Aviva plc

IFRS 17 market update

9 December 2022

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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 uncertain conditions in the global financial markets and the national and international political and economic situation generally (including those arising from the Russia-Ukraine conflict); market developments and government actions (including those arising from the evolving relationship between the UK and the EU); the effect of credit spread volatility on the net unrealised value of the investment portfolio; the effect of losses due to defaults by counterparties, including potential sovereign debt defaults or restructurings, on the value of our investments; changes in interest rates that may reduce the value or yield of our investment portfolio and impact our asset and liability matching; the unpredictable consequences of reforms to reference rates, including LIBOR; the impact of changes in short or long-term inflation; the impact of changes in equity or property prices on our investment portfolio; fluctuations in currency exchange rates; the effect of market fluctuations on the value of options and guarantees embedded in some of our life insurance products and the value of the assets backing their reserves; the amount of allowances and impairments taken on our investments; the effect of adverse capital and credit market conditions on our ability to meet liquidity needs and our access to capital; changes in, or restrictions on, our ability to initiate capital management initiatives; changes in or inaccuracy of assumptions in pricing and reserving for insurance business (particularly with regard to mortality and morbidity trends, lapse rates and policy renewal rates), longevity and endowments; a cyclical downturn of the insurance industry; the impact of natural and man-made catastrophic events (including the longer-term impact of COVID-19) on our business activities and results of operations; the transitional, litigation and physical risks associated with climate change; failure to understand and respond effectively to the risks associated with environmental, social or governance ("ESG") factors; our reliance on information and technology and third-party service providers for our operations and systems; the impact of the Group’s risk mitigation strategies proving less effective than anticipated, including the inability of reinsurers to meet obligations or unavailability of reinsurance coverage; poor investment performance of the Group’s asset management business; the withdrawal by customers at short notice of assets under the Group’s management; failure to manage risks in operating securities lending of Group and third-party client assets; increased competition in the UK and in other countries where we have significant operations; regulatory approval of changes to the Group’s internal model for calculation of regulatory capital under the UK’s version of 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 and malicious acts (including cyber attack and theft, loss or misuse of customer data); 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 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 tax laws and interpretation of existing tax laws in jurisdictions where we conduct business; changes to International Financial Reporting Standards relevant to insurance companies and their interpretation (for example, IFRS 17); the inability to protect our intellectual property; the effect of undisclosed liabilities, separation issues and other risks associated with our business disposals; and other uncertainties, such as diversion of management attention and other resources, 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, Canada or elsewhere, including changes to and the implementation of key legislation and regulation (for example, FCA Consumer Duty and Solvency II). Please see Aviva's most recent Annual Report and Accounts for further details of risks, uncertainties and other factors relevant to the business and its securities. In particular, Aviva’s expectations, assessments and illustrations relating to the impact of IFRS17 are preliminary, are based on Aviva’s estimates as at today and are subject to change as the Group and the industry adapt to the new accounting standard. All figures in this presentation are preliminary, unaudited and subject to change

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

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As a reminder

Throughout this presentation we use a range of financial metrics to measure our performance and financial strength. These metrics include Alternative Performance Measures (APMs), which are non-GAAP measures that are not bound by the requirements of IFRS and Solvency II. A complete list and further guidance in respect of the existing APMs used by the Group can be found in the 'Other information' section of the 2022 Half Year Report. All references to 'Operating profit' represent 'Group adjusted operating profit’. All comparatives presented are from continuing operations

Key IFRS 17 messages for Aviva

Introduction of IFRS 17 does not impact our strategy, capital generation, cash remittances or dividend guidance

- IFRS 17 is an accounting change that **does not impact the way in which our business operates**
- Under IFRS 17 the **total profits remain unchanged** over the lifetime of a contract, however the **timing of when profits emerge** will be altered, resulting in **increased long-term predictability of profits**
- **No impact to Aviva** from the introduction of IFRS 9

Cash & Capital	Solvency II	Targets	Dividends
No impact to capital generation or cash remittances	**Solvency II metrics are not impacted** and remain the key basis under which we manage the business	**No impact to Group financial targets**	**No impact to our dividend guidance or anticipated capital returns**

IFRS 17 has no impact to existing Group financial targets

Targets

- ✓ **No impact to Group targets**
- ✓ **Remain on track to deliver Group financial targets**
- ✓ **No impact to BU ambitions**

>£5.4bn

Cash remittances 2022-24

£1.5bn

SII operating own funds generation p.a. by 2024

£750m

Gross cost reduction 2018-24[2]

Dividends & capital returns

- ✓ **Dividend guidance[1]** of c.£870m (c.31.0p) for 2022 and c.£915m (c.32.5p) for 2023, growing DPS at low-to-mid single digits thereafter, **remains unchanged**
- ✓ Anticipate commencing a **new share buyback programme** with our 2022 full year results, as previously announced

Leverage / credit ratings

- ✓ Continue to view **leverage on a Solvency II basis**
- ✓ Target **Group leverage ratio <30%**
- ✓ Q322 pro forma leverage ratio: **29%**
- ✓ Rating agencies **not expecting impacts to credit ratings**

1. The Board has not approved or made any decision to pay any dividend in respect of any future period; 2. Gross of inflation

IFRS 17 scope across our diversified business model

~60% of the Group's IFRS 4 operating profit largely unaffected by the transition to IFRS 17

Contracts written by Aviva fall into four categories, typically allocated by product type

1 Annuities & Protection

General Measurement Model ("GMM")

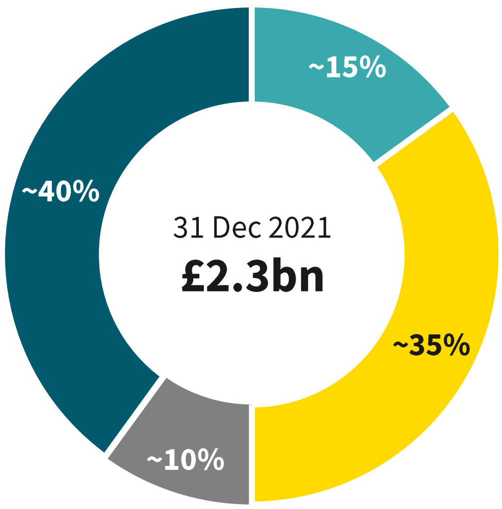
Default model for valuing insurance contracts

3 Aviva Investors, Wealth & Equity Release

IFRS 9

Contracts out of scope of IFRS 17

Group IFRS 4 adjusted operating profit[1]



2 Heritage

Variable Fee Approach ("VFA")

Contracts with direct participating features

4 General Insurance & Health

Premium Allocation Approach ("PAA")

Simplified approach for short-term contracts

1. Excluding Corporate centre and debt costs

IFRS 17 will result in changes to balance sheet items

IFRS 17 introduces the concepts of the contractual service margin and the risk adjustment as liabilities

IFRS 4

Liabilities

- Under IFRS 4 liabilities are calculated **including a margin**

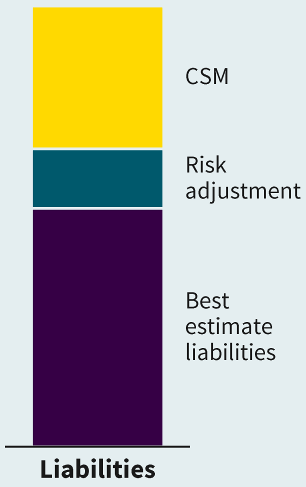
Assets

- Deferred acquisition costs (“DAC”) and acquired value of in-force (“AVIF”) recognised as **intangible assets in the IFRS 4 balance sheet**

IFRS 17

Liabilities

- IFRS 17 base liabilities are based on **best estimate assumptions**
- The margins in IFRS 4 are **replaced with the concept of a ‘Risk Adjustment’**, similar to the risk margin concept under Solvency II
- A new liability called the ‘**Contractual Service Margin (“CSM”)**’ is included, **representing stock of future profits**
- We will recognise an **opening CSM upon transition**



Assets

- IFRS 17 **does not give recognition to DAC and AVIF assets**

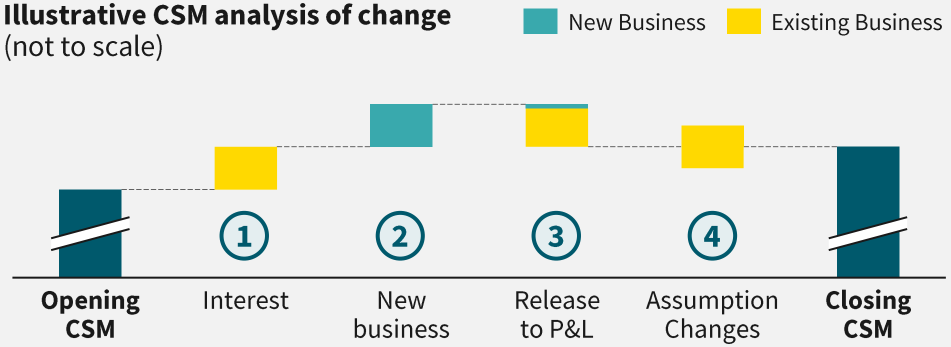
IFRS 17 primarily impacts Annuities & Protection

Annuities & Protection valued using the GMM

- The CSM spreads profits and demographic and non-operating assumption changes **over the life of a policy**
- Unearned profit is recorded as a **CSM liability measured using the discount rate on inception** and 'locked in' at this rate
- Profit driven by **release of CSM and Risk Adjustment**, which **unwind to the P&L** over the life of the policy
- **Profit emergence is more predictable as** demographic and operating assumption changes are **spread over time**
- Spreading of profits via the CSM **primarily impacts Annuities & Protection**
- **Changes in economic assumptions** do not adjust the CSM

Changes in the CSM

Illustrative CSM analysis of change
(not to scale)



1. **Interest accrued on the CSM over the period**
2. Impact of profitable **new business written in the period**
3. CSM earned in the period is **released to the P&L**
4. Impact of **changes in demographic and operating assumptions** on future cashflows

Annuities & Protection represent ~40% of IFRS 4 operating profit and are where the majority of the IFRS 17 accounting impact is seen

Heritage business and investment contracts

2 The VFA approach for Heritage business

- Used for Heritage portfolio of **with-profits / unit-linked insurance**
- Profit driven by **release of CSM and Risk Adjustment**
- Profit expected to be **more predictable than current basis**
- Economic variances **absorbed into CSM and spread over time**
- **No material new business written** under the VFA
- Business will continue to run off **broadly in line with previous guidance**

Remains a significant source of predictable profits

3 Wealth, Aviva Investors & Equity Release

- **IFRS 9 applies to Wealth, Aviva Investors and Equity Release**
- **No measurement differences** expected on adoption of IFRS 9
- **IFRS 9 does not recognise future profits for Wealth business**, which is included in Solvency II own funds and forms a key valuation difference
- Aviva will retain its current approach and **report fair value movements on assets backing our insurance business in P&L**

No impact to the Group from adopting IFRS 9

4 Limited impact to our General Insurance business

General Insurance profit drivers

- **Limited financial impact** for General Insurance business so current **profit drivers remain relevant**
- **Combined operating ratio will continue to be a key metric** and will be based on net earned premium
- **No CSM applicable** for business measured under PAA
- **All claims liabilities will be discounted under IFRS 17**
- **Continue to remove** short-term investment return **from operating results**
- LTIR for General Insurance business will be **replaced by an expected return approach,** similar to that used by the life business

Combined operating ratio ("COR") calculation

$$\textbf{COR} = \frac{\textbf{Claims net of reinsurance + Expenses + Commissions}}{\textbf{Revenues net of reinsurance}}$$

- Aligns to the way in which we **manage the business**
- Differing reinsurance strategies will have a **more comparable COR** under a net of reinsurance approach
- Non-attributable expenses **not expected to be material**

Limited impact on General Insurance & Health products from adopting IFRS 17, which are measured under the PAA approach

Indicative shareholders' equity impact

IFRS 17 adjusted shareholders' equity

~£21-22bn

1 January 2022 Group IFRS 17 shareholders' equity + CSM

£19bn
1 January 2022 Group IFRS 4 shareholders' equity

Margins in current IFRS reserves are released
Replaced by the risk adjustment in IFRS 17

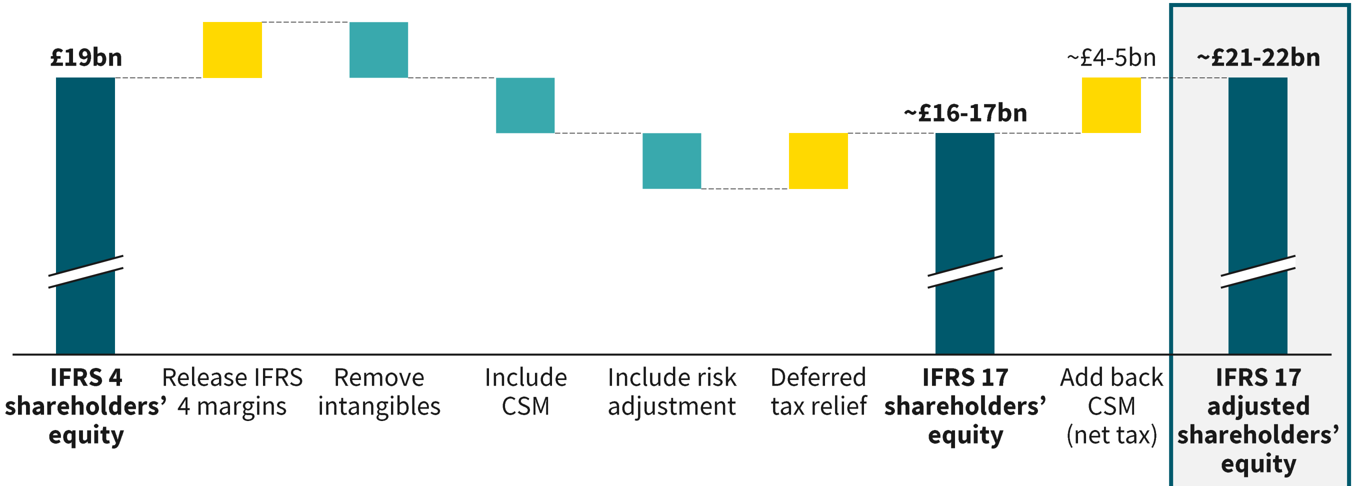
Release DAC & AVIF assets
De-recognised intangibles are incorporated within the CSM

Addition of the risk adjustment and CSM
New liabilities recognised under IFRS 17

Deferred tax will be recognised as transition adjustment
Tax on profits should only be paid once

Bridge of key valuation changes in Group shareholders' equity[1]

Illustrative bridging items (£bn, not to scale)
1 January 2022



IFRS 17 shareholders' equity + CSM

IFRS 17 adjusted shareholders' equity better reflects the shareholder value

1. The ranges presented do not sum across due to rounding differences

Stock of future profit will be a key measure of value

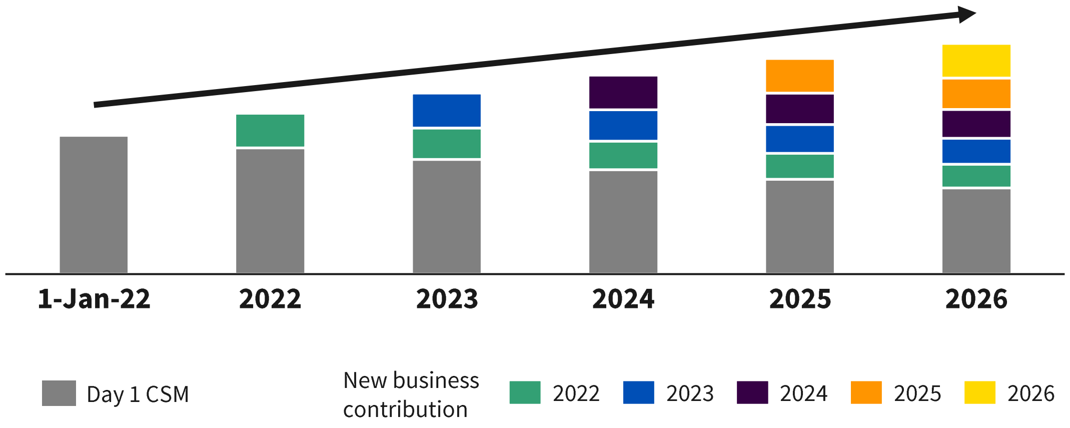
Stock of future IFRS 17 profit

Contractual service margin + **Risk adjustment** = **Stock of future IFRS 17 profit**

Reduced day 1 Group shareholders' equity does not reflect a loss in value as the CSM and risk adjustment can be **combined as the stock of future IFRS 17 profit,** a key measure of the **future income stream that enables greater predictability of the operating result**

- **Value that will smoothly and predictably unwind in to profit** over the lifetime of the business
- **Expected to increase over time** as new business adds to the CSM, partly offset by the annual expected run-off
- Can be assessed as a **key indicator of growth** as profit expected on new business will be rolled in to the CSM and run-off in the future
- CSM and risk adjustment **are being considered for inclusion as eligible capital by rating agencies**

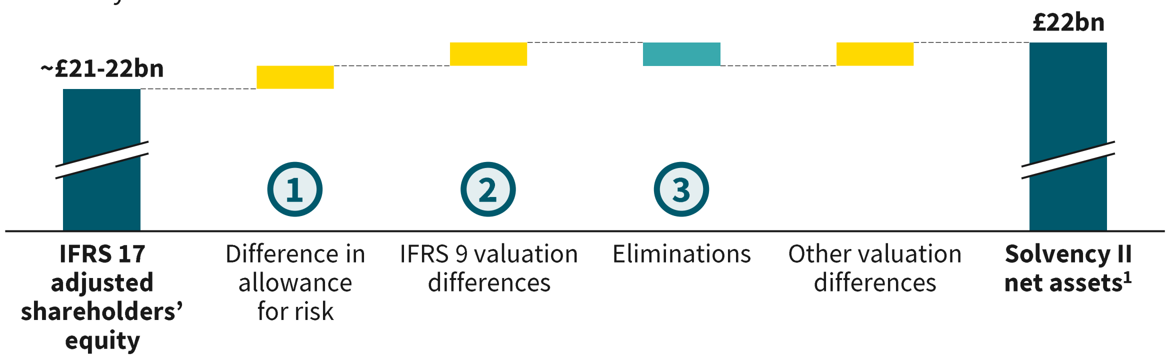
Illustrative development of stock of future IFRS 17 profit over time (not to scale)



IFRS 17 provides better alignment with Solvency II

IFRS 17 adjusted shareholders' equity to Solvency II net asset value bridge

Illustrative bridging items (£bn, not to scale)
1 January 2022



1. The **Solvency II risk margin** is higher than the IFRS 17 risk adjustment, but **more than offset by Solvency II transitional measures**
2. **Solvency II valuation of Wealth business allows for future profit** not recognised on the IFRS balance sheet
3. **Goodwill and other intangibles** are not recognised under Solvency II

Implementation of IFRS 17 will result in **no change to Solvency II metrics** for the Group so **existing business targets remain unchanged**

We will continue to **view Group leverage on a Solvency II basis**

IFRS 17 will provide **better alignment to Solvency II** as we continue to **manage the business on a Solvency II basis**

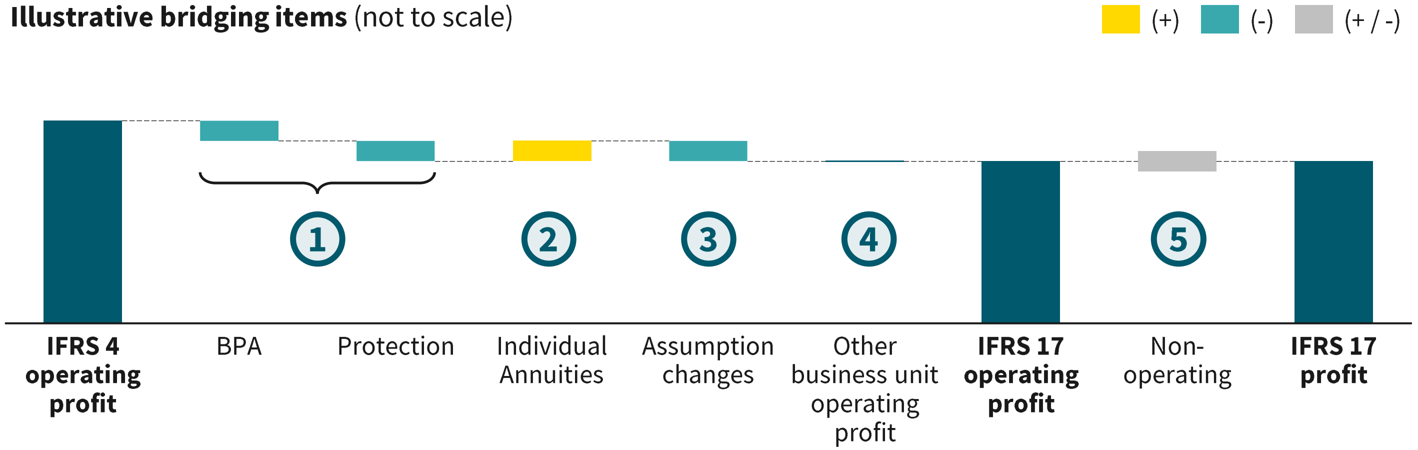
Equity	Profit	New business
IFRS 17 adjusted shareholders' equity will better align to **Solvency II net assets**	**IFRS 17 operating profit + change in CSM** will better align to **Solvency II operating OFG**	**IFRS 17 new business** will better align to **Solvency II VNB**

1. Regulatory view

Indicative impacts on Group profit by product type

Indicative reduction to aggregate operating profit from Business Units of ~15%[1]

Illustrative bridging items (not to scale)



- **Total profits remain unchanged** over the lifetime of a contract, however the **timing of when profits emerge will be altered**
- Release of the CSM will be a key profit driver under IFRS 17, resulting in increased **long-term predictability of profits**

1. **BPA & Protection –** new business will no longer be the most significant profit driver for life business as the majority of profits will be deferred
2. **Individual Annuities –** unwind of the CSM & risk adjustment will become material drivers of profit, recognising the run-off of business written in prior periods
3. **Assumption changes –** majority of profits deferred as the impact of changes in demographic and operating assumptions on future cashflows is adjusted through the CSM
4. **Other business unit operating profit** – has limited impact from transition to IFRS 17
5. **Non-operating** – benefit as AVIF amortisation included in operating profit (as part of CSM), but other below the line items (e.g. economic variances) remain similar to IFRS 4

1. Allowing for normal level of assumption changes

IFRS 17 value added will be a key performance metric

IFRS 17 value added

IFRS 17 operating profit + **Change in CSM** = **IFRS 17 value added**

IFRS 17 value added brings together operating profit and change in CSM to **better reflect the total performance of the business**

- As a performance metric it will **continue to recognise key aspects** such as new business and management actions going forwards
- Drivers of value added are **likely to be similar to those contributing to operating own funds generation**
- A **better reflection of a growing business** compared with IFRS 17 operating profit alone

Reporting timeline

Key IFRS 17 reporting timelines

- **1 January 2023: IFRS 17 becomes effective – Aviva will be compliant with the new standard**
- **March 2023: FY 2022 results will be reported on an IFRS 4 basis**
- **Q2 2023: Further updates ahead of HY 2023,** including restated comparatives
- **August 2023: First financial reporting under IFRS 17** at HY 2023 results

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Cash & Capital	Solvency II	Targets	Dividends
No impact to capital generation or cash remittances	**Solvency II metrics are not impacted** and remain the key basis under which we manage the business	**No impact to Group financial targets**	**No impact to our dividend guidance or anticipated capital returns**

Appendix

For 325 years

AVIVA

Accounting policies align more closely to Solvency II (1/2)

Best estimate expected cashflows

- ✓ **Best estimate of IFRS 17 expected cash flows** similar to Solvency II
- ✓ Demographic and persistency assumptions **aligned to Solvency II**
- ✓ >90% of Solvency II maintenance expenses are **included in IFRS 17 cash flows as directly attributable**
- ✓ **Discounting is more closely aligned to Solvency II** with greater market consistency
  - Risk free curves same as for Solvency II with **bottom up approach used to derive the illiquidity premium** for all liabilities **except for annuities, which uses a top down approach**.
  - The rate used to measure CSM for GMM is **locked in at inception**
  - For best estimate cash flows and risk adjustment the **current rate is used, based on actual assets held**

Fair Value P&L – IFRS 17 & IFRS 9 interaction

- ✓ Our opening financial position at 1/1/2022 will include the **adoption of both IFRS 9 and IFRS 17**
- ✓ Aviva will retain current approach to **report fair value movements on assets backing insurance business in P&L ("FVP&L" option)**
- ✓ Consistent treatment for insurance liabilities under IFRS 17 with **financial assumption changes reported in P&L**
- ✓ For VFA business the net economic variance arising from financial assumption changes **will be spread forward as part of the CSM**
- ✓ Continue to present **a Group adjusted operating profit excluding short term economic volatility**

Accounting policies align more closely to Solvency II (2/2)

Risk adjustment

Methodology for the risk adjustment leverages Solvency II view of risk calibrated to reflect the compensation that Aviva requires to accept insurance risk

IFRS 17 permits a more **economic view of risk vs. Solvency II risk margin**
- Includes diversification between risks
- Considers the lifetime view, whereas the value-at-risk (VaR) for Solvency II is based on a 1 year view

Contractual Service Margin

The opening CSM **is highly dependent on the transition approach**

GMM – CSM measurement / release is based on **locked in interest rates**

VFA – CSM measurement **includes the investment variance which** is **spread forward each year. CSM release based on current bottom up discount rates** with no adjustment for real world returns

Transition

Fully retrospective approach is being applied for **contracts written from 1/1/2016**

Extensive use of the **fair value approach for Annuity, Heritage and Protection business** written prior to 1/1/2016

Limited use of the modified retrospective approach for business written prior to 1/1/2016

Opening Group CSM by transition approach