

Capital management



Philip Scott, Group Finance Director



Disclaimer

This presentation may include oral and written “forward-looking statements” with respect to certain of Aviva’s plans and its current goals and expectations relating to its future financial condition, performance and results. These forward-looking statements sometimes use words such as ‘anticipate’, ‘target’, ‘expect’, ‘estimate’, ‘intend’, ‘plan’, ‘goal’, ‘believe’ or other words of similar meaning. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which may be beyond Aviva’s control, including, among other things, UK domestic and global economic and business conditions, market-related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory authorities, the impact of competition, the possible effects of inflation or deflation, the timing impact and other uncertainties relating to acquisitions by the Aviva Group and relating to other future acquisitions or combinations within relevant industries, the impact of tax and other legislation and regulations in the jurisdictions in which Aviva and its affiliates operate, as well as the other risks and uncertainties set forth in our 2006 Annual Report to Shareholders. As a result, Aviva’s actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in Aviva’s forward-looking statements, and persons receiving this presentation should not place undue reliance on forward-looking statements.

Aviva undertakes no obligation to update the forward-looking statements made in this presentation or any other forward-looking statements we may make. Forward-looking statements made in this presentation are current only as of the date on which such statements are made.

Agenda



Introduction

- Overview of Aviva's approach

Capital position and rating agency assessment

- New capital disclosures
- Insight into capital constraints

Capital utilisation

- Capital allocation process

Capital generation

- New disclosures
- Increased clarity and transparency

Capital initiatives

- Strong foundations
- More to do...

Capital philosophy



Capital performance

- Maximise risk adjusted returns
- Progressively grow the dividend

Capital allocation

- Use balance scorecard approach to assess and monitor performance on a risk adjusted basis with increasing focus on economic capital

Capital level

- Target the group's core financial strength ratings in the AA range
- Manage the regulatory and economic capital position in line with internal targets

Capital efficiency

- Maximise equity capital efficiency subject to capital adequacy constraints using leverage, securitisation and reinsurance

Aviva's philosophy is centred on capital efficiency to support progressive dividend and profit growth

Capital - multiple metrics



CAPITAL MANAGEMENT

Gearing	Fixed Charge Cover	Group IGD
RATINGS		ICA
Capital Adequacy Ratio		BU Solvency
Distributable reserves		Group Cash
DIVIDENDS		LIQUIDITY
Dividend cover/ external dividends	Internal dividends	Borrowing capacity

Economic capital

Capital bases

- Economic
- Rating Agency
- Regulatory

Liquidity

- Borrowing Capacity
- Group Cash

Dividends

- Internal dividends
- External dividends

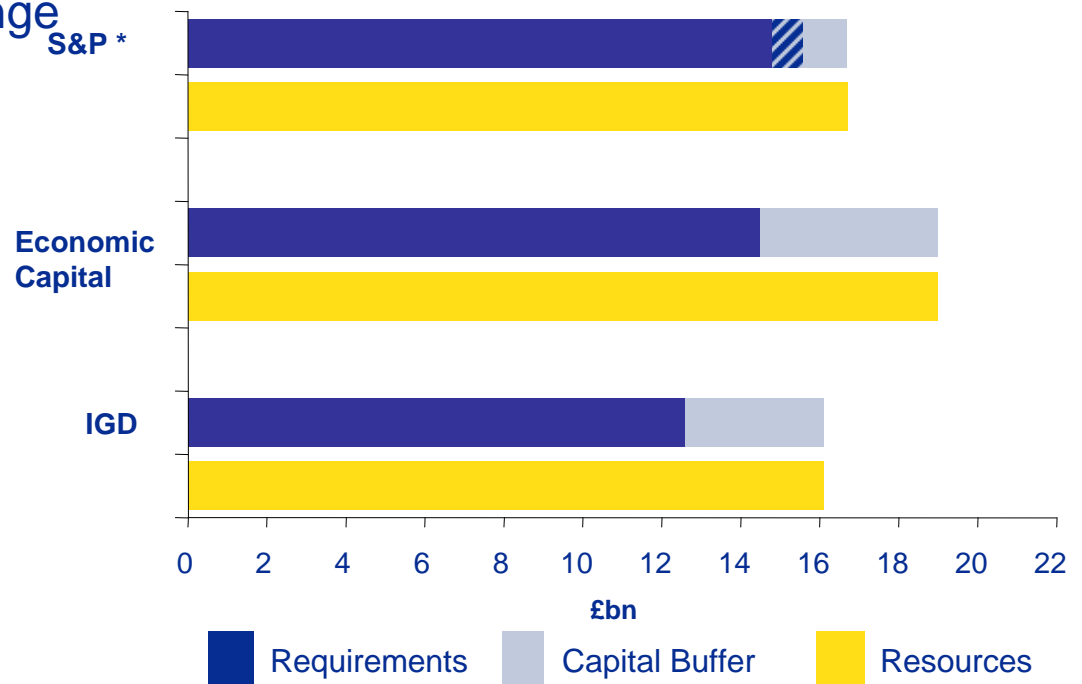
Economic capital becoming the driving basis

Capital position



- Capital Position is in target range
- Rating agency capital is the biting capital constraint
 - but there is room for flexibility
- Capital buffer required for:
 - working capital
 - new growth opportunities
 - organic growth

Capital Position 2006



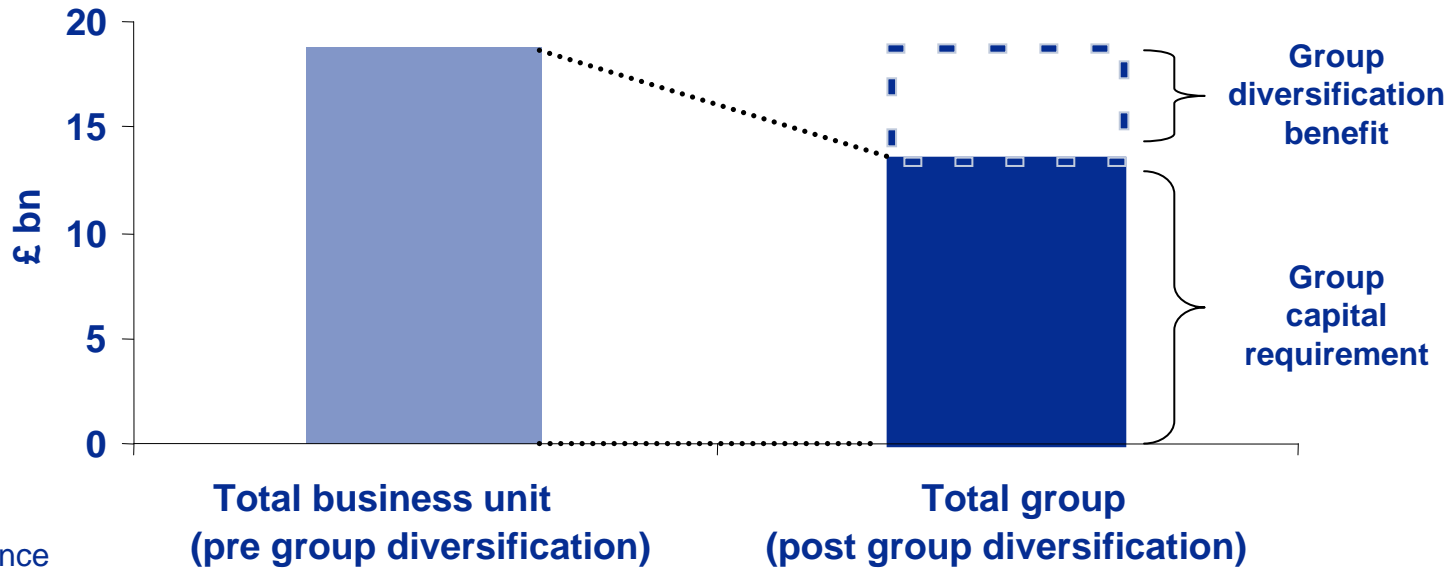
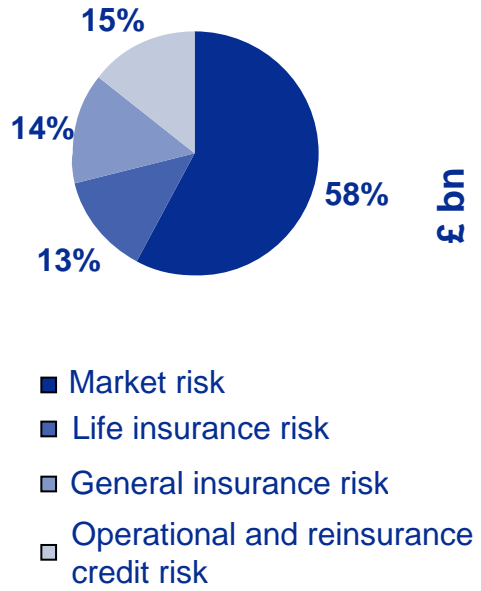
* S&P capital requirements calibrated at AA level

- Capital position is in our target range
- Rating agency capital is the biting capital constraint

Capital position – economic capital risk drivers



2006 Economic Capital Requirements



Aviva's diversified business model reduces volatility and supports economic capital efficiency

Capital Position – rating agency measurement

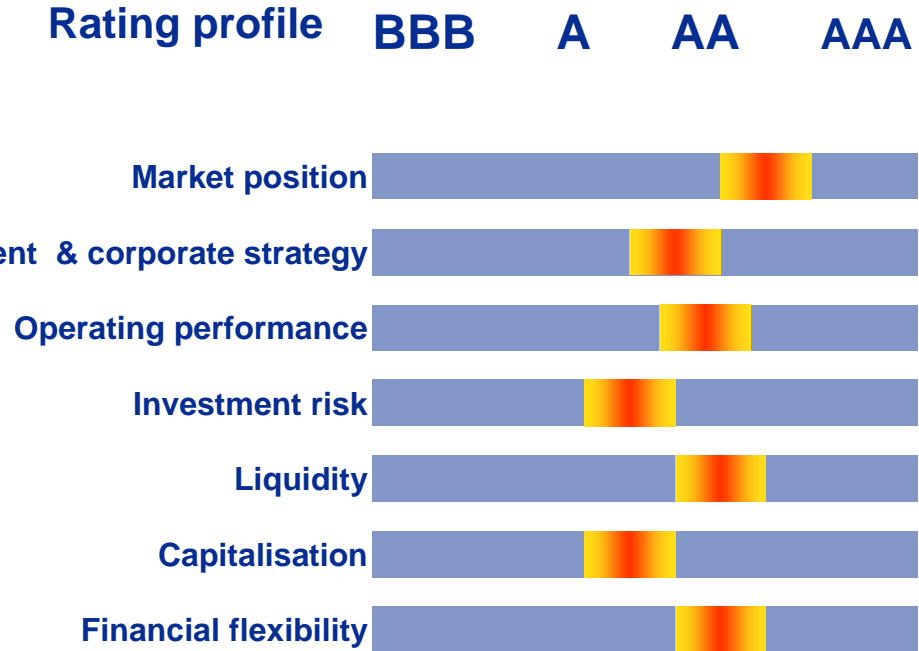


Ratings are based on a range of qualitative and quantitative metrics. Our assessment of the current position is set out in the chart opposite.

“The ratings... reflect... geographical diversification, robust financial performance and excellent capitalisation...”
(A.M. Best, October 2007)

“Market leading position in UK life and UK non life market. Top tier positions in a range of international markets.”
(Moody’s, June 2007)

“The ratings ... reflect ... very strong competitive position, positive strategic management, very strong underlying earnings, and very strong liquidity”
(S&P, December 2006)



- Aviva targets a AA core financial strength rating
- Capital is only one of multiple metrics used by rating agencies

Capital Position – leverage

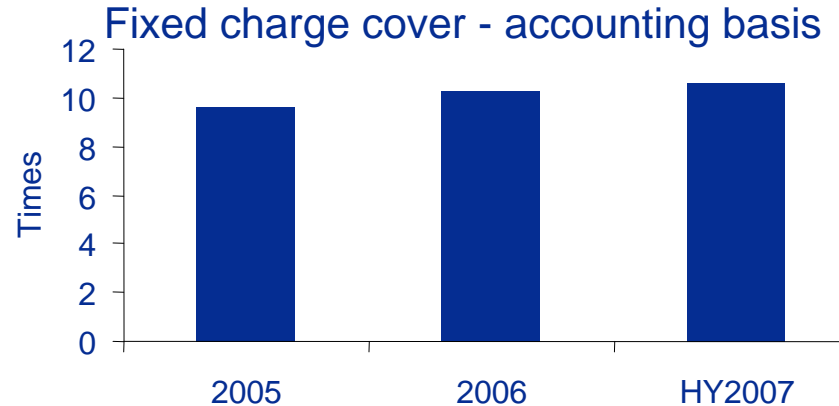
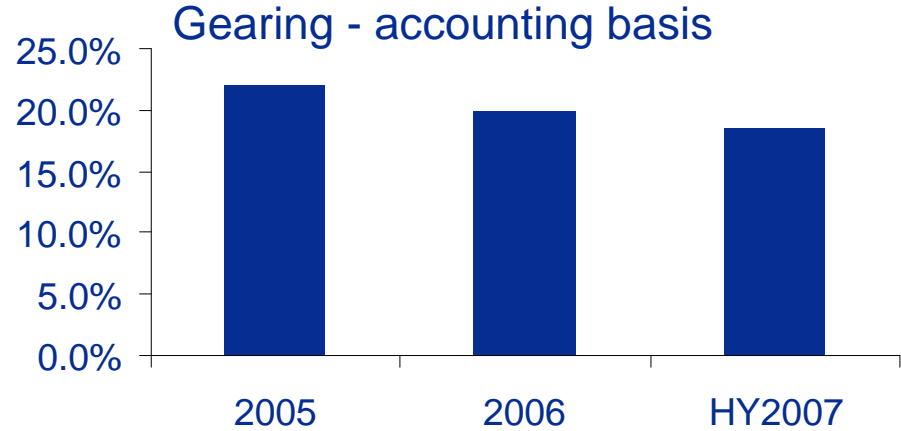


Financial leverage is measured using gearing and fixed charge cover.

Gearing has reduced and is currently below long-term average.

Fixed charge cover is an increasingly important constraint from a rating perspective. Moody's limits are more restrictive at present.

Use of reinsurance and securitisation increase balance sheet efficiency without impacting the financial leverage metrics.



Objective is to maximise equity capital efficiency using leverage, securitisation and reinsurance subject to capital targets

Capital allocation framework



Financial	Score	Strategic	Score
EPS & dividend cover IRR / return on economic capital v hurdle rate Cash flow / payback period		Aligned to strategic priorities Customer strategy Brand strategy CSR & People	
FINANCIAL EVALUATION		STRATEGIC EVALUATION	
Capital	Score	Risk	Score
Project funding Rating agency capital adequacy Economic capital & IGD cover Fixed cover charge / gearing		Business risk Financial risk Integration risk	
CAPITAL MANAGEMENT EVALUATION		RISK MANAGEMENT EVALUATION	

Rigorous capital allocation framework through balance scorecard

Capital performance and allocation



2006 Return on Capital	Operating profit after tax £m	Opening capital £m	Return on capital
Long-term savings			
New business	469		
Existing business	934	15,598	6.0 %
Long term savings total	1,403	15,598	9.0 %
General insurance and health	1,090	5,581	19.5 %
Fund management	66	228	28.9 %
Other business and Corporate	(127)	1,612	(7.9)%
Return on capital employed	2,432	23,019	10.6 %
Borrowings	(269)	(6,663)	4.0 %
Minorities	(208)	(1,457)	14.3 %
Return on capital	1,955	14,899	13.1%

Life new business

- Maximise value (NBC) but subject to acceptable capital efficiency, measured by IRR (2006 12.6%)

Life existing business

- Manage value / meeting or beating assumptions
- Identify and reallocate any Excess Capital

General insurance, fund management and other

- Grow profits, subject to RoCE / GI COR targets
- Improved capital efficiency where possible

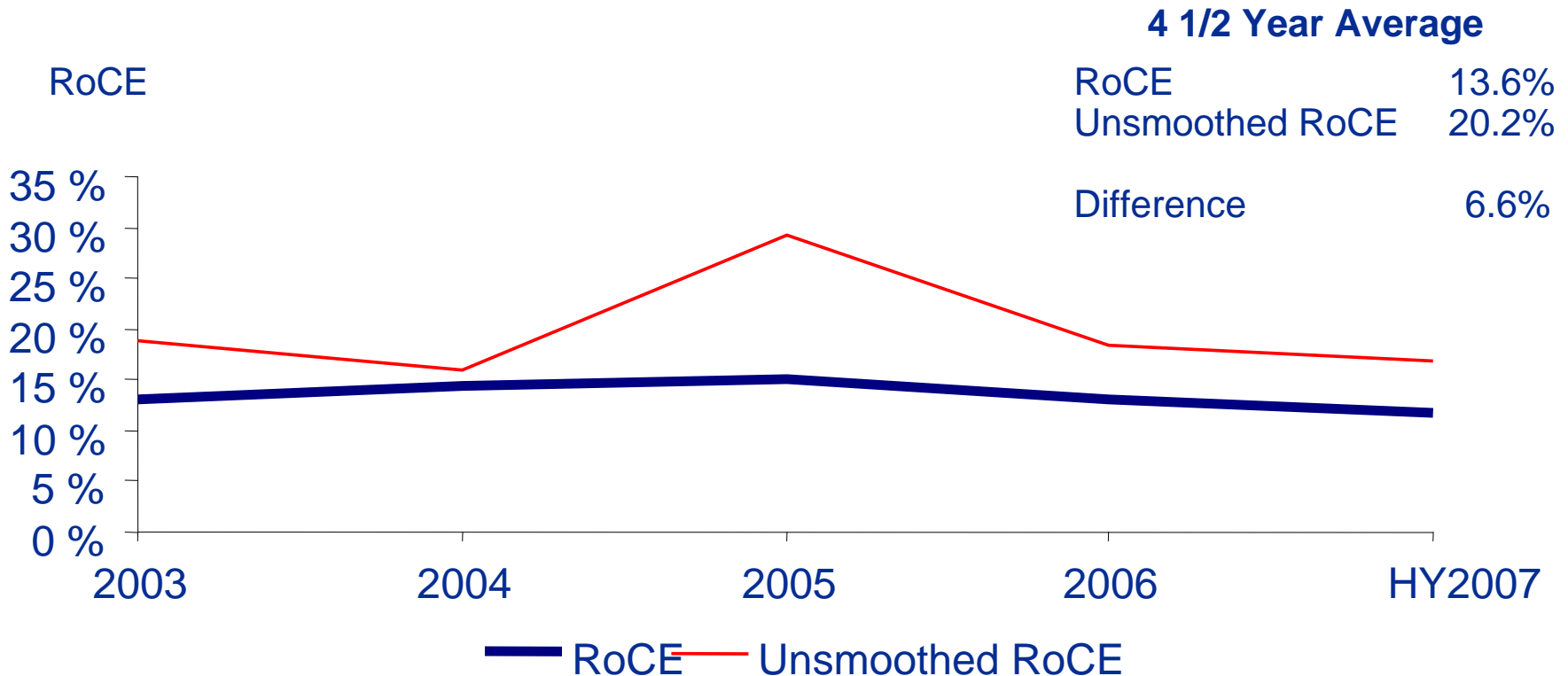
Gearing

- optimise Gearing subject to rating agency constraints

Capital employed is based on accounting definitions which are not aligned with the economic basis

- Three separate profits streams drive return on capital
- Rigorous performance framework targets these separately

Historic return on capital



Average Unsmoothed Return of 20.2% versus RoCE of 13.6% demonstrating the additional returns generated from market risk

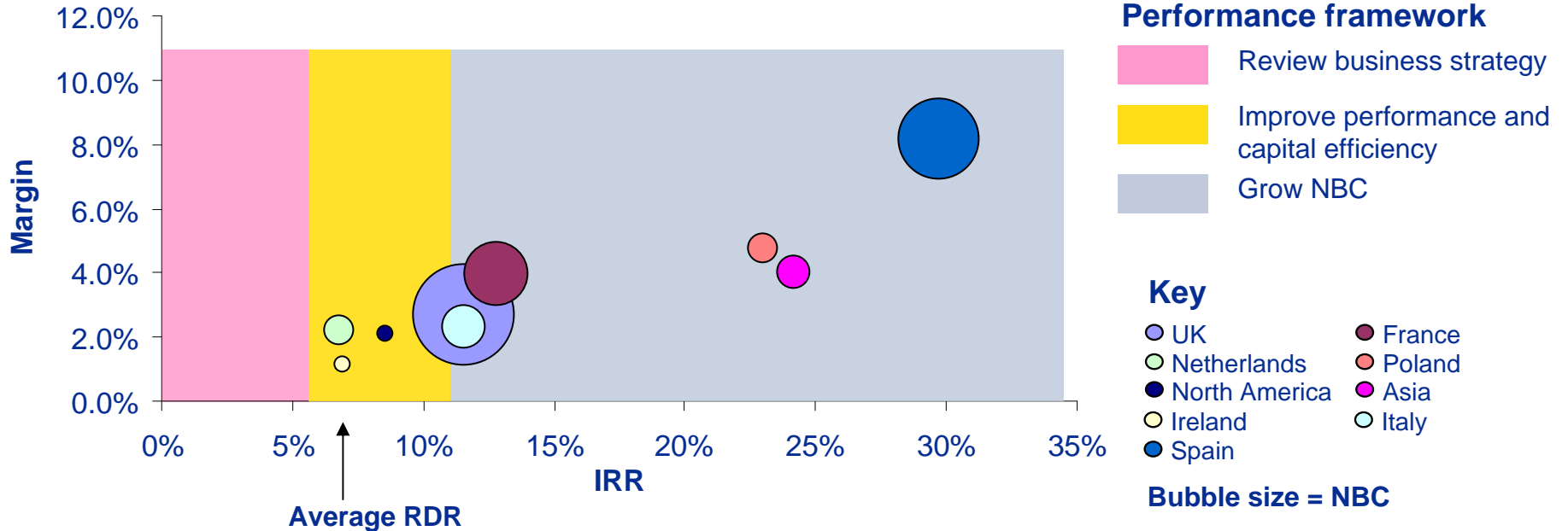
Life new business



Life capital framework focuses on: -

- **maximise value creation** and hence EPS measured by NBC
- **minimum level of capital efficiency** measured by IRR above RDR

Life capital performance 2006



Life framework ensures new business written at strong margin above risk discount rate

Existing life business



	Management actions	Benefits
Expense management	<ul style="list-style-type: none">• Rigorous control of expenses• Efficient business model	<ul style="list-style-type: none">• Improved cash returns• Increased capital generation• improved operating returns and NBC
In-force management	<ul style="list-style-type: none">• Retain inforce business• Manage within expected claims costs• Improved level of customer satisfaction	<ul style="list-style-type: none">• Retaining economic capital• Delivering expected profits
Investment management	<ul style="list-style-type: none">• Produce strong competitive returns to customers	<ul style="list-style-type: none">• Improved business retention• Additional fund management profits
Balance sheet management	<ul style="list-style-type: none">• Optimising regulatory capital position• Deployment of reinsurance and securitisation where applicable	<ul style="list-style-type: none">• Improved RoE• Redeployment of excess capital within the Group

Existing business actions to realise value opportunities

General Insurance

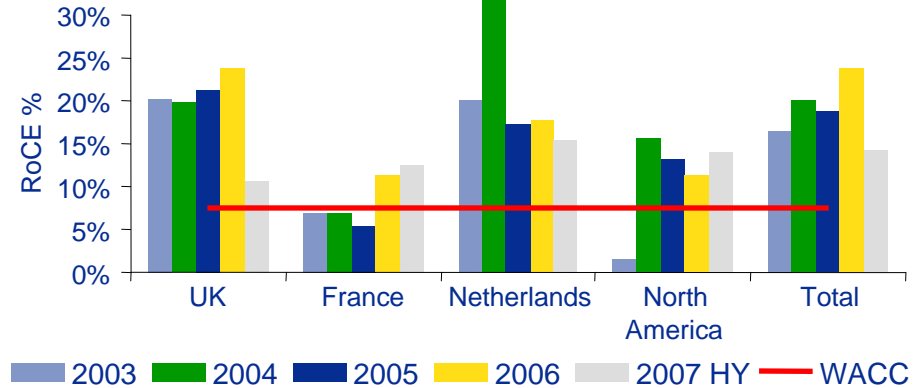


Total RoCE has consistently exceeded the cost of capital

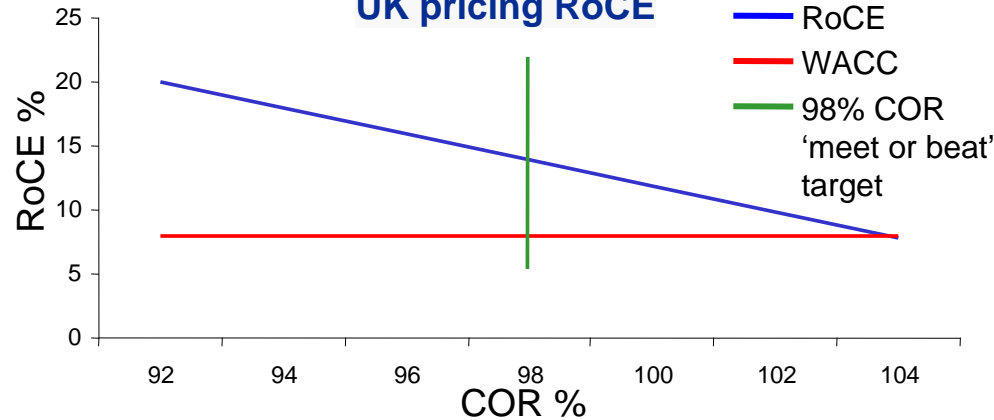
Focus is on generating capital and maintaining profitability supported by cost saving initiatives

Maximum 98% COR 'meet or beat' target implies a RoCE floor significantly above the cost of capital on a prospective basis

Historic General Insurance RoCE



UK pricing RoCE

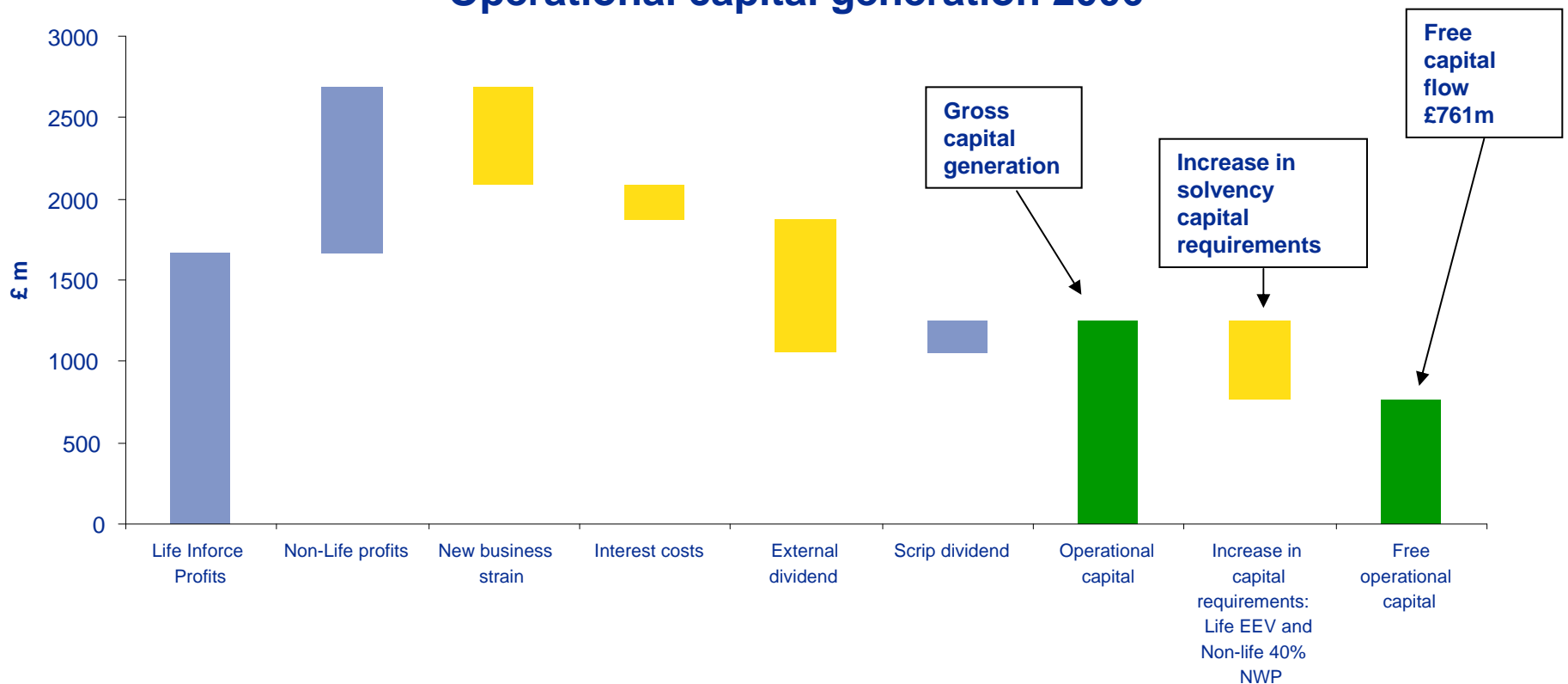


- General insurance returns significantly ahead of cost of capital
- Diversified business model delivers significant benefits

Aviva capital generation - operational



Operational capital generation 2006

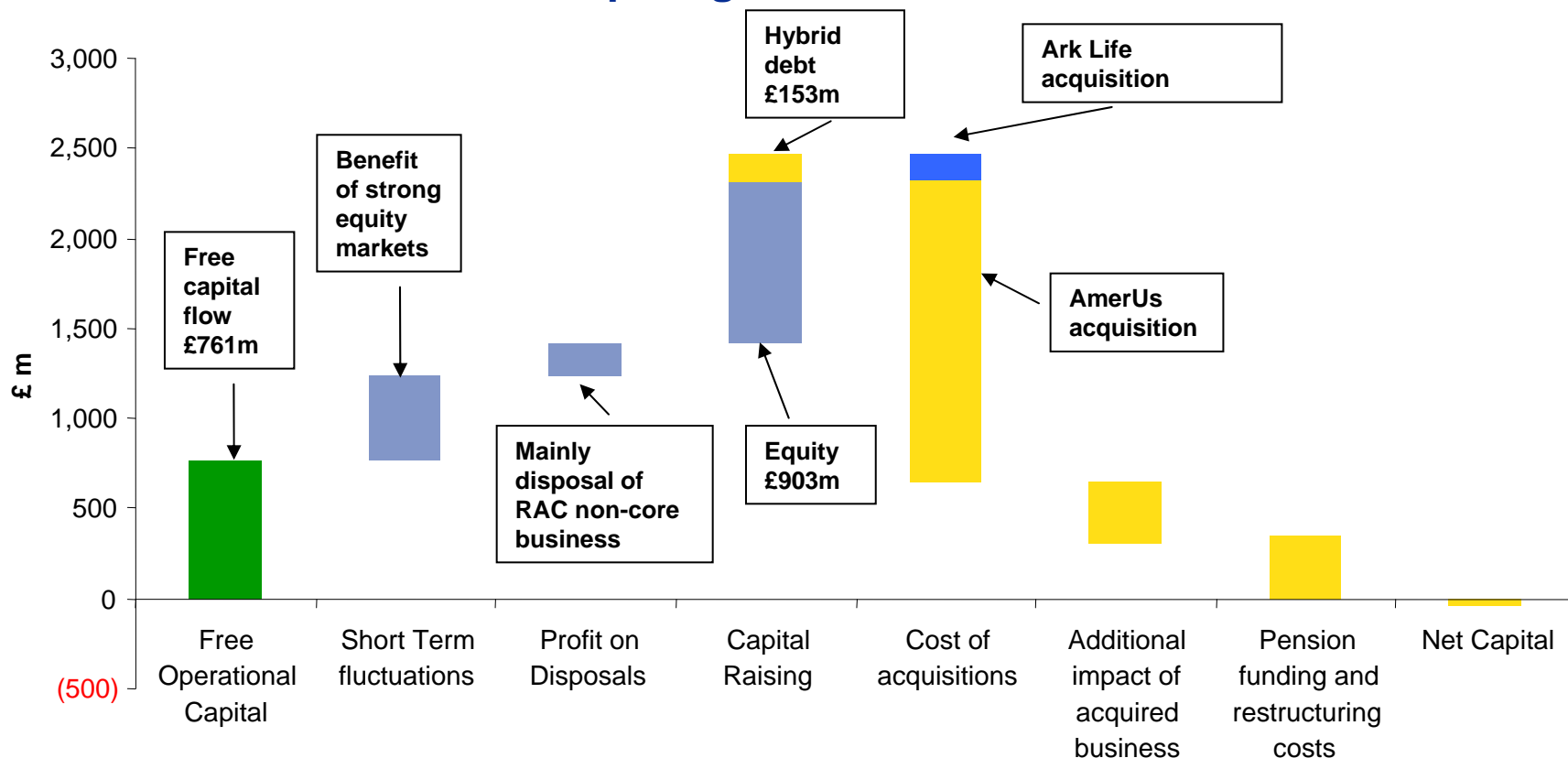


Strong operational capital generation provided by diversified business model

Aviva capital generation – net



Net capital generation 2006

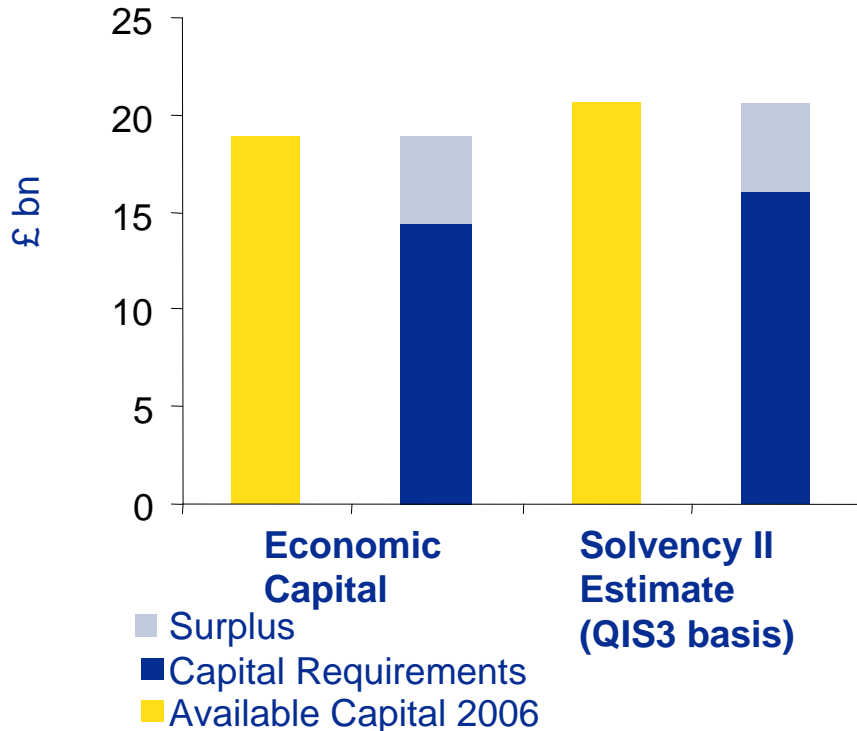


Strong operational capital generation to support organic growth, progressive dividend and “bolt-on” acquisitions

Capital initiatives – solvency II



Economic Capital and Solvency II



- Solvency II draft directive recognises:
 - the importance of economic capital; and
 - the principle of diversification
- Close alignment between QIS3 and Aviva's model for economic capital
- Principal differences in economic capital requirements reflects no life product diversification credit in QIS3
- Aviva continues to work with the industry to secure the appropriate economic basis for all stakeholders

Aviva is helping to shape the Solvency II project and supports the underlying economic capital principles

Capital initiatives – proven performance



London market reinsurance

2000 - £1.0bn, Berkshire Hathway

Equity capital raising

2004 – £0.5bn, RAC plc
 2006 – £0.9bn, AmerUs
 2004–06 £0.6bn, Scrip dividend

UK life new business financing

2004 - £0.2 bn

UK life financial reinsurance

2003 – £0.2bn
 2005 – £0.3bn
 2006 – £0.2bn
 2007 – £0.3bn



Equity release securitisations

2001-05 £1.8bn UK Life

Residential mortgage securitisations

2000-06 £5.1bn, Delta Lloyd

Hybrid capital

2001 - £1.2bn
 2003 - £1.6bn
 2004 - £1.0bn
 2006 - £0.2bn

Active management of capital is a key element of our business model

Capital initiatives – future opportunities



Capital allocation

- Driving operational efficiency through rigorous application of capital allocation models
- Capital performance aligned with new performance framework
- Prepared to take tough decisions

Securitisation

- Significant scope to improve capital performance
- Ability to select risk / return appetite
- Increased capital efficiency

UK life reattribution

- Will proceed only if it is a good deal for all stakeholders
- Aviva expects to fund any cash incentive for policyholders
- Capital releases will be locked in LTF but will support UK Life new business growth

Increased emphasis on economic capital

- Moving towards audit standard
- Migration to industrial strength capability
- Aligning to tough Solvency II / rating agency requirements
- Strengthen link to performance framework

Capital management key tool to drive EPS growth

Summary



Requirement to manage capital across a range of bases, but with gradual convergence to economic capital

Capital position in target range, with capital generation utilised to support growth and progressive dividends.

Rigorous capital allocation aligned to performance targets

High quality, innovative and proactive capital management process

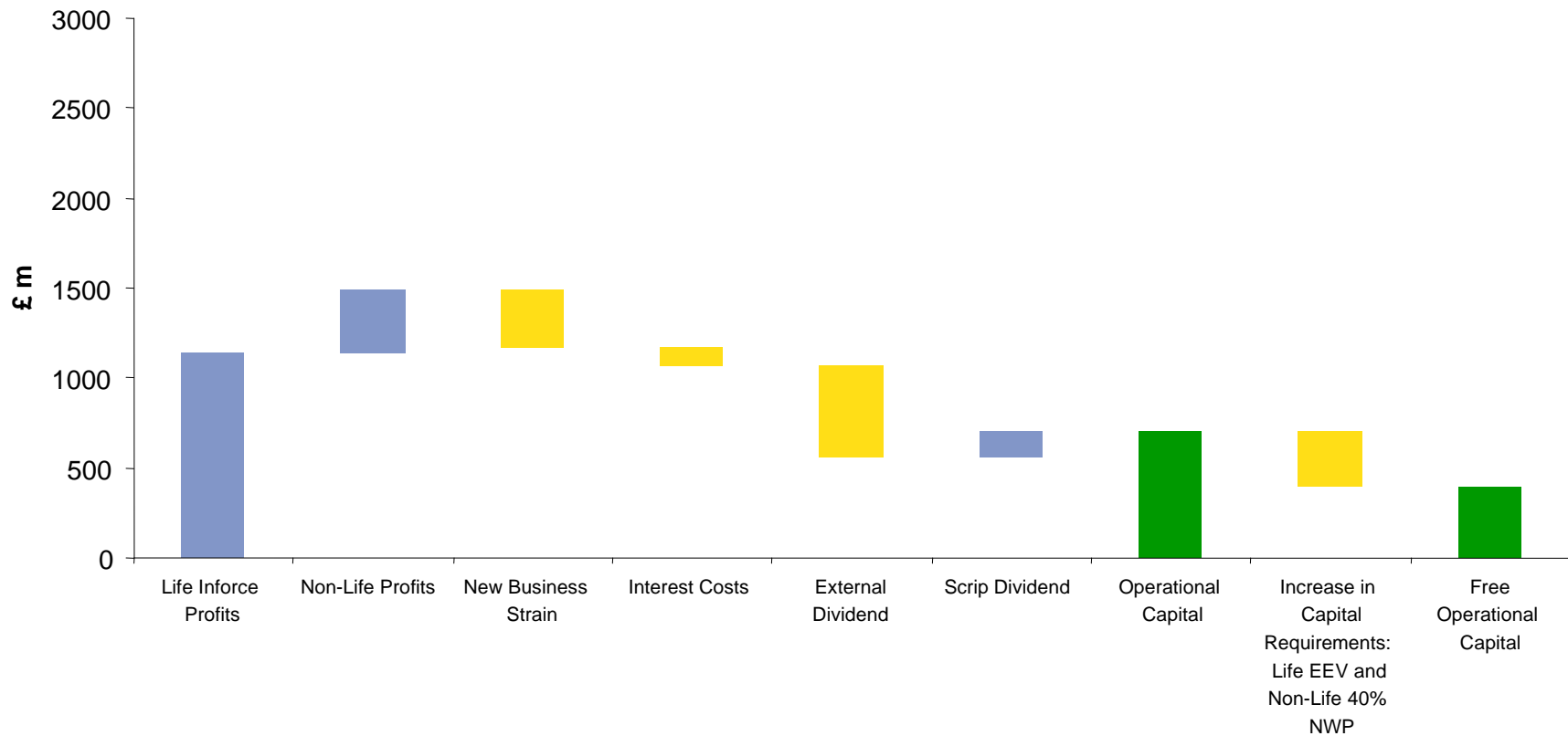
Key priorities are balance sheet optimisation and complete migration towards economic capital

- Start of journey based on strong foundations
- Greater clarity and transparency on capital dynamics

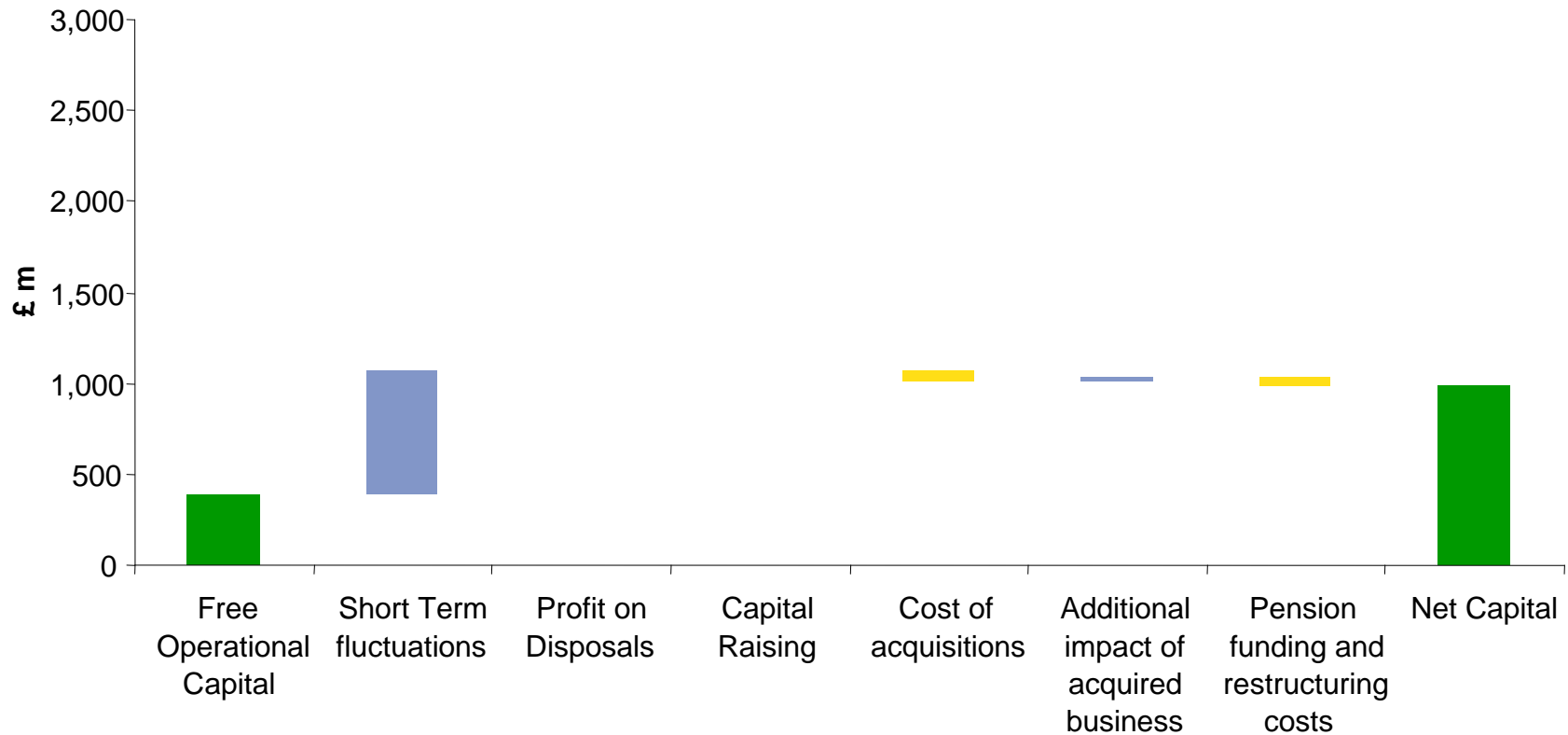
Appendices



Aviva Capital Generation – 2007 HY Operational



Aviva Capital Generation – 2007 HY Net





AVIVA