

5 February 2008

## **NORWICH UNION ANNOUNCES £2.3\*<sup>^</sup> BILLION SPECIAL BONUS AND PUTS THIRD, IMPROVED REATTRIBUTION OFFER TO POLICYHOLDER ADVOCATE**

- Special bonus announced for 1.1 million with-profits policyholders on 90/10 basis
- £2.1 billion to go to policyholders; £230 million to shareholders
- Average addition to policy value of around 10% over three instalments
- Third, improved reattribution offer put to Policyholder Advocate for balance of inherited estate

### **Special bonus details**

Norwich Union Life, a division of Aviva plc (“Aviva”), today announced a one-off, special bonus worth around £2.1 billion for around 1.1 million with-profits policyholders in its CGNU Life and CULAC with-profits funds.

This gives a significant bonus per qualifying policyholder. The bonus will be used to enhance policy values by around 10% in total in three instalments (the qualifying dates being 1 January 2008, 2009 and 2010). In accordance with the way the funds are run, this bonus distribution is being split on a 90/10 basis between policyholders and shareholders with policyholders receiving a total of £2.1 billion and shareholders £230 million.

This record special bonus addition has been made possible by the strength of the two with-profits funds and a change to the investment strategy for supporting policy guarantees. This has enabled the business to free up a significant part of the inherited estate for payment to policyholders. This change will not affect normal policy returns nor will it impact on policyholders’ security or alter the type of investments backing their policies.

The special bonus has been fully endorsed by Norwich Union’s With-Profits Committee, recently restructured to have a majority of independent members under the chairmanship of Sir Nicholas Montagu. To receive the first special bonus instalment a policyholder would need to have a qualifying policy invested in the CGNU Life or CULAC with-profits funds on 1 January 2008. (*See Notes to Editors for full details*).

Mark Hodges, chief executive of Norwich Union Life, said: “This is fantastic news for qualifying policyholders. These funds are very strong, with good equity backing ratios<sup>#</sup> and highly competitive returns. As a result of the funds’ financial strength, performance, and the changes made to our investment strategy we can release around half of the inherited estate - 90% to our policyholders and 10% to shareholders. This approach has been endorsed by our With-Profits Committee.

“This special bonus is a major boost to policy values. We continue to believe that well-run, open, with-profits funds deliver real value for long term investors.

“Over the course of the next few weeks we will be writing to qualifying policyholders to give them more detailed information.”

*\* Net of tax; All figures rounded.*

*^ As at 1 January 2008*

*# Proportion of investments held in shares and property*

### **Improved reattribution offer made to Policyholder Advocate**

In addition to today's special bonus announcement, Aviva, Norwich Union Life's parent company, also confirmed that it has put an improved reattribution offer to Policyholder Advocate, Clare Spottiswoode to buy out eligible policyholders' interests in the remainder of the inherited estate.

This is the third offer put to the Policyholder Advocate following nearly a year of detailed negotiations and having worked with her for two years. The company has asked the Policyholder Advocate to respond to the offer by the end of the month so it can aim to pay electing policyholders before the end of the year.

Mark Hodges said: “We think it is now time to give clarity to policyholders and shareholders alike. We have made this improved offer to help bring the negotiation process to a mutually acceptable close.

“I have asked the Policyholder Advocate to respond to our offer by the end of this month so we can keep the process moving forward and conclude our negotiations. We are keen to be able to put an offer to our policyholders as soon as possible so they can decide for themselves whether they want to take it or not.

“Today's special distribution will give our policyholders around half of the inherited estate on a 90/10 basis. We want to reattribute the balance. Our reattribution offer means that eligible policyholders stand to receive a significant cash windfall if they decide that's what they want.”

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### **Enquiries:**

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There will be a conference call today for wire services at 10.30am (GMT) on +44 (0)20 7162 0125 (quoting “Aviva newswires conference call”). This conference call will be hosted by Mark Hodges, chief executive, UK Life.

## **Notes to editors:**

### **How the special bonus will work for policyholders:**

#### **1. Qualification for the special bonus**

- All with-profits policyholders of the CGNU Life Assurance Limited (CGNU Life) and Commercial Union Life Assurance Company (CULAC) with-profits funds whose policies were in force on 1 January 2008, other than those with a stakeholder pension or a Provident Mutual policy.
- Qualification for the special bonus is different to the eligibility for the proposed reattribution, which is a one-off event. The special bonus is in line with the process of declaring bonuses each year and so qualification follows those principles and has had the approval of the With-Profits Committee.
- New policies issued after 1 January 2008 and premium increases to existing policies will not qualify.

#### **2. Details of the phasing of the bonus payments**

- The bonus will be used to enhance policy values by around 10% in total, in three instalments.
- To qualify for the second and third instalments, policies will need to be in force at 1 January 2009 and 1 January 2010 respectively.
- Each instalment will be of a similar amount related to policy value and will take account of the performance of assets backing policyholder benefits (asset shares) in the meantime.
- The instalments are a recognition of on-going loyalty from invested policyholders.

#### **3. Payout amounts**

- The amount a policyholder will receive will vary significantly based on the underlying value (asset share) of the policy.
- A typical with-profit bond would see a total special bonus added of £4,500 (based on a £30,000 investment in 2001).
- A 25 year endowment policy taken out in 1985 with a £50 monthly premium would see a total special bonus added of £3,735.

#### **4. With-Profits Committee and the approval process**

- The distribution and terms of the special bonus have been approved by the new With-Profits Committee which has a majority of independent members under the independent chairmanship of Sir Nicholas Montagu.
- The other independent members of the With-Profits Committee are Harriet Maunsel and John Hylands.

#### **5. Mortgage endowments**

- The special bonus does not change the terms of the mortgage promise.

#### **6. Norwich Union Life & Pensions (NUL&P) & Provident Mutual policyholders**

- These policyholders (including Provident Mutual policyholders who chose to switch investment into the CGNU Life fund) do not qualify for this special bonus.
- Most NUL&P policyholders benefited from free shares at the time of the demutualisation in 1997.

### **What the special bonus means for shareholders**

- Shareholders receive £230 million from this distribution, equivalent to 10% of the total amount distributed. Shareholders will receive the funds in three tranches of additional capital over the next three years.
- This is consistent with the normal bonus process for a 90/10 fund.

### **Change of investment strategy for supporting guarantees**

- The assets backing guarantees have been “de-risked”. This has meant the replacement of shares and property with high investment-grade corporate bonds and government securities. The result is lower overall investment risk for the funds, leading to a reduction in capital required.
- The reduction in capital required means that there is now an excess surplus over and above that which is deemed necessary for the security of the CGNU Life and CULAC with-profits funds. It is as a result of this excess surplus that this special bonus is being made.
- The special bonus reduces the level of surplus to within the risk appetite of the funds, at the same time as safeguarding their security.

### **Difference between a special bonus distribution and reattribution**

- The special bonus is the way that a 90/10 special distribution is made to policyholders and shareholders.
- A reattribution is a different type of transaction to a distribution as it is a negotiated deal between shareholders and policyholders.
- In a reattribution, policyholders can choose whether to accept a payment now in return for giving up their contingent interests in any possible further future special distributions. A cash payment is made from shareholders to policyholders from shareholders’ funds, so the with-profits funds are unaffected.
- In a reattribution, the inherited estate is retained in the business and continues its important role of providing security and investment flexibility for the fund until it is no longer required for these purposes.
- In a special distribution, a policyholder benefits from the dispersal of surplus assets between policyholders and shareholders on a 90/10 basis. The distribution is made from the funds and so are no longer available to support them.
- The possibility of such further distributions in the near to medium term is substantially reduced following the special distribution announcement today.

### **Aviva plc**

- Aviva is the leading provider of life and pensions to Europe with substantial positions in other markets around the world, making it the world’s fifth largest insurance group based on gross worldwide premiums at 31 December 2006.
- Aviva’s principal business activities are long-term savings, fund management and general insurance, with worldwide total sales of £41.5 billion and assets under management of £364 billion at 31 December 2006.
- The Aviva media centre at [www.aviva.com/media](http://www.aviva.com/media) includes images, company and product information and a news release archive.