Analyst and investor briefing
2008 Worldwide long-term savings new business and business update
Moving from EEV to MCEV reporting
Disclaimer

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Agenda

• Objectives of MCEV supplementary reporting
• Impact on Aviva’s embedded value results
• Implied discount rates
• Additional disclosures
• Effect by region
• Summary
Objectives of MCEV reporting
Why adopt MCEV now?

• **Aviva is taking a step forward in its reporting transparency**

• **MCEV shows the group as a strong diversified business**
  – Impact on NAV per share for 2007 is -1% (763p) and for HY08 is -7% (654p)
  – But - MCEV will be volatile if investment markets are volatile

• **MCEV is another perspective on the economics of our life businesses**
  – It changes the timing of profit recognition e.g. spread business
  – It separates underwriting and investment return
  – It gives insight into duration and emergence of investment profits
  – It provides a further perspective to prioritise capital allocation
Objectives of MCEV reporting
Embedded value in context

- **More than one lens needed to view the performance of long-term business:**
  - MCEV
    - A perspective on value generation - the present value of future cash flows available to the shareholder, adjusted for the risks of those cash flows
    - Includes the impact of the cost of capital and cost of guarantees on a stochastic basis
    - Useful for capital allocation
  - IRR - values all the cashflows of new business, including the investment return. No significant change under MCEV from EEV
  - IFRS
    - Basis of dividend policy
    - Proxy for cash generation
    - IFRS can be distorted by local reserving requirements and non-cash items
  - Solvency
    - IGD is a non risk based measure to assess solvency
Objectives of MCEV reporting
A step forward in transparency and accessibility

• **Improved consistency of the basic framework for earnings valuation**
  – Asset cashflows consistent with market prices

• **Increased external disclosures**
  – Standardised analysis of earnings and Group MCEV disclosures
  – Free surplus movement showing cash emergence for covered business
  – Explicit disclosure of Non-Hedgeable Risks allowance

• **Mandatory “audit” required of results – Aviva has always elected to do this**

• **Recognition of spread profits in expected return – more aligned to IFRS**
  – Use of LTIR to determine investment return in operating profit

• **Provides a view of the business from market-consistent viewpoint**
  – Aligns with the direction of Solvency II and potential IFRS Phase II methodology
Objectives of MCEV reporting
Next step in evolving embedded value reporting

EEV added
- Explicit allowance for the time value of options & guarantees
- Look through to actual expenses within service companies
- Required capital based on economic capital requirements
- Discount rate mechanically derived
- Improved quality of sensitivities and disclosures

MCEV adds
- Market consistent option & guarantee valuation
- Less subjective – economic assumptions tied to risk free returns
- Explicit non-hedgeable risk allowance
- Significant improvement in sensitivities and disclosures
- Required “audit” of results*
- Aligned with expected Solvency II and IFRS II approaches

* No change for Aviva as the group elected for a review of its EEV reporting, including results
### Impact on Aviva’s embedded value results

#### Key performance indicators

<table>
<thead>
<tr>
<th></th>
<th>30 June 2008</th>
<th>31 December 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Key performance indicators:</strong></td>
<td></td>
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<tr>
<td>PVNBP</td>
<td>£18,214m</td>
<td>£17,283m</td>
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<tr>
<td></td>
<td>£32,722m</td>
<td>£31,600m</td>
</tr>
<tr>
<td>New business contribution post required capital (Gross)</td>
<td>£352m</td>
<td>£488m</td>
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<td></td>
<td>£897m</td>
<td>£912m</td>
</tr>
<tr>
<td>Margins (gross)</td>
<td>1.9%</td>
<td>2.8%</td>
</tr>
<tr>
<td></td>
<td>2.7%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Operating profit</td>
<td>£1,509m</td>
<td>£1,719m</td>
</tr>
<tr>
<td></td>
<td>£3,065m</td>
<td>£3,286m</td>
</tr>
<tr>
<td>Equity shareholders’ funds</td>
<td>£17,389m</td>
<td>£18,672m</td>
</tr>
<tr>
<td></td>
<td>£19,998m</td>
<td>£20,253m</td>
</tr>
<tr>
<td>Net asset value per share</td>
<td>654p</td>
<td>702p</td>
</tr>
<tr>
<td></td>
<td>763p</td>
<td>772p</td>
</tr>
<tr>
<td>NAV % change</td>
<td>(6.8)%</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>(1.2)%</td>
<td>-</td>
</tr>
<tr>
<td>IRR</td>
<td>12.9%</td>
<td>14.0%</td>
</tr>
<tr>
<td></td>
<td>12.9%</td>
<td>14.1%</td>
</tr>
</tbody>
</table>
Impact on Aviva’s embedded value results
Overview – half-year 2008

### EEV
- **Value of Future Profits**: £12.4bn
- **Net worth**: £19.9bn
- **Required capital**: £6.7bn
- **Free Surplus**: £3.0bn
- **Cost of Capital**: £1.8bn
- **Time Value of Opts & Guars**: £0.4bn

### MCEV
- **Value of Future Profits**: £11.5bn
- **Net worth**: £18.6bn
- **Required capital**: £7.4bn
- **Free Surplus**: £2.1bn
- **Cost of non hedgeable risk**: £0.6bn
- **Time Value of Opts & Guars**: £0.9bn
- **Frictional Costs**: £1.0bn
Impact on Aviva’s embedded value results
MCEV - key changes

• Economic assumptions are now market consistent
  – Values asset cash flows consistent with current market prices
  – MCEV uses actual market yield curves and volatilities
  – New business profits valued on start of quarter economic assumptions, or more frequently where actively re-priced
  – Use of liquidity premium above swap rates for certain annuity business

• Explicit allowance for the Cost of Non-Hedgeable Risk
  – Risks that cannot be hedged, such as lapses
  – Other risks, eg operational risk

• Required capital updated to include economic capital requirements for business units

• Clearer definitions of operating assumptions
  – Use of mean best estimate, using the earned rate each year

• Disclosure of implied discount rates
## Impact on Aviva’s embedded value results

Change in EV and VNB for 30 June 2008

<table>
<thead>
<tr>
<th></th>
<th>Embedded value (EV) 30 June 2008 £m</th>
<th>Value of new business (VNB) 30 June 2008 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Opening life EV/VNB on an EEV basis</strong></td>
<td>19,867</td>
<td>488</td>
</tr>
<tr>
<td><strong>Economic assumptions</strong></td>
<td>(16.6%)</td>
<td>(61.3%)</td>
</tr>
<tr>
<td><strong>Discount rate at risk free</strong></td>
<td>14.7%</td>
<td>47.5%</td>
</tr>
<tr>
<td><strong>Cost of Non-Hedgeable Risk</strong></td>
<td>(3.0%)</td>
<td>(12.1%)</td>
</tr>
<tr>
<td><strong>Required Capital changes</strong></td>
<td>(0.4%)</td>
<td>(2.3%)</td>
</tr>
<tr>
<td><strong>Operating assumption changes</strong></td>
<td>(0.5%)</td>
<td>0.4%</td>
</tr>
<tr>
<td><strong>Model changes / other</strong></td>
<td>(0.7%)</td>
<td>(0.2%)</td>
</tr>
<tr>
<td><strong>Closing EV/VNB on an MCEV basis</strong></td>
<td>18,579</td>
<td>352</td>
</tr>
</tbody>
</table>
Impact on Aviva’s embedded value results
Market consistency in the current market

- In stable markets, swap rates are a suitable proxy for risk-free returns
- In the current market, risk free returns in excess of swaps can be earned
- Risk free rate adjusted for certain annuity products in second half of 2007 and half-year 2008
- Sensitivity analysis provides information to adjust the risk free rate
- Methodology will be updated if additional CFO Forum guidance is given
## Impact on Aviva’s embedded value results

### Profit drivers - product impact

<table>
<thead>
<tr>
<th>Expected impact</th>
<th>Risk business</th>
<th>Savings business</th>
<th>Annuity business</th>
<th>Group</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Increase due to lower than average market risk</td>
<td>Neutral</td>
<td>Decrease as asset spreads are now booked when earned</td>
<td></td>
</tr>
<tr>
<td>2007 EEV margins</td>
<td>9.1%</td>
<td>2.0%</td>
<td>3.0%</td>
<td>2.9%</td>
</tr>
<tr>
<td>2007 MCEV margins</td>
<td>10.8%</td>
<td>2.2%</td>
<td>0.9%</td>
<td>2.7%</td>
</tr>
<tr>
<td>2008 HY EEV margins</td>
<td>12.5%</td>
<td>1.5%</td>
<td>2.6%</td>
<td>2.8%</td>
</tr>
<tr>
<td>2008 HY MCEV margins</td>
<td>13.4%</td>
<td>2.0%</td>
<td>-1.6%</td>
<td>1.9%</td>
</tr>
</tbody>
</table>

- Limited overall impact due to diversified book
- Profits over lifetime of business unchanged
- Earnings pattern for asset profits more similar to IFRS
Impact on Aviva’s embedded value results
Product mix by region

North America
UK
Europe
Asia
Group

Risk
Savings
Spread/Annuity
Impact on Aviva’s embedded value results
Product mix by region

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<tr>
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<td>VNB (£m)</td>
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<td>VNB (£m)</td>
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<td>VNB (£m)</td>
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<tr>
<td>North America</td>
<td>108</td>
<td>2</td>
<td>305</td>
<td>278</td>
<td>456</td>
<td>02</td>
<td>43</td>
<td>65</td>
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<tr>
<td></td>
<td>Payback period</td>
<td>5</td>
<td>6yrs</td>
<td>Payback period</td>
<td>8yrs</td>
<td>Payback period</td>
<td>5</td>
<td>12yrs</td>
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<td>IRR</td>
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<td></td>
<td>12%</td>
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<td>13%</td>
<td></td>
<td>13%</td>
<td></td>
<td>21%</td>
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<tr>
<td></td>
<td>Total EV (£m)</td>
<td>1,588</td>
<td>1,206</td>
<td>Total EV (£m)</td>
<td>7,106</td>
<td>6,911</td>
<td>Total EV (£m)</td>
<td>10,988</td>
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<tr>
<td>Europe</td>
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<td>Asia</td>
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Risk
Savings
Spread/Annuity
• IDR is the discount rate applied to all the cash flows (including spread assets) to make them equal the MCEV values
• EEV risk discount rate – Top down approach with prudent implicit risk allowances and explicit allowance for TVOG
• MCEV is a bottom up approach, with no allowances for credit spreads and full allowances for other risks

<table>
<thead>
<tr>
<th>2007</th>
<th>MCEV Total business IDR %</th>
<th>EEV Risk discount rate %</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>8.4%</td>
<td>7.3%</td>
</tr>
<tr>
<td>Europe</td>
<td>7.5%</td>
<td>7.7%</td>
</tr>
<tr>
<td>North America</td>
<td>14.3%</td>
<td>6.7%</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>9.4%</td>
<td>10.7%</td>
</tr>
<tr>
<td>Average</td>
<td>8.0%</td>
<td>7.6%</td>
</tr>
</tbody>
</table>
Additional disclosures

- Emergence of free surplus from existing business and use of free surplus in the writing of New Business (see page 31 of the analyst pack)
- Payback periods (see page 30 of the analyst pack)
- Timescales for emergence of future profits in to free surplus (see page 31 of the analyst pack)
- Extensive sensitivity analysis (see page 44 of the analyst pack)
Aviva UK
Business overview

<table>
<thead>
<tr>
<th></th>
<th>FY07</th>
<th>HY08</th>
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<tbody>
<tr>
<td>Operating profit (£m)</td>
<td>864</td>
<td>471</td>
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<td>154</td>
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<tr>
<td>Total EV (£m)</td>
<td>6,911</td>
<td>5,776</td>
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Aviva UK
Business overview

- MCEV confirms benefits of scale & broad product strategy
  - Impact on embedded value for 2007 is -3% and HY08 is -12%
  - Impact on operating earnings for 2007 is -1% and HY08 is -9% (1)
- Restatement effect principally attributable to annuities
  - Caused by removal of asset yields above risk free rates
- Purely a change to timing of recognition of earnings
- Strategy unchanged

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(1) after the effect of the presentational change under MCEV to reclassify £37m in FY07 and £16m in HY08 of credit default experience profits to investment variances.
Aviva UK
Impact of MCEV on embedded value - 30 June 2008

EEV £6.5bn
MCEV £5.8bn

Annuities - drop in value but underlying economics unchanged

- MCEV - calculated assuming assets earn risk-free rate (swaps + 50 bp)
- does not factor actual asset yield achieved - treats asset yield
  above risk-free as an implicit allowance for defaults

<table>
<thead>
<tr>
<th>Balance Sheet Date</th>
<th>Implicit allowance for defaults</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 2007</td>
<td>60 bp</td>
</tr>
<tr>
<td>June 2008</td>
<td>90 bp</td>
</tr>
</tbody>
</table>

- Historic defaults around 10bps since 1989
- Based on asset portfolio of £16bn, this is equivalent to pre-tax profits of £150m pa less actual default losses – equivalent to present value (net of tax) over average term of 10 years of £1bn less actual defaults

Non-profit and with-profit - no significant change overall

- Includes £0.1bn adverse effect of moving lapse assumptions to mean best estimates
- No estate “burn-through” on with-profits
Aviva UK
Impact of MCEV on operating earnings -30 June 2008

EEV
- £455m (1)

MCEV
- £416m

New Business
- £154m
- 34%
- £301m (Existing Business)
- 66%
- £73m (New Business)
- 18%
- £343m (Existing Business)
- 82%

• New business value lower by £81m (-53%) principally due to annuities
• Existing business earnings higher by £42m (+14%) & now account for over 80% of total
• Existing business now a bigger driver to improving overall profitability

(1) after the effect of the presentational change under MCEV to reclassify £16m of credit default experience profits to investment variances
Aviva UK
Impact on new business value -30 June 2008

<table>
<thead>
<tr>
<th>HY2008</th>
<th>Life and Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>EEV</td>
<td>MCEV</td>
</tr>
<tr>
<td>£154m</td>
<td>£73m</td>
</tr>
</tbody>
</table>

Annuities

- Reported new business value under MCEV does not factor all of the asset yields achieved

<table>
<thead>
<tr>
<th>Period</th>
<th>Yields achieved above risk-free</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full year 2007</td>
<td>+75 bp</td>
</tr>
<tr>
<td>Half year 2008</td>
<td>+90 bp</td>
</tr>
</tbody>
</table>

Life and savings

- Adoption of MCEV beneficial with:
  - protection profits 15% higher
  - asset accumulation unchanged
Aviva UK
Difference in annuity new business value - 30 June 2008

- Gilts+195bp
- Gilts+175bp
- Gilts+145bp
- Gilts+85bp
- Gilts+145bp
- Gilts+85bp

EEV “locked-in” margin covers risk of:
- Defaults over our long-term allowances
- Longevity
Aviva UK
Difference in annuity new business value -30 June 2008

- Asset yield achieved
  - Gilts+195bp
- Expenses / reinvestment
  - -20bp
- Asset yield net of exp / reinvestment
  - Gilts+175bp
- Fixed guarantee
  - Gilts+85bp

Gross spread
Return given to annuitant
Aviva UK
Difference in annuity new business value -30 June 2008

Gross spread

Asset yield achieved

Expenses / reinvestment

Asset yield net of exp / reinvestment

MCEV risk free rate

Fixed guarantee

Gilts+195bp

Gilts+175bp

Gilts+85bp

(swaps + 55bp)

“Locked-in” margin for MCEV nil bp

Return given to annuitant

“Locked-in” margin for MCEV nil bp

Return given to annuitant

Asset yield net of exp / reinvestment

MCEV risk free rate

Fixed guarantee

Gilts+195bp

Gilts+175bp

Gilts+85bp

(swaps + 55bp)
Aviva UK
Difference in annuity new business value - 30 June 2008

- Asset yield achieved
- Asset yield net of expenses / reinvestment
- MCEV risk free rate
- Fixed guarantee

- Gilts+85bp
- Gilts+195bp
- Gilts+175bp
- -20bp (swaps + 55bp)

- Gross spread
- Implicit default allowance +90bp
- "Locked-in" margin for MCEV nil bp

- Return given to annuitant

- Profitability metrics attractive:
  - New business IRR 19%
  - Payback period 6 years

- Appropriate risk within balanced portfolio
- Understand risk and how to price it
- Strong performance record with historic defaults well below market benchmark

- Strong performance record with historic defaults well below market benchmark
- Profitability metrics attractive:
  - New business IRR 19%
  - Payback period 6 years

Page 29
Aviva UK
Existing business operating earnings - 30 June 2008

<table>
<thead>
<tr>
<th>EEV (1)</th>
<th>MCEV</th>
</tr>
</thead>
<tbody>
<tr>
<td>£301m</td>
<td>£343m</td>
</tr>
</tbody>
</table>

**Annuities**

- Operating earnings higher by £40m.
- Reflects asset yield over risk-free earned in period – confirming MCEV only affects timing of recognition of profit not its overall quantum

Annuity Profit Profile

(1) after the effect of the presentational change under MCEV to reclassify £16m of credit default experience profits to investment variances
Aviva USA
Business overview

<table>
<thead>
<tr>
<th></th>
<th>EEV</th>
<th>MCEV</th>
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<tbody>
<tr>
<td>FY07</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating profit (£m)</td>
<td>255</td>
<td>124</td>
</tr>
<tr>
<td>VNB (£m)</td>
<td>108</td>
<td>2</td>
</tr>
<tr>
<td>Payback period</td>
<td>5</td>
<td>6yrs</td>
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<tbody>
<tr>
<td>HY08</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating profit (£m)</td>
<td>139</td>
<td></td>
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<tr>
<td>VNB (£m)</td>
<td>6874</td>
<td>(8)</td>
</tr>
<tr>
<td>IRR</td>
<td>11%</td>
<td></td>
</tr>
<tr>
<td>Total EV (£m)</td>
<td>1,714</td>
<td>974</td>
</tr>
</tbody>
</table>

Page 32
**Aviva USA**
**Indexed product investment model**

**Aviva US**
Indexed product investment model

- Key features of indexed annuity product are:
  - Return of premium guarantee and minimum return guarantee - managed by bond return + derivative to cover guarantees
  - Equity-index participation - managed by purchase of OTC option
- Overall credit risk managed by risk selection and diversification
- Liabilities to policyholders well-matched - profit driven by expense margins and earning of investment return and credit spreads

- MCEV reporting:
  - NBC captures:
    - Costs of acquisition and administration
    - Costs of options and guarantees
    - Risk-free return only
  - Credit spread in excess of risk-free rate recognised as earned and shown in expected return
  - Net worth shows impact of movements in spreads on asset values
Aviva USA
Profit emergence – fixed annuity

US fixed annuity
Profit emergence profile

- Total profits emerging over the contract life are the same for all bases
- Characteristics of MCEV profile:
  - Initial profit reported is currently low
  - Investment profit emerges over time
  - Profile similar to IFRS
Aviva USA
Market spreads for ‘A’-rated bonds

- Market spread between bond yields and swap comprises:
  - Expected default experience
  - Risk around volatility of default experience
  - Liquidity
  - Other elements

- MCEV values only risk-free return upfront
- Real return = excess spread less any default experience
- Emerges in future profits:
  - Expected defaults in operating profits
  - Actual defaults in total profits
Total assets @ 30 June 2008 = £18bn ($36bn)

Additional spread on total assets = £200m

- Allowance for defaults 25bps
- Additional spread over reference rate earned by Aviva 114bps
- Liquidity premium 50bps
- Swap yield 4.82%

Shareholders' portion = £130m

- c2/3 to shareholders
- c1/3 to policyholders via crediting rate

Net of tax = £85m

- Post tax 65%
- Tax 35%

- Significant additional spread present in addition to component recognised in MCEV
- After allowance for defaults this is equivalent to 114 bps at end of HY 2008
- Some value shared with policyholders via crediting rate
- Present value of additional shareholder element (net of tax) over average terms of the policy (7 years) = £600m

• Total return on A rated corporate bonds 6.71%
• Reported MCEV:
  – Impact of recognising only risk-free return up-front flows through NB margin, operating profit and total MCEV
  – Additional spread profit will emerge as earned in expected return in excess of risk-free
  – Present value of additional margin bridges gap to EEV
• Other metrics complete the picture:
  – IRR (including long-term rate of return) = 11.4% HY ’08 / 11.8% FY ’07
  – Payback period (including return of required capital and initial expenses) = 6 years
  – 51% of in-force VIF + 61% of new business VIF emerges in 0-5 years
• No change to underlying economics of the business:
  – Strong new business franchise
  – Strong track record of credit selection and management
  – Significant additional profits expected to emerge over the life of the policies
## Aviva Europe

### Business overview

<table>
<thead>
<tr>
<th></th>
<th>FY07</th>
<th>HY08</th>
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</thead>
<tbody>
<tr>
<td>Operating profit (£m)</td>
<td>1,543</td>
<td>823</td>
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<tr>
<td>VNB (£m)</td>
<td>456</td>
<td>245</td>
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<tr>
<td>Payback period</td>
<td>5 12yrs</td>
<td>255</td>
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<td>IRR</td>
<td>13%</td>
<td>2%</td>
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<tr>
<td>Total EV (£m)</td>
<td>10,988</td>
<td>10,949</td>
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</tbody>
</table>

**FY07**
- EEV: 1,543
- MCEV: 1,503

**HY08**
- EEV: 823
- MCEV: 728

**Aviva Europe**

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**FY07**
- EEV: 1,543
- MCEV: 1,503

**HY08**
- EEV: 823
- MCEV: 728

**Aviva Europe**
Aviva Europe
Embedded Value by country shows little change

- MCEV is higher than EEV overall, but individual markets differ depending on business mix

- Netherlands includes a higher proportion of annuity and corporate pension business. The benefit of credit spreads is earned over time

- Positive impact in other countries. France HY08 impacted by increased value of guarantees
Aviva Europe
Geographical spread in Value of New Business

- NBV increased under MCEV at both FY 2007 and HY 2008
- Netherlands HY 2008 includes a large proportion of corporate pension business and investment spread profits are earned over time
- Spanish NBV HY 2008 includes Caja Murcia from December 2007.
- Other Europe HY 2008 impacted by sales of Pillar II pensions policies in Romania
Aviva Europe
PVNBP – Small positive MCEV impact

- PVNBP increases under MCEV due to change in risk free rate
- Average payback period of 12 years for Aviva Europe including a longer payback period for annuity products written in the Netherlands, Germany and Belgium. Excluding these the average period is 6 years, ranging from 3 years in Spain to 8 years in France.
Aviva Europe
Conclusions

Mix of Business

• No fundamental impact reflecting the diversity of the underlying portfolio, and relatively low level of annuity business

• Negative NVB and longer payback period in Netherlands, Belgium and Germany reflects corporate pension and annuity business

• A useful and improved way of comparing the underlying business between markets
Summary
Adoption of MCEV

Group life and pensions key metrics

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<th>MCEV (£m)</th>
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<tr>
<td><strong>FY07</strong></td>
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<tr>
<td>Operating profit (£m)</td>
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<td>VNB (£m)</td>
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<td>Total EV (£m)</td>
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<td>20,096</td>
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<tr>
<td>Total EV (£m)</td>
<td>19,867</td>
<td>18,579</td>
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- A better measure of profit recognition
- Provides more disclosure
- Demonstrates the strength and value generated from our diversified businesses
Questions and answers