



Andrew Moss, chief executive

Preliminary results 2008 - 05 March 2009

Q: If I could begin by asking you, what are the highlights of today's preliminary results announcement?

A: I think I'd have to start with the operating results. Because whichever way you measure it, on a IFRS basis or an MCEV basis, our operating profits are up. And I think that's a pretty resilient performance given the economic conditions we've seen over the last 9 or 12 months. So I am pleased with that.

The other thing of course the market is interested in at the moment is the capital position of the Group. And I think we've given further reassurance on that today with our statutory solvency buffers still at £2 billion. And with that capital position we've also been able to maintain the dividend, based off the strong IFRS operating results.

Q: How are the current difficult economic conditions affecting your business?

A: We're not immune to what's going on in the world and in the world economy. Nobody is. The main effect that it has on us as an insurance business is on the asset side of the balance sheet, where some of the assets that we have, on the shareholder account, have had to be written down to reflect market values. And we have marked all our assets to market in our IFRS accounts. And that's very important for people to remember.

Most of those losses, the vast majority of those losses, are unrealised. So we'll see whether over time they turn into cash losses. But at the moment that mark to market is discounting some very large losses. And it means actually that our balance sheet at the end of 2008 is probably very prudent. And in addition, we've actually put in some new provisions, for example against credit losses on our UK mortgage portfolio, which means, I think, we've taken a prudent view of the future.

We've looked right across our balance sheet and made sure that we think we are taking account of uncertainties that exist today, losses that might affect us in the future. We think we've taken those into account so that we're ready to weather the storm as we go forward.

Q: Capital strength is one of the key metrics of banks and insurers. But has Aviva's financial strength been called into question?

A: The first thing to say in relation to that question is that we are not a bank. We are an insurance company. We have a different business model. We are not subject to the refinancing risks, so we don't have the liquidity concerns that banks have seen over the course of the last 18 months. And we don't have anything like the same level of credit risk either. So that's important.

As far as our capital position is concerned, we've reported a £2 billion surplus over our capital requirements today. That's still a strong position. And I think as far as we're concerned, it gives us a strong position to protect us against adverse market movements in the future.

We've already put in place a number of further protections against downside movements in the market, particularly for example equity risk, where off balance sheet derivatives mean that if the markets were to fall by 40% from the year-end, then the capital surplus would fall to about £1.3 billion pounds. So still a comfortable position.

Q: You are reporting these results on a new basis having moved from EEV to MCEV. But what difference has this made?

A: You are right. Our primary results are on an IFRS basis. And those are the results that people should look at to compare us against our peer group and indeed other organizations, such as banks for example, in the financial services sector.

But in addition, as an insurer, we have supplementary reporting. It's now on a market consistent embedded value basis, as you say. And that has meant that, really, all we're doing is taking a slightly different view about assumptions that we make about future performance. We're actually discounting future profit flows on a different basis, using what we call market consistent rates. That's market related rates, which don't take into account, for example, equity returns we might get over gilt rates or credit returns that we might get again, over government bond rates for example.

So it's a more conservative way of reporting. And actually because of changes in market rates over the course of the last year, it's turned into a more volatile way of reporting, and you can see that from the numbers. But fundamentally, it does not change the economics of our business. It does not change our dividend paying capability. For example, you've still got to look at the IFRS numbers to get the true story around those key issues.

Q: So, what is your outlook for 2009?

A: Clearly the economic outlook in some of our markets is uncertain. And financial market volatility, I think, is likely to continue. So that backdrop is not necessarily ideal for financial services companies. But 2008 has been resilient for us. And I expect actually that to continue to some

degree in 2009. You should remember that the majority of our profits come from our existing book. So unlike, for example, a retail company where this year's sales mean this year's profits. That's just not the case with us in our Life business.

And our General Insurance business, I think, is probably beginning to see some hardening rates. And so actually prospects in that business are reasonably good. So from a pure economic perspective, I remain reasonably cautious. But actually I think within our own business we're seeing stronger companies, like Aviva, beginning to take market share. And I think we're going to benefit from that as the year moves on.

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