	0.2	—	0.2
Netherlands	0.3	0.2	0.5	1.2	0.3	1.5
Spain	0.7	—	0.7	0.7	0.1	0.8
Switzerland	—	—	—	1.2	—	1.2
United Kingdom	1.3	0.5	1.8	1.2	1.0	2.2
United States	1.0	0.2	1.2	1.7	0.1	1.8
Other	0.7	0.1	0.8	1.5	0.3	1.8
Total	4.9	1.0	5.9	12.9	2.8	15.7
2014	2.9	0.8	3.7	10.4	2.9	13.3

Net of non-controlling interests, our direct shareholder assets exposure to worldwide bank debt securities is £5.9 billion (2014: £3.7 billion). The majority of our holding (83%) is in senior debt. The primary exposures are to UK (31%), US (20%) and Spanish (12%) banks. Net of non-controlling interests, our direct shareholder asset exposure to worldwide bank equity securities is £99 million (2014: £75 million).

Net of non-controlling interests, the participating fund exposures to worldwide bank debt securities, where the risk to our shareholders is governed by the nature and extent of our participation within those funds, is £15.7 billion (2014: £13.3 billion). The majority of the exposure (82%) is in senior debt. Participating funds are the most exposed to French (22%), UK (14%) and US (11%) banks.

Direct shareholder and participating fund assets exposures to worldwide bank debt securities (gross of non-controlling interests, excluding policyholder assets)

	Shareholder assets			Participating fund assets		
	Total senior debt £bn	Total subordinated debt £bn	Total debt £bn	Total senior debt £bn	Total subordinated debt £bn	Total debt £bn
2015						
Australia	0.2	—	0.2	0.9	0.3	1.2
Denmark	—	—	—	1.1	—	1.1
France	0.5	—	0.5	3.3	0.6	3.9
Germany	0.1	—	0.1	0.5	0.2	0.7
Ireland	—	—	—	—	—	—
Italy	0.1	—	0.1	0.3	—	0.3
Netherlands	0.3	0.2	0.5	1.2	0.3	1.5
Spain	0.8	—	0.8	0.8	0.1	0.9
Switzerland	—	—	—	1.3	—	1.3
United Kingdom	1.3	0.5	1.8	1.3	1.0	2.3
United States	1.0	0.2	1.2	1.9	0.1	2.0
Other	0.7	0.1	0.8	1.6	0.3	1.9
Total	5.0	1.0	6.0	14.2	2.9	17.1
2014	3.1	0.8	3.9	11.8	3.1	14.9

Gross of non-controlling interests, our direct shareholder assets exposure to worldwide bank debt securities is £6.0 billion (2014: £3.9 billion). The majority of our holding (83%) is in senior debt. The primary exposures are to UK (30%), US (20%) and Spanish (13%) banks. Gross of non-controlling interests, our direct shareholder asset exposure to worldwide bank equity securities is £100 million (2014: £75 million).

Gross of non-controlling interests, the participating fund exposures to worldwide bank debt securities, where the risk to our shareholders is governed by the nature and extent of our participation within those funds, is £17.1 billion (2014: £14.9 billion). The majority of the exposure (83%) is in senior debt. Participating funds are the most exposed to French (23%), UK (13%) and US (12%) banks.

27 – Receivables

This note analyses our total receivables.

	2015 £m	2014 £m
Amounts owed by contract holders	1,546	1,512
Amounts owed by intermediaries	1,132	1,100
Deposits with ceding undertakings	1,244	1,322
Amounts due from reinsurers	376	277
Amounts due from brokers for investment sales	223	69
Amounts receivable for cash collateral pledged	992	512
Amounts due from government, social security and taxes	437	415
Dividends receivable	56	6
Other receivables	869	720
Total	6,875	5,933
Expected to be recovered in less than one year	6,773	5,833
Expected to be recovered in more than one year	102	100
	6,875	5,933

Concentrations of credit risk with respect to receivables are limited due to the size and spread of the Group's trading base. No further credit risk provision is therefore required in excess of provisions already recognised for doubtful receivables.

28 – Deferred acquisition costs, other assets, prepayments and accrued income

(a) Deferred acquisition costs and other assets – carrying amount

The carrying amount comprises:

	2015 £m	2014 £m
Deferred acquisition costs in respect of:		
Insurance contracts – Long-term business	610	529
Insurance contracts – General insurance and health business	812	852
Participating investment contracts – Long-term business	20	22
Non-participating investment contracts – Long-term business	1,017	968
Retail fund management business	5	7
Total deferred acquisition costs	2,464	2,378
Surpluses in the staff pension schemes (note 48(a))	2,523	2,695
Other assets	74	18
Total	5,061	5,091

Deferred acquisition costs (DAC) on long-term business are generally recoverable in more than one year whereas such costs on general insurance and health business are generally recoverable within one year. Of the above total, £1,426 million (2014: £1,277 million) is expected to be recovered more than one year after the statement of financial position date. For long-term business where amortisation of the DAC balance depends on projected profits, the amount expected to be recovered is estimated and actual experience will differ.

Surpluses in the staff pension schemes and £1 million (2014: £1 million) of other assets are recoverable more than one year after the statement of financial position date.

(b) Deferred acquisition costs – movements in the year

The movements in deferred acquisition costs (DAC) during the year were:

	Long-term business £m	General insurance and health business £m	Retail fund management business £m	Total £m	Long-term business £m	General insurance and health business £m	Retail fund management business £m	Total £m
Carrying amount at 1 January	1,519	852	7	2,378	1,525	868	10	2,403
Acquisition costs deferred during the year	240	1,952	—	2,192	173	2,107	—	2,280
Amortisation	(167)	(1,950)	(2)	(2,119)	(81)	(2,102)	(3)	(2,186)
Impact of assumption changes	73	—	—	73	(73)	—	—	(73)
Effect of portfolio transfers, acquisitions and disposals	—	—	—	—	—	(4)	—	(4)
Foreign exchange rate movements	(18)	(42)	—	(60)	(25)	(17)	—	(42)
Carrying amount at 31 December	1,647	812	5	2,464	1,519	852	7	2,378

28 – Deferred acquisition costs, other assets, prepayments and accrued income continued

The balance of deferred acquisition costs for long-term business increased over 2015, as acquisition costs deferred during the year were partially offset by amortisation.

Where amortisation of the DAC balance depends on projected profits, changes to economic conditions may lead to a movement in the DAC balance and a corresponding impact on profit. It is estimated that the movement in the DAC balance would reduce profit by £26 million (2014: £18 million) if market yields on fixed income investments were to increase by 1% and increase profit by £36 million (2014: £31 million) if yields were to reduce by 1%. At both 31 December 2015 and at 31 December 2014 the DAC balance has been restricted by the value of projected future profits and hence is more sensitive to changes in the value of those projected profits.

(c) Prepayments and accrued income

Prepayments and accrued income of £3,094 million (2014: £2,466 million), includes £88 million (2014: £81 million) that is expected to be recovered more than one year after the statement of financial position date.

29 – Assets held to cover linked liabilities

Certain unit-linked products have been classified as investment contracts, while some are included within the definition of an insurance contract. The assets backing these unit-linked liabilities are included within the relevant balances in the consolidated statement of financial position, while the liabilities are included within insurance and investment contract provisions. This note analyses the carrying values of assets backing these liabilities.

	2015 £m	2014 £m
Loans	83	302
Debt securities	24,022	13,628
Equity securities	47,394	26,324
Reinsurance assets	14,002	2,536
Cash and cash equivalents	8,705	3,514
Other	47,386	31,777
	141,592	78,081

The increase during the year to £141,592 million (2014: £78,081 million) is primarily due to the acquisition of Friends Life.

30 – Ordinary share capital

This note gives details of Aviva plc's ordinary share capital and shows the movements during the year.

(a) Details of the Company's ordinary share capital are as follows:

	2015 £m	2014 £m
The allotted, called up and fully paid share capital of the Company at 31 December 2015 was: 4,048,465,173 (2014: 2,950,487,340) ordinary shares of 25 pence each	1,012	737

At the 2015 Annual General Meeting, the Company was authorised to allot up to a further maximum nominal amount of:

- £492,022,336 of which, £246,011,168 can be in connection with an offer by way of a rights issue
- £100 million of new ordinary shares in relation to any issue of Solvency II compliant Tier 1 instruments

(b) During 2015, a total of 1,097,977,833 ordinary shares of 25 pence each were allotted and issued by the Company as follows:

	Number of shares	2015		2014	
		Share Capital £m	Share Premium £m	Number of shares	Share Capital £m
At 1 January	2,950,487,340	737	1,172	2,946,939,622	736
Shares issued under the Group's Employee and Executive Share Option Schemes	11,651,227	3	13	3,547,718	1
Shares issued in relation to the acquisition of Friends Life	1,086,326,606	272	—	—	—
At 31 December	4,048,465,173	1,012	1,185	2,950,487,340	737
				1,172	

Ordinary shares in issue in the Company rank pari passu with any new ordinary shares issued in the Company. All the ordinary shares in issue carry the same right to receive all dividends and other distributions declared, made or paid by the Company.

31 – Group's share plans

This note describes various equity compensation plans operated by the Group, and shows how the Group values the options and awards of shares in the Company. Details of other share plans where shares are acquired and held in trust for the participant from the outset are not set out here but described in the shareholder information section of page 318.

(a) Description of the plans

The Group maintains a number of active share option and award plans and schemes (the Group's share plans). These are as follows:

(i) Savings-related options

These are options granted under the tax-advantaged save as you earn (SAYE) share option scheme in the UK and Irish revenue-approved SAYE share option scheme in Ireland. The SAYE allows eligible employees to acquire options over the Company's shares at a discount of up to 20% of their market value at the date of grant.

Options are normally exercisable during the six-month period following either the 3rd, 5th or 7th anniversary of the start of the relevant savings contract, subject to a statutory savings limit, currently £500 per month. From 2012, only 3 and 5 year contracts have been offered and Aviva's current policy is to apply a savings limit of £250 per month in the UK and €500 per month in Ireland.

(ii) Aviva long-term incentive plan awards

These awards have been made under the Aviva long-term incentive plan 2011 (LTIP), and are described in section (b) below and in the directors' remuneration report.

(iii) Aviva annual bonus plan awards

These awards have been made under the Aviva annual bonus plan 2011 (ABP), and are described in section (b) below and in the directors' remuneration report.

(iv) Aviva recruitment and retention share plan awards

These are conditional awards granted under the Aviva recruitment and retention share award plan (RRSAP) in relation to the recruitment or retention of senior managers excluding executive directors. The awards vest in tranches on various dates and vesting is conditional upon the participant being employed by the Group on the vesting date and not having served notice of resignation. Some awards can be subject to performance conditions. If a participant's employment is terminated due to resignation or dismissal, any tranche of the award which has vested within the 12 months prior to the termination date will be subject to clawback and any unvested tranches of the award will lapse in full.

(v) Aviva Investors long-term incentive plan awards

These awards have been made under the Aviva Investors Holdings Limited 2009 Long Term Incentive Plan (AI LTIP), a long-term profit sharing arrangement for key Aviva Investors' employees. Awards will vest on the 3rd anniversary of grant, subject to achieving performance conditions.

(vi) Aviva Investors deferred share award plan awards

These awards have been made under the Aviva Investors Deferred Share Award Plan (AI DSAP), where employees can choose to have the deferred element of their bonus deferred into awards over Aviva shares. The awards vest in three equal tranches on the 2nd, 3rd and 4th year following the year of grant.

(vii) The Aviva Chief Financial Officer Award 2014

Awards were granted to Tom Stoddard under the Aviva Chief Financial Officer Award 2014 (Aviva CFO Award) following his recruitment to compensate Mr Stoddard for the loss from his previous employer, on a like for like basis. The awards are described in section (b) below and in the directors' remuneration report. No further awards will be made under this plan.

No new Aviva plc ordinary shares will be issued to satisfy awards made under plans iv, v, vi or vii.

(b) Outstanding options and awards

(i) Share options

At 31 December 2015, options to subscribe for ordinary shares of 25 pence each in the Company were outstanding as follows:

Aviva savings related share option scheme	Option price p	Number of shares	Normally exercisable	Option price p	Number of shares	Normally exercisable
	410	36,354	2015	268	3,051,213	2016 or 2018
	316	157,482	2016	312	2,221,690	2016 or 2018
	310	289,794	2015 or 2017	419	2,518,442	2017 or 2019
	266	1,762,817	2015 or 2017	380	7,456,710	2018 or 2020

Aviva Ireland savings related share option scheme (in euros)	Option price c	Number of shares	Normally exercisable	Option price c	Number of shares	Normally exercisable
	374	2,128	2015	369	93,649	2016 or 2018
	304	111,470	2016	527	81,430	2017 or 2019
	336	69,802	2015 or 2017	518	299,418	2018 or 2020

31 – Group's share plans continued

The following table summarises information about options outstanding at 31 December 2015:

Range of exercise prices	Outstanding options Number	Weighted average remaining contractual life Years	Weighted average exercise price p
£2.66 – £3.65	7,760,045	2	283.21
£3.66 – £4.64	10,392,354	4	389.86
£4.65 – £5.63	—	—	—

The comparative figures as at 31 December 2014 were:

Range of exercise prices	Outstanding options Number	Weighted average remaining contractual life Years	Weighted average exercise price p
£2.66 – £3.65	13,176,872	2	280.26
£3.66 – £4.64	4,031,026	4	418.85
£4.65 – £5.63	33,636	—	563.00

(ii) Share awards

At 31 December 2015, awards issued under the Company's executive incentive plans over ordinary shares of 25 pence each in the Company were outstanding as follows:

Aviva long-term incentive plan 2011	Number of shares	Year of vesting
	9,627,862	2016
	7,628,744	2017
	9,113,030	2018
Aviva annual bonus plan 2011	Number of shares	Year of vesting
	3,045,795	2016
	2,305,523	2017
	2,932,551	2018
Aviva recruitment and retention share award plan	Number of shares	Year of vesting
	830,806	2016
	879,867	2017
	106,838	2018
	3,992	2019
Aviva Investors Holdings Limited 2009 long-term incentive plan	Number of shares	Year of vesting
	346,677	2016
Aviva Investors deferred share award plan	Number of shares	Year of vesting
	37,053	2016
	37,053	2017
	11,571	2018
The Aviva Chief Financial Officer Award 2014	Number of shares	Year of vesting
	47,151	2016
	98,232	2017

The vesting of awards under the ABP is subject to the attainment of performance conditions as described in the directors' remuneration report.

No performance conditions are attached to the awards under the ABP, AI DSAP, Aviva CFO Award or some of the awards under the RRSAP except as outlined below. Under the RRSAP, some shares are subject to the attainment of the same performance conditions that apply to the LTIP grants as follows.

- 321,330 of the shares which vest in 2016 are linked to the same performance conditions that apply to the 2013 grant.
 - 96,238 of the shares which vest in 2016 are subject to the performance conditions relating to the performance of the participant's previous employer.
- 561,887 of the shares which vest in 2017 are linked to the same performance conditions that apply to the 2014 grant
 - 22,222 of the shares which vest in 2017 are subject to the performance conditions relating to the performance of the participant's previous employer.
- 39,349 of the shares which vest in 2018 are linked to the same performance conditions that apply to the 2015 grant.
 - 22,222 of the shares which vest in 2018 are subject to the performance conditions relating to the performance of the participant's previous employer.

These performance conditions are as outlined in the relevant year's directors' remuneration report.

The vesting of the awards under the AI LTIP are subject to Aviva Investors Holdings Limited achieving a return on capital employed (ROCE) of 27% per annum over a three year performance period.

Shares which do not vest will lapse.

31 – Group's share plans continued

(iii) Shares to satisfy awards and options

New issue shares are now generally used to satisfy all awards and options granted under plans that have received shareholder approval and where local regulations permit. Further details are given in note 32.

(c) Movements in the year

A summary of the status of the option plans as at 31 December 2014 and 2015, and changes during the years ended on those dates, is shown below.

	2015		2014
	Number of options	Weighted average exercise price p	Number of options
Outstanding at 1 January	17,241,534	313.21	20,069,848
Granted during the year	7,810,302	380.00	3,994,548
Exercised during the year	(5,011,905)	275.90	(4,626,781)
Forfeited during the year	(323,950)	341.43	(1,028,382)
Cancelled during the year	(1,446,795)	401.38	(490,267)
Expired during the year	(116,787)	383.40	(677,432)
Outstanding at 31 December	18,152,399	344.27	17,241,534
Exercisable at 31 December	1,146,249	278.53	2,277,929

(d) Expense charged to the income statement

The total expense recognised for the year arising from equity compensation plans was as follows:

	2015 £m	2014 £m
Equity-settled expense	40	39
Cash-settled expense	8	1
Total (note 10b)	48	40

(e) Fair value of options and awards granted after 7 November 2002

The weighted average fair values of options and awards granted during the year, estimated by using the Binomial option pricing model and Monte Carlo Simulation model, were £0.88 and £4.49 (2014: £1.47 and £4.19) respectively.

(i) Share options

The fair value of the options was estimated on the date of grant, based on the following weighted average assumptions:

Weighted average assumption	2015	2014
Share price	453p	524p
Exercise price	380p	419p
Expected volatility	26%	32%
Expected life	3.69 years	3.73 years
Expected dividend yield	3.99%	2.91%
Risk-free interest rate	0.94%	1.42%

The expected volatility used was based on the historical volatility of the share price over a period equivalent to the expected life of the option prior to its date of grant. The risk-free interest rate was based on the yields available on UK government bonds as at the date of grant. The bonds chosen were those with a similar remaining term to the expected life of the options. 5,011,905 options granted after 7 November 2002 were exercised during the year (2014: 4,626,781).

(ii) Share awards

The fair value of the awards was estimated on the date of grant based on the following weighted average assumptions:

Weighted average assumption	2015	2014
Share price	560p	484p
Expected volatility ¹	25%	33%
Expected volatility of comparator companies' share price ¹	22%	29%
Correlation between Aviva and comparator competitors' share price ¹	44%	58%
Expected life ¹	2.85 years	2.83 years
Expected dividend yield ²	3.20%	2.94%
Risk-free interest rate ¹	0.56%	0.75%

¹ For awards with market-based performance conditions.

² The majority of awards with market based performance conditions include additional shares being provided to employees equal to dividend rights before vesting. As a result, no dividend yield assumption is required on these awards.

The expected volatility used was based on the historical volatility of the share price over a period equivalent to the expected life of the share award prior to its date of grant. The risk-free interest rate was based on the yields available on UK government bonds as at the date of grant. The bonds chosen were those with a similar remaining term to the expected life of the share awards.

32 – Treasury shares

The following table summarises information about treasury shares at 31 December 2015:

	2015		2014	
	Number	£m	Number	£m
Shared held by employee trusts	1,918,088	2	2,585,824	8
Shares held by subsidiary companies	5,258,525	27	—	—
	7,176,613	29	2,585,824	8

(a) Shares held by employee trusts

Prior to 2014, we satisfied awards and options granted under the Group's share plans primarily through shares purchased in the market and held by employee share trusts. From 2014 we primarily issue new shares except where it is necessary to use shares held by an employee share trust. In 2015 however, new shares were issued to the trust, in order to facilitate the release of shares. This note gives details of the shares held in these trusts. Movements in the carrying value of shares held by employee trusts comprise:

	2015		2014	
	Number	£m	Number	£m
Cost debited to shareholders' funds				
At 1 January	2,585,824	8	8,561,382	31
Acquired in the year	5,790,872	1	19,603	—
Distributed in the year	(6,458,608)	(7)	(5,995,161)	(23)
Balance at 31 December	1,918,088	2	2,585,824	8

The shares are owned by employee share trusts with an undertaking to satisfy awards of shares in the Company under the Company's share plans and schemes. Details of the features of the plans can be found in the directors' remuneration report and/or in note 31.

These shares were either purchased in the market or, in 2015, new shares were issued to the trust and are carried at weighted average cost. At 31 December 2015, they had an aggregate nominal value of £479,522 (2014: £646,456) and a market value of £9,897,334 (2014: £12,528,317). The trustees have waived their rights to dividends on the shares held in the trusts.

(b) Shares held by subsidiary companies

During 2015, the Group acquired Friends Life, which holds shares in Aviva plc. The cost of these shares is included within treasury shares and deducted from total shareholders' equity in accordance with accounting policy AE. At 31 December 2015, the balance of 5,258,525 shares (2014: nil) had an aggregate nominal value of £1,314,631 (2014: £nil) and a market value of £27,133,991 (2014: £nil).

33 – Preference share capital

This note gives details of Aviva plc's preference share capital.

The preference share capital of the Company at 31 December was:

	2015 £m	2014 £m
Issued and paid up		
100,000,000 8.375% cumulative irredeemable preference shares of £1 each	100	100
100,000,000 8.75% cumulative irredeemable preference shares of £1 each	100	100
	200	200

The issued preference shares are non-voting except where their dividends are in arrears, on a winding up or where their rights are altered.

On a winding up, they carry a preferential right of return of capital ahead of the ordinary shares. Holders are entitled to receive dividends out of the profits available for distribution and resolved to be distributed in priority to the payment of dividends to holders of ordinary shares. The Company does not have a contractual obligation to deliver cash or other financial assets to the preference shareholders and therefore the directors may make dividend payments at their discretion.

At the 2015 Annual General Meeting, the Company was authorised to allot the following:

- Sterling New Preference Shares, as defined in the Company's articles of association, up to a maximum nominal value of £500 million

34 – Direct capital instrument and tier 1 notes

Notional amount	2015 £m	2014 £m
5.9021% £500 million direct capital instrument – issued November 2004	500	500
Direct capital instrument	500	500
8.25% US \$650 million fixed rate tier 1 notes – issued May 2012	392	392
6.875% £210 million STICS – issued November 2003 (note 38)	231	—
Total tier 1 notes	623	392
	1,123	892

The direct capital instrument (the DCI) was issued on 25 November 2004 and qualifies as Innovative Tier 1 capital, as defined by the PRA in GENPRU Annex 1 'Capital Resources' as at 31 December 2015. The DCI has no fixed redemption date but the Company may, at its sole option, redeem all (but not part) of the principal amount on 27 July 2020, at which date the interest rate changes to a variable rate, or on any respective coupon payment date thereafter. The variable rate will be the six month sterling deposit rate plus margin.

The fixed rate tier 1 notes (the FxdRNs) were issued on 3 May 2012 and also qualify as Innovative Tier 1 capital as at 31 December 2015. The FxdRNs are perpetual but the Company may, at its sole option, redeem all (but not part) of the FxdRNs at their principal amounts on 3 November 2017, or on any respective coupon payment date thereafter.

The Step-up Tier one Insurance Capital Securities ('STICS') were issued on 21 November 2003 by Friends Life Holdings plc, and also qualify as innovative tier 1 capital as at 31 December 2015. The STICS are irrevocably guaranteed on a subordinated basis by Friends Life Limited. On 1 October 2015 Aviva plc replaced Friends Life Holdings plc as issuer which resulted in a reclassification of the STICS from non-controlling interests. The STICS have no fixed redemption date but the Company may, at its sole option, redeem the instrument (in whole or in part) on 21 November 2019, or on the coupon payment date falling on successive fifth anniversaries from this date. For each coupon period beginning 21 November 2019, the STICS will bear interest reset every five years at the rate per annum which is the aggregate of 2.97% and the Gross Redemption Yield of the Benchmark Gilt.

The Company has the option to defer coupon payments on the DCI, FxdRNs or STICS on any relevant payment date.

In relation to the DCI, deferred coupons shall only be satisfied should the Company exercise its sole option to redeem the instruments.

In relation to the FxdRNs, deferred coupons may be satisfied at any time, at the sole option of the Company. The Company is required to satisfy deferred coupons on the FxdRNs upon redemption.

In relation to the STICS, deferred coupons may be satisfied at any time, at the sole option of the Company. The Company is required to satisfy deferred coupons upon the earliest of the following:

- Resumption of payment of coupons on the STICS; or
- Redemption; or
- The commencement of winding up of the issuer.

No interest will accrue on any deferred coupon on the DCI or FxdRNs. Interest will accrue on deferred coupons on the STICS at the then current rate of interest on the STICS.

Deferred coupons on the DCI, FxdRNs and the STICS will be satisfied by the issue and sale of ordinary shares in the Company at their prevailing market value, to a sum as near as practicable to (and at least equal to) the relevant deferred coupons. In the event of any coupon deferral, the Company will not declare or pay any dividend on its ordinary or preference share capital. These instruments have been treated as equity. Please refer to accounting policy AE.

The DCI, FxdRNs and STICS count as 'tier 1 restricted' capital from 1 January 2016 in accordance with the Solvency II Own Funds guidelines issued by the PRA.

35 – Merger reserve

Prior to 1 January 2004, certain significant business combinations were accounted for using the 'pooling of interests method' (or merger accounting), which treats the merged groups as if they had been combined throughout the current and comparative accounting periods. Merger accounting principles for these combinations gave rise to a merger reserve in the consolidated statement of financial position, being the difference between the nominal value of new shares issued by the Parent Company for the acquisition of the shares of the subsidiary and the subsidiary's own share capital and share premium account.

The merger reserve is also used where more than 90% of the shares in a subsidiary are acquired and the consideration includes the issue of new shares by the Company, thereby attracting merger relief under the Companies Act 1985 and, from 1 October 2009, the Companies Act 2006.

During 2015, the balance of the merger reserve has increased by £5,703 million to £8,974 million (2014: £3,271 million) due to the acquisition of Friends Life which attracted merger relief under section 612 of the Companies Act 2006. Refer to note 3(a) for further details regarding the acquisition of Friends Life.

36 – Other reserves

This note gives details of the various reserves forming part of the Group's consolidated equity and shows the movements during the year net of non-controlling interests:

	Currency translation reserve (see accounting policy E) £m	Owner occupied properties reserve (see accounting policy P) £m	Investment valuation reserve (see accounting policy T) £m	Hedging instruments reserve (see accounting policy U) £m	Equity compensation reserve (see accounting policy AB) £m	Total £m
Balance at 1 January 2014	907	74	18	(578)	54	475
Arising in the year through other comprehensive income:						
Fair value gains	—	7	62	—	—	69
Fair value gains transferred to profit on disposals	—	—	(7)	—	—	(7)
Share of other comprehensive income of joint ventures and associates	—	—	22	—	—	22
Foreign exchange rate movements	(373)	—	—	56	—	(317)
Aggregate tax effect – shareholders' tax	12	—	(21)	—	—	(9)
Total other comprehensive income for the year	(361)	7	56	56	—	(242)
Fair value gains transferred to retained earnings on disposals	—	(2)	—	—	—	(2)
Transfer to profit on disposal of subsidiaries, joint ventures and associates	(12)	(2)	1	—	—	(13)
Reserves credit for equity compensation plans	—	—	—	—	39	39
Shares issued under equity compensation plans	—	—	—	—	(28)	(28)
Balance at 31 December 2014	534	77	75	(522)	65	229
Arising in the year through other comprehensive income:						
Fair value gains	—	27	(9)	—	—	18
Fair value gains transferred to profit on disposals	—	—	—	—	—	—
Share of other comprehensive income of joint ventures and associates	—	—	(14)	—	—	(14)
Foreign exchange rate movements	(377)	—	—	44	—	(333)
Aggregate tax effect – shareholders' tax	7	—	6	—	—	13
Total other comprehensive income for the year	(370)	27	(17)	44	—	(316)
Fair value gains transferred to retained earnings on disposals	—	(33)	—	—	—	(33)
Transfer to profit on disposal of subsidiaries, joint ventures and associates	1	—	—	—	—	1
Reserves credit for equity compensation plans	—	—	—	—	40	40
Shares issued under equity compensation plans	—	—	—	—	(35)	(35)
Balance at 31 December 2015	165	71	58	(478)	70	(114)

37 – Retained earnings

This note analyses the movements in the consolidated retained earnings during the year.

	2015 £m	2014 £m
Balance at 1 January	4,617	2,348
Profit for the year attributable to equity shareholders	918	1,569
Remeasurements of pension schemes	(235)	1,662
Dividends and appropriations (note 15)	(724)	(551)
Net shares issued under equity compensation plans	19	6
Realised loss on redemption of direct capital instrument	—	(57)
Effect of changes in non-controlling interests in existing subsidiaries	—	(36)
Fair value gains realised from other reserves	33	2
Transfer from other reserves on disposal of subsidiaries, joint ventures and associates	—	2
Aggregate tax effect	108	(328)
Balance at 31 December	4,736	4,617

The Group's regulated subsidiaries are required to hold sufficient capital to meet acceptable solvency levels based on applicable local regulations. Their ability to transfer retained earnings to the UK parent companies is therefore restricted to the extent these earnings form part of local regulatory capital.

38 – Non-controlling interests

This note gives details of the Group's non-controlling interests and shows the movements during the year.

Non-controlling interests at 31 December comprised:

	2015 £m	2014 £m
Equity shares in subsidiaries	447	472
Share of earnings	222	202
Share of other reserves	226	242
	895	916
Preference shares in General Accident plc	250	250
	1,145	1,166

Movements in the year comprised:

	2015 £m	2014 £m
Balance at 1 January	1,166	1,471
Profit for the year attributable to non-controlling interests	161	169
Foreign exchange rate movements	(45)	(79)
Total comprehensive income attributable to non-controlling interests	116	90
Capital contributions from non-controlling interests	5	—
Non-controlling interests share of dividends declared in the year	(142)	(189)
Non-controlling interests in acquired subsidiaries ¹	504	—
Reclassification of non-controlling interests to liabilities ²	(272)	—
Reclassification of non-controlling interests to DCI and Tier 1 notes (note 34)	(231)	—
Changes in non-controlling interests in subsidiaries	(1)	(206)
Balance at 31 December	1,145	1,166

¹ Includes Friends Life's Step-up Tier one Insurance Capital Securities ('STICS') issuances classified as equity instruments within non-controlling interests at the date of acquisition. See Note 3a for further detail.

² On 29 May 2015, notification was given that the Group would redeem the 2005 STICS issuance. At that date the instrument was reclassified as a financial liability. The instrument was redeemed on 1 July 2015, £272 million represents the fair value of instruments recognised on acquisition, made up of the £268 million outstanding principal redeemed on 1 July 2015 and £4 million amortised subsequent to the reclassification and included within finance costs in the income statement.

The Group has no subsidiaries whose non-controlling interest (NCI) is material on the basis of their share of profit or loss.

39 – Contract liabilities and associated reinsurance

The following notes explain how the Group calculates its liabilities to policyholders for insurance and investment products it has sold to them. Notes 40 and 41 cover these liabilities and note 42 details the financial guarantees and options given for some of these products. Note 43 details the reinsurance recoverables on these liabilities while note 44 shows the effects of changes in the assumptions.

The following is a summary of the contract provisions and related reinsurance assets as at 31 December.

	Gross provisions ¹ £m	Reinsurance assets ² £m	Net £m	Gross provisions £m	Reinsurance assets £m	Net £m
Long-term business						
Insurance contracts	(125,348)	5,018	(120,330)	(98,110)	4,032	(94,078)
Participating investment contracts	(78,048)	11	(78,037)	(67,232)	3	(67,229)
Non-participating investment contracts	(103,125)	13,967	(89,158)	(50,013)	2,533	(47,480)
	(306,521)	18,996	(287,525)	(215,355)	6,568	(208,787)
Outstanding claims provisions						
Long-term business	(1,702)	38	(1,664)	(1,343)	43	(1,300)
General insurance and health	(7,063)	988	(6,075)	(7,298)	724	(6,574)
	(8,765)	1,026	(7,739)	(8,641)	767	(7,874)
Provisions for claims incurred but not reported	(2,383)	607	(1,776)	(2,578)	373	(2,205)
	(317,669)	20,629	(297,040)	(226,574)	7,708	(218,866)
Provision for unearned premiums	(4,048)	289	(3,759)	(4,107)	250	(3,857)
Provision arising from liability adequacy tests ³	(12)	—	(12)	(10)	—	(10)
Total	(321,729)	20,918	(300,811)	(230,691)	7,958	(222,733)
Less: Amounts classified as held for sale	—	—	—	1	—	1
	(321,729)	20,918	(300,811)	(230,690)	7,958	(222,732)

¹ Total gross provisions at 31 December 2015 for long-term business includes £95,338 million for Friends Life business.

² Reinsurance assets at 31 December 2015 for General insurance and health business include the impact of the £659 million reinsurance asset recognised on completion of an outward reinsurance contract by the UK general insurance business, which provides significant protection against claims volatility from mesothelioma, industrial deafness and other long tail risks. Reinsurance assets at 31 December 2015 for long-term business include £11,927 million for Friends Life business.

³ Provision arising from liability adequacy tests relates to general insurance business only. Liability adequacy test provisions for life operations are included in other line items.

40 – Insurance liabilities

This note analyses the Group insurance contract liabilities by type of product and describes how the Group calculates these liabilities and the assumptions used.

(a) Carrying amount

(i) Insurance liabilities (gross of reinsurance) at 31 December comprise:

	Long-term business £m	General insurance and health £m	Total £m	Long-term business £m	General insurance and health £m	Total £m
Long-term business provisions						
Participating	53,875	—	53,875	44,834	—	44,834
Unit-linked non-participating	14,768	—	14,768	7,963	—	7,963
Other non-participating	56,705	—	56,705	45,313	—	45,313
	125,348	—	125,348	98,110	—	98,110
Outstanding claims provisions	1,702	7,063	8,765	1,343	7,298	8,641
Provision for claims incurred but not reported	—	2,383	2,383	—	2,578	2,578
	1,702	9,446	11,148	1,343	9,876	11,219
Provision for unearned premiums	—	4,048	4,048	—	4,107	4,107
Provision arising from liability adequacy tests	—	12	12	—	10	10
Total	127,050	13,506	140,556	99,453	13,993	113,446
Less: Amounts classified as held for sale	—	—	—	—	(1)	(1)
	127,050	13,506	140,556	99,453	13,992	113,445

(ii) Change in insurance liabilities recognised as an expense

The purpose of the following table is to reconcile the change in insurance liabilities, net of reinsurance, shown on the income statement, to the change in insurance liabilities recognised as an expense in the relevant movement tables in this note. The components of the reconciliation are the change in provision for outstanding claims on long-term business (which is not included in a separate movement table), and the unwind of discounting on GI reserves (which is included within finance costs within the income statement). For general insurance and health business, the change in the provision for unearned premiums is not included in the reconciliation, as within the income statement, this is included within earned premiums.

2015	Gross £m	Reinsurance ¹ £m	Net £m
Long-term business liabilities			
Change in long-term business provisions (note 40b(iv))	(6,640)	252	(6,388)
Change in provision for outstanding claims	179	4	183
	(6,461)	256	(6,205)
General insurance and health liabilities			
Change in insurance liabilities (note 40c(iv) and 43 c(ii))	29	(504)	(475)
Less: Unwind of discount on GI reserves and other	(10)	9	(1)
	19	(495)	(476)
Total change in insurance liabilities (note 6)	(6,442)	(239)	(6,681)

¹ The change in reinsurance assets for general insurance and health business includes the impact of the £659 million reinsurance asset recognised on completion of an outward reinsurance contract by the UK general insurance business, which provides significant protection against claims volatility from mesothelioma, industrial deafness and other long tail risks.

2014	Gross £m	Reinsurance £m	Net £m
Long-term business liabilities			
Change in long-term business provisions (note 40b(iv))	5,847	(376)	5,471
Change in provision for outstanding claims	128	4	132
	5,975	(372)	5,603
General insurance and health liabilities			
Change in insurance liabilities (note 40c(iv) and 43 c(ii))	(76)	49	(27)
Less: Unwind of discount on GI reserves and other	(9)	3	(6)
	(85)	52	(33)
Total change in insurance liabilities (note 6)	5,890	(320)	5,570

40 – Insurance liabilities continued

(b) Long-term business liabilities

(i) Business description

The Group underwrites long-term business in a number of countries as follows:

- In the UK mainly in:
 - New With-Profits Sub-Fund (NWPSF) of Aviva Life & Pensions UK (UKLAP), where the with-profit policyholders are entitled to at least 90% of the distributed profits, with the shareholders receiving the balance. Any surplus or deficit emerging in NWPSF that is not distributed as bonus will be transferred from this sub-fund to the Reattributed Inherited Estate External Support Account (RIEESA) (see below).
 - Old With-Profits Sub-Fund (OWPSF), With-Profits Sub-Fund (WPSF) and Provident Mutual Sub-Fund (PMSF) of UKLAP, where the with-profit policyholders are entitled to at least 90% of the distributed profits, with the shareholders receiving the balance.
 - 'Non-profit' funds of Aviva Annuity UK, UKLAP, Friends Life Limited and Friends Life and Pensions Limited, where shareholders are entitled to 100% of the distributed profits. Shareholder profits on unitised with-profit business written by WPSF and on stakeholder unitised with-profit business are derived from management fees and policy charges, and emerge in the non-profit funds.
 - The RIEESA of UKLAP, which is a non-profit fund where shareholders are entitled to 100% of the distributed profits, but these cannot be distributed until the 'lock-in' criteria set by the Reatribution Scheme have been met. The RIEESA has been used to write non-profit business and also to provide capital support to NWPSF.
 - The Friends Provident With-Profits Fund (FP WPF) where shareholders are entitled to 10% of the distributed profits, plus 60% of the surplus arising on pre-demutualisation non-profit and unitised business and non-investment sources of surplus on policies held by post-demutualisation policyholders. The Friends Provident demutualisation occurred in 2001.
 - The Friends Provident Life Assurance Limited With-Profits Fund (FPLAL WPF), which is closed to new business and where policyholders are entitled to 100% of the distributed profits.
 - The Friends Life Company Limited New With-Profits Fund (FLC New WPF), the Friends Life Company Limited Old With-Profits Fund (FLC Old WPF), the Friends Life WL Limited (formally known as Winterthur Life UK Limited) With-Profits Fund (WL WPF) and Friends Life Assurance Society With-Profits Fund (FLAS WPF) which are closed to new business and where policyholders are entitled to 90% of the distributed profits aside from certain policies in the FLC New WPF and the FLC Old WPF with guaranteed bonus rates, where the shareholders do not receive one-ninth of the bonus.
- In France, the majority of policyholders' benefits are determined by investment performance, subject to certain guarantees, and shareholders' profits are derived largely from management fees. In addition, a substantial number of policies participate in investment returns, with the balance being attributable to shareholders.
- In other operations in Europe and Asia, a range of long-term insurance and savings products are written.

(ii) Group practice

The long-term business provision is calculated separately for each of the Group's life operations. The provisions for overseas subsidiaries have generally been included on the basis of local regulatory requirements, modified where necessary to reflect the requirements of the Companies Act 2006.

Material judgement is required in calculating the provisions and is exercised particularly through the choice of assumptions where discretion is permitted. In turn, the assumptions used depend on the circumstances prevailing in each of the life operations. Provisions are most sensitive to assumptions regarding discount rates and mortality/morbidity rates. Where discount rate assumptions are based on current market yields on fixed interest securities, allowance is made for default risk implicit in the yields on the underlying assets.

Bonuses paid during the year are reflected in claims paid, whereas those allocated as part of the bonus declaration are included in the movements in the long-term business provision.

For UK with-profit life funds falling within the scope of the PRA realistic capital regime, and hence FRS 27, an amount is recognised for the present value of future profits (PVFP) on non-participating business written in a with-profit fund where the determination of the realistic value of liabilities in that with-profit fund takes account, directly or indirectly, of this value. For our UK with-profit funds, other than FLAS, FLC and WL WPFs, no adjustment for this value is made to the participating insurance and investment contract liabilities or the unallocated divisible surplus. For FLAS, FLC and WL WPFs the non-profit PVFP is offset against the related participating insurance and investment contract liabilities.

(iii) Methodology and assumptions

There are two main methods of actuarial valuation of liabilities arising under long-term insurance contracts – the net premium method and the gross premium method – both of which involve the discounting of projected premiums and claims.

Under the net premium method, the premium taken into account in calculating the provision is determined actuarially, based on the valuation assumptions regarding discount rates, mortality and disability. The difference between this premium and the actual premium payable provides a margin for expenses. This method does not allow for voluntary early termination of the contract by the policyholder, and so no assumption is required for persistency.

The gross premium method uses the amount of contractual premiums payable and includes explicit assumptions for interest and discount rates, mortality and morbidity, persistency and future expenses. These assumptions can vary by contract type and reflect current and expected future experience.

40 – Insurance liabilities continued

(a) UK

With-profit business

The valuation of with-profit business uses the methodology developed for the Realistic Balance Sheet, adjusted to remove the shareholders' share of future bonuses. The key elements of the Realistic Balance Sheet methodology are the with-profit benefit reserve (WPBR) and the present value of the expected cost of any payments in excess of the WPBR (referred to as the cost of future policy-related liabilities). The realistic liability for any contract is equal to the sum of the WPBR and the cost of future policy-related liabilities, which includes the value of any 'planned enhancements' to benefits agreed by the company. The WPBR for an individual contract is generally calculated on a retrospective basis, and represents the accumulation of the premiums paid on the contract, allowing for investment return, taxation, expenses and any other charges levied on the contract.

For a small proportion of business, a prospective valuation approach is used, including allowance for anticipated future regular and final bonuses.

The items included in the cost of future policy-related liabilities include:

- Maturity Guarantees;
- Guarantees on surrender, including no-MVR (Market Value Reduction) Guarantees and Guarantees linked to inflation;
- Guaranteed Annuity Options;
- GMP (Guaranteed Minimum Pension) underpin on Section 32 transfers; and
- Expected payments under Mortgage Endowment Promise.

The cost of future policy-related liabilities is determined using a market-consistent approach and, in the main, this is based on a stochastic model calibrated to market conditions at the end of the reporting period. Non-market-related assumptions (for example, persistency, mortality and expenses) are based on experience, adjusted to take into account future trends.

The principal assumptions underlying the cost of future policy-related liabilities are as follows:

Future investment return

A 'risk-free' rate equal to the spot yield on UK swaps is used for the valuation of With-Profits business. The rates vary according to the outstanding term of the policy, with a typical rate as at 31 December 2015 of 2.04% (2014: 1.88%) for a policy with ten years outstanding.

Volatility of investment return

Volatility assumptions are set with reference to implied volatility data on traded market instruments, where available, or on a best estimate basis where not.

Volatility	2015	2014
Equity returns	22.6%	22.3%
Property returns	16.0%	15.0%
Fixed interest yields	30.6%	27.2%

The equity volatility used depends on term, money-ness and region. The figure shown is for a sample UK equity, at the money, with a ten-year term. Fixed interest yield volatility is also dependent on term and money-ness. The figure shown is for a ten-year swap option with ten-year term, currently at the money.

Future regular bonuses

Annual bonus assumptions for 2016 have been set consistently with the year-end 2015 declaration. Future annual bonus rates reflect the principles and practices of each fund. In particular, the level is set with regard to the projected margin for final bonus and the change from one year to the next is limited to a level consistent with past practice.

Mortality

Mortality assumptions for with-profit business are set with regard to recent Company experience and general industry trends. The mortality tables used in the valuation are summarised below:

Mortality table used	2015	2014
Assurances, pure endowments and deferred annuities before vesting	Nil or Axx00 adjusted	Nil or Axx00 adjusted
Pensions business after vesting and pensions annuities in payment	PCMA00/PCFA00 adjusted plus allowance for future mortality improvement	PCMA00/PCFA00 adjusted plus allowance for future mortality improvement

40 – Insurance liabilities continued

Allowance for future mortality improvement is in line with the rates shown for non-profit business below.

Non-profit business

The valuation of non-profit business is based on regulatory requirements, adjusted to remove certain regulatory reserves and margins in assumptions, notably for annuity business. Conventional non-profit contracts, including those written in the with-profit funds, are valued using gross premium methods which discount projected future cash flows. The cash flows are calculated using the amount of contractual premiums payable, together with explicit assumptions for investment returns, inflation, discount rates, mortality, morbidity, persistency and future expenses. These assumptions vary by contract type and reflect current and expected future experience.

For unit-linked and some unitised with-profit business, the provisions are valued by adding a prospective non-unit reserve to the bid value of units. The prospective non-unit reserve is calculated by projecting the future non-unit cash flows on the assumption that future premiums cease, unless it is more onerous to assume that they continue. Where appropriate, allowance for persistency is based on actual experience.

Valuation discount rate assumptions are set with regard to yields on the supporting assets and the general level of long-term interest rates as measured by gilt yields. An explicit allowance for risk is included by restricting the yields for equities and properties with reference to a margin over long-term interest rates or by making an explicit deduction from the yields on corporate bonds, mortgages and deposits, based on historical default experience of each asset class. A further margin for risk is then deducted for all asset classes.

The provisions held in respect of guaranteed annuity options are a prudent assessment of the additional liability incurred under the option on a basis and method consistent with that used to value basic policy liabilities, and includes a prudent assessment of the proportion of policyholders who will choose to exercise the option.

Valuation discount rates for business in the non-profit funds are as follows:

Valuation discount rates	2015	2014
Assurances		
Life conventional non-profit	1.8%	1.7%
Pensions conventional non-profit	2.3%	2.1%
Annuities		
Conventional immediate and deferred annuities	0.9% to 3.6%	1.3% to 3.3%
Non-unit reserves on Unit Linked business		
Life	1.8% to 2.9%	1.7%
Pensions	1.8% to 3.5%	2.1%
Income Protection		
Active lives	2.0%	1.8%
Claims in payment – level	2.0%	1.8%
Claims in payment – index linked	0.0%	(0.9%)

The above valuation discount rates are after reduction for investment expenses and credit risk. For conventional immediate annuity business the allowance for credit risk comprises long-term assumptions for defaults and downgrades, which vary by asset category and rating. The credit risk allowance made for corporate bonds and mortgages, including healthcare mortgages, held by Aviva Annuity UK Limited equated to 58bps and 59bps respectively at 31 December 2015 (2014: 55 bps and 87 bps respectively). For corporate bonds, the allowance represented approximately 32% of the average credit spread for the portfolio (2014: 40%). The reduction in the credit allowance for mortgages is primarily driven by UK Life's commercial mortgage loans restructure and recovery programme which completed in 2015 with the sale of £2.2 billion of commercial mortgage loans to Lone Star. The total valuation allowance held by Aviva Annuity UK Limited in respect of corporate bonds and mortgages, including healthcare mortgages, was £1.5 billion (2014: £1.9 billion) over the remaining term of the UK Life corporate bond and mortgage portfolio. Total liabilities for the annuity business were £47 billion at 31 December 2015 (2014: £34 billion), with the £13 billion increase mainly due to the acquisition of Friends Life business.

Mortality assumptions for non-profit business are set with regard to recent Company experience and general industry trends. The mortality tables used in the valuation are summarised below:

Mortality tables used	2015	2014
Assurances		
Non-profit	AM00/AF00 or TM00/TF00 adjusted for smoker status and age/sex specific factors	AM00/AF00 or TM00/TF00 adjusted for smoker status and age/sex specific factors
Pure endowments and deferred annuities before vesting	AM00/AF00 adjusted	AM00/AF00 adjusted
Annuities in payment		
Pensions business and general annuity business	PCMA00/PCFA00 adjusted plus allowance for future mortality improvement	PCMA00/PCFA00 adjusted plus allowance for future mortality improvement

40 – Insurance liabilities continued

For the main pensions annuity business in Aviva Annuity UK Limited, the underlying mortality assumptions for Males are 101.5% of PCMA00 (2014: 101.5% of PCMA00) with base year 2000; for Females the underlying mortality assumptions are 96.5% of PCFA00 (2014: 96.5% of PCFA00) with base year 2000. Improvements are based on CMI_2013 with a long-term improvement rate of 1.75% (2014: 1.75%) for males and 1.5% (2014: 1.5%) for females, both with an addition of 0.5% (2014: 0.5%) to all future annual improvement. Year-specific adjustments are made to allow for selection effects due to the development of the Enhanced Annuity market.

(b) France

The majority of reserves arise from single premium savings products and are based on the accumulated fund values, adjusted to maintain consistency with the value of the assets backing the policyholder liabilities. For traditional business, the net premium method is used for prospective valuations, in accordance with local regulation, where the valuation assumptions depend on the date of issue of the contract. The valuation discount rate also depends on the original duration of the contract and mortality rates are based on industry tables.

	Valuation discount rates	Mortality tables used
	2015 and 2014	2015 and 2014
Life assurances	TD73-77, TD88-90, TH00-02	TF00-02, H_AVDBS, F_AVDBS
Annuities	0% to 4.5% 0% to 4.5%	H_SSDBS, F_SSDBS TGF05/TGH05

(c) Other countries

In all other countries, local generally accepted interest rates and published standard mortality tables are used for different categories of business as appropriate. The tables are based on relevant experience and show mortality rates, by age, for specific groupings of people.

(iv) Movements

The following movements have occurred in the gross long-term business provisions during the year:

	2015 £m	2014 £m
Carrying amount at 1 January	98,110	94,972
Provisions in respect of new business	4,059	4,796
Expected change in existing business provisions	(8,180)	(5,806)
Variance between actual and expected experience	428	1,383
Impact of operating assumption changes	(735)	(1,118)
Impact of economic assumption changes	(2,242)	6,819
Other movements	30	(227)
Change in liability recognised as an expense (note 40a(ii))	(6,640)	5,847
Effect of portfolio transfers, acquisitions and disposals ^{1,2}	35,099	(805)
Foreign exchange rate movements	(1,221)	(1,904)
Carrying amount at 31 December	125,348	98,110

1 The movement during 2015 relates to Friends Life, as at the acquisition date.

2 The movement during 2014 includes £103 million related to the disposal of Eurovita, £696 million related to the disposal of CxG and £6 million related to the restructuring of our operations in Indonesia.

For many types of long-term business, including unit-linked and participating funds, movements in asset values are offset by corresponding changes in liabilities, limiting the net impact on profit.

The impact of operating assumption changes of £(0.7) billion in 2015 reduces the carrying value of insurance liabilities and relates mainly to expense and mortality releases in the UK business (with the impact on profit significantly offset by a corresponding reduction in reinsurance assets).

The £(2.2) billion impact of economic assumption changes reflects an increase in valuation interest rates in response to increased interest rates and widening spreads, primarily in respect of immediate annuity and participating insurance contracts in the UK.

For participating business, a movement in liabilities is generally offset by a corresponding adjustment to the unallocated divisible surplus and does not impact on profit. Where assumption changes do impact on profit, these are included in the effect of changes in assumptions and estimates during the year shown in note 44, together with the impact of movements in related non-financial assets.

(c) General insurance and health liabilities

(i) Provisions for outstanding claims

Delays occur in the notification and settlement of claims and a substantial measure of experience and judgement is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty at the statement of financial position date. The reserves for general insurance and health business are based on information currently available. However, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

Provisions for outstanding claims are established to cover the outstanding expected ultimate liability for losses and loss adjustment expenses (LAE) in respect of all claims that have already occurred. The provisions established cover reported claims and associated LAE, as well as claims incurred but not yet reported and associated LAE.

40 – Insurance liabilities continued

The Group only establishes loss reserves for losses that have already occurred. The Group therefore does not establish catastrophe equalisation reserves that defer a share of income in respect of certain lines of business from years in which a catastrophe does not occur to future periods in which catastrophes may occur. When calculating reserves, the Group takes into account estimated future recoveries from salvage and subrogation, and a separate asset is recorded for expected future recoveries from reinsurers after considering their collectability.

The table below shows the split of total general insurance and health outstanding claim provisions and IBNR provisions, gross of reinsurance, by major line of business.

	As at 31 December 2015			As at 31 December 2014		
	Outstanding claim provisions £m	IBNR provisions £m	Total claim provisions £m	Outstanding claim provisions £m	IBNR provisions £m	Total claim provisions £m
Motor	3,509	1,055	4,564	3,510	1,130	4,640
Property	1,339	158	1,497	1,402	67	1,469
Liability	1,776	1,106	2,882	1,916	1,224	3,140
Creditor	23	18	41	25	21	46
Other	416	46	462	445	136	581
	7,063	2,383	9,446	7,298	2,578	9,876

(ii) Discounting

Outstanding claims provisions are based on undiscounted estimates of future claim payments, except for the following classes of business for which discounted provisions are held:

Class	Rate		Mean term of liabilities	
	2015	2014	2015	2014
Reinsured London Market business	2.0%	2.1%	9 years	10 years
Latent claims	0.00% to 2.30%	0.16% to 2.75%	6 to 15 years	6 to 15 years
Structured settlements	2.1%	2.0%	38 years	35 years

The gross outstanding claims provision before discounting was £9,911 million (2014: £10,326 million). The period of time which will elapse before the liabilities are settled has been estimated by modelling the settlement patterns of the underlying claims.

The discount rate that has been applied to latent claims reserves is based on the relevant swap curve in the relevant currency having regard to the expected settlement dates of the claims. The range of discount rates used depends on the duration of the claims and is given in the table above. The duration of the claims span over 35 years, with the average duration being between 6 and 15 years depending on the geographical region. Any change in discount rates between the start and the end of the accounting period is reflected outside of operating profit as an economic assumption change.

During 2015, the propensity for new bodily injury claims settled by periodic payment orders (PPOs) or structured settlements, which are reserved for on a discounted basis, has remained fairly stable.

(iii) Assumptions

Outstanding claims provisions are estimated based on known facts at the date of estimation. Case estimates are set by skilled claims technicians and established case setting procedures. Claim technicians apply their experience and knowledge to the circumstances of individual claims. They take into account all available information and correspondence regarding the circumstances of the claim, such as medical reports, investigations and inspections. Claims technicians set case estimates according to documented claims department policies and specialise in setting estimates for certain lines of business or types of claim. Claims above certain limits are referred to senior claims handlers for estimate authorisation.

No adjustments are made to the claims technicians' case estimates included in booked claim provisions, except for rare occasions when the estimated ultimate cost of individual large or unusual claims may be adjusted, subject to internal reserve committee approval, to allow for uncertainty regarding, for example, the outcome of a court case. The ultimate cost of outstanding claims is then estimated by using a range of standard actuarial claims projection techniques, such as the Chain Ladder and Bornhuetter-Ferguson methods. The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident period, although underwriting or notification period is also used where this is considered appropriate.

Claim development is separately analysed for each geographic area, as well as by each line of business. Certain lines of business are also further analysed by claim type or type of coverage. In addition, large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development.

The assumptions used in most non-life actuarial projection techniques, including future rates of claims inflation or loss ratio assumptions, are implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in the future, for example, to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures in order to arrive at a point estimate for the ultimate cost of claims that represents the likely outcome, from a range of possible outcomes, taking account of all the uncertainties involved. The range of possible outcomes does not, however, result in the quantification of a reserve range.

40 – Insurance liabilities continued

The following explicit assumptions are made which could materially impact the level of booked net reserves:

UK mesothelioma claims

The level of uncertainty associated with latent claims is considerable due to the relatively small number of claims and the long-tail nature of the liabilities. UK mesothelioma claims account for a large proportion of the Group's latent claims. The key assumptions underlying the estimation of these claims include claim numbers, the base average cost per claim, future inflation in the average cost of claims and legal fees.

The best estimate of the liabilities reflects the latest available market information and studies. Many different scenarios can be derived by flexing these key assumptions and applying different combinations of the different assumptions. An upper and lower scenario can be derived by making reasonably likely changes to these assumptions, resulting in an estimate £30 million (2014: £245 million) greater than the best estimate, or £60 million (2014: £75 million) lower than the best estimate. The upper scenario has reduced significantly during 2015 due to reinsurance purchased by the UK general insurance business to cover a large proportion of these liabilities. These scenarios do not, however, constitute an upper or lower bound on these liabilities.

Interest rates used to discount latent claim liabilities

The discount rates used in determining our latent claim liabilities are based on the relevant swap curve in the relevant currency at the reporting date, having regard to the duration of the expected settlement of latent claims. The range of discount rates used is shown in section (ii) above and depends on the duration of the claim and the reporting date. At 31 December 2015, it is estimated that a 1% fall in the discount rates used would increase net claim reserves by approximately £60 million (2014: £120 million), excluding the offsetting effect on asset values as assets are not hypothecated across classes of business. The impact has reduced significantly during 2015 due to reinsurance purchased by the UK general insurance business to cover a large proportion of these liabilities. The impact of a 1% fall in interest rates across all assets and liabilities of our general insurance and health businesses is shown in note 57.

Allowance for risk and uncertainty

The uncertainties involved in estimating loss reserves are allowed for in the reserving process and by the estimation of explicit reserve uncertainty distributions. The reserve estimation basis for non-life claims requires all non-life businesses to calculate booked claim provisions as the best estimate of the cost of future claim payments, plus an explicit allowance for risk and uncertainty. The allowance for risk and uncertainty is calculated by each business unit in accordance with the requirements of the Group non-life reserving policy, taking into account the risks and uncertainties specific to each line of business and type of claim in that territory. The requirements of the Group non-life reserving policy also seek to ensure that the allowance for risk and uncertainty is set consistently across both business units and reporting periods.

Changes to claims development patterns can materially impact the results of actuarial projection techniques. However, allowance for the inherent uncertainty in the assumptions underlying reserving projections is automatically allowed for in the explicit allowance for risk and uncertainty included when setting booked reserves.

Lump sum payments in settlement of bodily injury claims decided by the UK courts are calculated in accordance with the Ogden Tables. The Ogden Tables contain a discount rate that is set by the Lord Chancellor and that is applied when calculating the present value of loss of earnings for claims settlement purposes. The process for setting this discount rate is under review.

The timing of the conclusion of this review is unclear and it is still uncertain whether or by how much the rate will change. However, an allowance has been included in provisions to reflect the potential for a change in the Ogden discount rates. A reduction in the Ogden discount rates would increase lump sum payments to UK bodily injury claimants.

(iv) Movements

The following changes have occurred in the general insurance and health claims provisions during the year:

	2015 £m	2014 £m
Carrying amount at 1 January	9,876	10,298
Impact of changes in assumptions	115	211
Claim losses and expenses incurred in the current year	5,889	5,950
Decrease in estimated claim losses and expenses incurred in prior periods	(463)	(329)
Incurred claims losses and expenses	5,541	5,832
Less:		
Payments made on claims incurred in the current year	(3,153)	(3,253)
Payments made on claims incurred in prior periods	(2,650)	(2,933)
Recoveries on claim payments	281	269
Claims payments made in the period, net of recoveries	(5,522)	(5,917)
Unwind of discounting	10	9
Changes in claims reserve recognised as an expense (note 40a(ii))	29	(76)
Effect of portfolio transfers, acquisitions and disposals	(64)	(121)
Foreign exchange rate movements	(395)	(222)
Other movements	—	(3)
Carrying amount at 31 December	9,446	9,876

The effect of changes in the main assumptions is given in note 44 and the economic assumption changes are explained in note 9.

40 – Insurance liabilities continued

(d) Loss development tables

(i) Description of tables

The tables that follow present the development of claim payments and the estimated ultimate cost of claims for the accident years 2006 to 2015. The upper half of the tables shows the cumulative amounts paid during successive years related to each accident year. For example, with respect to the accident year 2006, by the end of 2015 £7,077 million had actually been paid in settlement of claims. In addition, as reflected in the lower section of the table, the original estimated ultimate cost of claims of £7,533 million was re-estimated to be £7,207 million at 31 December 2015.

The original estimates will be increased or decreased, as more information becomes known about the individual claims and overall claim frequency and severity.

The Group aims to maintain strong reserves in respect of its general insurance and health business in order to protect against adverse future claims experience and development. The Group establishes strong reserves in respect of the current accident year (2015) where the development of claims is less mature and there is much greater uncertainty attaching to the ultimate cost of claims. As claims develop and the ultimate cost of claims become more certain, the absence of adverse claims experience will result in a release of reserves from earlier accident years, as shown in the loss development tables and movements table (c)(iv) above. Releases from prior accident year reserves are also due to an improvement in the estimated cost of claims.

Key elements of the release from prior accident year general insurance and health net provisions during 2015 were:

- £166 million release from UK & Ireland due to favourable development on personal and commercial motor, commercial liability and commercial property claims.
- £109 million release from Canada mainly due to continued favourable experience on motor, following the legislative changes in Ontario.
- £52 million release from Europe mainly due to favourable development in France and Italy.

There was also a £659 million reduction in net claim reserves due to the reinsurance purchased during 2015 covering a large proportion of the Group's latent claim liabilities.

Key elements of the movement in prior accident year general insurance and health net provisions during 2014 were:

- £112 million release from UK & Ireland due to favourable development on personal and commercial motor, and commercial property claims.
- £97 million release from Canada mainly due to continued favourable experience on motor, following the legislative changes in Ontario.
- £15 million release from Europe mainly due to favourable development in France and Italy, partly offset by strengthening of motor third party claims in Turkey.

(ii) Gross figures

Before the effect of reinsurance, the loss development table is:

Accident year	All prior years £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	Total £m
Gross cumulative claim payments												
At end of accident year	(3,653)	(4,393)	(4,915)	(3,780)	(3,502)	(3,420)	(3,055)	(3,068)	(3,102)	(2,991)		
One year later	(5,525)	(6,676)	(7,350)	(5,464)	(5,466)	(4,765)	(4,373)	(4,476)	(4,295)			
Two years later	(5,971)	(7,191)	(7,828)	(6,102)	(5,875)	(5,150)	(4,812)	(4,916)				
Three years later	(6,272)	(7,513)	(8,304)	(6,393)	(6,163)	(5,457)	(5,118)					
Four years later	(6,531)	(7,836)	(8,607)	(6,672)	(6,405)	(5,712)						
Five years later	(6,736)	(8,050)	(8,781)	(6,836)	(6,564)							
Six years later	(6,936)	(8,144)	(8,906)	(6,958)								
Seven years later	(7,015)	(8,224)	(8,986)									
Eight years later	(7,062)	(8,257)										
Nine years later	(7,077)											
Estimate of gross ultimate claims												
At end of accident year	7,533	8,530	9,508	7,364	6,911	6,428	6,201	6,122	5,896	5,851		
One year later	7,318	8,468	9,322	7,297	7,006	6,330	6,028	6,039	5,833			
Two years later	7,243	8,430	9,277	7,281	6,950	6,315	6,002	6,029				
Three years later	7,130	8,438	9,272	7,215	6,914	6,292	5,952					
Four years later	7,149	8,409	9,235	7,204	6,912	6,262						
Five years later	7,167	8,446	9,252	7,239	6,906							
Six years later	7,167	8,381	9,213	7,217								
Seven years later	7,176	8,381	9,207									
Eight years later	7,184	8,378										
Nine years later	7,207											
Estimate of gross ultimate claims	7,207	8,378	9,207	7,217	6,906	6,262	5,952	6,029	5,833	5,851		
Cumulative payments	(7,077)	(8,257)	(8,986)	(6,958)	(6,564)	(5,712)	(5,118)	(4,916)	(4,295)	(2,991)		
Effect of discounting	2,329	130	121	221	259	342	550	834	1,113	1,538	2,860	10,297
	(407)	(12)	(1)	(4)	(19)	(17)	3	(6)	(2)	—	—	(465)
Present value	1,922	118	120	217	240	325	553	828	1,111	1,538	2,860	9,832
Cumulative effect of foreign exchange movements	—	5	(1)	(28)	(32)	(47)	(65)	(76)	(77)	(76)	—	(397)
Effect of acquisitions	7	4	—	—	—	—	—	—	—	—	—	11
Present value recognised in the statement of financial position	1,929	127	119	189	208	278	488	752	1,034	1,462	2,860	9,446

40 – Insurance liabilities continued

(iii) Net of reinsurance

After the effect of reinsurance, the loss development table is:

Accident year	All prior years £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	Total £m
Net cumulative claim payments												
At end of accident year	(3,612)	(4,317)	(4,808)	(3,650)	(3,386)	(3,300)	(2,925)	(2,905)	(2,972)	(2,867)		
One year later	(5,442)	(6,542)	(7,165)	(5,286)	(5,242)	(4,578)	(4,166)	(4,240)	(4,079)			
Two years later	(5,881)	(7,052)	(7,638)	(5,885)	(5,637)	(4,963)	(4,575)	(4,649)				
Three years later	(6,181)	(7,356)	(8,094)	(6,177)	(5,905)	(5,263)	(4,870)					
Four years later	(6,434)	(7,664)	(8,356)	(6,410)	(6,137)	(5,485)						
Five years later	(6,625)	(7,852)	(8,515)	(6,568)	(6,278)							
Six years later	(6,724)	(7,942)	(8,626)	(6,657)								
Seven years later	(6,789)	(8,004)	(8,682)									
Eight years later	(6,831)	(8,033)										
Nine years later	(6,853)											
Estimate of net ultimate claims												
At end of accident year	7,430	8,363	9,262	7,115	6,650	6,202	5,941	5,838	5,613	5,548		
One year later	7,197	8,302	9,104	7,067	6,751	6,103	5,765	5,745	5,575			
Two years later	7,104	8,244	9,028	7,036	6,685	6,095	5,728	5,752				
Three years later	6,996	8,249	9,007	6,978	6,644	6,077	5,683					
Four years later	6,980	8,210	8,962	6,940	6,634	6,034						
Five years later	6,992	8,221	8,949	6,977	6,614							
Six years later	6,939	8,149	8,926	6,908								
Seven years later	6,938	8,143	8,894									
Eight years later	6,947	8,133										
Nine years later	6,948											
Estimate of net ultimate claims	6,948	8,133	8,894	6,908	6,614	6,034	5,683	5,752	5,575	5,548		
Cumulative payments	(6,853)	(8,033)	(8,682)	(6,657)	(6,278)	(5,485)	(4,870)	(4,649)	(4,079)	(2,867)		
Effect of discounting	761 (116)	95 (12)	100 (1)	212 (4)	251 (19)	336 (17)	549 3	813 (6)	1,103 (2)	1,496 —	2,681 —	8,397 (174)
Present value	645	83	99	208	232	319	552	807	1,101	1,496	2,681	8,223
Cumulative effect of foreign exchange movements	—	5	(1)	(28)	(31)	(45)	(62)	(74)	(74)	(73)	—	(383)
Effect of acquisitions	7	4	—	—	—	—	—	—	—	—	—	11
Present value recognised in the statement of financial position	652	92	98	180	201	274	490	733	1,027	1,423	2,681	7,851

In the loss development tables shown above, the cumulative claim payments and estimates of cumulative claims for each accident year are translated into sterling at the exchange rates that applied at the end of that accident year. The impact of using varying exchange rates is shown at the bottom of each table. Disposals are dealt with by treating all outstanding and IBNR claims of the disposed entity as 'paid' at the date of disposal.

The loss development tables above include information on asbestos and environmental pollution claims provisions from business written before 2006. The undiscounted claim provisions, net of reinsurance, in respect of this business at 31 December 2015 were £237 million (2014: £984 million). The movement in the year reflects a reduction of £705 million due to the reinsurance purchased by the UK general insurance business during 2015 covering a large proportion of these liabilities, favourable claims development of £22 million, claim payments net of reinsurance recoveries and foreign exchange rate movements.

(e) Provision for unearned premiums

Movements

The following changes have occurred in the provision for unearned premiums (UPR) during the year:

	2015 £m	2014 £m
Carrying amount at 1 January	4,107	4,226
Premiums written during the year	8,738	8,943
Less: Premiums earned during the year	(8,613)	(8,935)
Changes in UPR recognised as an (income)/expense	125	8
Gross portfolio transfers and acquisitions	—	(31)
Foreign exchange rate movements	(184)	(96)
Carrying amount at 31 December	4,048	4,107

41 – Liability for investment contracts

This note analyses our investment contract liabilities by type of product and describes how the Group calculates these liabilities and the assumptions used.

(a) Carrying amount

The liability for investment contracts (gross of reinsurance) at 31 December comprised:

	2015 £m	2014 £m
Long-term business		
Participating contracts	78,048	67,232
Non-participating contracts at fair value	103,125	50,013
Total	181,173	117,245

(b) Long-term business investment liabilities

Investment contracts are those that do not transfer significant insurance risk from the contract holder to the issuer, and are therefore treated as financial instruments under IFRS.

Many investment contracts contain a discretionary participation feature in which the contract holder has a contractual right to receive additional benefits as a supplement to guaranteed benefits. These are referred to as participating contracts and are measured according to the methodology and Group practice for long-term business liabilities as described in note 40. They are not measured at fair value as there is currently no agreed definition of fair valuation for discretionary participation features under IFRS. In the absence of such a definition, it is not possible to provide a range of estimates within which a fair value is likely to fall. The IASB has deferred consideration of participating contracts to Phase II of its insurance contracts project.

For participating business, the discretionary participation feature is recognised separately from the guaranteed element and is classified as a liability, referred to as unallocated divisible surplus. Guarantees on long-term investment products are discussed in note 42.

Investment contracts that do not contain a discretionary participation feature are referred to as non-participating contracts and the liability is measured at either fair value or amortised cost. We currently have no non-participating investment contracts measured at amortised cost.

Of the non-participating investment contracts measured at fair value, £101,216 million in 2015 are unit-linked in structure and the fair value liability is equal to the current unit fund value, including any unfunded units, plus if required, additional non-unit reserves based on a discounted cash flow analysis. These contracts are generally classified as 'Level 1' in the fair value hierarchy, as the unit reserve is calculated as the publicly quoted unit price multiplied by the number of units in issue, and any non-unit reserve is insignificant.

For unit-linked business, a deferred acquisition cost asset and deferred income reserve liability are recognised in respect of transaction costs and front-end fees respectively, that relate to the provision of investment management services, and which are amortised on a systematic basis over the contract term. The amount of the related deferred acquisition cost asset is shown in note 28 and the deferred income liability is shown in note 51.

For non-participating investment contracts acquired in a business combination, an acquired value of in-force business asset is recognised in respect of the fair value of the investment management services component of the contracts, which is amortised on a systematic basis over the useful lifetime of the related contracts. The amount of the acquired value of in-force business asset is shown in note 17, which relates primarily to the acquisition of Friends Life in 2015.

For non-participating investment contracts, deposits collected and amounts withdrawn are not shown on the income statement, but are accounted for directly through the statement of financial position as an adjustment to the gross liabilities for investment contracts. The associated change in investment contract provisions shown on the income statement consists of the attributed investment return. Participating investment contracts are treated consistently with insurance contracts with the change in investment contract provisions primarily consisting of the movement in participating investment contract liabilities (net of reinsurance) over the reporting period.

(c) Movements in the year

The following movements have occurred in the gross provisions for investment contracts in the year:

(i) Participating investment contracts

	2015 £m	2014 £m
Carrying amount at 1 January	67,232	70,628
Provisions in respect of new business	3,710	4,144
Expected change in existing business provisions	(4,219)	(1,972)
Variance between actual and expected experience	1,590	713
Impact of operating assumption changes	43	14
Impact of economic assumption changes	97	303
Other movements	49	16
Change in liability recognised as an expense	1,270	3,218
Effect of portfolio transfers, acquisitions and disposals ¹	12,245	(2,671)
Foreign exchange rate movements	(2,699)	(3,943)
Carrying amount at 31 December	78,048	67,232

¹ The movement during 2015 relates to Friends Life, as at the acquisition date and the movement during 2014 relates to the disposal of Eurovita.

41 – Liability for investment contracts continued

For many types of long-term business, including unit-linked and participating funds, movements in asset values are offset by corresponding changes in liabilities, limiting the net impact on profit.

The variance between actual and expected experience of £1.6 billion is primarily driven by favourable equity returns in Europe.

The impact of assumption changes in the analysis shows the resulting movement in the carrying value of participating investment contract liabilities. For participating business, a movement in liabilities is generally offset by a corresponding adjustment to the unallocated divisible surplus and does not impact on profit. Where assumption changes do impact on profit, these are included in the effect of changes in assumptions and estimates during the year shown in note 44, together with the impact of movements in related non-financial assets.

(ii) Non-participating investment contracts

	2015 £m	2014 £m
Carrying amount at 1 January	50,013	48,140
Provisions in respect of new business	2,644	2,273
Expected change in existing business provisions	(2,726)	(1,442)
Variance between actual and expected experience	(2,906)	1,575
Impact of operating assumption changes	32	2
Impact of economic assumption changes	3	11
Other movements	38	8
Change in liability	(2,915)	2,427
Effect of portfolio transfers, acquisitions and disposals ¹	56,401	(20)
Foreign exchange rate movements	(374)	(534)
Carrying amount at 31 December	103,125	50,013

¹ The movement during 2015 relates to Friends Life, as at the acquisition date and the movement during 2014 relates to the disposal of Eurovita.

For unit-linked investment contracts, movements in asset values are offset by corresponding changes in liabilities, limiting the net impact on profit. The variance between actual and expected experience of £2.9 billion is primarily driven by the impact of adverse equity returns in the UK.

The impact of assumption changes in the above analysis shows the resulting movement in the carrying value of non-participating investment contract liabilities. The impacts of assumption changes on profit are included in the effect of changes in assumptions and estimates during the year shown in note 44, which combines participating and non-participating investment contracts together with the impact of movements in related non-financial assets.

42 – Financial guarantees and options

This note details the financial guarantees and options that the Group has given for some of our insurance and investment products.

As a normal part of their operating activities, various Group companies have given guarantees and options, including investment return guarantees, in respect of certain long-term insurance and fund management products. Further information on assumptions is given in notes 40 and 41.

(a) UK and Ireland Life with-profit business

In the UK, life insurers are required to comply with the PRA's realistic reporting regime for their with-profit funds for the calculation of PRA liabilities. Under the PRA's rules, provision for guarantees and options within realistic liabilities are measured at fair value, using market-consistent stochastic models. A stochastic approach includes measuring the time value of guarantees and options, which represents the additional cost arising from uncertainty surrounding future economic conditions.

The material guarantees and options to which this provision relates are:

(i) Maturity value guarantees

Substantially all of the conventional with-profit business and a significant proportion of unitised with-profit business have minimum maturity values reflecting the sums assured plus declared annual bonus. In addition, the guarantee fund has offered maturity value guarantees on certain unit-linked products. For some unitised with-profit life contracts the amount paid after the fifth policy anniversary is guaranteed to be at least as high as the premium paid increased in line with the rise in RPI/CPI.

(ii) No market valuation reduction (MVR) guarantees

For unitised business, there are a number of circumstances where a 'no MVR' guarantee is applied, for example on certain policy anniversaries, guaranteeing that no market value reduction will be applied to reflect the difference between the accumulated value of units and the market value of the underlying assets.

Certain unitised with-profit policies containing 'no MVR' guarantees, similar to those in the UK, have been sold in Ireland.

These guarantees as at 31 December 2015 are 'out-of-the-money' (2014: £0.1 million 'in-the-money'). This has been calculated on a deterministic basis as the excess of the current policy surrender value over the discounted value (excluding terminal bonus) of the guarantees. The value of these guarantees is usually sensitive to the performance of investments held in the with-profit fund. Amounts payable under these guarantees are determined by the bonuses declared on these policies.

42 – Financial guarantees and options continued

(iii) Guaranteed annuity options

The Group's UK with-profit funds have written individual and group pension contracts which contain guaranteed annuity rate options (GAOs), where the policyholder has the option to take the benefits from a policy in the form of an annuity based on guaranteed conversion rates. The Group also has exposure to GAOs and similar options on deferred annuities.

Realistic liabilities for GAOs in the UK with-profit funds were £2,043 million at 31 December 2015, which includes £968 million relating to the recently acquired Friends Life business (2014: £1,198 million). With the exception of the New With-Profits Sub Fund (NWPSF), movements in the realistic liabilities in the with-profit funds are offset by a corresponding movement in the unallocated divisible surplus, with no net impact on IFRS profit. Realistic liabilities for GAOs in the NWPSF were £196 million at 31 December 2015 (2014: £197 million).

Products with GAOs similar to those offered in the UK have been issued in Ireland. The net provision as at 31 December 2015 for such options is £317 million (2014: £273 million). This has been calculated on a deterministic basis, making conservative assumptions for the factors which influence the cost of the guarantee, principally annuitant mortality option take-up and long-term interest rates.

These GAOs in Ireland are 'in-the-money' at current interest rates but the exposure to interest rates under these contracts has been hedged through the use of derivatives (receiver swaps and payer swaptions).

(iv) Guaranteed minimum pension

The Group's UK with-profit funds also have certain policies that contain a guaranteed minimum level of pensions as part of the condition of the original transfer from state benefits to the policy.

(v) Guaranteed minimum maturity payments on mortgage endowments

In addition, the with-profit fund companies have made promises to certain policyholders in relation to their with-profit mortgage endowments. Top-up payments will be made on these policies at maturity to meet the mortgage value up to a maximum of the 31 December 1999 illustrated shortfall. For UKLAP WP policyholders, these payments are subject to certain conditions.

(b) UK Life non-profit business

The Group's UK non-profit funds are evaluated by reference to statutory reserving rules, including changes introduced in 2006 under FSA Policy Statement 06/14, *Prudential Changes for Insurers* (which was designated by the PRA on 1 April 2013).

(i) Guaranteed annuity options

Similar options to those written on with-profit business have been written in relation to non-profit products. Provision for these guarantees does not materially differ from a provision based on a market-consistent stochastic model, and amounts to £112 million at 31 December 2015, which includes £86 million relating to the recently acquired Friends Life business (2014: £33 million).

(ii) Guaranteed unit price on certain products

Certain unit-linked pension products linked to long-term life insurance funds provide policyholders with guaranteed benefits at retirement or death. No additional provision is made for this guarantee as the investment management strategy for these funds is designed to ensure that the guarantee can be met from the fund, mitigating the impact of large falls in investment values and interest rates.

(c) Overseas life businesses

In addition to guarantees written in the Group's UK and Ireland life businesses, our overseas businesses have also written contracts containing guarantees and options. Details of the significant guarantees and options provided by overseas life businesses are set out below.

(i) France

Guaranteed surrender value and guaranteed minimum bonuses

Aviva France has written a number of contracts with such guarantees. The guaranteed surrender value is the accumulated value of the contract including accrued bonuses. Bonuses are based on accounting income from amortised bond portfolios, where the duration of bond portfolios is set in relation to the expected duration of the policies, plus income and releases from realised gains on equity-type investments. Policy reserves are equal to guaranteed surrender values. Local statutory accounting envisages the establishment of a reserve, 'Provision pour Aléas Financiers' (PAF), when accounting income is less than 125% of guaranteed minimum credited returns. No PAF was established at full year 2015.

The most significant of these contracts is the AFER Eurofund which has total liabilities of £31 billion at 31 December 2015 (2014: £32 billion). The guaranteed minimum bonus is agreed between Aviva France and the AFER association at the end of each year, in respect of the following year. The bonus was 3.05% for 2015 (2014: 3.20%) compared with an accounting income from the fund of 3.54% (2014: 3.69%).

Non-AFER contracts with guaranteed surrender values had liabilities of £16 billion at 31 December 2015 (2014: £16 billion) and all guaranteed annual bonus rates are between 0% and 4.5%. For non-AFER business the accounting income return exceeded guaranteed bonus rates in 2015.

42 – Financial guarantees and options continued

Guaranteed death and maturity benefits

In France, the Group has also sold unit-linked policies where the death and/or maturity benefit is guaranteed to be at least equal to the premiums paid. The reserve held in the Group's consolidated statement of financial position at the end of 2015 for this guarantee is £29 million (2014: £28 million). The reserve is calculated on a prudent basis and is in excess of the economic liability. At the end of 2015, total sums at risk for these contracts were £44 million (2014: £70 million) out of total unit-linked funds of £16 billion (2014: £15 billion). The average age of policyholders was approximately 54. It is estimated that this liability would increase by £45 million (2014: £36 million) if yields were to decrease by 1% per annum and by £10 million (2014: £12 million) if equity markets were to decline by 10% from year end 2015 levels. These figures do not reflect our ability to review the tariff for this option.

(ii) Spain and Italy

Guaranteed investment returns and guaranteed surrender values

The Group has also written contracts containing guaranteed investment returns and guaranteed surrender values in both Spain and Italy. Traditional profit-sharing products receive an appropriate share of the investment return, assessed on a book value basis, subject to a guaranteed minimum annual return of up to 6% in Spain and up to 4% in Italy on existing business, while on new business the maximum guaranteed rate is lower. Liabilities are generally taken as the face value of the contract plus, if required, an explicit provision for guarantees calculated in accordance with local regulations. At 31 December 2015, total liabilities for the Spanish business were £1 billion (2014: £1 billion) with a further reserve of £14 million (2014: £6 million) for guarantees.

Total liabilities for the Italian business were £13.8 billion (2014: £13.9 billion), with a further provision of £41 million (2014: £42 million) for guarantees. Liabilities are most sensitive to changes in the level of interest rates. It is estimated that provisions for guarantees would need to increase by £12 million (2014: £34 million) in Spain and £nil (2014: £nil) in Italy if interest rates fell by 1% (subject to a minimum of 0%) from end 2015 values. Under this sensitivity test, the guarantee provision in Spain is calculated conservatively, assuming a long-term market interest rate of 0.91% and no lapses or premium discontinuances. In the local valuation there is no allowance for stochastic modelling of guarantees and options.

(d) Sensitivity

In providing these guarantees and options, the Group's capital position is sensitive to fluctuations in financial variables including foreign currency exchange rates, interest rates, real estate prices and equity prices. Interest rate guaranteed returns, such as those available on GAOs, are sensitive to interest rates falling below the guaranteed level. Other guarantees, such as maturity value guarantees and guarantees in relation to minimum rates of return, are sensitive to fluctuations in the investment return below the level assumed when the guarantee was made.

43 – Reinsurance assets

This note details the reinsurance recoverables on our insurance and investment contract liabilities.

(a) Carrying amounts

The reinsurance assets at 31 December comprised:

	2015 £m ¹	2014 £m
Long-term business		
Insurance contracts	5,018	4,032
Participating investment contracts	11	3
Non-participating investment contracts ²	13,967	2,533
	18,996	6,568
Outstanding claims provisions	38	43
	19,034	6,611
General insurance and health		
Outstanding claims provisions ³	988	724
Provisions for claims incurred but not reported ³	607	373
	1,595	1,097
Provisions for unearned premiums	289	250
	1,884	1,347
Total	20,918	7,958

1 Reinsurance assets at 31 December 2015 for long-term non-participating investment contracts includes £11,927 million for Friends Life business.

2 Balances in respect of all reinsurance treaties are included under reinsurance assets, regardless of whether they transfer significant insurance risk. The reinsurance assets classified as non-participating investment contracts are financial instruments measured at fair value through profit or loss.

3 Reinsurance assets at 31 December 2015 for General insurance and health business include the impact of the £659 million reinsurance asset recognised on completion of an outward reinsurance contract by the UK general insurance business, which provides significant protection against claims volatility from mesothelioma, industrial deafness and other long tail risks.

Of the above total, £16,341 million (2014: £5,974 million) is expected to be recovered more than one year after the statement of financial position date.

(b) Assumptions

The assumptions, including discount rates, used for reinsurance contracts follow those used for insurance contracts. Reinsurance assets are valued net of an allowance for their recoverability.

43 – Reinsurance assets continued

(c) Movements

The following movements have occurred in the reinsurance assets during the year:

(i) In respect of long-term business provisions

	2015 £m	2014 £m
Carrying amount at 1 January	6,568	5,784
Assets in respect of new business	664	316
Expected change in existing business assets	197	7
Variance between actual and expected experience	(1,007)	536
Impact of operating assumption changes	(351)	(585)
Impact of economic assumption changes	(177)	554
Other movements ¹	636	34
Change in assets	(38)	862
Effect of portfolio transfers, acquisitions and disposals ²	12,504	(13)
Foreign exchange rate movements	(38)	(65)
Carrying amount at 31 December	18,996	6,568

1 The other movements in 2015 include the reclassification of the UK Life staff pension scheme investments in Blackrock and Schroder life insurance funds from investments to reinsurance assets.

2 The movement during 2015 relates to Friends Life, as at the acquisition date. The movement during 2014 includes £12 million related to the disposal of Eurovita and £1 million related to the disposal of CxG.

The impact of assumption changes in the above analysis shows the resulting movement in the carrying value of reinsurance assets and mainly relates to business in the UK, with corresponding movements in gross insurance contract liabilities. For participating businesses, a movement in reinsurance assets is generally offset by a corresponding adjustment to the unallocated divisible surplus and does not impact profit. Where assumption changes do impact profit, these are included in the effect of changes in assumptions and estimates during the year shown in note 44, together with the impact of movements in related liabilities and other non-financial assets.

(ii) In respect of general insurance and health outstanding claims provisions and IBNR

	2015 £m	2014 £m
Carrying amount at 1 January	1,097	1,164
Impact of changes in assumptions	14	65
Reinsurers' share of claim losses and expenses		
Incurred in current year	301	292
Incurred in prior years ¹	527	(105)
Reinsurers' share of incurred claim losses and expenses	828	187
Less:		
Reinsurance recoveries received on claims		
Incurred in current year	(121)	(131)
Incurred in prior years	(225)	(173)
Reinsurance recoveries received in the year	(346)	(304)
Unwind of discounting	8	3
Change in reinsurance asset recognised as income (note 40a(ii))	504	(49)
Effect of portfolio transfers, acquisitions and disposals	(4)	(31)
Foreign exchange rate movements	(2)	8
Other movements	—	5
Carrying amount at 31 December	1,595	1,097

1 The change in reinsurance assets includes the impact of the £659 million reinsurance asset recognised on completion of an outward reinsurance contract by the UK general insurance business, which provides significant protection against claims volatility from mesothelioma, industrial deafness and other long tail risks.

(iii) Reinsurers' share of the provision for UPR

	2015 £m	2014 £m
Carrying amount at 1 January	250	256
Premiums ceded to reinsurers in the year ¹	1,360	643
Less: Reinsurers' share of premiums earned during the year ¹	(1,346)	(634)
Changes in reinsurance asset recognised as income	14	9
Reinsurers' share of portfolio transfers and acquisitions	33	(2)
Foreign exchange rate movements	(8)	(10)
Other movements	—	(3)
Carrying amount at 31 December	289	250

1 Includes £712 million of premiums ceded on completion of the outward reinsurance contract taken out by the UK general insurance business, which provides significant protection against claims volatility from mesothelioma, industrial deafness and other long tail risks.

44 – Effect of changes in assumptions and estimates during the year

Certain estimates and assumptions used in determining our liabilities for insurance and investment contract business were changed from 2014 to 2015, affecting the profit recognised for the year with an equivalent effect on liabilities. This note analyses the effect of the changes. This note only allows for the impact on liabilities and related assets, such as unallocated divisible surplus, reinsurance, deferred acquisition costs and AVIF, and does not allow for offsetting movements in the value of backing financial assets.

	Effect on profit 2015 £m	Effect on profit 2014 £m
Assumptions		
Long-term insurance business		
Interest rates	2,053	(4,578)
Expenses	248	75
Persistency rates	(2)	15
Mortality for assurance contracts	1	20
Mortality for annuity contracts	17	283
Tax and other assumptions	48	75
Investment contracts		
Interest rates	—	(2)
Expenses	(4)	—
General insurance and health business		
Change in discount rate assumptions	(100)	(145)
Change in expense ratio and other assumptions	1	1
Total	2,262	(4,256)

The impact of interest rates on long-term business relates primarily to UK annuities, where an increase in the valuation interest rates, reflecting an increase in risk-free rates and widening of spreads, has reduced liabilities. The overall impact on profit also depends on movements in the value of assets backing the liabilities, which is not included in this disclosure.

There has been a release of expense reserves for the UK Life business following actions to reduce the current and long-term cost base. There has been a release of the annuitant mortality reserves following the annual review of experience in UK Life.

Tax and other assumptions includes an impact of £48 million driven by a reduction in the best estimate allowance for the cost of the Mortgage Protection Guarantee in the UK.

The adverse change in discount rate assumptions on general insurance and health business of £100 million arises as a result of a decrease in the swap rates used to discount latent claim reserves, and a decrease in the swap rates, net of expected future inflation, used to value periodic payment orders. In 2014 discount rate assumption changes were £145 million adverse due to a decrease in the swap rates used to discount latent claims reserves and periodic payment orders.

45 – Unallocated divisible surplus

An unallocated divisible surplus (UDS) is established where the nature of policy benefits is such that the division between shareholder reserves and policyholder liabilities is uncertain at the reporting date. Therefore the expected duration for settlement of the UDS is not defined.

This note shows the movements in the UDS during the year.

	2015 £m	2014 £m
Carrying amount at 1 January	9,467	6,709
Change in participating contract assets	(935)	3,087
Change in participating contract liabilities	(36)	299
Other movements	(13)	(22)
Change in liability recognised as an expense	(984)	3,364
Effect of portfolio transfers, acquisition and disposals	724	(131)
Foreign exchange rate movements	(396)	(444)
Other movements	—	(31)
Total	8,811	9,467

The amount of UDS has decreased to £8.8 billion at 31 December 2015 (2014: £9.5 billion), despite the acquisition of Friends Life in April 2015 which increased the UDS balance by £724 million. The reduction is driven primarily by adverse investment market movements in Continental Europe, mainly caused by the increase in interest rates and corporate bond yields during the year. In addition, the UDS has reduced by £396 million due predominantly to the weakening of the euro.

Negative UDS balances result from an accounting mismatch between participating assets carried at market value and participating liabilities measured using local practice. Any negative balances are tested for recoverability using embedded value methodology and in line with local accounting practice. Testing is conducted at a participating fund-level within each life entity.

In both Italy and Spain, all participating funds had positive UDS balances at 31 December 2015, and consequently testing of negative UDS was not required. In Italy, the carrying value of UDS was £840 million positive (2014: £953 million positive); in Spain, the carrying value of UDS was £207 million positive (2014: £248 million positive).

46 – Tax assets and liabilities

This note analyses the tax assets and liabilities that appear in the statement of financial position and explains the movements in these balances in the year.

(a) Current tax

Current tax assets recoverable and liabilities payable in more than one year are £4 million and £50 million (*2014: £15 million and £13 million*), respectively.

(b) Deferred tax

(i) The balances at 31 December comprise:

	2015 £m	2014 £m
Deferred tax assets	131	76
Deferred tax liabilities	(2,074)	(1,091)
Net deferred tax liability	(1,943)	(1,015)

(ii) The net deferred tax liability arises on the following items:

	2015 £m	2014 £m
Long-term business technical provisions and other insurance items	1,433	2,263
Deferred acquisition costs	(205)	(251)
Unrealised gains on investments	(2,571)	(2,885)
Pensions and other post-retirement obligations	(354)	(499)
Unused losses and tax credits	247	227
Subsidiaries, associates and joint ventures	(16)	(12)
Intangibles and additional value of in-force long-term business	(814)	(170)
Provisions and other temporary differences	337	312
Net deferred tax liability	(1,943)	(1,015)

(iii) The movement in the net deferred tax liability was as follows:

	2015 £m	2014 £m
Net liability at 1 January	(1,015)	(312)
Acquisition and disposal of subsidiaries ¹	(1,338)	5
Amounts credited/(charged) to income statement (note 13a)	339	(291)
Amounts credited/(charged) to other comprehensive income (note 13b)	55	(445)
Foreign exchange rate movements	20	28
Other movements	(4)	—
Net liability at 31 December	(1,943)	(1,015)

¹ The movement during 2015 relates to the acquisition of Friends Life.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. In countries where there is a history of tax losses, deferred tax assets are only recognised in excess of deferred tax liabilities if there is convincing evidence that future taxable profits will be available. Where this is the case, the directors have relied on business plans supporting future profits.

The Group has unrecognised gross tax losses (excluding capital losses) and other temporary differences of £562 million (*2014: £694 million*) to carry forward against future taxable income of the necessary category in the companies concerned. Of these, trading losses of £51 million will expire within the next 20 years. The remaining losses have no expiry date.

In addition, the Group has unrecognised gross capital losses of £509 million (*2014: £434 million*). These have no expiry date.

There are no temporary differences in respect of unremitted overseas retained earnings for which deferred tax liabilities have not been recognised at 31 December 2015 (*2014: £nil*).

As legislated in Finance (No 2) Act 2015, which was substantively enacted on 26 October 2015, the UK corporation tax rate will reduce to 19% from 1 April 2017 and to 18% from 1 April 2020. The reductions in rate from 20% to 19% and then to 18% have been used in the calculation of the UK's deferred tax assets and liabilities as at 31 December 2015. In addition, the calculation of deferred tax assets and liabilities in France and Italy reflect the reduction in corporation tax rates from 38% to 34.43% (effective 1 January 2016) and from 34.3% to 30.8% (effective 1 January 2017) respectively. The reduction in the future corporation tax rates in the UK, France and Italy has resulted in a reduction in the Group's net deferred tax liabilities of £120 million, comprising a £82 million credit included in the income statement and a £38 million credit included in the statement of comprehensive income.

47 – Provisions

This note details the non-insurance provisions that the Group holds, and shows the movements in these during the year.

(a) Carrying amounts

	2015 £m	2014 £m
Total IAS 19 obligations to main staff pension schemes (note 48(a))	686	391
Deficits in other staff pension schemes	46	43
Total IAS 19 obligations to staff pension schemes	732	434
Restructuring provisions	166	97
Other provisions	518	348
Total provisions	1,416	879

Other provisions comprise provisions throughout the Group for obligations such as costs of compensation, litigation and staff entitlements.

(b) Movements on restructuring and other provisions

	Restructuring provisions £m	Other provisions £m	Total £m	2015	2014
At 1 January	97	348	445	140	437
Additional provisions	382	112	494	74	150
Unused amounts reversed	(7)	(130)	(137)	—	(118)
Change in the discounted amount arising from passage of time	1	1	2	—	2
Charge/(release) to income statement	376	(17)	359	74	34
Utilised during the year	(307)	(108)	(415)	(115)	(112)
Acquisition/(disposal) of subsidiaries	—	297	297	—	(7)
Foreign exchange rate movements	—	(2)	(2)	(2)	(6)
At 31 December	166	518	684	97	348
				2014	

Movements during 2015 primarily relate to the acquisition of Friends Life.

Of the total restructuring and other provisions, £199 million (2014: £103 million) is expected to be settled more than one year after the statement of financial position date.

48 – Pension obligations

(a) Introduction

The Group operates a number of defined benefit and defined contribution pension schemes. The material defined benefit schemes are in the UK, Ireland, and Canada with the main UK scheme being the largest. The assets and liabilities of these defined benefit schemes as at 31 December 2015 are shown below.

	UK £m	Ireland £m	Canada £m	Total £m	UK £m	Ireland £m	Canada £m	Total £m
Total fair value of scheme assets (see b(ii) below)	15,445	484	232	16,161	14,733	483	258	15,474
Present value of defined benefit obligation	(13,344)	(673)	(307)	(14,324)	(12,079)	(748)	(343)	(13,170)
Net IAS19 surpluses/(deficits) in the schemes	2,101	(189)	(75)	1,837	2,654	(265)	(85)	2,304
Surpluses included in other assets (note 28)	2,523	—	—	2,523	2,695	—	—	2,695
Deficits included in provisions (note 47)	(422)	(189)	(75)	(686)	(41)	(265)	(85)	(391)
Net IAS19 surpluses/(deficits) in the schemes	2,101	(189)	(75)	1,837	2,654	(265)	(85)	2,304

This note gives full IAS 19, Employee Benefits, disclosures for the above material schemes. The smaller ones, while still measured under IAS 19, are included as one total within Provisions (see note 47). Similarly, while the charges to the income statement for the main schemes are shown in section (b)(i) below, the total charges for all pension schemes are disclosed in section (d) below.

The assets of the UK, Irish and Canadian schemes are held in separate trustee-administered funds to meet long-term pension liabilities to past and present employees. In all schemes, the appointment of trustees of the funds is determined by their trust documentation, and they are required to act in the best interests of the schemes' beneficiaries. The long-term investment objectives of the trustees and the employers are to limit the risk of the assets failing to meet the liabilities of the schemes over the long-term, and to maximise returns consistent with an acceptable level of risk so as to control the long-term costs of these schemes.

A full actuarial valuation of each of the defined benefit schemes is carried out at least every three years for the benefit of scheme trustees and members. Actuarial reports have been submitted for each scheme within this period, using appropriate methods for the respective countries on local funding bases.

48 – Pension obligations continued

The number of scheme members was as follows:

	United Kingdom		Ireland		Canada	
	2015 Number	2014 Number	2015 Number	2014 Number	2015 Number	2014 Number
Deferred members	56,130	51,239	1,937	1,957	715	784
Pensioners	36,799	32,360	771	763	1,344	1,360
Total members	92,929¹	83,599	2,708	2,720	2,059	2,144

¹ The net increase in members in the UK is primarily due to the Friend Provident Pension Scheme, which as at 31 December 2015 has 9,688 deferred members and 4,125 pensioners.

All schemes are closed to future accrual. Closure of the schemes has removed the volatility associated with additional future accrual for active members.

(i) UK schemes

In the UK, the Group operates three main pension schemes, the Aviva Staff Pension Scheme (ASPS), the smaller RAC (2003) Pension Scheme which was retained after the sale of RAC Limited in September 2011 and the Friends Provident Pension Scheme (FPPS) which was acquired during the year as part of the Friends Life acquisition. As the defined benefit section of the UK schemes is now closed to both new members and future accrual, existing deferred members in active service and new entrants participate in the defined contribution section of the ASPS. The UK schemes operate within the UK pensions' regulatory framework.

(ii) Other schemes

Future accruals for the Irish and Canadian defined benefit schemes ceased with effect from 30 April 2013 and 31 December 2011 respectively. The Irish scheme is regulated by the Pensions Authority in Ireland. The main Canadian plan is Registered Pension Plan in Canada and as such is registered with the Canada Revenue Agency and Financial Services Commission of Ontario and is required to comply with the Income Tax of Canada and the various provincial Pension Acts within Canada.

(b) IAS 19 disclosures

Disclosures under IAS 19 for the material defined benefit schemes in the UK, Ireland and Canada, are given below. Where schemes provide both defined benefit and defined contribution pensions, the assets and liabilities shown exclude those relating to defined contribution pensions.

(i) Movements in the scheme deficits and surpluses

Movements in the pension schemes' surpluses and deficits comprise:

2015	Fair Value of Scheme Assets £m	Present Value of defined benefit obligation £m	IAS 19 Pensions net surplus/(deficits) £m
Net IAS 19 surplus in the schemes at 1 January	15,474	(13,170)	2,304
Past service costs – amendments	—	1	1
Administrative expenses ¹	—	(15)	(15)
Total pension cost charged to net operating expenses	—	(14)	(14)
Net interest credited/(charged) to investment income /(finance costs) ²	584	(504)	80
Total recognised in income	584	(518)	66

Remeasurements:

Actual return on these assets	99	—	99
Less: Interest income on scheme assets	(584)	—	(584)
Return on scheme assets excluding amounts in interest income	(485)	—	(485)
Gains from change in financial assumptions	—	234	234
Gains from change in demographic assumptions	—	3	3
Experience gains	—	13	13
Total recognised in other comprehensive income	(485)	250	(235)

Acquisitions – gross surplus	1,701	(1,633)	68
Acquisitions – consolidation elimination for non-transferable Group insurance policy ³	(631)	—	(631)
Acquisitions – net deficit	1,070	(1,633)	(563)
Employer contributions	240	—	240
Plan participant contributions	3	(3)	—
Benefits paid	(656)	656	—
Administrative expenses paid from scheme assets ¹	(15)	15	—
Foreign exchange rate movements	(54)	79	25
Net IAS 19 surplus in the schemes at 31 December	16,161	(14,324)	1,837

¹ Administrative expenses are expensed as incurred.

² Net interest income of £105 million has been credited to investment income and net interest expense of £25 million has been charged to finance costs (see Note 7).

³ The gross surplus of £68 million on acquisition relates to the FPPS. As the FPPS assets include an insurance policy of £631 million at acquisition date, issued by a Group company that is not transferable under IAS 19, it is eliminated from the scheme assets.

The present value of unfunded post-retirement benefit obligations included in the table above is £111 million at 31 December 2015 (*2014: £120 million*).

48 – Pension obligations continued

The net surplus at 31 December 2015 includes FPPS following the acquisition of Friends Life. Remeasurements recognised in other comprehensive income reflect reduced asset values driven by a rise in interest rates in the UK partly offset by a decrease in the defined benefit obligation due to an increase in the UK discount rate. These impacts were offset in the net surplus by employer contributions.

	Fair Value of Scheme Assets £m	Present Value of defined benefit obligation £m	IAS 19 Pensions net surplus/(deficits) £m
2014			
Net IAS 19 surplus in the schemes at 1 January	12,398	(12,159)	239
Administrative expenses ¹	—	(27)	(27)
Total pension cost charged to net operating expenses	—	(27)	(27)
Net interest credited/(charged) to investment income /(finance costs) ²	542	(522)	20
Total recognised in income from continuing operations	542	(549)	(7)
Remeasurements:			
Actual return on these assets	3,135	—	3,135
Less: Interest income on scheme assets	(542)	—	(542)
Return on scheme assets excluding amounts in interest income	2,593	—	2,593
Losses from change in financial assumptions	—	(1,063)	(1,063)
Gains from change in demographic assumptions	—	150	150
Experience losses	—	(18)	(18)
Total recognised in other comprehensive income from continuing operations	2,593	(931)	1,662
Employer contributions	391	—	391
Plan participant contributions	—	—	—
Benefits paid	(385)	385	—
Administrative expenses paid from scheme assets ¹	(27)	27	—
Foreign exchange rate movements	(38)	57	19
Net IAS 19 surplus in the schemes at 31 December	15,474	(13,170)	2,304

1 Administrative expenses are expensed as incurred.

2 Net interest income of £33 million has been credited to investment income and net interest expense of £13 million has been charged to finance costs (see note 7).

(ii) Scheme assets

Scheme assets are stated at their fair values at 31 December 2015.

Total scheme assets are comprised by scheme as follows:

	UK £m	Ireland £m	Canada £m	Total £m	UK £m	Ireland £m	Canada £m	2014 Total £m
Bonds								
Fixed interest	5,542	216	133	5,891	5,519	213	130	5,862
Index-linked	5,758	114	—	5,872	5,568	122	—	5,690
Equities	70	—	—	70	98	—	—	98
Property	377	7	—	384	328	9	—	337
Pooled investment vehicles	2,904	143	96	3,143	2,010	137	110	2,257
Derivatives	96	—	—	96	584	1	—	585
Cash and other ¹	1,244	4	3	1,251	626	1	18	645
Total fair value of assets	15,991	484	232	16,707	14,733	483	258	15,474
Less: consolidation elimination for non-transferable Group insurance policy ²	(546)	—	—	(546)	—	—	—	—
Total IAS 19 fair value of scheme assets	15,445	484	232	16,161	14,733	483	258	15,474

1 Cash and other assets comprise cash at bank, insurance policies, receivables and payables.

2 FPPS assets are included in the UK balances. As at 31 December 2015, the FPPS's cash and other balances includes an insurance policy of £546 million issued by a Group company that is not transferable under IAS 19 and is consequently eliminated from the Group's IAS 19 scheme assets.

48 – Pension obligations continued

Total scheme assets are analysed by those that have a quoted market price in active market and other as follows:

	2015			2014		
	Total Quoted £m	Total Unquoted £m	Total £m	Total Quoted £m	Total Unquoted £m	Total £m
Bonds						
Fixed interest	2,796	3,095	5,891	2,907	2,955	5,862
Index-linked	5,436	436	5,872	5,240	450	5,690
Equities	70	—	70	74	24	98
Property	—	384	384	—	337	337
Pooled investment vehicles	291	2,852	3,143	130	2,127	2,257
Derivatives	6	90	96	(22)	607	585
Cash and other ¹	532	719	1,251	432	213	645
Total fair value of assets	9,131	7,576	16,707	8,761	6,713	15,474
Less: consolidation elimination for non-transferable Group insurance policy ²	—	(546)	(546)	—	—	—
Total IAS 19 fair value of scheme assets	9,131	7,030	16,161	8,761	6,713	15,474

1 Cash and other assets comprise cash at bank, insurance policies, receivables and payables.

2 FPPS assets are included in the UK balances. As at 31 December 2015, the FPPS's cash and other balances includes an insurance policy of £546 million issued by a Group company that is not transferable under IAS 19 and is consequently eliminated from the Group's IAS 19 scheme assets.

IAS 19 plan assets include investments in Group-managed funds in the consolidated statement of financial position of £1,115 million (2014: £905 million) and transferable insurance policies with other Group companies of £163 million (2014: £189 million) in ASPS. Where the investment and insurance policies are in segregated funds with specific asset allocations, they are included in the appropriate line in the table above, otherwise they appear in 'Cash and other'.

(iii) Assumptions on scheme liabilities

The valuations used for accounting under IAS 19 have been based on the most recent full actuarial valuations, updated to take account of the standard's requirements in order to assess the liabilities of the material schemes at 31 December 2015.

The projected unit credit method

The inherent uncertainties affecting the measurement of scheme liabilities require these to be measured on an actuarial basis. This involves discounting the best estimate of future cash flows to be paid out by the scheme using the projected unit credit method. This is an accrued benefits valuation method which calculates the past service liability to members and makes allowance for their projected future earnings. It is based on a number of actuarial assumptions, which vary according to the economic conditions of the countries in which the relevant businesses are situated, and changes in these assumptions can materially affect the measurement of the pension obligations.

Financial assumptions

The main financial assumptions used to calculate scheme liabilities under IAS 19 are:

	UK		Ireland		Canada	
	2015	2014	2015	2014	2015	2014
Inflation rate ¹	3.15%/2.05%	3.1%/2.0%	1.6%	1.5%	2.5%	2.5%
General salary increases ²	4.95%	4.9%	3.1%	3.0%	3.0%	3.0%
Pension increases ³	3.15%/2.05%	3.1%/2.0%	0.4%	0.4%	1.25%	1.25%
Deferred pension increases ³	3.15%/2.05%	3.1%/2.0%	1.6%	1.5%	—	—
Discount rate ⁴	3.75% 3.6%(pensioners)/ 3.8%(deferred)	3.7%	2.3%	2.1%	3.75%	4.0%
Basis of discount rate	AA-rated corporate bonds		AA-rated corporate bonds		AA-rated corporate bonds	

1 For the UK schemes, assumptions provided for RPI/CPI. In the UK, the assumptions for the ASPS and RAC schemes are the single rates for RPI/CPI; for FPPS, relevant RPI/CPI swap curves are used, which are broadly equivalent to these single rates.

2 In the UK, the only remaining linkage between pension benefits and general salary increases is in respect of a small amount of Guaranteed Minimum Pension benefits, in line with National Average Earnings.

3 For the UK schemes, assumptions provided for RPI/CPI. In the UK, the assumptions for the ASPS and RAC schemes are single rates for RPI/CPI; for FPPS, relevant RPI/CPI swap curves are used, which are broadly equivalent to these single rates. The assumptions are also adjusted to reflect the relevant caps/floors and the inflation volatility.

4 To calculate scheme liabilities in the UK, a single discount rate is used in ASPS/RAC, whereas in FPPS, separate discount rates are used for the defined benefit obligation for pensioners and deferred.

The discount rate and pension increase rate are the two assumptions that have the largest impact on the value of the liabilities, with the difference between them being known as the net discount rate. For each country, the discount rate is based on current average yields of high-quality debt instruments taking account of the maturities of the defined benefit obligations.

48 – Pension obligations continued

Mortality assumptions

Mortality assumptions are significant in measuring the Group's obligations under its defined benefit schemes, particularly given the maturity of these obligations in the material schemes. The assumptions used are summarised in the table below and have been selected to reflect the characteristics and experience of the membership of these schemes.

The mortality tables, average life expectancy and pension duration used at 31 December 2015 for scheme members are as follows:

Mortality table		Normal retirement age (NRA)	Life expectancy/(pension duration) at NRA of a male		Life expectancy/(pension duration) at NRA of a female	
			Currently aged NRA	20 years younger than NRA	Currently aged NRA	20 years younger than NRA
UK- ASPS	Club Vita pooled experience, including an allowance for future improvements	60	89.8 (29.8)	91.7 (31.7)	90.8 (30.8)	92.6 (32.6)
– RAC	SAPS, including allowances for future improvement	65	87.5 (22.5)	90.1 (25.1)	89.3 (24.3)	91.6 (26.6)
– FPPS	SAPS, including allowances for future improvement	60	88.6 (28.6)	90.2 (30.2)	89.6 (29.6)	91.9 (31.9)
Ireland	89% PNA00 with allowance for future improvements	61	88.0 (27.0)	91.3 (30.3)	90.9 (29.9)	94.1 (33.1)
Canada	Canadian Pensioners' Mortality 2014 Private Table	65	86.5 (21.5)	87.6 (22.6)	89.0 (24.0)	90.0 (25.0)

The assumptions above are based on commonly used mortality tables. The tables make allowance for observed variations in such factors as age, gender, pension amount, salary and postcode-based lifestyle group, and have been adjusted to reflect recent research into mortality experience. However, the extent of future improvements in longevity is subject to considerable uncertainty and judgement is required in setting this assumption. In ASPS, which is the most material to the Group, the allowance for mortality improvement is per the actuarial professions' CMI 2013 model, with assumed long-term rates of improvement of 1.75% p.a. for males, and 1.50% p.a. for females.

Sensitivity analysis

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate, inflation rate and mortality. The sensitivities analyses below have been determined based on reasonably possible changes of the respective assumptions, holding all other assumptions constant. The following table summarises how the defined benefit obligation would have increased/(decreased) as a result of the change in the respective assumptions:

Impact on present value of defined benefit obligation

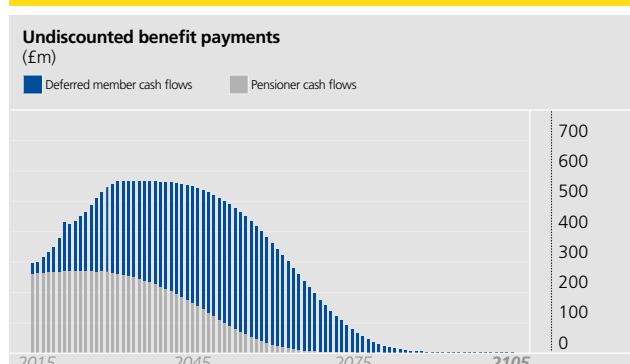
	Increase in discount rate +1% £m	Decrease in discount rate -1% £m	Increase in inflation rate +1% £m	Decrease in inflation rate -1% £m	1 year younger ¹ £m
Impact on present value of defined benefit obligation at 31 December 2015	(2,398)	3,112	2,592	(2,064)	396
Impact on present value of defined benefit obligation at 31 December 2014	(2,170)	2,911	2,747	(2,081)	367

1 The effect of assuming all members in the schemes were one year younger.

The sensitivity analyses presented above may not be representative as in practice it is unlikely that the changes in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, the present value of the defined benefit obligation has been calculated using the projected unit credit method, which is the same as that applied in calculating the defined benefit obligation liability recognised within the consolidated statement of financial position. In addition, the sensitivities shown are for liabilities only and ignore the impact on assets, which would significantly mitigate the net interest rate and inflation sensitivity impact on the net surplus.

Maturity profile of the defined benefit obligation

The discounted scheme liabilities have an average duration of 19 years in ASPS, 21 years in FPPS, 19 years in the RAC scheme, 19 years in the Irish scheme and 12 years in the Canadian scheme. The expected undiscounted benefits payable from the main UK defined benefit scheme, ASPS, is shown in the chart below:



48 – Pension obligations continued

(iv) Risk management and asset allocation strategy

As noted above, the long-term investment objectives of the trustees and the employers are to limit the risk of the assets failing to meet the liabilities of the schemes over the long-term, and to maximise returns consistent with an acceptable level of risk so as to control the long-term costs of these schemes. To meet these objectives, the schemes' assets are invested in a portfolio, consisting primarily (approximately 75%) of debt securities as detailed in section (b)(ii). The investment strategy will continue to evolve over time and is expected to match the liability profile increasingly closely with swap overlays to improve interest rate and inflation matching. The schemes are generally matched to interest rate risk relative to the funding basis.

Main UK scheme

The Company works closely with the trustee, who is required to consult it on the investment strategy.

Interest rate and inflation risks are managed using a combination of liability-matching assets and swaps. Exposure to equity risk has been reducing over time and credit risk is managed within risk appetite. Currency risk is relatively small and is largely hedged. The other principal risk is longevity risk. In 2014, ASPS entered into a longevity swap covering approximately £5 billion of pensioner in payment scheme liabilities.

Other schemes

The other schemes are considerably less material but their risks are managed in a similar way to those in the main UK scheme. During the year, the RAC pension scheme entered into a longevity swap covering approximately £600 million of pensioner in payment scheme liabilities.

(v) Funding

Formal actuarial valuations normally take place every three years and where there is a deficit, the Company and the trustee would agree a deficit recovery plan. The assumptions adopted for triennial actuarial valuations are determined by the trustee and agreed with the Company and are normally more prudent than the assumptions adopted for IAS19 purposes, which are best estimate.

For ASPS, following the latest formal actuarial valuation (with an effective date of 31 March 2012) a deficit recovery plan was agreed, to make good the deficit over a period of time, consistent with the requirements of the UK pension regulations. As at 31 December 2015, the ASPS was fully funded. The Company is currently undergoing a triennial actuarial valuation as at 31 March 2015.

Total employer contributions for all schemes in 2016 are currently expected to be £130 million.

(c) Defined contribution (money purchase) section of the ASPS

The trustees have responsibility for selecting a range of suitable funds in which the members can choose to invest and for monitoring the performance of the available investment funds. Members are responsible for reviewing the level of contributions they pay and the choice of investment fund to ensure these are appropriate to their attitude to risk and their retirement plans. Members of this section contribute at least 2% of their pensionable salaries and, depending on the percentage chosen, the Company contributes up to a maximum 14%, together with the cost of the death-in-service benefits. These contribution rates are unchanged for 2016. The amount recognised as an expense for defined contribution schemes is shown section (d) below.

(d) Charge to staff costs in the income statement

The total pension charge to staff costs for all of the Group's defined benefit and defined contribution schemes were:

	2015 £m	2014 £m
Continuing operations		
UK defined benefit schemes	12	31
Overseas defined benefit schemes	1	(1)
Total defined benefit schemes (note 10b)	13	30
UK defined contribution schemes	108	94
Overseas defined contribution schemes	15	16
Total defined contribution schemes (note 10b)	123	110
Total charge for pension schemes	136	140

There were no significant contributions payable or prepaid in the consolidated statement of financial position as at either 31 December 2015 or 2014.

49 – Borrowings

Our borrowings are either core structural borrowings or operational borrowings. This note shows the carrying values and contractual maturity amounts of each type, and explains their main features and movements during the year.

(a) Analysis of total borrowings

Total borrowings comprise:

	2015 £m	2014 £m
Core structural borrowings, at amortised cost	6,912	5,310
Operational borrowings, at amortised cost	550	696
Operational borrowings, at fair value	1,308	1,372
	1,858	2,068
	8,770	7,378

(b) Core structural borrowings

(i) The carrying amounts of these borrowings are:

	Upper Tier 2 £m	Lower Tier 2 £m	Senior £m	Total £m	Upper Tier 2 £m	Lower Tier 2 £m	Senior £m	Total £m
Subordinated debt								
6.125% £700 million subordinated notes 2036	—	693	—	693	—	692	—	692
5.700% €500 million undated subordinated notes	—	—	—	—	387	—	—	387
6.125% £800 million undated subordinated notes	795	—	—	795	794	—	—	794
6.875% £600 million subordinated notes 2058	—	594	—	594	—	594	—	594
6.875% €500 million subordinated notes 2018	—	368	—	368	—	387	—	387
12.00% £162 million subordinated notes 2021	—	221	—	221	—	—	—	—
8.25% £500 million subordinated notes 2022	—	615	—	615	—	—	—	—
6.625% £450 million subordinated notes 2041	—	447	—	447	—	447	—	447
8.25% \$400 million subordinated notes 2041	—	269	—	269	—	252	—	252
7.875% \$575 million undated subordinated notes	430	—	—	430	—	—	—	—
6.125% €650 million subordinated notes 2043	—	477	—	477	—	502	—	502
3.875% €700 million subordinated notes 2044	—	512	—	512	—	539	—	539
5.125% £400 million subordinated notes 2050	—	394	—	394	—	—	—	—
3.375% €900 million subordinated notes 2045	—	654	—	654	—	—	—	—
	1,225	5,244	—	6,469	1,181	3,413	—	4,594
Debenture Loans								
9.5% guaranteed bonds 2016	—	—	—	—	—	200	200	200
	—	—	—	—	—	—	200	200
Commercial paper								
	—	—	485	485	—	—	516	516
	1,225	5,244	485	6,954	1,181	3,413	716	5,310
Less: Amount held by Group companies	(17)	(25)	—	(42)	—	—	—	—
Total	1,208	5,219	485	6,912	1,181	3,413	716	5,310

The classifications between Upper Tier 2, Lower Tier 2 and Senior debt shown above are as defined by the PRA in GENPRU Annex 1 'Capital Resources'. The Upper Tier 2 and Lower Tier 2 instruments count as 'Tier 1 restricted' and 'Tier 2' capital respectively from 1 January 2016 under the Solvency II Own Funds guidelines issued by the PRA.

All the above borrowings are stated at amortised cost.

(ii) The contractual maturity dates of undiscounted cash flows for these borrowings are:

	Principal £m	Interest £m	Total £m	Principal £m	Interest £m	Total £m
Within one year	485	394	879	516	304	820
1 to 5 years	—	1,577	1,577	200	1,149	1,349
5 to 10 years	662	1,731	2,393	—	1,340	1,340
10 to 15 years	1,190	1,668	2,858	1,188	1,322	2,510
Over 15 years	4,448	3,496	7,944	3,442	2,924	6,366
Total contractual undiscounted cash flows	6,785	8,866	15,651	5,346	7,039	12,385

Borrowings are considered current if the contractual maturity dates are within a year. Where subordinated debt is undated or loan notes are perpetual, the interest payments have not been included beyond 15 years. Annual interest payments in future years for these borrowings are £79 million (2014: £72 million).

Contractual undiscounted interest payments are calculated based on underlying fixed interest rates or prevailing market floating rates as applicable. Year-end exchange rates have been used for interest projections on loans in foreign currencies.

49 – Borrowings continued

(c) Operational borrowings

(i) The carrying amounts of these borrowings are:

	2015 £m	2014 £m
Amounts owed to financial institutions		
Loans	550	696
Securitised mortgage loan notes		
UK lifetime mortgage business	1,308	1,372
Total	1,858	2,068

All the above borrowings are stated at amortised cost, except for the loan notes issued in connection with the UK lifetime mortgage business of £1,308 million (2014: £1,372 million). These loan notes are carried at fair value, their values are modelled on risk-adjusted cash flows for defaults discounted at a risk-free rate plus a market-determined liquidity premium, and are therefore classified as either 'Level 2' or 'Level 3' in the fair value hierarchy, depending on whether observable market prices are available for the loan note. These have been designated at fair value through profit and loss in order to present the relevant mortgages, borrowings and derivative financial instruments at fair value, since they are managed as a portfolio on a fair value basis. This presentation provides more relevant information and eliminates any accounting mismatch.

The securitised mortgage loan notes are at various fixed, floating and index-linked rates. Further details about these notes are given in note 24.

(ii) The contractual maturity dates of undiscounted cash flows for these borrowings are:

	2015			2014		
	Principal £m	Interest £m	Total £m	Principal £m	Interest £m	Total £m
Within one year	204	60	264	342	65	407
1 to 5 years	204	269	473	199	278	477
5 to 10 years	551	283	834	508	307	815
10 to 15 years	652	185	837	702	212	914
Over 15 years	498	132	630	625	144	769
Total contractual undiscounted cash flows	2,109	929	3,038	2,376	1,006	3,382

Contractual undiscounted interest payments are calculated based on underlying fixed interest rates or prevailing market floating rates as applicable. Year-end exchange rates have been used for interest projections on loans in foreign currencies.

(d) Description and features

(i) Subordinated debt

A description of each of the subordinated notes is set out in the table below:

Notional amount	Issue date	Redemption date	Callable at par at option of the Company from	In the event the Company does not call the notes, the coupon will reset at each applicable reset date to
£700 million	14 Nov 2001	14 Nov 2036	16 Nov 2026	5 year Benchmark Gilt + 2.85%
€500 million ¹	29 Sep 2003	Undated	29 Sep 2015	3 month Euribor + 2.35%
£800 million	29 Sep 2003	Undated	29 Sep 2022	5 year Benchmark Gilt + 2.40%
£600 million	20 May 2008	20 May 2058	20 May 2038	3 month LIBOR + 3.26%
€500 million	20 May 2008	22 May 2038	22 May 2018	3 month Euribor + 3.35%
£162 million	21 May 2009	21 May 2021	N/A	N/A
£500 million	21 April 2011	21 April 2022	N/A	N/A
£450 million	26 May 2011	3 June 2041	3 June 2021	6 Month LIBOR + 4.136%
\$400 million	22 November 2011	1 December 2041	1 December 2016	8.25% (fixed)
\$575 million	8 November 2012	Undated	8 November 2018	6 year USD mid-swaps + 6.828%
€650 million	5 July 2013	5 July 2043	5 July 2023	5 year EUR mid-swaps + 5.13%
€700 million	3 July 2014	3 July 2044	3 July 2024	5 year EUR mid-swaps + 3.48%
£400 million	4 June 2015	4 June 2050	4 December 2030	3 month Euribor + 4.022%
€900 million	4 June 2015	4 December 2045	4 December 2025	3 month Euribor + 3.55%

¹ The €500 million subordinated notes were redeemed at their first call date on 29 September 2015.

Subordinated notes issued by the Company rank below its senior obligations and ahead of its preference shares and ordinary share capital. The dated subordinated notes rank ahead of the undated subordinated notes. The fair value of notes at 31 December 2015 was £6,810 million (2014: £5,188 million), calculated with reference to quoted prices.

(ii) Debenture loans

The 9.5% guaranteed bonds were redeemed in full on 18 September 2015, ahead of their 20 June 2016 maturity date, at a redemption price of £218 million including accrued interest.

The guaranteed bonds were issued by the Company in 1996 at a discount of £1.1 million.

(iii) Commercial paper

The commercial paper consists of £485 million issued by the Company (2014: £516 million) and is considered core structural funding.

The fair value of the commercial paper is considered to be the same as its carrying value and all issuances are repayable within one year.

49 – Borrowings continued

(iv) Loans

Loans comprise:

	2015 £m	2014 £m
Non-recourse		
Loans to property partnerships (see (a) below)	62	199
UK Life reinsurance (see (b) below)	160	178
Other non-recourse loans (see (c) below)	208	219
	430	596
Other loans (see (d) below)	120	100
	550	696

(a) As explained in accounting policy D, the UK long-term business policyholder funds have invested in a number of property funds and structures (the ‘Property Funds’), some of which have raised external debt, secured on the relevant Property Fund’s property portfolio. The lenders are only entitled to obtain payment of interest and principal to the extent there are sufficient resources in the relevant Property Fund and they have no recourse whatsoever to the policyholder or shareholders’ funds of any companies in the Group. Loans of £62 million (2014: £199 million) included in the table relate to those Property Funds which have been consolidated as subsidiaries.

(b) The UK long-term business entered into a financial reinsurance agreement with Swiss Re in 2008, under which up-front payments are received from Swiss Re in return for 90% of future surpluses arising. The loan will be repaid as profits emerge on the business.

(c) Other non-recourse loans primarily include external debt raised by special purpose vehicles in the UK long-term business. The lenders have no recourse whatsoever to the shareholders’ funds of any companies in the Group.

(d) Other loans include external debt raised by overseas long-term businesses to fund operations.

(v) Securitised mortgage loan notes

Loan notes have been issued by special purpose securitisation companies in the UK. Details are given in note 24.

(e) Movements during the year

Movements in borrowings during the year were:

	2015			2014		
	Core Structural £m	Operational £m	Total £m	Core Structural £m	Operational £m	Total £m
New borrowings drawn down, excluding commercial paper, net of expenses	1,045	22	1,067	552	1	553
Repayment of borrowings, excluding commercial paper	(833)	(161)	(994)	(241)	(372)	(613)
Movement in commercial paper ¹	(3)	—	(3)	1	—	1
Net cash inflow/(outflow)	209	(139)	70	312	(371)	(59)
Foreign exchange rate movements	(106)	(2)	(108)	(132)	(5)	(137)
Borrowings acquired/(loans repaid) for non-cash consideration	1,568	11	1,579	—	(321)	(321)
Fair value movements	—	37	37	—	70	70
Amortisation of discounts and other non-cash items	(27)	(17)	(44)	5	(29)	(24)
Movements in debt held by Group companies ²	(42)	(100)	(142)	—	1	1
Movements in the year	1,602	(210)	1,392	185	(655)	(470)
Balance at 1 January	5,310	2,068	7,378	5,125	2,723	7,848
Balance at 31 December	6,912	1,858	8,770	5,310	2,068	7,378

1 Gross issuances of commercial paper were £982 million in 2015 (2014: £1,830 million), offset by repayments of £985 million (2014: £1,829 million).

2 Certain subsidiary companies have purchased issued subordinated notes and securitised loan notes as part of their investment portfolios. In the consolidated statement of financial position, borrowings are shown net of these holdings but movements in such holdings over the year are reflected in the tables above.

All movements in fair value in 2014 and 2015 on securitised mortgage loan notes designated as fair value through profit or loss were attributable to changes in market conditions.

(f) Undrawn borrowings

The Group has the following undrawn committed central borrowing facilities available to them, which are used to support the commercial paper programme:

	2015 £m	2014 £m
Expiring within one year	575	350
Expiring beyond one year	1,075	1,200
	1,650	1,550

50 – Payables and other financial liabilities

This note analyses our payables and other financial liabilities at the end of the year.

	2015 £m	2014 £m
Payables arising out of direct insurance	1,106	948
Payables arising out of reinsurance operations	443	358
Deposits and advances received from reinsurers	110	92
Bank overdrafts (see below)	506	550
Derivative liabilities (note 58)	3,881	3,481
Amounts due to brokers for investment purchases	341	73
Obligations for repayment of cash collateral received	4,855	5,577
Other financial liabilities	1,206	933
Total	12,448	12,012
Expected to be settled within one year	9,300	10,731
Expected to be settled in more than one year	3,148	1,281
	12,448	12,012

Bank overdrafts amount to £113 million (2014: £95 million) in life business operations and £393 million (2014: £455 million) in general insurance business and other operations.

All payables and other financial liabilities are carried at cost, which approximates to fair value, except for derivative liabilities, which are carried at their fair values.

51 – Other liabilities

This note analyses our other liabilities at the end of the year.

	2015 £m	2014 £m
Deferred income	175	159
Reinsurers' share of deferred acquisition costs	18	12
Accruals	1,159	1,167
Other liabilities	1,450	935
Total	2,802	2,273
Expected to be settled within one year	2,277	1,756
Expected to be settled in more than one year	525	517
	2,802	2,273

52 – Contingent liabilities and other risk factors

This note sets out the main areas of uncertainty over the calculation of our liabilities.

(a) Uncertainty over claims provisions

Note 40 gives details of the estimation techniques used by the Group to determine the general insurance business outstanding claims provisions and of the methodology and assumptions used in determining the long-term business provisions. These approaches are designed to allow for the appropriate cost of policy-related liabilities, with a degree of prudence, to give a result within the normal range of outcomes. However, the actual cost of settling these liabilities may differ, for example because experience may be worse than that assumed, or future general insurance business claims inflation may differ from that expected, and hence there is uncertainty in respect of these liabilities.

(b) Asbestos, pollution and social environmental hazards

In the course of conducting insurance business, various companies within the Group receive general insurance liability claims, and become involved in actual or threatened related litigation arising there from, including claims in respect of pollution and other environmental hazards. Amongst these are claims in respect of asbestos production and handling in various jurisdictions, including Europe, Canada and Australia. Given the significant delays that are experienced in the notification of these claims, the potential number of incidents which they cover and the uncertainties associated with establishing liability, the ultimate cost cannot be determined with certainty. However, on the basis of current information having regard to the level of provisions made for general insurance claims and substantial reinsurance cover now in place, the directors consider that any additional costs arising are not likely to have a material impact on the financial position of the Group.

(c) Guarantees on long-term savings products

As a normal part of their operating activities, various Group companies have given guarantees and options, including interest rate guarantees, in respect of certain long-term insurance and investment products. Note 42 gives details of these guarantees and options. In providing these guarantees and options, the Group's capital position is sensitive to fluctuations in financial variables including foreign currency exchange rates, interest rates, property values and equity prices. Interest rate guaranteed returns, such as those available on guaranteed annuity options, are sensitive to interest rates falling below the guaranteed level. Other guarantees, such as maturity value guarantees and guarantees in relation to minimum rates of return, are sensitive to fluctuations in the investment return below the level assumed when the guarantee was made. The directors continue to believe that the existing provisions for such guarantees and options are sufficient.

52 – Contingent liabilities and other risk factors continued

(d) Regulatory compliance

The Group's insurance and investment business is subject to local regulation in each of the countries in which it operates. A number of the Group's UK subsidiaries are dual regulated (directly authorised by both the PRA (for prudential regulation) and the FCA (for conduct regulation) whilst others are solo regulated (regulated solely by the FCA for both prudential and conduct regulation). Between them, the PRA and FCA have broad powers including the authority to grant, vary the terms of, or cancel a regulated firm's authorisation; to investigate marketing and sales practices; and to require the maintenance of adequate financial resources. The Group's regulators outside the UK typically have similar powers, but in some cases they also operate a system of 'prior product approval'.

The Group's regulated businesses have compliance resources to respond to regulatory enquiries in a constructive way, and take corrective action when warranted. However, all regulated financial services companies face the risk that their regulator could find that they have failed to comply with applicable regulations or have not undertaken corrective action as required.

The impact of any such finding (whether in the UK or overseas) could have a negative impact on the Group's reported results or on its relations with current and potential customers. Regulatory action against a member of the Group could result in adverse publicity for, or negative perceptions regarding, the Group, or could have a material adverse effect on the business of the Group, its results of operations and/or financial condition and divert management's attention from the day-to-day management of the business.

(e) Structured settlements

The Company has purchased annuities from licensed Canadian life insurers to provide for fixed and recurring payments to claimants. As a result of these arrangements, the Company is exposed to credit risk to the extent that any of the life insurers fail to fulfill their obligations. The Company's maximum exposure to credit risk for these types of arrangements is approximately CAD\$1,212 million as at 31 December 2015 (2014: CAD\$1,224 million). Credit risk is managed by acquiring annuities from a diverse portfolio of life insurers with proven financial stability. This risk is reduced to the extent of coverage provided by Assuris, the Canadian life insurance industry compensation plan. As at 31 December 2015, no information has come to the Company's attention that would suggest any weakness or failure in life insurers from which it has purchased annuities and consequently no provision for credit risk is required.

(f) Other

In the course of conducting insurance and investment business, various Group companies receive liability claims, and become involved in actual or threatened related litigation. In the opinion of the directors, adequate provisions have been established for such claims and no material loss will arise in this respect.

In addition, in line with standard business practice, various Group companies have given guarantees, indemnities and warranties in connection with disposals in recent years of subsidiaries and associates to parties outside the Aviva Group. In the opinion of the directors, no material unprovided loss will arise in respect of these guarantees, indemnities and warranties.

There are a number of charges registered over the assets of Group companies in favour of other Group companies or third parties. In addition, certain of the Company's assets are charged in favour of certain of its subsidiaries as security for intra-Group loans.

The Group's insurance subsidiaries pay contributions to levy schemes in several countries in which we operate. Given the economic environment, there is a heightened risk that the levy contributions will need to be increased to protect policyholders if an insurance company falls into financial difficulties. The directors continue to monitor the situation but are not aware of any need to increase provisions at the statement of financial position date.

53 – Commitments

This note gives details of our commitments to capital expenditure and under operating leases.

(a) Capital commitments

Contractual commitments for acquisitions or capital expenditures of investment property and property and equipment, which have not been recognised in the financial statements, are as follows:

	2015 £m	2014 £m
Investment property	71	97
Property and equipment	61	8
Other investment vehicles ¹	202	—
	334	105

¹ Represents commitments for further investment in certain private equity vehicles. Such commitments do not expose the Group to the risk of future losses in excess of its investment.

Contractual obligations for future repairs and maintenance on investment properties are £nil (2014: £nil). Note 18 sets out the commitments the Group has to its joint ventures.

(b) Operating lease commitments

(i) Future contractual aggregate minimum lease rentals receivable under non-cancellable operating leases are as follows:

	2015 £m	2014 £m
Within 1 year	318	234
Later than 1 year and not later than 5 years	996	732
Later than 5 years	1,382	1,203
	2,696	2,169

(ii) Future contractual aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2015 £m	2014 £m
Within 1 year	95	92
Later than 1 year and not later than 5 years	329	290
Later than 5 years	493	421
	917	803
Total future minimum sub-lease payments expected to be received under non-cancellable sub-leases	45	47

54 – Group capital structure

The Group maintains an efficient capital structure from a combination of equity shareholders' funds, preference capital, subordinated debt and borrowings, consistent with our overall risk profile and the regulatory and market requirements of our business. This note shows where this capital is employed.

Accounting basis and capital employed by segment

The table below shows how our capital, on an IFRS basis, is deployed by segment and how that capital is funded.

	2015 Capital employed	2014 Capital employed
	IFRS basis £m	IFRS basis £m
Life business		
United Kingdom & Ireland	11,088	5,668
France	2,151	2,234
Poland	305	318
Italy	849	929
Spain	506	557
Other Europe	72	82
Europe	3,883	4,120
Asia	1,355	791
	16,326	10,579
General insurance & health		
United Kingdom & Ireland	4,089	4,145
France	506	556
Italy	231	276
Other Europe	63	32
Europe	800	864
Canada	957	969
Asia	24	29
	5,870	6,007
Fund Management	411	298
Corporate & Other Business¹	2,537	702
Total capital employed	25,144	17,586
Financed by		
Equity shareholders' funds	15,764	10,018
Non-controlling interests	1,145	1,166
Direct capital instrument & tier 1 notes ²	1,123	892
Preference shares	200	200
Subordinated debt ³	6,427	4,594
Senior debt	485	716
Total capital employed	25,144	17,586

1 'Corporate' and 'other Business' includes centrally held tangible net assets, the main UK staff pension scheme surplus and also reflects internal lending arrangements. These internal lending arrangements, which net out on consolidation, include the formal loan arrangement between Aviva Group Holdings Limited and Aviva Insurance Limited (AIL). Internal capital management in place allocated a majority of the total capital of AIL to the UK general insurance operations with the remaining capital deemed to be supporting residual (non-operational) Pillar II ICA risks.

2 On 1 October 2015 Friends Life Holdings plc was replaced by Aviva plc as the issuer of the 2003 Step-up Tier 1 Insurance Capital Securities of £231 million. Following this, these have been included within direct capital instrument & tier 1 notes.

3 Subordinated debt excludes amounts held by Group companies of £42 million.

Total capital employed is financed by a combination of equity shareholders' funds, preference capital, subordinated debt and other borrowings. At the end of 2015 the Group had £25.1 billion (2014: £17.6 billion) of total capital employed in our trading operations measured on an IFRS basis. The increase in capital employed is driven mainly by the acquisition of Friends Life (see note 3 for further details).

In June 2015 Aviva plc issued €900 million and £400 million of Lower Tier 2 subordinated debt callable in 2025 and 2030 respectively. The proceeds were used in part to repay the following instruments: £268 million Step-up Tier 1 Insurance Capital Securities at first call date in July 2015; €500 million undated subordinated debt at first call date in September 2015; and £200 million debenture loans in September 2015, ahead of the June 2016 maturity.

At the end of 2015 the market value of our external debt, subordinated debt, preference shares (including both Aviva plc preference shares of £200 million and General Accident plc preference shares, within non-controlling interests, of £250 million), and direct capital instrument and tier 1 notes was £9,094 million (2014: £7,511 million).

55 – Statement of cash flows

This note gives further detail behind the figures in the statement of cash flows.

(a) The reconciliation of profit before tax to the net cash inflow from operating activities is:

	2015 £m	2014 £m
Profit before tax from continuing operations	1,172	2,663
Adjustments for:		
Share of profits of joint ventures and associates	(180)	(147)
Dividends received from joint ventures and associates	45	52
(Profit)/loss on sale of:		
Investment property	(120)	(49)
Property and equipment	(1)	(4)
Subsidiaries, joint ventures and associates	(2)	(174)
Investments	(3,404)	(3,040)
	(3,527)	(3,267)
Fair value (gains)/losses on:		
Investment property	(778)	(678)
Investments	9,538	(11,228)
Borrowings	37	70
	8,797	(11,836)
Depreciation of property and equipment	24	19
Equity compensation plans, equity settled expense	40	39
Impairment and expensing of:		
Goodwill on subsidiaries	22	—
Financial investments, loans and other assets	7	(3)
Acquired value of in-force business and intangibles	18	10
Non-financial assets	—	26
	47	33
Amortisation of:		
Premium / discount on debt securities	104	255
Premium / discount on borrowings	(44)	(24)
Premium / discount on non participating investment contracts	237	5
Financial instruments	12	12
Acquired value of in-force business and intangibles	390	108
	699	356
Change in unallocated divisible surplus	(984)	3,364
Interest expense on borrowings	588	525
Net finance charge on pension schemes	(80)	(20)
Foreign currency exchange gains	(358)	(199)
Changes in working capital		
(Increase) / Decrease in reinsurance assets	180	(818)
(Increase) in deferred acquisition costs	(139)	(21)
Increase / (Decrease) in insurance liabilities and investment contracts	(7,950)	11,552
(Increase) in other assets	(1,133)	(1,495)
	(9,042)	9,218
Net sales/(purchases) of operating assets		
Net purchases of investment property	(929)	(725)
Net proceeds on sale of investment property	1,953	1,811
Net sales / (purchases) of financial investments	6,932	(1,973)
	7,956	(887)
Cash generated from/(used in) operating activities	5,197	(87)

The cash flows presented in this statement cover all the Group's activities and include flows from both policyholder and shareholder activities. Operating cash flows reflect the movement in both policyholder and shareholder controlled cash and cash equivalent balances.

During the year the net operating cash inflow reflects a number of factors, including the level of premium income, payments of claims, creditors and surrenders and purchases and sales of operating assets including financial investments. It also includes changes in the size and value of consolidated cash investment funds and changes in the Group participation in these funds.

(b) Cash flows in respect of, and additions to, the acquisition of subsidiaries, joint ventures and associates comprised:

	2015 £m	2014 £m
Cash consideration for subsidiaries, joint ventures and associates acquired and additions	97	79
Less: Cash and cash equivalents acquired with subsidiaries	(7,880)	—
Total cash flow on acquisitions and additions	(7,783)	79

55 – Statement of cash flows continued

(c) Cash flows in respect of the disposal of subsidiaries, joint ventures and associates comprised:

	2015 £m	2014 £m
Cash proceeds from disposal of subsidiaries, joint ventures and associates	6	349
Less: Net cash and cash equivalents divested with subsidiaries	(9)	(239)
Cash flows on disposals – continuing operations	(3)	110
Cash flows on disposal – discontinued operations	—	(20)
Total cash flow on disposals	(3)	90

The above figures form part of cash flows from investing activities.

(d) Cash and cash equivalents in the statement of cash flows at 31 December comprised:

	2015 £m	2014 £m
Cash at bank and in hand	4,496	2,855
Cash equivalents	29,180	20,259
Bank overdrafts	33,676	23,114
	(506)	(550)
	33,170	22,564

Cash and cash equivalents reconciles to the statement of financial position as follows:

	2015 £m	2014 £m
Cash and cash equivalents (excluding bank overdrafts)	33,676	23,114
Less: Assets classified as held for sale	—	(9)
	33,676	23,105

56 – Capital statement

This statement sets out the financial strength of our Group entities and provides an analysis of the disposition and constraints over the availability of capital to meet risks and regulatory requirements. The capital statement also provides a reconciliation of shareholders' funds to regulatory capital.

From 1 January 2016 EU-based insurance groups are no longer required to disclose their solvency position under the Insurance Groups Directive, as the regulatory framework has been replaced by the new Solvency II regime. As such, after 31 December 2015 Aviva Group will no longer disclose its capital statement under FRS 27.

The analysis below sets out the Group's available capital resources at 31 December 2015.

Available capital resources

	Old with- profits sub-fund £m	New with- profits sub-fund £m	With- profits sub- fund ⁵ £m	Friends Life FP with- profits fund £m	Other Friends Life with- profits funds ⁶ £m	Total UK life with- profits funds £m	Other UK life operations £m	Overseas life operations £m	Total life operations £m	Other operations ⁷ £m	2015 Total £m	2014 Total £m
Total shareholders' funds	—	(1,174)	9	—	—	(1,165)	12,226	5,203	16,264	1,968	18,232	12,276
Other sources of capital ¹	—	—	—	—	—	—	200	36	236	6,003	6,239	4,623
Unallocated divisible surplus ²	221	—	1,685	186	484	2,576	(2)	6,237	8,811	—	8,811	9,467
Adjustments onto a regulatory basis:												
Shareholders' share of accrued bonus	(38)	419	(119)	(34)	(447)	(219)	—	—	(219)	—	(219)	227
Goodwill and other intangibles ³	—	—	—	(8)	—	(8)	(4,255)	(2,038)	(6,301)	(1,501)	(7,802)	(2,417)
Regulatory valuation and admissibility restrictions ⁴	55	2,828	(36)	8	(33)	2,822	(4,123)	2,003	702	(1,799)	(1,097)	(2,018)
Total available capital resources	238	2,073	1,539	152	4	4,006	4,046	11,441	19,493	4,671	24,164	22,158
Analysis of liabilities:												
Participating insurance liabilities	1,652	11,325	9,395	4,493	3,215	30,080	3,400	20,395	53,875	—	53,875	44,834
Unit-linked liabilities	—	—	—	—	—	—	10,482	4,286	14,768	—	14,768	7,963
Other non-participating life insurance	363	3,366	559	26	—	4,314	50,712	3,381	58,407	—	58,407	46,656
Total insurance liabilities	2,015	14,691	9,954	4,519	3,215	34,394	64,594	28,062	127,050	—	127,050	99,453
Participating investment liabilities	719	3,049	6,096	3,584	5,214	18,662	5,000	54,386	78,048	—	78,048	67,232
Non-participating investment liabilities	—	—	97	—	—	97	89,721	13,307	103,125	—	103,125	50,013
Total investment liabilities	719	3,049	6,193	3,584	5,214	18,759	94,721	67,693	181,173	—	181,173	117,245
Total liabilities	2,734	17,740	16,147	8,103	8,429	53,153	159,315	95,755	308,223	—	308,223	216,698

1 Other sources of capital include subordinated debt of £6,203 million issued by Aviva – as reflected in the capital resources of the underlying legal entities, which may differ to the Group's carrying value – and £36 million of other qualifying capital issued by Italian and Spanish subsidiary and associate undertakings.

2 Unallocated divisible surplus for overseas life operations is included gross of minority interest.

3 Includes goodwill and other intangibles of £116 million in joint ventures and associates.

4 Includes an adjustment for minorities (except for other sources of capital that are reflected net of minority interest).

5 Includes the Provident Mutual With-Profits Fund and the Ireland With-Profits Sub-Fund.

6 Includes FPLAL WPF, FLC New WPF, FLC Old WPF, FLAS WPF and WL WPF.

7 Other operations include general insurance and fund management business.

56 – Capital statement continued

Analysis of movements in capital of long-term businesses

For the year ended 31 December 2015

	Old with- profits sub-fund £m	New with- profits sub-fund £m	With- profits sub-fund £m	Friends Life FP with- profits fund £m	Friends Life with- profits funds £m	Other life with- profits funds £m	Total UK life with- profits funds £m	Other UK life operations £m	Overseas life operations £m	Total life operations £m
Available capital resources at 1 January	253	2,111	1,583	—	—	3,947	2,684	13,269	19,900	
Effect of new business	—	6	(4)	—	—	2	127	(96)	33	
Expected change in available capital resources	7	85	159	3	4	258	630	587	1,475	
Variance between actual and expected experience	(3)	(84)	(59)	11	114	(21)	250	(1,075)	(846)	
Effect of operating assumption changes	2	12	(29)	(165)	(118)	(298)	495	88	285	
Effect of economic assumption changes	(15)	(70)	14	(5)	71	(5)	90	(11)	74	
Effect of changes in management policy ¹	1	5	(191)	—	—	(185)	(1,352)	2	(1,535)	
Transfers, acquisitions and disposals ²	—	—	164	183	3	350	2,196	(398)	2,148	
Foreign exchange movements	—	—	12	—	—	12	(31)	(625)	(644)	
Other movements	(7)	8	(110)	125	(70)	(54)	(1,043)	(300)	(1,397)	
Available capital resources at 31 December	238	2,073	1,539	152	4	4,006	4,046	11,441	19,493	

1 Changes in management policy in other UK life operations include £(1,356) million of internal subordinated debt reclassified from capital to liabilities during the year.

2 Included within transfers, acquisitions and disposals is £2,076 million reflecting the available capital resources of Friends Life at acquisition.

Further analysis of the movement in the liabilities of the long-term business can be found in notes 40 and 41.

The analysis of movements in capital provides an explanation of the movement in available capital of the Group's life business for the year. This analysis is intended to give an understanding of the underlying causes of changes in the available capital of the Group's life business, and provides a distinction between some of the key factors affecting the available capital.

The negative shareholders' funds balance within the UK with-profits funds arises in NWPSF as a result of regulatory valuation and admissibility differences in the reattributed estate which is valued on a realistic regulatory basis compared to the disclosure on an IFRS basis.

NWPSF is fully supported by the reattributed estate of £2,073 million (this is known as RIEESA) at 31 December 2015 (*31 December 2014: £2,111 million*) held within NPSF (Non-Profit Sub-Fund within UKLAP included within other UK life operations) in the form of a capital support arrangement. This support arrangement will provide capital to NWPSF to ensure that the value of assets of NWPSF are at least equal to the value of liabilities calculated on a realistic regulatory basis, therefore it forms part of the NWPSF available capital resources.

The with-profits funds and the RIEESA use internal hedging to limit the impacts of equity market volatility.

In aggregate, the Group has at its disposal total available capital of £24.2 billion (*2014: £22.2 billion*), representing the aggregation of the solvency capital of all of our businesses.

This capital is available to meet risks and regulatory requirements set by reference to local guidance and EU directives.

After effecting the year end transfers to shareholders, the UK with-profits funds have available capital of £4.0 billion (*2014: £3.9 billion*) (including amounts held in RIEESA). Subject to certain conditions, the RIEESA capital can be used to write new non-profit business, but the primary purpose of this capital is to provide support for the UK with-profits business. The capital (including RIEESA) is comfortably in excess of the required capital margin, and therefore no further support is required by shareholders.

For the remaining life and general insurance operations, the total available capital amounting to £20.2 billion (*2014: £18.3 billion*) is higher than the minimum requirements established by regulators and, in principle, the excess is available to shareholders. In practice, management will hold higher levels of capital within each business operation to provide appropriate cover for risk.

The total available capital of £24.2 billion is arrived at on the basis of local regulatory guidance, which evaluates assets and liabilities prudently and includes the Group's unallocated divisible surplus of overseas life operations. This is a limitation of the Group Capital Statement which, to be more meaningful, needs to evaluate available capital on an economic basis and compare it with the risk capital required for each individual operation, after allowing for the considerable diversification benefits that exist in our Group.

Within the Aviva Group there exist intra-group arrangements to provide capital to particular business units. Included in these arrangements is a subordinated loan of £200 million from Aviva Life Holdings UK Limited to Aviva Annuity Limited to provide capital to support the writing of new business.

The available capital of the Group's with-profits funds is determined in accordance with the 'Realistic balance sheet' regime prescribed by the PRA's regulations, under which liabilities to policyholders include both declared bonuses and the constructive obligation for future bonuses not yet declared. The available capital resources include an estimate of the value of their respective estates, included as part of the unallocated divisible surplus. The estate represents the surplus in the fund that is in excess of any constructive obligation to policyholders. It represents capital resources of the individual with-profits fund to which it relates and is available to meet regulatory and other solvency requirements of the fund and, in certain circumstances, additional liabilities may arise.

The liabilities included in the balance sheet for the with-profits funds do not include the amount representing the shareholders' portion of future bonuses. However, the shareholders' portion is treated as a deduction from capital that is available to meet regulatory requirements and is therefore shown as a separate adjustment in the capital statement.

In accordance with the PRA's regulatory rules under its realistic capital regime, the Group is required to hold sufficient capital in its UK life with-profits funds to meet the PRA capital requirements, based on the risk capital margin (RCM). The determination of the RCM depends on various actuarial and other assumptions about potential changes in market prices, and the actions management would take in the event of particular adverse changes in market conditions.

56 – Capital statement continued

						31 December 2015	31 December 2014
	Estimated realistic assets £bn	Estimated realistic liabilities ¹ £bn	Estimated realistic inherited estate ² £bn	Capital support arrangement £bn	Estimated risk capital margin £bn	Estimated excess available capital £bn	Estimated excess available capital £bn
NWPSF	14.0	(14.0)	—	2.1	(0.2)	1.9	1.9
OWPSF	2.6	(2.4)	0.2	—	—	0.2	0.2
WPSF ⁴	16.7	(15.2)	1.5	—	(0.3)	1.2	1.3
FP WPF ⁵	7.2	(7.0)	0.2	—	(0.2)	—	—
Other Friends Life WPFs ⁶	10.7	(10.7)	—	—	—	—	—
Aggregate	51.2	(49.3)	1.9	2.1	(0.7)	3.3	3.4

1 Realistic liabilities include the shareholders' share of accrued bonuses of £0.8 billion (31 December 2014: £(0.2) billion). Realistic liabilities adjusted to eliminate the shareholders' share of accrued bonuses are £48.5 billion (31 December 2014: £33.0 billion). These realistic liabilities make provision for guarantees, options and promises on a market consistent stochastic basis. The value of the provision included within realistic liabilities is £1.4 billion, £0.3 billion, £3.2 billion, and £0.8 billion for NWPSF, OWPSF, WPSF and FP WPF respectively (31 December 2014: £1.4 billion, £0.3 billion and £3.0 billion for NWPSF, OWPSF and WPSF respectively).

2 Estimated realistic inherited estate at 31 December 2014 was £nil, £0.3 billion and £1.6 billion for NWPSF, OWPSF and WPSF respectively.

3 The support arrangement represents the reattributed estate (RIESEA) of £2.1 billion at 31 December 2015 (31 December 2014: £2.1 billion).

4 The WPSF Fund includes the Ireland With-Profits Sub-Fund (IWPFS) and the Provident Mutual (PM) Fund which have realistic assets and liabilities of £2.4 billion in total, and therefore do not contribute to the realistic inherited estate.

5 For FP WPF the realistic inherited estate is restricted to the estimated risk capital margin with excess available capital used to enhance asset shares.

6 Includes FPLAL WPF, FLC New WPF, FLC Old WPF, FLAS WPF and WL WPF. For these funds it is assumed that the entire estimated realistic inherited estate is distributed to policyholders.

Under the PRA regulatory regime, UK life with-profits business is required to hold capital equivalent to the greater of their regulatory requirement based on EU Directives (regulatory peak) and the PRA realistic bases (realistic peak) described above.

For UK non-participating business, the relevant capital requirement is the minimum solvency requirement determined in accordance with PRA regulations. The available capital reflects the excess of regulatory basis assets over liabilities before deduction of capital resources requirement.

For UK general insurance businesses, the relevant capital requirement is the minimum solvency requirement determined in accordance with the PRA requirements.

For overseas businesses in the European Economic Area (EEA), Canada, Hong Kong and Singapore, the available capital and the minimum requirement are calculated under the locally applicable regulatory regimes. The businesses outside these territories are subject to the PRA rules for the purposes of calculation of available capital and capital resource requirement.

For fund management and other businesses, the relevant capital requirement is the minimum solvency requirement determined in accordance with the local regulator's requirements for the specific class of business.

The available capital resources in each regulated entity are generally subject to restrictions as to their availability to meet requirements that may arise elsewhere in the Group. The principal restrictions are:

- **(i) UK with-profits funds – (NWPSF, OWPSF, WPSF, FP WPF and Other Friends Life WPFs)** – any available surplus held in each fund can be used to meet the requirements of the fund itself, be distributed to policyholders and shareholders or in the case of NWPSF and OWPSF, transferred via the capital support arrangement explained above (for OWPSF only to the extent support has been provided in the past). In most cases, with-profits policyholders are entitled to at least 90% of the distributed profits while the shareholders receive the balance. The latter distribution would be subject to a tax charge, which is met by the fund. In the FP WPF, shareholders are additionally entitled to 60% of surplus arising in respect of the pre-demutualisation non-profit and unitised business written in the fund (excluding the investment elements). Also, post-demutualisation policyholders are only entitled to surplus from the return on their investments; other sources of surplus are wholly owned by shareholders. In the FPLAL WPF the surplus may only be distributed to policyholders.
- **(ii) UK non-participating funds** – any available surplus held in these is attributable to shareholders. Capital in the non-profit funds may be made available to meet requirements elsewhere in the Group subject to meeting the regulatory requirements of the fund or, in FLL, the 2013 scheme in relation to support arrangements for the with-profits funds. Under the scheme, the FP WPF and Other Friends Life WPFs are subject to support arrangements which require the Friends Life shareholder and non-profit fund to retain £0.9 billion of capital support assets. Of this, £0.6 billion needs to be held in the form of tangible assets which could be transferred to the various Friends Life with-profits funds on a temporary basis if necessary. These assets and related investment income would remain attributable to the shareholders as they would be returned when they are no longer required to support the capital requirements of the with-profits funds, under the tests of the 2013 scheme. In the case of the FLC WPFs if all or part of the assets transferred were unlikely to be returned in the foreseeable future, then the relevant part of the transfer would be designated permanent. Any transfer of the surplus may give rise to a tax charge subject to availability of tax relief elsewhere in the Group.
- **(iii) Overseas life operations** – the capital requirements and corresponding regulatory capital held by overseas businesses are calculated using the locally applicable regulatory regime. The available capital resources in all these businesses are subject to local regulatory restrictions which may constrain management's ability to utilise these in other parts of the Group. In several business units, Group companies and other parties jointly control certain entities; these joint venture operations may constrain management's ability to utilise the capital in other parts of the Group. Any transfer of available capital may give rise to a tax charge subject to availability of tax relief elsewhere in the Group.
- **(iv) General insurance operations** – the capital requirements and corresponding regulatory capital held by overseas businesses are calculated using the locally applicable regulatory regime. The available capital resources in all these businesses are subject to local regulatory restrictions which may constrain management's ability to utilise these in other parts of the Group. Any transfer of available capital may give rise to a tax charge, subject to availability of tax relief elsewhere in the Group.

57 – Risk management

This note sets out the major risks our businesses and its shareholders face and describes the Group's approach to managing these. It also gives sensitivity analyses around the major economic and non-economic assumptions that can cause volatility in the Group's earnings and capital position.

(a) Risk management framework

The risk management framework (RMF) in Aviva forms an integral part of the management and Board processes and decision-making framework across the Group. The key elements of our risk management framework comprise risk appetite; risk governance, including risk policies and business standards, risk oversight committees and roles and responsibilities; and the processes we use to identify, measure, manage, monitor and report (IMMMR) risks, including the use of our risk models and stress and scenario testing.

For the purposes of risk identification and measurement, and aligned to Aviva's risk policies, risks are usually grouped by risk type: credit, market, liquidity, life insurance (including long-term health), general insurance (including short-term health), asset management and operational risk. Risks falling within these types may affect a number of metrics including those relating to balance sheet strength, liquidity and profit. They may also affect the performance of the products we deliver to our customers and the service to our customers and distributors, which can be categorised as risks to our brand and reputation or as conduct risk.

To promote a consistent and rigorous approach to risk management across all businesses we have a set of risk policies and business standards which set out the risk strategy, appetite, framework and minimum requirements for the Group's worldwide operations. On a semi-annual basis the business chief executive officers and chief risk officers sign-off compliance with these policies and standards, providing assurance to the relevant oversight committees that there is a consistent framework for managing our business and the associated risks.

A regular top-down key risk identification and assessment process is carried out by the risk function. This includes the consideration of emerging risks and is supported by deeper thematic reviews. This process is replicated at the business unit level. The risk assessment processes are used to generate risk reports which are shared with the relevant risk committees.

Risk models are an important tool in our measurement of risks and are used to support the monitoring and reporting of the risk profile and in the consideration of the risk management actions available. We carry out a range of stress (where one risk factor, such as equity returns, is assumed to vary) and scenario (where combinations of risk factors are assumed to vary) tests to evaluate their impact on the business and the management actions available to respond to the conditions envisaged.

Roles and responsibilities for risk management in Aviva are based around the 'three lines of defence model' where ownership for risk is taken at all levels in the Group. Line management in the business is accountable for risk management, including the implementation of the risk management framework and embedding of the risk culture. The risk function is accountable for quantitative and qualitative oversight and challenge of the IMMMR process and for developing the risk management framework. Internal Audit provides an independent assessment of the risk framework and internal control processes.

Board oversight of risk and risk management across the Group is maintained on a regular basis through its Risk Committee and Governance Committee. The Board has overall responsibility for determining risk appetite, which is an expression of the risk the business is willing to take. Risk appetites are set relative to capital and liquidity at Group and in the business units.

Economic capital risk appetites are also set for each risk type, calculated on the basis of the Solvency II balance sheet. The Group's position against risk appetite is monitored and reported to the Board on a regular basis. Long-term sustainability depends upon the protection of franchise value and good customer relationships. As such, Aviva has a risk preference that we will not accept risks that materially impair the reputation of the Group and requires that customers are always treated with integrity. The oversight of risk and risk management at the Group level is supported by the Asset Liability Committee (ALCO), which focuses on business and financial risks, and the Operational Risk Committee (ORC) which focuses on operational and reputational risks. Similar committee structures with equivalent terms of reference exist in the business units.

Further information on the types and management of specific risk types is given in sections (b) to (j) below.

The risk management framework of a small number of our joint ventures and strategic equity holdings differs from the Aviva framework outlined in this note. We work with these entities to understand how their risks are managed and to align them, where possible, with Aviva's framework. Aviva completed the acquisition of Friends Life in April 2015. The Friends Life risk management framework was very similar to that of Aviva, but a formal gap analysis was carried out and the former Friends Life businesses formally adopted the Aviva risk policies and business standards at the end of 2015.

(b) Credit risk

Credit risk is the risk of financial loss as a result of the default or failure of third parties to meet their payment obligations to Aviva, or variations in market values as a result of changes in expectations related to these risks. Credit risk is an area where we can provide the returns required to satisfy policyholder liabilities and to generate returns for our shareholders. In general we prefer to take credit risk over equity and property risks, due to the better expected risk adjusted return, our credit risk analysis capability and the structural investment advantages conferred to insurers with long-dated, relatively illiquid liabilities.

Our approach to managing credit risk recognises that there is a risk of adverse financial impact resulting from fluctuations in credit quality of third parties including default, rating transition and credit spread movements. Our credit risks arise principally through exposures to debt security investments, structured asset investments, bank deposits, derivative counterparties, mortgage lending and reinsurance counterparties.

The Group manages its credit risk at business unit and Group level. All business units are required to implement credit risk management processes (including limits frameworks), operate specific risk management committees, and ensure detailed reporting and monitoring of their exposures against pre-established risk criteria. At Group level, we manage and monitor all exposures across our business units on a consolidated basis, and operate a Group limit framework that must be adhered to by all.

A detailed breakdown of the Group's current credit exposure by credit quality is shown below.

57 – Risk management continued

(i) Financial exposures by credit ratings

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

As at 31 December 2015	AAA	AA	A	BBB	Below BBB	Not rated	Carrying value including held for sale £m	Carrying value £m
Debt securities	12.4%	37.4%	19.8%	21.2%	4.0%	5.2%	162,964	162,964
Reinsurance assets	0.1%	88.2%	8.0%	0.0%	0.0%	3.7%	20,918	20,918
Other investments	0.0%	0.1%	0.8%	0.0%	0.0%	99.1%	47,695	47,695
Loans	0.0%	8.2%	1.3%	0.1%	0.0%	90.4%	22,433	22,433
Total							254,010	254,010

As at 31 December 2014	AAA	AA	A	BBB	Below BBB	Not rated	Carrying value including held for sale £m	Carrying value £m
Debt securities	13.6%	35.6%	21.3%	21.9%	2.1%	5.5%	131,661	131,661
Reinsurance assets	0.3%	71.3%	21.9%	0.1%	0.0%	6.4%	7,958	7,958
Other investments	0.0%	0.1%	1.3%	0.0%	0.2%	98.4%	35,358	35,358
Loans	1.3%	9.0%	2.1%	0.2%	0.0%	87.4%	25,260	25,260
Total							200,237	200,237

The majority of non-rated debt securities within shareholder assets are held by our businesses in the UK. Of these securities most are allocated an internal rating using a methodology largely consistent with that adopted by an external rating agency, and are considered to be of investment grade credit quality; these include £2.2 billion (2014: £2.5 billion) of debt securities held in our UK Life business, predominantly made up of private placements and other corporate bonds, which have been internally rated as investment grade.

The Group continues to hold a series of macro credit hedges to reduce the overall credit risk exposure, and has increased these hedges during 2015. The Group's maximum exposure to credit risk of financial assets, without taking collateral or these hedges into account, is represented by the carrying value of the financial instruments in the statement of financial position. These comprise debt securities, reinsurance assets, derivative assets, loans and receivables. The carrying values of these assets are disclosed in the relevant notes: financial investments (note 26), reinsurance assets (note 43), loans (note 23) and receivables (note 27). The collateral in place for these credit exposures is disclosed in note 59; Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements.

To the extent that collateral held is greater than the amount receivable that it is securing, the table above shows only an amount equal to the latter. In the event of default, any over-collateralised security would be returned to the relevant counterparty.

(ii) Financial exposures to peripheral European countries and worldwide banks

Included in our debt securities and other financial assets are exposures to peripheral European countries and worldwide banks. We continued in 2015 to limit our direct shareholder and participating assets exposure to the governments (including local authorities and agencies) and banks of Greece, Portugal, Italy and Spain. Information on our exposures to peripheral European sovereigns and banks is provided in notes 26(e) and 26(f). We continue to monitor closely the situation in the eurozone and have had additional restrictions on further investment in place since late 2009 as well as taking actions to reduce exposure to higher risk assets.

(iii) Other investments

Other investments (including assets of operations classified as held for sale) include unit trusts and other investment vehicles; derivative financial instruments, representing positions to mitigate the impact of adverse market movements; and other assets includes deposits with credit institutions and minority holdings in property management undertakings.

The credit quality of the underlying debt securities within investment vehicles is managed by the safeguards built into the investment mandates for these funds which determine the funds' risk profiles. At the Group level, we also monitor the asset quality of unit trusts and other investment vehicles against Group set limits.

A proportion of the assets underlying these investments are represented by equities and so credit ratings are not generally applicable. Equity exposures are managed against agreed benchmarks that are set with reference to overall appetite for market risk.

(iv) Loans

The Group loan portfolio principally comprises:

- Policy loans which are generally collateralised by a lien or charge over the underlying policy;
- Loans and advances to banks which primarily relate to loans of cash collateral received in stock lending transactions. These loans are fully collateralised by other securities; and
- Mortgage loans collateralised by property assets.

We use loan to value; interest and debt service cover; and diversity and quality of the tenant base metrics to internally monitor our exposures to mortgage loans. We use credit quality, based on dynamic market measures, and collateralisation rules to manage our stock lending activities. Policy loans are loans and advances made to policyholders, and are collateralised by the underlying policies.

57 – Risk management continued

(v) Credit concentration risk

The long-term and general insurance businesses are generally not individually exposed to significant concentrations of credit risk due to the regulations applicable in most markets and the Group credit policy and limits framework, which limit investments in individual assets and asset classes. Credit concentrations are monitored as part of the regular credit monitoring process and are reported to Group ALCO. With the exception of government bonds the largest aggregated counterparty exposure within shareholder assets (i.e. excluding potential exposures arising from reinsurance of unit linked funds) is to the Swiss Reinsurance Company Limited (including subsidiaries), representing approximately 2.2% of the total shareholder assets.

(vi) Reinsurance credit exposures

The Group is exposed to concentrations of risk with individual reinsurers due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings. The Group operates a policy to manage its reinsurance counterparty exposures, by limiting the reinsurers that may be used and applying strict limits to each reinsurer. Reinsurance exposures are aggregated with other exposures to ensure that the overall risk is within appetite. The Group Capital and ALM and Group Risk teams have an active monitoring role with escalation to the Chief Financial Officer (CFO), Chief Risk Officer (CRO), Group ALCO and the Board Risk Committee as appropriate.

The Group's largest reinsurance counterparty is BlackRock Life Ltd (including subsidiaries) as a result of the BlackRock funds offered to UK Life customers via unit linked contracts. At 31 December 2015, the reinsurance asset recoverable, including debtor balances, from BlackRock Life Ltd was £12,660 million (2014: £2,048 million), which has increased significantly during the year as a result of the acquisition of Friends Life. Whilst the risk of default is considered remote due to the nature of the arrangement and the counterparty, the Group is currently considering alternative ways to structure the agreements with BlackRock Life Ltd to reduce or remove this exposure.

(vii) Securities finance

The Group has significant securities financing operations within the UK and smaller operations in some other businesses. The risks within this activity are mitigated by over-collateralisation and minimum counterparty credit quality requirements.

(viii) Derivative credit exposures

The Group is exposed to counterparty credit risk through derivative trades. This risk is mitigated through collateralising almost all trades (the exception being certain foreign exchange trades where it has historically been the market norm not to collateralise). Residual exposures are captured within the Group's credit management framework.

(ix) Unit-linked business

In unit-linked business the policyholder bears the direct market risk and credit risk on investment assets in the unit funds and the shareholders' exposure to credit risk is limited to the extent of the income arising from asset management charges based on the value of assets in the fund.

(x) Impairment of financial assets

In assessing whether financial assets carried at amortised cost or classified as available for sale are impaired, due consideration is given to the factors outlined in accounting policies (T) and (V). The following table provides information regarding the carrying value of financial assets subject to impairment testing that have been impaired and the ageing of those assets that are past due but not impaired. The table excludes assets carried at fair value through profit or loss.

	At 31 December 2015	Neither past due nor impaired £m	Financial assets that are past due but not impaired				Financial assets that have been impaired £m	Carrying value £m
			0–3 months £m	3–6 months £m	6 months–1 year £m	Greater than 1 year £m		
Debt securities	918	—	—	—	—	—	—	918
Reinsurance assets	6,951	—	—	—	—	—	—	6,951
Other investments	—	—	—	—	—	—	—	—
Loans	3,353	—	—	—	—	—	1	3,354
Receivables and other financial assets	6,775	84	5	7	3	—	1	6,875

	At 31 December 2014	Neither past due nor impaired £m	Financial assets that are past due but not impaired				Financial assets that have been impaired £m	Carrying value £m
			0–3 months £m	3–6 months £m	6 months–1 year £m	Greater than 1 year £m		
Debt securities	1,021	—	—	—	—	—	—	1,021
Reinsurance assets	5,425	—	—	—	—	—	—	5,425
Other investments	1	—	—	—	—	—	4	5
Loans	4,286	2	2	—	—	—	75	4,365
Receivables and other financial assets	5,849	60	9	7	8	—	—	5,933

Excluded from the tables above are financial and reinsurance assets carried at fair value through profit or loss that are not subject to impairment testing, as follows: £162.0 billion of debt securities (2014: £130.6 billion), £47.7 billion of other investments (2014: £35.4 billion), £19.1 billion of loans (2014: £20.9 billion) and £14.0 billion of reinsurance assets (2014: £2.5 billion).

Where assets have been classed as 'past due and impaired', an analysis is made of the risk of default and a decision is made whether to seek to mitigate the risk. There were no material financial assets that would have been past due or impaired had the terms not been renegotiated.

57 – Risk management continued

(c) Market risk

Market risk is the risk of adverse financial impact resulting, directly or indirectly from fluctuations in interest rates, foreign currency exchange rates, equity and property prices. Market risk arises in business units due to fluctuations in both the value of liabilities and the value of investments held. At Group level, it also arises in relation to the overall portfolio of international businesses and in the value of investment assets owned directly by the shareholders. We actively seek some market risks as part of our investment and product strategy. However, we have limited appetite for interest rate risk as we do not believe it is adequately rewarded.

The management of market risk is undertaken at business unit and at Group level. Businesses manage market risks locally using the Group market risk framework and within local regulatory constraints. Group Capital and ALM is responsible for monitoring and managing market risk at Group level and has established criteria for matching assets and liabilities to limit the impact of mismatches due to market movements.

In addition, where the Group's long-term savings businesses have written insurance and investment products where the majority of investment risks are borne by its policyholders, these risks are managed in line with local regulations and marketing literature, in order to satisfy the policyholders' risk and reward objectives. The Group writes unit-linked business in a number of its operations. The shareholders' exposure to market risk on this business is limited to the extent that income arising from asset management charges is based on the value of assets in the fund.

The most material types of market risk that the Group is exposed to are described below.

(i) Equity price risk

The Group is subject to equity price risk arising from changes in the market values of its equity securities portfolio.

We continue to limit our direct equity exposure in line with our risk preferences, albeit the acquisition of Friends Life has resulted in an increase in our equity price risk exposure relative to other risk types. At a business unit level, investment limits and local investment regulations require that business units hold diversified portfolios of assets thereby reducing exposure to individual equities. The Group does not have material holdings of unquoted equity securities.

Equity risk is also managed using a variety of derivative instruments, including futures and options. Businesses actively model the performance of equities through the use of risk models, in particular to understand the impact of equity performance on guarantees, options and bonus rates. At 31 December 2015 the Group continues to hold a series of macro equity hedges to reduce the overall shareholder equity risk exposure, and has increased these hedges during 2015.

Sensitivity to changes in equity prices is given in section '(j) risk and capital management' below.

(ii) Property price risk

The Group is subject to property price risk directly due to holdings of investment properties in a variety of locations worldwide and indirectly through investments in mortgages and mortgage backed securities. Investment in property is managed at business unit level, and is subject to local regulations on investments, liquidity requirements and the expectations of policyholders.

As at 31 December 2015, no material derivative contracts had been entered into to mitigate the effects of changes in property prices.

Sensitivity to changes in property prices is given in section '(j) risk and capital management' below.

(iii) Interest rate risk

Interest rate risk arises primarily from the Group's investments in long-term debt and fixed income securities and their movement relative to the value placed on the insurance liabilities. A number of policyholder product features have an influence on the Group's interest rate risk. The major features include guaranteed surrender values, guaranteed annuity options, and minimum surrender and maturity values. Details of material guarantees and options are given in note 42.

Exposure to interest rate risk is monitored through several measures that include duration, economic capital modelling, sensitivity testing and stress and scenario testing. The impact of exposure to sustained low interest rates is considered within our scenario testing.

The Group typically manages interest rate risk by investing in fixed interest securities which closely match the interest rate sensitivity of the liabilities where such investments are available. In particular, a key objective is to at least match the duration of our annuity liabilities with assets of the same duration, and in some cases where appropriate cash flow matching has been used. These assets include corporate bonds, residential mortgages and commercial mortgages. Should they default before maturity, it is assumed that the Group can reinvest in assets of a similar risk and return profile, which is subject to market conditions. Interest rate risk is also managed in some business units using a variety of derivative instruments, including futures, options, swaps, caps and floors.

Some of the Group's products, principally participating contracts, expose us to the risk that changes in interest rates will impact on profits through a change in the interest spread (the difference between the amounts that we are required to pay under the contracts and the investment income we are able to earn on the investments supporting our obligations under those contracts). The primary markets where Aviva is exposed to this risk are the UK, France and Italy.

The low interest rate environment in a number of markets around the world has resulted in our current reinvestment yields being lower than the overall current portfolio yield, primarily for our investments in fixed income securities and commercial mortgage loans. We anticipate that interest rates may remain below historical averages for an extended period of time and that financial markets may continue to have periods of high volatility. Investing activity will continue to decrease the portfolio yield as long as market yields remain below the current portfolio level. We expect the decline in portfolio yield will result in lower net investment income in future periods.

57 – Risk management continued

Certain of the Group's product lines, such as protection, are not significantly sensitive to interest rate or market movements. For unit-linked business, the shareholder margins emerging are typically a mixture of annual management fees and risk/expense charges. Risk and expense margins will be largely unaffected by low interest rates. Annual management fees may increase in the short-term as the move towards low interest rates increases the value of unit funds. However, in the medium term, unit funds will grow at a lower rate which will reduce fund charges. For the UK annuities business interest rate exposure is mitigated by closely matching the duration of liabilities with assets of the same duration.

The UK participating business includes contracts with features such as guaranteed surrender values, guaranteed annuity options, and minimum surrender and maturity values. These liabilities are managed through duration matching of assets and liabilities and the use of derivatives, including swaptions. As a result, the Group's exposure to sustained low interest rates on this portfolio is not material. The Group's key exposure to low interest rates arises through its other participating contracts, principally in Italy and France. Some of these contracts also include features such as guaranteed minimum bonuses, guaranteed investment returns and guaranteed surrender values. In a low interest rate environment there is a risk that the yield on assets might not be sufficient to cover these obligations. For certain of its participating contracts the Group is able to amend guaranteed crediting rates. Our ability to lower crediting rates may be limited by competition, bonus mechanisms and contractual arrangements.

Details of material guarantees and options are given in note 42. In addition, the following table summarises the weighted average minimum guaranteed crediting rates and weighted average book value yields on assets as at 31 December 2015 for our Italian and French participating contracts, where the Group's key exposure to sustained low interest rates arises.

	Weighted average minimum guaranteed crediting rate	Weighted average book value yield on assets	Participating contract liabilities £m
France	0.79%	3.67%	61,871
Italy	1.38%	3.69%	9,072
Other ¹	N/A	N/A	60,980
Total	N/A	N/A	131,923

¹ 'Other' includes UK participating business

Profit before tax on General Insurance and Health Insurance business is generally a mixture of insurance, expense and investment returns. The asset portfolio is invested primarily in fixed income securities and the reduction in interest rates in recent years has reduced the investment component of profit. The portfolio investment yield and average total invested assets in our general insurance and health business are set out in the table below.

	Portfolio investment yield ¹	Average assets £m
2013	3.10%	18,352
2014	2.76%	17,200
2015	2.58%	15,268

¹ Before realised and unrealised gains and losses and investment expenses

The nature of the business means that prices in certain circumstances can be increased to maintain overall profitability. This is subject to the competitive environment in each market. To the extent that there are further falls in interest rates the investment yield would be expected to decrease further in future periods.

Sensitivity to changes in interest rates is given in section '(j) risk and capital management' below.

(iv) Inflation risk

Inflation risk arises primarily from the Group's exposure to general insurance claims inflation, to inflation linked benefits within the defined benefit staff pension schemes and within the UK annuity portfolio and to expense inflation. Increases in long-term inflation expectations are closely linked to long-term interest rates and so are frequently considered with interest rate risk. Exposure to inflation risk is monitored through economic capital modelling, sensitivity testing and stress and scenario testing. The Group typically manages inflation risk through its investment strategy and, in particular, by investing in inflation linked securities and through a variety of derivative instruments, including inflation linked swaps.

(v) Currency risk

The Group has minimal exposure to currency risk from financial instruments held by business units in currencies other than their functional currencies, as nearly all such holdings are backing either unit-linked or with-profit contract liabilities or hedging.

The Group operates internationally and as a result is exposed to foreign currency exchange risk arising from fluctuations in exchange rates of various currencies. Approximately 58% of the Group's premium income arises in currencies other than sterling and the Group's net assets are denominated in a variety of currencies, of which the largest are euro, sterling and Canadian dollars. The Group does not hedge foreign currency revenues as these are substantially retained locally to support the growth of the Group's business and meet local regulatory and market requirements.

Businesses aim to maintain sufficient assets in local currency to meet local currency liabilities, however movements may impact the value of the Group's consolidated shareholders' equity which is expressed in sterling. This aspect of foreign exchange risk is monitored and managed centrally, against pre-determined limits. These exposures are managed by aligning the deployment of regulatory capital by currency with the Group's regulatory capital requirements by currency. Currency borrowings and derivatives are used to manage exposures within the limits that have been set.

57 – Risk management continued

At 31 December 2015 and 2014, the Group's total equity deployment by currency including assets 'held for sale' was:

	Sterling £m	Euro £m	CAD\$ £m	Other £m	Total £m
Capital 31 December 2015	14,333	2,011	979	909	18,232
Capital 31 December 2014	8,050	2,392	1,016	818	12,276

A 10% change in sterling to euro/Canada\$ (CAD\$) period-end foreign exchange rates would have had the following impact on total equity.

	10% increase in sterling / euro rate £m	10% decrease in sterling / euro rate £m	10% increase in sterling / CAD\$ rate £m	10% decrease in sterling / CAD\$ rate £m
Net assets at 31 December 2015	(166)	128	(33)	67
Net assets at 31 December 2014	(78)	210	(96)	91

A 10% change in sterling to euro/Canada\$ (CAD\$) average foreign exchange rates applied to translate foreign currency profits would have had the following impact on profit before tax, including resulting gains and losses on foreign exchange hedges and excluding 'discontinued operations'.

	10% increase in sterling/ euro rate £m	10% decrease in sterling/ euro rate £m	10% increase in sterling/ CAD\$ rate £m	10% decrease in sterling/ CAD\$ rate £m
Impact on profit before tax 31 December 2015	8	23	25	(46)
Impact on profit before tax 31 December 2014	(44)	(25)	(15)	20

The balance sheet changes arise from retranslation of business unit statements of financial position from their functional currencies into sterling, with above movements being taken through the currency translation reserve. These balance sheet movements in exchange rates therefore have no impact on profit. Net asset and profit before tax figures are stated after taking account of the effect of currency hedging activities.

(vi) Derivatives risk

Derivatives are used by a number of the businesses. Activity is overseen by the Group Capital and ALM and Group Risk teams, which monitor exposure levels and approve large or complex transactions. Derivatives are primarily used for efficient investment management, risk hedging purposes, or to structure specific retail savings products.

The Group applies strict requirements to the administration and valuation processes it uses, and has a control framework that is consistent with market and industry practice for the activity that is undertaken.

(vii) Correlation risk

The Group recognises that lapse behaviour and potential increases in consumer expectations are sensitive to and interdependent with market movements and interest rates. These interdependencies are taken into consideration in the internal economic capital model and in scenario analysis.

(d) Liquidity risk

Liquidity risk is the risk of not being able to make payments as they become due because there are insufficient assets in cash form. The relatively illiquid nature of insurance liabilities is a potential source of additional investment return by allowing us to invest in higher yielding, but less liquid assets such as commercial mortgages. The Group seeks to ensure that it maintains sufficient financial resources to meet its obligations as they fall due through the application of a Group liquidity risk policy and business standard and through the development of its liquidity risk management plan. At Group and business unit level, there is a liquidity risk appetite which requires that sufficient liquid resources be maintained to cover net outflows in a stress scenario. In addition to the existing liquid resources and expected inflows, the Group maintains significant undrawn committed borrowing facilities (£1,650 million) from a range of leading international banks to further mitigate this risk.

Maturity analyses

The following tables show the maturities of our insurance and investment contract liabilities, and of the financial and reinsurance assets held to meet them. A maturity analysis of the contractual amounts payable for borrowings and derivatives is given in notes 49 and 58, respectively. Contractual obligations under operating leases and capital commitments are given in note 53.

(i) Analysis of maturity of insurance and investment contract liabilities

For non-linked insurance business, the following table shows the gross liability at 31 December 2015 and 2014 analysed by remaining duration. The total liability is split by remaining duration in proportion to the cash-flows expected to arise during that period, as permitted under IFRS 4, *Insurance Contracts*.

Almost all linked business and non-linked investment contracts may be surrendered or transferred on demand. For such contracts, the earliest contractual maturity date is therefore the current statement of financial position date, for a surrender amount approximately equal to the current statement of financial position liability. However, we expect surrenders, transfers and maturities to occur over many years, and therefore the tables below reflect the expected cash flows for these contracts, rather than their contractual maturity date.

57 – Risk management continued

This table includes assets held for sale.

	Total £m	On demand or within 1 year £m				Over 15 years £m
		1-5 years £m	5-15 years £m	Over 15 years £m		
At 31 December 2015						
Long-term business						
Insurance contracts – non-linked	114,533	9,847	30,715	43,513	30,458	
Investment contracts – non-linked	63,505	4,506	13,666	25,477	19,856	
Linked business	130,185	15,221	41,442	51,368	22,154	
General insurance and health	13,506	5,844	5,160	1,992	510	
Total contract liabilities	321,729	35,418	90,983	122,350	72,978	

	Total £m	On demand or within 1 year £m				Over 15 years £m
		1-5 years £m	5-15 years £m	Over 15 years £m		
At 31 December 2014						
Long-term business						
Insurance contracts – non-linked	85,723	7,980	25,318	32,534	19,891	
Investment contracts – non-linked	55,634	3,311	10,852	23,919	17,552	
Linked business	75,341	8,141	21,444	27,673	18,083	
General insurance and health	13,993	6,014	5,400	2,115	464	
Total contract liabilities	230,691	25,446	63,014	86,241	55,990	

(ii) Analysis of maturity of financial assets

The following table provides an analysis, by maturity date of the principal, of the carrying value of financial assets which are available to fund the repayment of liabilities as they crystallise. This table excludes assets held for sale.

	Total £m	On demand or within 1 year £m				No fixed term (perpetual) £m
		1-5 years £m	5-15 years £m	Over 5 years £m		
At 31 December 2015						
Debt securities	162,964	21,912	46,551	93,753	748	
Equity securities	63,558	—	—	—	63,558	
Other investments	47,695	42,733	940	2,464	1,558	
Loans	22,433	1,485	2,404	18,540	4	
Cash and cash equivalents	33,676	33,676	—	—	—	
Total	330,326	99,806	49,895	114,757	65,868	

	Total £m	On demand or within 1 year £m				No fixed term (perpetual) £m
		1-5 years £m	5-15 years £m	Over 5 years £m		
At 31 December 2014						
Debt securities	131,661	19,097	37,404	75,006	154	
Equity securities	35,619	—	—	—	35,619	
Other investments	35,358	29,011	940	3,553	1,854	
Loans	25,260	1,489	2,517	21,249	5	
Cash and cash equivalents	23,105	23,105	—	—	—	
Total	251,003	72,702	40,861	99,808	37,632	

The assets above are analysed in accordance with the earliest possible redemption date of the instrument at the initiation of the Group. Where an instrument is transferable back to the issuer on demand, such as most unit trusts or similar types of investment vehicle, it is included in the 'On demand or within 1 year' column. Debt securities with no fixed contractual maturity date are generally callable at the option of the issuer at the date the coupon rate is reset under the contractual terms of the instrument. The terms for resetting the coupon are such that we expect the securities to be redeemed at this date, as it would be uneconomic for the issuer not to do so, and for liquidity management purposes we manage these securities on this basis. The first repricing and call date is normally ten years or more after the date of issuance. Most of the Group's investments in equity securities and fixed maturity securities are market traded and therefore, if required, can be liquidated for cash at short notice.

(e) Life and health insurance risk

Life insurance risk in the Group arises through its exposure to mortality risk and exposure to worse than anticipated operating experience on factors such as persistency levels, exercising of policy holder options and management and administration expenses. The Group's health insurance business (including private health insurance, critical illness cover, income protection and personal accident insurance, as well as a range of corporate healthcare products) exposes the Group to morbidity risk (the proportion of our customers falling sick) and medical expense inflation. The Group chooses to take measured amounts of life and health insurance risk provided that the relevant business has the appropriate core skills to assess and price the risk and adequate returns are available.

57 – Risk management continued

The acquisition of Friends Life has resulted in an increase in the Group's relative exposure to UK Life insurance risks, in particular persistency risk. Adjusting for the impact of the Friends Life acquisition, the underlying risk profile of our life and health insurance risks, primarily persistency, longevity, mortality and expense risk, has remained stable during 2015, although the current continued relatively low levels of interest rates have increased our sensitivity to longevity shocks compared to historical norms. Our economic exposure to longevity risk was reduced as a result of the RAC Staff Pension Scheme entering into a longevity swap covering £0.6 billion of pensioner in payment scheme liabilities during 2015, while any significant reduction in individual annuity new business volumes as a result of the UK Government's pension reforms, including changes to compulsory annuitisation, will reduce our longevity risks exposure over the longer-term to the extent not offset by increased bulk purchase annuity volumes. Despite this, longevity risk remains the Group's most significant life insurance risk due to the Group's existing annuity portfolio.

Persistency risk remains significant and continues to have a volatile outlook with underlying performance linked to some degree to economic conditions. However, businesses across the Group have continued to make progress with a range of customer retention activities. The Group has continued to write considerable volumes of life protection business, and to utilise reinsurance to reduce exposure to potential losses. More generally, life insurance risks are believed to provide a significant diversification against other risks in the portfolio. Life insurance risks are modelled within the internal economic capital model and subject to sensitivity and stress and scenario testing. The assumption and management of life and health insurance risks is governed by the group-wide business standards covering underwriting, pricing, product design and management, in-force management, claims handling, and reinsurance. The individual life and health insurance risks are managed as follows:

- Mortality and morbidity risks are mitigated by use of reinsurance. The Group allows businesses to select reinsurers, from those approved by the Group, based on local factors, but retains oversight of the overall exposures and monitor that the aggregation of risk ceded is within credit risk appetite.
- Longevity risk and internal experience analysis are monitored against the latest external industry data and emerging trends. Whilst individual businesses are responsible for reserving and pricing for annuity business, the Group monitors the exposure to this risk and any associated capital implications. The Group has used reinsurance solutions to reduce the risks from longevity and continually monitors and evaluates emerging market solutions to mitigate this risk further.
- Persistency risk is managed at a business unit level through frequent monitoring of company experience, and benchmarked against local market information. Generally, persistency risk arises from customers lapsing their policies earlier than has been assumed. Where possible the financial impact of lapses is reduced through appropriate product design. Businesses also implement specific initiatives to improve the retention of policies which may otherwise lapse. The Group has developed guidelines on persistency management.
- Expense risk is primarily managed by the business units through the assessment of business unit profitability and frequent monitoring of expense levels.

Embedded derivatives

The Group has exposure to a variety of embedded derivatives in its long-term savings business due to product features offering varying degrees of guaranteed benefits at maturity or on early surrender, along with options to convert their benefits into different products on pre-agreed terms. The extent of the impact of these embedded derivatives differs considerably between business units and exposes Aviva to changes in policyholder behaviour in the exercise of options as well as market risk.

Examples of each type of embedded derivative affecting the Group are:

- Options: call, put, surrender and maturity options, guaranteed annuity options, options to cease premium payment, options for withdrawals free of market value adjustment, annuity options, and guaranteed insurability options.
- Guarantees: embedded floor (guaranteed return), maturity guarantee, guaranteed death benefit, and guaranteed minimum rate of annuity payment.
- Other: indexed interest or principal payments, maturity value, loyalty bonus.

The impact of these is reflected in the economic capital model and MCEV reporting and managed as part of the asset liability framework. Further disclosure on financial guarantees and options embedded in contracts and their inclusion in insurance and investment contract liabilities is provided in note 42.

(f) General insurance risk

Types of risk

General insurance risk in the Group arises from:

- Fluctuations in the timing, frequency and severity of claims and claim settlements relative to expectations;
- Unexpected claims arising from a single source or cause;
- Inaccurate pricing of risks or inappropriate underwriting of risks when underwritten; and
- Inadequate reinsurance protection or other risk transfer techniques.

Aviva has a preference for general insurance risk in measured amounts for explicit reward, in line with our core skills in underwriting and pricing. The majority of the general insurance business underwritten by the Group continues to be short tail in nature such as motor, household and commercial property insurances. The Group's underwriting strategy and appetite is communicated via specific policy statements, related business standards and guidelines. General insurance risk is managed primarily at business unit level with oversight at the Group level. Claims reserving is undertaken by local actuaries in the various general insurance businesses and is also subject to periodic external reviews. Reserving processes are further detailed in note 40 'insurance liabilities'.

The vast majority of the Group's general insurance business is managed and priced in the same country as the domicile of the customer.

57 – Risk management continued

Management of general insurance risks

Significant insurance risks will be reported under the risk management framework. Additionally, the economic capital model is used to assess the risks that each general insurance business unit, and the Group as a whole, is exposed to, quantifying their impact and calculating appropriate capital requirements.

Business units have developed mechanisms that identify, quantify and manage accumulated exposures to contain them within the limits of the appetite of the Group. The business units are assisted by the General Insurance Council which provides technical input for major decisions which fall outside individual delegated limits or escalations outside group risk preferences, group risk accumulation, concentration and profitability limits.

Reinsurance strategy

Significant reinsurance purchases are reviewed annually at both business unit and Group level to verify that the levels of protection being bought reflect any developments in exposure and the risk appetite of the Group. The basis of these purchases is underpinned by analysis of economic capital, earnings and capital volatility, cash flow and liquidity and the Group's franchise value. Detailed actuarial analysis is used to calculate the Group's extreme risk profile and then design cost and capital efficient reinsurance programmes to mitigate these risks to within agreed appetites. For businesses writing general insurance we analyse the natural catastrophe exposure using our own internal probabilistic catastrophe model which is benchmarked against external catastrophe models widely used by the rest of the (re)insurance industry.

The Group cedes much of its worldwide catastrophe risk to third-party reinsurers through excess of loss and aggregate excess of loss structures. The Group purchases a group-wide catastrophe reinsurance programme to protect against catastrophe losses exceeding a 1 in 200 year return period. The total Group potential retained loss from its most concentrated catastrophe exposure peril (Northern Europe Windstorm) is approximately £150 million on a per occurrence basis and £175 million on an annual aggregate basis. Any losses above these levels are covered by the group-wide catastrophe reinsurance programme to a level in excess of a 1 in 200 year return period. In addition the Group purchases a number of GI business line specific reinsurance programmes with various retention levels to protect both capital and earnings. In September 2015 the Group reinsured £0.7 billion of latent exposures to its historic UK employers' liability business with conditional agreement to extend coverage to £0.8 billion.

(g) Asset management risk

Aviva is directly exposed to the risks associated with operating an asset management business through its ownership of Aviva Investors. The underlying risk profile of our asset management risk is derived from investment performance, specialist investment professionals and leadership, product development capabilities, fund liquidity, margin, client retention, regulatory developments, fiduciary and contractual responsibilities. The risk profile is regularly monitored. Investment performance has remained strong over 2015 despite some positions being impacted by the volatility of global markets.

A client relationship team is in place to manage client retention risk, while all new asset management products undergo a review and approval process at each stage of the product development process, including approvals from legal, compliance and risk functions. Investment performance against client objectives relative to agreed benchmarks is monitored as part of our investment performance and risk management process, and subject to further independent oversight and challenge by a specialist risk team, reporting directly to the Aviva Investors' Chief Risk Officer.

(h) Operational risk

Operational risk is the risk of direct or indirect loss, arising from inadequate or failed internal processes, people and systems, or external events including changes in the regulatory environment. We have limited appetite for operational risk and aim to reduce these risks as far as is commercially sensible.

Our business units are primarily responsible for identifying and managing operational risks within their businesses, within the group-wide operational risk framework including the risk and control self-assessment process. Businesses must be satisfied that all material risks falling outside our risk tolerances are being mitigated, monitored and reported to an appropriate level. Any risks with a high potential impact are monitored centrally on a regular basis. Businesses use key indicator data to help monitor the status of the risk and control environment. They also identify and capture loss events, taking appropriate action to address actual control breakdowns and promote internal learning.

(i) Brand and reputation risk

We are exposed to the risk that litigation, employee misconduct, operational failures, the outcome of regulatory investigations, media speculation and negative publicity, disclosure of confidential client information, inadequate services, whether or not founded, could impact our brands or reputation. Any of our brands or our reputation could also be affected if products or services recommended by us (or any of our intermediaries) do not perform as expected (whether or not the expectations are founded) or customers' expectations for the product change. We seek to reduce this risk to as low a level as commercially sensible.

The FCA regularly considers whether we are meeting the requirement to treat our customers fairly and we make use of various metrics to assess our own performance, including customer advocacy, retention and complaints. Failure to meet these requirements could also impact our brands or reputation.

If we do not manage the perception of our brands and reputation successfully, it could cause existing customers or agents to withdraw from our business and potential customers or agents to choose not to do business with us.

57 – Risk management continued

(j) Risk and capital management

(i) Sensitivity test analysis

The Group uses a number of sensitivity tests to understand the volatility of earnings, the volatility of its capital requirements, and to manage its capital more efficiently. Sensitivities to economic and operating experience are regularly produced on the Group's key financial performance metrics to inform the Group's decision making and planning processes, and as part of the framework for identifying and quantifying the risks to which each of its business units, and the Group as a whole, are exposed.

For long-term business in particular, sensitivities of market consistent performance indicators to changes in both economic and non-economic experience are continually used to manage the business and to inform the decision making process.

(ii) Life insurance and investment contracts

The nature of long-term business is such that a number of assumptions are made in compiling these financial statements.

Assumptions are made about investment returns, expenses, mortality rates and persistency in connection with the in-force policies for each business unit. Assumptions are best estimates based on historic and expected experience of the business. A number of the key assumptions for the Group's central scenario are disclosed elsewhere in these statements for both IFRS reporting and reporting under MCEV methodology.

(iii) General insurance and health business

General insurance and health claim liabilities are estimated by using standard actuarial claims projection techniques. These methods extrapolate the claims development for each accident year based on the observed development of earlier years. In most cases, no explicit assumptions are made as projections are based on assumptions implicit in the historic claims.

(iv) Sensitivity test results

Illustrative results of sensitivity testing for long-term business, general insurance and health business and the fund management and non-insurance business are set out below. For each sensitivity test the impact of a reasonably possible change in a single factor is shown, with other assumptions left unchanged.

Sensitivity factor	Description of sensitivity factor applied
Interest rate and investment return	The impact of a change in market interest rates by a 1% increase or decrease. The test allows consistently for similar changes to investment returns and movements in the market value of backing fixed interest securities.
Credit spreads	The impact of a 0.5% increase in credit spreads over risk-free interest rates on corporate bonds and other non-sovereign credit assets. The test allows for any consequential impact on liability valuations.
Equity/property market values	The impact of a change in equity/property market values by ± 10%.
Expenses	The impact of an increase in maintenance expenses by 10%.
Assurance mortality/morbidity (life insurance only)	The impact of an increase in mortality/morbidity rates for assurance contracts by 5%.
Annuitant mortality (long-term insurance only)	The impact of a reduction in mortality rates for annuity contracts by 5%.
Gross loss ratios (non-long-term insurance only)	The impact of an increase in gross loss ratios for general insurance and health business by 5%.

Long-term business

Sensitivities as at 31 December 2015

2015 Impact on profit before tax (£m)	Interest rates +1%	Interest rates -1%	Credit spreads +0.5%	Equity/property +10%	Equity/property -10%	Expenses +10%	Assurance mortality +5%	Annuitant mortality -5%
Insurance participating	30	(65)	(30)	(135)	130	(25)	(10)	(50)
Insurance non-participating	(75)	80	(495)	25	(25)	(155)	(115)	(725)
Investment participating	5	(5)	—	—	—	(5)	—	—
Investment non-participating	(20)	20	(5)	35	(35)	(20)	—	—
Assets backing life shareholders' funds	(140)	85	(65)	40	(40)	—	—	—
Total	(200)	115	(595)	(35)	30	(205)	(125)	(775)

2015 Impact on shareholders' equity before tax (£m)	Interest rates +1%	Interest rates -1%	Credit spreads +0.5%	Equity/property +10%	Equity/property -10%	Expenses +10%	Assurance mortality +5%	Annuitant mortality -5%
Insurance participating	30	(65)	(30)	(135)	130	(25)	(10)	(50)
Insurance non-participating	(75)	80	(495)	25	(25)	(155)	(115)	(725)
Investment participating	5	(5)	—	—	—	(5)	—	—
Investment non-participating	(20)	20	(5)	35	(35)	(20)	—	—
Assets backing life shareholders' funds	(175)	120	(70)	40	(40)	—	—	—
Total	(235)	150	(600)	(35)	30	(205)	(125)	(775)

57 – Risk management continued

Sensitivities as at 31 December 2014

	Interest rates +1%	Interest rates -1%	Credit spreads +0.5%	Equity/property +10%	Equity/property -10%	Expenses +10%	Assurance mortality +5%	Annuitant mortality -5%
2014 Impact on profit before tax (£m)								
Insurance participating	(10)	(60)	(20)	(175)	70	(25)	(5)	(45)
Insurance non-participating	(155)	130	(425)	40	(40)	(80)	(50)	(590)
Investment participating	(15)	—	(10)	—	—	(5)	—	—
Investment non-participating	(40)	30	(10)	55	(60)	(35)	—	—
Assets backing life shareholders' funds	(75)	45	(60)	20	(20)	—	—	—
Total	(295)	145	(525)	(60)	(50)	(145)	(55)	(635)
2014 Impact on shareholders' equity before tax (£m)								
Insurance participating	(10)	(60)	(20)	(175)	70	(25)	(5)	(45)
Insurance non-participating	(155)	130	(425)	40	(40)	(80)	(50)	(590)
Investment participating	(15)	—	(10)	—	—	(5)	—	—
Investment non-participating	(40)	30	(10)	55	(60)	(35)	—	—
Assets backing life shareholders' funds	(115)	80	(65)	20	(20)	—	—	—
Total	(335)	180	(530)	(60)	(50)	(145)	(55)	(635)

Changes in sensitivities between 2015 and 2014 reflect inclusion of Friends Life in 2015 for the first time and movements in market interest rates, portfolio growth, changes to asset mix and the relative durations of assets and liabilities and asset liability management actions. The sensitivities to economic movements relate mainly to business in the UK. In general, a fall in market interest rates has a beneficial impact on non-participating business, due to the increase in market value of fixed interest securities and relative durations of assets and liabilities; similarly a rise in interest rates has a negative impact. Mortality and expense sensitivities also relate primarily to the UK.

General insurance and health business sensitivities as at 31 December 2015

	Interest rates +1%	Interest rates -1%	Credit spreads +0.5%	Equity/property +10%	Equity/property -10%	Expenses +10%	Gross loss ratios +5%
2015 Impact on profit before tax (£m)							
Gross of reinsurance	(225)	210	(130)	65	(65)	(100)	(270)
Net of reinsurance	(305)	300	(130)	65	(65)	(100)	(260)
2015 Impact on shareholders' equity before tax (£m)							
Gross of reinsurance	(225)	210	(130)	70	(70)	(20)	(270)
Net of reinsurance	(305)	300	(130)	70	(70)	(20)	(260)

Sensitivities as at 31 December 2014

	Interest rates +1%	Interest rates -1%	Credit spreads +0.5%	Equity/property +10%	Equity/property -10%	Expenses +10%	Gross loss ratios +5%
2014 Impact on profit before tax (£m)							
Gross of reinsurance	(260)	250	(130)	55	(55)	(105)	(280)
Net of reinsurance	(305)	295	(130)	55	(55)	(105)	(270)
2014 Impact on shareholders' equity before tax (£m)							
Gross of reinsurance	(260)	250	(130)	60	(60)	(20)	(280)
Net of reinsurance	(305)	295	(130)	60	(60)	(20)	(270)

For general insurance and health, the impact of the expense sensitivity on profit also includes the increase in ongoing administration expenses, in addition to the increase in the claims handling expense provision.

57 – Risk management continued

Fund management and non-insurance business sensitivities as at 31 December 2015

	Interest rates +1%	Interest rates -1%	Credit spreads +0.5%	Equity/property +10%	Equity/property -10%
2015 Impact on profit before tax (£m)					
Total	—	—	10	(30)	45

	Interest rates +1%	Interest rates -1%	Credit spreads +0.5%	Equity/property +10%	Equity/property -10%
2015 Impact on shareholders' equity before tax (£m)					
Total	—	—	10	(30)	45

Sensitivities as at 31 December 2014

	Interest rates +1%	Interest rates -1%	Credit spreads +0.5%	Equity/property +10%	Equity/property -10%
2014 Impact on profit before tax (£m)					
Total	—	—	5	(15)	25

	Interest rates +1%	Interest rates -1%	Credit spreads +0.5%	Equity/property +10%	Equity/property -10%
2014 Impact on shareholders' equity before tax (£m)					
Total	—	—	5	(15)	25

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations.

As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation, adjusting bonuses credited to policyholders, and taking other protective action.

A number of the business units use passive assumptions to calculate their long-term business liabilities. Consequently, a change in the underlying assumptions may not have any impact on the liabilities, whereas assets held at market value in the statement of financial position will be affected. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity. Similarly, for general insurance liabilities, the interest rate sensitivities only affect profit and equity where explicit assumptions are made regarding interest (discount) rates or future inflation.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty, and the assumption that all interest rates move in an identical fashion.

58 – Derivative financial instruments and hedging

This note gives details of the various financial instruments we use to mitigate risk.

The Group uses a variety of derivative financial instruments, including both exchange traded and over-the-counter instruments, in line with our overall risk management strategy. The objectives include managing exposure to market, foreign currency and/or interest rate risk on existing assets or liabilities, as well as planned or anticipated investment purchases.

In the narrative and tables below, figures are given for both the notional amounts and fair values of these instruments. The notional amounts reflect the aggregate of individual derivative positions on a gross basis and so give an indication of the overall scale of the derivative transaction. They do not reflect current market values of the open positions. The fair values represent the gross carrying values at the year end for each class of derivative contract held (or issued) by the Group.

The fair values do not provide an indication of credit risk, as many over-the-counter transactions are contracted and documented under ISDA (International Swaps and Derivatives Association, Inc.) master agreements or their equivalent. Such agreements are designed to provide a legally enforceable set-off in the event of default, which reduces credit exposure. In addition, the Group has collateral agreements in place between the individual Group entities and relevant counterparties. Refer to note 59 for further information on collateral and net credit risk of derivative instruments.

(a) Instruments qualifying for hedge accounting

The Group has formally assessed and documented the effectiveness of its instruments qualifying for hedge accounting in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*.

(i) Net investment hedges

To reduce its exposure to foreign currency risk, the Group has designated a portion of its euro denominated debt as a hedge of the net investment in its European subsidiaries. The carrying value of the debt at 31 December 2015 was £368 million (2014: £1,292 million) and its fair value at that date was £413 million (2014: £1,359 million).

The foreign exchange gain of £42 million (2014: gain of £94 million) on translation of the debt to sterling at the statement of financial position date has been recognised in the hedging instruments reserve in shareholders' equity. This hedge was fully effective throughout the current and prior years.

58 – Derivative financial instruments and hedging continued

(ii) Cash flow hedges

At the end of 2015 the Group entered into a cash flow hedge using a foreign exchange forward to hedge the currency exposure related to the acquisition of additional shares in its associate Aviva Life Insurance Company India expected to be completed in the first half of 2016. The fair value of the hedge as of 31 December 2015 was a £2 million derivative asset. The gain of £2 million has been recognised in the hedging instruments reserve in shareholders' equity. The hedge was fully effective in the year.

There were no fair value hedges designated in the year.

(b) Derivatives not qualifying for hedge accounting

Certain derivatives either do not qualify for hedge accounting under IAS 39 or the option to hedge account has not been taken. These are referred to below as non-hedge derivatives.

(i) The Group's non-hedge derivative activity at 31 December 2015 and 2014 was as follows:

	2015			2014		
	Contract/ notional amount £m	Fair value asset £m	Fair value liability £m	Contract/ notional amount £m	Fair value asset £m	Fair value liability £m
Foreign exchange contracts						
OTC						
Forwards	7,791	50	(186)	5,999	54	(42)
Interest rate and currency swaps	5,152	133	(346)	2,237	141	(153)
Options	4,800	28	(16)	14,741	92	(48)
Total	17,743	211	(548)	22,977	287	(243)
Interest rate contracts						
OTC						
Forwards	66	—	(1)	356	—	(42)
Swaps	48,682	1,907	(1,826)	35,579	2,845	(2,087)
Options	675	110	—	2,675	186	—
Swaptions	2,828	151	(22)	33,520	126	(26)
Exchange traded						
Futures	2,581	18	(16)	1,943	13	(33)
Total	54,832	2,186	(1,865)	74,073	3,170	(2,188)
Equity/Index contracts						
OTC						
Options	1,225	114	(15)	1,132	6	(6)
Exchange traded						
Futures	6,175	87	(113)	3,764	88	(46)
Options	4,414	370	(19)	4,429	336	(18)
Total	11,814	571	(147)	9,325	430	(70)
Credit contracts						
Other	12,968	10	(155)	8,950	14	(89)
Total at 31 December	21,861	348	(1,166)	16,393	187	(891)
Total at 31 December	119,218	3,326	(3,881)	131,718	4,088	(3,481)

Fair value assets made up of £2 million in hedge derivatives and £3,326 million in non-hedge derivatives are recognised as 'Derivative financial instruments' in note 26(a), while fair value liabilities are recognised as 'Derivative liabilities' in note 50.

The Group's derivative risk management policies are outlined in note 57.

(ii) The contractual undiscounted cash flows in relation to non-hedge derivative liabilities have the following maturities:

	2015 £m	2014 £m
Within 1 year	484	336
Between 1 and 2 years	564	698
Between 2 and 3 years	251	313
Between 3 and 4 years	227	240
Between 4 and 5 years	291	234
After 5 years	2,613	3,627
	4,430	5,448

(c) Collateral

Certain derivative contracts, primarily interest rate and currency swaps, involve the receipt or pledging of cash and non-cash collateral. The amounts of cash collateral receivable or repayable are included in notes 27 and 50 respectively. Collateral received and pledged by the Group is detailed in note 59.

59 – Financial assets and liabilities subject to offsetting, enforceable master netting agreements and similar arrangements

(a) Offsetting arrangements

Financial assets and liabilities are offset in the statement of financial position when the Group has a legally enforceable right to offset and has the intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously.

Aviva mitigates credit risk in derivative contracts by entering into collateral agreements, where practical, and in ISDA master netting agreements for each of the legal entities to facilitate Aviva's right to offset credit risk exposure. The credit support agreement will normally dictate the threshold over which collateral needs to be pledged by Aviva or its counterparty.

Derivative transactions requiring Aviva or its counterparty to post collateral are typically the result of over-the-counter derivative trades, comprised mostly of interest rate swaps, currency swaps and credit default swaps. These transactions are conducted under terms that are usual and customary to standard long-term borrowing, derivative, securities lending and securities borrowing activities. The derivative assets and liabilities in the table below are made up of the contracts described in detail in note 58.

Aviva participates in a number of stock lending and repurchase arrangements. In some of these arrangements cash is exchanged by Aviva for securities and a related receivable is recognised within 'Loans to Banks' (note 23). These arrangements are reflected in the tables below. In instances where the collateral is recognised on the statement of financial position, the obligation for its return is included within 'Payables and other financial liabilities'.

In other arrangements, securities are exchanged for other securities. The collateral received must be in a readily realisable form such as listed securities and is held in segregated accounts. Transfer of title always occurs for the collateral received. In many instances, however, no market risk or economic benefit is exchanged and these transactions are not recognised on the statement of financial position in accordance with our accounting policies, and accordingly not included in the tables below.

2015	Amounts subject to enforceable netting arrangements						
	Offset under IAS 32			Amounts under a master netting agreement but not offset under IAS 32			
	Gross amounts	Amounts offset	Net amounts reported in the statement of financial position	Financial instruments	Cash collateral	Securities collateral received / pledged	Net amount
Financial assets							
Derivative financial assets	3,660	(836)	2,824	(1,793)	(640)	(243)	148
Loans to banks and repurchase arrangements	2,723	—	2,723	—	—	(2,723)	—
Total financial assets	6,383	(836)	5,547	(1,793)	(640)	(2,966)	148
Financial liabilities							
Derivative financial liabilities	(4,030)	836	(3,194)	1,884	388	543	(379)
Other financial liabilities	(2,219)	—	(2,219)	—	—	2,219	—
Total financial liabilities	(6,249)	836	(5,413)	1,884	388	2,762	(379)

2014	Amounts subject to enforceable netting arrangements						
	Offset under IAS 32			Amounts under a master netting agreement but not offset under IAS 32			
	Gross amounts	Amounts offset	Net amounts reported in the statement of financial position	Financial instruments	Cash collateral	Securities collateral received / pledged	Net amount
Financial assets							
Derivative financial assets	4,467	(1,065)	3,402	(1,846)	(931)	(404)	221
Loans to banks and repurchase arrangements	3,763	—	3,763	—	—	(3,763)	—
Total financial assets	8,230	(1,065)	7,165	(1,846)	(931)	(4,167)	221
Financial liabilities							
Derivative financial liabilities	(3,725)	1,065	(2,660)	2,108	338	146	(68)
Other financial liabilities	(1,859)	—	(1,859)	—	—	1,859	—
Total financial liabilities	(5,584)	1,065	(4,519)	2,108	338	2,005	(68)

Derivative assets are recognised as 'Derivative financial instruments' in note 26(a), while fair value liabilities are recognised as 'Derivative liabilities' in note 50. £504 million (2014: £686 million) of derivative assets and £687 million (2014: £821 million) of derivative liabilities are not subject to master netting agreements and are therefore excluded from the table above.

Amounts receivable related to securities lending and reverse-repurchase arrangements totalling £2,723 million (2014: £3,763 million) are recognised within 'Loans to banks' in note 23(a).

Other financial liabilities presented above represent liabilities related to repurchase arrangements recognised within 'Obligations for repayment of cash collateral received' in note 50.

59 – Financial assets and liabilities subject to offsetting, enforceable master netting agreements and similar arrangements continued

(b) Collateral

In the tables above, the amounts of assets or liabilities presented in the consolidated statement of financial position are offset first by financial instruments that have the right of offset under master netting or similar arrangements with any remaining amount reduced by the amount of cash and securities collateral. The actual amount of collateral may be greater than amounts presented in the tables above in the case of over collateralisation.

The total amount of collateral received which the Group is permitted to sell or repledge in the absence of default was £22,424 million (2014: £20,566 million), all of which other than £2,588 million (2014: £2,896 million) is related to securities lending arrangements. £2,915 million (2014: £4,036 million) of collateral has been received related to balances recognised within 'Loans to banks' (refer to note 23). The value of collateral that was actually sold or repledged in the absence of default was £nil (2014: £nil).

The level of collateral held is monitored regularly, with further collateral obtained where this is considered necessary to manage the Group's risk exposure.

60 – Related party transactions

This note gives details of the transactions between Group companies and related parties which comprise our joint ventures, associates and staff pension schemes.

The Group undertakes transactions with related parties in the normal course of business. Loans to related parties are made on normal arm's-length commercial terms.

Services provided to, and by related parties

	2015					2014		
	Income earned in the year £m	Expenses incurred in the year £m	Payable at year end £m	Receivable at year end £m	Income earned in the year £m	Expenses incurred in the year £m	Payable at year end £m	Receivable at year end £m
Associates	9	(7)	—	—	7	(2)	—	—
Joint ventures	27	—	—	192	28	—	—	154
Employee pension schemes	13	—	—	3	11	—	—	3
	49	(7)	—	195	46	(2)	—	157

Transactions with joint ventures in the UK relate to the property management undertakings, the most material of which are listed in note 18(a)(iii). Our interest in these joint ventures comprises a mix of equity and loans, together with the provision of administration services and financial management to many of them. Our UK life insurance companies earn interest on loans advanced to these entities, movements in which may be found in note 18(a)(i). Our fund management companies also charge fees to these joint ventures for administration services and for arranging external finance.

Key management personnel of the Company may from time to time purchase insurance, savings, asset management or annuity products marketed by Group Companies on equivalent terms to those available to all employees of the Group. In 2015 and 2014, other transactions with key management personnel were not deemed to be significant either by size or in the context of their individual financial positions.

Our UK fund management companies manage most of the assets held by the Group's main UK staff pension scheme, for which they charge fees based on the level of funds under management. The main UK scheme holds investments in Group-managed funds and insurance policies with other Group companies, as explained in note 48(b)(ii). As at 31 December 2015, the Friends Provident Pension Scheme ("FPPS"), acquired during the year as part of the acquisition of the Friends Life business, held an insurance policy of £546 million issued by a Group Company, which eliminates on consolidation.

The related parties' receivables are not secured and no guarantees were received in respect thereof. The receivables will be settled in accordance with normal credit terms. Details of guarantees, indemnities and warranties provided on behalf of related parties are given in note 52(f).

Key management compensation

The total compensation to those employees classified as key management, being those having authority and responsibility for planning, directing and controlling the activities of the Group, including the executive and non-executive directors is as follows:

	2015 £m	2014 £m
Salary and other short-term benefits	13.3	8.9
Other long-term benefits	5.2	4.1
Post-employment benefits	1.7	1.0
Equity compensation plans	10.6	1.9
Termination benefits	2.0	—
Total	32.8	15.9

The increase in total key management compensation in 2015 mainly reflects the effect of an increase in the number of employees classified as key management compared to 2014.

Information concerning individual directors' emoluments, interests and transactions is given in the Directors' Remuneration Report.

61 – Organisational structure

The following chart shows, in simplified form, the organisational structure of the Group as at 31 December 2015. Aviva plc is the holding company of the Group.

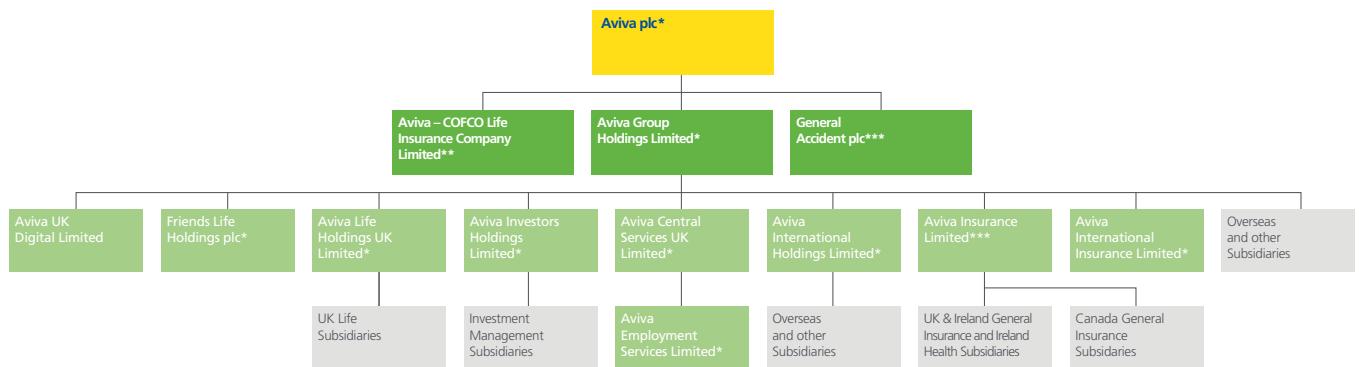
Parent company

Aviva plc

Subsidiaries

The principal subsidiaries of the Company are listed below by country of incorporation.

A complete list of the Group's related undertakings comprising of subsidiaries, joint ventures, associates and other significant holdings is contained within Note 62.



* Incorporated in England and Wales

** Incorporated in People's Republic of China

*** Incorporated in Scotland

United Kingdom

Aviva Annuity UK Limited
 Aviva Central Services UK Limited
 Aviva Employment Services Limited
 Aviva Equity Release UK Limited
 Aviva Health UK Limited
 Aviva Insurance Limited
 Aviva International Insurance Limited
 Aviva Investors Global Services Limited
 Aviva Investors Pensions Limited
 Aviva Investors UK Fund Services Limited
 Aviva Investors UK Funds Limited
 Aviva Life & Pensions UK Limited
 Aviva Life Services UK Limited
 Aviva Pensions Trustees UK Limited
 Aviva UK Digital Limited
 Aviva Wrap UK Limited
 Gresham Insurance Company Limited
 The Ocean Marine Insurance Company Limited
 Friends Life Limited
 Friends Life and Pensions Limited
 Friends Life Management Services Limited
 Friends Life Services Limited
 Friends Provident International Limited

Barbados

Victoria Reinsurance Company Ltd

Bermuda

Aviva Re Limited

Canada

Aviva Canada Inc. and its principal subsidiaries:
 Aviva Insurance Company of Canada
 Elite Insurance Company
 Pilot Insurance Company
 Scottish & York Insurance Co. Limited
 S&Y Insurance Company
 Traders General Insurance Company

France

Aviva France SA (99.99%) and its principal subsidiaries:
 Antarius S.A. (50%)
 Aviva Assurances S.A. (99.9%)
 Aviva Investors France S.A. (99.9%)
 Aviva Vie SA (99.9%)
 Aviva Epargne Retraite (99.9%)
 Union Financière de France Banque (Banking) (74.3%)

Hong Kong

Aviva Life Insurance Company Limited

Ireland

Aviva Health Group Ireland Limited (70%)

61 – Organisational structure continued

Italy

Aviva Italia Holding S.p.A and its principal subsidiaries:
 Avipop Assicurazioni S.p.A (50%)
 Avipop Vita S.p.A (50%)
 Aviva S.p.A (51%)
 Aviva Assicurazioni Vita S.p.A (80%)
 Aviva Italia S.p.A
 Aviva Life S.p.A
 Aviva Vita S.p.A (80%)

Lithuania

Uždaroji akcinė gyvybės draudimo ir pensijų bendrovė 'Aviva Lietuva'

Poland

Aviva Powszechnie Towarzystwo Emerytalne Aviva BZ WBK S.A.
 (90%)
 Aviva Towarzystwo Ubezpieczen na Zycie SA (90%)
 Aviva Towarzystwo Ubezpieczen Ogolnych SA (90%)

Singapore

Aviva Ltd
 Navigator Investment Services Limited

Spain

Aviva Vida y Pensiones, SA de seguros y reaseguros
 Caja Espana Vida, Compania de Seguros y Reaseguros (50%)
 Caja Granada Vida, de Seguros y Reaseguros, S.A. (25%)
 Unicorp Vida, Compania de Seguros y Reaseguros (50%)
 Caja Murcia Vida y Pensiones, de Seguros y Reaseguros S.A.
 (50%)

Associates and joint ventures

The Group has ongoing interests in the following operations that are classified as joint ventures or associates. Further details of those operations that were most significant in 2015 are set out in notes 18 and 19 to the financial statements.

United Kingdom

The Group has interests in several property limited partnerships. Further details are provided in notes 18, 19 and 25 to the financial statements.

China

Aviva-COFCO Life Insurance Co. Limited (50%)

India

Aviva Life Insurance Company India Limited (26%)

Indonesia

PT Astra Aviva Life (50%)

Taiwan

First-Aviva Life Insurance Co. Limited (49%)

Turkey

AvivaSA Emeklilik ve Hayat A.S (40%)

Vietnam

Vietinbank Aviva Life Insurance Company Limited (50%)

62 – Related Undertakings

The Companies Act 2006 requires disclosure of certain information about the Group's related undertakings which is set out in this note. Related undertakings comprise subsidiaries, joint ventures, associates and other significant holdings. Significant holdings are where the Group either has a shareholding greater than or equal to 20% of the nominal value of any share class, or a book value greater than 20% of the Group's assets.

Refer to accounting policies (D) Consolidation principles for further detail on principles of consolidation and definition of joint ventures.

(a) The direct related undertakings of the Company as at 31 December 2015 are listed below.

Name of undertaking	Country of incorporation	Share class	% held
Aviva-COFCO Life Insurance Company Ltd	China	Ordinary shares	50
General Accident plc	United Kingdom	Ordinary shares	97
Aviva Group Holdings Limited	United Kingdom	Ordinary shares	100

(b) The indirect related undertakings of the Company as at 31 December 2015 are listed below:

Name of undertaking	Country of incorporation	Share class	% held
7-13 Boulevard Paul Emile Victor S.a.r.l	France	Ordinary Shares	100
1 Fitzroy Place Jersey Unit Trust	Jersey	Unit Trust	50
1 Fitzroy Place LP	United Kingdom	Limited Partnership	50
11 Rue De L'Echelle	France	Ordinary Shares	100
11-12 Hanover Square LP ³	United Kingdom	Limited Partnership	50
11-12 Hanover Square Nominee 1 Limited ³	United Kingdom	Ordinary Shares	50
11-12 Hanover Square Nominee 2 Limited ³	United Kingdom	Ordinary Shares	50
11-12 Hanover Square Unit Trust ³	Jersey	Unit Trust	50
130 Fenchurch Street LP ³	United Kingdom	Limited Partnership	50
130 Fenchurch Street Nominee 1 Limited ³	United Kingdom	Ordinary Shares	50
130 Fenchurch Street Nominee 2 Limited ³	United Kingdom	Ordinary Shares	50
130 Fenchurch Street Unit Trust ³	Jersey	Unit Trust	50
1-5 Lowndes Square Management Company Limited	United Kingdom	Ordinary 'B' Shares	75
2 Fitzroy Place Jersey Unit Trust	Jersey	Unit Trust	50
2 Fitzroy Place LP	United Kingdom	Limited Partnership	50
20 Gracechurch (General Partner) Limited	United Kingdom	Ordinary 'A' Shares	100
20 Gracechurch LP	United Kingdom	Ordinary 'B' Shares	100
20 Gracechurch Unit Trust	Jersey	Limited Partnership	100
20 Lowndes Square Management Company Limited	United Kingdom	Unit Trust	76
21/2 Devonshire Square General Partner Limited	United Kingdom	Ordinary Shares	100
2-10 Mortimer Street (GP No 1) Limited ³	United Kingdom	Ordinary Shares	50
2-10 Mortimer Street GP Limited ³	United Kingdom	Ordinary Shares	50
2-10 Mortimer Street LP ³	United Kingdom	Limited Partnership	50
30 Warwick Street LP ³	United Kingdom	Limited Partnership	50
30 Warwick Street Nominee 1 Limited ³	United Kingdom	Ordinary Shares	50
30 Warwick Street Nominee 2 Limited ³	United Kingdom	Ordinary Shares	50
30 Warwick Street Unit Trust ³	Jersey	Unit Trust	50
30-31 Golden Square LP ³	United Kingdom	Limited Partnership	50
30-31 Golden Square Nominee 1 Limited ³	United Kingdom	Ordinary Shares	50
30-31 Golden Square Nominee 2 Limited ³	United Kingdom	Ordinary Shares	50
30-31 Golden Square Unit Trust ³	Jersey	Unit Trust	50
400 Caledonian Road Management Company Limited	United Kingdom	Company Limited by Guarantee	50
41-42 Lowndes Square Management Company Limited	United Kingdom	Ordinary 'A' Shares	77
43 Lowndes Square Management Company Limited	United Kingdom	Ordinary 'B' Shares	76
44-49 Lowndes Square Management Company Limited	United Kingdom	Ordinary 'A' Shares	75
6-10 Lowndes Square Management Company Limited	United Kingdom	Ordinary 'B' Shares	75
A.G.S Lanka (Private) Limited	Sri Lanka	2 Of 6 Pence Shares	100
A.G.S. Customer Services (India) Private Limited	India	Ordinary Shares	100
Aberdeen A M L&P Multiast (Ex Prop) 1 Gross	United Kingdom	OEIC	27
Aberdeen Multi Asset A Acc	United Kingdom	OEIC	43
Aberdeen UK Tracker Fund	United Kingdom	Unit Trust	23
Actions France M	France	Mutual Fund	67
Actis China Investment Company Limited	Mauritius	US\$ A Shares	40
Ad Rate Sp Zoo	Poland	Ordinary Shares	90
AFER - SFÉR	France	Ordinary Shares	50
Afer Actions Amerique Fcp	France	Mutual Fund	100
Afer Actions Euro A	France	Mutual Fund	100
Afer Actions Euro I	France	Mutual Fund	100
Afer Actions Monde	France	Mutual Fund	100
Afer Actions Pme C.	France	Mutual Fund	100
Afer Convertibles C.	France	Mutual Fund	100
Afer Diversifie Durable	France	Mutual Fund	100
AFER Immo	France	Ordinary Shares	100
Afer Marches Emergents Fcp	France	Mutual Fund	100
Afer Objectif 2017 Fcp	France	Mutual Fund	100
Afer Obl Md Ent C.	France	Mutual Fund	100
Afer Patrimoine	France	Mutual Fund	100
Afer-Flore	France	Mutual Fund	95
AFRP S.à r.l.	Luxembourg	Ordinary Shares	100
Agents 3A	France	Ordinary Shares	50
Agenzia Aviva Srl	Italy	Ordinary Shares	100
Ahorro Andaluz, S.A	Spain	Ordinary Shares	70
Ai Eu Cr B 1-3 Hd	France	Mutual Fund	60
Ai Euro Credit Bonds	France	Mutual Fund	92
Ai Euro Crédit Bonds 1-3 Hd R	France	Mutual Fund	92
Ai Inflation Euro	France	Mutual Fund	100

Name of undertaking	Country of incorporation	Share class	% held
Ai Inflation Euro Hd Fcp	France	Mutual Fund	100
AI Special PFI SPV Limited	United Kingdom	Ordinary Shares	100
AIEREF Holding 1 S.a.r.l	Luxembourg	Equity Shares	100
AIEREF Holding 2 S.a.r.l	Luxembourg	Issued Capital Shares	100
AIEREF Renewable Energy s.r.o.	Czech Republic	Ordinary Shares	99
AI Recap Carry I, LP	United States	Sole Member	81
AI-RECAP GP I, LLC	United States	Sole Member	100
AIREF SGP	France	Ordinary Shares	100
Airport Property GP (No. 2) Limited ³	United Kingdom	Ordinary A Shares	50
		Ordinary B Shares	
Airport Property H1 Limited	United Kingdom	Ordinary Shares	50
Airport Property Property Partnership ³	United Kingdom	Limited Partnership	50
Airport Property Unit Trust	Jersey	Unit Trust	50
Alternative Use Group Plc	United Kingdom	Ordinary Shares	100
Amundi Eq.GI.Luxury Lifest.Aec	France	Mutual Fund	24
Anesco Mid Devon Limited	United Kingdom	Ordinary Shares	100
Anesco South West Limited	United Kingdom	Ordinary Shares	100
Anna Livia Properties Limited	Ireland	Ordinary Shares	100
Antarius Fonds Actions Plus	France	Mutual Fund	100
Antarius Fonds Obligataire	France	Mutual Fund	100
Antarius Obli 1-3 Ans	France	Mutual Fund	100
Antarius Rotation Sectorielle	France	Mutual Fund	97
Antarius S.A	France	Ordinary € 16 Shares	50
Apia Nominee 1 Limited ^{3,4}	United Kingdom	Ordinary Shares	50
Apia Nominee 2 Limited ^{3,4}	United Kingdom	Ordinary Shares	50
Apia Regional Office Fund (General Partner) Limited ^{3,4}	United Kingdom	Ordinary Shares	50
Apia Regional Office Fund (No.1) Limited ^{3,4}	United Kingdom	Ordinary Shares	50
APIA Regional Offices Fund Limited Partnership	United Kingdom	Limited Partnership	28
APIA Regional Offices Fund Unit Trust	Jersey	Unit Trust	28
Architas Liquidity R Acc	United Kingdom	OEIC	29
Architas MA Active Intermediate Income Fund	United Kingdom	OEIC	30
Architas Multi-Manager Global Solutions ICVC - Reserve Fund	United Kingdom	OEIC	26
Architas Multi-Manager Protector Funds ICVC - Diversified Protector 70	United Kingdom	Fund of Funds	49
Architas Multi-Manager Protector Funds ICVC - Diversified Protector 80	United Kingdom	Fund of Funds	35
Area Life International Assurance Limited	Ireland	A Shares	100
		B Shares	
Area Life Ltd	Italy	Ordinary Shares (Shares Class 'A' and Class 'B')	100
Artemis Global Growth Fund	United Kingdom	Unit Trust	23
Ascot Real Estate Investments GP LLP	United Kingdom	Limited Liability Partnership	50
Ascot Real Estate Investments LP	United Kingdom	Limited Partnership	50
ASF German Retail GmbH & Co. KG	Germany	Ordinary Shares	94
Ashtenue (AIF) Limited	United Kingdom	Ordinary Shares	67
Ashtenue (Severnside) Limited	United Kingdom	Ordinary Shares	67
Ashtenue Caledonia Limited	United Kingdom	Ordinary A Shares	67
Ashtenue Industrial (General Partner) Limited	United Kingdom	Ordinary A Shares	67
Ashtenue Industrial Fund Nominee No.1 Limited	United Kingdom	Ordinary Shares	67
Ashtenue Industrial Fund Nominee No.2 Limited	United Kingdom	Ordinary Shares	67
ASL Caravel Limited Partnership	United Kingdom	Limited Partner	100
ASL Clipper Limited Partnership	United Kingdom	Limited Partner	100
ASL Mainsail Limited Partnership	United Kingdom	Limited Partner	100
ASL Schooner Limited Partnership	United Kingdom	Limited Partner	100
ASL/ SLAS Xebec Limited Partnership	United Kingdom	Limited Partner	100
Aspire Financial Management Limited	United Kingdom	Ordinary Shares	47
Atlantic Industrial Nominees Limited	United Kingdom	Ordinary Shares	100
Atlas Park Management Company Limited	United Kingdom	Guarantee transferred pursuant to the Part VII transfer, effective 28 December 2012, by which the assets and liabilities of Friends Life Assurance Society Limited and Friends Life Company Limited were transferred to Friends Life Limited.	100
Autolog Speditions-und Logistik Gesellschaft mbH & Co OG	Austria	Ordinary Shares	100
Av Structure Idx 4 C.	France	Mutual Fund	100
Avipop Assicurazioni SpA	Italy	Ordinary Shares	50
Avipop Vita SpA	Italy	Ordinary Shares	50
Aviv.Inv.Sm.&Mid Cap.Eur.	France	Mutual Fund	100
Aviva (Peak No.1) UK Limited	United Kingdom	Ordinary Shares	100
Aviva (Peak No.2) UK Limited	United Kingdom	Ordinary Shares	100
Aviva Actions Croissance	France	Mutual Fund	100
Aviva Actions Euro	France	Mutual Fund	97
Aviva Actions Europe	France	Mutual Fund	100
Aviva Actions France	France	Mutual Fund	81
Aviva Agency Services Inc.	Canada	Class A Common Shares	100
Aviva Amerique	France	Mutual Fund	99
Aviva Annuity UK Limited	United Kingdom	Ordinary Shares	100
Aviva Asia Holdings Private Limited	Singapore	Ordinary Shares	100
Aviva Asia Pte Ltd	Singapore	Ordinary Shares	100
Aviva Asie	France	Mutual Fund	100
Aviva Assicurazioni Vita SpA	Italy	Ordinary Shares	80
Aviva Assurances, Société Anonyme d'Assurances Incendie, Accidents et Risques France		Ordinary € 45.74 Shares	100
Divers			
Aviva Brands Limited	United Kingdom	Ordinary Shares	100
Aviva Canada Inc.	Canada	Class A,Class B, Common, & New Common Shares	100
Aviva Capital Planete Fcp	France	Mutual Fund	100
Aviva Central Services UK Limited	United Kingdom	Ordinary Shares	100
Aviva Client Nominees UK Limited	United Kingdom	Ordinary Shares	100
Aviva Commercial Finance Limited	United Kingdom	Ordinary Shares	100
Aviva Company Secretarial Services Limited	United Kingdom	Ordinary Shares	100
Aviva Consumer Products UK Limited	United Kingdom	Ordinary Shares	100
Aviva Convertibles	France	Ordinary Shares	92
Aviva Conviction Opportunites	France	Mutual Fund	100
Aviva Conviction Patrimoine	France	Mutual Fund	100
Aviva Corto Plazo -A- Fi	Spain	Mutual Fund	33
Aviva Credit Services UK Limited	United Kingdom	Ordinary Shares	100

Name of undertaking	Country of incorporation	Share class	% held
Aviva Deposits UK Limited	United Kingdom	Ordinary Shares	100
Aviva Développement	France	Ordinary Shares	99
Aviva Direct Ireland Limited	Ireland	Ordinary Shares	100
Aviva Director Services Limited	United Kingdom	Ordinary Shares	100
Aviva Diversifie	France	Ordinary Shares	95
Aviva Driving School Ireland Limited	Ireland	Ordinary Shares	100
Aviva Employment Services Limited	United Kingdom	Ordinary Shares	100
Aviva Epargne Retraite	France	Ordinary Shares	100
Aviva Equity Release UK Limited	United Kingdom	Ordinary Shares	100
Aviva ERFA 15 UK Limited	United Kingdom	Ordinary Shares	100
Aviva Espabolsa Fi	Spain	Mutual Fund	51
Aviva Eur Corp Senior Debts	France	Mutual Fund	100
Aviva Eurobolsa Fi	Spain	Mutual Fund	76
Aviva Europe	France	Ordinary Shares	96
Aviva Europe SE	United Kingdom	Ordinary Shares	92
Aviva Europe Services Europe Economic Interest Group	United Kingdom	Ordinary Shares	100
Aviva Flexible Emergents A Fcp	France	Mutual Fund	100
Aviva Flexible Emetgents I FCP	France	Mutual Fund	-
Aviva Fonvalor -A- Fi	Spain	Mutual Fund	65
Aviva France	France	Ordinary Shares	100
Aviva France Opportunites	France	Mutual Fund	95
Aviva Gestion SGIC SA	Spain	Ordinary Shares	92
Aviva Global Services (Management Services) Private Ltd.	Singapore	Ordinary Shares	100
Aviva Grandes Marque	France	Mutual Fund	100
Aviva Grdes Marq A C.	France	Mutual Fund	100
Aviva Group Holdings Limited	United Kingdom	Ordinary Shares	100
Aviva Group Ireland plc	Ireland	Ordinary Shares	100
Aviva Group Services Ireland Limited	Ireland	Ordinary Shares	92
Aviva Grupo Corporativo S.L.	Spain	Ordinary Shares	92
Aviva Health Group Ireland Limited	Ireland	Ordinary Share	70
Aviva Health Insurance Ireland Limited	Ireland	Ordinary Shares	70
Aviva Health UK Limited	United Kingdom	Ordinary Shares	100
Aviva Holdings CED II (Luxembourg) Sarl	Luxembourg	€100 Units	100
Aviva Immo Selection	France	Ordinary Shares	100
Aviva Impact Investing France	France	Ordinary Shares	100
Aviva Infrastructure Debt Europe I S.A.	United Kingdom	Ordinary Shares	100
Aviva Insurance Company of Canada	Canada	Common Shares	100
Aviva Insurance Limited	United Kingdom	Ordinary Shares	100
Aviva Insurance Services UK Limited	United Kingdom	Ordinary Shares	100
Aviva Insurance UK Limited	United Kingdom	Ordinary Shares	100
Aviva International Holdings Limited	United Kingdom	Ordinary Shares	100
Aviva International Insurance Limited	United Kingdom	Ordinary Shares	100
Aviva Interoblig	France	Mutual Fund	100
Aviva Inv Eu Aggr A.C.	France	Mutual Fund	81
Aviva Inv Eur Cre Bd	France	Mutual Fund	98
Aviva Inv Yield Curve Abs Ret	France	Mutual Fund	88
Aviva Inv Yield Curve Abs Rt R	France	Mutual Fund	100
Aviva Inv.E.Aggr.I	France	Mutual Fund	92
Aviva Invesco Perpetual Global Targeted Returns ²	United Kingdom	OEIC	86
Aviva Invest.Credit Europe(C)	France	Mutual Fund	40
Aviva Invest.Credit Europe(D)	France	Mutual Fund	99
Aviva Investissements	France	Ordinary Shares	100
Aviva Investment Advisory Services Private Limited	India	Equity Shares	100
Aviva Investors UK Equity Share Class 3	United Kingdom	OEIC	90
Aviva Investors (FP) Limited	United Kingdom	Ordinary Shares	100
Aviva Investors (FP) LP	United Kingdom	Ordinary Shares	100
Aviva Investors (GP) Scotland Limited	United Kingdom	Ordinary Shares	100
Aviva Investors Actions Euro	France	Mutual Fund	91
Aviva Investors Akcyjny	Poland	OEIC	100
Aviva Investors Alpha Taux A	France	Mutual Fund	100
Aviva Investors Alpha Yield	France	Mutual Fund	95
Aviva Investors Americas LLC	United States	Sole Member	100
Aviva Investors Asia Pte. Limited	Singapore	Ordinary Shares	100
Aviva Investors Asian Equity Income Fund	Luxembourg	SICAV	90
Aviva Investors Asian High Yield Bond Fund	Luxembourg	SICAV	96
Aviva Investors Australian Logistics Property Trust	Australia	Ordinary Shares	100
Aviva Investors Australian Logistics Property Trusts No. 2	Australia	Unit Trust	100
Aviva Investors Australian Value Enhanced Logistics Strategy II Trust	Australia	Unit Trust	100
Aviva Investors Australian Value Enhanced Logistics Strategy III Trust	Australia	Unit Trust	100
Aviva Investors Australian Value Enhanced Logistics Strategy Trust	Australia	Unit Trust	100
Aviva Investors Aviva Perspective 2024	Luxembourg	SICAV	100
Aviva Investors Aviva Perspective 2026	Luxembourg	SICAV	100
Aviva Investors Balance Fund of Funds Share Class 3	United Kingdom	OEIC	0
Aviva Investors Britannia (D)	France	Mutual Fund	100
Aviva Investors Canada Inc.	Canada	Common Shares	100
Aviva Investors Cash Share Class 3	United Kingdom	OEIC	86
Aviva Investors Cautious Fund of Funds Share Class 3	United Kingdom	OEIC	87
Aviva Investors Central European Property Fund FCP-SIF	Luxembourg	FCP	49
Aviva Investors Commercial Assets GP Limited	United Kingdom	Ordinary Shares	100
Aviva Investors Conviction	France	Mutual Fund	100
Aviva Investors Corporate Bond 3	United Kingdom	OEIC	45
Aviva Investors Depozyt Plus	Luxembourg	UCIT	31
Aviva Investors Dlužny	Poland	OEIC	100
Aviva Investors Dynamic Master Fund	Luxembourg	SICAV	100
Aviva Investors EBC GP Limited	United Kingdom	Ordinary Shares	100
Aviva Investors EBC Limited Partnership	United Kingdom	Ordinary shares	100
Aviva Investors EBC S.à r.l.	Luxembourg	Ordinary A Shares	100
Aviva Investors Emerging Markets Bond Fund	Luxembourg	SICAV	75
Aviva Investors Emerging Markets Corporate Bond Fund	Luxembourg	SICAV	100
Aviva Investors Emerging Markets Debt Opportunities Fund	Luxembourg	SICAV	100
Aviva Investors Emerging Markets Equity Income Fund	Luxembourg	SICAV	99
Aviva Investors Emerging Markets Equity Small Cap Fund	Luxembourg	SICAV	78
Aviva Investors Emerging Markets Local Currency Fund	Luxembourg	SICAV	80

Name of undertaking	Country of incorporation	Share class	% held
Aviva Investors Employment Services Limited	United Kingdom	Ordinary Shares	100
Aviva Investors Energy Centre No.1 GP Limited	United Kingdom	Ordinary Shares	100
Aviva Investors Euro Liquidity Fund	Ireland	ICVC	86
Aviva Investors European Corporate Bond A	Italy	SICAV	37
Aviva Investors European Corporate Bond Fund	Luxembourg	SICAV	64
Aviva Investors European Equity Fund	Luxembourg	SICAV	61
Aviva Investors European Equity Income Fund	Luxembourg	SICAV	97
Aviva Investors European Equity Share Class 3	United Kingdom	OEIC	100
Aviva Investors European Fund	Luxembourg	SICAV	100
Aviva Investors European Property Fund Share Class I Account Euro	United Kingdom	OEIC	72
Aviva Investors European Property Fund Share Class I Account GBP	United Kingdom	OEIC	81
Aviva Investors European Property Share Class R GBP	United Kingdom	OEIC	61
Aviva Investors European Real Estate Securities Fund	Luxembourg	SICAV	71
Aviva Investors European Reit Fund A	Italy	SICAV	36
Aviva Investors European Renewable Energy S.A.	Luxembourg	Ordinary Shares	100
Aviva Investors European Secondary Infrastructure Credit SV S.A	Luxembourg	Ordinary Shares	68
Aviva Investors European Secondary Infrastructure Credit SVA	Luxembourg	Ordinary Shares	68
Aviva Investors France S.A	France	Ordinary Shares	100
Aviva Investors Funds SPC Ltd.	Cayman Islands	Ordinary Shares	100
Aviva Investors Global Aggregate Bond Fund	Luxembourg	SICAV	100
Aviva Investors Global Bond Absolute Return Fund	Luxembourg	SICAV	100
Aviva Investors Global Convertibles Absolute Return Fund	Luxembourg	SICAV	61
Aviva Investors Global Convertibles Fund	Luxembourg	SICAV	69
Aviva Investors Global Emerging Markets Index Fund	Luxembourg	SICAV	100
Aviva Investors Global Fixed Income Hedged Fund Share Class 3	United Kingdom	OEIC	100
Aviva Investors Global High Yield Bond Fund	Luxembourg	SICAV	51
Aviva Investors Global Investment Grade Corporate Bond Fund	Luxembourg	SICAV	98
Aviva Investors Global Services Limited	United Kingdom	Ordinary Shares	100
Aviva Investors GR SPV 10 Limited	United Kingdom	Ordinary Shares	100
Aviva Investors GR SPV 11 Limited	United Kingdom	Ordinary Shares	100
Aviva Investors GR SPV 12 Limited	United Kingdom	Ordinary Shares	100
Aviva Investors GR SPV 13 Limited	United Kingdom	Ordinary Shares	100
Aviva Investors GR SPV 14 Limited	United Kingdom	Ordinary Shares	100
Aviva Investors GR SPV 15 Limited	United Kingdom	Ordinary Shares	100
Aviva Investors GR SPV 4 Limited	United Kingdom	Ordinary Shares	100
Aviva Investors GR SPV 5 Limited	United Kingdom	Ordinary Shares	100
Aviva Investors GR SPV 6 Limited	United Kingdom	Ordinary Shares	100
Aviva Investors GR SPV 7 Limited	United Kingdom	Ordinary Shares	100
Aviva Investors GR SPV 8 Limited	United Kingdom	Ordinary Shares	100
Aviva Investors GR SPV 9 Limited	United Kingdom	Ordinary Shares	100
Aviva Investors GR SPV1 Limited	United Kingdom	Ordinary Shares	100
Aviva Investors GR SPV2 Limited	United Kingdom	Ordinary Shares	100
Aviva Investors GR SPV3 Limited	United Kingdom	Ordinary Shares	100
Aviva Investors Ground Rent GP Limited	United Kingdom	Ordinary Shares	100
Aviva Investors Ground Rent Holdco Limited	United Kingdom	OEIC	93
Aviva Investors Growth Fund of Funds Share Class 3	United Kingdom	OEIC	99
Aviva Investors GSL Asia Pacific Property Fund Share Class A GBP	United Kingdom	OEIC	100
Aviva Investors Higher Income Plus Share Class 3	United Kingdom	OEIC	100
Aviva Investors Holdings Limited	United Kingdom	Ordinary Shares	100
Aviva Investors Inflation Euro	France	Mutual Fund	100
Aviva Investors Infrastructure GP Limited	United Kingdom	Ordinary Shares	100
Aviva Investors Ireland Holdings Limited	Ireland	Ordinary Shares	100
Aviva Investors Ireland Limited	Ireland	Ordinary Shares	100
Aviva Investors Japan	France	Mutual Fund	97
Aviva Investors Japan Equity Monthly 1	United Kingdom	OEIC	100
Aviva Investors Jersey Unit Trusts Management Limited	Jersey	Ordinary Shares	100
Aviva Investors London Limited	United Kingdom	Ordinary Shares	100
Aviva Investors Long Term European Bond - A	Italy	SICAV	30
Aviva Investors Luxembourg	Luxembourg	Nominal Par Value Shares	100
Aviva Investors Luxembourg Services S.à r.l.	Luxembourg	Ordinary Shares	100
Aviva Investors Malych Spółek	Poland	UCITs	30
Aviva Investors Monetaire (C)	France	Mutual Fund	50
Aviva Investors Monetaire (D)	France	Mutual Fund	95
Aviva Investors Monetaire (P)	France	Mutual Fund	100
Aviva Investors Monthly Income Plus Account 3	United Kingdom	OEIC	100
Aviva Investors Multi Strategy Target Income 3 Income GBP	United Kingdom	OEIC	82
Aviva Investors Multi-Strategy Target Income Fund 5 Income GBP	United Kingdom	OEIC	25
Aviva Investors Multi-Asset Fund I	United Kingdom	OEIC	100
Aviva Investors Multi-Asset Fund I Share Class 3	United Kingdom	OEIC	100
Aviva Investors Multi-Asset Fund II	United Kingdom	OEIC	100
Aviva Investors Multi-Asset Fund III	United Kingdom	OEIC	97
Aviva Investors Multi-Asset Fund IV	United Kingdom	OEIC	100
Aviva Investors Multi-Asset Fund V	United Kingdom	OEIC	100
Aviva Investors Multi-Strategy Target Income Fund	Luxembourg	SICAV	96
Aviva Investors Multi-Strategy Target Return Fund	Luxembourg	SICAV	70
Aviva Investors Multi-Strategy Target Return Fund 3 GBP	United Kingdom	OEIC	94
Aviva Investors North America Holdings, Inc	United States	Common Stock of No Par Value Shares	100
Aviva Investors Nowoczesnych Technologii	Poland	UCITs	71
Aviva Investors Nowych Spółek	Poland	UCITs	76
Aviva Investors Obligacji	Luxembourg	UCITs	60
Aviva Investors Pacific Pty Ltd	Australia	Ordinary Shares	100
Aviva Investors Papierów Nieskarbowych	Poland	OEIC	100
Aviva Investors Pensions Limited	United Kingdom	Ordinary Shares	100
Aviva Investors Perspective 2028	Luxembourg	SICAV	100
Aviva Investors Perspective 2030	Luxembourg	SICAV	100
Aviva Investors Perspective 2032	Luxembourg	SICAV	100
Aviva Investors Perspective 2034	Luxembourg	SICAV	100
Aviva Investors Perspective 2036	Luxembourg	SICAV	100
Aviva Investors Pieniężny	Poland	OEIC	100
Aviva Investors PIP Solar PV (General Partner) Limited	United Kingdom	Ordinary Shares	100
Aviva Investors PIP Solar PV NO.1 Limited	United Kingdom	Ordinary Shares	100
Aviva Investors Poland S.A. w likwidacji	Poland	Ordinary Shares	100
Aviva Investors Poland Towarzystwo Funduszy Inwestycyjnych S.A.	Poland	Ordinary D Shares	95

Name of undertaking	Country of incorporation	Share class	% held
Aviva Investors Polish Retail GP Limited	United Kingdom	Ordinary Shares	100
Aviva Investors Polish Retail Limited Partnership	United Kingdom	Ordinary shares	100
Aviva Investors Polish Retail S.à r.l.	Luxembourg	Ordinary Shares	100
Aviva Investors Polskich Akcji	Poland	UCITs	42
Aviva Investors Portefeuille	France	Mutual Fund	100
Aviva Investors Private Equity Programme 2008 Partnership	United Kingdom	Limited Partner	40
Aviva Investors Property Developments Limited	United Kingdom	Ordinary Shares	100
Aviva Investors Property Fund Management Limited	United Kingdom	Ordinary Shares	100
Aviva Investors Real Estate Finance Limited	United Kingdom	Ordinary Shares	100
Aviva Investors Real Estate France S.A.	France	Ordinary Shares	100
Aviva Investors Real Estate Limited	United Kingdom	Ordinary Shares	100
Aviva Investors Realm Energy Centres GP Limited	United Kingdom	Ordinary Shares	100
Aviva Investors Realm Ground Rent GP Limited	United Kingdom	Ordinary Shares	100
Aviva Investors Realm Infrastructure No.1 Limited	United Kingdom	Ordinary Shares	100
Aviva Investors Realm Infrastructure No.2 Limited	United Kingdom	Ordinary Shares	100
Aviva Investors Realm Infrastructure No.3 Limited	United Kingdom	Ordinary Shares	100
Aviva Investors Realm Infrastructure No.4A Limited	United Kingdom	Ordinary Shares	100
Aviva Investors Realm Infrastructure No.4B Limited	United Kingdom	Ordinary Shares	100
Aviva Investors Reference Div	France	Mutual Fund	100
Aviva Investors Reserve Europe	France	Mutual Fund	66
Aviva Investors Schweiz GmbH	Switzerland	Interest Shares	100
Aviva Investors Securities Investment Consulting Company Limited	Taiwan	Ordinary 'A' Shares	100
Aviva Investors Selection	France	Mutual Fund	100
Aviva Investors Short Duration Global High Yield Bond Fund	Luxembourg	SICAV	60
Aviva Investors Short Term European Bond Fund	Luxembourg	SICAV	96
Aviva Investors Short Term European Bond Fund –A	Italy	SICAV	58
Aviva Investors Small & Mid Ca	France	Mutual Fund	100
Aviva Investors Social Housing GP Limited	United Kingdom	Ordinary Shares	100
Aviva Investors Social Housing Limited	United Kingdom	Company limited by guarantee	100
Aviva Investors Spółek Dywidendowych	Poland	OEIC	100
Aviva Investors Sterling Government Liquidity Fund	Ireland	ICVC	88
Aviva Investors Sterling Liquidity Fund	Ireland	ICVC	81
Aviva Investors Sterling Strategic Liquidity Fund	Ireland	ICVC	100
Aviva Investors Strategic Bond Share Class 3	United Kingdom	OEIC	100
Aviva Investors Sustainable Future Absolute Growth Share Class 3	United Kingdom	OEIC	83
Aviva Investors Sustainable Future Euro Growth Share Class 3	United Kingdom	OEIC	72
Aviva Investors Sustainable Future Global Growth Share Class 3	United Kingdom	OEIC	62
Aviva Investors Sustainable Future Managed Share Class 3	United Kingdom	OEIC	97
Aviva Investors Sustainable Future UK Equity Monthly 1	United Kingdom	OEIC	81
Aviva Investors Sustainable Future UK Growth Share Class 3	United Kingdom	OEIC	65
Aviva Investors UK Commercial Real Estate Senior Debt LP	United Kingdom	Limited Partnership	21
Aviva Investors UK CRESD GP Limited	United Kingdom	Ordinary Shares	100
Aviva Investors UK Equity Focus Fund	Luxembourg	SICAV	86
Aviva Investors UK Ethical 3 Income (SF ICVC) GBP	United Kingdom	OEIC	84
Aviva Investors UK Focus Share Class 3	United Kingdom	OEIC	100
Aviva Investors UK Fund Services Limited	United Kingdom	Ordinary Shares	100
Aviva Investors UK Funds Limited	United Kingdom	Ordinary Shares	100
Aviva Investors UK Growth Class 3	United Kingdom	OEIC	100
Aviva Investors UK LT RED GP Limited	United Kingdom	Ordinary Shares	100
Aviva Investors UK Nominees Limited	United Kingdom	Ordinary Shares	100
Aviva Investors UK Real Estate Recovery (General Partner) Limited	United Kingdom	Ordinary Shares	100
Aviva Investors UK Real Estate Recovery (Nominee Two) Limited	United Kingdom	Ordinary Shares	100
Aviva Investors UK Real Estate Recovery (Nominee) Limited	United Kingdom	Ordinary Shares	100
Aviva Investors UK Smaller Companies Share Class 3	United Kingdom	OEIC	95
Aviva Investors US Equity Income Fund	Luxembourg	SICAV	99
Aviva Investors US Equity Income Fund CI.A	Italy	SICAV	29
Aviva Investors Valeurs	France	Mutual Fund	100
Aviva Investors Valeurs Europe	France	Mutual Fund	94
Aviva Investors Valorisation	France	Mutual Fund	100
Aviva Ireland Blackrock Global Absolute Return Bond Fund	United Kingdom	OEIC	61
Aviva Italia Holding S.p.A	Italy	Ordinary Shares	100
Aviva Italia S.p.A	Italy	Ordinary Shares	100
Aviva Italia Servizi Scarl	Italy	Ordinary Shares	85
Aviva Japon	France	Mutual Fund	99
Aviva Life & Pensions UK Limited	United Kingdom	Ordinary Shares	100
Aviva Life Holdings Ireland Limited	Ireland	Ordinary Shares	92
Aviva Life Holdings UK Limited	United Kingdom	Ordinary Shares	100
Aviva Life Insurance Company India Limited	India	Ordinary Shares	26
Aviva Life Insurance Company Limited	Hong Kong	Ordinary Shares	100
Aviva Life International Limited	Ireland	Ordinary Shares	100
Aviva Life Services Ireland Limited	Ireland	Ordinary Shares	92
Aviva Life Services UK Limited	United Kingdom	Ordinary Shares	100
Aviva Life SPA	Italy	Ordinary Shares	100
Aviva Ltd	Singapore	Ordinary Shares	100
Aviva Messine 5	France	Mutual Fund	100
Aviva Monetaire Isr (A)	France	Mutual Fund	97
Aviva Monetaire Isr (I)	France	Mutual Fund	57
Aviva Multigestion	France	Mutual Fund	98
Aviva Multigestion A Inter	France	Mutual Fund	100
Aviva Oblig International	France	Ordinary Shares	90
Aviva Oblirea	France	Ordinary Shares	96
Aviva Overseas Holdings Limited	United Kingdom	Ordinary Shares	100
Aviva Participations	France	Ordinary € 9.00 Shares	100
Aviva Patrimoine	France	Ordinary Shares	97
Aviva Patrimoine Immobilier	France	Ordinary Shares	100
Aviva Pension Trustees UK Limited	United Kingdom	Ordinary Shares	100
Aviva Performance	France	Mutual Fund	100
Aviva Performance Divers.Fcp	France	Mutual Fund	100
Aviva Powszechnie Towarzystwo Emerytalne Aviva BZ WBK S.A.	Poland	Ordinary A	90
Aviva Professional Services (Pty) Limited	South Africa	One Ordinary Of One Rand Shares	100
Aviva Public Private Finance Limited	United Kingdom	Ordinary Shares	100
Aviva Re Limited	Bermuda	Ordinary Shares	100
Aviva Rebond Part A	France	Mutual Fund	98

Name of undertaking	Country of incorporation	Share class	% held
Aviva Rendement Europe	France	Ordinary Shares	100
Aviva Rendement Oblig 2020 Fcp	France	Mutual Fund	100
Aviva Renta Fija -A- Fi	Spain	Mutual Fund	60
Aviva Renta Variable -Zona No Euro-, Fi	Spain	Mutual Fund	51
Aviva Repo Fcp	France	Mutual Fund	100
Aviva Risk Management Solutions UK Limited	United Kingdom	Ordinary Shares	100
Aviva SA Emeklik ve Hayat ³	Turkey	Ordinary Shares	40
Aviva Selection Opportunités	France	Mutual Fund	99
Aviva Selection Patrimoine	France	Mutual Fund	98
Aviva Services Payment Limited	Ireland	Ordinary Shares	92
Aviva Services Spółka z ograniczoną odpowiedzialnością	Poland	Ordinary Of 1,000 Pln Shares	92
AVIVA SFIO Subfundusz Aviva Oszczędnościowy	Poland	OEIC	97
Aviva Signatures Europe	France	Mutual Fund	100
Aviva Solutions	France	Ordinary € 20.00 Shares	100
Aviva SPA	Italy	Ordinary Shares	51
Aviva Special PFI GP Limited	United Kingdom	Ordinary Shares	100
Aviva Spółka z ograniczoną odpowiedzialnością	Poland	Ordinary Shares	90
Aviva Staff Pension Trustee Limited	United Kingdom	Ordinary Shares	100
Aviva Structure Index 2	France	Mutual Fund	100
Aviva Structure Index 1 C.	France	Mutual Fund	100
Aviva Structure Index 3	France	Mutual Fund	100
Aviva Towarzystwo Ubezpieczeń Na Zycie S.A.	Poland	Ordinary Shares	90
Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	Poland	Ordinary Shares	90
Aviva Trustee Company Ireland Limited	Ireland	Ordinary Shares	92
Aviva Trustees UK Limited	United Kingdom	Ordinary Shares	100
Aviva UK Digital Limited	United Kingdom	Ordinary Shares	100
Aviva UKGI Investments Limited	United Kingdom	Ordinary Shares	100
Aviva Undershift Four Limited	Ireland	Ordinary Shares	100
Aviva Undershift One SE	Ireland	Ordinary Shares	100
Aviva Undershift Three SE	Ireland	Ordinary Shares	100
Aviva Val Resp Par I	France	Mutual Fund	100
Aviva Valeurs Françaises	France	Ordinary Shares	99
Aviva Valeurs Immobilières	France	Ordinary Shares	59
Aviva Valeurs Responsable A	France	Mutual Fund	100
Aviva Valorisation Opportunité	France	Mutual Fund	99
Aviva Valorisation Patrimoine	France	Mutual Fund	99
Aviva Vida y Pensiones, Sociedad Anónima de Seguros y Reaseguros	Spain	Ordinary Shares	100
Aviva Vie, Société Anonyme d'Assurances Vie et de Capitalisation	France	Ordinary Shares	100
Aviva Vita S.p.A	Italy	Ordinary Shares	80
Aviva Warranty Services Inc.	Canada	Common Shares	100
Aviva Wrap UK Limited	United Kingdom	Ordinary Shares	100
Aviva-Cofco Life Insurance Co. Ltd ³	China	Ordinary Shares	50
Aviva-COFCO Yi Li Asset Management Co Ltd	China	Ordinary Shares	21
A-Win Insurance Ltd.	Canada	Class B Voting Common shares Class C Non-voting Common shares First Non-voting Preferred shares Second Non-voting Preferred shares	100
AXA Fixed Interest Investment ICVC - Global High Income Fund	United Kingdom	OEIC	20
AXA Fixed Interest Investment ICVC - Sterling Corporate Bond Fund	United Kingdom	OEIC	23
AXA Fixed Interest Investment ICVC - Sterling Strategic Bond Fund	United Kingdom	OEIC	26
AXA General Trust	United Kingdom	Unit Trust	95
AXA Global Investment Company ICVC - Global Distribution Fund	United Kingdom	OEIC	68
AXA IM Cash Sterling Liquidity Fund ²	Luxembourg	SICAV	94
AXA Rosenberg Global Investment Company ICVC - American Fund	United Kingdom	OEIC	92
AXA Rosenberg Global Investment Company ICVC - Asia Pacific ex Japan Fund	United Kingdom	OEIC	91
AXA Rosenberg Global Investment Company ICVC - European Fund	United Kingdom	OEIC	92
AXA Rosenberg Global Investment Company ICVC - Global Fund	United Kingdom	OEIC	94
AXA Rosenberg Global Investment Company ICVC - Japan Fund	United Kingdom	OEIC	92
AXA Sun Life Private Equity (No 1) Limited Partnership	United Kingdom	Limited Partner	100
AXA UK Infrastructure Investment SAS	France	Ordinary Shares	100
AXA UK Investment Company ICVC - Ethical Fund	United Kingdom	OEIC	35
AXA World Funds II - Global Masters Equities	United Kingdom	SICAV	51
Axcess 10 Management Company Limited	United Kingdom	Guarantee transferred pursuant to the Part VII transfer, effective 28 December 2012, by which the assets and liabilities of Friends Life Assurance Society Limited and Friends Life Company Limited were transferred to Friends Life Limited.	100
Baillie Gifford Managed B Account	United Kingdom	OEIC	29
Ballard Investment Company Limited	United Kingdom	Ordinary Shares	25
Banca Network Investimenti SPA	Italy	Ordinary Shares	20
Bankhall Investment Management Limited	United Kingdom	Ordinary Shares	100
Bankhall PMS Limited	United Kingdom	Ordinary Shares	100
Baring Korea Feeder A USD Acc	Ireland	SICAV	26
Barratt House LP ³	United Kingdom	Limited Partner	50
Barratt House Nominee 1 Limited ³	United Kingdom	Ordinary Shares	50
Barratt House Nominee 2 Limited ³	United Kingdom	Ordinary Shares	50
Barratt House Unit Trust ³	Jersey	Unit Trust	50
Barwell Business Park Nominee Limited	United Kingdom	Ordinary Shares	100
Bay-Mill Specialty Insurance Adjusters Inc.	Canada	Common Shares	100
Bell, Noble, Elliott, (Brokers) Limited	United Kingdom	Ordinary Shares	100
Bellatrix	France	Ordinary Shares	83
Berkley Investments S.A.	Poland	Ordinary Shares	90
Betelgeuse (Sicav)	France	Ordinary Shares	92
BGI Consensus	United Kingdom	OEIC	23
BGI Overseas Equity Consensus Index Tracker	United Kingdom	OEIC	39
BIGG Regeneration (General Partner) Limited	United Kingdom	Ordinary Shares	25
Bigg Regeneration Partnership	United Kingdom	Limited Partnership	25
Biomass UK No.1 1 LLP	United Kingdom	Limited Liability Partnership	100
Biomass UK No.2 Limited	United Kingdom	A Shares B Shares C Shares Deferred Shares Ordinary 'A' Shares	100
Biomass UK No.3 Limited	United Kingdom		100

Name of undertaking	Country of incorporation	Share class	% held
Blackrock Aquila Life Market Advantage Historic Priced	United Kingdom	Deferred Shares* Shares	
Blackrock Global Funds (BGF) China Fund ²	Luxembourg	OEIC	26
Blackrock Global Index Funds Japan Equity Open Ended ²	Luxembourg	OEIC	99
Blackrock Global Index Funds North America Open Ended	Luxembourg	OEIC	50
Blackrock Global Japan Equity Index Fund Open Ended ²	Luxembourg	OEIC	49
Blackrock Global North American Equity Index Fund Open Ended ²	Luxembourg	OEIC	50
Blucycle.com Limited	United Kingdom	Ordinary Shares	57
Blueprint (General Partner) Limited	United Kingdom	Ordinary Shares	100
Blueprint (Nominees) Limited	United Kingdom	Ordinary Shares	25
Blueprint Limited Partnership	United Kingdom	Limited Partnership	25
BMG (Livingston) General Partner Limited	United Kingdom	Ordinary Shares	50
BMG (Mansfield) General Partner Limited	United Kingdom	Ordinary Shares	50
BMG (Mansfield) LIMITED	United Kingdom	Ordinary Shares	50
BMG (York) General Partner Limited	United Kingdom	Ordinary Shares	50
BMG (York) Limited	United Kingdom	Ordinary Shares	50
BMG (York) Partnership Trustco Limited	United Kingdom	Ordinary Shares	50
Boston Wood Recovery Limited	United Kingdom	Ordinary Shares	100
Box Hill Investments Limited	United Kingdom	Ordinary Shares	100
Bristol and Bath Science Park Estate Management Company Limited	United Kingdom	Ordinary 'D' Shares	25
Building a Future (Newham Schools) Limited	United Kingdom	Ordinary Shares	100
BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. ³	Poland	Ordinary Shares	90
BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A. ³	Poland	Ordinary A Shares	51
Caja Espana Vida, Compania de Seguros y Reaseguros	Spain	Ordinary B Shares	50
Caja Granada Vida, Compañía de Seguros y Reaseguros Sociedad Anonima	Spain	Ordinary Shares	25
Caja Murcia Vida y Pensiones de Seguros y Reaseguros SA	Spain	Ordinary Shares	50
Candriam Bd Euro Hi Yi S	France	Mutual Fund	37
Capital Planete	France	Mutual Fund	88
Capital Residential Fund	United Kingdom	Ordinary Shares	88
Cardiff Bay (CPS) Limited	United Kingdom	Ordinary Shares	100
CARDIFF BAY GP LIMITED	United Kingdom	Ordinary Shares	100
Cardiff Bay LP	United Kingdom	Limited Partnership	100
Cardiff Bay Nominee 1 Limited	United Kingdom	Ordinary Shares	100
Cardiff Bay Nominee 2 Limited	United Kingdom	Ordinary Shares	100
Cargo Nord Objekt 10 - 12 GmbH & Co OG	Austria	Ordinary Shares	100
Cargo Nord Objekt 3 GmbH & Co OG	Austria	Ordinary Shares	100
Carillion-Igloo Limited	United Kingdom	Ordinary Shares	25
Carillion-Igloo Limited Partnership	United Kingdom	Limited Partnership	25
Carillion-Igloo Nominees Limited	United Kingdom	Ordinary Shares	25
Catalina Islands, SLU	Spain	Ordinary Shares	100
CEIF Industrial Epsilon SRL	Romania	Ron 10 Shares	100
CEIF Industrial Gamma SRL	Romania	Ron 10 Shares	100
CEIF Luxembourg Sarl	Luxembourg	Ordinary Shares	100
CEIF Properties Sarl	Luxembourg	Ordinary Shares	100
Centaurus CER (Aviva Investors) Sarl	Luxembourg	Ordinary Shares	100
Central European Industrial Fund FCP- SIF	Luxembourg	FCP	33
CGNU Life Assurance Limited	United Kingdom	Ordinary Shares	100
CGP Entrepreneurs	France	Ordinary Shares	74
CGU Equilibre ²	France	OEIC	100
CGU Gestion Patrimoniale ²	France	OEIC	100
CGU Group B.V.	Netherlands	Ordinary Shares	100
CGU International Holdings BV	Netherlands	Ordinary Eur 0.45 Each Shares	100
CGU Project Services Private Limited	India	Rs.10 Shares	100
CGWM Select Global Affinity A USD Acc	Ireland	OEIC	57
CGWM Select Global Diversity A USD Acc	Ireland	OEIC	31
CGWM Select Global Opportunity A USD Acc	Ireland	OEIC	53
CGWM Select Opportunity A Acc	Ireland	OEIC	35
Chancery House London LP ³	United Kingdom	Limited Partnership	50
Chancery House London Nominee 1 Limited ³	United Kingdom	Ordinary Shares	50
Chancery House London Nominee 2 Limited ³	United Kingdom	Ordinary Shares	50
Chancery House London Unit Trust ³	Jersey	Unit Trust	50
Chichester Health (Holdings) Limited	United Kingdom	Ordinary Shares	100
Chichester Health plc	United Kingdom	Ordinary Shares	100
Church Street Nominee No.1 Limited	United Kingdom	Ordinary Shares	100
Church Street Nominee No.2 Limited	United Kingdom	Ordinary Shares	100
Church Street Nominee No.3 Limited	United Kingdom	Ordinary Shares	100
Colby Investments Sp Z.o.o.	Poland	Ordinary of 500 Zlo Shares	100
Colonial Management Limited	United Kingdom	Guaranteed transferred pursuant to the Part VII transfer, effective 28 December 2012, by which the assets and liabilities of Friends Life Assurance Society Limited and Friends Life Company Limited were transferred to Friends Life Limited.	100
Commercial Union Corporate Member Limited	United Kingdom	Ordinary Shares	100
Commercial Union Life Assurance Company Limited	United Kingdom	Ordinary Shares	100
Commercial Union Nominee Holdings Limited	United Kingdom	Ordinary Shares	100
Commercial Union Trustees Limited	United Kingdom	Ordinary Shares	100
Cornerford Limited ²	United Kingdom	Ordinary 'A' Shares	100
Countrywide Independent Advisers Limited	United Kingdom	Ordinary 'B' Shares	100
County Mall (Crawley) Management Limited	United Kingdom	Ordinary £1 Shares	82
Cpr Silver Age E	France	Ordinary Shares	100
Crane Investment Holdings PTE. Ltd.	Singapore	Mutual Fund	32
Croissance Immo	France	Ordinary 'A' Shares	100
Croissance Pierre II	France	Ordinary Shares	46
Croissance Prme Maitre	France	Mutual Fund	100
Crystal Clear Financial Advice Limited	United Kingdom	Ordinary Shares	90
Cs Nova Lux Globseniorloanfd Y	France	Mutual Fund	100
Cumberland Place Management Company Limited	United Kingdom	Ordinary Shares	21
Darla Investments Spolka z.o.o.	Poland	Ordinary Of 500 Zlo Shares	67
DBS Financial Management Limited	United Kingdom	Ordinary Shares	100
DBS Management Limited	United Kingdom	5p Ordinary Shares	82
Defined Returns Limited	United Kingdom	Ordinary Shares	100
			29

Name of undertaking	Country of incorporation	Share class	% held
Designer Retail Outlet Centres (Livingston) Unit Trust	Jersey	Ordinary Shares	97
Designer Retail Outlet Centres (Mansfield) Unit Trust	United Kingdom	Unit Trust	97
Designer Retail Outlet Centres (York) Unit Trust	Jersey	Ordinary Shares	97
Designer Retail Outlet Centres Unit Trust	Jersey	Unit Trust	97
Deutsche Asset Management North Americal Equity Index Fund ²	United Kingdom	OEIC	83
Devon Nominees (No. 1) Limited	United Kingdom	Ordinary Shares	50
Devon Nominees (No. 2) Limited	United Kingdom	Ordinary Shares	50
Devon Nominees (No. 3) Limited	United Kingdom	Ordinary Shares	50
Dextra Court Properties Limited	United Kingdom	Ordinary Shares	100
Diapason 1	France	Mutual Fund	89
Diversifie 0-70 M	France	Mutual Fund	87
DollarDEX Investments Pte Ltd	Singapore	Ordinary Shares	100
DROC Livingston CP Limited	United Kingdom	Ordinary Shares	50
Dynamic Master Fund	Luxembourg	SICAV	100
E Aberdeen Mix.Emer.A Fcp4dec	France	Mutual Fund	90
E Act.Eur.0-100 Carmign.A Fcp	France	Mutual Fund	54
E Actions Environnement	France	Mutual Fund	66
E Actions Eurozone Aviva A Fcp	France	Mutual Fund	82
E Ccr Act Pme Eur A C.	France	Mutual Fund	59
E Echiquier Act.France A Fcp	France	Mutual Fund	45
E Multitalents A Fcp	France	Mutual Fund	40
E Schroders Acts Monde He A	France	Mutual Fund	59
EBSIU Investments Limited	United Kingdom	Ordinary Shares	100
EES Operations 1 Limited	United Kingdom	Ordinary Shares	100
Elite Insurance Company	Canada	1 Cdn Common Shares	100
Emergence M	France	Mutual Fund	100
Emerging Europe Equity Fund	Luxembourg	SICAV	33
Encore + Bedburg S.à r.l.	Luxembourg	Ordinary Shares	100
Encore + Bergkirchen S.à.r.l.	Luxembourg	€25 Shares	100
Encore + Fund FCP	Luxembourg	FCP	10
Encore + Logistics Spain B.V.	Netherlands	Ordinary Shares	100
Encore + Netherlands BV	Netherlands	Ordinary Shares	100
Encore + Rheinfelden S.à r.l.	Luxembourg	Ordinary Shares	100
Encore + Spain I BV	Netherlands	Ordinary Shares	100
Encore Plus Logistica S.L.	Spain	Ordinary Shares	100
Encore Plus Lombardia Sàrl	Luxembourg	Ordinary Shares	100
Encore Plus Lux Co Diamants II S.à r.l.	Luxembourg	Ordinary Shares	100
Encore Plus Lux Co Franklin II S.à r.l.	Luxembourg	Ordinary Shares	100
Encore Plus Lux Co de la Jatte II S.à.r.l.	Luxembourg	Ordinary Shares	100
Encore Plus Lux Co Metzanine II S.à r.l.	Luxembourg	Ordinary Shares	100
Encore Plus Properties I S.à r.l.	Luxembourg	€100 Shares	100
Encore Plus Properties II S.à r.l.	Luxembourg	Ordinary of 100 Eur Shares	100
Encore Plus Properties III Sarl	Luxembourg	Ordinary Shares	100
Encore Plus Real Estate Bad Cannstatt S.à r.l.	Luxembourg	Ordinary Shares	100
Encore Plus Vaguada SL	Spain	Ordinary Shares	100
Encore+ Futura Sp. Z o.o.	Poland	Ordinary Shares	100
Enhanced Loan Investment Strategy	Luxembourg	Ordinary Shares	100
Enhanced Loan Investment Strategy Direct Holdings S.a.r.l	Luxembourg	Ordinary Shares	100
Éolica Almatret S.L.	Spain	Ordinary Shares	45
Éolica Almatret S.L.U	Spain	Ordinary Shares	50
Epargne Actuelle	France	Ordinary Shares	100
EPI NU société à responsabilité limitée	Luxembourg	Ordinary Shares	100
Etoile 6 Mois	France	Mutual Fund	47
Etoile Actions France	France	Mutual Fund	28
Etoile Actions Opportunités	France	Mutual Fund	22
Etoile Actions Rendement	France	Mutual Fund	40
Etoile Actions Styles	France	Mutual Fund	34
Etoile Actions Us	France	Mutual Fund	43
Etoile Banque Europe	France	Mutual Fund	34
Etoile Cliquet 90	France	Mutual Fund	70
Etoile Convertibles	France	Mutual Fund	31
Etoile Garanti Avril 2018	France	Mutual Fund	51
Etoile Garanti Fev.2020 Fcp	France	Mutual Fund	87
Etoile Garanti Jul.2018 Fcp	France	Mutual Fund	57
Etoile Industrie Europe	France	Mutual Fund	25
Etoile Matieres Premieres	France	Mutual Fund	54
Etoile Multi Gestion Actifs	France	Mutual Fund	53
Etoile Multi Gestion Actifs Pl	France	Mutual Fund	61
Etoile Multi Gestion Croissanc	France	Mutual Fund	52
Etoile Multi Gestion Europe	France	Mutual Fund	43
Etoile Multi Gestion France	France	Mutual Fund	56
Etoile Multi Gestion Usa	France	Mutual Fund	37
Etoile Obli Taux Plus	France	Mutual Fund	29
Etoile Patrimoine 20 (C)	France	Mutual Fund	26
Etoile Patrimoine 50 (C)	France	Mutual Fund	63
Etoile Patrimoine 70 (C)	France	Mutual Fund	39
Etoile Pme	France	Mutual Fund	24
Etoile Sante Europe	France	Mutual Fund	41
Etoile Tresorerie-Access	France	Mutual Fund	34
Etoile Usa 500	France	Mutual Fund	52
Etoile Valeurs Moyennes	France	Mutual Fund	42
Euro Liquidity Fund	Ireland	ICVC	86
Europe Israel Croissance (SICAV)	France	Ordinary Shares	85
Euro-Valeur Maître	France	Mutual Fund	65
Exeter Estates Limited	Bahamas	Ordinary Shares	100
Exeter Properties Inc.	United States	Common Stock WPV Shares	95
Expander Advisors Sp. z o.o.	Poland	Ordinary Shares	90
F&C Commercial Property Trust Limited	Guernsey	Discretionary Shares	26
F&C Diversified Growth Fund A Gbp Inc Hedged	Luxembourg	SICAV	25
F&C Diversified Growth X European Income	Luxembourg	SICAV	38
F&C European Capital Partners Limited Partnership	United Kingdom	Limited Partner	30
F&C European Growth & Income A Gbp Inc ²	Luxembourg	SICAV	52
F&C Institutional Investment Funds ICVC - Institutional Global Equity Fund	United Kingdom	OEIC	32

Name of undertaking	Country of incorporation	Share class	% held
F&C Institutional Investment Funds ICVC - Institutional UK Equity Fund	United Kingdom	OEIC	51
F&C Investment Funds ICVC - North American Fund	United Kingdom	OEIC	22
F&C Investment Funds ICVC II - Global Bond Fund	United Kingdom	OEIC	26
F&C Investment Funds ICVC II - Pacific Growth Fund	United Kingdom	OEIC	29
F&C Investment Funds ICVC III - Strategic Bond Fund	United Kingdom	OEIC	44
F&C Multi-Capital Fund ICVC - F&C MM Navigator Progressive	United Kingdom	OEIC	28
F&C Multi-Capital Fund ICVC - F&C MM Navigator Select	United Kingdom	OEIC	40
F&C Private Equity Trust plc	United Kingdom	Ordinary Shares	24
Fastighets AB Lagomstansen	Sweden	Ordinary Shares	100
Financial Options Services Limited	United Kingdom	Ordinary Shares	82
Financiere du Carrousel	France	Ordinary Shares	76
Finoa Srl	Italy	Quota Shares	100
First-Aviva Life Insurance Co., Ltd. ³	Taiwan	Ordinary Shares	49
Fitzroy Place GP 2 Limited	United Kingdom	Ordinary Shares	50
Fitzroy Place Management Co Limited	United Kingdom	Ordinary Shares	50
Fitzroy Place Residential Limited	United Kingdom	Ordinary Shares	50
FLG Holdings Limited	Guernsey	Ordinary Shares	100
Focus Mall Zielona Gora Sp Zoo	Poland	Ordinary Shares	100
Focus Park Piotrkow Trybunalski sp.z o.o.	Poland	Ordinary Shares	100
Focus Park Zielona Góra sp.z o.o.	Poland	Ordinary Shares	100
FP (Portfolio) Nominees Limited	United Kingdom	Ordinary Shares	100
FP Finance plc	United Kingdom	Ordinary Shares	100
FP Financial Management Limited	United Kingdom	Ordinary Shares	100
FP Group Limited	United Kingdom	Ordinary Shares	100
FPB Holdings GmbH	Germany	Series A Shares	100
		Series B Shares	
FPPE Fund Public Limited Company	Ireland	No Par Value Shares, 1 Subscriber Euro €1 Shares	100
Free Solar (Stage 1) Limited	United Kingdom	Ordinary Shares	100
Free Solar (Stage 2) Limited	United Kingdom	Ordinary Shares	100
Free Solar Holdco Limited	United Kingdom	Ordinary Shares	100
Freetricity Southeast Limited	United Kingdom	Ordinary Shares	100
French Core + Two S.r.l.	France	Ordinary Shares	100
Friars Square (Aylesbury) Management Limited	United Kingdom	Ordinary Shares	100
Friends AEL Trustees Limited	United Kingdom	Ordinary Shares	100
Friends AELEM Limited	United Kingdom	Ordinary Shares	100
Friends AELLAS Limited	United Kingdom	1p Ordinary Shares	100
Friends AELRIS Limited	United Kingdom	£1 Stock Shares	100
Friends ALF Limited	United Kingdom	Ordinary Shares	100
Friends Annuities Limited	United Kingdom	Ordinary Shares	100
Friends ASLH Limited	United Kingdom	Ordinary Shares	100
Friends Life and Pensions Limited	United Kingdom	Ordinary Shares	100
Friends Life Assurance Society Limited	United Kingdom	Ordinary Shares	100
Friends Life BHA Limited	United Kingdom	Ordinary Shares	100
Friends Life Company Limited	United Kingdom	Ordinary Shares	100
Friends Life Distribution Limited	United Kingdom	Ordinary Shares	100
Friends Life FPG Limited	United Kingdom	Ordinary Shares	100
Friends Life FPL Limited	United Kingdom	Ordinary Shares	100
Friends Life FPLMA Limited	United Kingdom	Ordinary Shares	100
Friends Life Funds Asia Pacific Ex Japan Fund	United Kingdom	Mutual Fund	100
Friends Life Funds Balanced Fund	United Kingdom	Mutual Fund	100
Friends Life Funds Cautious Fund	United Kingdom	Mutual Fund	100
Friends Life Funds Distribution Fund	United Kingdom	Mutual Fund	100
Friends Life Funds Europe Equity Ex UK Fund	United Kingdom	Mutual Fund	100
Friends Life Funds Global Equity Alpha Fund	United Kingdom	Mutual Fund	100
Friends Life Funds Global Equity Fund	United Kingdom	Mutual Fund	100
Friends Life Funds Japan Equity Fund	United Kingdom	Mutual Fund	100
Friends Life Funds Limited	United Kingdom	Ordinary Shares	100
Friends Life Funds Money Market Vnav Fund	United Kingdom	Mutual Fund	100
Friends Life Funds North American Equity Fund	United Kingdom	Mutual Fund	100
Friends Life Funds Sterling Corporate Bond Fund	United Kingdom	Mutual Fund	100
Friends Life Funds Sterling Gilt Fund	United Kingdom	Mutual Fund	100
Friends Life Funds Stewardship Fixed Interest Fund	United Kingdom	Mutual Fund	100
Friends Life Funds Stewardship International Equity Fund	United Kingdom	Mutual Fund	100
Friends Life Funds Stewardship UK Equity Fund	United Kingdom	Mutual Fund	100
Friends Life Funds Stewardship UK Equity Income Fund	United Kingdom	Mutual Fund	100
Friends Life Funds Strategic Global Equity Fund	United Kingdom	Mutual Fund	100
Friends Life Funds UK Equity Fund	United Kingdom	Mutual Fund	100
Friends Life Funds UK Equity Income Fund	United Kingdom	Mutual Fund	100
Friends Life Group Limited	Guernsey	Ordinary Shares	100
Friends Life Holdings plc	United Kingdom	Ordinary Shares	100
Friends Life Investment Solutions Limited	United Kingdom	Ordinary Shares	100
Friends Life Investments Limited	United Kingdom	Ordinary Shares	100
Friends Life Limited	United Kingdom	Ordinary Shares	100
Friends Life Management Services Limited	United Kingdom	Ordinary Shares	100
Friends Life Marketing Limited	United Kingdom	Ordinary Shares	100
Friends Life Secretarial Services Limited	United Kingdom	Ordinary Shares	100
Friends Life Services Limited	United Kingdom	Ordinary £1.00 (£0.25 paid up) Shares	100
Friends Life Staff Schemes Limited	United Kingdom	Ordinary Shares	100
Friends Life The Blue Line Limited	United Kingdom	Ordinary Shares	100
Friends Life Wf Limited	United Kingdom	Ordinary Shares	100
Friends Life WL Limited	United Kingdom	Ordinary Shares	100
Friends Milestones Limited	United Kingdom	Ordinary Shares	100
Friends Pensions Limited	United Kingdom	Ordinary Shares	100
Friends PPPLTC Limited	United Kingdom	Ordinary Shares	100
Friends Provident Distribution Holdings Limited	United Kingdom	Ordinary Shares	100
Friends Provident First Call Limited	United Kingdom	Ordinary Shares	100
Friends Provident International Limited	Isle of Man	Ordinary B Shares	100
		Ordinary Shares	
Friends Provident International Services Limited	Isle of Man	Ordinary Shares	100
Friends Provident Investment Holdings Plc	United Kingdom	Ordinary B Shares	100
		Ordinary A Shares	

Name of undertaking	Country of incorporation	Share class	% held
Friends Provident Life Assurance Limited	United Kingdom	Ordinary Shares	100
Friends Provident Linked Life Assurance Limited	United Kingdom	Ordinary Shares	100
Friends Provident Managed Pension Funds Limited	United Kingdom	Ordinary Shares	100
Friends Provident Pension Scheme Trustees Limited	United Kingdom	Ordinary Shares	100
Friends Provident Pension Solutions Direct Limited	United Kingdom	Ordinary Shares	100
Friends Provident Pensions Services Limited	United Kingdom	Ordinary Shares	100
Friends Provident Trustees Limited	United Kingdom	Ordinary Shares	100
Friends Retirement Income Limited	United Kingdom	Ordinary Shares	100
Friends SL Nominees Limited	United Kingdom	Ordinary Shares	99
Friends SLFA Limited	United Kingdom	Ordinary Shares	100
Friends SLFS Limited	United Kingdom	Ordinary Shares	99
Friends SLOCAC Limited	United Kingdom	Ordinary Shares	100
Friends SLP Limited	United Kingdom	Ordinary Shares	100
Friends SLPs Limited	United Kingdom	Ordinary Shares	100
Friends SLUA Limited	United Kingdom	Ordinary Shares	100
Friends SLUS Limited	United Kingdom	A Shares B Shares	100
Friends WUKH Limited	United Kingdom	Ordinary A Shares	100
Fuku II Investment Holdings PTE. LTD	Singapore	Ordinary Shares	100
Fuku Investment Holdings Pte Ltd	Singapore	Ordinary Shares	100
Fukut Investment Holdings PTE. Ltd.	Singapore	Ordinary Shares	80
GA Life Property Ireland Limited	Ireland	Ordinary Shares	100
Gateway Specialist Advice Services Limited	United Kingdom	Ordinary Shares	100
Gaura Investments Sp.z.o.o.	Poland	Ordinary of 500 Zlo Shares	100
General Accident Executor and Trustee Company Limited	United Kingdom	Ordinary Shares	100
General Accident plc	United Kingdom	Ordinary Shares	100
German Retail I GmbH	Germany	Ordinary Shares	94
German Retail II GmbH	Germany	Ordinary Shares	94
German Retail III GmbH	Germany	Ordinary Shares	100
German Retail Investment Properties Sarl	Luxembourg	Ordinary Shares	100
German Retail Investment Property Fund FCP-SIF	Luxembourg	Ordinary Shares	100
German Retail IV GmbH	Germany	Ordinary Shares	100
German Retail IX GmbH	Germany	Ordinary Shares	100
German Retail V GmbH	Germany	Ordinary Shares	100
German Retail VII GmbH	Germany	Ordinary Shares	100
German Retail VIII GmbH	Germany	Ordinary Shares	100
Gestion Flexible 0-100 M	France	Mutual Fund	93
Gestion Flexible 0-70 M	France	Mutual Fund	93
Gestion Flexible 0-30 M	France	Mutual Fund	80
Glasgow Airport Business Park Management Company Limited	United Kingdom	Guarantee transferred pursuant to the Part VII transfer, effective 28 December 2012, by which the assets and liabilities of Friends Life Assurance Society Limited and Friends Life Company Limited were transferred to Friends Life Limited.	100
Gobafoss General Partner Limited	United Kingdom	Ordinary Shares	100
Gobafoss Partnership Nominee No 1 Ltd	United Kingdom	Ordinary Shares	100
Goodman European Business Park Fund (Lux) S.ar.l.	Luxembourg	Ordinary Shares	42
Grande Europe 0-100 M	France	Mutual Fund	100
Gresham Insurance Company Limited	United Kingdom	Ordinary Shares	100
Groupement d'Interet Economique du Groupe Aviva France	France	Ordinary €15.25 Shares	100
HCEPP DBP (Diamond Business Park) Sp zoo	Poland	Ordinary Shares	100
Health & Case Management Limited	United Kingdom	Ordinary Shares Preference Shares	25
Healthcare Purchasing Alliance Limited	United Kingdom	Ordinary 'A' Shares	50
Healthcode Limited	United Kingdom	Ordinary 'C' Shares	20
Ordinary 'E' Shares			
Hemel Hempstead Estate Management Limited	United Kingdom	Ordinary Shares	100
Henderson Horizon China A2 USD Acc	Luxembourg	SICAV	24
Henderson Horizon European Growth R USD Hedged Inc	Luxembourg	SICAV	43
Hengrove Park Bristol (Phase I) Management Company Limited	United Kingdom	Ordinary Shares	100
Herax Nominees (No. 1) Limited	United Kingdom	Ordinary Shares	100
Herax Nominees (No. 2) Limited	United Kingdom	Ordinary Shares	100
Hexagone S.à r.l.	Luxembourg	Ordinary Shares	100
Hillswood Management Limited	United Kingdom	Ordinary Shares	24
Homesun 2 Limited	United Kingdom	Ordinary Shares	100
Homesun 3 Limited	United Kingdom	Ordinary Shares	100
Homesun 4 Limited	United Kingdom	Ordinary Shares	100
Homesun 5 Limited	United Kingdom	Ordinary Shares	100
Homesun Limited	United Kingdom	Ordinary Shares	100
HSbc Gig Dtr S21hd D.	France	Mutual Fund	100
IFA Exchange Limited	United Kingdom	Ordinary Shares	100
IFA Network Limited	United Kingdom	Ordinary Shares	100
IFAEngine Limited	United Kingdom	Ordinary Shares	100
Igloo Regeneration (Butcher Street) Limited ³	United Kingdom	Ordinary Shares	50
Igloo Regeneration (General Partner) Limited ³	United Kingdom	Ordinary Shares	50
Igloo Regeneration (Nominee) Limited ³	United Kingdom	Ordinary Shares	50
Igloo Regeneration Developments (General Partner) Limited ³	United Kingdom	Ordinary Shares	50
Igloo Regeneration Developments (Nominees) Limited ³	United Kingdom	Ordinary Shares	50
Igloo Regeneration Developments LP ³	United Kingdom	Limited Partnership	50
Igloo Regeneration Partnership ³	United Kingdom	Limited Partnership	40
Igloo Regeneration Property Unit Trust ³	United Kingdom	Unit Trust	50
Igloo ³	United Kingdom	Limited Partnership	40
Insurance Agent Service Inc.	Canada	Common Shares	100
Invesco FS 3 Global Health Care C USD Acc	Ireland	Unit Trust	24
Invesco FS 3 Global Technology C USD Inc	Ireland	Unit Trust	23
Invesco FS 5 Emerging Markets Equity C USD Inc	Ireland	Unit Trust	26
Investec Diversified Growth Fund	United Kingdom	OEIC	27
Investec Global Gold Fund	United Kingdom	OEIC	24
IOG Bredlav Industrial Park S.r.o.	Czech Republic	Ordinary Shares	90
IOG Cestlice Industrial Park s.r.o.	Czech Republic	Ordinary Of 1 Czk Shares	99
IOG City Point 1 Sp zoo.	Poland	Ordinary Shares	100
IOG Home Park Ingatlanhasznosit (Property Management) Kft	Hungary	Ordinary Shares	100
IOG Innovations Park Ingatlanhasznosit Kft	Hungary	Ordinary of 1 Huf Shares	83

Name of undertaking	Country of incorporation	Share class	% held
IOG Ipari (Industrial) Park Ingatlanhasznosito Kft	Hungary	Ordinary Shares	97
IOG Ivancice Industrial Park S.r.o.	Czech Republic	Ordinary Shares	90
IOG M0 Park Ingatlanhasznosito Kft	Hungary	Huf 1 Ordinary Shares	97
IOG Pohorelice Industrial Park S.r.o.	Czech Republic	Ordinary Czk 1 each Shares	90
IOG Poland Park 1 Sp.z.o.o.	Poland	Ordinary of 500 Zlo Shares	100
IOG Sanitas Management sro	Czech Republic	Ordinary Shares	90
IOG TKB Park Ingatlanhasznosito Kft	Hungary	Ordinary Shares	81
IOG Uhrineves Industrial Park s.r.o.	Czech Republic	Ordinary Of 1 Koruna Shares	90
IOG Üzleti (Business) Park Ingatlanhasznosito Kft	Hungary	Ordinary Shares	100
IQUO Limited	United Kingdom	A Shares	67
Irongate House LP ³	United Kingdom	Limited Partnership	50
Irongate House Nominee 1 Limited ³	United Kingdom	Ordinary Shares	50
Irongate House Nominee 2 Limited ³	United Kingdom	Ordinary Shares	50
Irongate House Unit Trust ³	Jersey	Unit Trust	50
Jetsolid Limited	United Kingdom	Ordinary Shares	100
Journey Financial Advice Limited	United Kingdom	Ordinary Shares	68
JP Morgan Emerging Markets Fund	United Kingdom	OEIC	21
JP Morgan Indonesia USD Acc	Hong Kong	Ordinary Shares	31
JP Morgan US Dollar Money Market A USD Acc	Luxembourg	SICAV	37
Knockanevin Limited	Ireland	Ordinary Shares	100
Kou Investment Holdings PTE LTF	Singapore	Ordinary of Jpy 1.00 Shares	100
Kout Investment Holdings Pte. Limited	Singapore	Ordinary Shares	80
Kroknet S.r.l.	Poland	Ordinary Shares	90
Lazard European Alpha R Inc	United Kingdom	OEIC	34
Lazard Multicap Uk Income R Account ³	United Kingdom	OEIC	61
Lend Lease JEM Partners Fund Limited	Bermuda	Ordinary Shares	23
Lend Lease Retail Partners Australia	Australia	Ordinary Shares	26
Liberty M Fcp	France	Mutual Fund	100
Life Plus Sp Zoo	Poland	Ordinary Shares	90
Lime Property Fund (General Partner) Limited	United Kingdom	Ordinary Shares	100
Lime Property Fund (Nominee) Limited	United Kingdom	Ordinary Shares	100
Living in Retirement Limited	United Kingdom	Ordinary Shares	47
Livingbridge IV Limited Partnership	United Kingdom	Limited Partner	32
LMS Prolink Limited	Canada	Common Series 1 Shares	40
		Common Series 2 Shares	
Locamat SAS	France	Ordinary € 15.25 Shares	100
Lodz BC Sp. z o.o.	Poland	Ordinary Shares	100
LogAxes Austria II S.à r.l.	Luxembourg	Ordinary Shares	100
LogAxes Austria III S.à r.l.	Luxembourg	Ordinary Shares	100
Logaxes Fund, FCP-SIF	Luxembourg	FCP	85
LogAxes Investment Properties S.à.r.l	Luxembourg	Ordinary Shares	100
Logipierre 1	France	Ordinary Shares	44
Logiprime Europe	France	Ordinary Shares	100
Lombard (London) 1 Limited	United Kingdom	Ordinary Shares	100
Lombard (London) 2 Limited	United Kingdom	Ordinary Shares	100
London and Edinburgh Insurance Company Limited	United Kingdom	Ordinary Shares	100
London and Manchester (Commercial Mortgages) Limited	United Kingdom	Ordinary Shares	100
London and Manchester (Mortgages) (No.7) Limited	United Kingdom	Ordinary Shares	100
London and Manchester Group Limited	United Kingdom	Ordinary Shares	100
London Capital Holdings Limited	United Kingdom	Ordinary Shares	100
London Midland Associated Properties Limited	United Kingdom	Ordinary Shares	100
LUC Holdings Limited	United Kingdom	Ordinary Shares	20
Maling Street Management Company Limited	United Kingdom	Ordinary Shares	25
Martelli Inv Sp zoo	Poland	Ordinary of Pln 500 Shares	100
Matchtrack Limited	United Kingdom	Ordinary Shares	90
Matthew Parker Street (Nominee No 1) Limited	United Kingdom	Ordinary Shares	100
Matthew Parker Street (Nominee No 2) Limited	United Kingdom	Ordinary Shares	100
Medium Scale Wind No.1 Limited	United Kingdom	Ordinary Shares	100
Metropath Limited	United Kingdom	Ordinary Shares	100
Mill NU Developments (Conference Centre) Limited	United Kingdom	Ordinary Shares	60
Mill NU Properties Limited	United Kingdom	Ordinary A Shares	60
Mortimer Street Associated Co 1 Limited ³	United Kingdom	Ordinary Shares	50
Mortimer Street Associated Co 2 Limited ³	United Kingdom	Ordinary Shares	50
Mortimer Street Nominee 1 Limited ³	United Kingdom	Ordinary Shares	50
Mortimer Street Nominee 2 Limited ³	United Kingdom	Ordinary Shares	50
Mortimer Street Nominee 3 Limited ³	United Kingdom	Ordinary Shares	50
Multitalents M	France	Mutual Fund	100
Myria Asset Management	France	Ordinary Shares	74
Myria Conc.Act.Europ	France	Mutual Fund	22
National Home Warranty Group Inc.	Canada	Common Shares	100
Navigator Investment Services Limited	Singapore	Ordinary Shares	100
NBP Developments Limited	United Kingdom	Ordinary Shares	100
NDF Administration Limited	United Kingdom	Ordinary Shares	29
Neterve Limited	United Kingdom	Ordinary Shares	100
New Broad Street House Unit Trust ³	Jersey	Unit Trust	50
New Broad Street House LP ³	United Kingdom	Limited Partnership	50
New Broad Street House Nominee 1 Limited ³	United Kingdom	Ordinary Shares	50
New Broad Street House Nominee 2 Limited ³	United Kingdom	Ordinary Shares	50
New Energy Residential Solar Limited	United Kingdom	Ordinary Shares	100
New Oxford Street (General Partner) Limited	United Kingdom	Ordinary Shares	100
New Oxford Street (Nominee) Limited	United Kingdom	Ordinary Shares	90
Newco	France	Ordinary Shares	100
Newgate Street Properties Limited	United Kingdom	Ordinary Shares	100
North British Properties (Scotland) Limited	United Kingdom	Ordinary Shares	100
North British Properties Limited	United Kingdom	Ordinary Shares	100
Norton Energy SLS Limited	United Kingdom	Ordinary Shares	100
Norwep (General Partner) Limited	United Kingdom	Ordinary B Shares	33
Norwich Union (Mall GP) Limited	United Kingdom	Ordinary Shares	100
Norwich Union (Shareholder GP) Limited	United Kingdom	Ordinary Shares	100
Norwich Union Life Insurance Company Limited	United Kingdom	Ordinary Shares	100
NU 3PS Limited	United Kingdom	Ordinary Shares	100
NU College for Canterbury Limited	United Kingdom	Ordinary Shares	100
NU Developments (Brighton) Limited	United Kingdom	Ordinary Shares	100

Name of undertaking	Country of incorporation	Share class	% held
NU Invesco European Equity	United Kingdom	OEIC	38
NU Invesco Global Equity	United Kingdom	OEIC	41
NU Invesco International Equity ²	United Kingdom	OEIC	63
NU Invesco Managed Unit Trust	United Kingdom	Unit Trust	38
NU Invesco Smaller Companies Equity	United Kingdom	OEIC	24
NU Investec American	United Kingdom	OEIC	41
NU Investec Caust Mgd ²	United Kingdom	OEIC	59
NU Library For Brighton Limited	United Kingdom	Ordinary Shares	100
NU Local Care Centres (Bradford) Limited	United Kingdom	Ordinary Shares	100
NU Local Care Centres (Chichester No.1) Limited	United Kingdom	Ordinary Shares	100
NU Local Care Centres (Chichester No.2) Limited	United Kingdom	Ordinary Shares	100
NU Local Care Centres (Chichester No.3) Limited	United Kingdom	Ordinary Shares	100
NU Local Care Centres (Chichester No.4) Limited	United Kingdom	Ordinary Shares	100
NU Local Care Centres (Chichester No.5) Limited	United Kingdom	Ordinary Shares	100
NU Local Care Centres (Chichester No.6) Limited	United Kingdom	Ordinary Shares	100
NU Local Care Centres (Farnham) Limited	United Kingdom	Ordinary Shares	100
NU Local Care Centres (West Park) Limited	United Kingdom	Ordinary Shares	100
NU Local Care Centres Limited	United Kingdom	Ordinary Shares	100
NU Offices for Redcar Limited	United Kingdom	Ordinary Shares	100
NU Offices for Surrey Limited	United Kingdom	Ordinary Shares	100
NU Schools for Redbridge Limited	United Kingdom	Ordinary Shares	100
NU Technology and Learning Centres (Hackney) Limited	United Kingdom	Ordinary Shares	100
NU Technology and Learning Centres Limited	United Kingdom	Ordinary Shares	100
NUPPP (Care Technology and Learning Centres) Limited	United Kingdom	Ordinary Shares	100
NUPPP (GP) Limited	United Kingdom	Ordinary Shares	100
NUPPP Hard Services Limited	United Kingdom	Ordinary Shares	100
NUPPP Nominees Limited	United Kingdom	Ordinary Shares	100
Objectif Japon Couvert	France	Mutual Fund	22
Objectif Recovery Eurozone R	France	Mutual Fund	30
Obligations 5-7 M	France	Mutual Fund	66
OIS Ontario Insurance Service Limited	Canada	Common Shares	100
Opal (UK) Holdings Limited	United Kingdom	Ordinary Shares	29
Opal Information Systems Limited	United Kingdom	Ordinary Shares	29
Opci Logiprime	France	Property Fund	100
Opci Preim Retail 1	France	Property Fund	35
Opci Résidial	France	Property Fund	35
Optimum Investment Management Limited	United Kingdom	B shares (50% of total voting shares)	50
Optimum Investment Solutions Limited	United Kingdom	Ordinary Shares	82
ORN Capital LLP	United Kingdom	Capital Member	98
ORN Capital Management (Bermuda) Ltd.	Bermuda	Ordinary Shares	100
ORN Capital Services Limited	United Kingdom	Ordinary Shares	100
ORN Management Company Limited	Bermuda	Ordinary Shares	100
Outsourced Professional Administration Limited	United Kingdom	Ordinary Shares	29
Paddington Central III (GP) Limited	United Kingdom	Ordinary A Shares	100
Paddington Central III LP	United Kingdom	Ordinary B Shares	100
Paragon Insurance Company Guernsey Limited	Guernsey	Ordinary Shares	47
Parnasse Square Invest	France	Ordinary Shares	100
Peace Harbor Investment Capital sp. z o.o.	Poland	Ordinary Shares	100
Peak Re Limited	Ireland	Ordinary €1 Shares	100
		Ordinary €1.27 Shares	100
Pegasus House and Nuffield House LP ³	United Kingdom	Limited Partnership	50
Pegasus House and Nuffield House Nominee 1 Limited ³	United Kingdom	Ordinary Shares	50
Pegasus House and Nuffield House Nominee 2 Limited ³	United Kingdom	Ordinary Shares	50
Pegasus House and Nuffield House Unit Trust ³	United Kingdom	Unit Trust	50
Pelayo Vida Seguros y Reaseguros Sociedad Anonima	Spain	Ordinary Shares	46
Percussion Properties Limited	United Kingdom	Ordinary Shares	100
Petunia SPA	Italy	Ordinary 'A' Shares	41
Pierrevenus	France	Partner Shares	84
Pilot Insurance Company	Canada	Common Shares	100
Pioneer Momentum Masters Iii (Side Pocket)	Italy	Fund of Hedge Funds	26
Pioneer Momentum Stars Ii (Side Pocket)	Italy	Fund of Hedge Funds	20
Point One Limited	United Kingdom	Ordinary Shares	100
Polaris U.K. Limited	United Kingdom	Ordinary Shares	96
Portfolio Member Services Limited	United Kingdom	Ordinary Shares	94
Porth Teigr Management Company Limited	United Kingdom	Ordinary Shares	50
Precis (1994) Limited	United Kingdom	Ordinary Shares	100
Premier Mortgage Service Limited	United Kingdom	Ordinary Shares	100
Primofin	France	Ordinary Shares	100
Primonial Real Estate Investment Management	France	Ordinary Shares	23
Primotel Europe	France	Ordinary Shares	100
Professional Advisory Holdings Ltd.	Singapore	Ordinary 'A' Shares	91
Professional Investment Advisory Services Pte Ltd	Singapore	Ordinary 'A' Shares	91
PT Astra Aviva Life ³	Indonesia	Ordinary Shares	50
Quantum LP ³	United Kingdom	Limited Partnership	50
Quantum Property Partnership (General Partner) Limited ³	United Kingdom	Ordinary Shares	50
Quantum Property Partnership (Nominee) Limited ³	United Kingdom	Ordinary Shares	50
Quantum Unit Trust ³	Jersey	Unit Trust	50
Quarryvale One Limited	United Kingdom	Ordinary Shares	100
Quarryvale Three Limited	United Kingdom	Ordinary Shares	100
Quercus (General Partner) Limited ³	United Kingdom	Ordinary 'B' Shares	50
Quercus (Nursing Homes No.2) Limited ³	United Kingdom	Ordinary Shares	50
Quercus (Nursing Homes) Limited ³	United Kingdom	Ordinary Shares	50
Quercus GP Holdco Limited ³	United Kingdom	Ordinary Shares	50
Quercus Housing (No. 1) Limited ³	United Kingdom	Ordinary Shares	50
Quercus Housing (No. 2) Limited ³	United Kingdom	Ordinary Shares	50
Quercus Lp ³	United Kingdom	Limited Partnership	50
Quercus LP 2 ³	United Kingdom	Limited Partnership	50
Quercus No.2 (General Partner) Limited ³	United Kingdom	Ordinary Shares	50
Quercus Nursing Homes 2001 (A) Limited ³	United Kingdom	Ordinary Shares	50
Quercus Nursing Homes 2001 (B) Limited ³	United Kingdom	Ordinary Shares	50
Quercus Nursing Homes 2010 (C) Limited ³	United Kingdom	Ordinary Shares	50
Quercus Nursing Homes 2010 (D) Limited ³	United Kingdom	Ordinary Shares	50

Name of undertaking	Country of incorporation	Share class	% held
Quercus Unit Trust ³	Jersey	Unit Trust	50
RAC Pension Trustees Limited	United Kingdom	Ordinary Shares	100
Regional Properties Limited	United Kingdom	Ordinary Shares	100
Regional Properties Management Limited	United Kingdom	Ordinary Shares	100
Reim Eurocore	France	Property Fund	22
Rendement Diversifie M	France	Mutual Fund	96
Renewable Clean Energy Limited	United Kingdom	Ordinary Shares	100
Reschop Carré Hattingen GmbH	Germany	Ordinary Shares	95
Reschop Carré Marketing GmbH	Germany	Ordinary Shares	100
Retirement Housing Property Partnership	United Kingdom	Limited Partnership	100
River & Mercantile UK Equity Smaller Companies ²	United Kingdom	OEIC	38
Rugby Radio Station (General Partner) Limited ³	United Kingdom	Ordinary 'B' Shares	50
Rugby Radio Station (Nominee) Limited ³	United Kingdom	Ordinary Shares	50
S&Y Insurance Company	Canada	Common Shares	100
SachsenFonds Asset Management Czech s.r.o.	Czech Republic	Ordinary Shares	100
SachsenFonds Asset Management GmbH	Germany	Ordinary Shares	100
Sachsenfonds GmbH	Germany	Ordinary Shares	100
Sapphire Actipark 1 S.à r.l.	Luxembourg	Ordinary Shares	100
Sapphire Actipark 2 S.à r.l.	Luxembourg	Ordinary Euro 25 each Shares	100
Sapphire Actipark S.C.I.	France	Ordinary Shares	100
Sapphire Ile de France 1 S.à r.l.	Luxembourg	Ordinary Shares	100
Sapphire Ile de France 2 S.à r.l.	Luxembourg	Ordinary Shares	100
Sapphire Ile de France SCI	France	Ordinary Euro 1 each Shares	100
Sapphire Lyon 1 S.à r.l.	Luxembourg	Ordinary Shares	100
Sapphire Lyon 2 S.à r.l.	Luxembourg	Ordinary Shares	100
Sapphire Lyon S.C.I.	France	Ordinary Shares	100
SAS Core + Metz	France	Ordinary Shares	100
SAS Core + Tour Franklin	France	Ordinary Shares	100
SAS Core + Tour Franklin 2	France	Ordinary Shares	100
SB Mortgage Network Limited	United Kingdom	Ordinary Shares	82
SC ASPC Domnesti Business Park SRL	Romania	Nominative Shares	100
Schroder Diversified Growth ²	United Kingdom	OEIC	100
Schroder Institutional International Bond X Acc ²	United Kingdom	Unit Trust	54
Schroder Institutional Qep Us Core I	United Kingdom	Unit Trust	32
Schroder Institutional Sterling Bond X Acc	United Kingdom	Unit Trust	29
SCI Aix en Provence	France	Ordinary Shares	100
SCI Bondy Nord	France	Ordinary Shares	100
SCI Buchelay 78	France	Ordinary Shares	100
SCI Campus Medics St Denis	France	Ordinary Shares	30
SCI Campus Rimbaud St Denis	France	Ordinary Shares	30
SCI Capimmo	France	Property Fund	24
SCI Cormontreuil	France	Ordinary Shares	100
SCI Fli	France	Property Fund	30
SCI Pesaro	France	Ordinary Shares	90
Scottish & York Insurance Co. Limited	Canada	Common Shares	100
SE11 PEP Limited	United Kingdom	Ordinary Shares	100
Select.Premium C	France	Mutual Fund	85
Selectintrie - Societe Civile Immobiliere	France	Ordinary € 0.04 Shares	100
Selectipierre - Société Civile	France	Ordinary Shares	99
Selectipierre 1	France	Ordinary Shares	30
Selectipierre 2	France	Ordinary Shares	22
Sequin Holding GmbH	Austria	Ordinary Shares	100
Serviced Offices UK (Services) Limited ^{3,4}	United Kingdom	Ordinary Shares	50
Serviced Offices UK GP Limited ^{3,4}	United Kingdom	Ordinary 'A' Shares	50
Serviced Offices UK LP ³	United Kingdom	Limited Partnership	50
Serviced Offices UK Nominee Limited ^{3,4}	United Kingdom	Ordinary Shares	50
Serviced Offices Unit Trust ³	Jersey	Unit Trust	50
Services D'Assurance Youville Inc.	Canada	Class A Common Shares	100
Sesame Bankhall Group Limited	United Kingdom	Ordinary Shares	100
Sesame Bankhall Specialist Lending Services Limited	United Kingdom	Preference Shares	51
Sesame Bankhall Valuation Services Limited	United Kingdom	Ordinary 'A' Shares	62
Sesame Desktop Services Limited	United Kingdom	Ordinary Shares	82
Sesame General Insurance Services Limited	United Kingdom	Ordinary Shares	82
Sesame Group India Private Limited	India	Ordinary Shares	82
Sesame Investment Services Limited	United Kingdom	Ordinary £1 Shares	100
Sesame Limited	United Kingdom	Ordinary £1 Shares	100
Sesame Mortgage Services Limited	United Kingdom	Ordinary Shares	82
Sesame Mortgages Limited	United Kingdom	Ordinary Shares	82
Sesame Network Limited	United Kingdom	Ordinary Shares	82
Sesame Regulatory Services Limited	United Kingdom	Ordinary £1 Shares	100
Sesame Select Services Limited	United Kingdom	Ordinary Shares	82
Sesame Services Limited	United Kingdom	Ordinary Shares	82
Silicon Properties Limited	United Kingdom	Ordinary Shares	100
Sinfonia Asset Management Limited	United Kingdom	Ordinary Shares	47
SIRIUS (SICAV)	France	Ordinary Shares	97
SLAS Topsail Limited Partnership	United Kingdom	Limited Partner	100
Société Civile Immobilière	France	Ordinary € 20 Shares	50
Société Civile Immobilière « CARPE DIEM »	France	Ordinary €20 shares	50
Société Civile Immobilière Charles Hermite	France	Ordinary Shares	62
Société Civile Immobilière Montaigne	France	Ordinary Shares	100
Societe Concessionnaire des Immeubles de la Pepiniere	France	Ordinary € 76.23 Shares	100
Société Française de Gestion et d'Investissement	France	Ordinary Shares	57
Sofragi	France	Mutual Fund	57
Solar Clean Energy Limited	United Kingdom	Ordinary Shares	100
Solus (London) Limited	United Kingdom	Ordinary Shares	100
Southampton Street LP ³	United Kingdom	Limited Partnership	50
Southampton Street Nominee 1 Limited ³	United Kingdom	Ordinary Shares	50
Southampton Street Nominee 2 Limited ³	United Kingdom	Ordinary Shares	50
Southampton Street Unit Trust ³	Jersey	Unit Trust	50
Southgate General Partner Limited	United Kingdom	Ordinary 'A' Shares	50
Southgate LP	United Kingdom	Limited Partnership	50
Southgate LP (Nominee 1) Limited	United Kingdom	Ordinary Shares	50
Southgate LP (Nominee 2) Limited	United Kingdom	Ordinary Shares	50

Name of undertaking	Country of incorporation	Share class	% held
Southgate Unit Trust	Jersey	Unit Trust	50
St Christopher's Place Limited	United Kingdom	Ordinary Shares	100
Staff Schemes Save from Pay Ltd	United Kingdom	Ordinary Shares	100
Stonebridge Cross Management Limited	United Kingdom	Guarantee transferred pursuant to the Part VII transfer, effective 28 December 2012, by which the assets and liabilities of Friends Life Assurance Society Limited and Friends Life Company Limited were transferred to Friends Life Limited.	100
SUE Developments Limited Partnership ³	United Kingdom	Limited Partnership	50
SUE GP LLP ³	United Kingdom	Limited Liability Partnership	50
SUE GP Nominee Limited ³	United Kingdom	Ordinary Shares	50
Sunrise Renewables (Barry) Limited	United Kingdom	Ordinary Shares	100
Sunrise Renewables (Hull) Limited	United Kingdom	Ordinary Shares	75
Suntrust Limited	United Kingdom	Ordinary Shares	100
Surian Life & Financial Inc.	Canada	Common Shares	100
Synergy Financial Products Limited	United Kingdom	Ordinary Shares	29
Synergy Sunrise (Bowthorpe) Limited	United Kingdom	Ordinary Shares	100
Synergy Sunrise (Broadlands) Limited	United Kingdom	Ordinary Shares	100
Synergy Sunrise (Scarles Yard) Limited	United Kingdom	Ordinary Shares	100
Synergy Sunrise (Sentinel House) Limited	United Kingdom	Ordinary Shares	100
Synergy Sunrise (Yorkshire House) Limited	United Kingdom	Ordinary Shares	100
Tenet Business Solutions Limited	United Kingdom	Ordinary Shares	47
Tenet Client Services Limited	United Kingdom	Ordinary Shares	47
Tenet Group Limited	United Kingdom	Ordinary 'B' Shares	47
Tenet Limited	United Kingdom	Ordinary Shares	47
Tenet Valuation Services Limited	United Kingdom	Ordinary 'A' Shares	47
TenetConnect Limited	United Kingdom	Ordinary Shares	47
TenetConnect Services Limited	United Kingdom	Ordinary Shares	47
TenetFinancial Solutions Limited	United Kingdom	Ordinary Shares	47
TenetTime Limited	United Kingdom	Ordinary Shares	47
TenetSelect Limited	United Kingdom	Ordinary Shares	47
TGHC Limited	United Kingdom	Ordinary Shares	100
The Designer Retail Outlet Centres (General Partner) Limited	United Kingdom	Ordinary 'A' Shares	50
The Designer Retail Outlet Centres (Livingston) General Partner Limited	United Kingdom	Ordinary Shares	100
The Designer Retail Outlet Centres (Livingston) LP	United Kingdom	Limited Partnership	97
The Designer Retail Outlet Centres (Mansfield) General Partner Limited	United Kingdom	Ordinary Shares	100
The Designer Retail Outlet Centres (Mansfield) LP	United Kingdom	Limited Partnership	100
The Designer Retail Outlet Centres (York) General Partner Limited	United Kingdom	Ordinary Shares	100
The Designer Retail Outlet Centres (York) LP	United Kingdom	Limited Partnership	97
The Employee Benefits Corporation Limited	United Kingdom	Ordinary A Shares	37
		Reedeemable Ordinary Shares	
The Financial Adviser School Limited	United Kingdom	Ordinary Shares	100
The Galleries Bristol Nominee No 2 Limited	United Kingdom	Ordinary Shares	100
The Gallery Gloucester Green Nominee One Limited	United Kingdom	Ordinary Shares	100
The Gallery Gloucester Green Nominee Three Limited	United Kingdom	Ordinary Shares	100
The Gallery Gloucester Green Nominee Two Limited	United Kingdom	Ordinary Shares	100
The Gobafoss Partnership	United Kingdom	Limited Partnership	100
The Growth Fund Limited	United Kingdom	Ordinary Shares	100
The I.F.A. Training School Limited	United Kingdom	Ordinary Shares	82
The Lancashire and Yorkshire Reversionary Interest Company Limited	United Kingdom	Ordinary Shares	100
The Land and House Property Corporation Limited	United Kingdom	3.15% Cumulative Preference Shares Ordinary Shares	100
The Ocean Marine Insurance Company Limited	United Kingdom	Ordinary Shares	100
The Square Brighton Limited	United Kingdom	Ordinary Shares	100
The Welsh Insurance Corporation Limited	United Kingdom	Ordinary Shares	100
The Yorkshire Insurance Company Limited	United Kingdom	Ordinary Shares	100
Tokyo Recovery Fund FCP-SIF	Luxembourg	FCP	10
Traders General Insurance Company	Canada	Common Shares	100
Triseas Korea Property Fund L.P.	Jersey	Limited Partnership	48
Tyne Assets (No 2) Limited	United Kingdom	Ordinary Shares	100
Tyne Assets Limited	United Kingdom	Ordinary Shares	100
Ubi Sicav Euro Fixed Income CI I	Italy	SICAV	34
Ubi Sicav Euro Liquidity CI I	Italy	SICAV	28
Ubi Sicav Global Corporate Bond	Italy	SICAV	29
Ubs L Bd Co Gl Ia3d D.	France	Mutual Fund	78
Uff Act Fce A 4d C.	France	Mutual Fund	100
Uff Actions France I	France	Mutual Fund	100
Uff Avenir Euro-Valeur	France	Mutual Fund	100
Uff Cap Defensif	France	Mutual Fund	100
Uff Cap Diversifie	France	Mutual Fund	47
Uff Capital Planete A	France	Mutual Fund	100
Uff Context Hy Lg Terme A	France	Mutual Fund	100
Uff Croissance Pme A	France	Mutual Fund	100
Uff Diversifie 0-70 A	France	Mutual Fund	100
Uff Emergence A	France	Mutual Fund	100
Uff Emergence I	France	Mutual Fund	100
Uff Eu-Val 0-100 A C.	France	Mutual Fund	100
Uff Gde Eur 0-100 A	France	Mutual Fund	100
Uff Gestion Fl 0-100 A	France	Mutual Fund	99
Uff Gestion Fl 0-30 A	France	Mutual Fund	98
Uff Gestion Fl 0-70 A	France	Mutual Fund	99
Uff Gestion Flexible 0-100 I	France	Mutual Fund	99
Uff Gestion Flexible 0-70 I	France	Mutual Fund	99
Uff Grande Europe 0-100 I	France	Mutual Fund	99
Uff Liberty A	France	Mutual Fund	100
Uff Liberty I	France	Mutual Fund	100
Uff Oblicontext 2021 A C.	France	Mutual Fund	99
Uff Oblicontext Sept.2020 A	France	Mutual Fund	100
Uff Obligations 3-5 C.	France	Mutual Fund	86
Uff Obligations 5-7 A	France	Mutual Fund	100
Uff Rendement Diversifie A	France	Mutual Fund	100
Uff Select Alpha A C.	France	Mutual Fund	100
Uff Selection Premium A	France	Mutual Fund	99

Name of undertaking	Country of incorporation	Share class	% held
Uff Selection Premium I	France	Mutual Fund	100
Ufirance Gestion	France	Ordinary Shares	76
Ufirance Immobilier	France	Ordinary Shares	20
Ufirance Patrimoine	France	Ordinary Shares	76
UKLAP Australian Logistics Trust ²	Australia	Ordinary Shares	100
UKP Holdings Inc.	United States	Common Stock Shares	100
Undershaft (No.2) B.V.	Netherlands	Ordinary Shares	100
Undershaft (No.4) Limited	United Kingdom	Ordinary Shares	100
Undershaft (NUCM) Limited	United Kingdom	Ordinary Shares	100
Undershaft (NULLA) Limited	United Kingdom	Ordinary Shares	100
Undershaft Limited	United Kingdom	Ordinary Shares	100
Unicorp Vida, Compania de Seguros y Reaseguros Sociedad Anonima	Spain	Ordinary Shares	50
Union Financière de France Banque	France	Ordinary Shares	74
Unitair Limited Partnership	United Kingdom	Limited Partnership	50
Unitair General Partner Limited	United Kingdom	Ordinary Shares	50
United Kingdom Temperance and General Provident Institution	United Kingdom	Ordinary Shares	100
Uždaroji akcinė gyvybės draudimo ir pensijų bendrovė 'Aviva Lietuva' (Joint Stock Limited Life Insurance and Pension Company Aviva Lietuva)	Lithuania	Ordinary Shares	90
VAM Driehaus A USD Acc	Luxembourg	SICAV	25
Vanwall 2 Management Company Limited	United Kingdom	Sole Member	100
Vauban Developpement SARL	France	Ordinary Shares	42
Vauban Properties SARL	France	Ordinary Shares	42
VH German Mandate	Luxembourg	Ordinary Shares	100
Victoire Immo 1- Société Civile	France	Ordinary Shares	100
Victor Hugo 1 S.à r.l.	Luxembourg	Ordinary Each Eur 25 Shares	100
Victor Hugo 2 S.à r.l.	Luxembourg	Ordinary Shares	100
Victoria Reinsurance Company Ltd.	Barbados	Common Shares	100
Vietinbank Aviva Life Insurance Company Limited ³	Vietnam	Non-listed Shares	50
Vip Conseils	France	Ordinary Shares	34
Vitus	Luxembourg	FCP	100
Voltaire S.A.S	France	Ordinary € 15.25 Shares	100
W Nine LP ³	United Kingdom	Limited Partnership	50
W Nine Nominee 1 Limited ³	United Kingdom	Ordinary Shares	50
W Nine Nominee 2 Limited ³	United Kingdom	Ordinary Shares	50
W Nine Unit Trust ³	Jersey	Unit Trust	50
Wayfarer Insurance Brokers Limited	Canada	Common Shares	100
Wealth Limited	United Kingdom	Ordinary Shares	100
Westmount Guarantee Services Inc.	Canada	Class A Common Shares	33
Whitgift Shop Unit Trust	United Kingdom	Unit Trust	100
Winslade Investments Inc.	United States	Common Stock WPV Shares	100
Wood Lane (Stadium) Limited	United Kingdom	Ordinary Shares	100
Wroclaw BC sp. z.o.o	Poland	Ordinary Shares	100
Yatra Capital Limited	Jersey	Ordinary Shares	27

1 Investment Company with Variable Capital ('ICVC')

Fond Commun de Placement ('FCP')

Open Ended Investment Fund ('OEIC')

Société d'Investissement à Capital Variable ('SICAV')

Undertakings for Collective Investments in Transferable Securities ('UCIT')

2 Management have determined that these entities have been excluded from the consolidation in the Group accounts as these entities do not meet the definition of subsidiaries in accordance with IFRS 10. Please refer to accounting policies (D) Consolidation principles.

3 Please refer to accounting policies (D) Consolidation principles, for further detail on Joint Ventures and the factors on which joint management is based.

4 These joint ventures have a 30 June financial year-end.

63 – Subsequent events

Note 24 details subsequent events relating to securitised mortgages. Subsequent events relating to the acquisition and disposal of subsidiaries are detailed in Note 3.

Income statement

For the year ended 31 December 2015

	Note	2015 £m	2014 £m
Income			
Dividends received from subsidiaries	I	1,250	1,172
Interest receivable from group companies	I	57	60
		1,307	1,232
Expenses			
Net investment expense		(3)	(2)
Operating expenses	B	(224)	(162)
Interest payable to group companies	I	(174)	(258)
Interest payable on borrowings		(344)	(314)
		(745)	(736)
Profit for the year before tax		562	496
Tax credit	C	115	67
Profit for the year after tax		677	563

Statement of comprehensive income

For the year ended 31 December 2015

	Note	2015 £m	2014 £m
Profit for the year		677	563
Other comprehensive income			
<i>Items that may be reclassified subsequently to income statement</i>			
Fair value gains on investments in subsidiaries and joint ventures	E	1,095	866
<i>Items that will not be reclassified to income statement</i>			
Remeasurements of pension schemes	E	—	(1)
Other comprehensive income, net of tax		1,095	865
Total comprehensive income for the year		1,772	1,428

Where applicable, the accounting policies of the Company are the same as those of the Group on pages 133 to 146. The notes identified alphabetically on pages 274 to 278 are an integral part of these separate financial statements. Where the same items appear in the Group financial statements, reference is made to the notes (identified numerically) on pages 154 to 269.

Statement of changes in equity

For the year ended 31 December 2015

	Note	Ordinary share capital £m	Preference share capital £m	Share premium £m	Merger reserve £m	Investment valuation reserve £m	Equity compensation reserve £m	Retained earnings £m	Equity £m	Direct capital instrument tier 1 notes £m	Total equity £m
Balance at 1 January		737	200	1,172	735	9,768	65	3,137	15,814	892	16,706
Profit for the year		—	—	—	—	—	—	677	677	—	677
Other comprehensive income		—	—	—	—	1,095	—	—	1,095	—	1,095
Total comprehensive income for the year						1,095					1,772
Dividends and appropriations	15	—	—	—	—	—	—	(724)	1,772	(724)	—
Reserves credit for equity compensation plans		—	—	—	—	—	40	—	40	—	40
Shares issued under equity compensation plans		3	—	13	—	—	(35)	19	—	—	—
Novation of subsidiary company's tier 1 notes	D	—	—	—	—	—	—	—	—	224	224
Issue of share capital – acquisition of Friends Life		272	—	—	5,703	—	—	—	5,975	—	5,975
Redemption of direct capital instrument		—	—	—	—	—	—	—	—	—	—
Aggregate tax effect		—	—	—	—	—	—	15	15	—	15
Balance at 31 December		1,012	200	1,185	6,438	10,863	70	3,124	22,892	1,116	24,008

For the year ended 31 December 2014

	Note	Ordinary share capital £m	Preference share capital £m	Share premium £m	Merger reserve £m	Investment valuation reserve £m	Equity compensation reserve £m	Retained earnings £m	Equity £m	Direct capital instrument tier 1 notes £m	Total equity £m
Balance at 1 January		736	200	1,165	735	8,902	54	3,158	14,950	1,382	16,332
Profit for the year		—	—	—	—	—	—	563	563	—	563
Other comprehensive income/(expense)		—	—	—	—	866	—	(1)	865	—	865
Total comprehensive income for the year						866					1,428
Dividends and appropriations	15	—	—	—	—	—	—	(551)	1,428	(551)	—
Employee trust shares distributed in the year		—	—	—	—	—	—	(18)	(18)	—	(18)
Reserves credit for equity compensation plans		—	—	—	—	—	39	—	39	—	39
Shares issued under equity compensation plans		1	—	7	—	—	(28)	24	4	—	4
Redemption of direct capital instrument		—	—	—	—	—	—	(57)	(57)	(490)	(547)
Aggregate tax effect		—	—	—	—	—	—	19	19	—	19
Balance at 31 December		737	200	1,172	735	9,768	65	3,137	15,814	892	16,706

Where applicable, the accounting policies of the Company are the same as those of the Group on pages 133 to 146. The notes identified alphabetically on pages 274 to 278 are an integral part of these separate financial statements. Where the same items appear in the Group financial statements, reference is made to the notes (identified numerically) on pages 154 to 269.

Statement of financial position

At 31 December 2015

	Note	2015 £m	2014 £m
Assets			
Non-current assets			
Investments in subsidiaries	A	42,452	33,930
Investment in joint venture	18a, A	322	208
Loans owed by subsidiaries	I	553	1,330
Deferred tax assets	C	188	201
Current tax assets	C	130	65
		43,645	35,734
Current assets			
Loans owed by subsidiaries	I	—	388
Other amounts owed by subsidiaries	I	233	274
Other assets		12	18
Cash and cash equivalents		188	33
Total assets		44,078	36,447
Equity			
Ordinary share capital	30	1,012	737
Preference share capital	33	200	200
Called up capital		1,212	937
Share premium	30b	1,185	1,172
Merger reserve	E	6,438	735
Investment valuation reserve	E	10,863	9,768
Equity compensation reserve	E	70	65
Retained earnings	E	3,124	3,137
Direct capital instrument and tier 1 notes	34	1,116	892
Total equity		24,008	16,706
Liabilities			
Non-current liabilities			
Borrowings	F	5,202	4,794
Loans owed to subsidiaries	I	10,256	10,366
Provisions		40	48
		15,498	15,208
Current liabilities			
Borrowings	F	485	516
Other amounts owed to subsidiaries	I	3,962	3,885
Other creditors		125	132
Total liabilities		20,070	19,741
Total equity and liabilities		44,078	36,447

Approved by the Board on 9 March 2016.

Thomas D. Stoddard
Chief Financial Officer

Company number: 2468686

Where applicable, the accounting policies of the Company are the same as those of the Group on pages 133 to 146. The notes identified alphabetically on pages 274 to 278 are an integral part of these separate financial statements. Where the same items appear in the Group financial statements, reference is made to the notes (identified numerically) on pages 154 to 269.

Statement of cash flows

For the year ended 31 December 2015

All the Company's operating cash requirements are met by subsidiary companies and settled through intercompany loan accounts. As the direct method of presentation has been adopted for these activities, no further disclosure is required. In respect of financing and investing activities, the following items pass through the Company's own bank accounts.

	2015 £m	2014 £m
Cash flows from investing activities		
(Purchase)/sale of financial investments	(5)	290
Interest received	—	7
Net cash (used in)/generated from investing activities	(5)	297
Cash flows from financing activities		
Funding provided from subsidiaries	721	597
New borrowings drawn down, net of expenses	2,027	2,382
Repayment of borrowings	(1,554)	(2,070)
Net drawdown of borrowings	473	312
Redemption of direct capital instrument	—	(547)
Preference dividend paid	(17)	(17)
Ordinary dividend paid	(635)	(447)
Interest paid on the direct capital instrument and tier 1 notes	(72)	(88)
Interest paid on borrowings	(328)	(301)
Receipts under equity compensation plans	—	5
Proceeds from issue of ordinary shares	16	8
Treasury shares purchased for employee trusts	(1)	—
Net cash generated/(used in) from financing activities	157	(478)
Net increase/(decrease) in cash and cash equivalents	152	(181)
Cash and cash equivalents at 1 January	33	223
Exchange gains/(losses) on cash and cash equivalents	3	(9)
Cash and cash equivalents at 31 December	188	33

Where applicable, the accounting policies of the Company are the same as those of the Group on pages 133 to 146. The notes identified alphabetically on pages 274 to 278 are an integral part of these separate financial statements. Where the same items appear in the Group financial statements, reference is made to the notes (identified numerically) on pages 154 to 269.

A – Investments in subsidiaries and joint venture

(i) Movements in the Company's investments in its subsidiaries are as follows:

	2015 £m	2014 £m
Fair value as at 1 January	33,930	33,095
Acquisition of Friends Life	5,975	—
Issuance of shares in Aviva Group Holdings	1,566	—
Movement in fair value	981	835
At 31 December	42,452	33,930

Fair values are estimated using applicable valuation models underpinned by the Company's market capitalisation, and are classified as Level 2 in the fair value hierarchy described in note 22 to the Group consolidated financial statements.

(ii) At 31 December 2015, the Company has two wholly owned subsidiaries, both incorporated in the UK. These are General Accident plc and Aviva Group Holdings Limited. Aviva Group Holdings Limited is an intermediate holding company, whilst General Accident plc has preference shares listed on the London Stock Exchange. The principal subsidiaries of the Aviva Group at 31 December 2015 are set out in note 61 to the Group consolidated financial statements.

(iii) At 31 December 2015, the Company's investment in the joint venture, Aviva-COFCO Life Insurance Co. Limited has a fair value of £322 million (2014: £208 million).

B – Operating expenses

(i) Operating expenses

Operating expenses comprise:

	2015 £m	2014 £m
Staff costs and other employee related expenditure (see below)	82	65
Other operating costs	201	150
Net foreign exchange gains	(59)	(53)
Total	224	162

(ii) Staff costs

Total staff costs were:

	2015 £m	2014 £m
Wages and salaries	49	35
Social security costs	7	5
Post-retirement obligations		
Defined contribution schemes	8	6
Equity compensation plans (see (iii) below)	16	11
Termination benefits	2	8
Total	82	65

(iii) Equity compensation plans

All transactions in the Group's equity compensation plans involve options and awards for ordinary shares of the Company. Full disclosure of these plans is given in the Group consolidated financial statements, note 31. The cost of such options and awards is borne by all participating businesses and, where relevant, the Company bears an appropriate charge. As the majority of the charge to the Company relates to directors' options and awards, for which full disclosure is made in the Directors' Remuneration Report, no further disclosure is given here.

C – Tax

(i) Tax credited to the income statement

The total tax charge comprises:

	2015 £m	2014 £m
Current tax		
For this year	(129)	(64)
Prior year adjustments	1	(7)
Total current tax	(128)	(71)
Deferred tax		
Origination and reversal of temporary differences	1	4
Changes in tax rates or tax laws	20	—
Write back of deferred tax assets	(8)	—
Total deferred tax	13	4
Total tax credited to income statement	(115)	(67)

Unrecognised tax losses and temporary differences of previous years were used to reduce the deferred tax expense by £8 million (2014: £nil).

(ii) Tax charged/(credited) to other comprehensive income

No tax was charged or credited to other comprehensive income in 2015 or 2014.

(iii) Tax credited to equity

Tax credited directly to equity in the year amounted to £15 million (2014: £19 million). This comprises coupon payments on the direct capital instrument and tier 1 notes.

(iv) Tax reconciliation

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the tax rate of the home country of the Company as follows:

	2015 £m	2014 £m
Profit before tax	562	496
Tax calculated at standard UK corporation tax rate of 20.25% (2014: 21.5%)	114	107
Adjustment to tax charge in respect of prior years	1	(5)
Non-assessable dividend income	(253)	(252)
Disallowable expenses	10	9
Movement in deferred tax not recognised	(8)	(2)
Different local basis of tax on overseas profits	1	2
Change in future local statutory tax rates	20	—
Losses surrendered intra-group for nil value	—	74
Total tax credited to income statement	(115)	(67)

UK legislation was substantively enacted in July 2013 to reduce the UK corporation tax rate from 21% to 20% from 1 April 2015, resulting in an effective rate for the year ended 31 December 2015 of 20.25%. The 20.25% corporation tax rate has been used in the calculation of the UK's current tax liability for the year ended 31 December 2015.

As legislated in Finance (No 2) Act 2015, which was substantively enacted on 26 October 2015, the UK corporate rate will reduce further to 19% from 1 April 2017 and to 18% from 1 April 2020. The reductions in rate from 20% to 19% and then to 18% have been used in the calculation of the UK's deferred tax assets and liabilities as at 31 December 2015. The reduction in the future corporation tax rates has resulted in a reduction to the company's net deferred tax asset of £20 million charged to the income statement.

(v) Deferred tax

A deferred tax asset of £188 million (2014: £201 million), principally arising in respect of deferred interest has been recognised at 31 December 2015 at 18%. The Company has unrecognised temporary differences of £nil million (2014: £45 million) to carry forward indefinitely against future taxable income.

(vi) Current tax assets

Current tax assets recoverable in more than one year are £130 million (2014: £65 million).

D – Direct capital instrument and tier 1 notes

Details of the direct capital instrument and tier 1 notes are given in the Group consolidated financial statements, note 34. The 6.875% £210 million STICS are reflected in the Company financial statements at a value of £224 million following the transfer at fair value from Friends Life Holdings plc on 1 October 2015.

E – Reserves

	Merger Reserve £m	Investment valuation reserve £m	Equity-compensation reserve £m	Retained earnings £m
Balance at 1 January 2014	735	8,902	54	3,158
Arising in the year:				
Profit for the year	—	—	—	563
Fair value gains on investments in subsidiaries and joint ventures	—	866	—	—
Actuarial gains on pension provision	—	—	—	(1)
Dividends and appropriations	—	—	—	(551)
Reserves credit for equity compensation plans	—	—	39	—
Trust shares distributed in the year	—	—	—	(18)
Issue of share capital under equity compensation scheme	—	—	(28)	24
Redemption of direct capital instrument	—	—	—	(57)
Aggregate tax effect	—	—	—	19
Balance at 31 December 2014	735	9,768	65	3,137
Arising in the year:				
Profit for the year	—	—	—	677
Fair value gains on investments in subsidiaries and joint ventures	—	1,095	—	—
Premium gained as part of Friends Life acquisition	5,703	—	—	—
Dividends and appropriations	—	—	—	(724)
Reserves credit for equity compensation plans	—	—	40	—
Trust shares distributed in the year	—	—	—	—
Issue of share capital under equity compensation scheme	—	—	(35)	19
Redemption of direct capital instrument	—	—	—	—
Aggregate tax effect	—	—	—	15
Balance at 31 December 2015	6,438	10,863	70	3,124

Tax of £15 million (2014: £19 million) is deductible in respect of coupon payments of £72 million (2014: £88 million) on the direct capital instrument and tier 1 notes.

The issue of new shares in the Company in exchange for shares of Friends Life has attracted merger relief under section 612 of the Companies Act 2006. Of the £5,975 million, £272 million (25 pence per ordinary share) has been credited to share capital and the remaining £5,703 million has been credited to the merger reserve within equity, increasing the reserve from £735 million to £6,438 million.

Further details of the Merger reserve are given in the Group consolidated financial statements, note 35.

F – Borrowings

The Company's borrowings comprise:

	2015 £m	2014 £m
Subordinated debt	5,202	4,594
9.5% guaranteed bonds 2016	—	200
Commercial paper	485	516
	5,687	5,310

Maturity analysis of contractual undiscounted cash flows:

	Principal £m	Interest £m	Total £m	Principal £m	Interest £m	Total £m
Within 1 year	485	303	788	516	304	820
1 – 5 years	—	1,212	1,212	200	1,149	1,349
5 – 10 years	—	1,514	1,514	—	1,340	1,340
10 – 15 years	800	1,514	2,314	1,188	1,322	2,510
Over 15 years	4,448	3,496	7,944	3,442	2,924	6,366
Total contractual undiscounted cash flows	5,733	8,039	13,772	5,346	7,039	12,385

Where subordinated debt is undated, the interest payments have not been included beyond 15 years. Annual interest payments in future years for these borrowings are £79 million (2014: £72 million).

The fair value of the subordinated debt at 31 December 2015 was £5,504 million (2014: £5,188 million), calculated with reference to quoted prices. The 9.5% guaranteed bond 2016 was repaid during 2015. The fair value of the commercial paper is considered to be the same as its carrying value.

Further details of these borrowings and undrawn committed facilities can be found in the Group consolidated financial statements, note 49, with details of the fair value hierarchy in relation to these borrowings in note 22.

G – Contingent liabilities

Details of the Company's contingent liabilities are given in the Group consolidated financial statements, note 52.

H – Risk management

Risk management in the context of the Group is considered in the Group consolidated financial statements, note 57.

The business of the Company is managing its investments in subsidiary and joint venture operations. Its risks are considered to be the same as those in the operations themselves and full details of the major risks and the Group's approach to managing these are given in the Group consolidated financial statements, note 57. Such investments are held by the Company at fair value in accordance with accounting policy D.

The fair values of the subsidiaries and joint ventures are estimated using applicable valuation models, underpinned by the Company's market capitalisation. This uses the Company's closing share price at year end. Given that the key input into the valuation model is based on an observable current share price, and therefore sensitive to movements in that price, the valuation process is not sensitive to non-observable market assumptions.

Financial assets, other than investments in subsidiaries and the joint venture, largely consist of amounts due from subsidiaries. As at the balance sheet date, these receivable amounts were neither past due nor impaired.

Financial liabilities owed by the Company as at the balance sheet date are largely in respect of borrowings (details of which are provided in note F and the Group consolidated financial statements, note 49) and loans owed to subsidiaries. Loans owed to subsidiaries were within agreed credit terms as at the balance sheet date.

Interest rate risk

Loans to and from subsidiaries are at either fixed or floating rates of interest, with the latter being exposed to fluctuations in these rates. The choice of rates is designed to match the characteristics of financial investments (which are also exposed to interest rate fluctuations) held in both the Company and the relevant subsidiary, to mitigate as far as possible each company's net exposure.

All the Company's long-term external borrowings are at fixed rates of interest and are therefore not exposed to changes in these rates. However, for short-term commercial paper, the Company is affected by changes in these rates to the extent the redemption of these borrowings is funded by the issuance of new commercial paper or other borrowings. Further details of the Company's borrowings are provided in note F and the Group consolidated financial statements, note 49.

The effect of a 100 basis point increase/decrease in interest rates on floating rate loans due to and from subsidiaries and on refinancing short-term commercial paper as it matures would be a decrease/increase in profit before tax of £106 million (2014: decrease/increase of £100 million). The net asset value of the Company's financial resources is not materially affected by fluctuations in interest rates.

Currency risk

The Company's direct subsidiaries are exposed to foreign currency risk arising from fluctuations in exchange rates during the course of providing insurance and asset management services around the world. The exposure of the subsidiaries to currency risk is considered from a Group perspective in the Group consolidated financial statements, note 57.

The Company faces exposure to foreign currency risk through some of its borrowings which are denominated in euro. However, most of these borrowings have been on-lent to a subsidiary which holds investments in euro, generating the net investment hedge described in the Group consolidated financial statements, note 58(a).

Liquidity risk

Liquidity risk is the risk of not being able to make payments as they become due because there are insufficient assets in cash form. The Company's main sources of liquidity are liquid assets held within the Company and its subsidiaries Aviva Group Holdings Limited (AGH) and Friends Life Holdings plc, and dividends received from the Group's insurance and asset management businesses. Sources of liquidity in normal markets also includes a variety of short and long-term instruments including commercial papers and medium and long-term debt. In addition to the existing liquid resources and expected inflows, the Company maintains significant undrawn committed borrowing facilities (£1,650 million) from a range of leading international banks to further mitigate this risk.

Maturity analysis of external borrowings and amounts due to and by subsidiaries are provided in notes F and I respectively.

I – Related party transactions

The Company receives dividend and interest income from subsidiaries and pays interest and fee expense to those subsidiaries in the normal course of business. These activities are reflected in the table below.

Loans to and from subsidiaries are made on normal arm's-length commercial terms. The maturity analysis of the related party loans is as follows:

Loans owed by subsidiaries

	2015 £m	2014 £m
Maturity analysis		
Within 1 year	—	388
1-5 years	369	1,136
Over 5 years	184	194
Total	553	1,718

I – Related party transactions continued

Loans owed to subsidiaries

Maturity analysis of contractual undiscounted cash flows:

	2015			2014		
	Principal £m	Interest £m	Total £m	Principal £m	Interest £m	Total £m
Within 1 year	—	132	132	—	132	132
1-5 years	10,256	132	10,388	10,366	264	10,630
Over 5 years	—	—	—	—	—	—
Total	10,256	264	10,520	10,366	396	10,762

Other related party balances comprise dividends and interest receivable and payable, as well as intercompany balances for fees and other transactions in the normal course of business.

Dividends, loans, interest

Services provided to related parties

	2015			2014		
	Income earned in year £m	Receivable at year end £m	Income earned in year £m	Receivable at year end £m	Income earned in year £m	Receivable at year end £m
Subsidiaries	1,307	786	1,232	1,992		

The Company incurred expenses in the year of £212,750 (2014: £179,000) representing audit fees paid by the Company on behalf of subsidiaries. The Company did not recharge subsidiaries for these expenses.

The related parties' receivables are not secured and no guarantees were received in respect thereof. The receivables will be settled in accordance with normal credit terms.

Services provided by related parties

	2015			2014		
	Expense incurred in year £m	Payable at year end £m	Expense incurred in year £m	Payable at year end £m	Expense incurred in year £m	Payable at year end £m
Subsidiaries	174	14,218	258	14,251		

The related parties' payables are not secured and no guarantees were received in respect thereof. The payables will be settled in accordance with normal credit terms. Details of guarantees, indemnities and warranties given by the Company on behalf of related parties are given in note 52(f).

Following the acquisition of Friends Life, Aviva plc transferred 100% of its newly acquired shares to Aviva Group Holdings Ltd in exchange for an issue of £5,975 million in ordinary shares of AGH.

On 31 December 2015, Aviva Group Holdings Ltd issued 155,685 additional ordinary shares with a par value of £10,000 per share to Aviva plc, in exchange for the full settlement of the intercompany balance.

The directors and key management of the Company are considered to be the same as for the Group. Information on both the Company and Group key management compensation can be found in note 60.

J – Subsequent event

There are no subsequent events to report.

Other information

Performance review

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Financial and operating performance

Our main activities are the provision of products and services in relation to long-term insurance and savings, fund management and general, accident and health insurance.

Factors affecting results of operations

Our financial results are affected by a number of external factors, including demographic trends, general economic and market conditions, government policy and legislation and exchange rate fluctuations. See 'Other information – Risk and capital management' for more information on these and other risk factors. In addition, our financial results are affected by corporate actions taken by the Group, including acquisitions, disposals and other actions aimed at achieving our stated strategy. We believe that all of these factors will continue to affect our results in the future.

During the year, sterling strengthened against the euro, Canadian dollar and Polish zloty which has impacted the overall results and performance. See IFRS financial statements – note 2 – Exchange rates. In addition, the Group undertook the following actions which impacted the overall results and performance:

- On 10 April 2015, the Group completed the acquisition of 100% of the outstanding ordinary shares of Friends Life Group Limited ('Friends Life') through an all share exchange. See 'IFRS Financial statements – note 3 – Subsidiaries' for further details.
- The Group continued to undertake restructuring and transformation activity to align our business operations with our strategy, and in connection with the Friends Life acquisition. Integration and restructuring costs were £379 million (2014: £140 million), principally driven by transaction and integration activity in relation to the acquisition of Friends Life, and expenses associated with the Solvency II programme of £82 million (2014: £94 million).
- The Group's UK general insurance business completed an outwards reinsurance contract that provides significant protection against claims volatility from mesothelioma, industrial deafness and other long-tail risks. This gave rise to a day one loss of £53 million, comprising £712 million in premiums ceded less £659 million in reinsurance recoverables recognised.
- There was an adverse movement of £235 million (2014: £1,662 million favourable) relating to the Group's staff pension schemes which has been recognised in other comprehensive income. This was principally due to the main UK staff pension scheme. The surplus has decreased over the period largely as a result of a rise in interest rates and narrowing credit spreads. See 'IFRS Financial statements – note 48 – Pension obligations' for further details.

Demographic trends

Our results are affected by the demographic make-up of the countries in which we operate. The types of products that we sell reflect the needs of our customers. For example, in countries with a high proportion of older people, a larger proportion of our sales will reflect their needs for pre-and post-retirement planning. Our sales levels will also be impacted by our ability to help provide useful information to such policyholders on retirement planning and to offer products that are competitive and respond to such policyholders' needs.

In our long-term insurance and savings business we make assumptions about key non-economic factors, such as the mortality rate that we expect to be experienced by our policyholders. In countries where the life expectancy is growing, this will need to be reflected in our pricing models as lower mortality rates will increase profitability of life insurance

products but will reduce the returns on annuity products. We review our assumptions against our own experience and industry expectations.

Economic conditions

Our results are affected by the economic conditions in our geographic markets and, consequently, by economic cycles in those markets. High levels of general economic activity typically result in high levels of demand for, and sales of, our products and services. Economic activity in turn is affected by government monetary and fiscal policy as well as by global trading conditions and external shocks such as terrorist activity, war and oil price movements.

2015 saw continued uneven global economic activity, leading to subdued global growth overall.

The economies where the Group has operations that were impacted in 2015 by estimated low growth include: Italy 0.8%¹, France 1.1%¹ and Canada 1.2%¹. Economic growth in the UK was 2.2%¹. Some of our other markets experienced stronger growth, for example c.3%² in Turkey, c.3.5%² in Poland, and 6.9%¹ in China.

The world economy is expected to grow c.3.4%¹ in 2016 and 3.6%¹ in 2017, slightly higher than the previous two years (growth was 3.1%¹ in 2015 and 3.3% in 2014). Advanced economies, led by the US and UK, are expected to continue their modest and uneven recovery, with the eurozone continuing to grow slowly. Growth in emerging markets is expected to be mixed, impacted by the slowdown in China, lower commodity prices and strains in some large emerging economies. Risks remain weighted to the downside.

Capital and credit market conditions

An important part of our business involves investing client, policyholder and shareholder funds across a wide range of financial investments, including equities, fixed income securities and properties. Our results are sensitive to volatility in the market value of these investments, either directly because we bear some or all of the investment risk, or indirectly because we earn management fees for investments managed on behalf of policyholders. Investment market conditions also affect the demand for a substantial portion of our life insurance products. In general, rising equity price levels have a positive effect on the demand for equity-linked products, such as unit trusts and unit-linked life insurance products, and conversely have a negative effect on the demand for products offering fixed or guaranteed minimum rates of return. Declining equity price levels tend to have the opposite effects.

With-profits business

With-profits products are mainly written in our UK & Ireland operating segment, with small funds in France and Singapore. These funds enable policyholders to participate in a large pool of diverse investments, therefore reducing their exposure to individual securities or asset classes. The investment pool is managed by us with returns to with-profits policyholders paid through bonuses which are added to the value of their policy. In order to provide an element of stability in the returns to policyholders, bonuses are designed to reduce policyholders' exposure to the volatility of investment returns over time and to provide an equitable share of surplus earned, depending on the investment and operating performance of the fund.

Shareholders also have a participating interest in the with-profits funds and any declared bonuses. Further details on the policyholder and shareholder participation in with-profits funds in the UK is set out in 'IFRS Financial Statements – Note 40 – Insurance Liabilities'.

¹ International Monetary Fund world economic outlook (January 2016)

² International Monetary Fund world economic outlook (October 2015)

Shareholders' profits arising on with-profits business under IFRS depend on the total bonuses declared to policyholders on an annual basis.

The level of bonuses declared to policyholders is influenced by the actual returns on investments and our expectation of future rates of return. Whilst bonuses can never be negative, a predicted sustained fall in equity markets could lead to a reduction in regular and final bonus rates, thereby reducing both policyholder returns and shareholders' profit under IFRS.

General insurance and health underwriting cycle

Our general insurance and health business is comprised of our property and casualty insurance and health insurance operations. In 2015, general insurance and health sales accounted for 39% of Group net written premiums (NWP) from continuing operations. Demand for general insurance is usually price-sensitive because of the limited degree of product differentiation inherent in the industry. As a result, the price of insuring property and casualty risks is subject to a cycle (called an underwriting cycle). In periods when the price of risk is high, the high profitability of selling insurance attracts new entrants and hence new capital into the market. Increased competition, however, drives prices down. Eventually the business becomes uneconomic and some industry players, suffering from losses, exit the market whilst others fail, resulting in lower capital invested within the market. Decreased competition leads to increasing prices, thereby repeating the cycle. Our various general insurance markets are not always at the same stage of the underwriting cycle.

During 2015, the UK personal motor market saw prices start to rise, following 3 years of premium reductions which had resulted from intense competition combined with regulatory changes designed to reduce the cost of claims. Challenging market conditions apply to other UK classes of business as insurers seek opportunities to gain share in segments with better margin, putting pressure on rates and extent of cover.

We expect the underwriting cycle to continue in the future but to be less pronounced than in the past. Capital markets are imposing financial discipline by being increasingly more demanding about performance from insurance companies before extending new capital. Such discipline, together with the increased concentration of competitors within the market, and the adoption of more advanced pricing methods, is expected to make the underwriting cycle less pronounced in the future.

Natural and man-made disasters

Our general insurance business results are affected by the amount of claims we need to pay out which, in turn, can be subject to significant volatility depending on many factors, including natural and man-made disasters. Natural disasters arise from adverse weather, earthquakes and other such natural phenomena. Man-made disasters include accidents and intentional events, such as acts of terrorism. These events are difficult to predict with a high degree of accuracy, although they generally occur infrequently at a material level. Our exposure to large disasters is somewhat reduced through our focus on personal lines business and small to medium sized commercial risks in the general insurance business. The Group cedes the majority of its worldwide catastrophe risk to third-party reinsurers.

In 2015 our UK general insurance business suffered losses due to severe flooding in December 2015 (see 'Market performance – United Kingdom and Ireland' below for further details).

Government policy and legislation

Changes in government policy and legislation are applicable to our business in many of the markets in which we operate, particularly in the UK and may affect the results of our operations. These include changes to the tax treatment of financial products and services, government pension arrangements and policies, the regulation of selling practices and the regulation of solvency standards. Such changes may affect our existing and future business by, for example, requiring us to change our range of products and services, causing customers to cancel existing policies, requiring us to redesign our technology, requiring us to retrain our staff or increase our tax liability. As a global business, we are exposed to various local political, regulatory and economic conditions, and business risks and challenges which may affect the demand for our products and services, the value of our investments portfolio and the credit quality of local counterparties. Our regulated business is subject to extensive regulatory supervision both in the UK and internationally. For details please refer to the section 'Shareholder information – Regulation'.

Exchange rate fluctuations

We publish our consolidated financial statements in pounds sterling. Due to our substantial non-UK operations, a significant portion of our operating earnings and net assets are denominated in currencies other than sterling, most notably the euro, Canadian dollar and the Polish złoty. As a consequence, our results are exposed to translation risk arising from fluctuations in the values of these currencies against sterling.

We generally do not hedge foreign currency revenues, as we retain local currency in each business to support business growth, to meet local and regulatory market requirements and to maintain sufficient assets in local currency to match local currency liabilities.

Movements in exchange rates may affect the value of consolidated shareholders' equity, which is expressed in sterling. Exchange differences taken to other comprehensive income arise on the translation of the net investment in foreign subsidiaries, associates and joint ventures. This aspect of foreign exchange risk is monitored centrally against limits that we have set to control the extent to which capital deployment and capital requirements are not aligned. We use currency borrowings and derivatives when necessary to keep currency exposures within these predetermined limits, and to hedge specific foreign exchange risks when appropriate; for example, in any acquisition or disposal activity.

During 2015, sterling strengthened against a number of currencies including the euro and the Canadian dollar. This resulted in a foreign currency loss in other comprehensive income of £378 million (2014: £396 million loss).

The impact of these fluctuations is limited to a significant degree, however, by the fact that revenues, expenses, assets and liabilities within our non-UK operations are generally denominated in local currencies.

Acquisitions and disposals

Over the last three years we have completed and announced a number of transactions, some of which have had a material impact on our results. These transactions reflect our strategic objectives of narrowing our focus to businesses where we can produce attractive returns and exit businesses which we do not consider central to our future growth.

Activity in 2015

On 10 April 2015, the Group completed the acquisition of 100% of the outstanding shares of Friends Life Group Limited ('Friends Life') through an all share exchange. 1,086,326,606 Group shares were issued for a consideration of £5,975 million. During 2015 the Group also completed other minor acquisitions, undertook a further sale of shares in our Turkey Life business, and sold some small reinsurance operations in Asia.

Further details can be found in the section 'IFRS Financial statements – note 3 – Subsidiaries'.

Activity in 2014

In May 2014, the Group restructured its existing business in Indonesia and reduced its ownership interest from 60% to 50% to form a 50-50 joint venture (Astra Aviva Life) between Aviva and PT Astra International Tbk.

On 27 June 2014, the Group completed the disposal of its 47% holding in Woori Aviva Life Insurance Co. Ltd in South Korea for consideration of £17 million.

On 30 June 2014, Finoa Srl, an Italian holding company in which the Group owns a 50% share, disposed of its entire interest in Eurovita Assicurazioni S.p.A for gross cash consideration of £36 million.

Also on 30 June 2014, the Group completed the sale of US equity manager River Road Asset Management, LLC ('River Road') to Affiliated Managers Group, Inc. for consideration of £75 million.

In October 2013, the Group completed the sale of its US Life subsidiary. In 2014, the Group paid a settlement of £20 million related to the purchase price adjustment. The settlement and the aggregate development of other provisions related to the discontinued operations in 2014 resulted in a net £58 million gain which has been presented as profit on disposal of discontinued operations.

On 13 November 2014 the Group and its joint venture partner Sabanci Holdings completed an initial public offering of a minority share of their Turkish life and pensions joint venture AvivaSA Emeklilik ve Hayat A.s ('Aviva SA'). The sale reduced the Group's holding in Aviva SA from 49.8% to 41.3% which continued to be recognised as a joint venture. The Group received cash proceeds of £40 million from the share sale resulting in a £23 million gain.

On 11 December 2014, the Group completed the disposal of its 50% holding in Spanish subsidiary CXG Aviva Corporacion Caixa Galicia de Seguros y Reaseguros, S.A. for cash consideration of £221 million.

On 18 December 2014, the Group completed the sale of its Turkish general insurance operations resulting in a £17 million loss on sale.

Further details can be found in the section 'IFRS Financial statements – note 3 – Subsidiaries'.

Basis of earnings by line of business

Our earnings originate from four main lines of business: our long-term insurance and savings business, which includes a range of life insurance and savings products; general insurance, which focuses on personal and commercial lines; health insurance and fund management, which manages funds on behalf of our long-term insurance and general insurance businesses, external institutions, pension funds and retail clients. These lines of business are present in our various operating segments to a greater or lesser extent.

In the UK, we have major long-term insurance and savings businesses and general insurance and health businesses; in Europe we have long-term insurance and savings businesses in all countries in which we operate, large general insurance businesses in France, Ireland and Italy, and smaller general

insurance operations in several other countries and health businesses in France and Ireland; in Canada we have a leading general insurance operation; in Asia we predominantly have long-term insurance and savings businesses. Our fund management businesses operate across Europe, Asia, North America and the UK.

Long-term insurance and savings business

For most of our life insurance businesses, such as those in the UK and France, operating earnings are generated principally from our in-force books of business. Our in-force books consist of business written in prior years and on which we continue to generate profits for shareholders. Under IFRS, certain costs incurred in acquiring new business must be expensed, thereby typically giving rise to a loss in the period of acquisition, although the degree of this effect will depend on the pricing structure of product offerings. In certain higher growth markets, current year sales have a more significant effect on current year operating earnings.

UK with-profits business

With-profits products are designed to pay policyholders smoother investment returns through a combination of regular bonuses and final bonuses. Shareholders' profit emerges from this business in direct proportion to policyholder bonuses as shareholders receive up to one-ninth of the value of each year's bonus declaration to policyholders. Accordingly, the smoothing inherent in the bonus declarations provides for relatively stable annual shareholders' profit from this business. The most significant factors that influence the determination of bonus rates are the return on the investments of the with-profits funds and expectations about future investment returns. Actual and expected investment returns are affected by, among other factors, the mix of investments supporting the with-profits fund, which in turn is influenced by the extent of the inherited estate within the with-profits fund.

The annual excess of premiums and investment return over operating expenses, benefit provisions and claims payments within our with-profits funds that are not distributed as bonuses and related shareholders' profit is transferred from the income statement to the unallocated divisible surplus. Conversely, if a shortfall arises one year, for example because of insufficient investment return, a transfer out of the unallocated divisible surplus finances bonus declarations and related shareholders' profit.

The unallocated divisible surplus consists of future (as yet undetermined) policyholder benefits, associated shareholders' profit and the inherited estate. The inherited estate serves as working capital for our with-profits funds. It affords the with-profits funds a degree of freedom to invest a substantial portion of the funds' assets in investments yielding higher returns than might otherwise be obtainable without being constrained by the need to demonstrate solvency.

Other participating business

Outside of the UK, most of our long-term operations write participating business. This is predominantly savings or pensions business, where the policyholders receive guaranteed minimum investment returns, and additional earnings are shared between policyholders and shareholders in accordance with local regulatory and policy conditions. This may also be referred to as 'with-profits' business.

Other long-term insurance and savings business

Non-profit business falls into two categories: investment type business and risk cover and annuity business.

Investment type business, which accounts for most of our non-profit business, includes predominantly unit-linked life and

pensions business where the risk of investing policy assets is borne entirely by the policyholder. Operating earnings arise from unit-linked business when fees charged to policyholders based on the value of the policy assets exceed costs of acquiring new business and administration costs. Shareholders bear the risk of investing shareholder capital in support of these operations.

Risk cover business includes term assurance, or term life insurance business. Annuity business includes immediate annuities purchased for individuals or on a bulk purchase basis for groups of people. The risk of investing policy assets in this business is borne entirely by the shareholders. Operating earnings arise when premiums, and investment return earned on assets supporting insurance liabilities and shareholder capital exceed claims and benefit costs, costs of acquiring new business and administration costs.

General insurance and health business

Operating earnings within our general insurance and health business arise when premiums and investment return earned on assets supporting insurance liabilities and shareholder capital exceed claims costs, costs of acquiring new business and administration costs.

Fund management

Fund management operating earnings consist of fees earned for managing policyholder funds and external retail and institutional funds on behalf of clients, net of operating expenses.

Arrangements for the management of proprietary funds are conducted on an arm's length basis between our fund management and insurance businesses. Such arrangements exist mainly in the UK, France, Ireland and Canada. Proprietary insurance funds in most other countries are externally managed.

Other operations

Other operations include our operations other than insurance and fund management, including Group Centre expenses.

Financial highlights

The following analysis is based on our consolidated financial statements and should be read in conjunction with those statements. In order to fully explain the performance of our business, we discuss and analyse the results of our business in terms of certain financial measures which are based on 'non-GAAP measures' and which we use for internal monitoring purposes. We review these in addition to GAAP measures, such as profit before and after tax.

The remainder of the financial performance section focuses on the activity of the Group's continuing operations.

Non-GAAP measures

Sales

The total sales of the Group consist of long-term insurance and savings new business sales and general insurance and health net written premiums (excluding long-term health business).

Long-term insurance and savings new business sales

Sales of the long-term insurance and savings business consist of:

- Insurance and participating investment business
 - This includes traditional life insurance, long-term health, annuity business and with-profits business.
 - There is an element of insurance risk borne by the Group therefore, under IFRS, these are reported within net written premiums.
- Non-participating investment business
 - This includes unit-linked business and pensions business.
 - The amounts received for this business are treated as deposits under IFRS and an investment management fee is earned on the funds deposited.

– For new business reporting in the UK, companies continue to report non-participating investment business within their 'covered business' sales, in line with the historic treatment under UK GAAP.

- Non-covered business or investment sales:
 - These include retail sales of mutual fund type products.
 - There is no insurance risk borne by the Group therefore, under IFRS, these are treated as deposits and an investment management fee income is earned on the funds deposited.

Sales is a non-GAAP financial measure and financial performance indicator that we report to our key decision makers in the businesses in order to help assess the value of new business from our customers and compare performance across the markets in which we operate.

For long-term insurance and savings new business, we define sales as the sum of the present value of new business premiums (PVNBP) of life, pension and savings products and investment sales.

PVNBP is equal to total single premium sales received in the year plus the discounted value of annual premiums expected to be received over the terms of newly inceptioned contracts and is calculated as at the date of sale. We adjust annual premiums to reflect the expected stream of business coming from this new business over future years. In the view of management, this performance measure better recognises the relative economic value of regular premium contracts compared with single premium contracts. PVNBP is a European insurance industry standard measure of new business.

For our long-term insurance and savings business, we believe that sales is an important measure of underlying performance and a better measure for new business than IFRS net written premiums. We consider that the use of sales over IFRS net written premiums provides a:

- Consistent treatment of long-term insurance and investment contracts: IFRS net written premiums do not include deposits received on non-participating investment contracts. Long-term insurance contracts and participating investment contracts both contain a deposit component, which are included in IFRS net written premiums, in addition to an insurance risk component. Therefore, to assess the revenue generated on a consistent basis between types of contracts, we evaluate the present value of new business sales of long-term insurance and investment products on the basis of total premiums and deposits collected, including sales of mutual fund type products such as unit trusts and open ended investment companies (OEICs).
- Better reflection of the relative economic value of regular premium contracts compared to single premium contracts: Sales recognise the economic value of all expected contractual cash flows for regular premium contracts in the year of inception, whereas IFRS net written premiums only recognise premiums received in the year.
- Better reflection of current management actions in the year: IFRS net written premiums include premiums on regular premium contracts which inception in prior years, and therefore reflect the actions of management in prior years.

In comparison with IFRS net written premiums, sales do not include premiums received from contracts in-force at the beginning of the year, even though these are a source of IFRS revenue, as these have already been recognised as sales in the year of inception of the contract. In addition, unlike IFRS net written premiums, sales do not reflect the effect on premiums of any increase or decrease in persistency of regular premium contracts compared with what was assumed at the inception of the contract.

PVNBP is not a substitute for net written premiums as determined in accordance with IFRS. Our definition of sales may differ from similar measures used by other companies, and may change over time.

General insurance and health sales

General insurance and health (excluding long-term health business) sales are defined as IFRS net written premiums², which are premiums written during the year net of amounts reinsured with third parties. For sales reporting, we use the GAAP measure for this business.

The table below presents our consolidated sales for the three years ended 31 December 2015, 2014 and 2013 for our continuing operations, as well as the reconciliation of sales to net written premiums in IFRS.

Continuing operations	2015 £m	2014 £m	2013 £m
Long-term insurance, savings and health new business sales	33,122	27,099	26,012
General insurance and health sales (excluding long-term health)	7,510	7,760	8,173
Total sales	40,632	34,859	34,185
Less: Effect of capitalisation factor on regular premium long-term business	(10,357)	(7,314)	(6,807)
Share of long-term new business sales from JVs and associates	(427)	(473)	(660)
Annualisation impact of regular premium long-term business	(451)	(214)	(203)
Deposits taken on non-participating investment contracts and equity release contracts	(6,560)	(5,641)	(4,389)
Retail sales of mutual fund type products (investment sales)	(6,437)	(4,977)	(4,875)
Add: IFRS gross written premiums from existing long-term business	4,876	4,787	4,143
Less: long-term insurance and savings business premiums ceded to reinsurers	(1,529)	(971)	(905)
Less: outward reinsurance premium relating to general insurance business ¹	(712)	—	—
Total IFRS net written premiums	19,035	20,056	20,489
Analysed as:			
Long-term insurance and savings net written premiums	11,658	11,756	11,769
General insurance and health net written premiums	7,377	8,300	8,720
	19,035	20,056	20,489

¹ 2015 represents a reinsurance premium ceded of £712 million relating to an outwards reinsurance contract completed by the UK General Insurance business.

Effect of capitalisation factor on regular premium long-term business

PVNBP is derived from the single and regular premiums of the products sold during the financial period and is expressed at the point of sale. The PVNBP calculation is equal to total single premium sales received in the year plus the discounted value of regular premiums expected to be received over the term of the new contracts. The discounted value of regular premiums is calculated using the market consistent embedded value methodology proposed by the CFO Forum Principles.

The discounted value reflects the expected income streams over the life of the contract, adjusted for expected levels of persistency, discounted back to present value. The discounted value can also be expressed as annualised regular premiums multiplied by a weighted average capitalisation factor (WACF). The WACF varies over time depending on the mix of new products sold, the average outstanding term of the new contracts and the projection assumptions.

Share of long-term new business sales from joint ventures and associates

Total long-term new business sales include our share of sales from joint ventures and associates. Under IFRS reporting, premiums from these sales are excluded from our consolidated accounts, with only our share of profits or losses

from such businesses being brought into the income statement separately.

Annualisation impact of regular premium long-term business

As noted above, the calculation of PVNBP includes annualised regular premiums. The impact of this annualisation is removed in order to reconcile the non-GAAP new business sales to IFRS premiums and will vary depending on the volume of regular premium sales during the year.

Deposits taken on non-participating investment contracts and equity release contracts

Under IFRS, non-participating investment contracts are recognised in the Statement of Financial Position by recording the cash received as a deposit and an associated liability and are not recorded as premiums received in the IFRS income statement. Only the margin earned is recognised in the IFRS income statement.

Retail sales of mutual fund type products (investment sales)

Investment sales included in the total sales number represent the cash inflows received from customers to invest in mutual fund type products such as unit trusts and OEICs. We earn fees on the investment and management of these funds which are recorded separately in the IFRS income statement as 'fees and commissions received' and are not included in statutory premiums.

IFRS gross written premiums from existing long-term business

The non-GAAP measure of long-term and savings sales focuses on new business written in the year under review whilst the IFRS income statement includes premiums received from all business, both new and existing.

Consolidated results of operations

The table below presents our consolidated sales from continuing operations for the three years ended 31 December 2015, 2014 and 2013.

Continuing operations	2015 £m	2014 £m	2013 £m
United Kingdom & Ireland Life	16,797	12,444	12,393
United Kingdom & Ireland GI ²	4,051	4,028	4,200
France	5,835	5,739	5,603
Poland	514	630	555
Italy, Spain and Other	3,559	4,639	4,430
Canada	1,992	2,104	2,250
Asia	2,879	2,162	1,980
Aviva Investors	5,005	3,106	2,741
Other Group activities	—	7	33
Total sales²	40,632	34,859	34,185

² 2015 excludes a reinsurance premium ceded of £712 million relating to an outwards reinsurance contract completed by the UK General Insurance business.

Sales (from continuing operations)

Year ended 31 December 2015

Total sales from continuing operations increased to £40,632 million (2014: £34,859 million) for the reasons set out in the market performance sections below.

Year ended 31 December 2014

Total sales from continuing operations increased to £34,859 million (2013: £34,185 million) for the reasons set out in the market performance sections below.

Adjusted operating profit

We report to our chief operating decision makers in the businesses the results of our operating segments using a non-GAAP financial performance measure we refer to as 'adjusted

operating profit'. Management has changed the definition of adjusted operating profit during 2015 to exclude amortisation and impairment of acquired value of in-force business and comparatives have been restated accordingly. We now define our segment adjusted operating profit as profit before income taxes and non-controlling interests in earnings, excluding the following items: investment return variances and economic assumption changes on long-term and non-long-term business, impairment of goodwill, associates, and joint ventures and other amounts expensed, amortisation and impairment of acquired value of in-force business, amortisation and impairment of other intangibles, profit or loss on the disposal and remeasurement of subsidiaries, joint ventures and associates and integration and restructuring costs and other items.

Whilst these excluded items are significant components in understanding and assessing our consolidated financial performance, we believe that the presentation of adjusted operating profit enhances the understanding and comparability of the underlying performance of our segments by highlighting net income attributable to on-going segment operations.

Adjusted operating profit for long-term insurance and savings business is based on expected investment returns on financial investments backing shareholder and policyholder funds over the period, with consistent allowance for the corresponding expected movements in liabilities. The expected rate of return is determined using consistent assumptions between operations, having regard to local economic and market forecasts of investment return and asset classification. Where assets are classified as fair value through profit and loss, expected return is based on the same assumptions used under embedded value principles for fixed income securities, equities and properties. Where fixed interest securities are classified as available for sale the expected return comprises interest or dividend payments and amortisation of the premium or discount at purchase. 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 as non-operating items.

Adjusted operating profit for non-long-term insurance business is based on expected investment returns on financial investments backing shareholder funds over the period. Expected investment returns are calculated for equities and properties by multiplying the opening market value of the investments, adjusted for sales and purchases during the year, by the longer-term rate of return. This rate of return is the same as that applied for the long-term business expected returns. The longer-term return for other investments is the actual income receivable for the period. Changes due to market value movement and interest rate changes, which give rise to variances between actual and expected investment returns, are disclosed as non-operating items. The impact of changes in the discount rate applied to claims provisions is also treated outside adjusted operating profit.

Adjusted operating profit is not a substitute for profit before income taxes and non-controlling interests in earnings or net income as determined in accordance with IFRS. Our definition of adjusted operating profit may differ from similar measures used by other companies, and may change over time.

The table below presents our consolidated adjusted operating profit for the three years ended 31 December 2015, 2014 and 2013, as well as the reconciliation of adjusted operating profit to profit before tax attributable to shareholders' profits under IFRS.

	2015 £m	Restated ¹ 2014 £m	Restated ¹ 2013 £m
Continuing operations			
United Kingdom & Ireland Life	1,424	1,062	1,139
United Kingdom & Ireland GI	414	492	465
France	449	470	467
Poland	141	195	187
Italy, Spain and Other	268	304	325
Canada	214	191	246
Asia	223	78	87
Aviva Investors	106	63	(26)
Other Group activities	(574)	(642)	(793)
Adjusted operating profit before tax attributable to shareholders' profit	2,665	2,213	2,097
Integration and restructuring costs	(379)	(140)	(363)
Adjusted operating profit before tax after integration and restructuring costs	2,286	2,073	1,734
Adjusted for the following:			
Investment return variances and economic assumption changes on long-term business	14	72	(49)
Short-term fluctuation in return on investments on non long-term business	(84)	261	(336)
Economic assumption changes on general insurance and health business	(100)	(145)	33
Impairment of goodwill, associates and joint ventures and other amounts expensed	(22)	(24)	(77)
Amortisation and impairment of intangibles	(155)	(90)	(91)
Amortisation and impairment of acquired value of in-force business	(498)	(40)	(48)
Profit on the disposal and re-measurement of subsidiaries and associates	2	174	115
Other	(53)	—	—
Non-operating items before tax	(896)	208	(453)
Profit before tax attributable to shareholders' profits – continuing operations	1,390	2,281	1,281
Profit before tax attributable to shareholders' profits – discontinued operations	—	58	1,538
Profit before tax attributable to shareholders' profits	1,390	2,339	2,819

¹ Adjusted operating profit has been restated to exclude amortisation and impairment of acquired value of in-force business, which is now shown as a non-operating item. There is no impact on the result or the total equity for any period presented as a result of this restatement.

Adjusted operating profit before tax (from continuing operations)

Year ended 31 December 2015

Adjusted operating profit before tax increased by £452 million to £2,665 million (2014: £2,213 million¹) for the reasons set out in the market performance section below.

Year ended 31 December 2014

Adjusted operating profit before tax increased by 6% to £2,213 million (2013: £2,097 million¹) for the reasons set out in the market performance section below.

Adjusting items (from continuing operations)

Year ended 31 December 2015

Integration and restructuring costs from continuing operations were £379 million (2014: £140 million), principally driven by transaction and integration activities in relation to the acquisition of Friends Life. It also includes expenses associated with the Solvency II programme of £82 million (2014: £94 million).

Life investment variances were £14 million positive (2014: £72 million positive) mainly driven by realised bond gains and equity outperformance in France and positive variances in Asia, partially offset by widening credit spreads in Italy. The investment variance in the UK was broadly neutral.

Short-term fluctuations on non-long term business were £84 million negative (2014: £261 million positive). The adverse movement in short-term fluctuations during 2015 compared with 2014 is mainly due to an increase in risk-free rates reducing fixed income security market values.

Economic assumption changes of £100 million adverse (2014: £145 million adverse) arise as a result of an increase in the expected future inflation rates used to calculate reserves for periodic payment orders (PPOs), and a decrease in the swap rates used to discount latent claims reserves and PPOs.

The total charge for impairment of goodwill, associates and joint ventures and other amounts expensed for the year was £22 million (2014: £24 million).

Amortisation and impairment of intangibles was a charge of £155 million (2014: £90 million charge), and amortisation and impairment of acquired value of in-force business (AVIF) was a charge of £498 million (2014: £40 million). The higher charges during 2015 were driven by amortisation of the AVIF and intangibles arising on the acquisition of Friends Life.

Profit on the disposal and remeasurement of subsidiaries, joint ventures and associates was £2 million (2014: £174 million). See 'IFRS Financial Statements – note 3 – Subsidiaries' for further details.

Other items, a charge of £53 million, represents a day one loss upon the completion of an outwards reinsurance contract by the UK General Insurance business, which provides significant protection against claims volatility from mesothelioma, industrial deafness and other long tail risks.

Further details on significant movements are outlined in the market performance sections below.

Year ended 31 December 2014

Integration and restructuring costs from continuing operations were £140 million (2013: £363 million) and mainly included expenses associated with the Solvency II programme. Integration and restructuring costs reduced by 61%, driven by a significant reduction in transformation spend.

Life investment variances were £72 million positive (2013: £49 million negative) mainly driven by lower risk-free rates and narrowing credit spreads on government and corporate bonds in Italy and Spain. Adverse variances in the UK were due to the adverse impact of falling reinvestment yields net of improved underlying property values on commercial mortgages partly offset by a change to the model used to value certain equity release assets and the consequential impact on the liabilities that they back.

Short-term fluctuations on non-long-term business were £261 million positive (2013: £336 million negative). The favourable movement in short-term fluctuations during 2014 compared with 2013 is mainly due to a decrease in risk-free rates increasing fixed income security market values and other market movements impacting Group centre investments and the centre hedging programme.

Economic assumption changes of £145 million adverse (2013: £33 million favourable) arose mainly as a result of a

decrease in the swap rates used to discount latent claims reserves and periodic payment orders.

The total charge for impairment of goodwill, joint ventures and associates for the year was £24 million (2013: £77 million).

Profit on disposal and remeasurement of subsidiaries, joint ventures and associates was £174 million (2013: £115 million). See 'IFRS Financial Statements – note 3 – Subsidiaries' for further details.

Continuing operations	2015 £m	2014 £m	2013 £m
Income			
Gross written premiums	21,925	21,670	22,035
Premiums ceded to reinsurers	(2,890)	(1,614)	(1,546)
Premiums written net of reinsurance	19,035	20,056	20,489
Net change in provision for unearned premiums	(111)	1	134
Net earned premiums	18,924	20,057	20,623
Fee and commission income	1,797	1,230	1,279
Net investment income	2,825	21,889	12,509
Share of profit of joint ventures and associates	180	147	120
Profit on the disposal and re-measurement of subsidiaries, joint ventures and associates	2	174	115
	23,728	43,497	34,646
Expenses			
Claims and benefits paid, net of recoveries from reinsurers	(21,985)	(19,474)	(22,093)
Change in insurance liabilities, net of reinsurance	6,681	(5,570)	2,493
Change in investment contract provisions	(1,487)	(6,518)	(7,050)
Change in unallocated divisible surplus	984	(3,364)	280
Fee and commission expense	(3,347)	(3,389)	(3,975)
Other expenses	(2,784)	(1,979)	(2,220)
Finance costs	(618)	(540)	(609)
	(22,556)	(40,834)	(33,174)
Profit before tax	1,172	2,663	1,472
Tax attributable to policyholders' returns	218	(382)	(191)
Profit before tax attributable to shareholders' profits	1,390	2,281	1,281

Net Written Premiums (from continuing operations)

Year ended 31 December 2015

Net written premiums for continuing operations were £19,035 million (2014: £20,056 million) which includes a reinsurance premium ceded of £712 million relating to an outwards reinsurance contract completed by the UK General Insurance business. Excluding this, net written premiums decreased by £309 million, or 2%, to £19,747 million (2014: £20,056 million).

Long-term insurance and savings premiums decreased by £98 million, or 1% to £11,658 million (2014: £11,756 million). Higher sales in France and the UK (mainly due to the contribution from Friends Life) were more than offset by lower premiums in Italy and Spain (mainly due to the effect of disposals in the prior period and adverse foreign exchange), and Ireland.

General insurance and health premiums were £7,377 million (2014: £8,300 million). Excluding the outwards reinsurance premium described above, premiums decreased by £211 million, or 3%, to £8,089 million (2014: £8,300 million). Higher sales in the UK were more than offset by lower premiums in Europe and Canada mainly due to adverse foreign exchange.

Further details on significant movements are outlined in the market performance sections below.

Year ended 31 December 2014

Net written premiums for continuing operations decreased by £433 million, or 2%, to £20,056 million (2013: £20,489 million). Long-term insurance and savings remained broadly flat at £11,756 million (2013: £11,769 million) with lower sales in the UK and Spain (mainly due to the disposal of Aseval in 2013)

offset by higher sales in France, Poland, Italy and Asia. General insurance and health premiums decreased by £420 million, or 5%, to £8,300 million (2013: £8,720 million), mainly reflecting lower sales in the UK and Ireland.

Net investment income (from continuing operations)

Year ended 31 December 2015

Net investment income from continuing operations was £2,825 million (2014: £21,889 million). Compared to 2014, unrealised gains were significantly lower in 2015 reflecting market movements, including lower fixed income security market values arising from higher risk-free interest rates.

Year ended 31 December 2014

Net investment income from continuing operations was £21,889 million (2013: £12,509 million). Compared to 2013, realised and unrealised gains were higher in 2014 primarily as a result of higher fixed income security market values due to lower interest rates.

Other income (from continuing operations)

Year ended 31 December 2015

Other income, which consists of fee and commission income, share of profit after tax of joint ventures and associates, and profit on disposal and remeasurement of subsidiaries, joint ventures and associates, increased by £428 million, or 28%, to £1,979 million in 2015 (2014: £1,551 million).

Fee and commission income increased by £567 million, or 46% to £1,797 million (2014: £1,230 million), mainly due to the contribution from the acquired Friends Life businesses.

Profit on disposal and remeasurement of subsidiaries, joint ventures and associates was £2 million (2014: £174 million profit) and the share of profits from joint ventures and associates was £180 million (2014: £147 million).

Year ended 31 December 2014

Other income, which consists of fee and commission income, share of profit/(loss) after tax of joint ventures and associates, and profit/(loss) on disposal and remeasurement of subsidiaries, joint ventures and associates, increased by £37 million, or 2%, to £1,551 million in 2014 (2013: £1,514 million). This was mainly due to profits on disposal and remeasurement of subsidiaries of £174 million (2013: £115 million profit), including profits on disposal of CxG in Spain (£132 million) and River Road (£35 million) in the United States.

Fee and commission income was broadly stable and the share of profits from joint ventures and associates was £147 million (2013: £120 million).

Expenses (from continuing operations)

Year ended 31 December 2015

Claims and benefits paid net of reinsurance in 2015 increased by £2,511 million, or 13% to £21,985 million (2014: £19,474 million). This was mainly due to higher claims payments in UK Life following the acquisition of Friends Life, partly offset by lower claims in our European life businesses due in part to the weakening of the euro during 2015. General insurance and health claims decreased by £437 million, or 8% to £5,176 million (2014: £5,613 million) mainly due to lower claims in UK & Ireland GI.

Change in insurance liabilities in 2015 was a credit of £6,681 million (2014: £5,570 million charge), resulting mainly from changes in economic and non-economic assumptions on long-term business.

The change in investment contract provisions was a charge of £1,487 million (2014: £6,518 million charge) as a result of investment market conditions causing an increase in contract liabilities.

The change in unallocated divisible surplus ('UDS') was a credit of £984 million (2014: £3,364 million charge) primarily driven by adverse market movements in Europe as a result of higher interest rates and corporate bond yields during 2015.

Fee and commission expense, other expenses and finance costs increased by £841 million, or 14% to £6,749 million (2014: £5,908 million) mainly as a result of increased amortisation of acquired value of in-force business following the acquisition of Friends Life, and higher integration and restructuring costs principally driven by transaction and integration activities in relation to the Friends Life acquisition. See 'IFRS Financial Statements – note 6 – Details of expenses' for further details.

Year ended 31 December 2014

Claims and benefits paid net of reinsurance in 2014 decreased by £2,619 million, or 12% to £19,474 million (2013: £22,093 million) mainly due to lower claims payments in our life businesses and the strengthening of sterling during 2014. In particular there were lower bond and pensions claims in the UK compared with prior year.

Change in insurance liabilities in 2014 was a charge of £5,570 million (2013: £2,493 million credit), resulting from changes in economic and non-economic assumptions.

The change in investment contract provisions was a charge of £6,518 million (2013: £7,050 million charge) as a result of improved investment market conditions causing an increase in contract liabilities.

The change in unallocated divisible surplus ('UDS') was a charge of £3,364 million (2013: £280 million credit) primarily driven by Italy and France as a result of lower corporate and government bond yields during 2014.

Fee and commission expense, other expenses and finance costs decreased by £896 million to £5,908 million (2013: £6,804 million) mainly as a result of the Group's cost savings programme, lower fee and commission expenses primarily in the UK and lower finance costs due to the repayment of debt during the year. See 'IFRS Financial Statements – note 6 – Details of expenses' for further details.

Profit before tax attributable to shareholders' profits (from continuing operations)

Year ended 31 December 2015

Profit before tax attributable to shareholders was £1,390 million (2014: £2,281 million) mainly due to the reasons set out in the sections 'net written premiums', 'net investment income', 'other income' and 'expenses' above.

It also includes a credit of £218 million (2014: £382 million charge) in relation to tax attributable to policyholders' returns. See 'IFRS Financial Statements – note 13 – Tax' for further details.

Year ended 31 December 2014

Profit before tax attributable to shareholders was £2,281 million (2013: £1,281 million). The increase was primarily due to lower expenses and positive investment variances.

Market performance

United Kingdom and Ireland

UK & Ireland life

The table below presents sales, net written premiums, adjusted operating profit and profit before tax attributable to shareholders' profits under IFRS from our UK and Ireland long-term businesses for the three years ended 31 December 2015, 2014 and 2013.

	2015 £m	Restated ¹ 2014 £m	Restated ¹ 2013 £m
Pensions	8,950	5,803	5,476
Annuities	2,945	1,948	2,327
Bonds	139	174	183
Protection	1,586	1,103	992
Equity release	699	696	401
Others	1,917	2,285	2,545
United Kingdom	16,236	12,009	11,924
Ireland	561	435	469
Long-term insurance, savings and health sales	16,797	12,444	12,393
IFRS net written premiums	4,042	3,515	4,228
Adjusted operating profit before tax			
United Kingdom	1,408	1,025	941
Ireland	24	24	26
Life business	1,432	1,049	967
General insurance and health – UK health	21	11	18
Fund management	—	6	23
Other operations	(29)	(4)	131
Total adjusted operating profit before tax	1,424	1,062	1,139
Profit before tax attributable to shareholders' profits	717	980	717

¹ Adjusted operating profit has been restated to exclude amortisation and impairment of acquired value of in-force business, which is now shown as a non-operating item.

Year ended 31 December 2015

On a PVNBP basis, sales in the UK long-term insurance and savings business increased by £4,227 million to £16,236 million (2014: £12,009 million). This included a contribution from Friends Life of £4,477 million following the acquisition in April 2015. Excluding Friends Life, UK long-term insurance and savings business decreased by £250 million, or 2%, to £11,759 million (2014: £12,009 million). Within this, growth in sales of pensions and bulk purchase annuities was more than offset by lower sales of individual annuities following the pension reforms announced in March 2014 together with the impact of the transfer of the retail fund management business to Aviva Investors in 2014.

In Ireland, sales increased 29% to £561 million (2014: £435 million) mainly reflecting higher sales of pensions and annuities.

UK and Ireland IFRS net written premiums were up 15% to £4,042 million (2014: £3,515 million) mainly due to the post acquisition contribution from Friends Life.

Overall UK & Ireland Life operating profit increased to £1,432 million (2014 (restated): £1,049 million). UK life operating profit was £1,408 million (2014 (restated): £1,025 million), including a contribution of £358 million from Friends Life following its acquisition in April 2015. Excluding Friends Life, UK profits increased 2% to £1,050 million (2014 (restated): £1,025 million), benefitting from lower operating expenses as well as improved new business profitability. In Ireland, adjusted operating profit was stable at £24 million (2014 (restated): £24 million).

In UK Health, adjusted operating profit was up £10 million to £21 million (2014: £11 million) due to lower expenses and the benefit of pricing actions.

Adjusted operating profit from other operations resulted in a £29 million loss (2014: £4 million loss) reflecting continued investment into the UK Life Platform business.

IFRS profit before tax attributable to shareholders' profits decreased to £717 million (2014: £980 million). This includes higher adjusted operating profits which increased for the reasons set out above. It also includes a higher amortisation of acquired value of in-force business charge of £350 million (2014: £10 million charge) following the acquisition of Friends Life, higher integration and restructuring costs of £215 million (2014: £28 million) and a higher amortisation of intangibles charge of £84 million (2014: £31 million charge).

Year ended 31 December 2014

On a PVNBP basis, sales in the UK long-term insurance and savings business increased by £85 million, or 1%, to £12,009 million (2013: £11,924 million). Volumes in the UK remained broadly flat year on year. There has been a significant decrease in individual annuities. This is primarily as a result of the changes announced by the UK Chancellor of the Exchequer in the Budget in March 2014 which are intended to give increased flexibility as to how customers can access their pension from April 2015. These changes are having a significant impact across the market and have seen many customers defer their decision regarding their pension, exacerbating the general market decline for individual annuities. This decrease has been partly offset by increases in bulk purchase annuities and equity release sales.

Pension sales were up 6% to £5,803 million (2013: £5,476 million). Within this, sales of group pensions decreased to £3,679 million (2013: £3,809 million) whilst sales of individual pensions were £2,124 million (2013: £1,667 million) with growth in our platform (self-invested personal pension) business more than offset by lower sales of other individual pensions products.

Sales of annuities were down 16% to £1,948 million (2013: £2,327 million) due to the reasons outlined above. Protection sales were up 11% to £1,103 million (2013: £992 million), reflecting higher sales of individual group business. Bond sales were down 5% to £174 million (2013: £183 million). Equity release sales were 74% higher at £696 million (2013: £401 million) due to higher sales as a result of a strong market. Other sales (which include investment sales) decreased 10% to £2,285 million (2013: £2,545 million), mainly as a result of the UK Retail Fund Management business being transferred from UK Life to Aviva Investors in May 2014. This was partly offset by an increase in the UK Platform business driven by new business volumes.

In Ireland, sales fell 7% to £435 million (2013: £469 million).

IFRS net written premiums were down 17% to £3,515 million (2013: £4,228 million) primarily due to the impact of lower individual annuities sales.

Life business adjusted operating profit before tax increased by 8% to £1,049 million (2013 (restated): £967 million). Within this, UK adjusted operating profit increased by 9% to £1,025 million (2013 (restated): £941 million). 2014 results saw a net additional benefit to profit from non-recurring items of £282 million (2013: £116 million), mainly from longevity assumption changes and expense reserve releases, which are partially offset by increased DAC amortisation charges on pension business. Excluding these items, profits have decreased 10%, with the benefits of cost savings offset by the impact of reduced annuity trading and lower expected returns as a result of de-risking activity. Ireland adjusted operating profit was down to £24 million (2013 (restated): £26 million) as we continue to make progress in turning the business around.

Adjusted operating profit from other operations resulted in a £4 million loss (2013: £131 million profit which included a £145

million one-off gain from plan amendments to the Ireland pension scheme).

IFRS profit before tax increased to £980 million (2013: £717 million). This includes adjusted operating profits of £1,062 million (2013 (restated): £1,139 million). The increase in profit before tax was due to lower negative economic variances of £13 million (2013: £414 million negative). Adverse variances in the UK were due to the adverse impact of falling reinvestment yields net of improved underlying property values on commercial mortgages partly offset by a change to the model used to value certain equity release assets and the consequential impact on the liabilities that they back.

UK & Ireland general insurance and health

The table below presents sales, net written premiums, adjusted operating profit and profit before tax attributable to shareholders' profits under IFRS from our UK and Ireland general insurance and health businesses for the three years ended 31 December 2015, 2014 and 2013.

	2015 £m	2014 £m	2013 £m
Total Sales¹	4,051	4,028	4,200
IFRS net written premiums			
United Kingdom	2,972	3,663	3,823
Ireland	367	365	377
	3,339	4,028	4,200
Adjusted operating profit before tax			
United Kingdom	368	455	431
Ireland	41	33	40
General insurance and health business	409	488	471
Other operations	5	4	(6)
Total adjusted operating profit before tax	414	492	465
Profit before tax attributable to shareholders' profits	140	406	387

¹ 2015 excludes a reinsurance premium ceded of £712 million relating to an outwards reinsurance contract.

Year end 31 December 2015

UK & Ireland general insurance and health NWP decreased to £3,339 million (2014: £4,028 million), which includes a reinsurance premium ceded of £712 million relating to an outwards reinsurance contract completed in the year by the UK business. Excluding this, net written premiums increased by £23 million, or 1%, to £4,051 million (2014: £4,028 million). In the UK, general insurance NWP increased 1% to £3,684 million (2014: £3,663 million) primarily driven by growth in personal motor, partly offset by selected exits in personal property lines. Ireland general insurance and health NWP was stable at £367 million (2014: £365 million).

Adjusted operating profit before tax from general insurance and health business was down 16% to £409 million (2014: £488 million).

In the UK, adjusted operating profit was £368 million (2014: £455 million). Within this, longer term investment return reduced by £45 million to £215 million (2014: £260 million) mainly as a result of the lower intercompany loan balance (which is neutral at an overall Group level). The underwriting result was £154 million (2014: £199 million) with the adverse weather experience due to the December floods in the UK being partly offset by the benefit of expense savings and more favourable prior year claims development.

In Ireland, general insurance and health adjusted operating profit increased to £41 million (2014: £33 million) mainly driven by favourable weather experience partly offset by lower prior year claims reserve releases.

IFRS profit before tax has decreased to £140 million (2014: £406 million). This included adjusted operating profits of £414 million (2014: £492 million), which decreased for the reasons set out above.

The remaining decrease in IFRS profit before tax attributable to shareholders' profits is due to higher integration and restructuring costs of £26 million (2014: £11 million), adverse short-term investment variances of £84 million (2014: £82 million positive), lower adverse economic assumption changes of £98 million (2014: £145 million adverse) and the day one loss arising from the completion of the outwards reinsurance contract of £53 million.

Year end 31 December 2014

UK & Ireland general insurance and health NWP decreased by 4% to £4,028 million (2013: £4,200 million). Within this, UK general insurance sales fell 4% to £3,663 million (2013: £3,823 million); personal lines NWP was down 5% to £2,152 million (2013: £2,276 million) reflecting underwriting discipline in a soft market, and commercial lines NWP was down 2% to £1,511 million (2013: £1,547 million) reflecting management actions to focus on profitability. Ireland general insurance and health NWP was £365 million (2013: £377 million).

Adjusted operating profit before tax from general insurance and health business was up 4% to £488 million (2013: £471 million). An improvement in the underwriting result to £204 million (2013: £123 million), driven by expense savings and favourable prior year claims development, was partly offset by the fact that 2013 benefitted from benign large loss experience and lower interest income on the internal loan (see 'Other Group Activities' below).

IFRS profit before tax increased to £406 million (2013: £387 million). This included adjusted operating profits of £492 million (2013: £465 million), which increased for the reasons set out above.

The increase in IFRS profit before tax is mainly due to lower integration and restructuring costs of £11 million (2013: £24 million). The impact of positive short-term fluctuations in investments was £82 million (2013: £74 million negative) and in 2014 this mainly arose due to a decrease in risk-free rates increasing fixed income security market values. This was offset by an adverse impact from a decrease in the swap rate used to discount latent claims reserves and periodic payment orders.

France

The table below presents sales, net written premiums, adjusted operating profit and profit before tax attributable to shareholders' profits under IFRS from our operations in France for the three years ended 31 December 2015, 2014 and 2013.

	2015 £m	Restated ¹ 2014 £m	Restated ¹ 2013 £m
Sales			
Long-term insurance and savings business	4,821	4,633	4,498
General insurance and health net written premiums	1,014	1,106	1,105
Total sales	5,835	5,739	5,603
IFRS net written premiums	5,702	5,684	5,565
Adjusted operating profit before tax			
Long-term insurance and savings business	395	412	404
General insurance and health	71	78	84
Other operations	(17)	(20)	(21)
Total adjusted operating profit before tax	449	470	467
Profit before tax attributable to shareholders' profits	420	462	457

¹ Adjusted operating profit has been restated to exclude amortisation and impairment of acquired value of in-force business, which is now shown as a non-operating item.

Year ended 31 December 2015

The weakening of the euro affected all metrics from a Group perspective.

On a PVNBP basis, long-term insurance and savings business sales in France increased by £188 million to £4,821 million (2014: £4,633 million), with higher sales of unit-linked, with-profit and protection products. General insurance and health sales decreased by £92 million to £1,014 million (2014: £1,106 million), but increased by 2% on a constant currency basis, with increases across both personal and commercial lines of business. IFRS net written premiums remained stable at £5,702 million (2014: £5,684 million), but were up 12% on a constant currency basis.

Adjusted operating profit before tax was 4% lower at £449 million (2014 (restated): £470 million) but improved by 6% on a constant currency basis. Within this, life adjusted operating profit decreased by 4% to £395 million (2014 (restated): £412 million) but improved by 7% on a constant currency basis, mainly from portfolio growth and a change in mix towards unit-linked products and protection products, together with strong results from UFF, our majority owned broker business. General insurance and health adjusted operating profit was lower at £71 million (2014: £78 million), but up 2% on a constant currency basis due to better weather experience compared with the prior year, partly offset by higher large losses and lower investment returns.

Profit before tax attributable to shareholders' profits decreased to £420 million (2014: £462 million), which includes the lower adjusted operating profits discussed above, lower favourable investment variances of £15 million (2014: £41 million favourable) and higher integration and restructuring costs of £19 million (2014: £15 million) partially offset by a lower amortisation and impairment of AVIF charge of £5 million (2014: £18 million).

Year ended 31 December 2014

The weakening of the euro affected all metrics from a Group perspective.

On a PVNBP basis, long-term insurance and savings business sales in France increased by £135 million, or 3%, to £4,633 million (2013: £4,498 million), with higher sales of unit-linked products. General insurance and health sales were broadly flat year on year at £1,106 million (2013: £1,105 million). On a constant currency basis general insurance and health net written premiums increased by 5% benefitting from rating and other management actions. IFRS net written premiums were up 2% to £5,684 million (2013: £5,565 million) for similar reasons.

Adjusted operating profit before tax (restated) remained stable at £470 million (2013 (restated): £467 million) but improved by 6% on a constant currency basis. Within this, life profits increased by 2% to £412 million (2013 (restated): £404 million), mainly reflecting increased margins. General insurance and health profits decreased to £78 million (2013: £84 million) largely due to adverse weather events and higher healthcare claims costs.

IFRS profit before tax increased to £462 million (2013: £457 million), which includes the higher adjusted operating profits discussed above. The increase in IFRS profit includes lower integration and restructuring costs of £15 million (2013: £25 million) which offset less favourable investment variances of £41 million (2013: £55 million).

Poland

The table below presents sales, net written premiums, adjusted operating profit and profit before tax attributable to shareholders' profits under IFRS from our operations in Poland for the three years ended 31 December 2015, 2014 and 2013.

	2015 £m	Restated ¹ 2014 £m	Restated ¹ 2013 £m
Sales			
Long-term insurance and savings business	448	573	486
General insurance and health net written premiums	66	57	69
Total sales	514	630	555
IFRS net written premiums	477	482	475
Adjusted operating profit before tax			
Long-term insurance and savings business	129	183	167
General insurance and health	10	9	9
Other operations	2	3	11
Total adjusted operating profit before tax	141	195	187
Profit before tax attributable to shareholders' profits	139	196	178

¹ Adjusted operating profit has been restated to exclude amortisation and impairment of acquired value of in-force business, which is now shown as a non-operating item.

Year ended 31 December 2015

The weakening of the zloty affected all metrics from a Group perspective.

Life and pensions sales on a PVNBP basis were down 22% to £448 million (2014: £573 million). Excluding the one-off benefit in 2014 from regulatory pension change in Lithuania, PVNBP was broadly stable. General insurance net written premiums were £66 million (2014: £57 million) with increases mainly in personal lines. Total net written premiums decreased 1% to £477 million (2014: £482 million).

Adjusted operating profit decreased by 28% to £141 million (2014 (restated): £195 million). Within this, Life adjusted operating profit was lower at £129 million (2014 (restated): £183 million) largely due to a £39 million one-off regulatory pension change which benefitted the prior year. General insurance adjusted operating profit was £10 million (2014: £9 million).

Profit before tax attributable to shareholders' profits was £139 million (2014: £196 million), a decrease of 29%, for the reasons described above.

Year ended 31 December 2014

Life and pensions sales on a PVNBP basis were up 18% to £573 million (2013: £486 million), mainly benefitting from changes in pensions legislation in Lithuania and an increase in sales of higher margin protection products. General insurance net written premiums were £57 million (2013: £69 million). Total net written premiums increased 1% to £482 million (2013: £475 million) due to improved sales of life products partially offset by decreased sales in general insurance business.

Adjusted operating profit (restated) increased by 4% to £195 million (2013 (restated): £187 million). Life profits increased by 10% to £183 million (2013 (restated): £167 million) mainly due to a one-off regulatory pension change of £39 million. General insurance profits remained flat at £9 million (2013: £9 million). Profit before tax attributable to shareholders was £196 million, an increase of 10% (2013: £178 million).

Italy, Spain and Other

The table below presents sales, net written premiums, adjusted operating profit and profit before tax attributable to shareholders' profits under IFRS from our operations in Italy, Spain and Other for the three years ended 31 December 2015, 2014 and 2013.

	2015 £m	Restated ¹ 2014 £m	Restated ¹ 2013 £m
Sales			
Long-term insurance and savings business			
Italy – excluding Eurovita	2,147	2,473	1,975
Spain – excluding Aseval & CxG	622	1,054	1,055
Other	460	495	544
Eurovita, Aseval & CxG	—	224	429
Total long-term insurance and savings business	3,229	4,246	4,003
General insurance and health			
Italy & Other	330	393	427
Total sales	3,559	4,639	4,430
IFRS net written premiums	2,687	3,444	3,193
Adjusted operating profit before tax			
Long-term insurance and savings business			
Italy	139	148	150
Spain	92	126	150
Other	11	13	13
General insurance and health			
Italy & Other	33	26	19
Other operations	(7)	(9)	(7)
Total adjusted operating profit before tax	268	304	325
Profit before tax attributable to shareholders' profits	191	489	509

¹ Adjusted operating profit has been restated to exclude amortisation and impairment of acquired value of in-force business, which is now shown as a non-operating item.

Year ended 31 December 2015

The weakening of the euro affected all metrics from a Group perspective.

Total long-term insurance and savings sales were £3,229 million (2014: £4,246 million) mainly due to lower sales in Italy and Spain.

In Italy (excluding Eurovita), life sales decreased by £326 million, or 13%, to £2,147 million (2014: £2,473 million) or 3% on a constant currency basis, reflecting lower unit linked and with-profit sales.

In Spain (excluding Aseval & CxG), life sales decreased by £432 million, or 41%, to £622 million (2014: £1,054 million) mainly reflecting reduced with-profit sales.

Other life sales, which relates to sales in our Turkey Life joint venture, decreased by £35 million, or 7%, to £460 million (2014: £495 million), but increased 7% on a constant currency basis driven by increased sales of pensions offset by the impact of a reduction in our share of the business following the partial IPO in 2014.

General insurance sales which in 2015 were only made by our operation in Italy decreased by £63 million, or 16%, to £330 million (2014: £393 million) mainly due to the sale of our Turkish general insurance operations in late 2014. Excluding this disposal, premiums grew by 3% on a constant currency basis mainly due to growth in the creditor business in Italy.

IFRS net written premiums decreased £757 million, or 22%, to £2,687 million (2014: £3,444 million) mainly reflecting 2014 disposals in Italy, Spain and Turkey.

Total adjusted operating profit decreased by £36 million, or 12%, to £268 million (2014 (restated): £304 million). This was mainly due to the 2014 disposals in Italy and Spain. Within this, life adjusted operating profit in Italy, excluding Eurovita, increased to £139 million (2014: £135 million), up 15% on a constant currency basis, mostly due to improved margins on with-profits business driven by management actions to reduce the cost of guarantees. In Spain (excluding CxG), life adjusted

operating profit decreased to £92 million (2014: £101 million) but was 2% higher on a constant currency basis.

General insurance and health adjusted operating profit increased to £33 million (2014: £26 million) mainly driven by the disposal of the loss-making Turkey GI business in December 2014.

Profit before tax attributable to shareholders' profits decreased by £298 million to £191 million (2014: £489 million). This includes lower adjusted operating profit as described above and adverse investment variances of £45 million (2014: £88 million positive). The prior year also included profit on disposal of subsidiaries, including CxG and Eurovita, of £125 million.

Year ended 31 December 2014

The weakening of the euro affected all metrics from a Group perspective.

Total long-term insurance and savings sales increased by £243 million, or 6%, to £4,246 million (2013: £4,003 million) mainly due to increased sales in Italy.

In Italy (excluding Eurovita), life sales increased by £498 million, or 25%, to £2,473 million (2013: £1,975 million) driven by higher sales of with-profits products.

In Spain (excluding Aseval & CxG), life sales remained relatively stable at £1,054 million (2013: £1,055 million).

Other life sales, which mainly includes sales in our Turkey Life joint venture, decreased by £49 million, or 9%, to £495 million (2013: £544 million).

General insurance sales decreased by £34 million, or 8%, to £393 million (2013: £427 million) driven by lower sales in Turkey. Premiums in Italy were broadly stable.

IFRS net written premiums for the segment increased £251 million, or 8%, to £3,444 million (2013: £3,193 million) for the reasons described above.

Total adjusted operating profit (restated) decreased by £21 million, or 6%, to £304 million (2013 (restated): £325 million). This was mainly due to lower life profits in Spain (mainly reflecting the Aseval and CxG disposals). In Italy, excluding Eurovita, life profits were up 13% (19% in constant currency) driven by improved product mix.

Profit before tax attributable to shareholders' profits decreased by £20 million to £489 million (2013: £509 million). This includes lower adjusted operating profits described above and positive life investment variances, which were lower than prior year, at £101 million (2013: £267 million) arising from narrowing spreads on government and corporate bonds. It also included profit on disposal of subsidiaries, including CxG and Eurovita, of £125 million and impairment charges of £nil (2013: £48 million).

Canada

The table below presents sales, net written premiums, adjusted operating profit and IFRS profit before tax attributable to shareholders for the three years ended 31 December 2015, 2014 and 2013.

	2015 £m	2014 £m	2013 £m
IFRS net written premiums	1,992	2,104	2,250
Adjusted operating profit before tax	214	189	246
General insurance	—	2	—
Total adjusted operating profit before tax	214	191	246
Profit before tax attributable to shareholders' profits	142	253	104

Year ended 31 December 2015

The weakening of the Canadian dollar has affected all metrics from a Group perspective.

General insurance net written premiums decreased by 5% to £1,992 million (2014: £2,104 million). On a constant currency basis, net written premiums increased by 1%, mainly due to improved rates and retention on personal lines.

Adjusted operating profit was £214 million (2014: £191 million), a 12% increase compared to the prior year. On a constant currency basis, profit increased by 21%. The increase in profits included higher underwriting profits of £120 million (2014: £83 million) and benefitted from more benign weather conditions compared to prior year and higher positive prior year reserve releases in personal lines. Longer-term investment return reduced 13% to £98 million (2014: £112 million), down 6% on a constant currency basis, primarily as a result of lower reinvestment yields.

Profit before tax attributable to shareholders' profits was £142 million (2014: £253 million) including higher operating profits more than offset by adverse short-term investment variances of £47 million (2014: £65 million positive) reflecting lower investment values.

Year ended 31 December 2014

The weakening of the Canadian dollar affected all metrics from a Group perspective.

General insurance net written premiums decreased by 6% to £2,104 million (2013: £2,250 million). On a constant currency basis, net written premiums increased by 6% mainly due to new business growth in Western Canada along with rating increases on commercial lines and improved retention on personal lines.

Adjusted operating profit was £191 million (2013: £246 million), a 22% reduction compared to the prior year. On a constant currency basis, profit decreased by 12%. The reduction in profits included lower underwriting profits of £83 million (2013: £112 million), reflecting higher large losses and lower prior year reserve releases partly offset by expense savings in all lines and an improvement in the underwriting result for commercial lines. In addition weather experience, although better than 2013, impacted profits, with a harsher winter in the first quarter of the year followed by hail storms in Alberta in August.

Profit before tax attributable to shareholders was £253 million (2013: £104 million). Lower adjusted operating profits were more than offset by positive short-term investment variances of £65 million (2013: £122 million negative) reflecting higher fixed income security market values.

Asia

The table below presents the sales, net written premiums, adjusted operating profit and profit before tax attributable to shareholders' profits under IFRS for the three years ended 31 December 2015, 2014 and 2013.

	2015 £m	2014 £m	2013 £m
Sales			
Long-term insurance, savings and health business			
Singapore	1,498	1,336	914
Other Asia – excluding Malaysia & South Korea	1,196	518	494
Malaysia & South Korea	—	97	331
Total long-term savings sales	2,694	1,951	1,739
General insurance and health (excluding long-term health)			
Singapore	56	56	70
Other Asia	—	9	19
Total general insurance and health sales	56	65	89
Investment sales	129	146	152
Total sales	2,879	2,162	1,980
IFRS net written premiums	783	781	532
Adjusted operating profit before tax			
Long-term insurance and savings business			
Singapore	94	82	83
Other Asia	150	5	13
Total	244	87	96
General insurance and health			
Singapore	(6)	(3)	(3)
Other Asia	—	1	4
Other operations	(15)	(7)	(10)
Total adjusted operating profit before tax	223	78	87
Profit before tax attributable to shareholders' profits	70	38	98

Year ended 31 December 2015

Long-term insurance and savings sales in Asia increased by 38% to £2,694 million (2014: £1,951 million) mainly reflecting higher protection sales in Singapore and China and £582 million sales contributed by Friends Provident International ('FPI'), following the Friends Life acquisition in April 2015. General insurance and health net written premiums, excluding long-term health, were £56 million (2014: £65 million).

Total net written premiums were stable at £783 million (2014: £781 million).

Adjusted operating profits were £223 million (2014: £78 million) including a £151 million contribution from FPI (£15 million adjusted operating profit net of amortisation of acquired value of in-force business). Excluding FPI, adjusted operating profit was £72 million (2014: £78 million). Within this, higher life adjusted operating profits were more than offset by lower non-life profits.

Profit before tax attributable to shareholders' profits was £70 million (2014: £38 million). As described above, this included adjusted operating profits partly offset by a higher AVIF amortisation charge. In addition, there were favourable life investment variances of £11 million (2014: £11 million adverse) and lower goodwill impairment charges.

Year ended 31 December 2014

Long-term insurance and savings sales in Asia (excluding Malaysia) increased by 12% to £1,951 million (2013: £1,739 million) due to higher health sales in Singapore and higher protection sales in China partly offset by lower sales in other markets. General insurance and health net written premiums excluding long-term health were £65 million (2013: £89 million), down 27%.

Total net written premiums were £781 million (2013: £532 million), up £249 million or 47%, for the same reasons.

Adjusted operating profits decreased by 10% to £78 million (2013: £87 million), mainly due to the disposal of the Group's

South Korean business and investment in the Group's Indonesian joint venture.

Profit before tax attributable to shareholders was £38 million (2013: £98 million) including negative investment variances of £11 million (2013: £29 million positive).

Aviva Investors

The table below presents the sales, adjusted operating profit, profit before tax attributable to shareholders' profits under IFRS and assets under management of Aviva Investors for the three years ended 31 December 2015, 2014 and 2013.

	2015 £m	2014 £m	2013 £m
Sales¹			
Long-term insurance and saving business (including UK retail collectives)	1,647	881	58
Investment sales (excluding UK retail collectives)	3,358	2,225	2,683
Total sales	5,005	3,106	2,741
Adjusted operating profit before tax			
Fund management operating profit ¹	105	79	68
Long-term insurance and savings business – Pooled Pensions operating profit ¹	1	2	2
Other operations	—	(18)	(96)
Total adjusted operating profit/(loss) before tax	106	63	(26)
Profit/(loss) before tax attributable to shareholders' profits	81	83	(89)
Assets under management (continuing operations)	289,910	245,898	240,507

¹ The UK Retail fund management business was transferred from UK Life to Aviva Investors on 9 May 2014 and hence is included in Aviva Investors from 9 May 2014 onwards.

Year ended 31 December 2015

Total sales increased by 61% to £5,005 million (2014: £3,106 million). Long-term insurance and savings business increased to £1,647 million following the transfer of the UK retail fund management business from UK Life in May 2014. Investment sales increased to £3,358 million reflecting higher sales of European funds.

Fund management operating profit was £105 million (2014: £79 million), including a contribution of £9 million from Friends Life Investments (FLI). Excluding FLI, the increase of £17 million was driven by increased performance fees partly offset by higher operating expenses.

Assets under management increased by £44.0 billion to £289.9 billion (2014: £245.9 billion). This was driven by acquisitions partly offset by net outflows and adverse market and other movements including adverse euro exchange rate movements.

Profit before tax attributable to shareholders' profits was broadly flat at £81 million (2014: £83 million profit). This included higher fund management adjusted operating profits and higher integration and restructuring costs of £11 million (2014: £4 million). The 2014 result included a profit on disposal of River Road of £35 million and the provision for the FCA fine of £17.6 million as described below.

Year ended 31 December 2014

Fund management operating profits were £79 million (2013: £68 million), mainly due to the transfer of UK retail fund management business from UK Life and higher performance fees, partly offset by the impact of the disposal of River Road. Assets under management increased by £5.4 billion to £245.9 billion, driven by favourable market returns which more than offset net redemptions and the impact of the disposal of River Road. Profit before tax was £83 million (2013: £89 million loss), which included a £35 million profit on disposal of River Road and lower integration and restructuring costs.

In February 2015, Aviva Investors reached a settlement with the FCA for certain systems and controls failings that happened

between 2005-2013 and agreed to pay a fine of £17.6 million. Provision for this expected cost was made at the year end and is fully reflected within Aviva Investors' adjusted operating profit from other operations.

Other Group activities (from continuing operations)

The table below presents net written premiums, adjusted operating losses and loss before tax attributable to shareholders' profits from other Group activities for the three years ended 31 December 2015, 2014 and 2013.

	2015 £m	2014 £m	2013 £m
IFRS net written premiums	13	18	46
Adjusted operating profit before tax			
General Insurance	13	9	(51)
Corporate centre	(180)	(132)	(150)
Group debt costs and other interest	(361)	(463)	(502)
Other Group operations	(46)	(56)	(90)
Total adjusted operating loss before tax	(574)	(642)	(793)
Loss before tax attributable to shareholder's profits	(510)	(626)	(1,080)

Year ended 31 December 2015

Net written premiums from our reinsurance business were £13 million (2014: £18 million).

Adjusted operating profit from general insurance was £13 million (2014: £9 million).

Corporate centre costs were £180 million (2014: £132 million) mainly as a result of increased spend on digital initiatives across the Group as well as the inclusion of Friends Life costs following the acquisition of this business.

Group debt costs and other interest decreased to £361 million (2014: £463 million), mainly due to lower internal debt costs of £92 million (2014: £186 million) and an increase in the net finance income on the main UK pension scheme to £94 million (2014: £33 million), partially offset by higher external debt costs reflecting the inclusion of Friends Life external debt. The impact of internal debt costs is neutral at an overall Group level.

Losses from other operations were £46 million (2014: £56 million).

Loss before tax attributable to shareholders' profits was £510 million (2014: £626 million loss). The lower loss in 2015 was mainly due to lower operating losses and higher positive short term investment variances, partially offset by higher integration and restructuring costs.

Year ended 31 December 2014

Net written premiums from our reinsurance business were £18 million (2013: £46 million). The decrease is primarily as a result of reinsurance previously written with Aviva Re being written in the external market.

Adjusted operating profit from general insurance was £9 million (2013: £51 million loss). The improvement compared to prior year was mainly due to the impact of the floods in Canada on our reinsurance business in prior year.

Corporate centre costs were £132 million (2013: £150 million). Group debt costs and other interest decreased to £463 million (2013: £502 million), mainly due to lower internal debt costs. The impact of this is neutral at an overall Group level.

Losses from other operations were £56 million (2013: £90 million). 2013 included a non-recurring amount of £36 million for compensation expected to be claimed from a Group holding company (see Aviva Investors above).

Loss before tax attributable to shareholders' profits was £626 million (2012: £1,080 million loss). The improvement in 2014 was mainly due to lower operating losses, lower integration and restructuring costs, and positive investment variances.

This data is derived from our consolidated financial statements which have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU).

On 10 April 2015, the Group completed the acquisition of 100% of the outstanding ordinary shares of Friends Life Group Limited ('Friends Life') through an all share exchange which gave Friends Life shareholders 0.74 Group shares for every Friends Life share held. In total 1,086 million Group shares were issued for a consideration of £5,975 million.

On 2 October 2013 the Group completed the sale of its US Life and related internal asset management operations, which have been shown as discontinued operations in the income statement, statement of comprehensive income and statement of cash flows. In 2014, the Group paid a settlement related to the purchase price adjustment, which in conjunction with the aggregate development of other provisions has been presented as discontinued operations.

The results presented as discontinued operations for 2011 also include the results of Delta Lloyd N.V., which was deconsolidated during 2011. Between May 2011 and July 2012 Delta Lloyd was accounted for as an associate within continuing operations. In July 2012, following a further sell-down, the Group's shareholding fell below 20% and from July 2012 Delta Lloyd was treated as a financial investment within continuing operations at fair value through profit and loss. The Group sold its remaining shareholding in Delta Lloyd in January 2013.

Income statement data

Amounts in accordance with IFRS	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Continuing operations					
Income					
Gross written premiums	21,925	21,670	22,035	22,744	26,255
Premiums ceded to reinsurers	(2,890)	(1,614)	(1,546)	(1,571)	(1,548)
Premiums written net of reinsurance	19,035	20,056	20,489	21,173	24,707
Net change in provision for unearned premiums	(111)	1	134	(16)	(236)
Net earned premiums	18,924	20,057	20,623	21,157	24,471
Fee and commission income	1,797	1,230	1,279	1,273	1,465
Net investment income	2,825	21,889	12,509	21,135	4,373
Share of profit/(loss) after tax of joint ventures and associates	180	147	120	(255)	(123)
Profit/(loss) on the disposal and re-measurement of subsidiaries, joint ventures and associates	2	174	115	(164)	565
	23,728	43,497	34,646	43,146	30,751
Expenses					
Claims and benefits paid, net of recoveries from reinsurers	(21,985)	(19,474)	(22,093)	(23,601)	(24,380)
Change in insurance liabilities, net of reinsurance	6,681	(5,570)	2,493	(430)	(2,284)
Change in investment contract provisions	(1,487)	(6,518)	(7,050)	(4,450)	1,478
Change in unallocated divisible surplus	984	(3,364)	280	(6,316)	2,721
Fee and commission expense	(3,347)	(3,389)	(3,975)	(4,457)	(4,326)
Other expenses	(2,784)	(1,979)	(2,220)	(2,843)	(2,779)
Finance costs	(618)	(540)	(609)	(653)	(711)
	(22,556)	(40,834)	(33,174)	(42,750)	(30,281)
Profit before tax					
Tax attributable to policyholders' returns	1,172	2,663	1,472	396	470
218	(382)	(191)	(221)	178	
Profit before tax attributable to shareholders' profits					
Tax attributable to shareholders' profits	1,390	2,281	1,281	175	648
(311)	(601)	(403)	(261)	(159)	
Profit/(loss) after tax from continuing operations					
1,079	1,680	878	(86)	489	
Profit/(loss) after tax from discontinued operations					
—	58	1,273	(2,848)	(357)	
Total profit/(loss) for the year					
1,079	1,738	2,151	(2,934)	132	

Amounts in accordance with IFRS	Per share	Per share	Per share	Per share	Per share
Profit/(loss) per share attributable to equity shareholders:					
Basic (pence per share)	22.6p	50.4p	65.3p	(109.1)p	8.3p
Diluted (pence per share)	22.3p	49.6p	64.5p	(109.1)p	8.1p
Continuing operations – Basic (pence per share)	22.6p	48.4p	22.0p	(11.2)p	13.6p
Continuing operations – Diluted (pence per share)	22.3p	47.7p	21.8p	(11.2)p	13.4p
Dividends paid per share					
20.8	18.1	15.0	19.0	26.0	
	Millions	Millions	Millions	Millions	Millions
Number of shares in issue at 31 December	4,048	2,950	2,947	2,946	2,906
Weighted average number of shares in issue for the year ¹	3,741	2,943	2,940	2,910	2,845

¹ Weighted average number of shares in issue for the year is calculated after deducting treasury shares.

Statement of financial position data

Amounts in accordance with IFRS

	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Total assets	387,874	285,719	281,627	317,120	314,374
Gross insurance liabilities	140,556	113,445	110,555	113,091	147,379
Gross liabilities for investment contracts	181,173	117,245	116,058	110,494	113,366
Unallocated divisible surplus	8,811	9,467	6,713	6,931	650
Core structural borrowings	6,912	5,310	5,125	5,139	5,255
Other liabilities	32,190	27,976	32,159	70,105	32,361
Total liabilities	369,642	273,443	270,610	305,760	299,011
Total equity	18,232	12,276	11,017	11,360	15,363

History and development of Aviva

General

Aviva plc, a public limited company incorporated under the laws of England and Wales, is the holding company of the Aviva Group. The Group provides customers with long-term insurance and savings, general and health insurance, and fund management products and services. Our purpose is to free people from fear of uncertainty. The long-term strategic framework for Aviva is based on our investment thesis of cash flow plus growth.

Our history

The Group was formed by the merger of CGU plc and Norwich Union plc on 30 May 2000. CGU plc was renamed CGNU plc on completion of the merger, and subsequently renamed Aviva plc on 1 July 2002. CGU plc and Norwich Union plc were both major UK-based insurers operating in the long-term insurance business and general insurance markets. Both companies had long corporate histories.

CGU plc was formed in 1998 from the merger of Commercial Union plc and General Accident plc. General Accident plc was incorporated in 1865. Commercial Union was incorporated in 1861 and in 1905 acquired Hand in Hand, which was incorporated in 1696.

Norwich Union plc was founded as a mutual society in 1797, and had expanded as a global business by the 20th century. In 1997 it demutualised and became an English public limited company.

On 10 April 2015, the Group completed the acquisition of Friends Life Group Limited through an all share exchange. Further details can be found in 'IFRS Financial Statements – Note 3 – Subsidiaries'.

Business overview

Our strategic framework

Our strategic framework increases the focus on the things that really matter and put the customer clearly at the centre. It provides clear direction across all our markets for how we run our business. Our overarching purpose is to free people from the fear of uncertainty. And we have a clear strategy to deliver our investment thesis of cash flow growth by always putting our customers first. Our Strategic Anchor is the 'what we do, how we do it and where we do it' of our strategy – True Customer Composite, Digital First and Not Everywhere.

- **True Customer Composite**

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

- **Digital First**

Emphasising customer experience driven by digital – online and mobile.

- **Not everywhere**

Focusing only in markets and segments where we can win.

This is all underpinned by our values of kill complexity, care more, never rest and create legacy, the core beliefs at the heart of how we do business.

Our business

Overview

Our business operates across four main market sectors – life insurance and savings; general insurance, accident and health insurance and fund management, providing services to over 33 million customers worldwide. We operate in 16 different countries and have approximately 29,600 employees.

The Group's operating segments are determined along market reporting lines. The operating segments are: UK & Ireland; France; Poland; Italy, Spain and Other; Canada; Asia; and Aviva Investors. These reflect the management structure

whereby a member of the Executive Management team is accountable to the Group Chief Executive Officer (CEO) for the operating segment for which they are responsible. Due to the size of the UK & Ireland segment, it has been split into separate life and general insurance segments, which undertake long-term insurance and savings business and general and health insurance respectively. Aviva Investors, our fund management business, operates across most markets providing fund-management services to third-party investors and to our long-term and general insurance businesses.

The activities of the acquired Friends Life business are included within the UK & Ireland Life, Asia and Aviva Investors segments.

Life insurance and savings business

Long-term insurance and savings business accounted for approximately 82% of our total worldwide sales from continuing operations for the year ended 31 December 2015. We reported total long-term insurance, savings and health new business sales from continuing operations of £33.1 billion¹.

Market position

In the UK we have a market share of 13.3²% based on annual premium equivalent (APE) data as at 30 September 2015. We also have life insurance businesses in Ireland, France, Italy, Spain, Poland, Turkey and Asia. Further details of our position in each market are set out in the market sections below.

Brands and products

In 2010, we brought all our businesses together under the Aviva brand, which remains the case for the vast majority of our products and services.

Our long-term insurance and savings businesses offer a broad range of life insurance and savings products. Our products are split into the following categories:

- Pensions – a means of providing income in retirement for an individual and possibly his or her dependants. Our pension products include personal and group pensions, stakeholder pensions and income drawdown.
- Annuities – a type of policy that pays out regular amounts of benefit, either immediately and for the remainder of a person's lifetime, or deferred to commence from a future date. Immediate annuities may be purchased for an individual and his or her dependants or on a bulk purchase basis for groups of people. Deferred annuities are asset accumulation contracts, which may be used to provide benefits in retirement, and may be guaranteed, unit-linked or index-linked.
- Protection – an insurance contract that protects the policyholder or his or her dependants against financial loss on death or ill-health. Our product ranges include term assurance, mortgage life insurance, flexible whole of life and critical illness cover and group schemes.
- Bonds and savings – accumulation products with single or regular premiums and unit-linked or guaranteed investment returns. Our product ranges include single premium investment bonds and regular premium savings plans.
- Investment sales – retail sales of mutual fund type products such as unit trusts, individual savings accounts (ISAs) and open ended investment companies (OEICs).
- Other – includes equity release contracts.

Some of our insurance and investment contracts contain a discretionary participation feature, which is a contractual right to receive additional benefits as a supplement to guaranteed benefits. These are referred to as 'participating' contracts.

¹ See 'financial and operating performance' for further details.

² Association of British Insurers (ABI) Stats published Q3 2015.

General insurance and health insurance

General insurance and health insurance accounted for 18% of our total worldwide sales for the year ended 31 December 2015. In the year ended 31 December 2015, we reported general and health insurance net written premiums of £7.5 billion.⁵

Market position

We are a leading general insurer in the United Kingdom and Canada with 12.4%³ and 8.4%⁴ market share respectively. We also have general insurance operations in France, Italy, Ireland, and Poland. We sell health products in the UK, Ireland, France, Singapore and Indonesia. In the year ended 31 December 2015, 52%⁵ of our total general insurance and health new business was written in the UK.

Brands and products

Our general insurance business operates under the Aviva brand globally and concentrates on the following products:

- Personal lines – motor, household, travel and creditor;
- Commercial lines – fleet, liability and commercial property insurance;
- Health insurance – private health insurance, income protection and personal accident insurance, as well as a range of corporate healthcare products; and
- Corporate and specialty risks – products for large clients or where the risk is specialised.

Fund management

Aviva Investors, our fund management business, provides fund management services to Aviva's long-term insurance and savings, and general insurance operations as well as to third-party investors. The fund management operations are in the UK, Europe, North America and Asia. All sales of retail fund management products are included in our long-term insurance and savings business sales.

Market position

Aviva Investors was ranked 48th globally by assets under management⁶. Total worldwide funds managed by Aviva Investors, at 31 December 2015, was £290 billion. The substantial majority of this relates to Aviva's insurance and savings operations.

Brands and products

Aviva Investors operates under a single brand across the majority of the Aviva Group's markets. Its products cover a broad range of asset classes. In Europe, this includes open-ended collective investment schemes which are domiciled in France, Luxembourg and Poland; while in the United Kingdom, this includes segregated mandates and specialist funds for pension schemes, local authorities and insurance companies, as well as retail and wholesale products. Other offerings include specialist property funds and money market funds.

Distribution

Customers can buy our products through a range of distribution channels, including:

- Direct – in many of our markets, customers can buy our products over the telephone or via the internet. This method of distribution is most commonly available for simple products which do not require advice.
- Direct sales force – in some of our European and Asian markets we operate direct sales forces that only sell Aviva's

products and the sales forces receive commission on the products they sell.

- Intermediaries – we offer a range of long-term insurance, savings, retirement, general insurance and health insurance products which can be bought through an intermediary, such as an independent financial adviser or an insurance broker. Subject to regulatory requirements, intermediaries receive a commission on sales of Aviva's products.
- Corporate partnerships, bancassurance and joint ventures – Aviva is a corporate partner for many organisations, including banks and other financial institutions, who wish to offer their customers insurance products. We have various distribution agreements with bancassurance partners and joint ventures across the markets in which we operate. In return for offering our products to their customers, the bank or joint venture partners receive a commission as a percentage of sales and in some cases achieve extra commission if agreed target levels of sales are met. Certain agreements have a profit sharing element based on a predetermined percentage. In some cases, if the agreed targets are not met, certain terms of the contract can be renegotiated. Under the joint venture agreements, the cost of running the venture are often split between the partners.

Further details of the distribution channels specific to each market are included in the following market analysis.

UK & Ireland Life

Business overview and strategy

On 10 April 2015, the Group completed the acquisition of Friends Life Group. Integration of the Friends Life UK business is in progress.

The UK business is a leading long-term insurance and savings provider with an overall market share of 13.3%⁷, based on annual premium equivalent (APE) data as at 30 September 2015. The Irish business is a large life and pensions provider in Ireland.

Our strategy in the UK is to offer great value to our customers through our market leading expertise in Retirement, Corporate Benefits, Protection and Health products, continue to improve cash generation and deliver profitable growth whilst continuing to integrate Friends Life and realise synergies.

Our Irish long-term business is now focused primarily on distribution through intermediaries. On 1 January 2015, following approval from the High Court of Ireland in December 2014, the Irish business, (previously within Aviva Life and Pensions Ireland Ltd) was transferred to Aviva Life and Pensions UK Ltd (UKLAP) becoming a branch of UKLAP.

Market and competition

Over the last few years, Auto-Enrolment, pension freedoms and the Department of Work and Pensions (DWP) charge cap have transformed the way that long-term savings products are bought and sold in the UK.

The changes to annuities announced by the UK Chancellor of the Exchequer in the Budget in March 2014 have given increased flexibility to how customers can access their pension since coming into effect in April 2015. These changes are having a significant impact across the market and have seen many customers defer their decision regarding their pension, driving a general decline in the market for individual annuities.

The Department of Work and Pensions (DWP) charge cap of 75 basis points came into force in April 2015, and the removal of active member discounts (AMDs) commences from April 2016. We implemented these changes in 2014, ahead of the regulatory requirement.

³ Datamonitor UK Insurance Competitor Analytics 2015.

⁴ Market Security Analysis & Research Inc, 2014 online database.

⁵ Excludes the impact of an outwards quote share reinsurance agreement in the UK.

⁶ Towers Watson World 500 largest asset manager's study 2014.

⁷ Association of British Insurers (ABI) Stats published Q3 2015.

The UK long-term savings market is highly competitive and we consider our main competitors to be Standard Life, Prudential, Legal & General, Scottish Widows, JRP Group and Royal London.

Since the return to growth in the life and pensions market in Ireland in 2013, there has been continued and increasing growth in 2014 and 2015. The life insurance market in Ireland is relatively concentrated. We consider our main competitors to be Bank of Ireland Life, Irish Life, Zurich Life and Friends First.

Products

In the UK, we provide a comprehensive product range focused on both the consumer and corporate markets. The pensions and retirement products we offer include personal pensions, equity release, annuities and income drawdown. Our annuity offerings include immediate life, enhanced, fixed-term annuities and with-profits pension annuities. We provide a number of traditional life insurance products, including level-term, decreasing-term (with or without critical illness), guaranteed whole of life insurance, over 50s life cover and income protection. Our savings and investment products include ISAs, investment bonds, funds, base rate trackers, investments with guarantees and with-profits products. A direct to consumer platform was launched in June 2015, offering new retirement propositions and investment products.

In Ireland, our long-term insurance and savings business offers a wide range of products with our focus being on protection, annuities and pensions and savings products. Our protection products include life insurance, mortgage protection and specified illness. The pensions and savings range covers retirement and investment products and is delivered by taking advantage of the Aviva Investors fund propositions.

Distribution

We have a multi-distribution strategy, which means we sell our products through intermediaries, corporate partners, in the workplace, and directly to customers.

Our direct to consumer platform was launched in June 2015, offering new retirement propositions and investment products.

In the UK, we have exclusive distribution deals for the sale of protection products with Royal Bank of Scotland, Barclays, Santander, Tesco, the Post Office, Connells, Countrywide, and LSL estate agents.

We remain committed to building on our existing relationships and distribution partnerships as well as growing our workplace and direct channels.

In 2015 we also launched Aviva Life Protection Solutions to advisers and customers in the UK, which offers flexible cover with all policy documents stored online.

UK & Ireland General Insurance

Business overview and strategy

We are a leading general insurer in both the UK and Ireland with market shares of 12.4%⁸ and 13.3%⁹ respectively. We employ around 6,700 people and operate from a number of locations throughout the UK and Ireland, including Norwich, Perth, Glasgow, London and Dublin.

We focus on personal and commercial insurance. In the UK we hold top three positions in the motor and property markets⁸. We believe our key strengths include underwriting and pricing sophistication, claims and cost management and excellent customer service. Our aim is to deliver cash and profitable growth by focusing on the fundamentals of the insurance business to maximise underwriting returns and we have a portfolio strategy to deliver greater stability of earnings.

Market and competition

The UK is the 4th largest non-life insurance market in the world¹⁰. In 2014, the top four companies had a 36.9%⁸ share of the UK general insurance market.

The UK and Ireland general insurance markets are cyclical in nature and remain very competitive, particularly in personal lines, where the market is highly commoditised.

During 2015, the UK personal motor market saw prices start to rise, following 3 years of premium reductions which had resulted from intense competition combined with regulatory changes designed to reduce the cost of claims. However, market conditions continue to be challenging in other UK classes of business as insurers seek opportunities to gain share in segments with better margin, putting pressure on rates and extent of cover. In Ireland, the market remains challenging, with low market growth at 3.2% in 2014⁹ and continued market-wide pressure on profitability.

In the UK our main competitors are Direct Line Group, RSA, The Admiral Group, AXA, Zurich, LV, Allianz, Ageas and NFU. In Ireland, our competitors include RSA, AXA, Zurich, FBD, Allianz, Liberty and AIG.

Products

We provide a wide range of general insurance products both in the UK and Ireland. In the UK we have a business mix of approximately 60% personal lines and 40% commercial lines.

Our UK personal products include motor, home and travel insurance. Our UK commercial products include motor, property and liability insurance for small and medium size enterprises (SMEs) and larger UK corporate customers as well as products in the specialty risks market.

In Ireland our products include property, motor, travel, agricultural and business insurance and our health insurance business products for both the personal and commercial sector.

Distribution

We have a multi-distribution strategy. Our personal products are sold directly to customers over the phone and through our websites, via brokers and through corporate partnerships. Our Quotemehappy and General Accident insurance products are also available through price comparison websites. For commercial insurance, we focus on broker distribution and believe that independent brokers remain the best source of advice for business customers.

We are expanding our digital capability through allowing customers to view their policies as well as purchase new products using the MyAviva app. In addition, we have made major investments in Fast Trade, our online tool for brokers and implemented Guidewire, which is a new policy and claims system, across our commercial lines business.

France

Business overview and strategy

France is the second largest insurance market in Europe¹¹. We have a significant presence in the French Life insurance market and we operate through two main companies: Aviva Vie and Antarius (JV structure with Crédit Du Nord). On 25 February 2015, Crédit du Nord, the Group's partner in Antarius S.A ('Antarius'), exercised its call option to purchase Aviva France's 50% share of Antarius. In accordance with the shareholders agreement, the exercise of the call option starts a period of approximately two years to complete the disposal. In accordance with IFRS 5, the subsidiary will be classified as held for sale from the date when the transaction is expected to complete within 12 months.

⁸ Datamonitor UK Insurance Competitor Analytics 2015.

⁹ Irish Insurance Federation, 2015.

¹⁰ Swiss Re Sigma Study (World Insurance 2014).

¹¹ Insurance Europe: European Insurance — Key Facts , August 2015.

We are ranked 11th in general insurance, as measured by gross written premiums, according to L'Argus de l'Assurance, as at 31 December 2014. Our strategy is to deliver sustainable dividends to Group by increasing profitability in our life business and targeted growth in profitable general insurance segments.

Market and competition

The life insurance market is driven by individual savings and dominated by bancassurance, which has accounted for around 60% of the life insurance market over the past decade according to FFSA¹². We believe the long-term insurance and savings market in France has longer-term growth potential due to the ageing population and the growing need for private pensions. We also believe that multi-funds policies and unit-linked funds are the best saving vehicles for performance over a longer period.

The general insurance market in France is mature. In personal lines, the digital transformation occurring in the market is increasing competition through multi-access and direct distribution models, whereas in commercial lines the market still mainly relies on local physical distribution networks.

Products

We provide a wide range of insurance solutions: life and long-term savings, general and health insurance and asset management through Aviva Investors France. The products sold through our life channel are long-term savings, pensions and regular premium products, with a focus on the unit-linked market and a broad range of protection products, primarily for individuals.

We have a longstanding relationship with the Association Française d'Epargne et de Retraite (AFER) which is the largest retirement savings association in France with over 720,000 members as at December 2014, to manufacture and distribute the AFER savings product.

In the general insurance market our product range includes household, motor, health and legal protection products and also a range of insurance products for small to medium sized entities, farms, craftsmen and tradesmen, and specific products for building firms and motor fleets.

Distribution

We have developed a multi-distribution model combining retail, direct and bancassurance networks through owned distribution channels, independent networks and partnerships. Our retail network sells through over 920 tied agents, a direct sales force made up of approximately 1,200 Union Financière de France (UFF) consultants and direct advisors (Aviva France also holds a majority stake in UFF), and through brokers in the life, health and construction markets. Direct distribution is managed through the Eurofil brand for personal general insurance, the Aviva Direct brand for protection and Epargne Actuelle for the AFER product. We operate in the bancassurance market through our partnership with Crédit du Nord, a subsidiary of Société Générale, selling life, savings and protection products.

Poland

Business overview and strategy

Aviva is the second largest insurer in the Life individual market in terms of gross written premiums¹³ with a market share of 8%. Our general insurance business is the 14th largest with a market share of 1% on the same basis¹⁴. Our focus in Poland is to grow the value of life new business and in general insurance we aim to grow our portfolio whilst maintaining the portfolio quality and combined operating ratio.

Market and competition

The key forces shaping the insurance market in Poland are:

- Regulatory changes driven by the Polish government, including a new Insurance Act that implements Solvency II into the local regulatory framework, as well as introducing other changes designed to strengthen policyholder protection and extend the powers of the regulator.
- Increasing regulatory focus from governmental agencies, such as the Financial Supervisory Authority (KNF) and the Office of Competition and Consumer Protection (UOKiK) on unit-linked products.
- At the beginning of 2016, the introduction of a levy on finance sector assets of 0.44% per annum.

Products

Our life business in Poland provides a broad range of protection, savings and pension products as well as health insurance. For institutions we offer group life insurance and employee pension programmes, which are both unit-linked products. We offer a standard product as part of our privately managed Pillar II pensions business. We offer general insurance products to both commercial entities and individuals. For individuals, our offer consists of home, accident and travel insurance, which are primarily sold by tied agents, as well as motor insurance, which is sold primarily through our direct operation. For institutions, we offer selected commercial lines risks.

Distribution

The direct sales force and bancassurance are the main distribution channels for most of the Polish business and is made up of over 2,100 tied insurance agents. Our biggest relationship is with Bank Zachodni WBK (a subsidiary of Banco Santander) that sells both life and general insurance products through the bank's network of 723 branches¹⁵. In addition, on 3 July 2015, we acquired Expander Advisors, the second largest network of IFAs in Poland¹⁶. We also co-operate with independent insurance agencies and brokers. Our mutual funds are also sold in brokerage houses and our individual products are supported by call centre and website sales.

Italy, Spain and Other

Italy

Business overview and strategy

Aviva is Italy's 10th largest Life insurer, with a market share of 2.9%¹⁶ based on 2014 premiums and the 13th largest General Insurance company with a market share of 1.28%¹⁶. We have approximately 2.2 million customers across both the Life and General Insurance businesses.

During 2015 we continued to develop our business, the focus of which is to:

- Renew and refocus our distribution agreements with UBI Banca and Unicredit to maintain the level of value of new business and, extend our product range (protection, accident and health) with Banco Popolare.
- Boost the IFA distribution channel especially in unit linked and protection products.
- Accelerate general insurance organic growth of our Agents network with specific focus on protection and accident and health.
- Implement our Digital strategy, with new digital services provided to customers and distributors through MyAviva and Telematics.

Market and competition

The Italian life and general insurance markets are dominated by the top 3 providers, which accounted for c.54% and c.48%

¹² Fédération Française des Sociétés d'Assurance (dated 12 June 2015).

¹³ Polish Financial Supervision Authority ('KNF') report as at 30 June 2015.

¹⁴ BZ WBK bank Zachodni 31 December 2015 results.

¹⁵ Association of Polish intermediaries.

¹⁶ Associazione Nazionale fra le Imprese Assicuratrici ('ANIA').

market share respectively. The life insurance industry in Italy reported another year of increased volumes as of 30 June 2015 with gross written premiums up by c.15% compared to the same period in 2014¹⁶. The general insurance segment decreased by 1.8% in the first half 2015 compared to the previous year, mainly driven by a 5.9% decline in Motor¹⁶ due to lower average prices.

Products

Our Life business offers a wide range of products covering protection, savings and pensions, with a continued focus on less capital intensive products, to optimise the product mix. We have reviewed our Unit Linked product range, and further improved our protection offering for both retail and bancassurance networks.

In 2015, as part of our household insurance offering, we launched a new 'connected house' product sold by agents which includes a 'white box' capable of alerting the client in case of water damage, presence of gas or smoke etc. In addition, we launched a new health product sold both through Banco Popolare and our retail network.

Distribution

Our products are distributed through bancassurance partnerships with Unicredit Group (life), Banco Popolare Group (life and general insurance) and UBI Banca (life). These partnerships give us access to more than 3,500 branches. In addition, we also have approximately 1,500 active financial advisors (life), and a retail network of c.700 insurance (multi-mandate) agents and brokers (general insurance and life) as at 30 June 2015.

Spain

Business overview and strategy

We are Spain's 11th largest long-term insurer by gross written premiums with a market share of 3% as at 30 September 2015¹⁷. We sell protection, long-term savings and pensions, health and accident insurance through a bancassurance network based on four joint ventures with three banks. We also sell through Aviva Vida y Pensiones, the wholly-owned Aviva branded long-term insurance company and through our Spanish mutual insurance company Pelayo.

Our strategy is to maintain the franchise value in Spain and to develop our retail operations with new distribution agreements. The ongoing focus is on less capital intensive products.

Market and competition

We have seen the Spanish insurance market recover with improved lending conditions, and expect this to benefit our credit linked insurance product sales.

The top positions in the long-term life insurance market are dominated by bank-owned or bank-insurer joint ventures, with the overall bancassurance channel accounting for more than 65% of gross written premiums at the end of 2014 in the Spanish life insurance market¹⁷.

Customers in Spain are accustomed to receiving advice through banking channels, and we continue to use our relationship with our partners to capitalise on this whilst developing our retail agents and broker distribution network.

Products

We offer a wide range of bonds, savings, and protection products. Investment products include both unit linked and traditional plans, where profit sharing is regularly used to increase the policy return. Our traditional plans include savings schemes and income products. Pension savings products have

valuable tax advantages. We offer a flexible range of individual and group pension plans with alternative investment choices. We also offer protection products, covering both mortgages and credit loans, typically providing cover for the family.

Distribution

Through bancassurance partnerships we have established subsidiaries to distribute our products with each of the banks as set out below:

- Unicorp Vida – in conjunction with Unicaja since 2001.
- Caja España Vida – in conjunction with Caja España since 2001
- Caja Granada Vida – in conjunction with Caja Granada (now part of Banco Mare Nostrum (BMN)) since 2002
- Cajamurcia Vida – in conjunction with Cajamurcia (now part of Banco Mare Nostrum (BMN)) since 2007

Aviva Vida y Pensiones distributes our products through professional intermediaries (agents and brokers), supported by a branch office network and call centres, and through Pelayo's network.

Other

The Italy, Spain, and Other segment includes our business in Turkey.

Aviva's business in Turkey sells life and savings products including unit-linked pensions through its life joint venture, AvivaSA, which is listed as 'AVISA' on Borsa Istanbul.

AvivaSA has an exclusive bancassurance agreement with Akbank until 2029. Akbank sells AvivaSA's life and pensions products on an exclusive basis through its banking network in Turkey.

Canada

Business overview and strategy

We are Canada's second largest general insurer¹⁸. Through our distribution partners we provide a range of personal and commercial lines general insurance products to 2.8 million policyholders. We have an 8.4% market share and a top five position in all major provinces¹⁸. We employ over 3,300 people and operate from a head office in Toronto, with other offices located throughout Canada.

We believe that we are well placed for continued growth and that our success is underpinned by our focus on the insurance fundamentals of pricing, risk selection, distribution, claims indemnity and expense management. We are broadening our distribution reach and strengthening our business mix, as well as taking a 'Digital First' approach to our business.

On 21 January 2016, Aviva Group announced that Aviva Canada will acquire RBC General Insurance Company and enter into an exclusive 15 year strategic agreement with RBC Insurance. The proposed transaction is subject to customary closing conditions, including receipt of required regulatory approvals and is expected to complete in the third quarter of 2016.

We believe the transformation of our commercial lines business over the last few years has ensured the business is highly competitive. We expect that continued refinement to our models will allow us to leverage this position to positively react to market opportunities. We will continue to address increasing customer demand for choice, simplicity and self-service by working with our broker partners on processes and technology solutions in order to help them compete with other channels.

¹⁷ Investigación Co-operativa entre Entidades Aseguradoras y Fondos de Pensiones ('ICEA').

¹⁸ Market Security Analysis & Research Inc, 2014 online database.

Market and competition

Canada is the 8th largest non-life insurance market¹⁹ in the world and is established and stable. The four largest provinces generate around 88% of total premiums with Ontario, the largest, representing 46% of total Canadian premiums¹⁸.

The Canadian general insurance industry is highly fragmented with many small players and no dominant consumer brand. Steady consolidation has resulted in the top five companies representing 42% of the market and the top two companies, Intact Financial and Aviva, controlling 23% of the market¹⁸. The rest of the industry includes several national carriers as well as smaller, provincially based or niche companies.

Whilst direct and affinity channels are gradually increasing in market share, the traditional broker channel accounts for a high proportion of distribution (personal lines and commercial lines). In addition to the growth of direct and affinity channels, insurance carriers are increasingly supporting and controlling distribution through investment in brokers.

Products

The general insurance products that we provide through our Canadian companies are:

- Personal, home and motor insurance;
- Small and medium-size enterprise commercial insurance, including motor, property, liability, boiler and machinery, and surety; and
- Niche personal insurance products including holiday trailers, boats as well as antique, classic and custom cars.

Distribution

Independent brokers are our largest distribution channel, with 1,500 independent group and retail brokers distributing our core personal and commercial line products. We also built our own direct distribution capability and, with the proposed acquisition of RBC General Insurance Company, we will have exposure to customers who choose to deal directly with their insurer.

Asia

Business overview and strategy

In Asia, we are focused on growth. Increasing the value of our new business remains our first priority in Asia. We are achieving this through scale benefits and by focusing our product mix on higher margin products.

In Singapore, our life business is a leading insurer in the market²⁰, providing employee benefit and individual life insurance through diversified distribution channels. We also have general insurance and health operations in Singapore and are considered the market leader in online personal motor insurance²¹.

In China, through our 50% joint venture with COFCO Capital Investment Co., Ltd, we are ranked number 7 among 27 foreign life insurers in terms of APE as at 30 September 2015²². We have a presence in 12 provinces and over 50 branches. We operate a multi-distribution platform including agency, bancassurance, direct marketing, and brokerage channels offering a wide range of protection and savings products.

In Indonesia, through our 50% joint venture with PT Astra International Tbk, we distribute our products primarily through our bancassurance arrangement with Permata Bank that launched in December 2014.

In Taiwan and Vietnam, through our joint ventures with First Financial Holdings Co., Ltd and Vietnam Joint Stock Commercial Bank for Industry and Trade, respectively, we aim to grow our

bancassurance businesses and continue the diversification of our distribution networks.

In Hong Kong, our wholly owned subsidiary operates primarily through IFA distribution networks.

In India, with a distribution network of 121 branches, we operate in partnership with the Dabur Group through a 26% interest in Aviva Life Insurance Company India Ltd. As at 31 October 2015, we ranked 13th among the private life insurance companies in India based on total APE (including Group Business)²³.

Friends Provident International Limited ('FPIL'), an Isle of Man-based company with operations in Asia, was acquired in April 2015 as part of the acquisition of Friends Life.

Market and competition

The Asian markets are strategically important to Aviva, owing to large populations in fast-growing economies, coupled with relatively low insurance penetration rates and social insurance coverage. Life insurance penetration (as measured by insurance premium as a proportion of GDP) in most Asian countries is typically less than 6% (1.7% in China, 1.1% in Indonesia, 0.7% in Vietnam, and 5% in Singapore)²⁴. The Asian markets are expected to deliver GDP growth of 6.2%²⁵ in 2016, ranging from 3.4%²⁵ in Singapore to 6.8%²⁵ in China.

Products

Our Asian businesses offer a wide range of protection, savings, and pension products, including universal life, participating and non-participating endowments, unit-linked single and regular premium life insurance, and a range of accident and health insurance products.

FPIL offers a range of products including single premium investment products, regular premium savings plans, and individual assurance policies.

Distribution

Across Asia, we operate a multi-distribution strategy. In Singapore, we operate across multiple proprietary and affinity channels, and also own a majority interest in Professional Investment Advisory Services Pte Ltd, a leading financial advisory firm. In China, our products are sold mainly through agents, telemarketing, and bancassurance. In Indonesia, individual business is primarily sold through our bancassurance channel and group business is sold through our direct sales force. In Taiwan, bancassurance is our main distribution channel and our products are also sold through direct marketing. In Vietnam, our products are sold through bancassurance and agents. We are also investing in other channels such as direct marketing and digital to differentiate ourselves from competitors. In Hong Kong, we operate primarily through IFA networks.

On 31 December 2015, our 15 year regional bancassurance agreement with DBS Bank Ltd expired and was not renewed. Aviva retains the existing book of business, associated profits, and customer rights and relationships which were purchased in the original transaction with DBS in 2001.

FPIL's products are targeted towards affluent expatriate individuals and are sold via distribution hubs in Hong Kong, Singapore and the United Arab Emirates.

Aviva Investors

Business overview and strategy

Aviva Investors offers a range of fund management services, operating in the UK, Europe, North America and Asia and had £290 billion in assets under management as at 31 December 2015 (31 December 2014: £246 billion), including assets

¹⁹ Swiss Re Sigma Study (World Insurance 2014).

²⁰ Latest available competitor results (30 June 2015).

²¹ The General Insurance Association of Singapore (30 September 2015).

²² National Insurance Industry Communication Club (30 September 2015).

²³ Insurance Regulatory and Development Authority of India (31 October 2015).

²⁴ Swiss Re Sigma Study (World Insurance 2014).

²⁵ Asian Development Bank, Asian Development Outlook 2015 update.

managed by Friends Life Investments ('FLI'), as a result of the acquisition of Friends Life.

Our largest clients are the long-term insurance, savings, and general insurance businesses of Aviva, to whom we provide bespoke asset management services across a broad spectrum of asset classes.

We provide external clients with bespoke segregated solutions or offer access to a variety of fund ranges. Our principal target clients for the larger segregated solutions tend to be large pension funds and financial institutions such as insurance companies and banks.

Our strategy is to offer a range of investment propositions to deliver the specific outcomes that our clients value.

Market and competition

At the end of 2014, the global asset management market stood at circa USD\$74 trillion in size, almost half of which was accounted for by North America, and nearly a third by Europe²⁶. The global market is highly fragmented, with the top ten managers accounting for around a third of the total assets, and hundreds of other managers accounting for the remainder. As such, the dynamics in all large markets are highly competitive. Aviva Investors is ranked 48th in 'The World's 500 Largest Asset Managers'²⁷.

Our main competitors are large global asset managers including Blackrock, State Street Global, Fidelity Investments, Schroders and Aberdeen, in addition to other UK and European insurer-owned asset managers with whom we compete on a product by product basis.

Products

Our products cover a broad range of asset classes. In Europe, we have a range of SICAVs (open-ended collective investment schemes), which are domiciled in France, Luxembourg and Poland. These funds have different share classes depending on the size and type of investor. Our traditional distribution model for these funds focuses on wholesale distributors, asset allocators and small to mid-size institutional investors.

In the UK, we largely sell segregated mandates and specialist funds to pension schemes, local authorities and insurance companies. We also supply products to the retail and wholesale markets, principally through UK domiciled bond, real estate, equity, multi-asset and multi-strategy OEIC funds. The Aviva Investors Multi-Strategy ('AIMS') range of funds focuses on meeting the needs of our customers to achieve better outcomes with their investments. In addition, we have a range of pooled pension funds which are aimed at the smaller pension fund market, normally defined benefit schemes. We also have a range of specialist property funds, six money market funds domiciled in Dublin and Paris, and also offer feeder funds domiciled in the Cayman Islands for US and Australian investors.

Distribution

Aviva Investors has a Global Business Development team based in 16 locations with clients around the world. We manage relationships with a diverse range of clients including corporate and public sector pension funds, sovereign wealth funds, financial institutions, charities, insurance companies, wealth managers and national and local government bodies.

Our distribution model for our open-ended collective investment schemes focuses on wholesale distributors, asset allocators and small to mid-size institutional investors. In the UK, our retail products are promoted to investors via independent financial advisors, fund platforms, fund supermarkets and discretionary asset managers. In the United States, we have a strategic partnership with Virtus Investment Partners which

provides Aviva Investors' strategies to US customers in US open-ended mutual funds.

Our property funds are targeted at specialist real estate buyers and large institutions (mostly pension funds and local authorities), and our money market funds are sold by a specialist sales team and target corporate treasury functions.

²⁶ Boston Consulting Group, Global Asset Management 2014.

²⁷ Towers Watson World 500 largest asset managers study 2014.

Analysis of investments

We invest our policyholders' funds and our own funds in order to generate a return for both policyholders and shareholders. The financial strength of the Group and both our current and future operating results and financial performance are, therefore, in part dependent on the quality and performance of our investment portfolios in the UK, Europe, North America and Asia.

For additional information on our financial investments, see 'IFRS Financial statements – Note 26 – Financial investments'.

Investment strategy

Our investment portfolio supports a range of businesses operating in a number of geographical locations. Our aim is to match the investments held to support a line of business to the nature of the underlying liabilities, whilst at the same time considering local regulatory requirements, the level of risk inherent within different investments, and the desire to generate superior investment returns, where compatible with this stated strategy and risk appetite.

Long-term insurance and savings business

As stated above, we aim to optimise investment returns whilst ensuring that sufficient assets are held to meet future liabilities and regulatory requirements. As different types of life insurance business vary in their cash flows and in the expectations placed upon them by policyholders, we need to hold different types of investments to meet these different cash flows and expectations.

The UK with-profits business is comprised largely of long-term contracts with some guaranteed payments. We are therefore able to invest a significant proportion of the funds supporting this business in equities and real estate. This is because the long-term nature of these contracts allows us to take advantage of the long-term growth potential within these classes of assets, whilst the level of guaranteed payments is managed to mitigate the level of risk that we bear in relation to the volatility of these classes of assets.

Non-UK participating business, annuities and non-participating contracts in all countries, have a high level of guaranteed future payments. We endeavour to match the investments held against these types of business to future cash flows. We therefore have a policy of generally holding fixed income securities and mortgage loans with appropriate maturity dates.

With unit-linked business, the primary objective is to maximise investment returns, subject to following an investment policy consistent with the representations that we have made to our unit-linked product policyholders.

General insurance and health business

The general insurance and health business is comprised of shorter-term liabilities than the long-term insurance business. Furthermore, all the risk attaching to the investments is borne by our shareholders. As a result, the investment portfolio held to cover general insurance liabilities contains a higher proportion of fixed income securities than the portfolio held to cover life insurance liabilities.

Property partnerships

As part of their investment strategy, the UK and certain European policyholder funds have invested in a number of property limited partnerships ('PLPs'), either directly or via property unit trusts ('PLPs'), through a mix of capital and loans. The nature of our involvement in property partnerships is set out in the second and third paragraphs of the Investment vehicles section of 'IFRS Financial Statements – Accounting policies – (D) Consolidation principles'. Property partnerships are accounted for as subsidiaries, joint ventures or financial investments depending on our participation and the terms of each partnership agreement. For each property partnership accounted for as a subsidiary, joint venture or financial investment, we are exposed to falls in the value of the underlying properties which are reflected as unrealised gains/losses on investment properties, our share of joint venture results and unrealised gains/losses on financial investments, respectively. However, the majority of these are in policyholder funds (rather than shareholder funds) so such losses are offset by changes in the amounts due to policyholders or unitholders, or UDS.

Analysis of investments

We distinguish between policyholder, participating fund and shareholder investments, which are terms used to reflect the differing exposure to investment gains and losses. Policyholder assets are connected to our unit-linked business, where the policyholder bears the investment risk on the assets in the unit-linked funds. Our exposure to loss on policyholder assets is limited to the extent that income arising from asset management charges is based on the value of assets in the funds. Participating fund assets relate to some of our insurance and investment contracts which contain a discretionary participation feature, which is a contractual right to receive additional benefits as a supplement to guaranteed benefits. Our exposure to investment losses on participating funds is generally limited to our participation in the fund. Shareholder assets are other assets held within our businesses that are not backing unit-linked liabilities or participating funds.

Investments held at 31 December 2015 and 31 December 2014 are listed below:

					Carrying value in the statement of financial position £m
2015		Policyholder assets £m	Participating fund assets £m	Shareholder assets £m	
Investment property		6,647	4,116	538	11,301
Loans	83		3,386	18,964	22,433
Financial investments					
Debt securities		24,022	91,006	47,936	162,964
Equity securities		47,394	15,627	537	63,558
Other investments		39,795	5,739	2,161	47,695
Total		117,941	119,874	70,136	307,951
Total %		38.3%	38.9%	22.8%	100.0%
2014		71,454	106,086	59,283	236,823
2014 %		30.2%	44.8%	25.0%	100.0%

As the table indicates, approximately 22.8% of total investments can be directly attributed to shareholders. The apportionment of our shareholder assets is predominantly weighted towards debt securities and loans. In comparison, policyholder assets contain a greater proportion of equities and other investments (e.g. unit trusts), and participating funds contain a greater proportion of debt and equity securities, reflecting the underlying investment mandates.

We carry investments on our statement of financial position at either fair value or amortised cost. At 31 December 2015, approximately 99% of the Group's total investments were carried at fair value on the statement of financial position.

For more information about financial investments analysed according to their accounting classification and valuation approach, as well as the cost, unrealised gains and losses, impairments, fair value and other information concerning financial investments, see 'IFRS Financial statements – Note 26 – Financial investments'.

Debt securities

Participating fund asset and shareholder debt securities analysed by credit rating and sector

Participating fund asset and shareholder debt securities analysed by credit rating and product type as at 31 December 2015 are set out in the tables below. Government and corporate debt securities are further analysed by type of issuer.

2015 – Participating fund assets	Ratings						Total £m
	AAA £m	AA £m	A £m	BBB £m	Less than BBB £m	Non-rated £m	
Government							
UK Government	—	13,715	—	—	—	8	13,723
Non-UK Government	6,526	13,604	2,069	7,821	389	56	30,465
Corporate							
Public utilities	—	85	1,503	2,743	193	94	4,618
Convertibles and bonds with warrants	—	—	—	150	—	8	158
Other corporate bonds	4,877	4,634	10,068	9,843	2,244	2,945	34,611
Certificate of deposits							
	—	357	326	12	35	10	740
Structured							
	732	302	322	207	39	1	1,603
Wrapped credit							
	—	9	99	46	16	—	170
Other							
	318	87	620	1,996	995	902	4,918
Total	12,453	32,793	15,007	22,818	3,911	4,024	91,006
Total %	13.7%	36.0%	16.5%	25.1%	4.3%	4.4%	100.0%
2014	11,160	30,484	14,540	20,855	2,036	3,155	82,230
2014 %	13.6%	37.1%	17.7%	25.3%	2.5%	3.8%	100.0%

2015 – Shareholder assets	Ratings						Total £m
	AAA £m	AA £m	A £m	BBB £m	Less than BBB £m	Non-rated £m	
Government							
UK Government	—	8,940	50	—	—	199	9,189
Non-UK Government	4,138	3,489	850	1,085	2	2	9,566
Corporate							
Public utilities	—	170	3,106	1,892	4	232	5,404
Convertibles and bonds with warrants	—	—	—	—	—	—	—
Other corporate bonds	2,227	2,959	8,109	5,095	481	2,127	20,998
Certificate of deposits	—	9	16	8	33	—	66
Structured	388	686	510	103	58	10	1,755
Wrapped credit	—	13	416	49	51	45	574
Other	17	5	88	115	62	97	384
Total	6,770	16,271	13,145	8,347	691	2,712	47,936
Total %	14.1%	34.0%	27.4%	17.4%	1.4%	5.7%	100.0%
2014	6,031	11,341	9,792	5,537	291	2,811	35,803
2014 %	16.8%	31.7%	27.3%	15.5%	0.8%	7.9%	100.0%

Debt securities are graded according to external credit ratings issued at the balance sheet date. The credit rating used for each individual security is the median rating of the available ratings from the major credit rating agencies. If a credit rating is available from only one of these rating agencies then this rating is used. If an individual security has not been given a credit rating by any of the major rating agencies, the security is classified as 'non-rated'.

For the table above we have expressed our rating using a rating scale whereby investment grade debt securities are classified within the range of AAA (extremely strong) to BBB (good) ratings, with AAA being the highest possible rating. Debt securities which fall outside this range are classified as less than BBB. This rating scale is analogous with that used by major rating agencies.

At 31 December 2015, the proportion of our shareholder debt securities that are investment grade increased to 92.9% (2014: 91.3%). The remaining 7.1% of shareholder debt securities that do not have an external rating of BBB or higher can be split as follows:

- 1.4% are debt securities that are rated as below investment grade; and
- 5.7% are not rated by the major rating agencies.

Of the securities not rated by an external agency most are allocated an internal rating using a methodology largely consistent with that adopted by an external rating agency, and are considered to be of investment grade credit quality; these include £2.5 billion (2014: £2.5 billion) of debt securities held in our UK Life business, predominantly made up of private placements and other corporate bonds, which have been internally rated as investment grade.

Total wrapped credit

In respect of the wrapped credit investments, the table below shows the credit rating of the securities as they are officially rated, and an estimate of their rating without the guarantee. As rating agencies do not provide credit ratings for individual wrapped credit securities without consideration of the insurance guarantee, the credit ratings disclosed in the table below are based on internal best estimates.

	2015						2014	
	Rating with insurance guarantee		Rating without insurance guarantee		Rating with insurance guarantee		Rating without insurance guarantee	
	Fair value £m	% of total	Fair value £m	% of total	Fair value £m	% of total	Fair value £m	% of total
Wrapped credit								
AAA	—	0.0%	—	0.0%	—	0.0%	—	0.0%
AA	24	3.1%	24	3.1%	18	3.3%	—	0.0%
A	543	69.8%	516	66.3%	346	64.2%	269	50.0%
BBB	98	12.6%	120	15.4%	90	16.7%	135	25.0%
Less than BBB	68	8.7%	68	8.7%	38	7.1%	—	0.0%
Non-rated	45	5.8%	50	6.5%	47	8.7%	135	25.0%
Not available without insurance guarantee	—	0.0%	—	0.0%	—	0.0%	—	0.0%
	778	100.0%	778	100.0%	539	100.0%	539	100.0%

Exposures to peripheral European countries

Included in our debt securities and other financial assets are exposures to peripheral European countries. All of these assets are valued on a mark to market basis under IAS 39, and therefore our statement of financial position and income statement already reflect any change in value between the date of purchase and the balance sheet date. The significant majority of these holdings are within our participating funds where the risk to our shareholders is governed by the nature and extent of our participation within those funds.

Net of non-controlling interests, our direct shareholder and participating fund asset exposure to the government (and local authorities and agencies) of Italy is £4.7 billion (2014: £4.9 billion).

Direct sovereign exposures to Greece, Ireland, Portugal, Italy and Spain (net of non-controlling interests, excluding policyholder assets)

	Participating		Shareholder		Total	
	2015 £bn	2014 £bn	2015 £bn	2014 £bn	2015 £bn	2014 £bn
Greece	—	—	—	—	—	—
Ireland	0.6	0.6	0.1	0.2	0.7	0.8
Portugal	0.1	0.2	—	—	0.1	0.2
Italy	4.4	4.8	0.3	0.1	4.7	4.9
Spain	0.8	0.9	0.4	0.4	1.2	1.3
Total Greece, Ireland, Portugal, Italy and Spain	5.9	6.5	0.8	0.7	6.7	7.2

Direct sovereign exposures to Greece, Ireland, Portugal, Italy and Spain (gross of non-controlling interests, excluding policyholder assets)

	Participating		Shareholder		Total	
	2015 £bn	2014 £bn	2015 £bn	2014 £bn	2015 £bn	2014 £bn
Greece	—	—	—	—	—	—
Ireland	0.6	0.6	0.1	0.2	0.7	0.8
Portugal	0.1	0.2	—	—	0.1	0.2
Italy	6.1	6.7	0.5	0.5	6.6	7.2
Spain	1.1	1.2	0.6	0.6	1.7	1.8
Total Greece, Ireland, Portugal, Italy and Spain	7.9	8.7	1.2	1.3	9.1	10.0

Equity securities

The table below analyses our investments in equity securities by sector.

2015	Policyholder £m	Participating £m	Shareholder £m	Total £m
Public utilities	2,674	688	5	3,367
Banks, trusts and insurance companies	10,603	3,270	153	14,026
Industrial, miscellaneous and all other	34,087	11,662	215	45,964
Non-redeemable preferred shares	30	7	164	201
Total	47,394	15,627	537	63,558
Total %	74.6%	24.6%	0.8%	100.0%
2014	26,324	8,813	482	35,619
2014 %	73.9%	24.7%	1.4%	100.0%

Other investments

The table below analyses other investments by type:

2015	Policyholder £m	Participating £m	Shareholder £m	Total £m
Unit trusts and other investment vehicles	39,002	2,852	787	42,641
Derivative financial instruments	52	2,262	1,014	3,328
Deposits and credit institutions	327	28	105	460
Minority holdings in property management undertakings	114	597	249	960
Other	300	—	6	306
Total	39,795	5,739	2,161	47,695
Total %	83.5%	12.0%	4.5%	100.0%
2014	27,181	6,145	2,032	35,358
2014 %	76.9%	17.4%	5.7%	100.0%

Property

Our global headquarters are located in St. Helen's, 1 Undershaft, London, England, EC3P 3DQ. In addition, we have major offices in the following locations:

- UK: UK Life, York and Bristol; UK General Insurance, Norwich; Aviva Investors, London;
- Asia: Singapore;
- North America: Scarborough, Ontario, Canada.
- Europe: Paris, France; Dublin, Ireland; Madrid, Spain; Warsaw, Poland; and Milan, Italy.

As of 31 December 2015, we owned and occupied land and buildings for our own use with a total book value of £337 million (2014: £316 million). We believe that these facilities are adequate for our present needs in all material respects. We also hold other properties, both directly and indirectly, for investment purposes, valued at £9,372 million at 31 December 2015 (2014: £7,521 million). The increase is primarily as a result of the acquisition of the Friends Life business.

Contractual obligations

Contractual obligations with specified payment dates at 31 December 2015 included the following:

	Less than one year £m	Between one & three years £m	Between three & five years £m	After five years £m	Total £m
Insurance and investment contracts					
Long-term business					
– Insurance contracts – non-linked ¹	9,048	17,676	14,614	95,303	136,641
– Investment contracts – non-linked ²	64,735	—	—	—	64,735
– Linked business ²	130,184	—	—	—	130,184
General Insurance ³	5,858	3,507	1,654	2,955	13,974
	209,825	21,183	16,268	98,258	345,534
Other contractual obligations ⁴					
Borrowings	1,143	1,068	982	15,496	18,689
Operating lease obligations	95	178	151	493	917
Capital commitments	100	90	25	119	334
Payables and other financial liabilities ⁵	9,146	291	348	3,212	12,997
Net assets attributable to unit holders	11,415	—	—	—	11,415
Total	231,724	22,810	17,774	117,578	389,886
Reconciliation to the statement of financial position					
Total contractual obligations above					389,886
Effect of discounting contractual cash flows for insurance contracts					(23,805)
Contractual undiscounted interest payments ⁶					(9,795)
Difference between carrying value of borrowings and undiscounted cash flows of principle					(124)
Contractual cash flows under operating leases and capital commitments					(1,251)
Difference between derivative liabilities contractual cash flows and carrying value					(549)
Unallocated divisible surplus ⁷					8,811
Provisions ⁸					1,416
Current and deferred tax liabilities					2,251
Other liabilities					2,802
Total liabilities per statement of financial position	369,642				

- 1 Amounts shown in respect of long-term insurance contracts represent estimated undiscounted cash flows for the Group's life assurance contracts. In determining the projected payments, account has been taken of the contract features, in particular that the amount and timing of the contractual payments reflect either surrender, death or contract maturity. In addition, the undiscounted amounts shown include the expected payments based on assumed future investment returns on assets backing insurance and investment contract liabilities. The projected cash flows exclude the unallocated divisible surplus of with-profits funds (see below).
- 2 All linked contracts and almost all non-linked investment contracts may be surrendered or transferred on demand. For such contracts the earliest contractual maturity is therefore at the current statement of financial position date, for a surrender amount approximately equal to the current statement of financial position liability. Although we expect surrenders, transfers and maturities to occur over many years, the total liability for linked and non-linked investment contracts is shown in the less than one year column above.
- 3 Amounts shown in respect of general insurance contracts are based on undiscounted estimates of future claim payments, including for those classes of business for which discounted provisions are held, see 'IFRS Financial Statements – Note 40 – Insurance liabilities'. The timing of cash flows reflects a best estimate of when claims will be settled.
- 4 The Group has no material finance leases for property and equipment.
- 5 Includes obligations for repayment of collateral received under stock lending arrangements and derivative transactions amounting to £4,855 million.
- 6 When subordinated debt is undated or loan notes perpetual, the interest payments have not been included beyond 15 years. Annual interest payments in future years for these borrowings are £79 million. Contractual undiscounted interest payments are calculated using fixed interest rates or prevailing market floating rates as applicable.
- 7 The unallocated divisible surplus represents the excess of assets over liabilities, including policyholder 'asset share' liabilities in the UK, which reflect the amount payable under the realistic Peak 2 reporting regime of the Prudential Regulatory Authority. Although accounted for as a liability, as permitted by IFRS 4, there is currently no expected payment date for the unallocated divisible surplus.
- 8 Provisions include pension obligations, which have been excluded from the contractual obligations table above, due to the uncertainty of the amount and timing of future cash flows. The Group operates both funded defined benefit and funded defined contribution pension schemes, full details of which are provided in 'IFRS Financial Statements – Note 48 – Pension obligations'. We have a contractual obligation to fund these schemes. However, the amount and timing of the Group's cash contributions to these schemes is uncertain and will be affected by factors such as future investment returns and demographic changes. Our cash funding of defined contribution schemes is based on percentages of salary. Our cash contribution to defined benefit schemes is agreed in advance with scheme trustees. The Company and trustees have agreed to a long-term funding plan where contributions, together with anticipated growth on scheme investments are expected to eliminate the funding deficits over time. Contributions to these and the other schemes are regularly reviewed in light of changes in expectations of investment returns and other assumptions. The discounted scheme liabilities have an average duration of 19 years in the main UK scheme, 19 years in the RAC scheme, 19 years in the Irish scheme, 12 years in the Canadian scheme and 21 years in the Friends Provident Pension Scheme (PPS).

Risk management objectives

As a global insurance group, risk management is at the heart of what we do and is the source of value creation as well as a vital form of control. It is an integral part of maintaining financial stability for our customers, shareholders and other stakeholders.

Our sustainability and financial strength are underpinned by an effective risk management process which helps us identify major risks to which we may be exposed, establish appropriate controls and take mitigating actions for the benefit of our customers and investors. The Group's risk strategy is to invest its available capital to optimise the balance between return and risk whilst maintaining an appropriate level of economic (i.e. risk-based) capital and regulatory capital in accordance with our risk appetite. Consequently, our risk management objectives are to:

- Embed rigorous risk management throughout the business, based on setting clear risk appetites and staying within these;
- Allocate capital where it will make the highest returns on a risk-adjusted basis; and
- Meet the expectations of our customers, investors and regulators that we will maintain sufficient capital surpluses to meet our liabilities even if a number of extreme risks materialise.

Aviva's risk management framework has been designed and implemented to support these objectives. The key elements of our risk management framework comprise our risk appetite; risk governance, including risk policies and business standards, risk oversight committees and roles & responsibilities; and the processes we use to identify, measure, manage, monitor and report (IMMMR) risks, including the use of our risk models and stress and scenario testing. These elements are expanded in the IFRS Financial statements – Note 57.

Principal risks and uncertainties

In accordance with the requirements of the FCA Handbook (DTR 4.1.8) we provide a description of the principal risks and uncertainties facing the Group here and in note 57 to the IFRS Financial statements. Our disclosures covering 'risks relating to our business' in line with reporting requirements of the Securities Exchange Commission (SEC) provide more detail and can be found in the shareholder information section 'Risks relating to our business'.

Risk environment

The first half of 2015 saw strengthening economic growth in Europe, benefitting from accommodative monetary policy, a weak euro, continued low oil prices, while economic growth in the UK and US remained robust. Up until April, a combination of a positive macroeconomic outlook and the launch of the European Central Bank's (ECB) quantitative easing programme in March led to global equity markets reaching all-time highs, weakening euro against the US dollar and pounds sterling, and reduced yields on eurozone sovereign bonds.

In the latter half of the year concerns over the sustainability of current growth rates in developed economies, growing evidence of an economic slowdown in China and other emerging economies, further severe falls in the price of oil and other commodities and geopolitical concerns over the Middle East have depressed equity markets reversing earlier gains. Despite these concerns the US Federal Reserve were sufficiently confident on the strength of the US economy to raise interest rates for the first time since 2006, which has underpinned the current strong US dollar.

These concerns are likely to continue into 2016 with the potential to depress equity markets and cause further financial market volatility and divergence amongst developed economies (US compared to eurozone in particular) in monetary policy, interest rates and economic growth, and exacerbate

macroeconomic imbalances in the global economy. In the UK concerns over the outcome of the referendum on EU membership may depress sterling and the price of gilts. Despite the recent increase in interest rates by the US Federal Reserve the current low interest rate environment compared to historical norms is likely to persist in the intermediate future at least.

2015 also saw a number of high profile cyber security breaches for corporates in the UK and elsewhere and this risk is expected to increase in the future.

Continuing on from 2014, 2015 saw further change in UK public policy on pensions and from April 2016 annuitants will have the option to sell their annuity income to a third party for a cash lump sum. While in most of our markets conduct regulation and enforcement has received increased focus from national supervisors, as well as international supervisory bodies such as EIOPA and IAIS. This is expected to continue into the future.

In November 2015 the Group's designation as a Global Systemically Important Insurer (G-SII) was re-confirmed. Among other policy requirements, this will result in new higher loss absorbency (HLA) capital requirements, which are still under development, to be applied from January 2019, if the Group remains a G-SII.

On 1 January 2016, Solvency II the new capital regime became effective. In December 2015, the PRA approved use of the Group's internal model to calculate the regulatory capital requirement under Solvency II for much of the Group's businesses. Over the next year or two the Group plans to apply to extend use of the internal model to other businesses within the Group, with a beneficial impact (if approved by the PRA and the relevant national supervisory authorities) on the Group's capital requirement.

Risk profile

The types of risk to which the Group is exposed have not changed significantly over the year and remain credit, market, insurance, asset management, liquidity, operational and reputational risks as described in note 57 of the IFRS financial statements.

The Group continues to manage its risk profile to reflect Aviva's objective of maintaining financial strength and reducing capital volatility. In April 2015, the Group completed the acquisition of Friends Life. The principal impact of the acquisition on the Group's risk profile has been to increase our exposure to equity price risk and UK life insurance risks, in particular lapse risk, as well as reducing the Group's external leverage. Work was undertaken during 2015 to adopt the Aviva risk management framework in the former Friends Life businesses.

The Group continued to take steps to amend its risk profile, successfully completing a number of management actions. These include: the disposal of £2.2 billion of non-core commercial mortgages, the reinsurance of £0.7 billion of latent exposures to historical UK employer's liability business (with conditional agreement to extend coverage to £0.8 billion); the purchase of interest swaps to better cash flow match our annuity portfolio; reducing exposure to longevity risk as a result of the RAC staff pension scheme entering into a longevity swap covering £0.6 billion of pensioner in payment liabilities; and reducing our operational risk exposures through investment in our Security Transformation programme in response to the increasing cyber security risk and on-going investment in simplifying our technology estate to improve resilience and reliability of our systems. Restrictions on non-domestic investment in sovereign and corporate debt from Greece, Italy, Portugal and Spain remain in place. As described in note 57 to the IFRS Financial statements, a number of foreign exchange, credit and equity hedges are also in place. These are used to

mitigate the Group's credit and equity exposure, and enable the Group to accept other credit risks offering better risk adjusted returns while remaining within appetite. In addition, we renewed our catastrophe reinsurance programme to reduce the Group's potential loss to an extreme insurance loss event.

During 2015, the Group continued to pay-down the inter-company loan between Aviva Insurance Limited (AIL) and Aviva Group Holdings (AGH). By the end of February 2016, the balance of the loan had been reduced to £1.5 billion, below the level at which we estimate AIL would no longer rely on the loan to meet its stressed liabilities.

In 2015, the Group further enhanced the operating capability of its primary on-shore internal reinsurance mixing vehicle, Aviva International Insurance Limited (All), and in December, All received approval to use Aviva's internal model to calculate its capital requirement. These steps now successfully concluded should enable the Group to significantly increase the amount of business ceded to All, with the objective of promoting greater capital efficiency and realising the benefits of group diversification of risk through lower solo capital requirements in the ceding entities.

During 2015 the Group has continued to maintain its external leverage at a level commensurate with a AA rating.

Low interest rate environment

The Group continues to be adversely impacted by the low interest rate environment in a number of markets around the world. This has resulted in reduced interest spread on participating contracts (the difference between the amounts that we are required to pay under the contracts and the investment income we are able to earn on the investments supporting our obligations under those contracts), and current reinvestment yields being lower than the overall current portfolio yield, primarily for our investments in fixed income securities and commercial mortgage loans. We anticipate that interest rates may remain below historical averages for an extended period of time and that financial markets may continue to have periods of high volatility. As a result we continue to rebalance the Group's revenues towards product lines, such as protection, that are not significantly sensitive to interest rate or market movements. Further information on the Group's exposure to low interest rates is included in the sensitivity analysis in Note 57 of the IFRS Financial Statements.

Capital management

Capital management objectives

The primary objective of capital management is to optimise the balance between return and risk, whilst maintaining economic and regulatory capital in accordance with risk appetite. Aviva's capital and risk management objectives are closely interlinked, and support the dividend policy and earnings per share growth, whilst also recognising the critical importance of protecting policyholder and other stakeholder interests.

Overall capital risk appetite, which is reviewed and approved by the Aviva Board, is set and managed with reference to the requirements of a range of different stakeholders including shareholders, policyholders, regulators and rating agencies. Risk appetite is expressed in relation to a number of key capital and risk measures, and includes a Solvency II capital risk appetite of holding sufficient capital resources to enable the Group to meet its liabilities in extreme adverse scenarios, on an ongoing basis. Our risk appetite is consistent with a AA range credit rating.

In managing capital we seek to:

- 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;

- optimise our overall debt to equity structure to enhance our returns to shareholders, subject to our capital risk appetite and balancing the requirements of the range of stakeholders;
- retain financial flexibility by maintaining strong liquidity, including significant unutilised committed credit facilities and access to a range of capital markets;
- allocate capital rigorously across the Group, to drive value adding growth through optimising risk and return; and
- declare dividends with reference to factors including growth in cash flows and earnings.

In line with these objectives, the capital generated and invested by the Group's businesses is a key management focus.

Accounting basis:

Capital employed by segment and financing of capital

The table below shows how our capital, on an IFRS basis, is deployed by segment and how that capital is funded.

	2015 £m	2014 £m
Long-term savings	16,326	10,579
General insurance and health	5,870	6,007
Fund management	411	298
Corporate and other business ¹	2,537	702
Total capital employed	25,144	17,586
Financed by:		
Equity shareholders' funds	15,764	10,018
Non-controlling interests	1,145	1,166
Direct capital instrument and tier 1 notes	1,123	892
Preference shares	200	200
Subordinated debt	6,427	4,594
Senior debt	485	716
Total capital employed	25,144	17,586

¹ Corporate and other business includes centrally held tangible net assets, the main UK staff pension scheme surplus and also reflects internal lending arrangements. These internal lending arrangements, which net out on consolidation, include the formal loan agreement between Aviva Group Holdings and Aviva Insurance Limited (AIL).

² Internal capital management mechanisms in place allocated a majority of the total capital of AIL to the UK general insurance operations with the remaining capital deemed to be supporting residual (non-operational) Pillar II ICA risks.

³ Certain subsidiaries, subject to satisfying stand-alone capital and liquidity requirements, loan funds to corporate and holding entities. These loans satisfy arm's length criteria and all interest payments are made when due.

Total capital employed is financed by a combination of equity shareholders' funds, preference capital, subordinated debt and other borrowings.

At the end of 2015 we had £25.1 billion (2014: £17.6 billion) of total capital employed in our trading operations measured on an IFRS basis.

Regulatory capital – overview

Solvency II, the new Europe-wide prudential regulatory framework, came into force on 1 January 2016. This new regime puts in place a consistent solvency framework for insurers across Europe. 2015 was an important year for Aviva as it prepared for formal implementation of Solvency II on 1 January 2016. The Group has used a risk based capital model to assess economic capital requirements for a number of years which helped prepare for the new regime. Aviva's Group Solvency II partial internal model was approved in December 2015 by the Prudential Regulation Authority (PRA). Whilst Solvency II is applicable from 1 January 2016, during 2015 and as at the year end the European Insurance Groups Directive (IGD) was still applicable.

Under the Solvency I regime effective until 31 December 2015, individual regulated subsidiaries measure and report solvency based on applicable local regulations, including in the UK the regulations established by the PRA. These measures are also consolidated under the European Insurance Groups Directive (IGD) to calculate regulatory capital adequacy at an

aggregate Group level, where Aviva has a regulatory obligation to have a positive position at all times.

This measure represents the excess of the aggregate value of regulatory capital employed in our business over the aggregate minimum solvency requirements imposed by local regulators, excluding the surplus held in the UK and Ireland with-profit life funds. The minimum solvency requirement for our European businesses is based on the Solvency I Directive. In broad terms, for EU operations, this is set at 4% and 1% of non-linked and unit-linked life reserves respectively and for our general insurance portfolio of business is the higher of 18% of gross premiums or 26% of gross claims, in both cases adjusted to reflect the level of reinsurance recoveries. For our business in Canada a risk charge on assets and liabilities approach is used.

From 1 January 2016 EU-based insurance groups are no longer required to disclose their solvency position under the European Insurance Groups Directive, as the regulatory framework has been replaced by the new Solvency II regime. As such, after 31 December 2015 Aviva will no longer disclose its solvency surplus under the IGD rules.

Regulatory capital – Group European Insurance Groups Directive

	UK life funds £bn	Other business £bn	31 December 2015 £bn	31 December 2014 £bn
Insurance Groups Directive (IGD) capital resources	11.8	10.8	22.6	14.4
Less: capital resources requirement	(11.8)	(4.8)	(16.6)	(11.2)
Insurance Groups Directive (IGD) excess solvency	—	6.0	6.0	3.2
Cover over EU minimum (calculated excluding UK life funds)			2.2 times	1.6 times

The IGD regulatory capital solvency surplus has increased by £2.8 billion since 31 December 2014 to £6.0 billion. The key drivers of the increase are the acquisition of Friends Life (£1.6 billion), operating profits (£1.6 billion) and the net issue of hybrid debt (£0.4 billion), offset by dividend payments and pension scheme funding (£0.5 billion).

The key movements over the period are set out in the following table:

	£bn
IGD solvency surplus at 31 December 2014	3.2
Acquisition of Friends Life	1.6
Operating profits net of integration and restructuring costs	1.6
Net hybrid debt issue ¹	0.4
Dividends and appropriations	(0.3)
Pension scheme funding	(0.2)
Outward reinsurance of latent reserves ²	0.2
Increase in capital resources requirement	(0.1)
Other regulatory adjustments	(0.4)
Estimated IGD solvency surplus at 31 December 2015	6.0

¹ Net hybrid debt issue includes £1 billion benefit of two new Tier 2 subordinated debt instruments issued on 4 June 2015; offset by £(0.6) billion derecognition of two instruments redeemed in the second half of 2015.

2 Outward quota share reinsurance agreement completed in 2015 in Aviva Insurance Limited (AIL).

Regulatory capital – UK Life with-profits fund

The available capital of the with-profits funds is represented by the realistic inherited estate. The estate represents the assets of the long-term with-profits funds less the realistic liabilities for non-profits policies within the funds, less asset shares aggregated across the with-profits policies and any additional amounts expected at the valuation date to be paid to in-force policyholders in the future in respect of smoothing costs, guarantees and promises. Realistic balance sheet information is shown below for the four main UK with-profits funds: New With-Profits Sub-Fund (NWPSF), Old With-Profits Sub-Fund (OWPSF), With-Profits Sub-Fund (WPSF) and Friends Provident

With-Profits Fund (FP WPF). Realistic balance sheet information for the five Friends Life (FL) with-profits funds that are closed to new business have been disclosed as 'Other FL WPFs' including: FPLAL With-Profits Fund (FPLAL WPF), FLC New With-Profits Fund (FLC New WPF), Old With-Profits Fund (FLC Old WPF), FLAS With-Profits Fund (FLAS WPF) and WL With-Profits Fund (WL WPF). These realistic liabilities have been included within the long-term business provision and the liability for insurance and investment contracts on the Group's IFRS Statement of financial position at 31 December 2015 and 31 December 2014, with comparatives at 31 December 2014 including NWPSF, OWPSF and WPSF only.

					31 December 2015	31 December 2014	
	Estimated realistic assets £bn	Estimated realistic liabilities £bn ¹	Estimated realistic inherited estate ² £bn	Capital support arrangement ³ £bn	Estimated risk capital margin £bn	Estimated excess available capital £bn	Estimated excess available capital £bn
SF	14.0	(14.0)	—	2.1	(0.2)	1.9	1.9
PSF	2.6	(2.4)	0.2	—	—	0.2	0.2
F ⁴	16.7	(15.2)	1.5	—	(0.3)	1.2	1.3
PPF ⁵	7.2	(7.0)	0.2	—	(0.2)	—	—
or FL							
PPFs ⁶	10.7	(10.7)	—	—	—	—	—

¹ Realistic liabilities include the shareholders' share of accrued bonuses of £0.8 billion (*31 December 2014: £0.2 billion*). Realistic liabilities adjusted to eliminate the shareholders' share of accrued bonuses are £48.5 billion (*31 December 2014: £33.0 billion*). These realistic liabilities make provision for guarantees, options and promises on a market consistent stochastic basis. The value of the provision included within realistic liabilities is £1.4 billion, £0.3 billion, £2.3 billion, and £0.8 billion for NWPSPF, OWPSF, WPSF and FW WPPE respectively (*31 December 2014: £1.4 billion, £0.3 billion and £0.8 billion for NWPSPF, OWPSF and WPSF respectively*).

2 Estimated realistic inherited estate at 31 December 2014 was £nil, £0.3 billion and £1.6 billion for NWPSF, OWPSF and WPSF respectively.

3 The support arrangement represents the reattributed estate (RIESEA) of £2.1 billion at 31 December 2015 (31 December 2014: £2.1 billion).

4 The WPSF fund includes the Ireland With-Profits Sub-Fund (IWPSF) and the Provident Mutual (PM) Fund which have realistic assets and liabilities of £2.4 billion in total, and therefore do not contribute to the realistic inherited estate.

5 For FP WPF the realistic inherited estate is restricted to the estimated risk capital margin with excess available capital used to enhance asset shares.

6 Includes FPLAL WPF, FLC New WPF, FLC Old WPF, FLAS WPF and WL WPF. For these funds it is assumed that the entire estimated realistic inheritance is distributed to eligible older.

Investment mix

Investment mix
The aggregate investment mix of the assets in the four main with-profit funds at 31 December 2015 and three main with-profit funds at 31 December 2014 was:

	31 December 2015 %	31 December 2014 %
Equity	30%	24%
Property	10%	10%
Fixed interest	54%	59%
Other	6%	7%

The equity backing ratios, including property, supporting with-profit asset shares are 75% in NWPSF and OWPSF, 72% in WPSF and 45% in FP WPF.

Economic capital

We use a risk-based capital model to assess economic capital requirements and to aid in risk and capital management across the Group. The model is based on a framework for identifying the risks to which business units, and the Group as a whole, are exposed. Where appropriate, businesses also supplement these with additional risk models and stressed scenarios specific to their own risk profile. When aggregating capital requirements at business unit and Group level, we allow for diversification benefits between risks and between businesses, with restrictions to allow for non-fungibility of capital where appropriate. This means that the aggregate capital requirement is less than the sum of capital required to cover all of the individual risks. The capital requirement reflects the cost of mitigating the risk of insolvency to a 99.5% confidence level over a one year time

horizon (equivalent to events occurring in 1 out of 200 years) against financial and non-financial tests.

The financial modelling techniques employed in economic capital enhance our practice of risk and capital management. They enable understanding of the impact of the interaction of different risks allowing us to direct risk management activities appropriately. These same techniques are employed to enhance product pricing and capital allocation processes.

Rating agency

Credit ratings are an important indicator of financial strength and support access to debt markets as well as providing assurance to business partners and policyholders over our ability to service contractual obligations. In recognition of this we have solicited relationships with a number of rating agencies. The agencies generally assign ratings based on an assessment of a range of financial factors (e.g. capital strength, liquidity, leverage and fixed charge cover ratios) and non-financial factors (e.g. strategy, competitive position and quality of management).

Certain rating agencies have proprietary capital models which they use to assess available capital resources against capital requirements as a component in their overall criteria for assigning ratings. Managing our capital and liquidity position in accordance with our target rating levels is a core consideration in all material capital management and capital allocation decisions.

The Group's overall financial strength is reflected in our credit ratings. The Group's rating from Standard and Poor's is A+ (strong) with a Stable outlook; A1 (good) with a Stable outlook from Moody's; AA- (very strong) with a Stable outlook from Fitch Ratings; and A (excellent) with a Stable outlook from A.M. Best.

Financial flexibility

The Group's borrowings are comprised primarily of long dated hybrid instruments with maturities spread over many years, minimising refinancing risk. In addition to central liquid asset holdings of £1.0 billion, the majority of which was held within Aviva Group Holdings Limited at the 2015 year end, the Group also has access to unutilised committed credit facilities of £1.7 billion provided by various highly rated international banks.

Key indicators^{1,2}

Indicator	2012	2013	2014	2015	2015 target
Trust					
% of employees who confirm that they have read, understood, and accepted the Business Ethics Code annually; and all employees in Aviva France who are obliged to comply with the Business Ethics Code as a term of their employment	88%	95%	96%	98%	100%
% of business that are in or above the upper quartile relative to the local market average (Net Promoter Score ®)	25%	33%	50%	50%	Improve past performance
Environment					
% of CO ₂ e emissions offset annually	100%	100%	100%	100%	Offset 100% CO ₂ e emissions
% reduction of CO ₂ e emissions relative to our 2010 baseline	New KPI	New KPI	32%	39%	40% reduction by 2020 and 50% reduction by 2030
CO ₂ e emissions (tonnes) – absolute	112,763	105,317	83,924	88,698	Reduce by 5%
CO ₂ e emissions (tonnes) – relative	n/a	n/a	83,924	73,373	Reduce by 5%
Water consumption (m ³) – absolute	529,960	459,634	468,097	483,635	Reduce by 4%
Waste generated (tonnes) – absolute	11,468	11,481	9,255	9,564	Reduce by 4%
People					
% of women in senior management (including subsidiary boards)	22%	21%	21%	22%	n/a
% of employees who feel Aviva is a place where people from diverse backgrounds can succeed	76%	75%	76%	76%	Improve from previous year
% of employees who rate us favourably on engagement index	68%	56%	65%	63%	Improve from previous year
% of employees who believe Aviva is a good corporate citizen	New KPI	New KPI	New KPI	80%	n/a
Suppliers					
% of managed supply that has agreed to the supplier Code of Behaviour	30%	28%	43%	43%	Increase scope/% from previous year
% of managed supply that has been engaged on Corporate Responsibility during the term of their contract with Aviva	71%	63%	83%	99%	Increase scope/% from previous year
Community					
Amount of community investment	£11m	£6.2m	£6.3m	£10.8m	Maintain or improve investment
% of employees participating in volunteering	18%	27%	23%	12%	Increase % of employee volunteering
Number of employee hours spent volunteering	56,357	41,223	40,220	40,828	Increase volunteering hours
Total beneficiaries of corporate responsibility programmes	New KPI	New KPI	511,629	587,203	Increase number of beneficiaries

¹ 2015 data has been subject to independent assurance by PwC. See page 314 to 315.

² Unless otherwise stated, 2015 data includes Friends Life from date of acquisition. Environment KPIs include Friends Life data for the whole of 2015.

For details on the methodology followed to report on these KPIs, please refer to our Reporting Criteria document (<http://www.aviva.com/investor-relations/reports/>)

Change	Met target	2016 target	Notes
2%	N	100%	All employees are required to read, understand and sign their acceptance of the Code annually except in France where the Code is included as part of their employment contracts.
=	N	Improve past performance	Net Promoter Score ® (NPS) is the difference between the percentage of customers who are our promoters (i.e. advocates who would recommend Aviva to friends and colleagues) and those who are our detractors (i.e. customers who would not recommend Aviva or would even speak out against Aviva). The percentage figures are based on those markets within which Aviva has continued to operate from 2012, which are: UK, Ireland, Canada, France, Italy, Spain, Poland, Lithuania, Singapore, China, and India. This KPI excludes Friends Life customers.
=	Y	Offset 100% CO ₂ e emissions	
n/a	Y	40% reduction by 2020 and 50% reduction by 2030	Our 2010 baseline, which we use to understand our progress on a long term basis has been restated to include Friends Life. Our new restated baseline is 146,248 tCO ₂ e. We have two long-term CO ₂ e reduction targets in place of 40% by 2020 and 50% by 2030 from the restated baseline.
6%	*	Reduce by 5%	*On a relative basis, i.e. excluding Friends Life, Aviva exceeded its target and reduced its CO ₂ e by 13%. The absolute amount only increased due to the acquisition of Friends Life which increased the size of the company significantly in 2015.
(13)%	Y	Reduce by 5%	The relative CO ₂ e reduction shows the reduction achieved by Aviva on a like-for-like basis i.e. it excludes Friends Life carbon emissions for 2015.
3%	N	Reduce by 4%	On a relative basis, i.e. excluding Friends Life, Aviva reduced its water consumption by 3%. The absolute amount only increased due to the acquisition of Friends Life which increased the size of the company significantly in 2015.
3%	**	Reduce by 4%	**On a relative basis, i.e. excluding Friends Life, Aviva exceeded its target and reduced its waste by 8%. The absolute amount only increased due to the acquisition of Friends Life which increased the size of the Company significantly in 2015.
1%	n/a	n/a	
=	N	Improve from previous year	The data reflected here comes from our annual employee survey. KPIs for this section will be reviewed in 2016.
(2)%	N	Improve from previous year	
n/a	n/a	Improve from previous year	
=	N	Increase scope/% from previous year	These KPIs exclude Friends Life suppliers.
16%	Y	Increase scope/% from previous year	
71%	Y	Maintain or improve investment	We report following the London Benchmarking Group (LBG) guidance. The significant increase in our Community Investment is primarily due to: the replication of the Aviva Community Fund (ACF) in a number of markets; and a £1.1 million contribution reflecting an endowment made by Friends Life to the Friends Provident Foundation in 2004.
(11)%	N	Increase % of employees volunteering	The lower percentage of employees volunteering and slight increase of volunteering hours is explained by: the completion of our Global Street to School programme in 2014, which used to engage a high number of employees in volunteering activities; and an increase in the number of hours volunteered per employee in 2015.
1.5%	Y	Increase volunteering hours	
12.9%	Y	Increase number of beneficiaries	

Independent Limited Assurance Report to the Directors of Aviva plc

The Board of Directors of Aviva plc ('Aviva') engaged us to provide limited assurance on the information described below and set out in Aviva's Annual Report and Accounts for the year ended 31 December 2015.

Our conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Selected Information for the year ended 31 December 2015 has not been prepared, in all material respects, in accordance with the Reporting Criteria.

This conclusion is to be read in the context of what we say in the remainder of our report.

Selected Information

The scope of our work was limited to assurance over the information marked with the symbol in Aviva's Annual Report and Accounts for the year ended 31 December 2015 (the 'Selected Information' as found on pages 312 and 313).

The Selected Information has been listed below and the Reporting Criteria against which it was assessed can be found at <http://www.aviva.com/investor-relations/reports/>

1. % of employees who confirm that they have read, understood, and accepted the Business Ethics Code annually; and all employees in Aviva France who are obliged to comply with the Business Ethics Code as a term of their employment
2. % of CO₂e emissions offset annually
3. % reduction of CO₂e emissions relative to our 2010 baseline
4. CO₂e emissions (tonnes) – absolute
5. CO₂e emissions (tonnes) – relative
6. Water consumption (m³) – absolute
7. Waste generated (tonnes) – absolute
8. % of women in senior management (including subsidiary boards)
9. % of managed supply that has agreed to the supplier Code of Behaviour
10. % of managed supply that has been engaged on Corporate Responsibility during the term of their contract with Aviva
11. Amount of community investment, £

Our assurance does not extend to information in respect of earlier periods or to any other information included in the Annual Report and Accounts for the year ended 31 December 2015.

Professional standards applied and level of assurance

We performed a limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) 'Assurance Engagements other than Audits and Reviews of Historical Financial Information' and, in respect of the greenhouse gas emissions, in accordance with International Standard on Assurance Engagements 3410 'Assurance Engagements on Greenhouse Gas Statements', issued by the International Auditing and Assurance Standards Board. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

Our independence and quality control

We applied the Institute of Chartered Accountants in England and Wales (ICAEW) Code of Ethics, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

We apply International Standard on Quality Control (UK & Ireland) 1 and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our work was carried out by an independent team with experience in sustainability reporting and assurance.

Understanding reporting and measurement methodologies

The Selected Information needs to be read and understood together with the Reporting Criteria, which Aviva is solely responsible for selecting and applying. The absence of a significant body of established practice on which to draw to evaluate and measure non-financial information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time. The Reporting Criteria used for the reporting of the Selected Information are as at 31 December 2015.

Work done

We are required to plan and perform our work in order to consider the risk of material misstatement of the Selected Information. In doing so, we:

- made enquiries of Aviva's management, including the Corporate Responsibility (CR) team and those with responsibility for CR management and group CR reporting;
- evaluated the design of the key structures, systems, processes and controls for managing, recording and reporting the Selected Information. This included visiting head offices in two out of sixteen markets, and performing alternative testing procedures for the remaining fourteen markets, selected on the basis of their inherent risk and materiality to the group, to understand the key processes and controls for reporting site performance data to the group CR team;
- performed limited substantive testing on a selective basis of the Selected Information to check that data had been appropriately measured, recorded, collated and reported; and
- considered the disclosure and presentation of the Selected Information.

Aviva's responsibilities

The Directors of Aviva are responsible for:

- designing, implementing and maintaining internal controls over information relevant to the preparation of the Selected Information that is free from material misstatement, whether due to fraud or error;
- establishing objective Reporting Criteria for preparing the Selected Information;
- measuring and reporting the Selected Information based on the Reporting Criteria; and
- the content of the Annual Report and Accounts for the year ended 31 December 2015.

Our responsibilities

We are responsible for:

- planning and performing the engagement to obtain limited assurance about whether the Selected Information is free from material misstatement, whether due to fraud or error;
- forming an independent conclusion, based on the procedures we have performed and the evidence we have obtained; and
- reporting our conclusion to the Directors of Aviva.

This report, including our conclusions, has been prepared solely for the Board of Directors of Aviva in accordance with the agreement between us, to assist the Directors in reporting Aviva's corporate responsibility performance and activities. We permit this report to be disclosed in the Annual Report and Accounts for the year ended 31 December 2015, to assist the Directors in responding to their governance responsibilities by obtaining an independent assurance report in connection with the Selected Information. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board of Directors and Aviva for our work or this report except where terms are expressly agreed between us in writing.

PricewaterhouseCoopers LLP,
Chartered Accountants, London
9 March 2016

1 The maintenance and integrity of Aviva's website is the responsibility of the Directors; the work carried out by us does not involve consideration of these matters and, accordingly, we accept no responsibility for any changes that may have occurred to the reported Selected Information or Reporting Criteria when presented on Aviva's website.

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Other information

Shareholder information

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Company address

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

Share capital

The Company has two classes of shares in issue:

- Ordinary shares of £0.25 each which constitute equity security and hold voting rights
- Cumulative irredeemable preference shares of £1 each, which entitle holders to attend and vote at general meetings only when dividends on such shares are in arrears. Cumulative irredeemable preference shareholders may also attend general meetings and vote on particular proposals when such proposals relate to an alteration of the rights attaching to such shares, a reduction of capital (other than through a redemption or repurchase of shares) or a winding up of business. On a winding up, they carry a preferential right of return of capital ahead of the ordinary shares

Issued share capital

The Company had an aggregate issued and outstanding ordinary share capital of £1,012 million as of 31 December 2015. The following table sets out information about the issued and outstanding classes of equity as of 31 December 2015.

Share class	Shares issued and outstanding			Shares covered by outstanding options		
	2015 Million	2014 Million	2013 Million	2015 Million	2014 Million	2013 Million
Ordinary shares, nominal value 25p	4,048	2,950	2,947	18	17	20
8.375% Cumulative irredeemable preference shares, nominal value £1	100	100	100	—	—	—
8.75% Cumulative irredeemable preference shares, nominal value £1	100	100	100	—	—	—

The Companies Act 2006 abolished the requirement for a company to have an authorised share capital and the Company's current articles of association reflect this. Directors are still limited as to the number of shares they can allot, as the allotment authority continues to be required under the Act, save in respect of employee share schemes. Details of existing authorities to allot shares are set out in notes 30 and 33. Ordinary shares in issue in the Company rank pari passu. All the ordinary shares in issue carry the same right to receive all dividends and other distributions declared, made or paid by the Company.

The Company is not permitted under English law to hold its own ordinary shares. Whilst the Company is presently authorised to repurchase up to 295 million ordinary shares, any shares that are repurchased must be cancelled. Details of the Company's dividends are set out in the section 'Dividend data'. The Company's preference shares rank, as to the payment of dividends and capital, as set out in note 33 of the IFRS Financial statements.

Share options and awards

The Company maintains a number of active stock option and share award schemes. Details of any outstanding awards under these schemes are set out in 'IFRS Financial statements – note 31 – Group's share plans'. Details of employee share schemes are set out in Note 31 and/or the Directors' remuneration report. In addition to the share schemes mentioned in note 31 and the DRR, we operate the following share schemes:

The matching share plan

Under the Aviva all employee share ownership plan (AESOP), eligible employees can invest up to statutory limits, currently £150 per month out of their gross salary in the Company's shares. A matching element was introduced in April 2013 through which the Company matches every purchased share with two matching shares for the first £40 of a participant's monthly contribution. Matching shares are subject to forfeiture if purchased shares are withdrawn from the AESOP within three years of purchase, as long as the employee remains employed by the Company. Participants are also eligible to receive dividend shares through the AESOP.

Aviva Group employee share ownership scheme

Aviva Group operates an Irish Revenue approved share scheme for employees of the Aviva Group in Ireland. Under the Aviva Group Employee Share Ownership Scheme, eligible employees can elect to forego some of their gross bonus and gross salary (up to a maximum of €12,700 per tax year) in exchange for the Company's shares. The shares are held in trust for three years.

Aviva France employee profit sharing scheme

Aviva France operates an employee profit sharing scheme where employees are given an award based on a percentage of salary, which can be either received in cash or invested in one of four mutual funds. One of the four mutual funds is invested solely in Aviva plc ordinary shares. Any investment in a mutual fund must be held for at least five years.

Additional information

For the purposes of Listing Rule (LR) 9.8.4C R, the information required to be disclosed by LR 9.8.4 R can be found in the following locations:

Section in LR 9.8.4C R	Topic	Location in the annual report and accounts
1	Interest capitalised	N/A
2	Publication of unaudited financial information	N/A
3	Requirement deleted from the listing rules	DRR and IFRS Financial Statements – note 31
4	Details of long-term incentive schemes	N/A
5	Waiver of emoluments by a director	N/A
6	Waiver of future emoluments by a director	N/A
7	Non pre-emptive issues of equity for cash	N/A
8	Item (7) in relation to major subsidiary undertakings	N/A
9	Parent participation in a placing by a listed subsidiary	N/A
10	Contracts of significance	N/A
11	Provision of services by a controlling shareholder	N/A
12	Shareholder waivers of dividends	IFRS Financial Statements – note 32
13	Shareholder waivers of future dividends	IFRS Financial Statements – note 32
14	Agreements with controlling shareholders	N/A

History of share capital

The following table sets out information about the history of the Company's ordinary shares over the last three full calendar years.

	Number of shares outstanding
At 31 December 2012	2,945,972,261
Shares issued under the Group's Employee and Executive Share Option Schemes ¹	967,361
At 31 December 2013	2,946,939,622
Shares issued under the Group's Employee and Executive Share Option Schemes ¹	3,547,718
At 31 December 2014	2,950,487,340
Shares issued under the Group's Employee and Executive Share Option Schemes ¹	11,651,227
Shares issued in relation to the acquisition of Friends Life	1,086,326,606
At 31 December 2015	4,048,465,173

¹ For more information on our various option schemes, see note 31 in the financial statements.

There were no changes to the voting rights of any class of shares during 2013, 2014 and 2015, other than issuances in connection with our various employee option schemes and in relation to the acquisition of Friends Life. The Company did not issue shares for consideration other than cash during 2013, 2014 and 2015, with the exception of the acquisition of Friends Life. Details of the acquisition through a share exchange are set out in note 3. In addition, at the Company's general meetings in 2013, 2014 and 2015, shareholders authorised the limited dis-application of section 561 of the Companies Act 2006 to permit the Company to issue new equity securities for cash without applying shareholders' statutory pre-emptive rights.

Related party disclosures

Related party transactions

For more information relating to related party transactions, including more information about the transactions described below, please see 'IFRS Financial Statements – note 60 – Related party transactions'.

Subsidiaries

Transactions between the Company and its subsidiaries are eliminated on consolidation.

Key management compensation

The total compensation to those employees classified as key management, being those having authority and responsibility for planning, directing and controlling the activities of the Group, including the executive and non-executive directors is as follows:

	2015 £m	2014 £m	2013 £m
Salary and other short-term benefits	13.3	8.9	6.7
Post-employment benefits	1.7	1.0	1.1
Equity compensation plans	10.6	1.9	3.3
Termination benefits	2.0	—	1.1
Other long-term benefits	5.2	4.1	1.6
Total	32.8	15.9	13.8

The increase in total key management compensation in 2015 mainly reflects the effect of an increase in the number of employees classified as key management compared to 2014.

Various directors and key management of Aviva may from time to time purchase insurance, asset management or annuity products from Aviva Group companies in the ordinary course of business on substantially the same terms, including interest rates and security requirements, as those prevailing at the time for comparable transactions with other persons.

Apart from the disclosed transactions discussed above and in the 'Governance' section of this report, no director had an interest in shares, transactions or arrangements that requires disclosure under applicable rules and regulations.

Other related parties

The Group received income from and paid expenses to other related parties from transactions made in the normal course of business. Loans to other related parties are made on normal arm's length commercial terms.

Services provided to other related parties

	2015		2014		2013	
	Income earned in year £m	Receivable at year end £m	Income earned in year £m	Receivable at year end £m	Income earned in year £m	Receivable at year end £m
Associates	9	—	7	—	3	11
Joint ventures	27	192	28	154	51	56
Employee pension schemes	13	3	11	3	12	9
	49	195	46	157	66	76

In addition to the amounts disclosed for associates and joint ventures above, at 31 December 2015 amounts payable at year-end were £nil (2014: £nil), and expenses incurred during the period were £7 million (2014: £2 million).

Transactions with joint ventures in the UK relate to the property management undertakings, the most material of which are listed in note 18(a)(iii). Our interest in these joint ventures comprises a mix of equity and loans, together with the provision of administration services and financial management to many of them. Our UK life insurance companies earn interest on loans

advanced to these entities, movements in which may be found in note 18(a)(i).

Our fund management companies also charge fees to these joint ventures for administration services and for arranging external finance.

Our UK fund management companies manage most of the assets held by the Group's main UK staff pension scheme, for which they charge fees based on the level of funds under management. The main UK scheme holds investments in Group-managed funds and insurance policies with other Group companies, as explained in note 48(b)(ii).

The related parties' receivables are not secured and no guarantees were received in respect thereof. The receivables will be settled in accordance with normal credit terms. Details of guarantees, indemnities and warranties provided on behalf of related parties are given in note 52(f).

Loans to joint ventures

We make loans to our property management joint ventures to fund property developments which we undertake with our joint venture partners. Movements in these loans may be found in 'IFRS Financial Statements – Note 18 – Interests in, and loans to, joint ventures'. Total loans at 31 December 2015 and at the end of each of the last three financial years are shown in the table below:

	2015 £m	2014 £m	2013 £m
Loans to joint ventures	94	73	24

Dividend data

The Company has a policy to pay a progressive dividend with reference to growth in cash flows and earnings. Under UK company law, we may only pay dividends if the Company has 'distributable profits' available. 'Distributable profits' are accumulated, realised profits not previously distributed or capitalised, less accumulated, unrealised losses not previously written off based on IFRS. Even if distributable profits are available, we pay dividends only if the amount of our net assets is not less than the aggregate of our called-up share capital and undistributable reserves and the payment of the dividend does not reduce the amount of our net assets to less than that aggregate.

As a holding company, the Company is dependent upon dividends and interest from our subsidiaries to pay cash dividends. Many of the Company's subsidiaries are subject to insurance regulations that restrict the amount of dividends that they can pay to us. From 1 January 2016, the Company and its insurance subsidiaries in the UK, are also required to comply with the PRA Supervisory Statement SS2/15 in respect of the payment of dividends.

Historically, the Company has declared an interim and a final dividend for each year (with the final dividend being paid in the year following the year to which it relates). Subject to the restrictions set out above, the payment of interim dividends on ordinary shares is made at the discretion of our Board, whilst payment of any final dividend requires the approval of the Company's shareholders at a general meeting. Preference shares are irredeemable and dividends on preference shares are made at the discretion of our Board.

The Company pays cash dividends in pounds sterling, although the articles of association permit payment of dividends on ordinary shares in other currencies and in forms other than cash, such as ordinary shares. If dividends on ordinary shares held by the American Depository Shares (ADS) depositary are paid in pounds sterling, the ADS depositary will convert the pounds sterling that it receives on behalf of the ADS holders

into US dollars according to the prevailing market rate on the date that the ADS depositary actually receives the dividends.

From the 2009 interim dividend to the 2012 interim dividend, shareholders on record were provided the opportunity to elect to receive dividends in the form of newly issued ordinary shares through the Aviva Scrip Dividend Scheme. For the 2012 final and subsequent dividends, the Aviva Scrip Dividend Scheme has been withdrawn.

An interim dividend is generally paid in November of each year. A final dividend is typically proposed by the Company's Board after the end of the relevant year and generally paid in May. The following table shows certain information regarding the dividends that we paid on ordinary shares for the periods indicated in pounds sterling and converted into US dollars at the noon buying rate in effect on each payment date.

Year	Interim dividend per share (pence)	Interim dividend per share (cents)	Final dividend per share (pence)	Final dividend per share (cents)
2009	9.00	14.75	15.00	23.55
2010	9.50	15.20	16.00	25.80
2011	10.00	15.70	16.00	25.27
2012	10.00	15.85	9.00	13.67
2013	5.60	9.01	9.40	15.79
2014	5.85	9.15	12.25	19.21
2015	6.75	10.21	14.05	N/A

Guarantees, securitised assets and off-balance sheet arrangements

As a normal part of our operating activities, various Group companies have given financial guarantees and options, including interest rate guarantees, in respect of certain long-term assurance and fund management products, as set out in Note 42 to the IFRS Financial Statements. These are accounted for on-balance sheet as either part of the host insurance contract or as financial instruments under IFRS.

Information on operating lease commitments can be found in Note 53(b) to the IFRS Financial Statements.

It is standard business practice for our Group companies to give guarantees, indemnities and warranties in connection with disposals of subsidiaries, joint ventures and associates to third parties. As of 31 December 2015, we believe no material loss will arise in respect of these guarantees, indemnities and warranties. Principal warranties include the accuracy and completeness of the statement of financial position at an agreed specified date, details of outstanding litigation, regulatory matters, material contractual commitments, the position on tax filings and other customary matters together with any specific items identified during due diligence. In addition, specific clauses cover such items as regulatory approvals and licences, the basis of calculation regarding actuarial insurance liabilities, reinsurance contracts and the status of employee pension plans. Their exact terms are tailored to each disposal and are set out in the respective sale and purchase agreement. Similarly, the open warranty periods, within which the purchaser could claim, and limits on the maximum amount potentially recoverable will vary for each item covered in each disposal.

We have received notice of a number of claims on recent disposals, and where appropriate, hold provisions in respect of such claims. There are also open claim periods on other recent disposals in respect of which we have neither received, nor have any reason to believe we will receive, any claims. Accordingly, as of 31 December 2015, we believe that appropriate provisions have been made regarding known and expected material warranty and indemnity claims relating to recent disposal activity.

We have loans receivable, secured by mortgages, which have then been securitised through non-recourse borrowings by special purpose entities in our UK Life business, as set out in Note 24 to the IFRS Financial Statements. These special purpose

entities have been consolidated and included in the statement of financial position, as we retain the residual interest in them.

Limited liability partnerships classified as joint ventures

As part of their investment strategy, the UK and certain European long-term business policyholder funds have invested in a number of property limited partnerships (PLP), either directly or via property unit trusts (PUT), through a mix of capital and loans. The PLPs are managed by general partners (GP), in which the long-term business shareholder companies hold equity stakes and which themselves hold nominal stakes in the PLPs. The PUTs are managed by a Group subsidiary.

Accounting for the PUTs and PLPs as subsidiaries, joint ventures, associates or other financial investments depends on whether the Group is deemed to have control or joint control over the PUTs and PLPs' shareholdings in the GPs and the terms of each partnership agreement are considered along with other factors that determine control.

Note 18 to the IFRS Financial Statements provides a list of the principal PLPs accounted for as joint ventures, as well as summarised information on the income, expenses, assets and liabilities of the Group's interests in its joint ventures in aggregate. In respect of these PLPs, there are no significant contingent liabilities to which we are exposed, nor do we have any significant contingent liabilities in relation to our interests in them. External debt raised by the PLPs is secured on their respective property portfolios, and the lenders are only entitled to obtain payment of both interest and principal to the extent there are sufficient resources in the respective PLPs. The lenders have no recourse whatsoever to the policyholder and shareholders' funds of any companies in the Aviva Group. At 31 December 2015, we had £47 million capital commitments to these PLP joint ventures.

Liquidity and capital resources

Treasury function

The treasury function of our business is managed by our centralised treasury team, headed by the Group treasurer. The Group treasurer acts as owner of Group business standards for liquidity and foreign exchange risk management within the Group risk governance and oversight framework. Changes in policy require the agreement of the Chief Risk Officer. These policies are independently implemented and monitored by each of our businesses. Our central treasury team is split into distinct functions: a Group team, which develops our overall treasury strategy and our treasury team at Aviva Investors, which manages and monitors our treasury and cash flow positions for our holding companies. Each business unit is responsible for monitoring its own cash and liquidity positions, as well as its ongoing funding requirements. It is our policy to make the majority of our financing arrangements at the parent company level for our business units, primarily through external borrowings and equity offerings. This enables us to achieve the efficiencies afforded by our collective size. A number of our business units also raise debt on their own behalf.

Our principal objective in managing our liquidity and capital resources is to maximise the return on capital to shareholders, while enabling us to pay dividends, service our debt and our holding companies' cash flows. In the context of a financial services company where our working capital is largely representative of our liquidity, we believe that our working capital is sufficient for our present operational requirements. For additional information, see 'IFRS Financial statements – Note 57 – Risk management – liquidity risk'.

Extraordinary market conditions

Starting in mid-September 2008, the global financial markets experienced unprecedented disruption, adversely affecting the

business environment in general, as well as financial services companies in particular. Markets have improved but continue to be fragile. A return to adverse financial market conditions could significantly affect our ability to meet liquidity needs and obtain capital, although management believes that we have liquidity and capital resources to meet business requirements under current and stressed market conditions.

At 31 December 2015, total consolidated cash and cash equivalents net of bank overdrafts amounted to £33,170 million, an increase of £10,606 million from £22,564 million in 2014.

Processes for monitoring and managing liquidity risk, including liquidity stress models, have been enhanced to take into account the extraordinary market conditions, including the impact on policyholder and counterparty behaviour, the ability to sell various investment assets and the ability to raise incremental funding from various sources. Management has taken steps to strengthen liquidity in light of its assessment of the impact of market conditions and intends to continue to monitor liquidity closely.

Management of capital resources

We seek to maintain an efficient capital structure using a combination of equity shareholders' funds, preference capital, subordinated debt and borrowings. This structure is consistent with our risk profile and the regulatory and market requirements of our business.

In managing our capital, we seek to:

- match the profile of our assets and liabilities, taking into account the risks inherent in each business;
- maintain financial strength to support new business growth whilst still satisfying the requirements of policyholders, regulators and rating agencies;
- retain financial flexibility by maintaining strong liquidity, access to a range of capital markets and significant unutilised committed credit lines;
- allocate capital efficiently to support growth and repatriate excess capital where appropriate; and
- manage exposures to movements in exchange rates by aligning the deployment of capital by currency with our capital requirements by currency.

We are subject to a number of regulatory capital tests and employ realistic scenario tests to allocate capital and manage risk. The impact of these regulatory capital tests on our ability to transfer capital around the Group through dividends and capital injections is discussed later in this section under the headings 'Sources of liquidity' and 'Capital injections'.

At 31 December 2015, the Group had £25.1 billion (31 December 2014: £17.6 billion) of total capital employed on an IFRS basis in our trading operations which is financed by a combination of equity shareholders' funds, preference capital, direct capital instrument and tier 1 notes, subordinated debt and internal and external borrowings.

In addition to external funding sources, we have a number of internal debt arrangements in place. All internal loans satisfy arm's length criteria and all interest payments have been made when due.

Management of debt

Aviva plc is the principal financing vehicle in our centralised funding strategy. We aim to manage our external debt in line with rating agency limits applicable for entities with a rating in the AA range. We manage the maturity of our borrowings and our undrawn committed facilities to avoid bunching of maturities. We aim to maintain access to a range of funding sources, including the banking market, the commercial paper market and the long-term debt capital markets. We issue debt

in a variety of currencies, predominantly sterling and euro, based on investor demand at the time of issuance and management of the Group's foreign exchange translation exposures in the statement of financial position.

In June 2015 Aviva plc issued €900 million and £400 million of Lower Tier 2 subordinated debt callable in 2025 and 2030 respectively. This was used to repay the following instruments: £268 million Step-up Tier 1 Insurance Capital Securities at first call date in July 2015; €500 million undated subordinated debt at first call date in September 2015; and £200 million debenture loans in September 2015, ahead of the June 2016 maturity.

At 31 December 2015, our total external borrowings, including subordinated debt and securitised mortgage loans, amounted to £8.8 billion (2014: £7.4 billion). Of the total borrowings, £6.9 billion (2014: £5.3 billion) are considered to be core borrowings and are included within the Group's capital employed. The balance of £1.9 billion (2014: £2.1 billion) represents operational debt issued by operating subsidiaries. We also have substantial committed credit facilities available for our use. At 31 December 2015, we had undrawn committed credit facilities expiring within one year of £0.6 billion (2014: £0.4 billion) and £1.1 billion in credit facilities expiring after more than one year (2014: £1.2 billion).

Further information on the maturity profile, currency and interest rate structure of our borrowings is presented in 'IFRS Financial statements – Note 49 – Borrowings'. Commercial paper is issued for terms up to 12 months and is generally reissued at maturity. The earliest repayment date for other debt instruments is a \$400 million subordinated debt instrument with a first call date of 1 December 2016 at the option of the Company. At this time Aviva will have the option of repaying the debt or deferring repayment until future coupon dates.

The table below presents our debt position for the periods indicated:

	2015 £m	2014 £m
Core structural borrowings		
Subordinated debt	6,469	4,594
Debenture loans	—	200
Commercial paper	485	516
	6,954	5,310
Less: Amounts held by Group Companies	(42)	—
	6,912	5,310
Operating borrowings		
Operational borrowings at amortised cost	550	696
Operational borrowings at fair value	1,308	1,372
	1,858	2,068
Total	8,770	7,378

In the UK, we have raised non-recourse funding secured against books of mortgages. This funding has been raised through the use of special-purpose entities. The beneficial interest in the books of mortgages has been passed to these special-purpose entities. These entities, which are owned by independent trustees, have funded this transfer through the issue of loan notes.

The value of the secured assets and the corresponding non-recourse funding was £1,308 million (2014: £1,372 million). We continue to receive fees from these special purpose entities in respect of loan administration services.

These special purpose entities have been consolidated as we retain the residual interest in them. The transactions and reasons for consolidation are discussed further within 'IFRS Financial statements – Note 24 – Securitised mortgages and related assets'.

Undrawn borrowings

At 31 December 2015, we had £1.7 billion (2014: £1.6 billion) undrawn committed central borrowing facilities available to us, provided by various highly rated banks, all of which have investment grade credit ratings. These borrowings are used to support Aviva's commercial paper programme. Undrawn borrowings are analysed below:

	2015 £m	2014 £m
Expiring within one year	575	350
Expiring beyond one year	1,075	1,200
Total	1,650	1,550

Our committed central borrowing facilities have no financial covenants following the renewal of terms undertaken in 2015.

Sources of liquidity

In managing our cash flow position, we have a number of sources of liquidity, including:

- dividends from operating subsidiaries;
- external debt issuance;
- internal debt and central assets; and
- funds generated by the sale of businesses.

Our principal source of liquidity is cash remittances in the form of dividends and debt interest receipts from our subsidiaries. The level of dividends is based on two primary factors: the financial performance and the local solvency and capital requirements of our individual business units.

The table below shows liquid resources provided to Group Centre during the year. Cash remittances include amounts received from UKGI in February 2016 in respect of 2015 activity:

Amounts received in respect of 2015 activity	£m
UK & Ireland life	667
France	252
Poland	81
Italy	45
Spain	49
Other Europe	4
Canada ¹	6
Asia	21
Other ²	24
	1,149
UK & Ireland general insurance & health ³	358
Total	1,507

1 CAD\$230 million in respect of 2015 activity has been retained at the Canadian holding company in order to part-fund the RBC General Insurance Company acquisition.

2 Other includes Aviva Investors and Group Reinsurance.

3 Cash remittances include amounts of £351 million received from UKGI in February 2016 in respect of 2015 activity.

Excess centre cash flow represents cash remitted by business units to the Group centre less central operating expenses and debt financing costs. It is an important measure of the cash that is available to pay dividends, reduce debt, pay exceptional charges or invest back into our business units. It does not include non-operating cash movements such as disposal proceeds or capital injections.

	2015 £m	2014 £m
Dividends received ¹	1,378	1,412
Internal interest received	129	19
Cash remitted to Group	1,507	1,431
External interest paid	(554)	(425)
Internal interest paid	(138)	(170)
Central spend	(252)	(173)
Other operating cash flows ²	136	29
Excess centre cash flow³	699	692

1 This excludes a £150 million dividend paid by Friends Life Holdings prior to the acquisition.

2 Other operating cash flows include central investment income and group tax relief payments and other financial cash flows previously reported under central spend.

3 Before non-operating items and capital injections.

Excess centre cash flow of £699 million has remained broadly stable compared with the prior period. Increased internal interest received driven by Friends Life intercompany loans and foreign exchange movement gains on Group centre holdings was offset by an increase in external interest, largely due to the inclusion of Friends Life external debt, as well as higher central spend mainly relating to Friends Life and investment in our digital capability. In addition, the total excess centre cash flow is reduced as a result of the dividend payment retained in Canada to part-fund the proposed acquisition of Royal Bank of Canada General Insurance Company.

Under UK company law, dividends can only be paid if a company has distributable reserves sufficient to cover the dividend. At 31 December 2015, Aviva plc itself had distributable reserves of £3,124 million, which would have covered four years of historic dividend payments to our shareholders. In UK Life, our largest operating subsidiary, distributable reserves, which could be paid to Aviva plc via its intermediate holding company, are created mainly by the statutory long-term business profit transfer to shareholders. While the UK insurance regulatory laws applicable to UK Life and our other UK subsidiaries impose no statutory restrictions on an insurer's ability to declare a dividend, the rules require maintenance of each insurance company's solvency margin, which might impact their ability to pay dividends to the parent company. Our other life and general insurance, and fund management subsidiaries' ability to pay dividends and make loans to the parent company is similarly restricted by local corporate or insurance laws and regulations. In all jurisdictions, when paying dividends, the relevant subsidiary must take into account its capital position and must set the level of dividend to maintain sufficient capital to meet minimum solvency requirements and any additional target capital expected by local regulators. We do not believe that the legal and regulatory restrictions constitute a material limitation on the ability of our businesses to meet their obligations or to pay dividends to the parent company, Aviva plc.

The Group has received proceeds on completion of the disposals as disclosed in 'IFRS Financial statements – note 3 – Subsidiaries'.

Aviva plc maintains two £2 billion commercial paper programmes, one of which is guaranteed by Aviva Insurance Limited, which allow debt to be issued in a range of currencies. At 31 December 2015, outstanding debt issued under the unguaranteed programme was £485 million (2014: £516 million). No commercial paper has been issued under the guaranteed programme in 2014 or 2015. More details of movements in debt can be found in the 'Management of debt section'.

Aviva plc has also issued longer-term debt under a euro Medium Term Note (EMTN) programme. Debt issued under this programme may be senior debt or regulatory qualifying debt and may have a fixed or floating interest rate. At 31 December 2015, the outstanding debt (including equity accounted tier 1 notes) issued under this programme was £3,838 million (2014: £2,860 million).

Application of funds

We use funds to pay dividends to our shareholders, to service our debt and to pay our central Group cash flows.

In 2015, total cash paid by the Company as ordinary and preference dividends and coupon payments on the direct capital instrument and tier 1 notes amounted to £724 million, compared with £554 million in 2014.

In 2015, our total interest costs on central borrowings were £350 million. This compared with £310 million of interest paid on central borrowings in 2014. Total corporate centre expenses in 2015 were £180 million compared with £132 million in 2014.

An additional application of our funds is the acquisition of businesses. In 2015, cash received in the acquisition of subsidiaries, joint ventures and associates from continuing operations net of cash paid amounted to £7,783 million, compared with cash paid of £79 million in 2014.

Capital injections

We make capital injections into our businesses where necessary to ensure that they meet their local solvency requirements and also to support development of their operations. Capital is provided either by equity or subordinated debt, where such debt is recognised as capital by the regulator. Each capital injection is subject to central review and needs to meet our required internal rates of return. To the extent that capital injections are provided or funded by regulated entities we consider the regulatory capital impact of the capital injection.

Otherwise our ability to make capital injections into our businesses is not materially limited by applicable legal and regulatory restrictions. Total capital injections into the business units were £469 million and £567 million in 2015 and 2014 respectively. Payments during the year include capitalisation of the Group's internal reinsurance vehicle and other restructuring activity.

Consolidated cash flows

The cash and cash equivalents consist of cash at banks and in hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents also include bank overdrafts, which are included in payables and other financial liabilities on the balance sheet.

Year ended 31 December 2015

Net cash from operating activities

Total net cash from operating activities (continuing operations) increased by £5,299 million to a £4,755 million inflow in 2015 (2014: £544 million outflow). The increase mainly reflects net cash inflows arising from purchases and sales of operating assets including financial investments.

Net cash from investing activities

Net cash from investing activities (continuing operations) was £7,641 million inflow (2014: £228 million outflow). The increase of £7,869 million is mainly due to cash balances brought into the Group following the acquisition of Friends Life.

Net cash outflow on financing activities

Net cash used in financing activities (continuing operations) decreased by £590 million to an outflow of £1,365 million (2014: £1,955 million outflow). The decrease is mainly due to the redemption of a direct capital instrument in 2014.

Net cash and cash equivalents

At 31 December 2015, total consolidated net cash and cash equivalents, net of bank overdrafts, amounted to £33,170 million, an increase of £10,606 million over £22,564 million in 2014.

Year ended 31 December 2014

Net cash from operating activities

Total net cash from operating activities (continuing operations) decreased by £2,643 million to a £544 million outflow in 2014 (2013: £2,099 million inflow). The net operating cash outflow reflects a number of factors, including the level of premium income, payments of claims, creditors and surrenders and purchases and sales of operating assets including financial investments. It also includes changes in the size and value of consolidated cash investment funds and changes in the Group's participation in these funds.

Net cash from investing activities

Net cash used in investing activities (continuing operations) decreased by £562 million to £228 million outflow (2013: £334 million inflow). The decrease in cash is mainly due to lower inflows from disposals and higher purchases of property and equipment.

Net cash outflow on financing activities

Net cash used in financing activities (continuing operations) increased by £407 million to an outflow of £1,955 million (2013: £1,548 million outflow). The increase is mainly due to the redemption of a direct capital instrument.

Net cash and cash equivalents

At 31 December 2014, total consolidated net cash and cash equivalents, net of bank overdrafts, amounted to £22,564 million, a decrease of £3,425 million over £25,989 million in 2013.

Currency

Our exposures to movements in exchange rates and the management of these exposures is detailed in 'Performance review – Financial and operating performance – Exchange rate fluctuations'.

Regulatory capital position

Under the Solvency I regime effective until 31 December 2015, individual regulated subsidiaries measure and report solvency based on applicable local regulations, including in the UK the regulations established by the Prudential Regulatory Authority (PRA). These measures are also consolidated under the European Insurance Groups Directive (IGD) to calculate regulatory capital adequacy at an aggregate Group level, where Aviva has a regulatory obligation to have a positive position at all times.

This measure represents the excess of the aggregate value of regulatory capital employed in our business over the aggregate minimum solvency requirements imposed by local regulators, excluding the surplus held in the UK and Ireland with-profit life funds. The minimum solvency requirement for our European businesses is based on the Solvency I Directive. In broad terms, for EU operations, this is set at 4% and 1% of non-linked and unit-linked life reserves respectively and for our general insurance portfolio of business is the higher of 18% of gross premiums or 26% of gross claims, in both cases adjusted to reflect the level of reinsurance recoveries. For our business in Canada a risk charge on assets and liabilities approach is used.

From 1 January 2016 EU-based insurance groups are no longer required to disclose their solvency position under the European Insurance Groups Directive, as the regulatory framework has been replaced by the new Solvency II regime. As such, after 31 December 2015 Aviva Group will no longer disclose its capital solvency surplus under the IGD rules.

European Insurance Groups Directive

	UK life funds £bn	Other business £bn	31 December 2015 £bn	31 December 2014 £bn
Insurance Groups Directive (IGD) capital resources	11.8	10.8	22.6	14.4
Less: capital resources requirement	(11.8)	(4.8)	(16.6)	(11.2)
Insurance Groups Directive (IGD) excess solvency	—	6.0	6.0	3.2
Cover over EU minimum (calculated excluding UK life funds)		2.2 times	1.6 times	

The IGD regulatory capital solvency surplus has increased by £2.8 billion since 2014 to £6.0 billion. The key drivers of the increase are the acquisition of Friends Life (£1.6 billion), operating profits (£1.6 billion) and the net issue of hybrid debt (£0.4 billion), offset by dividend payments and pension scheme funding (£0.5 billion).

The key movements over the period are set out in the following table:

	£bn
IGD solvency surplus at 31 December 2014	3.2
Acquisition of Friends Life	1.6
Operating profits net of integration and restructuring costs	1.6
Net hybrid debt issue ¹	0.4
Dividends and appropriations	(0.3)
Pension scheme funding	(0.2)
Outward reinsurance of latent reserves ²	0.2
Increase in capital resources requirement	(0.1)
Other regulatory adjustments	(0.4)
Estimated IGD solvency surplus at 31 December 2015	6.0

¹ Net hybrid debt issue includes £1 billion benefit of two new Tier 2 subordinated debt instruments issued on 4 June 2015; offset by £0.6 billion derecognition of two instruments redeemed in the second half of 2015.

² Outward quota share reinsurance agreement completed in 2015 in Aviva Insurance Limited (AIL).

Capital commitments

Contractual commitments for acquisitions or capital expenditures of investment property, property and equipment and intangible assets, which have not been recognised in our consolidated financial statements, are as follows:

	2015 £m	2014 £m	2013 £m
Investment property	71	97	3
Property and equipment	61	8	24
Other investment vehicles	202	—	—
Total	334	105	27

Contractual obligations for future repairs and maintenance on investment properties are £nil (2014: £nil, 2013: £nil). We have capital commitments to joint ventures and associates of £62 million (2014: £91 million, 2013: £145 million). These commitments are expected to be funded through operational cash flow without recourse to core structural borrowings.

Regulation Compliance

In both our insurance and fund management businesses, matters may arise as a result of industry-wide issues, inspection visits or other regulatory activity, requiring discussion and resolution with industry regulators. The Group needs to ensure that procedures are in place to address any regulatory concerns, and that such procedures are properly planned, managed and resourced. Corrective action is undertaken, when necessary, with progress reported to relevant regulatory bodies in a timely manner.

Overview of regulation as it affects our business

Our principal insurance and fund management operations are in the UK, Europe, Canada and Asia. We are therefore subject to financial services regulation and local regulatory supervision in all these areas, as individually covered below.

As the Group's parent company is based in the UK, both EU legislation and UK regulatory rules can impact Aviva's business practices worldwide. Regulators supervising the Group co-ordinate on a cross-border basis through a 'college'.

The European Union

In addition to its UK businesses, Aviva is active in other EU member states through wholly owned subsidiary and joint venture companies. These companies are subject to the laws and regulations of the EU member state in which they are based, but are also affected by higher level EU legislation, which will continue to have a significant influence on the legislative environment in the UK and other EU markets.

The EU operates by promulgating directives that must be implemented into local national legislation within each EU member country. These directives can either be framed as minimum or maximum harmonisation for the standards for national legislatures to meet. National governments may not pass laws which fail to meet the standards set out in a directive, but are generally free to impose legal requirements which go beyond those required other than where a directive on a maximum harmonisation basis applies. Even greater detail may be imposed through the rules and regulations of national regulators and, for financial services businesses these rules can be extensive.

The EU may also impose requirements directly on countries through regulation. EU financial services regulation is based on the principle of 'home country control', which makes the home country regulator responsible for monitoring compliance with all applicable regulation.

Key directives of particular relevance to the financial services industry, and so to Aviva's businesses in the EU include:

European System for Financial Supervision

The European System for Financial Supervision comprises European Supervisory Authorities, including the European Insurance and Occupational Pensions Authority (EIOPA). Its aims include achieving consistent regulation and supervision within the European Union. In this respect it is able to issue supervisory guidelines on a comply or explain basis to National Competent Authorities and where European Directives provide Delegated Acts, it may propose Regulatory Technical Standards to the Commission.

Third Life and Non-Life Directives

These directives implemented the home country control principle for life and non-life insurance business in the mid-1990s and placed the responsibility for such issues as solvency, actuarial reserves, investment of assets, and certain governance issues on the home country regulator. Most companies licensed to conduct insurance business in one member state may rely on their home country regulation to 'passport' into all other member states to conduct business without having to be separately licensed in each. The general exception is selling activity which continues to be regulated by the state in which the sale takes place.

Reinsurance Directive

Adopted on 16 November 2005, this directive requires that all reinsurance undertakings be authorised in their home member state. To obtain that authorisation, they need to meet strict requirements, but are then free to operate anywhere in the EU through the single market passport process.

Insurance Groups Directive (IGD)

The IGD required member states to introduce the following measures to strengthen supervision of insurance companies which are part of a group:

- An adjustment margin to the solvency calculation in relation to participating interests in other insurance undertakings in order to eliminate 'double-gearing' (the use of the same regulatory capital in more than one entity of a group).
- An additional parent undertaking solvency margin calculation analogous to the adjusted margin test referred to above, to be applied at the level of the parent undertaking.
- The introduction of solo supervision requirements, including rules as to internal control within the insurance undertaking regarding the production of information relevant to supplementary supervision, the exchange of information within the Group and the supervision of intra-group transactions.
- Further provisions aimed at ensuring co-operation between competent regulatory authorities of member states.

Since 31 December 2006, the Group capital resources requirement (the parent undertaking solvency calculation mentioned above) has been a 'hard' test (i.e. it constitutes a requirement to maintain the Group capital resources, rather than simply to make the calculation) for UK-based companies operating under PRA rules.

From 1 January 2016 EU-based insurance groups are no longer required to disclose their solvency position under the European Insurance Groups Directive, as the regulatory framework has been replaced by the new Solvency II regime. As such, after 31 December 2015 Aviva Group will no longer disclose its capital solvency surplus under the IGD rules.

Solvency II

The Solvency II Directive which governs insurance industry regulation and prudential capital requirements within the European Union, including associated Implementing Technical Standards and guidelines became effective from 1 January 2016. This replaces the directives listed above (Third Life and Non Life Directives, Reinsurance Directive and Insurance Groups Directive). Solvency II is a harmonised European prudential framework that reflects risk management practices to define required capital and manage risk. The framework has three main pillars:

- Pillar 1 consists of the quantitative requirements (for example the amount of capital an insurer should hold);
- Pillar 2 sets out requirements for the governance and risk management of insurers, as well as their supervision; and
- Pillar 3 focuses on disclosure and transparency requirements.

Distance Marketing Directive

Under the Distance Marketing Directive, EU member states are required to implement a framework of rules and guidance in order to protect consumers by:

- setting minimum standards for information that must be provided to consumers before entering into a financial services contract by 'distance means'; and
- for certain products and services, giving a cooling-off period in which a consumer may cancel a contract without penalty.

Insurance Mediation Directive

This requires EU member states to establish a framework to:

- ensure that insurance and reinsurance intermediaries have been registered on the basis of a minimum set of professional and financial requirements;
- ensure that registered intermediaries will be able to operate in other member states by availing themselves of the freedom to provide services or by establishing a branch; and
- impose requirements on insurance intermediaries to provide specified minimum information to potential customers.

Markets in Financial Instruments Directive (MiFID2)

MiFID2, which superseded the earlier Investment Services Directive, builds on the home country control principle, extending the range of 'core' investment services and activities that may be passported from one member state to another, clarifying the allocation of responsibilities between home and host country jurisdictions, and introducing greater harmonisation governing the organisation and conduct of business of investment firms.

Systemic Risk

In July 2013, the Financial Stability Board (FSB) designated nine insurance groups, including Aviva as Global Systemically Important Insurers G-SIIs. The designation is reviewed on an annual basis, with the FSB re-affirming Aviva as a G-SII in November 2015. The International Association of Insurance Supervisors (IAIS) has published policy measures that apply to G-SIIs. The policy measures include enhanced supervision, recovery and resolution planning, the preparation of systemic risk management and liquidity risk management plans. The policy measures also include higher loss absorbency requirements (HLA). In the absence of a global capital framework for insurers, the IAIS has developed a Basic Capital Requirement (BCR) to provide a comparable foundation for the application of HLA to G-SIIs. The IAIS plans that its approach to HLA will be applicable to G-SIIs from 2019.

Insurance Capital Standard (ICS)

The Financial Stability Board (FSB) has stated that a sound capital and supervisory framework for the insurance sector is essential for supporting financial stability. In this respect the IAIS will develop a work plan to develop a comprehensive, group-wide supervisory and regulatory framework for Internationally Active Insurance Groups (IAIGs), including a quantitative capital standard. The ICS will be incorporated into the global framework for the supervision of internationally active insurance groups (ComFrame) that the IAIS is developing. The IAIS plans to develop the ICS by 2016 for adoption by the IAIS in 2019 along with the rest of ComFrame.

Future EU developments

There are a number of European dossiers that are expected to continue to progress during 2016, including Packaged Retail and Insurance-based Investment Products (PRIIPs) that will introduce common product disclosure standards, the Insurance Distribution Directive (IDD) that will introduce new standards for insurance distribution and MiFID2 II that introduces new conduct and market transparency requirements.

United Kingdom

The regulatory structure

On 1 April 2013 the Financial Services Authority was replaced by the Prudential Regulation Authority (the 'PRA') and the Financial Conduct Authority (the 'FCA').

The PRA is currently a subsidiary of the Bank of England and is responsible for the micro-prudential regulation of banks, building societies, credit unions, insurers and major investment firms. The PRA has two statutory objectives:

- to promote the safety and soundness of regulated firms; and
- in the case of insurers, to contribute to securing an appropriate degree of protection for policyholders.

The FCA is a company limited by guarantee, accountable to the UK Treasury, and through the Treasury, to the UK Parliament. It is operationally independent of government and entirely funded by the firms it regulates. The FCA's strategic objective as set out in the Financial Services Act 2012 is to ensure that markets "function well" and it is responsible for the conduct regulation of all financial services firms (including those prudentially

regulated by the PRA, such as insurers). In addition, the FCA prudentially regulates those financial services firms not supervised by the PRA, including most asset managers. The FCA has three operational objectives:

- securing an appropriate degree of protection for consumers;
- protecting and enhancing the integrity of the UK financial system; and
- promoting effective competition in the interests of consumers in the markets for financial services.

Within their respective jurisdictions, the PRA and FCA have authority to make rules and issue guidance, taking into account relevant EU directives, impacting individuals and firms authorised to conduct regulated activities ('Authorised Persons' and 'Authorised Firms').

Under the Financial Services and Markets Act 2000 (FSMA) no person may carry on, or purport to carry on, a regulated activity by way of business in the UK unless he is an Authorised Person or an exempt person. A firm granted permission to carry on regulated activities becomes an Authorised Person for the purposes of FSMA. 'Regulated activities' are prescribed in the FSMA (Regulated Activities) Order 2001 and include banking, insurance and investment business, stakeholder pension schemes, insurance mediation and certain mortgage mediation and lending activities.

Authorised Firms must at all times meet specified threshold conditions, including possession of adequate resources for the carrying on of their business, and being fit and proper to conduct that business, having regard to all the circumstances. Authorised Firms must also operate in accordance with the FCA's Principles for Business if solo regulated and the PRA's Fundamental Rules and FCA's Principles for Business if dual regulated. The FCA has 11 high level principles for conducting financial services business in the UK, including maintenance of adequate systems and controls, treating customers fairly, and communicating with customers in a manner that is clear, fair and not misleading. The PRA has 9 Fundamental Rules including organising and controlling its affairs responsibly and effectively and acting in a prudent manner.

The PRA and FCA regulatory regimes are based on the principle that firms should have effective systems and controls, including robust risk management, which are appropriate to the size, complexity and diversity of their business.

UK Regulation of the Aviva Group

A number of the Groups' UK subsidiaries are dual regulated (directly authorised by both the PRA (for prudential regulation) and the FCA (for conduct regulation)) whilst others are solo regulated (regulated solely by the FCA for both prudential and conduct regulation).

Aviva plc, although not directly authorised, does come within the scope of some regulation as the ultimate insurance holding company in the Group. The PRA and FCA have powers under the FS Act in relation to unregulated parent undertakings ('qualifying parent undertakings') that control and exert influence over regulated firms. The powers include the ability to make directions imposing requirements on parent undertakings, take enforcement action where such directions are breached and gather information from parent undertakings.

As Aviva is a UK-based group, the PRA has the responsibility of acting as lead regulator (i.e. the cross-sector supervisory coordinator) for the Group.

Aviva was designated as a Global Systemically Important Insurer (G-SII) by the IAIS. The IAIS has developed a framework of policy measures for G-SIIs. The policy framework includes:

- The recovery and resolution planning requirements under the Financial Stability Board's Key Attributes of Effective Resolution Regimes;

- Enhanced group-wide supervision; and
- Higher loss absorbency requirements (HLA).

The enhanced group-wide supervision of G-SIIs introduces more tailored regulation, greater supervisory resources and more thorough use of existing supervisory tools compared to the supervision of non-systemically important insurers. For G-SIIs, the group-wide supervisor has specific powers over holding companies to ensure that a direct approach to group-wide supervision can be applied. In addition, other involved supervisors may have direct or indirect powers over holding companies in their jurisdiction.

UK regulated entities within Aviva plc

DUAL REGULATED	SOLO REGULATED
Aviva Annuity UK Ltd	Aviva Equity Release UK Ltd
Aviva Insurance Ltd	Aviva Health UK Ltd
Aviva International Insurance Ltd	Aviva Insurance Services UK Ltd
Aviva Investors Pensions Ltd	Aviva Investors Global Services Ltd
Aviva Life & Pensions UK Ltd	Aviva Investors UK Fund Services Ltd
Friends Annuities Ltd	Aviva Investors UK Funds Ltd
Friends Life and Pensions Ltd	Aviva Life International Ltd
Friends Life FPLMA Ltd	Aviva Life Services UK Ltd
Friends Life Ltd	Aviva Pension Trustees UK Ltd
Gresham Insurance Company Ltd	Aviva Wrap UK Ltd
The Ocean Marine Insurance Company Ltd	Bankhall PMS Ltd
	Friends Life Funds Ltd
	Friends Life Investment Solutions Ltd
	Friends Life Investments Ltd
	Friends Life Marketing Ltd
	Friends Life Services Ltd
	Friends Provident International Ltd
	Optimum Investment Management Ltd
	ORN Capital LLP
	Sesame Ltd
	TenetConnect Ltd
	TenetConnect Services Ltd
	TenetLime Ltd

Approved persons and controllers

From 1 January 2016, the Approved Person regime (APER) will be replaced with Senior Insurance Managers Regime (SIMR) for the UK Solvency II firms. Although in substance similar to APER, SIMR will result in a greater transparency with a narrower focus on individuals running Solvency II companies.

Both the PRA and FCA place great emphasis on the principle of senior management responsibility. The directors of, and senior managers carrying out controlled function roles (as defined in the PRA and FCA handbooks) in, any of the Group's regulated entities are individually registered with either the PRA or FCA under the 'Approved Person' regime, and can be held directly accountable to the relevant regulator for control failings in those entities. For solo regulated entities, individuals applying for approval in a controlled function make their application to the FCA and if successful, are registered with the FCA. For dual regulated entities, responsibility for applying the approved persons regime to controlled functions is split between the PRA and FCA, with the PRA having responsibility for all of the Governing Functions. However, the PRA cannot approve an application without the consent of the FCA. Each regulator can apply its Statements of Principles and Code of Practice for Approved Persons to the conduct expected of approved persons, and each can discipline an approved person who has

breached a statement of principle, regardless of which regulator gave approval.

A number of senior managers at Group are registered as Approved Persons with either the PRA or FCA for the regulated subsidiaries, even though they are neither directors nor senior managers of these firms. This recognises that these managers exert significant influence over the regulated subsidiaries, because they are responsible for key parts of the Group's control framework on which the regulated subsidiaries place reliance.

The PRA and FCA regulate from a legal entity perspective, even though Aviva tends to operate by business unit. However, both regulators expect that Aviva's regulated subsidiaries will operate within an overall framework of Group governance and controls. PRA and FCA rules expressly provide that any systems and controls which operate on a Group basis will be taken into account in determining the adequacy of a regulated subsidiary's systems and controls. The robustness of these Group controls is therefore subject to scrutiny and challenge by both regulators.

PRA and FCA rules regulate the acquisition and increase of control over Authorised Firms. Under FSMA, any person proposing to acquire control of, or increase control over certain thresholds of, an Authorised Firm must first obtain the consent of the appropriate regulator. The Authorised Firm must also inform the appropriate regulator of any such proposed acquisition or increase. In considering whether to grant or withhold its approval of the acquisition or increase of control, the appropriate regulator must be satisfied both that the acquirer is a fit and proper person and that the interests of consumers would not be threatened by this acquisition or increase of control.

Control over a UK Authorised Firm is acquired if the acquirer:

- holds 10% (or 20% if the Authorised Firm is an insurance intermediary) or more of the shares, or voting power, in that firm, or a parent undertaking of the firm; or
- is able to exercise significant influence over the management of the firm by virtue of the acquirer's shares or voting power in that company or a parent undertaking of the firm.

Increases in control require the consent of the appropriate regulator when they reach thresholds of 20%, 30% and 50% of the shares or voting power of the firm (or its parent).

In order to determine whether a person or a group of persons is a 'controller' for the purposes of FSMA, the holdings (shares or voting rights) of the person and any other person 'acting in concert', if any, are aggregated.

Conduct of business rules

The FCA's Conduct of Business (COBS) and Insurance: Conduct of Business (ICOBS) Rules apply to every Authorised Firm carrying on relevant regulated activities, and regulate the day-to-day conduct of business standards to be observed by all Authorised Persons in carrying out regulated activities.

The COBS and ICOBS Rules are principle based, and the scope and range of obligations imposed on an Authorised Firm will vary according to the scope of its business and range of the Authorised Firm's clients. Generally speaking, however, the obligations imposed on an Authorised Firm by the COBS and ICOBS Rules will include the need to classify its clients according to their level of sophistication, provide them with information about the Authorised Firm, meet certain standards of product disclosures (including fee and remuneration arrangements), ensure that promotional material which it produces is clear, fair and not misleading, assess suitability when advising on certain products, control the range and scope of advice given, manage conflicts of interest, report appropriately to its clients and provide certain protections in relation to client assets.

The PRA's COBS rule book is limited to with-profits business and linked long-term insurance business as these classes of business are regulated by both the PRA and FCA. For with-profits business the FCA is concerned with ensuring fairness between policyholders and shareholders whilst the PRA has ultimate responsibility in respect of decisions which have material consequences for both affordability and fairness. For linked long-term business, the FCA is concerned with ensuring benefits are determined by reference to an approved index, whilst the PRA is concerned with linked assets being capable of being realised in time to meet obligations to policyholders and the matching of linked assets with linked liabilities.

Capital and solvency rules for insurers

The PRA rules require that a UK insurer (including those within the Group) must hold capital resources equal to at least the Minimum Capital Requirement (MCR). Insurers with with-profits liabilities of more than £500 million (which is the case with Aviva's with-profits funds) must hold capital equal to the higher of MCR and the Enhanced Capital Requirement (ECR). The ECR is intended to provide a more risk responsive and 'realistic' measure of a with-profits insurer's capital requirements, whereas the MCR is broadly equivalent to the previous required minimum margin, and satisfies the minimum EU standards.

Determination of the ECR involves the comparison of two separate measurements of the Authorised Firm's financial resources requirements, which the PRA refers to as the 'twin peaks' approach. The two separate peaks are:

- the requirement comprised by the mathematical reserves plus the 'long term insurance capital requirement' (the LTICR), together known as the 'regulatory peak'; and
- a calculation of the 'realistic' present value of the insurer's expected future contractual liabilities together with projected 'fair' discretionary bonuses to policyholders, plus a risk capital margin, together known as the 'realistic peak'.

All UK insurers must also carry out an Individual Capital Assessment (ICA) to calculate the amount of capital needed to back their business. If the PRA decides that the final ICA amount is insufficient, it may draw up its own Individual Capital Guidance (ICG) for the firm, which can be imposed as a requirement on the scope of the Authorised Firm's permission. From 1 January 2016, Aviva is subject to the new Solvency II regulatory regime.

Day-to-day supervision

Both the PRA and FCA take a risk-based approach to supervision, with the PRA focusing on those issues and authorised firms posing the greatest risk to the stability of the UK financial system and policyholders, and the FCA conducting in-depth structured supervision work with those firms with the potential to cause the greatest risk to its objectives. Given our size and our share of the UK retail market, a major issue within our business which causes concern for the regulators may have a significant impact on these objectives.

Both regulators therefore maintain proactive engagement with us, with day-to-day supervision of Aviva conducted by dedicated teams within the PRA and FCA. In practice, this means that a wide range of Group and UK business unit senior managers have regular scheduled meetings with the UK regulators, and other meetings and discussions on specific issues take place as the need occurs. This adds up to frequent regulatory interaction at business unit and Group level, and the sharing of detailed information about the Group.

Areas of potential risk or weakness where the regulators particularly require Aviva to focus attention are formally set out in a Risk Mitigation Plan (RMP) from the FCA and key actions from the PRA.

All open actions are progressed in accordance with timescales agreed with the PRA and FCA.

Outside of the UK, each Aviva business is regulated by its own national regulator(s). However, overseas operations are also within the remit of the PRA to the extent that they have an interest in the systems and controls by which the Group manages its overseas businesses to mitigate the risk of financial shocks arising overseas flowing through to the UK.

The PRA monitors the strategy and performance of the Group's international businesses through its programme of regular meetings and reviews.

The UK regulators aim to play a leading role in the development of both EU and international regulation.

Intervention and enforcement

The PRA and FCA have extensive powers to investigate and intervene in the affairs of Authorised Firms. In relation to dual regulated firms, under the terms of a Memorandum of Understanding entered into in April 2013, the PRA and FCA will consult each other before taking enforcement action. The PRA has the right to veto certain FCA regulatory actions in relation to dual regulated firms, but the FCA is not required to comply if in its opinion it would be incompatible with any EU or other international obligation of the UK.

The regulators' enforcement powers, which may be exercised against both Authorised Firms and Approved Persons, include public censure, imposition of unlimited fines and, in serious cases, the variation or revocation of permission to carry on regulated activities or of an Approved Person's status. The FCA may also vary or revoke an Authorised Firm's permissions to protect the interests of consumers or potential consumers if the Authorised Firm has not engaged in regulated activity for 12 months, or if it is failing to meet the threshold conditions for authorisation. The FCA has further powers to obtain injunctions against Authorised Persons and to impose or seek restitution orders where consumers have suffered loss.

In addition to applying sanctions for market abuse, the FCA has the power to prosecute criminal offences arising under FSMA and insider dealing under Part V of the Criminal Justice Act 1993, and breaches of money laundering regulations. The FCA's stated policy is to pursue criminal prosecution in all appropriate cases.

The Financial Services Compensation Scheme (FSCS)

The FSCS is intended to compensate individuals and small businesses for claims against an Authorised Firm where the Authorised Firm is unable or unlikely to be able to meet those claims (generally, when it is insolvent or has gone out of business). The FSCS levy is to split into twelve broad classes:

- the deposits class;
- the life and pensions provision class;
- the general insurance provision class;
- the investment provision class;
- the life and pensions intermediation class;
- the home finance intermediation class;
- the investment intermediation class;
- the general insurance intermediation class;
- the deposit acceptor's contribution class;
- the insurers – life contribution class;
- the insurers – general contribution class; and
- the home finance providers and administrators' contribution class.

The permissions held by each firm determine into which class, or classes, it falls.

Restrictions on business

UK regulatory rules restrict an insurance company from carrying on any commercial business other than insurance business and activities directly arising from that business. Therefore, authorised insurance companies in the Group are bound by this restriction.

Long-term assets and liabilities

Where a UK insurer carries on life insurance business, its long-term business assets and liabilities i.e. those assets and liabilities relating to life and health insurance policies, must be segregated from the assets and liabilities attributable to non-life insurance business or to shareholders. Separate accounting and other records must be maintained and a separate fund established to hold all receipts of long-term business.

The extent to which long-term fund assets may be used for purposes other than long-term business is restricted by the PRA rules. Only the 'established surplus', which is the excess of assets over liabilities in the long-term fund as determined by actuarial investigation, may be transferred so as to be available for other purposes. Following the transition to Solvency II at 1 January 2016, only the 'eligible own funds', which are the funds available for covering the regulatory capital requirements of the long-term business, may be transferred so as to be available for other purposes, although a waiver from the PRA is required before any transfer is performed. Restrictions also apply to the payment of dividends by the insurance company, as described below. PRA rules also require insurers to maintain sufficient assets in the separate long-term insurance fund to cover the actuarially determined value of the insurance liabilities.

Distribution of profits and with-profits business

For UK authorised life insurers carrying on with-profits business, such as Aviva Life and Pensions UK Ltd ('AVLAP'), the FCA's rules require that where a firm decides to make a distribution of surplus from the with-profits fund it must distribute at least the required percentage (as defined in the FCA Handbook) of the total amount distributed to policyholders, with the balance of the total amount to be distributed being payable to the shareholders.

In addition, at least once a year the AVLAP Board must consider whether a distribution is required to be made from the Old with-profits sub-fund ('Old WPSF') inherited estate. Such a distribution will ordinarily be required if the level of the inherited estate of the Old WPSF exceeds the Required Distribution Threshold as described in the Reatribution Scheme of Transfer effective from 1 October 2009 ('The Scheme') on any such annual investigation from the third such investigation after 1 October 2009. The Scheme permits distributions from the Old WPSF inherited estate earlier than required by The Scheme where the AVLAP Board determines that a distribution is necessary for the fair treatment of Old WPSF customers. The AVLAP Board set aside £89 million as at 31 December 2014 to be applied to enhance the with-profits benefits of Old WPSF customers as they leave (with effect from 1 July 2014). An Annual investigation may also be carried out to determine if a Release to shareholders can be made from the RIEESA. Releases can only be made:

- if the Reattributed Inherited Estate exceeds the Permitted Release Threshold as defined in the Scheme;
- the AVLAP Board (based on appropriate actuarial advice including that of the With-Profits Actuary) are of the opinion that the Release will not give rise to a significant risk that the New with-profits sub-fund (including the RIEESA) would be unable to meet its obligations to policyholders and its capital requirements or the Old WPSF would be unable to meet its obligations to policyholders; and

- following the sixth annual investigation after 1 October 2009 or later investigation and provided that investigation and investigations made in the previous 2 years determined that the Reattributed Inherited Estate exceeded the Permitted Release Threshold.

The AVLAP Board set aside £189 million as at 31 December 2014 to enhance the with-profits benefits for customers as they leave the AVLAP With-Profits Sub Fund ("AVLAP WPSF"), with effect from 1 July 2015.

Reporting requirements

PRA rules require insurance companies to submit annually their audited annual accounts, statements of financial position and life insurers' annual reports from the actuary performing the actuarial function with the regulator. There is also a requirement to report the annual solvency position of the insurance company's ultimate parent.

The PRA uses the annual return to monitor the solvency (i.e. the ability to meet current and future obligations such as claims payments to policyholders) of the insurance company. For general insurance business, the return is also used to assess retrospectively the adequacy of the company's claims provisions. The directors of an insurance company are required to sign a certificate, which includes a statement as to whether they have complied in all material respects with the requirements of Senior Management Arrangements, Systems and Controls (SYSC), Principles for Businesses (PRIN), Interim Prudential Sourcebook for Insurers (IPRU (INS)), General Prudential Sourcebook (GENPRU) and Prudential Sourcebook for Insurers (NSPRU). The directors must also certify that the company has completed its return to the PRA properly in accordance with the PRA's instructions, and that the directors are satisfied that the company has complied in all material respects with the requirements set out in the PRA rules. From 1 January 2016, Aviva is subject to the new Solvency II regulatory regime.

UK winding up rules

The general insolvency laws and regulations applicable to UK companies are modified in certain respects in relation to UK insurance companies where direct insurance claims will have priority over the claims of other unsecured creditors (with the exception of preferred creditors), including reinsurance creditors, on a winding up by the court or a creditors' voluntary winding up of the insurance company. Furthermore, instead of making a winding-up order when an insurance company has been proved unable to pay its debts, a UK court may reduce the amount of one or more of the insurance company's contracts on terms and subject to conditions (if any) which the court considers fit. Where an insurance company is in financial difficulties but not in liquidation, the FSCS may take measures to secure the transfer of all or part of the business to another insurance company.

FSMA provides further protection to policyholders of insurance companies effecting or carrying out contracts of long-term insurance. Unless the court orders otherwise, a liquidator and/or administrator must carry on the insurer's business so far as it consists of carrying out the insurer's contracts of long-term insurance with a view to it being transferred as a going concern to a person who may lawfully carry out those contracts. In carrying on the business, the liquidator/administrator may agree to the variation of any contracts of insurance in existence when the winding-up order is made, but must not effect any new contracts of insurance.

Canada

We write property and casualty business in Canada via a number of wholly owned companies.

Insurance business in Canada is regulated federally by the Office of the Superintendent of Financial Institutions (OSFI) for prudential supervision (i.e. capital adequacy, solvency, etc). OSFI derives its powers from the federal Insurance Companies Act (Canada) which governs the structure and operation of federally incorporated insurance companies.

The capital adequacy of insurance companies is monitored under the Minimum Capital Test ('MCT'), a risk-based framework allowing for capital to be assessed on the basis of an individual company's risk profile taking account of the investments held and insurance business being written. Companies have their own internal MCT target that is communicated to OSFI, which is set to ensure that they maintain capital in excess of 150% of the OSFI minimum requirement.

Market conduct regulation is conducted at the provincial level through ten independent provincial regulators. Those regulators derive their powers from insurance acts enacted by provincial legislatures. Market conduct regulation focuses on personal lines products and business practices, including rating formulas, underwriting and policy terms and conditions. Commercial lines insurance is not subject to as extensive regulations.

Asia

We operate in Asia through a network of subsidiary companies either wholly owned or established as a joint venture with a local partner. Our business is predominantly long-term and savings business, with small general insurance and health operations.

There are wholly owned businesses in Singapore and Hong Kong. During 2015, Aviva also operated businesses in China, India, Taiwan, Indonesia and Vietnam which, depending on the nature and extent of the control exerted by Aviva, were accounted for as joint ventures or associates. In 2015, following the acquisition of the Friends Life Group, one of its subsidiaries, Friends Provident International Limited (which is domiciled in the Isle of Man) also operates in Asia through branches in Singapore, Hong Kong and the United Arab Emirates.

The Asia area is made up of a number of widely differing and independent markets. The markets tend to be at various different stages in their economic and regulatory development but each has its own regulatory structures and Aviva must ensure it complies with the local regulation in each of the countries in which it operates.

Industry regulation typically focuses on financial stability and market conduct i.e. minimum capital and the basis for calculating solvency, reserves and policyholder liability. In many of the markets, regulators have the power to revoke operating licences, regulate shareholder structures and the participation in and the payment of dividends. Asia markets are moving quickly to modernise insurance regulation with an increasing focus on governance and conduct risk.

Intellectual property

Our primary brands (the Aviva name and logo) are registered trademarks in the UK and are registered or pending in all other countries where Aviva has operations.

Aviva has an active programme of review of marks and watching for infringements. There are no material infringements in the UK known to us as at the date of this report, either by the Group or third parties.

Risks relating to our business

You should carefully review the following risk factors together with other information contained in this Annual Report before making an investment decision relating to our ordinary shares or ADSs. Our business, financial position, results of our operations and cash flow could be materially affected by any of these risks, the trading price of our ordinary shares or ADSs could decline due to any of these risks and investors may lose part or all of their investment.

Ongoing difficult conditions in the global financial markets and the economy generally may adversely affect our business and results of operations, and these conditions may continue.

Our results of operations are materially affected by uncertainty in the worldwide financial markets and macro-economic conditions generally. A wide variety of factors, including concerns over slowing growth (more recently in China), high sovereign debt within, and to a lesser degree outside, the eurozone, the stability and solvency of financial institutions, longer-term low interest rates in developed markets, inflationary threats as well as geopolitical issues in, and emanating from, the Middle East, Russia, Ukraine and North Africa, have contributed to increased volatility in the financial markets in recent years and have diminished growth expectations for the global economy. Global fixed income markets continue to experience periods of both volatility and limited market liquidity, which have affected a broad range of asset classes and sectors.

Factors relating to general economic conditions (such as consumer spending, business investment, government spending, and high sovereign debt levels, exchange rates and commodity prices), uncertainty over the United Kingdom's continued membership of and influence in the European Union ('EU'), the volatility and strength of both debt and equity markets, and inflation, all affect the profitability of our business. In a sustained economic phase of low growth and high public debt, characterised by higher unemployment, lower household income, lower corporate earnings, lower business investment and lower consumer spending, the demand for financial and insurance products could be adversely affected. In addition, we may experience an elevated incidence of claims or surrenders of policies or claims of mis selling. Any potential material adverse effect on us will also be dependent upon customer behaviour and confidence.

As a result of these market exposures, our financial position and results of operations may be subject to significant volatility and negative effects, particularly if it is prolonged. Such effects may include, inter alia: (i) a general reduction in business activity and market volumes which affects fees, commissions and margins from customer driven transactions and revenues, and from sales of insurance products; (ii) market downturns which are likely to reduce the level and valuations of assets managed on behalf of clients, thereby reducing asset based and performance based fees; (iii) reduced market liquidity, limiting trading and arbitrage opportunities and presenting impediments for managing risks, impacting both trading income and performance based fees; (iv) a reduced value in assets held for our own account if trading positions fall in value; (v) increased impairments and defaults on credit exposures and on trading and investment positions, which losses may be exacerbated by falling collateral values; (vi) increased collateral requirements under derivative and other financial instruments; (vii) increased costs of hedging against market risks such as equity or interest rate exposure; (viii) pressure to reduce equity and/or debt investments or maintain additional capital in respect of such

holdings; (ix) an increase in technical provisions and capital requirements in response to market related stress tests; and (x) a requirement to hold a larger proportion of liquid assets in order to offset the impact of a reduction in market liquidity on a company's ability to meet payment obligations.

The interdependence of global financial institutions means that the failure of a sufficiently large and influential financial institution could materially disrupt global securities markets or clearance and settlement systems in the markets. This could cause severe market decline or volatility. Such a failure could also lead to a chain of defaults by counterparties that could materially adversely affect the Group. This risk, known as 'systemic risk', could adversely impact our future product sales as a result of reduced confidence in the financial services industry. It could also adversely impact our results because of market declines and write downs of assets.

As a global business, we are exposed to various local political, regulatory and economic conditions, business risks and challenges which may affect the demand for our products and services, the value of our investment portfolios and the credit quality of local counterparties.

We offer our products and services in Europe (including the United Kingdom ('UK')), North America and the Asia Pacific region through wholly owned and majority owned subsidiaries, joint ventures, companies in which we hold non controlling equity stakes, agents and independent contractors. Our international operations expose us to different local political, regulatory, business and financial risks and challenges which may affect the demand for our products and services, the value of our investment portfolio, the required levels of capital and surplus, and the credit quality of local counterparties. These risks include, for example, political, social or economic instability in countries in which we operate, discriminatory regulation, credit risks of our counterparties, lack of local business experience in certain markets, risks associated with exposure to insurance industry insolvencies through policyholder guarantee funds or similar mechanisms set up in markets in which we are present and, in certain cases, risks associated with the potential incompatibility with foreign partners, especially in countries in which we are conducting business through entities which we do not control. Some of our international insurance operations are, and are likely to continue to be, in emerging markets where these risks are heightened. Our overall success as a global business and our results of operations depend, in part, upon our ability to succeed in different economic, social and political conditions.

Credit risks relating to Aviva's business

Market developments and government actions regarding the sovereign debt crisis in Europe, particularly in Greece, Cyprus, Ireland, Italy, Portugal and Spain, could have a material adverse effect on our results of operations, financial condition and liquidity.

The continued uncertainty over the outcome of various EU and international financial support programmes, and the possibility that other EU member states may experience similar financial pressures, could further disrupt global markets. In particular, this crisis has disrupted, and could further disrupt, equity and fixed income markets, and has resulted in volatile bond yields on the sovereign debt of EU members.

The issues arising out of the recent sovereign debt crisis may transcend Europe, cause investors to lose confidence in the safety and soundness of European financial institutions and the stability of European member economies, and likewise affect UK and U.S. based financial institutions, the stability of the global financial markets and any economic recovery. We hold investments in both UK and non-UK securities.

More recently, economic conditions in affected EU member states seem to be stabilising or improving, as evidenced by the stabilisation of credit ratings, particularly in Spain, Portugal and Ireland. However, there can be no assurance that any stabilisation or improvement in economic conditions will continue or that the risk of default on the sovereign debt of certain countries will be reduced, all of which could have a material adverse effect on our financial condition and results of operations.

If an EU member state were to default on its obligations or to seek to leave the eurozone, or if the eurozone were broken up entirely, the impact on the financial and currency markets would be significant and could impact materially all financial institutions, including the Group. Past political negotiations in the United States over raising the U.S. debt ceiling indicate that the risks associated with record levels of government debt and sovereign debt default and the potential adverse impact on global markets which could result from this is not limited to the eurozone. Such events could adversely affect our business, results of operations, financial condition and liquidity.

Credit spread volatility may adversely affect the net unrealised value of our investment portfolio and our results of operations.

Our exposure to credit spreads primarily relates to market price variability associated with changes in credit spreads in our investment portfolio, which is largely held to maturity. Although our financial statements reflect the market value of assets, our priority remains the management of assets and liabilities over the longer-term. Credit spread moves may be caused by changes in the perception of the creditworthiness of a company, or from market factors such as the market's risk appetite and liquidity. A widening of credit spreads will generally reduce the value of fixed income securities we hold. Conversely, credit spread tightening will generally increase the value of fixed income securities we hold. It can be difficult to value certain of our securities if trading becomes less liquid. Accordingly, valuations of investments may include assumptions or estimates that may have significant period to period changes that could have a material adverse effect on our consolidated results of operations or financial condition. Downturns in the net unrealised value of our investment portfolio may also have a material adverse effect on our regulatory capital surplus.

Losses due to defaults by counterparties, or changing market perceptions as to the risk of default, including potential sovereign debt defaults or restructurings, could adversely affect the value of our investments and reduce our profitability and shareholders' equity.

We choose to take and manage credit risk through investment assets partly to increase returns to policyholders whose policies the assets back, and partly to optimise the return for shareholders.

We have a significant exposure to third parties that owe us money, securities or other assets who may not perform under their payment obligations. These parties include private sector and government (or government-backed) issuers whose debt securities we hold in our investment portfolios (including mortgage-backed, asset-backed, government bonds and other types of securities), borrowers under residential and commercial mortgages and other loans, reinsurers to which we have ceded insurance risks, customers, trading counterparties, and counterparties under swap and other derivative contracts. We also execute transactions with other counterparties in the financial services industry, including brokers and dealers, commercial and investment banks, hedge funds and other investment funds, insurance groups and institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty.

In addition, with respect to secured transactions, our credit risk may be increased when the collateral held by us cannot be realised or is liquidated at prices insufficient to recover the full amount of the loan or other value due. We also have exposure to financial institutions in the form of unsecured debt instruments and derivative transactions. Such losses or impairments to the carrying value of these assets could materially and adversely affect our financial condition and results of operations.

The Group has significant holdings of UK sovereign and corporate debt. Credit rating agencies have indicated that in the event of the UK leaving the EU as a result of the referendum on UK-EU membership, the credit rating of the UK government could be downgraded. In the event this occurred it could result in a fall in the price of UK sovereign and corporate debt, adversely impacting the Group's solvency, profitability and shareholders' equity.

We use reinsurance and hedging programmes to hedge various risks, including certain guaranteed minimum benefit contained in many of our long-term insurance and fund management products. These programmes cannot eliminate all of the risks and no assurance can be given as to the extent to which such programmes will be effective in reducing such risks. We enter into a variety of derivative instruments, including options, forwards, interest rate and currency swaps, with a number of counterparties. Our obligations under our fund management and life products are not changed by our hedging activities and we are liable for our obligations even if our derivative counterparties do not pay us. Defaults by such counterparties could have a material adverse effect on our financial condition and results of operations.

We are also susceptible to an adverse financial outcome from a change in third-party credit standing. As well as having a potential impact on asset values and, as a result, our financial condition and results of operations, credit rating movements can also impact our solvency position where regulatory capital requirements are linked to the credit rating of the investments held. Such movements in the credit standing of third parties could impact on the Group's solvency, profitability and shareholders' equity.

Market risks relating to Aviva's business

Changes in interest rates may cause policyholders to surrender their contracts, reduce the value of our investment portfolio and may have an adverse impact on our asset and liability matching, which could adversely affect our results of operation and financial condition.

Interest rates are highly sensitive to many factors, including governmental, monetary and tax policies, domestic and international economic and political considerations, inflationary factors, fiscal deficits, trade surpluses or deficits, regulatory requirements and other factors beyond our control.

Our exposure to interest rate risk relates primarily to the market price and cash flow variability of assets and liabilities associated with changes in interest rates.

Some of our products, principally traditional participating products, universal life insurance and annuities expose us to the risk that changes in interest rates will reduce our 'spread', or the difference between the amounts that we are required to pay under the contracts and the rate of return we are able to earn on investments intended to support obligations under the contracts. Our spread is a key component of our net income.

As interest rates decrease or remain at low levels, we may be forced to reinvest proceeds from investments that have matured or have been prepaid or sold at lower yields, reducing our investment return. Moreover, borrowers may prepay or redeem the fixed-income securities, commercial mortgages and mortgage-backed securities in our investment portfolio with greater frequency in order to borrow at lower market rates,

which increases this risk. Lowering interest crediting or policyholder bonus rates can help offset decreases in investment margins on some products. However, our ability to lower these rates could be limited by competition or by contractually guaranteed minimum rates and may not match the timing or magnitude of changes in asset yields. As a result, our spread could decrease or potentially become negative. Our expectation for future spreads is an important component in the amortisation of policy acquisition costs and significantly lower spreads may cause us to accelerate amortisation, thereby reducing net income in the affected reporting period. In addition, during periods of declining interest rates, the guarantees within existing life insurance and annuity products may be more attractive to consumers, resulting in increased premium payments on products with flexible premium features, and a higher percentage of insurance policies remaining in force from year to year, during a period when our new investments carry lower returns. Accordingly, during periods of declining interest rates, profitability may suffer as the result of a decrease in the spread between interest rates credited to policyholders and returns on our investment portfolio.

Increases in market interest rates could also negatively affect our profitability. This could arise as the accommodative monetary policies of central banks, in particular the US Federal Reserve and the Bank of England, are wound down or stopped. Surrenders of life insurance policies and contracts may increase as policyholders seek higher returns and higher guaranteed minimum returns. Obtaining cash to satisfy these surrenders may require us to liquidate fixed maturity investments at a time when market prices for those assets are depressed which may result in realised investment losses. Regardless of whether we realise an investment loss, these cash payments would result in a decrease in total invested assets, and may decrease our net income. Premature withdrawals may also cause us to accelerate amortisation of policy acquisition costs, which would also reduce our net income.

Our mitigation efforts with respect to interest rate risk are primarily focused on maintaining an investment portfolio with diversified maturities that has a weighted average duration approximately equal to the duration of our estimated liability cash flow profile. However, it may not be possible to hold assets that will provide cash flows to exactly match those relating to policyholder liabilities, in particular in jurisdictions with less developed bond markets and in certain markets where regulated surrender value or maturity values are set with reference to the interest rate environment prevailing at the time of policy issue. This is due to the duration and uncertainty of the liability cash flows and the lack of sufficient assets of suitable duration. This results in a residual asset/liability mismatch risk that can be managed but not eliminated. In addition, our estimate of the liability cash flow profile may be inaccurate for other reasons, such as varying mortality, morbidity or general insurance claims, and we may be forced to liquidate investments prior to maturity at a loss in order to cover the liability. Such a loss could have a material adverse effect on our results of operations and financial condition.

Changes in short or long-term inflation may cause policyholders to surrender their contracts, increase the size of our claims payments and expenses and reduce the value of our investments, which could adversely affect our results of operations and financial condition.

We are subject to inflation risk through our holdings of fixed interest and other investments and as a result of the potential for the cost of claims and expenses to rise faster than anticipated in our pricing or reserving. Changes in inflation could also affect the value perceived to be offered by our policies and so adversely affect persistency levels.

Falls in equity or property prices could have an adverse impact on our investment portfolio and impact on our results of operations and shareholders' equity.

We are subject to equity and property price risk due to holdings of equities and investment properties in a variety of locations worldwide. Downturns in equity markets will depress equity prices and have a negative impact on our capital position in that unrealised losses in our net investment portfolio will increase, and our defined benefit pension scheme surplus/deficit will reduce/increase as the market value of scheme assets invested in equities decreases.

Downturns and volatility in equity markets can have a material adverse effect on the revenues and returns from our unit-linked, participating and fund management business. The unit-linked and fund management business depends on fees related primarily to the value of assets under management and would therefore be reduced by declines in equity and property markets. Profit could also be reduced as a result of current investors withdrawing funds or reducing their rates of on-going investment with our fund management companies, or switching to lower risk funds generating lower income, or as a result of our fund management companies failing to attract funds from new investors. Similarly, bonuses credited to participating policyholders will reduce following declines in equity and property markets and this will generally also lead to reductions in transfers to shareholders.

Downturns in equity markets may also have a material adverse effect on our regulatory capital surplus as measured under the EU Solvency II Insurance Directive.

Heightened uncertainty surrounding the UK referendum on EU membership and subsequent possible exit may increase market volatility and act as a drag on the relative valuations of UK equities or other companies making use of the common market from the UK, with a negative impact on insurers, such as the Group, whose assets are exposed to UK equity markets. It may also have an adverse impact on European equity markets and beyond.

We provide certain guarantees within some of our products that protect policyholders against significant downturns in the equity markets. In volatile or declining equity market conditions, we may need to increase liabilities for future policy benefits and policyholder account balances, negatively affecting net income.

For property investment, we are subject to counterparty, valuation and liquidity risks. These investments may be adversely affected by weakness in property markets and increased mortgage delinquencies. We are also subject to property risk indirectly in our investments in residential mortgage-backed securities and commercial mortgage-backed securities and covered bonds. There is the risk that the underlying collateral may fall in value causing the investment in securities to fall in value. The markets for these property investments and instruments can become illiquid, and issues relating to counterparty credit ratings and other factors may increase pricing and valuation uncertainties. We are also indirectly exposed to property risk through our UK commercial finance lending. The fall in prices of any such investments due to such risks could adversely affect our results of operations, shareholders' equity and financial condition.

Fluctuations in currency exchange rates may adversely affect our results of operations and financial condition.

We operate internationally and are exposed to foreign currency exchange risk arising from fluctuations in exchange rates of various currencies. For the year ended 31 December 2015, approximately 58% of our premium income from continuing operations arose in currencies other than sterling, and our net assets were denominated in a variety of currencies, of which the largest are the euro, sterling and Canadian dollar. In managing our foreign currency exposures, we do not hedge revenues as

these are substantially retained locally to support the growth of the business and meet local regulatory and market requirements. Nevertheless, the effect of exchange rate fluctuations on local operating results could lead to significant fluctuations in our consolidated financial statements upon translation of the results into sterling. Although we take certain actions to address this risk, foreign currency exchange rate fluctuation could materially adversely affect our reported results due to unhedged positions or the failure of hedges to effectively offset the impact of the foreign currency exchange rate fluctuation. Any adverse foreign currency exchange fluctuation may also have a material adverse effect on our regulatory capital surplus based on the EU Solvency II Insurance Directive.

Market fluctuations may cause the value of options and guarantees embedded in some of our life insurance products to exceed the value of the assets backing their reserves, which could adversely affect our results of operations or financial condition.

As a normal part of their operating activities, various Group companies have given guarantees and options, including interest rate and investment return guarantees, in respect of certain long-term insurance and fund management products. In providing these guarantees and options, our capital position is sensitive to fluctuations in financial variables, including foreign currency exchange rates, interest rates, property values and equity prices.

Interest rate guaranteed returns, such as those available on guaranteed annuity options ('GAOs'), are sensitive to interest rates falling below the guaranteed level. Other guarantees, such as maturity value guarantees and guarantees in relation to minimum rates of return, are sensitive to fluctuations in the investment return below the level assumed when the guarantee was made.

Periods of significant and sustained downturns in equity markets, increased equity volatility or reduced interest rates could result in an increase in the valuation of the future policy benefits or policyholder account balance liabilities associated with such products, resulting in a reduction to net income. We use reinsurance and derivative instruments to mitigate some of the liability exposure and the volatility of net income associated with these liabilities, and while we believe that these and other actions mitigate the risks related to these benefits, we remain liable for the guaranteed benefit in the event that reinsurers or derivative counterparties are unable or unwilling to pay.

We are also subject to the risk that the cost of hedging these guaranteed minimum benefit increases, resulting in a reduction to net income. In addition, we are subject to the risk that unanticipated policyholder behaviour or mortality, combined with adverse market events, produces economic losses beyond the scope of the risk management techniques employed. These, individually or collectively, may have a material adverse effect on our results of operations, financial condition or liquidity.

Asset management risks relating to Aviva's business

Our fund management business may be affected by the poor investment performance of the funds we manage

Poor investment returns in our investment management business, due either to general market conditions or underperformance (relative to competitors or to benchmarks) by funds or accounts that we manage, may adversely affect our ability to retain existing assets and to attract new clients or additional assets from existing clients. The ability of our investment team to deliver strong investment performance depends in large part on our ability to identify appropriate investment opportunities in which to invest client assets. If the investment team for any of our strategies is unable to identify sufficient appropriate investment opportunities for existing and

new client assets on a timely basis, the investment performance of the strategy could be adversely affected. The risk that sufficient appropriate investment opportunities may be unavailable is influenced by a number of factors, including general market conditions. This could adversely affect the management and incentive fees that we earn on assets under management and our results of operations.

Failure to comply with client contractual requirements and/or guidelines could result in damage awards against us and our fund management operations and loss of revenues due to client terminations.

When clients retain us to manage assets on their behalf, we must comply with contractual obligations and guidelines agreed with such clients in the provision of our services. A failure to comply with these guidelines or contractual requirements could result in damage to our reputation or in our clients seeking to recover losses, withdrawing their funds or terminating their contracts, any of which could cause our revenues and earnings to decline.

Failure to manage risks in operating securities lending of Group and third party client assets could adversely affect our results of operations and financial condition and for our fund management operations lead to a loss of clients and a decline in revenues and liquidity.

In operating securities lending of Group and third party client assets, our fund management operations must manage risks associated with (i) ensuring that the value of the collateral held against the securities on loan does not decline in value or become illiquid and that its nature and value complies with regulatory requirements and investment requirements; (ii) the potential that a borrower defaults or does not return a loaned security on a timely basis; and (iii) errors in the settlement of securities, daily mark-to-market valuations and collateral collection. The failure of our fund management controls to mitigate these risks could result in financial losses for us and third party clients that participate in our securities lending programmes.

Liquidity risks relating to Aviva's business

Adverse capital and credit market conditions may adversely affect our financial flexibility in addressing liquidity needs, as well as access to and the cost of capital which could adversely affect our results of operations or financial condition.

At Group level, we need some of our invested assets to be liquid to pay our operating expenses, taxes, interest on our debt, dividends on our capital stock and to repay maturing debt. At an operational level we also need liquidity and sufficient cash flow sources to meet insurance claims. Without sufficient liquidity, we could be forced to curtail our operations and our business would suffer. The principal sources of our liquidity are insurance premiums, annuity considerations, deposit funds and cash flow from our investment portfolio and assets, consisting mainly of cash or assets that are readily convertible into cash. Sources of liquidity in normal markets also include a variety of short and long-term instruments, including repurchase agreements, commercial paper, medium and long-term debt, junior subordinated debt, securities, capital securities and stockholders' equity.

We hold certain investments that may lack liquidity such as commercial mortgages, real estate, privately placed fixed-maturity securities, and unlisted equities. The valuations of such assets are based on inputs which are not directly observable in the market. The inputs used reflect the assumptions that we consider market participants would normally use based on a combination of independent third party evidence and internally developed models, intended to be calibrated to market observable data where possible. These are known as Level 3

asset classes in our fair value hierarchy and represented 16% of total financial assets and investment properties held at fair value as of 31 December 2015. As has been the case across the industry, even some higher-quality assets have been more illiquid as a result of the recent challenging market conditions.

The reported value of our relatively illiquid types of investments, our investments in the asset classes described in the paragraph above and, at times, our higher-quality, generally liquid asset classes, do not necessarily reflect the lowest current market price for the asset. If we were forced to sell certain of our assets in the current market, there can be no certainty that we would be able to sell them for the prices at which we have recorded them and we may be forced to sell them at significantly lower prices.

We may refinance existing financing arrangements and may, in exceptional circumstances, need to seek additional financing to supplement liquidity available from internal resources. The availability of additional financing will depend on a variety of factors such as market conditions, the general availability of credit, the overall availability of credit to the financial services industry and the market's perception of our financial condition. Disruptions and uncertainty or volatility in the capital and credit markets, as has been experienced in the last few years, in particular throughout the eurozone, may exert downward pressure on availability of liquidity and credit capacity for certain issuers and, if access to liquidity is constrained for a prolonged period of time, may limit our access to capital required to operate and grow our business at a sustainable cost. Adverse market conditions may limit our ability to replace, in a timely manner, maturing debt, satisfy statutory capital requirements and generate fee income and market related revenue to meet liquidity needs.

As such, we may be forced to reduce our dividends, defer interest payments or redemptions, delay raising capital, issue shorter-term securities than we prefer, or bear an unattractive cost of capital which could decrease profitability and reduce financial flexibility. Our results of operations, financial condition and cash flows could be materially adversely affected.

As a holding company, Aviva plc is dependent over the medium to long-term on its operating subsidiaries to cover operating expenses and dividend payments.

As a holding company, Aviva plc has no substantial operations of its own. Its principal sources of funding are dividends from subsidiaries, shareholder-backed funds and any amounts that may be raised through the issuance of debt and commercial paper. Our insurance and fund management operations are generally conducted through direct and indirect subsidiaries. Certain subsidiaries have regulatory restrictions that may limit the payment of dividends and could prompt a decision to inject capital, which in some more adverse circumstances and over the longer-term could limit our ability to pay dividends to shareholders. This could have a material adverse impact on our business.

Insurance risks relating to Aviva's business

The cyclical nature of the insurance industry may cause fluctuations in our results.

Historically, the insurance industry has been cyclical and operating results of insurers have fluctuated because of volatile and sometimes unpredictable developments, many of which are beyond the direct control of any insurer. Although we have a geographically diverse group of businesses providing a wide range of products, we expect to experience the effects of this cyclical nature, including changes in sales and premium levels. The unpredictability and competitive nature of the general insurance business has contributed historically to significant quarter-to-quarter and year-to-year fluctuations in underwriting results and net earnings.

The use of inaccurate assumptions in pricing and reserving for insurance business may have an adverse effect on our business profitability.

Our life insurance companies are required to make a number of assumptions in relation to the business written, including the mortality and morbidity rates of our customers (the proportion of customers dying or falling sick or recovering from illness), the development of interest rates, persistency rates (the proportion of customers retaining existing policies and continuing to pay premiums up to their maturity dates), the exercise by customers of options included within their policies and future levels of expenses. By their nature, these assumptions may prove to be incorrect.

When establishing their liabilities, our life insurance companies allow for changes in the assumptions made, monitor their experience against the actuarial assumptions used and assess the information gathered to refine their long-term assumptions, together with taking actual claims experience into account. However, it is not possible to determine precisely the total amounts that will ultimately be paid under the policies written by the business as amounts may vary from estimates. Changes in assumptions may also lead to changes in the level of capital required to be maintained, meaning that we may need to increase the amount of our reserves. This could have a material adverse impact on our value, the results of our operations and financial condition.

Additionally, our management of the general insurance business requires the general insurance companies to make a number of assumptions in relation to the business written. These assumptions include the costs of writing the business and settling claims, and the frequency and severity of claims. The assumptions may turn out to be incorrect, thereby adversely impacting on our profit. Additionally, man-made disasters, including accidents and intentional events, are particularly difficult to predict with a high degree of accuracy. These would also have an adverse impact on our profit due to higher than expected claims.

Furthermore, outstanding claims provisions for the general insurance business are based on the best-estimate ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with related claims handling costs. Any provisions for re-opened claims are also included. A range of methods, including stochastic projections, may be used to determine these provisions. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement pattern of claims.

If the assumptions underlying the reserving basis were to prove incorrect, we might have to increase the amount of the general insurance provisions, which would adversely impact our financial condition or results of operations.

We have a significant exposure to annuity business and a significant life insurance risk is associated with longevity.

Longevity statistics are monitored in detail, compared with emerging industry trends, and the results are used to inform both the reserving and pricing of annuities. It is likely that uncertainty will remain in the development of future longevity that cannot be mitigated.

A strengthening in the longevity assumption, either to reflect changes in the underlying life expectancy (for example, as a result of healthier lifestyles, improved screening programmes or increased availability or effectiveness of medical treatments) of the population or of our particular portfolio used to calculate our long-term business liabilities, would result in an increase in these reserves and reduce shareholders' equity.

If our business does not perform well or if actual experience versus management estimates used in valuing and amortising Deferred Acquisition Costs ('DAC') and Acquired value of in-force business ('AVIF') varies significantly, we may be required to accelerate the amortisation and/or impair the DAC and AVIF which could adversely affect the results of operations or financial condition.

We incur significant costs in connection with acquiring new and renewal business. Those costs that vary with and are driven by the production of new and renewal business are deferred and referred to as DAC. The recovery of DAC is dependent upon the future profitability of the related business. The amount of future profit or margin is dependent principally on investment returns in excess of the amounts credited to policyholders, mortality, morbidity, persistency, general insurance underwriting profit and expenses to administer the business. Of these factors, investment margins and general insurance underwriting profit are most likely to impact the rate of amortisation of such costs. The aforementioned factors enter into management's estimates of gross profit or margins, which generally are used to amortise such costs. If the estimates of gross profit or margins were overstated, then the amortisation of such costs would be accelerated in the period the actual amount is known and would result in a charge to income. Significant or sustained equity market declines could result in an acceleration of amortisation of the DAC related to unit-linked business, resulting in a charge to income. Such adjustments could have a material adverse effect on the results of operations or financial condition.

AVIF reflects the estimated present value of future profit that will emerge over the remaining life of certain in-force contracts in a life insurance company, acquired either directly or through the purchase of a subsidiary, and represents the portion of the purchase price that is allocated to the value of the right to receive future cash flows from the insurance and investment contracts in-force at the acquisition date. AVIF is based on actuarially determined projections. Actual experience may vary from the projections. Revisions to estimates result in changes to the amounts expensed in the reporting period in which the revisions are made and could result in impairment and a charge to income. Where AVIF is amortised, an acceleration of the amortisation of AVIF would occur if the estimates of gross profit or margins were overstated in the period in which the actual experience is known and would result in a charge to net income. Such adjustments could have an adverse effect on our results of operations or financial condition.

Catastrophic events, which are often unpredictable by nature, could result in material losses and abruptly and significantly interrupt our business activities and results of operations.

Our business is exposed to volatile natural and man-made disasters such as pandemics, hurricanes, windstorms, earthquakes, terrorism, riots, fires and explosions. Such events may not only affect insurance claims, but could also adversely impact investment markets and cause declines in the value of our investment portfolio. Over the past several years, changing weather patterns and climatic conditions have added to the unpredictability and frequency of natural disasters in certain parts of the world and created additional uncertainty as to future trends and exposure.

Our life insurance operations are exposed to the risk of catastrophic mortality, such as a pandemic or other event that causes a large number of deaths. The effectiveness of external parties, including governmental and non-governmental organisations, in combating the spread and severity of such a pandemic could have a material impact on the losses experienced by us.

The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the

event and the severity of the event. Most catastrophes are restricted to small geographic areas; however, pandemics, hurricanes, earthquakes and man-made catastrophes may produce significant damage in larger areas, especially those that are heavily populated. Catastrophic events could also harm the financial condition of our reinsurers and thereby increase the probability of default on reinsurance recoveries and could also reduce our ability to write new business. Furthermore, pandemics, natural disasters, terrorism and fires could disrupt our operations and result in significant loss of property, key personnel and information about our clients and our business if our business continuity plans fail to cope with the scale or nature of the catastrophe. Such events could adversely affect our business, results of operations, corporate reputation and financial condition for a substantial period of time.

Furthermore, market conditions beyond our control determine the availability and cost of the reinsurance protection we purchase. Accordingly, we may be forced to incur additional expenses for reinsurance or may not be able to obtain sufficient reinsurance on acceptable terms, which could adversely affect our ability to write future business.

Operational risks relating to Aviva's business

All of our businesses are subject to operational risks, including the risk of direct or indirect loss resulting from inadequate or failed internal and external processes, systems and human error or from malicious acts by third parties or external events.

Our business is dependent on processing a large number of complex transactions across numerous and diverse products. Furthermore, the long-term nature of the majority of our business means that accurate records have to be maintained for significant periods.

Our systems and processes on which we are dependent to serve our customers are designed to identify appropriately and address the operational risks associated with our activities. However, they may nonetheless fail due to IT malfunctions, human error, intentional disruption through the hacking of our IT systems, phishing attacks, or planting of malware by third parties or by other means, business interruptions, non-performance by third parties or other external events and failure of disaster recovery arrangements. This could disrupt business operations resulting in material reputational damage and the loss of customers, and have a consequent material adverse effect on our results of operations and financial condition. Although we have taken steps to upgrade systems and processes to reduce these operational risks, we cannot anticipate the details or timing of all possible operational and systems failures which may adversely impact our business. The increasing sophistication of cyber criminals and the importance of digital interaction with our customers to our strategy means the inherent risk of failure of our operations due to the malicious acts of third parties is expected to increase.

Our businesses are exposed to risk from potential non-compliance with policies, employee misconduct or negligence and fraud, which could result in regulatory sanctions and serious reputational or financial harm. In recent years, a number of multinational financial institutions have suffered material losses due to the actions of 'rogue traders' or other employees. It is not always possible to deter employee misconduct, and the precautions we take to prevent and detect this activity may not always be effective.

Our risk management methods may leave us exposed to unidentified, unanticipated or incorrectly quantified risks, which could lead to material losses or material increases in liabilities. In particular, our risk mitigation strategies may prove less effective than anticipated, including in relation to our reinsurance arrangements.

We have in place risk management policies, procedures and assessment methods to identify, assess and control risks to avoid or limit potential losses or liabilities. However, such policies, procedures and assessment methods may not be fully effective in identifying and mitigating the risk exposure of such businesses in all market environments or against all types of risk. Unanticipated or incorrectly quantified risk exposures and/or inadequate or incorrect responses to these risk exposures could result in a material adverse effect on our business, results of operations and/or financial condition.

We employ a range of risk mitigation strategies including the use of equity, interest rate and credit derivatives and reinsurance arrangements to reduce market, credit and insurance risk. A range of different modelling approaches are used to derive and evaluate the strategies adopted. The breakdown of the assumptions used in these modelling approaches, which may occur during market dislocations, could cause these risk mitigation strategies to be less effective than anticipated and thereby adversely affect our financial condition and results of operations.

We currently use the reinsurance markets primarily to limit our risk, to support growth and to manage our capital more efficiently. We are exposed to concentrations of risk with individual reinsurers due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings. We operate a policy to manage our reinsurance counterparty exposures, by limiting the reinsurers that may be used and applying strict limits to each reinsurer. Reinsurance exposures are aggregated with other exposures to ensure that the overall counterparty risk is within appetite. Our asset and liability management and risk functions have an active monitoring role with escalation to the Chief Financial Officer, the Group's asset liability committee and the Board's risk committee as appropriate. Our largest reinsurance counterparty is BlackRock Life Ltd (including subsidiaries) arising as a result of BlackRock funds offered to UK Life customers via unit linked contracts. At 31 December 2015, the reinsurance asset recoverable, including debtor balances, from BlackRock Life Ltd was £12,660 million. Whilst the risk of default is considered remote due to the nature of the arrangement and the counterparty, the Group is currently considering alternative ways to structure the agreements with BlackRock to reduce or remove this exposure. Excluding potential exposures arising from reinsurance of unit linked funds, our largest reinsurance counterparty is Swiss Reinsurance Company Ltd. At 31 December 2015, the reinsurance asset recoverable, including debtor balances, from Swiss Reinsurance Company Ltd (including subsidiaries) was £2,863 million.

Reductions in risk appetite among reinsurers may result in changes in price or willingness to reinsure certain risks, which could have a material adverse effect on our results of operations or financial condition. If reinsurers do not offer to renew their products and services, in whole or in part, for any reason, there is a risk that we may be unable to procure replacement cover for any reinsurance agreements terminated at rates equivalent to those of the terminated cover, or at all, and we may be exposed to un-reinsured losses during any interim period between termination of the existing agreements and the start of any replacement cover.

While reinsurance makes the assuming reinsurer liable to the Group to the extent of the risk ceded, it does not discharge us from our primary obligation to pay under an insurance policy for losses incurred. We are therefore subject to credit risk with

respect to our current and future reinsurers. The insolvency of any reinsurers or their inability or refusal to pay claims under the terms of any of their agreements with us could therefore have a material adverse effect on the Group. Collectability of reinsurance is largely a function of the solvency of reinsurers. Significant reinsurance purchases are reviewed annually by us to verify that the levels of protection being bought reflect any developments in exposure and our risk appetite.

There is a risk that customer data could be stolen, lost or misused.

As a financial services group, we maintain significant amounts of sensitive customer data. Despite the controls put in place, there remains a risk that this data could be stolen, lost and or misused as a result of an intentional or unintentional act by parties internal or external to us, including through the hacking of our IT systems and failure to adequately encrypt data. This could result in fines, the need to compensate customers, the cost of remediation and a negative impact on our reputation with the consequential impact on sales volumes, persistency levels, and third party managed funds, and hence adversely impact our results of operations.

We operate in several markets through arrangements with third parties, and this may expose us to additional risks.

Our ability to exercise management control over our partnership operations, our joint ventures and our investment in them depends on the terms of the legal agreements. In particular, the relationships depend on the allocation of control among, and continued co-operation between, the participants.

We may also face financial or other exposure in the event that any of our partners fail to meet their obligations under the agreement or encounter financial difficulty. Partnership agreements may also be terminated on certain dates or subject to certain conditions and could be subject to renewal on less favourable terms. In addition, a significant proportion of our product distribution, such as bancassurance, is carried out through arrangements with third parties not controlled by us and is dependent upon the continuation of these relationships. A temporary or permanent disruption to these distribution arrangements could affect our financial condition. Some of these arrangements require our third-party partners to participate in and provide capital to our joint venture, associate and subsidiary undertakings. Our partners may change their strategic priorities or encounter financial difficulties preventing them from providing the necessary capital to promote future growth.

In addition, we outsource certain customer service, technology and legacy policy administration functions to third parties and may do so increasingly in the future. If we do not effectively develop, implement and maintain our outsourcing strategy, third-party providers do not perform as anticipated or we experience technological or other problems with a transition to or between such providers, we may not realise the full extent of productivity improvements or administration and cost efficiencies and, as a result, may experience operational difficulties, increased costs and a loss of business. In particular, failings by our outsource partners to perform outsourced functions, or to perform them to the required standards, may adversely affect our reputation and lead to the loss of customers and operating profit or to regulatory fines.

Our fund management operation depends on a number of key vendors, for various fund administration, accounting, valuations, custody and transfer agent roles and other operational needs. The failure or inability to diversify sources for key services or the failure of any key vendors to fulfil their obligations could lead to operational issues for us and in certain

products, which could result in financial losses for our clients and impact our results of operations.

The failure to attract or retain the necessary personnel, or to keep existing personnel's skills up to date and in line with our strategy, could have a material adverse effect on our results of operations and/or our businesses.

As a global financial services organisation with a decentralised management structure, we rely to a considerable extent on the quality of local management in the countries in which we operate. The success of our operations is dependent, among other things, on our ability to attract and retain highly qualified professional employees. Competition for such key employees is intense. Our ability to attract and retain key employees is dependent on a number of factors, including prevailing market conditions, working environment and compensation packages offered by companies competing for the same talent.

There are inherent funding risks associated with our participation in defined benefit staff pension schemes.

We operate both defined benefit and defined contribution staff pension schemes. In the UK, we operate three main pension schemes: the Aviva Staff Pension Scheme ('ASPS'), the Friends Provident Pension Scheme ('FPPS') and the RAC (2003) Pension Scheme. The defined benefit section of the ASPS was closed to new members in 2002 other than on an exceptional basis, and closed to future accruals for all existing members from 1 April 2011. The FPPS has been closed to new members since July 2007 and closed to active membership on 31 December 2012. The defined benefit section of the RAC (2003) Pension Scheme was also closed to new members and closed to future accrual in April 2011.

Closure of the defined benefit schemes removes some of the volatility associated with additional future accrual for active members.

There are still inherent funding risks associated with the defined benefit schemes. Events could result in a material reduction in the funding position of such schemes and may result in a materially increased deficit between the pension scheme's assets and liabilities. The factors that affect the scheme's position include: poor performance of pension fund investments; greater life expectancy than assumed; adverse changes in interest rates or inflation or discount rates; and other events occurring that increase the costs of past service benefits over the amounts predicted in the actuarial assumptions. In the short-term, the funding position is inherently volatile due to movements in the market value of assets. Where a funding deficit or surplus arises, the position will be discussed with the scheme trustees to agree appropriate actions. This may include a plan to fund the deficit over a period of years. Any surplus or deficit in the defined benefit pension scheme will affect shareholders' equity, although the IFRS position may diverge from the scheme funding position.

The UK pension schemes are subject to statutory requirements with regards to funding and other matters relating to the administration of the schemes. Compliance with these requirements is subject to regular review. A determination that we have failed to comply with applicable regulations could have an adverse impact on our results of operations or our relationship with current and potential contributors and employees, and adverse publicity.

The determination of the amount of allowances and impairments taken on our investments is highly subjective. Our process for valuing investments may include methodologies, estimations and assumptions which require judgement and could result in changes to investment valuations. If our business does not perform well, we may be required to recognise an impairment of our goodwill or intangibles with indefinite and finite useful lives, which could adversely affect our results of operations or financial condition.

The determination of the amount of allowances and impairments taken on our investments is highly subjective. Our process for valuing investments may include methodologies, estimations and assumptions which require judgement and could result in changes to investment valuations.

The determination of the amount of allowances and impairments varies by investment type and is based upon our periodic evaluation and assessment of known risks associated with the respective asset class. Such evaluations and assessments are revised as conditions change and new information becomes available and additional impairments may need to be taken or allowances provided for in the future. If the carrying value of an investment is greater than the recoverable amount, the carrying value is reduced through a charge to the income statement in the period of impairment. There can be no assurance that management has accurately assessed the level of impairments taken and allowances reflected in our financial statements.

We value our fair value securities using designated methodologies, estimations and assumptions. These securities, which are reported at fair value on the consolidated statement of financial position, represent the majority of our total cash and invested assets. We have categorised the measurement basis for assets carried at fair value into a 'fair value hierarchy' in accordance with the valuation inputs and consistent with IFRS 13: Fair Value Measurement. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1); the middle priority to fair values other than quoted prices based on observable market information (Level 2); and the lowest priority to unobservable inputs that reflect the assumptions that we consider market participants would normally use (Level 3). The majority of our financial assets are valued based on quoted market information (Level 1) or observable market data (Level 2). At 31 December 2015, 16% of total financial investments, loans and investment properties at fair value were classified as Level 3, amounting to £49,122 million. Where estimates were used for inputs to Level 3 fair values, these were based on a combination of independent third-party evidence and internally developed models, intended to be calibrated to market observable data where possible.

An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to our valuation.

Goodwill represents the excess of the amounts paid to acquire subsidiaries and other businesses over the fair value of their net assets at the date of acquisition. We test goodwill and intangible assets with indefinite useful lives at least annually for impairment or when circumstances or events indicate there may be uncertainty over this value. We test intangibles with finite lives when circumstances or events indicate there may be uncertainty over this value. For impairment testing, goodwill and intangibles have been allocated to cash-generating units by geographical reporting unit and business segment.

The fair value of the reporting unit is impacted by the performance of the business. Goodwill, negative unallocated divisible surplus and indefinite life intangibles are written down for impairment where the recoverable amount is insufficient to support our carrying value. Such write downs could have a

material adverse effect on our results of operations or financial condition.

Systems errors or regulatory changes may affect the calculation of unit prices or deduction of charges for unit-linked products which may require us to compensate customers retrospectively.

A significant proportion of our product sales are unit-linked contracts, where product benefit are linked to the prices of underlying unit funds. While comprehensive controls are in place, there is a risk of error in the calculation of the prices of these funds due to human error in data entry, IT-related issues or other causes. Additionally, it is possible that policy charges which are deducted from these contracts are taken incorrectly, or the methodology is subsequently challenged by policyholders or regulators and changed retrospectively. Any of these can give rise to compensation payments to customers. Controls are in place to mitigate these risks, but errors could give rise to future liabilities. Payments due to errors or compensation may negatively impact our results of operations or financial condition.

Moves to simplify the operating structure and activities of the Group increases the reliance placed on core businesses and is subject to execution risk.

As part of our move to a more simplified structure, a number of business disposals, operating entity mergers and operational restructures have taken place, and may continue to occur in the future. This includes the potential sale of a number of non-core businesses. These changes are intended to reduce the operational costs of the Group and allow resources to be redeployed in more capital efficient businesses. There is a risk that these expected benefits may not be realised. These changes may reduce operating profit in the short-term and will lead to changes in the geographical and product risk profile of the Group. The execution risk including the risks relating to securing the necessary regulatory approvals, could result in the failure to achieve cost savings, the loss of key staff, and disruption to core business activities and governance structures which could have a material adverse effect on our business, results of operations and financial condition.

The proceeds received from disposals may not reflect the values that management believes are achievable and/or may cause substantial accounting losses (particularly if the disposals are done in difficult market conditions), each of which may result in our failure to realise the anticipated benefits and gains from any such disposal. In addition, disposals of businesses, which may be cash generative and profitable, may adversely affect our short-term cash flows until the medium to long-term strategic benefits of such disposals are realised, as well as give rise to a corresponding potential impact on capital requirements and liquidity. Preparation of businesses for disposal, and the disposal process more generally, may divert management time and attention away from the operation of the business in the ordinary course and may be disruptive to the business. We retain a residual exposure in respect of disposed business as a result of any representations, warranties or indemnities provided.

Execution risk is inherent in the completion of all strategic transactions. Such risks include uncertainty in relation to obtaining the required regulatory approvals on satisfactory terms for the change of control envisaged by such transactions. Such execution risk gives rise to a corresponding potential impact on capital requirements and liquidity.

We are reliant on IT systems and there are risks that our current and legacy systems cannot be made to adapt to growth in the business or new styles of doing business.

Key IT initiatives may not deliver what is required either on time or within budget or provide the performance levels required to support the current and future needs of the business. Significant resources are devoted to maintaining and developing IT systems to keep pace with developments within the insurance and fund management industries and to maintain service levels and availability at acceptable levels. Failure to do so could result in the inability to gather information for pricing, underwriting and reserving, to attract and retain customers or meet regulatory requirements or only to do so at excessive cost.

Risk relating to the execution of our strategy, and corporate disposals and acquisitions, including specifically the acquisition of Friends Life Group

Our acquisitions and other corporate transactions may not realise expected benefits and may divert management attention and other resources and involve risks of undisclosed liabilities and integration issues.

In past years, we have completed a number of acquisitions. On 10 April 2015 the Group acquired Friends Life and on 21 January 2016 the Group announced its intention to acquire RBC General Insurance Company, which is expected to complete later in 2016, and the Group may undertake further acquisitions in the future. Growth by acquisition involves risks that could adversely affect our operating results, including the substantial amount of management time and other resources that may be diverted from operations to pursue and complete acquisitions, or risks of undisclosed liabilities or integration or separation issues. The integration of any future acquisition may not be successful or in line with our expectations and any acquired businesses may fail to achieve, in the near or long-term, the financial results projected or the strategic objectives of the relevant acquisition (such as cost savings or synergies) and, once acquired, may continue to divert further management attention and resources or necessitate changes in Group strategy. The inability to realise expected benefits from such transactions may adversely affect our results of operations.

The implementation of our strategy may not proceed as expected.

Our strategy, which may be revised from time to time, may involve carrying on business in new markets, developing capabilities to carry out new business activities, expanding or reducing the scope of certain types of business activities or products and reorganising the Group in a manner which is appropriate for such business development changes, taking into account legal, regulatory, operational, capital and other requirements. The implementation of any strategy, changes in strategy, adoption of any new strategy and/or entry into new markets could entail significant changes in our business which may entail higher levels of risk or could adversely affect the results of operations, the financial condition and/or the credit and financial strength ratings of the Group.

We may be unable to execute, or may encounter difficulties or delays in successfully executing, our business and strategic goals which are subject to the risks set out herein and other factors that are currently unforeseen and which may be beyond their control. Failure to achieve any or all strategic goals, or the encounter of undue delay or unforeseen costs in implementing such goals, could adversely affect our results of operations and financial condition, as well as our reputation and standing in the marketplace.

Having acquired Friends Life Group, the Group's success will be dependent upon its ability to integrate the two businesses; there will be numerous challenges associated with the integration and the synergies expected from the acquisition of Friends Life Group may not be fully achieved. Following the acquisition of Friends Life Group on 10 April 2015, a process was commenced to integrate the operations of the Aviva Group and the Friends Life Group over a period expected to last two to three years. To the extent that the enlarged Group is unable to efficiently integrate operations, realise cost reductions, transfer existing Friends Life Group asset management contracts to Aviva Investors, retain qualified personnel or customers and avoid unforeseen costs or delay, there may be an adverse effect on the business, results of operations and/or the financial condition of the enlarged Group. While Aviva believes that the costs and synergies expected to arise from the acquisition have been reasonably estimated, unanticipated events or liabilities may arise which result in a delay or reduction in the benefits derived from the transaction, or in costs significantly in excess of those estimated. The integration of the Group and the Friends Life Group will be supported by a strong management team with experience of large integration processes. However, no assurance can be given that the integration process will deliver all or substantially all of the expected benefits or realise such benefits in a timely manner.

The enlarged Group will encounter numerous integration challenges as a consequence thereof. In particular, the enlarged Group's management and resources may be diverted from its core business activity of administering the enlarged businesses due to personnel being required to assist in the integration process. The integration process may lead to an increase in the level of administrative errors. A decline in the service standards of the enlarged Group may result in an increase in customer complaints and customer and/or regulatory actions, which may lead to reputational damage and the loss of customers and/or distributors by the enlarged Group and have an adverse impact on financial performance and condition. Furthermore, whether as a result of a decision or action taken by a regulator with jurisdiction over the enlarged Group's business or otherwise, it may not prove possible to achieve the expected level of synergy benefits on integration of the businesses of the Group and the Friends Life Group on time or at all and/or the cost of delivering such benefits may exceed the expected cost.

There will inevitably be a cost involved in revising the current systems and structures of the enlarged Group. There is a risk that these costs could exceed current estimates, which would adversely affect anticipated integration benefits.

During the integration period the enlarged Group may not be in a position to acquire other insurance and/or asset management related targets that it might otherwise have sought to acquire. In view of the demands the integration process may have on management time, it may also cause a delay in other projects currently contemplated by the Group.

Under any of these circumstances, the business growth opportunities, overhead functions consolidation benefits, purchasing and distribution benefits and other synergies anticipated to result from the acquisition of Friends Life Group may not be achieved as expected, or at all, or may be delayed materially. To the extent that the enlarged Group incurs higher integration costs or achieves lower synergy benefits than expected, its results of operations, financial condition and/or prospects may be adversely affected.

Brand and reputation risks relating to Aviva's business

We are rated by several rating agencies, and a decline in any of these ratings could affect our standing among customers, broker-dealers, agents, wholesalers and other distributors of our products and services and cause our sales and earnings to decrease.

A rating downgrade, or the perceived potential for such a downgrade, of Aviva plc or any of our rated insurance subsidiaries may, among other things, materially increase the number of policy surrenders and withdrawals by policyholders of cash values from their policies. The outcome of such activities may be cash payments requiring the sale of invested assets, including illiquid assets, at a price that may result in realised investment losses. These cash payments to policyholders would result in a decrease in total invested assets and a decrease in net income. Among other things, early withdrawals may also cause us to accelerate amortisation of policy acquisition costs, which would reduce net income. A rating downgrade may also impact sales volumes, particularly in Canada, where there is more focus by brokers on ratings when evaluating similar products. The ratings provided by AM Best and Standard & Poor's ('S&P') are considered to be the most important for distribution in Canada, and a downgrade could lead to a significant loss of sales and could lead to the termination of some distribution agreements. A significant rating downgrade may also increase our cost of borrowing or limit our access to some forms of financing.

We are dependent on the strength of our brand, the brands of our partners and our reputation with customers and agents in the sale of our products and services.

Our results are, to a certain extent, dependent on the strength of our brand and reputation. While we are well recognised, we are vulnerable to adverse market and customer perception. We operate in an industry where integrity, customer trust and confidence are paramount. We are exposed to the risk that litigation, employee misconduct, operational failures, the outcome of regulatory investigations, press speculation and negative publicity, disclosure of confidential client information, inadequate services, amongst others, whether true or not, could impact our brand or reputation. Our brand and reputation could also be affected if products or services recommended by us (or any of our intermediaries) do not perform as expected (whether or not the expectations are founded) or in line with the customers' expectations for the product range. Such a change to our brand strength could adversely affect our results of operations and financial condition.

We may not be able to protect our intellectual property and may be subject to infringement claims by a third party.

Our primary brand in the UK ('Aviva') is a registered trade mark in the UK and elsewhere. We own and trade under other registered or pending trade marks in the UK and elsewhere (such as Friends Provident, General Accident and Quote Me Happy), including Community trade marks having effect in the entire EU. We rely on a combination of contractual rights, copyright and trademark laws to establish and protect our intellectual property. Although we use a broad range of measures to protect our intellectual property rights, third parties may infringe or misappropriate our intellectual property. The loss of intellectual property protection or the inability to secure or enforce the protection of our intellectual property assets could have a material adverse effect on our business and our ability to compete.

Third parties may have, or may eventually be issued, patents or other protections that could be infringed by our products, methods, processes or services or could limit our ability to offer certain product features. In recent years, there has been increasing intellectual property litigation in the financial services industry challenging, among other things, product designs and

business processes. If a third party were to successfully assert an intellectual property infringement claim against us, or if we were otherwise precluded from offering certain features or designs, or utilising certain processes, it could have a material effect on our business, results of operations and financial condition.

Our businesses are conducted in highly competitive environments.

There are many factors which affect our ability to sell our products, including fiscal incentives, price and yields offered, financial strength and ratings, range of product lines and product quality, brand strength and name recognition, service levels to customers, fund management performance and historical bonus levels. In some of our markets, we face competitors that are comparable in size, scope and brand recognition. In some markets, competitors have greater financial resources or greater market share, offer a broader range of products, benefit from more advantageous tax treatments, or have higher bonus rates or claims paying ratios. Further, heightened competition for talented and skilled employees with local experience, particularly in the emerging, high growth markets, may limit our ability to grow businesses as quickly as planned. In certain non UK markets, we face intense competition from local and international financial institutions, which may be more established in these markets and may have other competitive advantages, such as greater size and breadth, which may limit our ability to be successful in these markets. In addition, local laws and regulations may be tailored to domestic providers, which may pose additional challenges to our business.

Our principal competitors in the life market include many of the major financial services businesses including, in particular, Axa, Allianz, CNP, Generali, Prudential, Legal & General, Standard Life, Unum and Zurich. Our principal competitors in the general insurance market include Direct Line Insurance, Intact, RSA, Zurich, Axa and Allianz. Our principal competitors in the fund management market include BlackRock, State Street Global, Fidelity Investments, Schroders and Aberdeen, as well as the fund management divisions of our principal competitors in the life market.

We also face competitors who specialise in many of the niche markets in which we operate. We believe that competition will intensify across all regions in response to consumer demand, technological advances, the impact of consolidation, regulatory actions and other factors.

Our ability to generate an appropriate return depends significantly upon our capacity to anticipate and respond appropriately to these competitive pressures.

Regulatory and legislative risks relating to our businesses

We may experience a decreased demand for individual annuities in the United Kingdom as a result of recent and possible further changes in UK law.

Our sales of annuities in the UK are composed of individual annuities and bulk purchase annuities. We may experience a decreased demand for individual annuities in the UK due to recent changes in UK law. Individual annuities have historically played a central role in most UK pensioners' post retirement financial arrangements due to the requirement for the benefits of defined contribution pensions to be converted to an individual annuity by the time the policyholder reached age 75 and such pension contracts offering a tax efficient method of saving for retirement.

New legislation that took effect from April 2015, has given retirees greater flexibility in accessing defined contribution pensions at retirement. Under the new legislation, inter alia, consumers approaching retirement have the freedom to take their whole pension pot as cash (the first 25% remaining tax

free, with the balance taxed at the individual's marginal rate), which removes the compulsion for customers to buy an annuity.

Subsequent to the UK Government's announcement of its intention to pass the new legislation in March 2014 and its coming into effect in April 2015, sales of individual annuities have been and continue to be adversely impacted, and there continues to be uncertainty over the longer-term impact, in particular with the possibility that the UK Government might further liberalise the restrictions on customers accessing their pension funds on retirement adversely impacting sales of individual annuities.

In response, within the UK, we have refocused our retirement solutions business to use our existing broad product universe (for example, individual annuities, investment platform and equity release products) to help customers through their retirement journey and we also seek to deliver profitable growth from our 'Bulk Purchase Annuities' products. However, at this stage it remains too early to assess the full impact of these changes on our adjusted operating profit and the extent to which these impacts can be mitigated by substitution of annuity sales with alternative products offered or being developed by us.

Our regulated business is subject to extensive regulatory supervision both in the UK and internationally.

We are subject to extensive laws and regulations that are administered and enforced by a number of different governmental authorities and non-governmental agencies, including the PRA, the FCA and other regulators. In light of wider financial and economic conditions, some of these authorities are considering, or may in the future consider, enhanced or new regulatory requirements intended to prevent future crises or otherwise assure the stability of institutions under their supervision. These authorities may also seek to exercise their supervisory or enforcement authority in new or more robust ways. All of these possibilities, if they occurred, could affect the way we conduct our business and manage our capital, and may require us to satisfy increased capital requirements.

Insurance regulation in the UK is largely based on the requirements of EU directives. Inconsistent application of directives by regulators in different EU member states may place us at a competitive disadvantage to other European financial services groups. In addition, changes in the local regulatory regimes of designated territories could affect the calculation of our solvency position.

Our insurance subsidiaries and branches worldwide are subject to detailed and comprehensive government regulation in each of the jurisdictions in which they conduct business. Regulatory agencies have broad administrative power over many aspects of the insurance business, which may include premium rates, marketing and selling practices, advertising, licensing agents, policy forms, capital adequacy and permitted investments. Government regulators are concerned primarily with the protection of policyholders rather than our shareholders or creditors.

The failure of any of our subsidiaries to meet minimum capital and surplus requirements could subject us to further examination or corrective action imposed by insurance regulators, including limitations on our ability to write additional business, increased supervision by regulators or the implementation of resolution plans. Any corrective action imposed could have a material adverse effect on our business, results of operations and financial condition. A decline in minimum capital and surplus amounts may also limit the ability of an insurance subsidiary to make dividend payments or distributions and could be a factor in causing rating agencies to downgrade our financial strength ratings, which could have a

material adverse effect on our business, results of operations and financial condition.

In the UK, our business is subject to regulation by both the PRA and the FCA, which have broad powers, including the authority to grant, vary the terms of, or cancel a regulated firm's authorisation, to investigate marketing and sales practices, to make product intervention rules and to require the maintenance of adequate financial resources. The PRA and the FCA have the power to undertake a range of investigative, disciplinary or enforcement actions, including public censure, restitution, fines or sanctions and to require firms to pay compensation.

The PRA and the FCA may make enquiries of the companies which they regulate regarding compliance with regulations governing the operation of business and, similar to the other UK regulated financial services companies, we face the risk that the PRA or the FCA could find that we have failed to comply with applicable regulations or have not undertaken corrective action as required.

Issues and disputes may arise from time to time from the way in which the insurance industry or fund management industry has sold or administered an insurance policy or other product or in the way in which they have treated policyholders or customers, either individually or collectively, which may result in investigative, disciplinary or enforcement actions by the FCA or PRA or require the making of redress to customers.

There has been an increased focus in the EU on the fair treatment of customers, in particular on the way in which the insurance industry or fund management industry sells and administers insurance policies or other products. The European Commission is currently in the process of preparing delegated regulations under the Insurance Distribution Directive ('IDD') and has also been working on an initiative in relation to Packaged Retail and Insurance based Investment Products ('PRIIPs') with the aim of harmonising pre contractual disclosures and selling practices for such products. There is a risk that any new rules required in due course to implement the IDD and any new rules relating to PRIIPs will lead to restrictions on our ability to distribute our products within the EU and additional distribution and compliance costs, which could have a material adverse effect on our results, operations, and/or costs or otherwise negatively impact on our distribution arrangements.

Where larger groups or matters of public policy are concerned, the PRA and the FCA may intervene directly to provide redress to customers. There have been several industry-wide issues in recent years in which the PRA or the FCA (or previously the Financial Services Authority) has intervened directly, including the sale of personal pensions, the sale of mortgage-related endowments and investments in split capital investment trusts and sale of payment protection insurance.

Outside of the UK, our businesses are regulated by local regulators that often have similar powers to the PRA and the FCA and the exercise of these powers could therefore have a similar negative impact on perceptions of our businesses or have a material adverse effect on our business.

Furthermore, various jurisdictions in which we operate, including the UK, have created investor compensation schemes that require mandatory contributions from market participants in some instances in the event of a failure of another market participant. As a major participant in the majority of our chosen markets, circumstances could arise where we, along with other companies, may be required to make such contributions. We (like all other groups in which an entity is PRA and/or FCA regulated) contribute to the Financial Services Compensation Scheme and the levels of contribution to the Financial Services Compensation Scheme may change over time.

A determination that we have failed to comply with applicable regulation could have a negative impact on our results of operations or on our relations with current and

potential customers. Regulatory action against a member of the Group could result in adverse publicity for, or negative perceptions regarding, the Group, or could have a material adverse effect on our business, our results of operations and financial condition and divert management's attention from the day-to-day management of the business.

We will not always be able to predict the impact of future legislation or regulation or changes in the interpretation or operation of existing legislation or regulation on our business, results of operations and financial condition. Changes in government policy, legislation or regulatory interpretation applying to companies in the financial services and insurance industries in any of the markets in which we operate, which may be applied retrospectively, may adversely affect the range of products offered, the terms and conditions applicable to these products (including retrospectively), distribution channels, capital requirements, dividends payable by subsidiaries and, consequently, results and financing requirements.

Similarly, the FCA has conducted a number of thematic reviews and market studies of the annuity and retirement income markets. Initially, a review was conducted by the FCA of annuity pricing data, which concluded in February 2014 that the market was not working well for most consumers. This pricing review looked at whether and to what extent prospective customers are not purchasing the best value annuities, or exercising the open market option ('OMO') to buy their annuity from a firm other than the one providing the pension policy. The FCA conducted its own pricing research to determine which groups of consumers are most likely to be affected. This involved a pricing survey of major annuity providers, and compared the rates available through a range of distribution channels, including rates available through the OMO and those only available to existing pension policyholders. This pricing review was followed up by the related Thematic Review of Annuity Sales Practices, which was published by the FCA on 11 December 2014. The FCA has highlighted that its work on this review has revealed that firms needed to make improvements in relation to the way consumers are informed about shopping around for enhanced annuities.

The FCA has followed-up with further work in the field of pension market reform and on 26 March 2015 published findings and proposed remedies in relation to its retirement income market study. The FCA suggested the following remedies to support consumer choice in the market: (i) requiring firms to provide an annuity quotation ranking so that consumers can easily identify if they could be getting a better deal by shopping around; (ii) redesigning and behaviourally trialling the information that consumers receive from their providers, such as wake-up packs, in the run up to their retirement; and (iii) in the longer-term, the creation of a pensions dashboard which will allow consumers to see all their pension pots in one place. In addition, the FCA noted that they want to see firms framing the options available to help consumers make good decisions, rather than to drive sales of certain products. On 1 October 2015 the FCA published a consultation paper setting out proposed changes to FCA rules and guidance in relation to pension reforms. The purpose of the paper is to consult on the FCA's expectations about how existing rules and guidance will operate in the new environment as well as bring forward proposals for further changes to the FCA's rules. Following receipt of feedback, the FCA is scheduled to publish its rules at the beginning of Q2 2016 which will come into effect in stages, within one year of the end of the consultation.

The consequences of the FCA's work in this area remains uncertain but could include requirements to pay redress to customers who could have obtained a more favourable annuity rate by exercising their OMO or purchasing an enhanced annuity and/or the imposition of greater obligations on annuity

providers to treat customers fairly and provide increased levels of information on alternative options available to customers at retirement. Regulatory action of this type could have consequences for the Group and have a material adverse effect on our business, results of operations and/or financial condition.

Following a market study by the Office of Fair Trading ('OFT') and the Department of Work and Pensions ('DWP'), since April 2015, a 0.75% charge cap has come into effect on auto-enrolment schemes. The cap covers member-borne deductions which include all charges on member savings other than transaction costs. Other measures arising out of the recommendations from the OFT and DWP's market study will be implemented in coming years, but how these will be implemented remains uncertain. The extent of the measures, including the impact of the charge cap on providers of workplace pensions, together with any requirement to remove commission payments, remain uncertain and the industry response to these measures could have a range of possible impacts on the Group's trading and financial performance.

We may face increased compliance costs due to the need to set up additional compliance controls or the direct cost of such compliance because of changes to financial services legislation or regulation.

The Solvency II Directive, which governs insurance industry regulation and prudential capital requirements in the European Union, including associated Implementing Technical Standards and guidelines, became effective on 1 January 2016. There remains uncertainty as to how the Directive and associated standards and guidelines will be interpreted and implemented by national supervisory authorities ('NSAs') in individual member states, which may adversely impact the amount of capital required to support the business. There is a risk that NSAs will be inconsistent in their interpretation and application of the Directive and associated standards and guidelines, for example rules pertaining to the dynamic volatility adjustment, which could put us at competitive disadvantage in some markets by adversely impacting the Group and subsidiary capital requirements compared to domestic competitors.

In December 2015, the PRA approved use of the Group's partial internal model to calculate the regulatory capital requirement under Solvency II for much of the Group's businesses. Over the next year or two the Group plans to apply to extend use of the Internal model to other businesses within the Group, with a beneficial impact on the Group's capital requirement. There is a risk that the PRA and the NSAs responsible for these businesses do not approve extension to the use of the Internal model or apply conditions that result in the anticipated capital benefits failing to materialise.

In July 2013 the Group was designated by the Financial Stability Board ('FSB') as a global systemically important insurer ('G-SII'). The initial list of nine insurance groups that have been designated as G-SIIs also includes a number of our competitors. The list will be updated annually and the Group's inclusion on the list was reconfirmed in November 2015. For so long as it is designated as a G-SII, the Group is within the scope of policy requirements issued by the International Association of Insurance Supervision ('IAIS'), including: enhanced supervision requiring the maintenance of a 'Systemic Risk Management Plan'; a liquidity risk management plan; a recovery plan; a resolution plan; and higher loss absorbency capital requirements, which will apply from January 2019, subject to implementation by NSAs, for those insurers still designated as G-SIIs in November 2017. Details of the higher loss absorbency capital requirements are still being developed by the IAIS leading to uncertainty over their impact. There is a risk that, if we continue to be designated as a G-SII, this could lead to a significant increase in capital required to support our business which may give rise to a need for us to delay deleveraging plans

or to issue additional debt. Similarly we could be required to reduce or discontinue activities which contribute to systemic riskiness, restructure to facilitate resolvability and/or remove or reduce (or accelerate the planned reduction of) intercompany debts or guarantees within the Group. Such requirements could have negative consequences for our business and results of operations and, in particular, could impact on the ability of subsidiaries to remit dividends to Aviva and consequently on the Aviva's ability to remit dividends to shareholders.

The IAIS is also developing a common framework for the supervision of internationally active insurance groups ('ComFrame'). The framework is designed to develop common principles for supervision and so may result in more extensive regulation, particularly at Group level, in those jurisdictions which do not currently employ group-wide supervision. In addition, it is not clear how ComFrame will interact with existing regimes of group-wide supervision. The intention is that an insurance capital standard ('ICS'), applicable to globally active insurers, will ultimately form part of ComFrame. A revised draft ComFrame proposal was published in September 2014 and ComFrame, including the final ICS, is expected to be adopted in 2019, subject to its incorporation into EU law and / or regulation.

We are involved in various legal proceedings, regulatory investigations and examinations and may be involved in more in the future.

We have been named as defendants in lawsuits, including class actions and individual lawsuits. We have been subject to regulatory investigations or examinations in the various jurisdictions in which we operate. These actions arise in various contexts, including in connection with our activities as an insurer, securities issuer, employer, investment adviser, investment manager, investor and taxpayer.

Lawsuits and investigations may also arise which could seek significant or unspecified amounts of damages, including punitive damages, and certain of the regulatory authorities involved in these proceedings have substantial powers over the conduct and operations of our business.

Due to the nature of certain of these lawsuits and investigations, we cannot make an estimate of loss or predict with any certainty the potential impact of these lawsuits or investigations.

In the course of conducting insurance business, we receive general insurance liability claims, and become involved in actual or threatened related litigation arising therefrom, including claims in respect of pollution and other environmental hazards. Given the significant delays that are experienced in the notification of these claims, the potential number of incidents that they cover and the uncertainties associated with establishing liability and the availability of reinsurance, the ultimate cost cannot be determined with certainty.

Additionally, it is possible that a regulator in one of our major markets may conduct a review of products previously sold, either as part of an industry-wide review or specific to it. The result of this review may be to compensate customers for losses they have incurred as a result of the products they were sold.

As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. Examples of emerging claims and coverage issues include adverse changes in loss trends, judicial expansion of policy coverage and the impact of new theories of liability; growth of claims culture; legislative or judicial action that affects policy coverage or interpretation; claim quantification, or pricing; a growing trend of plaintiffs targeting property and casualty insurers in purported class action litigation relating to claims handling and other practices;

new causes of liability or mass claims; claims in respect of directors' and officers' coverage, professional indemnity and other liability covers; and climate change related litigation.

All of the above could adversely impact our results of operations or financial condition.

From time to time, changes in the interpretation of existing tax laws, amendments to existing tax rates or the introduction of new tax legislation may adversely impact our business.

We operate in numerous tax jurisdictions around the world and face risks associated with changes in tax law, interpretation of tax law, changes in tax rates and the risk of failure to comply with procedures required by tax authorities. Failure to manage tax risks could lead to an additional tax charge or a financial penalty.

If, as a result of a particular tax risk materialising, the tax costs associated with certain transactions are greater than anticipated, it could affect the profitability of those transactions.

In 2005 the European Court Justice judgement in the case of Arthur Andersen highlighted that the UK and some other EU member states were granting a VAT exemption for wider range of insurance related services than the VAT Directive allowed. The EU Commission then initiated a project to update the insurance VAT exemption in light of current market conditions, which was discontinued in late 2015. On 23 December 2015 the EU Advocate General in the case of Aspiro SA confirmed the ECJ's 2005 judgement. Subject to final judgement and consultation on its implementation the effect could be that services outsourced to parties who have no contractual relationship with the insured will not benefit from the VAT exemption for insurance services. Any restriction is expected to be applied prospectively and not until 2017 at the earliest, and may increase the irrecoverable VAT incurred by the Group negatively impacting our results of operations or financial condition.

There are also specific rules governing the taxation of policyholders. We are unable to predict accurately the impact of future changes in tax law on the taxation of life insurance and pension policies in the hands of policyholders. Amendments to existing legislation, particularly if there is the withdrawal of any tax relief, or an increase in tax rates, or the introduction of new rules, may affect the future long-term business and the decisions of policyholders. The impact of such changes upon us might depend on the mix of business in-force at the time of such change.

The design of life insurance products by our life insurance companies takes into account a number of factors, including risks and taxation and is based on the tax legislation in force at that time. Changes in tax legislation or in the interpretation of tax legislation may therefore, when applied to such products, have a material adverse effect on the financial condition of the relevant long-term business fund of the company in which the business was written.

We may face increased compliance costs as a result of legislation passed in the United States and globally

The U.S. Foreign Account Tax Compliance Act ('FATCA') requires 30% withholding on payments of U.S. source dividends, interest, and other fixed payments (including, no earlier than 1 January 2019, payments of gross proceeds) made to a non-United States financial institution ('FFI') unless the FFI has entered into an agreement with the Internal Revenue Service to report account information for any of the FFI's U.S. accountholders. An intergovernmental agreement between the U.S. and certain other jurisdictions will allow FFIs in those jurisdictions to report U.S. accountholder information only to local revenue authorities, rather than to the IRS.

A number of other jurisdictions, in which we operate, have introduced or announced that they intend to introduce similar measures requiring financial institutions in their territory to report account information. The OECD Common Reporting Standard (CRS), which was endorsed by the G20 in July 2014, calls on jurisdictions to obtain information from their financial institutions regarding non-resident account holders and automatically exchange that information with other participating jurisdictions on an annual basis. To date, over 90 jurisdictions have committed to participating in automatic exchange by reference to CRS requirements, 56 of those jurisdictions committing to implement legislation to implement CRS as of 1 January 2016 and require first reporting by financial institutions in 2017 of 2016 information. Despite commitments, certain participating jurisdictions have yet to implement domestic legislation and there is a lack of concrete domestic implementation guidance in many jurisdictions. As there remains uncertainty over the precise scope of measures, we are at risk of late changes to interpretation of implementation requirements and consequently an increase of our compliance costs, and impact to the results of operations.

Changes to IFRS generally or specifically for insurance companies may materially adversely affect the reporting of our financial results

Changes to IFRS for insurance companies have been proposed in recent years and further changes may be proposed in the future. The International Accounting Standards Board published proposals that would introduce significant changes to the statutory reporting of insurance entities that prepare financial statements according to IFRS. The accounting proposals, which are not expected to be finalised until later in 2016 at the earliest with an effective date still to be determined, will change the presentation and measurement of insurance contracts, including the effect of technical reserves and reinsurance on the value of insurance contracts. It is uncertain whether and how the proposals may affect the Group should they become definitive standards. Current proposals may have an adverse effect on the manner in which we report insurance provisions and, therefore, identify and report revenues, costs and distributable reserves. The changes could, therefore, have an adverse effect on our financial performance and condition (including through changes affecting the calculation of taxation). These and any other changes to IFRS if endorsed by the EU, that may be proposed in the future, whether or not specifically targeted at insurance companies, could materially adversely affect our reported results of operations and financial position.

Risks related to ownership of the ADSs and ordinary shares

The trading price of our ADRs and dividends paid on our ADSs may be materially adversely affected by fluctuations in the exchange rate for converting sterling into US dollars.

An ADS is a negotiable US security representing ownership in one share. An ADR is denominated in US dollars and represents ownership of any number of ADSs. ADRs are publicly traded shares in a non-US corporation, quoted and traded in US dollars in the US securities market. Any dividends are paid to investors in US dollars. ADRs are specifically designed to facilitate the purchase, holding and sale of non-US securities by US investors. The term ADR is often used to mean both the certificates and the securities themselves.

Fluctuations in the exchange rate for converting pound sterling into US dollars may affect the value of our ADRs. Specifically, as the relative value of the pound sterling against the US dollar declines, each of the following values will also decline:

- the US dollar equivalent of the pound sterling trading price of our ordinary shares on the London Stock Exchange which may consequently cause the trading price of our ADRs in the US to also decline;
- the US dollar equivalent of the proceeds that a holder of our ADSs would receive upon the sale in the UK of any our ordinary shares withdrawn from the depositary; and
- the US dollar equivalent of cash dividends paid in pound sterling on our ordinary shares represented by our ADSs.

The holders of our ADSs may not be able to exercise their voting rights due to delays in notification to, and by, the depositary.

The depositary for our ADSs may not receive voting materials for our ordinary shares represented by our ADSs in time to ensure that holders of our ADSs can instruct the depositary to vote their shares. In addition, the depositary's liability to holders of our ADSs for failing to carry out voting instructions or for the manner of carrying out voting instructions is limited by the Deposit Agreement governing our ADR facility. As a result, holders of our ADSs may not be able to exercise their right to vote and may have limited or no recourse against the depositary or us, if their shares are not voted according to their request.

Holders of our ADSs will have limited recourse if we or the depositary fail to meet our respective obligations under the Deposit Agreement.

The Deposit Agreement expressly limits our obligations and liability and those of the depositary. Neither we nor the depositary will be liable if either of us:

- are prevented from or delayed in performing any obligation by circumstances beyond our/their control;
- exercise or fail to exercise discretion under the Deposit Agreement; or
- take any action based upon the advice of, or information from, legal counsel, accountants, any person presenting ordinary shares for deposit, any person in whose name the ADSs are registered on the books of the depositary, any person or entity having a beneficial interest deriving from the ownership of ADRs, or any other person believed by us or the depositary in good faith to be competent to give such advice or information.

In addition, the depositary has the obligation to participate in any action, suit or other proceeding with respect to our ADSs which may involve it in expense or liability only if it is indemnified. These provisions of the Deposit Agreement will limit the ability of holders of our ADSs to obtain recourse if we or the depositary fail to meet our obligations under the Deposit Agreement or if they wish to involve us or the depositary in a legal proceeding.

The holders of our ADRs in the US may not be able to participate in offerings of rights, warrants or similar securities to holders of our ordinary shares on the same terms and conditions as holders of our ordinary shares.

In the event that we offer rights, warrants or similar securities to the holders of our ordinary shares or distribute dividends payable, in whole or in part, in securities, the Deposit Agreement provides that the depositary (after consultation with us) shall have discretion as to the procedure to be followed in making such rights or other securities available to ADR holders, including disposing of such rights or other securities and distributing the net proceeds in US dollars to ADR holders. Given the significant number of our ADR holders in the US, we generally would be required to register with the SEC any public offering of rights, warrants or other securities made to our ADR holders unless an exemption from the registration requirements of the US securities laws is available. Registering such an

offering with the SEC can be a lengthy process which may be inconsistent with the timetable for a global capital raising operation. Consequently, we have in the past elected and may in the future elect not to make such an offer in the US, including to our ADR holders in the US, and rather only conduct such an offering in an 'offshore' transaction in accordance with 'Regulation S' under the US Securities Act of 1933, as amended (the 'Securities Act'). Therefore, there can be no assurance that our ADR holders will be able to participate in such an offering in the same manner as our ordinary shareholders.

The ADR and ordinary share price of Aviva has been, and may continue to be volatile.

The share price of our ADRs and ordinary shares has been volatile in the past and the share price and trading volume of our ADRs may continue to be subject to significant fluctuations due, in part, to changes in our actual or forecast operating results and the inability to fulfill the profit expectations of securities analysts, as well as to the high volatility in the securities markets generally and more particularly in shares of financial institutions. Other factors, besides our financial results, that may impact our share price include, but are not limited to:

- market expectations of the performance and capital adequacy of financial institutions in general;
- investor perceptions of the success and impact of our strategies;
- a downgrade or review of our credit ratings;
- potential litigation or regulatory action involving Aviva or sectors we have exposure to through our insurance and fund management activities;
- the operations, accounting practices or regulatory investigations, and share price performance of other companies in the insurance and fund management markets in which we operate; and
- conjecture about our business in the press, media or investment communities.
- strategic actions by competitors, including acquisitions and/or restructurings;
- changes in market conditions and regulatory changes in any number of countries, whether or not the Company derives significant revenue therefrom; and
- shifts in macro-economic or geopolitical conditions generally.

As a 'foreign private issuer' we are not subject to U.S. proxy rules and we are subject to U.S. Exchange Act reporting obligations that, to some extent, are less detailed and less frequent than those of a U.S. issuer; this may afford less protection to investors in our securities than those afforded to shareholders of companies that are not 'foreign private issuers'.

As a 'foreign private issuer' we are exempt from certain rules under the US Securities Exchange Act of 1934, as amended (the 'Exchange Act'), that impose certain disclosure obligations and procedural requirements for proxy solicitations under Section 14 of the Exchange Act. In addition, our officers, directors and principal shareholders are exempt from the reporting and 'short-swing' profit recovery provisions of Section 16 of the Exchange Act and the rules under the Exchange Act with respect to their purchases and sales of our ordinary shares and ADRs. Moreover, we are not required to file periodic reports and financial statements with the SEC as frequently or as promptly as US companies whose securities are registered under the Exchange Act. In addition, we are not required to comply with Regulation FD, which restricts the selective disclosure of material information. Although we must comply with UK Listing Rules on insider reporting of share ownership and on protection of inside information, there may be less publicly available information concerning us than there is for US public companies.

Aviva plc is an English company and it may be difficult to enforce judgements against us or our directors and executive officers.

Aviva plc is incorporated under the laws of England and Wales and our business is based in the UK. In addition, certain of our directors and officers reside outside the US, and a substantial portion of our assets and the assets of such persons are located in jurisdictions outside the US. As such, it may be difficult or impossible to effect service of process within the US upon us or those persons or to recover against us or them on judgements of US courts, including judgements predicated upon civil liability provisions of the US federal securities laws.

Shareholder rights under English law differ from the US.

Individual shareholders of an English company (including US persons) have the right under English law to bring lawsuit on behalf of the company in which they are a shareholder, and on their own behalf against the company, in certain limited circumstances. English law does not permit class action lawsuit by shareholders, except in limited circumstances.

Other information

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Product definitions

Annuities

A type of policy that pays out regular amounts of benefit, either immediately and for the remainder of a person's lifetime, or deferred to commence from a future date. Immediate annuities may be purchased for an individual and his or her dependants or on a bulk purchase basis for groups of people. Deferred annuities are accumulation contracts, which may be used to provide benefits in retirement. Annuities may be guaranteed, unit-linked or index-linked.

Bonds and savings

These are accumulation products with single or regular premiums and unit-linked or guaranteed investment returns.

Critical illness cover

Pays out a lump sum if the insured person is diagnosed with a serious illness that meets the plan definition.

Deferred annuity

An annuity (or pension) due to be paid from a future date or when the policyholder reaches a specified age. A deferred annuity may be funded by a policyholder by payment of a series of regular contributions or by a capital sum.

Equity Release

Equity Release Mortgages allow a homeowner to receive a lump sum in return for a mortgage secured on their house. No interest is payable on the loan; instead, interest is rolled-up on the loan, and the loan and accrued interest are repayable at redemption (upon death or moving into long-term care).

General insurance

Also known as non-life or property and casualty insurance. Property insurance covers loss or damage through fire, theft, flood, storms and other specified risks. Casualty insurance primarily covers losses arising from accidents that cause injury to other people or damage the property of others.

Group pension

A pension plan that covers a group of people, which is typically purchased by a company and offered to their employees.

Health insurance

Provides cover against loss from illness or bodily injury. Can pay for medicine, visits to the doctor, hospital stays, other medical expenses and loss of earnings, depending on the conditions covered and the benefits and choices of treatment available on the policy.

Income drawdown

The policyholder can transfer money from any pension fund to an income drawdown plan from which they receive an income. The remainder of the pension fund continues to be invested, giving it the potential for growth.

Investment sales

Comprise retail sales of mutual fund-type products such as unit trusts, individual savings accounts (ISAs) and open ended investment companies (OEICs).

Individual savings account (ISAs)

Tax-efficient plans for investing in stocks and shares, cash deposits or life insurance investment funds, subject to certain limits.

Mortgage endowment

An insurance contract combining savings and protection elements which is designed to repay the principal of a loan or mortgage.

Mortgage life insurance

A protection contract designed to pay off the outstanding amount of a mortgage or loan in the event of death of the insured.

Open ended investment company (OEIC)

A collective investment fund structured as a limited company in which investors can buy and sell shares.

Pension

A means of providing income in retirement for an individual and possibly his/her dependants.

Personal pension

A pension plan tailored to the individual policyholder, which includes the options to stop, start or change their payments.

Protection

An insurance contract that protects the policyholder or his/her dependants against financial loss on death or ill-health.

Regular premium

A series of payments are made by the policyholder, typically monthly or annually, for part of or all of the duration of the contract.

Collective investment scheme (SICAVs)

This is an open-ended investment fund, structured as a legally independent joint stock company, whose units are issued in the form of shares.

Single premium

A single lump sum is paid by the policyholder at commencement of the contract.

Stakeholder pensions

Low cost and flexible pension plans available in the UK, governed by specific regulations.

Term assurance

A simple form of life insurance, offering cover over a fixed number of years during which a lump sum will be paid out if the life insured dies.

Unit trusts

A form of open ended collective investment constituted under a trust deed, in which investors can buy and sell units.

Whole life

A protection policy that remains in force for the insured's whole life; a lump sum will be paid out on death. Traditional whole life contracts have fixed premium payments that typically cannot be missed without lapsing the policy. Flexible whole life contracts allow the policyholder to vary the premium and/or amount of life cover, within certain limits.

General terms

Annual premium equivalent (APE)

Used as a measure of annual sales, taking the annual premium of regular premium contracts plus 10% of single premium contracts.

Available for sale (AFS)

Securities that have been acquired neither for short-term sale nor to be held to maturity. These are shown at fair value on the statement of financial position and changes in value are taken straight to equity instead of the income statement.

Association of British Insurers (ABI)

A major trade association for UK insurance companies, established in July 1985.

Acquired value of in force business (AVIF)

The present value of future profits on a portfolio of long-term insurance and investment contracts, acquired either directly or through the purchase of a subsidiary.

Bancassurance/Affinity

An arrangement whereby banks and building societies sell insurance and investment products to their customers on behalf of other financial providers.

Big data

Large volumes of data which are a valuable source of information used to identify customer behaviours.

Best Estimate Liabilities (BEL)

The expected present value of future cash flows for a company's current insurance obligations, calculated using best estimate assumptions, projected over the contract's run-off period, taking into account all up-to-date financial market and actuarial information.

Cash remittances

Amounts paid by our businesses to the Group, comprising dividends and interest on internal loans.

Combined operating ratio (COR)

A financial measure of general insurance underwriting profitability calculated as incurred claims expressed as a percentage of net earned premiums, plus written commissions and written expenses expressed as a percentage of net written premiums. A COR below 100% indicates profitable underwriting.

Deferred acquisition costs (DAC)

The costs directly attributable to the acquisition of new business for insurance and investment contracts may be deferred to the extent that they are expected to be recoverable out of future margins in revenue on these contracts.

Economic capital

A measure of the financial strength of the business; an economic capital surplus represents the excess of available economic capital over required economic capital where the capital requirement is capital where the capital requirement is based on Aviva's own internal assessment and capital management policies; the term "economic capital" does not imply capital as required by regulators or third parties.

Excess centre cash flow

A measure of excess cash flow, calculated by deducting central operating expenses and debt financing costs from cash remitted by business units.

Fair value

The price that would be received to sell or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price).

Financial Conduct Authority (FCA)

The FCA is a company limited by guarantee and is independent of the Bank of England. It is responsible for the conduct business regulation of all firms (including those firms subject to prudential regulation by the PRA) and the prudential regulation of firms not regulated by the PRA. The FCA has three statutory objectives: securing an appropriate degree of protection for consumers, protecting and enhancing the integrity of the UK financial system and promoting effective competition in the interests of consumers.

Financial Reporting Council Guidance on Internal Control

The Guidance on Risk Management, Internal Control and Related Financial and Business Reporting sets out best practice on internal controls for UK listed companies, and provides additional guidance in applying certain sections of the UK Corporate Governance Code.

Funds under management

Represents all assets actively managed or administered by or on behalf of the Group including those funds managed by third parties.

Gross written premiums

The total earnings or revenue generated by sales of insurance products, before any reinsurance is taken into account. Not all premiums written will necessarily be treated as income in the current financial year, because some of them could relate to insurance cover for a subsequent period.

Independent Financial Advisers (IFAs)

A person or organisation, authorised under the FCA, to give independent advice on financial matters.

Internal rate of return (IRR)

A discount rate used to measure profitability. The rate used is that which will bring a series of cash flows to a net present value of nil.

International financial reporting standards (IFRS)

These are accounting regulations designed to ensure comparable financial statements preparation and disclosure, and are the standards that all publicly listed companies in the European Union are required to use.

Inherited estate

In the UK, the assets of the long-term with-profit funds less the realistic reserves for non-profit policies written within the with-profit funds, less asset shares aggregated across the with-profit policies and any additional amounts expected at the valuation date to be paid to in-force policyholders in the future in respect of smoothing costs and guarantees.

Latent claims

General insurance claims that are often not made until many years after the period of cover provided, due to the impact of perils or causes not becoming evident for a number of years. Sources of latent claims include asbestos-related diseases, environmental pollution and industrial deafness.

Long-term and savings business

Collective term for life insurance, pensions, savings, investments and related business.

Minimum capital requirement (MCR)

The Minimum Capital Requirement is the minimum amount of capital that an insurer needs to hold to cover its risks under the Solvency II regulatory framework. If an insurer's capital falls below the MCR then authorisation will be withdrawn by the regulator unless a firm is able to meet the MCR within a short period of time.

Net written premiums

Total gross written premiums for the given period, minus premiums paid over or 'ceded' to reinsurers.

New business strain (NBS)

The name given to the initial impact on shareholders' net assets when an insurance contract is sold. This 'strain' arises because, in addition to meeting costs associated with the sale of contracts, insurance companies must meet capital and reserving requirements at the outset of a contract that are often significantly higher than the premiums received.

Operating expenses

The day-to-day expenses involved in running a business, such as sales and administration, as opposed to production costs.

Operating expense ratio

The Group operating expense ratio is calculated as the Group's operating expenses from continuing operations expressed as a percentage of the Group's operating profit from continuing operations before Group debt costs and operating expenses.

Operating profit

This is a non-GAAP financial performance measure also referred to as adjusted operating profit or operating profit (IFRS basis). It is based on expected investment returns and stated before tax and before non-operating items including impairment of goodwill and amortisation and impairment of acquired value of in-force business and other items.

Own Funds

The amount of capital a firm actually holds under Solvency II on a market value basis. This is the sum of the economic value of assets less the economic value of liabilities. Basic own funds are calculated as the difference between the assets (including transitional measure on technical provisions) and liabilities (including subordinated liabilities) calculated on a combination of best estimate and market consistent assumptions. Available own funds are calculated as basic own funds with any adjustments including off-balance sheet own funds approved by the regulator (known as ancillary own funds). Eligible own funds reflect any tiering restrictions and are the amount of own funds eligible to cover the SCR and MCR.

Present value of new business premiums (PVNBP)

Present value of new regular premiums plus 100% of single premiums, calculated using assumptions consistent with those used to determine the value of new business under Market Consistent Embedded Value (MCEV) principles published by the CFO Forum.

Prudential Regulatory Authority (PRA)

The PRA is a part of the Bank of England and is responsible for the prudential regulation of deposit taking institutions, insurers and major investment firms. The PRA has two statutory objectives: to promote the safety and soundness of these firms and, specifically for insurers, to contribute to the securing of an appropriate degree of protection for policyholders.

Risk-adjusted returns

Adjusting profits earned and investment returns by how much risk is involved in producing that return or profit.

Risk Margin

The amount an insurance company would require, in excess of best estimate liabilities, in order to take over and meet the whole portfolio of insurance and reinsurance obligations. It reflects the cost of providing capital equal to the solvency capital requirement for non-hedgeable risks necessary to support the insurance obligations over their lifetime. Risk Margin represents the value of deviation risk of the actual outcome compared with the best estimate, expressed in terms of a defined risk measure.

Solvency II

These are insurance regulations designed to harmonise EU insurance regulation. Primarily this concerns the amount of capital that European insurance companies must hold under a measure of capital and risk. Solvency II became effective from 1 January 2016.

Solvency Capital Requirement (SCR)

The Solvency Capital Requirement is the amount of capital the Regulator requires an insurer to hold to meet the requirements under the Solvency II regulatory framework. Holding capital in excess of the SCR demonstrates an insurer has adequate financial resources in place to meet all its liabilities as and when they fall due and that there is sufficient capital to absorb significant losses. Firms may use their own internal model, the European Insurance and Occupational Pensions Authority (EIOPA) prescribed standard formula or a partial internal model to determine SCR.

Total shareholder return

A measure of company performance based on the overall value to shareholders of their investment in a stock over a given period of time. Includes movement in the share price and dividends paid and reinvested, expressed as a percentage of the initial value of the investment or share price at the beginning of the period.

UK Corporate Governance Code

The code sets out guidance in the form of principles and provisions on how companies should be directed and controlled to follow good governance practice.

Value of new business (VNB)

VNB is the present value of future profits from new business written at the point of sale. It is calculated on a market consistent basis using economic assumptions set at the start of each quarter or more frequently and the same operating assumptions as those used to determine the embedded value at the end of the reporting period and is stated after the effect of any frictional costs. Unless otherwise stated, it is quoted net of tax and non-controlling interests.

Shareholder profile as at 31 December 2015

By category of shareholder	Number of shareholders	%*	Number of shares	%*
Individual	592,515	97.61	254,442,278	6.28
Banks and nominee companies	11,815	1.95	3,760,660,092	92.89
Pension fund managers and insurance companies	339	0.06	1,775,061	0.04
Other corporate bodies	2,335	0.38	31,587,742	0.78
Total	607,004	100	4,048,465,173	100

By size of shareholding	Number of shareholders	%*	Number of shares	%*
1–1,000	553,644	91.21	138,713,646	3.43
1,001–5,000	47,387	7.81	89,801,821	2.22
5,001–10,000	3,258	0.54	22,643,173	0.56
10,001–250,000	2,075	0.34	89,084,399	2.20
250,001–500,000	169	0.03	58,295,300	1.44
500,001 and above	470	0.08	3,609,400,848	89.15
American Depository Receipts (ADRs)+	1	0.00	40,525,986	1.00
Total	607,004	100	4,048,465,173	100

+ The number of registered ordinary shares represented by ADRs. Please note that each Aviva ADR represents two (2) ordinary shares.

* Percentages do not necessarily add up due to rounding.

2016 financial calendar

Annual General Meeting

11am on 4 May 2016

* The full financial calendar will be available at www.aviva.com/investor-relations/financial-calendar

2015 final dividend dates – ordinary shares

Ex-dividend date (ordinary)*	7 April 2016
Record date (ordinary and ADR)	8 April 2016
Last day for Dividend Reinvestment Plan election	25 April 2016
Dividend payment date*	17 May 2016

* Please note that the ADR local payment date will be approximately five business days after the proposed dividend date for ordinary shares. The ex-dividend date for ADR holders will be 6 April 2016.

Dividends

- **Ordinary Dividends** – are normally paid in May and November – please see the table above for the key dates in respect of the 2015 final dividend
- **Preference share dividends** – are normally paid in March, June, September and December
- **Currency** – holders of ordinary and preference shares will receive any dividends payable in sterling and holders of ADRs will receive any dividends payable in US dollars
- **Direct payment of dividends** – receive your payments directly into your UK bank or building society account on the dividend payment date. Using this option will prevent any postal delay, risk of loss or having to visit your bank or building society to deposit cheques
- **Global payment service** – provided by the Company's Registrar, Computershare Investor Services PLC (Computershare), this service enables shareholders living overseas to elect to receive their dividends in a choice of over 60 international currencies. For further details and fees for this service please visit www.investorcentre.co.uk/faq and select the Dividends and Payments tab, followed by Global Payment Service
- **Dividend Reinvestment Plan** – enables eligible shareholders to reinvest their cash dividend in additional ordinary shares in the Company
- **Further information** – including the 2016 dividend timetable can be found at www.aviva.com/dividends or by contacting Computershare using the details on the next page

Form 20-F

- Aviva is a foreign private issuer in the United States of America and is subject to certain reporting requirements of the Securities Exchange Commission (SEC). Aviva files its Form 20-F with the SEC, copies of which can be found at www.aviva.com/reports

Annual General Meeting (AGM)

- The 2016 AGM will be held at The Queen Elizabeth II Centre, Broad Sanctuary, Westminster, London SW1P 3EE, on Wednesday, 4 May 2016, at 11am
- Details of each resolution to be considered at the meeting and voting instructions are provided in the Notice of AGM, which is available on the Company's website at www.aviva.com/agm
- The voting results of the 2016 AGM will be accessible on the Company's website at www.aviva.com/agm shortly after the meeting

Aviva plc strategic report

- The strategic report sets out a review of Aviva's business by addressing key issues such as: its business model; strategy; and principal risks and uncertainties facing the business. It also includes information on environmental matters and employees; social, community and human rights issues; and gender diversity within the business
- The strategic report forms part of the annual report and accounts. However, shareholders can also choose to receive Aviva's standalone strategic report as an alternative to the full annual report and accounts. Please view the Aviva plc strategic report at www.aviva.com/2015ar

ShareGift

ShareGift is a UK registered charity (No. 1052686) which specialises in realising the value locked up in small shareholdings for charitable purposes. During 2015, Aviva shareholders have donated £55,000 (including Gift Aid) to ShareGift, which in turn supported local, national and international charities large and small. To donate your Aviva plc shares to ShareGift please visit <http://www.ShareGift.org/donate-shares>

Manage your shares online using the Investor Centre at www.aviva.com/online



Change your address



Change payment options



Switch to electronic communications



View your shareholding



View any outstanding payments

Group Company Secretary

Shareholders may contact the Group Company Secretary as follows:



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

Useful Links for Shareholders

Shareholder services centre:
www.aviva.com/shareholders

Manage your shares online:
www.aviva.com/online

Dividend information:
www.aviva.com/dividends

Annual General Meeting information and electronic voting:
www.aviva.com/agm
www.investorcentre.co.uk/eproxy

Aviva reports information:
www.aviva.com/reports

Aviva share price:
www.aviva.com/shareprice

Aviva preference share price:
www.londonstockexchange.com

Ordinary and preference shares – Contact:

For any queries regarding your shareholding, or to make changes to your personal details, please contact the Company's Registrar, Computershare:



By Telephone: 0371 495 0105 – Lines are open 8.30am to 5.30pm (UK time), Monday to Friday (excluding public holidays). Please call +44 117 378 8361 if calling from outside of the UK



By Email: AvivaSHARES@computershare.co.uk



In Writing: Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZZ

American Depository Receipts (ADRs) – Contact:

For any queries regarding Aviva ADRs, please contact Citibank Shareholder Services (Citibank):



By Telephone: 1 877 248 4237 (1 877-CITI-ADR), or +1 781 575 4555 if calling from outside of the US – Lines are open 8.30am to 6pm, Monday to Friday US Eastern Standard Time.



By Email: Citibank@shareholders-online.com



In Writing: Citibank Shareholder Services, PO Box 43077, Providence, Rhode Island, 02940-3077 USA

Be on your guard – beware of fraudsters!

Please be very wary of any unsolicited telephone calls or correspondence offering to buy shares at a discount or offering free financial advice or company reports.

The Financial Conduct Authority (FCA) takes action against fraudsters; for tips on how to protect your savings please visit www.fca.org.uk/scams. Alternatively please visit our warning to shareholders page at www.aviva.com/shareholders.

Remember:

- If it sounds too good to be true, it probably is
- Keep in mind that firms authorised by the FCA are unlikely to call you out of the blue
- Do not get into a conversation, note the name of the firm and hang up

This document should be read in conjunction with the documents filed by Aviva plc (the "Company" or "Aviva") with the United States Securities and Exchange Commission ("SEC").

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 political, regulatory and economic conditions; market developments and government actions regarding the referendum on UK membership of the European Union; the effect of credit spread volatility on the net unrealised value of the investment portfolio; the effect of losses due to defaults by counterparties, including potential sovereign debt defaults or restructurings, on the value of our investments; changes in interest rates that may cause policyholders to surrender their contracts, reduce the value of our portfolio and impact our asset and liability matching; the impact of changes in short or long-term inflation; the impact of changes in equity or property prices on our investment portfolio; fluctuations in currency exchange rates; the effect of market fluctuations on the value of options and guarantees embedded in some of our life insurance products and the value of the assets backing their reserves; the amount of allowances and impairments taken on our investments; the effect of adverse capital and credit market conditions on our ability to meet liquidity needs and our access to capital; changes in, or restrictions on, our ability to initiate capital management initiatives; changes in or inaccuracy of assumptions in pricing and reserving for insurance business (particularly with regard to mortality and morbidity trends, lapse rates and policy renewal rates), longevity and endowments; a cyclical downturn of the insurance industry; the impact of natural and man-made catastrophic events on our business activities and results of operations; our reliance on information and technology and third-party service providers for our operations and systems; the inability of reinsurers to meet obligations or unavailability of reinsurance coverage; increased competition in the UK and in other countries where we have significant operations; regulatory approval of extension of use of the Group's internal model for calculation of regulatory capital under the European Union's Solvency II rules; the impact of actual experience differing from estimates used in valuing and amortising deferred acquisition costs ("DAC") and acquired value of in-force business ("AVIF"); the impact of recognising an impairment of our goodwill or intangibles with indefinite lives; changes in valuation methodologies, estimates and assumptions used in the valuation of investment securities; the effect of legal proceedings and regulatory investigations; the impact of operational risks, including inadequate or failed internal and external processes, systems and human error or from external events (including cyber attack); risks associated with arrangements with third parties, including joint ventures; our reliance on third-party distribution channels to deliver our products; funding risks associated with our participation in

defined benefit staff pension schemes; the failure to attract or retain the necessary key personnel; the effect of systems errors or regulatory changes on the calculation of unit prices or deduction of charges for our unit-linked products that may require retrospective compensation to our customers; the effect of fluctuations in share price as a result of general market conditions or otherwise; the effect of simplifying our operating structure and activities; the effect of a decline in any of our ratings by rating agencies on our standing among customers, broker-dealers, agents, wholesalers and other distributors of our products and services; changes to our brand and reputation; changes in government regulations or tax laws in jurisdictions where we conduct business, including decreased demand for annuities in the UK due to changes in UK law; the inability to protect our intellectual property; the effect of undisclosed liabilities, integration issues and other risks associated with our acquisitions; and the timing/regulatory approval impact, integration risk and other uncertainties, such as non-realisation of expected benefits or diversion of management attention and other resources, relating to announced acquisitions and pending disposals and relating to future acquisitions, combinations or disposals within relevant industries, the policies, decisions and actions of government or regulatory authorities in the UK, the EU, the US or elsewhere, including the implementation of key legislation and regulation. For a more detailed description of these risks, uncertainties and other factors, please see Item 3d, "Risk Factors", and Item 5, "Operating and Financial Review and Prospects" in Aviva's most recent Annual Report on Form 20-F as filed with the SEC.

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

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

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CUSTOMER FOCUS

Read
**Rainbow's
story**

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In this report we have included genuine examples of people whose experiences bring to life what we do every day for our customers. We would like to thank the customers who took part and invited us into their homes and businesses, to allow us to share their stories, and our people for their dedication to our customers.

View our online summary and download the full report at
www.aviva.com/AR15

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