

Report from the Board of Aviva Life & Pensions UK Limited to its With-Profits Policyholders for 2024 (excluding the Secure Growth Fund)

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1. Introduction

Aviva manages approximately £32 billion of investments in its with-profits funds, on the behalf of around 900,000 policyholders.

Rules for the management of the with-profits funds of Aviva Life & Pensions UK Limited are set out in our Principles and Practices of Financial Management (“PPFM”). These are available from aviva.co.uk/ppfm.

We also publish some simplified guides on how we manage the with-profits funds, and these are also available from the same website.

This Report from the Board, prepared in consultation with the With-Profits Committee, sets out how we managed the with-profits funds of Aviva Life & Pensions UK Limited in 2024.

The report covers the following funds:

- The FLAS With-Profits Sub-Fund;
- The FLC With-Profits Sub-Fund;
- The FP With-Profits Sub-Fund;
- The FPLAL With-Profits Sub-Fund;
- The New With-Profits Sub-Fund;
- The Old With-Profits Sub-Fund;
- The Provident Mutual Sub-Fund;
- The Stakeholder With-Profits Sub-Fund;
- The With-Profits Sub-Fund (known as the UKLAP With-Profits Sub-Fund); and
- The WL With-Profits Sub-Fund.

This Report does not cover:

- the Secure Growth Fund, which is covered by a separate report to the policyholders in that fund.

A printed copy of this report can be obtained by sending a written request to: **Aviva UK Life With-Profits, Wellington Row, York YO90 1WR.**

If you have any questions about your policy, please call us on the number shown on your annual statement.

2. Summary

In the opinion of the Board of Aviva Life & Pensions UK Limited, throughout 2024, our with-profits funds have been managed in accordance with their PPFM, and the decisions made in managing the funds were appropriate and treated with-profits policyholders fairly.

3. Governance Arrangements - Making sure we comply with the

Principles and Practices of Financial Management (“PPFM”)

The Board of Aviva Life & Pensions UK Limited has overall responsibility for the management of the with-profits funds and takes all the key decisions that affect the funds. This responsibility includes ensuring compliance with the requirements of the 2017 Court Scheme that governs certain aspects of the company’s operations, and compliance with the PPFM for the with-profits funds.

Before making these decisions, the Board must seek and consider the advice of the funds' With-Profits Actuary. The With-Profits Actuary provides advice to the Board on how discretion in the management of the with-profits funds should be applied. The With-Profits Actuary looks to balance the interests of Aviva's policyholders and shareholders and to ensure that its with-profits policyholders are treated fairly.

The With-Profits Committee provides oversight of the management of the with-profits funds and the application of discretion. The majority of the Committee's members are independent of Aviva and this helps the Committee provide robust challenge to Aviva on its management of the with-profits funds. The views of the Committee on the management of the funds are provided to the Board to help it make the key decisions for the with-profits funds.

Further information on the With-Profits Committee can be found at aviva.co.uk/wpcommittee.

The activity of the With-Profits Committee

During 2024, the With-Profits Committee considered a wide range of topics. These included:

- The investment strategy and performance of the funds, including reviews of the asset mix (see section 4.2).
- Proposals for bonuses to be added to policies, including a review of the methodology for setting regular bonus rates (see sections 4.3 and 4.4).
- The level of expenses charged to the with-profits funds, including the renegotiation of the fees to be charged for administration services over 2024-2028 (see section 4.5).
- Ongoing investigations into the proportion of claims falling outside the target payout ratio range (see section 4.3).
- The management of the Estates, including the level of distributions to policyholders (see section 4.6). This included reviewing whether there could be a release from the Reattributed Inherited Estate External Support Account to shareholders.
- Updates on the Company's progress on implementing Consumer Duty regulations. This included reviewing the Company's proposals to ensure that with-profits policyholders continue to get good outcomes and value for money from their investment with Aviva.
- Review of changes to the Company's Solvency Risk Appetite and Capital Management Policy.
- Review of the pricing of annuities arising from with-profits policies that are written in the Non-Profit Sub-Fund.
- The review of policyholder communications, and of complaints data.
- The correction of errors made by the Company that would otherwise have led to policyholder detriment. This included oversight of a material correction to the accounting between the UKLAP With-Profits Sub-Fund and the Non-Profit Sub-Fund that was made during the year.
- Oversight of proposals from the Company to simplify the operation of some of its older product lines, to ensure with-profits policyholders were not adversely affected.
- The ongoing plans to manage funds as the volume of business in them reduces, known as "run-off plans". Each of the sub-funds has a run-off plan that is reviewed every three years, or sooner if there is a material change in the sub-fund.
- The proposals for changes to the PPFM to reflect a number of the above items (see section 6).

The With-Profits Committee, in reviewing management recommendations and actions, endeavours to ensure that all policyholders are treated fairly and that an appropriate balance is struck between the interests of different groups of policyholders and between policyholders and shareholders.

The With-Profits Committee is satisfied that it was consulted on the development of the Company's proposals during 2024 and that the views of the With-Profits Committee have been taken into account in the proposals presented to the Board. The Committee is pleased that all concerns raised were resolved by this process. The Company values the input provided by the With-Profits Committee.

The With-Profits Committee has also provided a report to the Board on its views on whether or not Aviva complied with the PPFM in 2024. In its report, the Committee noted that there had been some breaches of the PPFM, but that where relevant these had been, or were being, corrected. Other than these, the With-Profits Committee were of the view that the Company has complied with the PPFM in all material respects in 2024.

These governance arrangements, with their combination of Board level decision making, advice from the With-Profits Actuary and oversight and challenge from the With-Profits Committee, help ensure that Aviva manages its with-profits funds in accordance with its PPFM as it seeks to provide good outcomes for its with-profits policyholders.

The With-Profits Actuary's summary report on the application of discretion during 2024 is attached at the end of this report.

4. Compliance with the Principles and Practices of Financial Management ("PPFM") during 2024

4.1 Introduction

Appendix 1 provides a brief description of how with-profits business works, which includes an explanation of some of the terms used in the following sections.

Areas of Discretion

The principal areas of the management of the with-profits funds where the Board has some flexibility or can exercise its discretion are:

- The funds' investment policy, and in particular the investment policy for the **Asset Shares**.
- Setting bonus rates.
- Setting surrender value terms.
- Charging costs and expenses to the funds (including any charges applied to contribute to the Cost of Meeting Guarantees).
- The management of the **Estates**, including the investment policy for the Estates.
- The nature and volume of new policies written in the funds.
- Transfers of assets and / or liabilities between funds.

Whilst the Board can make choices or exercise its discretion in these areas, it must do so in accordance with the rules set out in the PPFM.

4.2 Investment Policy for Asset Shares

Investment Strategy in 2024

During 2024, the company reviewed the broad approach for the mix of assets backing the Asset Shares. As a result, there has been a small increase in the proportion of assets like company shares for the FLAS With-Profits Sub-Fund in 2025. Some changes to asset mix are also being implemented for the FLC With-Profits Sub-Fund. This includes a change to the "lifestyling" approach for some products in the FLC With-Profits Sub-Fund such that they will be invested in a higher proportion of assets like company shares for longer.

The majority of the property investment of the FP With-Profits Sub-Fund was held in an externally managed investment trust, whose assets were sold in 2024. As a result of this, the fund sold its holding in December, and reinvested in the Real Estate Active Long Term Asset Fund that is used by the Company's other with-profits sub-funds in January 2025.

The mix of assets for each of our with-profits sub-funds is available in our 'with-profits summaries' available from aviva.co.uk/ppfm.

The gross of tax returns achieved on the Asset Shares of the with-profits funds in 2024 and 2023 are shown in the table below.

	2024	2023
FLAS With-Profits Sub-Fund	5.8%	7.8%
FLC With-Profits Sub-Fund	5.8%	6.9%
FP With-Profits Sub-Fund (pre-demutualisation)	7.4%	9.8%
FP With-Profits Sub-Fund (post-demutualisation)	7.6%	10.3%
FPLAL With-Profits Sub-Fund	4.7%	10.8%
Old and New With-Profits Sub-Funds	7.3%	8.2%
Provident Mutual Sub-Fund	5.5%	6.0%
Stakeholder With-Profits Sub-Fund	7.3%	8.2%
UKLAP With-Profits Sub-Fund	6.9%	6.6%
WL With-Profits Sub-Fund	5.9%	8.5%
Stakeholder With-Profits Sub-Fund	7.3%	8.2%
UKLAP With-Profits Sub-Fund	6.9%	6.6%
WL With-Profits Sub-Fund	5.9%	8.5%

Note the returns for 2023 have been restated for two funds (by 0.1%) from those reported last year.

The mix of assets backing the Asset Shares and the overall investment strategy is monitored closely throughout the year.

Conclusion

During 2024, the assets backing Asset Shares were managed in accordance with the requirements of the PPFM and the Board is satisfied that the investment strategy followed is appropriate for the with-profits policyholders.

4.3 Bonus rates

Bonus Rates in 2024

During 2024, the Board approved changes to the approach for determining regular bonus rates. This aligned the approach across all the funds and resulted in changes that would, all else being equal, lead to slightly higher regular bonus rates in some cases.

At the end of 2024, regular bonus rates for some policies were adjusted to provide a better balance between the policies' guaranteed and non-guaranteed benefits in light of market movements. Generally, regular bonus rates were increased. Some regular bonus rates remained at zero and some were reduced where guaranteed benefits are relatively high. The revised regular bonus rates provide an appropriate but prudent addition to guaranteed benefits.

Final bonus rates were reviewed twice in 2024. Most funds were reviewed in June and again at the end of the year. For the WL With-Profits Sub-Fund, the final bonus rates were reviewed, as usual, in April and October. Many final bonus rates increased at the half year review. The outcomes were more mixed at the year end, though there were small increases for many policies. Smoothing is a key part of managing payouts for with-profits policies and means that payouts do not automatically move up and down fully with investment returns.

Aviva aims for 90% of policyholder payouts to fall within target payout ratio ranges. For all funds the range is 80% to 120% of Asset Share, uplifted where appropriate to distribute the Estate. Where payouts fall outside the target payout range, the fund may be paying out more, or less, than it can afford, to the detriment, or to the advantage, of the remaining policyholders. It is important, therefore, that the majority of payouts are within the target payout ratio ranges.

For all funds a significant majority of payouts were within the target ranges. However, the Provident Mutual Sub-Fund, the FPLAL With-Profits Sub-Fund, the FLAS With-Profits Sub-Fund, and the FLC With-Profits Sub-Fund did not achieve 90% of claims within the published target payout ratio ranges. Work is being undertaken to understand the reasons for this and, where possible, to improve this position relative to the target.

In 2024, the Board approved the continuation of distributions from the Estates of the funds (see Section 4.6 below for more details). The changes in uplifts reflected the individual circumstances for each fund with some increasing and some decreasing during 2024.

Conclusion

The decisions made by the Board were consistent with the PPFM and with the advice of the With-Profits Actuary and the views of the With-Profits Committee.

4.4 Surrender Values and Market Value Reductions

Surrender values are monitored throughout the year and amended if necessary to continue targeting Asset Share. During 2024 surrender values were adjusted at the same time as final bonus rates as described above.

Whilst Market Value Reductions were not applied in 2024, they may need to be introduced in the future should assets fall in value.

4.5 Charges and Expenses

Charges and Expenses in 2024

The Management Services Agreement and Investment Management Agreements set out both the services to be provided and the fees that can be charged to the funds.

In 2024, a review of the Management Services Agreement took place and was overseen by the With-Profits Actuary and the With-Profits Committee on behalf of policyholders. The new fees charged to the with-profits sub-funds took effect from 1 January 2024 and in most cases were lower than would have been charged had the previous arrangement continued. For most business in the FLC and FLAS With-Profits Sub-Funds the fees increased but remain at or below the level of typical fees in other companies.

An annual review is conducted by the With-Profits Actuary to monitor fees and services for the with-profits funds to ensure that they are in accordance with the agreements. The Company has an established process to correct any issues that arise from such reviews so that the charges made to the funds are fair and appropriate. The review of the 2024 expense charges will take place later in 2025. The review of 2023 expense charges, carried out in 2024, identified some minor issues with the charges made to the funds, but these issues have been, or will be corrected. These issues have not led to incorrect payments to policyholders.

For the Aviva Life & Pensions UK Limited Stakeholder With-Profits Sub-Fund, the maximum amount deducted from the fund is 1% of the value of the fund each year, or 1.5% for the first ten years (and 1% thereafter).

Tax was allocated to the funds based on an apportionment of the total tax costs of the company, which was considered fair and reasonable and in line with the requirements of the Court Scheme and the PPFM.

Asset Share Guarantee Charges

Other than where such charges are set out in a policy's terms and conditions, none of the with-profits funds made charges to the Asset Shares for the cost of guarantees during 2024.

Conclusion

During 2024, charges and expenses were applied to the funds in line with the requirements of the PPFM, the Scheme and the relevant agreements.

4.6 Management of the Estate

Management of the Estates in 2024

In 2024, the Board decided to continue distributions from the Estates of all eligible sub-funds. These distributions were made because the respective Estates were larger than the size considered necessary to provide security for policyholders' benefits. The exception to this is the New With-Profits Sub-Fund as policyholders in this fund are not entitled to receive distributions from the Reattributed Inherited Estate External Support Account.

For the Old With-Profits Sub-Fund, the Provident Mutual Sub-Fund and the UKLAP With-Profits Sub-Fund, the distributions from the Estates are applied as an uplift to the with-profits benefits that would otherwise have been paid and are incorporated into the final bonus. For the other sub-funds which are distributing their Estates, the distribution is applied as an uplift to the Asset Shares used to determine final bonus rates. The uplifts used at the end of year bonus review were as follows:

	End of 2024	End of 2023
FLAS With-Profits Sub-Fund	67.5%	75%
FLC With-Profits Sub-Fund	47.5%	50%
FP With-Profits Sub-Fund (pre-demutualisation)	13%	14%
FPLAL With-Profits Sub-Fund	110%	110%
Old With-Profits Sub-Fund	13%	12%
Provident Mutual Sub-Fund	25%	25%
UKLAP With-Profits Sub-Fund	17.5%	15%
WL With-Profits Sub-Fund		
• all conventional policies, and ex-Winterthur unitised policies taken out before 2000	32.5%	30%
• all ex-Colonial unitised policies, and ex-Winterthur unitised policies taken out from 2000 onwards	5%	7.5%

Note the uplift for the FPLAL With-Profits Sub-Fund was reduced to 105% at the mid-year, but then increased again at the year end.

The above uplifts have been set at a level that is expected to be maintained, but this cannot be guaranteed. In some circumstances it may be necessary for the extra bonus to be reduced or even stopped. This may happen if economic conditions, or other factors affecting the strength of the funds, change significantly. The uplift in the FLAS With-Profits Sub-Fund was reduced in 2024 following the discovery of an error in the balance sheet calculations that meant it was no longer sustainable; customers will not be disadvantaged by the error.

For some policies, the uplift is applied as additional regular bonus and, as such, is guaranteed once added. In these cases, a lower uplift is applied to reflect that it is guaranteed.

In line with the intention of the Scheme rules described above for the New With-Profits Sub-Fund, a release was made from the Reattributed Inherited Estate External Support Account to the Non-Profit Sub-Fund in 2024.

Conclusion

Throughout 2024, the Estates were managed in accordance with the PPFM and their Risk Appetite Frameworks.

4.7 New With-Profits Business

At the start of 2023, Aviva stopped writing new with-profits bonds and pensions policies in the Old With-Profits Sub-Fund, the New With-Profits Sub-Fund and the Stakeholder With-Profits Sub-Fund. We wrote to affected customers explaining how the change would affect them.

All the other with-profits sub-funds were already closed to new business other than a very limited amount of new business for options on and increments to existing policies, and a limited number of new members to existing group pension schemes. Where product terms allow this, switches in to the with-profits sub-funds from unit-linked funds are generally permitted.

5. Potential Conflicts of Interest Between Policyholders and

Shareholders

Given the level of discretion that can be applied by the Board in managing the with-profits funds, there is a potential for conflicts between the interests of policyholders and shareholders to arise. Such potential conflicts include:

- Selecting a less risky investment strategy that reduces risk for shareholders but that might also reduce investment returns for policyholders.
- Choosing to allocate increased expenses and tax costs to with-profits policyholders.
- Encouraging policy exits or failing to point out the value of guarantees given up on exit, where it might be to the policyholder's benefit to retain the policy.
- Choosing to declare lower bonuses so that the cost of meeting guarantees is reduced.

Similarly, there is a potential for conflicts between the interests of different groups of policyholders. Such potential conflicts include:

- Following a riskier investment strategy that might be to the benefit of policyholders who intend to retain their policies for a long period but possibly to the detriment of policyholders expecting to exit the fund in the shorter term.
- Policyholders with policies that have high guarantees might be more relaxed about taking risks than policyholders that have policies with low guarantees.
- Smoothing changes in bonus rates over time may benefit one group of policyholders over another.
- Similarly, the sharing of risks within policy groups may benefit some policyholders to the detriment of others.

Given these potential conflicts, it is vital that:

- There are clear rules and guidelines for the management of the with-profits funds.
- Strong safeguards are in place to protect the interests of policyholders.

Rules for managing the with-profits funds are set out in the PPFM, which are published. The Court Scheme also sets out a number of rules that must be followed by the Company in managing the with-profits funds. The rules in the PPFM and the Court Scheme address many of the potential conflicts of interest.

Compliance with these rules is monitored and the outcome of this monitoring is considered by the With-Profits Committee and the Board. Any breaches are corrected so as to ensure that no policyholders suffer any material detriment. A review of compliance with the new Consumer Duty regulations was completed in 2024. A small number of actions, such as reducing charges, have resulted from this to ensure ongoing compliance.

Discretion in relation to the management of the with-profits funds is exercised by the Board, whose members include individuals who are independent of the Company and its executive management. Advice on the exercise of discretion is provided by the With-Profits Actuary, whose appointment must be approved by the Regulator and who must comply with regulatory requirements that are designed to ensure that policyholders are treated fairly. Oversight of the Company's management of its with-profits funds and exercise of discretion is provided by the With-Profits Committee, the majority of the members of which are independent of the Company and its executive management.

The Board and the With-Profits Committee are of the view that the rules and safeguards set out in the PPFM and the Scheme, coupled with the protection provided by the input of the With-Profits Actuary and oversight from the With-Profits Committee, are sufficient to avoid conflicts or ensure that they are dealt with fairly.

6. Changes to the PPFM in 2024

During 2024, the wording of the PPFM was reviewed and the resulting changes were approved by the Board in February 2025.

The main changes were as follows:

- To reflect the outcome of the review of regular bonus methodology (see section 4.3 above).
- To reflect a change in the way the estate distribution is applied in the WL WPSF. These changes include changes to Principles, but these were not material and improved clarity to policyholders.
- To reflect a change in the investment strategy for the Provident Mutual Sub-Fund and the UKLAP With-Profits Sub-Fund. These changes did not make a material change to the asset mix for these funds.
- To reflect the renegotiation of administration fees (see section 4.5 above).
- To provide further information on Aviva's sustainability ambition and its impact on the approach to investment.

No changes were made to Principles, other than the minor one referred to above.

Some changes to Practices have been made for corrections and clarifications.

Further information on changes to the PPFM for each fund is provided in the 'PPFM Summary of Change' documents, which can be found at aviva.co.uk/ppfm.

Conclusion

The changes made were reviewed by the Board, the With-Profits Actuary and the With-Profits

Committee and are considered to treat policyholders fairly.

Annex - With-Profits Actuary's Report to Policyholders

I was appointed to the role of With-Profits Actuary to Aviva Life & Pensions UK Limited on 3 May 2018. In this role, I confirm that, in my opinion, the Board's report and the discretion exercised by the Board during 2024 may be regarded as taking, or having taken, the interests of the with-profits policyholders of Aviva Life & Pensions UK Limited into account in a reasonable and proportionate manner.

Further, I am satisfied that, during 2024, discretion in relation to with-profits policies has been exercised fairly and in accordance with the PPFM.

I have completed this report bearing in mind the requirements of the Financial Conduct Authority and the Prudential Regulation Authority, and the guidance and requirements of the actuarial profession and the Financial Reporting Council.

The Board of Aviva Life & Pensions UK Limited has provided me with the information and the resources I needed to enable me to make this statement.

Somerset Lowry
With-Profits Actuary for Aviva Life & Pensions UK Limited
25th March 2025

Note: This is a summary report, based on the conclusions of the report prepared by the With-Profits Actuary for the Board of Aviva Life & Pensions UK Limited in accordance with paragraph 4.3.16A(3) of the Supervision section of the FCA Handbook (SUP 4.3.16A(3)) and paragraph 4.3.16(3) of the Supervision section of the PRA Handbook. This Report was considered to be compliant with the requirements of TAS 100 and the TAS 200 issued by the Financial Reporting Council and with APS X2 issued by the Institute and Faculty of Actuaries.

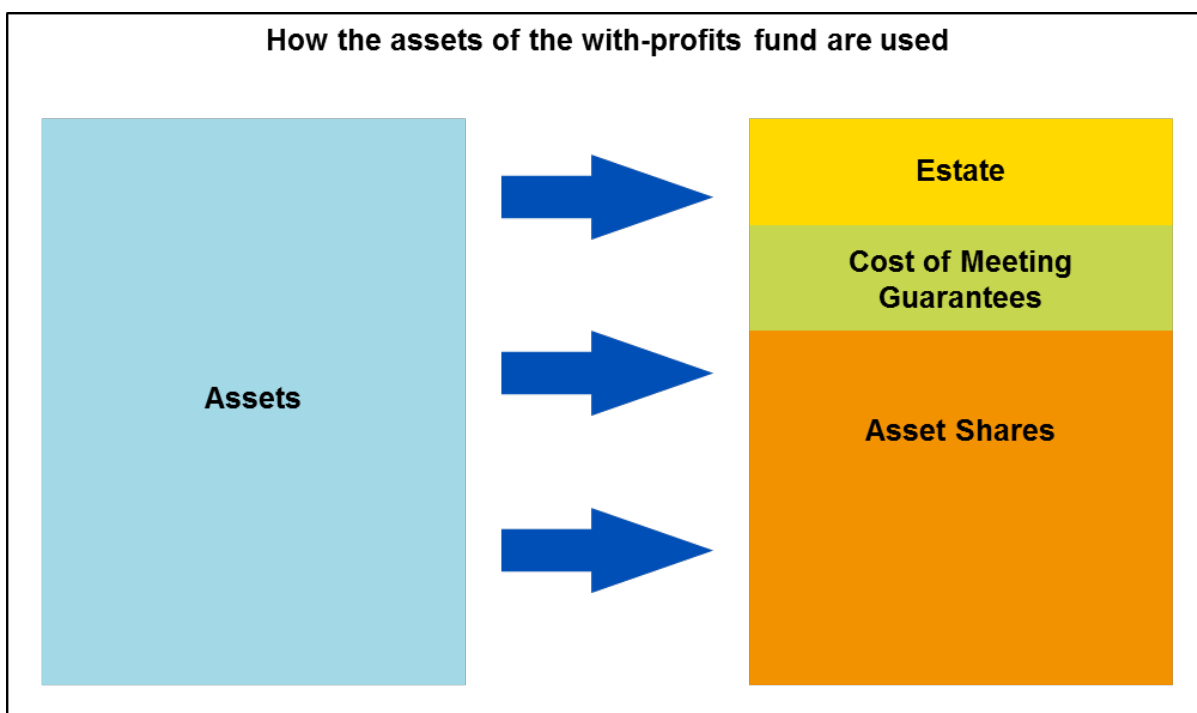
Appendix 1: How with-profits works in the Secure Growth Fund

1. Introduction

With-Profits Terminology

In broad terms, the assets of the with-profits funds are used to back the:

- **Asset Shares** (see below)
- **Cost of Meeting Guarantees**
- **Estate** (see below).



Note: This diagram is for illustrative purposes only and is not to scale.

An explanation of these terms will help you understand how a with-profits fund is managed. The **Asset Shares** represent the amounts paid in by policyholders whose policies are still in the fund, less deductions for expenses, claims, charges and tax, plus investment earnings on those amounts. This is the value of the policyholders' net contributions to the fund and is the main driver for determining the amounts paid to policyholders.

In some cases, the guarantee that applies to a policy can mean that the amount paid to a policyholder exceeds the policy's **Asset Share**. Where this is expected to happen in the future, assets are put aside to cover the additional **Cost of Meeting Guarantees** (over and above **Asset Shares**).

The assets of the funds in excess of the **Asset Shares** and the **Cost of Meeting Guarantees** are referred to as the **Estate**. The **Estate** provides a buffer against adverse experience, helping to maintain the security of policyholders' benefits. The size of the **Estate** directly impacts the amount of flexibility that the Board has in managing the funds. For instance, the larger the **Estate**, the greater the freedom to invest in assets with uncertain but potentially higher returns, such as company shares and property.

Further information on the **Asset Shares** and the **Estate** is provided in the PPFM.

2. Investment Strategy

The investment strategy for the Asset Shares is set by the Board, and must observe the procedures and limits set out in the PPFM. The investment strategy reflects each fund's capacity to take risk, which in turn is dictated by the value of its assets and the level of guarantees provided to its policyholders.

Should the funds have the capacity to take risk then part of the Asset Shares can be invested in assets such as company shares and commercial property, in the expectation that these assets will, in the longer term, provide superior returns. When setting investment strategy, the Board also takes into account current and expected future investment conditions, as well as the advice of our investment managers.

3. Bonus rates

What are bonuses?

- We add your share of the returns which the with-profits fund earns to your investment, through a system of bonuses.
- In almost all cases bonuses cannot be negative, though they can be zero, and this provides policyholders with some protection from losses made by the with-profits funds.
- There are two main types of bonus:
 - Regular bonus
 - Final bonus

What's the difference between regular and final bonuses?

- Regular bonuses are designed to provide steady growth in the value of your guaranteed benefits over the lifetime of your policy. They are not intended to fully reflect the performance of the fund.
- Final bonuses aim to pay any balance between the regular bonuses which we have already added to your policy and the performance of the fund over the whole period of your investment.
- Asset Shares are used as a guide to set final bonuses and this means that the final bonuses reflect the performance of the fund. Final bonuses are payable when you cash in or switch your investment out of the with-profits fund, but they are not guaranteed.
- Our aim is to use regular and final bonuses together to provide a balance between the guaranteed and non-guaranteed policy benefits. The guarantees provided protect your benefits from adverse conditions such as investment market falls or poor investment returns.

Where guaranteed benefits exceed Asset Share, it is likely that the final bonus will be zero. Whilst the final bonus is zero, policyholders will have benefitted from the guarantee provided to them.

Some products only have regular bonus.

Bonus rates are set for groups of policyholders as opposed to individual policyholders. In this way, policyholders share in the performance of the fund and benefit from the pooling of risk with other policyholders. Changes in bonus rates are smoothed over time with the aim of smoothing out some of the ups and downs that result from the volatility of the funds' asset values.

Smoothing does not, however, protect policyholders from prolonged falls in investment returns which, other than where guarantees apply, will be shared with policyholders.

Bonus rates are set by the Board, having taken the advice of the With-Profits Actuary and having considered the views of the With-Profits Committee.

4. Surrender Values

Policyholders may choose to cash-in or surrender their policies early or to transfer benefits under their pensions policies to another provider. The approach for determining surrender values is set out in the PPFM, and surrender values are set with the aim of paying out Asset Shares. Where applicable, the benefits paid to policyholders who surrender or transfer their policies receive uplifts from the respective with-profits sub-fund's Estate (see Section 4.6).

For unitised policies (other than where guarantees apply on early surrender), if the policy benefits exceed the Asset Share, Aviva may apply a Market Value Reduction (MVR) on the early surrender of the policy so that surrender values properly reflect the performance of the fund and the value of the underlying assets. This ensures that surrendering policyholders do not benefit from guarantees that are given up on early surrender. If they did, this could be unfair for the remaining policyholders.

5. Charges and Expenses

Charges and Expenses – How it Works

The with-profits funds are charged fees by Aviva to cover the expenses of administration and investment management. These fees are set out in the Management Services Agreement and Investment Management Agreements. In some cases, most notably for the Stakeholder With-Profits Sub-Fund, the fees charged are the Annual Management Charges set out in the policy terms and conditions.

The extent to which these directly impact amounts paid to policyholders depends on how much is charged to the Asset Shares. In some cases, the amounts charged are the charges set out in the policy terms and conditions, with any balance of the fees described above charged to the Estate. In others it is the fees described above that are charged to Asset Shares. Further details are provided in the PPFM.

The administration services for Aviva's with-profits policies are provided by Aviva's administration services company. For many policies these services are provided by external service providers.

In addition, some of the with-profits funds may be charged for one-off projects. These are charged at cost and are charged to the Estate.

Asset Share Guarantee Charges

For with-profits policies, the PPFM permit Aviva to apply an additional charge to Asset Shares to contribute to the cost of guarantees of the with-profits fund. Such charges are designed to maintain the fund's Estate at an appropriate level so that it provides an adequate level of security for policyholder benefits and provides sufficient freedom to manage the fund in the interests of policyholders. The Old and New With-Profits Sub-Funds may only apply such charges that were being applied on 1st October 2009 or which are set out in the policy's terms and conditions.

The policies in the Stakeholder With-Profits Sub-Fund were until 2021 charged 0.25% p.a. to support the smoothing policy and to provide for the cost of guarantees. The sub-fund holds an account for smoothing and guarantee costs that is built up from the accumulated value of the 0.25% p.a. charge, less the cost of past smoothing and guarantees. This account for smoothing and guarantee costs remains in the sub-fund for the sole benefit of the stakeholder with-profits policyholders. In 2021, the Board reviewed the level of charge necessary to protect the policyholders in the fund and, as a result, decided to suspend these policy charges from 1st July 2021. No charge has been made since. The position of the fund will be regularly monitored to see whether the charge should be reintroduced.

6. Charges and Expenses

Management of the Estate – How it Works

The Estate provides protection for policyholders' benefits from adverse experience together with the freedom to manage the fund in the interests of policyholders. The Estate in the past also provided the funding to write new policies in the fund.

Typically, the Estate forms part of the with-profits fund, and this is the case for the majority of Aviva's with-profits funds. However, the Estate of the New With-Profits Sub-Fund was reattributed to the Aviva shareholders in 2009 (in return for a Policyholder Incentive Payment) and can sit outside of the fund. This means that the Reattributed Inherited Estate External Support Account belongs to shareholders and, when no longer needed to provide protection for policyholder benefits, it can be taken by shareholders and used for other purposes, such as meeting liabilities under non-profit policies. There are rules described in the Court Scheme and the PPFM that restrict the shareholders' use and access to the Reattributed Inherited Estate External Support Account whilst it is still needed to provide security for policyholders' benefits. The rules also specify when surplus assets in the Reattributed Inherited Estate External Support Account can be released to shareholders.

Aviva's approach is to manage the Estates (including the Reattributed Inherited Estate External Support Account) with a view to limiting the risk of the Estates being diminished by adverse conditions. This helps ensure that the Estates continue to provide security to policyholders in changing conditions. This includes following an investment strategy for the assets backing the cost of guarantees that limits potential losses from changing economic conditions and variations in asset values.

Risk Appetite Frameworks are in place for all the with-profits funds. A Risk Appetite Framework provides rules for how the risks taken in managing a with-profits fund are balanced against the size of its Estate.

The Stakeholder With-Profits Sub-Fund does not have an Estate and should not expect support from the Estates of the other with-profits sub-funds of Aviva Life & Pensions UK Limited. In exceptional circumstances, the inherited estates may provide financial support to the Sub-Fund. The account for smoothing and guarantee costs is used for some of the same purposes for stakeholder business as the Estates are used for the other with-profits sub-funds.

Appendix 2: Scheme Certificate

Aviva Life & Pensions UK Limited

Certificate by the Aviva Life & Pensions UK Board

Period 1st January 2024 to 31st December 2024

The Scheme for the transfer of the business of Friends Life Limited and Friends Life and Pensions Limited to Aviva Life & Pensions UK Limited (“the Scheme”) was sanctioned by the High Court of Justice on 13th September 2017 and came into effect on 1st October 2017. As permitted by the Scheme, minor amendments were made to the Scheme in 2020.

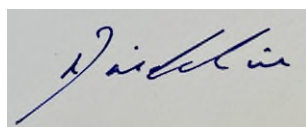
Aviva has, in accordance with Section 75 of the Scheme, undertaken a review of compliance with the requirements of the Scheme. The review covered the period from 1st January 2024 to 31st December 2024.

The Board of Aviva Life & Pensions UK Limited (the “Board”) has considered a report on the compliance review prepared by the With-Profits Actuary (which is considered to be appropriate actuarial advice as required under Section 75 of the Scheme). In addition, the Board has consulted the Aviva With-Profits Committee (as required under the With-Profits Committee’s Terms of Reference) on this matter.

A number of issues have been identified as part of the 2024 compliance review:

- Section 27.1: In 2023 it was identified that a number of annuity policies have been allocated to the wrong sub-funds. There was no evidence that the customers with these annuities have received the wrong benefits. The financial position of the Provident Mutual Sub-Fund was mis-stated though. A correction was made during 2024, but further work is needed to complete the investigation. If it is concluded that customers have been disadvantaged, a rectification process will be undertaken to correct this.
- Section 31.7: Costs of death claims on certain Inflation Protection Guarantee Bonds were borne by the Old With-Profits Sub-Fund, rather than being split between the New and Old With-Profits Sub-Funds. This did not impact payments to customers and is not material for either fund, but was rectified during the year.
- Schedule 1: As noted above, minor amendments were made to the wording of the Scheme in 2020. It has since been identified that a change to one of the clauses in Schedule 1 was incorrect. As a consequence, although the release of money from the Reattributed Inherited Estate External Support Account in 2024 was in accordance with the intention of the Scheme (as set out in the original 2017 Scheme wording and in the previous 2009 Scheme), it was not in line with the incorrect wording that was introduced by the 2020 amendments to the Scheme. Customers have not been disadvantaged by the error in the Scheme wording and the intention is to rectify the error in 2025.

The Board certifies that, other than as described above, the provisions of the Scheme have been complied with for the period between 1st January 2024 and 31st December 2024.



Andrew Dinwiddie
Chief Financial Officer
25th March 2025

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