



AVIVA

2016 Solvency and Financial Condition Report ('SFCR')

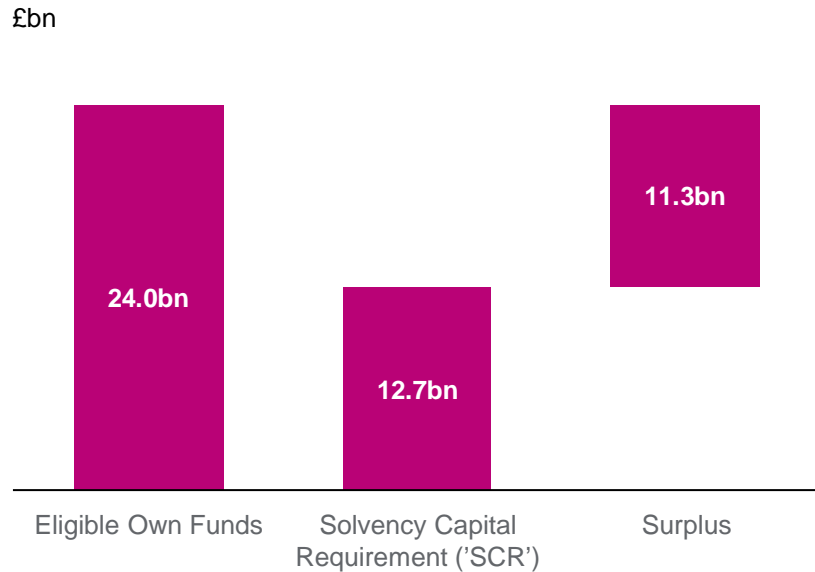
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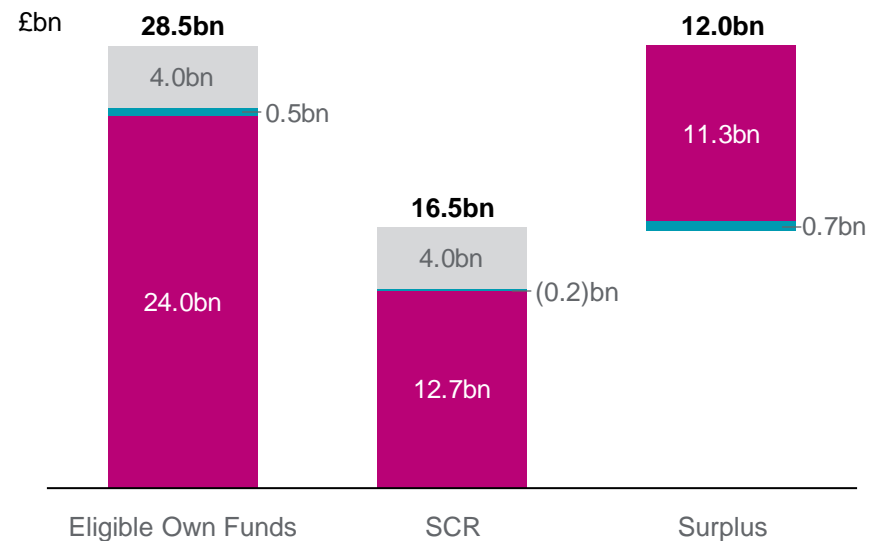
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FY16 Solvency II capital position

Shareholder view: 189%



Regulatory position: 172%



- Including fully ring-fenced with-profits funds & pension schemes in surplus (excl. from shareholder view)
- Removing FY16 pro forma adjustments

Solvency II eligible own funds by tier

Regulatory view

| FY16 | £bn | % of SCR | % of own funds |
|-----------------|-------------|-------------|----------------|
| Tier 1 | 21.8 | 131% | 77% |
| T1 unrestricted | 18.8 | 113% | 66% |
| T1 restricted | 3.0 | 18% | 11% |
| Tier 2 | 6.3 | 38% | 22% |
| Tier 3 | 0.4 | 3% | 1% |
| | 28.5 | 172% | 100% |

- **Group diversified SCR fully supported by T1 unrestricted capital (113% coverage)**
- **Headroom across all tiers**
 - RT1 = 14% of T1 Own Funds vs. 20% threshold
 - T2+T3 = 41% of SCR vs. 50% threshold
 - T3 = 3% of SCR vs. 15% threshold

Reconciliation of IFRS total equity to SII own funds



Group Solvency II as at 31/12/16 – scope and snapshot of measures used

RISK APPETITE & SCOPE

- **Capital risk appetite based on shareholder cover ratio as considered to be more representative of shareholders' risk exposure**
 - Shareholder cover ratio of 189% (196% excl. pro forma impacts), above current target working range of 150-180%
 - Regulatory cover ratio of 172%
- **Scope of Partial Internal Model ('PIM'):**
 - PIM entities: UK&I Life, France Life, UK&I GI, Canada GI, Aviva International Insurance ('All')
 - Internal model only entity: Aviva Group Centre
 - Standard formula only entities: mainly Italy Life, Spain, France GI, Poland Life, Asia, Aviva Investors & others
- **Fungibility and main restrictions:**
 - Minority interests in excess of coverage of local SCR considered unavailable
 - Restriction of surplus over notional SCR held within ring-fenced funds, together with pension schemes in surplus

TRANSITIONALS

- **Requires regulatory approval and only applies to business written prior to SII implementation (01/01/16)**
- **Use of 'grandfathering' of subordinated debt**
 - Up to 10 years and subject to tiering limits
 - All existing RT1 & c.75% of T2 capital grandfathered
- **Use of transitional measure on technical provisions**
 - Run off over 16 years (from 01/01/16)
 - Regulatory approvals in 9 solo entities (mainly UKL & All)
- **No use of transitional measures on risk-free interest rates or other regulatory equivalence**

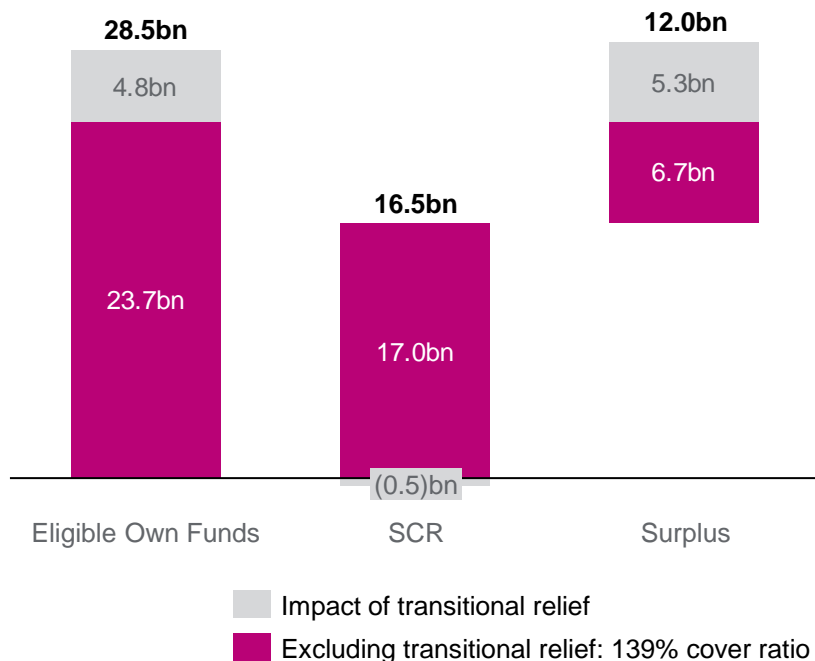
PERMANENT MEASURES

- **Negligible benefit from Ultimate Forward Rate ('UFR')**
- **Use of long-term guarantee measures, reflecting the illiquid nature of certain portfolio of liabilities**
 - Matching adjustment ('MA'), approved in 6 solo entities
 - Volatility adjustment ('VA'), approved in 5 solo entities
 - No benefit from a dynamic volatility adjuster ('DVA')

Impacts from transitional measure on technical provisions

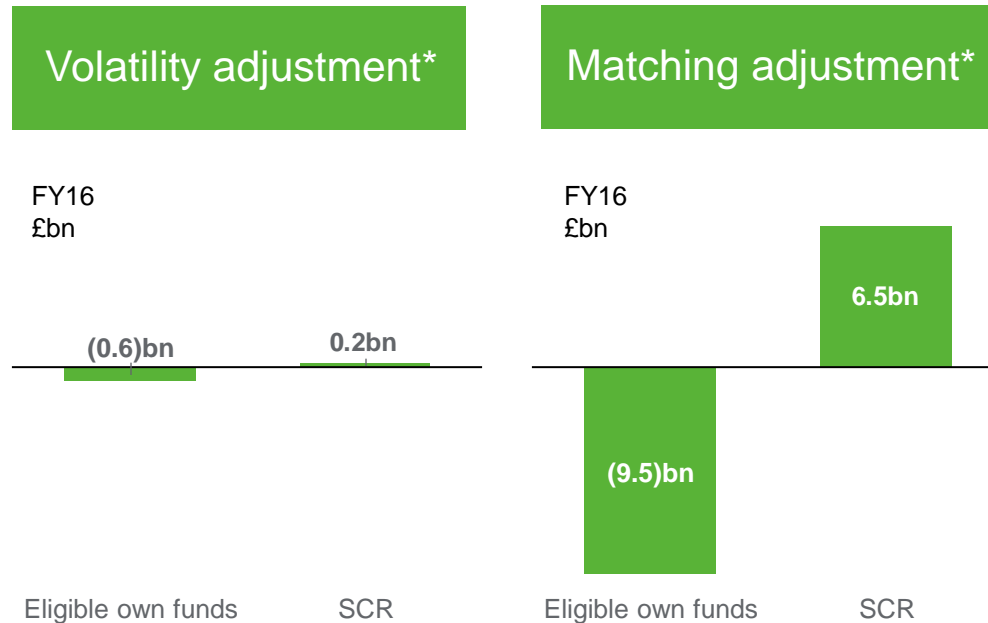
SII cover ratio: 33pp benefit from transitional

FY16
£bn



- **Good capital approved by regulators**
- **Only applies to existing business written prior to SII implementation**
 - All new business post 01/01/16 written without transitional offset
- **£5.3bn impact on surplus as at 31/12/16**
 - Mainly offset the risk margin (£8.9bn gross of transitional; £4.5bn net)
 - c30% of risk margin for entities with transitional measure left at the end of the 16-year transitional period

Impacts from permanent measures



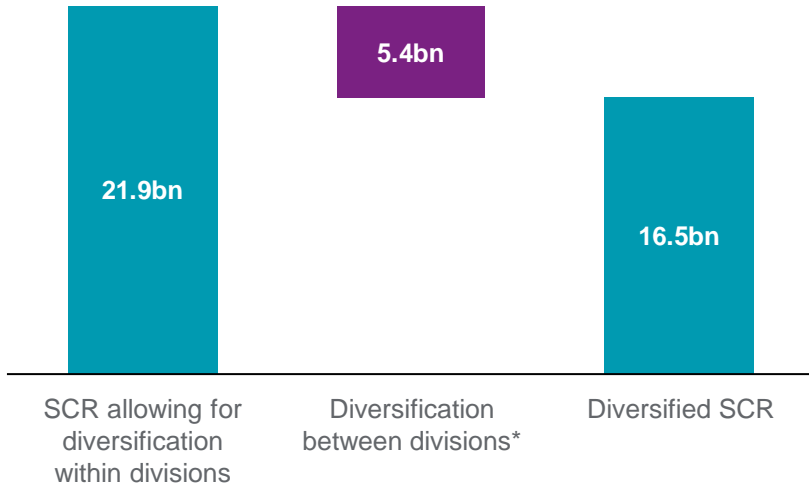
- **Permanent, non-amortising capital: reflects illiquid nature of certain portfolios of liabilities**
- **Applies to in-force and new business**
- **Matching adjustment impact is broadly in line with ICA liquidity premium**

* Represents the impacts from setting the VA and MA to zero at a group level. The VA impact is quantified after the removal of transitionals while the MA impact is after the simultaneous removal of both transitionals & VA. These impacts do not reflect any offset from management actions.

Group SCR benefits from a well-balanced portfolio

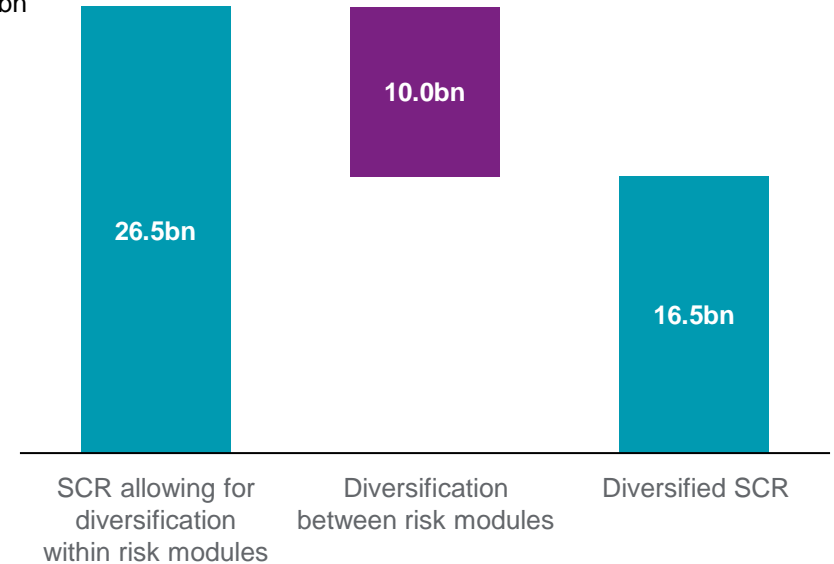
Divisional view

FY16
£bn

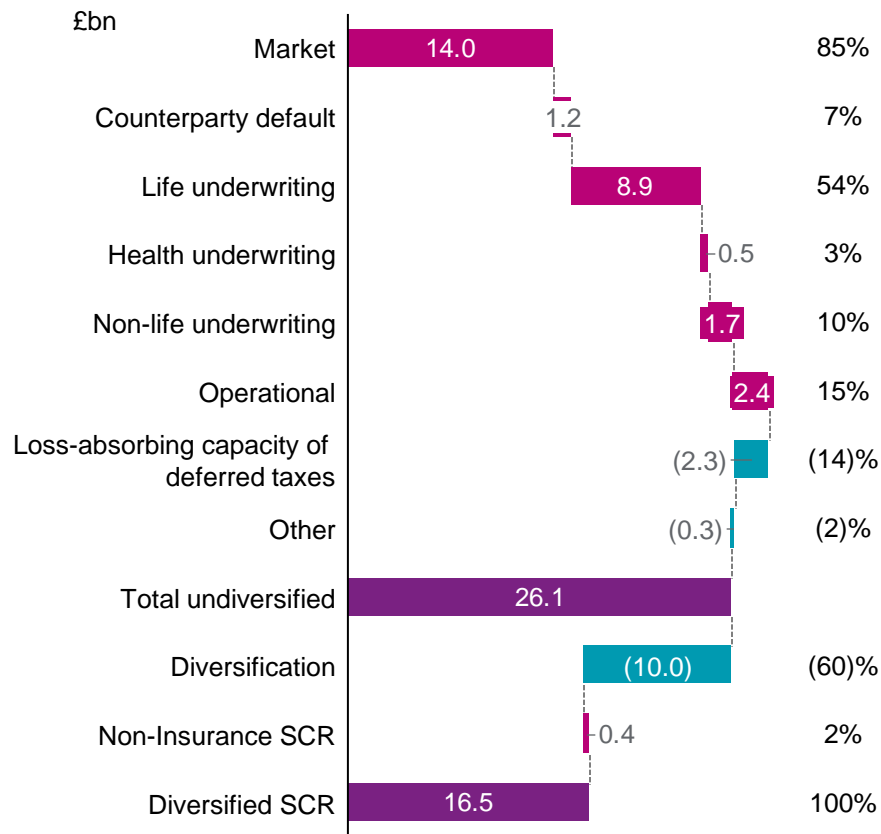


Risk module view

FY16
£bn



FY16 Group SCR by risk modules

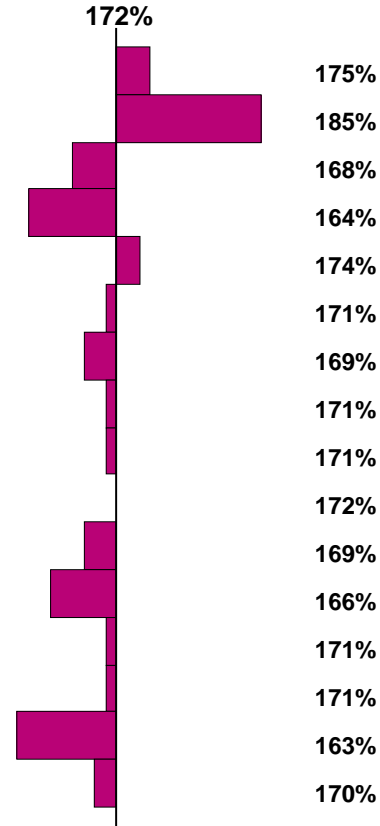


- **Main capital requirements: market and life risks**
 - Market mainly driven by credit and equity risks
- **£10bn diversification benefit: 38% ratio**
 - Reflects well-balanced portfolio and benefits from being a composite insurer
 - Includes diversification between risks components and PIM diversification
 - No contribution from ring-fenced funds and non-insurance
- **Minimum consolidated Group SCR of £7.0bn as at 31/12/16 (320% cover ratio)**
 - Aggregate of solo entity MCRs

Regulatory view sensitivities – SII capital resilient to stresses

Impact on Solvency Cover Ratio: 172% as at 31/12/2016

| | | | | | | |
|---|-------------|--------|------|------|------|------|
| Interest rate | increase of | 25bps | 3% | 172% | 175% | |
| | | 100bps | 13% | | | |
| | decrease of | 25bps | (4)% | | | 168% |
| | | 50bps | (8)% | | | 164% |
| Market value of equity | increase of | 10% | 2% | 174% | | |
| | decrease of | 10% | (1)% | 171% | | |
| | | 25% | (3)% | 169% | | |
| Corporate Bond spread | increase of | 50bps | (1)% | 171% | | |
| | | 100bps | (1)% | 171% | | |
| | decrease of | 50bps | 0% | 172% | | |
| Credit downgrade on annuity portfolio | | | (3)% | 169% | | |
| Maintenance & investment expenses | increase of | 10% | (6)% | 166% | | |
| Lapse rates | increase of | 10% | (1)% | 171% | | |
| Mortality/morbidity rates: life assurance | increase of | 5% | (1)% | 171% | | |
| Longevity shock: annuity business mortality rates | decrease of | 5% | (9)% | 163% | | |
| GI shock: gross loss ratios | increase of | 5% | (2)% | 170% | | |



FY16 local solvency capital positions

UK Life*
153% cover ratio**

- SCR fully supported by UT1 capital: 137% coverage
- c120% cover ratio excluding transitional measures

AIL
209% cover ratio**

- Strong capital position: 209% cover ratio, £1.3bn surplus (post Ogden)
- Includes non-life businesses in UK & Ireland, and owns Canadian non-life business

France*
120% cover ratio**

- Ratio does not benefit from DVA and is stated pre Antarius disposal
- Negligible benefit from UFR and no benefit from transitional measures

All
154% cover ratio

- Internal reinsurance vehicle, improving fungibility of capital and realising benefits of group diversification of risks
- 49% diversification ratio reflects combination of non-correlated risks between life, health and non life businesses in the UK and non-life business in France