

Principles and Practices of Financial Management (PPFM)

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

1 January 2026

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Aviva Life & Pensions UK Limited - FLAS 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 FLAS 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 FLAS 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 FLAS With-Profits Sub-Fund are Friends Life Assurance Society Limited and Sun Life Assurance Society plc.

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](https://www.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](https://www.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 (‘CWP’) policies typically provide a guaranteed amount of money on a set date or dates (‘the contractual date(s)’) and/or on death, provided that all the premiums are paid when due. The regular bonuses added from time to time increase the value of the initial guarantee set out in the policy. A final bonus may be added on the contractual date. Policies may be ended early, but the proceeds are then not usually guaranteed.
- ‘Unitised’ with-profits (‘UWP’) policies are different. Typically, each premium paid buys a number of units. Regular bonus may be added either by increasing the price of the units held and/or by adding extra units to the policy. Units may be cashed in at any time and a final bonus may be added. However, if the units are cashed in at any time that is not one of the contractual dates, a deduction called a ‘Market Value Reduction’ (‘MVR’) may be made from their value.

Not all policies receive the same bonus rates. For the purposes of setting bonuses, policies are grouped, mainly by type of policy. All policies in the group, known as a ‘bonus series’, will receive the same rate of regular bonus. The final bonus rates that apply to the group will typically depend on the year the benefits were purchased.

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.

We will manage the Sub-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 Sub-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 Sub-Fund and determine payouts.

For most classes of with-profits policy, payouts will be determined having regard to Uplifted Asset Shares with the aim of ensuring that fairness is maintained between different groups and generations of policies.

Uplifted Asset Shares are Asset Shares increased by an amount intended to distribute the Estate in the Sub-Fund. If large losses were to occur, it might be necessary to remove uplifts and/or to reduce payouts below Asset Shares for a period in order to protect the financial stability of the Sub-Fund.

Uplifts apply in full only to policies or benefits which have been in force for a minimum number of years.

For classes of policy where Uplifted Asset Share does not represent a fair guide to payouts, or where it is not calculated, payouts will be determined using other methods.

2.2 Target payouts

Target payouts on maturity or contractual retirement are based on 100% of uplifted Asset Share (as defined in section 2.3.2).

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).

The overall aim is that the payout ratio for each group of policies will fall within the relevant target payout range, as described below. For this purpose, each group of policies of the same type and similar period of investment in with-profits is represented by a specimen average policy for that group. We then look at the payout as a percentage of Asset Share for each specimen policy. This is appropriate since it ensures consistency with the methods actually used in setting final bonus rates.

The current target payout range is not to deviate by more than 20% from the target payout for maturing policies. Payouts from certain products, where Asset Shares are not the primary factor used in setting payouts, are not assessed relative to the target range.

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 Uplifted Asset Share for one or more reasons: 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 specimen average policy; and to reflect 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 conventional 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. Surrender values reflect the present value of the benefits which, if the policy is not surrendered, would eventually be paid.

2.3 Asset Share methodology

2.3.1 Asset Shares

In determining the amount of final bonus payable at maturity, we use the Asset Shares of the policies as a guide. For each group of maturing policies of the same type and similar period of investment in with-profits, the target payouts

correspond in total to the expected value of the aggregate Asset Shares of the group, amended by the appropriate level of uplift, or reduction where necessary (for example because of miscellaneous losses), and smoothing.

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 any partial payments of benefits;
- less a deduction for the costs of selling and administering the policy;
- less the cost of death or other risk benefits;
- less the cost of shareholders transfers relating to the allocation of bonuses to that policy;
- less an adjustment in respect of taxation as appropriate for the type of policy.

For most types of policy, the Asset Share is determined each month for each policy, by rolling forward the previous month's Asset Share allowing for the investment return earned in the month, any premiums paid and the impact during the month of the other factors described above. This impact may be assessed either at a policy level, or be a proxy that reflects the experience of a group of policies or a product as a whole.

The methods and assumptions described are those in use at the present time. In some cases there have been variations to the methods in use in the past and these are reflected in the accumulated Asset Shares of the policies affected.

The calculation of the rolling forward of the Asset Share for each policy is accurately carried out, subject to minor approximations within the calculation. For some types of policy, together representing a small proportion of our with-profits business, approximate or aggregated Asset Share calculations are made. Overall, we believe that the Asset Shares represent the policy values sufficiently accurately for their purpose.

The provision of guarantees and the setting aside of additional capital required to support our smoothing practice and the provision of guarantees impose costs on the Sub-Fund. We have not charged and do not currently charge any such costs to the Asset Shares of the policies.

Any change to this practice in future would require Board approval, and would only be introduced if we believed it to be fair to policyholders and compliant with relevant law. Such a change would not retrospectively affect the calculations of Asset Shares for the period prior to the introduction of the change.

Flexible Transfer Plans that provide a minimum guaranteed annuity benefit at maturity are subject to a reduced regular bonus rate. For such policies, the reduction in regular bonus rate effectively represents a charge for the cost of the guaranteed benefit.

Asset Shares are not charged in respect of any support provided by the estate.

2.3.2 Uplifted Asset Shares

Uplifted Asset Shares are Asset Shares increased by an amount intended to distribute the estate in the Sub-Fund.

The level of uplifts likely to be sustainable in the long term is dependent on future financial conditions and levels of future miscellaneous profits and losses. We assess the position regularly, and we currently believe that it is likely that in the long term we will be able to pay significant uplifts.

Levels of uplifts may also vary between types and different generations of policy. In particular, the levels may vary in accordance with our historical practice and the sources of profit being used to provide the uplift.

We normally expect uplifts on maturing policies to be higher percentages of Asset Shares for policies in force for a longer period than for those in force for a shorter period. This reflects the emergence of miscellaneous profits over a longer period.

We normally recalculate the appropriate uplifts once each year.

The latest published uplift as a percentage of Asset Share is available from our website at aviva.co.uk/estate-distributions.

Currently, we aim for all policies leaving the Sub-Fund after 15 or more years to receive the full amount of uplift. For policies leaving the Sub-Fund sooner the uplift will be a proportion of the full uplift, where the proportion is the length of time the policy has been in the Sub-Fund divided by 15 years.

If large miscellaneous losses were to arise, it may be necessary in order to protect our financial stability to remove uplifts and reduce payouts below Asset Shares. Our assessment of the need for such reductions, the amounts and durations of any reductions and the impact on our financial stability will be carried out as part of the process of reviewing final bonus rates, which is described below. Such reductions will not be allocated to the Asset Shares of particular types of policy except as described in our Practices relating to business risk.

2.4 Asset Share assumptions

2.4.1 Investment return credited to Asset Shares

The investment returns used in the Asset Share calculations are based on the actual returns earned on the different asset classes in the Sub-Fund, including changes in the market value of assets. The Asset Share of each policy is credited with the return earned on the assets in the Sub-Fund assumed to be backing the policy.

In the case of International With-Profits Bonds denominated in Dollars or Euros, the equities included in the backing assets are assumed to be mostly denominated in the same currency as the policy.

2.4.2 Expense charges

Expenses are charged or have been charged in the past to the Asset Share of each policy (see 2.4.5 on the next page) as shown in the table below.

Expense	Charge to Asset Shares
Since the commencement of formal Management Services Agreements in 1998: Fees paid to the Non-Profit Sub-Fund or previously to a service company for management, administration, marketing and sales services.	Actual fees paid for each policy, as described in the Practices relating to charges and expenses.
Prior to the commencement of formal Management Services Agreements in 1998: Expenses in respect of management, administration, marketing and sales.	The actual or estimated expenses incurred by us, apportioned by type of expense and between individual policies in accordance with our practices at the time, based on regular expense analyses.
Commission paid to intermediaries.	Actual commission paid for each policy.
Fees paid to investment managers.	A percentage of the Asset Share representing the average fee level including an allowance for performance fees.
Other expenses directly relating to investment, for example dealing costs, and charges borne through investment in collective investment schemes.	Allowed for within the calculation of investment returns.
Expenses met directly by us, for example regulatory fees.	Actual expenses, apportioned between individual policies using a basis of apportionment between different types of policy that we believe to be equitable, as described in the Practices relating to charges and expenses.

The fees payable to the Non-Profit Sub-Fund (previously to Aviva Life Services UK Limited or equivalent legacy service companies) are on a per policy basis and are set out in a formal agreement, and are reviewed every 5 years, as described in section 7.2.2.

2.4.3 Cost of other risk benefits

An adjustment is made to Asset Shares to reflect the cost of providing death, critical illness and any other risk benefits to the 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 benefits 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 each class.

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.

Consistent with the provisions of paragraph 39 of the Scheme, no deduction is made from Asset Shares in respect of taxation payable on shareholder transfers.

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.

2.4.5 Use of approximations in asset share calculations

The impact of expense charges, the cost of other risk benefits and tax described above, together with the cost of shareholder transfers, may be applied individually to a policy's asset share or as a proxy that reflects the impact of these factors on a group of policies or on a product as a whole.

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 we ensure that this does not affect our ability to comply with the PPFM.

We do not intend to change the Asset Share methodology used to accumulate historic Asset Shares. We would consider changing the methodology applied in respect of subsequent 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, paper or electronic files are created which are 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 of the Sub-Fund and to shareholders will be determined by the Board after taking into account the advice of the WPA and after consideration by the WPC.

Shareholders are entitled to a maximum of one ninth of surplus distributed to with-profits policyholders. No increase in the proportion of surplus allocated to shareholders may be made without amending the Scheme, which would require the permission of the High Court following a hearing of which with-profits policyholders would be given notice.

Bonus rates, Market Value Reductions ('MVRs') 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. New bonus series may be created if reasonable equity between different groups of policyholders cannot be maintained within an existing bonus series.

Regular bonus

Regular bonuses will be added when appropriate to provide policyholders with additional guaranteed benefits.

In normal conditions we set regular bonus rates for each bonus series as the rate of bonus which, if maintained indefinitely would provide an adequate margin for final bonus on average for policies in that series, consistent with the current investment strategy. For policy classes where it is our practice only to pay regular bonuses, we set bonus rates at a level which balances the interests of these classes of policy with that of the Sub-Fund as a whole.

As part of our approach to smoothing, we restrict the pace of change in regular bonus rates, 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.

Final bonus

Final bonus rates will be determined for each bonus series in order broadly to reflect any excess of Uplifted Asset Shares over the amounts already guaranteed, including regular and interim bonuses previously added.

Smoothing

From time to time, payouts on maturity and surrender may be more or less than the Uplifted Asset Share as a 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. Smoothing may apply differently between different types of policy and between different types of payout e.g. maturities and surrenders.

We may amend our smoothing strategy if, as a result of adverse circumstances, payouts would otherwise reach a level that we believe is too high.

3.2 Introduction

Smoothing of payouts applies in a number of ways, for example: by paying more or less than the target percentage of Uplifted Asset Share in order to reduce the volatility of payouts; by holding bonus rates and MVRs unchanged between declarations; by grouping policies together; and by having a smoothed scale of final bonus rates.

Policy types that do not provide a final bonus or have a single rate of final bonus that does not depend on duration smooth payouts to a greater extent than those where a term-related final bonus may be paid.

3.3 Regular bonus rates

In normal conditions, regular bonus rates will be reviewed once a year. The rates declared do not normally change by more than 1 percentage point from the equivalent rate declared approximately a year previously (declarations are not always made at precisely the same time of the year). In extreme conditions where the solvency of the fund was threatened, regular bonus rates could be reduced further or suspended altogether for a period in order to reduce that risk.

Each bonus series has its own regular bonus rate. This is normally the rate of future bonus which, if maintained, would provide an adequate margin for final bonus, consistent with the current investment strategy. This is achieved by projecting current Uplifted Asset Shares and guaranteed benefits, for a wide range of future investment returns and possible regular bonus rates, and choosing an appropriate regular bonus rate. The target margin for final bonus

is sufficient to absorb the impact of a period of poor investment performance and leave the projected Uplifted Asset Share at maturity larger than the guaranteed benefits. For policy classes with high guarantees, or after periods of poor investment performance, we may not consider it prudent to add a regular bonus.

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 life and pension business or business with different annual management charges. An example would be flexible transfer plans with a minimum guaranteed annuity benefit where a reduced regular bonus rate applies.

For policies that do not pay a final bonus, regular bonus rates are set at a level which, taking into account a conservative estimate of future uplifts and investment returns, we consider will provide a fair return to policyholders without imposing undue risk on other classes of policy. Policies without final bonus include pension policies invested in the Group With-Profits Fund, With-Profits Annuities and Deposit Administration Plans. For these policies, larger maximum changes in regular bonus rates may apply, typically up to 3 percentage points. For With-Profits Annuities, the bonus is in the form of an enhancement to the annuity paid during the following year; the annuity may reduce as a result of the bonus declaration but will not reduce below the minimum annuity guaranteed by the policy.

For most classes of policy, interim bonus may be payable for the period between the previous bonus declaration date and the policy payout date. Interim bonus rates, where appropriate, are determined having regard to the estimates of the level of regular bonus rates expected to be declared at the next declaration. Interim bonus rates are not guaranteed and could be changed at any time.

For Flexible Retirement Income Plans, additional bonuses were added where there had been investment performance in excess of that included in regular bonuses. This enabled investment performance to be more fully reflected in determining the maximum level of income permitted under such policies. Once added, such additional bonuses are treated in the same way as regular bonuses. Therefore the amount of final bonus eventually payable will normally be less than it would have been had any additional bonus not been added.

3.4 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.

Our smoothing practice for maturing policies is generally similar for all types and generations of policy. The published scales of final bonus rates do reflect a degree of smoothing across different periods of investment in with-profits.

It is not our practice to apply a different smoothing strategy to policies effected when the accumulated cost of or excess from smoothing is large.

In the long term we expect smoothing to be neutral. We do not expect to adopt an approach that aims for neutrality over a predetermined period. Instead, the approach will be to aim for neutrality over actual economic and stock market cycles. 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 conventional with-profits and UWP policies are reviewed at least twice each year. More frequent reviews may take place in changing or adverse conditions. Final bonus rates are generally investigated after any proposed changes to regular and interim bonuses have been determined. Final bonus rates may be constant for all policies of a particular type or may vary according to how long the policy has been invested in with-profits. The same final bonus rates apply on death or critical illness as on maturity of policies of the same type and period of investment in with-profits.

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

- how much of the desired and necessary change in payouts should be reflected in the next proposed declaration;
- the current economic environment and anticipated future market conditions; and
- the target level of payout as a percentage of Uplifted Asset Share.

Uplifted Asset Shares and payouts are calculated for groups of maturing policies of the same type and similar period of investment in with-profits. The ratios of payouts to Uplifted 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. Where necessary, the scale is then extended to other policy terms, normally by interpolation or extrapolation.

For Bonds and Trustee Investment Plans with no maturity dates, final bonus rates are defined for surrenders and switches out of with-profits in the forthcoming period, and are set in a similar way to that described above. Final bonuses are more likely to be paid the longer the policy has been invested in with-profits. For Bonds, the final bonus rate on death is the same as on surrender.

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. Other very small classes of conventional policy may have their bonus rates linked to other series for which policies are investigated.

3.7 Approximations in determining bonus rates

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

3.8 Equity between policyholders and shareholders

Shareholders are currently allocated one ninth of surplus distributed to with-profits policyholders (that is 10% of the total profits are allocated to shareholders).

The overall profits to be allocated in respect of any year are determined as a result of an actuarial valuation, carried out at the end of the year.

In any year, the profits allocated to the policyholders are the sum of the following amounts:

- for UWP and Deposit Administration policies, the amount of regular bonuses added in the form of bonus units added at the end of the year or, in the case of International With-Profits Bonds, during the year through increases in the unit price;
- for conventional with-profits policies, the value of the regular bonus allocated at the end of the year, discounted to allow for the period until it is due for payment, i.e. on death or maturity of the policy;
- the amount of interim bonuses paid during the year;
- the amount of final bonuses paid during the year, less
- the amount of any Market Value Reduction applied during the year.

However, if a market value reduction is applied to a policy during a particular year, which is greater than the sum of all profits allocated to it in previous years, then the profits allocated to shareholders may be zero in respect of that policy over its lifetime.

In accordance with the above method, if the basis used to discount the value of regular bonuses for conventional with-profits policies changed, the amount allocated to shareholders would also change even if bonus rates remain unchanged. However, we use the same discount rate as we use in our accounts to value the bonus allocated to policyholders, and the discount rate therefore reflects financial conditions at the date of the valuation. We believe that the calculation represents a fair way of determining the 90%:10% apportionment.

Consistent with the provisions of paragraph 39 of the Scheme, incremental tax arising in respect of the business of the FLAS With-Profits Sub-Fund will be borne by the Sub-Fund. Such tax is not charged to Asset Shares.

Allocations of regular bonuses for International With-Profits Bonds and payment of interim and final bonuses take place during the year and are made in anticipation of the profits arising for the year. The corresponding shareholders' transfer becomes due at the end of the year and is available for payment to shareholders early in the following year.

Where there is a guaranteed minimum annual rate of return under a Deposit Administration plan, this part of the overall return is not a bonus and does not attract a shareholders' transfer.

4 Surrender values

4.1 Principles

We may apply an MVR to the value of units on surrender of a UWP policy when unit values exceed Uplifted Asset Share and are not guaranteed (details of when the unit value is not guaranteed are set out in the relevant policy document). The amount of the MVR will reflect the difference between Uplifted Asset Share and the value of units.

Surrender value bases for conventional with-profits policies and rates of final bonus payable on UWP policies will be set in order to achieve a target percentage of Uplifted Asset Share averaged across all policies within each class.

We may smooth the change from time to time in surrender payouts.

4.2 Target payouts and smoothing

We aim to pay out 100% of Uplifted Asset Share on surrender. Currently, we aim for all policies leaving the Sub-Fund after 15 or more years to receive the full amount of uplift. For policies leaving the Sub-Fund sooner the uplift will be a proportion of the full uplift, where the proportion is the length of time the policy has been in the Sub-Fund divided by 15 years. For surrendering policies, our current target range is not to deviate by more than 20% of the target payout (see section 2.2).

We smooth payouts on surrender, although not necessarily to the same extent as payouts on maturity. Due to fluctuations in underlying asset values and hence Uplifted Asset Shares, surrender values are likely to deviate from target payouts during the periods between each review.

4.3 Conventional policies

The basic surrender value is calculated by means of a formula, which for most types of policy determines the present value of future guaranteed benefits less future premiums, using assumptions about future mortality and interest rates. Final bonuses may be added as indicated in our approach to final bonuses set out above.

4.4 MVRs on UWP policies

We may apply an MVR to the value of units on surrender of a UWP policy when unit values exceed Uplifted Asset Share and the unit price is not guaranteed. Details of when the unit price is not guaranteed are set out in the relevant policy document. Where applied, MVRs will be actively managed to reflect changes in the values of the assets backing the UWP business.

MVRs for UWP policies are kept under constant review and, when any apply, the scales typically change several times a year. In particular, a review of MVRs takes place after a significant change in the value of the assets backing the UWP business or in conjunction with a change in bonus rates. MVRs may be introduced or changed at any time.

A review is carried out using actual policy data from the UWP bonus series, grouping together policies of the same type and similar period of investment in with-profits. Uplifted Asset Shares and surrender payouts are calculated for each policy as at the investigation date, based on current MVRs and rates of bonus (which may include final bonus if the policy is entitled to such a bonus on surrender).

The results of these investigations are analysed and MVRs are amended if the results indicate that current average surrender values differ significantly from the target payouts (100% of Uplifted Asset Share) on surrender for some or all of the sample policies. We would not normally change the MVR scales unless the total amounts payable on surrender differed from the Uplifted Asset Shares for the group of policies by more than 2%.

Where MVRs are indicated for only a small number of policies, we may decide not to apply them. Similarly, a lower amount of MVR than the maximum may be set in accordance with our smoothing practice. We may also decide not to apply an MVR where the surrender value before MVR is less than a certain limit, or where the MVR is less than a certain limit.

Some policies allow partial surrenders. For these policies the Uplifted Asset Share is reduced in proportion to the maturity benefit or unit value cancelled. Some policies allow regular withdrawals to be taken free of MVR up to a specified percentage of the premium each year. Where this applies, the reduction from the Uplifted Asset Share allows for any MVR that otherwise would have applied.

5 Investment strategy

5.1 Principles

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

- our aim to achieve the best returns for policyholders over the longer term;
- the nature of the liabilities of the Sub-Fund;
- the current and projected financial position of the Sub-Fund, ignoring for this purpose the need to repay any capital support provided under the support mechanism;
- advice from the investment managers for the Sub-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;
- the advantages of reducing overall volatility by investing in a wide range of assets; and
- any unused capital support outside the Sub-Fund.

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 may be held by the Sub-Fund. These may include investments in Aviva group companies and properties occupied by Aviva group companies. Such assets may continue to be held or may be acquired provided that, in our opinion, after taking advice from the WPA, they offer sufficient expectation of reward to the Sub-Fund to compensate for lack of liquidity and any other disadvantages.

5.2 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 Uplifted Asset Shares (reduced by the amount of any asset share shorting, see section 5.7). These assets may be further subdivided into smaller pools according to the type of policy.
- 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 managers. 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.

5.3 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 within some of the asset pools whereby assets are selected whose values broadly move in line with the values of the underlying liabilities following changes in investment conditions:

- non-profit liabilities are matched by fixed interest assets of appropriate type and duration, mainly government and corporate fixed interest investments;

- unit-linked liabilities are provided in the Non-Profit Sub-Fund, which either exactly matches the liability by investments in the appropriate unit funds or reinsures them in turn to insurance companies outside the Aviva group;
- liabilities in respect of guarantees such as GARs are hedged by fixed interest investments and derivatives whose value is linked to changes in interest rates; and
- assets held in respect of the expected cost of basic benefit guarantees comprise fixed interest investments and derivative contracts whose value is linked to changes in equity markets.

These matching strategies are actively reviewed and may be changed at any time in the future if appropriate.

5.4 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.

In pursuit of the strategy to achieve the best returns for policyholders over the longer term, we have a preference to invest in EBR assets, but not to the extent that the prospect of potentially better returns is more than offset by the risks of this preference.

The EBR is monitored closely as the returns from these asset classes are generally more volatile than returns from other classes.

We generally aim to maintain a stable EBR. However, we may change the EBR, in line with our Risk Appetite Framework, should the fund's financial strength fall outside its preferred range (see Section 8.4).

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 required to hold a wide range of investments within each asset class for reasons of security and diversification.

A proportion of the fixed interest portfolio is invested in the UK and other government securities, which help to meet liquidity requirements. We also hold corporate securities issued by selected companies. The credit quality is monitored on an ongoing basis to ensure credit risk remains appropriate relative to the overall fund.

5.5 Non tradable assets

The Sub-Fund currently has no assets where there are legal restrictions on trading because of the particular importance of the assets to the Company.

A small number of the assets of the Sub-Fund would not normally be traded and do not have a published market value. These are assets that are not associated with the Aviva group but are not traded (e.g. private equity investments, certain hedge fund investments or commercial real estate loans). Non tradable assets are held to offer additional diversification or investment opportunities.

The valuations of non tradable assets may be updated less frequently than those of other investments for practical reasons. The values of non tradable assets are determined in accordance with advice from our investment manager and, where necessary, specialists in the valuation of these assets. Changes in the value of non tradable assets impact the value of the Asset Shares and therefore, over time, influence the level of bonus rates and payouts for with-profits business.

In addition to these investment assets the with-profits business within the Sub-Fund is entitled to the profit from non-profit business within the Sub-Fund. The anticipated future profits are brought into account as an asset and therefore changes in the expected and actual profitability of the non-profit business does impact over time on the level of bonus rates and payouts for with-profits policies.

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 Asset Share shorting

We may use an internal Asset Share shorting strategy to help protect the Sub-Fund against the increased costs of providing guarantees or applying smoothing in adverse market conditions. Shorting is applied to all asset classes according to their proportion within the Asset Share liabilities.

Shorting involves holding fewer assets in the Asset Share pool than required to cover Asset Share liabilities, with the balance of the assets being held outside the Asset Share pool and invested in low risk assets. If the shorted assets perform worse than the low risk assets, the profit to the Sub-Fund will meet the increased guarantee or smoothing costs in these circumstances. If in favourable market circumstances, the shorted assets perform better than the low risk assets, the loss to the Sub-Fund will be offset by the reduced guarantee or smoothing costs.

5.8 Secured funding and securities lending

Both of these activities entail receiving payment from other financial 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.

5.9 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.

5.10 Sustainability Ambition

Aviva's sustainability ambition includes a commitment to becoming a net zero group by 2040. Aviva has a strong track record in promoting sustainability and investing responsibly in the best interests of our customers and our shareholders. We intend to do so in a way that maximises the positive returns for them.

Our investment philosophy promotes the merits of engagement over divestment as a more effective mechanism to deliver positive outcomes for our customers. Our preference to stay invested, engaged, and partner with companies as they develop a change strategy, allows us to continue to influence their business model to create more sustainable outcomes. However, there are specific sectors and economic activities where we believe the sustainability risks are so severe that they fundamentally misalign with our sustainable investing approach. In these cases, we actively exclude companies and industries from our investment universe.

Further information on this investment policy can be found on our website at [aviva.com/sustainability/resources-and-reporting-hub/](https://www.aviva.com/sustainability/resources-and-reporting-hub/) - Aviva plc, in particular in our Aviva ESG Investment Baseline Exclusion policy.

Further climate-related disclosures for the FLAS With-Profits Sub-Fund can be found at [aviva.co.uk/esg-reports](https://www.aviva.co.uk/esg-reports)

6 Exposure to business risk and new business

6.1 Principles

The Sub-Fund only bears losses arising from business risks relating to policies in the Sub-Fund, including non-profit policies.

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

We control business risks by:

- understanding risk factors associated with existing business;
- monitoring the experience with specific regard to risk factors;
- taking actions to reduce risk exposures, for example through pricing, reinsurance, asset allocation, hedging exposures or refinancing.

Where provided for in our service agreements, compensation due to policyholders or other parties where a service provider is at fault will be reclaimed from that service provider. Other compensation due will be paid by the Sub-Fund and will reduce amounts available to uplift Asset Shares.

The Sub-Fund was closed to new business on 31 July 2009 although we still accept increments to existing policies and new members to existing group schemes.

6.2 Business risks

With-profits policies are exposed to a number of business risks relating to the operations of 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 business 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 on the next page sets out the most significant business risks alongside the action that has been taken to mitigate these risks.

The risks in the following table all influence the amount and timing of the surplus that emerges in the Sub-Fund. As a result, the Uplifted Asset Shares make allowance for the expected future impact of the business risks. There is no specified minimum to the amount of rewards or losses to be taken into account, but the nature of determining uplifts and smoothing is such that small amounts are unlikely to have any material impact.

Except where risks are taken into account in the calculation of Asset Shares, the business risks outlined are normally borne across all with-profits business in the Sub-Fund. However, we may make an exception to this practice in circumstances where a risk is closely associated with particular types or generations of policy and we consider it fair to all policyholders to do so. Any such practice would be approved by the Board, and be subject to compliance with policy conditions and relevant law.

Business risks and mitigating action taken to reduce their impact

Business risk	Action taken to reduce impact
1a) Guarantees associated with with-profits policies, i.e. the guaranteed annuity rates attaching to some policies and other contractual guarantees attaching to most policies.	<p>Explicit reserve set up, ongoing monitoring and investment strategy to limit the exposure to changes in market conditions.</p> <p>Holding investment instruments that hedge part of our exposure to guaranteed annuity rates.</p>
1b) Guarantees built up by regular bonus additions.	<p>Limiting the build up of these guarantees by restraining regular bonus rates and, if necessary, holding back the distribution of miscellaneous surplus.</p> <p>Using derivative contracts to minimise the prospect of guarantee costs, and the value of assets backing them, diverging due to market movements.</p>
2) Variances in the value of non-profit business within the Sub-Fund.	<p>Investment strategy to limit the exposure to changes in market conditions.</p> <p>An internal arrangement under which the Non-Profit Sub-Fund takes responsibility for any losses arising from the default of external reinsurers of unit-linked business in the FLAS With-Profits Sub-Fund.</p>
3) Other miscellaneous business risks impacting the with-profits business, in particular: Investment, Expense, Mortality, Taxation, Reinsurance and Regulatory risk.	<p>Explicit accountabilities allocated to key staff to monitor and manage risks. Expense risk reduced by periodic agreements between the Sub-Fund and the Non-Profit Sub-Fund.</p>
4) Potential compensation claims in respect of allegations of mis-selling or other regulatory transgressions.	<p>Ensuring management actions, where appropriate, are consistent with sales literature. Appropriate reserving for potential risk.</p>

7 Charges, expenses and taxation

7.1 Principles

Once a policy is in force, we may only change explicit policy charges in the circumstances set out in the policy document. For example for UWP policies we may amend charges in respect of life or critical illness cover whilst the policies are in force if experience has changed.

Charges and other terms for increments to existing policies vary from time to time to reflect changes in relevant factors such as expected investment return, expenses and claims experience.

Expenses charged to the Sub-Fund are apportioned between those relating to with-profits and non-profit policies, and those relating to with-profits policies are apportioned between policies. We will change the basis of apportionment if we believe that it is necessary to do so in order for it to remain equitable.

The tax charge (or credit) to the Sub-Fund will be calculated on the basis that the Sub-Fund is a separate proprietary company, as calculated in accordance with Appendix 5.

7.2 Charges and expenses

7.2.1 Policy charges

For UWP policies, the specific policy charges that may apply are set out in the policy documentation. These charges may include deductions from premiums applied to secure units, cancellations of units whilst the policy is in force and charges on surrender (separate from any MVR).

7.2.2 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 and the charges for the services.

Expenses are charged by Aviva Life Services UK Limited to the Non-Profit Sub-Fund. The Non-Profit Sub-Fund then charges fees to the Sub-Fund.

These charges are paid by the Sub-Fund in lieu of the expenses incurred in running the with-profits business.

The fees charged to the Sub-Fund will be reviewed periodically. The last review took effect on 1 January 2024, and the next review will take place, at most, five years after that date.

In developing the MSA, independent consultants were engaged to provide benchmarking data for the With-Profits Committee.

Following each review, the fees will not exceed the lower of 115% of actual expenses incurred by Aviva Life Services UK Limited and the median expenses incurred by companies carrying out similar business. In this way, the expenses charged to the Sub-Funds will remain comparable to other companies' expenses and will allow Aviva Life Services UK Limited to earn a reasonable margin for risk if it can provide services at a competitive price.

If the charges become disproportionate relative to the services provided, then the Company will consult with the With-Profits Actuary on any changes to the charges or the arrangement with Aviva Life Services UK Limited, which could include termination of the arrangement.

Commission expenses are directly allocated to the Sub-Fund where appropriate.

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 fees payable to the Non-Profit Sub-Fund are described below.

Administration fees for existing business are per policy fees with inflationary increases.

The MSA defines the level of service to be provided and the steps to be taken should standards achieved fall below the defined levels. The scope and standard of service may be adjusted to treat policyholders fairly.

Fees for requested developments affecting the Sub-Fund are based upon agreed costs. These will be charged to the Sub-Fund to the extent that the developments will benefit the Sub-Fund in the future and/or are undertaken to cover regulatory requirements on the advice of the With-Profits Actuary.

Fees for developments can only be charged to asset shares with the agreement of the With-Profits Committee. Otherwise, fees for developments will be charged to the estate.

The expenses apportioned to with-profits policies and charged to Asset Shares include:

- Fees paid by the Sub-Fund for management and administration services relating to with-profits policies.
- Commission paid to intermediaries relating to with-profits policies.
- Fees paid to Aviva Investors Global Services Limited and other managers in respect of investment management services relating to assets backing with-profits policies.
- Other expenses directly relating to investments, for example dealing costs.

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 is 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.

A Support Account is required by the Scheme to be maintained for the Sub-Fund. At any time, the amount of the Support Account available for the Sub-Fund is determined in accordance with the relevant provisions of the Scheme, reduced by any support already provided to the Sub-Fund.

If and to the extent that the Scheme or PPFM requires, assets will be transferred into the Sub-Fund from the Support Account. The transferred assets are repayable when no longer required. Any interest payable on a transfer will be on terms which no more than recompense the Non-Profit Sub-Fund or Shareholder Fund for the return it would otherwise have earned on the assets transferred.

Our objective is to manage the Sub-Fund so that it, together with the Support Account assets will cover the major part or all of the Sub-Fund's regulatory capital requirements. The support assets must be of a type which would be appropriate to meet the requirements described in section 5 above for the Sub-Fund.

The estate held in the Sub-Fund and the Support Account assets for the Sub-Fund support the operation of with-profits policies. In particular they:

- provide us with investment flexibility;
- enable bonuses on with-profits policies to be smoothed;
- enhance the security of policy benefits generally.

We aim to maintain an estate of sufficient size to enable the above objectives to be met, and if we believe that the size of the estate will fall too low we will take action to increase it.

If the estate becomes larger than we believe is necessary to meet the above objectives, we would aim to reduce it, for example by increasing the amounts of bonus allocations over a period.

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

8.2 Capital support arrangements

The Sub-Fund will be managed on the basis of the assets within the Sub-Fund, plus the assets backing the Support Account. Other than in extreme circumstances, we will not use the Support Account for the FLAS With-Profits Sub-Fund to support another with-profits sub-fund.

Our Solvency Risk Appetite requires us to maintain in all but the most extreme circumstances, assets in excess of regulatory capital requirements. This excess is expected to be more than sufficient to cover the Support Account for the Sub-Fund and those other with-profits sub-funds which also have Support Accounts.

The amount of the Support Account was £132m at 31 December 2016 and will reduce at subsequent year-ends in accordance with a schedule specified in the Scheme.

The Scheme sets out when and how large a temporary transfer must be made into the Sub-Fund from the Support Account. It also sets out when and to what extent a transfer may be repaid. The transfer is to ensure that the assets of the Sub-Fund are at least equal to the liabilities.

The Scheme also provides that a temporary transfer into the Sub-Fund must not be made or must be limited so that the sum of:

- the value of the assets of the Non-Profit Sub-Fund (excluding the RIEESA);
- the value of the assets of the Shareholder Fund; and
- the value of net assets attributable to the shareholder in other non-profit sub-funds

does not fall below the sum of:

- the Technical Provisions for the Non-Profit Sub-Fund (excluding those in respect of any policies attributed to the RIEESA);
- the liabilities of the Shareholder Fund; and
- the Minimum Capital Requirement for the Company (excluding any part of that Minimum Capital Requirement in respect of a with-profits sub-fund or the RIEESA which is being met by that with-profits sub-fund or the RIEESA respectively).

Annuities provided on guaranteed rates to holders of with-profits policies are currently set up outside the Sub-Fund. If such annuities should begin to be set up in the Sub-Fund, a review of the adequacy of the minimum amount of capital support and its rate of decrease would be carried out.

8.3 Allocation of costs to the estate

The estate meets all costs relating to with-profits business not allowed for in the calculations of Asset Shares.

8.4 Managing the size of the estate

We aim to maintain an estate sufficient to ensure that the objectives set out in the Principles are supported, and in particular that our assessment of the safety margins required to cover a wide range of risks that might affect the Sub-Fund is met. As the Sub-Fund runs off, we aim to distribute the whole of the estate in an equitable way between types and different generations of policy.

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 estate, 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.

If we believe that the amount of estate will fall too low to meet the above criteria, we will take action to increase it. Such action may include:

- reducing future bonus rates, subject to the conditions set out in the PPFM;
- amending the investment guidelines, for example to reduce holdings in equities.

If the estate grows larger than we believe is necessary in order to support the objectives set out in the Principles, we will take action to reduce it. In order to reduce the size of the estate, we would increase the amount allocated to bonuses over a period, for example by increasing the target levels of uplifts as described in section 2.3.2. As the size of the estate takes account of expected future bonuses, implementing such an increase would have an immediate effect on the size of the estate.

When the assets of the Sub-Fund (excluding those backing non-profit policies) fall below £250m, we may declare a one-off bonus or a series of fixed future bonuses to exhaust the surplus in the Sub-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

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 deductions for partial payments of benefits and charges such as expenses, mortality, distributions to shareholders and tax.

Aviva group

Aviva plc or any of its subsidiaries.

Aviva Investors Global Services Limited

A firm of investment managers, which manages most of our investments.

Aviva Life Services UK Limited

Aviva Life Services UK Limited, a service company, which provides management, administration, marketing and sales services to us and other companies in the Aviva group.

Bond

A type of UWP life policy used for single premium investments.

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 or a Deposit Administration plan. 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.

Deposit Administration plan

A with-profits policy used in connection with defined benefit pension schemes. An accumulation account is maintained for each scheme. The accumulation account is credited with contributions to the scheme, any guaranteed rate of return and the bonuses allocated, and debited with the cost of members' benefits and plan charges.

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.

Financial Conduct Authority

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

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 the regular and interim bonuses. A final bonus is sometimes called a terminal bonus.

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.

International With-Profits Bond

A Bond written by Utmost Limited where the with-profits investment element is reassured to us.

Market Value Reduction (MVR)

A reduction that may be applied in accordance with the provisions of the policy to the payout under a UWP policy 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 Sub-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.

Minimum Capital Requirement

One measure of the minimum amount of capital, in addition to its Technical Provisions, that an insurance company is required by its regulator to hold, in accordance with the PRA rules.

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.

Payout ratio

The payout in respect of a policy, expressed as a percentage of the Asset Share.

Policy charges

Policy charges form part of the contract agreed with the policyholder, and the amount of guaranteed benefit is affected by the charges. UWP policies are subject to a number of specific charges, for example in the form of deductions from premiums or cancellations of units. For conventional with-profits policies, the policy charges are combined into the premium rate used to determine the amount of guaranteed benefit secured by a given premium.

PPFM

Principles and Practices of Financial Management (this document).

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. For International With-Profits Bonds, regular bonuses are added to the policy by means of increases in the unit price. For other UWP policies and Deposit Administration plans, regular bonuses are added by means of an annual addition of bonus units. For conventional with-profits policies, regular bonuses are credited by means of an annual addition to the benefits payable on death or maturity. 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 Uplifted Asset Shares (reduced by the amount of any asset share shorting) used to determine the investment return credited to Asset Shares.

RIEESA

The Reattributed Inherited Estate External Support Account is an identifiable separate account within the Non-Profit Sub-Fund which may be used to support the Old and New With-Profits Sub-Funds.

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 estate 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-funds. The assets of these sub-funds are available to meet the Solvency Risk Appetite and, to the extent not required for this, may be distributed to shareholders.

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 the Company 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.

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.

Sub-Fund

Sub-Fund is used to refer to the Aviva Life & Pensions UK Limited FLAS With-Profits Sub-Fund.

Support Account

An amount required to be maintained in respect of certain with-profits sub-funds by the Scheme and in accordance with the Solvency Risk Appetite.

Technical Provisions

The reserves an insurance company must hold to cover insurance and reinsurance obligations towards policyholders, as defined in the PRA rules.

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.

Uplifted Asset Share

The Asset Share of a policy together with extra amounts notionally allocated from surplus assets within the Sub-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 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 previously 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 on the next page 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.

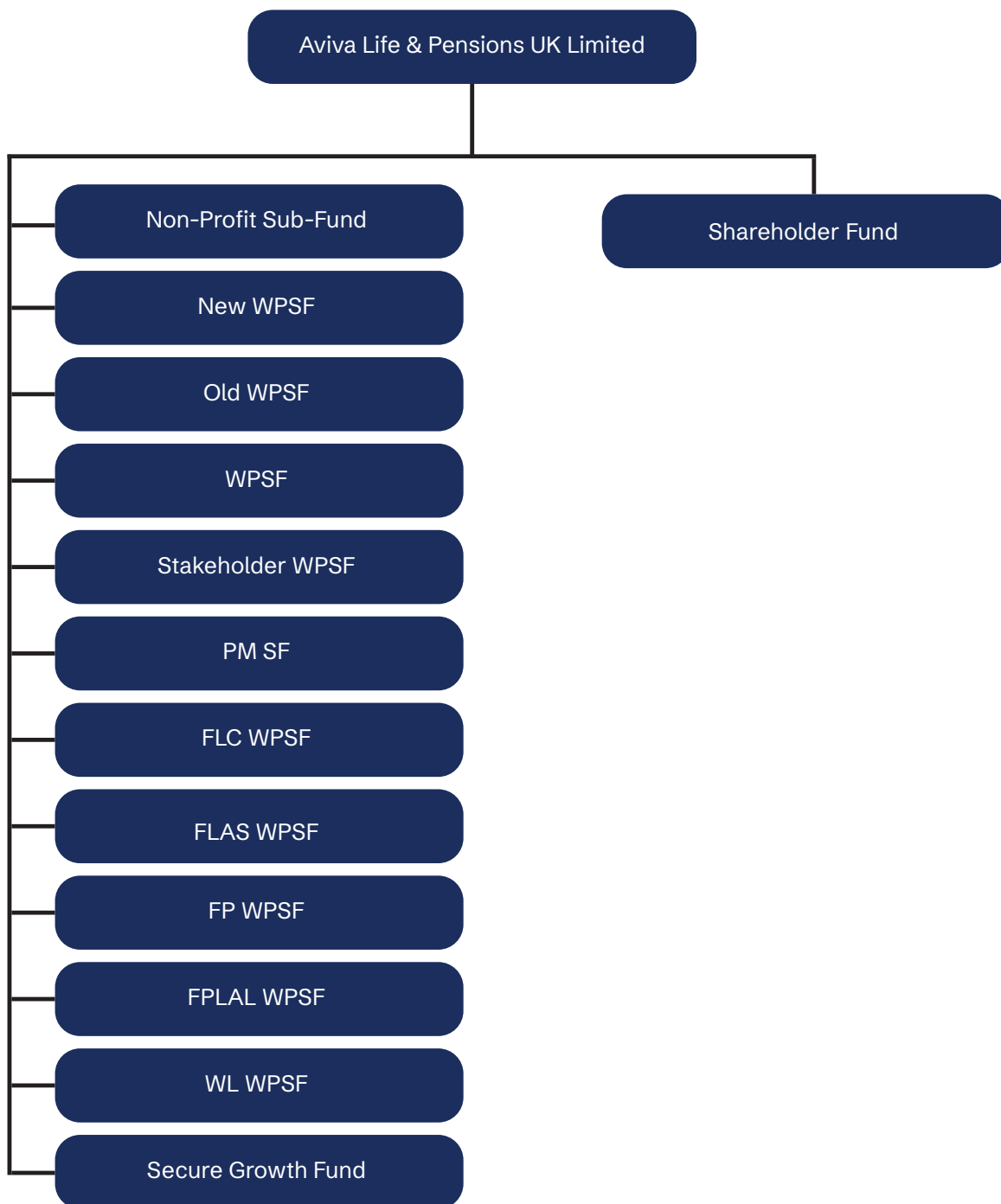
Sub-Fund Background: FLAS

The business of the FLAS With-Profits Sub-Fund was originally that of the Sun Life Assurance Society ('SLAS'). SLAS operated with a single policyholder fund that included all types of business written, which includes with-profits, non-profit and unit-linked business. The profits and losses from all types of business were shared between with-profits policyholders and shareholders, with at least 90% of profits allocated to the with-profits policyholders.

SLAS closed to new business on 31 July 2009, although increments to existing policies and new members to existing group schemes are still accepted.

Almost all of the unit-linked business is reinsured to the Non-Profit Sub-Fund, although the FLAS With-Profits Sub-Fund retains liabilities in respect of death and illness benefits. The profits and losses that are made in respect of unit-linked business relate mostly to these benefits.

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

Company policy taken out with	Current Aviva Life & Pensions UK Limited With-Profits Sub-Fund
<p>General Accident Life Assurance Limited</p> <p>Yorkshire-General Life Assurance Company Limited</p> <p>The General Life Assurance Company</p> <p>Yorkshire Insurance Company Limited</p> <p>Scottish Insurance Corporation Limited</p> <p>N&P Life Assurance Limited</p> <p>Commercial Union Life Assurance Company</p> <p>North British and Mercantile Insurance Company Limited</p> <p>London and Scottish Corporation Limited</p> <p>CGU Life Assurance Limited</p> <p>CGNU Life Assurance Limited – except stakeholder plans</p> <p>Norwich Union Life (RBS) Ltd – except stakeholder plans</p> <p>Aviva Life & Pensions UK Limited – except annuity business and stakeholder plans</p>	<p>New and Old With-Profits Sub-Funds</p>
<p>The Provident Clerks’ Mutual Life Assurance Association</p> <p>Provident Clerks’ and General Mutual Life Assurance Association</p> <p>Provident Mutual Life Assurance Association</p>	<p>Provident Mutual Sub-Fund</p>
<p>Welfare Insurance Company Limited</p> <p>London and Manchester Pensions Limited</p> <p>Friends Provident Corporate (Pensions) Limited</p> <p>Friends Provident Pensions Limited – Secure Growth Fund policies</p> <p>Friends Life and Pensions Limited – Secure Growth Fund policies</p>	<p>Secure Growth Fund</p>
<p>CGNU Life Assurance Limited – stakeholder plans</p> <p>Norwich Union Life (RBS) Ltd – stakeholder plans</p> <p>Aviva Life & Pensions UK Limited – stakeholder plans</p>	<p>Stakeholder With-Profits Sub-Fund</p>
<p>Norwich Union Life Insurance Society</p> <p>Norwich Union Life & Pensions Limited</p> <p>Aviva Life & Pensions UK Limited – annuity business</p>	<p>With-Profits Sub-Fund</p>
<p>National Westminster Life Assurance Limited</p> <p>Royal Scottish Assurance plc</p>	<p>With-Profits Sub-Fund 5</p>
<p>The Colonial Mutual Life Assurance Society Limited</p> <p>Colonial Mutual Life (Unit Assurances) Limited</p> <p>Colonial Life (UK) Limited</p> <p>Friends Life WL Limited</p> <p>Winterthur Life UK Limited</p> <p>Provident Life Association Limited</p>	<p>WL With-Profits Sub-Fund</p>

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 proprietary company 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. As the charge for tax will be deducted at the end of the financial year it will be adjusted to allow for any timing differences between the date of such deduction and the date on which tax is due for payment by the Company.
- 3 It is assumed that the separate proprietary company:
 - i) 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 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;
 - ii) 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
 - iii) 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 member,
unless (in respect of (i) or (ii)) 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 proprietary company does form part of a group or other association within (i) above, or does form part of a group within (ii) above, or (as the case may be) does not form part of a group within (ii) above.
- 4 Any Tax Reliefs calculated as available to be carried forward into a subsequent period in the separate proprietary 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 proprietary company calculation for the Sub-Fund may only be utilised in calculations for that separate proprietary 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 Taxes Acts¹ relating to apportionment of items between classes of business will be applied separately to the separate proprietary company.
- 7 The separate proprietary company will include only those assets and liabilities allocated to the Sub-Fund under the provisions of the Scheme net of any internal reinsurance 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 reinsurance 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 reinsuring 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 of the Finance Act 2012.

- 8 The receipt or repayment of a Temporary Transfer under paragraph 60 of the Scheme will not be treated as giving rise to a taxable profit or loss of the separate proprietary company. Assets held within the Support Accounts will not be allocated to the Sub-Fund for the purposes of the separate proprietary company calculation unless and until a Temporary Transfer of the same is made. Any payment of an Enhancement pursuant to paragraph 60 of the Scheme will not be treated as giving rise to a deduction for tax purposes and an amount equal to the Enhancement under paragraph 60 of the Scheme will not be treated as giving rise to income for tax purposes.
- 9 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 proprietary company and a third party. However, no VAT will be treated as arising on supplies of services between policyholder sub-funds and no withholding tax will be deducted from any payment made to other policyholder sub-funds.
- 10 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 proprietary 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.
- 11 A deferred tax liability (or asset) will be calculated for the separate proprietary company on the basis adopted by the Company generally and in accordance with the principles set out above and the requirements of the Scheme.
- 12 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 proprietary 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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