

## Transcript of Aviva's 2011 AGM held at The Barbican, London on Wednesday 4 May 2011

### Lord Sharman, chairman, Aviva plc:

It's 11 o'clock. Good morning, ladies and gentlemen, and welcome to Aviva's 2011 Annual General Meeting.

I would like to start today's meeting by welcoming Igal Mayer, who was appointed to the board in January 2011 and who is chief executive of Aviva Europe. Igal joined the Group in 1989 and has held a number of senior positions including chief executive of Aviva UK General Insurance, and chief executive officer, chief financial officer and executive vice president of Aviva Canada. Most recently he was chief executive of Aviva North America. Igal brings to us an international perspective and a detailed knowledge of the Group and the insurance industry in general and I'm delighted to welcome him to the board. Igal has replaced Andrea Moneta who resigned from the board earlier this year.

I'd also like to welcome our new group general counsel and company secretary, Kirsty Cooper, who was appointed to the role at the start of this year following the retirement of Graham Jones. I would like to express my thanks to Graham for his commitment and expertise during his long service with the Group.

As detailed in the Notice of Annual General Meeting, the UK Corporate Governance Code recommends that all directors of FTSE 350 companies should be subject to annual re-election by shareholders. Accordingly, all the directors of the company are submitting themselves for re-election by shareholders today, other than Igal Mayer, who is standing for election for the first time in accordance with the Company's Articles of Association.

Following an external evaluation of the board's performance, I have reviewed the performance of each of the directors, excluding myself, as part of the board effectiveness review and have found that each director continues to make a valuable contribution to the board.

My own performance has been reviewed by the non-executive directors of the company led by Richard Goeltz, our senior independent director. In the interests of time, I do not propose to introduce each member of the board, but I would refer you to their biographical details, which are set out in the Notice of Annual General Meeting, and separately in the Company's 2010 Annual Report and Accounts, and on the Company's website.

I'd now like to turn to the company's performance over the last year. 2010 was never going to be an easy year for companies in the financial services sector. Against that uncertain and volatile back drop, the executive team and our employees have continued to support our customers and deliver the impressive results that our group chief executive Andrew Moss will take you through shortly.

The board is today recommending a final dividend for 2010 of 16p per share which will bring the total dividend for the year to 25.5p per share, an increase of 6% over 2009. The Group has made excellent progress over the past 12 months, shaping itself to be strong in the newly emerging financial and regulatory environment, pushing forward with change programmes and building the strong global brand and customer franchise that will be the bedrock of continuing profitable growth.

The board is committed to maintaining good corporate governance and in this spirit, intends to put the audit service out for tender in 2011. As shareholders will be aware, Ernst & Young have provided excellent audit services to the group since 2001. However, we feel the time is right for us formally to review their engagement. We believe our purpose is to help deliver prosperity and peace of mind to our customers and we take our roles and our responsibilities very seriously.

The profound social and political issues and implications of long term saving for retirement demand energetic and responsible debate, and we have signalled our commitment to take a leading part by convening our Future Prosperity Panel in conjunction with the Economic Intelligence Unit.

We are also working hard to make Aviva a truly sustainable business, introducing industry leading corporate responsibility principles across the business, and making them into a way of life. I've been personally involved in the 30% Club, a group of chairmen committed to raising female participation at board level to 30% in five years time, and I support the Group's performance to date in improving the gender balance within the organisation at all levels.

We can be justifiably proud of our community initiative, Street to School, designed to recognize those children who have traditionally fallen through the net of financial and social support. We have already helped 128,000 children through this programme, and are on track to achieving our target of reaching 500,000 children through our five year commitment.

I'm proud of our achievements over the past 12 months and look forward to 2011 with optimism despite the continued uncertainty of the economic climate.

On behalf of the board and the executive team, would like to thank all of our employees for the great job they continue to do every day in delivering our brand promise to recognise our customers' needs, and to help provide them with prosperity and peace of mind.

Thank you for listening, ladies and gentlemen. I will now ask Andrew to outline the Company's financial and operational performance during 2010, and to give you the headlines of our strategic approach to 2011 and beyond.

**Andrew Moss, group chief executive, Aviva plc:**

Thank you very much, chairman. Good morning everybody and welcome. Thank you for making time to come to the Barbican and be with us this morning.

2010 was, I think, a year of very significant progress for Aviva. A year of strong financial performance, but also delivery against our strategic plans. Over the next 20 minutes or so, I'd like to share with you the key financial highlights for 2010, and some progress against our corporate responsibility agenda. And I believe that after a good 2010, we have every reason to be optimistic about the road ahead. But let's just take a little step back and think about the context for all of this.

Aviva is a business about people. Over 53 million customers around the world rely on us for insurance and to provide for their futures with long term savings and pensions. So we have the opportunity to make a profound difference to our customers' lives in some of the most highly charged and emotional situations that they will ever face. In my view, the way we treat our customers has been an ever-increasing focus for the last two years, and I would like you to just watch a short clip with me about one of our customers that I think makes this point eloquently.

**(Film) Mr & Mrs Cooper / Hayley Gerrard**

**Mr Cooper:** I'm Alan Cooper, this is my wife Sylvia Cooper, and we live in Canterbury, Kent. We are members of Aviva, or as it was then, the Norwich Union healthcare scheme, and Sylvia was diagnosed with this melanoma tumour in the lung and she was the 30th recorded case in the world.

So obviously the urgency was to remove this tumour as quickly as possible. We got a phone call on Saturday afternoon round about 2.30. And it was Dr Lamb himself, Mr Lamb, the surgeon. He said I want you in London Bridge for 9 o'clock on Monday morning and we are going to do it on Monday. So by this time I couldn't reach Aviva, because they close at 1 o'clock on a Saturday. So I actually rang Aviva at 8.03 on that Monday morning from the London Bridge Hospital, I turned round to my son and said: "I just hope I don't get a jobsworth on the phone this morning". But I didn't. I got Hayley Gerrard, an angel. Not a jobsworth:

**Hayley Gerrard:** Hello, my name is Hayley; I work for Aviva Health in Southampton.

**Mr Cooper:** And then Hayley took over from there to negotiate with her bosses.

**Hayley Gerrard:** I referred it to my supervisor who actually said that we needed to stick to the rules because it was the policy that the customer took out.

**Mr Cooper:** Because it wasn't an Aviva listed hospital and it certainly wasn't a surgeon that they used.

**Hayley Gerrard:** So we had what we call a case conference which is where we go over all the information about the hospital, the procedure, the consultant. We decided that in this situation that actually it wasn't anything that could have been helped and Mrs Cooper was able to have her operation in that hospital with that consultant and she didn't have to pay anything, because we picked up the bill.

**Mr Cooper:** So you are Hayley. Are you Hayley Gerrard? Thank you. You do not know how much. Thank you. So thank you very much, Hayley, you did a super job for us, love. Never forget you, ever. We would like to see you in the flesh so to speak and with the talent you've got you should rise in the ranks of Aviva.

**End of film**

**Andrew Moss, group chief executive, Aviva plc:**

Ladies and gentlemen, it does make me very proud the role we can play in customers' lives and I can assure you that is not an isolated incident. We must protect that as we go forward. In reality, at precisely the time when customers are reaching out for reliable institutions, good advice and products that suit their changing circumstances, the whole financial services industry - insurers and banks - has of course taken a knock in

terms of trust and credibility. And the economic environment remains challenging, and I would foresee that that would remain the case for some time to come. But Aviva has navigated the financial crisis extremely well, and we need to recognise that this new environment we are operating in also presents us with a significant opportunity. We are the only one of our peers to have neither taken a ratings downgrade during the financial crisis, nor to have had to raise extra capital through a rights issue. And our move to a single global Aviva brand has been a huge catalyst for renewed interest and rapidly growing levels of consideration.

Last month, for example, we were rated the UK's most reputable financial services company in the Reputation Institute's 2011 rankings. Simply expressed, our goal is to have more customers, staying longer, buying more, and recommending us to their friends and families. And we will succeed against that goal by single-mindedly putting our customers at the heart of everything we do. But let's turn to the numbers. How did we do in 2010?

Well, first of all, IFRS operating profit was up 26% to £2.55 billion. Return on equity, nearly 15% in 2010, a good result by any measure, not only against insurance industry peers, but against other industries too, and we've managed to achieve that despite extremely tough economic conditions. There has been a significant improvement in funds under management. The balance sheet including third party funds under management going above £400 billion for the first time: a consequence of continued strong investment performance. And we saw shareholder equity exceed pre-financial crisis levels, moving up some £2.5 billion to £13 billion at the end of 2010. And of course it's the strength of our capital generation and our balance sheet which support a healthy and growing dividend, up 6% to 25.5p.

We are pleased, I think, to see growth not in the business as a whole, but across the life and general insurance business, and the next chart shows how this strong financial performance has been driven across the board with sales, profit and internal rates of return all going up, and the combined operating ratio in general insurance coming down just as we want it to.

Against the backdrop of tough economic conditions, we have concentrated on allocating capital to areas where we could make optimal returns and continue to bear down on costs. Over the last three years, we've taken more than £750 million of costs out of the business, with a 3% - that is £149 million - reduction in the last year. Moving all UK staff pensions on to a defined contribution scheme from April 2011 will reduce funding costs by £15 million a year going forward. So overall, I am very pleased with the strength of these results.

That 23% increase in life operating profit is impressive against the economic backdrop, but I really want to draw your attention to the general insurance performance. As you know, we have been taking some tough decisions over the last few years, moving away from unprofitable business, particularly in the UK and it's great to see the results of those actions coming through in the growth of both sales and profits.

How does all that stack up competitively? Well, actually pretty well. That 26% growth in operating profits figure is a compelling number in its own right, but it also puts us towards the top end of our peer group. The share price has also shown encouraging improvement over the course of the year, beating the overall FTSE 100 performance by almost 24%. I can assure you that I and my colleagues remain focused on that trend on that graph continuing upwards, and our efforts will continue to redouble in that respect.

So to summarise, profits up 26%, good growth across both life and general insurance, a real sign that we are reaping the benefits of the management actions and commitment and hard work of our people over the past few years. And finally, a significantly stronger balance sheet, and a strategy that paves the way for future growth.

Now, let me look also though at our broader performance. Our financial stakeholders, important as they are, are only one area of a much wider canvas of responsibility. We firmly believe that positive and sustainable commercial outcomes only come from a properly joined-up understanding of our commitments to our people, our customers, our environment and the communities in which we work. And it doesn't mean that we do everything perfectly in this space, but we are innovating and ambitious to be the best that we can be.

We pride ourselves on having been the first company in the UK and the first financial services company in the world to put our corporate responsibility agenda to a separate shareholder vote. Last month Aviva was recognised by the FTSE4Good index as the top insurance company for corporate responsibility in the world out of more than 100 other organisations in our sector. Our environmental, social and governance rating was the only 100% score in our sector. And that score is testament to the huge improvement that we made in performance this year.

I've already made reference to the recent ranking as the UK's most reputable financial services company by the Reputation Institute, but we are also one of only 54 companies across the world to be recognised by the UN for our commitment to sustainability. As the chairman mentioned, we are committed to creating an effective gender mix at all levels in our organisation. We have been recognised already for being one of the few FTSE 100 companies with three female non-executive directors and as Colin also said, he is an active member of the 30% Club committed to bringing more women onto UK corporate boards. Only yesterday, I

was very pleased to announce that Cathryn Riley, a long time employee of the group, has become the second female member of the group executive committee in her new role as chief information officer. 21% of our senior management group is female, which already places us right at the top of the corporate league, and we are actively looking to increase that figure as time goes on.

During 2010 we also increased our community investments to £11.4 million, up from £8 million the year before, and we were successful in getting even more of our people involved in raising money for our causes, with 29% now included in payroll giving.

Colin also mentioned our flagship global community development programme, Street to School, a five year commitment to help half a million children fulfil their potential, and that is gaining momentum. We have 17 partnerships in place and have helped 128,000 children since 2009 with projects across the UK, North America, Europe and Asia.

In the UK, you may have seen the extensive coverage in the Daily Telegraph covering the first International Day for Street Children, and we are extremely proud to have been one of the principal sponsors. We know our corporate responsibility agenda really resonates with people inside Aviva. In a recent survey, 74% of them praised the genuineness of our commitment, and while we know that there's always more to do, I hope you too will be impressed by the continued focus that we are putting on this area.

Now, let me turn, if I can, to corporate strategy. In 2010, it was fairly clear, I think, that the world was a different place from what it had been three or four years before. Our customers were buying different products, looking in particular for more guaranteed products. Economies which had been growing steadily up to 2007 started to diverge and now we see different markets growing at very different rates.

Regulatory environments throughout our markets are tougher. Many governments and regulators have responded to the crisis by becoming a little more parochial and in many ways the world is a less global place. As we look into 2011 and beyond therefore we refreshed our strategy to suit that new world.

Our approach was to prioritise investment of both management's time and capital in markets where we already have strength and where we have the greatest potential for profitable growth. In practice that means focusing on the UK, seven key markets in Europe, the US and Canada, and two key markets in Asia, namely China and India. Of course, that means making some adjustments to our portfolio going forward. Our plan, up for approval today at the EGM, is to reduce our holding in Delta Lloyd by a further 15%, and that's consistent with our refreshed strategy. The move will increase liquidity, further strengthen our balance sheet, and free up capital for investment in other priority areas. And we are also focusing on operational excellence, in our life, our general insurance and our asset management businesses. They are excellent businesses in their own rights, with strong market positions, good growth prospects and attractive returns, but on top of that, we are focused on driving additional value from running these businesses more closely together. That has financial benefits, of course. Aviva benefits from diversification of risk that allows us to hold 30 to 40% less capital to write new general insurance business than would be the case if it was a stand-alone business. But there are also distinct benefits in uniting under a single strong brand and being able to offer customers a wide range of products through a variety of different channels and as the only scale composite insurer in the UK, we believe this gives us a distinct competitive advantage.

Here's one example: for some time we've used the comedian Paul Whitehouse to present our campaign for direct motor and car insurance. Awareness and favourability of the campaign has reached the point where we took, I think, the bold step to try to tackle the highly emotionally charged subject of loss and bereavement with regard to life insurance as part of the campaign. I hope you find the approach as sensitively handled as I do. It has received much critical acclaim, much praise indeed from other chief executives in the UK industry that I have talked to, and sales in the protection space are up by more than a third as a result of this campaign.

## **Film**

"Last minute packing as usual."

"Mum where's my goggles?"

"Where you left them!"

"Can't find this, can't find that. Still, couldn't do without a family holiday now and again. All taken care of though."

"And Katy will get help with Uni."

"Cab's here."

"And Nick's swimming lessons, sorted."

"Mum, it won't be the same without Dad".

"We all miss him, love."

"Help secure your family's future with life insurance from Aviva."

## **End of film**

### **Andrew Moss, group chief executive, Aviva plc:**

I hope that demonstrates again how focused we are on the needs of our customers. But finally, of course we need to continue to exercise financial discipline, and we are doing that through delivery of a number of short term goals. At least £1.5 billion of operational capital generation in 2011; an internal rate of return on life new business of at least 12% with a pay back of 10 years or less; a general insurance combined operating ratio of 97% or better for this year, and over the next two years, £200 million of cost savings and £200 million of further efficiency gains.

So to summarise, we have, I think, come a long way in the last few years, and although the economic environment will certainly continue to be tough in 2011, I believe we have every reason to be optimistic about Aviva's next chapter.

We have strong positions in key markets, with both a demonstrable demographic need and growing customer demand for long term saving and that means excellent potential for profitable growth in key areas. We have an operating model that will serve us well in the new regulatory and capital environment and we've made a core commitment to putting customers at the heart of everything that we do. I want to thank all of Aviva's employees for their commitment, and I want to thank each of you as shareholders for your loyalty and support. Aviva is strong, it's growing and it's profitable.

The momentum is there and we have a clear strategy now to maximize the opportunity for growth that lies ahead. Thank you for listening.