

Update on how we manage the international With-Profit Funds

Contents

This update tells you how the With-Profit Funds have performed recently and summarises the approach we've taken to managing your investment.

Our Principles and Practices of Financial Management (PPFM) gives more detailed and technical information about how we manage the With-Profit Funds. You can download a copy from our website international-aviva.com or ask your financial adviser for a copy.

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This update provides details on the:

- Aviva Sterling With-Profit Fund Int (including Sterling With-Profit Inflation Protected Guarantee and Sterling With-Profit Guarantee Fund)
- Aviva Euro With-Profit Fund Int (including Euro With-Profit Inflation Protected Guarantee and Euro With-Profit Guarantee Fund)
- Aviva Dollar With-Profit Fund Int (including Dollar With-Profit Inflation Protected Guarantee and Dollar With-Profit Guarantee Fund)

1. What is a with-profits investment?

An Aviva with-profits investment at a glance

- It's a low to medium risk investment.
- It pools your money with that of other investors into the With-Profit Fund.
- It lets you invest in a wide spread of assets, including equities, property, corporate bonds, gilts, cash and cash alternatives.
- It offers the potential for higher returns than you'd get from a bank or building society average savings account.
- It has no fixed term, but you should be prepared to invest for at least 5 to 10 years.
- The value will move up and down over short to medium term, so you may get back less than you put in.
- With-profits shares out the profits and losses of the fund to its investors. This is achieved through a system of bonuses. In deciding the bonuses we aim to smooth the return on your plan over the long term.
- It benefits from smoothing, so the value doesn't fluctuate as much as direct equity investments. We explain smoothing in Section 4.

2. How does Aviva invest my money?

The international With-Profit Funds invest into Aviva's With-Profit Fund via a reinsurance agreement. This means that investors enjoy all the benefits of a well-established With-Profit Fund from the largest insurance services provider in the UK. You chose to invest in one of three different currencies (£ / € / \$). You cannot switch to a With-Profit Fund of a different currency.

The asset mix diagrams below shows which assets the fund invests in and the weighting currently given to each.

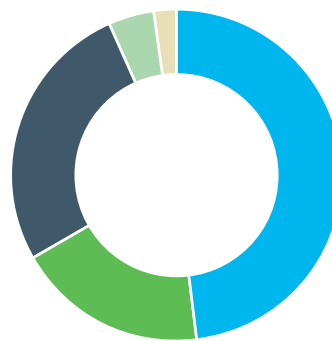
The value of your policy depends on the mix of assets backing your policy and how each asset performs.

We currently hold over 60% of the fund in higher risk assets, such as **equities** and **property**. The rest is in medium and low risk investments, such as **gilts**, **corporate bonds**, **cash and cash alternatives**.

The fund may, from time to time, include investments in other Aviva Group companies. However, this will not have a direct impact on the asset mix backing your policy.

As at the end of December 2010, we'd invested the fund like this (as at the end of April 2010 we'd invested the funds as shown in brackets):

Aviva Sterling With-Profit Fund Int



- Equities (UK & International)* 48.1% (48.2%)
- Property 18.6% (18.4%)
- Corporate Bonds (UK & International) 26.9% (25.2%)
- Gilts 4.2% (5.6%)
- Cash and cash alternatives** 2.2% (2.6%)

*Includes equity type assets not quoted on the stock exchanges.

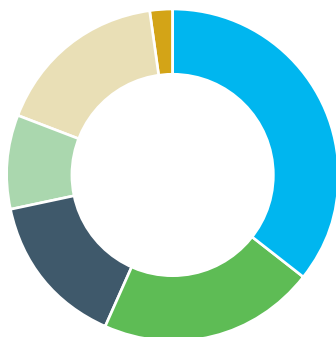
**Includes a range of short-term deposits (cash) - similar to a bank/building society account - and money market securities (cash alternatives), which are interest generating investments, issued by governments, major banks and other institutions.

During 2010, although the equity content of the Sterling With-Profit Fund has remained broadly stable, there has been a modest shift in geographical focus to the Asia Pacific region (excluding Japan), where greater growth potential is expected.

There has also been a modest increase in UK equities, supported by improving global economic conditions. A shift from gilts into corporate bonds has delivered greater diversification in our fixed interest content. Very low interest rates make cash a less attractive investment at the moment, so we have reduced this to a minimum.

The overall aim of these changes is to maximise potential returns, without materially changing the level of risk for the fund or its investors.

Aviva Euro With-Profit Fund Int



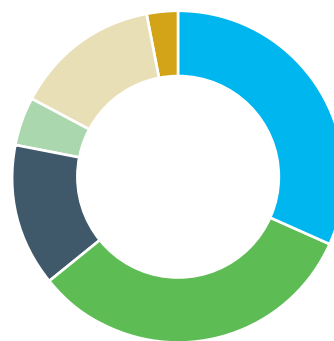
- European equities* 35.7% (34.4%)
- International equities 21.1% (22.8%)
- Property 15.1% (14.4%)
- European government bonds 9.1% (5.9%)
- Corporate bonds 16.8% (19.7%)
- Cash and cash alternatives** 2.2% (2.8%)

During 2010, although the equity content of the Euro With-Profit Fund has remained broadly stable, there has been a modest increase in the allocation to European equities.

There has also been a shift from corporate bonds to government bonds which gives greater diversification for the fixed interest investments. Very low interest rates continue to make cash a less attractive investment, so we have reduced this to a minimum.

The overall aim of these changes is to maximise potential returns, without materially changing the level of risk for the fund or its investors.

Aviva Dollar With-Profit Fund Int



- North American equities* 31.7% (29.3%)
- International equities 32.7% (29.0%)
- Property 13.8% (12.2%)
- US government bonds 4.8% (5.3%)
- Corporate bonds 14.1% (22.2%)
- Cash and cash alternatives** 2.9% (2.0%)

During 2010, although the equity content of the Dollar With-Profit Fund has remained broadly stable, there has been a modest increase in the allocation to US and Japanese equities.

There has also been a shift from corporate bonds to convertible bonds which gives the fund greater potential returns. Very low interest rates continue to make cash a less attractive investment, so we have reduced this to a minimum.

The overall aim of these changes is to maximise potential returns, without materially changing the level of risk for the fund or its investors.

*Includes equity type assets not quoted on the stock exchanges.

**Includes a range of short-term deposits (cash) - similar to a bank/building society account - and money market securities (cash alternatives), which are interest generating investments, issued by governments, major banks and other institutions.

What does it mean?

Equities

Equities are shares in companies listed on stock exchanges around the world. As shares can rise and fall in value very easily, equities are riskier than some other investments, but they usually offer the greatest potential for higher returns over the long term.

Property

This is investment in commercial property, such as offices, factories and retail outlets, which can also rise and fall in value.

Corporate bonds

These are loans to UK and international companies. The company pays interest on the loan and pledges to repay the debt at a certain point in time. Corporate bonds are seen as riskier than gilts because companies are more liable to fail to repay the loan than the government, but they often offer a higher rate of return to balance out the higher risk.

Gilts

These are loans to the UK government. The government pays interest on the loan and pledges to repay the debt at a certain point in time. The value of gilts will rise and fall.

Cash and cash alternatives

This includes a range of short term deposits (cash) - similar to a bank/building society account - and money market securities (cash alternatives), which are interest generating investments, issued by governments, major banks and other institutions. Cash and cash alternatives play an important role in providing a balanced return.

3. How have the funds performed?

Global economic conditions are still challenging, but the returns on our With-Profits Funds continue to perform well over the medium to long term.

	Returns achieved in the with-profit fund				
	2006	2007	2008	2009	2010
Aviva Sterling With-Profit Fund Int	11.7	5.4	-16.1	9.2	12.6
Aviva Euro With-Profit Fund Int	11.8	-1.4	-23.8	22.4	8.2
Aviva Dollar With-Profit Fund Int	14.7	3.0	-25.9	24.5	12.2

These returns are shown as percentage before tax as this is appropriate for offshore bonds. Please note that past performance is not a guide to future returns, and that the value of investments may go down as well as up.

4. What affects how much I might get?

The amount you get back will depend on the amount you invest, plus:

- how the fund has performed during the time you have invested with us
- the way we apply the smoothing process
- the effect of any guarantees
- our charges for administration, expenses, investment management and any commission. The difference between the charges we set and the expenses we incur, contributes towards our business profit
- any early exit charges
- whether we are applying a **market value reduction** at the time you cash in or retire
- any tax we pay and any future tax changes
- whether you have made any withdrawals.

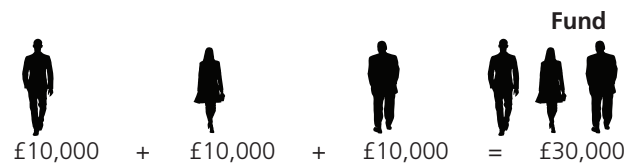
What does it mean?

Market Value Reduction (MVR)

This is a reduction made to ensure that customers remaining in the fund are not disadvantaged when others leave. If you move money out of the With-Profit Fund when a market value reduction is in place, it will reduce the value of your fund.

An example showing why a market value reduction is applied

Three investors each pay £10,000 into a fund.



If investment markets fall by 20%, the fund value will fall by 20%:

$$£30,000 - £6,000 = £24,000$$

After the fall in value, one person withdraws their original £10,000 investment without a market value reduction being introduced.



This leaves the remaining two investors with £7,000 each, which is obviously not fair.

Market value reductions are a way of ensuring that customers remaining in the fund are not disadvantaged when others leave.

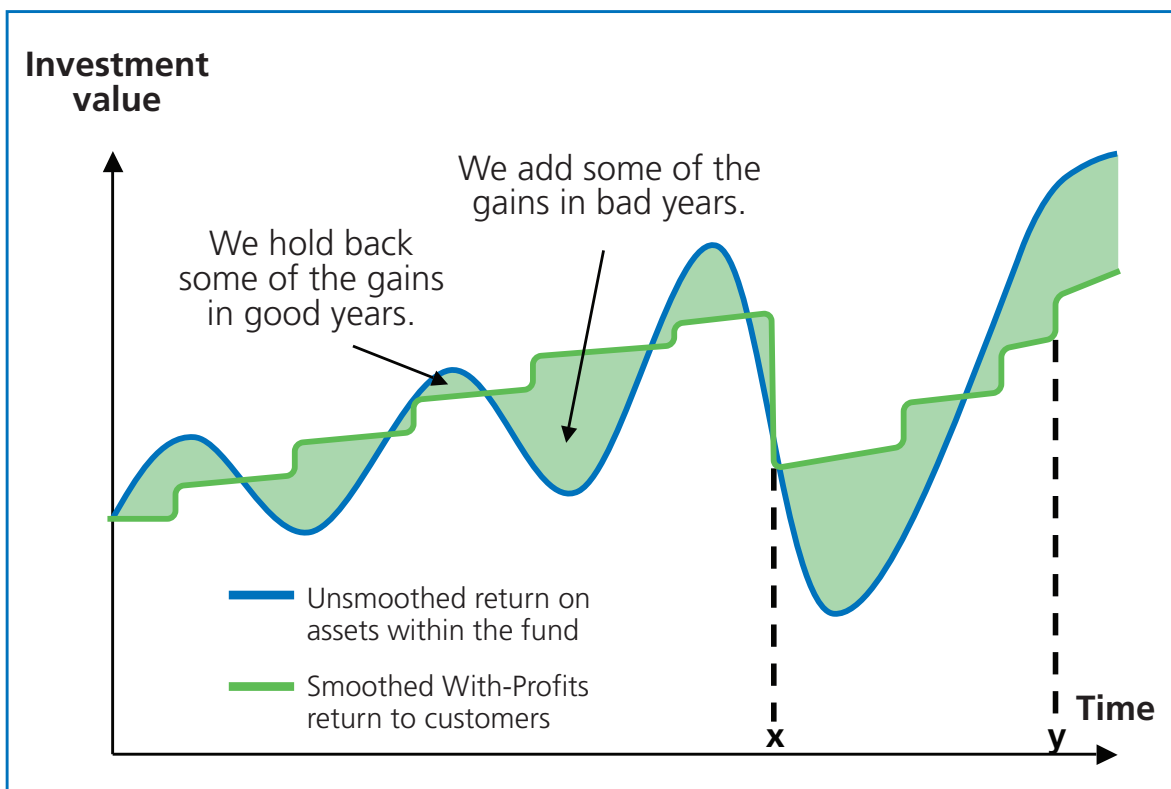
We constantly monitor investment conditions and the total amount of money being taken out of the fund, so we can reduce or remove the market value reductions as soon as possible. On the other hand, if markets get worse, we may need to consider increasing them.

We may apply an individual market value reduction irrespective of what, if any, general market value reduction is applying if we think it's necessary to protect investors.

How smoothing works

Smoothing keeps back some of the gains earned in good investment years and uses them to help pay bonuses in poor investment years. Equally, losses made in poor investment years may also reduce gains in good investment years.

In a with-profits fund, instead of simply sharing out what the fund makes – or loses – each year, the fund aims to even out some of these variations in performance (as shown by the green line in the diagram below). By contrast, the unsmoothed fund value changes each day as the value of the assets goes up and down (as shown by the blue line in the diagram).



This diagram is for illustration purposes only and shows a period of positive growth overall.

Things you need to be aware of

There may be times in poor market conditions when smoothing can't fully protect your investment. This can happen following a large or sustained fall in the stock markets or when investment returns are below the level we normally expect. In these circumstances, we will apply a market value reduction which will reduce the value of your investment, as illustrated in the diagram above between the points marked **x** and **y**.

5. What are the bonuses?

We add the returns earned by the With-Profit Fund to your investment through bonuses. Essentially, the bonuses represent your share of the profits in the fund.

There are two standard types of bonus:

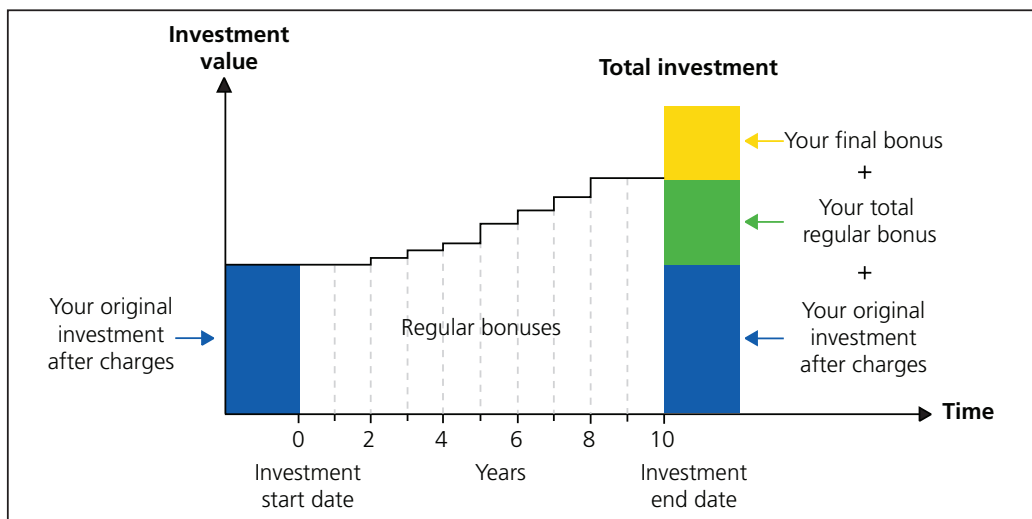
- regular bonus
- final bonus.

We decide the bonuses by looking at:

- how the fund has performed in the current year
- any gains or losses we haven't shared out through smoothing from earlier years
- what we expect to earn in future years, and the impact of smoothing.

We have wide discretion in deciding bonuses and investment strategy and can't guarantee we will apply a bonus every year. However, when changing bonuses we do so in accordance with the guidelines outlined in the Principles and Practices of Financial Management, details of which can be found on page 2.

The diagram below shows how we add regular bonuses to your original investment to build up a larger sum of money. We may also add a final bonus when you withdraw your money from the fund, but it is not guaranteed and could be zero.



This diagram is for illustration purposes only and shows a period of positive growth overall. 10 years is not the minimum or maximum period of investment for with-profits.

Regular bonus

Regular bonuses are designed to be sustainable and provide steady growth in the value of your investment over time.

- We confirm regular bonus rates at least once a year
- One of the most important factors is how we think investment returns will fare in the long term. Depending on our expectations, we may adjust the regular bonus up or down
- We add regular bonuses to your investment by increasing the unit price, which increases the value of the units.

Things you need to be aware of

- A regular bonus is not the same as interest from a bank or building society
- It is not guaranteed that a regular bonus will be added each year.

Final bonus

Final bonus rates aim to pay the balance between the regular bonus already added and the performance of the fund over the whole period of your investment.

We aim to pay a final bonus to increase the value of your bond:

- if you die
- if you switch out of the With-Profit Fund into another investment fund
- if you cash in your bond.

Things you need to be aware of

- The final bonus is based on the year in which you invested and the point at which you leave the fund. It may vary with returns earned over the life time of your investment and is not guaranteed.
- If the investment return has been low over the period you invested, you may not receive a final bonus as you will have already received your share of the returns through regular bonuses.
- We use a typical plan rather than individual plans when setting final bonus rates for plans issued in the same year.
- If a market value reduction is in place then this can reduce the effect of any final bonus and you may get back less than you invested. We will tell you if a market value reduction is applying before you take money out of the fund so you have the opportunity to change your mind.

6. What are the guarantees?

Your policy conditions outline any specific guarantees you may have. The policy conditions confirms the point(s) at which you could get back at least your original investment, and you should refer to this for more details.

Guarantees at a glance

With-Profit Fund

You'll get back at least your original investment if you move your investment out of the fund on the tenth anniversary (or the following two-week period).

With-Profit Inflation Protected Guarantee Fund

At any time after five years, you will get back at least your original investment in the fund, increased in line with inflation when you switch or cash in your investment.

With Profit Guarantee Fund

On the fifth anniversary (or the following two-week period), you will get back at least your original investment in the fund when you switch or cash in your investment.

We will not apply a market value reduction if you take regular withdrawals of up to 5% annually of the original investment, providing there has been no change or interruption to your regular withdrawal. You must have chosen to take these withdrawals at the start of your investment or, if later, at a time when no market value reduction applies and no decision has been taken to apply one.

In addition, we will not apply a market value reduction if the bond ends because of the death of the last life insured.

As these guarantees are valuable, we recommend you seek financial advice before withdrawing, switching or surrendering any benefits in the future.

7. What else do I need to know?

With-Profits Committee

Our customers are at the heart of everything we do and Aviva is fully committed to treating customers, as a group, fairly at all times.

To support this, we have a With-Profits Committee which brings independent expertise and oversight, to ensure fairness is fully considered in our with-profits decision making.

Managing the business risks the With-Profit Fund may be exposed to

There are a few factors which could have an impact on the funds. We call these factors business risks. These may change over time and may include:

- the amount of new business we sell and the terms we offer
- the cost of any guarantees we offer.
- the fund's expenses being higher than planned.

As business risks could affect the returns earned by the With-Profit Fund, we continually assess the risks to see if they:

- are acceptable to the fund
- provide an adequate return compared with the risk we take.

The inherited estate

Our With-Profit Fund is supported by an amount of money in excess of the amount we expect to pay out to existing policyholders. The excess money is known as the inherited estate and we use this to provide working capital to support smoothing and capital guarantees.

The size of the inherited estate is important as it gives us:

- the flexibility to invest in a more diverse range of assets
- a cushion of additional security to protect investors when investment returns are low
- a greater capacity for smoothing the returns you receive.

The estate also provides **solvency capital** for our with-profits business, and will normally absorb any profits or losses that arise from business risks (described opposite).

What does it mean?

Solvency capital

Capital that allows Aviva to demonstrate that our With-Profit Fund is solvent and able to meet its obligations even if it were to suffer losses.

Since October 2009 part of the inherited estate has been allocated to shareholders in accordance with arrangements approved by the High Court. However, the inherited estate remains in place to provide security for customers' benefits. New customers investing in the fund since October 2009 might benefit from distributions from the part of the inherited estate not allocated to shareholders, although such benefits are uncertain and unlikely to occur in the foreseeable future. Further information on this can be found in our Principles and Practices of Financial Management (see page 2 for details).

Policyholder and shareholder interests

There are two groups who have an interest in the With-Profit Fund: **policyholders** and **shareholders**.

We must make sure that any decisions we make on the running of the fund are fair to everyone. This means we have to balance the interests of:

- policyholders whose investments start at different times
- policyholders remaining in the fund and those leaving the fund
- our shareholders.

We take all this into consideration in the way we run the fund. We allocate at least 90% of the returns on the With-Profit Fund (other than returns on the inherited estate allocated to shareholders) to policyholders, with the remaining 10% to shareholders.

What does it mean?

What's the difference between a policyholder and a shareholder?

- Policyholders have invested their money in the fund.
- Shareholders own a stake in our total business as Aviva.

Financial strength

For smoothing to work at its best, it's important that a with-profit fund is backed by sound financial strength. Good financial strength also means that we can invest more of the fund in equities and property. Over the long term, this should increase the overall return for policyholders.

The independent agency Standard & Poor's has assessed Aviva Life and Pensions UK for financial strength and rated us as **AA- (VERY STRONG)**.

8. What if I decide to move out of the With-Profit Fund?

You should view with-profits investments as a long-term investment. This means leaving the fund early may be the wrong option for you, especially if you have guarantees.

If you're considering leaving the fund, we'd strongly suggest that you talk to your financial adviser or contact us directly, our contact details are shown below.

Where can I find out more?

If you would like any more information, you can contact us by calling or writing to us.

Call us on:

0845 300 2115 or

00353 1 802 8494

(international dialling)

With-Profits Helpline:

0845 300 1602 or

00 353 1 802 8495

(international dialling)

Write to us at:

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Aviva Life International Limited, trading as Aviva, is authorised and regulated by the Central Bank of Ireland and is also authorised by the Financial Services Authority.
If Aviva Life International Limited should become unable to meet its liabilities, the Financial Services Compensation Scheme will protect the eligible policyholder of an Aviva Life International Limited bond who is habitually UK resident at the time the contract commences.
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