

News Release



21 May 2020

Operating update

Maurice Tulloch, Aviva Group Chief Executive Officer, said:

"In responding to COVID-19, Aviva moved quickly to support our customers, introducing a range of measures to help, including financial assistance. I am proud of how Aviva's people have adapted and maintained excellent day to day service for our customers when they need us most."

"Aviva had a solid first quarter of trading. General Insurance sales increased 3% and we had a strong performance in Life Insurance where new business increased 28%. Based on analysis as at 30 April, our estimate of the COVID-19 claims impact on general insurance, incorporating notified and projected claims, is £160 million net of reinsurance."

"At 31 March, our estimated solvency ratio remains strong at 182% and incorporates COVID-19 related impacts. The economic outlook remains uncertain and will affect our business, however the strength of our capital and liquidity means we are well positioned to manage this crisis and continue to support our customers."

Highlights

First quarter trading

- Aviva made a strong start to the year. Life new business sales (PVNBP) rose 28% to £12.3 billion (1Q19: £9.6 billion) and value of new business[†] (VNB) grew 18% to £311 million (1Q19: £263 million);
- General insurance net written premium gained 3% to £2.4 billion (1Q19: £2.3 billion). Excluding COVID-19 impacts, Canada achieved strong underwriting results while the UK was affected by February storms;
- A quick and smooth transition to working remotely has enabled us to maintain strong customer service.

Capital and liquidity

- Aviva is taking a prudent approach on capital and cash given the uncertain economic outlook;
- At 31 March, Aviva's Solvency II cover ratio^{†#} is estimated at 182% and reflects COVID-19 related impacts;
- The reduction in cover ratio compared with FY19 (206%^{†#}) is consistent with our published sensitivities and primarily reflects capital markets impacts, in particular the widening of corporate credit spreads, reductions in risk free yields and declines in equity markets;
- We have moved early to recognise the impact that COVID-19 could have on our business through:
 - Allowance for a range of COVID-19 impacts in general insurance;
 - Updated UK property assumptions at 1Q20: Brexit property allowance released; 15% fall in commercial property; 12% fall in residential property followed by long-term growth; and
 - Adjustment for potential future credit rating downgrades (full letter downgrade on 10% of BBB rated bonds and 5% on bonds rated A and above) in our UK annuity corporate bond portfolio.
- Solvency II estimated own funds per share[#] at 31 March was 372 pence per share (FY19: 423 pence);
- At 30 April, Aviva's holding company liquidity was £2.5 billion.

[†] Denotes Alternative Performance Measures (APMs) which are key performance indicators of the Group used to measure our performance and financial strength. Further details of this measure are included in the 'Other information' section of FY19 Analyst Pack.

[#] The estimated Solvency II position represents the shareholder view only.

Impact on general insurance claims

- We are still in the early stages of claims development on COVID-19 and so its ultimate impact on Aviva still has a high level of uncertainty;
- However, based on analysis as at 30 April, our estimate of COVID-19 related claims in our general insurance businesses, incorporating notified and projected claims, is £160 million net of reinsurance;
- This is based on estimated claims in business interruption insurance, other commercial lines and travel insurance and allows for favourable impacts in other product lines.

Investment portfolio

- Aviva's high quality investment portfolio continues to perform well;
- In our shareholder corporate bond portfolio, approximately 5% is invested in sectors most directly impacted by COVID-19, such as airlines, retail, leisure, and oil & gas;
- In 2020, our shareholder-backed corporate bond portfolio has had no defaults. Less than £10 million of bonds have had credit ratings downgraded below investment grade to the end of the first quarter, while just 3% of the portfolio has been downgraded to a lower rating "letter";
- Our commercial mortgage portfolio has a low loan to value ratio and strong interest cover. We anticipate pressure on covenants for some borrowers, however, at the present time this has not translated into any meaningful impact on debt service;
- Further detail on investments can be downloaded at: www.aviva.com/investors/presentations

Outlook

- COVID-19 provides unprecedented uncertainty and could give rise to a severe economic downturn. This may adversely impact our results, not least potential changes in investment performance, capital generation and remittances;
- Early 2Q20 trends have seen new business sales decline across many of our businesses due to worldwide Government enforced confinement measures. While customer activity levels have risen somewhat more recently as we help distributors and customers manage through these measures, sales volumes for the year overall are likely to remain below expectations;
- In addition to the estimated general insurance claims impact from COVID-19, financial market performance and economic activity are also likely to impact revenues in our savings and asset management businesses, which are sensitive to asset values.
- In life insurance, mortality and longevity claims experience arising from COVID-19 are expected to broadly offset;
- We are supporting customers and the broader community, not least through our £43 million contribution to various funds and charities, and our numerous customer support initiatives;
- We remain committed to achieving our 2022 targets, however, COVID-19 is expected to provide additional challenges to achieving these targets. We remain focused on enhancing customer and operational fundamentals to drive improved returns, better efficiency and cash-flow.

Supporting customers, colleagues and the community

Aviva has put in place a wide range of help for our customers, our people and our communities during these challenging times.

For our customers experiencing financial difficulties we have introduced a variety of help across our different markets including: payment deferrals, automatic cover extension and reduced motor premiums for personal motor customers who use their car less. For customers who are NHS workers we are offering additional support such as free car breakdown cover and enhanced home insurance cover for personal belongings.

Across our communities we have committed £43 million to help those most affected by the crisis. This

includes a £10 million¹ donation to our long-standing partner, the British Red Cross, to direct help to those that need it most; a £5 million contribution to NHS Charities Together, an £18.5 million contribution to the COVID-19 support fund established by the Association of British Insurers and further financial support to several communities where we operate including in Milan, Toronto and Singapore. In France we are also supporting the economy by allocating €100 million within our investment portfolio to invest in innovative SME businesses, especially in the health, medical research and environment sectors and the tourism industry.

Our people continue to provide excellent service to our customers and almost all of our people are working from home. Our people continue to be paid as normal and Aviva is not making use of the UK Government funded scheme to furlough Aviva employees.

More information on the support Aviva is providing can be found at: <https://www.aviva.com/about-us/coronavirus-advice/>

First quarter trading highlights

In life and savings, global new business volumes (PVNBP) rose 28% in the first quarter to £12.3 billion (*1Q19: £9.6 billion*) while VNB[‡] grew 18% to £311 million (*1Q19: £263 million*).

UK Life new business sales were up 162% to £2.9 billion (*1Q19: £1.1 billion*). This was principally driven by a strong start to the year in bulk purchase annuities, where Aviva wrote £1.7 billion in the first quarter. New business trends were also pleasing in Protection, with sales up 20% to £0.5 billion (*1Q19: £0.4 billion*).

In UK Savings and Retirement, net fund flows were £2.3 billion, an increase of £0.7 billion over the first quarter of 2019 (*1Q19: £1.6 billion*). This benefited from sustained growth in sales across both workplace savings (+27%) and retail savings (+42%). In a context of considerable market volatility, Aviva Investors saw third party net fund outflows[‡] reduce to £0.2 billion in the first quarter (*1Q19: £0.9 billion outflows*) while our liquidity range generated £2.8 billion of external net inflows (*1Q19: £0.5 billion inflows*).

Europe Life new business sales declined 14% to £3.3 billion (*1Q19: £3.8 billion*). In France, unit-linked volumes rose 62% helped by the continued roll-out of the new pension product, while with-profits sales were reduced by 40%. In Italy, new business volumes were tightly controlled, leading to a 48% reduction in stand-alone with-profits products. Hybrid volumes represented 68% of sales (*FY19: 56%*) in the first quarter.

In Singapore, new business volumes were up 57% to £0.4 billion (*1Q19: £0.3 billion*) with continued strong performance from the Financial Advisor channel.

In General Insurance, global net written premiums (NWP) rose 3% to £2.4 billion (*1Q19: £2.3 billion*).

In the UK, NWP increased 1% to £1.0 billion (*1Q19: £1.0 billion*). We continue to proactively evolve the business mix in UKGI, with continued growth in SME and GCS resulting in a 9% increase in commercial lines volumes partly offset by lower premiums in intermediated personal lines. Excluding COVID-19 estimated impacts, UK underwriting results in the first quarter were adversely affected by the February storms (c. £70 million estimated impact). This compared with very benign weather experienced in the prior period.

NWP in Canada was up 8% to £0.6 billion (*1Q19: £0.6 billion*) reflecting premium rate increases across all lines together with new business policy growth in personal and global corporate segments. Excluding COVID-19 estimated impacts, our Canadian underwriting results showed continued progress in accident year

¹ £2.5 million of the UK Red Cross donation came from the Aviva Foundation Fund. The Aviva foundation is administered by Charities Trust under registration number 327489.

[‡] Denotes Alternative Performance Measures (APMs) which are key performance indicators of the Group used to measure our performance and financial strength. Further details of this measure are included in the 'Other information' section of FY19 Analyst Pack.

profitability and also benefited from benign weather during the first quarter.

In Europe, NWP increased 2% to £0.7 billion (*1Q19: £0.6 billion*) reflecting steady progress across most markets, with the largest contribution to growth coming from commercial lines in France. Excluding COVID-19 estimated impacts, underwriting results were marginally better compared with 1Q19.

Estimated general insurance impact

We are still in the early stages of claims development on COVID-19 and so its ultimate impact on Aviva still has a high level of uncertainty attached to it. However, based on analysis as at 30 April, our estimate of COVID-19 related claims in our general insurance businesses, incorporating notified and projected claims, is £160 million net of reinsurance. This estimate incorporates the following components:

Business interruption: we estimate claims from business interruption of approximately £200 million, net of reinsurance across global GI. The vast majority of our commercial policies do not cover business interruption claims arising from COVID-19. However, we anticipate potential areas of exposure in certain specialist schemes and broker programmes, and we have paid claims in the UK and Canada where coverage exists. In the UK, we will work constructively with the FCA to ensure we can establish an expedited process that will bring much needed certainty to customers and insurers.

Other general insurance impacts: We anticipate claims may arise from some other general insurance products, including travel, surety, construction, and other commercial lines and we have made estimates for claims in these areas. We have also included an allowance for favourable impacts in other product lines, that are expected to partially offset COVID-19 claims across our international general insurance businesses. Aviva does not provide insurance for event cancellation or trade credit.

The continuing nature of the event means that these figures are subject to significant uncertainty. Our estimates assume the Government confinement measures are in place through to the end of the second quarter.

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Notes to editors

- All comparators are for the first quarter of 2019 position unless otherwise stated.
- All figures have been translated at average exchange rates applying for the period, with the exception of the capital position which is translated at the closing rates on 31 March 2020. The average rates employed in this announcement are 1 euro = £0.86 (Q1 2019: 1 euro = £0.87) and CAD\$1 = £0.58 (Q1 2019: CAD\$1 = £0.58). Growth rates in this announcement have been provided in sterling terms unless stated otherwise.
- For information on how Aviva is helping our people, customers and communities impacted by COVID-19 visit: www.aviva.com/covid-19-our-response/
- For a more detailed description of risks faced by our business, please see the 'Risk factors' section in Aviva's most recent Euro Medium Term Note Programme Prospectus (updated May 2020) <https://www.aviva.com/investors/credit-ratings-and-debt/>
- Aviva is a leading international savings, retirement and insurance business. We exist to be with people when it really matters, throughout their lives – to help them make the most of life. We have been taking care of people for more than 320 years, in line with our purpose of being 'with you today, for a better tomorrow'.
- Our vision is to earn our customers' trust as the best place to save for the future, navigate retirement and insure what matters most to them. In 2019, we paid £33.2 billion in claims and benefits on behalf of our 33.4 million customers.
- We operate through five business divisions: Investments, Savings & Retirement; UK Life; General Insurance; Europe Life; and Asia Life; and focus on three strategic priorities: deliver great customer outcomes, excel at the fundamentals and invest in sustainable growth.
- Total group assets under management at Aviva group are £510 billion and our Solvency II capital surplus is £12.6 billion (FY19). Our shares are listed on the London Stock Exchange and we are a member of the FTSE 100 index.
- For more details on what we do, our business and how we help our customers, visit www.aviva.com/about-us
- The Aviva newsroom at www.aviva.com/newsroom includes links to our image library, research reports and our news release archive. [Sign up](#) to get the latest news from Aviva by email.
- You can follow us on Twitter: www.twitter.com/avivapl/
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- For the latest corporate films from around our business, subscribe to our YouTube channel: www.youtube.com/user/aviva
- We have a Globelynx system for broadcast interviews. Please contact the Press Officer noted above if you would like to make a booking.

Cautionary statements

This should be read in conjunction with the documents distributed by Aviva plc (the "Company" or "Aviva") through the Regulatory News Service (RNS). This announcement contains, and we may make other verbal or written "forward-looking statements" with respect to certain of Aviva's plans and current goals and expectations relating to future financial condition, performance, results, strategic initiatives and objectives. Statements containing the words "believes", "intends", "expects", "projects", "plans", "will," "seeks", "aims", "may", "could", "outlook", "likely", "target", "goal", "guidance", "trends", "future", "estimates", "potential" and "anticipates", and words of similar meaning, are forward-looking. By their nature, all forward-looking statements involve risk and uncertainty. Accordingly, there are or will be important factors that could cause actual results to differ materially from those indicated in these statements. 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 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 and international political, regulatory and economic conditions; market developments and government actions (including those arising from the outcome of the negotiations on the future economic 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 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; 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 impact of COVID-19) 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 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 (including cyber attack); 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; 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 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; 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 ‘Other information – Shareholder Information – Risks relating to our business’ in Aviva’s most recent Annual Report. 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.