



# With-Profits End of Year 2011 Bonus Announcement

10 February 2012



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This document gives details of the with-profits bonus rate changes made on 1 January 2012. It includes details of the fund performance and the returns of the main With-Profit Fund.

**We have added a glossary at the end of the document to help with some of the terms which you might not be familiar with. The terms explained in the glossary are highlighted in blue.**

### AVIVA'S WITH-PROFITS DELIVERS AGAINST ECONOMIC TURMOIL

- With-profits products may provide protection for those customers who don't want to be exposed to the full impact of volatile market conditions.
- On 1 January 2012, a £10,000 with-profits bond purchased 10 years ago had a cash-in value of £15,410, giving customers a total return of 54.1%. The cash-in value is after tax and charges.
- In 2011, Aviva added £954 million in bonuses to customers' with-profits policy values (£525 million in regular bonuses and £429 million in final bonuses).

- In 2011, 16,000 with-profits bond customers benefited from our valuable inflation protected guarantee. Payouts for a further 15,000 policyholders, whose policies reach their fifth anniversary during 2012, will be protected by the inflation protected guarantee.
- **Market value reductions (MVRs)** reduced by an average of 2.6% in April 2011, increasing the policy value for customers where an MVR applies.

### 2011 Overview

Investment markets remained extremely volatile during 2011, with the FTSE falling 5.5% due principally to European debt and US recessionary concerns. The consensus view is that low growth and interest rates will continue to be key economic factors over the medium-term.

This challenging economic backdrop has highlighted the success of the prudent approach we have taken to managing our With-Profits Fund for the benefit of our with-profits customers who have been protected from the full impact of the volatile market conditions.

**Phil Willcock, Propositions Director at Aviva, commented:**

“Our research tells us that investment volatility is a significant concern for our customers. Thanks to the strength of our with-profits funds, we have been able to protect our customers from the full effects of the severe market volatility we’ve seen throughout 2011. The unique features of with-profits, coupled with long-term returns that compare very favourably with those offered by average bank or building society savings accounts, means that we continue to meet the needs of our with-profits customers.”



## Key bonus rate changes effective on 1 January 2012

- **Regular bonus rates** have been decreased for some funds, which reflects future economic expectations and prudent management of the fund:
  - Regular bonus rates for new business are 2.50% for bonds, 3.00% for pensions and 2.75% for Stakeholder pensions - all of which remain attractive when compared with current interest rates. The regular bonus rate is before management charges.
  - 0.25% rate reduction for unitised life and pension with-profits policies in the ex-CGNU fund and for unitised life policies in the ex-NULAP fund. The rate reduction does not apply to those policies with a guaranteed regular bonus rate, or Stakeholder pensions.
  - 0.5% reduction in the regular bonus rate for conventional endowment policies in the ex-CGNU and ex-CU funds.
- **Final bonus rates for unitised with-profits**, which were increased by an average of 5% in July, have been reduced by an average of 6% due to falls in investment markets since the increase in July.
- **With-Profit Income Fund** – for those policies with a commencement date between 2000 and 2008, a reduction in the total bonus rate of between 0.25% and 1.25% depending on year of investment. The total bonus rates for 2009 and 2010 investments have been increased to 6.00% and 3.75% respectively.
- **With-Profits Annuity regular bonus rates** have been reduced to 1.5% for ex-CGNU and ex-NULAP with-profit annuities. Most regular bonus rates have been decreased for PM annuities. The level of the decrease depends on the annuity product purchased and the year of retirement.
- **Market value reductions (MVR)** were reinstated on policies where they were removed on 1 July 2011. This affects some bonds and pensions with investments made in 1997-2001 and 2006-2008.

The change to rates will be reflected in annual statements, where the information given will be relevant to the policy.



## With-Profits Performance

The table above shows typical changes in policy value over 2011 for with-profits products invested in our main With-Profit Fund. They do not necessarily reflect the changes to an individual policy. All values are net of charges and tax where appropriate. The 20 year pension value at 1 January 2012 assumes retirement at selected retirement age and therefore benefits from the MVR-free guarantee. (Source: Aviva)

The table also details the equivalent payout value from an average savings account available from a bank or building society. The average savings account used is the Moneyfacts Average up to 90 days notice. (Source: Lipper Hindsight)

Money in a savings account is accessible and safe, and interest, once earned, is guaranteed. In comparison, with-profits investment is for the medium to long-term, and its value could fall. It is possible that you may not get back the amount invested.

Past performance is not a guide to the future. The value of investment-linked funds can go down as well as up and is not guaranteed. You may get back less than you invested.

Product (term)	Investment details (started on)	Total investment	Payout value 1 Jan 2012 - annual yield	Change in payout value over 2011 (excl. premiums)	Average savings account payout - annual yield
<b>Bond (5 year)</b>	£10,000 single premium, (1 Jan. 2007)	£10,000	<b>£11,668</b> <b>3.1% p.a.</b>	£877 8.1%	£10,964 1.9% p.a.
<b>Bond (10 year)</b>	£10,000 single premium, (1 Jan. 2002)	£10,000	<b>£15,410</b> <b>4.4% p.a.</b>	£160 1.0%	£12,367 2.2% p.a.
<b>Pension (20 year)</b>	£200/month starting on (1 Jan. 1992)	£48,000	<b>£84,704</b> <b>5.3% pa</b>	£5,078 6.6%	£66,808 3.2% p.a.
<b>Endowment (25 years)</b>	£50/month starting on (1 Jan. 1987)	£15,000	<b>£31,950</b> <b>5.6% pa</b>	£2,149 7.4%	£22,535 3.1% p.a.

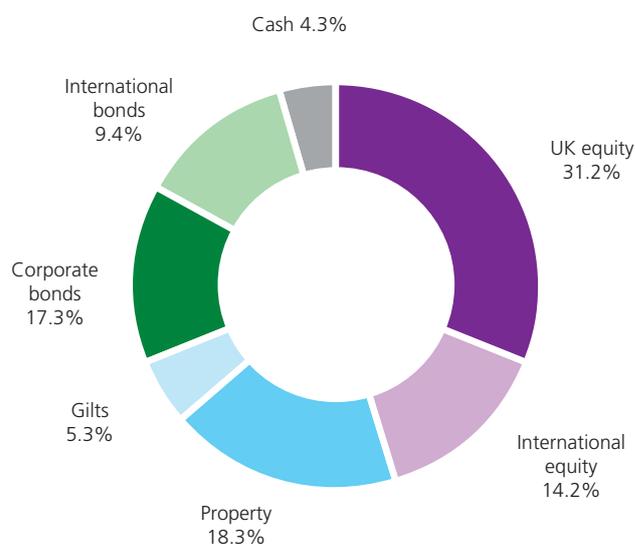


## About the fund, its performance, underlying investments and policies

We have approximately 1.8 million with-profits customers; 400,000 bondholders, 900,000 have with-profits pensions, and 500,000 hold endowment policies.

At the end of June 2011, the total value of Aviva's with-profits funds was approximately £50 billion. The main Aviva With-Profit Fund, the **Old and New With-Profits Sub Funds**, delivered an estimated return of -1% before tax in 2011.

## Asset Mix of the Old & New With-Profits Sub Funds as at December 2011



## Changes to the Asset Mix

The main change to the fund's asset mix over 2011 was a reduction in the amount allocated to equities. This reduction was made by increasing the allocation to less risky assets in the fund, such as gilts and cash.

Given the current economic uncertainty, the overall aim of these changes is to decrease the investment volatility and downside risk for the fund, and its investors.

Asset mix of the Old & New With-Profits Sub Funds (*as at 31 December 2011)							
Year	UK equity	International equity	Property	Gilts	Corporate bonds	International bonds	Cash
2011*	31.2%	14.2%	18.3%	5.3%	14.1%	12.6%	4.3%
2010	32.2%	15.9%	18.6%	4.2%	16.0%	10.9%	2.2%
2009	23.1%	16.6%	17.6%	15.7%	13.3%	5.2%	8.5%
2008	24.2%	13.6%	17.9%	11.8%	23.8%	6.9%	1.8%

## Further information

More information on with-profits is available on our dedicated with-profits website at [www.aviva.co.uk/with-profits](http://www.aviva.co.uk/with-profits)

If you have any questions about your investment in with-profits you should talk to your financial adviser. They will be able to consider your current circumstances and financial goals. Alternatively, you can call us on 0800 068 6800.

In addition, the Financial Services Authority has a website dedicated to financial education, which includes information about with-profits investment. This site can be found at [www.moneymadeclear.fsa.gov.uk](http://www.moneymadeclear.fsa.gov.uk)

## Glossary

**Market value reduction (MVR)** – This is a reduction made to ensure that customers remaining in a with-profits fund are not disadvantaged when others leave. A market value reduction is most likely to apply following a large or sustained fall in the stock market or when investment returns are below the level we normally expect.

**How it works:**

Suppose there are three investors in a With-Profits Fund, who each pay in £10,000, so the total With-Profits Fund is worth £30,000. Stock markets fall by 20% so that the total With-Profits Fund drops to £24,000. A fair share for each of the investors would be £8,000. If one investor then withdraws his original £10,000, without an MVR being introduced, this would leave only £14,000 in the fund to be shared between the remaining two investors, only £7,000 each. The investor who encashed his policy early would take more than his fair share of the fund at the expense of the remaining two.

**Old & New With-Profits Sub Funds** – these funds were created in October 2009 and represent the main Aviva With-Profit Fund. These funds are invested in the same asset mix and managed identically. They were created from the old CGNU and CU funds.

**Final bonus rates** – The returns earned by the fund are added to your investment through a system of bonuses. A final bonus may be paid to ensure you get a fair share of the return earned by your investment for the time you've invested in the With-Profit Fund. Final bonus can vary over the period of your investment and it is not guaranteed.

**Asset mix** – The asset mix is the selection of assets (a 'mix') that makes up our With-Profit Fund. We currently hold assets in equities, property, gilts, corporate bonds, cash and cash alternatives.

How well your investment does depends on how well the assets perform that make up this mix. Because with-profits investments are low to medium risk investments, the asset mix will always include a mixture of higher and lower risk investments.