

**Aviva plc**

**2002 Final Results**

**26 February 2003**

# Agenda

■ Business and strategic review

**Richard Harvey**

Group Chief Executive

■ Financial and capital review

**Mike Biggs**

Group Finance Director

■ Questions and answers

# 2002 results highlights

- Group operating profit<sup>1</sup> £1,798m (2001: £1,983m) after £123m net charge for annuitant mortality
- MSSB operating profit<sup>2</sup> £1,296m (2001: £1,512m)
- Life and pensions new business up 2% on APE basis
- Worldwide general insurance COR of 101.4%
- Dividend of 23.0p (2001: 38.0p)
- Post-tax return on capital of 10.1%

(1) Including life achieved operating profit and stated before tax, amortisation of goodwill and exceptional items and including the results of both continuing and discontinued operations.

(2) Stated before tax, amortisation of goodwill, amortisation of acquired value of inforce long-term business and exceptional items and including the results of both continuing and discontinued operations.

# Industry trading conditions (1)

## Life & savings

- Long-term growth dynamics remain good
- Current demand for savings weakened by falling equity markets
- Bear market pressure on uncompetitive operating models and weaker capital players
- Heavy UK regulatory activity moving from “review” towards “implementation” phase

# UK life regulatory

- Challenge to 1% charge cap
  - will not write uneconomic business
- Depolarisation: implement Q4 2003
  - not expect material impact on IFA channel
  - Aviva well positioned with multi-distribution capability
- Consultation phase for Pensions green paper, Sandler, With-profits review

**More incentives required to stimulate savings**

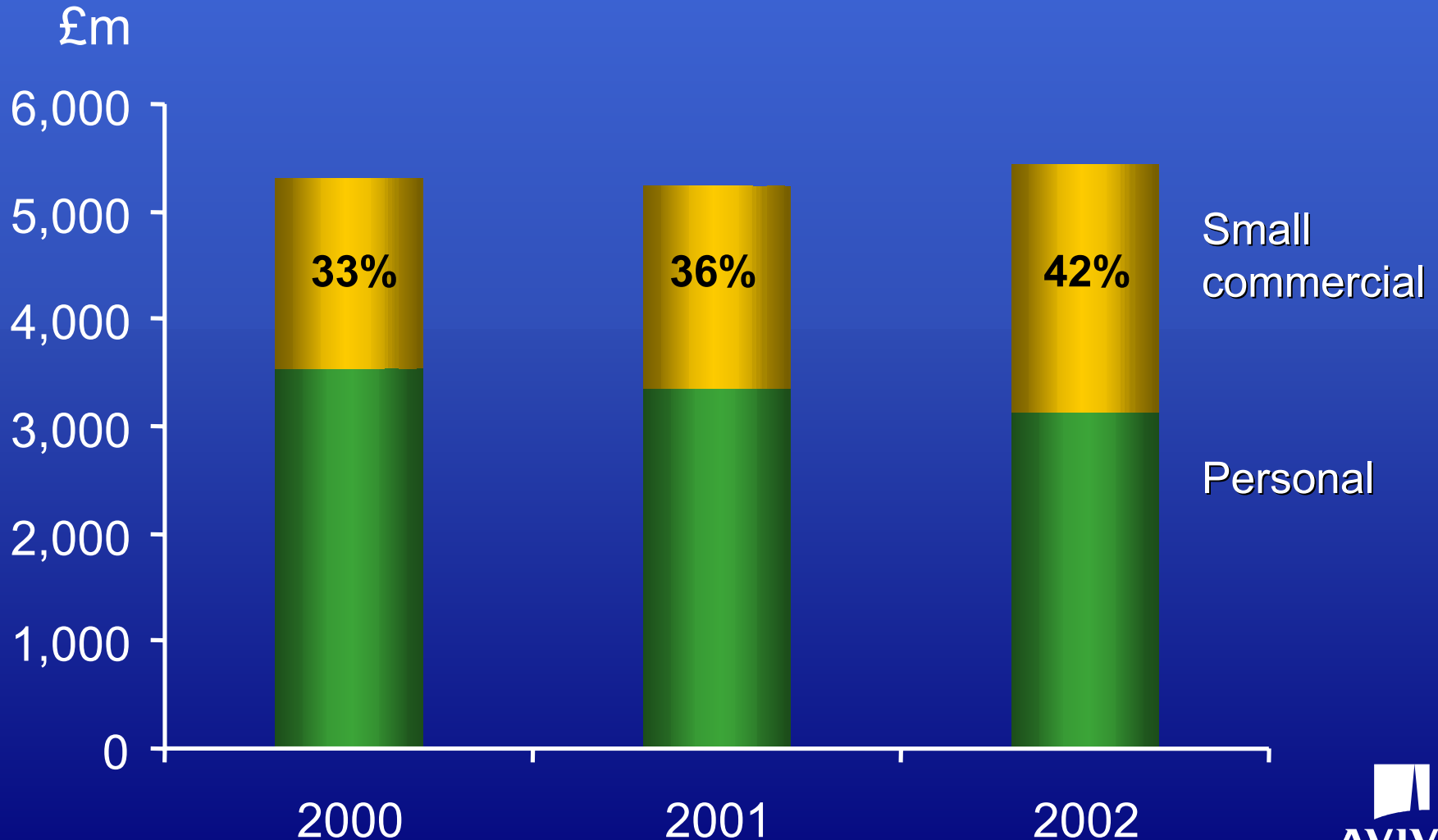
# Capturing value from bancassurance

## Worldwide sales up by 50%

		Total sales £m	New business margin
UK	(RBSG)	693	21.5%
Spain	(bank network)	1,252	51.3%
Italy	(bank network)	964	24.9%
Singapore	(DBS)	121	29.4%
		<u>3,030</u>	<u>35.1%</u>

# UK general insurance: “Flexing product mix in the cycle”

## UK general insurance GWP



# Increased focus in 2003 on:

- Capital management / returns
- Sizing costs to revenues
- Cash generation

# Capital management: resilient position

- Capital and cash generative model
- Resilient CGUII structure
- Strong UK life with-profit “realistic” capital
  - orphan estate £4.3bn
  - manage bonuses / MVAs / asset mix

# Portfolio management: captured value from general insurance disposals in 2002

	Price achieved £m	Price / NAV	
CGU Courtage (GI)	189	1.4x	Larger risks: outside strategy
Plus Ultra (GI)	152	2.9x	Sub-scale
GAUM (aviation)	30	2.0x	Larger risks: outside strategy
Aus/NZ (GI)	651	2.1x	Very attractive offer
	<u>1,022</u>	<u>2.0x</u>	

# Invested £250m in life & savings distribution and Asia life in 2002



# Capital management / returns: 2003

- Raise capital hurdle rates on:
  - new developments
  - internal projects
- Capital efficient deals
- Products: aim to increase returns through pricing and product design



**Price for returns not volumes**

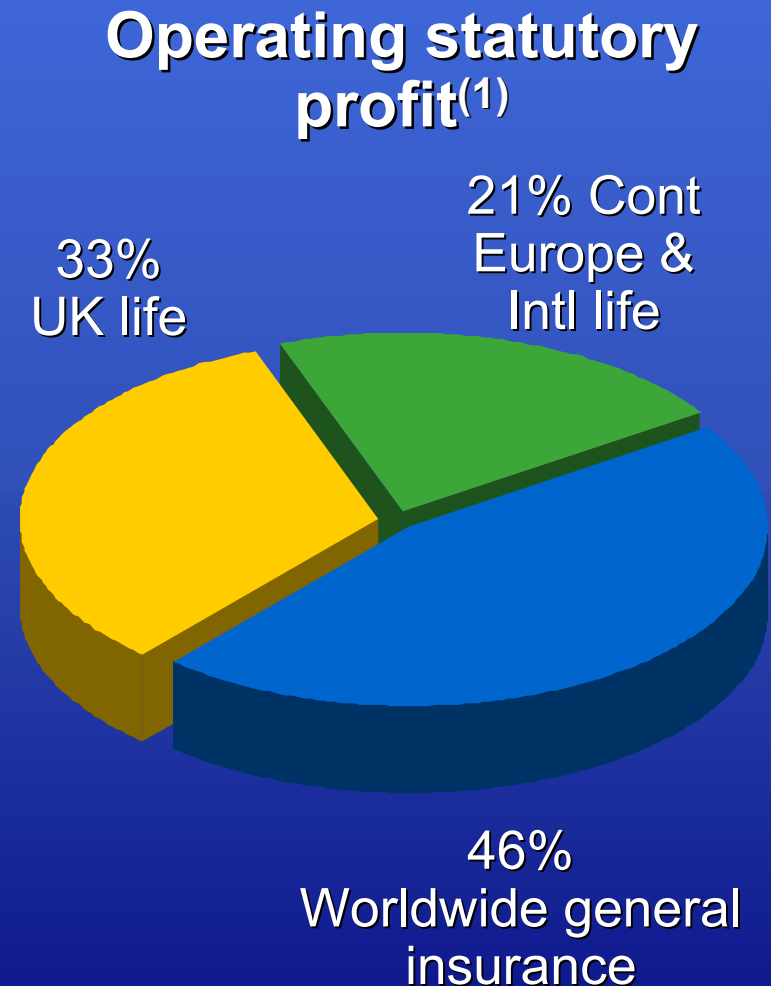
# Size costs to revenues: Aviva expense base already efficient

- £317m p.a. merger cost savings achieved
- Market leading cost bases in Spain and Italy
- >50% of Aviva vie in France through AFER has admin costs of 0.1% (vs market average of 0.33%)
- Worldwide general insurance expense ratio<sup>1</sup> 11.3% (peer group leader)

(1) Continuing operations.

# Cash generation

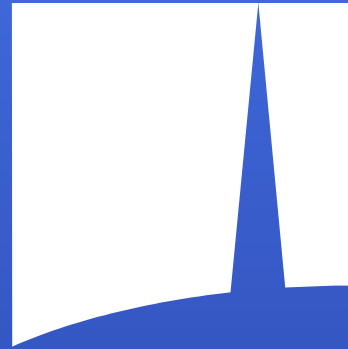
- Dividend cut produced self-sustaining, “cashflow” positive operating model
- Strong statutory profit contribution from general insurance
- Capital management disciplines and cost focus support cash generation



(1) Key business areas. Continuing operations.

# Outlook

- Life sales environment remains difficult
- New distribution coming on stream
- Strong contribution from general insurance
- Focus on:
  - capital management and returns
  - sizing costs to revenues
  - cash generation



**AVIVA**

**Financial and capital review**

**Mike Biggs**

**Group Finance Director**

# Group headline results

- Group operating profit<sup>1</sup> of £1,798m (2001: £1,983m) after net annuitant mortality charge of £123m
- On MSSB basis operating profit at £1,296m (2001: £1,512m)
- Dividend cover on MSSB basis at 1.65 times
- Operating EPS<sup>1</sup> at 51.5p (2001: 55.5p)
- Net asset value<sup>2</sup> at 433p (31 Dec 2001: 524p, restated<sup>3</sup>)
- Post-tax return on capital of 10.1% (2001: 9.7%, restated<sup>3</sup>)

<sup>1</sup> Including life achieved operating profit before amortisation of goodwill and exceptional items and including the results of both continuing and discontinued operations.

<sup>2</sup> After adding back equalisation provision.

<sup>3</sup> Restated for the effects of FRS 19.

# Delivering profitable new business

	2002		2001
	Contribution £m	Margin %	Margin %
UK	290	23.6	25.8
France	69	30.9	33.9
Ireland	29	28.2	28.5
Italy	38	24.9	22.2
Netherlands	21	13.3	22.3
Spain	87	45.9	46.5
Other countries	44	13.9	9.6
<b>Group</b>	<b>578</b>	<b>24.4</b>	<b>25.5</b>

**New business internal rate of return of 16%**

# Annuitant mortality – UK

	Achieved profits	MSSB
Cohort	Medium	Medium
Net charge	£123m	nil

- In line with recent CMIB report
- Own book has better experience

Maintaining prudent reserving strength

# Life achieved operating profit

	2002 £m	2001 £m
UK	699	850
France	228	227
Ireland	75	79
Italy	52	55
Netherlands	200	221
Poland	111	99
Spain	83	80
Other Europe	(2)	18
International	78	36
<b>Total</b>	<b><u>1,524</u></b>	<b><u>1,665</u></b>

- Net impact of UK annuitant mortality strengthening of £123m
- Adverse experience variances in the Netherlands offset by beneficial operating assumption changes
- Changes in risk margin in the US

**Robust results in tough conditions**

# Life modified statutory result

	2002 £m	2001 £m
UK	626	689
France	142	160
Ireland	36	49
Italy	24	26
Netherlands	111	214
Poland	66	46
Spain	27	36
Other Europe	(19)	(21)
International	9	(5)
<b>Total</b>	<b>1,022</b>	<b>1,194</b>

- UK with-profit – impact of falling bonus rates
- Netherlands – lower investment returns and higher development spend

# Excellent general insurance results

COR*	2002 %	2001 %
UK	101	102
France	102	104
Ireland	100	101
Netherlands	105	104
Canada	102	107
Continuing operations	102	103
Aust & NZ	98	99
	<b>101</b>	<b>102</b>

■ Operating profit<sup>1</sup> at £959m (2001: £924m)

■ LTIR<sup>2</sup> down £73m to £1,026m

■ Expense ratio<sup>2</sup> of 11.3% (2001: 11.9%)

\* Combined operating ratio.

<sup>1</sup> Including both continuing and discontinued operations.

<sup>2</sup> Continuing operations.

Leading results amongst European insurers

# Other financials

- Fund management result of £5m (2001: £29m)
- Corporate costs of £218m (2001: £187m)
- Non-insurance: loss of £69m (profit of £7m)
- Investment variances: loss of £3.5bn (2001: £2.6bn)
  - non-life variances: £1.2bn
  - life variances: £2.3bn
- Adverse impact of economic assumption changes of £561m

# Movement in equity shareholders' funds

	FY 2002		1h 2002	
	£bn	NAV**	£bn	NAV**
Start of period position	11.5	524p	11.5	524p
Operating profit post-tax	1.2		0.6	
Post-tax non-operating items				
– Goodwill, CER, P/L on sale	0.1		(0.1)	
– Impact of investment markets and economic assumption changes	(2.5)		(0.9)	
– Other non-operating items*	(0.5)		–	
Dividends	(0.5)		(0.2)	
Foreign exchange	0.2		0.3	
Period end position	9.5	433p	11.2	511p

\* Includes the post-tax impact arising from changed asset mix, a change in the assumed future with-profit bonus rate profiles and adverse tax effects.

\*\* The NAV is stated after adding back the equalisation provision (CER).

# Defined benefit pension schemes – Group <sup>25</sup>

- FRS17 calculation shows a deficit of £456m (2001: surplus of £233m) groupwide
- UK defined benefit scheme closed in 2001
- Contribution rate increased from 10% to 25% of pensionable salaries from 1 January 2003
  - no P&L effect for 2003
- There is no immediate plan to fund the FRS17 deficit
- Pension scheme cash flow positive for foreseeable future

# Equity content in shareholders' funds

Lower equity content in shareholders' funds  
at £3.1bn (2001: £4.9bn)

	£bn
2001 year end	4.9
Change in market values	(1.4)
Disposal of Australia/ New Zealand	(0.2)
Divestment of strategic stakes	(0.6)
Net reinvestment	0.2
Foreign exchange	0.2
<b>2002 year end</b>	<b><u>3.1</u></b>

# Impact of lower assets on future profits

- General and health insurance result
  - falls in opening values will mean lower investment returns in 2003: estimated impact of £125m
  
- Life achieved operating profit result
  - reduction in expected returns for 2003 estimated at £175m

*Note: the estimated impacts shown above are illustrative based upon 2002 performance adjusted for 1 January 2003 asset values and, for life achieved operating profit, year end economic assumptions.*

# Capital strength of the group

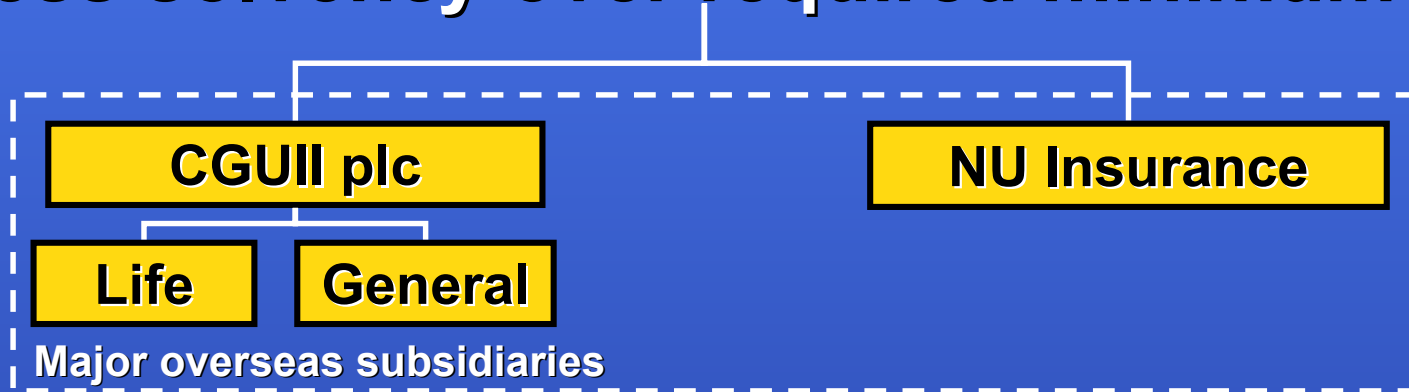
# Strong capital bases in operations

	Regulatory perspective	Realistic perspective
CGUII Group	XSM* / solvency cover	-
NU Insurance	XSM* / solvency cover	-
Worldwide general insurance and health	-	Risk based capital
<b>UK life</b>	Free asset ratio	Orphan estate

\* XSM represents excess solvency capital over required minimum margin

# Regulatory measure: operational capital

## Excess solvency over required minimum margin



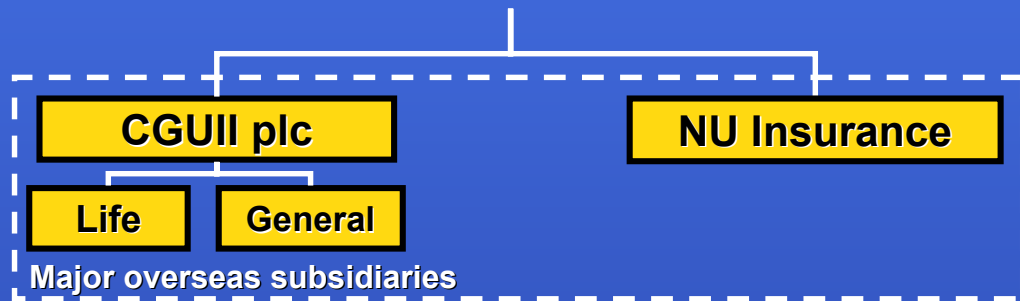
	<u>CGUll plc</u>	<u>CGUll group</u>
Available assets	£2.6bn	£4.9bn
Required minimum margin	£0.6bn	£2.9bn
XSM* – 31 December	£2.0bn	£2.0bn
Cover	4.2x	1.7x

	<u>NU Insurance</u>
Available assets	£0.6bn
Required minimum margin	£0.3bn
XSM* – 31 December	£0.3bn
Cover	2.2x

\* XSM represents excess estimated solvency capital over required minimum at 31 December 2002.

**Efficient structure provides regulatory capital strength**

# General insurance: operational capital strength



Regulated available assets* – 31 Dec	£5.5bn
Add: equalisation provision	£0.3bn
Less:	
GI & health RBC requirement	(£3.1bn)
<b>Capital available to support overseas life businesses</b>	<b>£2.7bn</b>

- RBC requirement 36% of NWP is £3.1bn
- Strong solvency
- Resilience to equity market movements
- £2.7bn available to support overseas life businesses (equivalent to over 1.7x minimum solvency requirement)

\* Represents aggregate available assets of CGUI group £4.9bn and NU Insurance £0.6bn

Exceeding GI risk based capital requirements providing sufficient capital for growth

# UK Life – capital strength

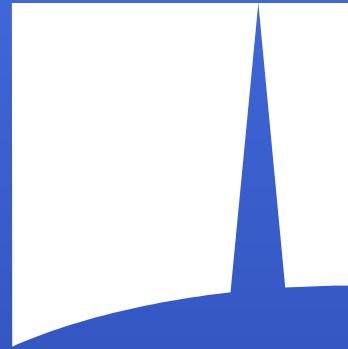
## 31 December 2002

	31 Dec 2002	30 June 2002	31 Dec 2001
Orphan estate	<u>£4.3bn</u>	<u>£4.7bn</u>	<u>£5.2bn</u>
Free asset ratio			
– including implicit items	11.8%	14.1%	14.7%
– excluding implicit items	7.7%	10.1%	10.8%

*Orphan estate – after allowing for realistic assessment of liabilities and is calculated after prudently allowing for over £4bn in respect of the expected cost of guarantees and the glide path.*

# Group financial strength and results

- Capital strength
  - Statutory basis resilient
  - Realistic basis very strong
- Prudent financial management
- Robust operating performance in difficult markets
- Dividend supported by statutory profits



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**Appendices**

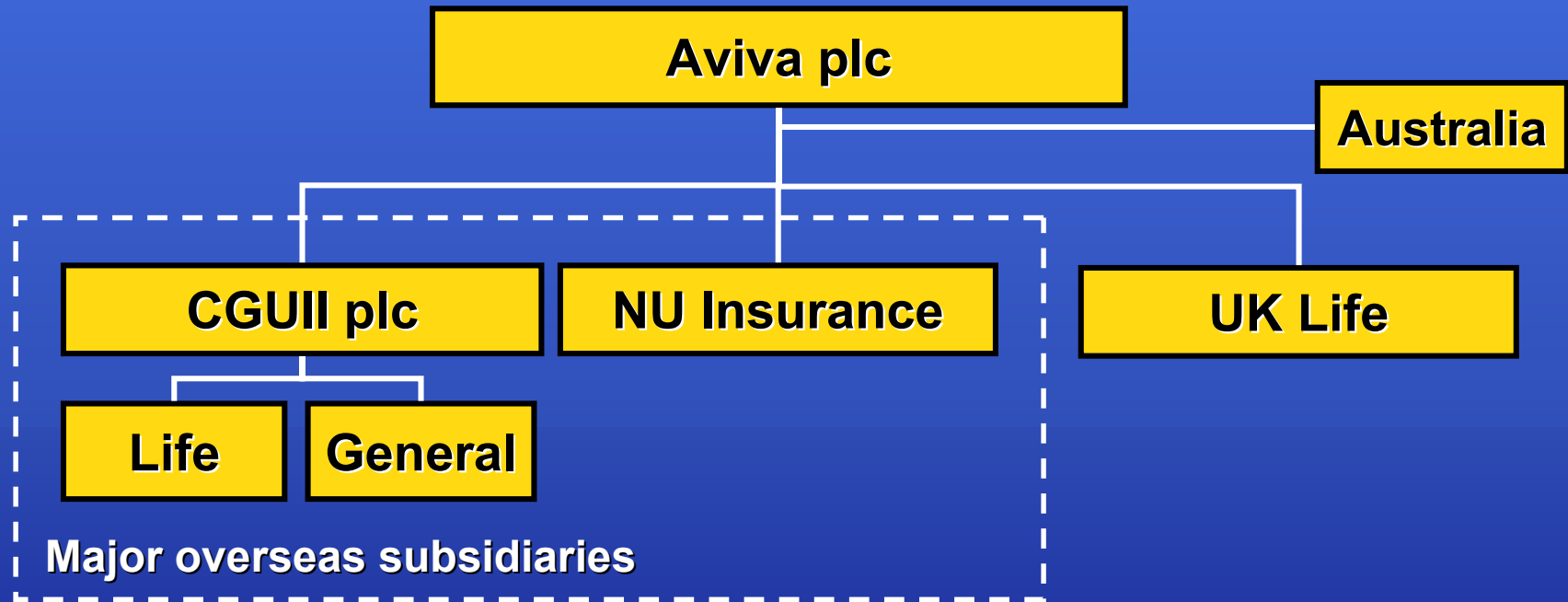
# Capital at a group level

- Equity shareholders' funds at 31 December of £9.5bn
- Capital employed in our businesses at 31 December of £17.3bn
- EU Directive Group solvency basis
  - 31 December 2002                      £0.7bn excess
  - excludes the strength of the UK and Irish life funds
- Cash generative operating model after current levels of new business

**Resilient capital base**

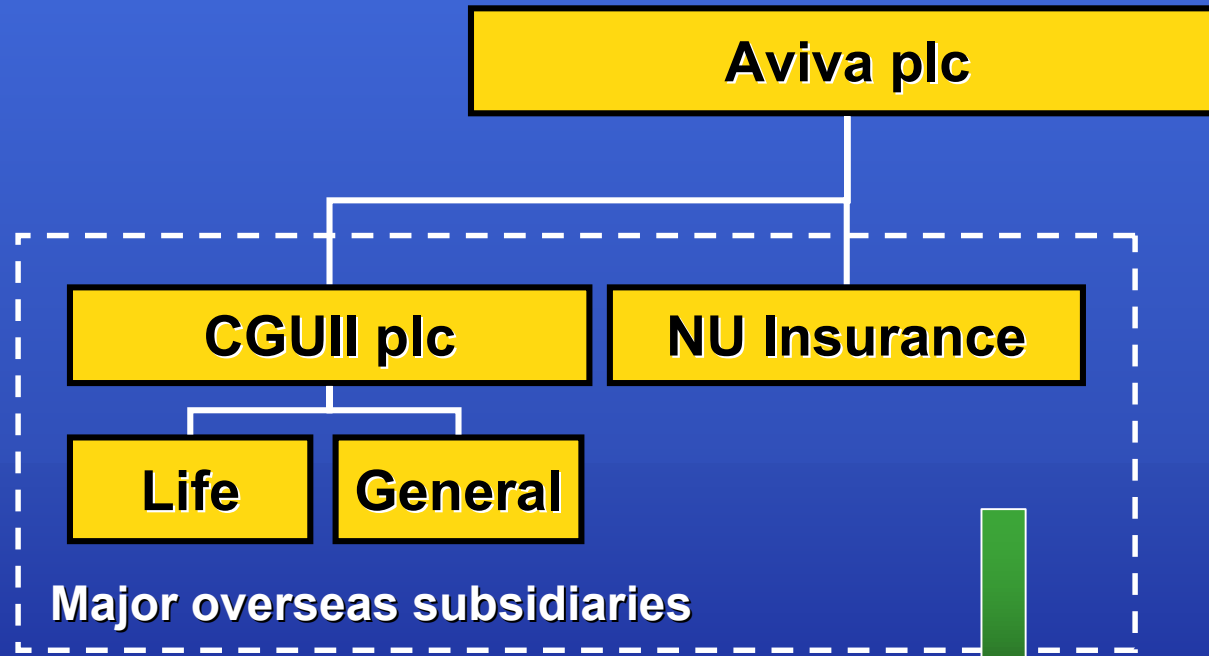
# Operational capital

## Group structure



# Regulatory measure – operational capital

## Excess solvency over required minimum margin



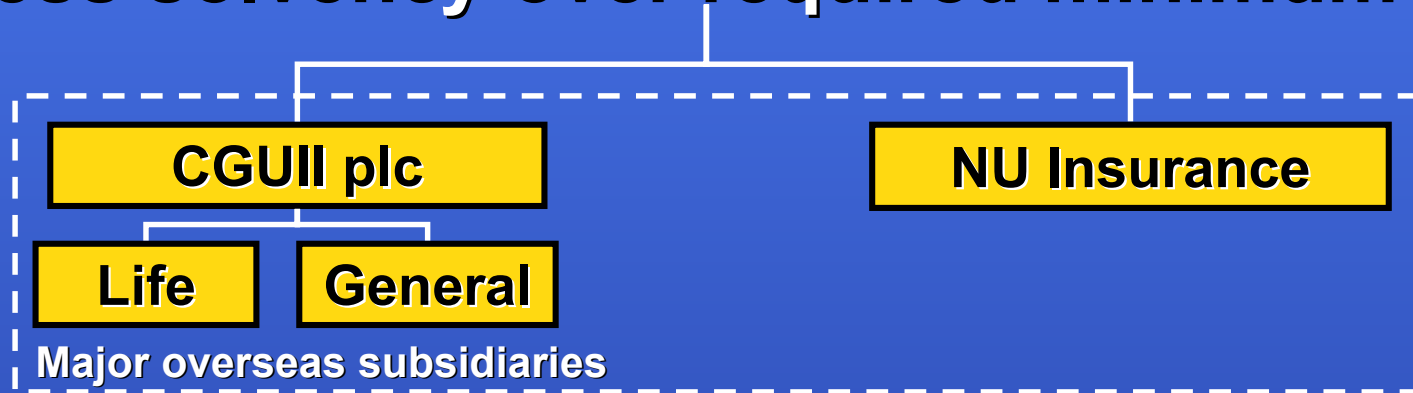
**XSM\***

	CGUll plc	NU Insurance
31 Dec 01	£2.7bn	£0.4bn
30 June 02 (est)	£2.7bn	£0.4bn
31 Dec 02 (est)	£2.0bn	£0.3bn

\* XSM represents excess solvency capital over required minimum margin.

# Regulatory measure – operational capital

## Excess solvency over required minimum margin



	<u>CGUll plc</u>	<u>CGUll group</u>
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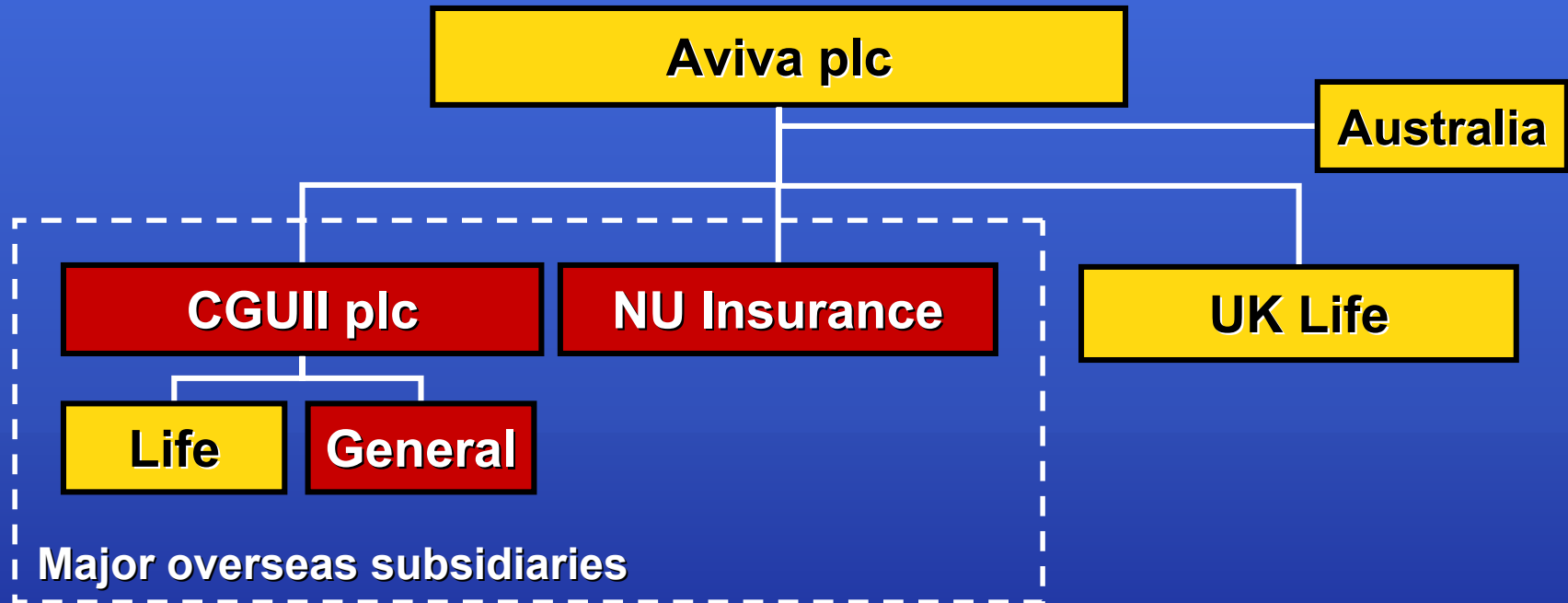
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Available assets	£0.6bn
Required minimum margin	£0.3bn
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\* XSM represents excess estimated solvency capital over required minimum at 31 December 2002.

**Efficient structure provides regulatory capital strength**

# Realistic measure – operational capital

## Risk based capital – worldwide GI & health



# Risk based capital

## Worldwide general insurance and health



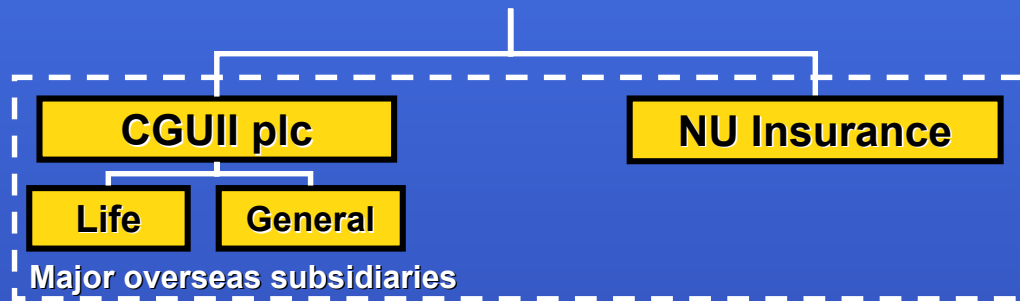
\* Excluding goodwill of £282m and after adding back the equalisation provision of £314m.

\*\* 2002 net written premiums excluding businesses sold in the year.

- RBC stochastic model factors in market, credit, underwriting and reserve tail risk
- 99% confidence of meeting statutory solvency margin over a 5 year period, after allowing for planned business growth
- Capital requirement of £3.1bn or 36% of net written premium

**Exceeding GI risk based capital requirements providing further flexibility for financing growth**

# General insurance: operational capital strength



Regulated available assets* – 31 Dec	£5.5bn
Add: equalisation provision	£0.3bn
Less:	
GI & health RBC requirement	(£3.1bn)
<b>Capital available to support overseas life businesses</b>	<b>£2.7bn</b>

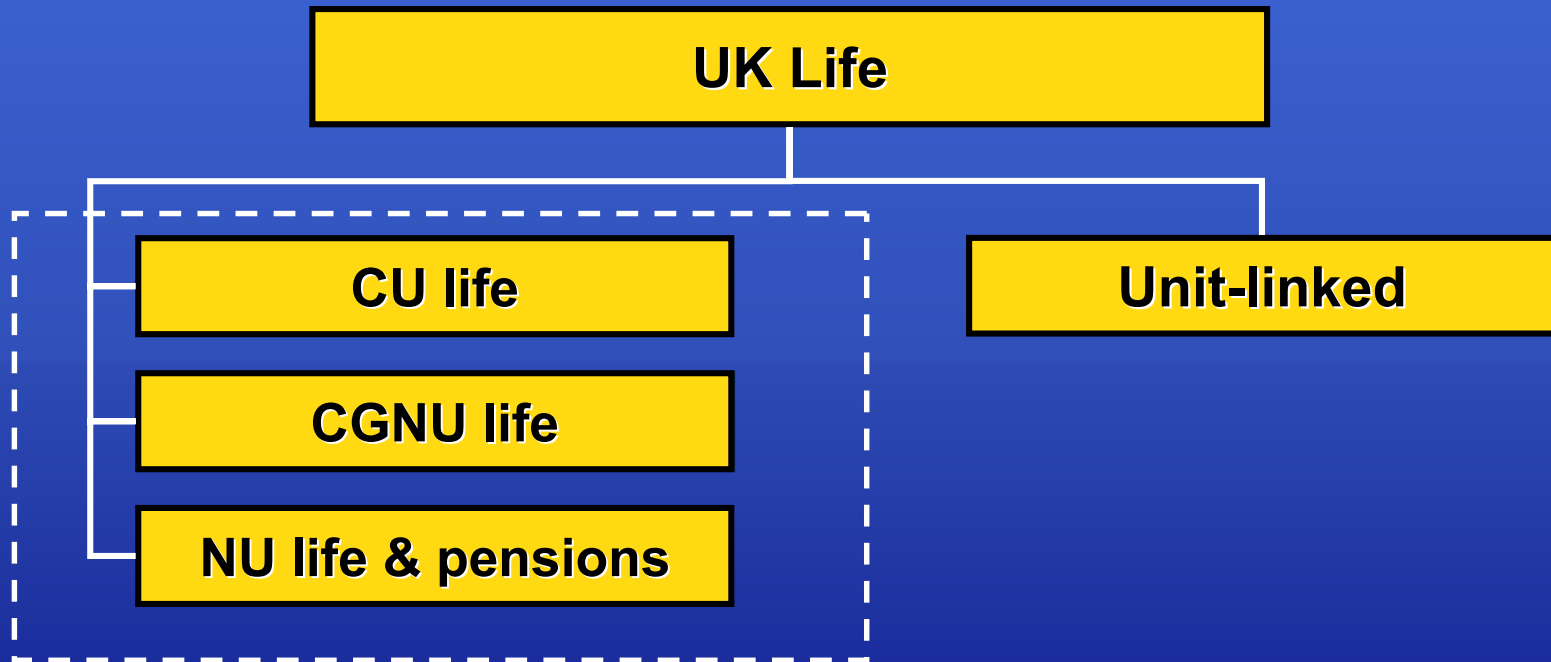
- RBC requirement 36% of NWP is £3.1bn
- Strong solvency
- Resilience to equity market movements
- £2.7bn available to support overseas life businesses (equivalent to over 1.7x minimum solvency requirement)

\* Represents aggregate available assets of CGUI group £4.9bn and NU Insurance £0.6bn

Exceeding GI risk based capital requirements providing sufficient capital for growth

# Operational capital - regulatory

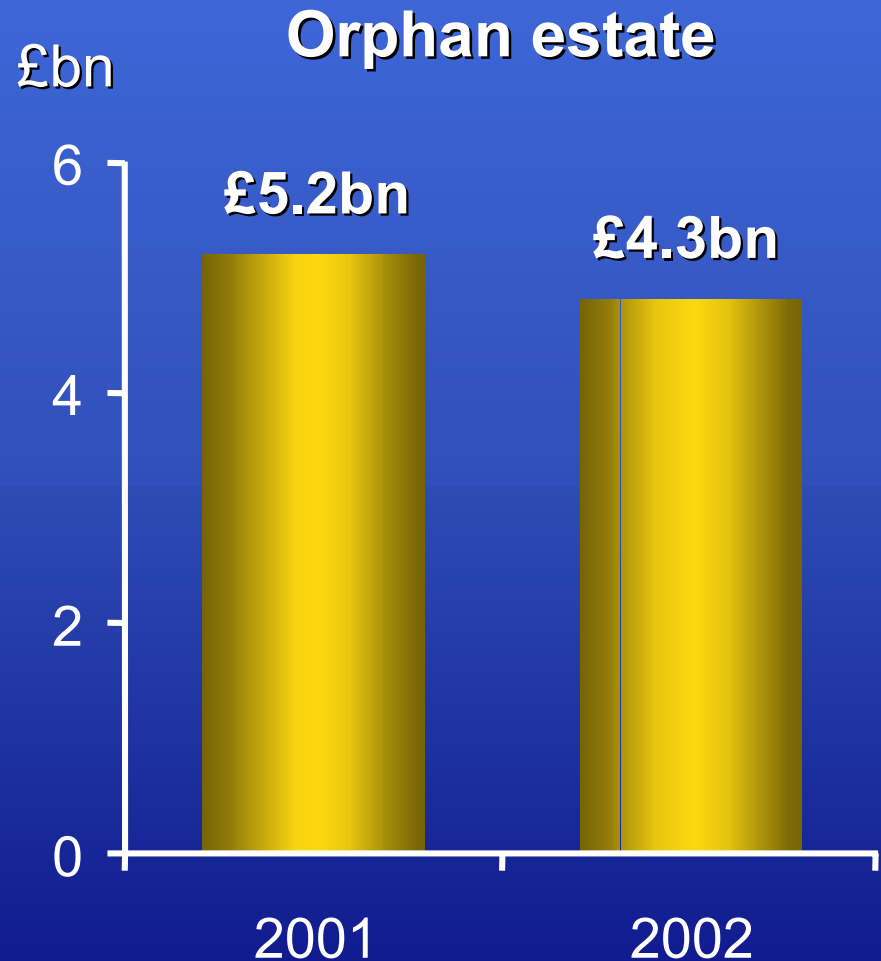
## UK life structure



# UK Life – capital strength

## Free asset ratio

	2002	2001
Including implicit items	11.8%	14.7%
Excluding implicit items	7.7%	10.8%



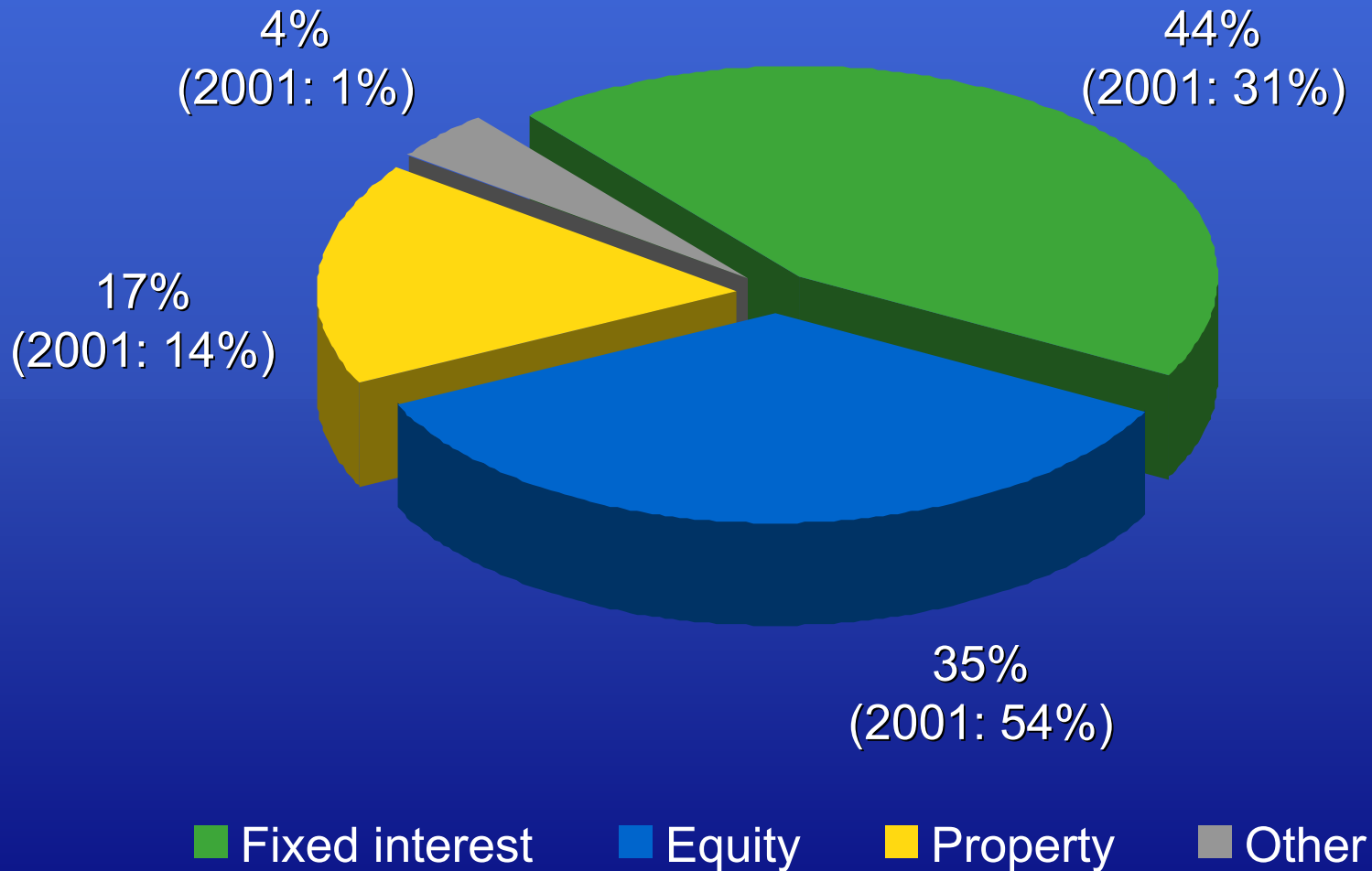
**Resilient capital base**

# Internal capital generation

Post-tax statutory operating profits £bn	Actual	2001 Pro forma	2002 Actual
Profit from in-force	1.4	1.4	1.4
Cash strain from new non-profit business	(0.6)	(0.6)	(0.7)
Life statutory profits (after new business strain)	0.8	0.8	0.7
GI & health	0.6	0.6	0.6
Corporate / other	(0.1)	(0.1)	(0.1)
Borrowing	(0.3)	(0.3)	(0.3)
Post-tax operating profits	1.0	1.0	0.9
Dividend	(0.9)	(0.5)	(0.5)
Retained to fund growth	0.1	0.5	0.4
Additional required solvency margin	(0.1)	(0.1)	(0.3)
<b>Retained after solvency margin</b>	<b>-</b>	<b>0.4</b>	<b>0.1</b>

**Capital generative model**

# With-profit asset mix – 31 December 2002 <sup>45</sup>



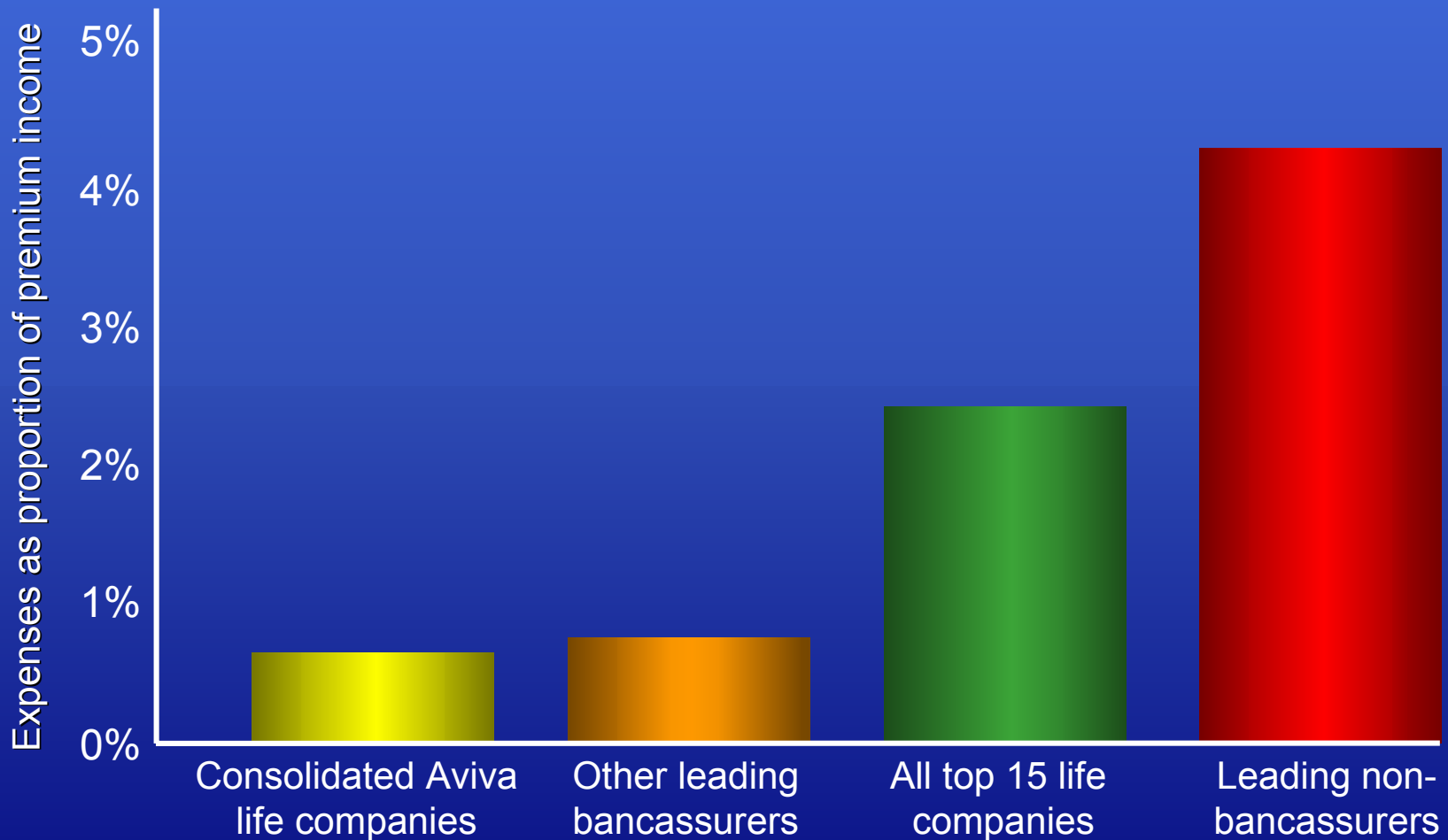
# Strong market positions

	Rank Life	Market share Life (est.)	Rank GI	Market share GI (est.)
UK	2	11%	1	16%
France	10	4%	Top 15	2.5%
Netherlands	4	10%*	4	9%*
Spain	3	7%	–	–
Italy	6	5%	n/a	<1%
Ireland	4	11%	1	24%
Canada	–	–	2	9%
Poland	2	18%	–	–
Singapore	3	11%	2	9%
Turkey	3	13%	–	–
Australia	Top 10	4%	–	–

\* Pro forma ABN Amro JV

# Italy – Aviva has a market leading cost base

## 2001 expense ratios



# Spain – an efficient bancassurance platform

Acquisition and administration costs  
(% of premium, 2Q02)

