

Aviva plc
IFRS 17 transition update
19 July 2023

It takes
AVIVA



Disclaimer & important information

Cautionary statements

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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; failure to continually attract and retain talented, quality financial advisers; 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 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 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; 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.

The information in this document is not audited.

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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Key IFRS 17 messages for Aviva

IFRS 17 does not impact our strategy, capital generation, dividend guidance, or capital return outlook

- IFRS 17 is an accounting change that **does not impact the way in which our business operates**
- Under IFRS 17 the **total profit remains unchanged** over the lifetime of a contract, however the **timing of when profit emerges** will be altered, resulting in **increased long-term predictability of profits**
- **No financial 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 Group	No impact to Group financial targets	No impact to our dividend guidance or capital return outlook

A detailed financial information pack can be found here: www.aviva.com/investors/ifrs-17-transition-update/

Confidence in meeting or beating existing targets

Group targets

Progress

Cash remittances	>£5.4bn 2022-2024	✓ On track to exceed
SII Operating own funds generation	£1.5bn Per annum by 2024	✓ On track to exceed
Cost reduction	£750m 2018-24 ¹	✓ On track

Dividend guidance & capital return

2023 dividend²	c.£915m (2022: £863m)
Dividend growth	Growing cash cost at low-to-mid single digits 2024 onwards
Capital return	£300m completed in 2023. Intention for regular and sustainable return of surplus capital

1. Baseline controllable costs excludes strategic investment, cost reduction implementation, IFRS 17 and other costs not included in the 2018 cost savings target baseline
2. The Board has not approved or made any decision to pay any dividend in respect of any future period

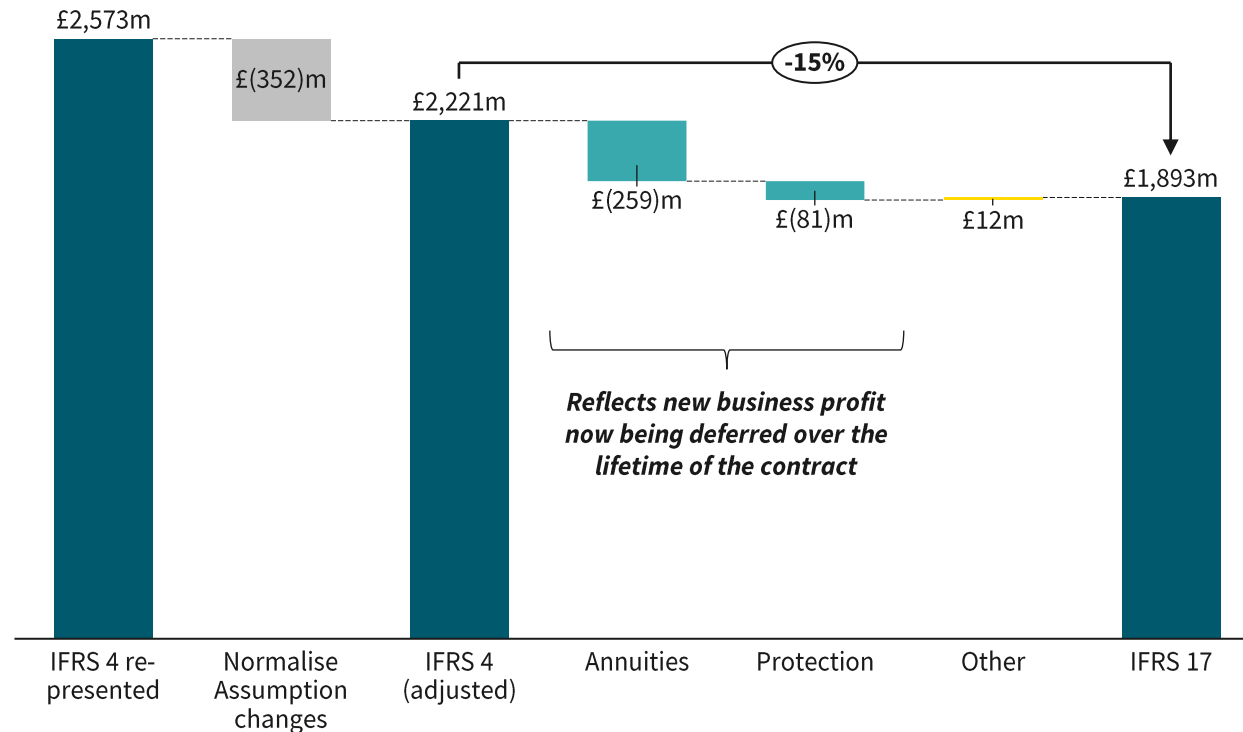
Key financial metrics under IFRS 17 – full year 2022

Group operating profit	Operating value added	CSM	Adj. shareholders' equity
£1.4bn £1.9bn from business units	£1.8bn Operating profit plus operating change in CSM	£6.5bn at 31 December 2022 Gross of tax	£14.3bn at 31 December 2022 £9.4bn shareholders' equity

- Operating profit of £1.4bn is lower under IFRS 17 reflecting the **deferral of unearned profits to the contractual service margin (CSM)**, which will **release profit in future years**. Total profit recognised over the lifetime of contracts remains unchanged
- The CSM of £6.5bn represents the **stock of future profit that will unwind to the P&L in future years**. The **release of CSM in 2022 is 9.6% of the closing CSM**, before allowing for the release. This level is **expected to be repeated in future periods**, noting that the release percentage may change depending on the mix and volumes of new business written in each period
- Adjusted shareholders' equity, where the CSM (net of tax) is added back, and which provides a more complete reflection of shareholder value, was £14.3bn, higher than IFRS 4 shareholders equity as **the risk adjustment recognised in IFRS 17 is lower than the prudence margin in IFRS 4**
- FY 2022 shareholders' equity of £9.4bn is £2.4bn lower than IFRS 4, mainly due to the **CSM (a stock of future profit) being recognised as a liability on the IFRS 17 balance sheet**
- Operating value added of £1.8bn brings together operating profit and the growth in CSM to **better reflect the performance of the business**. Future value of capital-light businesses for which no CSM is recognised are **not included in operating value added**

In line with previous guidance: 15% reduction in business unit operating profit

2022 IFRS 4 to IFRS 17 business unit operating profit reconciliation



Re-presented IFRS 4 operating profit

2022 IFRS 4 business unit operating profit has been re-presented from £2,756m (as reported in March 2023) to £2,573m to reflect two methodology changes unrelated to the adoption of IFRS 17:

- Moving the economic variance from policyholder tax in Heritage to below operating profit (-£75m), to improve the predictability of Heritage operating profit.
- Aligning General Insurance investment return methodology to the approach used in the UK Insurance, Wealth & Retirement business, as outlined in our December IFRS 17 market update (-£108m).

Assumption changes

For the analysis opposite, in line with the guidance provided in December regarding the impact to operating profit from moving to IFRS 17, we have:

- Adjusted total IFRS 4 assumption changes of £552m in FY22 by £352m to represent a more normal level of £200m.

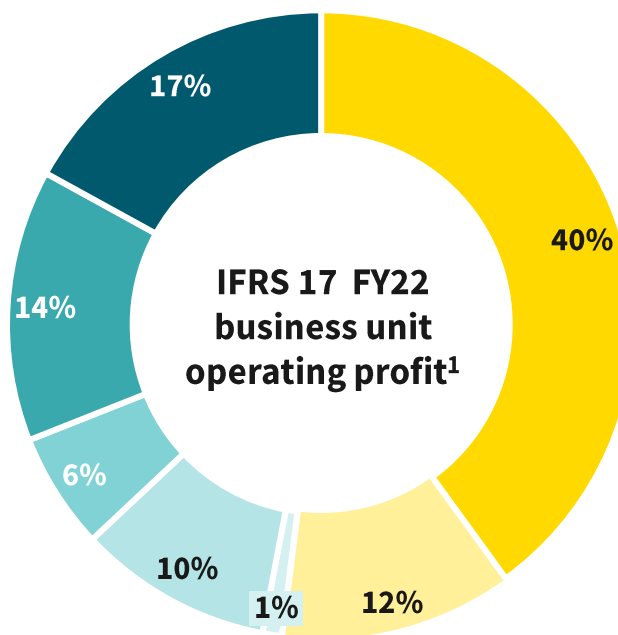
Balanced earnings mix. Significant capital light contribution

~48%

**Capital light
businesses**



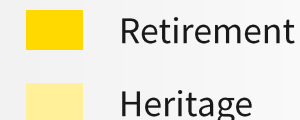
IFRS 17 reflects the Group's balanced earnings mix from our diversified business model



Expect further progression towards capital light businesses over time

~52%

**Capital
consumptive
business**



Operating value added – an important performance measure

Operating value added brings together operating profit and the growth in CSM to **better reflect the performance of the business**



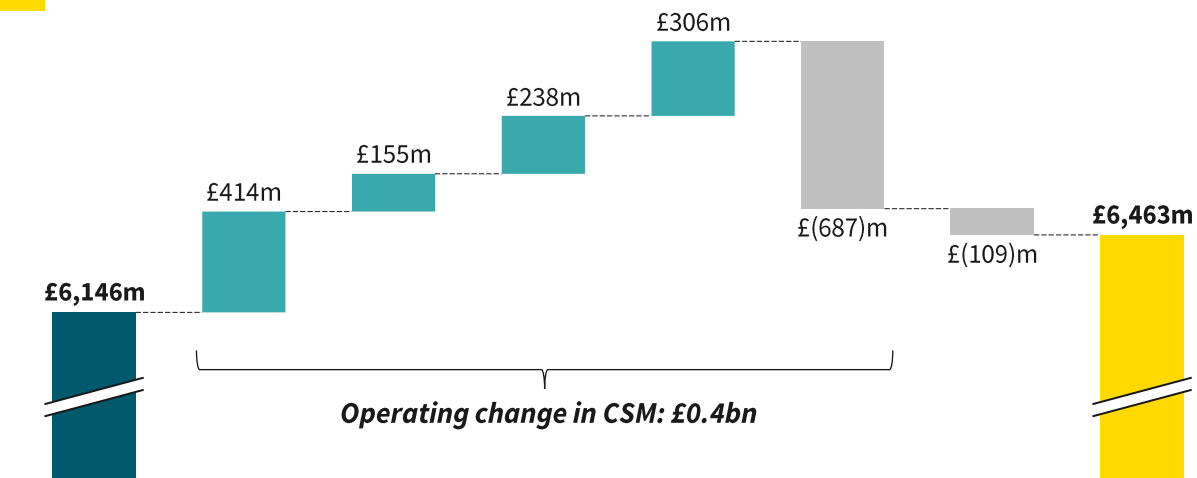
- ✓ As a performance metric it will **continue to recognise key aspects** such as new business and assumption changes at the time value is generated
- ✓ Drivers of value added are **similar to those of Solvency II operating own funds generation**
- ✓ Future value of capital-light businesses for which no CSM is recognised are **not included in operating value added**

Contractual service margin analysis

Recap of the CSM

- The CSM spreads profits and assumption changes **over the life of a policy**
- Unearned profit is recorded as a **CSM liability measured using the discount rate on inception** and for annuities and protection is '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**
- Economic variances that impact the CSM are treated as non-operating

2022 CSM analysis of change (gross of tax)



£m	Opening CSM	New business	Interest accretion	Exp. variance	Assump. changes	CSM release	Non operating	Closing CSM
Protection	681	132	12	(10)	84	(146)	(15)	738
Annuities ¹	3,639	253	136	202	252	(359)	(81)	4,042
Heritage	1,586	0	8	18 ²	(15)	(166)	(26)	1,405
Ireland Life	240	29	(1)	28	(15)	(16)	13	278
	6,146	414	155	238	306	(687)	(109)	6,463

Stock of future profit – a predictable source of value

Stock of IFRS17 future profit is an important measure that enables **greater predictability of the operating result**



- ✓ **Value that will smoothly and predictably unwind into 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

Changes to shareholders' equity

IFRS 17 adjusted shareholders' equity

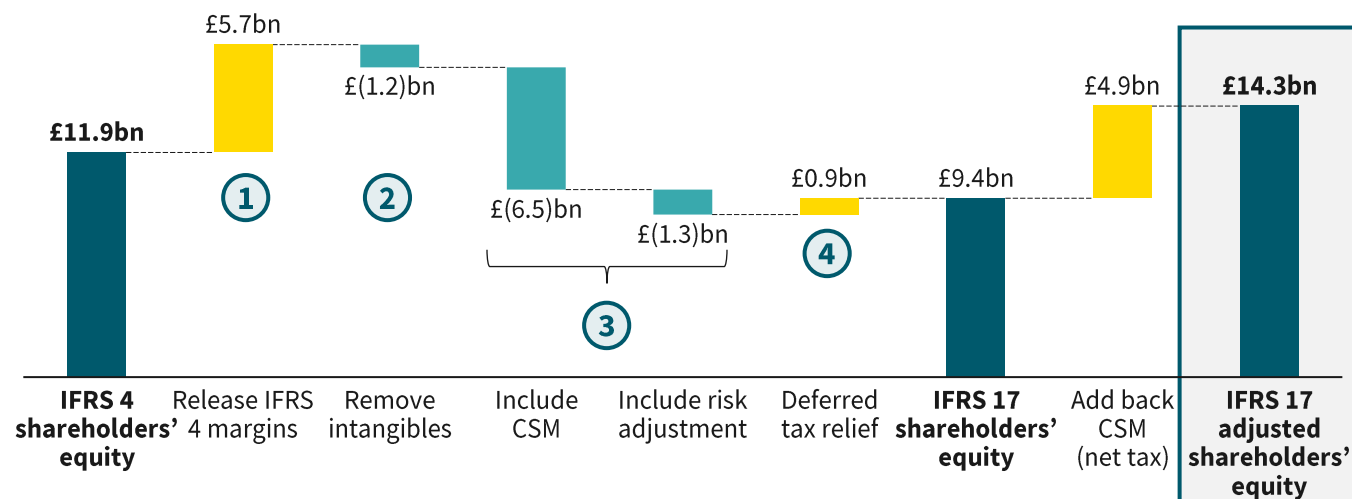
£14.3bn

**31 December 2022 Group IFRS 17
shareholders' equity + CSM**

- ① **Margins in current IFRS reserves are released**
Replaced by the risk adjustment in IFRS 17
- ② **Release DAC & AVIF assets**
De-recognised intangibles are incorporated within the CSM
- ③ **Addition of the risk adjustment and CSM**
New liabilities recognised under IFRS 17
- ④ **Deferred tax is recognised as a transition adjustment**
Tax on profits should only be paid once

Bridge of key valuation changes in Group shareholders' equity

Shareholders' equity
31 December 2022



IFRS 17 shareholders' equity

+

CSM

IFRS 17 adjusted shareholders' equity better reflects the shareholder value

Operating profit outlook

Given the transition to IFRS 17, we are exceptionally providing Group operating profit guidance:

Half year 2023: IFRS 17 Group operating profit of around £700m (up from HY22: £661m)

Full year 2023: IFRS 17 Group operating profit expected to grow 5% to 7%¹ from £1,350m in FY22

Upcoming dates:

2023 Interim Results

16 August 2023

In Focus: Wealth

17 October 2023