

Appendix 20

The FSA Preliminary Fairness Review

A report compiled by the office of the policyholder advocate in connection with the reattribution of the inherited estates of the CGNU Life and CULAC with-profits funds

June 2009

Letter from the FSA of 21 April 2009, on giving the FSA's preliminary view on the fairness of Aviva's reattribution offer.

Financial Services Authority

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21 April 2009

Dear Clare and Mark

Reattribution of inherited estate - preliminary view on fairness

I write further to your note of 9 February 2009 requesting that FSA undertakes a preliminary assessment of the fairness of the Norwich Union Life (NUL or 'the firm') restructured reattribution offer (the 'revised offer').

The revised offer is as set out in your letter to Clare Spottiswoode dated 9 February 2009 and replaces all previous offers including that on which we provided a preliminary assessment on 28 July 2008.

We note that the revised offer is still conditional on a number of factors including:

- Approval of the boards of the relevant Norwich Union Life companies and Aviva plc;
- The outcome of the FSA initial fairness assessment;
- Achieving an effective date of 1 October 2009

Once made to policyholders the offer will be conditional upon:

- Final approval by the boards of Aviva plc and NULAP;
- Court approval of the Scheme; and
- The combined CGNU Life and CULAC inherited estates not being below £1,200 million at the effective date

Scope objective and methodology of assessment

The view set out in this letter remains a preliminary assessment of fairness. We will not be giving a final view until our submission to the High Court. In forming this preliminary view we have taken account of the papers provided to us and the discussions we have had during the course of the reattribution project.

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The Financial Services Authority
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The methodology which our assessment draws on is as set out in our letter of 20 June 2008. We have assessed the fairness of the offer based on the payments made to policyholders relative to the value gained by the shareholder and we have formed a view as to whether non-electors are left in no worse a position than if the reattribution had not proceeded.

Conclusion

We agree that the offer as set out in the letter of 9th February is fair in terms of the return being made to the policyholder relative to the return to the shareholder. As in previous assessments, this is not an endorsement of the methodology and assumptions used by the firm; there are a number of areas where we continue to disagree with the assumptions made in the firm's analysis, however, using our own methodology we have concluded that this offer is fair.

This assessment is based on current market conditions. We will perform our final assessment of fairness shortly before our submission to the High Court; this will take into account market conditions and data available at that time.

We note that the Reattribution Estate will be calculated as:

- Average of inherited estate values at the end of each month preceding 'E day minus 3 months', 'E day minus 2 months', 'E day minus 1 month' (ie end June, end July and end August for a 1 October Effective date) plus a 2 month interest addition using a LIBOR risk free rate to the Effective Date;
- The three month end valuations will involve an economic roll forward of the hard close valuation prior to, or coincidental with, the earliest of the three valuation dates. You will document the roll forward methodology for audit by Ernst and Young. We would like to see their report in their findings

Given that the size of the estate is the determining factor in calculating the aggregate PIP we need to understand and agree how you intend to gain assurance that the determination of the level of the estate at hard close is fair. We therefore ask you to outline to us the methodology that you intend to use. We will also want to consider the reasonableness of key assumptions, such as equity volatility.

Yours sincerely



Manager
Major Retail Groups Division

cc Gary Price