

# Aviva plc

## Interim results 2008



**Andrew Moss**  
*Group Chief Executive*

*“Accelerating  
transformational change  
to deliver a unified and  
more profitable company”*



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# Agenda



Introduction

**Andrew Moss**  
Group Chief Executive

Review of 2008 interim results

**Philip Scott**  
Group Finance Director

Reattribution of the inherited estate

**Mark Hodges**  
Chief Executive,  
UK Life

One Aviva, twice the value  
Progress and priorities

**Andrew Moss**  
Group Chief Executive

Questions and Answers

- **Growth in operating profits and dividend**
  - EEV operating profit up 12% to £1,719m
  - IFRS operating profit up 7% to £1,233m
  - Interim dividend up 10% to 13.09p
- **Financial strength in an uncertain economic environment**
  - EEV net asset value per share of 702p (FY 2007: 772p)
  - Balance sheet remains strong despite significant unrealised investment losses
  - Sound capital position
- **Inherited Estate reattribution – a milestone agreement**
- **Accelerating transformational change across Aviva**

# Review of 2008 interim results

Philip Scott

Group Finance Director



# HY 2008 key highlights



- Life and pensions new business sales up 11% to £17.3bn
- Life new business contribution up 19% to £656m at increased margin
- GI COR 97%
- EEV operating profit up 12% to £1,719m
- IFRS operating profit up 7% to £1,233m
- Profit before tax impacted by adverse investment variances £(3.1)bn on EEV; £(1.0)bn on IFRS
- Net asset value per share 702p
- IGD surplus £1.8bn with increased downside protection
- Interim dividend per share up 10% to 13.09p within cover range

	<u>HY08</u> £m	<u>HY07</u> £m
<b>New business</b>		
Life and pensions	<b>5,863</b>	5,820
Investment sales	<b>840</b>	1,595
New business contribution	<b>183</b>	178

## Operating profit

Life EEV	<b>471</b>	413
Non-life	<b>(27)</b>	(22)
Total EEV	<b>444</b>	391

Life IFRS	<b>428</b>	357
Non-life IFRS	<b>(27)</b>	(22)
Total IFRS	<b>401</b>	335

- Record half year sales in 2008 for life and pensions:
  - Q1 Market share 11.4% (YE07: 10.5%)
  - Life and pension sales up 1%
  - Investment sales down 47%
  - Margin maintained at 3.1%
- Life EEV operating profit up 14%
  - Stable persistency
  - Maintenance and project related costs lower by £28m
- IFRS life operating profit up 20%
  - £107m benefit of special distribution

# UK General Insurance



	<b><u>HY08</u></b> <b>£m</b>	<b><u>HY07</u></b> <b>£m</b>
<b>Operating profit <sup>(1)</sup></b>		
Underwriting result	<b>37</b>	(46)
LTIR	<b>289</b>	330
Non-insurance	<b>5</b>	2
	<b>331</b>	286
<b>NUI only</b>		
Net written premiums	<b>2,589</b>	2,699
Total COR	<b>98%</b>	102%

- Meeting targets in tough market conditions
- Combined operating ratio of 98%
  - Personal motor profitability improved having achieved rating increases of 5%
  - Household rates up 10%
  - Commercial market very competitive with small rate increase and lower volumes
  - Absence of adverse weather (HY07: £235m)
  - Lower prior year development £160m (HY07: £245m)
- On-track to deliver £200m cost savings in 2008
- Additional savings announced today of £150m by 2010 (Phase II of transformation announced 6 June)

(1) Including Health and Aviva Re

	<u>HY08</u> £m	<u>HY07</u> £m
<b>New business</b>		
Life and pensions	<b>8,431</b>	7,353
Investment sales	<b>526</b>	778
New business contribution	<b>347</b>	283
<b>Operating profit</b>		
Life EEV	<b>823</b>	679
General Insurance	<b>137</b>	203
Fund management	<b>9</b>	11
Other	<b>(13)</b>	(18)
Total EEVOR	<b>956</b>	875
Total IFRS	<b>614</b>	589

- Life and pensions sales up 15%
  - Favourable euro impact
  - Good growth in Netherlands and Central and Eastern Europe
  - Lower volumes in Italy and Ireland
- Margins up to 4.1% (HY 07: 3.8%)
- EEV life operating profit up 21%, reflecting strong life results throughout the region
- GI only COR 95% (HY07: 85%), operating profit down due to higher claims costs in Ireland and the Netherlands.
- IFRS operating profit up 4%

# North America



	<b><u>HY08</u></b> <b>£m</b>	<b><u>HY07</u></b> <b>£m</b>
<b>United States</b>		
PVNB	<b>2,205</b>	1,716
New business contribution	<b>92</b>	57
Life EEV operating profit	<b>139</b>	112
Life IFRS operating profit	<b>42</b>	58

## Canada

GI operating profit	<b>76</b>	70
Net written premiums	<b>771</b>	665
COR	<b>98%</b>	99%

- Excellent sales growth of 28% with strong sales of annuities in challenging economic environment
- New business contribution up 61%. Margin of 4.2% in line with FY07.
- EEV operating profit increased but IFRS down due to competitive environment and higher option costs for guarantees.
- Canadian operating profit increased, reflecting increased premiums and favourable prior year claims development.
- Net written premiums up 16% - boosted by impact of Canadian \$ rates and growth in commercial lines.

	<u>HY08</u> £m	<u>HY07</u> £m
<b>New business</b>		
Life and pensions	<b>784</b>	654
Investment sales	<b>1,051</b>	1,378
New business contribution	<b>34</b>	32
<b>Operating profit</b>		
Life EEV	<b>47</b>	47
General insurance	<b>(1)</b>	3
Fund management/Other	<b>2</b>	5
Total EEVOR	<b>48</b>	55
Total IFRS	<b>15</b>	32

- Life and pension sales up 20%
  - Strong growth in China (2<sup>nd</sup> international Life Insurer) and India
  - New business in Malaysia and Taiwan
- Investment sales down 24%
  - One-off £227m pension legislation change in Australia, HY07
- New business contribution up 6% to £34m and margin down to 4.3% (HY07: 4.9%)
- EEV life operating profit £47m
- IFRS operating profit down to £15m – reflecting business growth.

	<b>HY08</b>	<b>HY07</b>
	<b>£m</b>	<b>£m</b>
<b>IFRS operating profit</b>		
UK	<b>28</b>	<b>33</b>
France	<b>16</b>	<b>16</b>
Canada	<b>1</b>	<b>1</b>
Other	<b>4</b>	<b>8</b>
<b>Total Aviva Investors result</b>	<b>49</b>	<b>58</b>

- Significant progress towards global asset management business
- IFRS profit of £49m reflects falls in property and equity markets leading to lower funds under management

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	<b>HY08</b>	<b>HY07</b>
<b>Total funds managed by Aviva</b>	<b>£307bn</b>	<b>£316bn</b>

- Aviva group wide funds of £307bn down due to market falls across the world

# Life in-force business experience



	UK	International	Total
	£m	£m	£m
<b>Experience variances</b>			
Expenses	(24)	(22)	(46)
Mortality	11	21	32
Persistency	(10)	1	(9)
Other	18	48	66
	(5)	48	43

## Assumption changes

Expenses	(7)	(7)	(14)
Mortality	(11)	(42)	(53)
Persistency	-	(1)	(1)
Other	30	(8)	22
	12	(58)	(46)

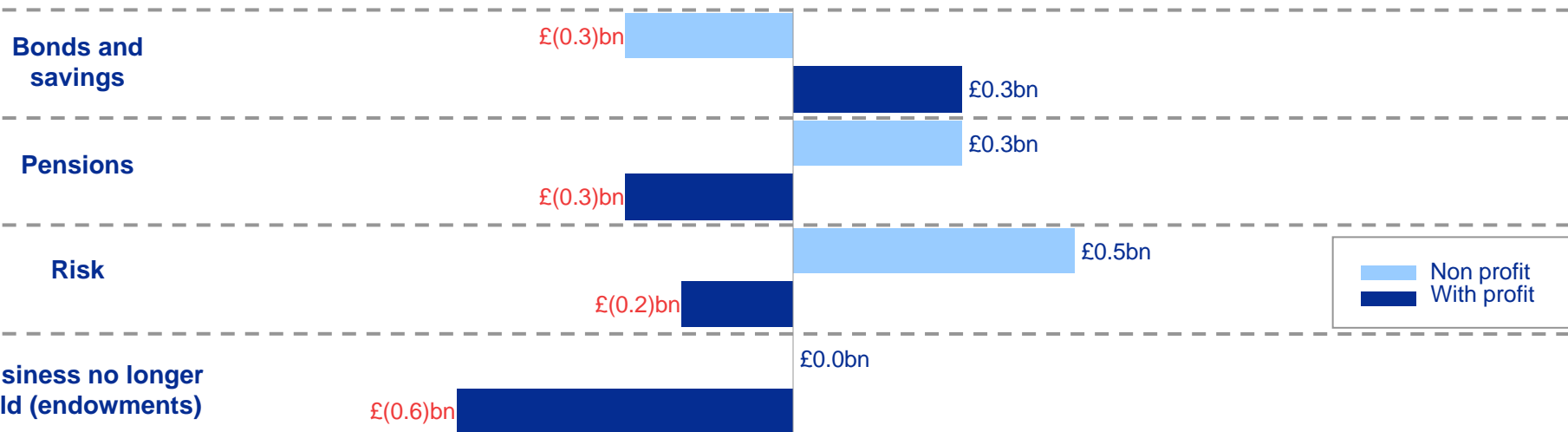
EEV balance sheet	6,547	13,320	19,867
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- Experience in line with assumptions
- Reduced UK expense variances due to cost reductions
- Favourable mortality in UK, France and Poland
- Mortality assumptions strengthened in the Netherlands
- Other assumption changes includes £25m for UK special distribution
- Overall net impact low at £(3)m out of £19.9bn

# Norwich Union Life net flows

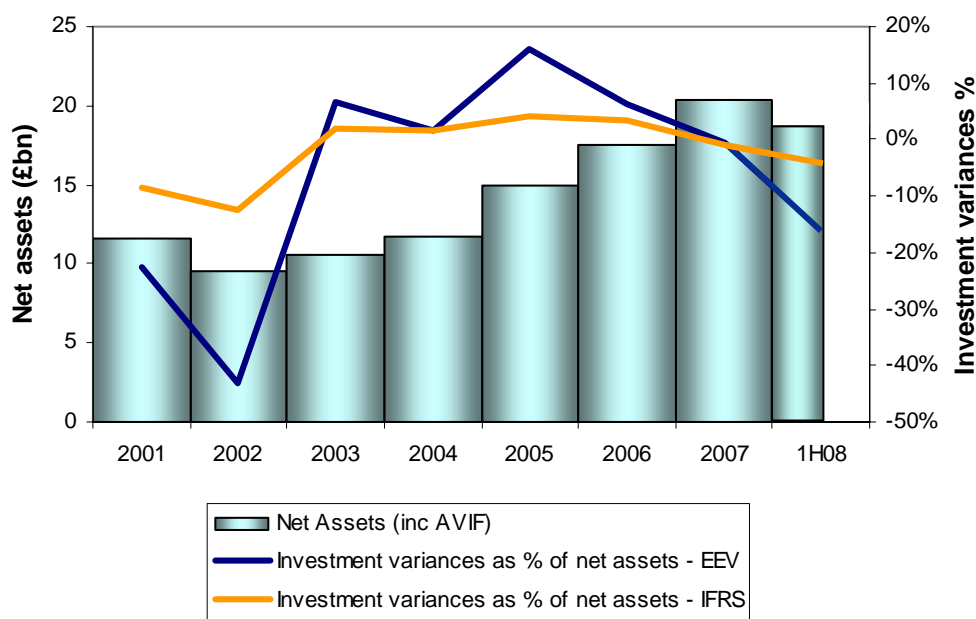


## Half Year 2008: £(0.3) bn



Net flows	HY 2008			
	Non Profit £bn	With Profit £bn	Total £bn	% of funds
Bonds and savings	(0.3)	0.3	-	-
Pensions	0.3	(0.3)	-	(0.1)
	-	-	-	<b>(0.1)</b>
Risk business	0.5	(0.2)	0.3	1.2
<b>Ongoing business</b>	<b>0.5</b>	<b>(0.2)</b>	<b>0.3</b>	<b>0.3</b>
Business no longer sold (endowments)	-	(0.6)	(0.6)	(4.4)
<b>Net flow</b>	<b>0.5</b>	<b>(0.8)</b>	<b>(0.3)</b>	<b>(0.3)</b>
% of funds	0.9	(1.5)	<b>(0.3)</b>	

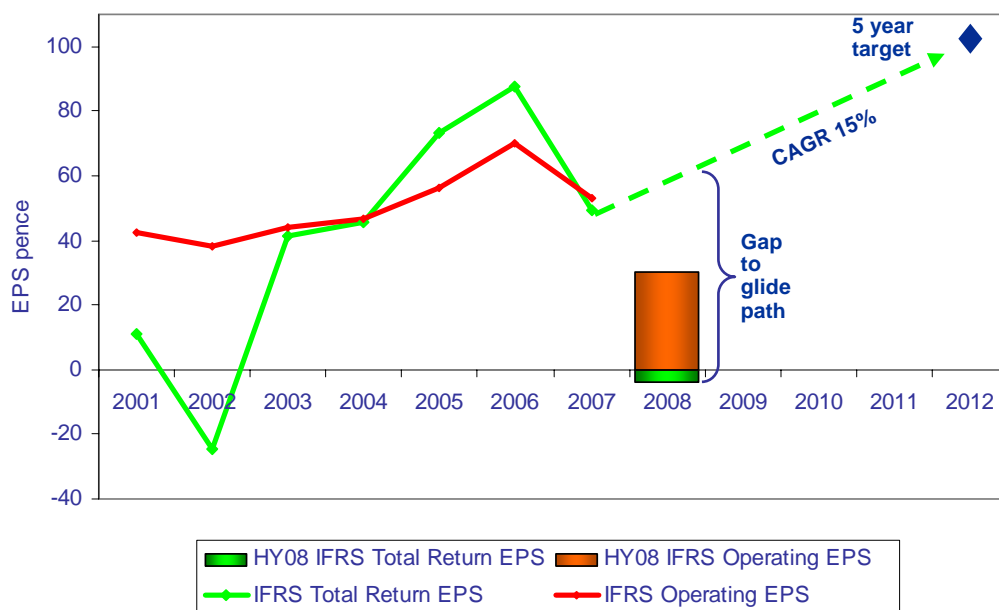
# Market movements



- Total profit impacted by significant investment variances
- Market movements in 2008
  - Equity markets down between 13% and 20%
  - Bond yields rising 60bps in UK and 40bps in Eurozone
  - Credit spreads widening, with peak in Q1
- Actively managing the impact of investment volatility

Note: Illustrative graph only. Historic data has not been restated – pre 2004 data uses UK GAAP and pre 2003 data uses Achieved Profits investment variances.

# EPS performance historic and planned



- Fully committed to double IFRS EPS total return over 5 years
- Straight line was not anticipated
- 2008 operating earnings on track

- **Reattribution of UK inherited estate announced**
- **£800m hybrid debt raised in May 2008**
- **Downside protection for further market deterioration**
- **Global Finance Strategy aims to deliver:**
  - MCEV for end 2008 reporting
  - Economic capital for Solvency II
  - SOx compliance (potential US Listing)
  - Finance transformation of UK Life in anticipation of inherited estate reattribution
  - Impact of £49m in 1H08 operating profit. Investment of £130m in 2H08 and 2009

# IGD Solvency surplus



	£bn
<b>Actual IGD solvency surplus – FY07</b>	<b>2.9</b>
Total recognised income (ex investment variances)	0.5
Fair value losses on investments	(0.7)
Hybrid debt	0.8
External dividend	(0.4)
Netherlands (Van Lanschot bank)	(0.4)
Other increase in CRR	(0.5)
Impact of acquisitions	(0.2)
Other	(0.2)
<b>Estimated IGD solvency surplus – HY08</b>	<b>1.8</b>

- Solvency cover 1.3 times
- Downside protection increased
- Sensitivity to equities:

Equity movement	£bn
-10%	(0.4)
-20%	(0.7)
-30%	(1.0)
-40%	(1.3)

# Analysis of Assets



- Aviva's balance sheet remains strong and of high quality
- Equities are principally held to back policyholder liabilities
- The largest single asset class is Debt Securities, of which 94% are investment grade (with 1% below investment grade, and 5% not rated).
- The Group continues to have very limited exposure to Subprime MBS/ABS, Alt-A, Wrapped Credit, CDOs and CLOs

## Fair Values at 30 June 08

£m	Policyholder Assets	Participating Fund Assets	Shareholder Assets	Total	% of Asset Base
Sub-prime	33	14	79	126	0.04%
Alt-A	0	4	185	189	0.06%
CDO/CLOs	48	11	466	525	0.16%
Wrapped Credit	36	141	492	669	0.20%
Total	117	170	1,222	1,509	0.46%

- Falling property prices have increased the number of loans to value over 100% but the Group's loan portfolio is of a very high standard, with over 99% of loans neither past due nor impaired
- Mortgage loans of £890m have LTV > 100%. The amount not covered by property value is £47m
- Income from tenants and other charges ensure that most mortgages where LTV > 100% will not be impaired
- £642m of loans owed by Dawnay Day Group Companies, LTV of c91%. Fixed charge on properties backed by floating charge on companies. Additional £257m of loans with DD joint ventures and trusts. Well diversified tenant base and loan payments covered by rental income. No impairment currently considered necessary.

- **Growth in operating profit and dividend**
- **Financial strength in an uncertain economic environment**
- **Accelerating transformational change in Finance**
- **Significant progress with the reattribution of the inherited estate**

# Reattribution of the inherited estate

Mark Hodges

CEO, UK Life



# Reattribution of the inherited estate



- **Timeline**

November 2006	Policyholder Advocate appointed
February 2008	£2.1bn special distribution announced
July 2008	Up to £1bn policyholder incentive payment agreed in principle
Q4 2008	Election mailing
Summer 2009	Cash paid to electing policyholders

- **Policyholder benefits**

- Those who elect:
  - cash incentive payment of £1,000 on average per customer, minimum of £400
  - give up rights to future special distributions
- Separate fund created for non-electors; current rights preserved
- Estate retained in Life funds to provide security (minimum lock in period of 6 years)

- **Incentive paid from own resources - plans in place**

# Reattribution of the inherited estate



## CGNU Life / CULAC

	Value of estate £bn	Allocation basis %	Element set aside for special distribution		Remaining estate £bn
			Policyholder share £bn	Shareholder share £bn	
Value of estate @ 31 Dec 07 (FTSE 6456)	<b>5.0</b>	90:10	2.1	0.25	2.65
Market value and other movements			(0.2)	(0.03)	(0.55)
Estimated value of estate @ 30 Jun 08 (FTSE 5626)		90:10	1.9	0.22	2.1
<b>Reattribution impacts:</b>					
Transfer of estate to shareholders				2.1	
Policyholder incentive payment			1.0	(1.0)	
Sharing of current value of estate		48:52	1.0	1.10	
<b>Overall share of value</b>		<b>69:31</b>	<b>2.9</b>	<b>1.32</b>	

- In addition shareholders assume liability for guarantees and backing assets £1.6bn

# Shareholder benefits assuming 100% election



- **Post tax financial reporting impacts**

- IFRS:
  - £220m profit from special distribution (over 3 years, starting 2008)
  - £390m one-off reattribution profit in 2009 (£800m at 31 December 2007 market levels)
- MCEV:
  - £25m profit from special distribution in 2008
  - £225m one-off reattribution profit in 2009 (£550m at 31 December 2007 market levels)

- **Value creation**

- IRR of 11.5% at end-June 2008 equity levels
- 100% of profit from investment returns accrue to shareholders

- **Dividend and capital**

- Estate and investment return available to finance new non-profit business and provide solvency
- Increases dividend to Group by £0.8bn - £1.0bn over 5 years

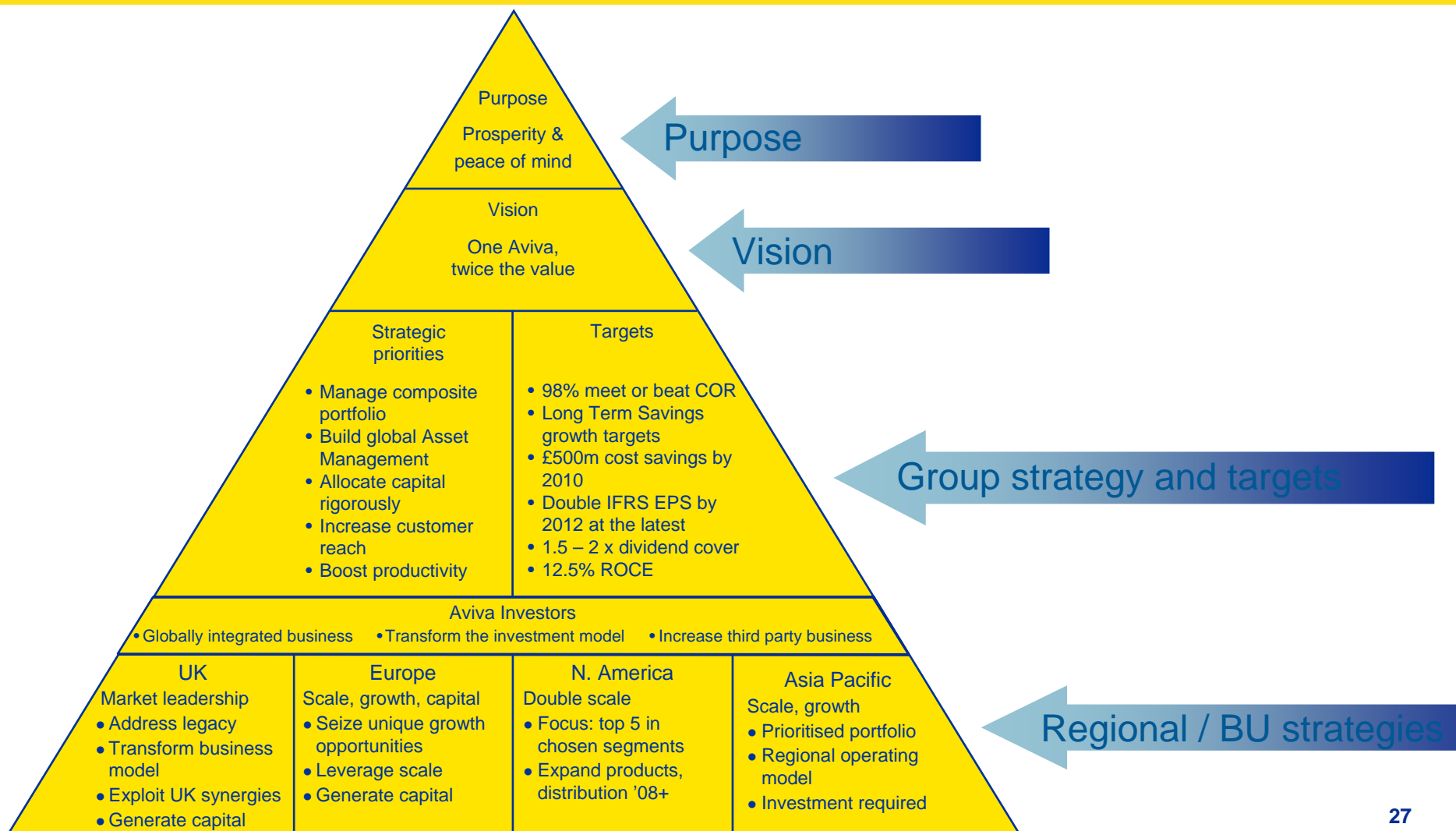
- **Other benefits**

- Hedge against lapse experience for with-profits policies with guarantees
- Committed to with-profits but protected from worse sales than planned
- Merger of three with-profits funds

One Aviva, twice the value  
Transformational change



# One Aviva, twice the value



# Outlook in the current economic environment



- **Maintaining our focus to deliver Aviva's objectives and targets**
  - Continuing to invest in order to achieve the benefits of One Aviva, twice the value
- **Responding to the current economic environment**
  - Actively managing investments
    - Successfully held UK property funds open
    - Taking action on commercial loans where necessary
  - Maintaining a strong capital position
    - £1.5bn equity hedge put in place
    - £800m hybrid debt raised
- **Limited appetite for acquisitions**

# Uniting under a single brand



– Developing the brand proposition for our customers and our employees



# Accelerating transformational change



- **Range of senior management appointments (European CEO, Spain, Italy, Poland)**
- **A key priority: Our customers**
  - Introducing a single measure of customer advocacy to track progress
  - Over 1 million customers benefiting from the reattribution and special bonus
- **Maximising value from our more mature businesses**
  - Sale of the offshoring business, Aviva Global Services to WNS for £115m, with ongoing cost savings
  - Accessing under-utilised capital in the UK Life business
- **Dealing with underperformance**
  - Suspending Pay as You Drive
  - Closing down the Lifetime project
  - Reducing the cost base in Ireland through offshoring

# Accelerating transformational change



- **Tackling the operational cost base**

- Increasing the cost savings target to £500m
  - Of which £211m has been delivered
- Business unit initiatives: e.g. Spain: introducing “One Aviva” operationally, 10% minimum cost saving

- **Sharing expertise**

- Asia Pacific: using the Australian Navigator technology as Asia’s investment platform
- Leveraging USA’s investment skills to introduce structured products across Aviva
- UK Life & Europe – sharing bancassurance best practice across Aviva
- Implementing one procurement process across Aviva, with cost savings of over £50m

- **Investing in the transformation**

- Increased brand spend in 2009
- Global finance strategy with a view to a potential US listing
- Aviva Investors

# Regional review and outlook



# UK Life – continuing operational improvement



## **Market Leadership**

- Address legacy
- Transform business model
- Exploit UK synergies
- Generate capital



**Mark Hodges**  
Chief Executive

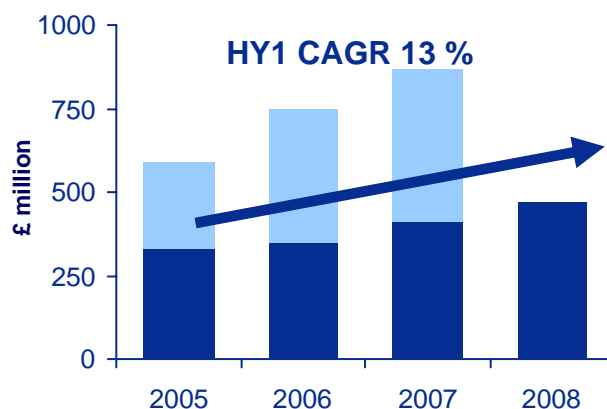
# UK Life – continuing operational improvement



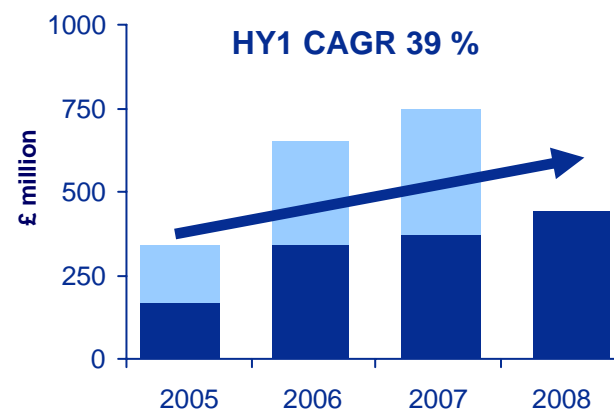
## Market Leadership

- Address legacy
- Transform business model
- Exploit UK synergies
- Generate capital

EEV operating profit growth



IFRS operating profit growth



## HY 2008 update

- Growth in market share, profits and capital generated
- 2/3 of EEV profits generated from in-force book – up 17% in H1 08
- On track to achieve zero cost overrun in 2009
- 500k policies migrated to efficient platforms, 118 systems closed
- Strategic partnership with Scottish Friendly for the wrap platform
- Sales outlook: 0 – 5% decline in the market
- Profit outlook: continuing growth, careful watch on credit exposure

# UK General Insurance – delivering transformational change



## **Market Leadership**

- Address legacy
- Transform business model
- Exploit UK synergies
- Generate capital



**Igal Mayer**  
Chief Executive

# UK General Insurance – delivering transformational change



## **Market Leadership**

- Address legacy
- Transform business model
- Exploit UK synergies
- Generate capital

## **The external environment remains competitive**

- Personal lines rates improving
- Commercial rate increases averaging 2%
- Broker consolidation putting upward pressure on commission rates
- Short term inflationary pressures

## **A clear action plan**

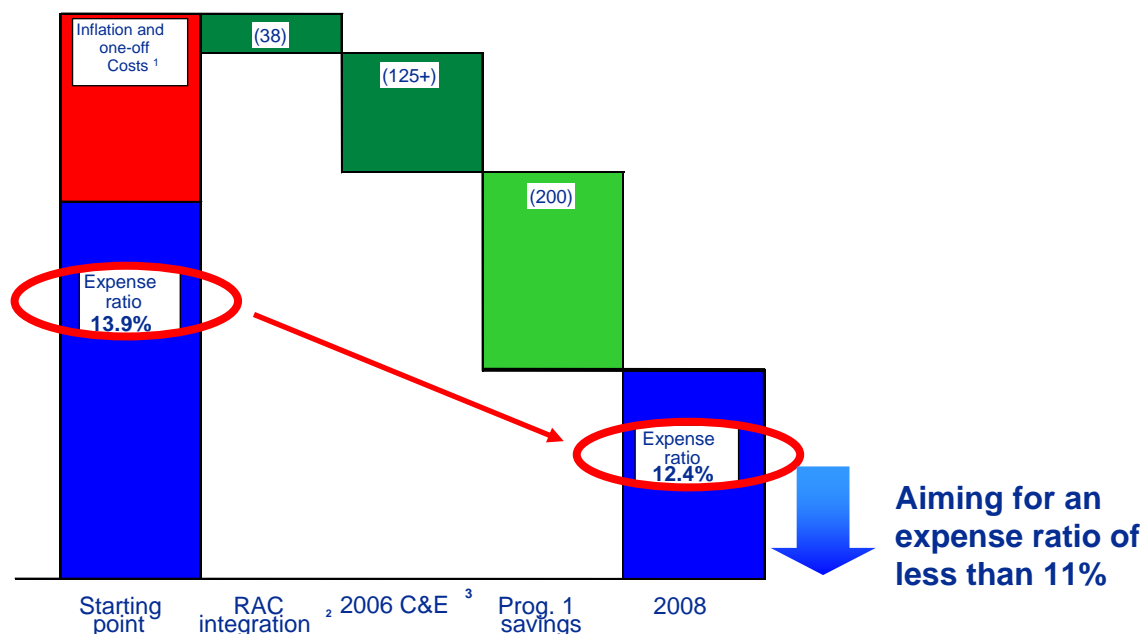
- Capitalising on unparalleled distribution reach
- Updating the rating methodology to deliver profit and attract more customers
- Simplifying the operating model, reducing complexity & increasing self service
- Negotiating commission rates
- Keeping claims inflation down

# UK General Insurance – delivering transformational change



## Market Leadership

- Address legacy
- Transform business model
- Exploit UK synergies
- Generate capital



## Delivering results

- Increasing cost savings target to £350m by 2010
- Reduced senior management team by over 25%
- Marketing campaigns consolidated, IT projects rationalised
- Reducing the number of customer operations sites from 26 to 9
- Reducing the product set from over 70 to under 20

# Europe – a market leading position



## **Scale, growth, capital**

- Seize unique growth opportunities
- Leverage scale
- Generate capital



**Andrea Moneta**  
Chief Executive

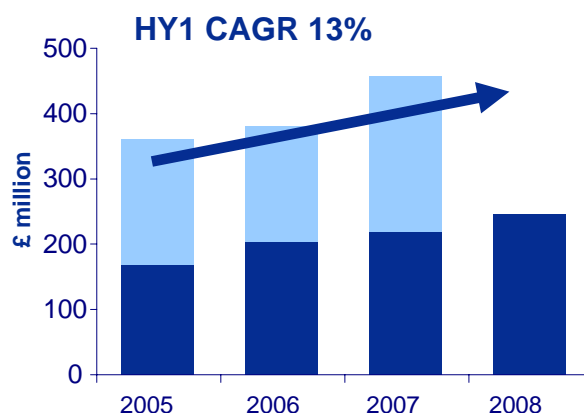
# Europe – a market leading position



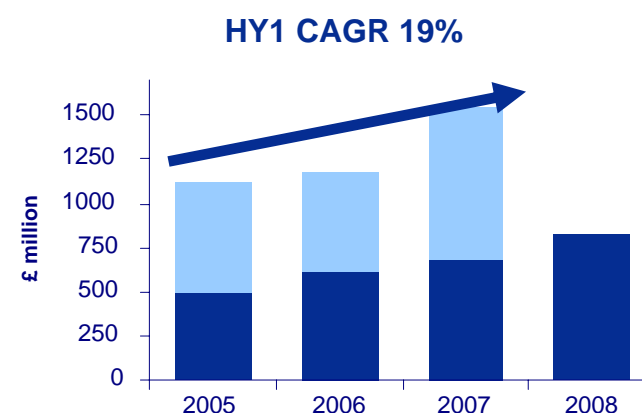
## Scale, growth, capital

- Seize unique growth opportunities
- Leverage scale
- Generate capital

### NBC post cost of capital growth



### EEV Operating profit



### HY 2008 update

- Maintaining momentum in a tough economic environment
- Diversified distribution reduces dependence on one channel
- New deals position the region for further growth
- Scope for transformational operational change
- Outlook: challenging economic conditions will continue to have an impact in the short term

# North America - USA on track to double scale



## Double scale

- Focus: top 5 in chosen segments
- Expand products, distribution '08+



**Tom Godlasky**  
Chief Executive

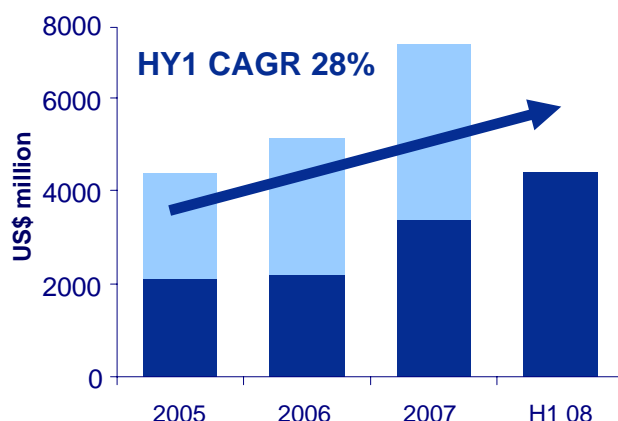
# North America - USA on track to double scale



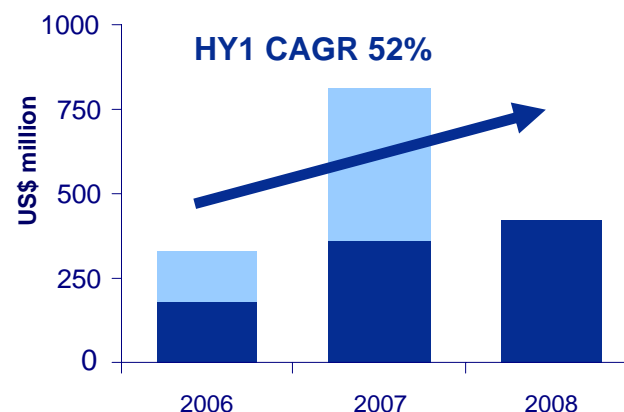
## Double scale

- Focus: top 5 in chosen segments
- Expand products, distribution '08+

### Pro-Forma PVNBP Growth



### EEV operating profit



### HY 2008 update

- 76% pro forma life sales growth over the past two years (95% local currency growth)
- We are now the market leader in Indexed Annuities
- And are developing plans to increase the product range
- Plans in place for SEC registration of Indexed Annuities
- Outlook: continuing growth, careful watch on credit exposure

# Asia Pacific – a growing presence



## Scale, growth

- Prioritised portfolio
- Regional operating model
- Investment required



**Simon Machell**  
Chief Executive

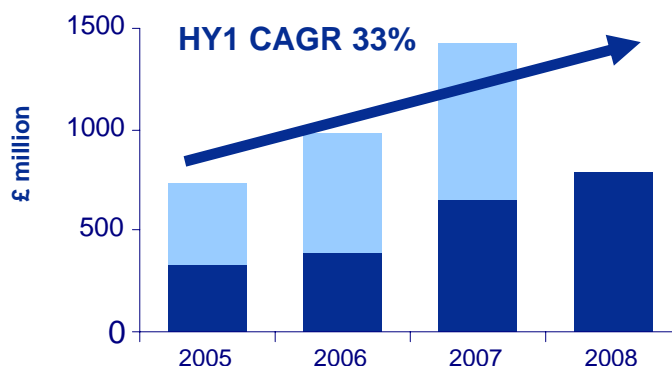
# Asia Pacific – a growing presence



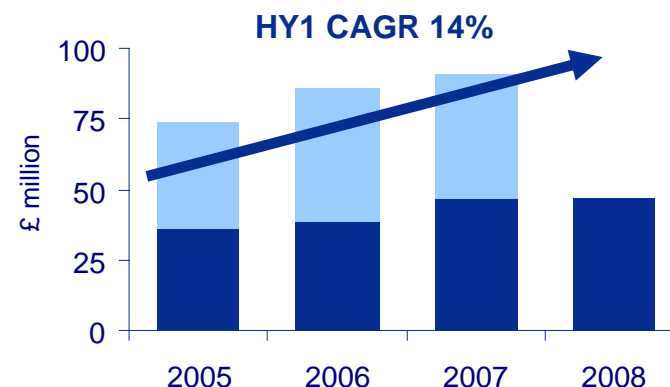
## Scale, growth

- Prioritised portfolio
- Regional operating model
- Investment required

### Growth in Asia Pacific PVNBP



### EEV Operating Profit



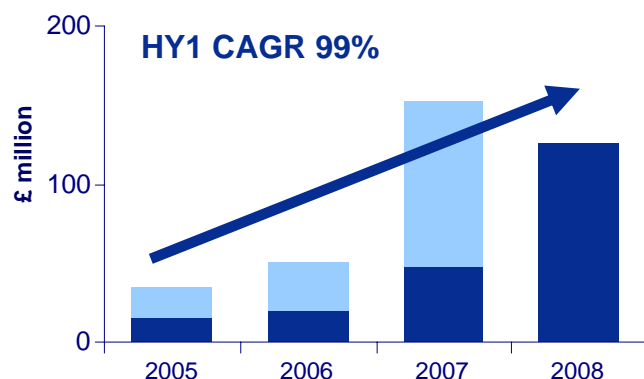
## HY 2008 update

- Proactive response to the Sichuan province earthquake
- India & China: 97% CAGR over 3 years
- Launch of bancassurance in Malaysia, Taiwan and South Korea
- On track with regional sales volume growth targets

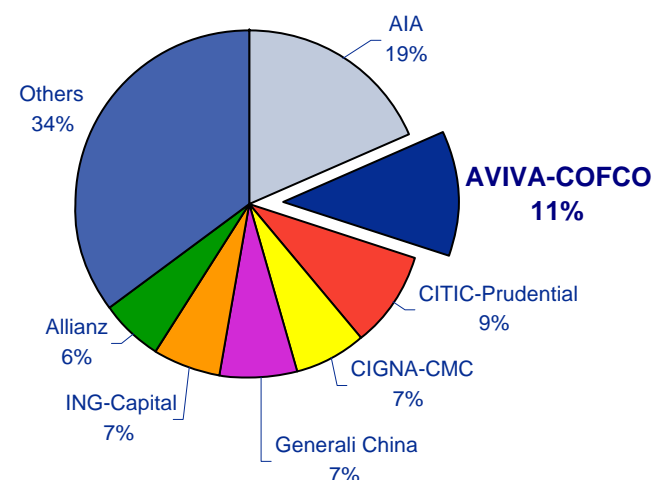
# Accelerating the delivery in China



## China PVNBP



## Foreign Life Insurers Market Share for period from Jan-May 2008 (by total premium)<sup>1</sup>



## Recent progress

- No.2 in terms of total premium income
- 32 branches in 8 provinces with 4,474 agents, 2,477 bank outlets, and 169 broker partners
- Asset Management JV with COFCO and Aviva Investors signed in April 2008

1: Source: China Insurance Regulatory Commission (CIRC). Market share of foreign life insurers for period from Jan-May 2008 is 5.0%

# Aviva Investors – executing the strategy



## Aviva Investors

- Globally integrated business
- Transform the investment model
- Increase third party business



**Alain Dromer**  
Chief Executive

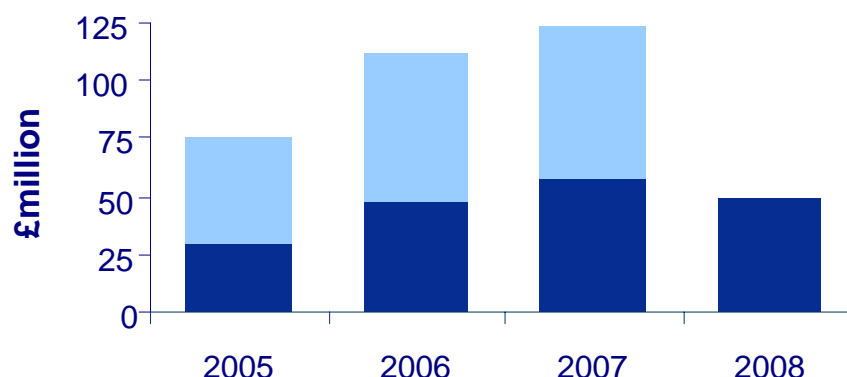
# Aviva Investors – executing the strategy



## Aviva Investors

- Globally integrated business
- Transform the investment model
- Increase third party business

IFRS operating profit



## HY 2008 progress

- UK investment portfolios restructured
- Launched new funds on SICAV platform with more planned
- Brand launch in September
- Initiative under way to share investment expertise globally
- Outlook: challenging economic conditions will continue to have an impact in the short term

- **Growth in profits and continuing financial strength**
  - Increased EEV and IFRS operating profits
  - 10% increase in dividend
  - Strength in our balance sheet and capital position
- **Fully committed to delivering the targets**
  - Accelerating transformational change across Aviva
  - Increase in cost savings target to £500m
- **A milestone agreement with the reattribution of the inherited estate**

# Aviva plc

## Interim results 2008



## Questions and Answers



# Aviva plc

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### Appendix



# Regional performance



	UK	Europe	North America	Asia Pacific	Aviva Investors	Other	Group
	£m	£m	£m	£m		£m	£m
<b>Total sales</b>	9,535	11,140	2,976	1,849	-	-	<b>25,500</b>
<b>Long term savings new business</b>	6,703	8,957	2,205	1,835	-	-	<b>19,700</b>
<b>New business contribution</b>	183	347	92	34	-	-	<b>656</b>
<b>New business margin (gross)</b>	3.1%	4.1%	4.2%	4.3%	-	-	<b>3.8%</b>
<b>General insurance COR</b>	98%	95%	98%	-	-	-	<b>97%</b>
<b>Operating profit: EEV basis <sup>(1)</sup></b>	<b>756</b>	<b>956</b>	<b>211</b>	<b>48</b>	<b>20</b>	<b>(272)</b>	<b>1,719</b>
<b>Operating profit: IFRS basis <sup>(1)</sup></b>	<b>713</b>	<b>614</b>	<b>114</b>	<b>15</b>	<b>49</b>	<b>(272)</b>	<b>1,233</b>

(1) Stated before amortisation of other intangibles, impairment of goodwill and exceptional items  
All operating profit is from continuing operations

# Earnings per share

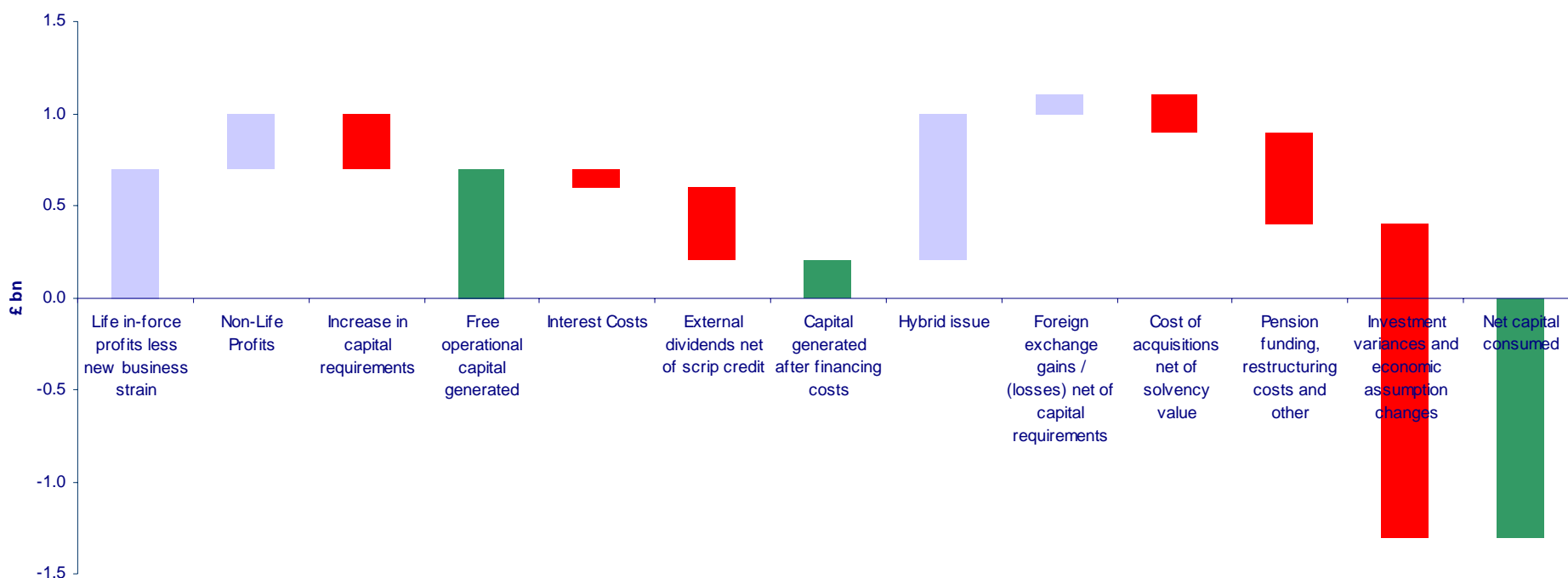


	IFRS pence per share		EEV pence per share	
	HY08	HY07	HY08	HY07
<b>Operating profit</b>	30.1	28.1	39.4	38.6
Investment return variances and economic assumption changes	(25.1)		(82.1)	
Integration and restructuring costs	(4.0)		(4.0)	
Amortisation, impairments and exceptional items	(4.9)		(4.8)	
<b>Profit attributable to ordinary shareholders</b>	<u>(3.9)</u>	31.0	<u>(51.5)</u>	53.3
<b>Dividend/NAV per share</b>	<u>13.09p</u>		<u>702p</u>	

# Aviva Capital Generation



## Capital Generation Half-Year 2008



**Positive operational capital generation offset by impact of market downturn**

# UK General Insurance – analysis of result



## UK GI underwriting result <sup>(1)</sup>

### 2007 Actual - 6 months to 30 June 2007

Weather impact	£m
Movement in prior year claims	(46)
Increase in earned commission costs	235
Decrease in earned expenses	(85)
Impact of market conditions and business mix on current year claims (net of inflation busting benefits)	(75)
	25
	(17)

- 2008 weather in line with normal expectations, compared with impact from January storms and June floods in 2007
- Reduction in prior year claims benefits not unexpected following exceptional levels of last two years
- Increase in commission driven by consolidation in broker business
- Benefit from cost saving initiatives reflected in lower expenses
- Inflation busting benefits of c£60m have been crucial in mitigating impact of market conditions and shift in business mix

### 2008 Actual - 6 months to 30 June 2008

37

(1) Including Health and Aviva Re

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