Principles and Practices of Financial Management (PPFM)

for Aviva Life & Pensions UK Limited Secure Growth Fund

1 January 2024

Contents

Aviva Life & Pensions UK Limited – Secure Growth Fund PPFM

1 Introduction

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

1.1 Company information

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

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

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

1.2 What business is covered by this document?

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

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

The most common names that exist on what are now policies of the Secure Growth Fund are Welfare Insurance Company Limited, London and Manchester Pensions Limited, Friends Provident Corporate (Pensions) Limited, Friends Provident Pensions Limited and Friends Life and Pensions Limited.

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

1.3 Purpose of PPFM

What is a PPFM?
A PPFM is a document that sets out the Principles and Practices that a company follows when managing its with-profits business. The PPFM for this 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 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 Fund in line with the Principles and Practices set out in this document.

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

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

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

1.5 Court Scheme

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

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

1.6 Glossary

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

1.7 Background information on with-profits policies in the Fund

A unit fund is maintained for each policy in which policy premiums, less charges, are accumulated. Unit prices normally increase daily at the current rate of interest net of any annual management charge.

The amount paid on maturity or death for a policy in the Fund will normally be the value of the unit fund, increased by any final bonus, although in exceptional circumstances the amount may be lower (see section 4, 'Market Value Reduction' and 'Short term investment charge') or higher (see section 2.1, 'guaranteed minimum lifetime interest rate').

Some policies have Guaranteed Annuity Rates ('GARs'), which specify the minimum annual income that, subject to the policy conditions, can be bought from the Company by each pound of the policy's unit fund value when the policyholder retires.

Interest is currently added to the Fund's policies in one of two forms: regular interest, which is added throughout the policy term, and special interest, which may be added from time to time. Both take the form of an increase in the price of units.

The Fund has been invested in by policies from a range of different products over time. Different rates of interest may be paid to different types of policy. In particular, for some types of policy, the rate of regular interest may be reduced by an annual management charge whereas for other types of policy, the annual management charge may be collected by the cancellation of units.

Final bonus may be added when units in the Fund are encashed in order to improve the fair treatment of policyholders over time.

Section 3 explains how we determine what rates and types of interest or bonus are payable at any time.

2 Targeting payouts

2.1 Principles

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

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

We will manage the Fund with the aim of ensuring that all guaranteed benefits can be paid as they fall due.

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

Payouts will generally be determined by the value of units, which will have increased in price from past interest additions. However, Market Value Reductions ('MVR') or Short Term Investment Charges ('STIC'), see section 4, may be applied in certain circumstances.

Where a policy has a guaranteed minimum lifetime interest rate, the value of premiums, less in some cases charges, accumulated at the guaranteed rate, will be the minimum payment.

2.2 Target payouts

The encashment value of units in the Fund is normally the product of the number of units held and the current unit price, less any deductions specified in the policy conditions, increased by any final bonus.

If an MVR is applicable, the amount paid will be reduced by the appropriate MVR percentage.

In appropriate circumstances (for example, to avoid policyholders taking unfair advantage of any final bonus applied), a STIC may be deducted. This may be in addition to an MVR or other deductions.

We do not at present calculate Asset Shares (see Appendix 1 – Glossary) for policies invested in the Fund.

2.3 Controls and documentation

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

We would consider changing the methodology in future if appropriate new techniques were developed, or if the circumstances of the Fund changed such that the current methodology no longer resulted in a fair treatment for all policyholders.

High-level descriptions of methodology and systems have been produced. More detailed descriptions of parts of the process to determine payout levels are typically documented within spreadsheets used in the process.

For each review an electronic sub directory is created which is used to record assumptions, backing calculations, notes and correspondence relevant to the review.

3 Interest rate policy and smoothing

3.1 Principles

General

Distributions of surplus to policyholders are by means of interest rates or otherwise and will be determined by the Board having taken account of appropriate actuarial advice and after consideration by the WPC.

Surplus arising in the Fund will only be distributed to the with-profits policyholders of the Fund.

Interest rates and, if introduced, other forms of surplus distribution will be kept under regular review in order to manage policies in line with the Principles detailed in this section and to maintain fairness between policyholders of different generations and interest rate series and between those leaving the Fund and those remaining.

New interest rate series may be created if fairness between different groups of policyholders cannot be maintained within an existing interest rate series.

Regular interest rates

Regular interest will be added every year to provide policyholders with additional benefits.

Regular interest rates are set with the objective of enabling a fair distribution of the assets of the Fund to policyholders invested in it over the lifetime of their policies. If other forms of surplus distribution are introduced, this objective will be appropriately amended.

Before determining the regular interest rates for some products, we deduct the current level of management charge.

Special interest additions

We aim to balance fairly the interests of policyholders cashing in units in the Fund in the immediate future and those who will remain invested in the Fund for many years. From time to time, we may consider that the excess assets of the Fund have reached a level at which, distribution through an increased regular interest rate alone would not achieve this aim. In this case, we may then make a special interest payment to all policies in force at a specified date.

If other forms of surplus distribution are introduced, this objective will be appropriately amended.

Other forms of distribution of surplus

We may introduce other forms of distribution of surplus if we consider that this would assist us to improve the fairness of the distribution, or would have other beneficial impacts for the Company whilst not materially worsening the fairness of the surplus distribution.

Smoothing

We restrict the pace of change in regular interest rates from year to year, so that in normal circumstances there is a maximum change that we may make from one year to the next. In adverse circumstances, we may make larger changes.

If other forms of surplus distribution were introduced, we will smooth changes to them in an appropriate manner.

We intend the effect of smoothing to be broadly neutral over time.

3.2 Regular interest rates

We base regular interest rates on the longer-term expected return on the assets in the Fund. If the assets of the Fund are higher than the required reserves plus a margin, we increase the regular interest rate to allow the distribution of some or all of the estate over the lifetime of the remaining policies.

If the assets of the Fund are lower than the required reserves plus a margin, we reduce the regular interest rate to allow the deficit to be recovered over the lifetime of the remaining policies. If necessary, regular interest rates will be reduced to very low levels for a period.

Regular interest rates are reviewed at least once each year. The rates declared do not normally change by more than 1 percentage point from the equivalent rate declared approximately a year previously (changes are not always implemented at exactly the same time each year).

After each regular interest rate declaration, the price of units will increase on a daily basis (at a rate which over 12 months will amount to the declared rate) until the subsequent interest declaration. Unit values will not decrease (but see section 4.2).

3.3 Special interest declarations

When special interest declarations are made, the price of units will increase by the special interest rate on a date we determine. Units encashed prior to this date are not entitled to receive any benefit from the special declaration.

As indicated in 3.1 'Special interest additions', we introduced a final bonus for claims on or after 1 January 2018 (see 3.5) in order to enable a fairer distribution of surplus between policyholders. As a result, we expect that it is less likely that special interest declarations will be made.

3.4 Approximations in determining interest rates

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

3.5 Final Bonus

As indicated in 3.1 'Other forms of distribution of surplus', the Company commenced adding final bonus to exits from 1 January 2018. Final bonus may be added to units that have been held for a minimum number of years when they are encashed.

The final bonus rate payable on cancellation of units is reviewed at least twice each year. More frequent reviews may take place in changing or adverse conditions.

The level of final bonus to be added to policies is expressed as a percentage of the value of units held.

When reviewed, the level of final bonus can be increased or decreased.

The change in payout resulting from a change in the final bonus percentage will be limited to 5% at each review.

If circumstances change so that there is a significant risk that the assets of the fund will not cover the liabilities, then a larger smoothing limit percentage may be used, or smoothing may be suspended.

The latest published final bonus rate is available from our website at **aviva.co.uk/estate-distributions**.

4 Surrender values

4.1 Principles

A surrender value will normally be the value of units in the Fund, less any deductions described in policy conditions.

If other forms of surplus distribution are introduced, this objective will be appropriately amended.

We may also apply a Market Value Reduction (MVR) when the aggregate value of the reserves required to be held by the Fund exceeds the value of the assets of the Fund. An MVR will only be applied where it is not disallowed by policy conditions. The amount of any MVR will be proportionate to the shortfall of the value of assets in the Fund compared to the aggregate value of reserves.

A Short Term Investment Charge (STIC) may also be applied in appropriate cases.

4.2 Market Value Reduction (MVR)

The Company reserves the right to apply an MVR if units are cashed in at any time when the total value of the Fund's Reserves exceeds the total value of its assets.

MVRs will not be applied on death or on retirement at the age or ages specified in the policy documents. For some policy classes, the policy documents may also set out other circumstances in which an MVR may not be applied or, which is the same, circumstances in which the full value of units is guaranteed to be paid.

MVRs may be introduced, changed or removed at any time.

MVRs may take the form of the same percentage reduction in the cash value of all units. Alternatively, for some or all policy classes, different percentage reductions might apply depending on factors such as the date the policy commenced (or the member of a pension scheme first began to invest in the Fund) or the dates on which the units were bought.

4.3 Short term investment charge (STIC)

The Company may apply a STIC to individual policies where premiums paid to the Fund appear to be short term investments. A STIC would be likely to be levied where the policy in question started to invest in the Fund (or a one-off contribution or switch to the Fund was made by a policy) less than five years before the surrender date and the return earned by the assets in the Fund over that period had been significantly less than the interest rates, special declarations and final bonus added during or at the end of the same period.

5 Investment strategy

5.1 Principles

The investment strategy for the Fund will be determined after taking into account:

- our aim to achieve the best returns for policyholders over the longer term consistent with the objective of investing mainly in fixed-interest securities;
- the nature of the liabilities of the Fund;
- the current and projected financial position of the Fund;
- advice from the investment managers for the Fund's assets;
- advice from the WPA, and from relevant Aviva group committees;
- the investment expectations of all classes of policyholder resulting from information provided to them, in particular the expectation of stable returns over the long term; and
- the advantages of reducing overall volatility by investing in a wide range of assets.

From time to time, we may make tactical asset allocation decisions which reflect our views on the expected short term performance of different investment classes.

We allow the investment manager to use derivatives as part of an investment strategy to help manage risk or to aid efficient portfolio management.

For money market investments, derivatives and other similar investments, we limit our total exposure to each counterparty. The limits take into account the form of exposure and the rating of the counterparty.

Assets that would not normally be traded will not be held by the Fund.

5.2 Allocation of assets to pools

The assets of the Fund are invested in a single pool in line with the published strategy. However, if in future it becomes appropriate to divide assets into more than one pool, this may be done in any way which continues to treat policyholders fairly.

5.3 Cash flow

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

5.4 Asset mix

The Fund invests mainly in fixed-interest stocks, although a proportion is allocated to company shares (equities). A proportion of the Fund may also be invested in cash or similar low-risk assets.

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 Fund. The need for a review is assessed annually.

The majority of the fixed-interest stocks are sterling denominated corporate securities. Fixed interest securities must have a minimum credit rating on purchase and there is a maximum holding at each rating level. If an investment grade security is downgraded to below investment grade it would normally be sold within 6 months, subject to investment manager advice.

The investment managers are required to manage the assets within specific limits around set benchmarks. The investment manager is also required to hold a wide range of investments within each asset class for reasons of security and diversification.

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

5.5 Non tradable assets

The Fund has no assets where there are legal restrictions on trading because of the particular importance of the assets to the Aviva group.

5.6 Use of derivatives

Derivatives may be used

- as part of efficient portfolio management; and
- to reduce investment risk.

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

5.7 Controls

The Fund has its own investment mandate, giving specific instructions to the investment manager. The mandate and any changes to be made to it are authorised by two designated executive managers and agreed by the investment manager.

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

6 Exposure to business risk and new business

6.1 Principles

Most losses arising from business risks within the Company, including those from policies invested in the Fund, are the responsibility of the Non-Profit Sub-Fund. Only risks arising from investment performance guarantees are the responsibility of the Fund.

Although the Company continues to take on new business, no new policies are issued which are able to invest in the Fund.

6.2 Business risks

Policies which invest in the Fund are exposed to a number of business risks, although only losses from those associated with guarantees relating to investment performance fall to be met by the Fund. These include:

- having to encash units at the current price on normal retirement and, for some policies, on some other occasions irrespective of the value of the Fund's assets;
- smoothing limits on reducing the regular interest rate;
- having to add interest at a non-zero rate where this is a policy requirement; and
- meeting the minimum lifetime interest guarantee which some policies possess.

These risks are primarily controlled by establishing appropriate reserves and setting interest rates prudently over time. We might in future also use derivative contracts to hedge the cost of some of these guarantees.

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

Business risk could potentially arise from various aspects of the Company's plans. An annual review is carried out of the expected impact of the Company's plans on the solvency position of the Company, and on the security of policyholders in the Sub-Fund. This is provided to the With-Profits Committee.

6.3 New business risks

No new policies are issued which allow investment in the Fund, although existing investors may make further investments and new entrants to existing pension arrangement may begin to invest in the Fund. Also, some existing policyholders not currently invested in the Fund retain the right to switch their unit-linked investments into the Fund and to pay future premiums into it.

The risk that large volumes of new premiums may have an adverse effect on existing investors is controlled by the ability to apply STICs (see section 4).

7 Charges, expenses and taxation

7.1 Principles

All costs associated with the management of policies invested in the Fund are met by the Non-Profit Sub-Fund.

Charges paid from the Fund to the Non-Profit Sub-Fund, including circumstances in which they may be changed, are specified in the policy terms and conditions.

An additional charge may be deducted from the Fund to recompense the Company for the cost of holding capital to cover the regulatory capital requirements of the Fund, if any, not covered by the assets of the Fund itself. Any such charge will not relate to the capital required for risks borne outside the Fund (e.g. guaranteed annuity rates on certain pension contracts).

Any differences between the charges deducted and the actual expenses incurred give rise to a profit or loss in the Non-Profit Sub-Fund, not in the Fund.

The tax charge (or credit) to the Fund will be calculated on the basis that the Fund is a separate mutual company.

7.2 Charges and Expenses

Investment management for fixed-interest assets is outsourced to Aviva Investors Global Services Limited and for equities to Schroder Investment Management Limited. These investment management arrangements can be terminated on twelve months' and six months' notice respectively.

Currently, no charge is being deducted from the Fund to cover cost of regulatory capital. However such charges have been deducted in the past, although they will not be reintroduced in the future.

7.3 Taxation

All policies in the Fund are pensions policies and there is no shareholder participation in the profits of the Fund. There would therefore not normally be any deduction from the Fund for United Kingdom tax.

8 Solvency Risk Appetite, capital support and management of the estate

8.1 Principles

The Scheme requires us to maintain a Solvency Risk Appetite for Aviva Life & Pensions UK Limited.

The Solvency Risk Appetite will take into account the level of risk we consider acceptable of not being able to meet our regulatory Capital Requirements from time to time, in adverse future circumstances.

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

We aim to achieve a fair distribution of all of the estate to policyholders in the Fund over the remaining lifetime of those policies.

8.2 Shareholder support

Shareholders are not required under the terms of the Scheme to provide any specific amount of support to the Fund. However, when regulations require, other assets of the Company will be transferred into the Fund.

8.3 Management of the Estate

Currently we aim to distribute the estate by adding regular interest at a rate in excess of the return we expect to earn on the Fund's assets. In addition, should the size of the estate become an unreasonably large percentage of the total value of units in the Fund, we will make a special interest addition or add a final bonus to payouts in order to reduce that percentage.

The Fund is managed in line with its Risk Appetite Framework so that the risk that liabilities exceed assets is small. There is a preferred range for the estate, the bottom of which is set to 115% of the Fund's economic capital requirement. The top of the preferred range is 165% of the economic capital requirement.

When the assets of the Fund fall below £100m, we may make a special interest addition or increase benefits or make enhancements in any other way considered to be fair at the time to exhaust the surplus in the Fund. The policies will then become non-profit policies and any future profit or loss arising from them will fall to the Non-Profit Sub-Fund (of which they will then form part).

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

Appendix 1 – Glossary

Actuary

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

Appropriate Actuarial Advice

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

Asset share

The Asset Share for a particular policy invested in the Fund is the accumulation of the amounts used to buy units in the Fund at the rate of return earned by the assets of the Fund (i.e. rather than at the rates of interest declared for the Fund) and less any charges or other deductions appropriate to those units.

Aviva group

Aviva plc or any of its subsidiaries

Conduct of Business Sourcebook (COBS)

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

Counterparty

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

Estate

The assets held in a with-profits sub-fund in excess of those required to pay policy benefits and other liabilities, which include payments of guaranteed benefits and future bonuses.

Financial Conduct Authority ('FCA')

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

FLH

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

Market Value Reduction (MVR)

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

Maturity

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

Money market investments

Refers to money that is on deposit in banks, building societies and other organisations to produce interest. Also refers to what are known as 'near cash' instruments such as Certificates of Deposit, Floating Rate Notes and Treasury Bills. Unlike money on deposit these assets can fall in value, possibly below the amount invested.

PPFM

Principles and Practices of Financial Management (this document).

Prudential Regulation Authority ('PRA')

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

Reserves

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

Scheme

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

Shareholder Fund

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

Short Term Investment Charge (STIC)

A deduction which may be made from the value of units when cashed-in less than five years after purchase. Described in section 4.3.

Solvency Risk Appetite

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

With-Profits Actuary (WPA)

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

With-Profits Committee (WPC)

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

Appendix 2 – Background

Company Information

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

Norwich Union, Provident Mutual, Commercial Union and General Accident

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

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

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

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

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

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

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

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

Friends Life companies

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

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

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

Scheme of Transfer

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

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

Fund structure of Aviva Life & Pensions UK Limited

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

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

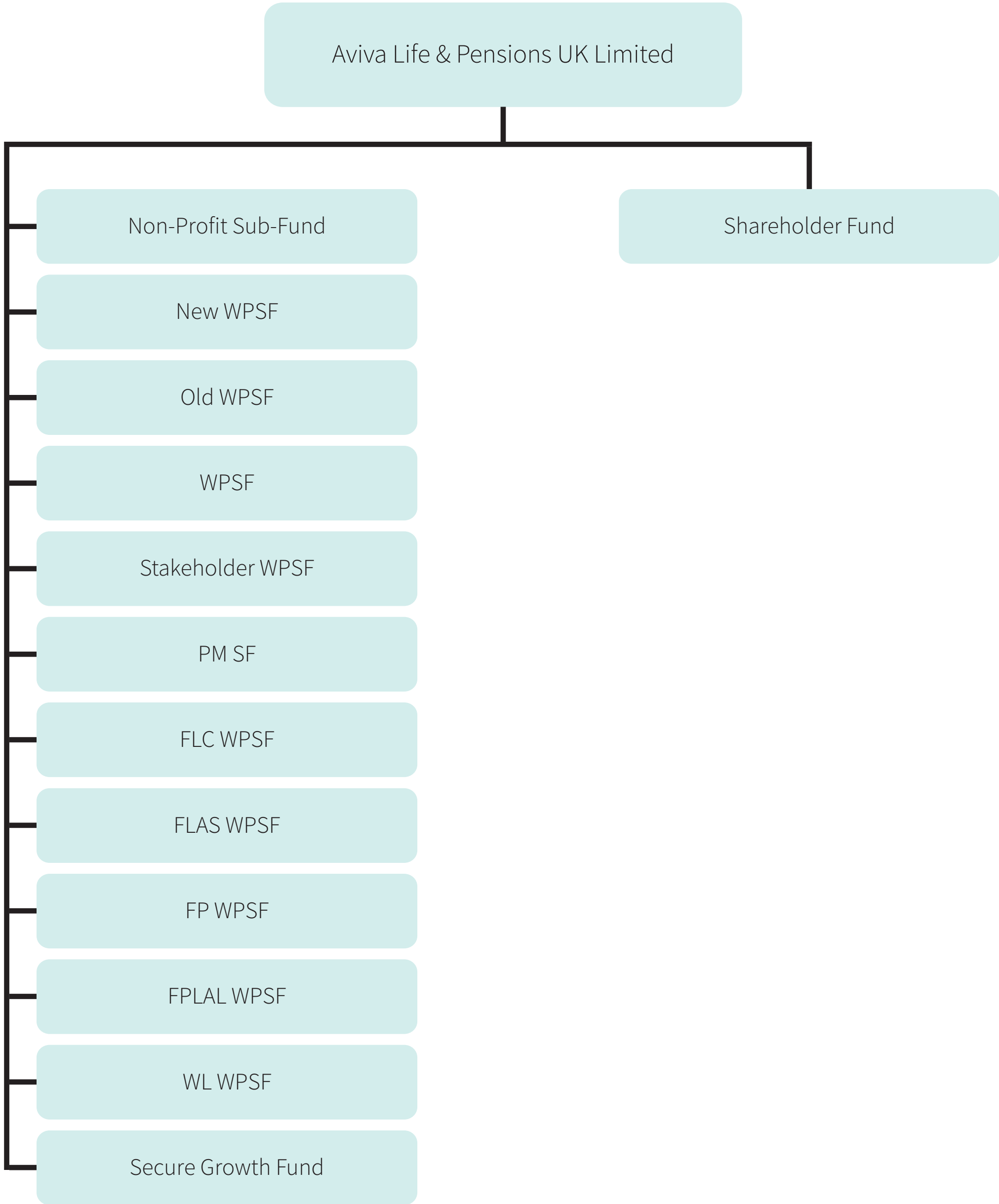
Fund Background: SGF

The Secure Growth Fund was originally a fund within Welfare Insurance Company Limited, and is now a separate sub-fund within Aviva Life & Pensions UK Limited.

The Fund is a Deposit Administration Fund that was launched in 1971. A unit fund is maintained for each policy in which policy premiums, less charges, are accumulated. Unit prices normally increase daily at the current rate of interest net of any annual management charge.

Prior to 2016, the Secure Growth Fund had not been considered to be a with-profits sub-fund, so no PPFM document had previously been prepared for the Fund. Changes to insurance regulation effective from 1 January 2016 required us to reconsider this and we concluded that from 1 January 2016, the Secure Growth Fund will be managed and reported as a with-profits sub-fund. Amongst other implications, this PPFM document has been prepared to describe how the Fund is managed. However the principles and practices described in it are largely those which have been applied for many years.

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



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

Appendix 4 – Original issuing companies

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

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

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