

Important information

A guide to international
with-profits investment and
how we manage the funds

Contents

This guide aims to give you a summary of how our With-Profit Funds work and the approach we take to managing them.

The guide is important as it aims to answer some of the questions you might ask about with-profits.

You may find it helpful to refer back to this guide during discussions with your financial adviser or when you receive:

- an illustration of what you might get back
- your annual statement.

Making sense of it

If you are new to with-profits, you may find some of the terms in this guide unfamiliar or a bit complex. However, in every instance, we've provided an explanation of the terms in **'What does it mean?'** boxes.

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



Call us on:

0845 300 2115 (UK local rate)
or 00353 1 802 8494 (international dialling)

With-Profits Helpline:

0845 300 1602 (UK local rate)
or 00 353 1 802 8495 (international dialling)



Write to us at:

Aviva Life International Limited
6 Georges Dock
International Financial Services Centre
Dublin 1
Ireland

We have a website designed to help you understand financial products and services. You can find more information about with-profits investment there.

www.makesenseofit.com

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What is an Aviva international with-profits investment?

- An Aviva international with-profits investment is a low to medium risk investment that has the advantage of pooling your money with that of other investors, so you can benefit from investing in a wider spread of **assets**.
- Our With-Profit Fund offers the potential for returns that are higher than those received from a typical bank or building society average savings account . Although the fund has no fixed term, you should be prepared to invest for at least 5 to 10 years .
- The value of a with-profits investment will move up and down over the short to medium term. This means you may get back less than you put in. However, the main difference between with-profits and other more volatile investments is that the value is smoothed over the long term.
We explain smoothing further on page 8, but basically it's a method of giving you a steadier return than you would get from investing directly into **equities**.
- With an equity fund, the value of your investment can fluctuate greatly. This means you could see significant swings - if stock market returns go up sharply, so will the value of your investment, and if returns go down, the value of your investment can fall sharply as well.
- Smoothing helps to reduce some of the significant ups and downs of investing in the stock market. However, there may be times in extremely poor market conditions when smoothing cannot fully protect your investment. In these circumstances, we would apply a market value reduction. This is explained in more detail on pages 8 and 12.
- The With-Profit Funds invest in a range of different **assets**, rather than just one. We choose the mix of assets (including equities, property, corporate bonds, gilts, **cash and cash alternatives**), which we may vary over time. We do this with the aim of achieving balanced returns.
- The International With-Profit Fund is reinsured into Aviva's With-Profit Fund. This means that investors enjoy all the benefits of a well established with-profits fund from the largest insurance services provider in the UK.

Is the With-Profit Fund suitable for me?

✓ Yes, if you are:

- prepared to invest for the medium to long term*
- looking for smoothed returns whilst being prepared to accept a low to medium risk
- looking for growth, withdrawals to provide an income or a combination of both

*Medium term means greater than five years and long term would normally be considered to be 10 years plus. As a general rule, the longer you're able to invest, the greater the potential for growth.

What does it mean?

Assets

An asset is a type of investment. Different types of assets include equities (company shares), gilts (loans to governments), corporate bonds (loans to companies), property or cash and cash alternatives (see definition box below).

You can find definitions of the asset types on page 6.

What does it mean?

Equities

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

What does it mean?

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.

✗ No, if you:

- only intend to invest for the short term
- are not prepared to accept any risk
- need to clear debts
- would prefer the certainty of the interest earned from a bank or building society savings account
- want to take a higher risk to achieve a potentially higher return.

With-profits investment at a glance

This initial summary helps to explain your investment and how the With Profit Funds work (the yellow boxes opposite).

Your investment

Investment choice

You can decide to invest for growth in one of three different currencies (£ / € / \$).

- You should aim to invest for the medium to long term.
- You can invest to get a larger lump sum in the future or to get a regular income.
- We pool your payment with other people's money and invest it in the With-Profit Funds. We then credit you with **units** equal to the value of your investment. The value of your investment then changes over time in line with the performance of the fund.

Guarantee

You receive a guarantee.

As with all investments, the value of the With-Profit Fund can go down as well as up.

- If you move the whole of your investment out of a With-Profit Fund on the tenth anniversary, you will get back at least your original investment. This guarantee **only** applies on the **tenth anniversary and for the following two weeks**.
- The guarantee also applies to switching and partial withdrawals. It does not apply to money switched into the With-Profit Fund after the bond has started.
- We will write to you to tell you when you are approaching this guarantee.

We explain more about the effects of switching and partial withdrawals in our International With-Profit Bond brochure.

What does it mean?

Units

Your investment is divided into units of equal monetary value. For example, if you invested £50,000 and each unit was priced at £1, you would be credited with 50,000 units.

The unit price allocated when you invest will be the unit price current at that time.

How our With-Profit Funds work

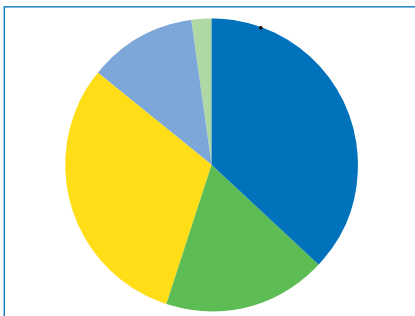
Asset mix

We use our investment expertise to determine the right asset mix.

We invest your money in the With-Profit Funds, which invest in a mix of assets, including:

- equities (UK and international)
- property
- gilts
- corporate bonds (UK and international)
- cash and cash alternatives.

We explain more about the asset mix of the With-Profit Fund on page 6.



Smoothing

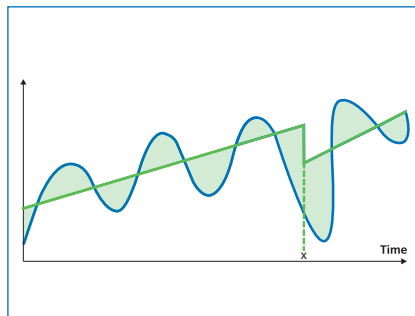
We smooth the returns from the fund.

One of the main features of our With-Profit Funds is that they aim to grow in value from year to year rather than being subject to the significant ups and downs of the stock market.

We smooth the fluctuations in value by holding back some of the investment returns in good years. We then use that money to top up bonuses in the years where investment performance has been lower.

We explain smoothing in greater detail on page 8.

There are times, in extremely poor market conditions, when a market value reduction is introduced, which may reduce the value of your investment. This only applies in certain circumstances and is explained on pages 8 and 10, with a more detailed explanation given on page 11.



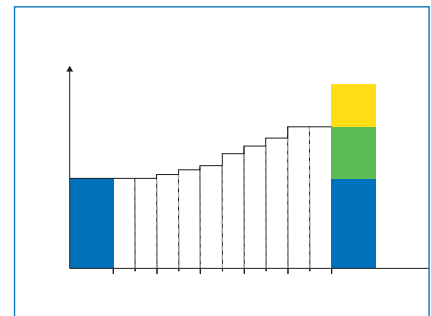
Bonuses

We decide the bonuses you receive.

The returns earned by the fund are shared out through a system of bonuses. We do this through careful management of the fund, which is how we smooth the returns. There are different types of bonuses:

- **Regular bonus**
We decide the regular bonus at least once a year.
- **Final bonus**
You may receive a final bonus when you decide to cash in your investment.

We explain more about bonuses on pages 9.



How the With-Profit Funds work

How does Aviva invest my money?

In simple terms, we invest your money into a broad range of assets called the asset mix. The asset mix diagrams below show which assets the funds invest in and the weighting currently given to each.

The value of your investment depends on the mix of assets in the selected fund and how each performs over the medium to long term. Each With-Profit Fund aims to give you growth in excess of returns from an average savings account over the longer term, although you should appreciate that the fund values can fluctuate.

Each fund will always hold a mixture of higher and lower risk assets to achieve its objectives.

We currently hold around one half of each of the funds in higher risk assets, such as **equities** and **property**. The rest is in medium and low risk investments, such as **gilts**, **corporate bonds** and **cash and cash alternatives**.

The performance of the different types of assets varies over time. Our fund managers have a strong tradition of managing investments in all market conditions, and we may change the asset mix to:

- improve long-term performance
- make sure that the fund can meet its obligations.

We'll send you a statement each year showing how much you have invested in your bond and its current value.

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 governments, but they often offer a higher rate of return to balance out the higher risk.

Gilts

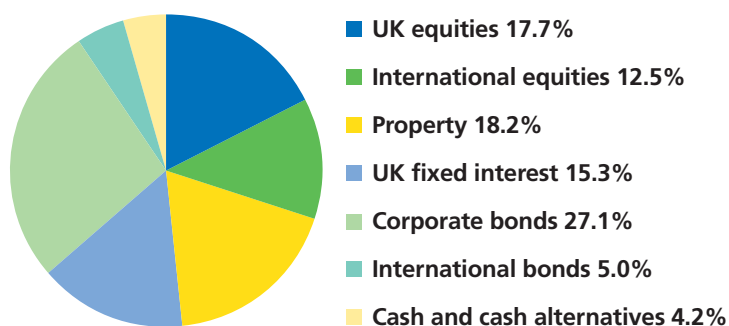
These are loans to governments. The government pays interest on the loan and pledges to repay the debt at a certain point in time.

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.

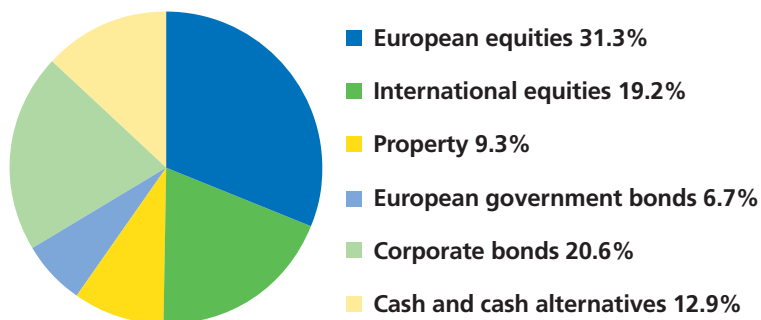
Aviva Sterling With-Profit Fund Int

Asset allocation breakdown (at 30 April 2009)



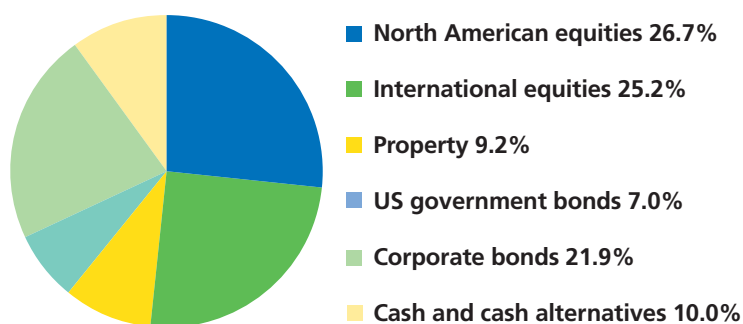
Aviva Euro With-Profit Fund Int

Asset allocation breakdown (at 30 April 2009)



Aviva Dollar With-Profit Fund Int

Asset allocation breakdown (at 30 April 2009)



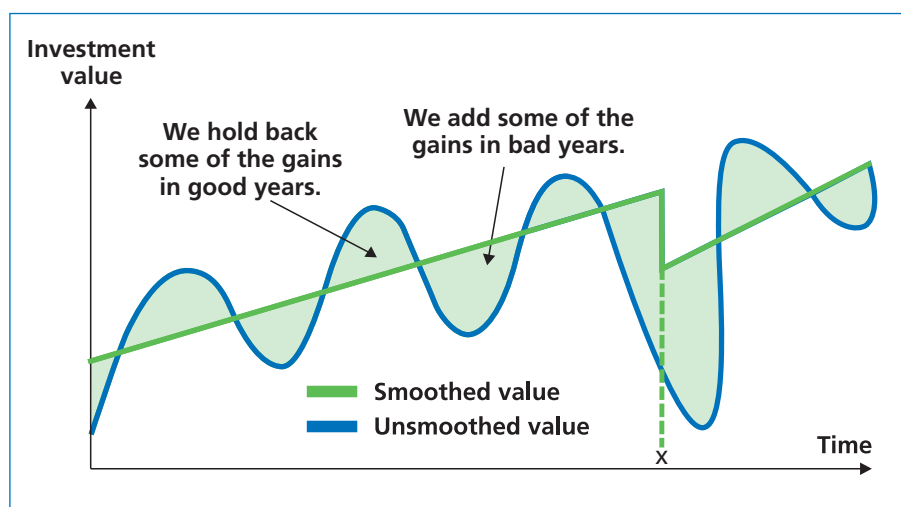
What is smoothing?

Smoothing is a method of reducing the ups and downs in the value of your investment by paying out the returns through a system of bonuses. Smoothing is a type of investment budgeting unique to with-profits.

How smoothing works

It works by keeping back some of the gains earned in good investment years and using 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 illustrated by the green line in the diagram below. In contrast, the unsmoothed fund value changes each day as the value of the assets goes up and down. This is illustrated by the blue line in the diagram.



This graph is for illustration purposes only.

Things you need to be aware of:

There may be times in extremely poor market conditions when smoothing cannot 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** as illustrated in the diagram above at the point marked **x**.

There is further information on market value reductions under the “What affects what I might get back?” section on page 11.

What does it mean?

Market value reduction

This is a reduction made to reflect the true value of the fund for all investors into the With-Profit Fund. If you cash in all or part of your investment, this will reduce the value of your fund. We only apply a market value reduction when market conditions are extremely poor and we need to make sure that all investors receive their fair share of the returns.

An example showing why a market value reduction is applied

If there are three investors in the With-Profit Fund, who each invest £50,000, the total fund is worth £150,000. If stock markets fall by 10% and the total fund value drops to £135,000, it would mean that if one investor withdraws their original £50,000 without a market value reduction being introduced, it would leave only £85,000 to be shared between the remaining two investors.

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

What are the bonuses?

Returns earned by the With-Profit Fund are added to your investment through bonuses. Essentially, the bonuses represent your share of the profits in the fund.

There are two main types of bonus:

- Regular bonus
- Final bonus

The bonus amount is shown in your annual statement. The amount will vary over the period of your investment.

How do we decide the bonuses?

We decide the bonuses by looking at:

- how the fund has performed in the current year
- any gains or losses not previously shared out through smoothing from earlier years
- what we expect to earn in future years.

How the bonuses are added

REGULAR BONUS

We confirm regular bonus rates at least once a year.

- Your share of the fund is calculated in units. We add the bonus to your investment by increasing the price of the units you have. This means the number of units you hold remains the same, but the value of these units increases and reflect the performance of the fund.

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

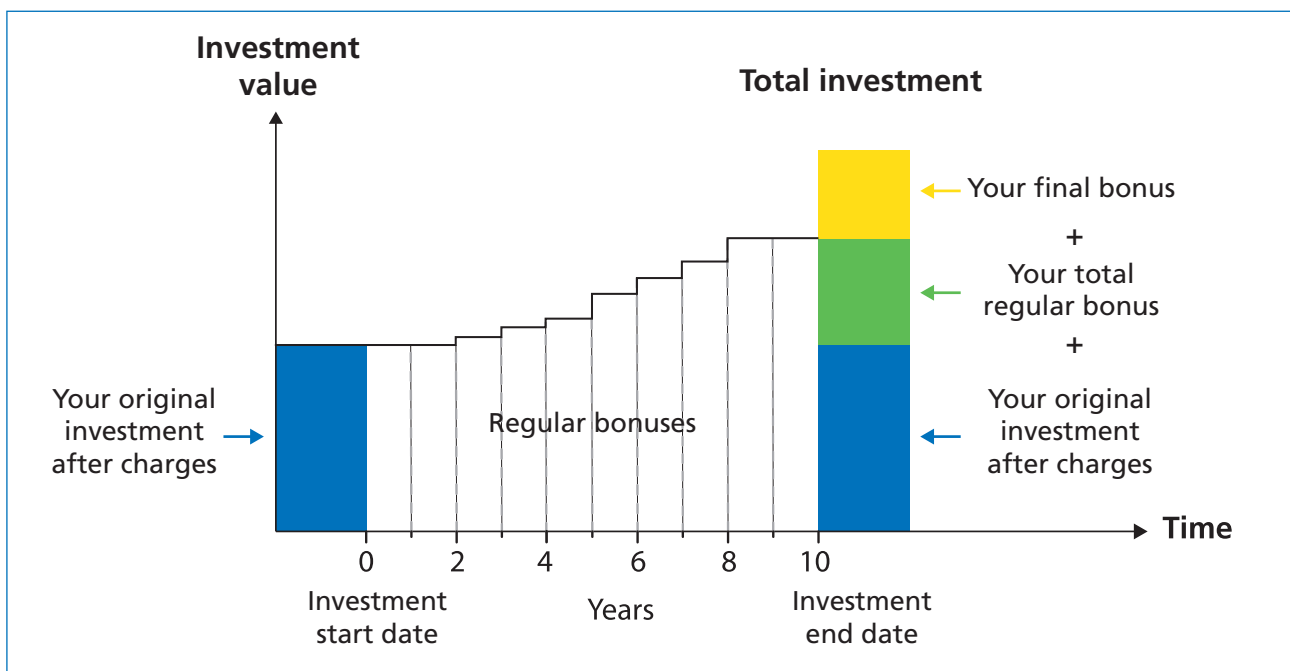
You may receive a final bonus when you cash in or switch out of the With-Profit Fund. This ensures you get a fair share of the return earned by your investment.

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 over the period 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.

How bonuses are added

The diagram below shows how regular bonuses are added to your original investment to build up a larger lump sum. A final bonus may also be added when you withdraw all your money from the fund.



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

When bonuses may not apply

In poor investment years, it's likely that the bonuses will be smaller than in good years.

A market value reduction would only be applied in extremely poor market conditions. However, under these circumstances, if you choose to cash in your investment, you may get back less than you invested.

What affects how much I might get back?

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
- whether you have made any withdrawals
- whether a market value reduction applies at the time you cash in
- our charges.

We'll talk about each of these factors in turn to give you an idea of what effect they have on your investment.

Fund performance

This has a major impact on what you will get back. If the fund performs well, you'll receive higher returns than if it performs poorly during the period of your investment.

As we mentioned in the section explaining the asset mix, the performance of the fund depends on the performance of the assets in which it invests. If the assets perform well, so will the fund. The With-Profit Funds invest in a wide range of assets, which means that it's possible that if one type of asset is performing poorly, another type may perform well, balancing out the overall performance.

With-profits investments are designed to be medium to long term investments. This means that the longer you leave your investment in place, the more likely it is that you will get better returns when you eventually cash it in.

If you'd like up-to-date information on fund performance, you can call us on **0845 300 1602** (UK local rate) or **00 353 1 802 8495** (international dialling) or visit [aviva.co.uk/international](https://www.aviva.co.uk/international)

Withdrawals

If you take withdrawals, cash in or switch your money to another fund, this will affect the final value of your investment.

Market value reduction

As previously mentioned, a market value reduction is a way of protecting investors during periods when investment returns are extremely poor. We apply a market value reduction to make sure that all investors receive their fair share of the returns earned over the period of their investment.

We constantly monitor investment conditions and the total amount of money being taken out of the fund. 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. This may affect you if you want to withdraw your money. We will tell you if a market value reduction is applying when taking your money out of the fund, so you have the opportunity to change your mind.

When a market value reduction will not apply

- If you take regular withdrawals from your investment, we won't apply a market value reduction to withdrawals of up to 5% each year 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.
- We won't apply a market value reduction on the value of your investment if you die. If your investment is withdrawn because of the death of the life insured, we guarantee that we will not apply a market value reduction.

Things you need to be aware of:

- A market value reduction will be applied following a large or sustained fall in the stock markets, or after a period when investment returns are below the level we would normally expect. If you cash in your investment when a market value reduction is in place, you could get back less than you invested.

Charges

Your bond has charges to cover the administration, management and fund costs. These are set out in your product information pack. The charges will also be covered in any illustration you receive.

What else do I need to know about how Aviva manages the With-Profit Funds?

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.

Business risks

There are a few final factors which could have an impact on the funds. We call these factors business risks, which may include:

- the amount of new business we sell and the terms we offer
- the guarantees we offer.

As business risks could affect the returns earned by the With-Profit Funds, 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 value of the inherited estate

Our With-Profit Funds have been operating for many years and contain 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.

Our inherited estate has recently been reorganised to allow cost effective access to capital, which in turn supports continued business growth.

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.

Shareholder and policyholder interests

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

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 will allocate at least 90% of distributed returns to policyholders with the remaining 10% to shareholders.

Regulations

We are authorised and regulated by the Irish Financial Regulator and also for the conduct of UK business by the Financial Services Authority. If laws or regulations affecting financial services change in the future, this may have an impact on your investment.

Tax

We pay corporation tax on the With-Profit Funds, which we aim to charge fairly across the funds. We take this tax into consideration when we set the bonus rates. This is based on our understanding of taxation rules and regulations. Tax law may change in the future.

The impact of tax on your investment will depend on your personal circumstances. Your financial adviser will be able to help you understand this more.

What does it mean?

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

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

Where can I find out more?

We hope this guide has given you a helpful overview of how our With-Profit Funds work and the options available.

This guide is only intended as a summary. In line with guidance from our regulator, the Financial Services Authority, we also have a document that goes into greater detail on the way we manage our With-Profit Funds. This document is called the Principles and Practices of Financial Management and is available on our website: www.aviva.co.uk/international

If there is any dispute regarding the content of the two guides, the more detailed guide will take precedence.

You can also invest in the With-Profit Fund through an onshore bond, a pension or an annuity which each have separate guides. You can view these on our website: www.aviva.co.uk/withprofits

If you have any questions about investing in with-profits, you can talk to your financial adviser. They'll be able to consider your current circumstances and financial goals and give you advice on whether with-profits is a suitable investment for you.

In addition, the Financial Services Authority has a website dedicated to financial education, which includes information about with-profits investment. www.moneymadeclear.fsa.gov.uk

Aviva Life International Limited is authorised in Ireland by the Financial Regulator and subject to regulation by the Financial Services Authority. Details on the extent of our regulation by the Financial Services Authority are available from us on request. The Financial Services Authority rules and regulations are made under the Financial Services and Markets Act 2000.

If the company 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. Registered Office: 6 Georges Dock International Financial Services Centre, Dublin 1, Ireland. Registered in Ireland No 303257. Telephone +353 1 802 8494 Fax + 353 1 802 8400 www.aviva.co.uk/international

