

Interim results 2019

Aviva plc

Disclaimer

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Maurice Tulloch

CEO

Aviva plc interim results 2019

Update from June

	What we said	What we've done		What's next...
Organisational design	Separate management structure for UK Life & GI	Separate management teams in place	<input checked="" type="checkbox"/>	Drive accountability to ensure competitiveness and enhanced performance
Digital	Align with trading business	Digital aligned to UK GI business	<input checked="" type="checkbox"/>	Leverage digital and insurance expertise, driving commercial outcomes across Aviva
Costs	£300m cost saving by 2022 net of inflation & at constant FX	£25m run-rate savings to date	<input type="checkbox"/>	Increase the pace of change Use efficiency to drive competitiveness
Strategy	Full review of group and business unit strategy	Evaluating options for Asia businesses	<input type="checkbox"/>	Detailed update in November

Interim results headlines

£1,448m

Operating profit¹, +1%

27.3p

Operating EPS, +2%

9.50p

Dividend, +3%

194%

Solvency II cover ratio²

£0.8bn

Operating capital generation

£2.3bn

Centre liquidity³

Results snapshot

Financial performance

Resilient results in challenging markets, with fewer one-off benefits
But mixed performance reinforces importance of improving fundamentals

Fundamentals

Progress on expenses with contractor headcount down 7% in 2Q
Separate UK life and UK GI management structures and UK digital moved into UKGI

Financial strength

Solvency II ratio² resilient at 194% and centre liquidity³ strong at £2.3 billion
S&P upgrade to AA- reflects continued strength of balance sheet

Interim dividend

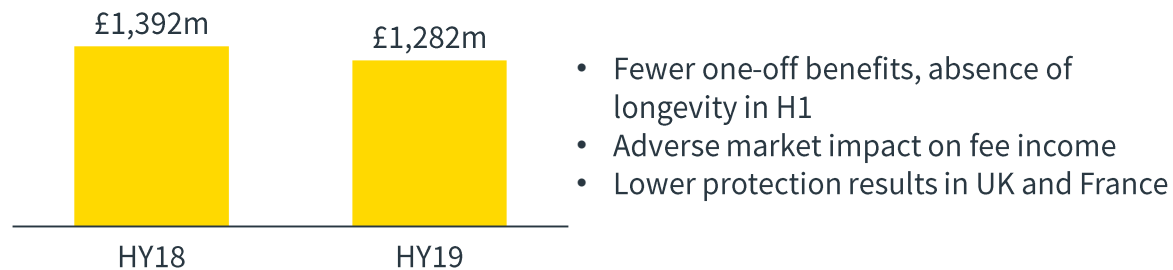
9.50 pence per share, +3%
Consistent with progressive policy, reflects underlying performance and external environment

Strategy

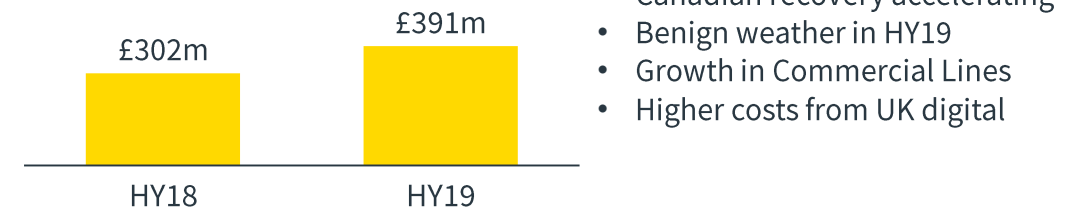
Evaluating strategic options for our Asia businesses
Update on strategic and financial priorities November

Financial performance – operating profit¹

Life



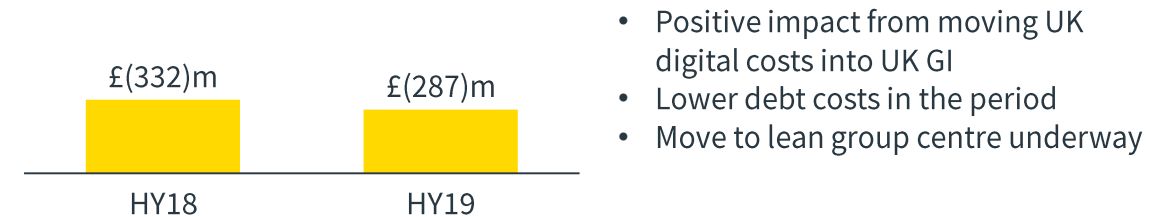
General insurance & health



Aviva Investors

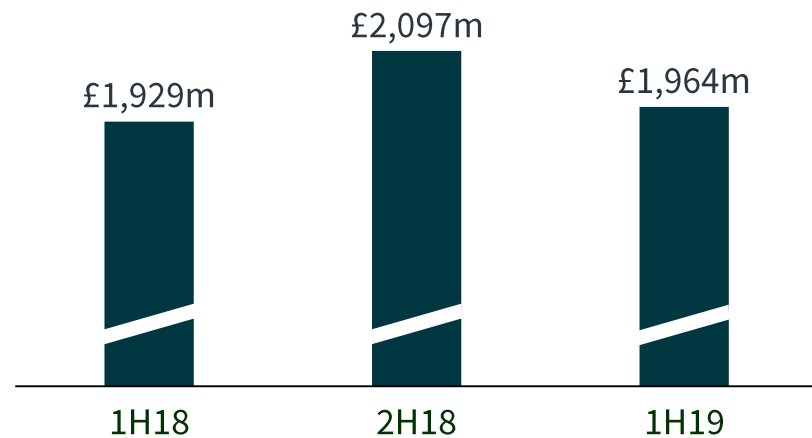


Group debt, corporate costs & other



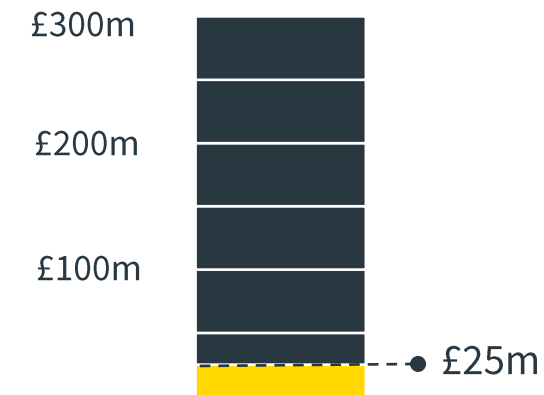
Efficiency

Operating expenses



- Operating expenses up 2%, elevated 2H18 baseline flowed into 1H19
- FY expenses expected to be lower than FY18, including implementation costs
- Action taken to stop non-core projects with greater rigour on future project funding approval

£300m run-rate cost target progress



- Transformation team in place, workstreams mobilised
- Targets agreed with leadership teams across markets and functions
- Targeting significant reduction in group centre, material savings within BU's and rationalisation of project and change spend

Running Aviva better

Extending distribution, working closely with our partners...



- Contract wins in UK, Canada, France
- Digital platforms enhancing productivity
- Proactive mix management
- Weekly management trading calls

...building upon our strong technical foundations...



- Taking Quantum expertise global
- Next generation fraud & analytics model
- Granular mortality modelling
- Modern platforms (FNZ) & (Guidewire)

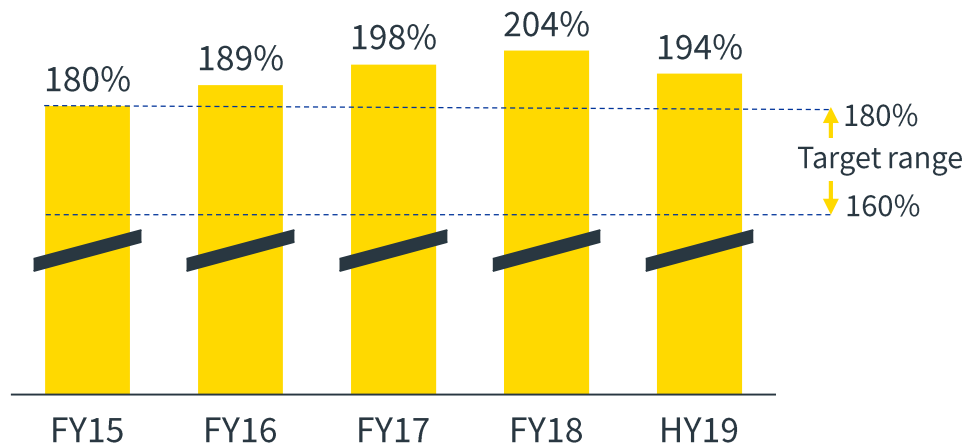
...and delivering a better experience for customers



- “Best of the best insurer” – July 2019
- Simplifying customer journeys
- Focused on first contact resolution
- Technology enabling 24/7 accessibility

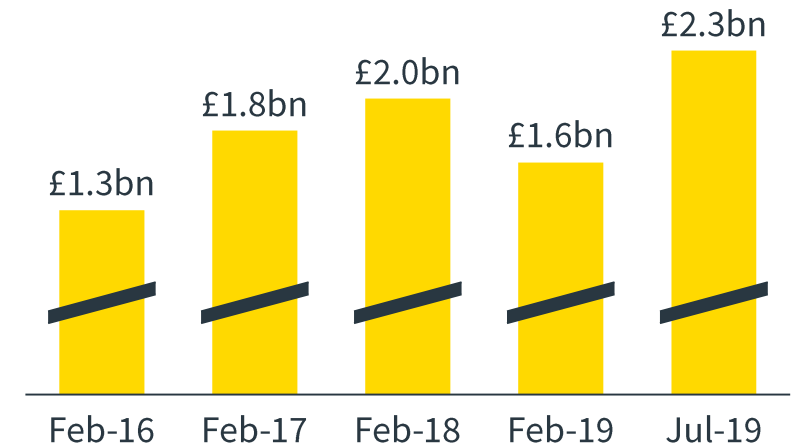
Capital

Solvency II cover ratio²



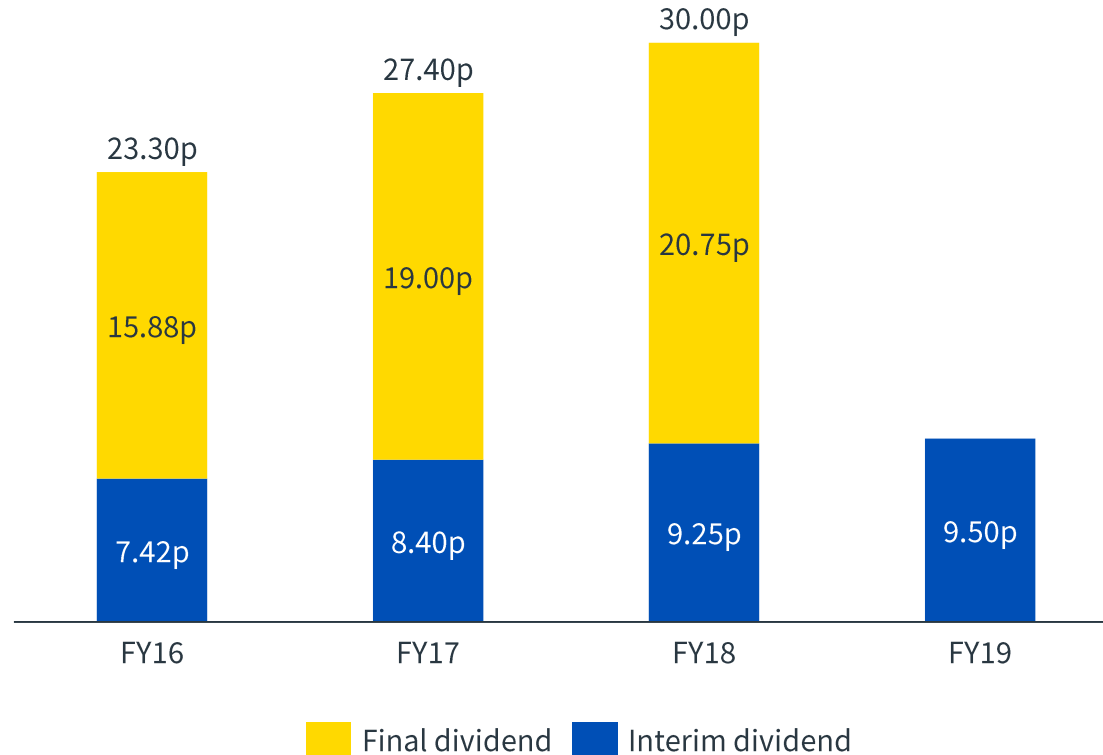
- Capital surplus broadly stable at £11.8bn
- Progress on balance sheet strength recognised by S&P with upgrade to AA-

Centre cash³



- £1.6 billion cash inflows to centre
- Centre cash reinforces resilience and provides capacity for deleveraging plan

Dividend



- Interim dividend 9.50p per share, +3%
- Consistent with progressive dividend policy
- Reflects underlying business performance and external environment
 - OCG: £0.8bn, vs £0.9bn in HY18
 - Operating EPS: 27.3p, up 2% YoY
 - Cash: £2.3bn centre liquidity³, priority to deleverage



Jason Windsor

Interim Chief Financial Officer

Aviva plc interim results 2019

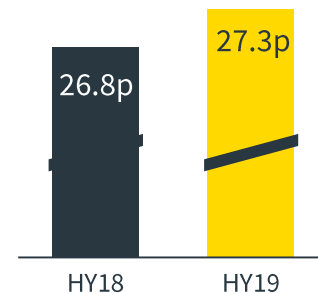
HY19 snapshot

Operating profit¹ +1%

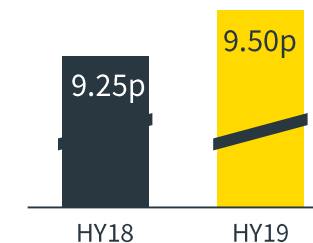
£m	HY18	HY19	Change
Life	1,392	1,282	(8)%
GI & Health	302	391	29%
Aviva Investors	76	62	(18)%
Corporate costs & other	(148)	(120)	19%
Group debt costs	(184)	(167)	9%
Group operating profit	1,438	1,448	1%

BU operating profit by geography (£m)	HY18	HY19	Change
UK Life	831	722	(13)%
Europe	508	498	(2)%
UK GI & Health	209	187	(11)%
Canada	(12)	98	n/a
Asia (excl. FPI)	47	66	40%
Aviva Investors	76	62	(18)%

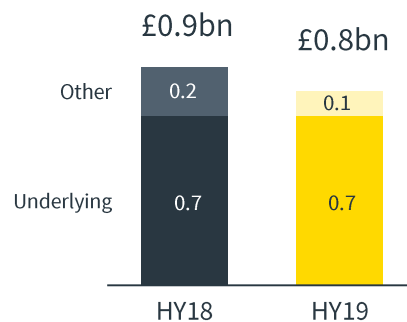
Operating EPS +2%



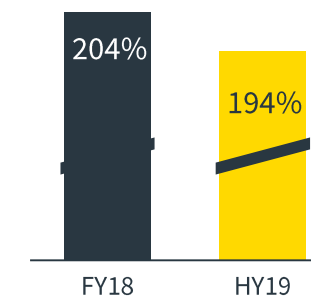
Interim DPS +3%



Stable underlying OCG

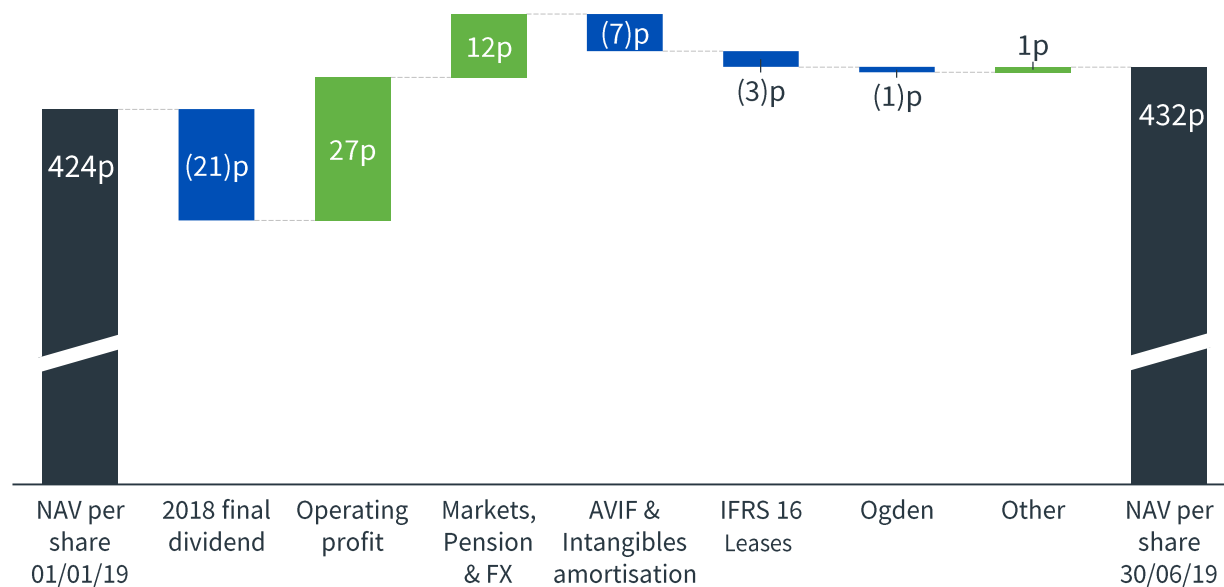


SII ratio² 194%



Net asset value

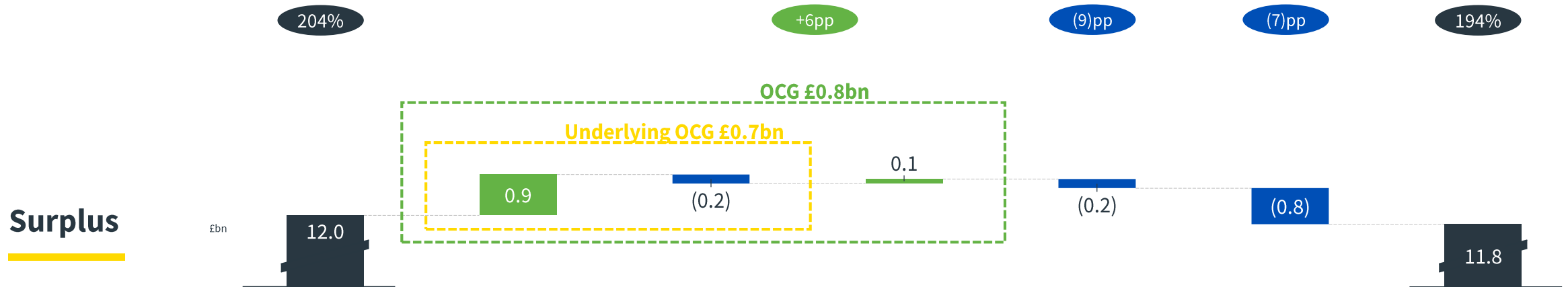
IFRS NAV per share⁴ +2%



Net benefit from non-operating items

£m	HY18	HY19
Basic EPS	7.9p	28.2p
Non-operating items included: <i>(gross of tax & MI)</i>		
Market movements	(654)	444
<i>Life</i>	(482)	372
<i>GI & Health</i>	(104)	164
<i>Centre (incl. hedging & FX on centre holdings)</i>	(68)	(92)
AVIF and acquisition-related amortisation	(259)	(235)
Internally generated intangibles amortisation	(52)	(63)

Solvency II position²

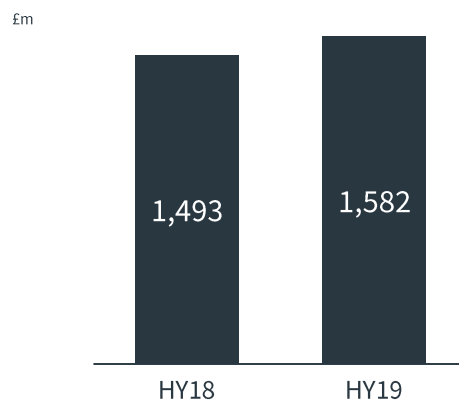


£bn	31 Dec 2018	BU underlying generation	Debt & Centre costs	Other capital actions	Market, FX and other	2018 final dividend	30 Jun 2019
Own funds	23.6	0.9	(0.2)	0.2	0.7	(0.8)	24.4
		NB 0.3					
		EB 0.6					
SCR	(11.6)	0.0	-	(0.1)	(0.9)	-	(12.6)
		NB (0.4)					
		EB 0.4					

Cash

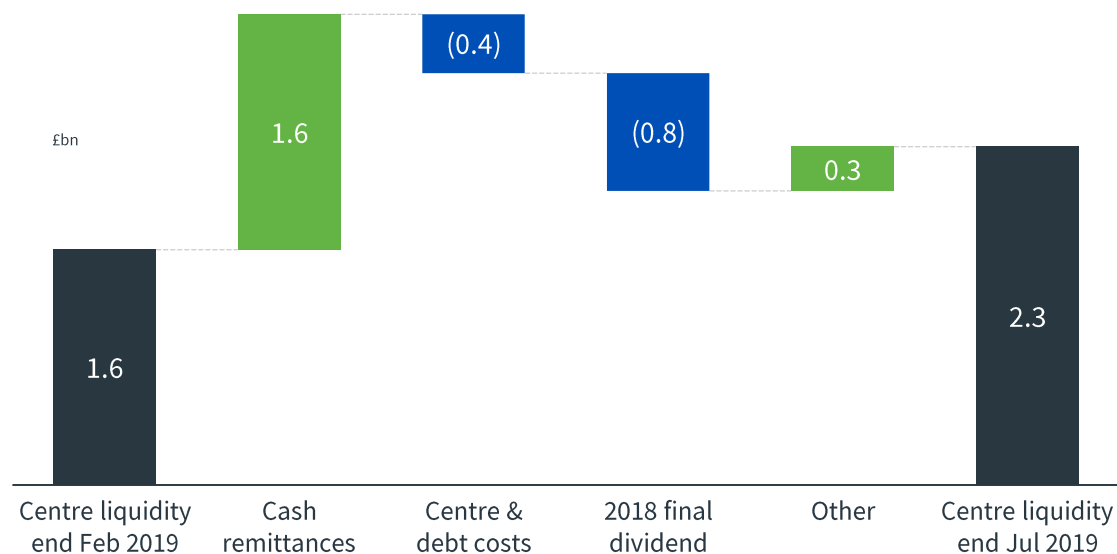
BU cash remittances of £1.6bn...

- HY19 benefitted from phasing of dividends from UK Life, UKGI, Poland, France and Aviva Investors
- No special dividend in HY19 (HY18: £500m from UK Life)
- Strong cash remittances expected in FY19, albeit lower than FY18 record levels of £3.1bn



...driving Centre Liquidity³ of £2.3bn

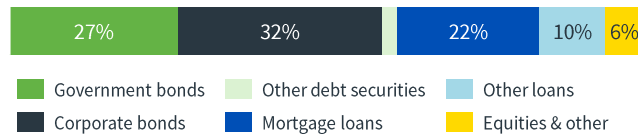
- Strong centre liquidity underpins £1.5bn+ deleveraging plans



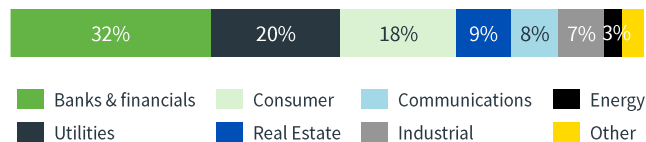
Strong balance sheet, low risk asset portfolio

Well-diversified

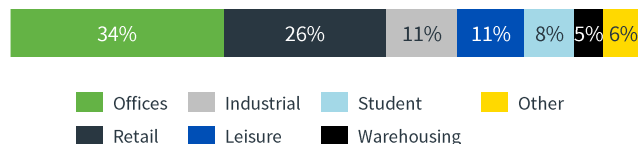
- £93bn shareholder investment assets as at HY19



- £30bn (32%) corporate bonds



- £7bn (8%) commercial mortgage loans



High quality and low risk

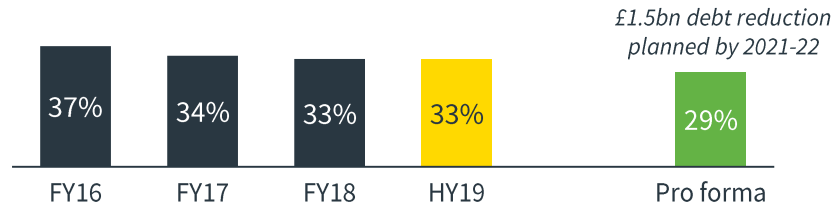
- c75% debt securities rated $\geq A$
 - More than 90% $\geq BBB$
 - c8% rated as investment grade internally
 - <1% below investment grade
- £7bn commercial mortgages
 - Average LTV 56%; loan interest cover 2.75x
 - No loans in arrears
- £8bn non-securitised equity release mortgages
 - Average LTV 26%; average new business LTV 19%
 - House Price Inflation assumption: 0.7% p.a.
- c£8bn PFI and non-PFI infrastructure loans

Prudently positioned

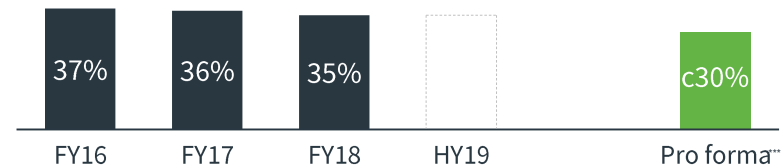
- Well positioned to respond to market fluctuations
 - Above top end of SII working range across all sensitivities
 - Prudent risk management through reinsurance & hedging
 - Actively managing interest rate in France and Italy
- IFRS valuation allowances: £1.8bn for bonds and mortgages; £1.4bn for equity release
- Brexit allowance: stable at £0.4bn
 - 3/4 equity release and 1/4 commercial
 - Equivalent to immediate decrease in property values of 12% for equity release and 14% for commercial
- Pro forma SCR adjustment for potential changes to equity release regulations: stable at £0.2bn

Financial leverage

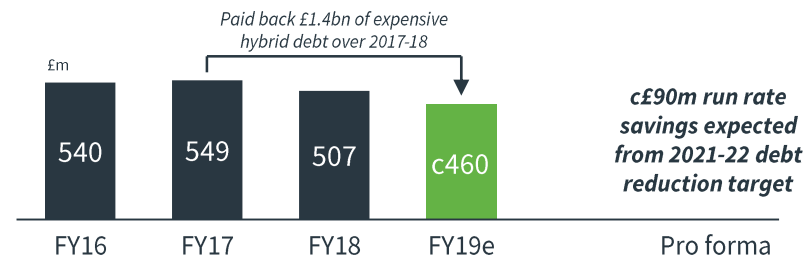
SII debt leverage*



IFRS S&P debt leverage**



Reducing interest cash expense

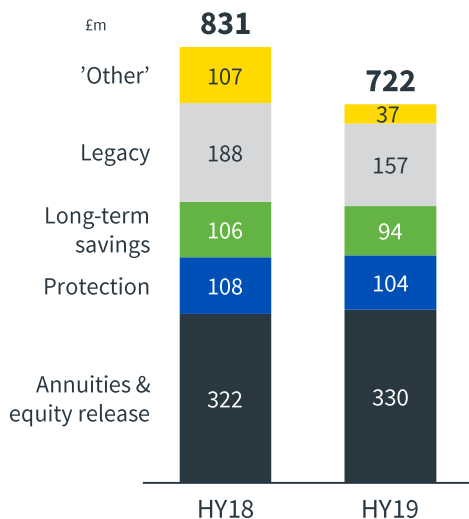


- Improving leverage: at least £1.5bn debt reduction planned by 2021-22
- Maintaining flexibility in SII regulatory capital with headroom across all tiers
- Continuing to manage leverage consistent with AA ratings
 - AA ratings with S&P (July 2019 upgrade), Moody's and Fitch

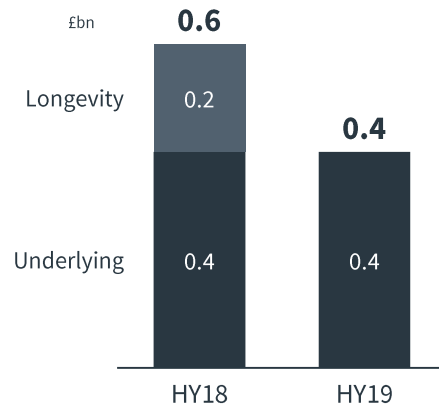
	Rating	Outlook
S&P	AA-	Stable
Moody's	Aa3	Stable
Fitch	AA-	Stable
- 'Neutral' leverage ratio on an S&P basis: 35% as at FY18

UK Life

Operating profit¹ -13% down 1% excl. Legacy/'Other'

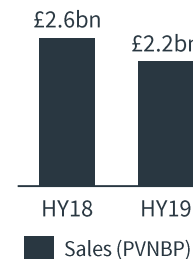


Stable underlying OCG⁵



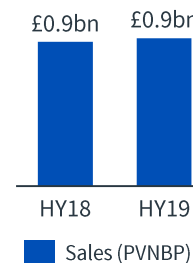
- HY19 operating performance reflected:
 - £70m lower net one-offs as HY19 didn't benefit from longevity releases
 - Challenging market conditions adversely impacted savings & legacy
 - Stable underlying performance overall despite competitive environment
- £0.9bn cash remitted⁶ (HY18: £0.7bn underlying + £0.5bn special)

Annuities & equity release



- PVNBP⁵ -16% vs. HY18 record BPA trading levels
- New business profit +12% vs. HY18
- Inforce profit -2% (less favourable longevity experience)

Protection



- PVNBP⁵ +2%: mix shift towards Group
- Operating profit -4% mainly from lower new business contribution (competitive market impacting Individual sales & margins)

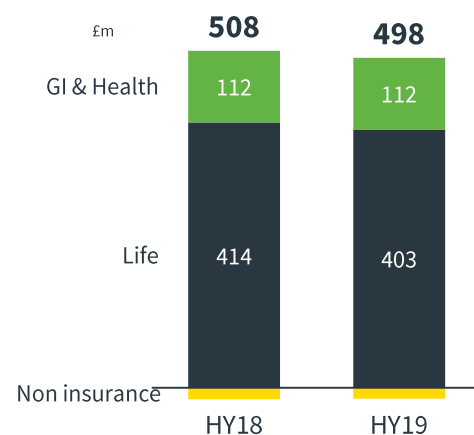
Long-term savings



- Stable net inflows: £1.6bn Platform and £2.0bn Workplace (new wins and improved retention)
- £129bn closing AuA with £26bn Platform AuA

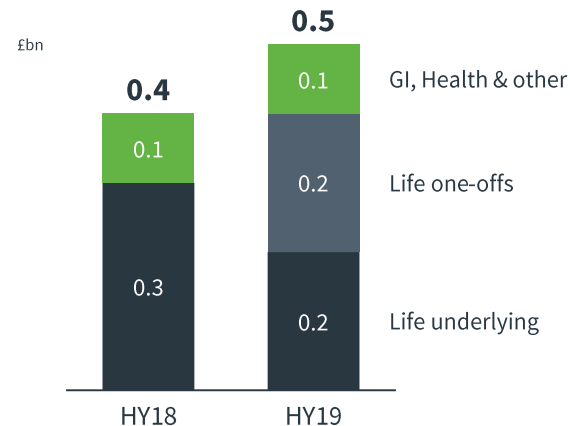
Europe

Operating profit¹ -2%



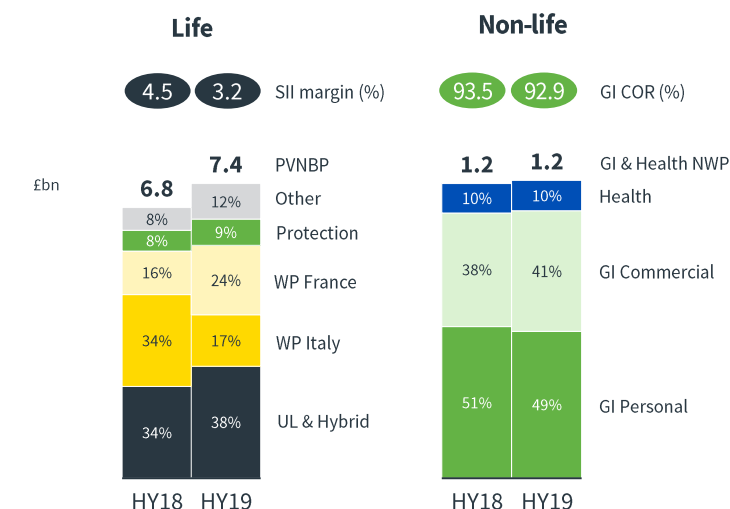
- Life down 2% with 2018 weak investment markets adversely impacting savings & fee business, and adverse claims experience in Protection in France. This was partly offset by growth in Italy and Friends First acquisition in Ireland
- Stable non-life performance

OCG⁶ up, driven by one-offs



- HY19 one-offs: model enhancements in Italy & equity hedging in France; lower underlying OCG post French FRPS implementation and SCR release in 2H18
- Actively managing interest rate exposure in France and Italy
- £0.5bn cash remitted⁶ in HY19, reflecting acceleration of dividend payments from Poland & France

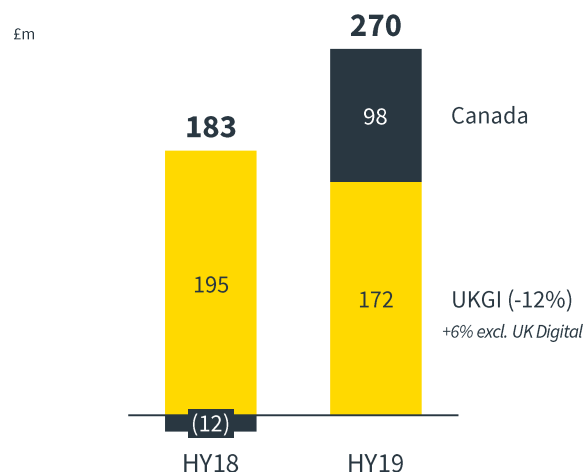
Resilient sales and flows



- Stable net flows: £2.4bn driven by Italy (HY18: £2.5bn)
- PVNBP⁵ +9% from Italian hybrid & French WP sales
- NWP +1%: growth in commercial lines partly offset by lower personal motor volumes
- 92.9% GI COR (+0.6pp): +2.8pp variance from benign weather partly offset by large claim costs in France and increased Irish levies

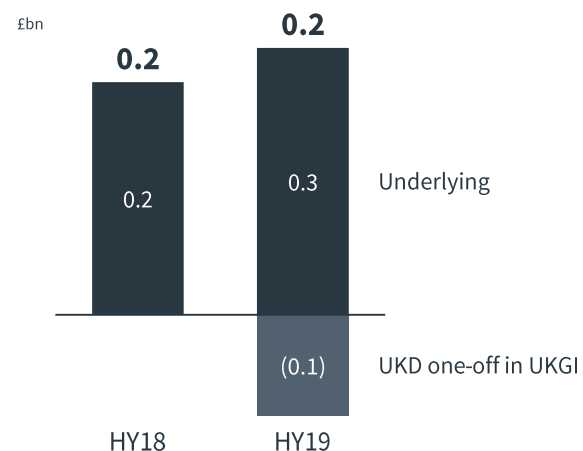
UK GI and Canada

Operating profit¹ +48%



- Benign weather (+£100m HoH) & improved Canadian profitability more than offset lower PY releases overall
- Canada benefitted from rate increases, operational improvements & improved risk selection; on track to reach ≤96% COR by 2020
- £34m adverse earned impact in UKGI from aligning UK Digital (broadly net neutral at group level); 1.6pp adverse impact on HY19 UKGI COR as a result

OCG stable at £0.2bn



- Stable OCG with an improved performance in Canada broadly offsetting the adverse impact of UKD alignment under UKGI
- HY19 cash remittances: £91m UKGI, £15m Canada

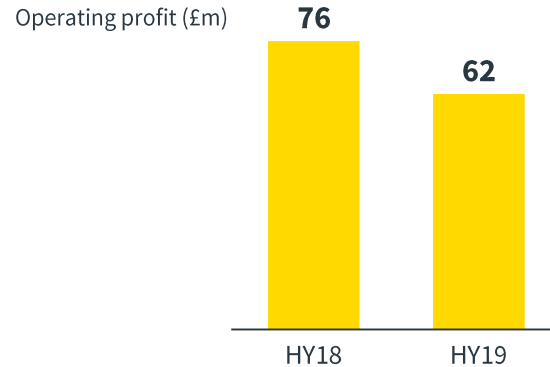
Sales and combined ratios

	HY18	HY19	Mvt
UKGI COR (%)	94.3	95.7	(1.4)pp
Canada COR (%)	104.6	97.5	7.1pp
Total NWP (£bn)	3.6	3.6	+1%
UKGI	2.1	2.2	+2%
Canada	1.5	1.5	(2)%

- +7% growth in commercial NWP partly offset by a decline in personal lines
- UKGI COR: 2.8pp benefit from weather vs. LTA (HY18: -0.2pp); +0.8pp PY releases (HY18: +2.0pp)
- Canada COR: 0.4pp benefit from weather vs. LTA (HY18: -2.2pp); +0.3pp PY releases (HY18: -0.5pp strengthening)

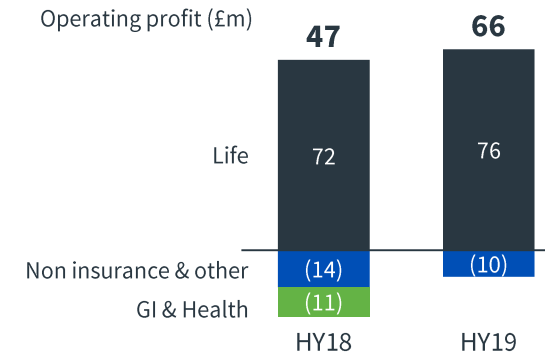
Aviva Investors and Asia

Aviva Investors



- Operating profit¹ -18% mainly driven by lower average AuM and revenue loss from disposals in November 2018
- £346bn AuM (FY18: £331bn) driven by £24bn favourable market movements partly offset by £4.9bn net outflows (£0.9bn external, £1.3bn internal core, £2.7bn internal legacy outflows)
- External wins to date in Real Assets and US Credit (\$2.15bn in July)
- Improved performance year to date: 79% of all funds beating benchmark, 53% beating target; AIMS target return up 6.3% year to date
- HY19 £81m cash remittance benefitted from phasing (HY18: £37m)

Asia (excl. FPI)



- Operating profit¹ +40% mainly driven by improved Singapore Health results from remediating actions following underperformance over the past few years
- Continued expansion of Singapore's owned distribution: 1,653 financial advisors at HY19 (FY18: 1,540, +7%)
- China expected to pay first cash remittance in 2H19

Interim results headlines

£1,448m

Operating profit¹, +1%

27.3p

Operating EPS, +2%

9.50p

Dividend, +3%

194%

Solvency II cover ratio²

£0.8bn

Operating capital generation

£2.3bn

Centre liquidity³

Appendix

Earnings per share

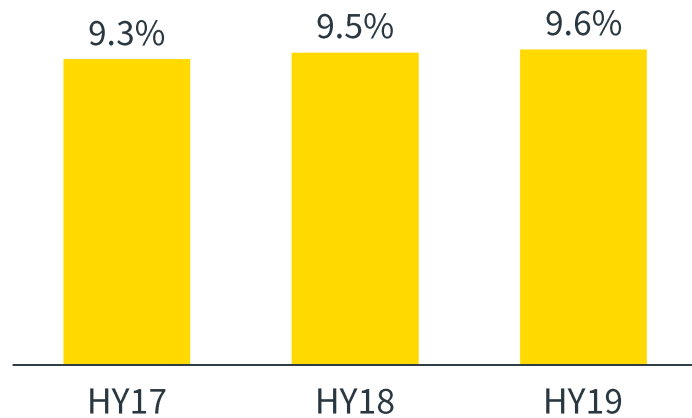
Earnings per share

	HY 2018	HY 2019
Group operating profit ¹	1,438	1,448
Less operating tax	(303)	(319)
Minority Interest	(46)	(47)
DCI and fixed rate tier 1 notes	(6)	(6)
Preference shares	(9)	(9)
Total operating earnings after tax, MI & DCI and preference shares	1,074	1,067
Weighted average number of shares	4,009	3,907
Operating earnings per share	26.8p	27.3p

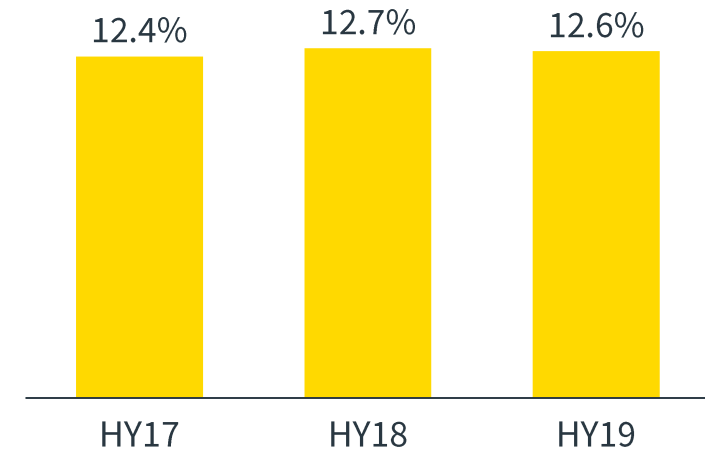
Returns

Operating return on total capital employed & return on equity

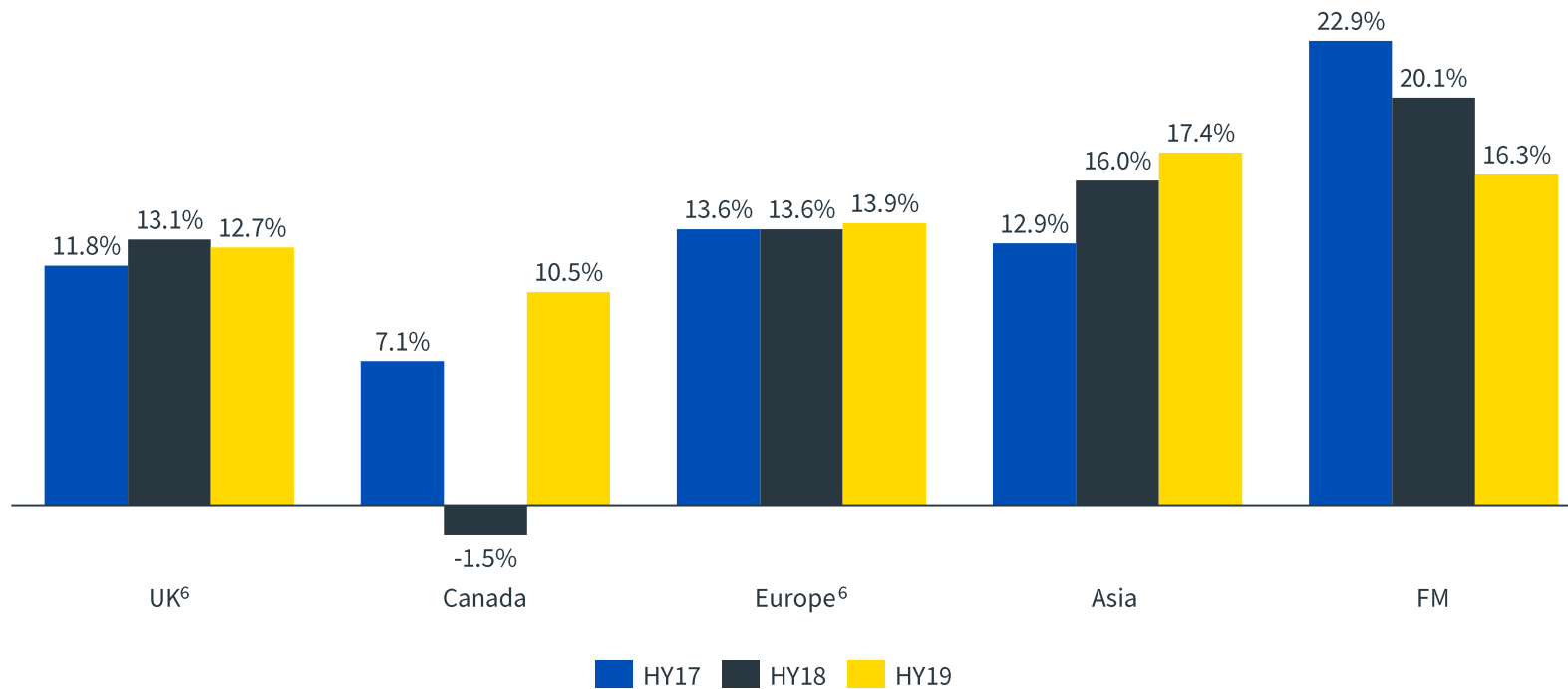
Group return on capital employed



Group return on equity



Operating return on total capital employed



Analysis of operating return on equity

6 months 2019	Operating profit ¹		Weighted average shareholders' funds incl. NCI	Return on equity %
	Before tax	After tax		
United Kingdom Life	722	581	10,100	11.5%
United Kingdom General Insurance	187	151	1,434	21.1%
Canada	98	72	1,374	10.5%
Europe	515	370	5,330	13.9%
Asia	161	151	1,738	17.4%
Fund management	61	43	526	16.3%
Corporate and Other Business ⁸	(123)	(100)	5,848	N/A
Return on total capital employed	1,621	1,268	26,350	9.6%
Subordinated debt	(165)	(133)	(6,334)	4.2%
Senior debt	(8)	(6)	(1,363)	0.9%
Return on total equity	1,448	1,129	18,653	12.1%
Less: Non-controlling interests	—	(47)	(972)	9.7%
Direct capital instrument and tier 1 notes	—	(6)	(730)	4.9%
Preference capital	—	(9)	(200)	8.5%
Return on equity shareholders' funds	—	1,067	16,751	12.6%

Capital & debt

SII own funds by tier

Regulatory view*

HY19	£bn	% of SCR	% of own funds
Tier 1	21.6	133%	77%
T1 unrestricted	19.5	120%	70%
T1 restricted	2.1	13%	7%
Tier 2	6.0	38%	22%
Tier 3	0.4	2%	1%
	28.0	173%	100%

*Estimated

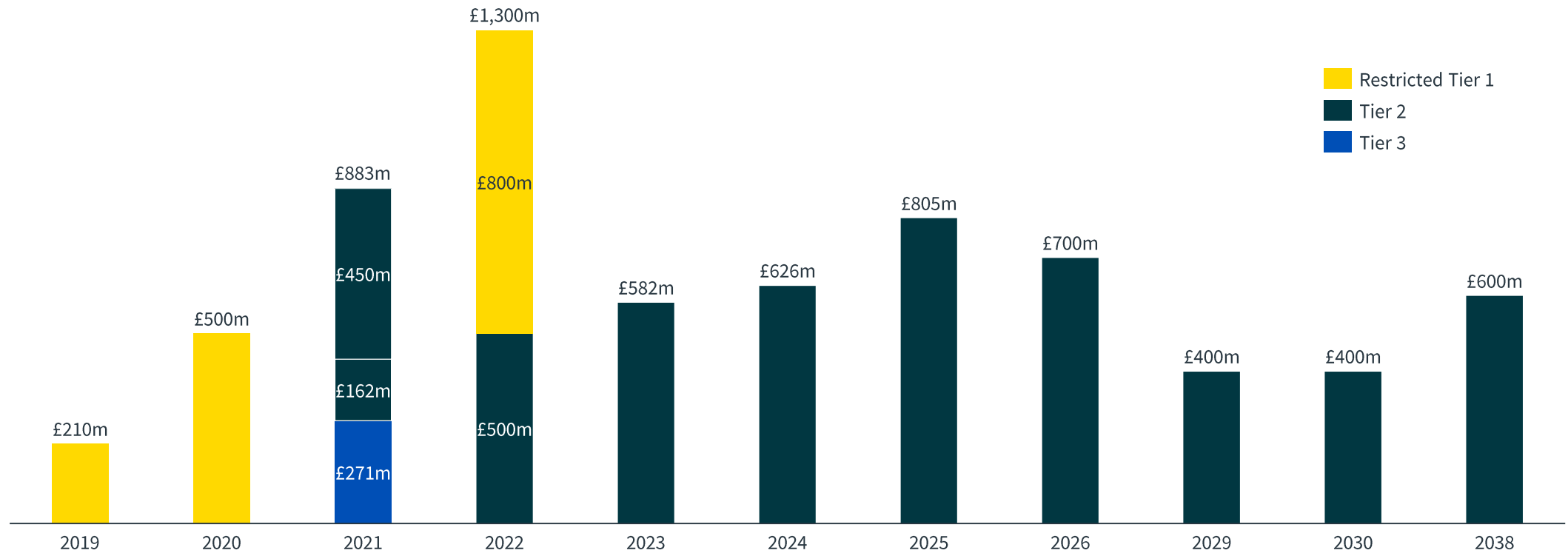
Shareholder view

- Regulatory view of own funds adjusted by £3.6bn due to with-profits funds, pension schemes, notional reset of transitionals and other pro-forma adjustments
- Shareholder view coverage ratio of 194%¹

SII sensitivities

	Sensitivity	Impact on cover ratio %
Changes in economic assumptions	25 bps increase in interest rate	2%
	50 bps increase in interest rate	4%
	100 bps increase in interest rate	5%
	25 bps decrease in interest rate	(3)%
	50 bps decrease in interest rate	(9)%
	50 bps increase in corporate bond spread ⁹	(3)%
	100 bps increase in corporate bond spread ⁹	(6)%
	50 bps decrease in corporate bond spread ⁹	2%
	Credit downgrade on annuity portfolio ¹⁰	(4)%
	10% increase in market value of equity	2%
	25% increase in market value of equity	4%
	10% decrease in market value of equity	(1)%
	25% decrease in market value of equity	(4)%
Changes in non-economic assumptions	10% increase in maintenance and investment expenses	(7)%
	10% increase in lapse rates	(3)%
	5% increase in mortality/morbidity rates - life assurance	(2)%
	5% decrease in mortality rates - annuity business	(10)%
	5% increase in gross loss ratios	(3)%

Subordinated debt profile

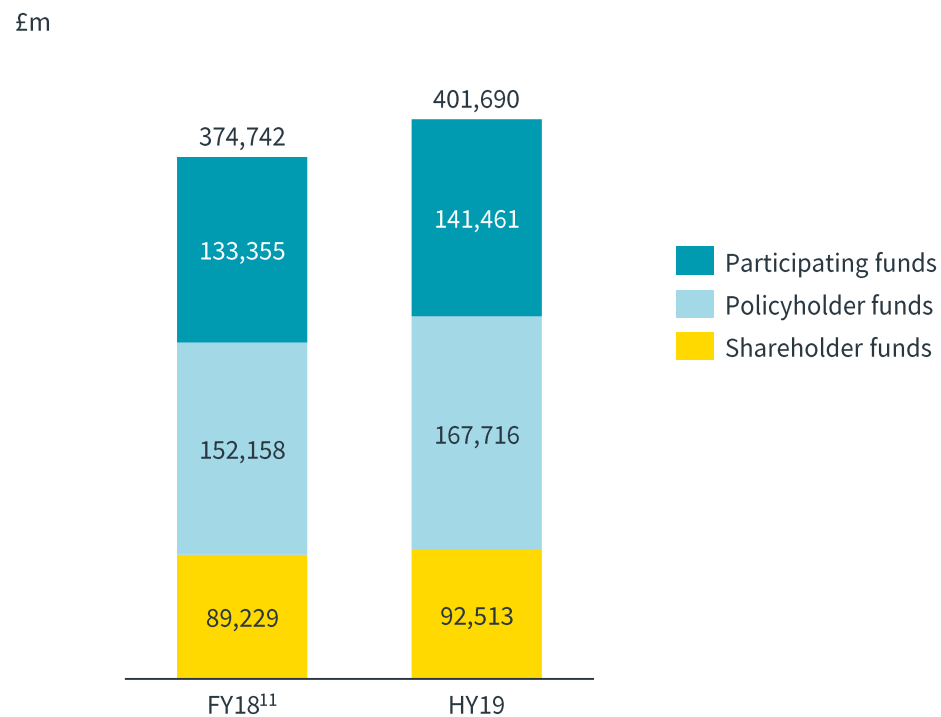


All debt instruments have been presented at optional first call dates at nominal values converted to GBP using 30 June 2019 rates

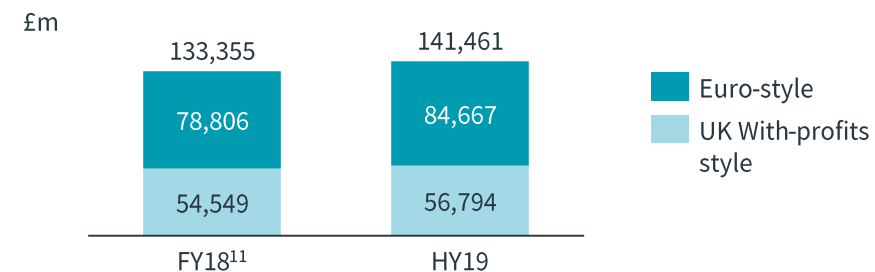
Balance sheet

Total managed assets

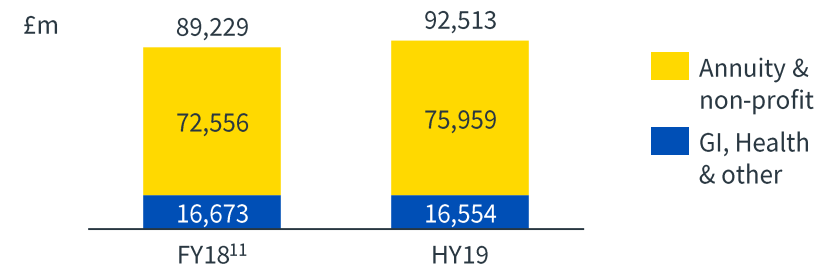
Assets by liabilities covered



Participating assets by type

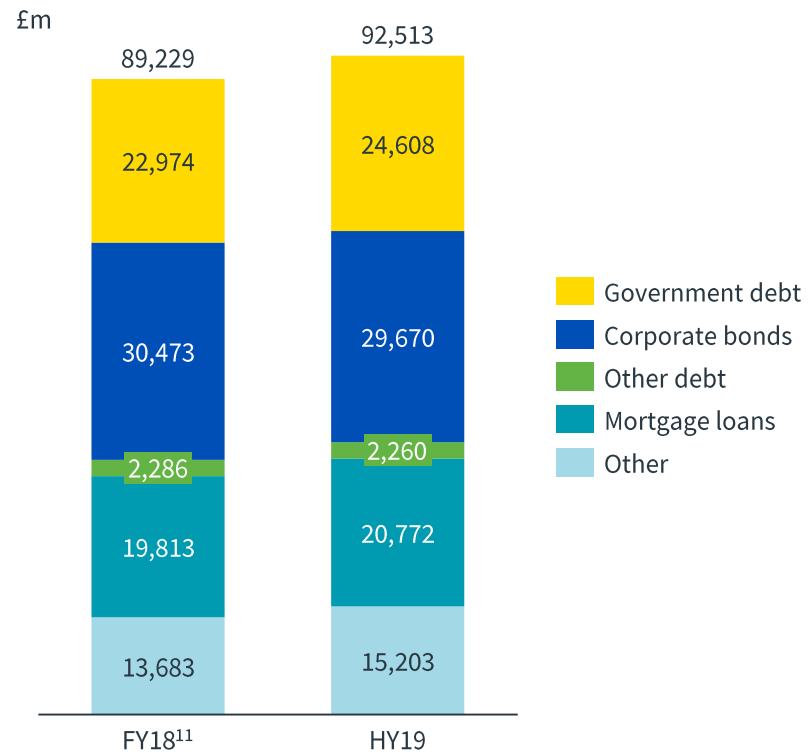


Shareholder assets by type

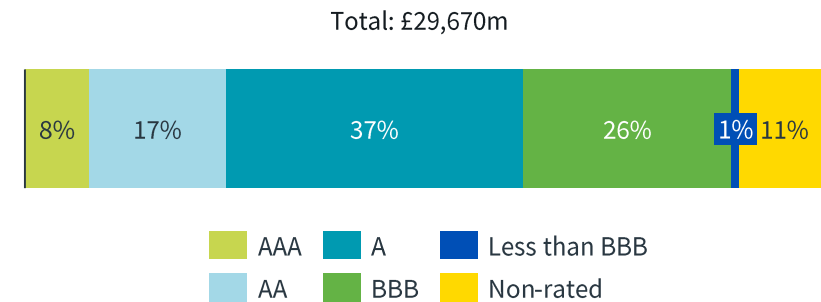


Shareholder assets

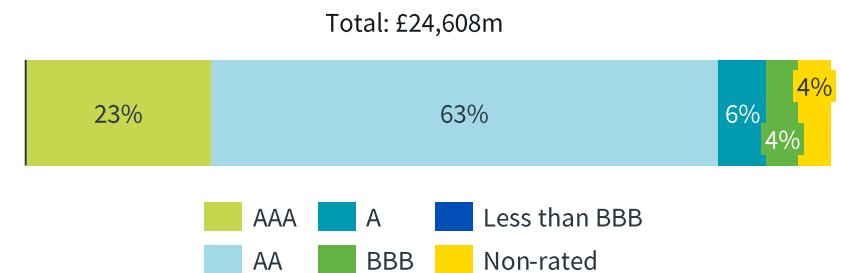
Shareholder assets by type



Corporate debt by rating

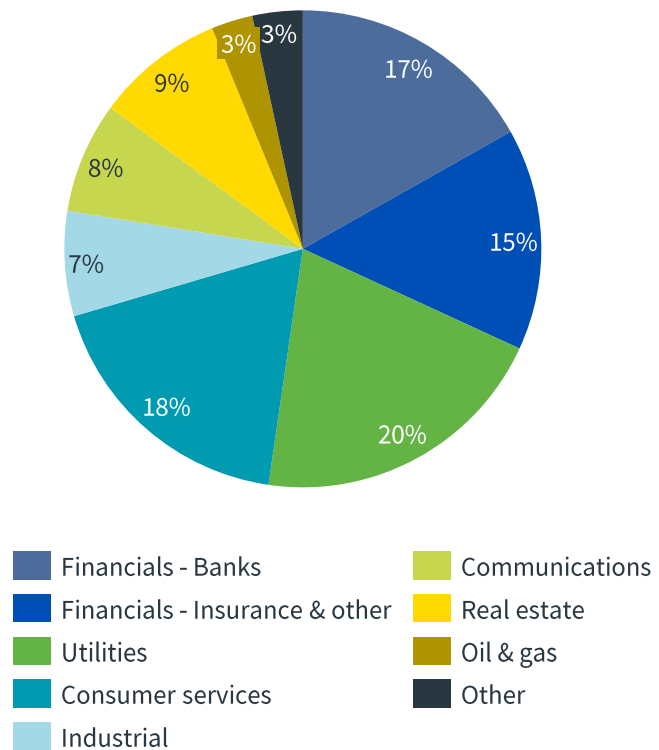


Government debt by rating

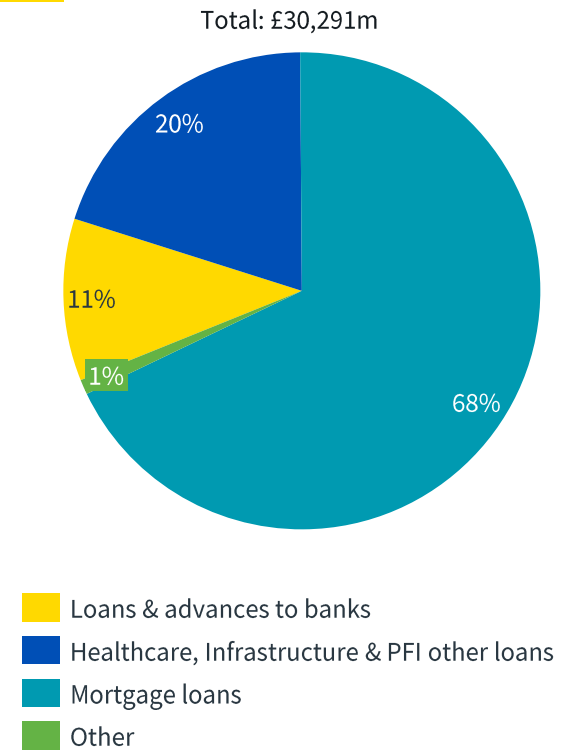


Shareholder assets

Corporate bonds by industry

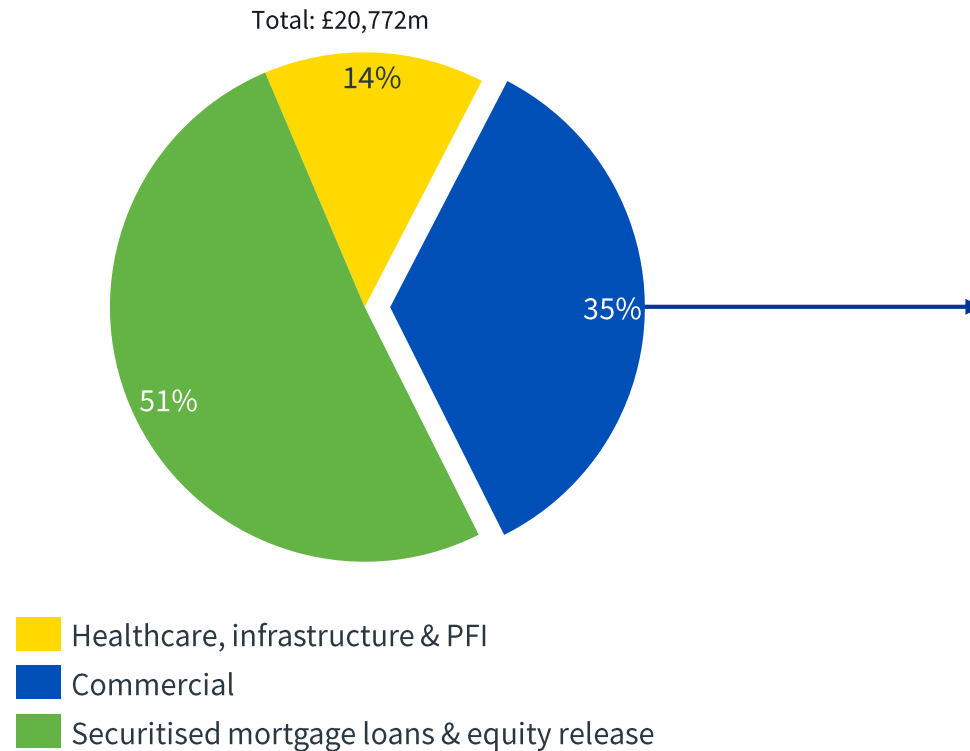


Loans by type

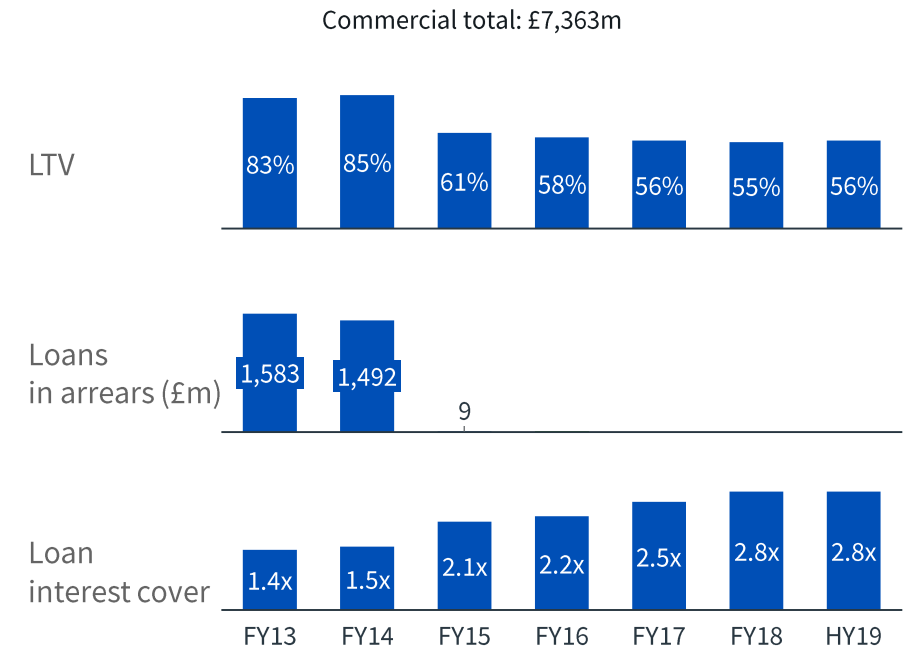


Shareholder assets – mortgage loans

Mortgage loans



Commercial real estate portfolio



Footnotes

1. Group adjusted operating profit is a non-GAAP Alternative Performance Measure (APM) which is not bound by the requirements of IFRS. Further details of this measure are included in the 'Other information' section of the Analyst Pack.
2. The estimated Solvency II position represents the shareholder view as defined in section 8.i of the Analyst pack.
3. Centre liquidity is stated as at end July 2019.
4. NAV is presented net of tax & non-controlling interests.
5. PVNBP and VNB are presented on an adjusted Solvency II basis.
6. Following the UK's decision to leave the European Union, the Ireland branches of the UK business have been transferred to Ireland effective March 2019. As a result, the Ireland business is now reported within Europe instead of the United Kingdom for all metrics. Comparative balances have been restated accordingly.
7. In 2018 cash remittances include amounts of £331 million received from UK General Insurance in February 2019 in respect of 2018 activity.
8. The Corporate and other business loss before tax of £123 million comprises corporate costs of £97 million, other business operating loss of £70 million, partly offset by interest on internal lending arrangements of £6 million and finance income on the main UK pension scheme of £38 million.
9. Credit spread movement for corporate bonds with credit rating A at a 10 year duration, with the other ratings and durations stressed by the same proportion relative to the stressed capital requirement.
10. An immediate full letter downgrade on 20% of the annuity portfolio bonds (e.g. from AAA to AA, from AA to A).
11. Following a review of the Group's presentation of consolidated investment funds, comparative amounts have been restated from those previously reported. The restatement has had no impact on the profit for the period or equity. See note B2 of the Analyst Pack for further information.