

Annexe Number 2A

Aviva's 2008 Data Update

A summary of Aviva's perspective in connection with the reattribution of the inherited estates of CGNU Life and CULAC with-profits funds

Norwich Union rebranded as Aviva in the UK on 1 June 2009. Where an historical position or events prior to 1 June 2009 are described in this appendix, 'Aviva' and associated naming conventions have been used. Financial information has not been updated and remains as at the time of the report date.

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Annexe by: Aviva UK Life – 1st September 2009

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1.00 Context

Prior to making the reattribution offer to eligible policyholders in the CGNU Life and CULAC with-profits funds, Aviva and the Policyholder Advocate assessed the reattribution offer, both at an aggregate level and for individual policyholders, primarily using policy data at 31st December 2006 and projections (using assumptions for the next 25 years) performed from that date. Whilst adjustments were made to allow for some changes since that date (most notably the change in the size of the inherited estates), the underlying policy projections were all made from this base date.

Recognising that changes in economic circumstances coupled with the effects of actual experience since end-2006, and changes in the projection assumptions could impact the results of the analyses performed and the conclusions reached from consideration of these results, the election mailing pack materials made it clear that additional analysis would be performed during the election period in order to satisfy all stakeholders that guidance remained unchanged.

This annexe aims to explain the work that was carried out by Aviva:

- a) To prepare additional information to facilitate the policyholder advocates reassessment of her guidance to policyholders;
- b) To ensure that the Actuarial Function Holder, With-Profit Actuary and Boards conclusions regarding the reattribution offer were unchanged.

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2.00 Key Assumption and Experience Changes

2.01 Model Changes

Only a few changes were made to the model and these were only applied where they were necessary to reflect changes in the management of the fund that could not be accommodated in the code for example:

2.01.01 Investment Strategy

- a) The asset shares Equity Backing Ratio (EBR) assumption used in the model reflected the actual asset mix at December 2008 (56%) and thereafter followed the EBR algorithm previously used in the modelling.
- b) In response to market conditions, the EBR for the inherited estate was reduced during 2008. The Estate EBR assumption used in the model therefore reflected the actual asset mix at December 2008 and thereafter was typically modelled to increase over time.
- c) The assumptions used for investment of assets backing guarantees followed the hedging programme Aviva had in place at December 2008.

2.01.02 New Business

The key change in new business assumptions allowed for modelling of all new with-profit bond business to include a money-back guarantee option from the beginning of 2009.

It should be noted that the volumes of new business projected to be sold by Aviva remained unchanged.

2.02 Assumption Changes

Other than in the following areas, no significant assumption changes were made in the period end 2006 to end 2008:

2.02.01 Realistic Balance Sheet

The Size of the Inherited Estate annexe explains the change over the period 2006-2008 in detail.

2.02.02 Economic Scenarios

The economic scenarios used were outputs from the Aviva Real World Economic Scenario Generator calibrated to conditions at 31st December 2008 (rather than 31st December 2006).

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2.02.03 Lapse Assumptions

The changes in lapse assumptions from the December 2006 EEV assumptions fall into three categories:

- Changes made as part of the conversion from EEV to MCEV;
- Changes made between 2006 and 2008 year ends;
- Change made for RBS Reporting at December 2008 but not yet reflected in MCEV basis.

The assumptions used in the production of the end 2008 data corresponded with year end 2008 MCEV assumptions in all but one area, where lower lapse rates were assumed.

2.02.04 Expense Assumptions

The assumptions used in the production of the end 2008 data corresponded with year end 2008 MCEV assumptions which are in line with the Management Services Agreement which came into effect on 1st January 2009.

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3.00 Data and Analysis Provided to the Policyholder Advocate

The following summarises some of the information that Aviva has provided to the policyholder advocate's advisors LECG to assist in their reassessment of the policyholder advocate's guidance to policyholders:

- March 2009 – Aviva provided analysis (based on stochastic analysis) indicating that there were no material differences to policyholder recommendations from using data from end-2008 when compared to the data used for their guidance as at end-2006.
- April 2009 - The individual eligible policy data used in the actual individual PIP calculations (as used for the Election Mailing Pack) and the details of the proposed format and basis for the best estimate deterministic run using policy data and asset values/mix as at 31 December 2008 as recommended by Aviva actuaries.
- May 2009 - Full "pot level" data where policies were subdivided into the categories used by the PHA in her advice and fund level projections (as previously provided for end 2006) based on policy and fund data as at 31st December 2008. The data included estimates for the end 2008 and projected AAA Capital Requirements.
- June 2009- Final data projections including required revisions to the pot level and fund level data together with final end 2008 and projected AAA Capital Requirements.
- July 2009 – Aviva analysis (based on stochastic data) and conclusions.

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4.00 Aviva Analysis and Conclusions

Aviva's assessment of the PIP offer, both at an aggregate level and for individual policyholders, has been updated using end 2008 data.

4.01 Value of Potential Distributions (VPDP)

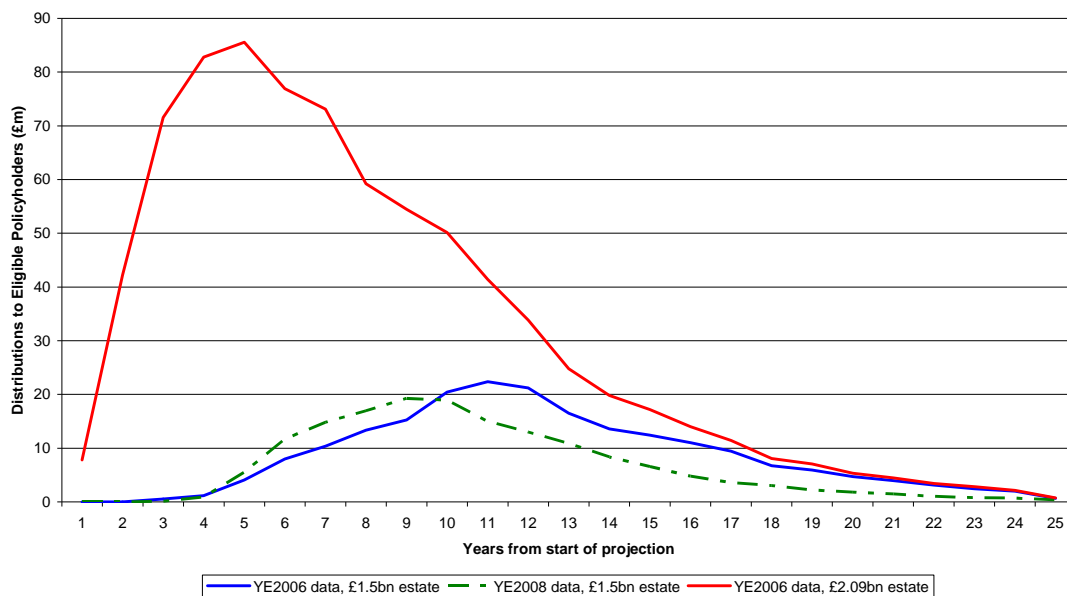
The VPDP has been recalculated using December 2008 data and compared with the information presented in Table 3 of section 7.6.11 of the AFH report as follows:

Value of Potential Distributions to Policyholders (VPDP)			
<i>Estate Value (£m)</i>	<i>Aggregate PIP (£m)</i>	<i>AFH Report VPDP (£m)</i>	<i>YE08 data VPDP (£m)</i>
1600	720	233	190
1529	681	n/a	170
1400	610	161	137
1200	500	103	95

The VPDP shows the total average modelled distributions over the 25 year projection. It is instructive to consider the timing of these distributions, and how this has changed. This is shown in the following chart, which also shows the average distributions over time produced by updating only the inherited estate size:

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Comparison of Average Distributions by Year



It can be seen that whilst the update using YE2006 data substantially captures the change in level and shape, in the fully updated YE2008 data there are higher modelled average distributions in the period 5-10 years into the projection. One reason for this is that the update using YE2006 data did not include the reduction in the AAA capital requirement, thereby changing the position of the fund relative to the modelled distribution point of 105% AAA for a given inherited estate level.

4.02 PIP Breakeven Period

In paragraph 7.6.12 of his full report, the Actuarial Function Holders states “..for virtually all eligible policies, the value of potential distributions in the next 10 years was not expected to exceed the PIP offered. Further, for at least 95% of eligible policies, the value of potential distributions in the next 25 years was not expected to exceed the PIP offered.”

In order to assess whether this continued to be a materially accurate statement Aviva considered the PIP Breakeven analysis throughout the range of reasonable inherited estate values at the Effective Date.

The result of this analysis is that Aviva is satisfied that the statements of 99% (or virtually all) policyholders would need to wait more than 10 years for distributions to exceed the PIP and at least 95% more than 25 years is still material accurate.

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4.03 OWPSF Safety Net

Aviva also undertook some analysis of the votes recorded in the Wagner Data Store as at 21st August 2009 in order to check that the agreed £100m cap on the safety net continued to be reasonable. To do this the 'extreme' scenario previously tested were assessed to see if they were still viable given the election experience to date.

Aviva observed that the safety net scenarios were all quite different from the voting patterns seen to date and that even the least extreme of the safety net scenarios (Scenario 1) is considerably more skewed than election experience to this point.

Aviva consider that it is possible for the ultimate OWPSF to reach a Scenario 1 or 2 election outcome, but that this would require an extreme difference in the remainder of the election from the voting to date. The remaining safety net take up scenarios cannot happen from this point.

The analysis showed that in the vast majority of situations the aggregate VPDP for non-electors as a group continues to be adequately protected. In addition the analysis showed that benefit security of non-electors is also protected across all our tested scenarios. Aviva therefore concludes this offer continues to be fair to non-electors.

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5.00 Aviva's View of the policyholder Advocate's Approach

5.01 New Business Assumptions

As noted by the policyholder advocate, in response to the continued economic volatility Aviva withdrew the Inflation Protected Guarantee Option (IPG) from sale in April 2009.

New with-profits business sales reported for the first half of 2009 were about 75% of the value that had been assumed for the full year 2009 in the negotiations. Aviva sees now reason to assume that the full year 2009 assumed target cannot be met.

As part of the annual planning cycle, Aviva are considering the product mix necessary to ensure that future sales targets are met, including possible replacements for the IPG Bond option.

Eligible policyholders have protections under the scheme provisions against reduced sales volumes through the new business clawback mechanism. As explained in section 10.5 of the Actuarial Function Holders report this would require shareholders to make additional payments to electing policyholders up to a maximum amount of £120m multiplied by the NWPSF proportion should closure to new business in the CGNU Life and CULAC with-profit funds occur in 2009..