



Aviva plc

BPA and Private Debt Seminar

January 22nd 2018

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For a more detailed description of these risks, uncertainties and other factors, please see ‘Other information – Shareholder Information – Risks relating to our business’ in Aviva’s most recent Annual Report. Aviva undertakes no obligation to update the forward looking statements in this presentation or any other forward-looking statements we may make. Forward-looking statements in this presentation are current only as of the date on which such statements are made.

Today's speakers



Jason Windsor
CFO, UK Insurance

Jason is the CFO for UK Insurance having previously been Chief Capital and Investment Officer, Strategy and M&A Director, and a member of the Aviva group executive



Tom Ground
MD, DB Solutions

Tom Ground joined Aviva in August 2017. Prior to joining Aviva, Tom headed up L&G's bulk annuity and longevity insurance business



Mark Versey
CIO, Investment
Solutions

Mark is a member of the Aviva Investors' Executive team. He leads the Global Investment Solutions business and oversees the Private Debt business

Aviva Defined Benefit Solutions

Key messages

Attractive market

c£15bn-£20bn pa¹

Opportunity to grow market share

Market size sustainable for many years

Longevity, yields and DC transfers improving affordability

Growing appetite

Total annuity book of c.£51bn², of which c.£7bn is BPA

BPA sales more than doubled in 2017

Expanding BPA appetite into medium to large schemes

Investing in talent to support growth

Core strengths

Proprietary access to key asset classes:

- Equity Release
- Infrastructure
- Commercial mortgage

Large back book

UK corporate relationships

Low risk investment strategy

Investment grade portfolio

Diversified with strong collateral in private debt

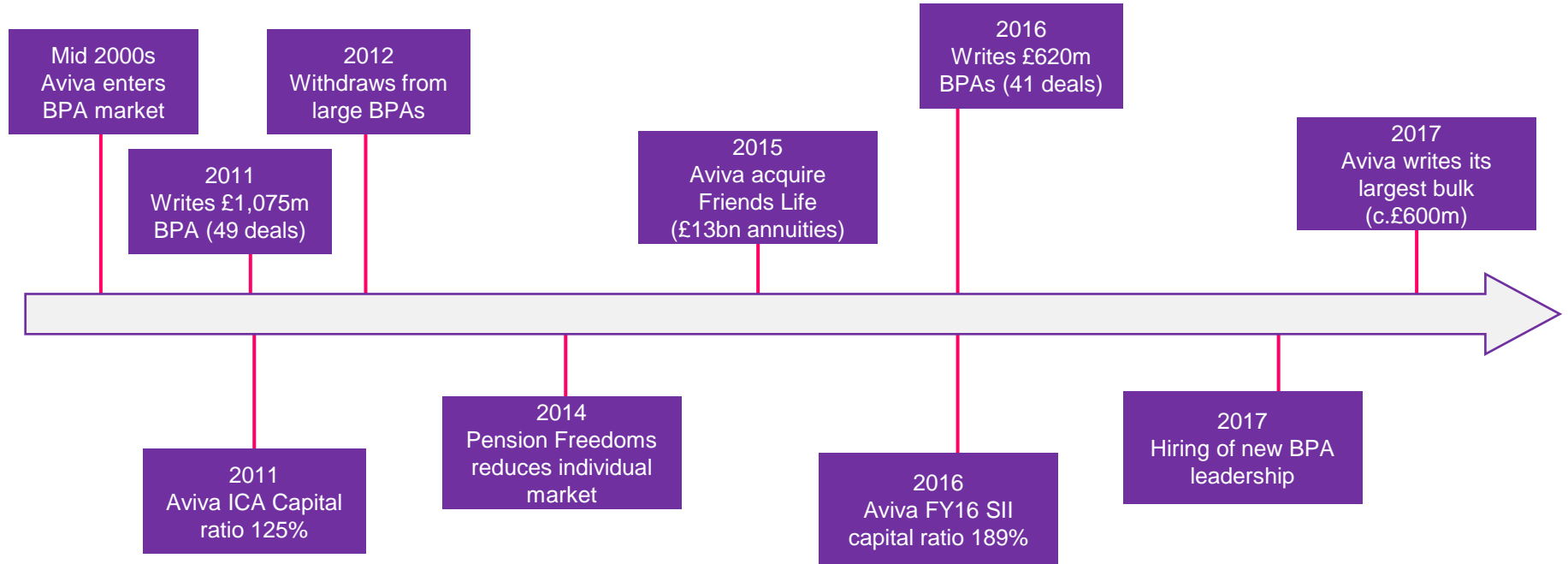
Conservative LTV ratios

¹ Market size per annum from 2018.

² Based on annuity reserves as at 31/12/2016

Bulk purchase annuities

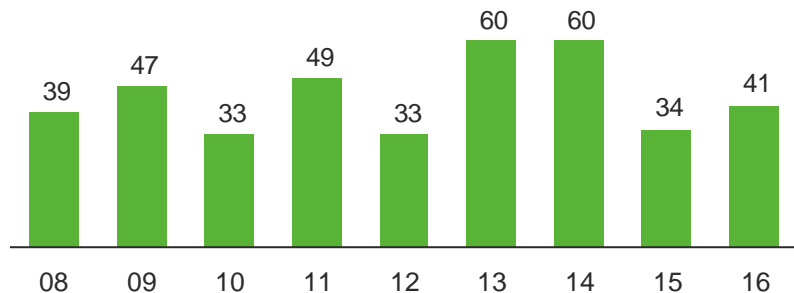
Context in Aviva Group Strategy



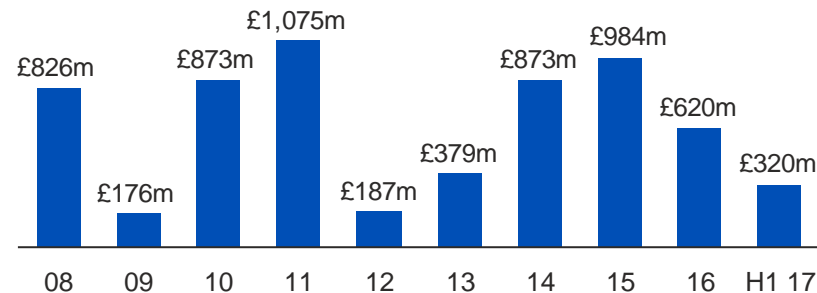
Our Bulk Purchase Annuity History

Historic focus on small to medium schemes

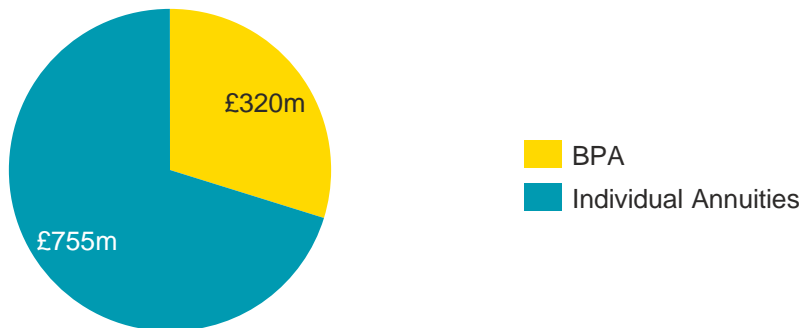
Aviva bulk annuity schemes (#)



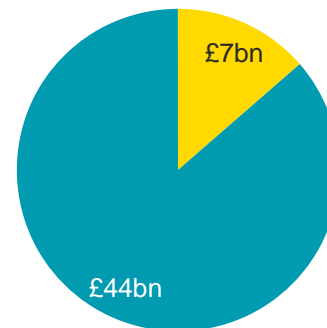
Aviva bulk annuity premiums



H1 2017 annuity sales



End 2016 gross annuity reserves



Attractive financial returns

		Operating profit			Margin			Driver	
		HY16 £m	HY17 £m	Δ	HY16 % bps	HY17 % bps	Target range	HY16	HY17
Annuities & equity release	New	88	109	24%	11%	8%	7.5-8.5%	818m (PVNBP ³)	1,435m (PVNBP ³)
	Existing	158	200	27%	60bps	70bps	55-70bps	53bn (Opening assets)	57bn (Opening assets)
	Total	246	309	26%					

Capital
&
Return



New business strain

- 3%-6% of premium (including buffer)
 - Risk margin
 - Reinsurance
 - Deferreds vs immediates

Returns & payback

- Range, typically low-teens
- Payback 4 – 8 years
- Long-term value generator

Our Asset Strategy

Aviva investment beliefs

- Long-term ALM approach: avoid short-term directional views
- All weather portfolio: focus on downgrade/default risk
- Responsible ESG investor
- Diversification: sector / geography / name
- Financial metrics: MA/capital, IFRS

UK Life

Overall financial + risk
accountability

Strategic asset allocation &
limits

Equity release mortgages

Aviva Investors

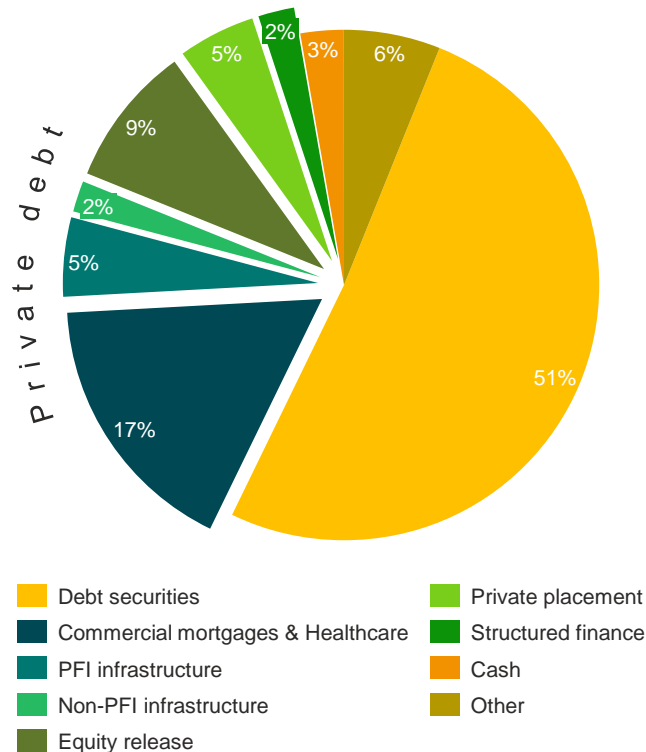
Origination & credit review

Asset class expertise

Loan management

New asset classes

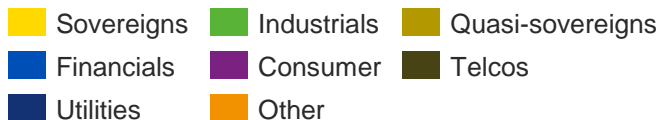
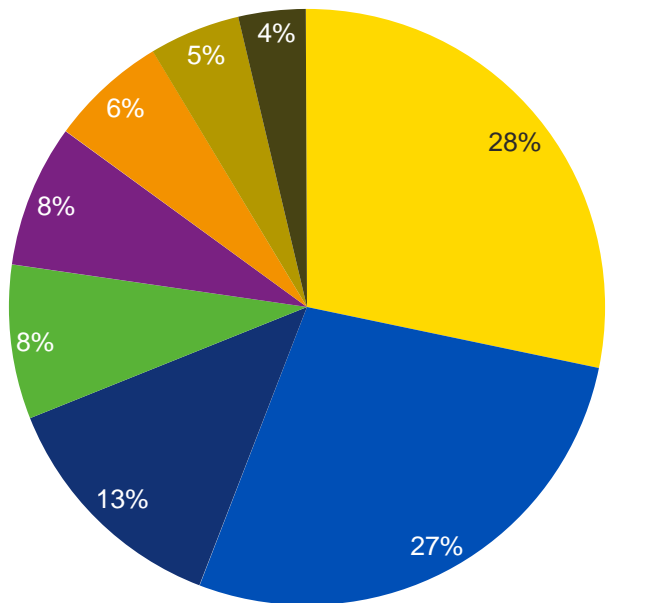
UK annuity asset mix (HY17)



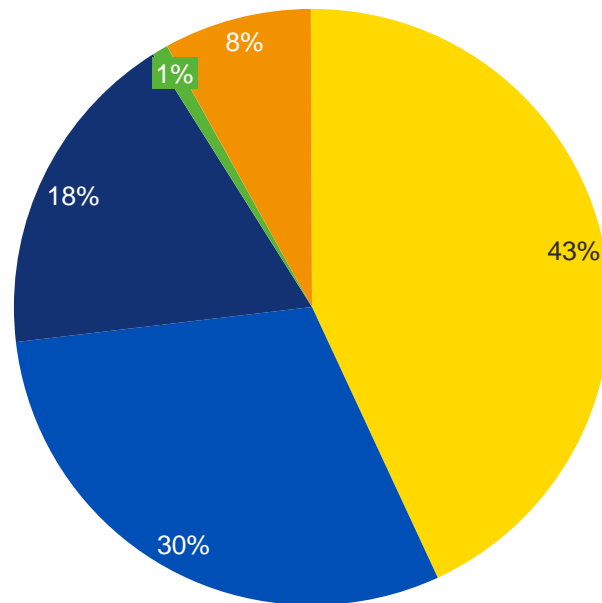
Asset Portfolio Quality

High quality shareholder bond portfolio underpins annuity book

Breakdown by Sector (Nov 17)¹:



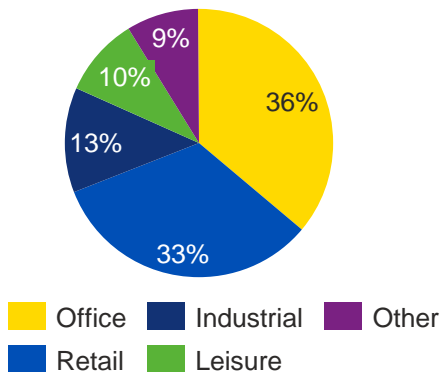
Breakdown by Rating (HY17):



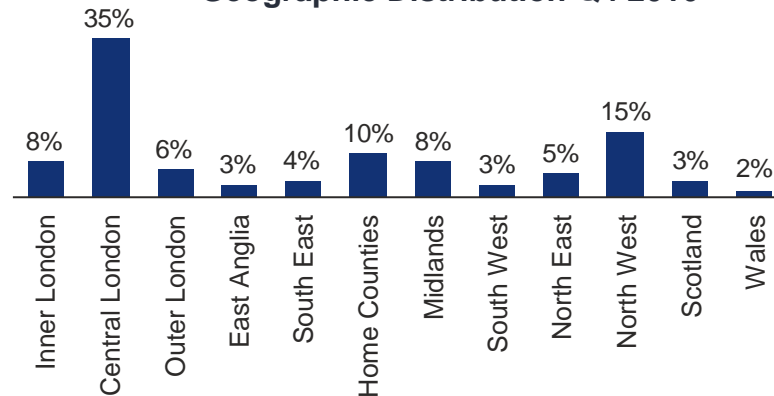
Asset Portfolio Quality

Commercial mortgage portfolio de-risked 2 years ago

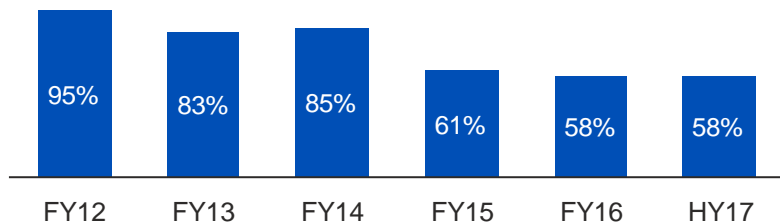
Sector Distribution HY17



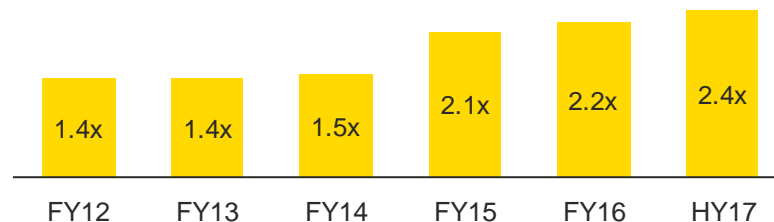
Geographic Distribution Q4 2016



LTV rates



Loan interest cover



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BPA's – growing appetite, winning capabilities

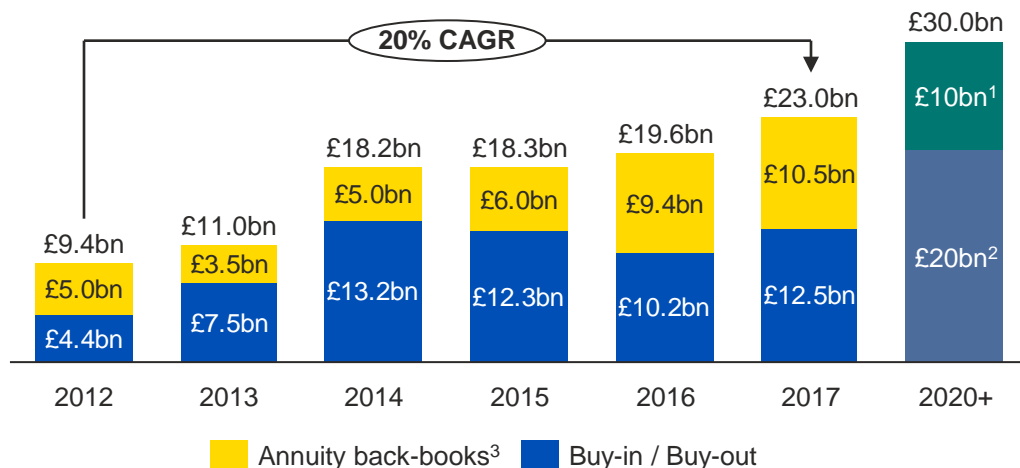
Tom Ground

Bulk Annuity market is a significant growth opportunity for Aviva

£100bn of transactions since 2012

£60bn: buy-ins and buy-outs

£40bn: annuity back-book / corporate transactions



Continued growth expected...

Less than 5% of £2.0trn private sector liabilities insured

Pension risk legacy issue: schemes closed to new members, and increasingly to future accruals

SII changed many life companies' business models. >£80bn+ of back-books could come to market

Very strong pipeline of opportunities for 2018

* Sources:

1. JLT Buyout market watch year end 2017

2. LCP de-risking report 2018

3. Based on JLT market research and Aviva estimates. Includes With-Profit annuity business that came to market in 2017

5 capabilities to winning BPA...Aviva is well placed to win in all 5



Lower cost of capital

Only true Composite
Global Insurer in
BPA market

AA credit rating
(Moody's)



Transaction expertise

Corporate / trustee
relationships

- 6.6m policies
- 4.5m individual policyholders

In BPA market since
mid 2000s



Member recognition

Strongest brand
recognition

Back-end digitisation
(My Aviva)

Advice



Longevity risk management

Superior insight
With Quantum

Reinsurance



Investment risk management

#1 in volume of
direct investments

Leading equity
release player

Well placed to win

Transaction expertise

- Aviva now bidding on transactions of all sizes: 2018 pipeline of c£15bn
- Superior deal winning and origination skills
- Adding talent on BPA team
 - Strategic deals team (£500m+ case size)
 - Further strengthen pricing, investment, reinsurance, structuring & administration capabilities
- Strong corporate / trustee relationships: umbrella contracts to do phased de-risking programmes
 - Leverage Aviva franchise

Member recognition

- Strongest brand recognition of any player in market
- At scale 1.4m annuity customers: back-end digitisation (My Aviva)
- No third-party administration, allowing flexible and responsive service delivery
- Further investment in automation for deferred customers
 - System upgrades to speed-up availability of transfer options
 - Detailed review of advice available

Excellence in Data & Analytics

Data analytics capability

- Superior insight with Aviva Quantum: world class data science capability (500+ strong team)
- Access to unparalleled data sources:
 - Aviva back-book & staff pension (1.5m people)
 - Aviva customers of other product lines (16m, incl. 5m corporate pensions)
 - Lexus Nexus, land registry (21m households)
 - 6m people: Club Vita dataset of DB pension schemes

Unique capability to price new business and better service existing customers

Longevity risk management

- Next generation post-code model to evaluate longevity
 - Multi-factorial predictive model of base and improver basis
 - Proactive searches of proportion married data
 - Profile of individuals most likely to transfer out of DB schemes (incl. liability management exercises)
- Understanding if members can be encouraged to use Aviva's financial advice, pension platform, annuities & drawdown
- Reinsuring new BPA business when economically sensible
 - Significant & attractive reinsurance in 2017
 - 7 on reinsurance panel
 - Plan to extend numbers on panel during 2018

Aviva plc

Investing to meet bulk purchase annuity liabilities

Mark Versey, Aviva Investors

Aviva Investors – European Private Debt Expert



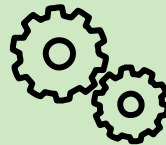
Expertise

Unrivalled market access
Lending since 1984
170 Staff



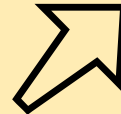
Co-Investment model

Externalising business
Increased deal flexibility
Lead underwriter



Multi-asset approach

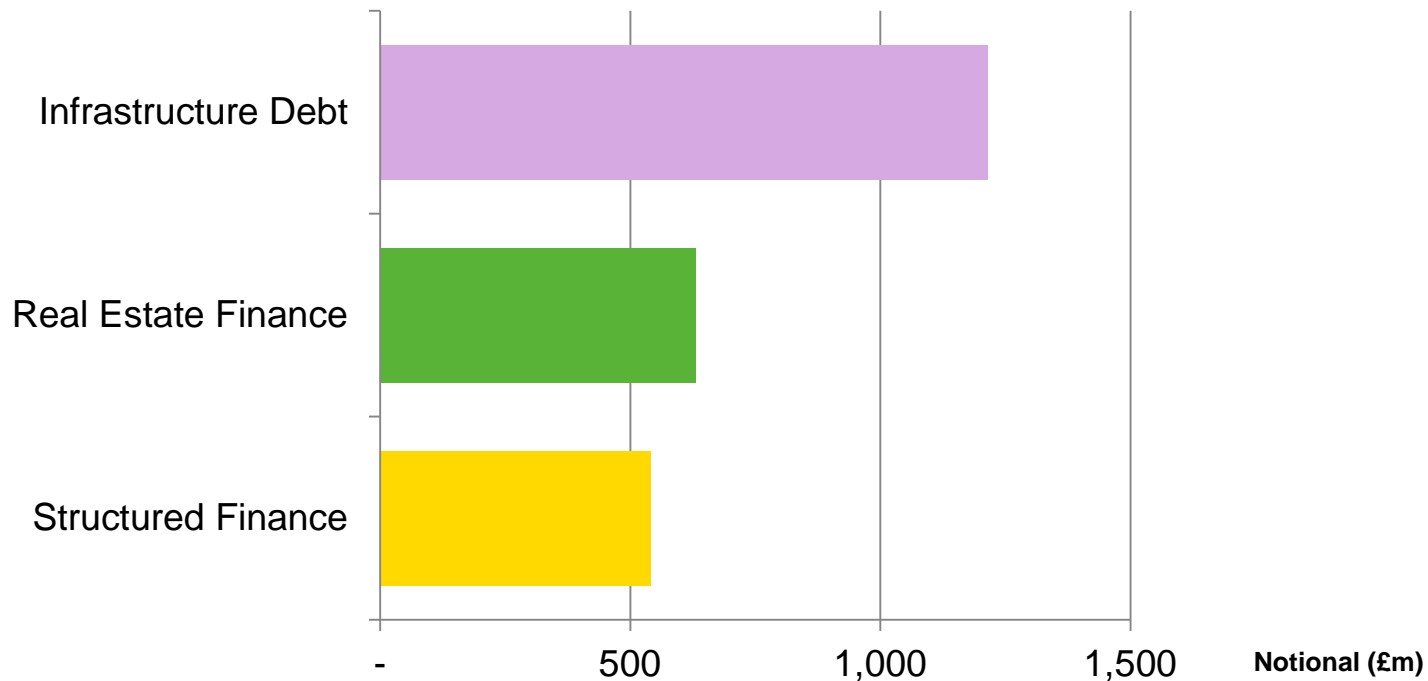
Broad asset coverage
Relative Value
Faster deployment



Scalable

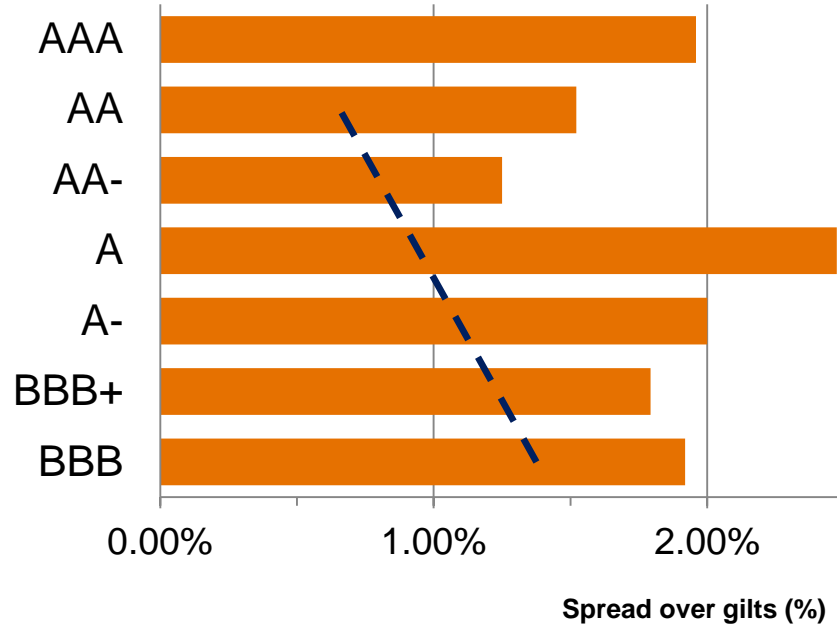
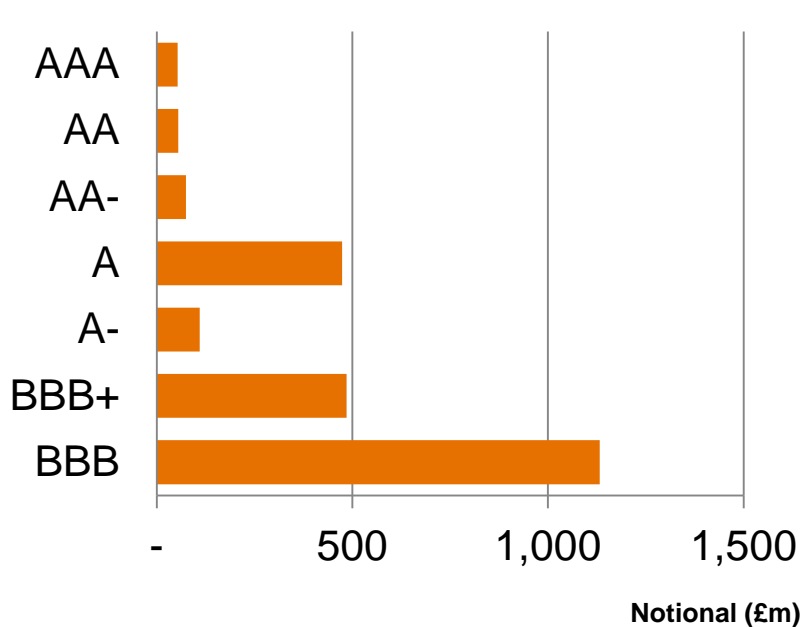
£22bn AUM
UK & Lux platforms
In-house legal & operations

AIS 2017 Origination: By Asset Class



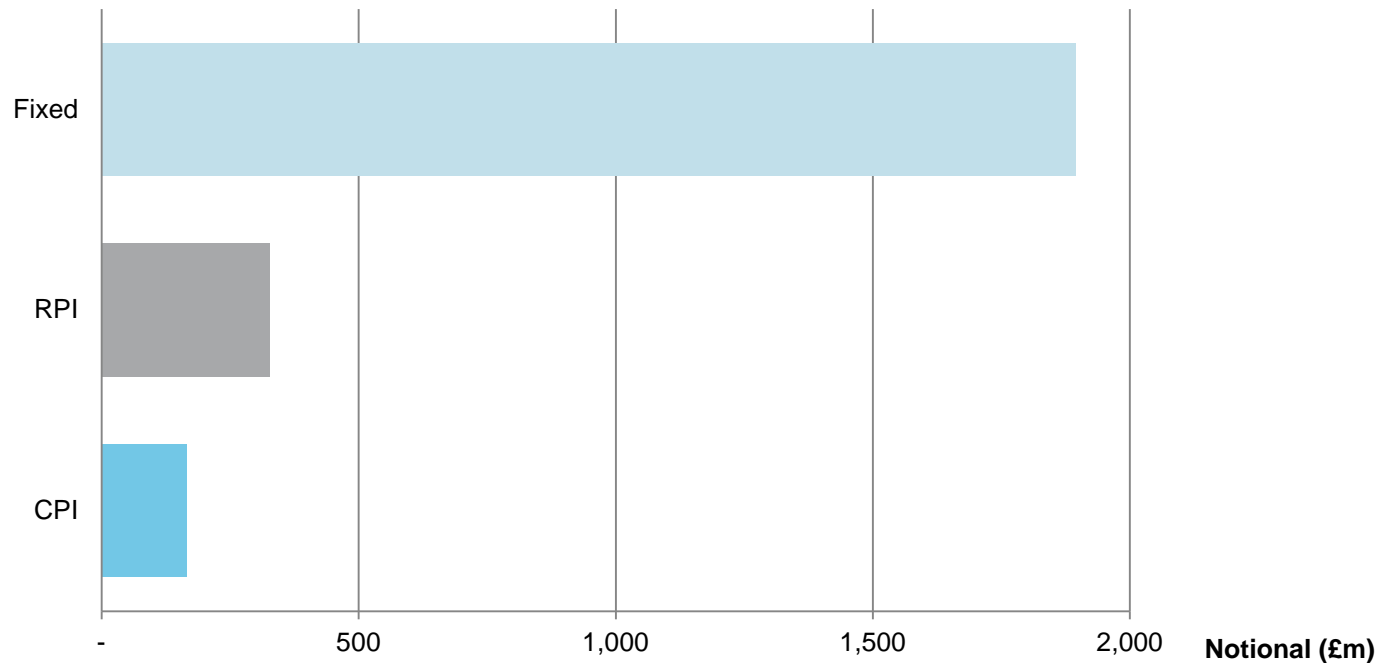
£2.4bn Private Debt with sizes ranging from £1m to £355m

AIS 2017 Origination: Rating Analysis



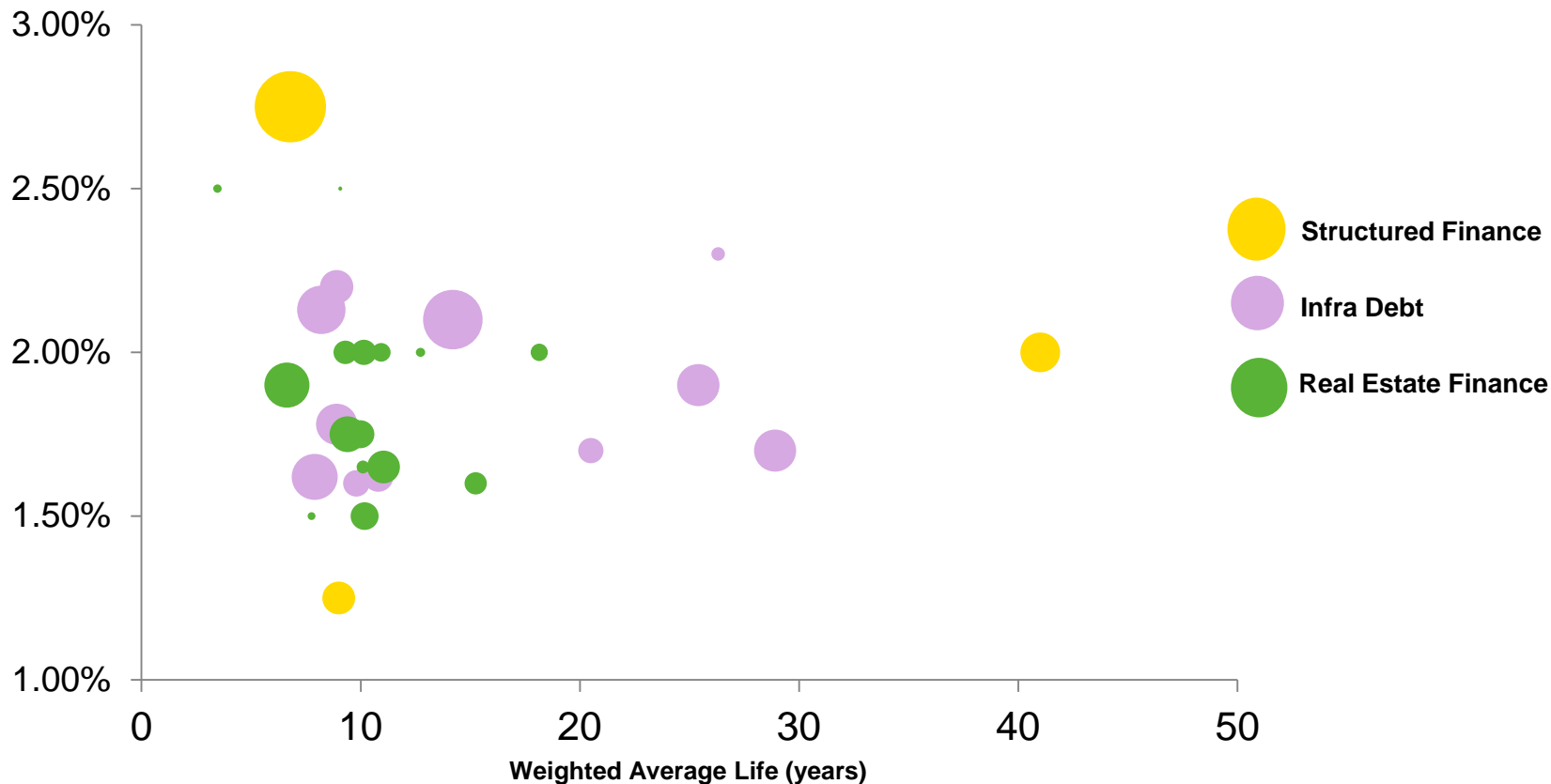
Supply dominated by BBB issuance giving average spread c2%...all secured

AIS Origination: By Indexation Type



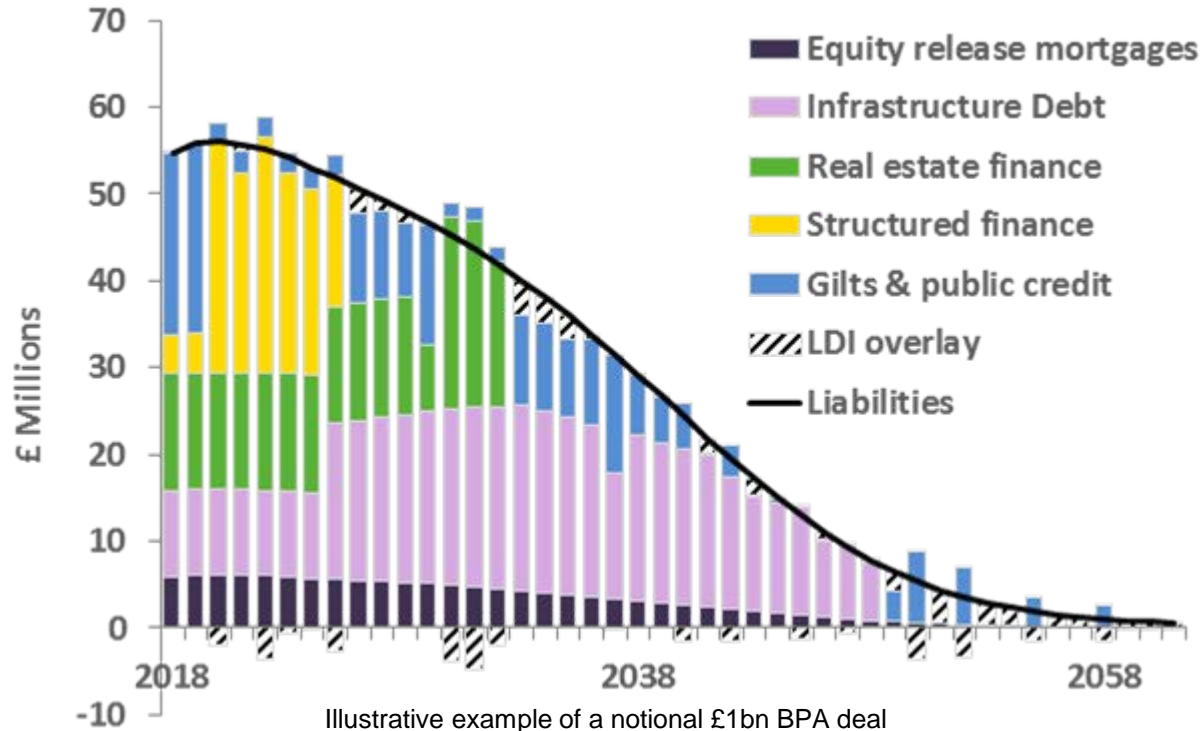
Borrowing mainly Fixed Rate but increasing volumes of Inflation Linked

AIS Origination: Benefits of multi-asset approach



33 deals across spread and duration with 13y WAL

Application: Bulk Annuity Investment Strategy



Good cash flow matching to liabilities

Example – Real Estate Finance

Investment	Senior Secured Loan
Assets	Portfolio of 70+ regional office and industrial assets
Investment size	c£75m
Tenor	10 years
Annualised all-in return	~215bps
Illiquidity premium (over public credit)	~100bps
Rating	BBB
Loan Terms	50% LTV
Investment date	2017

Regional REIT



For illustration purposes only

Example – Infrastructure Debt

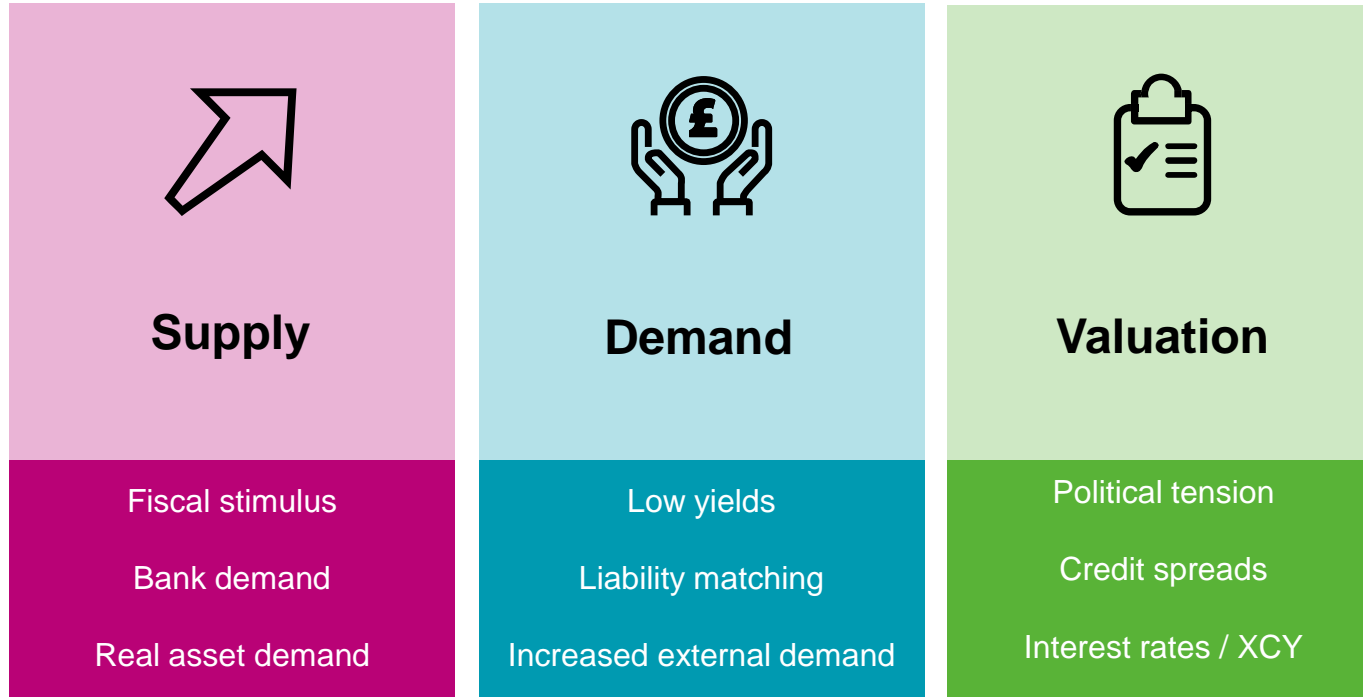
Investment	Senior Secured Loan
Assets	Rolling Stock
Investment size	c£250m
Tenor	>25 years
Spread	180-220 bps
Illiquidity premium (over public credit)	~120bps p.a.
Rating	BBB
Investment date	2017

South West Trains



For illustrative purposes only

2018 – Challenges & Opportunities



Pipeline of > £19bn