



Principles and Practices of Financial Management (PPFM)

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

1 January 2024



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Section 1: Introduction

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

1.1 Company information

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

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

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

1.2 What business is covered by this document?

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

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

The most common names that exist on what are now policies of the With-Profits Sub-Fund are Norwich Union Life Insurance Society and Norwich Union Life & Pensions Limited.

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

1.3 Purpose of PPFM

What is a PPFM?

A PPFM is a document that sets out the Principles and Practices that a company follows when managing its with-profits business. The PPFM for this Sub-Fund has been approved by the Board of Directors of Aviva Life & Pensions UK Limited ('the Board'). The Board will report each year on whether each with-profits sub-fund has been managed in accordance with the PPFM.

What are Principles?

The with-profits Principles are enduring statements of overarching standards followed by a company when managing a with-profits sub-fund bearing in mind its duties to with-profits policyholders in both the current and future economic environments, its need to be fair to all policyholders, and comply with any relevant legislation and policy terms and conditions.

What are Practices?

The with-profits Practices provide more detail on the current approach taken by a company when managing a with-profits sub-fund.

Changes to Principles and Practices

If we propose to make a material change to any Principle in this PPFM we will inform policyholders with a with-profits policy in the Sub-Fund in writing at least three months in advance, unless we consider that advanced notice is not necessary and the FCA (one of our regulators) has agreed. Any proposed change to a Principle would be decided by the Board, having considered the views of the With-Profits Committee and having taken appropriate actuarial advice, including from the With-Profits Actuary.

Any proposed change to a Practice would be decided by the Board, having considered the views of the With-Profits Committee and having taken appropriate actuarial advice, including from the With-Profits Actuary.

Details of all changes to Principles and Practices will be displayed on the Company's website [aviva.co.uk/ppfm](https://www.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 A defines the key words and phrases used within this report. The following section also gives some background information on types of with-profits policies, and types of bonus.

1.7 Background information on with-profits policies

With-profits policies typically provide benefits at certain contractual dates specified in the policy. The contractual date is typically the end of the policy term, called the 'maturity date' for endowment policies or the 'retirement date' for pensions policies. For other policies such as with-profits bonds, the policy may specify particular contractual dates, for example the 10th policy anniversary. The benefits are also, typically, guaranteed on the death of the policyholder. Benefits may be taken at other times, but the payout received in this case is not usually guaranteed in any way.

Bonuses may be added to increase the value of the benefits of the policy. There are typically two forms of bonus:

- regular bonuses, which are added throughout the policy term, although at certain times the regular bonus may be zero; and
- final bonuses, which may be added whenever the policy benefits are taken. Again, the final bonus may be zero.

There are two types of with-profits policies:

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

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

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

Amount payable

2.1 Principles

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

Where a policy is eligible for a surrender value, the amount paid on surrender will have regard to the initial guaranteed benefits and bonuses, and the desire to avoid surrenders causing a strain on the Sub-Fund remaining for continuing policyholders.

For the With-Profits Annuity, the amount of each annuity payment may include bonuses in addition to the guaranteed benefits. Where payable, these bonuses constitute an equitable share of the distributable surplus earned by the Sub-Fund over the period of investment. Annuity payments will be paid in accordance with the policy conditions.

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

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

With the approval of the Board, following recommendations from the With-Profits Actuary:

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

In respect of conventional policies in force on 15 June 1997 (the date that Norwich Union demutualised) and increments to such policies, the bonus policy and methodology will not be changed such that the costs of shareholder transfers and tax thereon reduces asset shares.

2.2 Practices

Where practicable, asset share calculations for specimen policies are used as a guide to determine bonus rates and the amounts payable to policyholders. Asset share methodology is described in sections 2.3 and 2.4. The Board determines the appropriate level and timing of distributions to policyholders. The bonus methodology has been established and refined over many years and will be further refined as required. For some small blocks of business where asset shares are not available or are inappropriate as a measure, we may use a comparable policy as a proxy to determine payouts or take account of past practice.

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

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

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

Our current practice is to limit the change in payout to be less 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 above) then the smoothing limit is 5%.
- If the payout using the current final bonus rate lies outside the target payout range (see above) then the smoothing limit is 7.5%.

In normal circumstances, the maximum amount of smoothing in one year will be 15%. If circumstances change so that there is a significant risk that the assets of the fund will not cover the liabilities, then a larger smoothing limit percentage may be used, or smoothing may be suspended. The bonus philosophy practices provide more detail on the smoothing approach, see section 2.6.

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

For conventional with-profits policies, over the long term the approach for non-guaranteed surrender values is to target an average payout of 100% of asset shares less any deductions required at surrender to protect the interests of remaining policyholders, subject to policy conditions. At present we do not make any deductions but may do so in future to the extent permitted within the Conduct of Business Sourcebook rules. For some policies, e.g. whole life, standard actuarial formulae may be applied as the use of asset share may not be appropriate. Where available, the directly calculated asset share for specimen policies will be used as a basis for calculating the amounts payable on surrender. Alternatively, a formulaic basis for surrender values may be used and factors may be applied to these values in order to achieve the asset share payout target on average. Individual policies may receive more or less than the average payout percentage of the group. The bases are reviewed when there is a 5% movement in underlying market indicators from when the bases were last changed and some sign of stability at that new level. In addition there would be a review when final bonus rates are changed. At any one time we may pay more or less than target due to changes in investment conditions.

Except for defined benefit pensions, a glide path approach is used to ensure that surrender values approach maturity values. The surrender basis and factors will be modified so that the surrender payout blends into the expected maturity payout, over a period of up to five years.

The return in the early years has regard to the actual premiums paid rather than being based solely on asset shares. Payouts may be blended in to bring them into line with the surrender values described above.

Whilst there are no formal smoothing practices on surrender equivalent to the smoothing applied to maturities, we may choose to limit the maximum change in surrender values on a policy as a result of a review.

For unitised with-profits policies, the final bonus rate used for surrenders and non-contractual unit cancellations is the same as that used for maturity and death claims of the same duration. Such claim values may, however, be reduced by the application of a Market Value Reduction (MVR) as described in sections 2.7 and 2.8 and, in the case of surrenders, by the application of any early redemption charge specified in the policy and any required deductions to protect the interests of remaining policyholders. At present we do not make any deductions but may do so in future to the extent permitted within the Conduct of Business Sourcebook rules.

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

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

The same assumptions and parameters are applied across different types of policies and across different generations of policies where, in the opinion of the Board, the experience of different groups is felt to be reasonably homogeneous or where the experience of different groups is not separately available. Where appropriate, current practice for Aviva Life & Pensions UK Limited is to apply a common scale of final bonus rates to all Life unitised with-profits policies within the same series and a common scale of final bonus rates to all Pension unitised with-profits policies within the same series. Different rates apply where management charges are taken explicitly, by unit deduction, to when management charges are taken implicitly before determining the rates. Current practice is also to apply the same final bonus rates to conventional whole life policies as would apply to endowment policies. A separate bonus rate is declared for the With-Profits Annuity.

In the case of certain mortgage endowment policies subject to the Mortgage Endowment Promise, payouts may exceed the target percentages of asset shares described above. For such policies, a top-up payment in the form of an additional final bonus (extra to that described in sections 2.5 and 2.6) may be payable up to the maximum amount specified in policyholder mailings.

The Mortgage Endowment Promise applies to mortgage endowment policies maturing since 1 January 2000 where we have written to policyholders advising them of their maximum promise amount subject to certain conditions. These were that:

- future investment returns on the inherited estate should be sufficient to meet the top-up costs
- the policy should not be sold to a third party
- policyholders should continue to pay premiums and not alter their policies in any material way.

The promise does not state that the mortgage amount will be paid if these conditions are met. It indicates a maximum top-up amount payable based on projections made in 1999. If the Company gets into a position where it does not think it can keep paying the full promise, the Company will give at least three years' advance warning that it cannot support all or part of these payments any more.

Asset share methodology

2.3 Principles

Where asset shares are used as a guide to determine the amount payable under a policy they reflect the sources of profit or loss to the Sub-Fund in which they share. Major sources of profit or loss are described in section 2.4.

2.4 Practices

Where asset shares are calculated, similar types of product may be grouped together. They are calculated for specimen policies or groups of policies from assumptions derived from the actual experience of the Sub-Fund. The experience may be measured across different generations or types of policies if it is considered appropriate by the Board, following the recommendation of the With-Profits Actuary. The approach is not used for altered policies; for these the bonus philosophy will follow similar unaltered policies.

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

For conventional with-profits policies

Asset shares for conventional with-profits policies are in general the accumulation of:

- premiums paid
- an allocation of investment return
- an allocation of miscellaneous profits/losses from the Sub-Fund
 - the costs of selling and administering the business
 - the cost of death or other risk benefits
 - an adjustment for taxation appropriate for the class of business
 - the shareholders' share of distributable surplus in respect of with-profits annuities business only
 - any contribution for the use of capital, provision of guarantees, glide path costs or smoothing costs.

This approach is described in more detail below.

For with-profits annuities, gross annuity instalments are deducted from the asset shares as part of the accumulation.

For defined benefit pension scheme policies a similar approach is used.

The Board, on the advice of the With-Profits Actuary, may include additional charges to asset share as appropriate.

Investment return

The investment returns used in the asset share calculations are based on assets backing the with-profits policies as described in section 3.2. The Board reserve the right to adopt different investment strategies for different policy types, in particular for with-profits annuities, to reflect their different bonus structures and levels of guarantee. For dates prior to the demutualisation, assets deemed to be backing the with-profits business are used. For dates prior to 1988, annual returns spread evenly over each month are used as an approximation for monthly returns. Fixed-interest assets are hypothecated to non-profit business written in the Sub-Fund and a broad mix of assets to hedge the cost of guarantees. Strategic investments are not held as part of the investment pool that generates a return for asset shares. Derivative investments are predominantly used to meet Guaranteed Annuity Options.

Allocation of miscellaneous profits/losses

Prior to the flotation date, allowance for profits on non-profit business was made by making a smooth adjustment to the investment return. For with-profits business written before demutualisation, an enhancement (the 'flotation enhancement') of up to 0.5% p.a. was made to the investment return allocated to asset shares, in lieu of profits on non-profit business. The enhancements were made from an earmarked fund.

With effect from 1 January 2002, the flotation enhancement was discontinued by the Board to maintain an adequate inherited estate in accordance with the Demutualisation Scheme.

Asset shares for policies may be adjusted by an additional allocation (or deduction) reflecting any miscellaneous profits (or losses) arising within the Sub-Fund, as described in section 4.

Cost of selling and administering the business

For conventional with-profits policies, the expenses of selling and administering the policies are allowed for in the asset share calculations. Certain development expenses charged to the Sub-Fund are normally not charged to asset shares but are instead met by the inherited estate, as decided by the Board, with the approval of the With-Profits Committee, from time to time. Where a development is identified as clearly providing expected benefit to policyholders then a proportion of the cost may, subject to the agreement of the With-Profits Committee, be charged to asset shares. Where such costs have initially been applied to the inherited estate then when charged to asset shares a corresponding amount will be credited to the inherited estate.

Since 2001, these expenses are based on the charges under the management services agreements with other companies. The current agreement is described in section 5.

Prior to this acquisition, expenses were based on the expenses loaded into the premium. Maintenance expenses were also based on premium loadings in 1965. These are blended into the current expense levels in 1995, and subsequently to the embedded value maintenance expense assumptions, using the pattern of inflation over that period.

Investment expenses charged to asset shares are based on the fee rates charged to Aviva Life & Pensions UK Limited under an investment management agreement (see section 3), or an approximation to that cost when no formal agreement was in place.

Average commission levels for each class of business over each time period are assumed to apply for all policies at that time.

Cost of death or other risk benefits

For conventional with-profits business, and with-profits annuities, mortality costs are charged to asset shares based on experience.

A charge is made at outset to asset shares for with-profits annuities, in respect of the minimum floor guarantee.

Adjustment for taxation

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.

No deduction is made from Asset Shares in respect of taxation payable on shareholder transfers. Tax associated with shareholder transfers is met from the inherited estate. This practice is well established but subject to annual review by the Board following the review of the With-Profits Actuary.

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.

Cost of shareholder transfer

Shareholders receive a share (currently 10%) of the distributable surplus arising. The cost of shareholder transfers and incremental tax thereon in respect of conventional with-profits business in force at demutualisation, and increments to it, cannot be charged to asset shares, but instead will be met from the inherited estate. Currently the same also applies to post-demutualisation business. The 10% is based on the cost of new regular and final bonus, determined using the prevailing valuation basis. The position is different for With-Profits Annuity business.

For With-Profits Annuity business sold pre 1 October 2000, shareholders receive a share (up to a maximum of 12.5%) of the cost of bonus.

For With-Profits Annuity business sold from 1 October 2000, shareholders receive a share (up to a maximum of 10%) of the declared profits arising. For all With-Profits Annuity business, the shareholder payment is charged to asset shares and the inherited estate. The charge to asset share is limited to the amount that was allowed for in the illustrations at the point of sale with the balance charged to the inherited estate.

Use of capital

An additional charge may be levied on asset share to reflect the provision of capital, guarantees, costs and smoothing in the Sub-Fund, or to maintain the inherited estate or regulatory solvency of the Sub-Fund at appropriate levels. The appropriateness and level of any charge is reviewed at least annually. A major change in the value of underlying guarantees would provoke an immediate review of the level of charge required to maintain adequate capital cover. Any change would be approved by the Board following the recommendation of the With-Profits Actuary. Such charges, if applied, accrue to the inherited estate. If it subsequently transpired that the amount deducted was in excess of that required this would be used to enhance returns to asset share in future. Other than in extreme circumstances, such as a threat to the solvency of the Sub-Fund, the Board would, when annual guarantee charges of this nature have applied for a number of years, seek to limit the aggregate amount of such charge to no more than 10% of the asset share in respect of any policy. Currently this charge is zero.

For unitised with-profits policies

Asset shares for unitised with-profits business depend on the dates at which units were allocated to a policy. The total asset share for a policy is the sum of the asset shares for all units allocated to that policy. The asset share for units allocated at a given time is:

- initial investment (less any initial charge)
- an allocation of investment return
- an allocation of miscellaneous profits/losses from the Sub-Fund
 - the annual management charge (where this is not taken by way of unit cancellation)
 - an adjustment for taxation appropriate for the class of business
 - any contribution for the use of capital, provision of guarantees, or smoothing.

Where expenses and charges for risk are taken by way of explicit charges, these are deducted by way of unit cancellation, and so no further deduction needs to be made to the asset share of units.

This approach is described in more detail below.

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

For unitised with-profits business, policy charges, or scheme administration fees in the case of defined benefit pension schemes, are used instead of actual expenses and actual mortality costs. These charges are taken account of in the calculation of asset shares for a policy or group of policies by a reduction in the number of units held. The policy charges are passed to the Non-Profit Sub-Fund.

Investment return

See conventional with-profits.

Allocation of miscellaneous profits/losses

See conventional with-profits.

Annual management charge

Where an annual management charge (AMC) is taken into account as part of the accumulation as opposed to being an explicit charge by way of unit cancellation, the asset share for unitised with-profits policies will be reduced by the AMC after crediting with all after-tax investment earnings. The AMC is expressed as a percentage of the asset share and, in accordance with the Appointed Actuary's Report following demutualisation, is set at a similar level to the AMC for policies investing in unit-linked funds. The AMC can be changed in line with policy conditions.

Use of capital

See conventional with-profits.

Bonus philosophy

2.5 Principles

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

Different bonus rates may apply to different types of policy, for example to reflect significant differences in investment mix, guarantees and charges, premium rates, policy types and series. New bonus series may be created in a variety of circumstances including in order to maintain equity between different policy classes, policies written under different premium rates and different generations of policyholders.

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

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

2.6 Practices

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

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

Furthermore, the Board will ensure that the inherited estate is applied progressively and equitably during the anticipated period of existence of the Sub-Fund in the provision of bonuses (allowing for shareholder transfers). The aim is to distribute all of the inherited estate by the time the last payouts on with-profits policies are made. Policies remaining in the fund for a longer time are likely, but not certain, to receive a higher level of distribution, reflecting the additional risks that they bear in that time. Any asset share deductions previously made were refunded prior to commencing distribution of the inherited estate.

Where distributions are made from the inherited estate of the Sub-Fund, these take the form of increases to the final bonus rates determined as described above. Surrender values are also amended to reflect such distributions. Where policies have monetary guarantees in addition to the with-profits benefits described in this section 2 (such as pension products with a Guaranteed Minimum Pension), the minimum policy value payable due to such a guarantee is unchanged by the distribution and continues to apply if it exceeds the with-profits benefits. We normally recalculate the appropriate uplifts to with-profits payouts once each year.

The latest published uplift as a percentage of with-profits payouts is available from our website at [aviva.co.uk/estate-distributions](https://www.aviva.co.uk/estate-distributions).

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

The amount of regular bonus may depend on:

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

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

No undue weighting is given to recent economic experience.

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

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

Final bonus rates are set to achieve the overall aim of returning to maturing with-profits policyholders, as a group, on average 100% of asset shares in the long term, given the regular bonus rates determined as described in section 2.5 and 2.6. They are set so as to achieve the smoothing objectives described in section 2.2. Representative specimen policies are used, rather than the underlying policy asset share itself. Final bonus rates are influenced by the total return on investments and so are reviewed in the light of prevailing financial conditions. In normal circumstances, the Company will aim to limit the recovery of past smoothing costs to 5% of asset share.

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

Final bonus, where applicable, is payable on all claims arising on death, maturity, retirement and surrender under the terms of the contract for conventional with-profits policies. Final bonus, where applicable, is payable on all cancellations of units in the unitised with-profits funds and depends on the date of unit purchase. The final bonus rate could be zero. Final bonus for With-Profits Annuity payments is known as 'additional bonus'. Additional bonus, if declared, applies to all With-Profits Annuity payments during the period for which it is declared, and does not form a permanent addition to the annuity payments.

The Company reviews the returns provided to policyholders by their with profits policies and, where considered appropriate, may increase the benefit of smoothing for some groups of policies by increasing the final bonus paid. Such instances are limited, and would be subject to Board approval, having regard to the advice of the With-Profits Actuary and review by the With-Profits Committee. Where this practice is applied, it is done so it has no material adverse effect on other with profits policyholders.

From time to time, special bonuses have been declared on certain policies. These bonuses represent a consolidation of part of the final bonus otherwise payable on death and maturity claims. Special bonuses are less likely to be a feature of the bonuses in the future as the level of asset growth is expected to be lower.

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

Market Value Reduction

Introduction

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

2.7 Principles

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

2.8 Practices

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

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

The effect of an MVR is to reduce the final bonus which is payable on the cancellation of units. If the MVR exceeds the final bonus, then the effect is to reduce the amount payable to a level which is below the face value of the units cancelled. An MVR will never apply on payment of a death benefit. There may be certain other times when an MVR cannot be applied (such as on specified maturity dates or policy anniversaries or on regular withdrawals up to certain specified levels) depending on the product terms. This is covered in detail in the product's policy document.

MVRs may be used to target payouts (after MVR) that represent 100% of the asset share less any deductions required to protect the interests of remaining policyholders on average. At present we do not make any deductions but may do so in future to the extent permitted within the Conduct of Business Sourcebook rules. Payouts for individual policies may fall within the range 90% to 110% of asset share, mainly as a result of accommodating short term market fluctuation. We will look to rebalance MVR rates back to target payouts (after MVR) that represent 100% of asset share when there is a 5% movement in underlying market indicators and some sign of stability at that new level. However, payouts may lie outside these ranges on certain policies or in changing investment conditions. MVRs are currently determined by calendar year of unit purchase and the surrender value is the sum of the value (after allowance for final bonus and MVR) of the units encashed. A surrender value may thereby include units to which an MVR has been applied and units to which no MVR has been applied.

For defined benefit pension scheme policies, the effect of an MVR is to increase the number of units which are cancelled to provide a given amount payable. Where practical, policyholders applying for a settlement value will be informed if an MVR will be applied. However, this may not always be practical, for example where member pensions are paid from a Pension Fund. Settlements when an MVR may apply are covered in detail in the product's policy document.

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

Section 3: Investment strategy

Introduction

Information (which has previously been made publicly available) on the mix of assets and investment returns in recent years is given in the With-Profits Summary for the With-Profits Sub-Fund which is available on our website at [aviva.co.uk/ppfm](https://www.aviva.co.uk/ppfm).

3.1 Principles

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

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

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

In normal circumstances, the investment strategy for the Sub-Fund will be determined according to the composition of the Sub-Fund alone. The Sub-Fund may have recourse to the assets in the Shareholder Fund, should this be necessary in order to meet guarantees or to give more freedom to the Sub-Fund though this is entirely at the discretion of the shareholders. However, the investment strategy will not be set assuming that any support is available from outside the Sub-Fund unless otherwise determined by the Board having taken account of appropriate actuarial advice.

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

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

3.2 Practices

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

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

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

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

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

Currently, there is no recourse to assets in the Shareholder Fund in order to support the investment strategy of the Sub-Fund, as described in section 3.1.

Assets used to generate the rate of investment return to be credited to asset shares are managed in an investment pool that is separate from the remaining assets of the Sub-Fund. These remaining assets of the Sub-Fund generate returns appropriate for the inherited estate liabilities associated with them (i.e. non-profit liabilities, guarantee costs in excess of asset shares and any other residual inherited estate item).

The investment pool for the inherited estate includes fixed interest and derivatives that allow efficient management of the portfolio and help manage market risks faced by the inherited estate of the Sub-Fund. This asset mix is regularly reviewed to ensure it is appropriate given the market and liquidity risks faced.

The investment pool used to generate the rate of investment return to be credited to asset shares is smaller than the asset shares. This does not mean that there are insufficient assets to meet the liabilities. It means that there is a short position that provides a natural hedge for changes in surplus arising from asset movements and is part of the approach to managing the risks faced by the Sub-Fund.

Strategic investments are not held as part of the investment pool that generates a return for asset shares.

The target asset allocation is regularly reviewed, usually every three years or following a significant change to market conditions or the financial position of the Sub-Fund. The need for a review is assessed annually. Allocations between asset categories can be varied by the Fund Manager within tight constraints and the result of this activity is reviewed monthly by the relevant committee.

For with-profits business, a suitable proportion of equity type assets, known as the equity backing ratio (EBR) is maintained for asset shares within the Sub-Fund. This is calculated to allow for the cost of guarantees on policies within the Sub-Fund and takes into account the strength of the Sub-Fund and the size of the estate. Currently, the same EBR is used across all classes of with-profits policy written in the Sub-Fund though the Board retains the right to change this position.

Whilst we either seek or accept some market risks, including credit risk, within the estate we aim to limit exposures to interest rate, inflation and currency risk.

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

- a Theoretical EBR is determined for aggregate asset shares. This is taken as an assessment of the maximum exposure to equity or property assets (including hedge funds, convertible bonds and private equity type investments) that can currently be supported given the guarantee costs of the Sub-Fund.
- the appropriateness of the benchmark EBR is reviewed by reference to the Theoretical EBR and is usually subject to a tolerance of 5%, although the difference between the benchmark EBR and the Theoretical EBR may be permitted to increase to up to 10% where, given investment conditions and the outlook at the time, this is considered likely to be beneficial for the Sub-Fund. The benchmark EBR is subject to an upper limit of 75%.
- the benchmark EBR floats over short periods according to the performance of the underlying assets or indices; however, it is regularly reset to the benchmark EBR until a revised benchmark EBR is approved by the Board.
- the Board decides changes to the benchmark EBR for asset shares and has discretion to depart from the Theoretical EBR. For instance it may take into account:
 - the asset distributions of other with-profits funds or companies
 - its view of the outlook for different categories of investment
 - the projected trend of EBRs
 - the benchmark EBR upper limit of 75%
 - the desire to avoid frequent changes in the EBR, so that small changes in the Theoretical EBR are ignored.

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

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

The investment distribution for assets backing incoming internal quota share reinsurance closely follows that used by the cedant for the business.

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

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

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

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

- efficient portfolio management
- reduction in investment risk
- as an integral part of a product design.

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

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

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

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

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

Under certain conditions, the Sub-Fund may make a loan to, or investment in, any other Aviva group company. This is described further in sections 4.1 and 4.2.

Under certain conditions, the Sub-Fund may give financial assistance or support to other sub-funds within Aviva Life & Pensions UK Limited. This is described further in sections 4.1 and 4.2.

The Sub-Fund may make strategic investments in the equity or debt of companies in which Aviva plc or Aviva Life & Pensions UK Limited has a strategic connection or interest, subject to the agreement of the With-Profits Actuary. These investments will be made for strategic reasons considered to be to the long-term benefit of shareholders and policyholders.

A strategic investment policy sets out the controls and management process for strategic investments held by Aviva Life & Pensions UK Limited. All strategic investments should be made in accordance with this policy. Any change to this policy must be approved by the investment committee appointed by the Board. Any changes to the policy which may affect this Sub-Fund will be subject to prior approval of the With-Profits Committee. In addition, the prior approval of the With-Profits Committee will be required where any new classes of investment are to be allocated to the Sub-Fund. Conduct of Business Sourcebook requirements will also be adhered to in the consideration of strategic investments. The committee regularly reviews the appropriateness and amount of strategic holdings.

The Company's strategic investment policy outlines the investment guidelines and implications for the Sub-Fund of the holding of strategic assets. Limits are specified which have been set to limit the exposure of the Sub-Fund to strategic assets as follows:

- individual strategic holdings are normally subject to a limit of 1% of invested funds. Stock concentrations would be allowed beyond the normal limits if this is due to good performance within the underlying stock. It is likely that concentrations up to 1.1% would be allowed and if this limit is breached for more than 6 months then the holding would be reduced to the 1% limit
- total strategic holdings are subject to a limit of the lower of 2.5% of invested funds or 20% of the inherited estate after making realistic allowance for liabilities.

The above limitations have been set to reflect the general considerations in the Principles and to limit credit/counterparty risk. In addition, appropriate liquidity requirements for these assets are maintained by limiting unquoted strategic investments to 10% of the aggregate strategic investments by market value in the Sub-Fund.

Strategic assets are not normally traded. These include quoted and unquoted equities of external companies and properties. If a strategically-held asset is also held in the Sub-Fund to back the liabilities, then there is a constraint on the Sub-Fund to the extent that the asset is also not actively traded. The Sub-Fund will be assumed to have a holding equal to a benchmark weight in the stock. Performance on the actual holding will be disregarded for the purposes of measuring the performance of the Fund Manager.

Any strategic investment will have regard to:

- the financial strength of the Sub-Fund
- regulatory solvency
- the admissibility of the asset in regulatory solvency assessments
- the need to maintain a suitable degree of liquidity in order to pay claims as they arise and dividends
- the marketability of the investment holdings
- the correlation of the holding with other investments of the Sub-Fund
- the appropriate limits on counterparty exposure
- the limiting of exposure to large asset holdings.

Strategic holdings will be allocated to the inherited estate, with the exception of the properties used by Aviva Life Services UK Limited to administer the business unless the Board determines otherwise.

Section 4: Business risk

Introduction

The with-profits policyholders are entitled to a share of the distributable surplus of the Sub-Fund, as determined by the Board, and are exposed to general business risk of miscellaneous profits and losses that may arise from various sources within the Sub-Fund.

4.1 Principles

In addition to business risks arising from existing business, the Sub-Fund accepts further business risks in relation to incremental new business, including business written as a result of the exercise of policyholder options. The Sub-Fund does not accept other new business risks.

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

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

Where compensation costs from a business risk will be borne depends on the nature of the compensation and the need to ensure fairness of treatment between policyholders and shareholders.

4.2 Practices

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

- existing business risks
- potential rewards to policyholders and shareholders
- potential rewards to policyholders and shareholders of alternatives including risk-free investments
- size of, and possible impact on, both the Sub-Fund and the inherited estate.

In considering whether the Sub-Fund may make a loan to, or investment in, any other Aviva group company, the With-Profits Actuary will need to be satisfied that:

- the extent and terms of the loan or investment are no less favourable than would be the case if the other company were not an Aviva group company
- the loan or investment is appropriate for the Sub-Fund
- the reasonable benefit expectations of policyholders will not be impaired as a result.

Currently the Sub-Fund is providing loans to other Aviva group companies on commercial terms.

The Sub-Fund is not currently giving any financial assistance or support to other sub-funds within the Company.

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 Board regularly reviews risks to which the Sub-Fund is subject, bearing in mind the Risk Appetite Framework. It carries out a full review of such risks each year. Projections of the business over time are also carried out on a regular basis, under a variety of scenarios that reflect the Sub-Fund's most significant risks. As a result of this process the Board may implement measures to reduce or limit risks. Such measures may include changes to investment strategy, hedging, reinsurance of mortality and morbidity risks, outsourcing, measures to improve persistency, reductions in regular and final bonus rates and changes in the parameters defining the Sub-Fund's smoothing policy.

Profits or losses from business risks arising from existing policies are applied to with-profits payouts as described in section 2.4.

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

Investments in other Aviva group companies and in strategic investments or loans to such companies are allocated to the inherited estate and profits or losses arising from such investments are applied accordingly. The requirements applying to strategic investments by the Sub-Fund are described in section 3.2.

The general approach to the smoothing of profits or losses from business risks to the extent that these are a determinant of amounts payable under with-profits policies is described in section 2.4.

There is no specific minimum level of profit or loss from business risks before the Sub-Fund will treat them as a determinant of the amounts payable under with-profits policies. The Board reserves the right to review this policy. Losses which are currently borne by the inherited estate may in future be applied to with-profits policies where, in the opinion of the Board, (on the advice of the With-Profits Actuary), such action is required to maintain the regulatory solvency and the inherited estate at an appropriate level.

Except where stated otherwise in section 2.4, profits or losses from business risks are currently pooled across all with-profits policies. Should losses which are currently borne by the inherited estate be applied instead to with-profits policies, it is likely that a degree of differentiation will be made. The particular classes or generations of policies which will bear such losses will depend on the nature of the loss and the circumstances at the time.

Other than compensation costs in respect of maladministration, compensation costs from a business risk will be borne by the inherited estate unless it is determined by the Board that they should be borne by policyholders through a charge to asset shares.

In the event of a surplus or deficit arising in the Staff Pension Fund, a portion of which may be attributable to the Sub-Fund in line with the table below, no surplus or deficit would be charged to asset shares. An annual review is undertaken of the funding of the Staff Pension Fund and the results, in relation to life funds' contributions, will be submitted to the With-Profits Committee and the Board. Any proposed adjustment, by way of a charge or credit to the Sub-Fund would be decided by the Board.

DEFICIT/SURPLUS ARISES IN RELATION TO SERVICE IN RELEVANT PERIOD	PARTY TO BEAR/BENEFIT
Prior to 2 October 2000	Both the Sub-Fund and Aviva Life Services UK Limited in accordance with the principles set out by the Board and notified to our regulator.
2 October 2000 to 31 December 2008	By the Sub-Fund in respect of any deficits or surpluses arising from marketing and distribution services and by Aviva Life Services UK Limited in any other circumstances.
1 January 2009 to 31 December 2018	By the Sub-Fund
1 January 2019 onwards	By the Non-Profit Sub-Fund

Section 5: Charges and expenses

5.1 Principles

The With-Profits Actuary is required to agree that expenses and tax charges allocated to the Sub-Fund are reasonable, and in line with any Management Services Agreement. Where the administration services are provided by an Aviva group company, fees will reflect the market price of acquiring such services less a discount.

Changes to the approach to expense allocation may occur if either party terminates or renegotiates the Management Services Agreement.

5.2 Practices

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-Funds will be reviewed periodically. The last review took effect on 1 January 2019, and the next review will take place five years after that date.

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

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 ReAssure.

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

Administration fees for conventional existing business expenses, excluding defined benefit pension schemes, are per policy fees with inflationary increases. For defined benefit pension schemes, the charges are at cost.

Administration fees for unitised business are the annual management charges described in section 2.4.

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 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.

Fees for Investment Management will be those charged to Aviva Life & Pensions UK Limited by the Fund Manager which reflect market terms adjusted for the size of the investment portfolio and their being a connected party and in line with the investment management agreement. The Board will agree the allocation of investment management fees between the sub-funds of Aviva Life & Pensions UK Limited having taken account of appropriate actuarial advice, consulted the With-Profits Committee and considered the need to treat customers fairly. The investment fees in relation to the unitised business are charged to the Non-Profit Sub-Fund and are covered by the annual management fees paid by the Sub-Fund to the Non-Profit Sub-Funds, as described in section 2.4.

Other fees may only be charged to the Sub-Fund as agreed with the Board, having taken account of appropriate actuarial advice and consulted the With-Profits Committee.

The service agreements between the Sub-Fund and Aviva transfer risk from the Sub-Fund to Aviva. The risks transferred relate to falls in the volume of business and increases in expenses. The fees agreed with Aviva include a risk loading to allow for this. If the risk does not emerge, the risk loading will fall into the profit of Aviva.

Tax is allocated to the Sub-Fund as if it were a stand-alone proprietary Fund.

Section 6: Management of the inherited estate

6.1 Principles

The inherited estate of the Sub-Fund is held and managed independently of other inherited estates within the Aviva group. The inherited estate will be managed in accordance with any applicable legal and regulatory requirements, including the Company's duty to maintain adequate financial resources and to take reasonable care to organise and control its affairs responsibly and effectively.

The inherited estate may be used, at the Board's discretion, to:

- provide investment flexibility by enabling a higher proportion of the investment in potentially higher reward but higher risk assets than would otherwise be the case
- provide a cushion of additional security against unexpected adverse events
- permit flexibility in the smoothing of maturity and surrender payouts for with-profits policies
- meet such other purposes as permitted by law and consistent with the Company duty to maintain adequate financial resource.

The inherited estate constitutes the working capital of the Sub-Fund.

Bonus rates and investment policy will be managed in order to keep the inherited estate of the Sub-Fund at levels which, in the opinion of the Board (on the advice of the With-Profits Actuary), is appropriate for the level of risk 'run' by the business. In view of the fact that the inherited estate bears the risk associated with the provision of smoothing and guarantees an appropriate charge may be made to policies to maintain the inherited estate at an appropriate level. Such charges may differ by policy type.

The inherited estate has been used in the past to support the writing of non-profit business on appropriate terms and may do so in the future.

6.2 Practices

In calculating the inherited estate, current practice is to use it to pay the costs of the following items:

- tax associated with additional tax on shareholder transfers out of the Sub-Fund
- meeting any cost of compensation for mis-selling of business that the Sub-Fund has an interest in
- Guaranteed Annuity Option costs in excess of those charged to policies and other guarantee costs where these exceed the policy value indicated by asset share
- costs arising from payouts at MVR free points
- meeting the costs arising from Mortgage Endowment Promise
- meeting the costs associated with restricting charges to asset shares for certain contracts, including cost of shareholder transfer
- any expenses not charged to asset share
- meeting the costs of any approximations in the calculations
- any financing of smoothing of payouts (over the longer term the cost of smoothing is expected to be neutral).

In addition, the inherited estate may be used to pay other costs as agreed by the Board, following the recommendation of the With-Profits Actuary and having consulted the With-Profits Committee.

Investment strategy for the inherited estate may differ from that of the rest of the Sub-Fund. The investment strategy for the inherited estate adopts the Principles and Practices as described in section 3. The main aims are to ensure guarantees can be met and to maintain regulatory solvency in adverse market conditions. Currently the inherited estate is considered in two parts, that backing guarantee costs in excess of asset share, and the realistic inherited estate, and a different investment strategy is adopted for each (see section 3.2). The mix is regularly reviewed.

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.

Discretionary distributions may be made from the inherited estate in accordance with the Risk Appetite Framework and referencing the preferred range. The Board will determine whether such distributions should be made subject to the rules of our regulator, the fair treatment of policyholders, having consulted the With-Profits Committee and having regard to the advice of the With-Profits Actuary.

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 satisfied that the merger takes account of our duty to pay due regard to the interests of its policyholders and to treat them fairly.

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

Introduction

Any business which has previously been reinsured and the ongoing suitability of reinsurance is reviewed on a regular basis. The amount of business reinsured may be increased, reduced or recaptured on terms approved by the Board with agreement of the With-Profits Actuary and where necessary subject to independent review.

Practices

No new business is written in the Sub-Fund except for incremental business and business written following the exercise of options on existing contracts.

Section 8: Equity between the Sub-Fund and shareholders

8.1 Principles

For business transferred on demutualisation, the maximum transfer to shareholders is specified. In respect of conventional with-profits business, it is one-ninth of the cost of bonus allocated to policyholders. Unitised with-profits business was transferred into the Non-Profit Sub-Fund of Aviva Life & Pensions UK Limited, with the investment element held within the Sub-Fund; in respect of this the transfer to shareholders is in the form of an annual management charge; shareholders do not share in the distribution of profits to unitised with-profits policies.

Business written since demutualisation is issued on the basis that the maximum transfer to shareholders is specified in advance of issue.

Shareholders receive a proportionate share of the distributable surplus arising from inwards unitised with-profits reinsurance from the Old and New With-Profits Sub-Funds of Aviva Life & Pensions UK Limited. The maximum proportion is 10% for this business.

For With-Profits Annuity business written since demutualisation and prior to 1 October 2000 the maximum transfer to shareholders is one-eighth of the cost of bonus allocated to policyholders. Shareholders receive a share of the distributable surplus arising on With-Profits Annuity business written since 1 October 2000. The proportion is reviewed each year (see section 8.2).

Any change in the maximum transfer to shareholders as described above could not be altered without:

- the approval of our regulator, and in addition, dependent on the nature of the change, the approval of an independent expert and sanction by the Court may be required
- in the context of an insurance business transfer scheme, prior notification to policyholders, the approval of an independent expert and sanction by the Court
- in the context of a re-attribution of the inherited estate that would involve a change in the profit-sharing arrangement, the approvals described in Regulation or other such approvals as required for any other mechanism for the re-attribution of the inherited estate permitted by law.

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

8.2 Practices

Since demutualisation, the transfer made to shareholders in respect both of business transferred on demutualisation and of business written since, has been the maximum.

The transfer to shareholders on With-Profits Annuity business is partly charged to asset share and partly to the inherited estate (see section 2.4).

Shareholder transfers, distributable surplus and the cost of new bonuses are discounted to allow for the period until it is due for payment i.e. on death or maturity of the policy. If the basis used for the discounting changes, the amount allocated to shareholders would also change. The cost of bonuses used in the calculations includes any distributions made in anticipation of a profit in the form of final or interim bonuses.

For unitised with-profits business, the cost of new bonus is calculated as the increase in unit values above any guaranteed rate to which shareholders are not entitled to receive a share, plus the value of any final bonuses payable, reduced by the value of any MVR applied.

The pricing of incremental new business is in no case significantly reducing the inherited estate, including taking into account the shareholder transfer.

Currently there is no inwards unitised with-profits reinsurance from the Old and New With-Profits Sub-Funds of Aviva Life & Pensions UK Limited and all previous reinsurance was recaptured at 31 December 2004.

Appendix A: Glossary

Amount paid on death

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

Amount paid on maturity

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

Amount payable on surrender

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

Annual management charge

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

Appropriate Actuarial Advice

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

Asset share

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

Benchmark

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

Cedant

When company A reinsures some of its business to company B, then company A is known as the cedant company, i.e. it has passed on the risk.

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

Life and pension policies written with an initial guaranteed benefit and all charges are allowed for within the premium rates. The policies are invested in the With-Profits Sub-Fund and share in the return on the Sub-Fund through the addition of bonuses.

Counterparty

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

Counterparty limits

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

Credit limits

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

Credit rating

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

Demutualisation Scheme

The scheme of transfer on 15 June 1997 by which Norwich Union effectively became a shareholder owned company rather than a company owned by its policyholders, by transferring policies to Norwich Union Life & Pensions Limited.

Efficient portfolio management

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

Endowment assurance

A life assurance plan that pays a sum of money on the survival of the life assured to a specific date, or upon their earlier death, in return for regular premiums or a one-off payment.

Equity Backing Ratio (EBR)

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

FCA

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

Final bonus

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

FSA

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

Glide path

Sometimes payouts on maturity, retirement or earlier surrender are at a level above or below that justified by asset shares. This happens as a result of the smoothing of investment performance, a feature of with-profits policies. The planned smooth progression of payouts back to the level of asset shares is known as the glide path. This can also refer to the mechanism designed to ensure that surrender values blend into the expected maturity payout, as the context requires.

Group of policies

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

Hedging

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

Inherited estate

The inherited estate is the excess of assets held within the Sub-Fund, over and above the amount required to meet the liabilities. The assets over and above the assets backing guarantee costs in excess of asset share are sometimes known as the realistic inherited estate. The liabilities, for this purpose, include those that arise from the regulatory duty to treat customers fairly in setting discretionary benefits, such as final bonuses. The inherited estate acts as working capital of the business. It is used to support the business by, for example, providing investment flexibility and a 'cushion' against adverse stock market conditions.

Initial guaranteed benefits

When a conventional with-profits policy is taken out the policy defines a basic benefit that is guaranteed to be paid at maturity or earlier death or other specific times (together with any bonuses declared subsequently on the policy) as long as all premiums are paid when they are due and the policy is kept in force.

Interim bonus

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

Management Services Agreement

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

Market Value Reduction (MVR)

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

Maturity date

When an endowment policy is taken out there is an agreed date, the maturity date, when the benefits will be paid so long as the policy is kept in force. For a pension policy it is the selected retirement date at commencement of the policy.

Mortgage Endowment Promise

This applies to all notified with-profits mortgage endowment policies where there was a shortfall between the projected amount at maturity (at a rate of 6% per annum net of tax) and the target mortgage amount as at 31 December 1999.

Mortality costs

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

Mortality rates

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

Non-contractual cancellations (of units)

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

Pooling

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

PRA

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

Quota share

This is a form of reinsurance where a group of sub-funds or companies agree that for all new business they will each take a set percentage of the risk, this being their quota.

Quoted/unquoted investments

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

Regular bonus

This is the distribution of surplus added to the policy each year. For unitised with-profits policy investments this is done by increasing the price of the units held in the Sub-Fund (or in the case of the unitised with-profits Income Fund by allocating additional units to the policy each month) which increases the amount guaranteed to be paid on death or at points where a MVR would not apply. For conventional with-profits policies this is done by allocating a bonus which increases the amount guaranteed to be paid on death and, if the investment has a maturity date, at the end of the term.

Regulatory solvency

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

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 inherited estate is within a preferred range.

Scheme

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

Shareholder Fund

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

Smoothing

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

Solvency Risk Appetite

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

Specimen policy

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

Strategic investment

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

Surrender

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

Unitised with-profits

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

With-Profits Actuary

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

With-profits business

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

With-Profits Committee

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

With-profits sub-fund

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

Working capital

An amount representing the fair market value of the with-profits assets less the realistic value of liabilities of a with-profits sub-fund. This is also known as the inherited estate of a with-profits sub-fund.

Appendix B: Background

Company Information

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

Norwich Union, Provident Mutual, Commercial Union and General Accident

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

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

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

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

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

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

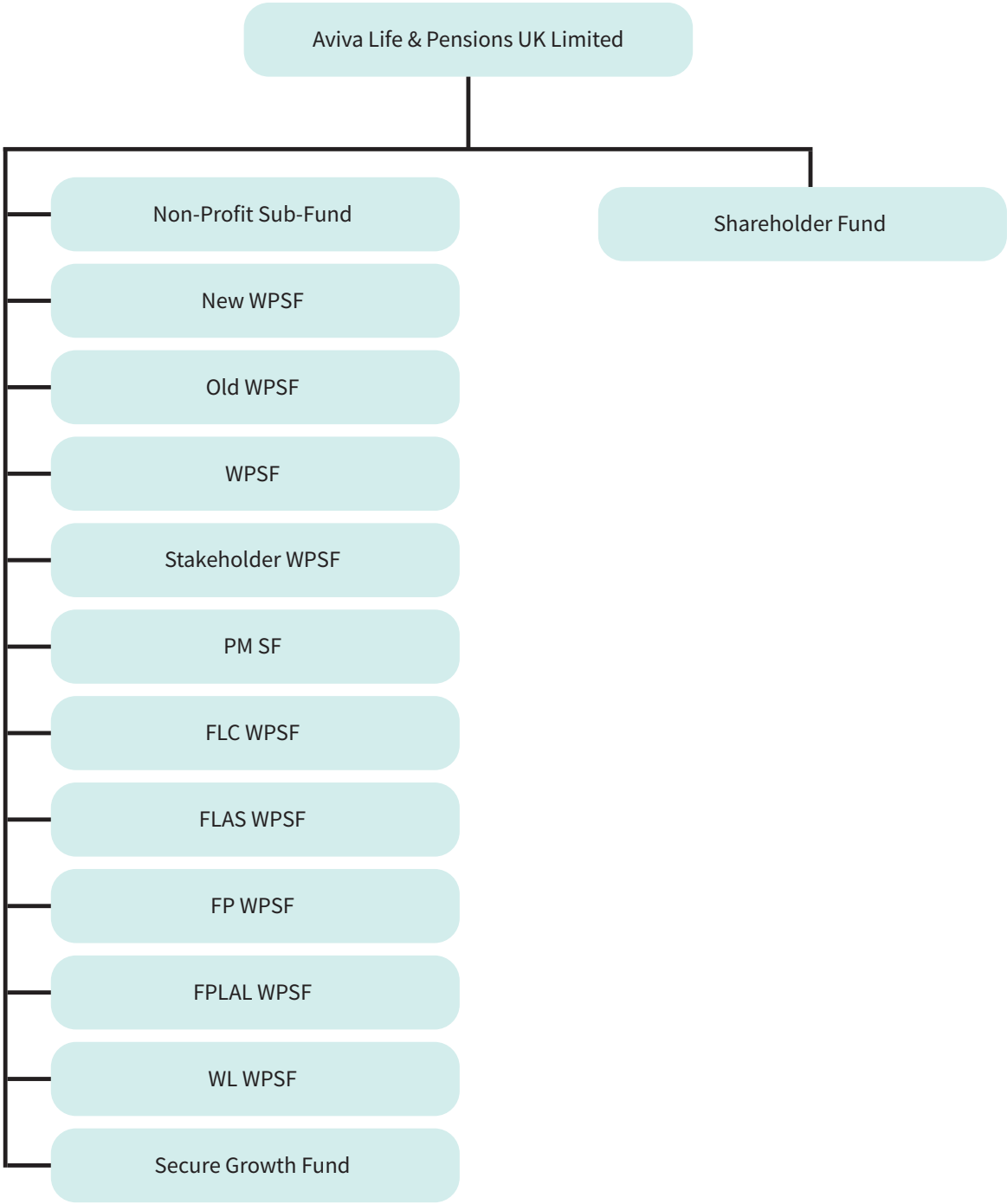
The diagram in Appendix C below shows the current fund structure within Aviva Life & Pensions UK Limited.

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

Sub-Fund Background: With-Profits Sub-Fund

This PPFM covers with-profits business in the With-Profits Sub-Fund of Aviva Life & Pensions UK Limited. This business relates to policies written through Norwich Union Life Insurance Society (NULIS) prior to the Norwich Union demutualisation in 1997, and through Aviva Life & Pensions UK Limited (formerly NUL&P) since the demutualisation. Since October 2000, the new business written by this Sub-Fund has been new with-profits annuities and increments to existing policies. This PPFM only covers business directly written by the With-Profits Sub-Fund of Aviva Life & Pensions UK Limited and does not cover with-profits business internally reinsured from other with-profits sub-funds within Aviva Life & Pensions UK Limited.

Appendix C: Aviva Life & Pensions UK Limited – Fund structure chart



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

Appendix D: Original issuing companies

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

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

Company policy taken out with	Current Aviva Life & Pensions UK Limited With-Profits Sub-Fund
Welfare Insurance Company Limited London and Manchester Pensions Limited Friends Provident Corporate (Pensions) Limited Friends Provident Pensions Limited – Secure Growth Fund policies Friends Life and Pensions Limited – Secure Growth Fund policies	Secure Growth Fund
CGNU Life Assurance Limited – stakeholder plans Norwich Union Life (RBS) Ltd – stakeholder plans Aviva Life & Pensions UK Limited – stakeholder plans	Stakeholder With-Profits Sub-Fund
Norwich Union Life Insurance Society Norwich Union Life & Pensions Limited Aviva Life & Pensions UK Limited – annuity business	With-Profits Sub-Fund
National Westminster Life Assurance Limited Royal Scottish Assurance plc	With-Profits Sub-Fund 5
The Colonial Mutual Life Assurance Society Limited Colonial Mutual Life (Unit Assurances) Limited Colonial Life (UK) Limited Friends Life WL Limited Winterthur Life UK Limited Provident Life Association Limited	WL With-Profits Sub-Fund



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