Principles and Practices of Financial Management (PPFM)

for Aviva Life & Pensions UK Limited

Stakeholder With-Profits Sub-Fund

Version 18

AVIVA

Contents

Section 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 B.

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 C shows the composition of funds under Aviva Life & Pensions UK Limited.

This document covers with-profits business in the Stakeholder With-Profits Sub-Fund of Aviva Life & Pensions UK Limited (the 'Sub-Fund').

The most common names that exist on what are now policies of the Stakeholder With-Profits Sub-Fund are Commercial Union Life Assurance Company, CGNU Life Assurance Limited and Norwich Union Life (RBS) Ltd.

Other names will be relevant to policies in our other with-profits sub-funds. Appendix D 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 A 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.

Section 2: The amount payable under a with-profits policy

Amount payable

2.1 Principles

The amount paid on the originally selected retirement date or death for a policy in the Sub-Fund will be the initial guaranteed benefits, plus bonuses constituting an equitable share of the distributable surplus earned by the Sub-Fund over the period of investment, subject to the terms of the policy conditions which take precedence.

Where a policy is eligible for a surrender value, the amount paid on surrender or retirement at dates other than the originally selected retirement date will have regard to the initial guaranteed benefits and bonuses, and the desire to avoid surrenders causing a strain on the Sub-Fund remaining for continuing policyholders.

Common bonus rates are used for appropriate groupings of policies reflecting an element of cross- subsidy and pooling of risks for policies with similar characteristics. A single group may contain policies of different age, year of entry, size and premium history.

In order to provide an element of stability in the returns to policyholders at the originally selected retirement date, smoothing is applied by spreading profits and losses from one year to the next. It is intended that the long-term cost of smoothing is broadly neutral across generations of policyholders. No such year-on-year smoothing is applied when reviewing non-contractual cancellation of units. In between such reviews smoothing applies as described in the practices.

With the approval of the Board following the recommendation of the With-Profits Actuary:

- The systems and methods used to determine bonuses or payouts may be changed from time to time, as a result of changes in circumstances including systems upgrades, or to improve the management of the bonus process. Approximate methods may be used where necessary, or if deemed appropriate:
  - where approximations are not expected to significantly affect the resulting bonuses or payouts, or
  - where the historical data required to perform precise calculations is no longer available or is difficult or costly to access. In this case the calculations will be carried out as accurately as is reasonably possible in the With-Profits Actuary's opinion.
- Historical assumptions and parameters used may be updated to support a change to the systems or to improve further the accuracy of the calculations.

2.2 Practices

Asset share calculations for specimen policies are used as a guide to determine bonus rates and the amounts payable to with-profits policyholders. Asset share methodology is described in sections 2.3 and 2.4. The Board determines the appropriate level and timing of distributions to policyholders.

The aim in the long term in determining final bonus is to return to with-profits policies as a group, on average 100% of asset shares. The amounts payable in any year, or to any particular policyholder may be more or less than 100%, due to the effects of smoothing, guarantees, and grouping of policies.

Current practice in determining bonus rates is to target an average payment on maturity for each group of policies equal to asset share, subject to the smoothing process. Maturity and surrender payouts for a group of policies should normally fall in the range 80% to 120% of asset shares.

Bonus rates are smoothed so that the full extent of changes in the market value of assets in the Sub-Fund is not always immediately reflected in claim payments. The aim is that in normal circumstances the cost of smoothing will be broadly neutral over the long term. There is no specific overall limit to the accumulated cost of smoothing beyond the principle of maintaining regulatory solvency at an acceptable level.

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 value assuming that the current final bonus rates do not change.

- If the payout using the current final bonus rate lies within the target payout range (see above) then the smoothing limit is 5%.
- If the payout using the current final bonus rate lies outside the target payout range (see above) then the smoothing limit is 7.5%.

In normal circumstances, the maximum amount of smoothing in one year will be 15%. If circumstances change so that the solvency of the funds is threatened, then a larger smoothing limit percentage may be used, or smoothing may be suspended. The bonus philosophy practices provide more detail on the smoothing approach, see 2.6.

Smoothing is managed principally on a single premium basis (i.e. claim values are considered separately for each year of unit purchase). The claim value of regular premium policies is the total of claim values for premiums invested in each calendar year.

The Sub-Fund was established with no free reserves (i.e. the excess of the value of assets over the value of liabilities) and an account for smoothing and guarantees is being built up from the accumulation of an allocation from the asset shares. This allocation is currently 0.25% per annum. The account builds up over time and allows the Company to operate the crucial features of with-profits investment, i.e. smoothing out the peaks and troughs in the values of underlying assets and providing the guarantees on retirement and death. The 0.25% allocation remains within the Sub-Fund and therefore for the sole benefit of stakeholder with-profits investors.

The purpose of the smoothing account is to cushion the Sub-Fund from investment volatility and enable the smoothing policy to be carried out. The size of the account relative to the smoothing policy will be reviewed periodically by the Board, on the advice of the With-Profits Actuary. If it is considered too small, either an increase to the allocation above 0.25% per annum, or a weakening of the smoothing policy will be considered. If it is considered too large, this could be addressed either by a reduction in the allocation or a strengthening of the smoothing policy.

Any excess (or shortfall) of payouts over asset share are allocated from or to the smoothing account. The smoothing account will not be allowed to grow larger than is required to fulfil its function as described above. Certain sub-funds of Aviva Life & Pensions UK Limited may provide financial support to the Stakeholder With-Profits Sub-Fund. The support would be in respect of stakeholder business reassured to the sub-fund by way of a contingent loan where a deficit arises in the Stakeholder With-Profits Sub-Fund.

The final bonus rate used for non-contractual unit cancellations is the same as that used for contractual and death claims of the same duration. Such claim values may however be reduced by the application of a Market Value Reduction (MVR) as described in sections 2.7 and 2.8. Subject to policy conditions we may also allow for any required deductions to protect the interests of remaining policyholders. At present we do not make any deductions but may do so in future to the extent permitted within the Conduct of Business Sourcebook rules.

Supporting documentation of systems, methods, assumptions and parameters is maintained and is subject to formal change control procedures.

Any changes to systems, methods, assumptions or parameters are documented and are subject to formal change control procedures with appropriate levels of authorisation. In particular, minor changes in assumptions would normally be authorised by the With-Profits Actuary. More significant changes in assumptions and changes in methodology and parameters would be agreed with the With-Profits Actuary and would be subject to the formal approval of the Board and subject to With-Profits Committee review.

The same assumptions and parameters are applied across different generations of policies where in the opinion of the Board the experience of the different groups is felt to be reasonably homogeneous or where the experience of different groups is not separately available.

Asset share methodology

2.3 Principles

Asset shares are used as a guide to determine the amounts payable under a policy and reflect the sources of profit or loss to the Sub-Fund.

2.4 Practices

Asset shares are calculated for specimen policies or groups of policies from assumptions derived from the actual experience of the Sub-Fund. The experience may be measured across different generations or types of policy if it is considered appropriate by the Board, following the recommendation of the With-Profits Actuary.

The parameters and assumptions used are reviewed each year and changed where appropriate. Any changes are documented and are subject to formal change control procedures with approval of the With-Profits Actuary.

For with-profits stakeholder business, the total asset share for a policy is the sum of the asset shares for all units allocated to that policy. The asset share for units allocated at a given time is:

initial investment

\+ an allocation of investment return

– an allowance (currently 0.25% per annum) of the value of the Sub-Fund which is directed into the smoothing account.

Expenses are taken by way of an explicit Annual Management Charge (AMC) deducted by way of unit cancellation. The AMC is expressed as a percentage of the asset share and is set at a similar level to the AMC for policies investing in unit-linked funds. The AMC can be changed in line with policy conditions.

This approach is described in more detail below.

Units are allocated when premiums are paid and may be cancelled to cover expense charges, partial surrenders and charges for risk benefits.

Investment return

The investment return used in the asset share calculations is based on the actual asset mix of the separate Stakeholder With-Profits Sub-Fund. A separate asset pool is not maintained for stakeholder business. Instead, investment return is allocated to the Sub-Fund from the Aviva Life & Pensions UK Limited Old and New With-Profits Sub-Funds. Currently, the return allocated to the Sub-Fund is equal to the return allocated to other with-profits business in the Aviva Life & Pensions UK Limited Old and New With-Profits Sub-Funds. Actual annual returns, net of permitted dealing cost reductions have been used to determine the investment return used in asset share calculations. The Company retains the flexibility to adopt a different asset mix for stakeholder business and stakeholder business of different generations.

Smoothing account allowance

An allowance, currently 0.25% per annum, of the value of the Sub-Fund will be allocated from asset shares and directed into a smoothing account each year. The 0.25% allocation rate will be reviewed periodically. It may be increased (or decreased) if it is considered by the Board, on the advice of the With-Profits Actuary, that the size of the smoothing account relative to the smoothing philosophy is too small (or too large).

Bonus Philosophy

2.5 Principles

Regular bonus rates are set with the aim of providing a progressive build up of guaranteed benefits over the lifetime of the contract with an overarching aim of retaining sufficient profits to provide an appropriate margin for final bonus. Regular bonus rates may be changed to reflect circumstances including past investment performance, changes in expected long-term investment returns, and any guarantees in the contracts to which they apply. Regular bonus rates will be smoothed, to limit the changes in these rates from year to year. The regular bonus rate could be zero (subject to policy conditions) if required.

New bonus series may be created in a variety of circumstances, including in order to maintain equity between different policy classes, policies written under different premium rates, and different generations of policyholders.

Final bonus rates are set with the aim of distributing the balance of the distributable surplus earned over the lifetime of the policy, to the extent that such profits have not previously been distributed by way of regular or other bonus additions. Final bonus rates are smoothed as described in sections 2.1 and 2.2.

The Board may alter conditions for payment of final bonuses or cease paying final bonuses at any time without notice. Factors which might lead to a change include changes in the financial circumstances of the Sub-Fund and anticipated future experience of an exceptional nature.

2.6 Practices

In determining an equitable distribution of profits for the purposes of section 2.1, we will consider:

- the need to ensure that the Sub-Fund is able to meet its regulatory liabilities
- the current and projected capital needs of the Sub-Fund
- the investment strategy of the Sub-Fund
- the bonus philosophy of the Sub-Fund
- the need for an appropriate level of security for policyholders' benefits
- the need to ensure that policyholders' reasonable benefit expectations are maintained.

The paragraphs below describe how bonus rates are currently determined and smoothed in normal financial circumstances. The Company may change these arrangements when circumstances are not considered normal. Examples of circumstances which would not be considered normal include a prolonged period of depressed asset values, a heavy incidence of surrenders, or regulatory solvency issues.

The amount of regular bonus may depend on:

- the relevant profits earned in the Sub-Fund over recent years
- the investment return we expect in the long term
- the prospective final bonus margin
- the expected cost of guarantees on all existing with-profits policies in the Sub-Fund
- projected regulatory solvency levels, now and in the future
- the smoothing adjustment.

Regular bonus declarations take into account the rates which the Company expects to be able to maintain over the terms of both existing and, where appropriate, new policies within a bonus series based on best estimates. This is achieved by projecting current asset shares for specimen policies each year for a range of future investment returns on the Sub-Fund, and choosing a target regular bonus rate which aims for an adequate margin for final bonus. The projections allow for potential variations in the future investment returns. Suitable allowance will be made to finance final bonus, to reduce the risk of asset shares falling below initial guaranteed benefits plus previously declared bonuses. Part of the profits are shared out as regular bonus. We aim to do this so that there is an appropriate balance paid as a final bonus, taking account of the overall strength of the Sub-Fund. At any time we may pay more or less depending upon actual experience.

No undue weighting is given to recent economic experience.

Interim bonus rates, where appropriate, are determined having regard to the estimates of the level of regular bonus rates expected to be declared at the next declaration.

In normal conditions, regular bonus rates will be reviewed twice a year. Although changes are smoothed, there is no maximum amount by which regular bonus rates would alter.

Final bonus rates are set to achieve the overall aim of returning to maturing with-profits policyholders as a group, on average, 100% of asset shares in the long term, given the regular bonus rates determined as described in section 2.5 and 2.6. They are set so as to achieve the smoothing objectives described in section 2.2. Representative specimen policies are used, rather than the underlying policy asset share itself. Final bonus rates are influenced by the total return on investments and so are reviewed in the light of prevailing financial conditions.

In normal conditions, final bonus rates will be reviewed at least twice a year. However, we may change final bonus at any time during the year, particularly in changing financial conditions. We would expect to change final bonus rates when there is a sustained movement in asset shares of 15% or more since final bonus rates had last been set. Final bonus rates are currently based on year of unit purchase, unless there are large discontinuities in which case we may use a time period shorter than one year.

Final bonus where applicable is payable on all cancellations of units in the unitised with-profits funds and depends on the date of unit purchase. The final bonus rate could be zero.

The bonuses described in this section also apply to investments that have been altered in some way and/or stopped payment of premiums.

Market Value Reduction

Introduction

It is the responsibility of the Board to ensure any current activity does not adversely affect ongoing policyholders and their rights. The use of a Market Value Reduction (MVR) is one of the key aspects in the protection of payouts for policyholders still invested in the Sub-Fund.

2.7 Principles

A Market Value Reduction (MVR) may be used whenever it is necessary to protect the Sub-Fund or other with-profits investors in the Sub-Fund from losses arising from unit cancellations. An MVR may be used whenever there is a strain on the Sub-Fund. Application of an MVR is based on a comparison of the asset share and the credited return indicated from the application of regular and final bonuses.

2.8 Practices

An MVR may be applied where the asset share is less than that credited by way of bonuses to policyholders, subject to policy conditions.

The MVR is an adjustment to the value of units, including any final bonus, and is intended to ensure the Sub-Fund doesn't incur a loss. The decision to apply MVRs and the application and review process is actively managed. Policyholders applying for a settlement value will be informed if an MVR will be applied. This gives them the option to defer the cancellation of the units.

The effect of an MVR is to reduce the final bonus which is payable on the cancellation of units. If the MVR exceeds the final bonus, then the effect is to reduce the amount payable to a level which is below the face value of the units cancelled. An MVR will never apply on payment of a death benefit.

For Stakeholder policies, MVRs may be used to target payouts (after MVR) that represent 100% of the asset share less any deductions required to protect the interests of remaining policyholders on average. At present we do not make any deductions but may do so in future to the extent permitted within the Conduct of Business Sourcebook rules. Payouts for individual policies may fall within the range 90% to 110% of asset share, mainly as a result of accommodating short term market fluctuation. We will look to rebalance MVR rates back to target payouts (after MVR) that represent 100% of asset share when there is a 5% movement in underlying market indicators and some sign of stability at that new level.

For stakeholder pensions policies invested in the Stakeholder With-Profits Sub-Fund, an MVR may be applied on a more frequent basis than under the Old and New With-Profits Sub-Funds of Aviva Life & Pensions UK Limited. This is because the Sub-Fund stands on its own and must be able to support itself without assistance from the inherited estates of the other with-profits sub-funds.

MVRs are currently determined by calendar month of unit purchase and the surrender value is the sum of the value (after allowance for final bonus and MVR) of the units encashed. A surrender value may thereby include units to which an MVR has been applied and units to which no MVR has been applied.

It is most likely that an MVR will be needed following a large or sustained fall in stock markets or after a period where investment returns are regularly below the level we had expected in setting bonus rates. We will look to reduce the MVR as markets improve or increase it if markets worsen.

Section 3: Investment strategy

Introduction

Information (which has previously been made publicly available) on the mix of assets and investment returns in recent years is given on the Aviva Life & Pensions UK Limited Stakeholder With-Profits Sub-Fund investment information sheet which is available on the website **aviva.co.uk/ppfm**.

3.1 Principles

In accordance with the Stakeholder Pension Schemes Regulations 2000/2001, the Stakeholder With-Profits Sub-Fund operates as a separate sub-fund of Aviva Life & Pensions UK Limited. A separate asset pool is not maintained for stakeholder business, but investment return is allocated to the Sub-Fund from the Old and New With-Profits Sub-Funds of Aviva Life & Pensions UK Limited.

The investment strategy aims to provide the highest long-term returns (allowing for the effect of taxation) commensurate with acceptable levels of solvency risk, having regard to:

- the nature and term of the with-profits liabilities and the management of cashflows
- the current and expected level of guarantees
- regulatory solvency requirements and future possible scenarios
- the size of the smoothing account and any freedom or restrictions in investment flexibility that may provide
- advice from our Fund Managers
- short-term and long-term anticipated returns in different asset classes
- volatility of different asset classes.

The monies of the Sub-Fund will be invested in a range of assets where this reduces risk. Investment returns are benchmarked against appropriate indices, taking into consideration the levels of risk inherent in each asset class and stock. Maximum and minimum exposures to, and performance benchmarks for different investment classes and/or individual investments will be set from time to time in accordance with Sub-Fund objectives. Maximum exposures to investments in any one counterparty are specified. Intended holding ranges in various asset classes may be changed in order to improve long-term performance or to improve the likelihood that the Sub-Fund can meet its guarantees.

The investment strategy for the Sub-Fund will be determined as part of the overall investment strategy for the Aviva Life & Pensions UK Limited Old & New With-Profits Sub-Funds as a whole to give more freedom to the Sub-Fund whilst maintaining the Principle outlined in section 3.1.

Investments may be made in derivatives or similar instruments if they are appropriate to the objectives of the Sub-Fund. Such investments are subject to the appropriate internal governance procedures of the Company.

The investment strategy of the Sub-Fund takes into account the nature and term of the liabilities, by considering appropriate assets for different generations of with-profits policyholders. No other investment constraints are placed on parts of the Sub-Fund, other than those detailed in the rest of this section which apply to the entire Sub-Fund.

3.2 Practices

Aviva Investors Global Services Limited is currently the main appointed Discretionary Fund Manager ('the Fund Manager') for the Sub-Fund excluding Commercial Mortgage assets managed by Aviva Commercial Finance Limited. An investment management agreement exists between the companies, which sets out investment strategy and guidelines. The Board appoints committees to manage the relationship with the Fund Managers, set the strategic direction and review performance against benchmarks. Their activities include agreeing the appointment of Fund Managers, investment management agreements, credit and counterparty limits and approving major, special or strategic investment decisions. These committees are responsible for determining the benchmark asset allocation strategy, setting risk appetite and reviewing both competitor activity and economic outlook alongside expected returns on different asset classes (short term and long term).

The Sub-Fund is not allocated assets that are inappropriate to stakeholder investment.

The assets of the Sub-Fund are predominantly invested in equities, property, fixed-interest securities and cash. The Board sets investment performance targets for the Fund Manager:

- For asset category allocation (e.g. UK equities, property, fixed-interest securities), the following are set:
  - performance targets relative to benchmark indices
  - benchmarks and asset allocation ranges for all classes of assets.
- For stock selection within asset categories:

- performance targets have been set for all sector funds. For Pensions business, outperformance target ranges have been set against appropriate benchmark indices
- to control the risk profile of the equity sector funds, a tracking error is set at a multiple of the performance objective recognising the expected skill levels of the Fund Manager
- to control the risk profile of the bond funds the duration and tracking error ranges are set using the same approach as for equity sector funds.

Performance targets are based on the total return (income plus capital gain).

Currently, there is no recourse to assets in the Shareholder Fund in order to support the investment strategy of the Sub-Fund, as described in section 3.1. Investment return is allocated to the asset shares of the with-profits stakeholder business in a manner that is consistent with that for pensions business in the Old and New With-Profits Sub-Funds of Aviva Life & Pensions UK Limited. The smoothing account is credited with the return on the assets backing the smoothing account allowing for, where appropriate, the hedging of guarantees.

The target asset allocation 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. Allocations between asset categories can be varied by the Fund Manager within tight constraints and the result of this activity is reviewed monthly by the relevant committee.

For with-profits business, a suitable proportion of equity type assets, known as the equity backing ratio (EBR) is maintained for asset shares within the Sub-Fund. This is calculated to allow for the cost of guarantees on policies within the Sub-Fund and takes into account the strength of the Sub-Fund and the size of the estate.

It is intended to operate the Stakeholder With-Profits Sub-Fund with the same equity backing ratio as the Aviva Life & Pensions UK Limited Old & New With-Profits Sub-Funds. Currently, the investment mix of the Sub-Funds is the same; however the Company will retain the flexibility to adopt a different investment mix for this business in the future should this be necessary given the circumstances of the Sub-Funds.

The method currently used to determine asset allocation ranges for broad asset classes (equity type and fixed interest) and duration ranges for fixed-interest assets is as follows:

- a Theoretical EBR is determined for aggregate asset shares. This is taken as an assessment of the maximum exposure to equity or property assets (including hedge funds, convertible bonds and private equity type investments) that can currently be supported given the guarantee costs of the Sub-Fund.
- the appropriateness of the benchmark EBR is reviewed by reference to the Theoretical EBR and is usually subject to a tolerance of 5%, although the difference between the benchmark EBR and the Theoretical EBR may be permitted to increase to up to 10% where, given investment conditions and the outlook at the time, this is considered likely to be beneficial for the Sub-Fund.
- the benchmark EBR floats over short periods according to the performance of the underlying assets or indices; however, it is regularly reset to the benchmark EBR until a revised benchmark EBR is approved by the Board.
- the Board decides changes to the benchmark EBR for asset shares and has discretion to depart from the Theoretical EBR. For instance it may take into account:
  - the asset distributions of other with-profits funds or companies
  - its view of the outlook for different categories of investment
  - the projected trend of EBRs
  - the desire to avoid frequent changes in the EBR, so that small changes in the Theoretical EBR are ignored.

Periodically the split of benchmarks for more specific equity and non-equity type asset class benchmarks are reviewed to reflect the strategic view of investment experts, subject to approval by the relevant committee.

Asset allocation ranges to be specified to the Fund Manager are then determined based on the overall EBR as agreed by the investment committee.

The use of derivatives in the Sub-Fund is set out in the investment management agreement and otherwise subject to approval through the appropriate internal governance procedures regarding the use of derivatives. These governance procedures seek to control the risks in using such contracts, and therefore consider amongst other things:

- the types of exchange-traded and over-the-counter derivative contracts which may be used
- maximum gross exposures which may be held in each derivative type.

The total exposure to an asset class within the Sub-Fund allowing for derivatives must be within the benchmark asset allocation ranges specified for the Sub-Fund in the investment management agreement unless otherwise agreed by the relevant committee.

Derivatives are used to hedge the financial exposures of policyholders and shareholders. The uses of derivatives that are permitted are:

- efficient portfolio management
- reduction in investment risk.

Appropriate credit quality of the investments of the Sub-Fund is maintained by prescribing benchmarks for the credit ratings in the investment management agreement.

The Sub-Fund invests predominantly in quoted investments in order to maintain the liquidity quality at a high level. The investment management agreement specifies limits on the level of investment in unquoted securities. Cash and deposit-type investments are also used to back current liabilities to provide a greater level of liquidity within the Sub-Fund than would otherwise be achieved by solely investing in longer-term assets.

The flexibility to use new investment instruments will be balanced with the need to identify the risk inherent in them and to ensure that they will be subject to adequate controls before their acquisition. No investments will be made in new investment instruments unless a proposal has first been made and approved by the Board or the committee responsible for investment strategy.

As part of the investment management activities we may lend some assets of the Sub-Fund to selected financial institutions to generate additional fee income from the Sub-Fund. All revenue derived from this process is passed directly to the Sub-Fund less any associated cost incurred. In certain circumstances, for example, if the institution encountered financial difficulties and was unable to return lent assets, the Sub-Fund could suffer a loss. We have, however, in place a number of controls, such as always obtaining security from each borrower as well as monitoring their credit ratings, in order to reduce the risk to the Sub-Fund.

The Sub-Fund may invest in properties used by the Company to administer Sub-Fund business. Any such investments are on a commercial basis which allows for trading the assets if appropriate.

The Sub-Fund does not make strategic investments in the equity or debt of companies in which Aviva plc or Aviva Life & Pensions UK Limited has a strategic connection or interest.

Section 4: Business risk

Introduction

The with-profits stakeholder policyholders are entitled to a share of the distributable surplus of the Stakeholder With-Profits Sub-Fund, as determined by the Board. The Stakeholder With-Profits Sub-Fund, and hence the stakeholder policyholders, do not share in the profits or losses for other business written by the Company and are not exposed to the general business risk of miscellaneous profits and losses that may arise from various sources.

4.1 Principles

The Sub-Fund may write new with-profits stakeholder business either directly or through reinsurance accepted from other Aviva group companies. No non-profit business or non-stakeholder business is written in the Sub-Fund. The principles relating to the volumes of new business which may be accepted are described in section 7.1. In carrying out the calculations described in that section the business risks of both new and existing business will be taken into account.

The Sub-Fund may make investments in accordance with applicable legal and regulatory requirements.

The Stakeholder With-Profits Sub-Fund does not provide financial support to other sub-funds of the Company. The Old and New With-Profits Sub-Funds may provide financial support to the Stakeholder With-Profits Sub-Fund where a deficit arises in that Sub-Fund. In such a case, the contribution will be equal to the deficit.

Control of existing business risk is exercised through the Company's governance arrangements which include regular monitoring of all significant business risks. Processes are established to determine the impact of the various business risks, for example market, credit, liquidity, on the financial position of the Sub-Fund and where necessary to identify and implement appropriate mitigating actions.

Compensation costs from a business risk will be borne by the shareholders.

4.2 Practices

In general, when considering whether to undertake a business risk the Company will consider:

- existing business risks
- size of, and possible impact on the Sub-Fund
- legislative restrictions on the Sub-Fund.

Compensation costs arising from maladministration are paid by Aviva Life Services UK Limited in accordance with the Management Services Agreement subject to approval of the Board following the recommendation of the With-Profits Actuary.

Under the terms of reinsurance arrangements, the Non-Profit Sub-Fund of Aviva Life & Pensions UK Limited currently receives all the charges applied to the Stakeholder With-Profits Sub-Fund and meets all distribution, administration and investment management expenses. Profit or loss will therefore arise in this company and general business risk will be borne by the shareholders.

Other than compensation costs in respect of maladministration, compensation costs from a business risk for Stakeholder will be borne by the shareholders, rather than as a charge to asset shares. The Old and New With-Profits Sub-Funds may provide financial support to the Stakeholder With-Profits Sub-Fund. The support would be by way of a contingent loan where a deficit arises in the Stakeholder With-Profits Sub-Fund.

The loan amount together with the return achieved during the period borrowed will be repaid once it is no longer required to meet a deficit. No repayment would be payable in the event that such repayment would amount to a deduction from scheme members' rights in any way or contravene the Stakeholder Regulations. Currently no support is required or being provided.

Business risk may arise from the issue of capital instruments by Friends Life Holdings plc ('FLH') and Aviva plc with the benefit of a subordinated guarantee from 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 policies are calculated and paid, disregarding, insofar as 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.

Section 5: Charges and expenses

5.1 Principles

The With-Profits Actuary is required to agree that any charges allocated to the Sub-Fund are reasonable and equal to the charges made in line with the policy conditions.

5.2 Practices

Policyholders are charged for expenses by the deduction of an annual management fee, which is passed to the shareholders of Aviva Life & Pensions UK Limited (see section 4.2). The maximum level of the charge is determined by relevant regulations for Stakeholder Pensions, or as stated in the policy conditions. The total charges received will not necessarily equal the actual total expenses incurred in running the business. Actual expenses are assessed for internal purposes, to determine the profit or loss to the companies involved. The impact of any such profit or loss does not affect the payout on any investment in the Stakeholder With-Profits Sub-Fund.

Section 6: Management of the inherited estate

Introduction

The Stakeholder With-Profits Sub-Fund was established with no free reserves. The policyholders of stakeholder with-profits pensions business, which is written in this Sub-Fund, have no ownership rights over the inherited estates of the other with-profits sub-funds of Aviva Life & Pensions UK Limited. The uses of the inherited estate, as described in the PPFM for Aviva Life & Pensions UK Limited Old & New With-Profits Sub-Funds do not apply to the Stakeholder With-Profits Sub-Fund.

The Stakeholder With-Profits Sub-Fund should not expect support from the inherited 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, as described in section 4.1.

This section describes the management of the smoothing account, which is used for some of the same purposes for stakeholder business as the inherited estate is used for other with-profits business.

6.1 Principles

The smoothing account of the Aviva Life & Pensions UK Limited Stakeholder With-Profits Sub-Fund is held and managed independently of other with-profits sub-funds within the Aviva group. The smoothing account will be managed in accordance with any applicable legal and regulatory requirements, including the Company's duty to maintain adequate financial resources and to take reasonable care to organise and control its affairs responsibly and effectively.

The smoothing account may be used, at the Board's discretion to:

- provide investment flexibility by enabling a higher proportion of the investment in potentially higher reward but higher risk assets than would otherwise be the case
- provide a cushion of additional security against unexpected adverse events
- permit flexibility in the smoothing of maturity and surrender payouts for with-profits policies
- meet the cost of guarantees where these exceed the policy value indicated by asset share.

Bonus rates and investment policy will be managed in order to keep the smoothing account at a level which, in the opinion of the Board (on the advice of the With-Profits Actuary), is appropriate for the level of risk 'run' by the business. An allocation may be made from asset shares to maintain the smoothing account at an appropriate level.

6.2 Practices

As well as the general uses described in the Principles above, the smoothing account is currently used to pay the cost of any approximations in the calculations.

The smoothing account is credited with the return on the assets backing the smoothing account, allowing for, where appropriate, the hedging of guarantees.

The account will be managed in line with the Principles above. Our Practice is to have sufficient monies in the smoothing account to meet the expected cost (on maturity of a policy) of providing smoothing and meeting the cost of any guarantees over and above that met by asset share including costs arising from payouts at MVR free points.

As described in section 2.2, the smoothing account is being built up from the accumulation of an allocation from asset shares. Currently the allocation is set at 0.25% per annum. The allocation may be increased or reduced in the future as required, as considered appropriate by the Board, on the advice of the With-Profits Actuary.

Section 7: Volumes of new business and arrangements on stopping taking new business

Introduction

New stakeholder business is written through the Aviva Life & Pensions UK Limited Non-Profit Sub-Fund, with the with-profits element internally reassured to the Aviva Life & Pensions UK Limited Stakeholder With-Profits Sub-Fund.

Any business which has previously been reinsured and the ongoing suitability of reinsurance is reviewed on a regular basis.

7.1 Principles

The Company will set planned volumes of new stakeholder business by determining a level and mix of new business which meets the Company's business objectives and which is unlikely to have a material adverse effect on the interests of the existing policyholders.

On ceasing to write significant volumes of new business, the Company will assess whether any action is required in respect of the smoothing account. If the closure to new business is temporary no such action may be required. If circumstances arose where it was felt appropriate to permanently close the Company to new with-profits stakeholder business, the smoothing account would be retained within the Sub-Fund, in full, for the benefit of stakeholder investors to act as a cushion against future adverse experience. In this situation, the bonus rates, policy payouts and the smoothing account deduction would be managed in order to run-off the smoothing account over the lifetime of the remaining policyholders. There would be no entitlement of shareholders or non-stakeholder investors to a distribution of the smoothing account.

7.2 Practices

Volumes of new business are currently low by historic standards and so there is no formal process to limit the volume of new business. Should volumes increase, a process to assess the maximum level of new business into the Sub-Fund will be introduced.

The Company does not set a specific minimum proportion or scale of new with-profits business to justify the Sub-Fund staying open to new business. Decisions on the future of the Sub-Fund will be taken in the light of the circumstances at the time.

The Company may choose to cease to write new stakeholder business either because of lack of demand or unacceptable terms to secure new business.

Section 8: Equity between the Sub-Fund and shareholders

8.1 Principles

The percentage of distributable surplus in the Stakeholder With-Profits Sub-Fund to be apportioned to with-profits stakeholder policyholders will be 100%, unless a different level is specified in the Company's Articles of Association or in a relevant court-approved insurance business transfer scheme.

The Board may change the terms for the sharing of profits between shareholders and policyholders subject to a change to the Stakeholder Pension Schemes Regulations and to the Articles of Association.

As an overarching Principle, the Company reserves its right to proceed with any reorganisation or transfer of business or merging or dividing or closing the Sub-Fund or any combination of the above in accordance with any legal or regulatory requirements.

8.2 Practices

Shareholders will have no interest in the surplus arising in the Stakeholder With-Profits Sub-Fund. Shareholders bear all expense risks and general business risks associated with stakeholder business. In return, shareholders receive the benefit of all charges against the Stakeholder With-Profits Sub-Fund.

Deductions from the Sub-Fund do not exceed the maximum allowed by the Stakeholder Regulations, equivalent to 1% pa on policies taken out on or before 5 April 2005 and 1.5% pa for the first ten years and then 1% thereafter on policies taken out from 6 April 2005.

Stakeholder policyholders have no ownership rights over the inherited estates of the with-profits sub-funds of Aviva Life & Pensions UK Limited. The Sub-Fund should not expect any distribution, should there be an attribution of part of any of these inherited estates.

Shareholders have no interest in the Stakeholder With-Profits Sub-Fund or ownership rights over the smoothing account held within the Sub-Fund.

Appendix A: Glossary

Amount paid on death

The total amount payable if the insured person dies while the policy is still in force.

Amount paid on maturity

The total amount payable at the date originally agreed as being the termination date of the policy if it is still in force at that time.

Amount payable on surrender

The total amount payable if the policyholder decides to cash in (or transfer in respect of a pension) the benefits at a date other than the originally agreed termination date.

Annual management charge

A deduction made from unitised with-profits policies to cover administration and investment management expenses. This is either taken explicitly by the cancellation of units or implicitly being built into the bonus rate declared.

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 With-Profits Actuary 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 premiums paid, less deductions for expenses, guarantees, tax and other charges, plus any allocations of business profits, accumulated at the investment return achieved on relevant assets of the Sub-Fund.

Benchmark

The standard position, for example, for the percentage of assets to be held in equities, fixed interest and property and against which any difference would be measured for assessing performance of investment managers.

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.

Counterparty

Investment contracts impose an obligation on both parties to meet with the terms of the contract. The other party is known as the counterparty.

Counterparty limits

The Company sets limits on the amount of investments it can have with a particular counterparty. This prevents excessive exposure to one company and the risk that would entail.

Credit limits

These are the limits within which a type of asset may be held with reference to the underlying credit rating (e.g. AAA).

Credit rating

This is an independent, relative assessment of financial risk, e.g. Standard and Poor's.

Efficient portfolio management

This is the construction of an asset portfolio so as to achieve the maximum expected return for a given level of risk.

Equity Backing Ratio (EBR)

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

FCA

The Financial Conduct Authority (FCA) regulates the financial services industry in the UK. Its aim is to protect consumers, ensure the industry remains stable and promote healthy competition between financial services providers. The FCA and PRA replaced the FSA when they were given their powers by the Financial Services Act 2013.

Final bonus

This may be added to investments in the Sub-Fund when a claim arises. The final bonus is not guaranteed and may be changed or removed at any time.

FSA

The Financial Services Authority (FSA) was an independent non-governmental body, given statutory powers by the Financial Services and Markets Act 2000. It regulated the financial services industry in the UK until 2013 when it was split into two separate regulatory authorities, the **FCA** and the **PRA**.

Group of Policies

Unless stated otherwise or the context suggests otherwise, a group of policies is defined as a group of similar policies for which we declare the same final bonus so that the appropriate percentage of asset share is paid.

Hedging

Specific investments can be made to reduce the risks with a particular asset or liability. This is known as hedging.

Inherited estate

The inherited estate is the excess of assets held within the Sub-Fund, over and above the amount required to meet the liabilities. The Stakeholder With-Profits Sub-Fund can expect no support from the inherited estate except in exceptional circumstances as described in 4.1. Instead the Stakeholder With-Profits Sub-Fund uses a smoothing account as described in Section 6.

Interim bonus

Where a regular bonus rate has only been declared up to a certain date, then an interim bonus covers the period before a next declaration for claims made during that period.

Management Services Agreement

This is the agreement under which the service company, Aviva Life Services UK Limited, provides management and administration services to the Company.

Market Value Reduction (MVR)

This applies to unitised with-profits products only. It is a reduction that may be applied to the total unit value if the policyholder moves money out of the Sub-Fund. It is applied to achieve a fair level of payouts, and to be fair to the remaining policyholders. It is most likely to be applied following large or prolonged stock market falls or when returns are below those normally to be expected. The policy conditions specify when it is guaranteed that an MVR will not be applied.

Maturity date

For a pension policy it is the selected retirement date at commencement of the policy.

Mortality costs

These are the cost of providing life cover over a specific period.

Mortality rates

These are the expected or actual proportions of people dying at a certain age.

Non-contractual cancellations (of units)

For unitised with-profits policies, units that are cancelled on dates other than on maturity, death or other specified dates in the policy conditions.

Pooling

The sharing of investments or risks between sub-funds or parts of sub-funds.

PRA

The Prudential Regulation Authority (PRA) is a part of the Bank of England and responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms. It sets standards and supervises financial institutions at the level of the individual firm. The FCA and PRA replaced the FSA when they were given their powers by the Financial Services Act 2013.

Quoted/unquoted investments

Quoted investments are those for which there is a regular price quoted, usually on one of the world's stock markets. These then have an easily assessed point in time value and ability to trade. Unquoted investments are not part of an organised market and so may be more difficult to value or trade.

Regular bonus

This is the distribution of surplus added to the policy each year. For unitised with-profits policy investments this is done by increasing the price of the units held in the Sub-Fund which increases the amount guaranteed to be paid on death or at points where a MVR would not apply.

Regulatory solvency

The required minimum level of assets in excess of liabilities including any required regulatory buffer.

Scheme

All references throughout this document refer to 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 this fund are available to meet the Solvency Risk Appetite and, to the extent not required for this, may be distributed to shareholders.

Smoothing

The claim payout under a with-profits policy aims to dampen the volatility of return from the underlying assets.

Solvency Risk Appetite

The Solvency Risk Appetite describes the Company's approach to the management of its capital position. The Solvency Risk Appetite is the preferred level of capital in excess of the minimum required by regulations. It provides protection to the Company against the risk of breaching regulatory requirements and restricts the ability of the Company to pay dividends.

Specimen policy

The Company uses specimen policies in its calculations where it is not feasible to use all policy data. A specimen policy may, for example, be a suitable example policy that represents the relevant block of business. It may be a policy that is based on averaging the available policy data for the block of business. Alternatively, the specimen policies may be a group of actual policies that, in combination, represent a significant proportion of the block of business.

Strategic investment

Investments in companies in which the Sub-Fund, or any other Aviva group company, has a strategic connection or interest, other than investments in other Aviva group companies or properties that are used by such companies to undertake their business.

Surrender

The termination of a contract prior to maturity or for a pension policy earlier than its initial selected retirement date.

Unitised with-profits

With-profits business in which each premium paid purchases a number of units at the price relevant on that day. The unit price increases at a daily rate through the application of the regular bonus rate declared. A final bonus and/or market value adjustment may also apply at the time of a claim. An annual management charge is made, implicitly or explicitly.

With-Profits Actuary

The With-Profits Actuary has responsibility for advising the Board in relation to its exercise of discretion as it affects the with-profits policyholders.

With-profits business

This is that part of the business, which includes the issuing of with-profits policies.

With-Profits Committee

A committee set up in line with COBS requirements for PPFM governance arrangements to provide some independent judgment in assessing compliance with the PPFM and addressing conflicting rights and interests of policyholders and, if applicable, shareholders.

With-profits sub-fund

This is a pool of assets held in respect of with-profits business which can back a combination of with-profits and non-profit policies. There are a number of with-profits sub-funds within the Company, of which the Stakeholder With-Profits Sub-Fund is one.

Appendix B: 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.

Fund structure of Aviva Life & Pensions UK Limited

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

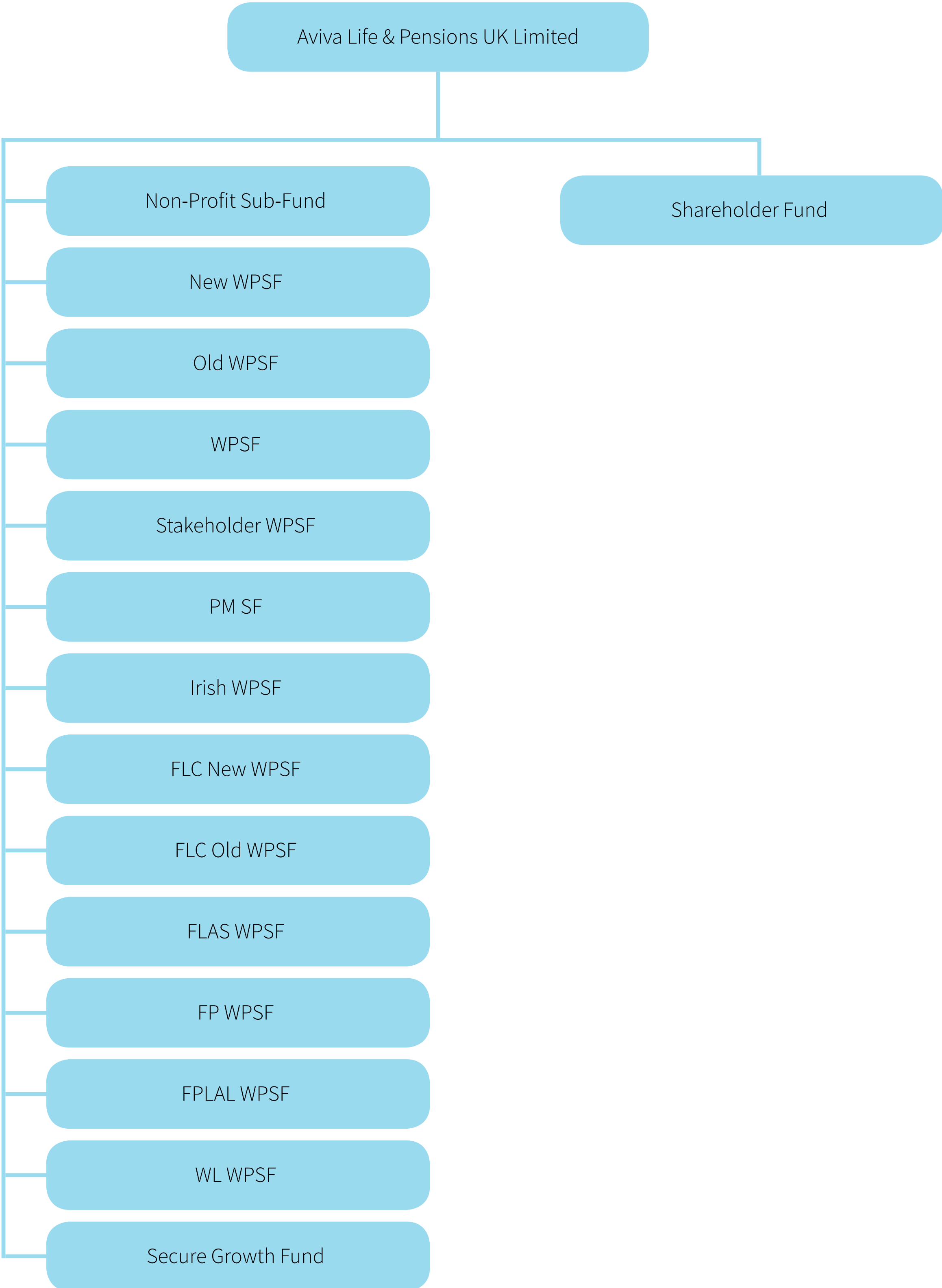
The mergers and transfers outlined above along with other historic mergers and acquisitions involving these companies have resulted in policies sold by a wide range of companies now being in the Company's with-profits sub-funds. The table in Appendix D shows the names of the current with-profits sub-funds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

Sub-Fund Background: Stakeholder With-Profits Sub-Fund

During 2001, the Articles of Association of CGNU Life were amended to create a new with-profits sub-fund (the CGNU Stakeholder Fund) in order to meet government regulations for stakeholder pensions, which came into effect from April that year.

The with-profits element of stakeholder policies was internally reassured to the CGNU Stakeholder Fund up to 1 October 2009. After this date it has been internally reassured to the Stakeholder With-Profits Sub-Fund, which is operated and accounted for as a separate sub-fund within Aviva Life & Pensions UK Limited in respect of stakeholder pensions business.

Appendix C: 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 D: 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 stakeholder plans Aviva Life & Pensions UK Limited – except annuity business and stakeholder plans	New and Old With-Profits Sub-Funds
The Provident Clerks' Mutual Life Assurance Association Provident Clerks' and General Mutual Life Assurance Association Provident Mutual Life Assurance Association	Provident Mutual Sub-Fund

Company policy taken out with	Current Aviva Life & Pensions UK Limited With-Profits 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 – ecure 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

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