

Directors are always interested in listening to the views and concerns of shareholders. The Chairman's letter relating to the Annual General Meeting included a postage-paid question form for shareholders to ask the directors questions relevant to the Meeting or the Company generally. It is believed that this is of particular interest to those shareholders who are unable to attend the Meeting. This leaflet sets out the answers to the most frequently asked questions.

Q1 Why does Norwich Union not offer discounts to shareholders on its insurance products and can shareholders receive a discount on their RAC membership?

A The Company has offered various discount schemes in the past (as Commercial Union and General Accident), however, the size of the Company's current shareholder base (approximately 675,000 shareholders) has made it impracticable for administrative reasons to operate a blanket discount scheme to all shareholders. Discount schemes are also a challenge economically, given that Norwich Union and RAC product lines are already very competitively priced.

Nevertheless, the Company continues to look at ways of offering discounts efficiently and economically on certain products so that shareholders can benefit further from their relationship with the Company.

Q2 Why did the Company make an offer to merge with Prudential and why was a hostile bid not made once this offer was rejected? Why was the offer withdrawn and what happens next?

A On 16 March 2006, Aviva provided the Board of Prudential with a written merger proposal, the terms of which were announced on 20 March 2006. This announcement was issued to enable both Prudential's and Aviva's shareholders to assess the proposal on an informed basis.

Aviva believed that the merger of Prudential and Aviva, on the terms set out in the proposal, would have created significant value for both sets of shareholders. The merger would have created a powerful force in the global insurance industry, with strong positions across the United Kingdom, United States, Asia and Continental Europe. Aviva believed that the combined group would have been able to accelerate the growth of the overseas life assurance businesses, while pursuing a disciplined approach to profitable growth in the United Kingdom market. In addition the merger would have provided an opportunity for significant economies of scale and cost elimination.

Aviva made clear that its proposal was dependent on the co-operation of Prudential. As co-operation was not forthcoming Aviva decided to withdraw its proposal on 24 March 2006. In coming to its decision, the Board of Aviva determined that it was not in the best interests of its shareholders to make any material adjustments to its proposed terms.

In line with its strategy for growth in the international long-term savings market, Aviva continues to review value-driven inorganic growth opportunities in the major global long-term savings markets.

Q3 What is the Company doing to help those policyholders whose Norwich Union endowment policies will not cover their mortgage repayments at maturity? The Company made record profits in 2005 so why doesn't it use some of these profits to make good the shortfalls?

A Norwich Union Life introduced a mortgage endowment "promise" with effect from 31 December 1999. This applies to all mortgage endowment policies in force as at that date that are fully with-profits and, based upon projected returns of 6% per annum, showed a projected shortfall (between the value of the policy at maturity and the amount required to redeem the mortgage) at that date. 6% was chosen because it was the mid-rate of the three rates which the Financial Services Authority requires companies to use to project likely returns on mortgage endowment policies. That projected shortfall as at 31 December 1999 is the maximum amount which Norwich Union will pay under the "promise". Policyholders whose policies were part with-profits had a one-off option to convert these policies into fully with-profits policies in order to benefit from the same "promise".

Frequently asked questions

Norwich Union will, at maturity, top up policies in shortfall up to the maximum amount under the "promise". If a policy is still in shortfall after a "promise" payment then the balance of the shortfall will be borne by the policyholder. The "promise" was made subject to the condition that policyholders continue to pay the premiums and that the policy remains in the with-profit fund and is not materially altered or sold to a third party.

Also, the "promise" was made subject to the condition that the relevant with-profit funds earn sufficient returns on their free reserves to meet the cost of the "promise" payments. However, to give further reassurance to policyholders, Norwich Union has added that, should it believe that it would be unable to meet the cost of the "promise", then it would give at least three years advance notice.

Norwich Union is continuing to write to policyholders on a regular basis with updates explaining how their policy is expected to perform against the target amount.

The with-profits funds are self supporting and with-profits policyholders benefit mainly from the investment return earned by the with-profits fund in which they are invested. It is the overall financial strength of the with-profits fund that allows Norwich Union to make payments under the mortgage endowment promise.

With regard to whether the Company should use its operating profits to subsidise endowment shortfalls, the operating profits belong to the shareholders and reflect the return on the capital which they have invested, and put at risk, through their equity stake in the Company. As a consequence the results of the Company, whether they be good or bad in any one year, are distinct from, and do not influence, the bonuses declared to policyholders. Also, it should be noted that the Aviva Group comprises a much wider range of businesses than just Norwich Union Life. It includes life assurance companies throughout the world, particularly Europe, as well as general insurance operations which produced a significant part of the Group's operating profits in 2005.

Q4 The Company has had a very good year but this does not seem to be reflected in the performance of my investment bond which is still worth less than the money I invested.

- A The value of your bond has increased over 2005 in line with the after tax return on the with-profit fund. For some bondholders, particularly those who originally invested in 1999 or 2000, the unit value including the addition of regular bonuses is still below the underlying investment value. In these cases should you decide to cash in your bond then a market value reduction (MVR) will be applied. Norwich Union has reduced MVR rates a number of times in 2005 and again in 2006 reflecting the gradual recovery in stockmarkets. With-profit funds are not just invested in shares so it is the overall return on the fund and not just the increase in share values generally that is reflected in your policy's value.

Q5 Why do directors receive such a large remuneration package; why has their remuneration increased significantly in 2005 and why do the executive directors receive such large bonuses in addition to their salaries?

- A The level of salaries and the total remuneration package for directors are market driven and set by reference to a number of factors including the levels being paid in other complex major international companies, with which Aviva needs to compete in order to recruit and retain its senior executives. The same applies to fees for non-executive directors for whom there is a strong demand in the market and where the time commitment and accountabilities have risen substantially over recent years.

Of a director's total remuneration more than 50% is "at risk" i.e. it is subject to the attainment of performance measures set by the Board's Remuneration Committee. If the Company fails to achieve 90% of the annual business plan targets, no bonuses are paid. The Committee sets and reviews performance against all bonus targets. The annual bonus plan, which was approved by shareholders at the 2005 AGM, is therefore geared towards incentivising and rewarding superior performance and returns to shareholders. In 2005 the Company produced very strong results and record profits which generated the level of bonuses which were awarded to the executive directors. Under the Bonus Plan one-third of any bonus is paid in cash with the balance being converted into shares of the Company which are not released to the director for a further three years.

The Company feels strongly that remuneration should be linked to performance and indeed employees at all levels participate in some bonus arrangement, however the proportion of remuneration "at risk" is less at lower levels within the organisation.

The remuneration table in the Report and Accounts sets out the remuneration paid to the directors in 2005 and, for comparison purposes, in 2004. However, the new annual bonus plan records bonuses differently in that the whole of the bonuses paid for 2005 are now disclosed in the table, whereas the previous plan included a large element of "matching shares". Matching shares were a particular feature of that plan and were disclosed separately in the share award table. The year on year comparison is also affected by the fact that the 2004 remuneration for one director was lower as his service, due to his date of joining the Company, was for less than a full year.

Q6 I read in the newspapers that the Company is looking at clarifying the ownership of its inherited/orphan estate as between policyholders and shareholders. When will this happen and what is the likely benefit to policyholders?

- A The inherited estate is any excess of assets held in a with-profit fund over and above the amount required to meet liabilities, including liabilities which arise from the regulatory requirement to treat customers fairly in setting discretionary benefits. The estimated value of the inherited estate of the with-profits funds being considered – CGNU Life and CULAC – was around £2.9 billion at the end of 2005 after allowing for the required capital margin of £1.1 billion.

It is not anticipated that the inherited estate would be distributed to policyholders in the ordinary course as it is used to maintain the with-profit funds at an appropriate level of financial strength (ensuring a more flexible investment policy) and to support the current and future business of the Company. However, in order to maximise the benefit of the inherited estate to current policyholders and shareholders, Norwich Union Life announced last October that it was investigating ways in which its ownership may be clarified through a reattribution.

The first stage has been to nominate an independent person, a Policyholder Advocate, whose job will be to represent relevant policyholders' interests in this process. In February 2006 the Company announced that Clare Spottiswoode had been nominated as Policyholder Advocate. However, at this stage no decision to proceed with a reattribution of the inherited estate has yet been taken; it will only take place if there are clear benefits for policyholders and shareholders. Many complex issues are involved and the Company is not expecting to make any further announcements in the near future.

Q7 In returning my proxy voting form in the post anyone can read my personal details. Why can't you supply an envelope?

- A In 2002 the Company enclosed a reply-paid envelope with the proxy form so that shareholders could use it to return the form and in the region of 50,000 proxy forms were returned. At that time the Company had approximately 1,000,000 shareholders and therefore approximately 950,000 envelopes were not used and presumably, thrown away. After careful consideration the Company took the view that the financial and environmental cost of such wastage could not be justified.

The Company did look at redesigning the proxy form to allow it to be folded prior to its return in a way which would cover the shareholder's name and address etc. However, the number of resolutions and the need to include an additional column for "votes withheld" has meant that the form cannot be folded without there being a crease across the form itself. The instructions on the form are recorded through a scanning process and a crease can interfere with this.

It was decided that the most effective alternative would be to provide shareholders with a Freepost address so that those who are concerned can return the proxy form at no cost, other than that of providing an envelope. The Freepost alternative is referred to and highlighted on the proxy form and in the Chairman's letter. It was also recognised that there are a growing number of shareholders who have access to the internet and the opportunity to vote "on-line" and therefore do not need to return their proxy form through the post.

Q8 Why is the Board seeking authority to create more preference shares and doesn't this conflict with the resolutions to buy back shares?

A The Company's authorised but unissued share capital currently includes 500 million sterling non-cumulative redeemable preference shares of £1 each and 700 million euro non-cumulative redeemable preference shares of €1 each. These were created solely for use in connection with a debt issue made by the Company in November 2004 under the terms of which the Company may substitute the debt with preference shares under certain circumstances. These shares are therefore "earmarked" solely for that purpose. The Company's other £200 million of preference share capital has been fully issued.

As a financial services group, the Company needs to maintain a level of capital which is appropriate to support and develop its business. The Company is therefore seeking shareholder approval to increase its authorised preference share capital and the authority to issue and allot the resulting new preference shares to maintain flexibility and to be able to take advantage of appropriate opportunities to manage efficiently its capital structure.

Resolutions 16, 17 and 18 in the Notice of Annual General Meeting would, if approved by shareholders, give the Company authority to buy back its existing issued ordinary and preference shares subject to the specified limits. These are standard resolutions which are renewed each year but to date have not been used.

As stated in the Notice of Annual General Meeting, the Board has no current intention of exercising any of these powers. The authorities would only be exercised if the Board believed that to do so would result in an increase in earnings per share and be in the interests of shareholders generally.