Focus
Strengthen
Perform

Investor & Analyst event: 5 July 2012
Disclaimer

Cautionary statements:

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Chairman's initial impressions of Aviva

Aviva has great strengths that can be leveraged further, including our strong position in the UK and Ireland, France, Canada, Poland, Singapore and in certain higher growth markets. The Aviva brand has also become incredibly distinctive.

Over the past few weeks, I have met with our major shareholders and advisors, and in addition to their disappointment over our share performance, I believe there are legitimate concerns which include:

• **Business Complexity** – Shareholders find our business difficult to understand and feel we have expanded the international scope of our business too far. In addition we have not demonstrated the benefits of being a composite insurer.

• **Financial Strength** – Shareholders believe we have weaker capital levels, higher external and internal leverage, and more volatile capital than our peers. They are nervous we may need new equity or reduce the dividend.

• **Risk** – Shareholders feel we are too exposed to the Eurozone and to traditional capital-intensive life products.

• **Strategy** – We are largely developed-market orientated with few high-growth positions. We have had too many changes of strategy which have not achieved the required traction. In addition we have had £1.3 billion of below-the-line restructuring charges over the past 5 years, and yet we are perceived to be bureaucratic and inefficient.

• **Financial Complexity** – We use too many financial metrics which are confusing.
Aviva will remain largely positioned in developed markets, with some modest growth options, delivering good returns and moderate growth from these markets. We will remain a composite insurer, but mainly in the UK and a few other markets and are determined to show the value of this.

The new strategic plan has three main objectives:

• **Narrow Focus** - Focus on fewer business segments where we believe we can produce attractive returns and with a high probability of success.

• **Build Financial Strength** - Achieve target economic capital levels in line with our industry peers, reduce capital volatility and bring leverage down to a conservative level. We announced new target economic capital levels* of 160-175%.

• **Improve Financial Performance** - Aim to deliver a higher level of revenue growth, a lower cost-income ratio, lower losses and claims and higher return on capital, notwithstanding the subdued economic environment in developed markets. We have announced a new expense reduction target of £400 million.

Over and above this, we aim to advance our position and reputation with our customers and other stakeholders, and grow the capabilities of the group, such that we are in a stronger position at the end of each year in all respects than we began the year.

In addition, we aim to implement a leaner and more agile operating culture, a higher performance ethic, and a less layered and bureaucratic management style.

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*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.*
Focus

Strengthen

Perform

Pat Regan
Total Shareholder Return from 1 Jan 2006 to 31 Mar 2012
European / North American Peers (%)

Source: Goldman Sachs
Trading below our key European competitors

P/TNAV vs. RoTNAV

Source: Brokers
# Feedback on Aviva

**Strengths**

- Strong core businesses and a great brand
- Growing GI business with improving CORs
- UK Life business performing strongly
- A greater emphasis on cash flow and new business capital efficiency

**But clear challenges**

- Complex business
- Weaker than peers on leverage and capital with Eurozone volatility
- Issues on strategic execution
- Uncertainty over growth and metrics

*Source: External advisors to the board*
Focus, Strengthen, Perform

Narrowed Focus
- Allocate capital to most attractive businesses
- Improve underperforming segments
- Exit non core businesses
- Create an attractive portfolio foundation for the future

Financial Strength
- 160% – 175% economic capital surplus target range
- Reduce capital volatility
- Reduce leverage

Improved Performance
- Revenue growth where possible
- Expense savings of £400 million from end of 2011
- Lower losses & claims
- Increase return on equity through capital efficiency

*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.*
<table>
<thead>
<tr>
<th>Section</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1</strong> Divide Aviva into ‘cells’</td>
<td>Aviva’s business divided into 58 ‘cells’ Each cell is a significant profit centre</td>
</tr>
<tr>
<td><strong>2</strong> Overview of portfolio</td>
<td>Cells ranked along dimensions of (1) financial performance; and (2) market prospects/competitive position</td>
</tr>
<tr>
<td><strong>3</strong> Detail behind cell ranking</td>
<td>Financial and market ranking used in portfolio view; showing relative as well as absolute cell metrics</td>
</tr>
<tr>
<td><strong>4</strong> Resulting cells categorisations</td>
<td>Categorisation of cells into four distinct groups to assign strategic direction and improvement actions</td>
</tr>
<tr>
<td><strong>5</strong> Proposed cell objectives</td>
<td>High-level definition of strategic direction and actions for each cell</td>
</tr>
<tr>
<td><strong>6</strong> Action</td>
<td>High-level challenges / action required on the cells Analysis of themes from cells analysis Next steps</td>
</tr>
</tbody>
</table>
### Cells assessed across four dimensions

<table>
<thead>
<tr>
<th>What are the returns?</th>
<th>How much cash is generated?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on capital employed (% in 2012): IFRS profit after tax and minority interest relative to capital employed</td>
<td>Net cash returned (% in 2012): Cash dividend (cash transfer in UK GI) as percentage of capital employed</td>
</tr>
</tbody>
</table>

**Explanation**
This metric helps us to determine how much profit is generated by each cell in proportion to shareholder's equity

<table>
<thead>
<tr>
<th>What is the value of new business?</th>
<th>Market position / growth prospects?</th>
</tr>
</thead>
<tbody>
<tr>
<td>New business economic margin (% in 2012): Economic value added by new business (NB) relative to NB required economic capital</td>
<td>Market growth: CAGR '12-'14 of GWP (for GI), APE (for Life) or AuM (for Aviva Investors)</td>
</tr>
</tbody>
</table>

**Explanation**
This metric helps us to determine profitability and capital investment in new business

| Market share and Relative market share (RMS): Size of Aviva and relative to its largest competitor | These metrics help us to assess market position and growth potential for each cell |

**Explanation**
These metrics help us to assess market position and growth potential for each cell

**Financial ranking**
Ranking scale shows the financial position of the cell relative to other cells
Narrowed focus

Portfolio assessed on relative financial performance & market prospects / competitive position

Relative financial performance
- Economic margin
- IFRS ROCE
- Net cash return / Capital

Out-performance

Median

Under-performance

Stronger

Weaker

Performing 15 cells

Improve/turn around 27 cells

Non-core 16 cells

Market prospects & Aviva’s competitive position
- Market growth outlook
- Absolute market share
- Size of Aviva relative to largest in the market
Categorisation of the cells

1a. Examples of performing cells in our higher growth markets
   - Poland Life, Singapore Life, Turkey L&P

1b. Examples of performing cells in our developed markets
   - UK personal property, Canada personal property, UK Life protection

2. Examples of improve / turn around cells
   - Ireland GI, Aviva Investors External, Italy Unicredit

3. Examples of non-core cells
   - South Korea, large UK BPA, small Italian partnerships
Dynamic capital allocation

Performing 15 cells

Returns well above cost of capital
- IFRS capital £3bn
- IFRS OPAT £650m
- ROCE 22%

Improve / turn around 27 cells

Returns at or below cost of capital
- IFRS capital £7bn
- IFRS OPAT £750m
- ROCE 11%

Non-core 16 cells

Returns well below cost of capital
- IFRS capital £6bn
- IFRS OPAT £300m
- ROCE 5%

1. OPAT = operating profit after tax and minority interests
2. Nothing contained in the presentation is, or can be construed as, a profit forecast
Poland Life

Performing: Higher growth

What are the returns?

Financial rank: (1)  
ROCE 2012 (%)  
IFRS CE 2012 (£M)

How much cash is generated?

Financial rank: (1)  
NCR/CE 2012 (%)  
IFRS CE 2012 (£M)

What is the value of new business?

Fin. rank: (13)  
(NB) economic margin 2012 (%)  
2012 NB Strain/Capital Consumption (£M)

What is market position / growth prospects?

Market growth 2011-14 (CAGR, %)  
Relative market share (%)
Aviva is ranked 4th in a fast growing market, with market share of 7%, good brand awareness and strong profitability across all metrics. Plan to improve main Direct Sales Force channel and broaden distribution mix, and further improve the cross-sell ratio in existing customer base. Continue to invest for long-term profitable growth, while maintaining profitability and strong cash generation.
What are the returns?

- ROCE 2012 (%)
- Financial rank: (21)

How much cash is generated?

- NCR/CE 2012 (%)
- Financial rank: (6)

What is the value of new business?

- (NB) economic margin 2012 (%)
- Fin. rank: (19)

What is market position / growth prospects?

- Market growth 2011-14 (CAGR, %)
- Relative market share (%)
Aviva is ranked 3rd overall in the Canadian personal property market (8.1% market share). The business has seen good growth while turning round profitability via sophisticated pricing. Continue steady growth while maintaining improved profitability and strong cash generation, with clear monitoring of market pricing trends.

**Business Overview & Description**

- Aviva ranks 3rd overall at 8.1% and is outperforming the Canadian market.
- Ontario – the major market – is delivering superior results but market profitability has been weak outside Ontario.
- Canada is slowly drifting to self service solutions.
- Competition is diverse with provincial and national broker focused players as well as agent and direct models.
- The market has experienced record Cat losses in the last two years; Aviva Canada has been relatively unscathed.

**Aviva Business mix**

- **Mix by Province**
  - Ontario 41.80%
  - Quebec 14.90%
  - Alberta 16.80%
  - British Columbia 10.30%
  - Other 16.20%

- **Market Share by Province (Avg 8.1%)**
  - Ontario 8.80%
  - Quebec 6.20%
  - Alberta 6.60%
  - British Columbia 6.20%

**Key Financials**

<table>
<thead>
<tr>
<th>£m/ %</th>
<th>09-11 CAGR/ AVG</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012e</th>
<th>2013e</th>
<th>2014e</th>
</tr>
</thead>
<tbody>
<tr>
<td>COR</td>
<td>101%</td>
<td>106%</td>
<td>99%</td>
<td>97%</td>
<td>96%</td>
<td>94%</td>
<td>93%</td>
</tr>
<tr>
<td>IFRS OP after tax net MI</td>
<td>n/a</td>
<td>(3)</td>
<td>11</td>
<td>18</td>
<td>19</td>
<td>22</td>
<td>23</td>
</tr>
<tr>
<td>ROCE</td>
<td>8%</td>
<td>-3%</td>
<td>11%</td>
<td>15%</td>
<td>16%</td>
<td>17%</td>
<td>18%</td>
</tr>
<tr>
<td>Economic margin</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>10%</td>
<td>19%</td>
<td>22%</td>
</tr>
<tr>
<td>OCG</td>
<td>127%</td>
<td>7</td>
<td>52</td>
<td>34</td>
<td>33</td>
<td>33</td>
<td>34</td>
</tr>
<tr>
<td>NCR/ capital employed</td>
<td>25%</td>
<td>16%</td>
<td>27%</td>
<td>31%</td>
<td>24%</td>
<td>26%</td>
<td>26%</td>
</tr>
<tr>
<td>IFRS capital employed</td>
<td>8%</td>
<td>99</td>
<td>102</td>
<td>114</td>
<td>116</td>
<td>124</td>
<td>129</td>
</tr>
</tbody>
</table>

**Customer/Brand/People**

- Aided brand awareness 27% - OK in a broker environment
- Modest Relationship Net Promoter Score, mitigated in a broker sales environment
- Growing > 5% in H2 2011 – and 2012 per plans
- No identified people challenges

**Strategic Assessment**

**Strengths**
- Market leading pricing sophistication – can grow with care
- Broker strength - we have momentum with our channel
- Prices are rising across the market – creating opportunity

**Strategic Challenges/Threats**
- Distribution dependent on broker channel
- Legacy system limitations
- Defend specialty leadership position

**Strategic Priorities**

- Product enhancement to combine with auto
- Increase distribution reach and flexibility
- Build Higher net worth product capability
- Solution under review
- Continued focus on core productive brokers
- Opens growth opportunity and helps defend profitable specialty lines

**Key Risks**

- Distribution control: • Broker investments
- Distribution reach: • Investing to support the broker channel
- Legacy system limitations: • Under review
**Ireland GI**

**Improve / Turn around: Developed**

### What are the returns?

- **ROCE 2012 (%)**
- **IFRS CE 2012 (£M)**

### How much cash is generated?

- **NCR/CE 2012 (%)**
- **IFRS CE 2012 (£M)**

### What is the value of new business?

- **(NB) economic margin 2012 (%)**
- **2012 NB Strain/Capital Consumption (£M)**

### What is market position / growth prospects?

- **Market growth 2011 -14 (CAGR, %)**
- **Relative market share (%)**

### Financial ranking

- Financial rank: (37)
- Financial rank: (26)
- Financial rank: (49)

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**NB** economic margin 2012 (%)
Ireland GI

The business remains the market leader with market share of 16%. Market volumes have fallen sharply and softening continues. The expense base is high and returns are lower than the market. Via integration with the UK, investment in the Irish Transformation Programme will deliver competitive advantage and an improved customer proposition through improved product / pricing sophistication and a market-leading expense ratio, leading to improved profit and cash generation later in plan period.

Business Overview & Description

• Aviva ranks 1st in the Irish GI market. Irish GI market was €2.9bn in 2011 (4.9% down on 2010); GDP growth outlook for Ireland is 1% 2012, 2% 2013 (IBEC Q2/12); however we expect further contraction in the GI market
• Relatively concentrated - top 7 GI insurers >80% market
• Aviva COR of 102.2% in 2011 compares with 90.8% for FBD and 92.6% for RSA; Claims Ratio is comparable with key competitors, Distribution Ratio is significantly higher
• Transformation plans include business transfer to UK branch
• Integrating Ireland GI within the UK makes for a better investment and customer proposition versus standalone rationalisation or sale

Aviva Business Mix

Product
Comm Liability 14% Comm Motor 14% Comm Prop 19%
Other
Private Motor 33%
Distribution
Bancassurance 8%
Direct 31%
Broker 61%

Key Financials

<table>
<thead>
<tr>
<th>Em/ %</th>
<th>09-11 CAGR/ AVG</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012e</th>
<th>2013e</th>
<th>2014e</th>
<th>11-14 CAGR/ AVG</th>
</tr>
</thead>
<tbody>
<tr>
<td>COR</td>
<td>104%</td>
<td>103%</td>
<td>105%</td>
<td>102%</td>
<td>100%</td>
<td>99%</td>
<td>96%</td>
<td>99%</td>
</tr>
<tr>
<td>IFRS OP after tax net MI</td>
<td>10%</td>
<td>30</td>
<td>18</td>
<td>17</td>
<td>15</td>
<td>14</td>
<td>24</td>
<td>12%</td>
</tr>
<tr>
<td>ROCE</td>
<td>8%</td>
<td>11%</td>
<td>7%</td>
<td>8%</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>OCG</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>28</td>
<td>20</td>
<td>17</td>
<td>20</td>
<td>(11)%</td>
</tr>
<tr>
<td>IFRS capital employed</td>
<td>(9)%</td>
<td>404</td>
<td>404</td>
<td>335</td>
<td>n/a</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Capital Employed, ROCE omitted for 2012-14, given transfer to UK

Strategic Assessment

Strengths
• Biggest player with scale and strength across Life / GI / Health and historical broker goodwill
• Multi-distribution footprint and composite product portfolio
• Leverage synergies, product and pricing sophistication of UK region

Strategic Challenges/Threats
• Relative size of current cost base (will be addressed by Transformation plans)
• Poor profitability on certain lines e.g. Trademark (SME), Motor Fleet
• Aggressive competitive landscape
• Recessionary-driven increase in claims

Strategic Priorities

• Deliver a market-leading expense ratio through Transformation Programme
• Develop core insurance excellence
• Derisking of Investments

Comments
• Key drivers of 2012 benefits – branches migration, operating model and Irish Branch
• Leverage UK underwriting and claims capabilities, whilst recognising market differences
• Sale of higher risk Eurozone bonds

Customer/Brand/People

Results from recent Brand Impact surveys show an improvement in consideration
Overall Transaction Net Promoter Score +18 (no change on 2010)
Policy count -8.1% 2011; -0.6% 2012 Apr YTD
Employee scores:
Engagement 35%
Leadership 25%

Key Risks

Transformation Delivery
• Robust programme infrastructure & governance

Economy impacting on volumes and claims
• Revenue initiatives
• Claims trend monitoring

Franchise value post October announcements
• PR & advertising delivering improved consideration

Competitors – Aggressive pricing
• Leverage UK underwriting and pricing expertise

Key Risks

Mitigation

20
UK Life Bulk Purchase Annuities

What are the returns?
- ROCE 2012 (%)
- NCR/CE 2012 (%)
- Market growth 2011-14 (CAGR, %)

How much cash is generated?
- ROCE 2012 (%)
- NCR/CE 2012 (%)
- Relative market share (%)

What is the value of new business?
- (NB) economic margin 2012 (%)
- 2012 NB Strain/Capital Consumption (£M)

What is market position / growth prospects?
- Market growth 2011-14 (CAGR, %)
- Relative market share (%)
Aviva is ranked second with 21% of the Bulk Purchase Annuity (BPA) market. Big ticket BPAs remain very competitive, with unacceptable returns on capital; small schemes can offer margins similar to the individual segment from time to time. Solvency II is likely to further challenge the economics of pricing. Sharply scale back volumes, exit big BPAs and manage as part of annuities.

**Business Overview & Description**

- Sector growth driven by structural pressures on Defined Benefit (DB) pension schemes and pressure on company balance sheets
- Competition highly concentrated (L&G, Pru, Met Life) with aggressive pricing in Q1 2012
- Market segmented into small scheme & large scheme business
  - Small scheme metrics similar to those seen in individual annuity market
  - Large scheme market can be very competitive
- Bases of competition: capital, pricing/risk selection, access to higher yielding assets
- Use of reinsurance will help reduce use of economic capital

**Strategic Assessment**

**Strengths**
- Asset selection
- Pricing sophistication, rating factors
- Good reputation with distributors and pension scheme trustees

**Strategic Challenges/Threats**
- Scale/ well capitalised competitors re-entering market - eg Lloyds
- Solvency II may push pricing beyond economic point

**Key Financials**

<table>
<thead>
<tr>
<th></th>
<th>09-11</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012e</th>
<th>2013e</th>
<th>2014e</th>
<th>11-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>AuM (rounded)</td>
<td>54%</td>
<td>CAGR</td>
<td>1,400</td>
<td>2,200</td>
<td>3,300</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IRR (Solvency I)</td>
<td>14%</td>
<td>AVR</td>
<td>n/a</td>
<td>13%</td>
<td>15%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IFRS OP after tax net MI</td>
<td>29%</td>
<td>CAGR</td>
<td>36</td>
<td>37</td>
<td>61</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROCE</td>
<td>12%</td>
<td>AVR</td>
<td>8%</td>
<td>10%</td>
<td>15%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NB economic margin</td>
<td>-</td>
<td>AVR</td>
<td>n/a</td>
<td>n/a</td>
<td>(0)%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OCG</td>
<td>n/a</td>
<td>CAGR</td>
<td>(11)</td>
<td>(2)</td>
<td>23</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NCR/ capital employed</td>
<td>54%</td>
<td>AVR</td>
<td>-12%</td>
<td>-8%</td>
<td>-6%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IFRS capital employed</td>
<td>22%</td>
<td>CAGR</td>
<td>202</td>
<td>282</td>
<td>303</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Customer/Brand/People**

Brand awareness for pension & retirement products at 20% (market average 15%)

2011 annuities Relationships Net Promoter Score up from (13) to (2), in line with competitors

c185 BPA schemes on the book at end 2011

Employee score 83% engagement.

**Key Risks**

- Uncertainty around Solvency II
  - Combined Solvency II & risk plan in place

- Continued economic uncertainty/volatility (main risk is credit)
  - Active monitoring of credit exposures; default provisions in place

- Longevity risk
  - Active monitoring of risk; use of reinsurance

**Strategic Priorities**

- Selectively target new business which meets our economic capital criteria

**Aviva Business Mix**

Defined Benefit Risk Management distribution through Workplace channel (Employee Benefit Consultants & Corporate advisors)
Financial strength
## Economic capital vs. peers

### Economic Capital* Ratios As Disclosed

<table>
<thead>
<tr>
<th>Company</th>
<th>2010 Cover %</th>
<th>2011 Cover %</th>
<th>Calibration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Co. 1</td>
<td>223</td>
<td>225</td>
<td>99.95%</td>
</tr>
<tr>
<td>Co. 2</td>
<td>202</td>
<td>165</td>
<td>99.50%</td>
</tr>
<tr>
<td>Co. 3</td>
<td>178</td>
<td>150</td>
<td>99.50%</td>
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<tr>
<td>Co. 4</td>
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</tr>
<tr>
<td>Co. 7</td>
<td>160</td>
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<td>99.95%</td>
</tr>
<tr>
<td>Aviva</td>
<td>143</td>
<td>125</td>
<td>99.50%</td>
</tr>
</tbody>
</table>

### Notes:

- **Comparison of Economic Capital** ('EC') made difficult by inconsistent methodologies and disclosure between peers
- **UK players** give very limited disclosure on EC despite having ICA framework
- None of the UK peer group has disclosed EC targets

---

*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.*

**Source:** Company disclosure
Economic capital

Estimated economic* capital Q1 2012

<table>
<thead>
<tr>
<th>Available Capital</th>
<th>Required Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>£17.6bn</td>
<td>£12.1bn</td>
</tr>
</tbody>
</table>

Cover Ratio 145%

Sensitivities based on Q1 position

<table>
<thead>
<tr>
<th>Sensitivity</th>
<th>Q1 2012</th>
<th>Interest Rates +100bps</th>
<th>145%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Rates -100bps</td>
<td>129%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity +20%</td>
<td>150%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property +20%</td>
<td>152%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit Spreads +100bps</td>
<td>132%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit Spreads -100bps</td>
<td>139%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Q1 economic capital surplus of £5.5 billion
Coverage 164% if US included on an equivalence basis
Principal sensitivities to credit and equity movements
Interest rate sensitivity driven mainly by cost of guarantees in France and the US
A number of levers are available to control these exposures

Economic capital* cover of approximately 140% as at end June

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The benefit of diversification by risk type

- Credit risk: £1 million of credit risk moves the Required Economic Capital* by £780k
- Mortality risk: £1 million of risk moves Required Economic Capital* by £60k
- Insurance risks diversify well
- Credit and equity risk are highly correlated

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The benefit of diversification by business

- The businesses generating the most market and credit risk diversify least well
- Conversely, those businesses which are focussed on insurance risk diversify best

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How we are going to get there

Economic capital*

- Disposals & exits
- Cutting back on annuities
- Performance improvement
- Credit reduction & other hedging

Impact of disposals
- Decreases required capital – in some cases materially
- Increases available capital depending on proceeds

Impact of actions on profits
- Disposals and hedging decrease profits
- Offset by the performance improvement programme

Increase available capital:
- Reduce costs (in-force cost savings are capitalised)
- Lower claims
- Increased persistency

Decrease required capital:
- Reduce product guarantees
- Asset mix changes
- Hedging
- Reinsurance

Mechanisms for and impact from increasing capital surplus

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.
Options to manage the Economic Capital* surplus

- **Significantly above target**
  - Review a new strategic plan with the Board

- **On track to achieve 160% - 175%**
  - Maintain within range

- **Below target**
  - Continue working on central plan
  - If necessary increase amount of central plan actions
    - Reduce new business strain
    - Hedging
    - Reinsurance
  - Introduce further measures as required

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.
Reduced leverage

External debt and preference shares / Tangible total capital

FY11

67%

Europe 1

39%

Europe 2

31%

Europe 3

34%

Europe 4

41%

Aviva

35%

UK 1

25%

UK 2

33%

UK 3

39%

UK 4

Median 37%

European peer group

UK peer group

Planned reduction of £700m of hybrid debt in the medium term
Improved performance

• Revenue growth where possible
• Expense productivity
• Lower losses and claims
• Increase return on equity through capital efficiency
Performance improvement programme will drive the next phase

David McMillan will lead this initiative

- Carry out cell performance analysis
- Establish cell objectives & targets
- Drive group-wide performance improvement
- Establish cell action plans & deliver
- Monitor delivery. Continue performance improvement

Delivered  In progress  Continual improvement

Progress to date
## Aligning cells with financial objectives

### Higher growth markets / cells

High growth market with high probability potential in mid-term

- Invest to grow at or faster than the market, taking advantage of attractive returns
  - eg Poland Life

### Developed markets / cells

Moderate or lower growth markets offering strong and stable profitability

- Sustain in-force and NB returns, and target growth to drive cash generation
  - eg Canada GI personal property

### Performing

- Measured growth while focusing on improved returns
  - eg China Life

### Improve / turn around

- Dynamic capital allocation. Improve in-force returns and focus NB to improve cash generation
  - eg UK Commercial Property
### Group-wide performance improvement themes

**Revenue growth where possible**
- **Focused growth**
  - Develop Higher Growth segment, seek revenue opportunities in Developed markets where available
  - Develop additional cross-segment revenue streams

**Product portfolio & asset allocation**
- Reduce exposure to Life guarantee products – eg bancassurance product mix
- Reduce exposure to IPIGS sovereign debt

**Expenses**
- Lower the cost / income ratio
- Review of Group Centre & other support, technology and operating costs
- Reduce intervening layers from 9 to 5

**Underwriting, pricing, claims & retention**
- More sharing of best practice across the organisation
- Greater pricing discipline – measurement of profitability at sub-cell level
- Continuing claims and retention initiatives to limit losses

**Increase return on equity through capital efficiency**
- Allocate capital to high performing businesses, away from non core, improve turn around segments
- Clear performance metrics including economic margin

**Cultural change**
- Implement a group-wide cultural and values change programme to achieve a high performance ethic through stretched goals and rigorous performance management
- Eliminate unusually high levels of bureaucracy whilst maintaining strong risk controls and increasing personal accountability
£400 million new cost savings

- £100 million from removing the regional structure, IT transformation and medium term restructuring
- £200 million from delayering and other operating model changes and Aviva Investors & Ireland restructuring
- £100 million from removing non-people overheads

Program principles

- Programme to deliver cost and operating model changes
- Maximum of 5 intervening layers and median spans of control of 8
- Clear empowerment to businesses, but hold capital budgets centrally
- Mandatory use of shared service and centres of expertise

Significant cultural change in the medium to long term

- Regional structure formally removed on 30 June 2012
- Increase transparency of performance and align incentives
- Speed up decision making and reduce bureaucracy
- Ensure greater consistency in functional operating model
Reduction in middle management

Old structure had 9 intervening layers and a median span of control of 4

New structure has 5 intervening layers with a median span of control of 8
Key metrics to measure performance

- Life IRR using economic capital metrics
- Cost / income ratio and GI COR
- Operating Capital Generation
- IFRS operating profit after restructuring costs
- ROCE
Focus

Strengthen

Perform
Actions since the AGM

Strategy & Commercial Focus
• Strategic review completed and a new strategic plan approved by the Board
• Advisers appointed to review options for exits
• Top 100 managers’ objectives aligned to the new strategy, senior management team meeting held

Organisation & Culture
• Changes made to the senior management team
• De-layering well progressed, top 4 levels done
• Regional structure removed
• CEO process begun, Spencer Stuart appointed

Risk Management & Governance
• Approximately €2bn gross Italian government bonds sold
• Bureaucratic committees eliminated - 2 important committees retained
We will end up being

- Focused
- Financially strong
- Performing
Q & A
Appendix
IGD capital position

Volatility of IGD caused by:
- French UCGs
- Delta Lloyd (which will reduce when the holding falls below 20%)
- Market movements, specifically Italian Government exposures (regulatory change has since reduced volatility)
- UK annuity default provisions as a percentage of spread

Volatility has reduced or will reduce in Delta Lloyd, the UK and Italy

<table>
<thead>
<tr>
<th></th>
<th>FY 2010</th>
<th>FY 2011</th>
<th>Q1 2012</th>
<th>30 May 2012 estimated</th>
</tr>
</thead>
<tbody>
<tr>
<td>IGD</td>
<td>£3.8bn</td>
<td>£2.2bn</td>
<td>£3.2bn</td>
<td>£3.0bn</td>
</tr>
<tr>
<td>159%</td>
<td>135%</td>
<td>151%</td>
<td>149%</td>
<td></td>
</tr>
</tbody>
</table>
Reconciliation of capital employed to the cell analysis

Total IFRS capital employed – Opening position 2012 (£bn)

- Performing: 2.8
- Improve/ Turnaround: 6.7
- Non core: 6.2
- Other/ outside of cells/ consolidation adjustments: 3.5
- Minority interest: 1.3
- IFRS Total capital employed: 20.6
The inter-divisional balance will not materially change within this plan

Aviva Insurance Limited

- UK GI makes £4.8bn* liquidity available to other entities in Aviva Insurance Limited
  - Liquidity at group level
    - Utilised by group

- Lending consolidates to zero at a group level
- UK GI receives interest for making the liquidity available
- Not double counted for regulatory purposes
- Inter-divisional balance hinders separation of UK GI from the Group

* FY 2011