

# Annual General Meeting 2005

## Frequently asked questions



In the letter which accompanied the Notice of the Annual General Meeting, directors gave shareholders an opportunity to ask them a question relating to the business of the Meeting or the Company generally. It was believed that this would be of particular interest to the many shareholders who were unable to attend the Meeting. A postage paid question page was attached to the Notice of Meeting for this purpose. This leaflet sets out the answers to the most frequently asked questions.

**Q1 Why is the Board proposing to increase the directors' remuneration and to introduce new, more generous, share plans when the returns to Norwich Union Life's policyholders have been so poor? Shouldn't directors get less remuneration when performance is poor?**

A The proposal to increase the maximum aggregate remuneration which can be paid to directors (Resolution 21) relates to the fees payable to the non-executive directors (the executive directors do not receive a separate fee in addition to their remuneration for acting as directors). This resolution seeks authority for the Board to pay up to a maximum of £1.5 million per annum in directors' fees in total. The amount of remuneration paid in 2004 under this authority was £862,000. Directors' fees were last reviewed in 2003 and due to regulatory requirements, which have increased the demand for non-executive directors and increased their time commitment and accountabilities, the market level of directors' fees has increased. The Company proposes to review directors' fees to ensure that they keep broadly in line with the median fees paid by major international companies of similar size and complexity. It is anticipated that this review may bring the fees total close to the current limit of £1 million and hence the proposal to seek an increase in the limit.

With regard to the remuneration paid to the executive directors the Company's remuneration policy seeks to provide remuneration packages which attract and retain high calibre employees and encourage and reward superior performance. The directors' remuneration is set by reference to a variety of factors, including market practices for companies of similar size, type and complexity. It also takes into account the current economic and prevailing operating conditions as well as the skills and management capabilities which the Group must secure in order to attain its objectives.

The authority granted by shareholders relating to the current share plans expires before the next Annual General Meeting. In considering their renewal, the Board commissioned an independent review of all aspects of remuneration payable to the executive directors and members of the senior management team, so that changes in corporate governance guidelines and good practice which have developed since the last review could be incorporated.

The Board's objective is to align closely the interests of senior management with those of shareholders. The new remuneration structure has not resulted in any increases in basic salary or fixed costs of employment, such as benefits, for the executive directors. The changes being introduced to the share incentive plans reflect market practice at this level. Aviva's culture of encouraging outperformance will require a significant increase in the financial performance of Aviva before the executive directors receive the full benefit of the increased incentive payments. This would, of course, be to the benefit of all shareholders.

In reviewing what remuneration and incentive packages were appropriate, the Company discussed its proposals with major institutional investors and shareholders.

The Company's operational performance was significantly above market expectations in 2004 – it increased its pre-tax operating profit by 23%, and proposes to increase dividends to shareholders by 5%.

Details of the proposed changes and the reasons supporting the remuneration review are included in the Directors' Remuneration Report contained within the Report and Accounts for 2004 – a copy of which is available from the Group Company Secretary.

**Q2 Instead of increasing dividends to shareholders why doesn't the Company use some of its profits to improve bonus payments on Norwich Union's endowment policies?**

A The investments of Norwich Union Life's policyholders are ring fenced from the assets belonging to shareholders. Bonuses declared by Norwich Union on its with-profits life assurance products are based on the investment returns achieved on the policyholders' savings in the with-profits funds and not on the operating profits of the Company. The annual 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.

Savings in the policyholders' funds are invested to provide investment growth and security. Investment returns, particularly those exposed to the UK equity market fell substantially from their December 1999 peak, reflecting falls in worldwide stock markets, low interest rates and a low inflation environment. Whilst the markets have slowly recovered some of the ground lost they still remain substantially below the value at the peak. The with-profit funds aim to even out the variations in performance over the investment period using the financial strength of the funds to "smooth" the returns. This has enabled bonus payments to be maintained at a higher level than the actual investment return on such policies would have otherwise produced.

It should also 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, and general insurance operations which produced a significant part of the Group's operating profits in 2004.

Also, contrary to what has been suggested by some shareholders it would not be appropriate to link directors' remuneration directly to the performance of the policyholders' funds which are affected by factors beyond their control. Shareholders would not expect executive remuneration to rise or fall purely because of stock market performance.

**Q3 What is the Company doing to help those policyholders whose Norwich Union endowment policies will not cover their mortgage repayments at maturity?**

A Norwich Union introduced a mortgage endowment "promise" with effect from 31 December 1999. This applies to all policies that were fully with-profits and, based upon projected returns of 6% per annum (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), showed a possible shortfall (between the likely value of the policy at maturity and the amount required to redeem the mortgage) at that date. 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.

Provided Norwich Union earns 6% per annum, after tax, between 31 December 1999 and a policy's maturity date, then the promise will be sufficient to make up any shortfall. If returns are higher than 6%, but there is still a shortfall, then any shortfall will still be covered. If earnings are lower than 6%, then the payment will be made with the balance of the shortfall being borne by the policyholder.

The promise was made subject to the condition that premiums continue to be paid and that the policy is not being materially altered.

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 return.

**Q4 As a result of endowment mis-selling what provisions has the Company set aside for compensation in the forthcoming year?**

A The Company has set aside a £130 million provision to meet potential compensation costs to be paid in 2005 and future years and also the associated expenses of investigating complaints. This is based upon actual average claim amounts and expected volumes.

Norwich Union remains committed to its mortgage promise, although it has told policyholders that it will provide three years' notice if this position changes. As disclosed on 18 January 2005 Norwich Union has set aside £1 billion to cover the future costs of the mortgage endowment promise. (Launched to assist policyholders who, at the time of the announcement, were in a position of endowment shortfall. This "promise" was conditional on the Company earning a sufficient investment return on its free reserves).

### Q5 What is the position regarding orphan estates and what is the current value of these assets?

A The Company continues to review the issue of the orphan estate and a potential reattribution. There has been considerable regulatory change and this remains an important strategic issue. The orphan estate is valued at £4.5 billion (as at 31 December 2004) on a realistic accounting basis. This more than adequately covers the required capital margin for Norwich Union's with-profits business.

### Q6 Now that the Company has returned to making good profits, when will the share price and dividends return to former levels?

A The share price has already made substantial progress from the lows witnessed in the recent years. It would be further helped by the UK equity market also returning to its previous high of almost 7,000 from about 5,000 currently. Shareholders should anticipate dividends growing at around 5% per annum in line with the Company's dividend policy which is linked to further growth in the Company's statutory profits.

### Q7 Jobs being relocated in India. Why is the Company doing this?

A As you would expect, the Company thought long and hard before making its decision to relocate some aspects of its activities to India – it was not the first to make this move; neither will it be the last.

The marketplace in which the Company operates is highly competitive; customers increasingly demand value for money products as well as a high quality service, and the Company has recognised that relocating some of its operations can help. Typically, a call centre operation is 40% cheaper to run in India than it is in the United Kingdom, primarily because wages and other fixed costs are substantially lower. These savings provide the Company with a strong element of cost control which can be used to maintain competitive advantage, invest in new initiatives and provide working capital to be invested in future growth.

Aviva is a global company, but its presence in the United Kingdom remains strong, focused on three major centres of Norwich, York and Perth. The Group currently has approximately 85% of its United Kingdom workforce based in the United Kingdom.

Norwich Union has sought to keep job losses in the United Kingdom to a minimum. It has in place a country wide redeployment process to match people with roles. Where people are affected the Company provides a comprehensive package of support to ensure those who do leave the Company have the best possible support as they seek new opportunities.

The Company believes that, by taking action to remain competitive, it will create a stronger company enhancing security for its customers, a long-term future for the majority of its staff and a more efficient cost base for its shareholders.

### Q8 Is the quality of service from the Indian call centres as good as that in the United Kingdom?

A By using the Indian labour market we can ensure that there are no unfilled operational vacancies as there sometimes are in the United Kingdom, and the use of staff in different time zones helps the Company to manage the peaks in customer demand. Also, the spread of operations across two continents helps mitigate some of the UK-centric risks which could impact on customer service.

There are two million graduates in India who want to work for Western companies like Norwich Union and therefore the quality of our staff in India is at least equal to those employed in the United Kingdom. The opportunity to build and staff a facility from scratch has enabled the Company to design the business and train its staff around customer requirements.

The Company manages the performance of United Kingdom and offshore call centres on a monthly basis across a variety of performance measures. The results show that the performance of our offshore call centres is excellent, delivering good levels of customer satisfaction which are on a par with the United Kingdom.

### Q9 The Board is too large. Why do we need so many non-executive directors?

A Aviva is a large complex international Group. In order to manage the Company it is desirable for a number of the senior managers, including the Group Chief Executive and Finance Director, to sit on the Board as executive directors. These directors are full time employees of Aviva and have operational responsibility for the business. At present the Company has four executive directors.

As the Company is listed on the London Stock Exchange at least half of the members of its Board need to be independent non-executive directors in order to comply with the relevant code of best practice. In addition to their responsibilities to help set the Company's strategy these directors appoint and monitor the performance of the executive directors, determine their remuneration and monitor the Company's controls. Non-executive directors also bring to the Board a wide range of business experience and skills which they have acquired from serving in different industries and countries. It is therefore necessary to have a number of such directors in order to create a Board which has an appropriate range of skills, knowledge, experience and diversity so that between them they can discharge their responsibilities. Under the rules of the relevant code of best practice, the Chairman is not deemed to be independent for this purpose.

On the basis that the Aviva Board has four executive directors it therefore requires at least four non-executive directors in order to comply with best practice. If a chairman is added, this creates a minimum of nine directors. In addition to the above, the Board is required to have a succession programme aimed at continually refreshing the skills and experience which its non-executive directors bring. It has been announced that it is the Board's intention that George Paul and Elizabeth Vallance will leave the Board at the end of this year and indeed the intention is that Derek Stevens and André Villeneuve will retire by the end of 2006 as part of this succession process. As a result some new, very strong, appointments have been made over the past year or so in order to gain the necessary knowledge and understanding of the Group so that the Board does not suffer any loss of effectiveness or corporate knowledge as a result of the retirement/replacement process.

### Q10 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 one million 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 this year and the need to include an additional column for "votes withheld" meant that the form could not 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 were concerned could 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 "online" and therefore do not need to return their proxy form through the post.

### Q11 Why doesn't the Company offer discounts to shareholders on its insurance products?

A The Company has offered various discount schemes in the past – Commercial Union and General Accident both offered shareholder discounts – but the size of the shareholder base (now approximately 840,000) following the mergers has made it impracticable for administrative reasons to operate a blanket discount scheme. Discount schemes are also a challenge economically, given that many of Norwich Union's 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.