

Interim Results

9th August, 2012

Disclaimer



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Chairman's opening remarks



It is just one month since we announced our plans through to 2014, and as you would expect, while there has naturally been a great deal of activity inside Aviva during that period, the consequences of this will find their way into announcements over the coming months, rather than with this result.

So dealing with this interim result first, operating performance is largely in line with expectations. The main new news is the write-down of the goodwill in the US, following a review of its recoverability.

As I said last month, it was also our desire to hold the dividend, and this is what we have done in the half.

Notwithstanding the subdued external environment, a number of our businesses performed well, including the UK, Canada, Poland and Singapore.

Turning to the company overall, last month we announced the results of our strategic review of the 58 main businesses within the group which concluded; 15 were standout performers, 27 operated at around our cost of capital, and 16 were non-core and would be exited.

We also announced our intention to bring our capital levels up to 160-175% coverage, to reduce the volatility of our capital, and to reduce costs by £400 million.

As a result, we ceased writing large bulk purchase annuity transactions and we also brought down our holdings in Delta Lloyd to below 20%. We completed the disposals in Hungary, Czech Republic and Romania. Our Italian debt holdings have been reduced by €2 billion and plan further reductions when circumstances permit.

Chairman's opening remarks



We also began the process of disposing or running down our non-core businesses, have appointed investment banking advisors to the 10 businesses planned to be sold, and are in the process of reducing the capital levels of capital hungry segments. We are also considering plans to improve the returns of the 27 medium return business cells.

On expenses, we are nearing finalisation of the delayering of the group which, when completed should save a significant part of the total target savings. We have also begun a review of head office, support activities, and non-staff costs across the group.

As part of instituting individual accountability, the group executives now have revised performance objectives that they will be held accountable for delivering, and these will largely form the basis of their variable remuneration. We have also eliminated all unnecessary committees and meetings to allow people to spend more time on our business and customers.

Spencer Stuart has been fully engaged in the search for our new CEO and it remains our aim to have the individual in place early in the new year.

Finally we continue to evolve our board, which is now down to 11 people, and we expect further movement over the remainder of this year and into next year.

It is my sense that we have the right agenda, we have the people in place to execute it, and we are broadly on track with the programme we set out last month. Over and above the actions we have already taken, you can expect further announcements in the second half and into next year, and I remain confident that we will do exactly as we said we would going forward.

Operating profits lower

- Operating profit of £1,121 million (HY11: £1,146 million)
- Operating profit after restructuring costs of £935 million (HY11: £1,035 million)
- Loss after tax of £681 million after £876 million write down of US goodwill and intangibles (HY11 on a continuing basis: £465 million profit)
- Interim dividend held flat at 10p

Operating capital generation higher

- £0.9 billion net operating capital generation, ahead of HY11

New business profitability stable¹

- GI COR of 95.5% (HY11: 96.3%)
- Life IRR of 14% (HY11: 14%)

Solvency capital increased

- Economic capital surplus £4.7 billion² (142%) including benefit of Delta Lloyd sale (FY11: £3.6 billion)
- IGD surplus of £3.1 billion (FY11: £2.2 billion)

ROE & NAV

- IFRS return on equity 10.7% (FY11: 12%)
- IFRS NAV of 395p (FY11: 435p)

1. Excludes Delta Lloyd

2. The economic capital surplus represents an estimated unaudited position. The capital requirement is based on Aviva's own internal assessment and capital management policies. The term 'economic capital' does not imply capital as required by regulators or other third parties. Pension scheme risk is allowed for through five years of stressed contributions.

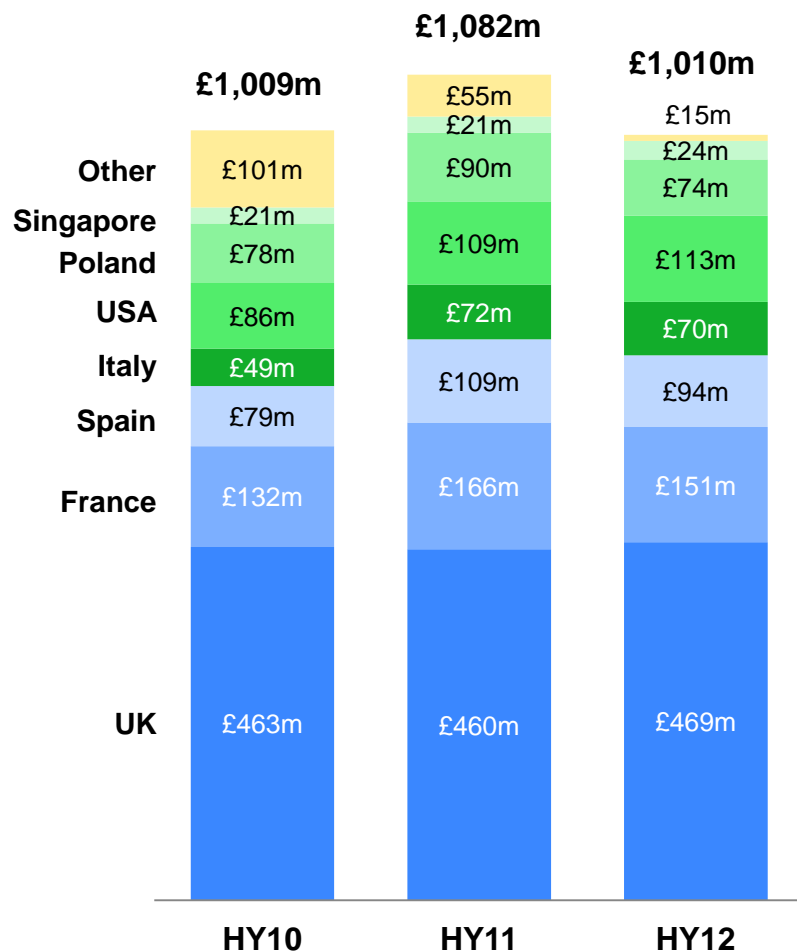
Operating profit impacted by disposals, FX and restructuring costs

Operating profit from continuing operations			
£ million	HY11	HY12	Change
Life	1,082	1,010	(7)%
General Insurance & Health	455	461	1%
Fund Management	42	38	(10)%
GI, life & fund management	1,579	1,509	(4)%
Other operations	(81)	(102)	(26)%
Corporate costs	(66)	(64)	3%
Group debt & other interest costs	(321)	(334)	(4)%
Operating profit ex Delta Lloyd	1,111	1,009	(9)%
Delta Lloyd as an associate	35	112	220%
Operating profit	1,146	1,121	(2)%
Restructuring costs	(111)	(186)	(68)%
Operating profit (after restructuring costs)	1,035	935	(10)%

IFRS Operating profit reconciliation	
Operating profit after restructuring costs HY11	1,035
Profit growth	42
RAC disposal	(49)
Weather (compared with 2011)	(62)
Foreign exchange	(33)
Increased restructuring costs	(75)
6 months of Delta Lloyd as an associate in 2012 vs 2 months in 2011	77
Operating profit after restructuring costs HY12	935

Life: Resilience in the UK offset by FX and lower profits in Ireland & Mainland Europe

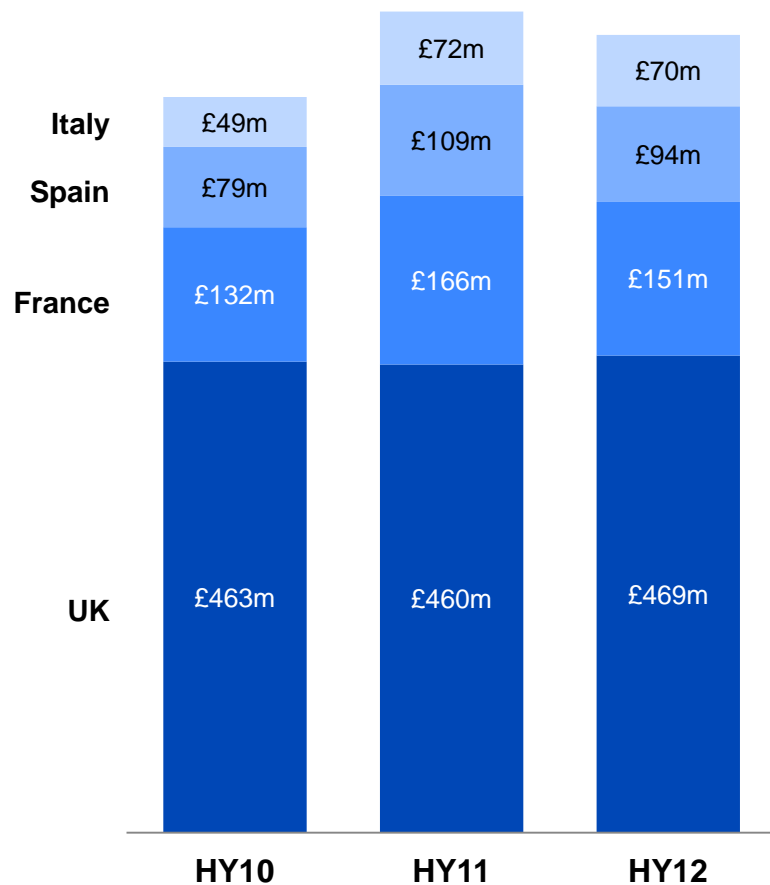
Operating profit



Life operating profit reconciliation	
Operating profit HY11	1,082
UK, USA & Singapore	13
Ireland	(24)
Mainland Europe	(13)
Foreign exchange	(29)
Other	(19)
Operating profit HY12	1,010

Life: resilience in the UK, lower profits in France, Spain and Italy

Operating profit



Italy	HY10	HY11	HY12	% change
Operating profit (£m)	49	72	70	(3)%
Operating Capital Generation (£m)	(41)	-	42	-
Average reserves (£bn)	18	19	17	(11)%
Annualised ROCE*	4.8%	7.9%	7.6%	(0.3)ppt

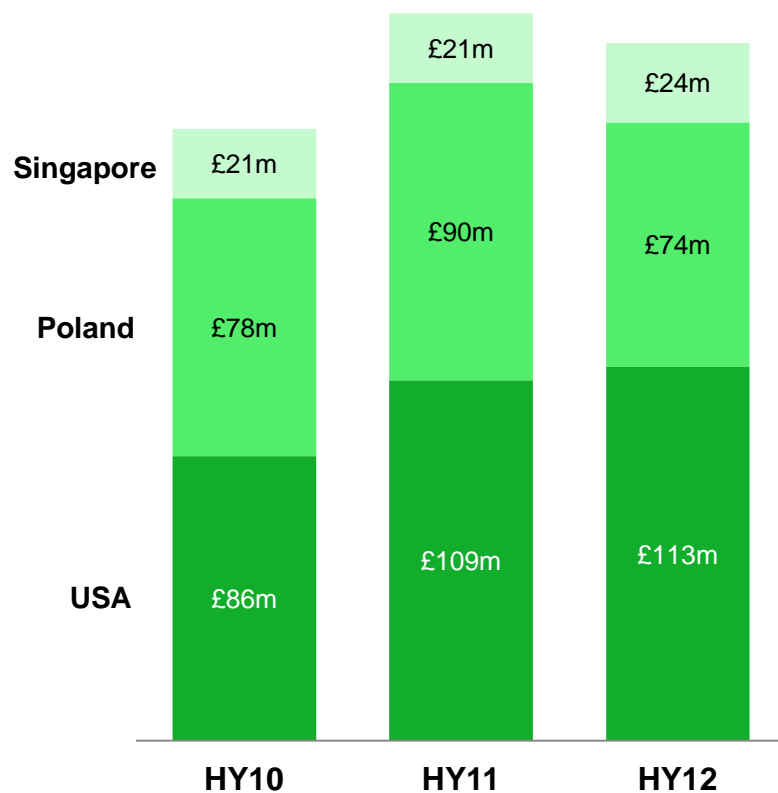
Spain	HY10	HY11	HY12	% change
Operating profit (£m)	79	109	94	(14)%
Operating Capital Generation (£m)	17	24	26	8%
Average reserves (£bn)	11	12	11	(8)%
Annualised ROCE*	7.9%	12.6%	11.4%	(1.2)ppt

France	HY10	HY11	HY12	% change
Operating profit (£m)	132	166	151	(9)%
Operating Capital Generation (£m)	11	110	128	16%
Average reserves (£bn)	59	64	59	(8)%
Annualised ROCE*	10.7%	12.3%	10.6%	(1.7)ppt

UK	HY10	HY11	HY12	% change
Operating profit (£m)	463	460	469	2%
Operating Capital Generation (£m)	235	184	374	103%
Average reserves (£bn)	103	113	115	2%
Annualised ROCE*	14.6%	19.6%	16.1%	(3.5)ppt

Life: higher profits in the US and Singapore, lower profits in Poland

Operating profit



Singapore	HY10	HY11	HY12	% change
Operating profit (£m)	21	21	24	14%
Operating Capital Generation (£m)	(6)	7	4	(43)%
Average reserves (£bn)	1	2	2	-
Annualised ROCE*	18.0%	14.3%	18.8%	4.5ppt

Poland	HY10	HY11	HY12	% change
Operating profit (£m)	78	90	74	(18)%
Operating Capital Generation (£m)	81	57	56	(2)%
Average reserves (£bn)	12	15	12	(20)%
Annualised ROCE*	52.7%	52.6%	45.5%	(7.1)ppt

USA	HY10	HY11	HY12	% change
Operating profit (£m)	86	109	113	4%
Operating Capital Generation (£m)	92	50	(98)	-
Average reserves (£bn)	29	32	34	6%
Annualised ROCE (including goodwill)	3.6%	3.0%	3.8%	0.8ppt
Annualised ROCE based on regulatory capital	4.6%	4.3%	7.9%	3.6ppt

Life: operating profit down owing to higher DAC amortisation, partly offset by lower expenses

Key:

IFRS Profit Driver		
HY11	HY12	Variance

Pre-tax operating profit		
1,082	1,010	(7)%

Income		
2,151	2,138	(1)%

DAC/AVIF amortisation and other		
(31)	(119)	(x4)

Expenses and commissions		
(1,038)	(1,009)	3%

New business income		
471	457	(3)%

Investment return		
1,299	1,322	2%

Acquisition expenses and commissions		
(492)	(473)	4%

Admin expenses and renewal commissions		
(546)	(536)	2%

Underwriting margin		
381	359	(6)%

Life: Higher investment return due to higher spread margins

Key:

IFRS Profit Driver		
HY11	HY12	Variance

Investment return		
1,299	1,322	2%

Unit linked margin			Participating business			Spread margin			Expected return on shareholder assets		
486	439	(10)%	266	266	-	348	439	26%	199	178	(11)%

AMC (bps)	106	107	1
Average reserves (£bn)	91.4	82.1	(10%)

Fall in average reserves mainly due to FX and market movements

Bonus (bps)	48	51	3
Average reserves (£bn)	110.6	105.0	(5%)

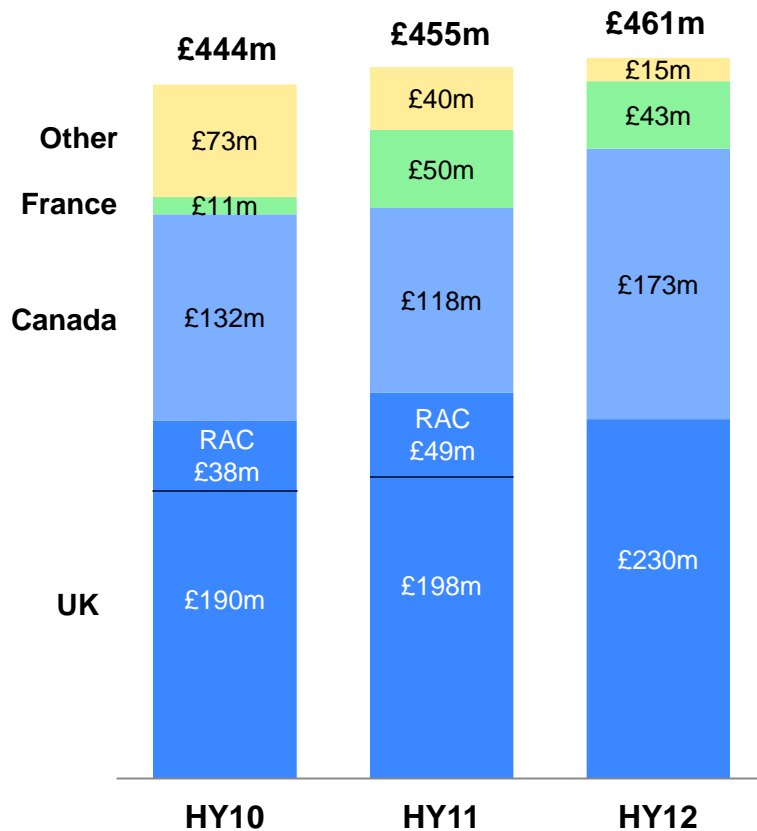
Spread (bps)	101	115	14
Average reserves (£bn)	68.7	76.5	11%

Increase in average spread reserves mainly from US & the UK, higher spread margin in the US

Equity	6.9%	5.8%	(1.1) ppt
Property	5.6%	4.3%	(1.3) ppt
Bonds	4.9%	3.9%	(1.0) ppt

GI & Health: higher profits in the UK and Canada offset by the RAC disposal and weather

Operating profit



GI & Health operating profit reconciliation	
Operating profit HY11	455
Profit Increase	99
Canada – reserves release	22
RAC disposal	(49)
Weather impact UK (cf 2011)	(40)
Weather impact other (cf 2011)	(22)
Foreign exchange	(4)
Operating profit HY 2012	461

COR	97.0%	96.3%	95.5%
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GI & Health profit drivers: higher underwriting results offsets lower investment earnings

Pre-tax operating profit		
455	461	1%

Key:

Driver		
HY11	HY12	Variance

GI & Health Underwriting result		
119	123	3%

Expected investment return		
358	354	(1)%

General insurance ratios

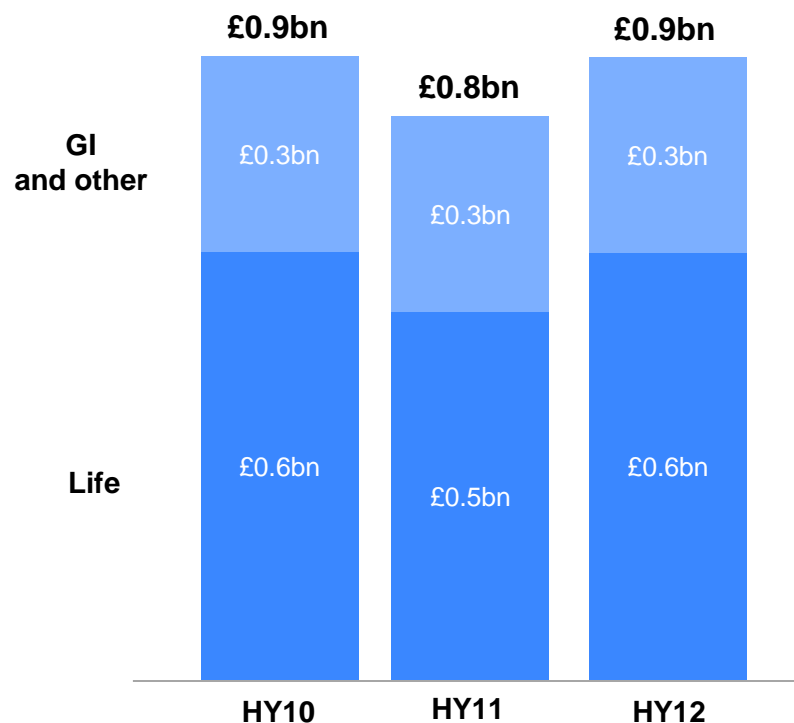
Net written premiums	4,240	4,130	(3)%
Claims ratio	64.4%	62.4%	2.0ppt
Commission ratio	20.9%	21.8%	(0.9)ppt
Expense ratio	11.0%	11.3%	(0.3)ppt

COR	96.3%	95.5%	-
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Average rate	3.9%	3.8%	(0.1)ppt
Average assets £bn	18.2	18.4	1%

Group operating capital generation ahead of HY11

Operating capital generation



Operating capital generation

£bn	HY11	HY12	HY12	
	Net	Net	Generated	Invested
Life	0.5	0.6	1.0	(0.4)
General Insurance	0.3	0.3	0.3	-
Total	0.8	0.9	1.3	(0.4)
		<i>HY11</i>	1.3	(0.5)

Capital efficiency¹

	HY10	HY11	HY12
Capital / sales	4.5%	4.0%	3.9%

Liquidity at Group Centre

£bn	FY11	HY12 ²
Central liquidity	1.5	1.7

1. Capital efficiency = life allocation/PVNBPA net of tax and minorities.
 2. Pro-forma for the further sale of shares in Delta Lloyd on 6 July

Overall loss from the US goodwill write down. Interim dividend held flat

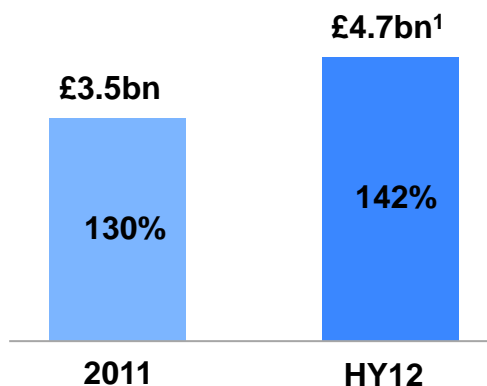
Continuing operations £ million	HY11	HY12
Operating profit (after restructuring costs)	1,035	935
Investment variances & assumption changes	(275)	(199)
Loss on disposals	(11)	(30)
Goodwill, intangibles, amortisation and impairments	(76)	(767)
	673	(61)
Tax	(193)	(204)
Share of Delta Lloyd's non-operating items, including tax	(15)	(416)
(Loss) / Profit for the period	465	(681)
Operating EPS (after restructuring costs)	22.4p	18.3p
Total EPS	4.1p	(26.0)p
Interim dividend per share	10p	10p

NAV lower due to the dividend, FX and US goodwill & intangibles write down

Net Asset Value per share	IFRS	MCEV
Opening NAV per share at December 2011	435p	441p
Profit and investment variances	9p	29p
Dividends net of scrip	(16)p	(16)p
Pension fund	2p	2p
Goodwill write down	(30)p	(30)p
Foreign exchange and other movements	(5)p	(5)p
Closing NAV per share at June 2012	395p	421p

Economic capital surplus higher due to market movements, management action and the Delta Lloyd disposal

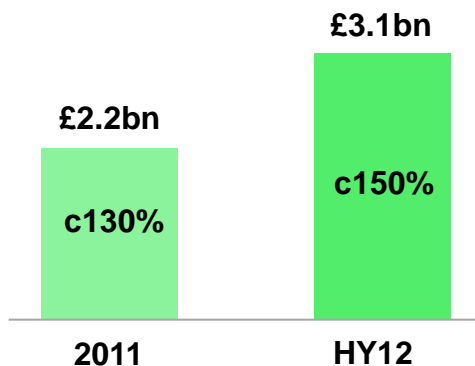
Economic capital* surplus



Key economic capital* movements in 2012

Economic Capital*						
£bn	FY11	Market movements	Management actions	HY12	Sale of DL	HY12 ¹
Available capital	15.7	(0.1)	0.2	15.8	-	15.8
Required capital	(12.1)	0.6	0.2	(11.3)	0.2	(11.1)
Total	3.6	0.5	0.4	4.5	0.2	4.7

IGD surplus



IGD solvency ratio

IGD surplus of £3.1 billion (FY11: £2.2 billion)

- Reduced volatility compared to 2011 from the sell down of Delta Lloyd

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¹ Pro-forma for the further sale of shares in Delta Lloyd on 6 July

Managing the risk of the Italian business

Regulatory capital protected from spread widening

- Implementation of Regolamento 43 significantly eases the need to provide more capital to Italian businesses in the event of Italian sovereign bond credit spread widening

Recap on Italian key metrics

- Aviva's IFRS NAV exposure: £720 million HY12
- Italy = 6% of Aviva's NAV, 6% of Aviva's operating profits

Progress on simplification

- On track to achieve £400 million cost savings
- Regions disbanded
- Level 5 of 7 completed, on track to finish the structural changes by October
- Progress with Ireland transformation
- Management review of all 58 cells completed, action plans progressed

Progress on non-core cells

1 cell: Delta Lloyd

Further sell down on 6 July 2012

- 21% sold for €10.75 per share
- £318 million gross cash proceeds
- £200 million benefit to economic capital
- Reduced IGD volatility

10 cells

Investment banks appointed to assess strategic alternatives

- Expect significant progress in the next 6 months
- Announcements will be made as appropriate

5 cells

Actions being taken within Aviva

- Stopped writing large UK bulk purchase annuity deals
- Fix / improve other cells to increase options
- Options include sale or run off

Performance

- Operating profits down 2% to £1,121 million as a result of the sale of the RAC, adverse FX, the impact of recent weather.
- Concluded it was necessary to write down £876 million US goodwill and intangibles at the half year.
- The interim dividend has been held flat at 10p.

Financial Strength

- Economic capital surplus* is ahead of full year 2011, helped by the further disposal of Delta Lloyd and hedging transactions.
- Achieving our economic capital target ratio of 160 – 175% is a priority for us.

Outlook

- The external environment is challenging. H2 2012 is likely to remain tough.
- Execution of the strategic plan is on track and we will make further progress this year.

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