

IS THERE AN IMPACT ON SECURITY OF POLICYHOLDERS TRANSFERRING TO OR REMAINING IN OCEAN MARINE?

Four distinct London market policyholder groups are transferring into Ocean Marine in addition to the existing London market policyholders of Ocean Marine who will remain in Ocean Marine. The primary assets of Ocean Marine following the Scheme will be:

- The existing solvency capital; and
- The existing contract to cover London market claims provided by National Indemnity Company (a large and financially robust US insurer unconnected with the Aviva group); and
- An additional £1 billion adverse development protection which will be provided by Aviva Insurance Limited when the Scheme comes into effect. This additional protection will respond in the unlikely event that the contractual limits of the protection provided by National Indemnity Company are exhausted or National Indemnity Company fails to honour its obligations.

As a result of the Scheme, policyholders transferring from Aviva International Insurance and Aviva Insurance Limited will experience a reduction in the financial resources directly available to support the security of their policies, however they will still benefit from the Deed of Mutual Guarantee. Allowing for the effect of the Deed of Mutual Guarantee, the probability that the claims of these policyholders will be paid in full is, for practical purposes, the same before and after the Scheme comes into effect.

IS THERE AN IMPACT ON SECURITY OF POLICYHOLDERS REMAINING IN AVIVA INTERNATIONAL INSURANCE LIMITED?

A small group of Canadian policyholders of Aviva International Insurance whose business is not carried on in the UK will not transfer to either Aviva Insurance Limited or Ocean Marine under the Scheme. Their security is protected by substantially the same financial resources after the Scheme as before and the probability that their claims will be paid in full is, for practical purposes, the same before and after the Scheme comes into effect.

REINSURANCE ARRANGEMENTS

The transfers will include the transfer of reinsurance assets along with the liabilities associated with them. Other than this change, the Scheme has no further effect on the coverage provided by current or historic reinsurers, creating neither an increase nor decrease in the exposure of reinsurers as a result of the Scheme.

WILL THE SCHEME AFFECT LEVELS OF SERVICE?

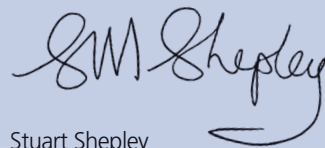
I have considered the effect of the Scheme on service levels experienced by policyholders. My approach has been to ascertain if a change in administrative arrangements would occur if the transfer were to proceed, and to compare this with the arrangements that would be in place were the Scheme not to take place. As no changes in administrative arrangements, senior personnel, underwriting, servicing and claims are proposed as a result of the Scheme, I identify no impact on levels of service that will be experienced by any affected policyholder should the transfer proceed.

CONCLUSION

I have been provided with access to all material facts I consider relevant in order to assess the proposals under the Scheme. I have had many discussions with senior members of staff at Aviva to evaluate the potential impact of the proposals on all policyholders under the Scheme.

I intend to issue a supplemental report prior to the hearing to sanction the Scheme which will comment on any material changes that may have occurred due to current trading and refresh my report using the most recent financial and economic information.

I have considered the Scheme and its likely effect on each of the affected policyholder groups. My conclusion is that **the risk of any policyholder being adversely affected by the proposed transfer is sufficiently remote for it to be appropriate for the proposed Scheme to proceed.**



Stuart Shepley
Fellow of the Institute & Faculty of Actuaries
Partner, KPMG LLP

This 21st day of June 2011



SUMMARY OF THE INDEPENDENT EXPERT'S REPORT

ABOUT THE INDEPENDENT EXPERT

Stuart Shepley is a partner in KPMG LLP, a leading global consultancy providing audit, tax and advisory services. He is a Fellow of the Institute & Faculty of Actuaries with more than 25 years' experience of working in the insurance industry. This document is a summary of the Independent Expert's Report ("the Report") that he has prepared following his selection by Aviva Insurance Limited as ratified by the Financial Services Authority to be the Independent Expert reporting on Aviva's proposed Scheme to simplify their legal structure. This summary is subject to the same limitations on its use as those set out in the Report. This summary of the Report must be considered in conjunction with the full Report and reliance must not be placed solely on this summary. In the event of real or perceived conflict between the summary and the Report, the Report shall prevail. Copies of the full Report can be obtained at www.avivatransfer.co.uk or by writing to Aviva Insurance Limited at the address provided.

INTRODUCTION

The proposed Scheme involves transferring the insurance business of three Scottish companies and seven English companies. The transfers require the approval of the High Court of Justice, England and the approval of the Court of Session, Scotland. Some policyholders of the Scheme Companies, shown in the table overleaf, were sold policies in Jersey, and are included in a separate legal process that falls under the jurisdiction of the Royal Court of Jersey. The Independent Expert's Report and this summary apply equally to the English, Scottish and Jersey transfers, which I refer to as the "Scheme".

An Independent Expert's Report is required under Section 109 of the Financial Services and Markets Act 2000 in order that the Court may properly assess the impact of the proposed Scheme. My Report describes the proposed transfers of business under the Scheme and considers the potential impact on all affected policyholders, including the security of their policies and the levels of service that policyholders could expect to receive after the transfer.

PURPOSE OF THE SCHEME

The proposed Scheme's primary purpose is to simplify the legal structure of Aviva's general insurance business in the UK and to separate substantially all of its London market business into a dedicated run-off entity. The Scheme will create greater transparency in the financial affairs of the businesses included in the Scheme. There will also be a reduction in the complexity of regulatory compliance (compared to that anticipated from Aviva's current structure) following changes in the EU regulatory regime due to be implemented by 1st January 2013.

WHO WILL BE AFFECTED BY THE SCHEME?

The Scheme distinguishes between policyholders of Aviva's London market business indicated in the table below whose liabilities are also covered by National Indemnity Company, and other policyholders of the Scheme Companies. As a result of the proposed Scheme:

- **Substantially all London market policyholders will be policyholders of Ocean Marine;**
- **A small group of Canadian policyholders of Aviva International Insurance whose business is not carried on in the UK will not transfer under the Scheme;**
- **All other Scheme Company policyholders, including those with motor, household and other retail policies currently in force, will be policyholders of Aviva Insurance Limited.**

Ocean Marine is a UK-based insurer and dedicated run-off entity whose liabilities will consist entirely of London market business following the Scheme. Aviva International Insurance is a UK-based insurer that owns Aviva Insurance Limited, Ocean Marine, and a number of other companies within the Aviva group. Aviva Insurance Limited is a UK-based insurer that will become the main operating company for Aviva's UK general insurance business.

Key to table:

- "R" Remaining Canadian Aviva International Insurance Policyholders
- "UKGI" UKGI Policyholders transferring, to Aviva Insurance Limited or existing UKGI Policyholders of Aviva Insurance Limited
- "OM" London market policyholders reinsured by National Indemnity Company who are transferring to Ocean Marine or existing London market policyholders of Ocean Marine

Before transfer	After transfer									
	Aviva International Insurance	Aviva Insurance Limited	Aviva Insurance UK	CGU Bonus	CGU Underwriting Limited	Hamilton	London & Edinburgh	Ocean Marine	Scottish Boiler	World Auxiliary
Aviva International Insurance	R	UKGI						OM		
Aviva Insurance Limited		UKGI						OM		
Aviva Insurance UK		UKGI								
CGU Bonus		UKGI								
CGU Underwriting Limited		UKGI								
Hamilton		UKGI								
London & Edinburgh		UKGI						OM		
Ocean Marine		UKGI						OM		
Scottish Boiler		UKGI								
World Auxiliary								OM		
Policyholders post transfer?	✓	✓	X	X	X	X	X	✓	X	X

Fifteen distinct policyholder groups are directly affected by the proposed Scheme, including transferring policyholders and those remaining in Aviva International Insurance, Aviva Insurance Limited and Ocean Marine. These policyholder groups include reinsurance policyholders, policyholders with policies whose insured risks are short term in nature, and policyholders whose claims may not emerge for many years. I have assessed the change in circumstances, security and levels of service of each group and sub-group of policyholders separately.

EXISTING MUTUAL SUPPORT ARRANGEMENTS – THE DEED OF MUTUAL GUARANTEE

Prior to the Scheme, all Scheme Companies (and RAC Insurance Limited, whose policyholders are not directly affected by the Scheme) are party to a Deed of Mutual Guarantee. Following the Scheme, the Deed of Mutual Guarantee will continue to operate between the remaining Scheme Companies and RAC Insurance Limited. **The effect of the Deed of Mutual Guarantee is that the capital and financial resources of each participating company are, to a large extent, pooled.** Policyholders of World Auxiliary are also currently protected by a separate guarantee from Aviva International Insurance that will cease to have effect following the Scheme.

Movements of policyholder groups between legal entities as a result of the Scheme:

WILL THE SCHEME AFFECT THE SECURITY OF POLICYHOLDERS?

I have considered the impact of the Scheme on the security of each affected policyholder group, including the change in the nature and level of financial resources available to each policyholder group, the change in the level of risk within each of the Scheme Companies and the consequent change in the probability that policyholders will be paid in full. In the first instance I have considered the impact ignoring the Deed of Mutual Guarantee, and then considered what further effect, if any, that the Deed of Mutual Guarantee has.

Substantially the same assets and liabilities will exist within the Scheme Companies after the Scheme, and no additional extraction of capital or increase in liability or risk exposure will occur as a consequence of the Scheme that would not have occurred were the Scheme not to proceed. Each policyholder group is secure under a combination of severe adverse scenarios, and **the probability that any policyholder group will not be paid is remote both before and after the Scheme comes into effect.**

Prior to the Scheme, only policyholders of Ocean Marine have any significant reliance on the Deed of Mutual Guarantee for their security. After the Scheme, the standalone resources of each of Aviva International Insurance, Aviva Insurance Limited and Ocean Marine will be such that no group of policyholders will have a significant reliance on the Deed of Mutual Guarantee.

IS THERE AN IMPACT ON SECURITY OF POLICYHOLDERS TRANSFERRING TO OR REMAINING IN AVIVA INSURANCE LIMITED?

Eight distinct policyholder groups are transferring into Aviva Insurance Limited in addition to the existing non-London market policyholders of Aviva Insurance Limited who are remaining in Aviva Insurance Limited. As a result of the Scheme, all policyholder groups, except those transferring from Aviva International Insurance, will experience a significant increase in the financial resources directly available to support the security of their policies. Aviva International Insurance policyholders will experience a slight (1%) reduction. Allowing for the effect of the Deed of Mutual Guarantee, the probability that the claims of these policyholders will be paid in full is for practical purposes the same before and after the Scheme comes into effect.