

Report Number 16 A

Aviva's Scheme

A summary of Aviva's proposals 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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Appendix by: Aviva UK Life – June 2009

Aviva Life Services UK Limited. Registered in England No 2403746. 2 Rougier Street, York, YO90 1UU.

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Appendix by: Aviva UK Life – June 2009

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1.00 Context

Aviva is proposing to make changes to three of its funds:

- CGNU Life with-profits fund
- Commercial Union Life Assurance Company (CULAC) with-profits fund
- NUL (RBS) Limited

These changes affect a large number of our policyholders.

Our proposed changes are a reorganisation: consisting of a reattribution and a fund transfer.

The transfer of the CGNU Life and CULAC business to Aviva Life and Pensions UK Limited (AVLAP) is being carried out as a scheme of transfer under Part VII of the Financial Services and Markets Act 2000. Additional regulatory requirements to carry out the reattribution of the inherited estates of CGNU Life and CULAC are contained in the Financial Services Authority's (FSA) Conduct of Business Sourcebook (COBS) rules.

The Part VII Transfer is a well established process that culminates in a Court Hearing. This process requires the development of a "Scheme of Transfer" (the Scheme) that must be reviewed by an Independent Expert, who is required to report to the Court.

In addition, the Actuarial Function Holder (AFH) and With-Profits Actuary (WPA) of the Aviva companies are required to prepare reports on the proposals for consideration by the Independent Expert, FSA and the High Court.

The reattribution and fund transfers are closely supervised by the FSA. The reattribution requires the appointment of a Policyholder Advocate whose role is to negotiate an appropriate payment for eligible with-profits policyholders in respect of the contingent rights they would be giving up in the inherited estates of the CGNU Life and CULAC with-profits funds. The Policyholder Advocate has a range of professional advisers to assist her in carrying out her role.

Copies of the Scheme, AFH and WPA reports have been made available to:

- The FSA
- The Independent Expert
- The Policyholder Advocate.

They will also be presented to the Court¹ so that they can be taken into consideration in the decision on whether or not to approve the transfer. In addition, reports by the Independent Expert, the Policyholder Advocate and the FSA will also be presented in Court.

¹ Court Hearings will take place in the UK, Jersey and Guernsey

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Policyholders can find copies of the Scheme Summary, the Policyholder Advocate's and the Independent Expert's complete reports as well as the reports of the Actuarial Function Holder and the With-Profits Actuary on the website www.aviva.co.uk/fundtransfer. Further information is also available from the Policyholder Advocate on our website and her own. The reports and their appendices are very large documents, so in an effort to minimise the environmental impact of issuing printed copies of these publications they will only be available on-line or on request by writing to us at:

Aviva, Fund Transfer Support Team, P.O. Box 3312, Surrey Street, Norwich, NR1 3FE.

With that in mind, this paper shares some background information and a summary of the Scheme in relation to the reorganisation proposals.

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2.00 Introduction

2.01 Structure of this Paper

Sections 3.00 and 4.00 of this paper have been extracted from the Scheme Summary produced for policyholders in connection with the proposed reorganisation of the CGNU Life and CULAC with-profits funds.

Section 5.00 of this paper provides Aviva's view of the Office of the Policyholder Advocate's commentary in relation to the Scheme.

Where technical terms are used in the text, they are not explained further in this document. The other Aviva appendices accompanying the Policyholder Advocate's Report explain the concepts summarised in this appendix.

2.02 What is an Independent Expert?

The FSA expects the independent expert making the scheme report to be a neutral person, who:

1. is independent, that is any direct or indirect interest or connection he has or has had in either the transferor or transferee should not be such as to prejudice his status in the eyes of the court; and
2. has relevant knowledge, both practical and theoretical, and experience of the types of insurance business transacted by the transferor and transferee.

For a transfer of long-term insurance business the independent expert should be an actuary familiar with the role and responsibilities of the senior internal actuaries.

2.03 What is an Actuarial Function Holder?

The role of the Actuarial Function Holder was introduced in 2005 following the FSA's With-Profits review. As part of its with-profits governance arrangements an insurer must appoint an Actuarial Function Holder to perform the role set out in SUP4 and in particular SUP 4.3.13R of the FSA handbook.

The appointed Actuarial Function Holder must have the required skills and experience to perform the role and be a Fellow of the Faculty of Actuaries or of the Institute of Actuaries.

In brief, the role of the Actuarial Function Holder is to advise about:

- The risks that the funds run and their impact on the firm's ability to meet its liabilities to policyholders as they fall due

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- The capital needed to support the business, including the regulatory capital requirements²

It is the Actuarial Function Holder's role to monitor these risks.³

2.04 What is a With-Profits Actuary?

The role of the With-Profits Actuary was introduced in 2005 following the FSA's With-Profits review. As part of its with-profits governance arrangements an insurer must appoint a With-Profits Actuary to perform the role set out in SUP4 and in particular SUP 4.3.13R (1)(b) of the FSA handbook.

The appointed With-Profits Actuary must have the required skills and experience to perform the role and be a Fellow of the Faculty of Actuaries or of the Institute of Actuaries.

Full details of the duties of the With-Profits Actuary are set out in SUP 4.3.16AR. In brief, the role of the With-Profits Actuary is to:

- Advise about the key aspects of discretion to be exercised in the management of the with-profits business
- At least once a year, report on key aspects of the discretion exercised in the management of the with-profits business during the period, including application of the Principles and Practices of Financial Management (PPFM)
- Each financial year, make a written report to with-profit policyholders to accompany the company's annual report

2.05 Content of each Report

The Actuarial Function Holder's report has been produced in compliance with the guidance in SUP 18.2.58 (G). The objective of this report is to consider the following:

- The effect of the Scheme's proposals on the benefit security of policyholders of CGNU Life, CULAC, NUL (RBS) and AVLAP;
- The effect of the Scheme on the fair treatment of non-profit policyholders of CGNU Life, CULAC and AVLAP, including their reasonable benefit expectations
- Whether it is likely to be in the interests of holders of eligible policies to elect
- Whether the holders of non elected policies are treated fairly in relation to their interests in future distributions from the inherited estates.

In addition to the objectives set out above, this report provides further detail on how the Scheme provisions will be implemented on the Effective Date and the ongoing management of the transferred business after the Effective Date.

The With-Profits Actuary's report has been produced in accordance with the guidance in SUP 18.2.58 (G) and in compliance with SUP 4.3.17R(4). The objective of this report is to consider the following:

² SUP 4.3.13(1)R

³ SUP 4.3.13(2)R

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- The likely effect of the Scheme's proposals on the fair treatment of the with-profits policyholders of CGNU Life, CULAC, NUL (RBS) and AVLAP, including their reasonable benefit expectations
- The fairness of the reattribution proposals
- Whether the governance arrangements are sufficient to ensure compliance with the detailed principles and practices following the implementation of the Scheme.

2.06 What does the Court Approve?

When considering whether or not to approve the reorganisation, the High Court of Justice of England and Wales will consider many documents and reports, including for instance:

- The Scheme
- The Independent Expert's report
- The Actuarial Function Holder's report
- The With-Profits Actuary's report
- The Policyholder Advocate's report
- The FSA's report
- Any objections from policyholders or other parties directly affected by the proposals

In addition there will be separate schemes for the transfer of certain policies relating to Jersey and Guernsey (the Channel Islands Schemes), which will require the sanction of the Royal Courts of Jersey and Guernsey respectively. These Schemes are conditional on the sanction of the scheme of transfer of the UK business.

The following companies are involved in the Scheme and reattribution:

- Aviva Life & Pensions UK Limited (AVLAP)
- Commercial Union Life Assurance Company Limited (CULAC)
- CGNU Life Assurance Limited (CGNU Life)
- Norwich Union Life (RBS) Limited (NUL (RBS))

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3.00 Summary of the Scheme - Introduction

3.01 Overview (Section 1)

Aviva plc (Aviva), previously known as CGNU plc, is the ultimate holding company for the UK companies transacting long-term business that are affected by this scheme. The trading name for Aviva's UK life insurance business was "Norwich Union Life", but was rebranded as Aviva on 1st June 2009.

Aviva was formed on 30th May 2000 following the merger of CGU plc and Norwich Union plc. CGU plc was formed on 2nd June 1998 following the merger of General Accident plc and Commercial Union plc.

Aviva continues to be engaged in a major restructuring programme to reorganise and simplify its world-wide corporate structures resulting from these mergers. As part of this restructuring it is proposed that the UK long-term insurance business currently carried on by Aviva be further rationalised through several transfers of insurance business. This will simplify the corporate structure of the Aviva UK Life group with the aim of improving operational and capital efficiency.

It is proposed that the long term insurance business of Commercial Union Life Assurance Company Limited (CULAC), CGNU Life Assurance Limited (CGNU Life) and Norwich Union Life (RBS) Limited (NUL (RBS)) be transferred to Aviva Life & Pensions UK Limited (formerly known as Norwich Union Life & Pensions Limited (NULAP)).

It is also proposed that there be a reattribution of the inherited estates of the with-profits funds of CULAC and CGNU Life (the Inherited Estates). An inherited estate is the amount by which the value of the assets in an insurance company's with-profits fund exceeds the amount required to meet the liabilities attributable to such a fund, with those liabilities including those arising from the regulatory duty to treat policyholders' fairly in making and settling discretionary benefits.

3.02 Regulatory Process (Section 2)

The transfers and reattribution will be effected by way of a scheme (the Scheme) under the provisions contained in Part VII of the Financial Services and Markets Act 2000 (the Act) and will require the sanction of the High Court of Justice of England and Wales. In addition there will be separate schemes for the transfer of certain policies relating to Jersey and Guernsey (the Channel Island Schemes), which will require the sanction of the Royal Courts of Jersey and Guernsey respectively and are conditional on the sanction of the scheme of transfer of the UK business.

The following companies are involved in the Scheme and reattribution:

- Aviva Life & Pensions UK Limited (AVLAP)
- Commercial Union Life Assurance Company Limited (CULAC)
- CGNU Life Assurance Limited (CGNU Life)

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- Norwich Union Life (RBS) Limited (NUL (RBS))

Policyholders of Aviva Life International Limited whose with-profits benefits are reassured into the CULAC and CGNU Life with-profits funds will be eligible to participate in the reattribution process if their policies satisfy the other eligibility conditions. The reassurance of with-profits benefits under Aviva Life International Limited policies will transfer to AVLAP under the Scheme, but the policies themselves will remain with Aviva Life International Limited.

3.02.01 Independent Expert

An actuary has been appointed as an independent expert (the Independent Expert) to provide a report (the Scheme Report) to the High Court on the effects of the Scheme on policyholders of the companies affected by the Scheme. His appointment and terms of reference have been approved by the Financial Services Authority (FSA).

3.02.02 Policyholder Advocate

Clare Spottiswoode has been approved and appointed as required under the FSA's rules, as the independent policyholder advocate (the Policyholder Advocate) to represent eligible with-profits policyholders. Broadly, eligible policyholders are those who held a policy of CGNU Life, CULAC, NUL (RBS) or Aviva Life International Limited invested (wholly or partly) in with-profits through the CULAC with-profits sub-fund or the CGNU Life with-profits sub-fund on 21 November 2006 (which is the date on which the reattribution proposals were announced) and who remain policyholders on the Effective Date of the Scheme. The Policyholder Advocate's role included negotiating with Aviva on behalf of with-profits policyholders to decide the criteria used for determining the eligibility of the relevant policyholders and to establish on behalf of eligible policyholders the aggregate incentive payment they would be offered to give up their interests in any future distributions from the Inherited Estates. The Policyholder Advocate is required to prepare a report on matters relating to her role and make this available to eligible policyholders.

The purpose of this document is to summarise the principal terms of the Scheme.

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4.00 Summary of the Scheme

4.01 Effective Date

AVLAP, CULAC, CGNU Life and (NUL) RBS have made an application to the High Court in respect of the Scheme by a claim form issued on 1st May 2009. The Court hearing for sanction of the Scheme is expected to take place on 14th September 2009. The application to the Court was accompanied by the Scheme Report which has also been reviewed by the FSA.

Under the Act any person who believes that they would be adversely affected if the Scheme came into effect is entitled to put their objections to the Court at the Court hearing. Any person who intends to appear at the Court hearing to object is asked to notify Aviva by writing to Clifford Chance LLP, 10 Upper Bank Street, London, E14 5JJ quoting reference KAC/CMS.

The Scheme is expected to come into effect on 1st October 2009 (the Effective Date), subject to the Court granting an Order sanctioning the Scheme and the approval of the AVLAP and Aviva Boards.

4.02 Conditions to the Reattribution

4.02.01 Election Threshold

The reattribution proposals are unlikely to proceed unless a minimum threshold of election acceptances is achieved. This threshold is determined by reference to the estimated value as at the date which is one month and one day prior to the Effective Date, of the assets and liabilities allocated to the New With-Profits Sub Fund (New WPSF) and must be at least sufficient for the New WPSF, if considered as a stand-alone with-profits proprietary insurance company, to be classed as an insurance firm under the current regulatory regime having with-profits liabilities equal to or greater than £500 million. The with-profits liabilities of the CULAC and CGNU Life with-profits sub-funds were £25 billion collectively as at 31 December 2008 and the election threshold has thus been set at a very low level which is likely to be achieved. However, the AVLAP Board and the Aviva Board are entitled to waive this requirement and proceed with the reattribution if the minimum election threshold is not met.

4.02.02 Size of the Inherited Estates

The reattribution offer is conditional on a minimum value of the aggregate of the estates of £1,200 million as at the Effective Date determined as described in Section 4.07 below. The reattribution is unlikely to proceed if the estates are below this value but the AVLAP Board may waive this condition with the consent of Aviva.

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4.02.03 AVLAP and Aviva Board Confirmations

The Scheme becoming effective is conditional on the boards of AVLAP and Aviva confirming that no material adverse change has occurred between the date of the Court sanction of the Scheme and the Effective Date which would adversely affect the financial position of Aviva or of the parties to the Scheme, and/or would adversely affect implementation of the Scheme.

4.03 Description of Transfers

CULAC is a wholly-owned subsidiary of Aviva and is authorised to carry on long-term insurance business in the United Kingdom. CULAC also carries on long-term insurance business on a services basis in a number of EEA States and in Jersey and Guernsey.

CULAC's long-term insurance fund is divided into the CULAC With-Profits Sub-Fund and the CULAC Stakeholder Sub-Fund. On the Effective Date the long-term insurance business carried on by CULAC, including its property, rights, assets, liabilities and obligations will be transferred to AVLAP.

CGNU Life is a wholly-owned subsidiary of Aviva and is authorised to carry on long-term insurance business in the United Kingdom. CGNU Life carries on long-term insurance business through branches in France, Germany and Ireland and on a services basis in a number of other EEA States. The company also carries on long-term insurance business in Jersey and Guernsey.

CGNU Life's long-term insurance fund is divided into the CGNU Life With-Profits Sub-Fund and the CGNU Life Stakeholder Sub-Fund. On the Effective Date the long-term insurance business carried on by CGNU Life, including its property, rights, assets, liabilities and obligations will be transferred to AVLAP.

NUL (RBS) is a wholly-owned subsidiary of CULAC (with the business being allocated to the CULAC with-profits sub-fund) and is authorised to carry on long-term insurance business in the United Kingdom. NUL (RBS)'s long-term insurance fund is not divided into sub-funds. On the Effective Date the long-term insurance business carried on by NUL (RBS), including its property, rights, assets, liabilities and obligations will be transferred to AVLAP.

AVLAP is authorised by the FSA in accordance with the Act to carry on long-term insurance business in the United Kingdom, through a branch in Belgium and on a services basis in the relevant EEA States. The company also carries on long-term insurance business in Jersey, Guernsey and the Isle of Man. AVLAP is in the process of establishing branches in France, Germany and Ireland.

4.04 Establishment of Funds

AVLAP currently has six sub-funds in its long-term fund:

- The Non-Profit Sub-Fund 1 (NPSF1)
- The Non-Profit Sub-Fund 2 (NPSF2)
- The Belgian Sub-Fund

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- The Provident Mutual (PM) Sub-Fund
- The AVLAP With-Profits Sub-Fund (WPSF)
- The AVLAP Stakeholder With-Profits Sub-Fund (Stakeholder WPSF)

Under the Scheme, on and with effect from the Effective Date, two new funds will be created:

- A new with-profits sub-fund of AVLAP's long-term insurance fund to be named the Old With-Profits Sub-Fund (Old WPSF)
- A new with-profits sub-fund of AVLAP's long-term insurance fund to be named the New With-Profits Sub-Fund (New WPSF).

Eligible policyholders who elect to accept the reattribution terms and receive a policyholder incentive payment (Policyholder Incentive Payment or PIP) will have their policies allocated, or reassured (in the case of NUIL policies invested in with-profits), to the New WPSF on the Effective Date of the Scheme. There will be a corresponding allocation of the proportion of the Inherited Estates (the Reattributed Inherited Estate) calculated as provided in Section 4.05 below to shareholders although the Reattributed Inherited Estate will remain in AVLAP as described further in Sections 4.06 and 4.09. A part of the Reattributed Inherited Estate will be re-allocated to the New WPSF on the Effective Date, but only for the purposes of its capital requirements as explained in Section 4.06.

Eligible policyholders who do not accept the reattribution proposals, including those who fail to respond within the specified time, will have their policies allocated, or reassured (in the case of NUIL policies invested in with-profits), to the Old WPSF on the Effective Date of the Scheme. These policyholders will receive no Policyholder Incentive Payment in respect of those policies but may in the future receive a distribution of surplus from the part of the Inherited Estates allocated to the Old WPSF, if a distribution is made in the future and provided that such policies remain invested in with-profits (partly or wholly) allocated, or reassured, to the Old WPSF at that time. The proportion of the Inherited Estates which is not allocated to the shareholders will be allocated to the Old WPSF and form its inherited estate.

The Reattributed Inherited Estate External Support Account (RIEESA) will also be established on the Effective Date. The purpose of retaining the RIEESA is to provide capital support to the Old WPSF and New WPSF as described in Section 4.08 below. The RIEESA is a separately identifiable account to be maintained within NPSF1. Immediately following the reattribution, the RIEESA will consist of the remainder of the assets representing the Reattributed Inherited Estate after the transfers of policies, long-term assets and long-term liabilities to the New WPSF and the Old WPSF described below.

As the Reattributed Inherited Estate ultimately accrues to shareholders if it is not required to provide support for policyholder benefits, the Scheme sets out constraints on aspects of the discretion that the AVLAP Board may exercise in the future in relation to the operation of the New WPSF and the determination of benefits, and requires appropriate governance of that discretion to be put in place. These constraints and governance arrangements are summarised in Sections 4.08-4.10.

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4.05 Allocation of Transferred Policies and the Inherited Estate between the Old WPSF and the New WPSF

The Scheme provides for the creation within AVLAP of two new with-profits sub-funds, the New WPSF and the Old WPSF. On the Effective Date, electing policies will be allocated to the New WPSF and non-electing policies to the Old WPSF. Non-eligible with-profits policies will be allocated to the New WPSF with the Old WPSF Proportion reinsured to the Old WPSF. Non-profit policies and stakeholder pension policies will be allocated partly to the New WPSF and partly to the Old WPSF in the New WPSF Proportion and the Old WPSF Proportion respectively.

The with-profits investment element of stakeholder pension policies will be internally reassured to the Stakeholder WPSF and the non-profit element and the expense risk will be reassured to NPSF2. The current reinsurance arrangements for non-profit business (which includes unit-linked business) between CGNU Life and AVLAP and between CULAC and AVLAP will be replaced by equivalent arrangements between (i) the New WPSF and the Old WPSF and (ii) NPSF1 (for life and general annuity policies) or NPSF2 (for other policies).

The New WPSF and Old WPSF Proportions are calculated by reference to the PIPs offered to eligible policyholders. The New WPSF Proportion is the proportion that the aggregate amount of PIPs paid in respect of electing policies (the PIP Payments) bears to the sum of (i) the aggregate amount of PIPs offered to holders of eligible policies who do not elect and whose policies are therefore allocated to the Old WPSF at the Effective Date; and (ii) the PIP Payments. The Old WPSF Proportion is one minus the New WPSF Proportion.

The amount of inherited estate is calculated as the excess of the realistic value of the aggregate assets of the with-profits funds of CGNU Life and CULAC over the realistic liabilities of such sub-funds transferring to AVLAP on the Effective Date. The estate is divided between the Old WPSF and the RIEESA with the Old WPSF Proportion of the estate being allocated to the Old WPSF and the New WPSF Proportion being allocated to the RIEESA.

Aviva Life International Limited policies will not be transferred to AVLAP although the holders of eligible Aviva Life International Limited policies are entitled to participate in the reattribution. With effect from the Effective Date, the existing reinsurance treaty with CGNU Life and CULAC will be replaced by two treaties with AVLAP so that electing policies of Aviva Life International Limited will be reassured to the New WPSF and non-electing policies will be reassured to the Old WPSF to replicate the effect of the elections made by Aviva Life International Limited policyholders.

The holders of ineligible Aviva Life International Limited with-profits policies will have their policies reassured to the New WPSF and the Old WPSF Proportion of those policies will be reassured to the Old WPSF.

For those eligible policyholders of NUL (RBS) who elect to accept the PIPs offered under the reattribution proposals, their policies will be allocated to the New WPSF and for those who elect not to accept the reattribution terms, or who do not make an election, their policies will be allocated to the Old WPSF. Ineligible NUL (RBS) policies will be allocated to the New WPSF and the Old WPSF Proportion will be reassured to the Old WPSF.

If the Court is not willing to sanction the transfer of NUL (RBS) to AVLAP, then in order to implement the elections made by the NUL (RBS) eligible policyholders, prior to the Effective Date, electing

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policies of NUL (RBS) will be reassured to the New WPSF and non-electing policies will be reassured to the Old WPSF to replicate the effect of the elections made by NUL (RBS) policyholders.

Before the transfer can be fully effective, Aviva has to receive regulatory certificates for some policies which have been effected in, or where the policyholder's habitual residence is in, an EEA State other than the United Kingdom. If these certificates are not received by the Effective Date, relevant policies will be excluded from the transfers and treated as Excluded Policies until the certificates are received.

Jersey and Guernsey policies will also be treated as Excluded Policies under the UK Scheme until such time as the Jersey Scheme and the Guernsey Scheme respectively have been sanctioned by the relevant Courts.

Excluded Policies will be reassured by their current companies to AVLAP in order to produce the same economic effect as if the business had been transferred. Excluded Policies will still be able to participate in the reattribution if they are eligible policies and the holder has elected to accept a reattribution benefit.

4.05.01 Reviews and Possible Adjustments of the Allocation on the Effective Date

The allocation of the Inherited Estates described above will be subject to review as described below.

The value of the interests of with-profits policyholders in any potential future distributions from the Inherited Estate of the Old WPSF, determined in accordance with the Scheme, is referred to in the Scheme as the VPDP (Value of Potential Distributions to Policyholders). Following the allocation of the estate described above, a calculation will be made to establish whether the interests of those policyholders whose with-profits policies have been partly or wholly allocated (or reassured) to the Old WPSF, in any potential future distributions from the Inherited Estate, have been preserved.

If those interests would not otherwise be preserved, additional assets will be transferred from the RIEESA to the Old WPSF, but the market value of the additional assets to be transferred is subject to a maximum amount of £100 million.

Calculations will then be carried out to establish whether the financial strength of the New WPSF is sufficiently aligned with that of the Old WPSF on the Effective Date. If necessary assets will be reallocated by way of contingent loan from the Old WPSF to the RIEESA to broadly align the strength of the two funds. The amount lent will be limited to the extent it would otherwise reduce the VPDP calculated for with-profits policies partly or wholly allocated (or reassured) to the Old WPSF on the Effective Date below the VPDP calculated for those policies immediately before the Effective Date.

The AAA Capital Threshold of the Old WPSF is the lowest market value of estate assets required for the Old WPSF to ensure a sufficiently high probability that the sub-fund will have sufficient assets at the end of each of the following 25 years to cover its realistic liabilities. If, after the calculations described above, the value of the Old WPSF is above the AAA Capital Threshold the excess will not be distributed immediately but held in a separate account for future distribution to those Transferring Policyholders whose policies are wholly or partly allocated (including by way of reinsurance) to the Old WPSF and are still in force and invested in with-profits at the date of distribution. This separate account will be disregarded when making future calculations to determine whether the AAA Capital Threshold has been exceeded for the purposes of mandatory distributions from the Old WPSF (please see Section 4.09).

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4.06 Allocation of Assets and Liabilities

Sufficient shareholder assets will be retained in CULAC and CGNU Life to cover the minimum capital requirements of these companies following the transfers of business. The balance of the shareholder assets held in CULAC and CGNU Life and any liabilities associated with those transferring assets will be allocated to the AVLAP shareholders' fund on the Effective Date.

The combined assets of the long-term insurance funds of CGNU Life, CULAC and NUL (RBS) will be aggregated and apportioned between the New WPSF, the Old WPSF, the Stakeholder WPSF and NPSF1 on the Effective Date by taking into account the allocations of the policies, other liabilities and reinsurance arrangements. The shares of NUL (RBS) owned by CULAC and attributed to the CULAC With-Profits Sub-Fund will be allocated between the New WPSF, the Old WPSF and NPSF1 along with other transferring long-term assets.

A deferred special bonus (DSB) was announced on 5 February 2008 payable in three instalments to qualifying with-profits policies in force on 1st January 2008 (DSB Policies), provided their policies remain in force on 1st January 2009 and 1st January 2010 to qualify for the second and third instalments respectively. The liability for the DSB will be allocated to the Old WPSF in the proportion that the realistic liabilities attributable to DSB policies allocated to the Old WPSF on the Effective Date bear to the total realistic liabilities of DSB policies allocated to the Old WPSF and the New WPSF on the Effective Date (Old WPSF DSB Liability Proportion). The balance of the liability for the DSB will be allocated to the New WPSF (New WPSF DSB Liability Proportion).

Assets to cover the liabilities will be allocated to the New WPSF and the Old WPSF reflecting the Old WPSF DSB Liability Proportion and the New WPSF DSB Liability Proportion. Appropriate adjustments will be made subsequently to the allocations to the funds to ensure the liability to pay the DSB to those policies remaining in force and eligible to receive the third instalment of the DSB is shared between the Old WPSF and the New WPSF in the same proportions as the original allocation of the assets.

The assets of the CULAC and CGNU Life Stakeholder funds will be allocated to the AVLAP Stakeholder fund and will represent the initial premium payable by the Old WPSF and the New WPSF for the reassurance of with-profits investment under Stakeholder pension policies. After allocating assets to back any other liabilities specifically allocated to a particular sub-fund other than the Old WPSF and New WPSF in the election proportions, the balance of the transferring long-term assets will be allocated between the Old WPSF, the New WPSF and NPSF1 as described below.

The apportionment of assets between the AVLAP sub-funds will also take into account the allocation of the inherited estate in the New WPSF Proportion and the Old WPSF Proportion described in Section 4.05.

Subject to the VPDP adjustment described in section 4.05 above, the Old WPSF Proportion of the Inherited Estates will be allocated to the Old WPSF and form its inherited estate. Any distributions of surplus declared by the AVLAP Board after the Effective Date from the Old WPSF inherited estate will be apportioned between policyholders and shareholders in the same proportions (predominantly 90:10) as currently applying to distributions of surplus from the with-profits sub-funds of CGNU Life and CULAC.

Long-term assets will be allocated to the New WPSF broadly to cover the asset shares of the with-profits business allocated to the fund and the smoothing account for that business. Further "top up" assets will also be allocated to the New WPSF such that the total value of assets in the New WPSF

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will be at least equal to the realistic liabilities and satisfy the regulatory requirements for the fund. The remaining transferring long-term assets will be allocated to NPSF1 to form the separately identifiable account referred to in Section 4.04, the RIEESA.

The "top up" assets referred to above constitute a contingent loan from the RIEESA to the New WPSF which will not be required to be repaid except where the loaned assets are no longer required to cover the liabilities of the New WPSF, or to provide cover for its regulatory requirements. From time to time, to the extent it has sufficient assets to do so, the RIEESA will make further loans to the New WPSF if this is necessary to ensure that the New WPSF has sufficient assets to cover its liabilities and its regulatory requirements.

The result of these arrangements will be that the New WPSF Proportion of the Inherited Estates (the Reattributed Inherited Estate), subject to the VPDP adjustment described in Section 4.05 above, will effectively be allocated to the RIEESA on the Effective Date although loaned in part to the New WPSF. While any distributions of surplus arising in the New WPSF will be subject to the 90:10 apportionment mentioned above, the assets of the RIEESA, and those loaned from it to the New WPSF from time to time, will not form part of that surplus.

To the extent that the Reattributed Inherited Estate is no longer required to provide holders of transferring policies with an appropriate level of security for their guaranteed benefits, to ensure that their policies are operated in a manner consistent with their reasonable benefit expectations, or to support new business written after the Effective Date, it will accrue solely to the AVLAP shareholders. That is, no policyholder will participate in any release from the Reattributed Inherited Estate after the Effective Date.

4.07 Policyholder Incentive Payments

Those policyholders who elect to accept the reattribution terms will receive a financial payment described as a policyholder incentive payment or PIP in respect of each eligible policy for which they so elect. The PIP will be made as a cash payment or as an additional sum credited to the policy depending on the type of with-profits policy held.

The PIPs are calculated broadly by reference to the realistic liability for each eligible policy (the base PIP) but adjusted in some cases to make some allowance for the term of the policy still to run, and to reflect the minimum payment of £200, US\$274 or €214 depending upon the currency of the policy. For some policies with longer terms to maturity, an uplift factor is applied to the base PIP to reflect that such policies, in the aggregate, may have a greater expectation of participating in a special distribution some time in the future compared to more mature policies which may well have expired by the time a further special distribution is made.

The minimum aggregate policyholder incentive payment will be £500 million and this is based on the assumption that the value of the Inherited Estates is £1,200 million as at the Effective Date. To determine the value of the Inherited Estates as at the Effective Date the Inherited Estates will be valued as at the dates which are three calendar months, two calendar months and one calendar month prior to the day which is one day prior to the Effective Date. The average of these values will be calculated and two calendar months notional interest applied. If this value for the Inherited Estates

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exceeds £1,200 million the minimum aggregate policyholder incentive payment will be increased and the individual PIPs will be proportionately increased.

The PIPs will be paid from resources provided by the shareholders of CGNU Life and CULAC, and not sourced from the with-profits funds. Policyholders will receive the PIP as soon as possible after the Effective Date of the Scheme and in any event within 180 days of the Effective Date.

Eligible policyholders who elect to receive a PIP will have their policies allocated to the New WPSF on the Effective Date of the Scheme. The New WPSF will not contain any part of the Reattributed Inherited Estate except as needed to fulfil the regulatory capital requirements pertaining to the fund and electing policyholders will not be entitled to participate in any future distribution of the Inherited Estates.

In the event that the Court approves the Scheme, but the election threshold is not reached, or the AVLAP Board or Aviva Board decides not to proceed with the reattribution, the long-term insurance business of CULAC, CGNU Life and NUL (RBS) will be transferred to AVLAP under the Alternative Scheme (see Section 4.15 below) and no PIPs will be paid.

4.08 Future Management of the Funds

4.08.01 New Business

After the Effective Date new with-profits business written by AVLAP will be allocated to the New WPSF, with the Old WPSF Relevant Proportion of the liabilities being internally reassured to the Old WPSF. For these purposes, the Old WPSF Relevant Proportion is the Old WPSF Proportion of the risks allocated to the New WPSF excluding any risks reinsured to the AVLAP WPSF. Some new with-profits business may also be written in or reassured to the AVLAP WPSF in the future, however, no new with-profits business will be directly written in the Old WPSF.

Should the AVLAP Board decide to cease the allocation of new with-profits policies to the New WPSF and the Old WPSF, or the allocation of new with-profits policies is significantly reduced, on or prior to 31st December 2013, within 12 months of such closure or reduction an amount will be transferred from the RIEESA to the New WPSF and applied to increase the asset shares of those policies which elected to receive the PIP which are still in force at the date of such application. The amount to be transferred will depend on the date of closure. The basis of allocation between those policies which elected to receive the PIP will be subject to the approval of the With-Profits Committee.

No such transfer will be made if the AVLAP Board considers the reduction in new business volumes was necessary or unavoidable in the then prevailing circumstances, the With-Profits Committee agrees and the FSA has not objected.

4.08.02 Investment Policy

The overall investment objectives of the Old WPSF and the New WPSF will be substantially the same as those that would have been adopted had the Scheme not become effective and account will be taken of relevant statements made in marketing material and policy documents. Minimum and

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maximum levels will apply from the Effective Date to the proportion of assets backing asset shares of transferring business that are invested in equity and property.

4.08.03 Expenses and Charges

The Scheme requires that, with the exception of certain development costs, only expenses or charges of a type which are being deducted prior to the Effective Date, can continue to be deducted from the asset shares of transferring policies. This is unless the AVLAP Board, having regard to the advice of the With-Profits Actuary and subject to the approval of the With-Profits Committee, considers that it is consistent with the interests of policyholders for other expenses to be taken into account in determining the benefits under policies allocated to the New WPSF or the Old WPSF.

The expenses to be charged to the asset shares of policies written after the Effective Date will be determined by the relevant policy conditions, the terms of service agreements with relevant service providers to the with-profits funds and the requirement to treat customers fairly.

The Scheme prohibits new guarantee charges being introduced for transferring business after the Effective Date.

4.08.04 Bonus Policy

For business in the New WPSF and Old WPSF written prior to the Effective Date, the Scheme requires the bonus policy to be substantially the same as that which would have been adopted in the absence of the Scheme. The AVLAP Board must adopt consistent policies for the management of with-profits business in the New WPSF and the Old WPSF so that, for equivalent policies, the same returns are credited to the asset shares and the same bonus rates are applied.

Bonus rates for with-profits policies will be fixed across both the Old WPSF and the New WPSF so that for the same type of policy the bonus will not differ depending on whether the policyholder is in the Old WPSF or the New WPSF save for any Additional Benefits allocated to holders of policies allocated to the New WPSF or in respect of any distributions from the inherited estate of the Old WPSF after the Effective Date.

4.08.05 Capital Support

If capital support is needed by the New WPSF and/or the Old WPSF to cover the minimum amount of assets required by regulatory requirements to be held in the fund, such support will be provided by the RIEESA to the extent the RIEESA has assets to do so. The intention is that any capital support will be provided by the lending of assets from the RIEESA to the New WPSF or the Old WPSF as appropriate. Repayment to the RIEESA will only take place when, and to the extent that, the minimum asset requirements for the funds receiving support are exceeded.

4.09 Future Distributions and Allocations of Surplus

4.09.01 From the Old WPSF

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The Scheme requires the AVLAP Board to carry out annual investigations for the Old WPSF to determine whether the assets of the fund will exceed those needed to meet its liabilities for each of the next 25 years, with a probability consistent with the risk appetite of AVLAP. Where the Old WPSF has assets in excess of those required to meet such liabilities, the AVLAP Board will determine the appropriate action to take, which may or may not include a distribution to policyholders invested in the Old WPSF and to shareholders (by virtue of their entitlement to a proportion of distributed surplus of the Old WPSF). However, if such excess assets are above a pre-determined level (as set out in Part 6 of Schedule 8 of the Scheme) for a period of three consecutive years, the Scheme requires the AVLAP Board to distribute part of the Inherited Estate of the Old WPSF.

In practice a distribution from the Inherited Estate of the Old WPSF will only take place where, in the opinion of the AVLAP Board, such a distribution would not give rise to a significant risk that the Old WPSF, viewed as an independent entity, would in the future be unable to meet its obligations to policyholders or its capital requirements.

4.09.02 From the Reattributed Inherited Estate

The Scheme limits distributions from the RIEESA by setting (as described at Part 6 of Schedule 8 of the Scheme) a threshold of the amount of assets which have to be in the New WPSF (including the RIEESA for these purposes) before any distribution can be made of assets in excess of that threshold.

Annual investigations corresponding to those in respect of the Old WPSF may be conducted on the New WPSF (including the assets comprising the RIEESA) to assess whether excess assets exceed the level at which releases of the RIEESA are permitted under the Scheme. If such excess assets are above the permitted level for a period of three consecutive years, the Scheme allows, but does not require, the AVLAP Board to release part of the Reattributed Inherited Estate to shareholders. Where such excess assets are identified, the AVLAP Board will determine the appropriate action to take, which in this case may include a release to shareholders (policyholders have no entitlement to participate in a release from the Reattributed Inherited Estate following the reattribution). No release from the RIEESA can be made, however, until at least the first investigation after the Scheme has been effective for six years.

In practice a release from the Reattributed Inherited Estate will only take place where, in the opinion of the AVLAP Board, such a release would not give rise to a significant risk that the New WPSF and the RIEESA would in the future be unable to meet obligations to policyholders allocated to the New WPSF, the RIEESA or the Old WPSF or the capital requirements of the New WPSF and RIEESA.

4.10 With-Profits Committee

Aviva has established a With-Profits Committee with a majority of independent members to provide independent judgement in assessing compliance with the Principles and Practices of Financial Management (PPFM), compliance with the Scheme, insofar as it affects with-profits policyholders, and on how any competing or conflicting rights and interests of policyholders and shareholders have been addressed. There is also a number of management actions within the Scheme which require With-Profits Committee review, confirmation or approval where this is appropriate to ensure that the

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interests of with-profits policyholders are considered and protected. The review, confirmation or approval of the With-Profits Committee is generally required where a management action will change an existing process or a process contemplated by the Scheme.

The With-Profits Committee will report annually to the AVLAP Board and may make its report, or a representative summary of it, available to policyholders if it considers it appropriate to do so.

4.11 Channel Islands Schemes

The long-term business of CULAC, CGNU Life and AVLAP carried on in or from within Jersey falls under the jurisdiction of the Royal Court of Jersey. In addition under Guernsey law the long-term business of CULAC, CGNU Life and AVLAP carried on in or from within Guernsey or relating to policies issued to Guernsey residents or issued under Guernsey law falls under the jurisdiction of the Royal Court of Guernsey. If the Royal Court of Jersey or Guernsey sanctions the transfer of business under the relevant Channel Islands Scheme with effect on the Effective Date, these policies will transfer to AVLAP on the same terms as the Scheme and on the same Effective Date.

If the Royal Court of Jersey or Guernsey does not sanction the transfer of the business of CULAC and CGNU Life falling under their jurisdiction to AVLAP, or the transfer of such policies under the Channel Islands Scheme is not effective by the Effective Date, such policies will also not transfer under the Scheme; they will be Excluded Policies and will be reassured to AVLAP as described in Section 4.05 above. They will cease to be Excluded Policies reassured to AVLAP on the later date (if any) on which their transfer becomes effective pursuant to the relevant Channel Islands Scheme.

4.12 Merger of Funds

At some time in the future, provided that there are no transferred policies remaining in force which carry an entitlement to participate in distributions from the Inherited Estate of the Old WPSF, the AVLAP Board may (having obtained appropriate actuarial advice) and having notified that intention to the FSA, transfer the policies, assets and liabilities of the Old WPSF to the New WPSF with effect from a date to be determined by the AVLAP Board, (the "Old WPSF Merger Date"). Prior to such time, any merger of the Old WPSF with the New WPSF will require the consent of the Court.

Policies written after the Effective Date that are entitled to participate in future distributions from the Inherited Estate of the Old WPSF will retain that interest after the Old WPSF Merger Date, although this will be done in an approximate (but fixed) manner so that the future development of the former Inherited Estate of the Old WPSF does not have to be tracked. The Reattributed Inherited Estate of the New WPSF and the Inherited Estate of the Old WPSF will be valued on the Old WPSF Merger Date in order to determine the fixed proportion of releases from the combined estates after that date that policyholders will be entitled to. The fixed proportion will reflect that immediately prior to the Old WPSF Merger Date policyholders have no entitlement to the releases from the Reattributed Inherited Estate, but are entitled to at least 90% of distributions from the Old WPSF.

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4.13 Mortgage Endowment Promise

CGNU Life and CULAC made a promise in 2000 to certain with-profits endowment policyholders whose policies had been entered into in connection with a mortgage. The promise was subject (among other things) to a condition that there was sufficient investment earnings on the free reserves of the with-profits sub-funds of CGNU Life and CULAC respectively to meet these top up payments (the Affordability Conditions). If the Scheme proceeds, the promise as it applies to relevant with-profits endowment policyholders of CGNU Life and CULAC will no longer be subject to those Affordability Conditions from the Effective Date.

The Affordability Conditions attaching to the corresponding promise made to certain with-profits endowment policyholders of the PM Sub-Fund in 2000 and of the NULAP WPSF in 2001 are unaffected by the Scheme and will continue to apply.

4.14 Cost and expenses of the Scheme and the reattribution

All the costs relating to the Scheme, including those costs that relate to the Policyholder Advocate, shall be paid either from shareholder funds or from surplus assets in AVLAP's non-profit sub-funds that were available for distribution to shareholders immediately prior to the Effective Date.

4.15 The Alternative Scheme and the Alternative Channel Islands Schemes ("the Alternative Schemes")

If the Court does not approve the Scheme which implements the proposals for the reattribution, if the estate condition is not met or if the election threshold is not met and these conditions are not waived, or if the Aviva Board decides not to proceed with the reattribution, then no Policyholder Incentive Payments will be made and the transfers to the New WPSF and the Old WPSF described above will not take place. Subject to the sanction of the relevant Courts, the terms of the Alternative Schemes will apply.

The provisions of the Alternative Scheme relating to the shareholder assets of CULAC and CGNU Life are the same as those of the Scheme (which are summarised in Section 4.06). The assets of the CULAC and CGNU Life Stakeholder funds will still be allocated to the AVLAP Stakeholder fund by way of initial reassurance premium.

However, under the Alternative Schemes the other long-term assets of CGNU Life and CULAC (including the shares of NUL (RBS)), along with all transferring policies and liabilities will be transferred to a new with-profit sub-fund in AVLAP (referred to in the Alternative Schemes as the "C&C WPSF"). As a result, the Inherited Estates will be combined and form the Inherited Estate of the C&C WPSF.

Distributions of surplus from the C&C WPSF will be subject to the '90:10' rule and the C&C WPSF will be managed in a manner consistent with the management of the with-profits funds of CGNU Life and CULAC prior to the Effective Date. The Alternative Schemes do not contain any provisions requiring

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distributions from the inherited estate of the C&C WPSF. Any such distributions would be at the discretion of the AVLAP Board and subject to FSA Rules.

The provisions of the Alternative Schemes do not provide for any change to the promise made by CGNU Life and CULAC in 2000 as described in Section 4.13 above. That is, the Affordability Conditions attaching to the promise will still apply under the Alternative Scheme.

The Scheme Report prepared by the Independent Expert also considers the effect of the Alternative Schemes on policyholders of the companies that would be affected by the Alternative Schemes if they were to be implemented.

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

In her appendix the Policyholder Advocate agrees that the Scheme achieves its overall intention of ensuring that policyholders' reasonable expectations and security of their benefits will not be adversely affected by the proposed changes. She also noted that the Scheme contains certain additional protections that current policyholders do not currently enjoy.

The Policyholder Advocate is critical of some aspects of the FSA COBS rules and appendices such as "Legal Issues in respect of Rights and Interests in and Uses of the Inherited Estate" set out the views of both Aviva and the Policyholder Advocate in this respect.

The Policyholder Advocate wrote to the FSA on 13th March 2009 expressing concerns about certain aspects of the Scheme. Many of these aspects are related to the position of non-electing policyholders. Section 4.00 of Aviva's appendix "Position of Non-Electing Policyholders" sets out our views of the Policyholder Advocate's approach and is therefore not repeated here.

Making a fair offer has been at the heart of Aviva's decision making at all levels. The assumptions used and methodology employed are reasonable and, where considered to be prudent to do so, key aspects have been independently reviewed.

The company plans to continue to allow new generations of policyholders to benefit from the strength of the inherited estate, just as previous generations have. As a result, Aviva's assessment of the offer is against the strong open fund that it intends to run, rather than against a closed fund scenario (which it knows would otherwise bring most benefit to eligible policyholders in the form of future distributions). If Aviva intended to close the CGNU Life and CULAC with-profit funds to new business they would not be proposing a reattribution, since, in their opinion, it would not be possible to construct an offer under these circumstances which would be fair to both policyholders and shareholders.

In making its decisions the company has necessarily been required to balance a wide range of policyholders' interests. Sufficient account of factors such as the long term strength of the fund as a whole, the interests of future policyholders and the position of non-profit policies have been key to achieving a balanced and fair outcome for all.

All eligible with-profit policyholders will have the opportunity to vote no and retain their current rights. Of course the Scheme ensures that all policyholders will retain the benefit security offered by the inherited estate regardless of whether they elect. The basis proposed for the allocation of the inherited estate ensures that, regardless of the mix of non-electors and electors, the VPDP for non-electors as a whole will be broadly preserved.

In determining our offer and recommendation guidance to policyholders, accuracy, tempered with an appropriate degree of prudence (if necessary), is of overriding importance. We have gone to great lengths to ensure that due account is taken in our analysis of the significant inherent uncertainties of predicting future events. Having said this, policyholders face a choice in this case between an actual value and a potential, but uncertain, value.