

# News release



16 January 2009

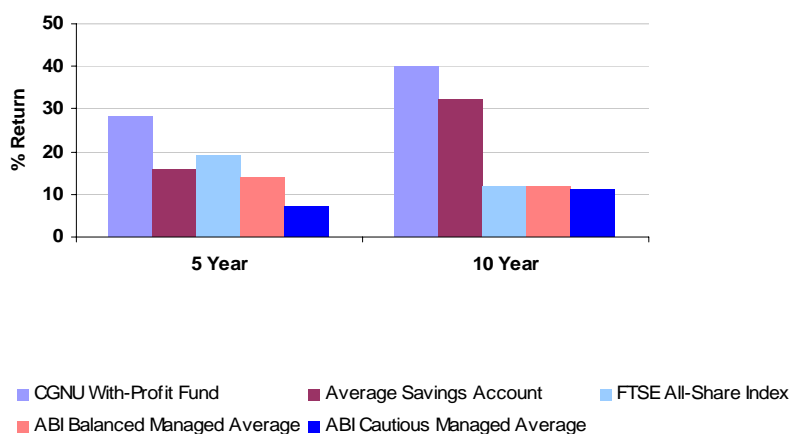
## WITH-PROFITS UPDATE

Norwich Union today announces the regular and final bonus rates on its with-profits policies.

### Strong long-term returns for with-profits investors

With-profits continues to protect customers against volatile stock market conditions. Over the past five years, the main with-profits fund (CGNU) has returned 28.3% after tax outperforming cash (16%) and the average balanced managed fund (14%). It also outperformed a total return, including dividends, of 19% from the FTSE All-Share. (Source: Hindsight© REUTERS Limited)

### Relative Performance



*CGNU With-Profit Fund after tax. Other data sourced from Lipper Hindsight based on investment return at 1st January 2009. The average savings account used is the Moneyfacts Average up to 90 days' notice, with a £10,000 balance*

The unprecedented market conditions over the past year have affected short-term performance. However, the four with-profits funds managed by Norwich Union all demonstrated the benefits of smoothing. In 2008 the CGNU and CULAC funds recorded a decrease of 11.9%, NULAP 12.3% and the Provident Mutual fund 1.5% (after tax), which compared favourably to a fall in the FTSE All-Share Index of 29.9% over the same period.

### Investment values for policyholders

- £10,000 invested in a bond 10 years ago had increased in value to **£15,351** on 1 January 2009, outperforming an equivalent investment in the FTSE All-Share (£11,236), the ABI Balanced Managed Average (£11,229) and the average savings account (£13,164).

*(Figures for the FTSE All-Share and ABI Balanced Managed Average do not take into account any charges)*

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**Investment values for policyholders (continued)**

- £200 a month invested in a pension over the past 15 years with a retirement date of 1 January 2009 has delivered an investment value of **£53,708**. This is equivalent to an annual return of 5.12% and represents an excess return of 3.06% p.a. over and above inflation giving our customers greater spending power in retirement.
- A 25 year, £50 a month mortgage endowment maturing on 1 January 2009 has delivered an investment value of **£42,322**, £6,670 over the target amount with the policy increasing in value by £1,973 (including premiums paid) in 2008. This outperforms an equivalent investment made over the same period in the average savings account (£25,634), ABI Balanced Managed Average (£36,999) and compares favourably against the FTSE All-Share (£42,614).

**Bonus rate changes**

**Regular bonus rates** – We are pleased that, due to the strength of the funds, regular bonus rates have been **held** on conventional policies. For unitised policies, regular bonus rates have been reduced by only 0.75% e.g. the bonus rate on the investment bond has reduced from 4.25% to 3.5%, which remains attractive in an environment of falling interest rates.

**Final bonus rates** – Final bonus rates have been reduced from 1 January 2009 to bring payouts back in line with asset share subject to smoothing. The effect of this has been to bring payouts down on policies by up to 15% when comparing payouts on 1 January 2008 with 1 January 2009. Of this reduction up to 10% was announced in September. Where MVRs (introduced in October) are applying to policies which had a final bonus, any reduction in final bonus at 1 January 2009 is broadly matched by a reduction in the MVR so that the change in surrender value is broadly neutral.

**Market Value Reduction (MVRs) reduced** - We are pleased to announce that the average MVR has been reduced from 16.2% to 11% (see table at the end of the release). MVRs are a way of ensuring that those policyholders leaving or wishing to take money out of the fund do not take more than their fair share of the fund at the expense of those policyholders who remain.

MVRs are currently being applied on unitised policies for those policyholders wishing to take money out of the fund. The actual MVR applied will differ depending on the year the policy was actually taken out. Importantly, MVRs do not apply on maturities or if the policyholder dies.

**£740 average bonus payments in 2008**

2.3 million customers each received bonuses of approximately £740 on average in 2008. In total, £1.7 billion in bonus payments have been made to policyholders in 2008.

**Special Bonus payment**

During 2008 a further £741 million was added to CGNU and CULAC funds as part of the special bonus payment. 2009 will see a further 3.6% of policy values being added.

**Valuable guarantees**

Around 86% of our with-profits bond policyholders have valuable guarantees within their policies – e.g. MVR-free anniversaries. In 2009, around 50,000 bond policies will be eligible for a policy guarantee. Of these 50,000 policies over 33,000 will reach their 10-year anniversary and will be eligible to take advantage of an MVR-free guarantee which we will actively draw to our customers' attention.

**Mortgage endowments reviews**

In 2005 Norwich Union removed 'amber' as a separate designation with the aim of encouraging more customers to take action on their endowment shortfalls. This has had no impact on customer behaviour. Amber will be reintroduced from January 2009 in line with the standard practice across the industry. Statistics for the mortgage endowment shortfall status mailing undertaken in 2008 are: 6% of policies on 'green' and 94% 'red' (of which 20% would have been amber). For policies maturing in 2009, 11% are 'green'.

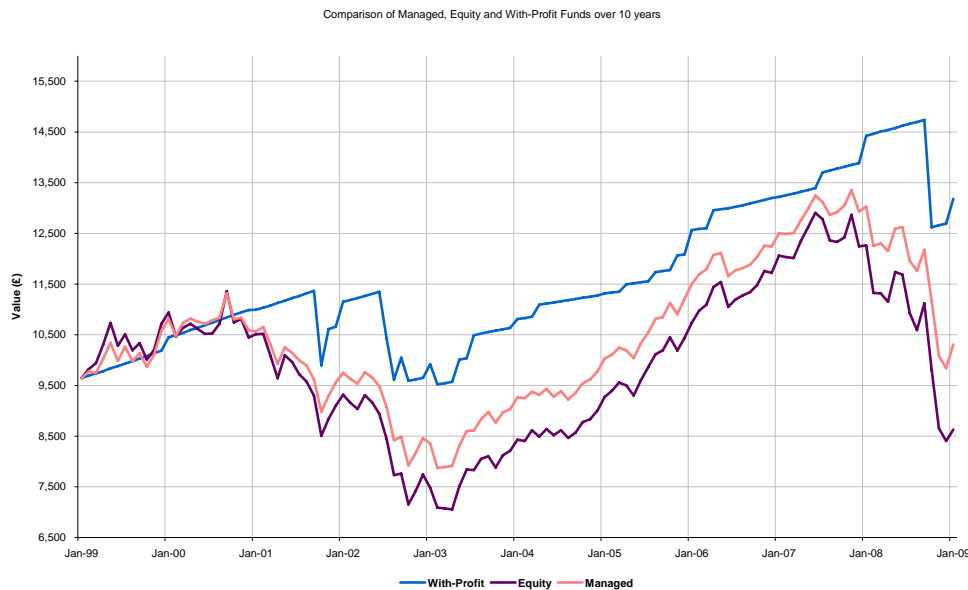
***David Barral, director at Norwich Union said:***

***“Our with-profits funds have continued to prove their worth by delivering attractive long-term returns for investors while protecting them from the ups and downs of the stock market.***

***“In a time of market turmoil, the smoothing effect of with-profits together with the option of valuable guarantees is proving to be a popular choice with investors and professional advisers.”***

**With-profits smoothing in action**

The graph below shows the performance of with-profits compared to a balanced managed fund and UK equities.



The figures are based on an investment of £10,000 into the CGU UK Equity, Managed and With-Profit Fund which would be available to a bond taken out in January 1999. The values depicted each month are the surrender values and would include any application of early exit charges or MVRs

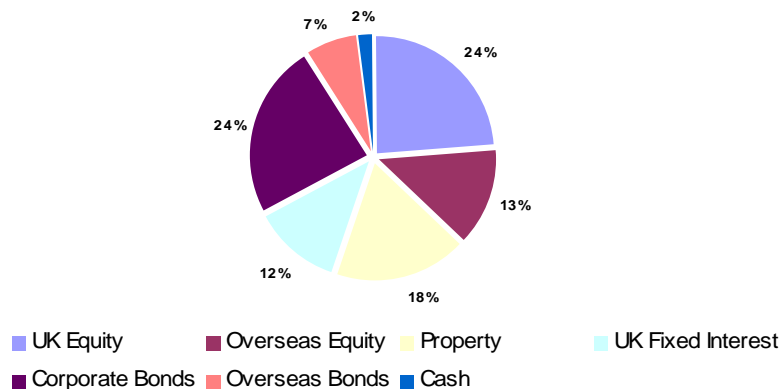
**1. Investment in the CGNU With-Profit Fund at the end of 2008**

The unprecedented market conditions over the past year have meant that the CGNU and CULAC funds have returned -11.9% after tax. The FTSE All-Share fell over the same period by a total of 29.9% demonstrating the value of with-profits smoothing.

The return on the NULAP With-Profit Fund was -12.3% after tax, while the return on the Provident Mutual (PM) fund was -1.5% after tax. The PM figures reflect the higher proportion of assets invested in fixed interest investments. For those PM endowment policyholders who opted during 2005 to switch future investment returns to the CGNU With-Profit Fund the return in 2008 was -11.9% after tax.

The equity backing ratio (proportion in shares & property) was 55% at the end of 2008. We have actively managed the ratio down from 72% at the end of 2007.

**CGNU With-Profit Fund Investment Mix (as at 31st December 2008)**



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## 2. Policy values – 2009

<b>Onshore Investment bond</b>				
<b>Date of investment</b>	<b>Value 01/1/08</b>	<b>Value 01/01/09</b>	<b>With-Profits increase %</b>	<b>FTSE All-Share increase %</b>
01/01/2004	<b>£14,371</b> (£13,875)	<b>£12,642</b> (£11,678)	-12.0% (-15.8%)	-29.9%
01/01/1999	<b>£14,423</b> (£13,922)	<b>£13,180</b> (£12,207)	-8.6% (-12.3%)	-29.9%
01/01/1999 Incl. value of guarantee	<b>£14,423</b> (£13,922)	<b>£15,351 (no MVR)</b> (£14,378)	6.4% (3.3%)	-29.9%

*These examples are based on a £10,000 single contribution for a male aged under 75 at outset. Figures in brackets exclude Special Bonus*

<b>Pension policy – 15 years – Date of Investment 01/01/1994</b>			
	<b>Value at 01/01/08 (14 years)</b>	<b>Retirement date value 01/01/09</b>	<b>Increase % (excluding premiums paid)</b>
CGNU (incl. GA)	<b>£54,255</b> (£52,374)	<b>£53,708</b> (£49,891)	-5.4% (-9.3%)
CULAC	<b>£54,588</b> (£52,722)	<b>£55,122</b> (£51,275)	-3.4% (-7.3%)
NULAP	<b>£50,940</b> (£50,940)	<b>£47,935</b> (£47,935)	-10.6% (-10.6%)

*The above examples are based on a male, investing £200 a month for 15 years from January 1994 with the policy maturing at age 65, with a return of fund death benefit. The figures at 1/1/09 assume retirement at selected retirement age therefore benefit from the MVR-free guarantee. Figures in brackets exclude Special Bonus*

<b>Mortgage endowment (no promise) – 25 years – Date of Investment 01/01/1984</b>					
	<b>Value at 01/01/08 (24 years)</b>	<b>Maturity value 01/01/09</b>	<b>Target amount 01/01/09</b>	<b>Excess over target</b>	<b>Increase % (excluding premiums paid)</b>
CGNU (incl. GA)	<b>£40,349</b> (£38,761)	<b>£42,322</b> (£39,299)	£35,652	<b>£6,670</b> (£3,647)	3.4% (-0.2%)
CULAC	<b>£34,763</b> (£33,543)	<b>£35,307</b> (£32,924)	£37,121	<b>-£1,814</b> (£-4,197)	-0.2% (-3.6%)
NULAP	<b>£36,207</b> (£36,207)	<b>£34,775</b> (£34,775)	£36,029	<b>-£1,254</b> (£-1,254)	-5.6% (-5.6%)

*Figures in brackets exclude Special Bonus*

<b>Savings endowment – 25 years – Date of Investment 01/01/1984</b>			
	<b>Value at 01/01/08 (24 years)</b>	<b>Maturity value 01/01/09</b>	<b>Increase % (excluding premiums paid)</b>
CGNU (incl. GA)	<b>£41,347</b> (£39,719)	<b>£43,368</b> (£40,271)	3.4% (-0.1%)
CULAC	<b>£37,535</b> (£36,218)	<b>£38,123</b> (£35,549)	0% (-3.5%)
NULAP	<b>£37,522</b> (£37,522)	<b>£36,038</b> (£36,038)	-5.6% (-5.6%)
PM*	<b>£30,696</b> (£30,696)	<b>£30,696</b> (£30,696)	-2.0% (-2.0%)

*\*investments not switched to CGNU mid-2005*

*Figures in brackets exclude Special Bonus. The above endowment examples are based on a male, non-smoker, aged 29 investing £50 a month for 25 years with the policy starting on 1 January 1984*

**Further examples of payouts for conventional and unitised policies over different terms are available on request.**

### 3. How investment bond returns compare to cash and an equivalent investment against other benchmarks

<b>Onshore Investment bond – 10 years</b>			
	<b>Original investment 1/1/1999</b>	<b>Value of investment after 10 years (incl. Special Bonus)</b>	<b>Annualised return</b>
CGNU (incl. GA) with-profits bond	£10,000	<b>£15,351</b> (£13,180 with MVR if applicable)	4.38% (2.80%)
Bank/building society account	£10,000	<b>£13,164</b>	2.78%
FTSE All-Share	£10,000	<b>£11,236</b>	1.17%
ABI Cautious Managed	£10,000	<b>£11,133</b>	1.08%
ABI Balanced Managed	£10,000	<b>£11,229</b>	1.17%

*Examples are based on a £10,000 single contribution made on 1 January 1999. The original investment plus Consumer Price Index (CPI) would be £11,959, an annualised return of 1.80%. Returns are quoted net of basic rate tax.*

### 4. CGNU and CULAC Special Bonus payouts

In February 2008, Norwich Union announced a one-off, special bonus for qualifying customers in the CGNU Life and CULAC funds payable in 2008, 2009 and 2010. The second of these special bonus payments is now being included in maturity and surrender values being paid. The special bonus was made possible because of the strength of these two funds and because we changed the way we manage our with-profits funds to reduce the investment risk around policy guarantees. These special bonus payments will continue to be paid on top of bonuses detailed in today's announcement.

### 5. Proposed inherited estate reattribution

Norwich Union announced last year that it had agreed a reattribution offer with the Policyholder Advocate of £1 billion for an inherited estate valued at £2.1 billion. This will affect around 1 million eligible policyholders.

### 6. General information and further facts and figures

**Mortgage endowment promise:** Norwich Union launched its mortgage endowment promise in 2000 to assist policyholders who, at the time of the announcement, faced a projected shortfall on their mortgage endowment policy (the amount needed to pay off their mortgage when it matured). The mortgage promise was conditional on the company earning a sufficient investment return on its free reserves as well as the policy not being altered or sold.

The company committed around £1 billion of capital for future endowment shortfall assistance – underlining the strength of our with-profits funds. Norwich Union believes that its mortgage endowment promise remains fully viable. Norwich Union has committed to its customers that if it was to review the promise, it will give policyholders at least three years' notice of any proposed changes.

#### How an MVR 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 10% so that the total with-profits fund drops to £27,000. If one investor then withdraws his original £10,000, without introducing an MVR, this would leave only £17,000 in the fund to be shared between the remaining two investors. The investor who encashed his policy early would take more than his fair share of the fund.

Year units purchased	Average MVR rate as at 21/10/2008	Average MVR rate as at 1/1/09
1988	18%	5%
1989	20%	14%
1990	19%	6%
1991	21%	7%
1992	22%	7%
1993	21%	7%
1994	19%	6%
1995	17%	5%
1996	16%	5%
1997	16%	8%
1998	16%	15%
1999	16%	16%
2000	20%	20%
2001	13%	11%
2002	15%	5%
2003	19%	7%
2004	16%	5%
2005	16%	10%
2006	16%	16%
2007	18%	18%
2008	13%	10%

**ENDS****Press office contacts**

Further information and customer case studies are available by contacting the Norwich Union press office:

		Out of hours
Louise Soulsby	01904 452617	07800 699526

**Notes to Editors**

Norwich Union has approximately 2.3 million with-profits customers of which 0.8 million are endowments, 1 million are pensions and 0.5 million are investment bonds. At the end of December 2007, the total value of Norwich Union's with-profits funds was approximately £51 billion. (CGNU £14 billion, CULAC £13 billion, NULAP £22 billion, PM £2 billion).

**Important notes:** Future bonus rates are not guaranteed and may vary, as they depend on profits yet to be earned. 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. The illustrative maturity amounts include periods of high inflation and high investment returns. We may apply a market value reduction on encashments, but not on maturities or death, which will reduce what a customer would get back from the unitised With-Profits Fund. Past performance is based on the charging structures applicable to the products at the time the policies were effected. Different charging structures apply to the current products.

**About Norwich Union**

Norwich Union is one of the UK's biggest life insurers. It is a leading provider of life, pensions and investment products and one of the largest Financial Adviser (FA) providers. FAs provide over 70% of the company's long-term savings business in the UK.

Norwich Union has strategic alliances with building societies and other leading UK brand names including CIS and The Royal Bank of Scotland Group. Norwich Union's news releases and a selection of images are available from Aviva's internet press centre at [www.aviva.com/media](http://www.aviva.com/media)

In the summer of 2009 Norwich Union will change its name to Aviva. Aviva is the world's fifth largest insurance group and operates in 27 countries. Aviva is to become the customer brand worldwide, thus enabling the company to compete even more effectively on a global scale for the benefit of customers, staff, business partners and shareholders.