With Profits Report

CLIENT NAME: Lucy Smith
Client Ref: LS000811
ADVISER NAME: Claire Banner
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This report has been based on the following information. Please make it known if any part of this information is incorrect as it may affect the result of this analysis.

Personal Information

Name	Mrs Lucy Smith
Date of Birth	28/07/1966
Sex	Female

Marital Status	Married
Spouse / Civil Partner DOB	14/04/1963
Other Dependants	Yes

Health Status	Normal
Attitude to Risk	Medium
Employment	Employed

Client Name: Lucy Smith
Adviser Name: Claire Banner
Case Reference: 227395

Aviva Life & Pensions UK Ltd - New With-Profits Sub Fund - With-Profit Fund With Profits Report

Year Opened	2009
Year Closed to New Business	
Fund Open to New Business	Yes
Are Assets Ring Fenced	No

Personal Pension Policies Fund Rating

Financial Strength	*****
Future Performance	*****
Transparency	*****

Fund Background

Under Aviva's court-approved Reattribution Scheme of Transfer, on 1 October 2009 two new with profits sub-funds were created within AVLAP - the Old With-Profits Sub Fund (OWPSF) and the New With-Profits Sub Fund (NWPSF). At the same time the company's Stakeholder With-Profits Sub Fund (SWPSF) was activated, after remaining empty since it had been created in 2001.

Eligible policyholders, holding with profits policies (not Stakeholder) issued by CGNU Life and CULAC (including NULRBS and Aviva Life International reinsurance) in force both on 21 November 2006 and 1 October 2009, were asked to accept or decline the reattribution offer. More than 87% of eligible policyholders took part, and of those 96% accepted the offer and were classified as 'elected', the remainder being 'non-elected'.

Elected eligible CWP policies, UWP policies and the with profits part of hybrid linked policies were allocated to the NWPSF. Non-elected eligible policies were allocated to the OWPSF. Ineligible with profits policies were allocated to the NWPSF and the 'OWPSF proportion' of each policy internally reinsured to the OWPSF. The with profits element of any transferred stakeholder pension business is now internally reinsured from the OWPSF and the NWPSF to the SWPSF.

Since 1 October 2009, most new UK with profits business is written in the NWPSF (with a proportion being internally reinsured to the OWPSF). With Profits Pension Annuities continue to be written in the WPSF. New stakeholder business is written in the NPSF2, with any with profits element being internally reinsured to the SWPSF.

Within the fund are a number of notional sub-funds that are reported on later in this report: the With-Profit Income Fund, which consists of hypothecated assets held within the fund, the With-Profit Guarantee Fund, the With-Profit Guaranteed Fund, the With-Profit Inflation Protected Guarantee Fund, and the With-Profit Fund, which covers the balance of the fund.

The fund effectively contains some endowment business reinsured in from the company's Provident Mutual Sub Fund (in respect of policies which took up an invitation in 2005 to have their policies invested in the asset mix of the CGNU Life fund, as it then was).

The fund also contains with profits business written in France, Germany and Ireland. This business forms notionally hypothecated pools of assets managed separately from UK and Channel Island business. This business is not considered further in this report.

Note: Where possible, relevant historical data from CGNU/CULAC is shown in respect of this new fund, but in some instances (e.g. realistic balance sheets) no appropriate prior year figures are available, so some tables are not fully populated with data.

Past Performance

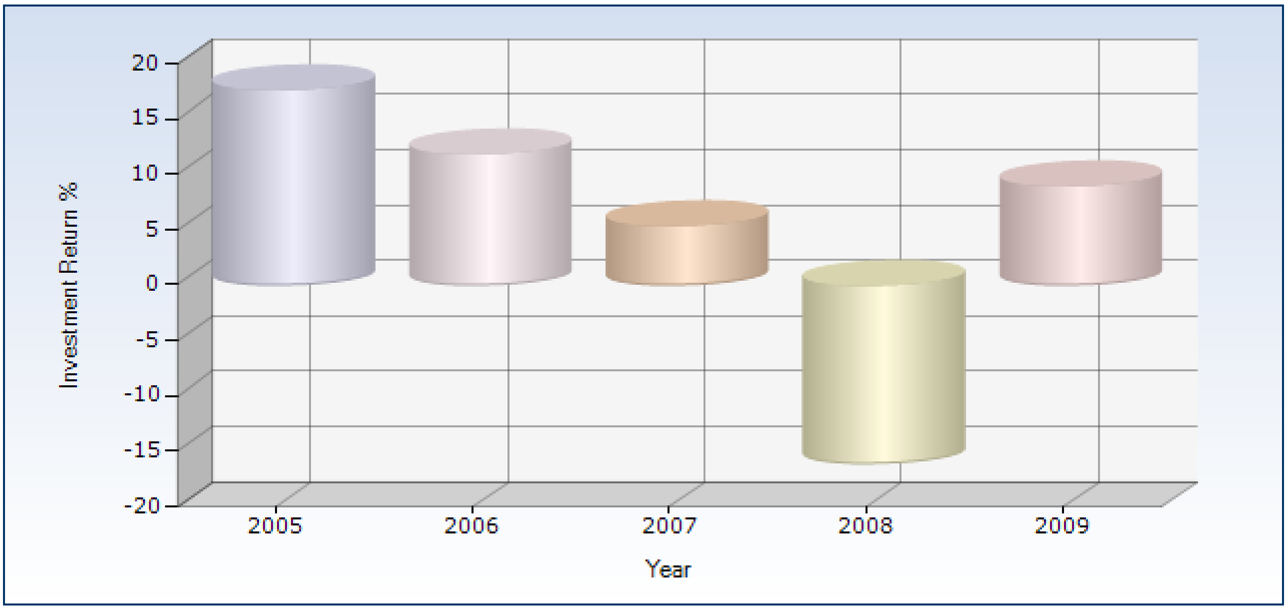
With-Profit Fund

The specimen payouts shown in the company's FSA returns apply equally to both the OWPSF and the NWPSF.

The ex-CGNU business payouts for terms under 10 years relate to policies reassured to the Stakeholder With-Profits Sub Fund. The values all fall in the third or fourth quartiles, albeit amongst a small overall population. The other ex-CGNU maturity payouts disclosed as at March 2010 all fall in the top or high second quartiles. Corresponding surrender values are less competitive, spanning all quartiles.

All bar one of the ex-CULAC maturity payouts as at March 2010 fall into the top two quartiles, but the two surrender values fall in the third and fourth quartiles.

Investment Return



Future Performance

The future performance prospects for a policy in the NWPSF are expected to be slightly worse than that for an equivalent one in the OWPSF to the extent of any distribution of the OWPSF inherited estate - the policyholder in the NWPSF having already benefited from the reattribution payment. However, the quantum and timing of any such distribution is unknown - other than not being expected to happen in the short to medium term.

Whilst CGNU and CULAC polices have shared an identical asset mix for some years, payouts will continue to differ between the two, because of variances in prior experience and in the other elements of the asset share calculations.

There has been a reduction in EBR in the last couple of years, but AKG would not anticipate any further substantial reductions, assuming that the increased potential for conflict of interest (noted in the reattribution scheme documentation) does not drive the OWPSF and NWPSF to maintain a lower EBR.

The company remains committed to the with profits concept and the third and final instalment of Special Bonus was applied to enhance asset shares on 1 January 2010.

Financial Strength

The strength of the fund derives from the strength of the predecessor CGNU and CULAC with profit funds. Their strength had reduced substantially prior to the reattribution, due to the impact of the group's £2.1bn Special Bonus declaration and the significant investment market falls in 2008. Nevertheless, the first realistic balance sheet for the fund (as at the end of 2009) reveals a working capital ratio of 5.0% and an RCM coverage of 2.3 times - both measures being slightly lower than those of the OWPSF due to the retention of the appropriate share of the inherited estate within the OWPSF after the reattribution exercise.

The company now has a very substantial presence in the UK with-profits market, and it remains an active writer of new with profits business. This fund is much larger than the OWPSF, but their fortunes are inextricably linked, due to the arrangements for the sharing of new business and the intention to maintain the same investment policies. Both funds play an important part in Aviva's current strategy.

The Reattributed Inherited Estate, which in future effectively belongs entirely to shareholders, remains available to provide support to the fund. The part of the inherited estates of CGNU and CULAC which were transferred to AVLAP's NPSF1 (the RIEESA) is not immediately available for distribution to shareholders, instead is 'locked-in' to provide support for the transferring with profits policies in the OWPSF and the NWPSF. The balance of the Reattributed Inherited Estate is held in the NWPSF as part of the capital support provided by the RIEESA and it may be repaid to the RIEESA only in the event that such support is no longer required. The fund makes no recourse to any capital outside the fund apart from the RIEESA.

Transparency

The company is very co-operative in providing information, and it reissues its consumer friendly PPFMs to policyholders every year, including a detailed investment report and performance analysis. It writes to policyholders well in advance of their MVR-free dates, it publishes a comprehensive audit trail of changes to its PPFM documents, and its documents are written in a clear and concise style. Minor issues are that the annual report to with profits policyholders on compliance with the PPFM is relatively brief, and that the release of mid-year asset mix information is very patchy.

The company’s With Profits Committee now has a majority of completely independent members.

Market Value Reductions

MVRs may be used to target payouts (after MVR) that represent 100% of the asset share less any required deductions to protect the interests of remaining policyholders on average. Payouts for individual policies may fall within the range 90% to 110% of asset share mainly as a result of accommodating short term market fluctuation. The company will look to rebalance MVR rates back to target payouts (after MVR) that represent 100% of asset share when there is a 5% movement in underlying market indicators and some sign of stability at that new level. However, payouts may lie outside these ranges on certain policies or in changing investment conditions. MVRs are currently determined by calendar year of unit purchase for pensions and monthly for life products.

In deciding on the application of an MVR, factors taken into account include:
•the gap between the value of units (including final bonus)
•the underlying value of investments supporting the plan
•the number and level of surrenders being experienced
•an element of smoothing, taking into account the cost or surplus to the fund
•PRE as established by policy literature, statements and other communications
•the policy conditions
•the amount of the adjustment
•regulatory solvency positions/scenarios.

In June 2005, the company announced that it would in future write to policyholders whose policy includes an MVR free date, three months prior to that date. It also announced the facility whereby policyholders could carry forward to a later date the value of any MVR free guarantee until such time as they decide to cancel the policy.

In 2009, MVRs were applied on all UK products for all years of entry throughout the year.

Investment

In most respects, the assets of the OWPSF, the NWPSF and the SWPSF are managed as if they were a single fund. Aviva Investors Global Services Ltd are the fund's main managers, although commercial mortgages are managed by Aviva Commercial Finance Ltd. In addition, some assets are managed externally.

A number of separate investment pools are maintained in respect of policyholder liabilities:
•Separate pools for each of the overseas branch businesses and for non-Sterling reinsurance business accepted from Aviva Life International Ltd.
•A pool for the asset shares of UK and Channel Islands business in the OWPSF, the NWPSF and the SWPSF (including Sterling reinsurance business accepted from Aviva Life International Ltd).
•A pool for the remaining investments of the NWPSF, including investments for hedging guarantees on with profits policies in the NWPSF and for backing non profit business in the NWPSF.
•A pool for the remaining investments of the OWPSF, including investments for hedging guarantees on with profits policies in the OWPSF and for backing non profit business in the OWPSF.

For non-profit annuities, a closely matched investment strategy is followed which aims to protect the fund from changes in interest rates. Other non-profit liabilities in the fund are closely matched by fixed interest investments with very small market risk.

For with profits business, a degree of matching between assets and liabilities is maintained, so that the fund can meet its guarantees. Currently, the same EBR is used across all classes of UK and Channel Islands with profits policies in the fund, though the company retains the right to change this position. Tactical asset allocation ranges around a benchmark EBR are specified to the fund managers. The benchmark EBR is determined by:

(i)Calculating an unadjusted Theoretical EBR, based on the combined asset shares and the value of guaranteed benefits for all with profits policies in the OWPSF, the NWPSF and the SWPSF. No account is taken of the size of the inherited estates or the level of risk that the fund would incur.
(ii)Determining an adjusted Theoretical EBR, based on the Board's assessment of an acceptable level of risk taking into account the combined assets of the OWPSF, the NWPSF and the RIEESA, and
(iii)making discretionary adjustments (e.g. to take account of: other companies' asset mix, the outlook for different investment categories, projected trends of the Theoretical EBR, the desire to avoid frequent changes in the EBR).
(iv)Applying any constraints specified in the Report of the Actuarial Function Holder on the Scheme, which were introduced to limit the potential for conflicts of interest, to ensure that in normal circumstances a relatively high EBR (i.e. at least 40%) is maintained, whilst permitting a move to a lower EBR should this be necessary to maintain the fund's financial strength at an adequate level.

For overseas and non-Sterling business, the benchmark EBRs are set at levels considered appropriate relative to peer funds, although account is also taken of the benchmark EBR for UK and Channel Islands business.

Derivatives are used to hedge financial exposures of policyholders or shareholders: for efficient portfolio management, to achieve a reduction in investment risk, as an integral part of a product design, or to provide income enhancement.

The tables below shows the asset mix attributable to the asset shares of UK and Channel Islands with profits business (figures are for CGNU and CULAC prior to the transfer to AVLAP). At the end of April 2010, the EBR of 66.6% had nearly reverted to its level of 71.5% in December 2007, after falling to 55.7% at the end of 2008.

Asset Type	**Actual 31 12 2007**	**Actual 31 12 2008**	**Actual 31 12 2009**	**Actual 30 04 2010**
UK Equities	35.3%	24.2%	23.1%	31.2%
Overseas Equities	17.8%	13.6%	16.6%	17%
Property	18.4%	17.9%	17.6%	18.4%
Fixed Interest	22%	42.5%	34.2%	30.8%
Cash	6.5%	1.8%	8.5%	2.6%
Other	0%	0%	0%	0%

Guarantees

Some pension products in force contain a minimum guaranteed annuity rate. The total reserves for GAOs as at 31 December 2009 were £9.2m for ex-CGNU business and £106.2m for ex-CULAC business. GAO costs for with profits policies are currently met by the estate. For unit-linked policies any GAO cost is met by shareholders.

Early UWP contracts include a guaranteed minimum regular bonus rate. For unitised pensions this rate is 4% and for unitised savings and investment this rate is 3%.

For most UWP contracts, payments on death are 'MVR free'. For pension contracts, with the exception of recent contracts with a premium term of less than five years, the originally selected retirement date is generally 'MVR free'.

Most UWP bonds in force contain guarantees relating to MVR-free withdrawals. About 86% of the company's with profits bond policyholders benefit from policy guarantees. In 2009, 50,000 bonds were eligible for a policy guarantee and more than 33,000 policies reached their 10-year anniversary and became eligible to take advantage of an MVR-free guarantee. Aviva's standard practice is to write to customers in advance of their guarantee dates, bringing these guarantees to their attention.

An additional charge may be levied on asset share to reflect the provision of capital, guarantees and smoothing in the fund, or to maintain the inherited estate or regulatory solvency of the current and potential future fund at appropriate levels. However, since October 2009, charges can only be made to asset shares for guarantees where (a) an explicit charge was being applied on that date for policies already in-force, or (b) for policies written after that date, the policy terms explicitly allow a charge. The total charges made for the last quarter of 2009 for the With-Profit Inflation Protected Guarantee Fund, the With-Profit Guaranteed Fund and for certain Aviva Life International Ltd bonds was £3.7m.

There is an additional 0.5% regular bonus on Loyalty Fund units and Loyalty Units awarded to Bond 2000 policies at certain durations.

With-Profit Fund

The company has a declared intention that payments on with profits mortgage endowment policies will, if necessary, be topped up at maturity where there is a shortfall between the claim value and the mortgage originally targeted, provided (amongst other conditions) that future investment returns between 1st January 2000 and the date of maturity average no less than 6% p.a. net and that such payments can be met from future investment earnings on the free reserves within its life fund. The cost of top up payments will be charged to the estate. The total provisions as at 31 December 2009 in respect of this were £446.4m.

From October 1998 to January 2002, new UWP bonds contained no-MVR guarantees on full surrender on the 10th anniversary (and in some cases also on every subsequent 5th anniversary).

Since January 2002, standard new UWP bonds have contained a 10 year money-back guarantee, and from February 2004 until February 2005, a 5 year money-back offer was also added at nil cost to asset shares. In February 2005, this 5 year money-back offer was replaced by the With Profit Guarantee Fund.

In January 2006, an alternative inflation protected guarantee was introduced for new UWP bonds, guaranteeing at least the initial investment increased in line with the RPI on surrender or death after the fifth anniversary. This option was replaced in February 2007 by the With-Profit Inflation Protected Guarantee Fund, which has an explicit charge for this guarantee.

All With Profits data supplied by AKG Actuaries & Consultants Ltd

Client Name: Lucy Smith
Adviser Name: Claire Banner
Case Reference: 227395

AKG With Profits Abbreviations Glossary A-Z

ALM	Asset Liability Matching
CFPPM	Consumer Friendly Principles and Practices of Financial Management
CMA	Contractual Minimum Addition
CPPI	Constant Proportion Portfolio Insurance
CRR	Capital Resources Requirement
CWP	Conventional With Profits
DA	Deposit Administration
EBR	Equity Backing Ratio (including property)
FAR	Free Asset Ratio
FSA	Financial Services Authority
GAO	Guaranteed Annuity Option
GAR	Guaranteed Annuity Rate
GMP	Guaranteed Minimum Pension
IB	Industrial Branch
ICA	Individual Capital Assessment
ICG	Individual Capital Guidance
LTA	Long Term Assets
LTBF	Long Term Business Fund
MCR	Minimum Capital Requirement
MVR(MVA)	Market Value Reduction (Market Value Adjuster)
NSPF	Non Profit Sub Fund
OB	Ordinary Branch
PPFM	Principles and Practices of Financial Management
PRE	Policyholder Reasonable Expectations
RBS	Realistic Balance Sheet
RCM	Risk Capital Margin
RMM	Required Minimum Margin
TCF	Treating Customers Fairly
UWP	Unitised with Profits
WCR	Working Capital Ratio
WP	With Profits
WPB	With Profits Bond
WPC	With Profits Committee
WPFAR	With Profits Free Asset Ratio
WPICC	With Profits Insurance Capital Component
WPSF	With Profits Sub Fund