

Business review

Asia Pacific

What we do

We have been present in Asia Pacific for over 100 years and today operate in nine markets across this region. We are particularly focused on providing long-term savings products through a multi-channel distribution strategy with particular strength in bancassurance and wrap administration. We also sell general insurance products in Sri Lanka and Malaysia and are an established provider of health insurance in Singapore.

Employees and locations

2,376

2007: 2,052

Australia
China
Hong Kong

India
Malaysia
Singapore

South Korea
Sri Lanka
Taiwan

Operating brands

“Committed to meeting customers’ needs”

Case study:

No freeze at Christmas

Christmas wasn't forgotten at Aviva Australia. Despite the fund freeze across much of the mortgage sector, we made sure tens of thousands of self-funded retirees received their pension as usual.

Our decision to continue making the payments came just after several major mortgage funders announced they'd be suspending or limiting redemptions.

“Our customers have worked hard to fund their retirement and we're committed to meeting their needs,” explains Frank Lombardo, Aviva group director operations. “There have been lots of discussions about the issues facing retirees but when our customers are worried we need to act now to find solutions.”

Visit Aviva Australia at

www.aviva.com.au



What's happened?

Investors' confidence has fallen

- Local stock markets in the Asia Pacific region have been significantly affected by the global economic crisis and sales of investment and investment-linked products have been negatively affected

Prospect for continued growth across the region

- Low insurance penetration, an aging population and high Gross Domestic Product (GDP) growth indicate prospect for continued growth across the region
- Bancassurance is the fast-growing channel in the emerging markets of China and India

What action have we taken?

Leveraged bancassurance expertise in new and emerging markets

- New bancassurance partnerships have been formed to consolidate our strong position in the high growth potential markets of India and China
- Focused on developing successful bancassurance partnerships with our JV partners in new markets of Malaysia, Taiwan and South Korea

Realising synergies across the region

- Substantial investment made to expand our distribution network and optimise our shared service model into high growth potential and new markets

Developing and retaining talent

- Launched a series of initiatives aimed at building our employee brand and developing our top leaders

Exceptional performance in developing markets

- We achieved exceptional growth in the developing China market and had a successful first year of operations in Taiwan along with promising sales in new markets such as South Korea

What have we achieved?

Total sales		MCEV operating profit		IFRS operating profit	
£3,499m		£69m		£36m	
2007 restated: £4,283m		2007 restated: £101m		2007 restated: £37m	
PVNB	£1,720m	Long-term savings		£79m	
Investment sales	£1,746m	Fund management		£13m	
Net written premiums	£33m	General insurance		–	
	£3,499m	Other operations		£(23)m	
				£69m	

What's next?

Our medium term targets are to:

- Prioritise our portfolio
- Develop the regional operating model
- Invest in the markets with the best opportunities

Business review

Asia Pacific continued

Long-term savings

	2008				
	IFRS operating profit £m	MCEV operating profit £m	PVNB [†] £m	Value of new business £m	New business margin %
Asia	2	31	1,351	30	2.2
Australia	44	48	369	13	3.5
Asia Pacific	46	79	1,720	43	2.5

	2007				
	IFRS operating profit £m	MCEV operating profit £m	PVNB [†] £m	Value of new business £m	New business margin %
Asia	(6)	45	1,141	49	4.3
Australia	37	50	454	16	3.5
Asia Pacific	31	95	1,595	65	4.1

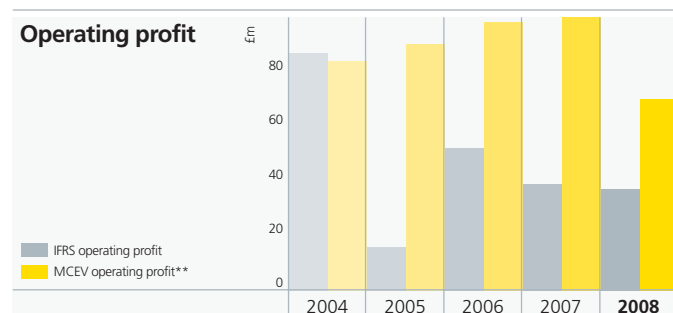
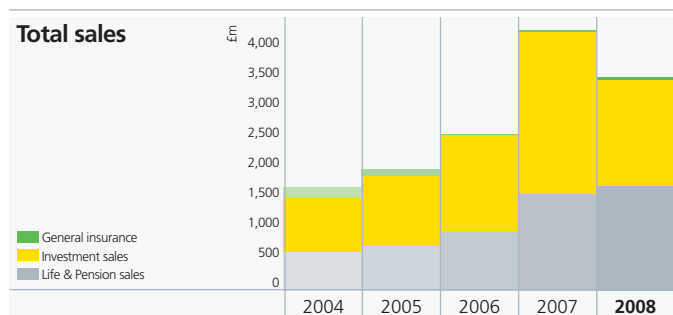
Fund management

	Investment sales		IFRS operating profit		MCEV operating profit	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Total	1,746	2,660	13	15	13	15

General insurance and health

	IFRS operating profit £m	Combined operating ratio %*	Net written premium £m	Underwriting result £m
2008	-	108	33	(1)
2007	4	97	28	3

* General insurance business only.



Profile and strategy

We have been present in Asia Pacific for over 100 years and today operate in nine markets across this region. Our footprint spans the markets of Australia, Singapore, Hong Kong, India, China, South Korea, Malaysia, Sri Lanka and Taiwan. We are particularly focused on providing long-term savings products and believe that Asia is still an attractive region for growth due to low insurance penetration in most countries, an ageing population, a fast expanding middle class and high gross domestic product (GDP) growth.

Our ambition in the region is to establish Aviva as a leading international player in Asia Pacific and grow the business to become a meaningful part of the group. During 2008, we made significant efforts and investments to strengthen the Asia Pacific regional team which, under the leadership of Simon Machell, will lead and support the implementation of our strategy in the region.

We serve our customers through a multi-channel distribution strategy with particular strength in bancassurance and wrap administration. We have more than 50 bancassurance partners throughout the region, including major players such as Development Bank of Singapore (DBS) in Singapore and Hong Kong, ABN AMRO in India and Bank of China and ICBC in China. In addition we operate joint ventures with prestigious banks in Taiwan (First Commercial Bank), Malaysia (CIMB), Sri Lanka (National Development Bank) and South Korea (Woori Bank). We are a leading provider in the wrap administration business in both Australia and Singapore with our successful Navigator platform.

We have made important steps towards realising our ambition having achieved rapid growth in most of our markets in recent years. In 2008 we again experienced exceptional growth in China and have had a successful first year of operations in Taiwan. We started operations in South Korea in April and achieved promising sales through the bancassurance channel. Significant progress was also made in delivering our key regional initiatives. For example, the "one Aviva" regional operating model has started providing synergies in IT and product development and is enabling us to share skills and services across the group and within the Asia Pacific region.

Our strong distribution partnerships, wide footprint and regional operational model create a solid platform from which to compete effectively in the region.

The marketplace

2008 was a difficult trading year for the financial services industry. As a region Asia Pacific is not immune to the global economic crisis and local stock markets were significantly affected. Investor confidence dropped considerably over the year and sales of investment and investment-linked products were negatively impacted across the region.

Despite this, the Asia Pacific region remains highly attractive with markets ranging from large and mature to emerging powerhouses. The low insurance penetration in most countries, ageing populations and high GDP growth indicate that prospects for continued growth in the life and pensions industry are very good. The latest economic forecasts predict GDP growth for the region of 5.8% in 2009[†].

We manage our portfolio of businesses in this region by their stage of development:

Established: our operations in Australia, Singapore and Hong Kong are established businesses in advanced markets.

High potential: we have fast-growing businesses in India and China which we consider to be the markets with the highest potential for growth in the region.

New start: these are relatively new businesses with strong local bank partners, located in South Korea, Malaysia, Sri Lanka and Taiwan.

**On an MCEV basis for 2008 and 2007. Prior years presented on an EEV basis.

† Source: Asia Development Bank, December 2008.

“快速响应”

“Responding quickly”



Case study:

Emergency action

On 12 May, 2008 a devastating earthquake hit the Sichuan province of China. Tragically, tens of thousands of lives were lost in the disaster. And the challenge facing colleagues at our Aviva-COFCO Sichuan branch was enormous.

After an emergency meeting, a command centre was set up. Text messages were sent to all Sichuan customers, letting them know how to make a claim or get help. Within three days, the first claim payment of 120,000 yuan was made to a customer in Qingyi town, Mianyang city.

Aviva-COFCO colleagues later donated their bonuses to help those in the worst-affected areas, and colleagues are still working fast to settle claims.

Visit Aviva-COFCO at

www.aviva-cofco.com.cn

Established markets (Australia, Singapore, Hong Kong)

The Australian market has moved away from older style retail investment products and today over 90% of retail investments are being channelled through the wrap administration market. While current market volatility and declining investor confidence will clearly have an impact on growth in the short term, we believe that the strong fundamentals in the Australian market will enable double digit growth in both the protection and platform markets over the next decade.

Singapore and Hong Kong are relatively mature markets and are developing as offshore private wealth management hubs in Asia. As a result, demand for retirement planning and wealth management products is increasing.

High potential markets (India, China)

India is a highly attractive market with its large population, a high gross domestic savings rate creating capital for investment, a large and growing middle class to support long-term growth and the government's commitment to economic reform.

China is also a very attractive market due to its population size and stable, rapid GDP growth. The life insurance market grew by an average of 26% per annum between 2000 and 2007 and grew by 48% in 2008[‡]. We believe that the low insurance penetration and changing demographics (a growing affluent class, an ageing population and the acceleration of urbanisation) will continue to fuel growth in the medium term. We are now the second largest, in terms of total premium income, of the foreign insurance companies in this market with a presence in nine provinces and 39 city branches.

New start markets (South Korea, Malaysia, Sri Lanka and Taiwan)

We have recently started joint ventures with bank partners in markets at various stages of development. In 2008 we commenced our operations in Taiwan and established market entry in South Korea, both through joint ventures with leading local banks. These are both advanced markets with insurance penetration similar to the UK.

Malaysia is an emerging market where the government initiatives to make the country an international Islamic financing hub are expected to translate into a strong increase in Takaful business.

The life insurance industry in Sri Lanka grew by an average of 19% per annum between 2003 and 2007[~]. It has South Asia's fastest ageing population and the low insurance penetration has the potential to drive continued growth in the future.

[‡] Insurance Regulatory Commission (CIRC).

[~] Insurance Board of Sri Lanka, based on gross written premiums.

Business review

Asia Pacific continued

Operational performance

During 2008 we have made substantial investments to expand our distribution network and optimise our "one Aviva" shared services model. This model enables us to realise synergies across the region and in 2008 we expanded the existing Singapore and Hong Kong services and introduced this into Malaysia. We remain committed to supporting expansion in high potential and new start markets to secure future profitability and growth.

As part of the shared service model we have created a regional propositions team to both anticipate changes in customer needs and to lead and coordinate the development of products and their roll out across the region. Additionally, Navigator, our Australian wrap administration platform, was successfully launched in Singapore in recent years, an example of how we are able to share expertise and provide support to developing businesses. We plan to build on this success by introducing Navigator in Hong Kong in 2009.

During 2008 we have expanded our customer reach in our local markets. In Australia, where we recently won "Life Company of the Year" at the AFA Plan for Life Awards, our strategy of taking strategic stakes in dealer groups has continued to generate additional business. We successfully acquired an interest in a further dealer group this year and now have five such strategic investments in place. In addition we have signed a bancassurance agreement with Wide Bay Australia. The sales of risk products through their branches will commence by the end of the first quarter of 2009.

In India and China bancassurance is a fast-growing channel and in 2008 we signed new bancassurance partnerships to consolidate our strong positions. We are also strengthening our multi-distribution approach by investing in new distribution channels such as direct marketing. In India, we have started up the Aviva Sales Training and Recruitment Academy ("ASTRA") and have already seen the productivity of our agents improving.

In Malaysia, Taiwan and South Korea we are focusing on developing successful bancassurance partnerships with our JV partners, leveraging Aviva's recognised bancassurance expertise.

We have focused on aligning our human resources with the strategic priorities of the business and have initiated programmes to develop our ability to harness adversity and strengthen our leadership.

The goal of making Aviva a great place to work is matched by our ambition to see Aviva recognised as an employer of choice around the region. A common talent management system was introduced across the region in 2008 along with a uniform reward and recognition programme, bringing the Aviva brand to life and taking us one step closer to achieving our "one Aviva" vision.

Finally, our aim to integrate responsible practices with corporate business strategy is now firmly embedded into the core culture of the company. In the past year we have demonstrated a strong belief in our corporate responsibility mission through a variety of social and environmental initiatives from providing aid to victims of the China earthquake to promoting micro-insurance in India. We also found ways to build corporate responsibility into our daily activities through developing energy efficiencies in the workplace, with Australia leading the charge.

"Berkongsi kepakaran merentas perniagaan"

"Sharing expertise across the business"



Case study:

Malaysia launches EasyLife range

Insurance ownership is still relatively low in Malaysia and in the 2008 Aviva Consumer Attitudes to Savings study, CIMB Aviva found that 35% of Malaysians said they did not understand insurance and 40% wished that somebody else could help to sort out their financial affairs.

Through sharing expertise across our Asia Pacific region, CIMB Aviva has created EasyLife, combining simple products with needs-based advice services to address the need for education. We'll complement EasyLife with a range of Easy Takaful plans in 2009.

Visit CIMB Aviva at

www.cimbaviva.com

Financial performance

Long-term savings

Total long-term savings sales for Asia Pacific were £3,466 million (2007 restated: £4,255 million). Within this, life and pensions sales grew by 8% to £1,720 million (2007 restated: £1,595 million). On a local currency basis, life and pension sales were 1% below the prior year and total sales down 26%.

Investment sales were down 34% to £1,746 million (2007: £2,660 million) reflecting consumers' reticence to buy investment products in the current volatile market conditions. Further to this, investment sales were adversely impacted by a change to local pension laws in Singapore, which restricts external distributions from the government pension fund, and the one-off impact in 2007 of favourable changes in Australian superannuation legislation.

In Australia, life and pension sales decreased 19% to £369 million (2007 restated: £454 million). In addition to the impact of a difficult economic climate, sales in 2007 were very strong following a one-off group pension transfer and favourable changes to superannuation legislation.

Sales of life and pensions products in Asia grew 18% to £1,351 million (2007 restated: £1,141 million). This was driven by 66% growth in China, following significant expansion of our distribution network, and first-time contributions from our new joint ventures in South Korea and Taiwan. This growth was partly offset by results from our other Asian operations. In India and Singapore regulatory changes had a negative impact on our sales while in Hong Kong our products are mainly investment related and were therefore greatly impacted by the market volatility.

MCEV operating profit for our long-term businesses decreased by 17% to £79 million (2007 restated: £95 million). Lower value of new business of £43 million (2007 restated: £65 million) mainly reflected the lower volumes in Hong Kong, a change in lapse assumptions in India, following regulatory changes to a number of products, and the one-off benefit in 2007 from legislation changes in Australia. These, together with the impact of the start-up businesses in South Korea and Taiwan and changes in business mix to lower margin products in China and India, resulted in a lower new business margin of 2.5% (2007 restated: 4.1%).

On an IFRS basis, operating profit from the long-term businesses improved to £46 million (2007: £31 million) due to lower new business strain from reduced sales and changes in the business mix.

General insurance and health

Net written premiums in the general insurance and health businesses increased to £33 million (2007: £28 million). This mainly reflected the contribution from Malaysia which commenced operations in July 2007.

Operating profit of £nil (2007: £4 million) included the costs of the closure of the Malaysia motor portfolio.

Outlook

Despite the global economic and financial turbulence, Asia remains an attractive growth region. In 2009, while we will continue to grow the business in line with the market we will also focus on the efficient use of our capital. We have a sound business in Asia Pacific with successful, established partnerships and a strong financial position and we remain committed to building a strong presence in this region.

“Working together
in times of crisis”



Case study:

Facing up to disaster

Colleagues at Aviva Australia pulled together in response to the recent Victoria bushfire disaster.

At Aviva Australia headquarters in Melbourne, Victoria's state capital, determined colleagues immediately assisted with the aid effort. Within days, they'd donated over AUD\$20,000 to the Bushfire Appeal.

Free counselling was also offered to any staff member affected by the disaster. Allan Griffiths chief executive officer of Aviva Australia, was understandably proud of the magnificent response.

This is what Aviva is all about.

Visit Aviva Australia at

www.aviva.com.au