# 2014 Results

# Disclaimer

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**Cautionary statements:**

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Aviva believes factors that could cause actual results to differ materially from those indicated in forward-looking statements in the presentation include, but are not limited to: the impact of ongoing difficult conditions in the global financial markets and the economy generally; the impact of simplifying our operating structure and activities; the impact of various local political, regulatory and economic conditions; market developments and government actions regarding the sovereign debt crisis in Europe; 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 cause policyholders to surrender their contracts, reduce the value of our portfolio and impact our asset and liability matching; 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 or an acceleration of repayment of intercompany indebtedness; 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 on our business activities and results of operations; our reliance on information and technology and third-party service providers for our operations and systems; the inability of reinsurers to meet obligations or unavailability of reinsurance coverage; increased competition in the UK and in other countries where we have significant operations; the effect of the European Union's "Solvency II" rules on our regulatory capital requirements; 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; 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 fluctuations in share price as a result of general market conditions or otherwise, including any as a result of the proposed acquisition of Friends Life; 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 government regulations or tax laws in jurisdictions where we conduct business, including decreased demand for annuities in the UK due to proposed changes in UK law; the inability to protect our intellectual property; the effect of undisclosed liabilities, integration issues and other risks associated with our acquisitions; and the timing/regulatory approval impact, integration risk and other uncertainties, such as non-realisation of expected benefits or diversion of management attention and other resources, relating to announced acquisitions and pending disposals and relating to future acquisitions, combinations or disposals within relevant industries, including specifically the proposed acquisition of Friends Life; the policies, decisions and actions of government or regulatory authorities in the UK, the EU, the US or elsewhere, including the implementation of key legislation and regulation. For a more detailed description of these risks, uncertainties and other factors, please see Item 3d, "Risk Factors", and Item 5, "Operating and Financial Review and Prospects" in Aviva's most recent Annual Report on Form 20-F as filed with the SEC on 24 March 2014 (and also Part II (Risk Factors) of the prospectus published by Aviva on 19 January 2015 in relation to the proposed recommended all-share acquisition of Friends Life by Aviva). 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 presentation are current only as of the date on which such statements are made.**

# Investment Thesis – “Cash flow plus growth”

| Cash flow | Remittances from business units less central and debt financing costs |
|---|---|

| Growth | |
|---|---|
| | 1. Life → Value of new business |
| | 2. GI → Underwriting result |
| | 3. AI → External net fund flows |

**Our strategic anchor**

| True customer composite | Digital first | Not everywhere |
|---|---|---|
| Serving all customer needs across Life, GI, Health and Asset Management | Customer experience driven by digital | Only in markets where we can win |

**Sustainable and progressive cash flow growth**

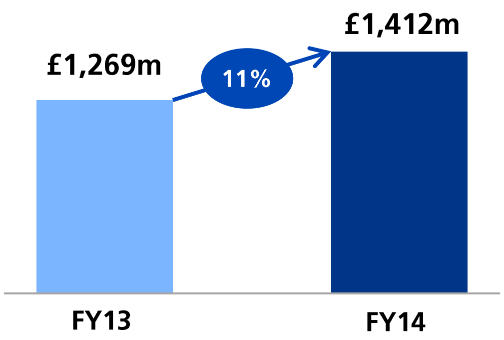
# Full Year 2014 Results summary

| | |
|---|---|
| **Cash flow** | ■ Holding company excess cash flow[3] up 65% to £692 million (FY13: £420 million), vs. 2016 target of £800 million<br>■ Cash remittances up 11% to £1,412 million (FY13: £1,269 million)<br>■ Final dividend up 30% to 12.25p. Total dividend 18.1p (FY13: 15.0p) |
| **Profit** | ■ Operating profit[2] 6% higher at £2,173 million (FY13: £2,049 million)<br>■ Operating EPS[2] up 10% to 47.0p (FY13: 42.6p)<br>■ Life back book actions contributed £282 million to operating profit (FY13: £116 million)<br>■ IFRS profit after tax[2] up 91% to £1,680 million (FY13: £878 million) |
| **VNB** | ■ Value of new business (VNB) grew 15%[1] to a record £1,009 million (FY13: £904 million)<br>■ Growth markets of Poland, Turkey and Asia[4] grew 25%[1] and now make up 22% of VNB[4]<br>■ UK Life VNB was constant at £473 million (FY13: £469 million) despite changes to annuity market |
| **Expenses** | ■ Operating expense ratio of 51.5% (FY13: 54.1%[2]), vs. target of <50% by the end of 2016<br>■ £571 million of operating expense saves achieved against original target of £400 million |
| **Combined operating ratio** | ■ Combined operating ratio (COR) of 95.7% (FY13: 97.3%)<br>■ UK COR of 94.8% (FY13: 97.0%)<br>■ Canada COR of 96.1% (FY13: 94.6%) |
| **Balance sheet** | ■ IFRS net asset value per share increased 26% to 340p (FY13: 270p), benefitting from retained earnings and a gain in pension surplus<br>■ External leverage ratio 41% of tangible capital (FY13: 48%), 28% on an S&P basis (FY13: 31%)<br>■ Intercompany loan balance of £2.8 billion at end of February 2015 (February 2014: £4.1 billion)<br>■ Economic capital surplus[5] £8.0 billion including £0.4 billion deduction from dividend proposed in December 2014 (FY13: £8.3 billion) |

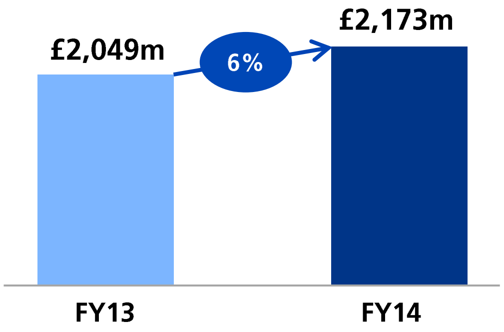
1 *On a constant currency basis.*
2 *On a continuing basis, excluding US Life.*
3 *Excess centre cash flow represents cash remitted by business units to Group less central operating expenses and debt financing costs. It does not include non-operating cash movements such as disposal proceeds or capital injections.*
4 *Poland includes Lithuania, Italy excludes Eurovita, Spain excludes Aseval and CxG and Asia excludes Malaysia.*
5 *The economic capital surplus represents an estimated unaudited position. The term 'economic capital' relates to Aviva's own internal assessment and capital management policies and does not imply capital as required by regulators or other third parties.*

# 5 key metrics

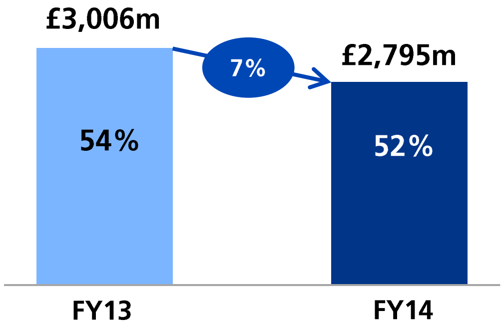
### Cash remittances



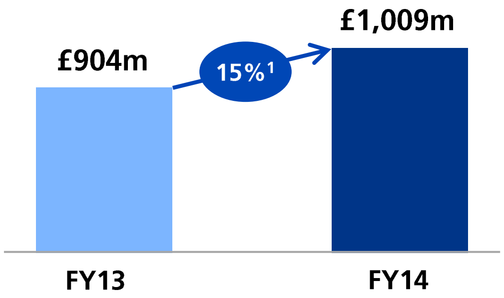

### Operating profit



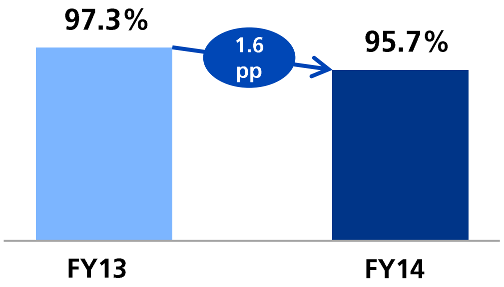

### Operating expenses



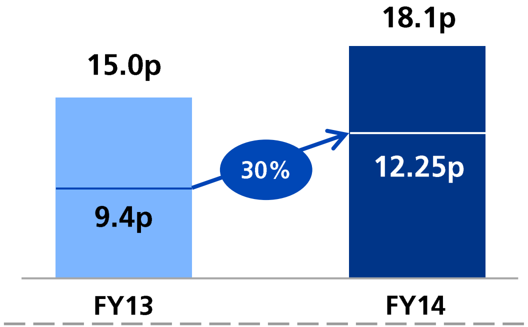

### Value of new business




### Combined operating ratio




### Dividend




1. *VNB on constant currency basis.*

# Progress on cash flow

Cash flow

| | Historical issue / priority | FY update | Plan |
|---|---|---|---|
| 1 | Operating expenses | 51.5% (*FY13 54.1%*) | Below 50% by 2016 |
| 2 | Excess cash flow | Excess cash flow up 65% to £0.7bn | More than double annual run-rate to £0.8bn by 2016 |
| 3 | Life back books | £0.3bn from UK Life back book | Increase cash flow, efficiency and retention |
| 4 | High external leverage | 41% on TNAV basis, 28% on S&P basis | Below 40% on TNAV basis and below 30% on S&P basis |

Increasing cash flow improves our dividend paying capacity as well as our financial flexibility

# Progress on growth

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Growth

| Historical issue / priority | FY update | Plan |
|---|---|---|
| 1 Growth in VNB & Underwriting profit | VNB up 15%<br>U/W result up 54% | Reallocate resources to growth businesses |
| 2 Fund Management | £2.7bn Life fund flows<br>Aviva Investors building distribution | Positive external fund flows at Aviva Investors |
| 3 Cross-sell | 1.7 average product holding | Increase average product holdings |
| 4 Digital and direct | 1.3 million registrations<br>Over £1bn in revenue | Two million MyAviva customers |

Potential for further growth in reallocation of capital

# Transaction Rationale – Financial and strategic

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## Financial

- c.£0.6bn incremental cash flow
- Leverage consistent with S&P AA rating – no further need to de-lever
- £225 million of run rate synergies per annum expected by end of 2017
- 30% increase in Aviva final dividend. Move to c.2x operating EPS[1] cover over the medium term

## Strategic

- Secures leading position in our home market
- Brings c.5 million[2] Friends Life customers to Aviva
- Adds significant scale and expertise to our back book initiative
- Adds up to c.£70 billion of funds for Aviva Investors
- Enables investment in our growth businesses

## Update

- Integration planning well underway
- Management team announced on completion
- General Meeting 26th March
- Completion anticipated 13th April

[1] *Operating EPS on an IFRS basis*
[2] *Prior to de-duplication*

# 2014 Results

Tom Stoddard
Chief Financial Officer

# Operating profit improvement

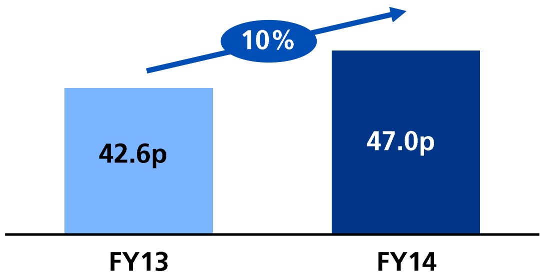
| Operating profit £ million | FY13 | **FY14** | Change |
|---|---|---|---|
| Life | 1,901 | **1,979** | 4% |
| General Insurance & Health | 797 | **808** | 1% |
| Fund Management | 93 | **86** | (8)% |
| Other operations | (90) | **(105)** | (17)% |
| **Life, GI, fund management & other operations** | **2,701** | **2,768** | **3%** |
| Corporate costs | (150) | **(132)** | 12% |
| Group debt & other interest costs | (502) | **(463)** | 8% |
| **Operating profit** (continuing basis) | **2,049** | **2,173** | **6%** |
| Integration & restructuring | (363) | **(140)** | 61% |
| **Operating profit after integration & restructuring** (continuing basis) | **1,686** | **2,033** | **21%** |
| Investment Variances | (352) | **188** | n/a |
| Tax & other Items | (456) | **(541)** | (19)% |
| **Profit after tax** (continuing basis) | **878** | **1,680** | **91%** |

| IFRS Operating profit reconciliation | |
|---|---|
| **Operating profit FY13** | **2,049** |
| Foreign exchange | (87) |
| UK individual annuities | (70) |
| Disposals | (42) |
| Δ back book actions | 166 |
| Expense savings & other | 157 |
| **Operating profit FY14** | **2,173** |

| Earnings per share (basic pps) | FY13 | **FY14** | **Growth** |
|---|---|---|---|
| **Operating EPS** | 42.6 | **47.0** | **10%** |
| **Total EPS** | **22.0** | **48.4** | **120%** |

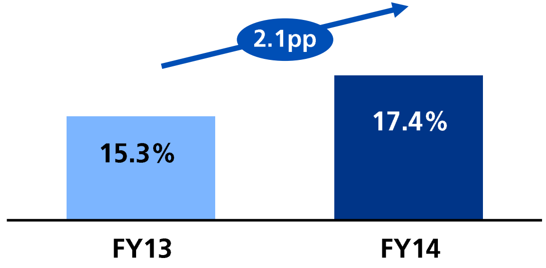
# Operating earnings per share & ROE

## Operating EPS




| £ million | FY13 | FY14 |
|---|---|---|
| Group Operating profit | 2,049 | **2,173** |
| Less operating tax | (534) | **(561)** |
| Minority interest | (174) | **(143)** |
| DCI and fixed rate tier 1 notes | (70) | **(69)** |
| Preference shares | (17) | **(17)** |
| **Total operating earnings after tax, MI & DCI and preference shares** | **1,254** | **1,383** |
| Weighted average number of shares (millions) | 2,940 | **2,943** |
| **Operating earnings per share** | **42.6p** | **47.0p** |

## Return on equity




| £ million | FY13 | FY14 |
|---|---|---|
| **Total operating earnings after tax, MI & DCI and preference shares** | **1,254** | **1,383** |
| Opening shareholders equity | 8,204 | **7,964** |
| **Return on shareholders equity** | **15.3%** | **17.4%** |

# Net asset value

| Net asset value per share | IFRS | MCEV[1] |
|---|---|---|
| **Opening NAV per share at 31 December 2013** | **270p** | **463p** |
| Operating profit | 47p | 62p |
| Dividends | (15)p | (15)p |
| Investment variances & AFS equity movements | 5p | (2)p |
| Pension fund | 45p | 45p |
| Integration and restructuring costs, goodwill impairment, other | (1)p | (7)p |
| Foreign exchange | (11)p | (19)p |
| **Closing NAV per share at 31 December 2014** | **340p** | **527p** |

*Movements shown net of tax and non controlling interests*

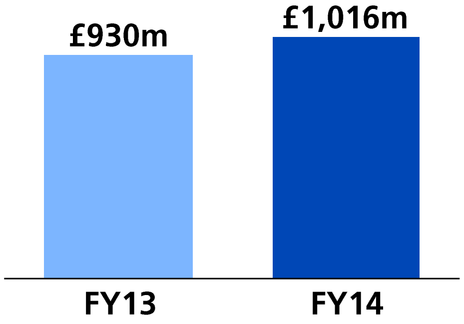
[1] *Opening MCEV net assets restated*

# UK Life

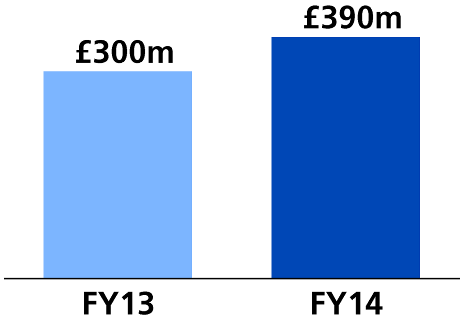
| Value of new business | | | |
|---|---|---|---|
| £ million | FY13 | **FY14** | |
| Annuities | 279 | **234** | (16)% |
| Protection | 75 | **95** | 27% |
| Pensions | 78 | **60** | (23)% |
| Equity release & other | 37 | **84** | 127% |
| Total | 469 | **473** | 1% |

- 30% increase in cash remittance
- Equity release, BPAs and protection have offset the reduction in individual annuities
- Operating profit has benefitted from favourable mortality
- Expense reduction achieved through lower headcount and property spend
- Assets under management on IFA platform increased to over £5bn

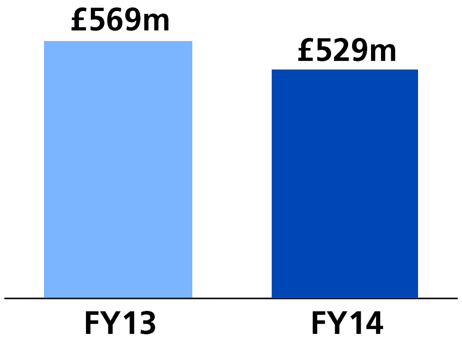
**Operating profit**



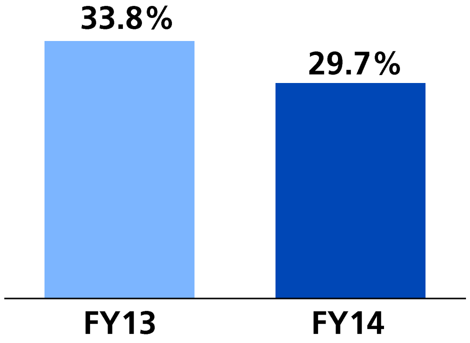

**Remittance to group**




**Operating expenses**




**Operating expense ratio**



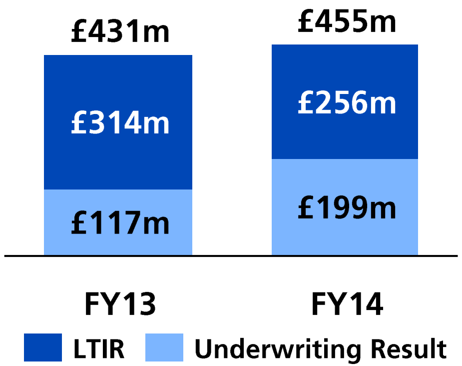
# UK GI

| Operating profit | | |
|---|---|---|
| £m | FY13 | **FY14** |
| Underwriting result | 117 | **199** |
| Inv Income internal loan | 221 | **151** |
| Other Inv Income | 93 | **105** |
| Total | 431 | **455** |

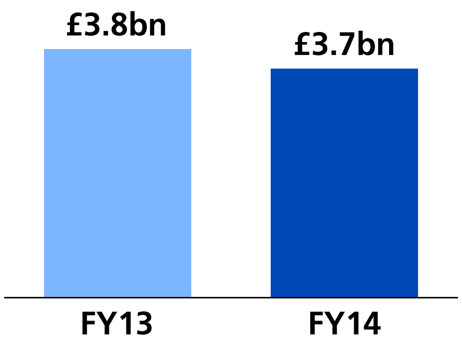
| Combined operating ratio | | |
|---|---|---|
| | FY13 | **FY14** |
| Personal Motor | 96% | **97%** |
| Home | 87% | **93%** |
| Commercial Motor | 112% | **99%** |
| Commercial Property | 90% | **88%** |
| Total | 97% | **95%** |

- FY COR is at its best level since 1999
- Improved underwriting result drives operating profit growth, offsetting lower internal loan balance
- Expense discipline in the face of lower volumes

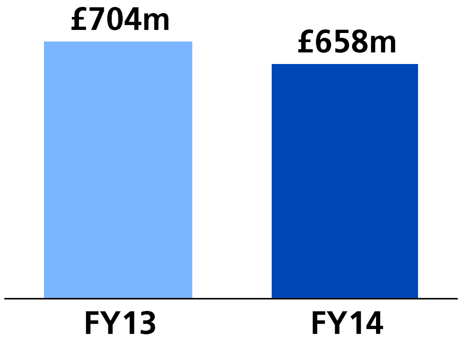
## Operating profit



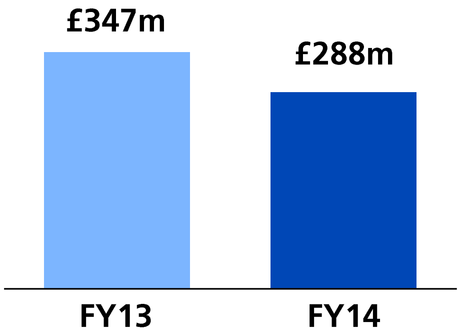

## Net written premium




## Operating expenses




## Cash remittance

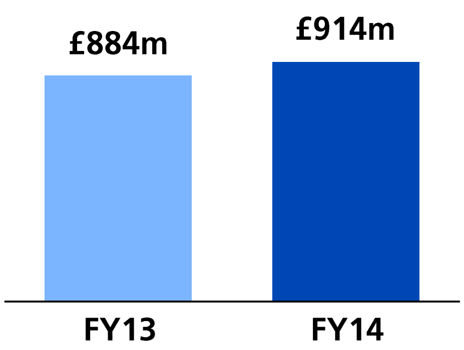


# Europe

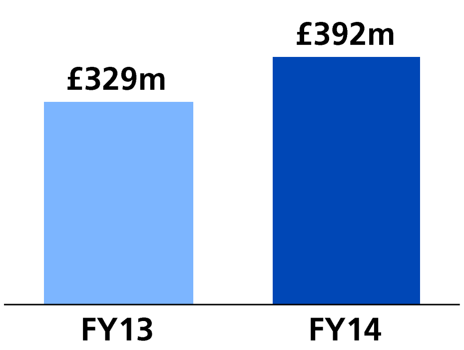
| Value of new business[1] | | | |
|---|---|---|---|
| £m | FY13 | **FY14** | |
| Protection | 164 | **174** | 6% |
| Unit linked savings | 95 | **123** | 29% |
| Pensions | 22 | **28** | 27% |
| Other savings | 48 | **67** | 40% |
| Total | 329 | **392** | 19% |

- Operating profit up 9%[1] in constant currency
- VNB growth from volumes, improved mix and management actions on with-profits
- Expense reduction of 5%[1] with improving operating expense ratios in Life & GI
- 17% increase in cash remittances, after 5% depreciation of the Euro
- COR 0.4pp better despite adverse weather

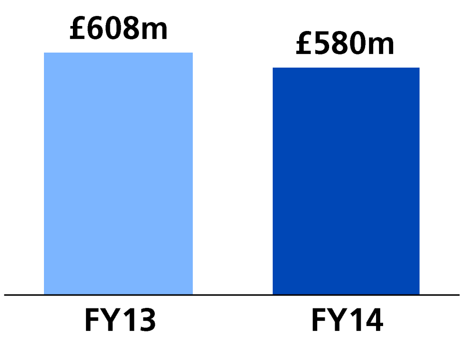
## Operating profit[1]



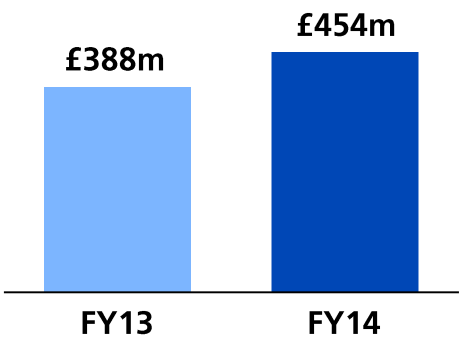

## VNB[1]




## Operating expenses[1]




## Cash remittance

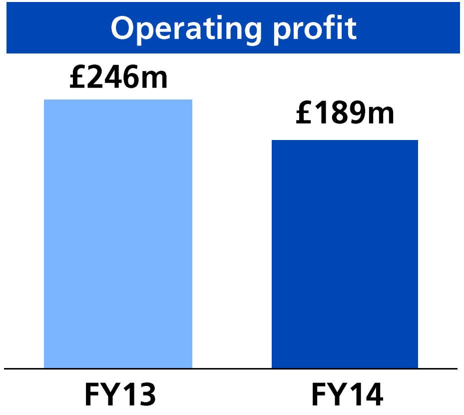


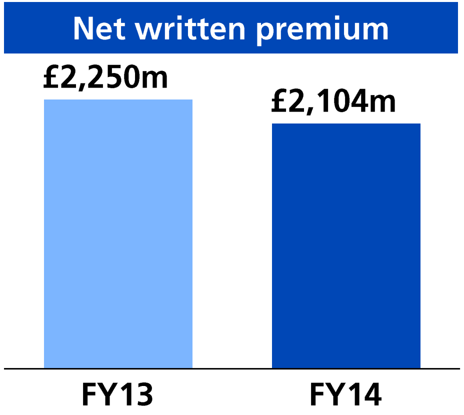

1 *Excludes CxG, Aseval, Eurovita and Turkey GI*

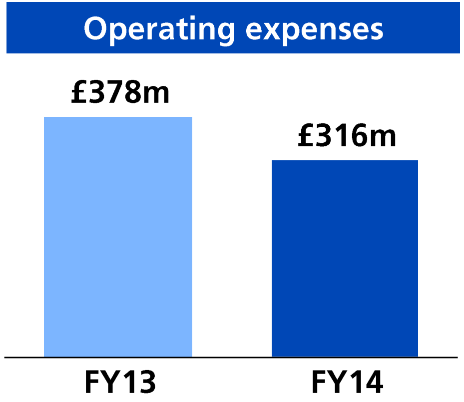
# Canada

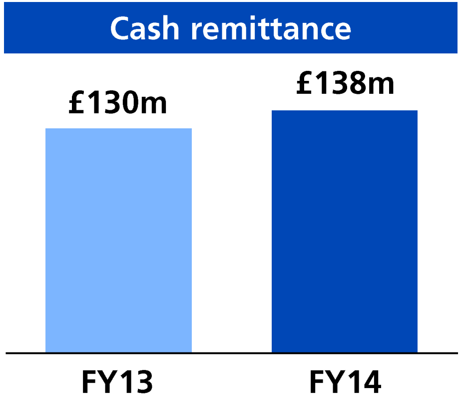
| Combined operating ratio | | |
|---|---|---|
| | FY13 | **FY14** |
| Personal Motor | 90% | **93%** |
| Home | 100% | **103%** |
| Commercial | 97% | **96%** |
| Total | 95% | **96%** |

- Net written premiums up 6% on constant currency basis
- Expense ratio improved by 70bps
- Adverse operating profit impact of foreign exchange of £28m
- Additional large losses impacted operating profit year on year



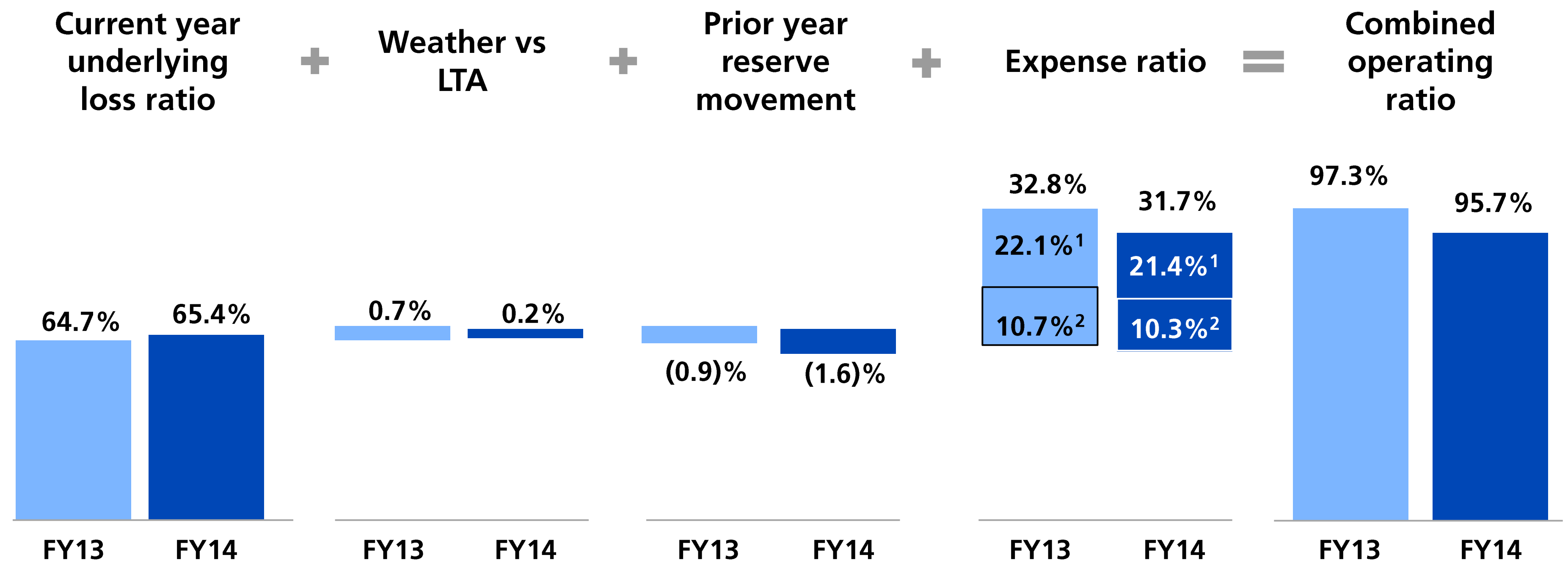
# Value of new business

| | GBP | | | Constant Currency |
|---|---|---|---|---|
| | FY13[2] | | FY14 | |
| UK & Ireland | 477 | 1% | **482** | 1% |
| France | 172 | 19% | **205** | 25% |
| Poland[1] | 51 | 25% | **64** | 31% |
| Turkey | 37 | 20% | **30** | 3% |
| Asia[1] | 103 | 23% | **127** | 30% |
| Italy[1] | 43 | 47% | **63** | 55% |
| Spain[1] | 25 | 21% | **30** | 27% |
| Aviva Investors | - | n/a | **9** | n/a |
| **Total VNB[1]** | 909 | 11% | **1,010** | 15% |
| **New business margin[1] (%PVNBP)** | 4.0% | 10bps | 4.1% | 10bps |

- UK VNB up due to Equity release, BPA and protection improvement offsetting individual annuity reduction
- Improvement in France driven by higher volumes of higher margin unit linked products
- Spain and Italy turnaround continues with better mix of business and much improved profitability of guarantee savings products
- Growth markets Poland, Turkey and Asia accounted for 22% of Group VNB and have grown collectively by 25%
- China VNB increased by 100% due to strong sales of protection business
- Excluding the impact of a change in withholding tax methodology Turkey VNB stable

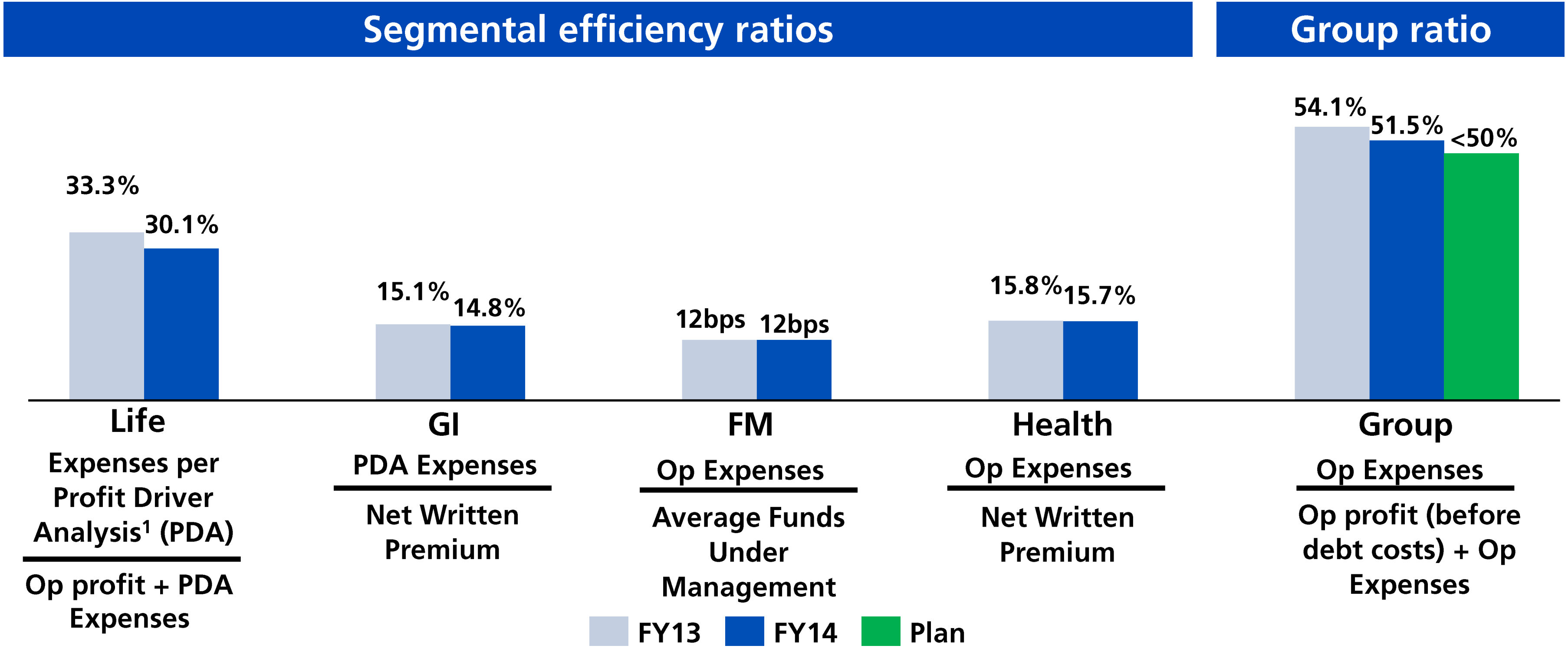
1 *Poland includes Lithuania, Italy excludes Eurovita, Spain excludes CxG & Aseval and Asia excludes Malaysia.*
2 *FY13 total includes £1m for Russia*

# General Insurance Combined Operating Ratio




1 *Commission ratio*
2 *Expense ratio*

# A focus on improving efficiency ratios




We expect Group operating expense ratio to improve

1 *Life expenses are per the profit driver analysis, excluding commission expenses and DAC on new business.*

# Cash remittances & dividend cover

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| | Excess Centre Cash[2] | | |
|---|---|---|---|
| **£ million** | **2013** | **2014** | **Change** |
| UK & Ireland Life | 370 | 437 | 18% |
| UK & Ireland GI | 347 | 294 | (15)% |
| Europe | 388 | 454 | 17% |
| Canada | 130 | 138 | 6% |
| Asia | 20 | 23 | 15% |
| FM & Other[1] | 14 | 66 | 371% |
| **Total** | **1,269** | **1,412** | **11%** |
| Debt costs | (647) | (576) | 11% |
| Centre costs | (202) | (144) | 29% |
| **Excess centre cash flow** | **420** | **692** | **65%** |

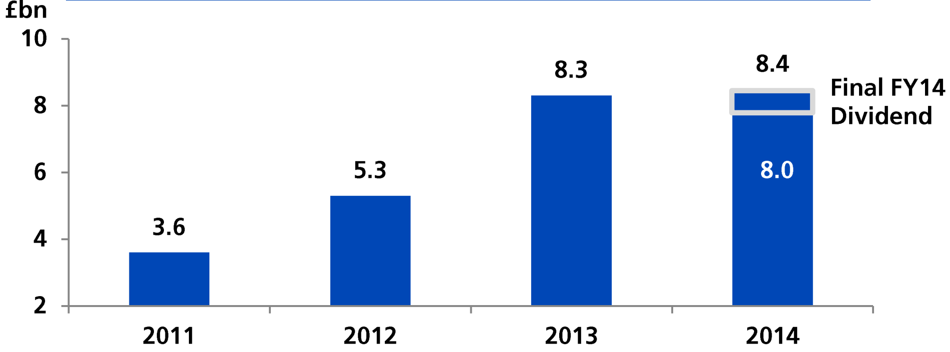
| | Dividend Cover | | |
|---|---|---|---|
| **£ million** | **2013** | **2014** | **Change** |
| **Operating EPS** | **42.6p** | **47.0p** | **10%** |
| **Dividend per share** | **15.0p** | **18.1p** | **21%** |
| **Dividend cover** | **2.8x** | **2.6x** | |

## Move dividend cover to 2x over the medium term

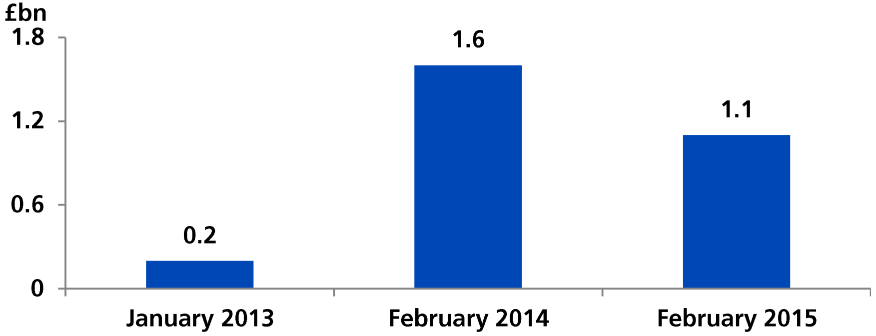
1. *FM & Other includes AI, Aviva Reinsurance and Group activities*
2. *Excess centre cash flow excludes non-operating cash movements such as disposal proceeds or capital injections.*

# Improving financial flexibility

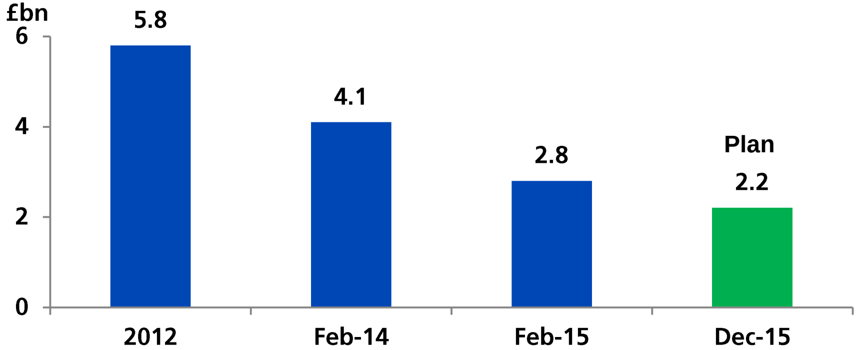
## Economic capital surplus[1]



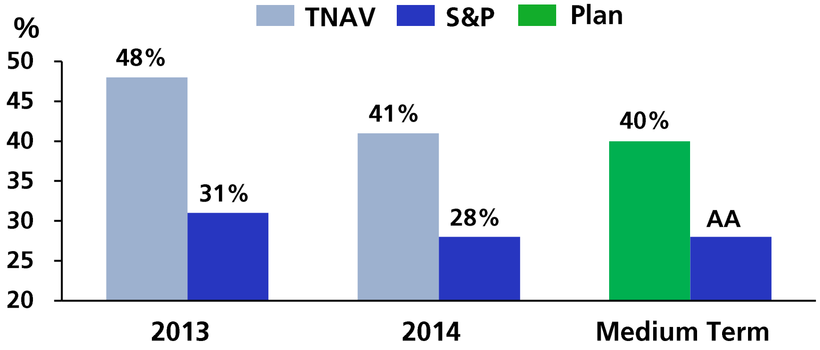

## Holding company liquidity




## Inter-company loan




## External leverage ratio




**Priority to enhance capital resiliency and reduce financing costs**

1. *The economic capital surplus represents an estimated unaudited position. The term 'economic capital' relates to Aviva's own internal assessment and capital management policies and does not imply capital as required by regulators or other third parties.*

# 2014 Results

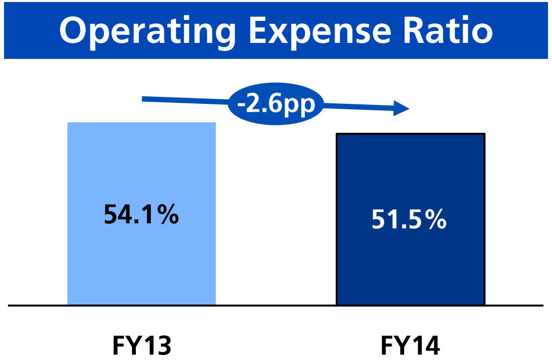
## Mark Wilson

## Group Chief Executive Officer

# 2014 Results
# Q & A

# 2014 Results Appendix

# Operating Expense Ratio

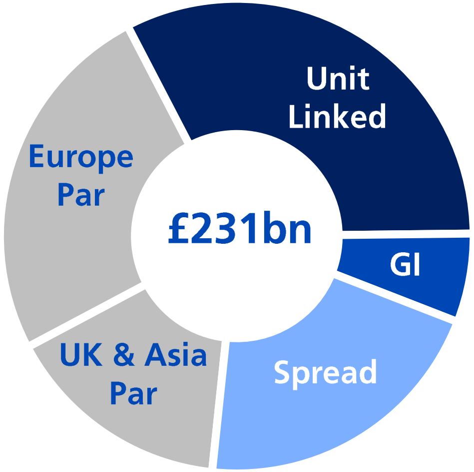



| Components of Operating Expense Ratio | | |
|---|---|---|
| £ million | FY13 | **FY14** |
| Market operating profit | 2,701 | **2,768** |
| Less corporate centre | (150) | **(132)** |
| Group operating profit excluding debt costs and pension income | 2,551 | **2,636** |
| Add operating expenses | 3,006 | **2,795** |
| Operating income | 5,557 | **5,431** |
| Total operating expenses over operating Income | 54.1% | **51.5%** |

$\frac{\text{Operating expenses}}{\text{Operating income}}$ = Expense ratio

# Limited impact from low interest rate environment

## 2014 Reserves




| Europe participating business | | |
|---|---|---|
| FY14 | Avg Guarantee | Avg Yield |
| France | **0.8%** | **3.9%** |
| Italy | **1.8%** | **3.7%** |

| GI Investment Returns | | |
|---|---|---|
| FY14 | New | FY14 |
| UK | **1.8%** | **3.2%** |
| Canada | **2.1%** | **3.1%** |

## Combined entity has complimentary risks

| **Economic Capital Sensitivity** *(1H2014)* | **Aviva** *(As per Aviva disclosure)* | **Friends Life** *(As per Friends Life disclosure)* |
|---|---|---|
| ***Corporate bond spreads*** | £(0.9)bn for 100bps increase in corporate bond spreads | £(0.5)bn for 200bps increase in corporate bond spreads |
| ***Interest rates*** | £(0.1)bn for 50bps **fall** in interest rates across the yield curve | £(0.2)bn for 200bps **rise** in interest rates across the yield curve |