Report from the Board of Aviva Life & Pensions UK Limited

to its With-Profits Policyholders for 2021
(excluding the Secure Growth Fund)

Contents

1. Introduction

Aviva manages approximately £44 billion of investments in its with-profits funds, on the behalf of around 1.2 million policyholders

Rules for the management of the with-profits funds of Aviva Life & Pensions UK Limited are set out in our Principles and Practices of Financial Management ("PPFM"). These are available from aviva.co.uk/ppfm

We also publish some simplified guides on how we manage the with-profits funds, and these are also available from the same website.

This Report from the Board, prepared in consultation with the With-Profits Committee, sets out how we managed the with-profits funds of Aviva Life & Pensions UK Limited in 2021.

The report covers the following funds:

- The FLAS With-Profits Sub-Fund;
- The FLC New With-Profits Sub-Fund;
- The FLC Old With-Profits Sub-Fund;
- The FP With-Profits Sub-Fund;
- The FPLAL With-Profits Sub-Fund;
- The New With-Profits Sub-Fund;
- The Old With-Profits Sub-Fund;
- The Provident Mutual Sub-Fund;
- The Stakeholder With-Profits Sub-Fund;
- The With-Profits Sub-Fund (known as the UKLAP With-Profits Sub-Fund); and
- The WL With-Profits Sub-Fund.

This Report does not cover:

- the Secure Growth Fund, which is covered by a separate report to the policyholders in that fund.

A printed copy of this report can be obtained by sending a written request to: Aviva UK Life With-Profits, Wellington Row, York YO90 1WR

If you have any questions about your policy, please call us on the number shown on your annual statement.

2. Summary

In the opinion of the Board of Aviva Life & Pensions UK Limited, throughout 2021, our with-profits funds have been managed in accordance with their PPFM, and the decisions made in managing the funds were appropriate and treated with-profits policyholders fairly.

3. Governance Arrangements – Making sure we comply with the Principles and Practices of Financial Management ("PPFM")

The Board of Aviva Life & Pensions UK Limited has overall responsibility for the management of the with- profits funds and takes all the key decisions that affect the funds. This responsibility includes ensuring compliance with the requirements of the 2017 Court Scheme that governs certain aspects of the company's operations, and compliance with the PPFM for the with-profits funds.

Before making these decisions, the Board must seek and consider the advice of the funds' With-Profits Actuary. The With-Profits Actuary provides advice to the Board on how discretion in the management of the with-profits funds should be applied. The With-Profits Actuary looks to balance the interests of Aviva's policyholders and shareholders and to ensure that its with-profits policyholders are treated fairly.

The With-Profits Committee provides oversight of the management of the with-profits funds and the application of discretion. The majority of the Committee's members are independent of Aviva and this helps the Committee provide robust challenge to Aviva on its management of the with-profits funds. The views of the Committee on the management of the funds are provided to the Board to help it make the key decisions for the with-profits funds.

Further information on the With-Profits Committee can be found at aviva.co.uk/wpcommittee

The activity of the With-Profits Committee

During 2021, the With-Profits Committee considered a wide range of topics. These included:

- The investment strategy and performance of the funds (see section 4.2 below).
- Proposals for bonuses to be added to policies (see section 4.3 and 4.4 below).
- The level of expenses charged to the with-profits funds (see section 4.5).
- The management of the Estates, including the level of distributions to policyholders (see section 4.6). This included consideration of any potential Special Scheme Bonus for the FLC Old With-Profits Sub-Fund, any potential release of the Reattributed Inherited Estate External Support Account to Shareholders and the level of charge for smoothing and guarantees in the Stakeholder With-Profits Sub-Fund.
- The effect on policyholders in the funds of continuing to write new business (see section 4.7).
- The review of policyholder communications and complaints.
- The correction of errors made by the Company that would otherwise have led to policyholder detriment.
- The ongoing plans to manage funds as the volume of business in them reduces, known as "run-off plans". Each of the sub-funds has a run-off plan that is reviewed every three years, or sooner if there is a material change in the sub-fund.
- The proposals for changes to the PPFM to reflect a number of the above items (see section 6 below).
- Proposals to merge the FLC New With-Profits Sub-Fund and the FLC Old With-Profits Sub-Fund. Mailings containing information for policyholders in these funds have taken place in 2022, and more information on this can be found at aviva.co.uk/flcmerger

The With-Profits Committee, in reviewing management recommendations and actions, endeavours to ensure that all policyholders are treated fairly and that an appropriate balance is struck between the interests of different groups of policyholders and between policyholders and shareholders.

The With-Profits Committee is satisfied that it was consulted on the development of the Company's proposals during 2021 and that the views of the With-Profits Committee have been taken into account in the proposals presented to the Board. The Committee is pleased that all concerns raised were resolved by this process. The Company values the input provided by the With-Profits Committee.

The With-Profits Committee has also provided a report to the Board on its views on whether or not Aviva complied with the PPFM in 2021. In its report, the Committee noted that there had been some breaches of the PPFM, but that these had been, or were being, corrected. Other than these, the With-Profits Committee were of the view that the Company has complied with the PPFM in all material respects in 2021.

These governance arrangements, with their combination of Board level decision making, advice from the With-Profits Actuary and oversight and challenge from the With-Profits Committee, help ensure that Aviva manages its with-profits funds in accordance with its PPFM and treats its with-profits policyholders fairly.

The With-Profits Actuary's report on the application of discretion during 2021 is attached at the end of this report.

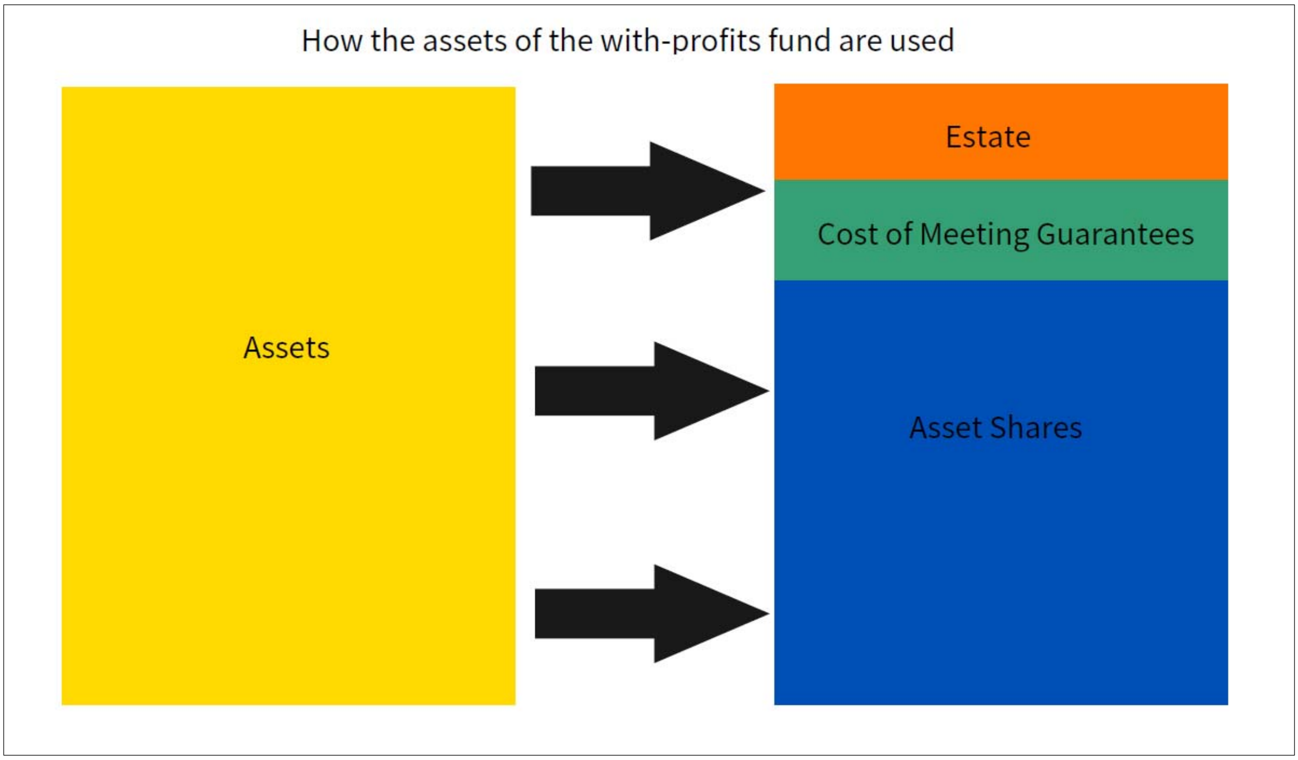
4. Compliance with the Principles and Practices of Financial Management ("PPFM") during 2021

4.1 Introduction

With-Profits Terminology

In broad terms, the assets of the with-profits funds are used to back the:

- Asset Shares (see below)
- Cost of Meeting Guarantees
- Estate (see below).



Note: This diagram is for illustrative purposes only and is not to scale.

An explanation of these terms will help you understand how a with-profits fund is managed.

The Asset Shares represent the amounts paid in by policyholders whose policies are still in the fund, less deductions for expenses, claims, charges and tax, plus investment earnings on those amounts. This is the value of the policyholders' net contributions to the fund and is the main driver for determining the amounts paid to policyholders.

In some cases, the guarantee that applies to a policy can mean that the amount paid to a policyholder exceeds the policy's Asset Share. Where this is expected to happen in the future, assets are put aside to cover the additional Cost of Meeting Guarantees (over and above Asset Shares).

The assets of the funds in excess of the Asset Shares and the Cost of Meeting Guarantees are referred to as the Estate. The Estate provides a buffer against adverse experience, helping to maintain the security of policyholders' benefits. The size of the Estate directly impacts the amount of flexibility that the Board has in managing the funds. For instance, the larger the Estate, the greater the freedom to invest in assets with uncertain but potentially higher returns, such as company shares and property.

Further information on the Asset Shares and the Estate is provided in the PPFM.

Areas of Discretion

The principal areas of the management of the with-profits funds where the Board has some flexibility or can exercise its discretion are:

- The funds' investment policy, and in particular the investment policy for the Asset Shares.
- Setting bonus rates.
- Setting surrender value terms.
- Charging costs and expenses to the funds (including any charges applied to contribute to the Cost of Meeting Guarantees).
- The management of the Estates, including the investment policy for the Estates.
- The nature and volume of new policies written in the funds.
- Transfers of assets and / or liabilities between funds.

Whilst the Board can make choices or exercise its discretion in these areas, it must do so in accordance with the rules set out in the PPFM.

4.2 Investment Policy for Asset Shares

Setting Investment Strategy – How it Works

The investment strategy for the Asset Shares is set by the Board, and must observe the procedures and limits set out in the PPFM. The investment strategy reflects each fund's capacity to take risk, which in turn is dictated by the value of its assets and the level of guarantees provided to its policyholders.

Should the funds have the capacity to take risk then part of the Asset Shares can be invested in assets such as company shares and commercial property, in the expectation that these assets will, in the longer term, provide superior returns. When setting investment strategy, the Board also takes into account current and expected future investment conditions, as well as the advice of our investment managers.

Investment Strategy in 2021

There were no material changes in the mix of assets within most of the with-profits sub-funds during 2021. Some changes were made to the assets backing non-Sterling denominated policies, and the property portfolios' investment strategy was reviewed.

The mix of assets for each of our with-profits sub-funds is available in our 'with-profits summaries' available from aviva.co.uk/ppfm

The gross of tax returns achieved on the Asset Shares of the with-profits funds in 2020 and 2021 are shown in the table below.

	2021	2020
FLAS With-Profits Sub-Fund	7.5%	3.0%
FLC Old and New With-Profits Sub-Funds	9.0%	2.3%
FP With-Profits Sub-Fund (pre-demutualisation)	9.5%	2.4%
FP With-Profits Sub-Fund (post-demutualisation)	10.8%	2.4%
FPLAL With-Profits Sub-Fund	8.9%	4.6%
Old and New With-Profits Sub-Funds	10.2%	1.9%
Provident Mutual Sub-Fund	5.5%	4.2%
Stakeholder With-Profits Sub-Fund	10.2%	1.9%
UKLAP With-Profits Sub-Fund	9.9%	1.2%
WL With-Profits Sub-Fund	5.3%	3.7%

The mix of assets backing the Asset Shares and the investment strategy is monitored closely throughout the year.

Conclusion

During 2021, the assets backing Asset Shares were managed in accordance with the requirements of the PPFM and the Board is satisfied that the investment strategy followed is appropriate for the with-profits policyholders.

4.3 Bonus rates

Setting Bonus Rates – How it Works

What are bonuses?

- We add your share of the returns which the with-profits fund earns to your investment, through a system of bonuses.
- In almost all cases bonuses cannot be negative, though they can be zero, and this provides policyholders with some protection from losses made by the with-profits funds.
- There are two main types of bonus:
    - Regular bonus
    - Final bonus

What's the difference between regular and final bonuses?

- Regular bonuses are designed to provide steady growth in the value of your guaranteed benefits over the lifetime of your policy. They are not intended to fully reflect the performance of the fund.
- Final bonuses aim to pay any balance between the regular bonuses which we have already added to your policy and the performance of the fund over the whole period of your investment.
- Asset Shares are used as a guide to set final bonuses and this means that the final bonuses reflect the performance of the fund. Final bonuses are payable when you cash in or switch your investment out of the with-profits fund, but they are not guaranteed.
- Our aim is to use regular and final bonuses together to provide a balance between the guaranteed and non-guaranteed policy benefits. The guarantees provided protect your benefits from adverse conditions such as investment market falls or poor investment returns.

Where guaranteed benefits exceed Asset Share, it is likely that the final bonus will be zero. Whilst the final bonus is zero, policyholders will have benefitted from the guarantee provided to them.

Some products only have regular bonus.

Bonus rates are set for groups of policyholders as opposed to individual policyholders. In this way, policyholders share in the performance of the fund and benefit from the pooling of risk with other policyholders. Changes in bonus rates are smoothed over time with the aim of smoothing out some of the ups and downs that result from the volatility of the funds' asset values.

Smoothing does not, however, protect policyholders from prolonged falls in investment returns which, other than where guarantees apply, will be shared with policyholders.

Bonus rates are set by the Board, having taken the advice of the With-Profits Actuary and having considered the views of the With-Profits Committee.

Bonus Rates in 2021

At the end of 2021, regular bonus rates for some policies were adjusted to provide a better balance between the policies' guaranteed and non-guaranteed benefits in light of market movements. Generally, regular bonus rates were unchanged or slightly increased. However, some were reduced where guaranteed benefits were relatively high. The revised regular bonus rates provide an appropriate but prudent addition to guaranteed benefits.

Final bonus rates were reviewed twice in 2021. Final bonus rates were reviewed in June and again at the end of the year, and generally, most final bonus rates increased, except where payouts are being smoothed down towards the Asset Share.

For the WL With-Profits Sub-Fund, the final bonus rates were reviewed, as usual, in April and October.

In 2021, the Board approved the continuation of distributions from the Estates the funds (see Section 4.6 below for more details). In some cases the level of uplift to payouts or to Asset Shares was reduced slightly.

Smoothing is a key part of managing payouts for with-profits policies. The way the cost of smoothing is allowed for varies by sub-fund based on historic practice.

As explained in its PPFM, Aviva aims for 90% of policyholder payouts to fall within target payout ratio ranges. These ranges are expressed as percentages of Asset Share, uplifted where appropriate to distribute the Estate, and are set out in the respective PPFM.

Where payouts fall outside the target payout range, the fund may be paying out more, or less, than it can afford, to the detriment, or to the advantage, of the remaining policyholders. It is important, therefore, that the majority of payouts are within the target payout ratio ranges.

For all funds the majority of payouts were within the target ranges. However, the Provident Mutual Sub-Fund, the FPLAL With-Profits Sub-Fund, the FLAS With-Profits Sub-Fund, the FLC With-Profits Sun-Fund and the conventional business in the UKLAP With-Profits Sub-Fund did not achieve 90% of claims within the published target payout ratio ranges.

In 2021, in order to ensure the ongoing fairness of payouts, it was decided to reduce the upper limit of the target payout range for the conventional business of the New and Old With-Profits Sub-Funds, the UKLAP With-Profits Sub-Fund and the Provident Mutual Sub-Fund to bring the range into line with the other Aviva business. This change took effect from 1st January 2022.

Conclusion

The decisions made by the Board were consistent with the PPFM and with the advice of the With-Profits Actuary and the views of the With-Profits Committee.

4.4 Surrender Values and Market Value Reductions

Policyholders may choose to cash-in or surrender their policies early or to transfer benefits under their pensions policies to another provider. Where applicable, the benefits paid to policyholders who surrender or transfer their policies receive uplifts from the respective with-profits sub-fund's Estate (see section 4.6 below).

The approach for determining surrender values is set out in the PPFM, and surrender values are set with the aim of paying out Asset Shares. Surrender value rates are closely monitored throughout the year and amended if necessary to continue targeting Asset Share. During 2021 surrender values were adjusted at the same time as final bonus rates as described above.

For unitised policies (other than where guarantees apply on early surrender), if the policy benefits exceed the Asset Share, Aviva may apply a Market Value Reduction (MVR) on the early surrender of the policy so that surrender values properly reflect the performance of the fund and the value of the underlying assets. This ensures that surrendering policyholders do not benefit from guarantees that are given up on early surrender. If they did, this could be unfair for the remaining policyholders. Whilst MVRs were not applied in 2021, they may need to be introduced in the future should assets fall in value.

4.5 Charges and Expenses

Charges and Expenses – How it Works

The with-profits funds are charged fees by Aviva to cover the expenses of administration and investment management. These fees are set out in the Management Services Agreement and Investment Management Agreements. In some cases, most notably for the Stakeholder With-Profits Sub-Fund, the fees charged are the Annual Management Charges set out in the policy terms and conditions.

The extent to which these directly impact amounts paid to policyholders depends on how much is charged to the Asset Shares. In some cases, the amounts charged are the charges set out in the policy terms and conditions, with any balance of the fees described above charged to the Estate. In others it is the fees described above that are charged to Asset Shares. Further details are provided in the PPFM.

The administration services for some of Aviva's with-profits policies are provided by Aviva's administration services company. For many policies these services are provided by external service providers.

In addition, some of the with-profits funds may be charged for one-off projects. These are charged at cost and are charged to the Estate.

Charges and Expenses in 2021

The Management Services Agreement and Investment Management Agreements set out both the services to be provided and the fees that can be charged. An annual review is conducted by the With-Profits Actuary to monitor fees and services for the with-profits funds to ensure that they are in accordance with the agreements. The Company has an established process to correct any issues that arise from such reviews so that the charges made to the funds are fair and appropriate. The review of the 2021 expense charges will take place later in 2022. The review of 2020 expense charges carried out in 2021, identified some minor issues with the charges made to the funds, but these issues have been, or will be corrected. These issues have not led to incorrect payments to policyholders.

For the Aviva Life & Pensions UK Limited Stakeholder With-Profits Sub-Fund, the maximum amount deducted from the fund is 1% of the value of the fund, or 1.5% for the first ten years (and 1% thereafter).

Tax was allocated to the funds based on an apportionment of the total tax costs of the company, which was considered fair and reasonable and in line with the requirements of the Court Scheme and the PPFM.

Asset Share Guarantee Charges

For with-profits policies, the PPFM permit Aviva to apply an additional charge to Asset Shares to contribute to the cost of guarantees of the with-profits fund. Such charges are designed to maintain the fund's Estate at an appropriate level so that it provides an adequate level of security for policyholder benefits and provides sufficient freedom to manage the fund in the interests of policyholders. The Old and New With-Profits Sub-Funds may only apply such charges that were being applied on 1st October 2009 or which are set out in the policy's terms and conditions.

The policies in the Stakeholder With-Profits Sub-Fund have been charged 0.25% p.a. to support the smoothing policy and to provide for the cost of guarantees. The sub-fund holds an account for smoothing and guarantee costs that is built up from the accumulated value of the 0.25% p.a. charge, less the cost of past smoothing and guarantees. This account for smoothing and guarantee costs remains in the sub-fund for the sole benefit of the stakeholder with-profits policyholders. In 2021, the Board reviewed the level of charge necessary to protect the policyholders in the fund and, as a result, decided to suspend these policy charges from 1st July 2021. The position of the fund will be regularly monitored to see whether the charge should be reintroduced.

Other than the Stakeholder With-Profits Sub-Fund or where such charges are set out in a policy's terms and conditions, none of the with-profits funds made charges to the Asset Shares for the cost of guarantees during 2021.

4.6 Management of the Estate

Management of the Estate – How it Works

The Estate provides protection for policyholders' benefits from adverse experience together with the freedom to manage the fund in the interests of policyholders. The Estate also provides the funding to write new policies in the fund.

Typically, the Estate forms part of the with-profits fund, and this is the case for the majority of Aviva's with-profits funds. However, the Estate of the New With-Profits Sub-Fund was reattributed to the Aviva shareholders in 2009 (in return for a Policyholder Incentive Payment) and can sit outside of the fund. This means that the Reattributed Inherited Estate External Support Account belongs to shareholders and, when no longer needed to provide protection for policyholder benefits, it can be taken by shareholders and used for other purposes, such as meeting liabilities under non-profit policies. There are rules described in the Court Scheme and the PPFM that restrict the shareholders' use and access to the Reattributed Inherited Estate External Support Account whilst it is still needed to provide security for policyholders' benefits. The rules also specify when surplus assets in the Reattributed Inherited Estate External Support Account can be released to shareholders.

Aviva's approach is to manage the Estates (including the Reattributed Inherited Estate External Support Account) with a view to limiting the risk of the Estates being diminished by adverse conditions. This helps ensure that the Estates continue to provide security to policyholders in changing conditions. This includes following an investment strategy for the assets backing the cost of guarantees that limits potential losses from changing economic conditions and variations in asset values.

Risk Appetite Frameworks are in place for all the with-profits funds. A Risk Appetite Framework provides rules for how the risks taken in managing a with-profits fund are balanced against the size of its Estate.

The Stakeholder With-Profits Sub-Fund does not have an Estate and should not expect support from the Estates of the other with-profits sub-funds of Aviva Life & Pensions UK Limited. In exceptional circumstances, the inherited estates may provide financial support to the Sub-Fund. The account for smoothing and guarantee costs is used for some of the same purposes for stakeholder business as the Estates are used for the other with-profits sub-funds.

Management of the Estates in 2021

In 2021, the Board decided to continue distributions from the Estates of all eligible sub-funds. These distributions were made because the respective Estates were larger than the size considered necessary to provide security for policyholders' benefits. The exception to this is the New With-Profits Sub-Fund as policyholders in this fund are not entitled to receive distributions from the Reattributed Inherited Estate External Support Account.

Estate distributions in the WL With-Profits Sub-Fund have, in the past, been restricted to all conventional policies, and ex-Winterthur unitised policies taken out before 2000. During 2020, the Board decided to commence distributing to the remaining policies in the fund (all ex-Colonial unitised policies, and ex-Winterthur unitised policies taken out from 2000 onwards).

For the Old With-Profits Sub-Fund, the Provident Mutual Sub-Fund and the UKLAP With-Profits Sub-Fund, the distributions from the Estates are applied as an uplift to the with-profits benefits that would otherwise have been paid and is incorporated into the final bonus. For the other sub-funds which are distributing their Estates, the distribution is applied as an uplift to the Asset Shares used to determine final bonus rates. The uplifts used at the end of year bonus review were as follows:

	End of 2021	End of 2020
FLAS With-Profits Sub-Fund	60%	60%
FLC Old and New With-Profits Sub-Funds	47.5%	50%
FP With-Profits Sub-Fund (pre-demutualisation)	10%	12%
FPLAL With-Profits Sub-Fund	105%	100%
Old With-Profits Sub-Fund	10%	10%
Provident Mutual Sub-Fund	15%	15%
UKLAP With-Profits Sub-Fund	12%	15%
WL With-Profits Sub-Fund		
• all conventional policies, and ex-Winterthur unitised policies taken out before 2000	25%	23%
• all ex-Colonial unitised policies, and ex-Winterthur unitised policies taken out from 2000 onwards	5%	3%

The above uplifts have been set at a level that is expected to be maintained, but this cannot be guaranteed. In some circumstances it may be necessary for the extra bonus to be reduced or even stopped. This may happen if economic conditions, or other factors affecting the strength of the funds, change significantly. For some policies, the uplift is applied as additional regular bonus and, as such, is guaranteed once added. In these cases, a lower uplift is applied to reflect that it is guaranteed.

As mentioned in last year's report, the dynamic annuities in the Provident Mutual Sub-Fund will receive during 2022 an additional 1% following the transaction to reduce longevity risk in that fund.

The estate distribution uplift for the FLC Old With-Profits Sub-Fund is set to be the same as that for the FLC New With-Profits Sub-Fund. The Scheme sets out rules for any additional distribution, termed Special Scheme Bonus, for the FLC Old With-Profits Sub-Fund, which may be payable every five years. In 2021, those rules were followed and concluded that no Special Scheme Bonus was due, based on the financial position of the FLC Old With-Profits Sub-Fund at the end of 2020.

In line with the Scheme rules described above for the New With-Profits Sub-Fund, no release was made from the Reattributed Inherited Estate External Support Account to the Non-Profit Sub-Fund in 2021.

Conclusion

Throughout 2021, the Estates were managed in accordance with the PPFM and their Risk Appetite Frameworks.

4.7 New With-Profits Business

Aviva continued to write new with-profits bonds and pensions policies in the Old With-Profits Sub-Fund, the New With-Profits Sub-Fund and the Stakeholder With-Profits Sub-Fund in 2021. The volume of new with-profits business continues to be at a very low level.

Where new policies are written, steps are taken to make sure that existing policyholders are not adversely impacted as a result.

For the three sub-funds that remain open to new business, it was concluded that the practice of writing new with-profits policies continued to be fair to policyholders. The writing of new business is reviewed each year.

All the other with-profits sub-funds are closed to new business other than a very limited amount of new business for options on and increments to existing policies, and a limited number of new members to existing group pension schemes. Where products terms allow this, switches in to the with-profits sub-funds from unit-linked funds are permitted.

5. Potential Conflicts of Interest Between Policyholders and Shareholders

Given the level of discretion that can be applied by the Board in managing the with-profits funds, there is a potential for conflicts between the interests of policyholders and shareholders to arise. Such potential conflicts include:

- Selecting a less risky investment strategy that reduces risk for shareholders but that might also reduce investment returns for policyholders.
- Choosing to allocate increased expenses and tax costs to with-profits policyholders.
- Encouraging policy exits or failing to point out the value of guarantees given up on exit, where it might be to the policyholder's benefit to retain the policy.
- Choosing to declare lower bonuses so that the cost of meeting guarantees is reduced.
- Choosing to write new business to the detriment of existing policyholders.

Similarly, there is a potential for conflicts between the interests of different groups of policyholders. Such potential conflicts include:

- Following a riskier investment strategy that might be to the benefit of policyholders who intend to retain their policies for a long period but possibly to the detriment of policyholders expecting to exit the fund in the shorter term.
- Policyholders with policies that have high guarantees might be more relaxed about taking risks than policyholders that have policies with low guarantees.
- Smoothing changes in bonus rates over time may benefit one group of policyholders over another.
- Similarly, the sharing of risks within policy groups may benefit some policyholders to the detriment of others.

Given these potential conflicts, it's vital that:

- There are clear rules and guidelines for the management of the with-profits funds.
- Strong safeguards are in place to protect the interests of policyholders.

Rules for managing the with-profits funds are set out in the PPFM, which are published. The Court Scheme also sets out a number of rules that must be followed by the Company in managing the with-profits funds. The rules in the PPFM and the Court Scheme address many of the potential conflicts of interest.

Compliance with these rules is monitored and the outcome of this monitoring is considered by the With-Profits Committee and the Board. Any breaches are corrected so as to ensure that no policyholders suffer any material detriment.

Discretion in relation to the management of the with-profits funds is exercised by the Board, whose members include individuals who are independent of the Company and its executive management. Advice on the exercise of discretion is provided by the With-Profits Actuary, whose appointment must be approved by the Regulator and who must comply with regulatory requirements that are designed to ensure that policyholders are treated fairly. Oversight of the Company's management of its with-profits funds and exercise of discretion is provided by the With-Profits Committee, the majority of the members of which are independent of the Company and its executive management.

The Board and the With-Profits Committee are of the view that the rules and safeguards set out in the PPFM and the Scheme, coupled with the protection provided by the input of the With-Profits Actuary and oversight from the With-Profits Committee, are sufficient to avoid conflicts or ensure that they are dealt with fairly.

6. Changes to the PPFM in 2021

Some changes have been made that took effect from 1 January 2022. The most significant changes were:

- To reflect the suspension of the charge for smoothing and guarantees in the Stakeholder With-Profits Sub-Fund (see section 4.5).
- The change to the target payout range for the conventional business in some funds (see section 4.3).

Some minor corrections and clarifications were also made.

There were no changes to any Principles in 2021.

Further information on changes to the PPFM for each fund is provided in the 'PPFM Summary of Change' documents, which can be found at aviva.co.uk/ppfm

The planned merger of the FLC New With-Profits Sub-Fund and the FLC Old With-Profits Sub-Fund will lead to further changes to the PPFM for these funds from 1 July 2022 and these have been shared at aviva.co.uk/flcmerger

Conclusion

The changes made were reviewed by the Board, the With-Profits Actuary and the With-Profits Committee and are considered to treat policyholders fairly.

Annex: With-Profits Actuary's Report to Policyholders

I was appointed to the role of With-Profits Actuary to Aviva Life & Pensions UK Limited on 3 May 2018. In this role, I confirm that, in my opinion, the Board's report and the discretion exercised by the Board during 2021 may be regarded as taking, or having taken, the interests of the with-profits policyholders of Aviva Life & Pensions UK Limited into account in a reasonable and proportionate manner.

Further, I am satisfied that, during 2021, discretion in relation to with-profits policies has been exercised fairly and in accordance with the PPFM.

I have completed this report bearing in mind the requirements of the Financial Conduct Authority and the Prudential Regulation Authority, and the guidance and requirements of the actuarial profession and the Financial Reporting Council.

The Board of Aviva Life & Pensions UK Limited has provided me with the information and the resources I needed to enable me to make this statement.

Somerset Lowry

With-Profits Actuary for Aviva Life & Pensions UK Limited

27th April 2022

Note: This is a summary report, based on the conclusions of the report prepared by the With-Profits Actuary for the Board of Aviva Life & Pensions UK Limited in accordance with paragraph 4.3.16A(3) of the Supervision section of the FCA Handbook (SUP 4.3.16A(3)) and paragraph 4.3.16(3) of the Supervision section of the PRA Handbook. This report was considered to be compliant with the requirements of TAS 100 and the TAS 200 issued by the Financial Reporting Council and with APS X2 issued by the Institute and Faculty of Actuaries.

Appendix: Scheme Certificate

Aviva Life & Pensions UK Limited

Certificate by the Aviva Life & Pensions UK Board

Period 1st January 2021 to 31st December 2021

The Scheme for the transfer of the business of Friends Life Limited and Friends Life and Pensions Limited to Aviva Life & Pensions UK Limited (the “2017 Scheme”) was sanctioned by the High Court of Justice on 13th September 2017 and came into effect on 1st October 2017.

Aviva has, in accordance with Section 75 of the 2017 Scheme, undertaken a review of compliance with the requirements of the 2017 Scheme. The review covered the period from 1st January 2021 to 31st December 2021.

The Board of Aviva Life & Pensions UK Limited (the “Board”) has considered a report on the compliance review prepared by the With-Profits Actuary (which is considered to be appropriate actuarial advice as required under Section 75 of the 2017 Scheme). In addition, the Board has consulted the Aviva With-Profits Committee (as required under the With-Profits Committee’s Terms of Reference) on this matter.

A small number of issues have been identified as part of the 2021 compliance review.

- Section 30: The reinsurance of certain non-profit policies between the FLC New With- Prof its Sub-Fund and the FLC Old With-Profits Sub-Fund is not being operated in line with the terms of the 2017 Scheme. It is being operated in line with the original 2001 Scheme governing this business. It is considered that the change in Scheme wording to that in the 2017 Scheme was unintentional. This issue will resolve on the planned merger of the two funds on 1 July 2022.
- Section 50.2: In preparing for the merger of the FLC New With-Profits Sub-Fund and the FLC Old With-Profits Sub-Fund, it has been identified that a small number of customers in the FLC Old With-Prof its Sub-Fund did not receive the 2015 Special Scheme Bonus. This will be rectified so that these customers do not lose out from this omission.

The Board certifies that, other than as described above, the provisions of the 2017 Scheme have been complied with for the period between 1st January 2021 and 31st December 2021.

Iain Pearce

Chief Finance Officer

27th April 2022

How to contact us

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