
Pearl Assurance Limited

Principles and Practices of Financial Management

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1 Introduction

1.1 Overview

Principles and Practices of Financial Management (PPFM)

1.1.1 A glossary of terms and a summary of abbreviations used in this document are given in the Appendix. Words that are defined in the glossary appear in italics in the main text.

Pearl is now part of the Phoenix Group. None of the contents of this document forms part of, or varies, the terms or conditions of any policy issued or to be issued by *Pearl* or by any other member of the Phoenix Group. In the event of any inconsistency between the contents of this document and any policy, the terms and conditions of the policy prevail.

1.1.2 This document is intended to assist knowledgeable observers to understand the way in which the With-Profits business of *Pearl* is conducted and the material risks and rewards involved in effecting or maintaining a *With-Profits policy* with *Pearl*. It is not a comprehensive explanation either of the management of the With-Profits business of *Pearl* or of every matter which may affect that business. In addition, no part of the document should be read as a recommendation to policyholders or potential policyholders or their advisers in relation to the effecting or maintaining of a *With-Profits policy*. Accordingly, any person considering whether to effect or maintain a *With-Profits policy* with *Pearl*, or any other member of the Phoenix Group should seek independent financial advice. *Pearl* will also produce an annual report for policyholders on its compliance with its PPFM.

1.1.3 Statements in this document in relation to the risks and rewards involved in effecting and maintaining a *With-Profits policy* with *Pearl* or any other member of the Phoenix Group are by their nature forward-looking statements that are subject to a variety of uncertainties. Readers of this document should read such forward-looking statements in that context.

Principles

1.1.4 The With-Profits principles provide a high level description of the standards adopted by *Pearl* in managing its *With-Profits fund* in the current economic environment and in response to long-term changes in that environment. Principles are intended to be enduring, but may change from time to time in which case, three months written notice will be given to the then current With-Profits policyholders before any change is made.

Practices

1.1.5 The With-Profits practices provide a more detailed description of how *Pearl* currently manages its *With-Profits fund*. The aim is that the practices provide sufficient detail for a knowledgeable observer to understand the key risks being undertaken by the *With-Profits fund* and the potential impact on policyholders' payouts from taking those risks. *Pearl* may change its practices without advance notice as a result of changes in its circumstances or business environment.

Governance

1.1.6 The *Board* will approve any changes to the PPFM after receiving advice from the *Actuary* and *With-Profits Committee*.

1.2 Background to the Pearl With-Profits Fund

- 1.2.1 In the mid-1990s, *Pearl* conducted a review of the financial interests of policyholders and shareholders in its long-term business fund. This exercise was known as Project Pacific and revealed that a portion of the long-term business funds built up prior to 1965 represented past surplus to which the shareholders were entitled, but had not been distributed to them. Consequently, an order under Section 68 of the Insurance Companies Act 1982 ('Section 68 Order'), effective from 31 December 1995, attributed the sum of £960 million to shareholders. This is known as the *Pacific Fund*, held as a separately identified pool of assets within *Pearl's* long-term business fund.
- 1.2.2 The Section 68 Order also required the creation of 3 separate funds within the long-term fund of *Pearl*:
- A 90:10 fund writing With-Profits business – Ordinary life and pensions and Industrial Branch business – this is the *With-Profits fund*,
 - A 0:100 fund attributed to the shareholders writing pensions business,
 - A 0:100 fund attributed to the shareholders writing life business. The *Pacific Fund* forms part of this fund.
- 1.2.3 Each year, at least 90% of the *surplus distributed* within the *With-Profits fund* is distributed to the With-Profits policyholders. The balance is allocated to *Pearl's* shareholders.
- 1.2.4 Since 1996, where appropriate in the *Board's* opinion, investment income together with any transferable capital appreciation of the *Pacific Fund* has been transferred to the shareholder in accordance with the Section 68 Order. If the capital appreciation is negative in any particular year, no transfers of transferable capital appreciation can be made in any subsequent year until the *Pacific Fund* has recovered its original value.
- 1.2.5 The Section 68 Order prohibited any transfer of the original *Pacific Fund* prior to 2001. Any subsequent transfers are subject to the approval of the *Actuary*, who must be satisfied that they would not adversely affect With-Profits Policyholders' Reasonable Expectations (PRE).
- 1.2.6 Special annual bonuses were added to *With-Profits policies* which were in-force on 5 July 1996. This included compensation for the loss of the right to future profits emerging from the *Non-Profit* business as a result of the new fund structure.
- 1.2.7 As a consequence of the Section 68 Order, the *Pacific Fund* is available to support the solvency of the *With-Profits fund* and to ensure that PRE is met.

1.3 Business covered by the PPFM

1.3.1 This PPFM covers the With-Profits business of the 90:10 fund mentioned above. There are five major product groups in the *Pearl With-Profits fund*, the main characteristics of which are summarised below.

Industrial Branch (IB) – Conventional Business

1.3.2 These are similar to the OB conventional whole life and endowment policies, as described below. However, no annual bonuses are declared in the first five years of the contract, and guaranteed surrender scales apply as required by legislation.

Ordinary Branch (OB) - Conventional Business

1.3.3 This product group includes traditional whole of life, deferred annuities and endowment contracts. Benefits are payable on maturity, early termination or claim event (e.g. death or retirement). On maturity or claim event, the *guaranteed benefits* plus final bonuses are payable, except where contractual terms provide for alternative benefits. Annual bonuses may be declared each year, and once declared cannot be taken away. Final bonuses are not guaranteed and can be changed at any time. On early termination, a different approach to determining benefits payable is followed and is described in more detail later in this document.

1.3.4 Groups of policies that have similar characteristics and features receive the same annual bonus rates and the same final bonus rates. These groups are known as *bonus series*, and are listed in the glossary.

Ordinary Branch (OB) - Unitised With-Profits (UWP)

1.3.5 Premiums paid by policyholders are allocated *Investment Units* at the date of the premium payment. Benefits are payable on maturity, early termination or claim event (e.g. death and retirement).

1.3.6 The units allocated to the policy increase by the daily addition of *Bonus Units* (if the declared bonus rate is greater than zero). One rate of bonus applies to the *Investment Units* and a different rate to *Bonus Units* previously added. *Bonus Units* once added cannot be taken away. The daily bonus rates are declared in advance of the period to which they apply and can be changed at any time.

1.3.7 A final bonus may also be added to the policy when a claim is paid. This will be determined for each policy individually. The amount of this bonus will vary and will depend on premiums invested, the dates the investments were made and how much the assets of the *With-Profits fund* have grown since those dates compared to the amount of daily *Bonus Units* already declared. On early termination, a different approach to determining benefits payable is followed and is described in more detail later in this document.

1.3.8 Groups of policies that have similar characteristics and features will receive the same daily bonus rates and the same global final bonus rate. These groups are known as *bonus series*, and are listed in the glossary.

Ordinary Branch (OB) - Personal Pension (PP) and Free Standing Additional Voluntary Contribution (FSAVC)

1.3.9 Premiums paid by policyholders are allocated *Investment Units* at the date of the premium payment. Benefits are payable on maturity, early termination or claim event (e.g. death or retirement). The value of the units allocated to the policy is set at the date of purchase and may increase as further units are allocated. Compound *interim Bonus Units*, if applicable, are added on a daily basis but these are not guaranteed and are superseded by annual *Bonus Units* when declared. Compound annual *Bonus Units* may be declared each year and are guaranteed if the policy is kept until retirement.

- 1.3.10 A final bonus may also be added to the policy. This is not guaranteed and may be changed at any time. On early termination, a different approach to determining benefits payable is followed and is described in more detail later in this document.
- 1.3.11 Groups of elements of policies that have similar characteristics and features will receive the same annual bonus rates. These groups are known as *bonus series*, and are listed in the glossary.
- Ordinary Branch (OB) - Reinsured Business**
- 1.3.12 National Provident Life Limited (NPLL) and NPIL Limited (NPIL) have reinsured on *original terms* to the *Pearl With-Profits fund*, the With-Profits component of certain UWP bonds sold.
- 1.3.13 In respect of premiums paid by NPLL and NPIL, policies are allocated units when premiums are paid. The value of the units allocated to the policy increases by the daily addition of annual bonuses through the unit price. The rate of annual bonus is announced annually in advance in the form of an interim rate of annual bonus, but it may be changed at any time until formally declared as at 31 December each year.
- 1.3.14 A final bonus, increasing policy proceeds, or *MVA*, reducing policy proceeds, may be applied on early termination or claim event. The amount of final bonus, or *MVA*, will depend on the premium invested, the date the investment was made, and how much the assets of the *With-Profits fund* have grown since that date compared to the amount of annual bonus already declared. *MVAs* will not be applied to claims as a result of death, or to regular income payments.
- 1.3.15 NPIL has also reinsured the investment component of its With-Profits pensions business to the *With-Profits fund* of *Pearl*. This operates in a similar way to the reinsured UWP Bonds described above but *Pearl* only bears the investment risks for the pensions business. *MVAs* will not be applied to payments on this business on death and on some retirements, depending on contract terms.
- 1.3.16 The reinsured pensions business includes Capital Account Pensions business. This business does not get a final bonus, and all the return is given through the annual bonus rate. *MVAs* may still be declared on this class of business. As for the other pensions business, payments on death and some retirements are guaranteed to be not subject to an *MVA*.
- 1.3.17 Groups of policies that have similar characteristics and features will receive the same daily bonus rates and the same final bonus rates. These groups are known as *bonus series*, and are listed in the glossary.

2	Overriding principles
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In the sections below, the principles for managing the *With-Profits fund* in a range of areas are described. Set out below are the overriding principles used to manage the *With-Profits fund*.

- 2.1 To avoid breaching regulatory requirements in the reasonably foreseeable future, the *Board* will aim to maintain sufficient assets within *Pearl* in excess of regulatory requirements. Where excess assets are insufficient as determined by the *Board*, bonus rates, *surrender values* and the investment mix of assets held will be adjusted as deemed necessary.
- 2.2 The *Board* will aim to maintain assets within the *With-Profits fund* plus *Pacific Fund* that are sufficient in its opinion to meet a realistic assessment of the liabilities of the *With-Profits fund* plus provide a reasonable buffer against adverse experience. Where the assets are insufficient as determined by the *Board*, bonus rates, *surrender values* and the investment mix of assets held will be adjusted as deemed necessary.
- 2.3 The payment of contractual benefits takes priority over the payment of benefits to which there is no contractual entitlement.
- 2.4 *Pearl* will aim to treat customers fairly, providing them with a return commensurate with the contribution their policy has made to the *With-Profits fund*, and the risks borne by the *With-Profits fund*.

3 The amount payable under a With-Profits policy

3.1 Principles

- 3.1.1 The general aim is to pay the asset share, plus any augmentation provided by a release of the *estate*. The *Board* sets bonus rates by reference to asset shares. Policies are grouped into *Bonus Series* consisting of broadly similar policies. A new *Bonus Series* would be introduced if the *Board* felt that it were both compatible with With-Profits policyholders' reasonable expectations (PRE) and necessary to maintain equity between different groups of policyholders. The methodology and approach used to calculate asset shares is set out in Section 4. In addition, to avoid significant changes in benefits over time for policies within the same *bonus series*, or for certain similar groups of policies within *bonus series*, smoothing is applied. This limits the change in payouts from one period to the next.
- 3.1.2 For business other than OB Reinsured Business, the annual bonus is usually set with a view that a proportion of the final payout will be made up of final bonus.
- 3.1.3 Where smoothing is applied it is *Pearl's* intention for smoothing costs after 1 July 2007 to be neutral over time. This will be achieved by tracking the payouts made to policyholders and debiting / crediting the smoothing cost to asset shares. The *estate* may be used to reduce smoothing adjustments to asset shares if in the opinion of the *Board* these would lead to an unfair outcome. Given the process there is no total scale or cost of smoothing to *Pearl* over the shorter term that *Pearl* believes should not be exceeded.
- 3.1.4 *Surrender values* will be set by reference to the policy's asset share, plus any augmentation provided by a release of the *estate*. *Pearl* applies *MVAs*, or changes the surrender bases for *With-Profits policies* that are not unitised, to reflect changes in underlying asset shares. *Surrender values* may be subject to smoothing, and may vary considerably in line with movement in asset shares. *Surrender values* as determined will be subject to guaranteed minimums, where provided by the contract terms.
- 3.1.5 If, in the opinion of the *Board*, the overriding principles set out in paragraphs 2.1 or 2.2 are or may be at risk, then bonus rates, *surrender values* and the amount of smoothing may change. In these circumstances, significant weight will be given to the current economic conditions when setting bonus rates (which could be reduced to zero).
- 3.1.6 Where the use of approximations does not materially affect the resulting payouts to policyholders, then they may be used. In addition, approximations may be used in circumstances where the information needed to perform more accurate calculations is not available (or is extremely difficult to obtain without significant expenditure). In this case, the approach will be carried out as accurately as possible in the *Board's* opinion.
- 3.1.7 The methodology, parameters and assumptions and all changes thereto are formally documented and approved by the *Board*, having received advice from the *Actuary* and from the *With-Profits Committee* as appropriate.

3.2 Practices

- 3.2.1 Except where payment of a contractual benefit results in a higher amount, and except where the amount can not reasonably be compared with a calculated asset share, the target for policy claim payments is that at least 90% fall between 80% and 120% of the unsmoothed asset share. Where notional policies are used for this purpose, the policy claim payment will not be compared to its own asset share but rather would be adjusted to the size of the notional policy and then compared to the asset share of the notional policy. The longer-term aim is to make aggregate policy claim payments of 100% of unsmoothed asset share, though the outcome in any particular year may vary from this longer-term aim.

3.3 Practices - Annual bonus rates

3.3.1 The sections below refer to the practices for setting annual bonus rates for each of the main lines of business. In all cases, these practices will be overridden if in the opinion of the *Board*, the overriding principles set out in paragraphs 2.1 or 2.2 are or may be at risk (because of, for example significant changes in market values of assets, or business losses). In these circumstances, the build up of guarantees may be reduced through the declaration of a low or zero annual bonus.

3.3.2 The methodology, parameters and assumptions and all changes thereto are formally documented and approved by the *Board*, having received advice from the *Actuary* and from the *With-Profits Committee* as appropriate.

Industrial Branch (IB) and Ordinary Branch (OB) - Conventional Business

3.3.3 For conventional business, the annual bonus rate is normally reviewed at the end of each calendar year. The annual bonus may be set at zero. If a non-zero level is set, it is allocated to the policy on 1 January in the following year, providing all premiums due at that time have been paid.

3.3.4 No interim bonuses are declared in respect of IB and OB conventional business.

3.3.5 For *compound bonus* policies where the policyholder has stopped paying premiums and the conditions for continuing to participate in future bonuses have been met, the rate of annual bonus payable is halved. Where policyholders cease premiums under a *simple bonus* policy, the policy becomes *Non-Profit* for a reduced amount and no further bonuses will be allocated.

3.3.6 For each class of business, the level of annual bonus is set so as to maintain a buffer for final bonus. The future claim payouts are estimated using realistic assumptions and the annual bonuses set at such a level that if experience turns out to be in line with those assumptions, the overall amount of the payout paid in the form of final bonus will be in line with a target proportion. Under current investment conditions, the overall target is that 25% of the overall value of payouts, calculated before any future augmentation provided by a release of the estate, will be in the form of final bonus. Given the aggregate nature of this target, for an individual policy, this final bonus buffer may be more or less than 25%. This overall target is itself subject to review and may be changed. If experience does not turn out to be in line with the assumptions then the 25% target might not be met.

Annual bonus rates will be adjusted to keep the overall level of projected final bonus broadly in line with the target. If necessary to remain on target, annual bonus rates will be reduced to nil, or close to nil.

There is no maximum change in the annual bonus rate; however, in the normal course of events the declared annual bonus rates would not be expected to change significantly from one period to the next.

Ordinary Branch (OB) - Personal Pension (PP) and Free Standing Additional Voluntary Contribution (FSAVC)

3.3.7 For PP and FSAVC business, the annual bonus rate is normally reviewed at the end of each calendar year. The annual bonus may be set at zero. An interim daily bonus for policyholders claiming during the year is declared. The interim bonus can be changed at any time and is set by reference to the expected level of annual bonus. If the expected level of annual bonus changes, the interim bonus will be adjusted to reflect this.

3.3.8 For each class of business, the level of annual bonus is set so as to maintain a buffer for final bonus. The future claim payouts are estimated using realistic assumptions and the annual bonuses set at such a level that if experience turns out to be in line with those assumptions, the overall amount of the payout paid in the form of final bonus will

be in line with a target proportion. Under current investment conditions, the overall target is that 25% of the overall value of payouts, calculated before any future augmentation provided by a release of the estate, will be in the form of final bonus. Given the aggregate nature of this target, for an individual policy, this final bonus buffer may be more or less than 25%. This overall target is itself subject to review and may be changed. If experience does not turn out to be in line with the assumptions then the 25% target might not be met.

Annual bonus rates will be adjusted to keep the overall level of projected final bonus broadly in line with the target. If necessary to remain on target, annual bonus rates will be reduced to nil, or close to nil.

There is no maximum change in the annual bonus rate; however, in the normal course of events the declared annual bonus rates would not be expected to change significantly from one period to the next.

Ordinary Branch (OB) - Unitised With-Profits (UWP)

3.3.9 Daily bonus rates, as described in paragraph 1.3.6, are set with regard to the expected average return in the medium term future on the underlying assets, less:

- the expected level of tax and charges as appropriate
- a margin to allow for gains and losses
- a margin for final bonus

The deductions above may vary in size from time to time. The rates of daily bonus may be changed at any time, although they are normally reviewed quarterly. The periodic review of bonus rates has regard to profits and losses on terminating policies.

Ordinary Branch (OB) - Reinsured Business

3.3.10 Annual bonus rates for the calendar year are normally declared at 31 December and *interim bonus* rates for the following year are set at the same time.

3.3.11 For OB Reinsured Business other than Capital Account Pensions business, interim bonus rates are set at a level of the expected average return in the medium term future on the underlying assets, less the expected level of tax and charges as appropriate less a margin to allow for either some final bonus to emerge or *MVAs* to reduce. The margin may vary in size from time to time. The *interim bonus* rates may be changed at any time.

3.3.12 For Capital Account Pensions business, it is intended to set the interim bonus rate at the start of each year at a level consistent with the expected return on the underlying assets, plus or minus an adjustment designed to bring the business more closely into line with the asset shares.

3.3.13 The declared annual bonus rates would normally be the same as the interim bonus rates or less, if in the opinion of the *Board*, the overriding principles set out in paragraphs 2.1 or 2.2 are or may be at risk by declaring rates equal to the interim rates.

3.3.14 Annual bonus rates on OB Reinsured Business other than Capital Account Pensions business would not normally be expected to reduce or increase by more than one per cent per annum.

3.3.15 Annual bonus rates on Capital Account Pensions business would normally not be expected to reduce or increase by more than one and a half per cent per annum.

3.4 Practices - Final bonus rates

3.4.1 The sections below refer to the practices for setting final bonuses, before any augmentation to final bonus provided by a release of the *estate*, for each of the main lines of business. In all cases, these practices will be overridden if in the opinion of the *Board*, the overriding principles set out in paragraphs 2.1 or 2.2 are or may be at risk (because of, for example significant changes in market values of assets, or business losses). In these circumstances, the *Board* may target payouts at less than 100% of asset shares, subject to paying out a minimum of the *guaranteed benefits*.

3.4.2 The methodology, parameters and assumptions and all changes thereto are formally documented and approved by the *Board*, having received advice from the *Actuary* and from the *With-Profits Committee* as appropriate.

Industrial Branch (IB) and Ordinary Branch (OB) - Conventional Business, Personal Pension (PP) and Free Standing Additional Voluntary Contribution (FSAVC)

3.4.3 Final bonuses are normally reviewed and set every 6 months such that the final payout targets 100% of unsmoothed asset share over time subject to guarantees and smoothing.

3.4.4 For business other than PP and FSAVC, the final bonus rate is determined for each *bonus year* by reference to the projected asset shares of the policies. For PP and FSAVC, up to and including 31 December 2007, a similar approach is adopted but a final bonus rate is determined for each year the policy participates in profits (see 3.4.8 for the approach to be adopted thereafter). For PP and FSAVC, the asset share calculations, which underlie the bonus rates, are performed using notional policies with relevant characteristics, such as age and level of benefits, for each *bonus series*. In these calculations, approximations or considerations of materiality may be applied in determining the notional policies used. For IB and OB – Conventional Business, the aggregate asset share, which underlies bonus rates is calculated by summing the individual asset shares for notional policies with relevant characteristics such as age and sum assured for each *bonus series*. In each of these calculations, approximations or considerations of materiality may be applied in determining the notional policies used.

3.4.5 In performing this exercise, for business other than IB and OB – Conventional Business, any excess of *guaranteed benefits* over asset shares are ignored. This is done so that if the *guaranteed benefit* under a notional policy is greater than asset share, this does not result in a reduction of final bonus on other notional policies. In performing this exercise for IB and OB Conventional Business any excess of the aggregate *guaranteed benefits* over the aggregate asset shares for a given *bonus year* are ignored. This is done so that if the aggregate *guaranteed benefits* for a given *bonus year* is greater than the aggregate asset shares, then this does not result in a reduction of final bonus for other *bonus years*.

3.4.6 The unsmoothed final bonus rates may be further adjusted as described in 3.5 to allow for smoothing and consistency between *bonus years*.

3.4.7 The same final bonus rates apply for both death and maturity where the final bonus is paid on death.

3.4.8 With effect from 1 January 2008, final bonuses for PP and FSAVC are not as described above but are determined for each individual policy element such that the final payout targets 100% of unsmoothed asset share over time subject to guarantees and smoothing.

3.4.9 Full weight is given to recent economic experience in determining asset shares. As such payouts are similarly impacted, unless the smoothing process acts so as to restrict this link between the asset shares and payouts.

Ordinary Branch (OB) - Unitised With-Profits (UWP)

- 3.4.10 Final bonuses are determined for each individual policy such that the final payout targets 100% of unsmoothed asset share over time subject to guarantees.
- 3.4.11 A global final bonus rate is determined for each *bonus series*. This rate is determined by comparing the aggregate asset share with the sum of the *Investment Units* and the *Bonus Units* for the *bonus series*. The global final bonus rate is normally reviewed and set monthly.
- 3.4.12 An individual policy final bonus rate is calculated by comparing the sum of the *Investment Units* and the *Bonus Units* allocated to the policy to the asset share for the policy.
- 3.4.13 The applicable final bonus rate is set by reference to the calculated individual rate having regard to the global rate for the *bonus series*.
- 3.4.14 Full weight is given to recent economic experience in determining asset shares. As such payouts are similarly impacted, unless the guarantees and regard for the global rate restrict the link between asset shares and payouts.

Ordinary Branch (OB) - Reinsured Business

- 3.4.15 Final bonuses are determined such that the final payout targets 100% of asset share over time subject to guarantees and smoothing. The asset share calculations, which underlie the bonus rates, are performed using notional policies with relevant characteristics, such as age and level of sum assured, for each *bonus series*. In these calculations, approximations or considerations of materiality may be applied in determining the notional policies used.
- 3.4.16 Final bonus rates are determined for each tranche of business, typically grouped quarterly by date of premium payment. Separate bonus rates are determined for Socially Responsible With-Profits business and other OB Reinsured Business excluding Capital Account Pensions business. No final bonus is applicable to Capital Account Pensions business.
- 3.4.17 Rates are normally reviewed and set at least monthly and are subject to smoothing.

3.5 Practices – Smoothing

- 3.5.1 This section sets out the smoothing practices for the main lines of business. In all instances, the smoothing approach described for each product group applies equally to different generations of policyholders. There is no overall limit to the cost of smoothing for any product, but smoothing is subject to the overall solvency of *Pearl* and the existence of sufficient excess assets of the *With-Profits fund*, as described in 2.1 and 2.2.
- 3.5.2 Smoothing is applied to payouts determined before any augmentation to final bonus for release of the *estate*. The augmentation to final bonus for any release of the *estate* is unsmoothed.
- 3.5.3 Profits/losses from this smoothing are shared among the *With-Profits policies* in accordance with the product groups below:
Group 1: Industrial Branch (IB) – Conventional Business
Group 2: Ordinary Branch (OB) – Conventional Business, Ordinary Branch (OB) – Unitised With-Profits (UWP), Ordinary Branch (OB) – Personal Pension (PP) and Free Standing Additional Voluntary Contribution (FSAVC)
Profits/losses from smoothing for Group 1 policies are shared among the Group 1 policies.
Profits/losses from smoothing for Ordinary Branch (OB) – Conventional Business, Ordinary Branch (OB) – Personal Pension (PP) and Free Standing Additional Voluntary Contribution (FSAVC) are shared among the Group 2 policies.
- 3.5.4 The aim is that, wherever possible, such profits/losses should be met by the asset shares through smoothing adjustments.
- 3.5.5 The methodology, parameters and assumptions and all changes thereto are formally documented and approved by the *Board*, having received advice from the *Actuary* and from the *With-Profits Committee* as appropriate.

Industrial Branch (IB) and Ordinary Branch (OB) - Conventional Business, Personal Pension (PP) and Free Standing Additional Voluntary Contribution (FSAVC)

- 3.5.6 For traditional policies where *final bonus* changes are normally twice a year *smoothing* is applied to *maturity* or retirement values, and is done by limiting the changes in *final bonus* rates. Normally the change in *final bonus* rates for a policy will be limited so that the increase or reduction in total *maturity* or retirement *payout* compared to a position where bonus rates are not changed is not more than 7.5% at each six monthly review.
- 3.5.7 For traditional policies, *surrender value* bases are normally reviewed twice a year, and *smoothing* is applied by limiting the change in immediate *surrender value* for policies. Normally the *surrender value* for specimen model policies will not change by more than 10% at each six monthly review. *Surrender values* may change in between reviews because in many cases the *surrender values* are calculated using formulae that depend on factors such as term remaining which change over time.
- 3.5.8 However, if it is necessary to enable the fund to continue to meet the objectives set out in the guiding principles in section 2 sometimes larger changes are made in *final bonus* rates and *surrender values*.

If there has been a significant change in premium rates then larger changes than those described above may be made so that *final bonus* rates and surrender bases remain consistent with the premium rates on which the business was generally written. Where premium rates were revised with the intention of changing payouts, then *smoothing* will not be applied, so that the change in payouts intended by the premium rate changes does occur.

Calculations may also be carried out for policies which are due to reach their *maturity* date in the following few years. If these calculations show a trend in *payouts* which could not be accommodated by following the normal limits on change described above, the *final bonus* rate or *surrender value* being determined may be adjusted so that the trend may be more easily accommodated.

For both *maturity* and retirement values, and *surrender values*, any change to *payouts* that results from changes in the *distributable estate*, if any, will be additional to the limits described and will not be subject to *smoothing*. Also where there have been significant changes in methodologies and practices, the impact may not be managed within the normal *smoothing* rules.

For PP and FSAVC policies, the *smoothing* applied to *surrender values* is described in 3.6.10.

Ordinary Branch (OB) - Unitised With-Profits (UWP)

- 3.5.9 The payouts under UWP policies are set to target the asset share and there is no maximum amount by which the level of payout can change from one year to the next. However, given the fact that the bonuses do not reflect day-to-day market movements, there will be a series of over and underpayments relative to the asset share which are met from the *estate*.

Ordinary Branch (OB) - Reinsured Business

- 3.5.10 The payouts under reinsured policies are set to target the asset share and there is no maximum amount by which the level of payout can change from one year to the next. However, given the bonuses do not reflect day-to-day market movements, there will be a series of over and underpayments relative to the asset share.
- 3.5.11 There is no automatic method for smoothing. However, extreme changes in the investment return may be smoothed by setting different final bonuses or *MVAs* than would normally be the case. The extent of such smoothing is reduced if discontinuances become excessive; for example, if this would otherwise impact the financial security of *Pearl* or lead to significant inequity.

3.6 Practices – Surrender values

- 3.6.1 The practices applying to the calculation of *surrender values* for *With-Profits policies* vary by product and are described below. Certain policies have *surrender values* guaranteed in the contract or prescribed by regulation. Where the application of these practices produces *surrender values* that are below these levels, the guaranteed or regulatory benefits will be paid.
- 3.6.2 Except for levels prescribed by regulation and guarantees, these practices will be overridden if in the opinion of the *Board*, the overriding principles set out in paragraphs 2.1 or 2.2 are or may be at risk. In these circumstances, the *Board* may target payouts at less than 100% of asset shares.
- 3.6.3 The *surrender values* of *Non-Profit* policies within the *With-Profits fund* are not described in these practices.
- 3.6.4 The methodology, parameters and assumptions and all changes thereto are formally documented and approved by the *Board*, having received advice from the *Actuary* and from the *With-Profits Committee* as appropriate.
- Industrial Branch (IB) and Ordinary Branch (OB) - Conventional Business, Personal Pension (PP) and Free Standing Additional Voluntary Contribution (FSAVC)***
- 3.6.5 *Surrender values* are based on a formula designed to ensure surrender values paid meet the target in 3.2.1. However, various deductions may be made to protect the interests of remaining with-profits policyholders, for example transaction costs of selling investments, rebalancing hedges or investment portfolios, or carried forward negative guarantee and smoothing adjustments. The asset share calculations, for this purpose, are performed using notional policies with relevant characteristics, such as age and level of sum assured / benefits. In these calculations, approximations or considerations of materiality may be applied in determining the notional policies used.
- 3.6.6 While asset shares are targeted, the operation of the formula means that some surrender payments will be higher or lower than asset shares. For example, the amounts payable to policies surrendering in the first few years of the policy's life may exceed asset shares, particularly where the asset share is negative (for example as a result of expenses). In addition, in between review dates, fluctuations in asset values will also lead to payments varying from asset shares.
- 3.6.7 In the circumstances described, any overpayment relative to asset share is funded from the *estate* until passed back to the asset shares, and any underpayment is credited to the *estate* until credited back to the asset shares.
- 3.6.8 *Surrender values* are normally reviewed every six months.
Pearl may review *surrender values* whenever it is deemed necessary.
- 3.6.9 For the avoidance of doubt, in the approach described above, *surrender values* at particular policy durations are not related or compared to the actual maturity benefits of policies of the same duration.
- 3.6.10 With effect from 1 January 2008, surrender values for PP and FSAVC policies are smoothed for each individual policy element such that the maximum year-on-year change in payouts, under normal circumstances, is 15%, rather than the process described above. Underlying this maximum change in payouts is the scale detailed in 3.5.7. This limit is not subject to regular review. In making this comparison any premiums paid in the previous year are not taken into account.
- 3.6.11 The various deductions made to protect the interests of remaining with-profits policyholders are normally reviewed every six months.

Ordinary Branch (OB) - Unitised With-Profits (UWP)

- 3.6.12 *Surrender values* are equal to the value of *Investment Units* less any fixed penalties applied plus the value of the *Bonus Units* added plus any final bonus as determined using the same approach as the maturity final bonus.
- 3.6.13 For a small group of policies issued during 1995, an *MVA* may be applied. The aim of the *MVA* is to broadly equate surrender payments to asset shares. The *MVAs* are implemented as a reduction to the final bonus, and can lead to a negative final bonus.
- 3.6.14 Where no *MVA* applies, there is no distinction made between surrendering and maturing policies when determining final bonus.
- 3.6.15 *MVAs* do not apply to UWP policies sold since 1 January 1996.
- 3.6.16 Any strain on regular withdrawals arising from the exercise of contractual options will be borne by the *estate*.

Ordinary Branch (OB) - Reinsured Business

- 3.6.17 A final bonus, increasing policy proceeds, or *MVA*, reducing policy proceeds, may be applied on early termination or claim event. The amount of final bonus, or *MVA*, will depend on the premium invested, the date the investment was made, and how much the assets of the *With-Profits fund* have grown since the date compared to the amount of annual bonus already declared. *MVAs* will not be applied to claims as a result of death, or to regular income payments, or on some retirements depending on contract terms.
- 3.6.18 Final bonuses are determined such that the final payout targets 100% of asset share over time subject to guarantees and smoothing. The asset share calculations, which underlie the bonus rates, are performed using notional policies with relevant characteristics, such as age and level of sum assured, for each *bonus series*. In these calculations, approximations or considerations of materiality may be applied in determining the notional policies used.
- 3.6.19 Final bonus rates are determined for each tranche of business, typically grouped quarterly by date of premium payment. Separate bonus rates are determined for Socially Responsible With-Profits business and other OB Reinsured Business excluding Capital Account Pensions business. No final bonus is applicable to Capital Account Pensions business.
- 3.6.20 Rates are normally reviewed at least monthly and are subject to smoothing.

4 Asset Share Methodology

4.1 Principles

- 4.1.1 Payouts under *With-Profits policies* target 100% of unsmoothed asset shares over time subject to guarantees and smoothing.
- 4.1.2 The methodology, parameters and assumptions and all changes thereto are formally documented and approved by the *Board*, having received advice from the *Actuary* and from the *With-Profits Committee* as appropriate.
- 4.1.3 Asset shares are intended to be a reasonable approximation to the contribution a policy has made to the total assets of the *With-Profits fund*.
- 4.1.4 Where the use of approximations does not materially affect the resulting payouts to policyholders, then they may be used. In addition, approximations may be used in circumstances where the information needed to perform more accurate calculations is not available (or is extremely difficult to obtain without significant expenditure). In this case, in the *Board's* opinion, the approach will be carried out as accurately as possible.
- Industrial Branch (IB) and Ordinary Branch (OB) - Conventional Business, Personal Pension (PP), Free Standing Additional Voluntary Contribution (FSAVC), Unitised With-Profits (UWP) and OB Reinsured Business***
- 4.1.5 The methodology and assumptions used to calculate the asset shares on OB Conventional Business, PP, FSAVC, UWP and OB Reinsured Business may be altered. *Pearl* will not amend the methodology and bases used to determine its IB policyholders' asset shares from those incorporated into its realistic balance sheet dated 30 June 2003. The assumptions used to calculate the asset shares for IB business may vary after 30 June 2003.
- 4.1.6 Changes may be made to past and future methodology and assumptions where they are material and necessary to maintain equity between policyholders, or to maintain the solvency of *Pearl*.

4.2 Practices

- 4.2.1 For each of the asset share components described in this section, assumptions and parameters that are used are based on the actual experience of the *With-Profits fund* using best data available at the date of investigation. Where assumptions and parameters are not material or data is not available, either industry experience or other data may be used. Assumptions for future periods (where used to project asset shares) are also based on the *With-Profits fund's* recent experience and the *Board's* expectations of the future.
- 4.2.2 All changes to methodology, parameters and assumptions are formally approved by the *Board*, having received advice from the *Actuary* and from the *With-Profits Committee* as appropriate.
- 4.2.3 Smoothing and guarantee adjustments are determined for and shared among the *With-Profits policies* in accordance with the product groups below:
Group 1: Industrial Branch (IB) – Conventional Business
Group 2: Ordinary Branch (OB) – Conventional Business, Ordinary Branch (OB) – Unitised With-Profits (UWP), Ordinary Branch (OB) – Personal Pension (PP) and Free Standing Additional Voluntary Contribution (FSAVC)
- 4.2.4 The *With-Profits fund* is credited / debited with smoothing, guarantee and miscellaneous profits/losses. Such profits/losses arise from the differences between claim payments and asset shares. The aim is that wherever possible, such payments should be met by the asset shares through smoothing, guarantee and miscellaneous adjustments.

Industrial Branch (IB) and Ordinary Branch (OB) - Conventional Business, Personal Pension (PP) and Free Standing Additional Voluntary Contribution (FSAVC)

- 4.2.5 Asset shares for these policies are determined as the accumulation of:
Premiums paid
Plus allocated investment return
Plus profits/losses from non-participating business and other miscellaneous sources (including an adjustment for surrender profits)
Plus the cost of special bonuses from Project Pacific (where relevant)
Plus guarantee adjustments
Plus smoothing adjustments
Less sales, administration and investment management expenses
Less mortality and other risk costs
Less the cost of shareholders' share of profits
Less allocated tax
Plus estate adjustment
The allocation bases are determined and formally approved by the *Board*.

- 4.2.6 A description of how several of the above components are determined is provided below.

Allocated Investment return

- 4.2.7 The assets of the *With-Profits fund* are split into a number of groups according to the business they support:

- OB With-Profits business
- IB With-Profits business
- *Non-Profit* business in the *With-Profits fund*
- OB Reinsured Capital Account Pension business
- OB Reinsured Socially Responsible With-Profits business
- *Estate*

The investment return used to determine asset shares for a particular product group is equal to the investment return achieved on the pool of assets allocated to that product group.

The assets of the *estate* may be further split into a number of additional groups.

For surrendering policies, the allocated investment return in the year of surrender may be adjusted for the one-off impact on assets due to the surrender, for example transaction costs of selling investments, or rebalancing hedges or investment portfolios.

Profits and Losses from Non-Profits business and other miscellaneous sources

- 4.2.8 The *With-Profits fund* contains *Non-Profit* business, and this will generate a profit or loss. In addition, profits and losses will emerge from other sources, for example surrenders.

Cost of special bonuses from Project Pacific

- 4.2.9 This is a one-off increase in asset shares to reflect the special bonus, paid as a result of the segregation of funds under Project Pacific.

Guarantee adjustments

- 4.2.10 For OB business, a charge of 0.10% per annum deducted from the investment return has been made from 1 April 2002 to 30 June 2007 to reflect the cost of guarantees. The level of this charge is determined by the *Board*, given actual cost of guarantees and policyholders' reasonable expectations. On 1 July 2007 this charge was capitalised and deducted from asset shares. For IB business, no charge will be made for the cost of guarantees up to 30 June 2007. Any excess of actual guarantee costs over charges is borne by the *estate*. If the *estate* is or may be at risk then the asset shares may be adjusted.

- 4.2.11 From 1 July 2007 there is a periodic charge or credit for the costs of guaranteed benefits. This will normally be determined every six months. This charge or credit is determined at the end of each period as the difference in the realistic cost of meeting

guarantees and the value of the assets held in respect of the guarantees adjusted for guarantees paid in the period for the relevant product group. The charge or credit is restricted to a maximum of 1% of the relevant product group policy asset shares per annum. To the extent that the limit is exceeded, the excess will be carried forward and charged or credited, as appropriate, in the following period, subject to *Board* discretion. The *estate* may be used to reduce guarantee adjustments to asset shares if in the opinion of the *Board* these would lead to an unfair outcome. The charge or credit is applied as a percentage charge or credit to asset shares, with the same percentage applying to all relevant product group policies.

Smoothing adjustments

4.2.12 From 1 July 2007 there is a periodic charge or credit for the costs of smoothing. This will normally be determined every six months. This charge or credit is determined at the end of each period as the aggregate cost of smoothing on the relevant product group business during that period. The *estate* may be used to reduce smoothing adjustments to asset shares if in the opinion of the *Board* these would lead to an unfair outcome. The charge or credit is applied as a percentage charge or credit to asset shares, with the same percentage applying to all relevant product group policies.

4.2.13 The *estate* funds smoothing adjustments on a temporary basis until they are charged back to asset shares.

Sales, administration and investment management expenses

4.2.14 Expenses representing the actual level of expenses attributed to the policies are deducted from asset shares. Current expense deductions are based on the service agreement *Pearl* has with its *service company* and investment managers (refer to paragraph 8.2.3). The deductions for expenses incurred prior to the service agreement, are based on expense analyses, where available. In certain circumstances, large exceptional expenses may be spread over a number of years.

Mortality and other risk costs

4.2.15 These refer to the charges for meeting the cost of mortality and other risks under individual policies.

Cost of shareholders' share of profits

4.2.16 This is equal to a certain proportion of the cost of policyholders' bonuses on a statutory basis. The proportion is subject to a maximum of 1/9th.

Allocated tax

4.2.17 The amount of tax allocated to each individual policy is based on the policyholders tax liability of that individual policy, ignoring any synergy benefit from being invested along with other policies. As a result, the total policyholder tax charge made against policyholder asset share may be different from the tax charge paid by the *With-Profits fund* overall. Any difference between the two will be credited/charged to the *estate*.

4.2.18 Shareholders' tax in respect of transfers from the *With-Profits fund* is charged to the *estate*.

Estate adjustment

4.2.19 Any part of the distributable estate that the *Board* has decided to add or deduct from the asset share in accordance with the practices described in section 9.

Ordinary Branch (OB) - Personal Pension (PP) and Free Standing Additional Voluntary Contribution (FSAVC)

4.2.20 Prior to 1 January 2008, asset shares for these policies will be determined as described above for OB Conventional business.

4.2.21 The *Board* has determined to restate the asset shares for these policies at 31 December 2007 by reference to the policy transfer values such that in aggregate the asset shares for these policies did not change.

- 4.2.22 From 1 January 2008, asset shares for these policies are determined as the accumulation of:
 The restated 31 December 2007 asset share
 Plus premiums paid
 Plus allocated investment return
 Plus profits/losses from non-participating business and other miscellaneous sources (including an adjustment for surrender profits)
 Plus guarantee adjustments
 Plus smoothing adjustments
 Less sales, administration and investment management expenses
 Less mortality and other risk costs
 Less the cost of shareholders' share of profits
 Less allocated tax
 Plus Estate adjustment

The allocation bases are determined and formally approved by the *Board*.
 The definitions are the same as described above.

Ordinary Branch (OB) - Unitised With-Profits (UWP)

- 4.2.23 Asset shares for these policies are determined as the accumulation of:
 Premiums paid
 Plus allocated investment return
 Plus profits/losses from miscellaneous sources (including an adjustment for surrender profits)
 Plus The cost of special bonuses from Project Pacific (where relevant)
 Plus guarantee adjustments
 Plus smoothing adjustments
 Less annual management charge
 Less mortality and other risk costs
 Less regular income payments and partial surrenders
 Less allocated tax
 Plus Estate adjustment

The definitions are the same as described above, with the exception of:

Annual management charge

- 4.2.24 This is the charge for managing the Unitised With-Profits business and includes allowance for expenses (refer paragraph 8.2.4), guarantee costs, the recognition of gains and losses and shareholder profit, where applicable.

Regular income payments and partial surrenders

- 4.2.25 These reflect the actual payouts made to the policyholder from their contract.

Ordinary Branch (OB) - Reinsured Business

- 4.2.26 The asset share is determined as the accumulation of:

Allocated Premiums paid
 Plus allocated investment return
 Less claim payments
 Less annual management charge
 Less allocated tax

The calculated asset share may also be adjusted for profits or losses from miscellaneous sources of surplus as agreed between the Boards of *Pearl* and NPIL/NPLL

The definitions are the same as described above, with the exception of:

Claim payments

- 4.2.27 These refer to payments to policies net of any penalties.

5 Investment Strategy

5.1 Principles

- 5.1.1 The investment strategy for the *With-Profits fund* is set to maximise returns having regard to the solvency position of the *With-Profits fund*, the nature and extent of guarantees in the portfolio, the expected liquidity requirements to meet cash outflows and with reference to the asset mix for peer group companies. The assets of the *With-Profits fund* are invested in a range of *asset classes* with varying degrees of risk. The asset mix backing asset shares is set separately for:
- (a) OB With-Profits business (excluding (d) and (e) below),
 - (b) IB With-Profits business,
 - (c) *Non-Profit* business,
 - (d) OB Reinsured Socially Responsible With-Profits business, and
 - (e) OB Reinsured Capital Account Pensions business
- 5.1.2 *Pearl* aims to hold a target percentage of its assets within each *asset class*. The investment mandate given to the investment managers contains detailed requirements as to the type of asset that are acceptable investments and the target percentage of each *asset class* that *Pearl* aims to hold. The mandate gives a range of values within which the actual proportion invested in each *asset class* must lie, which allows the investment manager some flexibility in order to try and maximise returns within the risk requirements of the *With-Profits fund*. The investment mandate has counterparty limits within it. The objective is to avoid significant aggregate exposure to any individual counterparty limit.
- 5.1.3 Within each *asset class*, as far as possible, a diversified range of assets subject to counterparty limits will be held.
- 5.1.4 In determining the asset mix of the *With-Profits fund*, the *Pacific Fund* will be taken into account in full given that it is available to ensure that the reasonable expectations of policyholders are met. Shareholder funds are not taken into account when setting investment strategy.
- 5.1.5 *Pearl* may invest in derivative instruments to implement investment decisions where it is deemed efficient to do so. In addition, derivatives may be used to change the *risk profile* of the *With-Profits fund*. Any derivative investments will be subject to counterparty limits as well as the approval of the *Investment Committee*.
- 5.1.6 The target percentage invested in each *asset class* will be altered in circumstances where there is an unacceptably high risk that regulatory capital requirements may be breached, that guarantees may not be met, or that it will not be possible to apply the stated smoothing policy. If in the opinion of the *Board*, the overriding principles set out in 2.1 or 2.2 are or may be at risk, then the investment mix of assets held will be adjusted as deemed necessary.

5.2 Practices

Governance

- 5.2.1 The Board receives advice on its investment strategy for the With-Profits Fund from its Investment Committee. The Board will also receive advice from the With Profits Committee, and the With Profits Actuary on any material proposals to change the investment mix, or invest in new types of assets.
- 5.2.2 The investment strategy is documented in a series of investment management agreements between Pearl and its investment managers. The Investment Committee oversees the investment managers to ensure that the investments held are in accordance with the investment management agreements.

- 5.2.3 The investment management agreements set out any limits on matters such as:
- The types of investment that may be held
 - The maximum amount that can be invested in any single company.
 - The maximum amount that can be invested in any single asset class / industry sector / country.
 - The maximum extent to which the manager might hold assets which are different to the benchmark (guideline) portfolio in order to enhance returns (These include restrictions in terms of credit quality, term/duration and amounts of individual holdings).
 - The minimum credit rating quality of assets (as specified by the main rating agencies such as Standard & Poor's and Moodys).
 - The maximum amount of gearing within the *With-Profits Fund* (i.e. the maximum amount of borrowing the *With-Profits Fund* may undertake to invest in new assets).
- 5.2.4 Before investing in new types of investment, the Board would obtain the advice of the investment managers and the Investment Committee on the benefits and risks. The Board will also notify the With-Profits Actuary and the With-Profits Committee of these proposed new types of investment and they may then, at the Board's request or on their own initiative, provide the Board with their own advice.
- 5.2.5 The With-Profits Fund may invest in assets which would not normally be classed as admissible for certain regulatory valuation purposes provided that, in the opinion of the Board, the investment is considered suitable for the With-Profits Fund. If, in the opinion of the Board, the overriding principles set out in paragraphs 2.1 or 2.2 may be at risk the Board may reduce the level of inadmissible assets.
- 5.2.6 The With Profits Fund may lend its assets in return for a fee, subject to receipt of appropriate collateral as security. Where the collateral received is in the form of cash, the fund may reinvest the cash with the aim of generating additional returns, taking account of the investment and liquidity risks involved. The future strategies for such reinvestment are expected to be low risk, although past strategies did incur some losses and some of the investments resulting from this are still held by the fund. The stocklending is subject to documented agreements between Pearl, its investment managers and its lending agents. The Investment Committee advises the Board on the terms under which the stocklending takes place, including the strategies for reinvestment of any cash collateral, and oversees the operation of the stocklending arrangements to ensure they are in accordance with the agreements.
- Asset Mix**
- 5.2.7 The assets within the With-Profits Fund are separated into different asset pools. This separation may be either physical (where the investment manager runs a separately identifiable asset pool) or notional (where rather than holding separate assets, we internally apportion the returns within the fund as if separate asset pools were held).
- 5.2.8 Different asset pools, with different asset mixes are held in respect of:
- (1) asset shares
 - (2) liabilities for options and guarantees
 - (3) liabilities for *Non-profit* policies and other liabilities
 - (4) the *Estate*
- 5.2.9 Within asset shares, the asset mix is set separately for:
- (a) OB With-Profits business (excluding: (c) and (d) below)
 - (b) IB With-Profits business
 - (c) OB Reinsured Socially Responsible With-Profits business, and
 - (d) OB Reinsured Capital Account Pensions business.
- 5.2.10 Currently, the same asset mix is adopted for policies of type (a) and (b) above but different asset mixes may be adopted in future.

- 5.2.11 The overall asset mix of the With-Profits Fund is the result of combining the assets in each of the underlying asset pools.
- 5.2.12 Pearl carries out regular calculations to assess the assets and liabilities of the With-Profits Fund, and the amount of capital that would be needed to withstand a range of adverse shocks. The asset mix, including the asset mix within asset shares, will be altered in circumstances where there is an unacceptably high risk that regulatory capital requirements may be breached, that guarantees may not be met, or that it will not be possible to apply the stated smoothing policy.
- 5.2.13 Assets held outside of the With-Profits Fund (including assets held in the Pacific Fund) may have their own separately determined asset mix.

Asset Shares

- 5.2.14 The With-Profits Fund aims to maintain an exposure to Growth Investments for OB and IB With-Profits business within a range of approximately 45% to 62%. Growth Investments have higher risk than other investments (such as cash and bonds) but are expected to produce a higher long-term return. The value of the Growth Investments may therefore be more volatile. Growth Investments will normally consist of equity shares (including private equity), commercial property and hedge funds. However, the investment manager may also choose to hold other types of investment within the Growth Investment category. If holdings in other types of investments are to be anything more than a very small proportion of the Growth Investments then this will be subject to the prior agreement of the Investment Committee.
- 5.2.15 The equity shares will be held in a mix of UK and overseas companies, the majority of which are listed and traded on the major stock exchanges. However the equity shares will also include a proportion of private equity investments which are less liquid and may therefore take longer to sell, should the fund wish to. Some of the private equity investments involve commitments to make further investments if called. Some of the private equity investments are structured in such a way as to give a higher risk reward profile making them potentially more volatile. The current aim is for equity shares (excluding private equity investments) to be in a range of approximately 25% to 35% of asset share, and for private equity investments to be in a range of approximately 5% to 10% of the asset share. Within the equity shares there is a very small exposure (less than 1% of asset share) to the equity of collateralised debt obligation structures which are also less liquid and potentially more volatile.
- 5.2.16 The property investments may be in both UK and overseas properties, and may be held directly, or through specialist funds. The current aim is for property investments to be in a range of approximately 5% to 15% of the asset share. A significant proportion of the property investment is through specialist funds. Some of the specialist funds are geared which means they have borrowed against their properties to increase the potential profits or losses. Some of the specialist funds are structured so that the returns from the underlying property are split to offer different investors a different investment profile, such as lower returns with lower risk or higher returns with higher risk. The With Profits Fund holds various types of such instruments in its Growth Investments. Some of the specialist funds have end dates at which they will be liquidated, with the underlying assets being sold and returned to investors. Where the specialist funds have borrowings that become repayable at a certain date, then they will have to refinance those borrowings, or sell assets to repay the borrowings. Consequently the value of an investment in a specialist fund may be affected by the expected availability and cost of borrowing at the refinance date, as well as by the value of its assets.
- 5.2.17 The hedge funds are invested in a range of different funds running different specialist strategies, across different territories. The current aim is for hedge fund investments to be in a range of approximately 0% to 7% of the asset share.

- 5.2.18 The balance of the assets shares that are not invested in Growth Investments are invested in a mixture of cash and fixed interest securities (bonds issued by governments and corporate bonds issued by companies). Although such investments are generally considered to be lower risk than the Growth Investments, the values of such investments can still be significantly affected by market rates of interest, company or government defaults or debt restructures, and the levels of market liquidity. A small amount is held in a fund of leveraged loans. The current aim is for investments in bonds that are not issued by governments to be in a range of approximately 19% to 31.5% of asset share. The majority of the bonds that are not issued by governments will normally be investment grade (i.e. rated BBB- or higher by a recognised rating agency), but the fund may also have an exposure to lower rated or unrated bonds, including emerging market bonds and high yield bonds.
- 5.2.19 Although the assets shares are invested in a number of assets that might be considered higher risk in their own right, by having exposure to a range of different assets and risks, the overall investment mix within the asset shares is well diversified and is designed to give an appropriate overall balance between risk and return.
- 5.2.20 The proportions of different assets within the assets shares may vary from those set out above due to market movements and active management decisions taken by the investment managers.
- 5.2.21 As the With-Profits Fund is closed to new business, the target percentage for Growth Investments described above may reduce over time as more With-Profits Policies get closer to their end date.

Liabilities for Policy Options and Guarantees

- 5.2.22 We assess how the expected cost of the guarantees and options inherent in the With-Profits Policies, net of the value of expected future guarantee charges and early termination profits, will change as the prices of the Growth Investments rise and fall and as market volatilities and interest rates change. A mix of assets which will broadly change in line with the change in the net cost of the guarantees is identified. This asset mix may require a short position in Growth Investments to be adopted and a long position in fixed interest securities or cash. It may also require the use of financial instruments such as interest rate swaps, interest rate options, equity futures, equity options or other derivatives.
- 5.2.23 Because the appropriate asset mix to back guarantees and options will change as the prices of Growth Investments, interest rates, credit spreads and volatility change, it is not possible in practice for our investments to match exactly these liabilities. However we periodically assess the appropriate asset mix, and may make interim changes if there have been particularly large market movements.

Liabilities for Non-profit policies and other liabilities

- 5.2.24 Assets backing the liabilities for Non-profit policies are invested in fixed interest securities chosen to broadly match the duration and amount of the liabilities. Assets backing unit-linked liabilities which are not wholly reinsured are invested in the assets used to determine the value of the unit liability. Assets backing RPI-linked liabilities or expense reserves are invested in index-linked securities or inflation linked derivatives. Assets backing short-term liabilities are invested in cash or short-term debt. Assets backing additional benefits granted to certain policyholders with mortgage endowment policies, and certain pension policyholders whose policies were missold, are invested using a similar approach to that described in 5.2.22 above.

Estate

- 5.2.25 Assets representing the Estate, whether or not required to enable the With-Profits Fund to meet its objectives or to meet regulatory requirements, are mainly invested in fixed interest securities, but where any part of the Estate is being reflected in final bonus calculations, a part of the Estate may be invested in a manner similar to the asset shares.

Currency

- 5.2.26 The currency exposure arising from any investment in overseas equities is not normally hedged, and so the return achieved by the With-Profits Fund depends on both performance of the investments and any movement in currency exchange rates. Currency exposures from any other types of investments denominated in currencies other than sterling are normally hedged, unless the liabilities that the assets are backing are also denominated in another currency.

Derivatives

- 5.2.27 Derivatives are normally only used for efficient portfolio management or to reduce investment risk. For example derivatives may be used to make changes in investment allocations more rapidly or cheaply than could be done directly through the markets. Similarly, for example, they are also used to improve the matching of the assets and liabilities. Derivatives having the effect of Growth Investments will be treated as such.

Investment Managers

- 5.2.28 The majority of the investments are currently managed by Henderson Global Investors or by Ignis Asset Management (Ignis). Ignis is part of the Phoenix Group. Ignis may outsource the management of some of the assets under arrangements it has in place with other specialist managers.

- 5.2.29 The hedge funds are managed by Ignis although they are then invested in a range of other hedge funds run by other managers.

Assets not Normally Traded

- 5.2.30 The With-Profits Fund does not currently hold any material assets such as properties occupied by Pearl, or shareholdings in subsidiary companies, that would not normally be traded because of their strategic importance to Pearl or the Phoenix Group.

- 5.2.31 Currently, the Pacific Fund owns debt in NP Life Holdings Limited, which in turn owns NPLL. It also owns debt in Pearl Group Holdings (No. 2) Ltd. These are significant illiquid investments of the Pacific Fund which result in the possibility that the value of the Pacific Fund may not be realisable should the With- Profits Fund need to call on it.

- 5.2.32 The Board will consider reasonable options to reduce the debt holding where possible.

6 Non-tradable assets

6.1 Principles

- 6.1.1 No future material investments will be made on behalf of the With-Profits fund or the Pacific Fund in non-tradable assets. Should a reasonable opportunity arise, any existing holdings of non-tradable assets will be reduced, subject to the approval of the Board.

6.2 Practices

- 6.2.1 The *With-Profits fund* does not currently hold any material *non-tradable assets*.
- 6.2.2 Currently, the *Pacific Fund* owns debt in NP Life Holdings Limited, which in turn owns NPLL. It also owns debt in Phoenix Group. The *Board* will consider reasonable options to reduce the debt holding where possible.
- 6.2.3 These are significant illiquid investments of the *Pacific Fund* which result in a concentration of risk. This results in the possibility that the value of the *Pacific Fund* may not be realisable when the *With-Profits fund* needs to call on it.

7 Business Risk

UK life insurance businesses are subject to a number of inherent risks that arise from a range of factors, including product design (for example the provision of guarantees to policyholders), selling and marketing practices, interest rate and market fluctuations and demographic changes. *Pearl* makes provisions which it considers to be appropriate for the risks which it identifies in relation to its With-Profits businesses. There can be no assurance that all risks which might emerge have been identified nor that the provisions for identified risks will prove to be adequate. In addition, the risks to which the With-Profits businesses are exposed will inevitably change over time.

7.1 Principles

7.1.1 With-Profits policyholders are entitled to share in the total profits of the *With-Profits fund*, and therefore are exposed to the business risks of the *With-Profits fund* including the ongoing maintenance of other existing *With-Profits policies* and *Non-Profit* policies in the *With-Profits fund*. Existing business risks are monitored on a regular basis.

7.1.2 The *Pearl With-Profits fund* seeks to avoid taking on new business risks and is managed in such a way as to minimise the existing business risks.

7.1.3 Where a business risk (other than the provision of guaranteed and contractual benefits charged to asset shares; smoothing risk; and the profits or losses on *Non-Profit* business associated with a particular *bonus series* of With-Profits business) results in additional cost or reserve requirements and the *With-Profits fund* has been deemed liable, the aim will be to charge these additional costs to the *estate* or if the *estate* has been exhausted, the *Pacific Fund*. If both of these sources have been exhausted then the costs will be charged to policyholders' asset shares. In doing this, distinction will be made between IB and OB business, where possible.

7.1.4 Additional principles for business risk sharing are set out below for each product group.

Industrial Branch (IB) and Ordinary Branch (OB) - Conventional Business, Personal Pension (PP) and Free Standing Additional Voluntary Contribution (FSAVC), Ordinary Branch (OB) - Unitised With-Profits (UWP)

7.1.5 The profits/losses from the provision of guaranteed and contractual benefits charged to asset shares, smoothing risk, and the profits or losses on *Non-Profit* business associated with a particular *bonus series* of With-Profits business are shared among the *With-Profits policies* in accordance with the product groups below:
Group 1: Industrial Branch (IB) – Conventional Business
Group 2: Ordinary Branch (OB) – Conventional Business, Ordinary Branch (OB) – Unitised With-Profits (UWP), Ordinary Branch (OB) – Personal Pension (PP) and Free Standing Additional Voluntary Contribution (FSAVC)

7.1.6 Should the grouping above have no flexibility to absorb any losses emerging (due to for example guarantees), the losses will be treated in the same way as other business risks, as detailed above.

Ordinary Branch (OB) - Reinsured Business

7.1.7 No profits/losses arising from *Non-Profit* policies are shared with this business.

7.2	Practices
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7.2.1 *Pearl* is no longer taking on any additional types of business risk. For the current business risks, there are limited opportunities to affect the impact of such risks on the *With-Profits fund*.

7.2.2 Current and potential sources of business risk are described below. Where profits/losses are passed on to policyholders, this is done via an adjustment to the investment return on asset shares.

7.2.3 Material profits and losses arising on business risks are not smoothed before being applied to asset shares.

Non- Profit business

7.2.4 The most material Non-Profit business in the *With-Profits fund* relates to certain policies, which have been made paid-up. In the normal course of events, profits or losses can be expected to arise from miscellaneous sources, such as mortality or surrender. These profits or losses are credited in accordance with 7.1.5 above.

Pensions mis- selling

7.2.5 *Pearl* has agreed to compensate certain policyholders who were incorrectly advised to transfer out of company pension schemes and into Personal Pensions and full reserves have been established. There is still a risk that the reserve may not be sufficient. The cost of this exercise (including compensation costs) is borne by the estate.

Other liability issues

7.2.6 There is a risk that other liabilities may arise that have not yet been discovered. If such an issue were to emerge, this could result in a requirement for compensation payments to be made. The aim is that wherever possible, such payments should be met by the estate.

Smoothing Risk

7.2.7 The *With-Profits fund* is credited / debited with profits/losses arising from the *With-Profits* policies. Such profits/losses arise from the differences between claim payments and asset shares. The aim is that wherever possible, such profits/losses should be met by the asset shares. Refer to 3.5.

Insurance Risk

7.2.8 These cover the risk that certain contractual benefits become significantly more valuable and as a result reduce asset shares. This would only happen if there were an additional cost in excess of current amounts provisioned against them. An example of this risk is guaranteed annuity options.

7.2.9 *Pearl* has provided certain guarantees in relation to shortfalls under mortgage endowment policies and full reserves have been established. There is still a risk that the reserve may not be sufficient. The cost of this residual guarantee, including any additional reserves which may be required if current reserves prove not to be sufficient (including compensation costs) is borne by the *estate*.

8 Charges and Expenses

8.1 Principles

Industrial Branch (IB) and Ordinary Branch (OB) - Conventional Business, Personal Pension (PP) and Free Standing Additional Voluntary Contribution (FSAVC)

- 8.1.1 The *With-Profits fund* is charged for the costs of managing the With-Profits business. The charges that apply to individual policies via asset shares are described in paragraphs 8.2.3 and 8.2.4.
- 8.1.2 A fair and equitable attribution system based on actual incurred costs will be used. The costs may be charged to asset shares via an annual management charge.
- 8.1.3 Where services are provided by other related companies within the Group Structure, these will be charged for on commercial terms. Any changes to these terms will be subject to the approval of the *Board*.

Ordinary Branch (OB) - Unitised With-Profits (UWP)

- 8.1.4 This business is levied a specified annual management charge which may be varied if the costs (as set out in paragraph 4.2.15) of managing the business change materially.

Ordinary Branch (OB) - Reinsured Business

- 8.1.5 This business is levied a specified annual management charge which may be varied if the costs (as set out in paragraph 4.2.15) of managing the business change materially.

8.2 Practices

- 8.2.1 Administrative services are currently provided to the *With-Profits fund* by the *service company*. Investment services are provided by a number of investment management companies.
- 8.2.2 The agreement with the *service company* cannot be terminated before 31 March 2018 except
- (a) due to financial difficulties of either party, or
 - (b) material breach of the terms of the agreement by either party.
- Investment performance is monitored continuously and the arrangements with the investment management companies may be terminated on three months notice.
- 8.2.3 There are three kinds of charges levied on asset shares in the *With-Profits fund*, excluding UWP and OB Reinsured Business:
- (a) The service company charges the *With-Profits fund* a fixed charge per policy and these costs are charged to individual policies at cost that may be via a reduction to the investment yield credited to the asset shares. These costs increase in line with the service agreement with the service company.
 - (b) The fees for investment services are charged to asset shares at cost via a reduction to the investment yield credited to the assets in the *With-Profits fund*.
 - (c) Directly levied fees which cover costs not already covered by (a) or (b) will be spread in a fair manner across all relevant policies at cost either as a flat monetary addition to the per policy charge or via a reduction to the investment yield credited to the asset shares. This may include treating some of the expenses as arising in future years.
- 8.2.4 For UWP and OB Reinsured Business, an annual management charge is deducted in lieu of the above expenses and other costs.
- 8.2.5 The *Actuary* will review annually any paragraph 8.2.3 (c) charges levied on the *With-Profits fund* for reasonableness relative to the service received.

- 8.2.6 The total charge levied on asset shares will be smaller than the total *With-Profits fund* expenses, as these charges do not include any allowance for investment management fees associated with the *estate*, which are borne by the *estate* itself.
- 8.2.7 Actual regulatory penalties (fines) and compensation payments relating to events which occurred after 31 July 2009 are paid directly from the Shareholder Fund and so will impact neither *asset shares* nor the excess assets in the *With-Profits fund*.

9 Management of the Estate

9.1 Principles

- 9.1.1 The *distributable estate* is part of the *estate*.
- 9.1.2 The intention is that the *estate* other than the *distributable estate* will be large enough to support existing policyholders' reasonable expectations by providing:
- For any excess of guaranteed benefits over asset shares
 - For the temporary cost of smoothing payouts
 - Guarantee adjustments and smoothing adjustments which in the *Board's* opinion are chargeable to the *estate*
 - Security through protection against adverse experience
 - Support for the financing of new business (should any be written)
 - For shareholders' tax in respect of transfers from the *With-Profits fund*
 - For any tax paid by the *With-Profits fund* not charged against policyholder asset shares
- In addition, the *estate* will be used to provide investment freedom for the *With-Profits fund*, permitting exposure to volatile assets (see Section 5 for a discussion of the investment strategy of the *With-Profits fund*).
- 9.1.3 If, in the opinion of the *Board*, the *estate* more than provides for the elements in 9.1.2, then the *distributable estate* will be released. The released *distributable estate* would be used to augment the benefits of With-Profits policyholders via additions to final bonus (and hence shareholders will receive their share) over the lifetime of the *With-Profits fund*. That part of the released *distributable estate* not paid out at any time will be retained to augment future policy payouts.
- 9.1.4 If the *estate* other than the *distributable estate* is insufficient to provide for the elements in 9.1.2, then the deficit will, so far as possible, be made good through a reduction in the *distributable estate* previously released but not paid out (and retained to augment future policy payouts) at the relevant time.
- 9.1.5 There is no division of the *estate* between classes of business within the *With-Profits fund*.

9.2 Practices

- 9.2.1 The *reinsured business* does not have any interest in the *estate* arising in the fund and references in this section to potential benefit enhancements from *estate* distribution do not apply to this business.
- 9.2.2 The *estate* is the estimated realistic value of the assets less the estimated realistic value of the liabilities. It is calculated using realistic assumptions and generally accepted methodologies on a basis determined by the *Board*.
- 9.2.3 To the extent that any profits or losses arising in the fund are not allocated to *asset shares* in accordance with section 4 above, they will act to increase or reduce the *estate*. To the extent that the amounts charged to *asset shares* are based on estimates or assumptions, then any difference between these and the actual amounts will act to increase or reduce the *estate*.
- 9.2.4 The *estate* in the fund will be used to:
- (a) assist the fund in demonstrating it has access to sufficient capital resources to meet its liabilities and treat customers fairly;
 - (b) provide a buffer in the fund should adverse experience mean that the reserves held to cover the liabilities prove insufficient;

(c) meet any costs which are charged directly to the estate rather than to asset shares;

(d) to meet the costs of any changes to which the *Board* believe are necessary to improve fairness between policyholders and/or enhance the run-off of the fund; and

(e) enhance the benefits payable to those with-profits policies which have an interest in the *estate* but always aiming to retain sufficient *estate* to meet the expected amounts required for (a), (b),(c) and (d). The amount considered by the *Board* to be available from time to time for such enhancements will be referred to as the *distributable estate*.

9.2.5 Any enhancements in benefits on account of the *distributable estate* referred to in 9.2.4(e) will generally be achieved by including a temporary uplift to the *asset share* for the purpose of setting *final bonus* rates and *surrender values*. However if the *estate* is large then consideration would be given to making additions to the *asset shares* from the *estate*.

9.2.6 The amount of the *estate*, the *distributable estate*, and the potential for any enhancements to policyholder benefits will be subject to review at least once a year.

9.2.7 In the event of the assets in the fund being insufficient to cover the liabilities, charges may be made to the *asset shares* to restore the *estate* to a target minimum level. Such charges could not be applied to any part of the deficit caused by regulatory penalties (fines) or compensation payments relating to events which occurred after 31 July 2009, see paragraph 8.2.7, except to the extent that such charges are effectively reversing any *estate* previously added into *asset shares*.

10 Volumes of New Business and Arrangements on stopping taking new business

10.1 Principles

- 10.1.1 The approach to setting the volume of new business written is that new business will be accepted only if it is the opinion of the *Board*, after taking actuarial advice, that the proposed volume and terms are attractive to *Pearl* and fair to incoming and existing policyholders.

10.2 Practices

- 10.2.1 Subject to paragraph 10.2.2, *Pearl's With-Profits fund* is not open to new business and there are no plans to re-open the *With-Profits fund* to new business, although *Pearl* reserves the right to do so.
- 10.2.2 Certain new *With-Profits policies* are issued as a result of policyholders exercising options on existing policies.

11 Equity between the With-Profits fund and shareholders

11.1 Principles

11.1.1 At least 90% of *surplus distributed* in the *With-Profits fund* is allocated to With-Profits policyholders.

11.1.2 Any changes to the above principle will be subject to the approval of the *Board*.

11.2 Practices

11.2.1 Currently 90% of the statutory *surplus distributed* is allocated to With-Profits policyholders. A higher proportion applies to the OB Reinsured Business.

11.2.2 The division of profits between With-Profits policyholders and shareholders will not change as a result of a change in the underlying basis on which the surplus is calculated.

11.2.3 There are no other significant factors that would affect the proportion of surplus allocated to shareholders.

11.2.4 The estate subsidises shareholder transfers for some lines of business currently accepting increments. Increments are only accepted when Pearl is contractually obliged to do so.

Appendix – Glossary

Glossary of Terms

Actuary	The With-Profits Actuary or the person performing the actuarial function (as the case may be).
Asset class	Refers to the different types of asset exposure that the <i>Pearl</i> with-profits fund can have. Asset classes include shares, property, fixed interest securities (such as government and corporate bonds), <i>Alternative Investments</i> and cash or short term deposits.
Board	The Board of <i>Pearl</i>
Bonus series	<p>The type of policy (together with premium type) determines current bonus series.</p> <p>The different policy types that have a separate bonus series are listed below.</p>
Bonus unit	A unit allocated as a result of bonus declaration.
Bonus year	Year from which the policy becomes entitled to participate in bonuses.
Compound bonus	An additional amount added each year on a policy. The bonus amount is calculated as a percentage of sum assured and attaching bonuses. For certain pension policies “nominal capital sum” is used instead of “sum assured”.
Distributable estate	The distributable estate available for distribution at any time will be the <i>Board's</i> assessment of the capital within the <i>With-Profits fund</i> in excess of that needed to meet its regulatory capital requirements (including PRE).
Estate	The pool of assets separately identified as a portion of the <i>With-Profits fund</i> which exceeds the asset shares of the current policyholders.
FSAVC	Accumulating With-Profits Free Standing Additional Voluntary Contributions (<i>Pearl</i> Expectations Plan excluding UWP versions)
Growth investments	These are investments that have higher risk than other investments (such as cash and bonds) but are expected to produce a higher long-term return. The value of the <i>Growth Investments</i> may therefore be more volatile. <i>Growth Investments</i> will normally consist of equity shares (including private equity), commercial property and hedge funds. However, the investment manager may also choose to hold other types of investment within the <i>Growth Investment</i> category.
Guaranteed benefit	The initial sum assured and any declared annual bonuses. Where the policy has been made paid-up the sum assured is reduced and Annual Bonus is scaled down based on the reduced sum assured. For certain pension policies “nominal capital sum” is used instead of “sum assured”.

Interim bonus unit	A <i>bonus unit</i> allocated to a policy becoming a claim before annual bonuses are formally declared.
Investment Committee	<p><i>Pearl</i> has established an <i>Investment Committee</i> which meets monthly and is chaired by a non-executive member. The committee also has two independent members although the independent members do not have a majority. The committee's role includes:</p> <ul style="list-style-type: none"> • implementing and monitoring the agreed investment strategies. • reviewing any proposals for material changes in investment strategy. • overseeing the relationship with the investment managers and to keep the investment performance under review.
Investment units	The amount of With-Profits units allocated as a result of premium payments.
MVA	Market value adjustment
Non-Profit	Describes the business of the <i>With-Profits fund</i> to which no future bonuses will be added, either annual or final. Non-Profit policies are not entitled to participate in bonuses.
Non-tradable assets	Assets that are not normally traded due to their strategic or operational importance to <i>Pearl</i> .
Original terms	A reinsurance contract where the reinsurer offers the same terms to the insurer as the insurer offers to the individual policyholder
Pacific Fund	The pool of assets separately identified as a portion of the long-term business funds built up prior to 1965 representing past surplus to which the shareholders were entitled, but had not been distributed to them.
Pearl	Pearl Assurance Limited
Personal Pension	Accumulating With-Profits Personal Pension Plans (<i>Pearl</i> Prosperity Pension Plan excluding UWP versions)
Risk profile	The profile of total risk chosen by the <i>Board</i> for the <i>With-Profits fund</i> including investment risk, insurance risk and operational risk.
Service company	Pearl Group Services Limited
Simple bonus	An additional amount added each year on a policy. The bonus amount is calculated either as a percentage of sum assured or premium. For certain pension policies "nominal capital sum" or "annuity per annum" is used instead of sum assured.
Surplus distributed	Excess assets distributed as set out in <i>Pearl's</i> FSA returns in accordance with insurance company legislation.
Surrender values	Payments on surrender or transfer of a policy
With-Profits Fund	This is the fund containing the assets relating to all With-Profits policies and certain Non-Profit policies. This is the 90:10 fund writing With-Profits business created by the Section 68 Order referred to in paragraph 1.2.2.

With-Profits Committee A body appointed by the *Board* to help with the all aspects of the management of the *With-Profits fund* including solvency, investment strategy, bonus declaration, customer communication and fund management supervision.

With-profits policies Policy(ies) that is(are) entitled to participate in bonuses

Full list of policy types with a separate bonus series

Industrial Branch (IB) – Conventional Business policies

The type of policy determines current bonus series. Types of policy are:

Endowment policies:

- Table 5 and retirement benefit.
- Table 9 and Table 15 policies prior to the original maturity date.
- Table 9 and Table 15 policies that have exercised an option to extend the term of assurance after the original maturity date.
- Table 16.
- All other endowment policies.

Whole Life policies:

- Policies issued in 1949 and earlier.
- Policies issued in 1950 and later during the original premium paying period.
- Policies issued in 1950 and later after the original premium paying period.

For each bonus series separate rates apply depending on eligibility for life assurance premium relief.

Ordinary Branch (OB) – Conventional Business policies

The type of policy together with the premium type determines current bonus series.

Simple bonuses are generally those issued before 1 February 1982.

Types of policy are:

- Life regular premium.
- Life single premium.
- Pensions regular premium.
- Pensions single premium.
- General annuity fund regular premium.
- General annuity fund single premium.

Compound bonuses are generally those issued on or after 1 February 1982

Types of policy are:

- Homebuilder
- Life, excluding Homebuilder, regular premium and paid up policies.
- Life single premium.
- Pensions regular premium and paid up policies.
- Pensions single premium.
- General annuity fund regular premium and paid up policies.
- General annuity fund single premium.

Personal Pensions (PP) and Free Standing Additional Voluntary Contributions (FSAVC)

A policy may include a number of different types of elements with investment units that are eligible for bonus. The following type of element determines current bonus series:

- Regular premium (including both premium paying and when premiums cease being paid).
- Single premium (including single premium transfers).
- Protected rights DSS recurring single premium.

Unitised With-Profits (UWP) policies

The type of policy determines current bonus series. Types of policy are:

- Life policies issued in 1995.
- Life policies issued after 1995.
- Pension policies.
- ISA policies.
- Bonus Account policies.

Ordinary Branch (OB) - Reinsured Business

The type of policy determines current bonus series.

Types of policy are:

- Bond 1a.
- Bond 1b.
- Bond 2.
- Bond 3.
- Socially Responsible With-Profits Bond.
- Individual Pensions.
- Group Pensions.
- Capital Account Pensions
- Socially Responsible With Profits Pensions.