Principles and Practices of Financial Management (PPFM)

for Aviva Life & Pensions UK Limited WL With-Profits Sub-Fund (including policies in the Non-Profit Sub-Fund that have with-profits units invested in the WL With-Profits Sub-Fund)

1 January 2020

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Contents

Aviva Life & Pensions UK Limited – WL With-Profits Sub-Fund PPFM

1 Introduction

The Introduction and any statements at the start of subsequent sections of this document, together with the appendices, are provided by way of background information and do not form part of the Principles or Practices.

1.1 Company information

Aviva Life & Pensions UK Limited ('the Company') (previously known as Norwich Union Life & Pensions Limited) is owned by Aviva Life Holdings UK Limited, whose ultimate holding company, Aviva plc, is incorporated in England.

Further information on the company names and background is provided in Appendix 2.

Products are sold throughout the United Kingdom under the Aviva brand.

1.2 What business is covered by this document?

As a result of past Court transfers of insurance business, Aviva Life & Pensions UK Limited contains policies originally issued by a number of other insurance companies. The structure chart in Appendix 3 shows the composition of funds under Aviva Life & Pensions UK Limited.

This document covers with-profits business in the WL With-Profits Sub-Fund of Aviva Life & Pensions UK Limited (the 'Sub-Fund'). This sub-fund was created on 1st October 2017, when all the policies of the WL With Profits Fund of Friends Life Limited were transferred to Aviva Life & Pensions UK Limited as part of a court approved scheme (see section 1.5).

The most common names that exist on what are now policies of the WL With-Profits Sub-Fund are Friends Life WL Limited, Colonial Mutual Life Assurance Society Limited, Colonial Mutual Life (Unit Assurances) Limited, Colonial Life (UK) Limited, Winterthur Life UK Limited and Provident Life Association Limited.

Other names will be relevant to policies in our other with-profits sub-funds. Appendix 4 contains a full list of all the original issuing companies, which will enable policyholders to identify whether this document applies to their policy or whether they should refer to the document for one of the other sub-funds.

1.3 Purpose of PPFM

What is a PPFM?

A PPFM is a document that sets out the Principles and Practices that a company follows when managing its with-profits business. The PPFM for this Sub-Fund has been approved by the Board of Directors of Aviva Life & Pensions UK Limited ('the Board'). The Board will report each year on whether each with-profits sub-fund has been managed in accordance with the PPFM.

What are Principles?

The with-profits Principles are enduring statements of overarching standards followed by a company when managing a with-profits sub-fund bearing in mind its duties to with-profits policyholders in both the current and future economic environments, its need to be fair to all policyholders, and comply with any relevant legislation and policy terms and conditions.

What are Practices?

The with-profits Practices provide more detail on the current approach taken by a company when managing a with-profits sub-fund.

Changes to Principles and Practices

If we propose to make a material change to any Principle in this PPFM we will inform policyholders with a with-profits policy in the sub-fund in writing at least three months in advance, unless we consider that advanced notice is not necessary and the FCA (one of our regulators) has agreed. Any proposed change to a Principle would be decided by the Board, having considered the views of the With-Profits Committee and having taken appropriate actuarial advice, including from the With-Profits Actuary.

Any proposed change to a Practice would be decided by the Board, having considered the views of the With-Profits Committee and having taken appropriate actuarial advice, including from the With-Profits Actuary.

Details of all changes to Principles and Practices will be displayed on the company's website **aviva.co.uk/ppfm** as soon as possible after they are implemented. A link to the website page will also be included in annual statements.

Regardless of any such changes we will review this document at least yearly to ensure that it continues to accurately reflect the Principles and Practices we apply.

We would only change a Principle or a Practice when we consider the change to be justified by the need to:

- respond to changes in the business or economic environment;
- protect the interests of policyholders, for example to improve the fairness of a Principle;
- change a Practice to better achieve a Principle;
- correct an error or omission in the PPFM; or
- improve the clarity or presentation of the PPFM.

Whenever the PPFM is changed we will:

- document the changes and keep the previous versions of the document for at least five years; and
- ensure that any amendments to the Principles and Practices are compliant with all legal and regulatory requirements.

1.4 Governance arrangements surrounding the PPFM

It is the responsibility of the Board to ensure that the Company manages the Sub-Fund in line with the Principles and Practices set out in this document.

In line with regulatory requirements, the Company has put in place the following governance arrangements to offer assurance that PPFM have been adhered to:

- The Board will produce a 'With-Profits Policyholder Report' annually that includes information on compliance with the PPFM and the way the firm has exercised discretion and addressed any competing or conflicting rights and expectations. This will be made available to policyholders on the website **aviva.co.uk/ppfm** and on request.
- A With-Profits Actuary has been appointed to advise the Board on how it applies its discretion in managing with-profits policies. The With-Profits Actuary will report annually to the Board, and a summary will be available for with-profits policyholders as an Annex to the above annual report.

A With-Profits Committee, with a majority of independent members, has been formed to provide independent oversight and challenge to the Company to ensure that fairness and with-profits customers' interests are appropriately considered in the Company's governance structures and decision making processes. The committee has been formed under FCA Conduct of Business Sourcebook requirements, and more details including its membership and terms of reference can be found on our website at **aviva.co.uk/wpcommittee**. The With-Profits Committee may also report annually to with-profits policyholders if it considers it appropriate. This would be made available to policyholders as an Annex to the With-Profits Policyholder Report mentioned above.

1.5 Court Scheme

The management of Aviva Life & Pensions UK Limited is also governed by a Scheme approved by the High Court of England in 2017, known as 'the Scheme'. In the event of any conflict between the terms of the Scheme and this document, the terms of the Scheme will take precedence. If we wish to change a Principle or Practice in this document, and it is directly related to a provision in the Scheme, then the Scheme would first need to be changed, which would normally require court approval.

The PPFM and the Scheme are not intended to alter the rights and obligations we have under any policy documents issued to policyholders.

1.6 Glossary

Appendix 1 defines the key words and phrases used within this report. The following section also gives some background information on types of with-profits policies, and types of bonus.

1.7 Background information on with-profits policies

With-profits policies typically provide benefits at certain contractual dates specified in the policy. The contractual date is typically the end of the policy term, called the 'maturity date' for endowment policies or the 'retirement date' for pensions policies. For other policies such as with-profits bonds, the policy may specify particular contractual dates, for example the 10th policy anniversary. The benefits are also, typically, guaranteed on the death of the policyholder. Benefits may be taken at other times, but the payout received in this case is not usually guaranteed in any way.

Bonuses may be added to increase the value of the benefits of the policy. There are typically two forms of bonus:

- regular bonuses, which are added throughout the policy term, although at certain times the regular bonus may be zero; and
- final bonuses, which may be added whenever the policy benefits are taken. Again, the final bonus may be zero.

There are two types of with-profits policies:

- ‘Conventional’ with-profits (‘CWP’) policies typically provide a guaranteed amount of money on a set date or dates (‘the contractual date(s)’) and/or on death, provided that all the premiums are paid when due. The regular bonuses added from time to time increase the value of the initial guarantee set out in the policy. A final bonus may be added on the contractual date. Policies may be ended early, but the proceeds are then not usually guaranteed.
- ‘Unitised’ with-profits (‘UWP’) policies are different. Typically, each premium paid buys a number of units. Regular bonus may be added either by increasing the price of the units held and/or by adding extra units to the policy. Units may be cashed in at any time and a final bonus may be added. However, if the units are cashed in at any time that is not one of the contractual dates, a deduction called a ‘Market Value Reduction’ (‘MVR’) may be made from their value.

Not all policies receive the same bonus rates. For the purposes of setting bonuses, policies are grouped, mainly by type of policy. All policies in the group, known as a ‘bonus series’, will receive the same rate of regular bonus. The final bonus rates that apply to the group will typically depend on the year the benefits were purchased.

2 Targeting payouts

2.1 Principles

We will manage the Sub-Fund in accordance with all legal and regulatory requirements. This will include managing the Sub-Fund in accordance with the Scheme and observing all contractual terms set out in policy documents.

In the event of any conflict between the terms of the Scheme and this document, the terms of the Scheme will take precedence.

We will manage the Sub-Fund in a sound and prudent manner and with due regard to the interests of its policyholders and with a view to treating all policyholders fairly.

We will aim to manage the Sub-Fund in order to ensure that all guaranteed benefits can be paid as they fall due.

We will use appropriate models, methods and techniques in order to manage the Sub-Fund and determine payouts.

For most classes of with-profits business, payouts will be determined having regard to Asset Shares to broadly reflect the experience of the Sub-Fund whilst a policy has been in force and to endeavour to ensure that fairness is maintained between different groups and generations of policies.

For classes of business where Asset Share does not represent a fair guide to payouts, or where it is not calculated, payouts will be determined using other methods. We give particular consideration to ensuring that these classes are treated consistently with the main classes.

Approximations will not materially affect resulting payouts or bonuses compared to the result of more precise methods which could practicably have been used at a reasonable cost.

2.2 Target payouts

Target payouts on maturity, death or surrender are based on 100% of Asset Shares (as defined in section 2.3.2).

From time to time payouts will differ from target as a result of smoothing. At any particular time the payout we aim at may be further amended to avoid excessive changes in payout from one period to the next (see section 3 for more details).

We set target payout ranges for most product classes and claim types. The target payout range for the Sub-Fund is 80% to 120% of Asset Share.

We will review the target payout ranges from time to time.

For certain product classes, in particular With-Profits Term Assurance, Accident Benefit Plan and Retirement Benefit Schemes, we do not set a target payout range as payouts cannot reasonably be compared with an Asset Share.

Payouts are derived for groupings of individual policies (by policy term, start date and premium status (single or regular) within bonus series) rather than on an individual basis for conventional and ex-Colonial unitised with-profits policies. Sample policies, representative of the grouping, are used in the process. For ex-Winterthur unitised with-profits policies, payouts are derived for each individual policy.

Scales of final bonus are set to produce payouts equal to the targets for each grouping. Rates of final bonus are rounded. Where guarantees exceed target payouts rates of final bonus will be zero.

Actual payouts for individual policies may therefore deviate from target payouts for one or more reasons: because guaranteed payouts exceed targets, as a result of rounding in the rate of final bonus, to the extent that a policy differs from the representative policy, to reflect the impact of smoothing or if the solvency of the Company is under threat.

On death, the same rate of final bonus is paid as for maturity at the term corresponding to the duration in force at the date of death. The final bonus added to a policy has a minimum value of zero for maturing policies and policies becoming claims by death.

In determining final bonus rates for retirement annuities where the policy benefits are expressed in annuity form, the Asset Shares are converted into annuity form at a current economic value. However, this is not the case for Retirement Benefit Schemes as the final bonus applies if, and only if, the cash option is taken.

A separate final bonus scale is determined for early terminations (e.g. surrender, transfer, switches).

2.3 Asset Share methodology

2.3.1 Asset Shares

Asset Shares are calculated on a specimen policy basis from assumptions derived from the actual experience of the Sub-Fund. Asset Shares are accumulated as:

- premiums paid;
- plus investment return (can be negative) earned on the underlying investments, calculated as described in section 2.4.1;
- less a deduction for the costs of selling and administering the policy (where these are met by the Sub-Fund);
- less the cost of death or other risk benefits;
- less an adjustment in respect of taxation as appropriate for the class of business;
- less the cost of shareholder transfers.

2.3.2 Estimated realistic solvency position of the Sub-Fund

For the purposes of determining target payouts, the solvency position of the Sub-Fund is determined by comparing the value of the assets with the value of the liabilities.

If the value of the assets is less than the value of the liabilities plus a risk-related margin recommended by the With-Profits Actuary, then a deduction may be made from Asset Shares of those policies which share in miscellaneous profits and losses.

If the value of the assets exceeds the value of the liabilities plus the risk-related margin, then an enhancement may be made to the Asset Shares of those policies which share in miscellaneous profits and losses.

We normally recalculate the appropriate enhancements or deductions once each year.

The latest published enhancement or deduction as a percentage of Asset Share is available from the With-Profits Summary on our website at **aviva.co.uk/ppfm**.

Section 8.2 provides further information about the enhancements or deductions.

2.4 Asset Share assumptions

2.4.1 Investment return credited to Asset Shares

Investment returns credited to Asset Shares are based upon the return achieved on the assets assumed to be backing Asset Shares, as described in section 5.3.

2.4.2 Expenses charged to Asset Shares

The expenses and commissions that are deducted from Asset Shares of conventional with-profits policies are subject to the requirements of the Scheme. For the Asset Shares of Retirement Benefit Schemes, the expenses and commissions are deducted based on the Company's estimate of these items.

Charges are deducted from Asset Shares of unitised with-profits policies according to the policy conditions.

Any mismatch between the expense deductions taken from the Sub-Fund in respect of with-profits policies and the expense deductions taken from Asset Shares, or charged to unitised with-profits policies in line with the contractual policy charges, is borne by the estate.

2.4.3 Cost of other risk benefits

An adjustment is made to Asset Shares to reflect the cost of providing death and any other risk benefits to with-profits policyholders, where these benefits are in excess of Asset Share. The adjustment is assessed annually on a per policy basis by calculating the difference between the value of the risk benefit and the Asset Share for that policy and multiplying this by the probability that the risk event might have occurred. This probability is assessed from the average experience of the policies within that class of business.

For conventional with-profits policies where death benefits are less than Asset Share, the adjustment is positive and is added when accumulating the Asset Shares.

Any difference between the actual cost of providing risk benefits and the charges deducted from Asset Shares is treated as a miscellaneous profit or loss.

2.4.4 Treatment of taxation in Asset Share calculations

Within the Asset Share calculations, tax rates are applied to investment income, capital gains and expenses in each year to reflect the rates of taxation that apply to each type of business, based on the Sub-Fund being taxed as if it were a mutual life company.

Tax credits are only applied to the Asset Shares where they are reasonable. Any difference between the actual tax liability and the assumed tax liability falls to the estate.

2.4.5 Shareholder transfers

For conventional with-profits policies, the Asset Share is adjusted to reflect the shareholder's share of the cost of bonus.

2.5 Controls and documentation

We maintain appropriate systems in order to determine payouts for with-profits policies. These systems may be developed or replaced from time to time but we ensure that this does not affect its ability to comply with the PPFM.

The Asset Shares as at 2001 are assumed to be correct, and the assumptions covered in section 2.4 apply after that date. We would consider changing the methodology applied in respect of future years if new techniques were developed.

Historic Asset Share assumptions are not generally reviewed or updated. However, we would consider making a change if a material error were discovered that led to inequity between classes of policyholder.

Descriptions of Asset Share methodology and parameters exist and are regularly updated. There is also a document that describes the process to determine payout levels.

For each review, paper or electronic files are created which are used to record assumptions, backing calculations, notes and correspondence relevant to the review.

3 Bonus policy and smoothing

3.1 Principles

General

Distributions of surplus to policyholders and shareholders will be determined by the Board after taking into account the advice of the WPA and the WPC. In giving this advice the WPA will take into account:

- the need to ensure that the with-profits sub-funds and the Non-Profit Sub-Fund in aggregate are able to meet the liabilities of the Company and that the Non-Profit Sub-Fund is able to meet its own liabilities;
- the current and possible future capital needs of the Sub-Fund;
- the investment strategy of the Sub-Fund;
- the bonus policy as set out below;
- the need for an appropriate level of security in the Sub-Fund for policyholders' benefits; and
- the need to ensure that different groups of policyholder are treated fairly.

Shareholders are entitled to an amount equal to one ninth of surplus distributed to with-profits policyholders, other than in respect of unitised with-profits policies in the Non-Profit Sub-Fund.

We will aim to achieve a fair distribution of all of the assets of the Sub-Fund attributable to the with-profits policies in the Sub-Fund over the remaining lifetime of those policies.

Bonus rates, MVRs and the methods for calculating surrender values will be kept under regular review in order to manage policies in line with the Principles detailed in this section and to maintain fairness between policyholders of different generations and bonus series and between those leaving the Sub-Fund and those remaining.

Final bonus

We aim to provide a significant proportion of all maturity payouts in the form of final bonus. This proportion may vary depending on a number of factors including how long a policy has been in force.

Final bonus rates will be determined for each bonus series in order broadly to reflect any excess of the target payout over the amount already guaranteed by the addition of regular and interim bonuses.

If we consider, for a particular bonus series, that the proportion of final bonus in maturity payouts is likely to be materially larger than the specified proportion for the majority of the policies in that series, then we will normally add regular bonus to all the policies in that series.

Smoothing

From time to time, payouts on maturity and surrender may be more or less than the targeted proportion of Asset Share as the result of a smoothing process and also to create a smoother progression of rates across policy duration. The smoothing process will be managed so that the cost of smoothing to the Sub-Fund is broadly neutral over time.

For Pensions With-Profits Term Assurance and Accident Benefit Plan no final bonus will apply.

3.2 Introduction

Smoothing of payouts applies in a number of ways, for example: by paying more or less than the Target Payout (see section 2.2) in order to reduce the volatility of payouts; by holding bonus rates and MVRs unchanged between declarations; by grouping policies together and basing bonus rates for that group with reference to a sample policy; and by having a smoothed scale of final bonus rates.

3.3 Regular bonus rates

Regular bonus rates are reviewed at least once each year. The rates declared do not normally change by more than 1 percentage point from the equivalent rate declared approximately a year previously (declarations are not always made at precisely the same time of the year).

Each bonus series has its own regular bonus rate. This is the rate of bonus which, if maintained indefinitely would provide an adequate margin for final bonus on average for policies in that series, consistent with the current investment policy. For Irish Life Bond Versions 1 and 2 policies the margin is one third of the cumulative investment return made on the underlying assets. For all other bonus series, the margin is sufficient to absorb the impact of a period of extremely poor investment performance and leave the projected Asset Share at maturity larger than the guaranteed benefits. If an adequate margin cannot be maintained at any rate of regular bonus, no regular bonus is declared for that bonus series.

The consistency between the rates for different series in other respects may also be taken into account. For example we may consider it appropriate to maintain consistent differentials between different bonus series representing life and pension business, regular premium or paid up business, and business with different annual management charges.

For policy classes that do not pay a final bonus, the need to distribute surplus in the immediate future is balanced with the need to prevent onerous future guarantees being created. The current and projected ratios of payouts to aggregate Asset Share for that class of policies are compared and a rate declared that will reduce or increase the ratio towards the target level.

For some minor series, regular bonus rates are linked to rates for a larger series.

For some classes of policy, interim bonus may be payable for the period between the previous bonus declaration date and the policy payout date. Rates are declared at each bonus declaration and are generally, but not always, set equal to the regular bonus rate declared at that time. However, interim bonus rates are not guaranteed and could be changed at any time.

3.4 Smoothing

3.4.1 General

We will normally aim to set final bonus rates at each declaration at a level that will result in maturity payouts equal to the target payout on average. This is subject to guarantees and smoothing.

In determining the degree of smoothing to apply, we adopt a different approach for different subsets of the with-profits policies as described below. There is no marked difference in the smoothing approach between different generations of policyholders although the actual degree of smoothing applied may vary across different generations of policyholders.

Our approach to smoothing is not expected to contribute a profit or loss to the Sub-Fund over the remaining lifetime of the policies within the Sub-Fund. In the shorter term, depending on market conditions, smoothing profits or losses will accrue to the estate.

Subject to the Practices set out in the section regarding the management of the estate, we do not operate a limit on the amount of smoothing profit or loss that the Sub-Fund is permitted to accrue.

3.4.2 Conventional and ex-Colonial unitised policies

For conventional with-profits policies and ex-Colonial unitised with-profits policies, our current practice is to limit the change in payout to be less that than the smoothing limit percentage when final bonus rates change.

The smoothing limit percentage used for a maturing policy depends on the payout using the current final bonus rate for that policy.

- If the payout using the current final bonus rate lies within the target payout range (see 2.2 above) then the smoothing limit is 7.5%.
- If the payout using the current final bonus rate lies outside the target payout range (see 2.2 above) then the smoothing limit is 10%.

In normal circumstances, the maximum amount of smoothing in one year will be 20%. If circumstances change so that there is a significant risk that the assets of the fund will not cover the liabilities, then a larger smoothing limit percentage may be used, or smoothing may be suspended.

Final bonus rates may also be subject to adjustment so that the progression of final bonus rates across policy durations within a bonus series is reasonably smooth.

3.4.3 Ex-Winterthur unitised with-profits policies

For ex-Winterthur unitised with-profits policies smoothing is achieved within the calculation of any Market Value Reduction or final bonus. No smoothing occurs between policies as each claim is considered on a case-by-case basis.

For ex-Winterthur unitised with-profits policies which may accrue regular bonus via an increase in the price of the basic with-profits units, policy values are derived using prices of the underlying assets as follows:

An unsmoothed unit price is calculated based on the investment performance of a subset of assets intended to reflect the underlying assets of WL Sub-Fund.

A smoothed unit price is calculated via a mathematical formula representing a weighted average of the previously smoothed unit price and the current unsmoothed unit price. The current mathematical formula is:

smoothed unit price = previous smoothed unit price x [0.97^d] + current unsmoothed unit price x [$1 - 0.97^d$]

where d is the number of days between the day of the calculation and the last pricing day (for example, if the day of the calculation is Monday and the last pricing day was Friday then d = 3)

For maturities and deaths, claim amounts are calculated as:

maximum of [guaranteed value of the policy, unsmoothed unit holding x smoothed unit price]

For surrenders and transfers and other exits, claim amounts are calculated as the unsmoothed policy value (subject to policy conditions on guarantees and Market Value Reductions), except for surrenders and transfers within 100 days of a 'Market Value Reduction free' day, where the claim amount will be calculated as

[(100 – n)/100] x maximum of [guaranteed value of the policy, unsmoothed unit holding x smoothed unit price] + [n/100] x unsmoothed policy value where n is the number of days between the day of the calculation and the 'Market Value Reduction free' day, and unsmoothed policy value is unsmoothed units x unsmoothed unit price

The parameters above will be reviewed periodically.

For ex-Winterthur unitised with-profits policies not covered above, an unsmoothed asset index is calculated monthly, representing investment returns of the WL Sub-Fund. A smoothed asset index is calculated using the average return over the previous 24 months, except for single premium pension policies where the average return over the previous 12 months is used. Both unsmoothed and smoothed policy values are generated by applying policy premiums and other transactions revalued in line with the changes in these indices. These values are then increased/reduced using the enhancement/deduction referred to in section 2.3.2.

Claim amounts are based on the lesser of the unsmoothed policy value, increased by a 5% tolerance adjustment (except for single premium pension policies where the tolerance adjustment is duration dependent and subject to a maximum of 5%) and the smoothed policy value. This amount is subject to policy conditions on guarantees and Market Value Reductions.

The parameters above will be reviewed periodically.

3.5 Final bonus rates

The final bonus rates payable at maturity or contractual retirement on conventional with-profits and ex-Colonial unitised with-profits policies are reviewed at least twice each year. Final bonus rates are generally investigated after any proposed changes to regular and interim bonuses have been determined.

At each declaration the strategy is determined. Issues considered would typically include:

- The target percentage of Asset Share determined as described in section 2.2;
- The current economic environment and anticipated future market conditions, in particular between the current review date and the next review date.

Asset Shares and payouts (based on the proposed rates of regular and interim bonuses) are calculated for a representative sample of policies. The ratios of payouts to Asset Share are compared. Revised final bonus rates are then determined to meet the smoothing strategy in respect of the sample policies, subject to rounding. The scale is then extended to other policy terms, normally by interpolation.

3.6 Policies outside the main classes

Conventional with-profits whole of life policies receive final bonus rates paid on death based on those paid at the maturity of conventional with-profits endowment policies with the same duration in force.

For some product classes, namely the ex-Winterthur unitised with-profits policies, a case by case approach may be taken in determining the appropriate final bonus rate/Market Value Reduction. For such policies, the same underlying Principles and Practices apply except for the derivation of smooth scales across policy durations.

Due to practical limitations, some minor product classes (e.g. Flexible Benefit Plans) do not follow the same detailed Practices as for larger classes of policies. For these minor product classes we may take a pragmatic approach, having received advice from the With-Profits Actuary, consistent with treating the policyholders fairly.

3.7 Approximations used in determining bonus rates

The effect of approximations is intended to be neutral, both within each class or generation of policyholders and in the aggregate.

In the majority of cases, the most significant approximations for conventional with-profits policies are the use of sample policies to represent the whole population, and interpolating between five year terms to derive bonus rates for intermediate durations.

Final bonus rates for paid up policies are based on the rates for premium paying policies.

3.8 Equity between policyholders and shareholders

The amount of the transfer to shareholders in respect of regular bonuses under conventional with-profits policies is determined using the valuation basis for the reserves. It is therefore sensitive to the valuation basis, but this amount is small in the context of the total transfer and any changes in basis will not have a material impact.

It is not anticipated that there would be any factors that would have a significant impact on the balance between the shareholders' share and the policyholders' share of profits.

4 Surrender values

4.1 Principles

We may apply an MVR to the value of units on surrender of a UWP policy when unit values exceed Asset Share and are not guaranteed (details of when the unit price is not guaranteed are set out in the relevant policy document).

Surrender value bases for most classes of conventional with-profits policies and rates of final bonus payable on UWP policies will be set in order to achieve a target percentage of Asset Share averaged across all policies within each class. Final bonus rates may be negative.

Surrender values will not be lower than the reasonable present value of the future benefits guaranteed under the policy.

We may smooth the change from time to time in surrender payouts although this will usually be to a lesser extent than for maturity payouts.

4.2 Target payouts and smoothing

A separate final bonus scale is determined for early terminations (e.g. surrender, transfer, switches). It is calculated in accordance with the same Principles and Practices as for setting final bonus rates on maturing policies, having regard to the surrender value of the guaranteed benefits.

We aim to pay an amount on surrender for the sample model policy that is approximately equal to 100% of Asset Share.

We smooth payouts on surrender, although not necessarily to the same extent as payouts on maturity. Due to fluctuations in underlying asset values and hence Asset Shares, surrender values are likely to deviate from target payouts during the periods between each review.

Notwithstanding the above, adjustments are made to ensure that the surrender value is not unreasonably low, having regard to the present value of the guaranteed benefits assuming future investment returns at the upper end of reasonable expectations.

4.3 Conventional policies

The basic surrender value is calculated by means of a formula, which for most types of policy determines the present value of future guaranteed benefits less future premiums, using assumptions about future mortality and interest rates. Final bonuses may be added as indicated in our approach to final bonuses set out above.

Surrender value bases for conventional with-profits policies bring into account smoothing by incorporating the final bonus rates determined in accordance with our smoothing policy.

For pension policies only, where we have been provided with appropriate medical evidence that the life assured of a conventional with-profits policy has less than 12 months to live, a claim will be treated in the same way as a death claim, otherwise the transfer or early termination basis is applied normally as above.

4.4 UWP policies

A Market Value Reduction may apply to unitised with-profits policies on surrender, transfer, early retirement or switching to ensure fairness amongst different groups of policies. The appropriate scale of Market Value Reduction is calculated in accordance with the same Principles and Practices as for setting final bonus rates, subject to policy conditions. A Market Value Reduction may only be applied in cases where the final bonus is zero. For pension policies only, a Market Value Reduction is not applied where the Company has been provided with appropriate medical evidence that the life assured of a unitised with-profits policy has less than 12 months to live, otherwise any Market Value Reduction is applied normally as above.

For ex-Colonial unitised with-profits policies, any Market Value Reduction is calculated in accordance with Section 3.4.2 and then implemented (subject to policy conditions). Where the Market Value Reduction is less than 5%, then no Market Value Reduction is applied.

For ex-Winterthur unitised with-profits policies, the smoothing is implemented in line with Section 3.4.3 and there is no rounding of the Market Value Reduction factors. Where the Market Value Reduction is less than 5%, then no Market Value Reduction is applied, except where there has been, or is expected to be, a high volume of surrenders. The application of this minimum limit may therefore distort the degree of smoothing applied.

On some policies, the policyholder may take partial withdrawals from their policy values, which do not incur any Market Value Reduction under the policy conditions. For such payments the Asset Share is reduced pro rata to the reduction in guaranteed benefits which results from the partial withdrawal. Where a partial surrender is on other than guaranteed terms the full surrender value is deducted from the Asset Share.

5 Investment strategy

5.1 Principles

We will use all reasonable endeavours to pursue an investment policy in relation to the assets of the Sub-Fund which is in the best interests of the policyholders subject to normal considerations of prudence with the objective of obtaining the best return available commensurate with an acceptable degree of risk having regard to the nature and term of the liabilities to such policy holders and the prevailing investment environment.

No account will be taken of the availability of support from the Shareholder Fund or the Support Account.

We allow the investment managers to use derivatives as part of an investment strategy to help manage risk or to aid efficient portfolio management. We use a range of counterparties in order to limit exposure to any one counterparty.

The majority of the bonds held by the Sub-Fund will be 'approved securities' as defined in the Prudential Regulation Authority rules.

At least 90% of any material liabilities in any non-Sterling currency will be matched by appropriate assets in the same currency.

As required by the Scheme, we will aim to hold a significant proportion of assets backing Asset Shares in equity or equity-type investments where this is deemed appropriate, taking into account the deemed appetite for investment risk of the with-profits policyholders.

The assets underlying different groups of policies or types of reserves in the Sub-Fund may be grouped into separate pools and the investment strategy for each of the resulting pools determined separately.

Assets that would not normally be traded are not expected to be held in the Sub-Fund.

5.2 Introduction

The investment strategy of the Sub-Fund will be determined after taking into account:

- the objective set out in the Principles above;
- the current and projected financial position of the Sub-Fund;
- advice from the investment managers for the Sub-Fund;
- advice from the WPA, and from relevant Aviva group committees;
- the investment expectations of all classes of policyholder resulting from information provided to them; and
- the advantages of reducing overall volatility by investing in a wide range of assets.

5.3 Allocation of assets to liability classes

The assets of the Sub-Fund are notionally allocated between different classes of policies and other liabilities of the Sub-Fund as described below.

- A 'Return Assets' pool backing Asset Shares.
- A 'Remaining Assets' pool backing best estimate reserves attributable to non-profit policies in the Sub-Fund, reserves for guarantees such as Guaranteed Annuity Rates (GARs), and the remaining assets in the Sub-Fund. These assets may be further subdivided into smaller pools according to the type of policy.

Within the Return Assets pool there is a further subdivision as follows:

- policies with significant guarantees, which have an asset mix consisting of fixed interest and cash investments;
- policies close to the end of their term, where we gradually move from the main asset mix into short term fixed interest and cash investments over the last 36 months of the policy;
- Irish Life business; and
- the remainder, known as the 'main block'.

The target asset allocation of the pools is regularly reviewed, usually every three years or following a significant change to market conditions or the financial position of the Sub-Fund. The need for a review is assessed annually.

Performance against the target asset mix is currently reported upon quarterly. The investment return attributed to assets in the Return Assets pool is used in the calculation of the Asset Shares, suitably allocated between policies where there is subdivision according to the type of policy.

In future, we may allocate the assets of the Sub-Fund to differently constituted pools if we consider that this would enable us to treat policyholders more fairly at that time.

- For ex-Winterthur with-profits policies excluding those covered by the above bullet point, there is a cap on the proportion of equity type investments of 60%. This cap may be varied from time to time.

Returns credited to Asset Share are based on the return achieved by those assets notionally allocated to back those Asset Shares.

5.4 Cash flow and matching

Cash flows are monitored at a high level and various cash flow projections (updated at least annually) are available to help ensure the Sub-Fund maintains sufficient liquidity.

We currently operate a matching strategy for the assets whereby assets are selected whose values broadly move in line with the values of the underlying liabilities following changes in investment conditions.

5.5 Equity backing ratio

The equity backing ratio (EBR) is the proportion of Return Assets invested in equities (company shares), property or other assets that are considered to have a similar level of expected return.

We have a preference to invest in EBR assets, but not to the extent that the prospect of potentially better returns is more than offset by the risks of this preference.

The EBR is monitored closely as the returns from these asset classes are generally more volatile than returns from other classes. The EBR would be reduced if necessary to ensure the solvency position of the Sub-Fund was not compromised by an unsuitable asset mix.

The latest mix of assets can be found in the With-Profits Summary on our website at **aviva.co.uk/ppfm**.

The investment managers are required to manage the assets within specific limits around the target allocation. The investment managers are also instructed to hold a wide range of investments within each asset class for reasons of security and diversification. Fixed interest securities must have a specified minimum credit rating on purchase and the minimum rated stocks must not exceed a stated percentage of the fixed interest proportion. If an investment grade security is downgraded to below investment grade it would normally be sold within 6 months, subject to investment manager advice.

5.6 Use of derivatives

Derivatives may be used:

- as part of efficient portfolio management;
- to reduce investment risk; and
- to help match liabilities whose values are very sensitive to changes in market conditions.

Derivatives are not used without appropriate collateral arrangements to limit counterparty risk.

5.7 Controls

The Sub-Fund has its own investment mandate, which gives specific instructions to the investment managers. The mandate and any changes to be made to it are approved in line with the Aviva delegated authority framework and agreed with the investment managers.

An Investment Committee chaired by a non-executive director of the Company meets regularly to oversee investment activities. Investment matters are also considered by the internal Asset/Liability Committee. These committees approve the use of any new investment instruments together with the circumstances in which they may be used.

6 Exposure to business risk and new business

6.1 Principles

The exposure of the Sub-Fund to historic business risks (including compensation risk) is limited to policies within the Sub-Fund. Profit or loss from business risk incurred by the Sub-Fund will be applied to the with-profits policies that were exposed to those business risks.

No mis-selling or maladministration liabilities may be met by the Sub-Fund.

We do not intend to take on further business risks to which with-profits policies will be exposed.

No new business is to be written in the Sub-Fund and its assets cannot be used to support any new business written in the Company. We do still accept increments to existing policies and new members to existing group schemes. No adverse impact on the interests of existing with-profits policies is intended to arise from this.

6.2 Business risks

With-profits policies are exposed to a number of risks relating to the operations of the Sub-Fund. All with-profits policyholders participate in all profits or losses except to the extent that:

- Certain policy conditions state that the policyholder participates in investment related risks and rewards only
- Different policies or liabilities may have different assets attributed to determine the investment return on Asset Shares.

Management of all risks is monitored through governance arrangements set up by the Board. Processes to manage and monitor the impact of the main risks have been set up and when necessary mitigating actions are taken.

The benchmark for assessing and reviewing business risk is the potential impact on the solvency position of the Sub-Fund.

Business risk may arise from the issue of capital instruments issued by Friends Life Holdings plc ('FLH') and Aviva plc with the benefit of a subordinated guarantee of the Company or from the issue of capital instruments by the Company to FLH. However, in both cases, this risk is substantially mitigated because the Sub-Fund is managed (and the capital instruments are structured) so that discretionary benefits under with-profits insurance contracts are calculated and paid, disregarding, insofar as it is necessary for policyholders to be treated fairly, any liability the Company may have to make payments under the capital instruments or guarantees. Payments under these instruments are not subordinate to the Solvency Risk Appetite, and circumstances could arise in which payments were required to be made in relation to the instruments which reduced excess capital in the Company below the Solvency Risk Appetite (or which further reduced it if it was already below that level). However, this risk is currently mitigated by the strategy and planning business standard which would be expected to require a plan for debt repayment, in particular payments due within the next three years and a requirement for the With-Profits Actuary to report annually to the With-Profits Committee on the impact of the Company's plans, including debt restructuring and repayment, on policyholder security.

The table below sets out the most significant of these business risks alongside the action that has been taken to mitigate these risks:

Business risks and mitigating action taken to reduce their impact	
Business risk	**Action taken to reduce impact**
1a) Guarantees built up by regular bonus additions.	Limiting the build up of these guarantees by controlling regular bonus rates. Using derivative contracts to minimise the prospect of guarantee costs and the value of assets backing them diverging due to market movements.
1b) Guarantees associated with with-profits policies, i.e. the guaranteed annuity rates attaching to some policies, the fact that some policies are issued to specifically provide deferred annuities rather than cash, and other contractual guarantees attaching to most policies.	Explicit reserve set up for contingency. Monitoring and investment strategy to limit the exposure to changes in market conditions.
2) Other miscellaneous business risks impacting the with-profits business, in particular: Investment, Expense, Mortality, Persistency, Taxation, Reinsurance and Regulatory risk.	Explicit accountabilities allocated to key staff to monitor and manage risks. Expense risk capped by terms of the Scheme.
3) Variances in the value of non-profit business within the Sub-Fund.	Reassurance to help protect against adverse mortality experience. Investment strategy to limit the exposure to changes in market conditions. Transfer of liabilities on fair terms to the Non-Profit Sub-Fund or to another insurance company.
4) Operational risks including operational errors of management services, in particular: inadequate or failed internal processes, systems or segregation of duties.	These risks are not borne by the Sub-Fund, except to the extent that current expenses may fall under the capped level. Aviva Administration Limited carries out the management services of the Sub-Fund. Any losses or cost arising from operational errors shall be borne by Aviva Administration Limited.

The risks above all influence the amount and timing of the surplus that emerges in the Sub-Fund. Target payouts will reflect the impact of the above business risks.

7 Charges, expenses and taxation

7.1 Principles

Expenses charged to the Sub-Fund will be fair and reasonable, including:

- the investment management expenses, including a portion of the overhead expenses of the Company as a whole attributable to investment management, taking into account, the size of the Sub-Fund, the categories of asset in which the Sub-Fund is invested and the investment management expenses incurred by the Company as a whole; and
- expenses for renewal, maintenance, claims, surrender and lapses, including overhead expenses of the Company, taking into account the number of policies in the Sub-Fund (including only commission actually paid).

Expenses charged to the Sub-Fund are subject to the maximum amounts for both management and investment expenses set out in the Scheme. Management expenses may be increased in line with the increase in the Retail Prices Index. In addition extraordinary costs that relate to the running of the Sub-Fund may be charged to the Sub-Fund if the Company, having taken appropriate actuarial advice believe this to be reasonable.

Expense deductions from the Asset Shares of conventional with-profits policies will be equal to the amounts charged to the Sub-Fund in respect of the policies, with the exception of commission, where the standard scale will be deducted even if the payment of commission has ceased.

Amounts will be deducted from the Asset Shares of unitised-with-profits policies equal to the contractual policy charges.

The tax charge (or credit) to the Sub-Fund will be calculated on the basis that the Sub-Fund is a separate United Kingdom mutual life assurance company subject to taxation in the United Kingdom, as set out in more detail in paragraph 39 of the Scheme and as calculated in accordance with Appendix 5.

7.2 Charges and expenses

The Company has outsourced administration, distribution and development functions to Aviva Life Services UK Limited. A Management Services Agreement (MSA) describes the services provided, which are provided at cost.

Expenses are charged by Aviva Life Services UK Limited to the Non-Profit Sub-Fund. The Non-Profit Sub-Fund then charges these expenses to the Sub-Fund, subject to a cap.

Management expenses are subject to a cap which increases in line with the Retail Prices Index. However, no charges are made to the Sub-Fund in respect of unitised with-profits policies written in the Non-Profit Sub-Fund. Investment expenses are incurred by the investment managers and charged initially to the Non-Profit Sub-Fund and onward charges made to the Sub-Fund. Investment expenses charged to the Sub-Fund are expressed as a percentage of assets within the Sub-Fund, and subject to a cap of 1/12 of 0.2% per month.

Expenses and commission to be deducted from Asset Shares may differ from the amounts charged to the Sub-Fund. For conventional with-profits policies, overall administration charges and commission deducted from Asset Shares will be the same as those charged to the Sub-Fund (with charges for each policy group reduced in the same proportion where the cap is not applying). For unitised with-profits policies originally written in the Participating Fund, the amounts deducted from Asset Shares in respect of administration expenses and commission are the contractual policy charges. Investment expenses are charged to Asset Shares of conventional with-profits policies at the same percentage rate as the charges to the Sub-Fund, and for unitised with-profits policies at rates equal to the contractual policy charges. Any difference between the amounts that are charged to the Sub-Fund and the charges to Asset Share will be a miscellaneous profit or loss and would impact the excess capital of the Sub-Fund.

For unitised with-profits policies written in the Non-Profit Sub-Fund most policy charges are retained by the Non-Profit Sub-Fund. Fund management charges are deducted by the Sub-Fund, which retains amounts equal to the investment expenses, and transfers the remainder to the Non-Profit Sub-Fund. In respect of Irish Life business and with-profits bonds written after October 2000, the Sub-Fund retains a further proportion of the fund management charges as a contribution towards guarantee and smoothing costs.

Outsourcing arrangements with Aviva Life Services UK Limited are reviewed regularly and are renegotiated as appropriate. Aviva Life Services UK Limited outsources some services outside of the Aviva Group. The most significant arrangement is with Capita.

We have agreements with Aviva Investors Global Services Limited and other external managers to provide investment management services. Termination of the agreement with Aviva Investors Global Services Limited requires 12 months' notice, however the agreement includes clauses which permit earlier termination in certain circumstances.

7.3 Taxation

There are no charges to the Sub-Fund for liabilities to tax arising from the Company making transfers from the Sub-Fund to shareholders.

Full details of our taxation practices can be found in Appendix 5.

8 Management of the estate

8.1 Principles

The Scheme requires us to maintain a Solvency Risk Appetite for Aviva Life & Pensions UK Limited. The Solvency Risk Appetite will be determined taking into account the level of risk we consider acceptable of not being able to meet regulatory capital requirements from time to time in adverse future circumstances.

The Solvency Risk Appetite will not be materially weakened unless we have taken account of appropriate actuarial advice and have consulted the WPC, the Financial Conduct Authority and the Prudential Regulation Authority.

A Support Account is required by the Scheme to be maintained for the Sub-Fund. At any time, the amount of the Support Account available for the Sub-Fund is determined in accordance with the relevant provisions of the Scheme, reduced by any support already provided to that Sub-Fund.

We aim to achieve a fair distribution of the estate, and the future profits from non-profit policies in the Sub-Fund, over the lifetime of the remaining with-profits policies. In managing the estate we will bear in mind the capital requirements of the Sub-Fund.

When the assets of the Sub-Fund (excluding those backing non-profit policies) fall below £100m, we may declare a one-off bonus or a series of fixed future bonuses to exhaust the surplus in the Sub-Fund. The policies will then become non-profit policies and any future profit or loss arising from then will fall to the Non-Profit Sub-Fund (of which they will then form part).

8.2 Managing the Estate

The Estate is the balance of the assets after deducting from them the best estimate value of liabilities. It will vary over time as the value of our assets and liabilities change and as profits arise and are distributed to policyholders and shareholders.

The Sub-Fund is managed in line with its Risk Appetite Framework so that the risk that liabilities exceed assets is small. There is a preferred range for the estate, the bottom of which is set such that the level of risk over 1 year (that assets would fail to exceed liabilities) is broadly equivalent to 1 year historic default probabilities on AA rated corporate bonds. The top of the preferred range is broadly 135% of the bottom of the preferred range.

The key mechanisms for managing the existing estate are the investment and bonus policy.

At least once a year a test is carried out to compare the value of the liabilities with the value of the assets, as described in section 2.3.2. We may then make enhancements to or deductions from the Asset Shares of policies entitled to share in miscellaneous profits or losses to get the value of assets equal or very close to the value of the liabilities plus a risk-related margin. The minimum enhancement or deduction will normally be 1%. The policies subject to enhancements or deductions are conventional with-profits policies and old-style unitised with-profits policies (those where regular bonus is not added through an increase in the price of units) originally issued by Winterthur Life UK Limited. We aim to achieve a fair distribution of the Estate, whether in this way or otherwise, to with-profits policies, over the remaining lifetime of those policies.

We may also at any time merge any with-profits sub-funds with any other sub-fund, with-profits or non-profit, or sub-divide any with-profits sub-fund, provided that appropriate actuarial advice has been taken, the With-Profits Committee has been consulted and we are happy that the merger takes account of our duty to pay due regard to the interests of its policyholders and to treat them fairly.

8.3 Capital Support Arrangements

Support Accounts or other support arrangements have been established under the Scheme for a number of with-profits sub-funds including the WL With-Profits Sub-Fund. At any time, the amount of the Support Account available for the WL With-Profits Sub-Fund is determined in accordance with the relevant provisions in the Scheme, reduced by any support already provided to that Sub-Fund.

The Sub-Fund will be managed on the basis of the assets within the Sub-Fund excluding assets backing the Support Account relating to the Sub-Fund. Other than in extreme circumstances, we will not use the Support Account of the Sub-Fund to cover the support arrangements of another with-profits sub-fund.

Our Solvency Risk Appetite requires us to maintain in all but the most extreme circumstances, assets in excess of regulatory capital requirements. This excess is expected to be more than sufficient to cover the Support Account for the Sub-Fund and those other with-profits sub-funds which also have Support Accounts.

Assets will be permanently transferred from the Non-Profit Sub-Fund or the Shareholder Fund if there has been any reduction in the values of any ex-Colonial conventional with-profits policies due to either:

(i) a change in Asset Share or other methodology used to determine those values, or

(ii) the aggregate of any deductions from Asset Share exceeding the aggregate of any enhancements to Asset Share made in accordance with 2.3.2 above.

The value of assets transferred will be the amount necessary to restore the value of the policies, subject to a maximum amount. Once an amount of support has been transferred to the Sub-Fund, it cannot be repaid. After allowing for any amounts already transferred, the maximum amount of capital support available at any time starts at £8.5m as at 31 December 2016 and reduces in line with a fixed schedule set out in the Scheme until 31 December 2037 from when it will remain at £500,000 until the Sub-Fund is no longer maintained as a separate sub-fund.

The Non-Profit Sub-Fund and the Shareholder Fund will, if required, provide support in addition to the Support Account if they are able to do so. However, as set out above, the Sub-Fund will be managed as if the Support Account does not form part of the Sub-Fund and any other capital support provided is a liability.

Appendix 1 – Glossary

Actuary

An actuary is a person with a professional qualification specialising in financial risk and particularly insurance risk.

Appropriate actuarial advice

'The Board having taken account of appropriate actuarial advice' means that the Board has taken such internal actuarial advice as the Board decides in the context of the relevant matter, which must always include the advice of the WPA in matters relating to the security or benefit expectations of holders of with-profits policies. The Board may also in its absolute discretion obtain external actuarial advice, and in this case, the reference shall be to the Board having also taken account of that external actuarial advice.

Asset Share

The accumulated value of premiums less expenses cost of benefits and tax at the investment return earned on investments (see Section 2.3.1).

Aviva Administration Limited

Aviva Administration Limited, a service company, which provides management, administration, marketing and sales services to us and other companies in the Aviva group.

Aviva group

Aviva plc or any of its subsidiaries.

Conduct of Business Sourcebook (COBS)

The FCA and PRA produce various business standards rulebooks which provide the detailed requirements relating to firms day-to-day business. One of these rulebooks is the Conduct of Business Sourcebook which sets out the requirements applying to firms with investment business customers.

Conventional with-profits policy

A with-profits policy that is not a Unitised With-Profits policy. Conventional with-profits policies generally have a guaranteed monetary amount payable on death or on a fixed date or an amount of annual income payable from a fixed date. The amounts may be increased by the addition of bonuses and are payable provided that all premiums due have been paid.

Counterparty

The other party with whom we carry out an investment transaction. The value of the investment is at risk if the counterparty fails.

Equity Backing Ratio (EBR)

The proportion of Return Assets invested in equities (company shares), property or other assets that are considered to have a similar level of expected return.

Estate

The assets held in a with-profits sub-fund in excess of those required to pay policy benefits and other liabilities, which include payments of guaranteed benefits and future bonuses based on Asset Share. The Estate may be used to pay the guaranteed benefits under policies in that with-profits sub-fund if the reserves turn out to be insufficient. In practice, this means that the estate will vary in size from year to year, as it is in effect the balancing item between the total value of the investments of the with-profits sub-fund and the size of the reserves required.

Financial Conduct Authority

One of the two regulators of financial services in the UK.

Final bonus

A bonus which may become payable on a death, critical illness or maturity claim or on surrender or switch out of with-profits. Final bonuses are normally defined as a percentage of either the total value of with-profits benefits (including regular and interim bonuses) or of the regular and interim bonuses, depending on the type of policy. A final bonus is sometimes called a terminal bonus.

FLH

Friends Life Holdings plc, another company in the Aviva group.

Interim bonus

The bonus payable for the period between the previous bonus declaration and the policy payout date.

Market value reduction (MVR)

A reduction that may be applied in accordance with the provisions of the policy to the payout under a UWP policy on surrender or on switch out of with-profits. The aim of applying an MVR is to protect policyholders who do not surrender from the impact on the with-profits sub-fund of surrendering policies taking more than their fair share of the funds.

Maturity

The payment of policy benefits due on the maturity date specified in the policy. In the case of pension policies, the relevant date is called the normal retirement date or selected retirement date, when the pension payable under the policy would generally commence.

Non-profit policy

A policy where the policyholder does not have a right to a share in the bonuses declared out of the surplus of a with-profits sub-fund.

Participating Fund

The fund which was established as a sub-fund of the company known as Provident Life Association Limited.

The sub-fund became the With-Profits Sub-Fund of Friends Life WL Limited, which is now the WL With-Profits Sub-Fund within the Company.

PPFM

Principles and Practices of Financial Management.

Prudential Regulation Authority (PRA)

One of the two regulators of financial services in the UK.

Regular bonus

A bonus that is added on a regular basis throughout the life of a with-profits policy, providing an addition to the guaranteed benefits payable to the policyholder. Regular bonuses are sometimes called annual bonuses, or, in the case of conventional with-profits policies, reversionary bonuses.

Remaining Assets

Assets other than the Return Assets.

Reserves

The assets which, together with premiums still to be paid, are expected in normal circumstances to produce sufficient income or proceeds from their sale to enable us to pay all benefits to policyholders in that with-profits sub-fund when they are due, and to meet the administration and other costs associated with these policies.

Return Assets

Assets backing Asset Shares.

Risk Appetite Framework

A framework to support decision making in relation to the with-profits sub-funds. It aims to manage the with-profits sub-fund so that the estate is within a preferred range.

Scheme

The Scheme of transfer of policies and assets from Friends Life Limited and Friends Life and Pensions Limited to Aviva Life & Pensions UK Limited on 1 October 2017.

Shareholder Fund

Assets held within the Company that are not within the with-profits sub-funds or the Non-Profit Sub-Fund. The assets of the Shareholder Fund are available to meet the Solvency Risk Appetite and, to the extent not required for this, may be distributed to shareholders.

Solvency Risk Appetite

A framework that describes the level of capital that the Company will aim to hold, with the aim of ensuring that the security provided by the Sub-Fund for policyholder benefits is maintained at an adequate level, taking into account the risks borne by the Sub-Fund.

Sub-Fund

The Aviva Life & Pensions UK Limited WL With-Profits Sub-Fund (see Section 1.2).

Support Account

An amount required to be maintained in respect of certain with-profits sub-funds by the Scheme and in accordance with the Solvency Risk Appetite.

Unitised with-profits (UWP) policy

A policy (or part of a policy) under which the value of the benefits is measured by reference to with-profits units allocated to that policy.

With-Profits Actuary (WPA)

An actuary employed by the Company who has the responsibility under Financial Conduct Authority rules for advising the Board on its application of discretion in relation to with-profits policies.

With-Profits Committee (WPC)

A committee established to advise the Board on the fair treatment of with-profits policyholders and the management of the with-profits sub-funds.

With-profits policy

A policy where the policyholder has a right to a share in the bonuses declared out of the surplus of a with-profits sub-fund.

With-profits sub-fund

Any one of the with-profits sub-funds within the Company.

Appendix 2 – Background

Company Information

Aviva Life & Pensions UK Limited is an authorised life insurance company incorporated in England. Its registered office and head office are in York, where many of the main business divisions are also centred. It contains policies originally issued by a number of other life insurance companies, whose history is briefly described below.

Norwich Union, Provident Mutual, Commercial Union and General Accident

Norwich Union was founded as a mutual company, owned by its with-profits policyholders, as Norwich Union Life Insurance Society in Norwich in 1808. On 15 June 1997 the company 'demutualised' to form Norwich Union Life & Pensions Limited (NULAP), a company owned by shareholders.

Provident Mutual was founded in 1840 as a Friendly Society, converting to a mutual company in 1874. Commercial Union (CU) was formed as a proprietary company in 1861 in London, England, and CU Life Assurance Company was the company for life business. General Accident (GA) was formed as a proprietary company in 1885 in Perth, Scotland.

In 1995 Provident Mutual demutualised and merged with GA, and Provident Mutual closed to new business. The with-profits business of Provident Mutual was maintained as a separate sub-fund of GA.

In 1998, CU and GA merged to form CGU plc, and GA Life Assurance Limited changed its name to CGU Life Assurance Limited. From October 1998, new with-profits business was written by CGU Life Assurance Limited.

On 30 May 2000, Norwich Union plc (which owned NULAP) merged with CGU plc, to form CGNU plc. CGU Life Assurance Limited changed its name to CGNU Life Assurance Limited. The combined company continued to trade under the Norwich Union brand until June 2009, when it started to trade under the Aviva brand. NULAP then changed its name on 1 June 2009 and became Aviva Life & Pensions UK Limited. However, new with-profits business continued to be written by CGNU Life Assurance Limited throughout this period.

On 1 October 2009, policies in CGNU Life, CU Life Assurance Company and Norwich Union Life (RBS) Ltd were transferred to two new sub-funds in Aviva Life & Pensions UK Limited, the Old With-Profits Sub-Fund and the New With-Profits Sub-Fund. The company also had two further with-profits sub-funds, the NULAP With-Profits Sub-Fund containing the original NULAP business (now known as the With-Profits Sub-Fund), and the PM Sub-Fund containing business previous transferred in from Provident Mutual.

Stakeholder pensions business has been written in a separate with-profits sub-fund (the Stakeholder With-Profits Sub-Fund), firstly in CGNU Life and, since October 2009, in Aviva Life & Pensions UK Limited.

On 1 January 2015, the business of Aviva Life & Pensions Ireland Limited was moved into Aviva Life & Pensions UK Limited.

Friends Life companies

On 13 April 2015, Aviva plc bought the Friends Life group, including Friends Life Limited (FLL) and Friends Life and Pensions Limited (FLP). FLL, previously called Friends Provident Life and Pensions Limited, was established on 9 July 2001 and took over the business of Friends Provident Life Office (FPLO) – a mutual company. FPLO had previously taken over the business of the United Kingdom Provident Institution and the London and Manchester Assurance group.

On 1 December 2011, the business of Friends Provident Life Assurance Limited, formerly NM Life Assurance Limited, was moved into FLL. On 28 December 2012, most of the business of Friends Life Company Limited (FLC) (which included policies issued by AXA Equity & Law Life Assurance Society) and Friends Life Assurance Society, formerly Sun Life Assurance Society, was moved into FLL. Then on 28 December 2013, most of the business of Friends Life WL Limited (FLWL), formerly Winterthur Life UK Limited, was moved into FLL. The remainder of the business of FLWL and FLC was moved into FLP.

Following the purchase of the Friends Life companies by Aviva, all the business of Friends Life Limited, and Friends Life and Pensions Limited was moved into Aviva Life & Pensions UK Limited with effect from 1 October 2017, as part of the Scheme.

Scheme of Transfer

On 29 March 2019 under a Scheme of transfer, certain policies in Aviva Life & Pensions UK Limited were transferred to Aviva Life & Pensions Ireland Designated Activity Company and then immediately reinsured back to the funds they came from.

All of the policies formerly in Aviva Life & Pensions UK Limited Irish With-Profits Sub-Fund were transferred to the Irish With-Profits Fund of the Irish Aviva Life & Pensions Ireland Designated Activity Company. The most common names that exist on these policies are Aviva Life & Pensions Ireland Designated Activity Company, Aviva Life & Pensions Ireland Limited, Norwich Union Ireland, Norwich Union Insurance Ireland Limited, Hibernian Life Limited and Hibernian Life & Pensions Limited.

Fund structure of Aviva Life & Pensions UK Limited

The diagram in Appendix 3 below shows the current fund structure within Aviva Life & Pensions UK Limited.

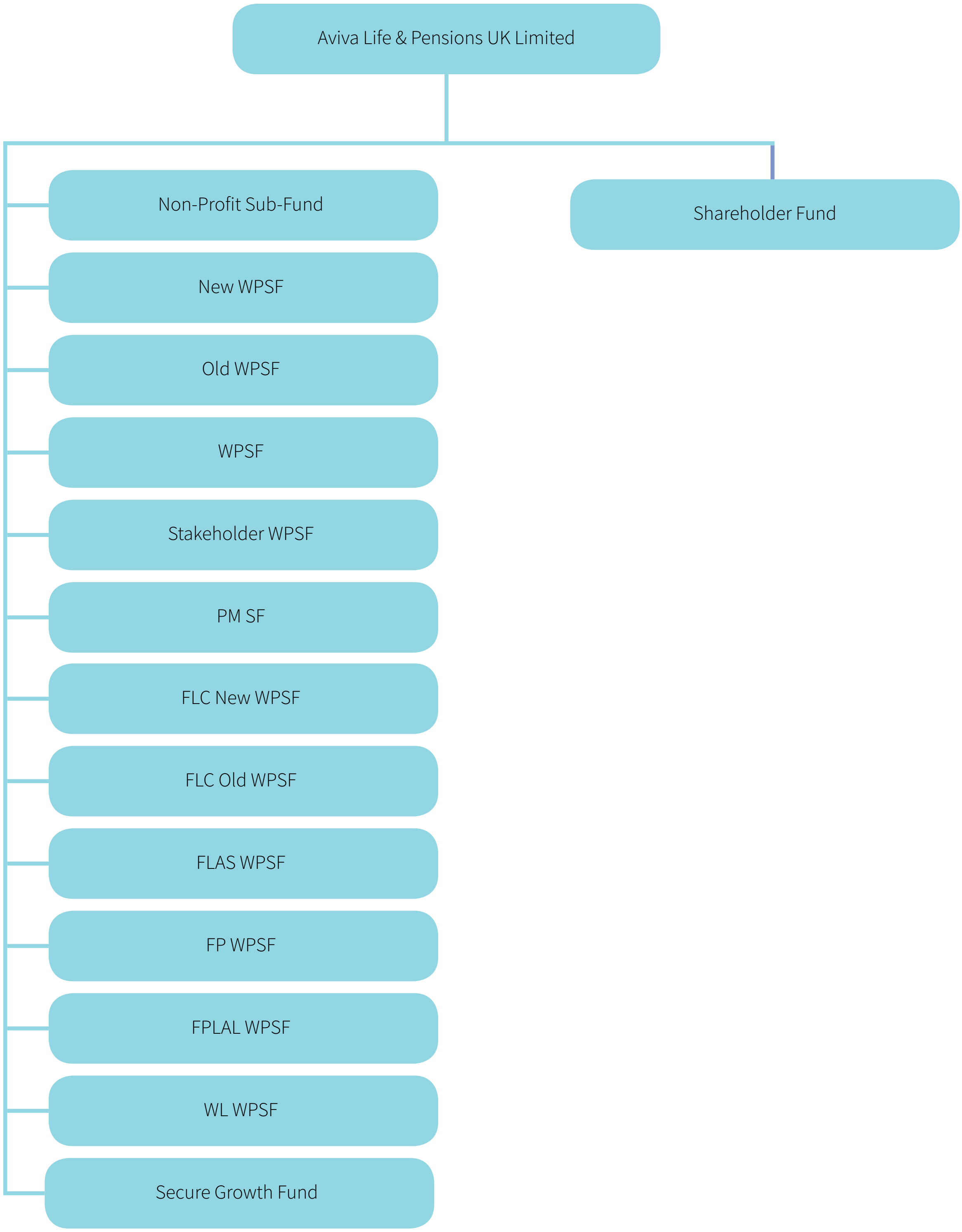
The mergers and transfers outlined above along with other historic mergers and acquisitions involving these companies have resulted in policies sold by a wide range of companies now being in the Company's with-profits sub-funds. The table in Appendix 4 shows the names of the current with-profits sub-funds together with the original company names under which the policies may have been issued.

Sub-Fund Background: WL With-Profits Sub-Fund

Business in the WL With-Profits Sub-Fund has been the subject of three past court schemes as well as the 2017 Scheme. A 1996 Scheme transferred the UK business of the Colonial Mutual Life Assurance Society Limited and Colonial Mutual Life (Unit Assurances) Limited to Colonial Life (UK) Limited. A 2001 Scheme then transferred the business of Winterthur Life UK Limited into Colonial Life (UK) Limited. The company was then renamed Winterthur Life UK Limited. The remaining business from its with-profits sub-fund was then moved into Friends Life Limited in a 2013 Scheme, and following the current 2017 Scheme, now comprises the WL With-Profits Sub-Fund.

New business is not accepted in the Sub-Fund, although increments to existing policies and new members to existing group schemes are still accepted.

Appendix 3 – Aviva Life & Pensions UK Limited – Fund structure chart



Note that there are also two further sub-funds, the Belgian Sub-Fund and With-Profits Sub-Fund 5, whose business is wholly reinsured outside the Aviva group.

Appendix 4 – Original issuing companies

This table shows the current name of each of the with-profits sub-funds, and the possible names of the companies that originally wrote the policies.

Company policy taken out with	Current Aviva Life & Pensions UK Limited With-Profits Sub-Fund
Friends Life Company Limited AXA Sun Life plc AXA Equity and Law Life Assurance Society	FLC With-Profits Sub-Fund(s)
Friends Life Assurance Society Limited Sun Life Assurance Society plc	FLAS With-Profits Sub-Fund
Friends Life Limited Friends Life and Pensions Limited – excluding Secure Growth Fund policies Friends Provident Life and Pensions Limited Friends Provident Pensions Limited – excluding Secure Growth Fund policies Friends' Provident Life Office United Kingdom Temperance and General Provident Institution London and Manchester Assurance Company Limited NM Life Assurance Limited – unitised policies Friends Provident Life Assurance Limited – unitised policies	FP With-Profits Sub-Fund
Dominion-Lincoln Assurance Limited The National Mutual Life Assurance Association of Australasia Limited NM Life Assurance Limited – conventional policies NM Schroder Life Assurance Limited Schroder Life Assurance Limited The Lincoln Life Assurance Company Limited FP Life Assurance Limited Friends Provident Life Assurance Limited – conventional policies	FPLAL With-Profits Sub-Fund
General Accident Life Assurance Limited Yorkshire-General Life Assurance Company Limited The General Life Assurance Company Yorkshire Insurance Company Limited Scottish Insurance Corporation Limited N&P Life Assurance Limited Commercial Union Life Assurance Company North British and Mercantile Insurance Company Limited London and Scottish Corporation Limited CGU Life Assurance Limited CGNU Life Assurance Limited – except stakeholder plans Norwich Union Life (RBS) Ltd – except stakeholder plans Aviva Life & Pensions UK Limited – except annuity business and stakeholder plans	New and Old With-Profits Sub-Funds

Company policy taken out with	Current Aviva Life & Pensions UK Limited With-Profits Sub-Fund
The Provident Clerks' Mutual Life Assurance Association Provident Clerks' and General Mutual Life Assurance Association Provident Mutual Life Assurance Association	Provident Mutual Sub-Fund
Welfare Insurance Company Limited London and Manchester Pensions Limited Friends Provident Corporate (Pensions) Limited Friends Provident Pensions Limited – Secure Growth Fund policies Friends Life and Pensions Limited – Secure Growth Fund policies	Secure Growth Fund
CGNU Life Assurance Limited – stakeholder plans Norwich Union Life (RBS) Ltd – stakeholder plans Aviva Life & Pensions UK Limited – stakeholder plans	Stakeholder With-Profits Sub-Fund
Norwich Union Life Insurance Society Norwich Union Life & Pensions Limited Aviva Life & Pensions UK Limited – annuity business	With-Profits Sub-Fund
National Westminster Life Assurance Limited Royal Scottish Assurance plc	With-Profits Sub-Fund 5
The Colonial Mutual Life Assurance Society Limited Colonial Mutual Life (Unit Assurances) Limited Colonial Life (UK) Limited Friends Life WL Limited Winterthur Life UK Limited Provident Life Association Limited	WL With-Profits Sub-Fund

Appendix 5 – Taxation details

Capitalised terms in this Appendix, to the extent not defined elsewhere in this PPFM, bear the meanings given to them by the Scheme. References to 'the Board having taken account of appropriate actuarial advice' shall be construed in accordance with the Scheme.

1 Under paragraph 39 of the Scheme, the tax charge (or credit) to the Sub-Fund will be calculated on the basis that the Sub-Fund is a separate United Kingdom mutual life assurance company (referred to as a 'Separate mutual company' in the remainder of this Appendix) subject to taxation in the United Kingdom. That calculation will be performed on the basis set out in this Appendix.

2 The charge in respect of tax to the Sub-Fund will be credited to the Non-Profit Sub-Fund which will bear the tax charge for the Company other than that attributable to the Shareholder Fund.

3 It is assumed that the separate mutual company:

a) does not form part of a group or other association (whether with another company, including the with-profits sub-funds treated for tax calculation purposes as separate companies under paragraph 39.1 of the Scheme or any other sub-fund) for the purpose of any tax provision which allows tax reliefs in one company or sub-fund within such group or association to be used against income, profits or gains arising in another company or sub-fund within that group or association;

b) does not form part of a group or other association (whether with another company, including with-profits sub-funds treated for tax calculation purposes as separate companies under paragraph 39.1 of the Scheme or any other sub-fund for any other tax purpose save to the extent that the presence of an actual group or association ensures that a liability to VAT, stamp duty, stamp duty land tax or any similar transaction tax does not arise which would have been incurred had such a group or association not existed; and

c) recovers the same proportion of input VAT as that recovered by the VAT group (for the purposes of the Value Added Tax Act 1994, section 43) of which the Company at any time is a member,

unless (in respect of (a) or (b)) the Board, having taken account of appropriate actuarial and tax advice, considers that it would, as the case may be, be appropriate in a particular circumstance to assume that the separate mutual company does form part of a group or other association within (a) above, or does form part of a group within (b) above, or (as the case may be) does not form part of a group within (b) above.

4 Any tax reliefs calculated as available to be carried forward into a subsequent period in the separate mutual company calculation for the Sub-Fund will be treated as available in subsequent calculations to offset appropriate taxable income or gains notwithstanding that there may be no corresponding tax relief carried forward in any calculation for the Company as a whole.

5 Tax reliefs calculated as available in any separate mutual company calculation for the Sub-Fund may only be utilised in calculations for that separate mutual company and will not be available to be taken into account in the calculation of any other with-profits sub-fund.

6 In calculating the tax charge (or credit) the provisions of the Finance Act 2012 relating to apportionment of items between classes of business will be applied separately to the separate mutual company.

7 The separate mutual company will include only those assets and liabilities allocated to the Sub-Fund under the provisions of the Scheme net of any internal reassurance arrangements. Where any asset or group of assets is held in a with-profits sub-fund or sub-funds for the benefit of more than one with-profits sub-fund then the tax charge (or credit) to each such with-profits sub-fund in respect of that asset or group of assets will be allocated on a commercial basis. The internal reassurance arrangements mentioned in paragraph 30 of the Scheme and any similar arrangements will be treated as if they were reinsurance with an unconnected reinsurer, with the exception that the ceded liabilities will retain the same tax categorisation in the reassuring sub-fund in cases where Basic Life Assurance and General Annuity Business ('BLAGAB') liabilities would otherwise be regarded as non-BLAGAB (or vice versa). Consequently, liabilities ceded will be left out of account and liabilities reassured will be treated as liabilities directly assumed. The purpose of this is to prevent the application of section 90 to the Finance Act 2012.

8 Subject to any specific provisions to the contrary, transactions between the Sub-Fund and other policyholder sub-funds within the Company will generally be treated as though they are transactions between the separate mutual company and a third party. However, no VAT will be treated as arising on supplies of services between policyholder sub-funds within the Company and no withholding tax will be deducted from any payment made to other policyholder sub-funds within the Company.

9 Where paragraph 40 of the Scheme requires transfers of assets from or to the Sub-Fund to be carried out at market value, tax will be attributed to the separate mutual company on the basis of the market value (as described in paragraph 40 of the Scheme) at the time the transfer takes place. An asset transferred to the Sub-Fund will, therefore, be treated as acquired then at market value. Similarly an asset transferred from the Sub-Fund will be treated as having then been disposed of at market value for tax purposes and an appropriate tax calculation will be made and taken into account in the overall tax charge for that period.

10 A deferred tax liability (or asset) will be calculated for the separate mutual company on the basis adopted by the Company generally and in accordance with the principles set out above and the requirements of the Scheme.

11 Whenever any amount of corporation tax is payable by the Company on account as required under the 'Corporation Tax Self Assessment' regime, the amount attributable to the separate mutual company will be calculated in accordance with the principles set out above. Further adjustments will be made where appropriate on agreement of the final liability of the Company.

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