Report from the Board of Aviva Life & Pensions UK Limited to its With-Profits Policyholders for 2018 (excluding the Secure Growth Fund)

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1. Introduction

Aviva manages approximately £49 billion of investments in its with-profits funds, on the behalf of around 1.5 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** for UK customers and **aviva.ie/ppfm** for customers in the Irish With-Profits Sub-Fund.

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

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 2018 (see section 1.1 below).

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 Irish With-Profits Sub-Fund;
- The New With-Profits Sub-Fund;
- The Old With-Profits Sub-Fund;
- The PM 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 table that shows the current name of each of the with-profits sub-funds and the possible names of the companies that originally wrote the policies is provided as an appendix to this report.

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 or **Aviva Life & Pensions Ireland, One Park Place, Hatch Street, Dublin 2**.

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 2018 our with-profits funds have been managed in accordance with their PPFM.

The Board is also of the view that the decisions made in managing the with-profits funds were both 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.

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** or **aviva.ie/ppfm**.

The activity of the With Profits Committee

During 2018, the With Profits Committee considered a wide range of topics. These included:

- The investment strategy and performance of the fund, including the level of fees paid to investment managers (see section 4.2 below).
- Proposals for bonuses to be added to policies (see section 4.3 and 4.4 below).
- The management of the Estate, including the level of distributions to policyholders (see section 4.6). This also included changes made to the investments of the Reattributed Inherited Estate External Support Account, the assets which provide benefit security for the New With-Profits Sub-Fund.
- The level of expenses charged to the with-profits funds, and the effect on policyholders in those funds of continuing to write new business (see section 4.7).
- The transfer of certain non-UK business out of some with-profits sub-funds to an Aviva company based in Ireland in anticipation of the UK’s exit from the European Union.
- The transfer of non-profit annuity business from the FP With-Profits Sub-Fund to the Non-Profit Sub-Fund.
- The renegotiation of the fees charged to the with-profits funds for administration services, which will conclude in 2019.
- The review of policyholder communications and complaints.
- The correction of errors made by the Company that would otherwise have led to policyholder detriment.

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 2018 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 2018. In its report, the Committee noted that some errors had been made, 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 2018.

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 2018 is attached at the end of this report.

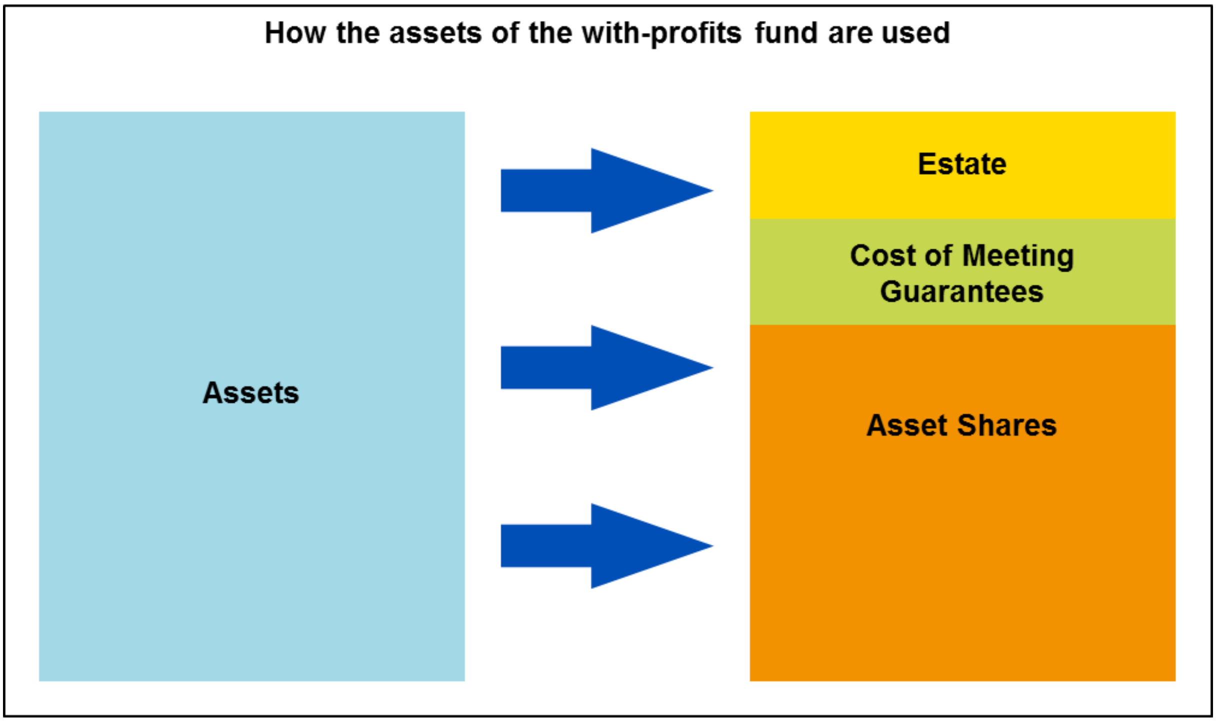
4. Compliance with the Principles and Practices of Financial Management ("PPFM") during 2018

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 the 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 2018

There were no material changes in the mix of assets within the with-profits sub-funds during 2018.

The mix of assets for each of our with-profits sub-funds is available on our 'information sheets' available from **aviva.co.uk/ppfm** or **aviva.ie/ppfm**.

The gross of tax returns achieved on the Asset Shares of the with-profits funds in 2017 and 2018 are shown in the table below.

	2017	2018
FLAS With-Profits Sub-Fund	7.5%	-1.8%
FLC Old and New With-Profits Sub-Fund	8.1%	-1.9%
FP With-Profits Sub-Fund (pre-demutualisation)	6.6%	-1.1%
FP With-Profits Sub-Fund (post-demutualisation)	8.0%	-1.5%
FPLAL With-Profits Sub-Fund	7.1%	-1.4%
Irish With-Profits Sub-Fund	-0.4%	0.7%
Old and New With-Profits Sub-Funds	8.9%	-2.5%
PM Sub-Fund	7.4%	-2.8%
Stakeholder With-Profits Sub-Fund	8.9%	-2.5%
UKLAP With-Profits Sub-Fund	8.1%	-3.1%
WL With-Profits Sub-Fund	5.3%	-1.3%

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

In our report to customers published in 2014, we reported a significant control failing that had resulted in trading irregularities at our in-house investment manager, Aviva Investors. This failing was addressed and, where required, compensation was provided to the with-profits funds that had been adversely affected. Subsequent investigation indicated that a further adjustment was needed in order to put the with-profits funds back into the position they would have been had the activity not occurred. The adjustment made in 2018 resulted in a small reduction to the compensation added, The Board, the With Profits Committee and With-Profits Actuary are satisfied that these actions are appropriate and that policyholders have been treated fairly.

Conclusion

During 2018, 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.
- Bonuses cannot be negative, but 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 2018

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 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.

These targets were achieved in 2018 for most of the with-profits sub-funds. For the Provident Mutual Sub Fund the number of instances where payouts exceeded the top of the target payout ratio range of Asset Share was sufficiently high for the proportion of payouts within the target range to fall below 90%. This was a result of some policies being different to the average policies used to determine bonus rates and due to the impact of smoothing on older policies. The FLAS With-Profits Sub-Fund and the UKLAP With-Profits Sub-Fund conventional business also had lower than 90% of payouts within the target range. For the FLAS With-Profits Sub-Fund, the proportion of payouts below the range was broadly the same as the proportion falling above the range. The UKLAP With-Profits Sub-Fund, like the Provident Mutual Sub Fund, had a much greater proportion of payouts above the target payout range than below.

During 2018, the approach used to smooth payouts was changed in a way that is expected to provide smoother changes in payouts at each bonus review. The revised smoothing approach was used at the Final Bonus review at the end of the year. It is anticipated that the revised smoothing approach will lead to more policy payouts falling inside the target payout ranges in the years to come.

At the end of 2018, Regular Bonus rates for some policies were adjusted so as to provide a better balance between the policies' guaranteed and non-guaranteed benefits. For some products this meant that there were modest increases to the regular bonus rates and for others a modest reduction. The revised Regular Bonus rates provide an appropriate but prudent addition to guaranteed benefits.

At the two final bonus reviews carried out in 2018, the changes to final bonus rates were relatively modest. Where this was not the case, this is mainly because either Final Bonus rates are zero (and policyholders are receiving guaranteed benefits in excess of Asset Share), or past investment returns are still being smoothed in to the Final Bonus rates.

In 2018, the Board approved the continuation of distributions from the Estates of a number of the funds (see Section 4.6 below for more details).

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 2018 surrender values were adjusted twice for the majority of business, at the middle of the year and at the end of the year.

For unitised policies (other than where guarantees apply on early surrender), if the policy benefits exceed the Asset Share, Aviva applies 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 would be unfair for the remaining policyholders. No MVRs were applied during 2018.

4.5 Charges and Expenses

Charges and Expenses – How it Works

Charges to cover expenses incurred in running the with-profits business are deducted from policyholder benefits. How expenses are charged varies for different blocks of business:

- Expenses are deducted directly from Asset Shares;
- Expenses are charged to the Estate, and the contractual management charges are deducted from Asset Shares and credited to the Estate to cover the expenses; or
- Management charges deducted from the Asset Shares are credited to, and the corresponding expenses are charged to, the non-profit sub-fund.

The expenses covered by these charges include the costs of administering the with-profits policies and managing the with-profits investments.

The permitted expense charges are set out in Management Services Agreements between Aviva Life & Pensions UK Limited and the service companies that provide the administration and management services for the with-profits business.

Charges and Expenses in 2018

The Management Services Agreements 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 2018 expense charges will take place later in 2019.

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

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.

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).

Asset Share Guarantee Charges

For with-profits policies, other than those in the Old and New With-Profits Sub Funds, 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.

None of the with-profits funds made charges to the Asset Shares for the cost of guarantees during 2018.

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 investment 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 the with-profits funds other than the FLAS With-Profits Sub-Fund, the FLC With-Profits Sub-Funds and the WL With-Profits Sub-Fund. 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. Risk Appetite Frameworks exist for some of the with-profits funds that were transferred during 2017. The Company plans to standardise Risk Appetite Frameworks across all of the funds during 2019.

Management of the Estates in 2018

In 2018, the Board decided to continue distributions to policyholders from the Estates of the stronger with-profits sub-funds. 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. These distributions were made because the respective Estates were larger than the size considered necessary to provide security for policyholders' benefits. The framework for assessing the adequacy of the Estate is set out in the fund's PPFM.

The past practice (which has not been changed during 2018) for with-profits sub-funds transferred from Friends Life Limited is for the distributions from the Estate to be applied as an uplift to the Asset Shares used to determine final bonus rates.

For the Old With-Profits 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.

The uplifts used at the end of year bonus review were as follows:

	Uplift
FLAS With-Profits Sub-Fund	**57.5%**
FLC Old and New With-Profits Sub-Fund	**45%**
FP With-Profits Sub-Fund (pre-demutualisation)	**10%**
FPLAL With-Profits Sub-Fund	**90%**
Old With-Profits Sub-Funds	**10%**
UKLAP With-Profits Sub-Fund	**12%**
WL With-Profits Sub-Fund	**15%**

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 or investment conditions change significantly.

As stated in section 4.5 above, the PPFM permit Aviva to apply an additional charge to Asset Shares to contribute to the cost of guarantees of the with-profits fund. Whilst no such charges were made to the Asset Shares of the Irish With-Profits Sub-Fund in 2018, charges had been made in the past. During 2018, those past charges were refunded to the Asset Shares in this fund.

In line with the rules described above, £68m was released from the Reattributed Inherited Estate External Support Account to shareholders in 2018. This release was approved by the Board having been scrutinised by the With Profits Committee (including its external actuarial advisor) and the With-Profits Actuary,

During the year, £1.5bn of non-profit annuities in the FP With-Profits Sub-Fund was transferred to the Non-Profit Sub-Fund. The rationale for this transaction was to reduce longevity and credit risks in the FP With-Profits Sub-Fund which would otherwise become more significant as the fund runs off.

Conclusion

Throughout 2018, the Estates were managed in accordance with the PPFM and, where relevant, 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 2018. New with-profits annuity policies were also written in the UKLAP With-Profits Sub Fund. The volume of new with-profits business continues to be at a very low level relative to the volume of business written in the past 10 to 15 years.

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

During 2018, the Board reviewed the practice of writing new with-profits policies and concluded that this was still fair to policyholders. This view was supported by the With Profits Committee. 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.

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 is 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.

To ensure the fairness of the terms of transfer of non-profit annuities from the FP With-Profits Sub-Fund to the Non-Profit Sub-Fund referred to in paragraph 4.6, these have been subject to an extensive review process prescribed by the Court Scheme. This includes comparison with external deals, and review by the With-Profits Actuary, the With Profits Committee, an Independent Actuary and the regulators.

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 2018

Some changes have been made that took effect from 1 January 2019. The most significant change was to amend the approach to smoothing of policy payouts.

No changes to Principles were made in 2018.

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** or **aviva.ie/ppfm**.

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 2018 may be regarded as taking, or having taken, the interests of the with-profits policyholders of UKLAP into account in a reasonable and proportionate manner.

Further, I am satisfied that, during 2018, discretion in relation to with-profits policies has been exercised fairly and in accordance with the PPFM.

For the avoidance of doubt, and based on the thorough handover process with the previous With-Profits Actuary, the above opinions extend to the period prior to 3 May 2018.

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

14th March 2019

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 1: 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
Norwich Union Ireland Norwich Union Insurance Ireland Limited Hibernian Life Limited Hibernian Life & Pensions Limited Aviva Life & Pensions Ireland Limited	Irish 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 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
Aviva Life & Pensions UK Limited – except annuity business	
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
Commercial Union Life Assurance Company – stakeholder plans CGNU Life Assurance Limited – stakeholder plans Norwich Union Life (RBS) Ltd – 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 2: Scheme Certificate

Aviva Life & Pensions UK Limited

Certificate by the Aviva Life & Pensions UK Limited Board

Period 1st January 2018 to 31st December 2018

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 Life & Pensions UK Limited has, in accordance with Paragraph 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 2018 to 31st December 2018.

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 paragraph 75 of the 2017 Scheme). In addition, the Board has consulted the Aviva Life & Pensions UK Limited 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 2018 compliance review.

Where compliance breaches have been identified, steps have been taken or are being taken, where appropriate and relevant, to improve processes and to make the required corrections.

Apart from these issues, the Board certifies that the provisions of the 2017 Scheme have been complied with in all material respects for the period between 1st January 2018 and 31st December 2018.

Andy Briggs
Chief Executive Officer

2nd April 2019