Principles and Practices of Financial Management (PPFM)

for Aviva Life & Pensions UK Limited FPLAL With-Profits Sub-Fund

1 January 2024

Contents

Aviva Life & Pensions UK Limited – FPLAL With-Profits Sub-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 FPLAL With-Profits Sub-Fund of Aviva Life & Pensions UK Limited (the 'Sub-Fund'). This sub-fund was created on 1st October 2017, when all the policies of the FPLAL With-Profits Fund of Friends Life 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 FPLAL With-Profits Sub-Fund are Friends Provident Life Assurance Limited, FP Life Assurance Limited, Dominion-Lincoln Assurance Limited, the National Mutual Life Association of Australasia Limited, NM Life Assurance Limited, NM Schroder Life Assurance Limited, Schroder Life Assurance Limited and The Lincoln Life Assurance Company 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 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 the 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

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 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.

2 Targeting payouts

2.1 Principles

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

In the event of any conflict between the terms of the Scheme and this document, the terms of the Scheme will take precedence.

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

We will aim to manage the Sub-Fund in order to ensure that all guaranteed benefits can be paid as they fall due.

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

For most classes of with-profits business, payouts will be determined having regard to Asset Shares to endeavour to ensure that fairness is maintained between different groups and generations of policies.

For classes of business where Asset Share does not represent a fair guide to payouts, or where it is not calculated, payouts will be determined using other methods. Approximations will not materially affect resulting payouts or bonuses compared to the result of more precise methods which could practicably have been used at a reasonable cost.

2.2 Target payouts

Target payouts on maturity or contractual retirement for policies that are principally designed for savings are determined as in section 2.3.1.

Currently, target payouts on surrender are based on 100% of those applicable on maturity and contractual retirement.

From time to time payouts will differ from target as a result of smoothing. At any particular time the payout we aim at may be further amended to avoid excessive changes in payout from one period to the next (see section 3 for more details).

Payout targets are derived for groupings of individual policies (by policy term and the premium status of the policy (single, regular or paid-up) within bonus series) and not on an individual policy-by-policy basis. Sample policies, representative of the grouping, are used in the targeting process.

Our current practice when setting bonus rates for those policies managed by reference to sample Asset Shares, is to aim to ensure that the overwhelming majority of individual maturity and surrender values lie within the target payout range. The current target payout range is to not deviate by more than 20% from 100% of Target Payout (see section 2.3.2)

Compliance is measured by reference to representative sample policies and over:

(i) all Sub-Fund with-profits maturities, and

(ii) all Sub-Fund with-profits surrenders, excluding conventional whole of life policies.

No account is taken of guarantee payments of more than 100% of Target Payout.

Scales of final bonus are set to produce payouts equal to the targets for each grouping. Rates of final bonus are rounded. Where guarantees exceed target payouts rates of final bonus will be zero.

Actual payouts for individual policies may therefore deviate from target payouts because guaranteed payouts exceed targets, as a result of rounding in the rate of final bonus, to the extent that a policy differs from the representative policy and, for the impact of smoothing.

Benefits on death vary across different classes of business and are determined by the contractual terms of the policy. No direct payout targets are determined. For whole of life policies, principally designed to provide a cash sum on death, Asset Share is inappropriate as a measure of target payout. For these policies bonus scales are the same as those for equivalent savings plans.

Some with-profits savings policies that have been altered at the policyholder's request do not directly use Asset Share to determine payout values. For these policies, the basic sum assured or basic annuity are adjusted at the time of alteration, and future bonuses are then declared based on the rates applicable to unaltered policies.

2.3 Asset share Methodology

2.3.1 Asset Shares

Asset Shares are calculated on a specimen policy basis from assumptions derived from the actual experience of the Sub-Fund. Asset Shares are accumulated as:

- premiums paid;
- plus investment return (can be negative) earned on the underlying investments, calculated as described in section 2.4.1;
- less a deduction for the costs of selling and administering the policy;
- less the cost of death or other risk benefits;
- less an adjustment in respect of taxation as appropriate for the class of business.

Prior to 1993, Asset Shares were not used to help manage the Sub-Fund. Experience prior to this date is based on the experience of similar policies in the FP With-Profits Sub-Fund.

2.3.2 Estimated realistic solvency position of the Sub-Fund

For the purposes of determining target payouts, the solvency position of the Sub-Fund is determined by comparing the value of the assets with the best estimate value of the liabilities.

If the value of the assets exceeds the value of the liabilities plus a risk-related margin recommended by the With-Profits Actuary, then the target payout will be more than 100% of Asset Share.

If the value of the assets is less than the value of the liabilities plus the risk-related margin, then the target payout will be less than 100% of Asset Share.

We normally recalculate the appropriate target payout once each year.

Target payouts at maturity are set to aim to achieve a fair distribution of 100% of the Sub-Fund assets (including working capital) attributable to the Sub-Fund with-profits policyholders, over the remaining lifetime of those policies. The latest published level of target payout as a percentage of Asset Share is available from our website at **aviva.co.uk/estate-distributions**.

2.4 Asset Share assumptions

2.4.1 Investment return credited to Asset Shares

We maintain separate and distinct records of the assets in the Sub-Fund.

Since 1 January 2006 the investment return credited to Asset Shares each year is calculated as the total investment income and capital gains or losses earned during the year on the pool of assets allocated to back Asset Shares (including any excess of target payouts over Asset Shares) for with-profits business and any excess working capital (see section 5.2). The return is expressed as a percentage of the notionally allocated assets.

Between 1993 and 31 December 2005 the investment returns for Asset Shares were based on a common pool of assets backing all Sub-Fund liabilities. Investment returns prior to 1993 are based on the same returns used to determine Asset Shares for the FP With-Profits Sub-Fund.

2.4.2 Expenses charged to Asset Shares

The Scheme sets out maximum expenses (with annual increases linked to the Retail Price Index) that we can charge to the Sub-Fund.

Expense deductions from Asset Share for periods after 1993 are based on the actual expenses and commission attributable to business in the Sub-Fund, subject to the maximum specified by the Scheme. Expense deductions from Asset Share prior to 1993 are based on the deductions made to the FP With-Profits Sub-Fund for the purpose of determining Asset Share (subject to the maximum specified in the Scheme).

2.4.3 Cost of other risk benefits

An adjustment is made to Asset Shares to reflect the cost of providing death and any other risk benefits to with-profits policyholders, where these benefits are in excess of Asset Share. The adjustment is assessed annually on a per policy basis by calculating the difference between the value of the risk benefit and the Asset Share for that policy and multiplying this by the probability that the risk event might have occurred. This probability is assessed from the average experience of the policies within that class of business.

For policies where death benefits are less than Asset Share, the adjustment is positive and is added when accumulating the Asset Shares.

2.4.4 Treatment of taxation in Asset Share calculations

Within the Asset Share calculations, tax rates are applied to investment income, capital gains and expenses in each year to reflect the rates of taxation that apply to each type of business.

Any differences between the Asset Share deductions and the actual tax charged to the Sub-Fund (which is determined in accordance with the Scheme) are treated as a miscellaneous profit or loss for the Sub-Fund.

2.5 Controls and documentation

We maintain appropriate systems in order to determine payouts for with-profits policies. These systems may be developed or replaced from time to time but the Company ensures that this does not affect its ability to comply with the PPFM.

The Company would consider changing the methodology applied in respect of future years if new techniques were developed.

Historic Asset Share assumptions are not generally reviewed or updated. However, we would consider making a change if a material error were discovered that led to inequity between classes of policyholder.

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 file is created which is used to record assumptions, backing calculations, notes and correspondence relevant to the review.

3 Bonus policy and smoothing

3.1 Principles

General
Distributions of surplus to policyholders and shareholders will be determined by the Board after taking into account the advice of the WPA and after consideration by the WPC. In giving this advice the WPA will take into account:

- the need to ensure that the with-profits sub-funds and the Non-Profit Sub-Fund in aggregate are able to meet the statutory liabilities of the Company;
- the current and possible future capital needs of the Sub-Fund;
- the investment strategy of the Sub-Fund;
- the bonus policy as set out below;
- the need for an appropriate level of security in the Sub-Fund for policyholders' benefits; and
- the need to ensure that different groups of policyholders are treated fairly.

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

We will aim to achieve a fair distribution of all of the assets of the Sub-Fund (including working capital) attributable to the with-profits policies in the Sub-Fund over the remaining lifetime of those policies.

Bonus rates and the methods for calculating surrender values 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 bonus series and between those leaving the Sub-Fund and those remaining.

Regular bonus
Regular bonuses will be added when appropriate to provide policyholders with additional guaranteed benefits. When necessary,we will restrict regular bonus rates for particular bonus series in order to assist the Sub-Fund to continue to meet its capital needs or to ensure the maintenance of a reasonable balance between the guaranteed benefits and final bonuses payable at maturity or on retirement.

Regular bonus rates for former NM Life Assurance Limited With-Profits Business Fund policyholders are 80% of the corresponding regular bonus rates for the original NM Life Assurance Limited Closed Fund with-profits policyholders.

Final bonus
Final bonus rates will be determined for each bonus series in order broadly to reflect any excess of the target payout over the amount already guaranteed by the addition of regular and interim bonuses.

Smoothing
From time to time, payouts on maturity and surrender may be more or less than the targeted proportion of Asset Share as the result of a smoothing process. The smoothing process will be managed so that the cost of smoothing to the Sub-Fund is broadly neutral over time.

3.2 Introduction

Smoothing of payouts applies in a number of ways: by paying more or less than the Target Payout (see section 2.2) in order to reduce the volatility of payouts; by holding bonus rates unchanged between declarations; by grouping policies together and basing bonus rates for that group with reference to a sample policy; and by having a smoothed scale of final bonus rates.

3.3 Regular bonus rates

Regular bonus rates are reviewed at least once each year. The rates declared do not normally change by more than 1.5 percentage points from the equivalent rate declared approximately a year previously (declarations are not always made at precisely the same time of the year).

Each bonus series has its own regular bonus rate. This is normally the rate of future bonus which, if maintained indefinitely, would provide an adequate margin for final bonus, consistent with the current investment strategy. The margin is sufficient to absorb the impact of a period of extremely poor investment performance and leave the projected target percentage of Asset Share at maturity larger than the guaranteed benefits. If an adequate margin cannot be maintained at any rate of regular bonus, no regular bonus is declared for that bonus series.

The consistency between the rates for different series in other respects is also taken into account. For example we may wish to maintain consistent differentials between different bonus series representing regular premium or paid up business.

Interim bonus rates are declared at each bonus declaration and are generally, but not always, set equal to the regular bonus rate declared at that time. However, interim bonus rates are not guaranteed and could be changed at any time.

3.4 Smoothing

We will normally aim to set final bonus rates at each declaration at a level that will result in maturity payouts equal to the target payout on average. This is subject to guarantees and smoothing.

Our current practice is to limit the change in payout to be less than, or equal to, 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 2.2 above) then the smoothing limit is 5%.
- If the payout using the current final bonus rate lies outside the target payout range (see 2.2 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 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.

Final bonus rates may also be subject to adjustment so that the progression of final bonus rates across policy durations within a bonus series is reasonably smooth.

3.5 Final bonus rates

The final bonus rates payable at maturity or contractual retirement on with-profits policies are reviewed at least twice each year. Final bonus rates are generally investigated after any proposed changes to regular and interim bonuses have been determined.

At each declaration the strategy is determined. Issues considered would typically include:

- the target percentage of Asset Share determined as described in section 2.3.2;
- the maximum 20% deviation of individual claim values from Target Payout; and
- the current economic environment and anticipated future market conditions, in particular between the current review date and the next review date.

The target Asset Shares and payouts (based on the proposed rates of regular and interim bonuses) are calculated for a representative sample of policies. The ratios of payouts to target Asset Share are compared. Revised final bonus rates are then determined to meet the smoothing strategy in respect of the sample policies, subject to rounding. The scale is then extended to other policy terms, normally by interpolation.

3.6 Policies outside the main classes

Conventional with-profits whole of life policies receive final bonus rates paid on death based on those paid at the maturity of conventional with-profits endowment policies with the same duration in force.

3.7 Approximations used in determining bonus rates

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

In the majority of cases, the most significant approximations for conventional with-profits policies are the use of sample policies to represent the whole population.

Final bonus rates for paid up policies are based on the rates for premium paying policies.

4 Surrender values

4.1 Principles

Surrender value bases will be set in order to achieve a target percentage of Asset Share averaged across all policies within each class.

We may smooth the change from time to time in surrender payouts although this will usually be to a lesser extent than for maturity payouts.

4.2 Target payouts and smoothing

Where the policy document does not specify a guaranteed surrender basis, we aim to pay out a target percentage of Asset Share on surrender. The target is averaged across all policies within each class on surrender and is currently 100% of the percentage currently applied to maturities of similar elapsed duration.

Policyholders with a guaranteed surrender basis should refer to their policy documents.

We aim to smooth payouts on surrender. Due to fluctuations in underlying asset values and hence Asset Shares, surrender values are likely to deviate from target payouts during the periods between each review.

We aim to ensure that the overwhelming majority of individual surrender values for those policies managed by reference to sample Asset Shares do not deviate by more than 20% from 100% of Target Payout (see section 2.3.2).

4.3 Surrender value calculation

Surrender value bases for the main policy classes are reviewed at least once each year. Smaller classes have less frequent reviews.

Currently, at each review, sample policies are selected from the main classes of policies. The sample policies represent policies with different terms expired, different start and end dates, and various other policy characteristics. Asset Shares and surrender payouts are calculated for the sample policies as at the investigation date, based on the current surrender value basis and the rates of bonus currently in force.

We would consider changing the surrender value basis if the results of the investigation described above indicate that current surrender values differ significantly from the target payouts on surrender for some or all of the sample policies.

5 Investment strategy

5.1 Principles

We will use all reasonable endeavours to pursue an investment policy in relation to the assets of the Sub-Fund which is in the best interests of the policyholders subject to normal considerations of prudence with the objective of obtaining the best return available commensurate with an acceptable degree of risk having regard to the nature and term of the liabilities to such policy holders and the prevailing investment environment.

We allow our investment manager to use derivatives as part of an investment strategy to help manage risk or to aid efficient portfolio management. We use a range of counterparties in order to limit exposure to any one counterparty.

Assets that would not normally be traded are not expected to be held in the Sub-Fund.

5.2 Introduction

The investment strategy of the Sub-Fund will be determined after taking into account:

- the objective set out in the Principles above;
- the current and projected financial position of the Sub-Fund;
- advice from the investment manager for the Sub-Fund;
- advice from the WPA, and from relevant Aviva group committees;
- the investment expectations of all classes of policyholder resulting from information provided to them; and
- the advantages of reducing overall volatility by investing in a wide range of assets.

The assets underlying different groups of policies or types of reserves in the Sub-Fund may be grouped into separate pools and the investment strategy for each of the resulting pools determined separately.

5.3 Allocation of assets to liability classes

The assets of the Sub-Fund are notionally allocated between different classes of policies and other liabilities of the Sub-Fund as described below.

- A 'Return Assets' pool backing target payouts.
- A 'Remaining Assets' pool backing best estimate reserves attributable to non-profit policies in the Sub-Fund, reserves for guarantees such as Guaranteed Annuity Rates (GARs), and the remaining assets in the Sub-Fund. These assets may be further subdivided into smaller pools according to the type of policy.

Having allocated the assets as above, the assets are managed as separate asset pools by the investment manager. The target asset allocation of the pools 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. Performance against the target asset mix is currently reported upon quarterly. The investment return attributed to assets in the Return Assets pool is used in the calculation of the Asset Shares, suitably allocated between policies where there is subdivision according to the type of policy.

In future we may allocate the assets of the Sub-Fund to differently constituted pools if we consider that this would enable us to treat policyholders more fairly at that time.

5.4 Cash flow and matching

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

We currently operate a matching strategy for the assets whereby assets are selected whose values broadly move in line with the values of the underlying liabilities following changes in investment conditions.

5.5 Equity Backing Ratio

The equity backing ratio (EBR) is the proportion of Return Assets invested in equities (company shares), property or other assets that are considered to have a similar level of expected return.

To achieve the objective of obtaining the best return available commensurate with an acceptable degree of risk having regard to the nature and term of the liabilities and the prevailing investment environment, the Sub-Fund will invest in EBR assets.

The EBR is monitored closely as the returns from these asset classes are generally more volatile than returns from other classes. The EBR would be reduced if necessary to ensure the solvency position of the Sub-Fund would not be compromised by an unsuitable asset mix.

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

The investment managers are required to manage the assets within specific limits around the target allocation. The investment managers are also instructed to hold a wide range of investments within each asset class for reasons of security and diversification. Fixed interest securities must have a minimum BBB credit rating on purchase and the minimum rated stocks must not exceed a stated percentage of the fixed interest proportion. If an investment grade security is downgraded to below investment grade it would normally be sold within 6 months, subject to investment manager advice.

5.6 Use of derivatives

Derivatives may be used:

- as part of efficient portfolio management;
- to reduce investment risk; and
- to help match liabilities whose values are very sensitive to changes in market conditions.

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

5.7 Secured funding and securities lending

Both of these activities entail receiving payment from other institutions in return for lending assets to them and this involves the temporary transfer of legal title of securities being 'lent'. Collateral is required for security which minimises any risk involved (although in the case of secured funding, the credit risk of the collateral may be higher than that of the assets lent). Secured funding and securities lending form a small part of our overall strategy.

5.8 Controls

The Sub-Fund has its own investment mandate, which gives specific instructions to the investment manager. The mandate and any changes to be made to it are approved in line with the Aviva delegated authority framework and agreed with 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. 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

The exposure of the Sub-Fund to historic business risks (including compensation risk) is limited to policies within the Sub-Fund.

We do not intend to take on further business risks to which with-profits policies will be exposed.

No new business is to be written in the Sub-Fund and its assets cannot be used to support any new business written in the Company.

6.2 Business risks

Appendices 2 and 3 and section 1.7 explain the structure of the Sub-Fund and the with-profits policies. Under this structure the with-profits policies are exposed to a number of risks relating to the operation of the policies within the Sub-Fund.

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

The benchmark for assessing and reviewing business risk is the potential impact on the solvency position of the Sub-Fund.

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.

The table below sets out the most significant of these business risks alongside the action that has been taken to mitigate these risks:

Business risks and mitigating action taken to reduce their impact	
Business risk	**Action taken to reduce impact**
1a) Guarantees built up by regular bonus additions.	Limiting the build up of these guarantees by reducing regular bonus rates. Potentially using derivative contracts to minimise the prospect of guarantee costs and the value of assets backing them diverging due to market movements.
1b) Guarantees associated with with-profits policies, i.e. the guaranteed annuity rates attaching to some policies and other contractual guarantees attaching to most policies.	Explicit reserve set up for contingency. Monitoring and investment strategy to limit the exposure to changes in market conditions.
2) Other miscellaneous business risks impacting the with-profits business, in particular: Investment, Expense, Mortality, Taxation, Reinsurance and Regulatory risk.	Explicit accountabilities allocated to key staff to monitor and manage risks. Expense risk capped by terms of the Scheme.
3) Variances in the value of non-profit business within the Sub-Fund.	A minority of the Sub-Fund liabilities are non-profit. Reassurance to help protect against adverse mortality experience. Investment strategy to limit the exposure to changes in market conditions.
4) Potential compensation claims in respect of allegations of misselling.	The Sub-Fund has been closed to new business for a number of years. Ensuring management actions, where appropriate are consistent with sales literature. Appropriate reserving for potential risk.

The risks above all influence the amount and timing of the surplus that emerges in the Sub-Fund. Target payouts will reflect the impact of the above business risks.

The business risks outlined above are borne uniformly across all with-profits policies in the Sub-Fund.

7 Charges, expenses and taxation

7.1 Principles

Expenses charged to the Sub-Fund will be fair and reasonable, including:

- the investment management expenses, including a portion of the overhead expenses of the Company as a whole attributable to investment management, taking into account, the size of the Sub-Fund, the categories of asset in which the Sub-Fund is invested and the investment management expenses incurred by the Company as a whole; and
- expenses for renewal, maintenance, claims, surrender and lapses, including overhead expenses of the Company, taking into account the number of policies in the Sub-Fund.

The tax charge (or credit) to the Sub-Fund will be calculated on the basis that the Sub-Fund is a separate United Kingdom mutual life assurance company subject to taxation in the United Kingdom, as set out in more detail in paragraph 39 of the Scheme and as calculated in accordance with Appendix 5.

7.2 Charges and expenses

The Company has outsourced administration, distribution and development functions to Aviva Life Services UK Limited. A Management Services Agreement (MSA) describes the services provided, which are provided at cost.

Expenses are charged by Aviva Life Services UK Limited to the Non-Profit Sub-Fund. The Non-Profit Sub-Fund then charges these expenses to the Sub-Fund, subject to a cap.

The Scheme defines maximum renewal, maintenance, claims, surrender and lapse expenses (that increase in line with the Retail Price Index) that may be charged to the Sub-Fund.

Outsourcing arrangements with Aviva Life Services UK Limited are reviewed regularly and are renegotiated as appropriate. Aviva Life Services UK Limited outsources some services outside of the Aviva Group. The most significant arrangement is with Diligenta.

We have agreements with Aviva Investors Global Services Limited and other external managers to provide investment management services. Termination of the agreement with Aviva Investors Global Services Limited requires 12 months' notice, however the agreement includes clauses which permit earlier termination in certain circumstances. The most significant other arrangement is with Schroder Investment Management Limited, which requires 6 months' notice for termination.

7.3 Taxation

Full details of our taxation practices can be found in Appendix 5.

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 be determined taking into account the level of risk we consider acceptable of not being able to meet 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 assets of the Sub-Fund attributable to with-profits policies, over the remaining lifetime of those policies.

8.2 Managing the working capital of the Sub-Fund

The working capital of the Sub-Fund is the balance of the assets after deducting from the best estimate value of assets the best estimate value of liabilities.

The working capital of the Sub-Fund may increase or reduce over time as surplus arises and is distributed within the Sub-Fund.

The Sub-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 working capital, the bottom of which is set such that the level of risk over 1 year (that assets would fail to exceed liabilities) is broadly equivalent to 1 year historic default probabilities on AA rated corporate bonds. The top of the preferred range is broadly 135% of the bottom of the preferred range.

The key mechanisms for managing the existing working capital are the investment and bonus policy.

Distribution of the working capital to policyholders is achieved via the mechanism described in section 2.3.2.

When the assets of the Sub-Fund (excluding those backing non-profit policies) fall below £80m then we may, but will not be obliged to, maintain the Sub-Fund as a separate sub-fund. If we cease to maintain a separate sub-fund, any existing surplus calculated on a best estimate basis with regard to the current and likely future financial and any other relevant circumstances shall be distributed by way of cash or reversionary bonus or benefit increases to the then remaining with-profits policyholders in such manner as we may determine, on the advice of the WPA and the WPC. The assets and liabilities of the Sub-Fund would then be allocated to the Non-Profit Sub-Fund and existing with-profits policies will cease to carry any future right to participate in profits.

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.

8.3 Shareholder support

Shareholders are not required under the terms of the Scheme to provide any specific amount of support to the Sub-Fund. The Sub-Fund is expected to cover all regulatory capital requirements from its own assets in respect of the business within the Sub-Fund.

In extreme circumstances surplus assets in the Non-Profit Sub-Fund or Shareholder Fund may be used to help meet the capital requirements of the Sub-Fund.

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

A measure of the share of assets attributable to a with-profits policy, calculated by accumulating premiums paid at the rates of return earned on the assets assumed to be backing the policy, after allowing for charges such as expenses, mortality and tax (see section 2.3.1).

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.

Conventional with-profits policy

A with-profits policy that is not a unitised with-profits policy. Conventional with-profits policies generally have a guaranteed monetary amount payable on death or on a fixed date or an amount of annual income payable from a fixed date. The amounts may be increased by the addition of bonuses and are payable provided that all premiums due have been paid.

Counterparty

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

Equity Backing Ratio (EBR)

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

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 based on Asset Share. The estate may be used to pay the guaranteed benefits under policies in that with-profits sub-fund if the reserves turn out to be insufficient. In practice, this means that the estate will vary in size from year to year, as it is in effect the balancing item between the total value of the investments of the with-profits sub-fund and the size of the reserves required.

Final bonus

A bonus which may become payable on a death, critical illness or maturity claim or on surrender or switch out of with-profits. Final bonuses are normally defined as a percentage of either the total value of with-profits benefits (including regular and interim bonuses) or of the regular and interim bonuses, depending on the type of policy. A final bonus is sometimes called a terminal bonus.

Financial Conduct Authority

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

FLH

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

Internal Model

A method for calculating the Solvency Capital Requirement (SCR) and Risk Margin of an insurance company which has been individually approved by the Prudential Regulation Authority or which has not yet been approved but which is used by the company for internal management purposes.

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.

PPFM

Principles and Practices of Financial Management.

Prudential Regulation Authority (PRA)

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

Regular bonus

A bonus that is added on a regular basis throughout the life of a with-profits policy, providing an addition to the guaranteed benefits payable to the policyholder. Regular bonuses are sometimes called annual bonuses, or, in the case of conventional with-profits policies, reversionary bonuses.

Remaining Assets

Assets other than the Return Assets.

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.

Return Assets

Assets backing target payouts.

Risk Appetite Framework

A framework to support decision making in relation to the with-profits sub-funds. It aims to manage the with-profits sub-fund so that the working capital is within a preferred range.

Risk Margin

Reserves in addition to best estimate liabilities and current liabilities which an insurance company is required by the Prudential Regulation Authority to hold.

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

Solvency II transitional measures

Reductions in the reserves required to be held under the current 'Solvency II' regulations to facilitate a smooth transition from those required to be held under the previous regulatory regime prior to 2016.

Solvency Capital Requirement (SCR)

The minimum amount of assets which an insurance company is required, by the Prudential Regulation Authority, to hold in addition to reserves covering its best estimate liabilities, current liabilities and Risk Margin.

Solvency Risk Appetite

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

Sub-Fund

The Aviva Life & Pensions UK Limited FPLAL With-Profits Sub-Fund.

Unitised with-profits (UWP) policy

A policy (or part of a policy) under which the value of the benefits is measured by reference to with-profits units allocated to that policy.

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 Business Fund

A fund set up in 1988 and merged into the Sub-Fund in 1995 (see section 1.1).

With-Profits Committee (WPC)

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

With-profits sub-fund

Any one of the with-profits sub-funds within the Company.

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 C below shows the current fund structure within Aviva Life & Pensions UK Limited.

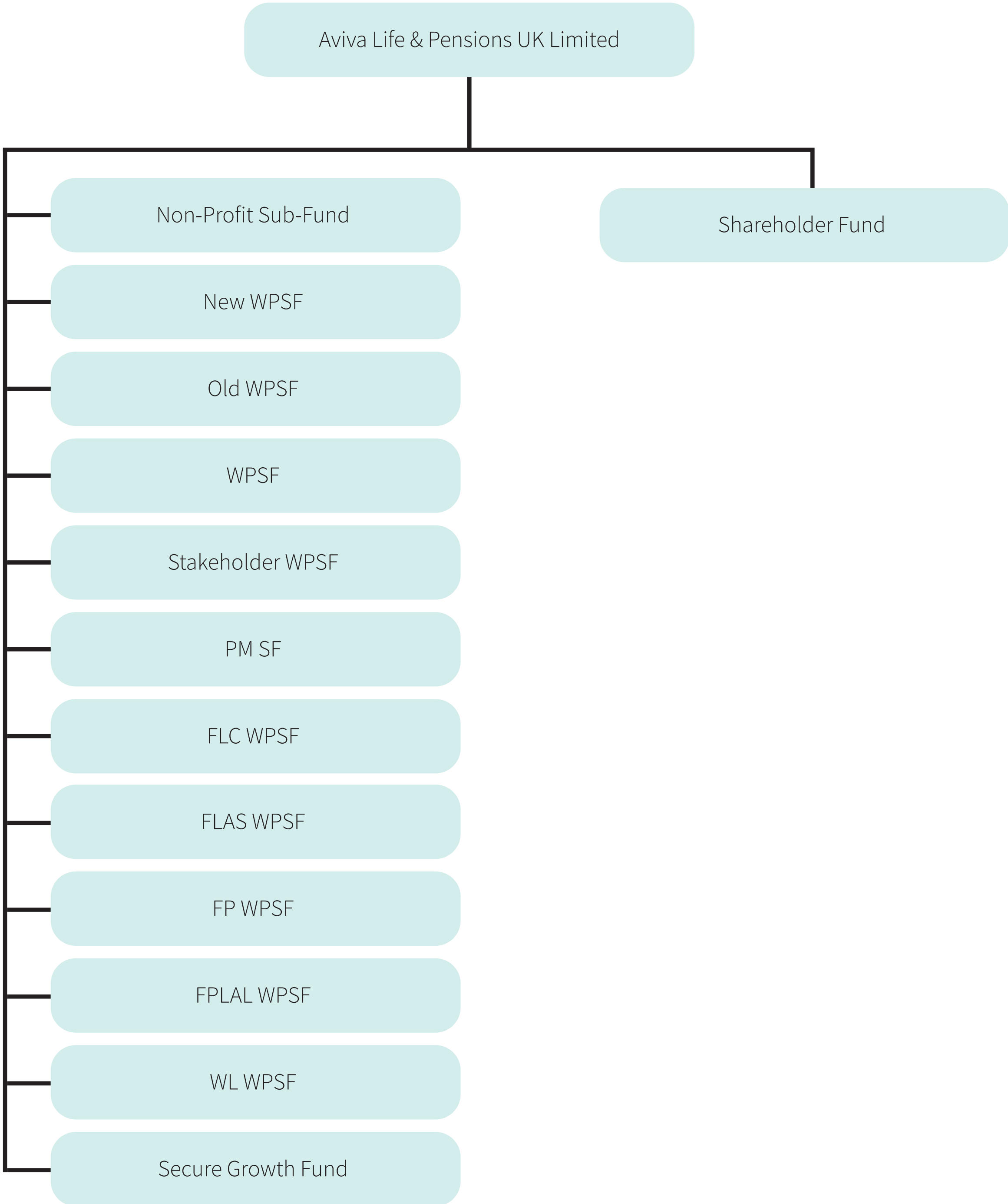
The mergers and transfers outlined above along with other historic mergers and acquisitions involving these companies have resulted in policies sold by a wide range of companies now being in the Company's with-profits sub-funds. The table in Appendix D shows the names of the current with-profits sub-funds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

Sub-Fund Background: FPLAL

The business of what is now the FPLAL With-Profits Sub-Fund was originally written by NM Schroder Life Assurance Limited until 1988, and by N M Life Assurance Limited until 1 January 1995. It includes conventional with-profits business but not unitised with-profits business. New business is no longer accepted in the Sub-Fund.

Profit from the FPLAL With-Profits Sub-Fund is only distributable to its with-profits policyholders.

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
National Westminster Life Assurance Limited Royal Scottish Assurance plc	With-Profits Sub-Fund 5
The Colonial Mutual Life Assurance Society Limited Colonial Mutual Life (Unit Assurances) Limited Colonial Life (UK) Limited Friends Life WL Limited Winterthur Life UK Limited Provident Life Association Limited	WL With-Profits Sub-Fund

Appendix 5 – Taxation details

Capitalised terms in this Appendix, to the extent not defined elsewhere in this PPFM, bear the meanings given to them by the Scheme. References to 'the Board having taken account of appropriate actuarial advice' shall be construed in accordance with the Scheme.

1 Under paragraph 39 of the Scheme, the tax charge (or credit) to the Sub-Fund will be calculated on the basis that the Sub-Fund is a separate United Kingdom mutual life assurance company (referred to as a 'Separate mutual company' in the remainder of this Appendix) subject to taxation in the United Kingdom. That calculation will be performed on the basis set out in this Appendix.

2 The charge in respect of tax to the Sub-Fund will be credited to the Non-Profit Sub-Fund which will bear the tax charge for the Company other than that attributable to the Shareholder Fund.

3 It is assumed that the separate mutual company:

(a) does not form part of a group or other association (whether with another company, including the with-profits sub-funds treated for tax calculation purposes as separate companies under paragraph 39.1 of the Scheme or any other sub-fund) for the purpose of any tax provision which allows Tax Reliefs in one company or sub-fund within such group or association to be used against income, profits or gains arising in another company or sub-fund within that group or association;

(b) does not form part of a group or other association (whether with another company, including with-profits sub-funds treated for tax calculation purposes as separate companies under paragraph 39.1 of the Scheme or any other sub-fund) for any other tax purpose save to the extent that the presence of an actual group or association ensures that a liability to VAT, stamp duty, stamp duty land tax or any similar transaction tax does not arise which would have been incurred had such a group or association not existed; and

(c) recovers the same proportion of input VAT as that recovered by the VAT group (for the purposes of the Value Added Tax Act 1994, section 43) of which the Company at any time is a member,

unless (in respect of (a) or (b)) the Board, having taken account of appropriate actuarial and tax advice, considers that it would, as the case may be, be appropriate in a particular circumstance to assume that the separate mutual company does form part of a group or other association within (a) above, or does form part of a group within (b) above, or (as the case may be) does not form part of a group within (b) above.

4 Any Tax Reliefs calculated as available to be carried forward into a subsequent period in the separate mutual company calculation for the Sub-Fund will be treated as available in subsequent calculations to offset appropriate taxable income or gains notwithstanding that there may be no corresponding Tax Relief carried forward in any calculation for the Company as a whole.

5 Tax Reliefs calculated as available in any separate mutual company calculation for the Sub-Fund may only be utilised in calculations for that separate mutual company and will not be available to be taken into account in the calculation of any other with-profits sub-fund.

6 In calculating the tax charge (or credit) the provisions of the Finance Act 2012 relating to apportionment of items between classes of business will be applied separately to the separate mutual company.

7 The separate mutual company will include only those assets and liabilities allocated to the Sub-Fund under the provisions of the Scheme net of any internal reassurance arrangements. Where any asset or group of assets is held in a with-profits sub-fund or sub-funds for the benefit of more than one with-profits sub-fund then the tax charge (or credit) to each such with-profits sub-fund in respect of that asset or group of assets will be allocated on a commercial basis. The internal reassurance arrangements mentioned in paragraph 30 of the Scheme and any similar arrangements will be treated as if they were reinsurance with an unconnected reinsurer, with the exception that the ceded liabilities will retain the same tax categorisation in the reassuring sub-fund in cases where Basic Life Assurance and General Annuity Business ('BLAGAB') liabilities would otherwise be regarded as non-BLAGAB (or vice versa). Consequently, liabilities ceded will be left out of account and liabilities reassured will be treated as liabilities directly assumed. The purpose of this is to prevent the application of section 90 Finance Act 2012.

8 Subject to any specific provisions to the contrary, transactions between the Sub-Fund and other policyholder sub-funds within the Company will generally be treated as though they are transactions between the separate mutual company and a third party. However, no VAT will be treated as arising on supplies of services between policyholder sub-funds within the Company and no withholding tax will be deducted from any payment made to other policyholder sub-funds within the Company.

9 Where paragraph 40 of the Scheme requires transfers of assets from or to the Sub-Fund to be carried out at market value, tax will be attributed to the separate mutual company on the basis of the market value (as described in paragraph 40 of the Scheme) at the time the transfer takes place. An asset transferred to the Sub-Fund will, therefore, be treated as acquired then at market value. Similarly an asset transferred from the Sub-Fund will be treated as having then been disposed of at market value for tax purposes and an appropriate tax calculation will be made and taken into account in the overall tax charge for that period.

10 A deferred tax liability (or asset) will be calculated for the separate mutual company on the basis adopted by the Company generally and in accordance with the principles set out above and the requirements of the Scheme.

11 Whenever any amount of corporation tax is payable by the Company on account as required under the 'Corporation Tax Self Assessment' regime, the amount attributable to the separate mutual company will be calculated in accordance with the principles set out above. Further adjustments will be made where appropriate on agreement of the final liability of the Company.

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