

21 May 2009



Dear

Thank you for your recent emails. You raise important points about a complicated matter and I should like to address them in some detail.

We believe that it has always been clear that any reattribution would have to be attractive to shareholders and we are not surprised that in presentations to analysts Aviva will emphasise the benefits as it sees them.

It may be helpful to you to try to disentangle some of the many numbers that are used, but first it is important to put the references to the FTSE index of leading shares in context. When the previous aggregate offer was announced in July 2008, it was made on the basis of a fixed offer so long as the index remained within the range of 5000 to 7000. This 2000 point range seemed robust at the time. No one foresaw the turmoil in world markets in October that year and the dramatic fall in all equity markets.

Also during 2007 and 2008 the investment strategy for the estate changed, particularly in respect of policy guarantees, which released money that was then distributed 90 per cent to policyholders and 10 per cent to shareholders. The turmoil in the markets in autumn affected all types of assets (the estate is invested in a range of assets beyond equities including commercial property and fixed interest) and any lingering correlation with the FTSE evaporated. This is why the value of the estate alone is what is focused on in the new offer.

The estate was valued at £2.1 billion in July 2008. If all policyholders had accepted the offer, the cost to Aviva shareholder funds would have been £1 billion. The new offer is a flexible version of the July offer. It states that if the estate is valued at £1.2 billion (the lowest amount at which it is expected that Aviva would proceed with a reattribution) then the cost to shareholders, if everyone accepted, would be £500 million.

A comparison between the offer and levels of the FTSE in July 2008 and the offer now, is not comparing like with like.

The figure of £1.2 billion is used so that policyholders have a clear indication of the lowest amount they will be offered. In fact, the most recent valuation of the estate is £1.4 billion. If that remained the case and all policyholders accepted the offer, the cost to Aviva would be more than £500 million. Every £100 million increase in the value of the estate is worth £55 million to policyholders at the aggregate level.

The flexible offer means that all the essential elements of the July offer have been retained but the value has reduced because the estate value has fallen. If we applied the same formula to an estate valued at £2.1 billion the aggregate cost to Aviva if all policyholders accepted would be £1 billion. That is, it would be the same as July 2008.

It is important to put the aggregate figures into context also. You refer to the section of the Aviva presentation which suggests the cost to shareholders would be £400 million. This is based on the estate valued at £1.2 billion and an 80 per cent take up rate. On that scenario 20 per cent would not accept the offer, and whatever proportion of the estate was represented by that 20 per cent would not

be owned by the company. So Aviva would not have bought an estate of £1.2 billion for £400 million, but a smaller estate. If we assume a straight-line correlation, that would mean buying an estate valued at about £960 million. The remaining estate would go to a separate fund for those who did not accept the offer and wished to retain their rights to any possible future special distributions.

That leads to the next point which is how policyholders should judge the offer being made. Aviva's is a 90:10 fund and the comparison that should be made is between what might go to policyholders by way of special distributions in future, assuming no reattribution took place, and the aggregate offer.

To assist with this comparison we have taken a 'base case' economic model with an estate of £1.2 billion and Aviva assumptions about the amount of new policies that might be sold in future (other assumptions are also built in). The sale of new policies is important because they require capital to support policyholders' guaranteed benefits. In Aviva's case, as with some other companies, this capital support is provided by the inherited estate. The Financial Services Authority permits this to tie up, without any compensation, inherited estate capital which might otherwise be available to be distributed to policyholders and shareholders. While the current generation of policyholders has benefitted from this when their policies were established, it has an impact on the amount of special distributions from the estate that could happen in future.

From this 'base case' we estimate that special distributions of the order of £100 million might take place over the next 25 years. This needs to be compared to an aggregate offer of £500 million if all voted to accept the offer. This amount is, of course, influenced by the £2.1 billion special distribution (to qualifying policyholders) that was announced in February 2008 and referred to earlier.

This is a very important point because it is the value of what is being given up by policyholders through accepting the offer that the policyholder advocate has to comment on. It should also be borne in mind that the estate is not used to pay the offer; it is kept to support the with-profits policies; this is a regulatory requirement. Shareholders pay for the offer from their funds.

The next issue is how policyholders should consider the offer, taking into account their personal circumstances, including their type of policy and how long it has to run. Included in the information to be sent to policyholders with their individual offers is a guidance document from the policyholder advocate. We have identified four specific groups of policyholders. The guidance examines a range of economic outcomes and whether possible special distributions might be equal to or be more than the offer for those groups. This is general guidance and, of course, can only be indicative. Aside from this policyholders may have a range of reasons for making one choice or another which may have nothing at all to do with the guidance.

In closing I should like to set out why I am able to come to the view that the offer is in the interests of policyholders.

Policyholders have a genuine choice. They can accept ( in the great majority of cases) a tax free, cash offer now. At an aggregate level, that offer is around five times more than they might receive in special distributions. If they do not wish to accept the offer their position is protected and they retain all their rights to any future special distributions. Any distributions which take place would be paid as bonuses to their policies and be subject to tax in the normal way. It should also be borne in mind that while policyholders in the past have contributed to the growth of the inherited estate, the current generation of policyholders and shareholders have not done so.

I hope you find this a helpful reply.

Yours sincerely



Clare Spottiswoode CBE