Aviva Life & Pensions UK Limited FLC With-Profits Sub-Fund

Summary of changes to the Principles and Practices of Financial Management (PPFM)

AVIVA

Introduction and Background

This document summarises changes made to the FLC With-Profits Sub-Fund PPFM in recent years.

The PPFM was originally published as the PPFM of AXA Sun Life in April 2004 and it has subsequently been amended on a number of occasions. The Aviva website now displays the latest version of the PPFM.

1. Changes effective from 1 January 2026

The PPFM has been amended from 1 January 2026 following an internal review.

(a) Minor changes to 3.3 Practices

We have made a small number of minor corrections or clarifications.

2. Changes effective from 1 April 2025

The PPFM has been amended from 1 April 2025 following an internal review.

(a) 2.4.1 Practices

We have reduced the proportion of fixed interest assets backing for certain pensions policies still in force after the specified maturity date to below 100%.

(b) 3.3 Practices

We have changed the way we set regular bonus rates in the future. We would expect that this will have little difference in the amount we pay out in future; we would expect to pay more in regular bonus and less in final bonus. As regular bonuses increase the amount we guarantee to pay out in adverse circumstances, this change provides greater security for customers.

(c) 5.4 Practices

We have changed the way we describe the Equity Backing Ratio to provide greater clarity. There has been no material change to the investment strategy.

(d) 5.10 Practices

A new section has been added to the investment practices providing information on how Aviva's sustainability ambition impacts investment strategy.

(e) 7.2.2 Practices

We have updated the description of expense charges following the recent review of those charges.

(f) Minor changes to Practices

We have made a number of minor corrections or clarifications.

3. Changes effective from 1 January 2024

(a) Practices 2.3.2

The reference to a webpage used in this section has been updated.

(b) Practices 3.3

Wording that allows a larger cut in regular bonus in adverse circumstances has been removed.

(c) Practices 3.5

Some wording on the smoothing strategy has been amended to avoid confusion with other practices.

(d) Practices 6.2

The practices included wording related to capital instruments issued by Friends Life Holdings plc. These instruments have been repaid and so the wording has been deleted. However, it is still a requirement that an annual review of the impact of the Company's plans on the security of policyholders is provided to the With-Profits Committee.

4. Changes effective from 1 January 2023

The PPFM has been amended from 1 January 2023 to reflect the changes to Reorganisation Bonus, Special Scheme Bonus and Alignment Bonus following the merger of the FLC New With-Profits Sub-Fund and the FLC Old With-Profits Sub-Fund on 1 July 2022.

5. Changes effective from 1 July 2022

The PPFM has been amended from 1 July 2022 to reflect the merger of the FLC New With-Profits Sub-Fund with the FLC Old With-Profits Sub-Fund to create the FLC With-Profits Sub-Fund (Merged Fund).

(a) General changes

As a result of the merger we have made some general changes throughout the document to reflect that:

- The newly established fund is called the FLC With-Profits Sub-Fund and is referred to as the "Sub-Fund".
- References to the FLC New With-Profits Sub-Fund and the FLC Old With-Profits Sub-Fund are replaced with the FLC With-Profits Sub-Fund and references to the Funds to Fund.
- All principles and practices that previously specifically related to the FLC Old With-Profits Sub-Fund are removed. This is because the Merged Fund can be managed with common principles and practices.
- The Sub-Fund's principles and practices are based on the previous FLC New With-Profits Sub-Fund's, with any amendments described below.
- There are also changes in the numbering of paragraphs as some new paragraphs are added and some existing paragraphs removed.

(b) Targeting Payouts section

We removed text in **principles 2.1** and **practices 2.3** stating how payouts are set for Policyholders in the FLC Old With-Profits Sub-Fund. This is because payouts can now be set using the same methodology as used by the former FLC New With-Profits Sub-Fund. Any further capacity in the former FLC Old With-Profits Sub-Fund to fund additional bonuses (previously in the form of Special Scheme Bonuses) will be reflected in any Alignment Bonus.

(c) Bonus policy and Smoothing section

We removed the following text from **principles 3.1**:

- "the intention, as far as possible, to maintain the same bonus rates on equivalent policies allocated to the former policyholders in the FLC Old With-Profits Sub-Fund and FLC New With-Profits Sub-Fund", as policyholders are now in a single fund.
- "Special Scheme Bonus", as no further Special Scheme Bonus is payable following the merger. (**Practices 3.10** explains that any remaining Inherited Estate at 1 July 2022 will be allowed for when determining the Alignment Bonus.)

We amended text in **principles 3.1** and **practices 3.8** relating to Reorganisation Bonus to reflect:

- that the last Reorganisation Bonus addition will be on 1 January 2023 and the Account funding this Bonus for policyholders in the former FLC New With-Profits Sub-Fund will then have been fully distributed.
- that Reorganisation Bonus for former FLC Old With-Profits Sub-Fund policyholders will also cease (as they are set on the same basis of entitlement and at equivalent rates as those in the former FLC New With-Profits Sub-Fund).

We amended text in **practices 3.11** relating to equity between policyholders and shareholders. This is because tax on shareholder transfers for the Sub-Fund is now borne by the Non-Profit Sub-Fund (previously tax on shareholder transfers for the former FLC Old With-Profits Sub-Fund was paid by that fund's estate).

We added **practices 3.9** that explains that Alignment Bonus may be added to policies previously in either the FLC Old With-Profits Sub-Fund or the FLC New With-Profits Sub-Fund (but not both) to help ensure the merger of the two funds is fair.

(d) Investment Strategy section

We removed the following text from **principles 5.1** and **practices 5.2** as it is redundant following merger:

- separate asset pools being generally maintained for the former FLC With-Profits Sub-Funds.
- the goal of achieving the same investment returns for equivalent policies in each of the former FLC With-Profits Sub-Funds.
- notionally allocating investment returns and taxation in any combined asset pool to the former FLC With-Profits Sub-Funds.

(e) Charges, expenses and taxation section

We removed from:

- **principles 7.1** the term “proprietary” in relation to taxation as it could be mis-interpreted; this change is not related to merger.
- **practices 7.2.2** text relating to splitting fees for developments that cannot be charged to Asset Shares between the former FLC With-Profits Sub-Funds, as all such fees are now charged to the Non-Profit Sub-Fund.

(f) Solvency Risk Appetite, capital support and management of the estate section

We removed:

- from **principles 8.1** the description of how Special Scheme Bonuses are calculated, as no further such Bonuses will be added.
- all of the **practices 8.2** (FLC Old With-Profits Sub-Fund Special Scheme Bonus) sub-section.
- from **practices 8.5** text related to how the FLC Old With-Profits Sub-Fund manages its estate differently, as there will no longer be separate estates and practices used in the former FLC New With-Profits Sub-Fund can be applied to all with-profits business in the Merged Fund.
- from **practices 8.6** text relating to the merger of the FLC With-Profits Sub-Funds and FLC Old With-Profits Sub-Fund as they are now merged.

We have updated **practices 8.2** (previously **practices 8.3**) text to reflect the reduction in the Support Account over time in line with the schedule specified in the Scheme. The specified Scheme schedule is unchanged.

Introduction, Glossary and Appendix sections

We updated the:

- Introduction and Appendices (e.g. Company structure charts) sections to reflect the merger.
- Introduction section to state the merger did not require Court approval because the Scheme already made provision for such a merger.
- Appendix section on taxation to reflect the changes referred to under (e) above.
- Glossary to reflect the changes above.

6. Changes effective from 1 January 2022

The PPFM has been amended from 1 January 2022. One practice was amended following an internal review.

(a) Practices 3.3

We have reduced the annual management charge on capital units to the same level as other units. The specific reference to capital units has therefore been removed as it is no longer relevant.

7. Changes effective from 1 January 2021

The PPFM has been amended from 1 January 2021. A number of practices were amended following an internal review.

(a) Practices 2.4.2 & 6.2 and Glossary

We have removed references to a previous services company.

(b) Practices 3.4

We have corrected the wording for the change in payouts to be less than or equal to the smoothing limits following final bonus rates changes.

(c) Practices 3.5

When determining final bonus rates, current regular bonus rates rather than proposed are used and the wording has been corrected to reflect this.

(d) Practices 3.6

The approach of using the same final bonus rates for conventional whole of life policies as for maturing endowments is well established. The wording has been corrected to reflect this and references to the prescribed test have been removed.

8. Changes effective from 1 January 2020

The PPFM has been amended from 1 January 2020. A number of practices were amended following an internal review.

(a) General changes

We have made some minor corrections and clarifications to wording. These have not been described here as they make no material change to the PPFM.

(b) Practices 2.3, 8.2 & 8.6

We have made some changes to the description of our approach to estate distributions. This is to make it clearer for customers to understand the main risks and rewards of maintaining a with-profits policy in the Sub-Funds.

(c) Practices 2.4 & 7.2

The PPFM referred to a management services agreement which ceased at the end of 2018. We have amended the wording to reflect the revised Management Services Agreement which took effect from 1 January 2019.

(d) Practices 8.6 and Glossary

We have introduced a Risk Appetite Framework to support the decision making in relation to the with-profits sub-funds. It aims to manage the Sub-Funds so that the estate is within a preferred range.

9. Changes effective from 1 January 2019

The PPFM has been amended from 1 January 2019. A number of practices were amended following an internal review.

(a) General changes

Where possible we have standardised wording and removed any practices that are no longer applicable. These have not been described here as they make no material change to the PPFM.

(b) Practices 3.4

We have made some changes to the way we apply smoothing of payouts to better achieve the way smoothing is described in the practices.

(c) Practices 5.2 & 5.4

We have changed our investment approach for the working capital so that the practices better achieve the practices.

We have clarified the approach to reviewing investment strategy and how it is described within the PPFM.

We have also clarified our investment approach relating to assets backing asset shares (“return assets”), and assets backing other liabilities (“non-return assets”).

(d) Practices 5.6

We have clarified how derivatives may be used.

(e) Practices 5.9

We have clarified the investment controls that are in place as outlined by the funds own investment mandate.

10. Changes effective from 1 January 2018

(a) General changes

The PPFM has been amended from 1 January 2018. The changes have not been described here as they were minor corrections or clarifications to wording and make no material change to the PPFM.

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