PRINCIPLES AND PRACTICES OF FINANCIAL MANAGEMENT (PPFM)

The Scottish Life Closed Fund

December 2019

Principles and Practices of Financial Management
The Scottish Life Closed Fund

CONTENTS

1 INTRODUCTION

1.1 About Royal London

Royal London consists of The Royal London Mutual Insurance Society Limited and its subsidiaries. **Royal London** acquired the business of The Scottish Life Assurance Company on 1 July 2001 and maintains a separate fund, the Scottish Life Closed Fund (**SL Closed Fund**), within the Royal London Long Term Fund (**RL LTF**). Royal London is the UK's largest mutual life insurer. The Group has around six million policyholders and its businesses offer pensions, life assurance, savings and investment products and provides investment management. Products are distributed direct to policyholders and through independent financial advisers.

1.2 What does this document include?

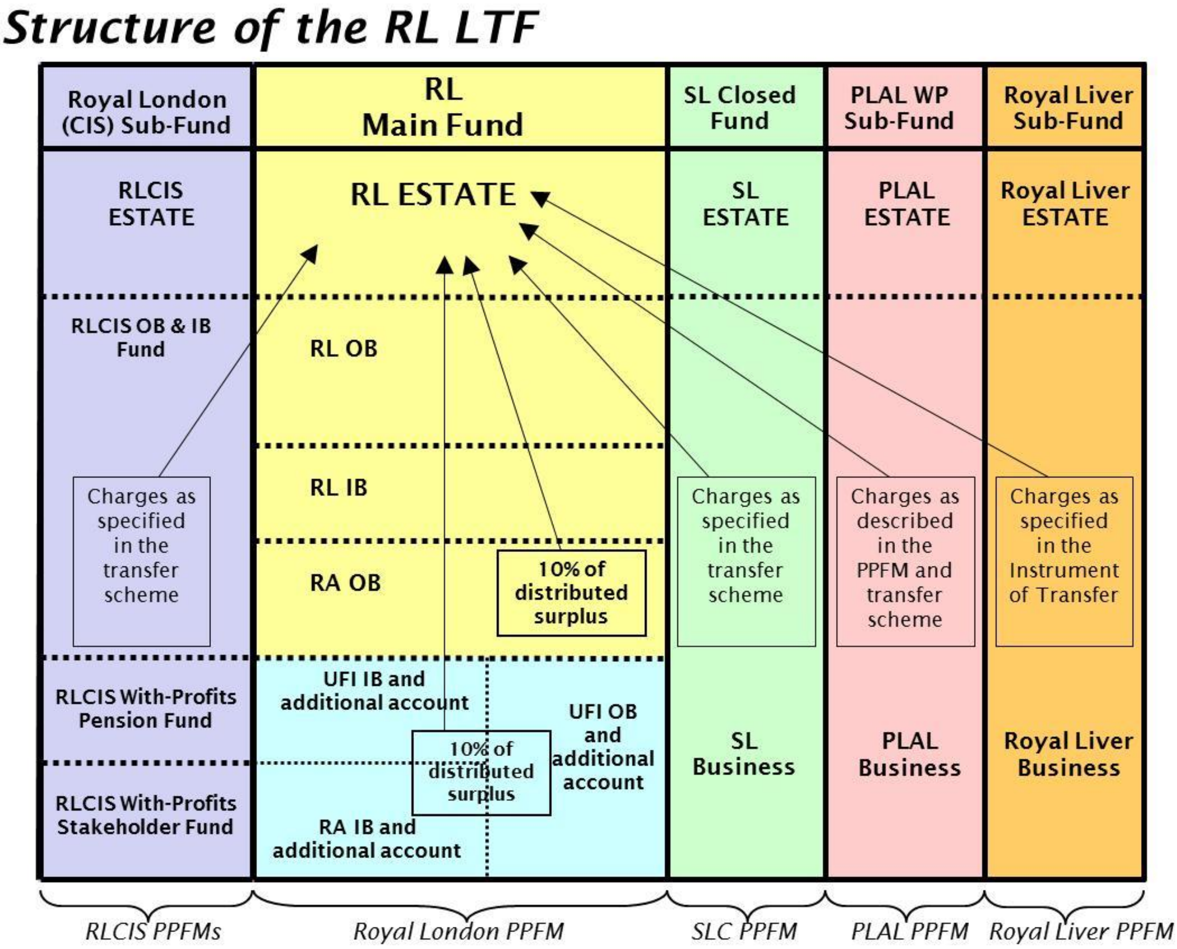
This document sets out the Principles and Practices by which **Royal London** will manage the **SL Closed Fund**. Although this document has been written in straightforward language it contains some technical language and terms. These have been included in a glossary and these defined terms can be identified by a **bold typeface**. The aim of this document is to explain and promote understanding of how the **SL Closed Fund** is managed and of the potential risks and rewards from holding a with profits policy in this **fund** with **Royal London**. It covers those issues which **Royal London** reasonably foresees may have a significant impact on the management of the **SL Closed Fund**. These issues include for example the mutual status of **Royal London**, the management of the **SL Estate**, the exposure to various types of business risk, the investment strategy of the **fund**, the amount payable under a with profits or **deposit administration** policy and the **fair** treatment of with profits and **deposit administration** policyholders.

The **SL Closed Fund** is part of the **RL LTF**. This document covers the operation of the **SL Closed Fund** only. The operation of the **RL Main Fund** is described in a separate document. The term '**fund**' in this document means the **SL Closed Fund**.

The **estate** associated with the **RL Main Fund** is available in extreme circumstances to provide capital support to the **SL Closed Fund** should this be required. Any such payment will be refunded to this **estate** once the support is no longer required. The **SL Estate** is available in extreme circumstances to provide capital support to the **RL Main Fund** should this be required. Any such payment will be refunded to the **SL Estate** once the support is no longer required.

1.3 Structure of the Royal London Long Term Fund

The structure of the **RL LTF** is shown in outline below. Appendix 1 contains further information on the acquisitions made by **Royal London**.



1.4 With profits and deposit administration contracts included in the PPFM

1.4.1 General description

This section provides a general description of the main types of with profits and **deposit administration** policies and how they are structured. For any individual contract the policy terms and conditions and any schedules attaching will determine the operation of that contract. The main classes of business are **conventional** with profits policies, **unitised** with profits policies and **deposit administration** policies.

Conventional with profits policies are contracts which provide a guaranteed sum assured or a guaranteed pension to which bonuses are added. The guaranteed sum assured is payable at the maturity date or on earlier death provided all premium payments due under the policy are made. The guaranteed pension is normally payable from the maturity date. A form of conventional with profits, **accumulating with profits**, is one where a notional fund provides the guaranteed benefit. The notional fund is increased as premiums are paid and as regular bonuses are added.

Unitised with profits policies are contracts under which premiums paid purchase units in a with profits fund. Units are allocated to policies as premiums are paid, and depending on the policy type units may be cancelled to meet expense charges, the cost of life cover or other benefits.

Bonuses are additions to the benefits payable on **conventional** and **unitised** with profits policies and usually take two forms: regular bonuses which are added through the policy term; and final bonuses which, if payable, are only added at the date of a claim.

Deposit administration policies are similar to **accumulating with profits** policies. The investment returns achieved on the assets backing **deposit administration** policies are distributed by way of bonus or interest additions each year. Depending on the policy type the **deposit administration** fund for a policy may be reduced to reflect explicit expense charges, the cost of life cover or other benefits. These may alternatively be reflected in a reduced amount of annual bonus or interest. No final bonus is payable on **deposit administration** policies.

1.4.2 Regular bonuses

For **conventional** with profits policies and **deposit administration** policies, regular bonuses are declared as percentages of the guaranteed sum assured and in some cases as percentages of the attaching regular bonuses, and are added yearly. For some classes of **unitised** with profits policies, regular bonuses are declared in the form of increases in the price of units held in the **fund**. For other classes of **unitised** with profits policies regular bonuses are declared in the form of extra units being added to the policy yearly. Regular bonus additions increase the level of guaranteed amounts payable on specified events such as death, maturity, or retirement.

A further type of bonus, interim bonus, may also be added at the date of claim. Interim bonus is a way of allowing for some regular bonus between declaration dates.

1.4.3 Final bonuses

Final bonuses may be added to the benefits when a claim is paid, depending on the policy type. Any final bonus payable will be determined at the date the claim arises. Final bonus for **conventional** with profits policies is usually expressed as a percentage of the sum assured or guaranteed pension benefit. For some policy types final bonus may also be expressed as a percentage of regular bonus added at the date of claim. Rates of final bonus depend on the term the benefits have been in force. On the surrender of a **conventional** with-profits policy the surrender value paid may make some allowance for final bonus.

On **unitised** with profits policies, final bonuses may be payable once with profits units have been continuously held for prescribed periods which depend on the policy type. Final bonus rates for **unitised** with profits policies are usually expressed as a percentage of the unit value and rates depend on the term the units have been held for.

Deposit administration policies do not receive any final bonus.

1.4.4 Amounts payable

The amount payable at maturity or at the contractual retirement date in respect of most classes of **conventional** with profits policies will be the sum of any guaranteed amount (including regular bonuses added during the term of the contract) and any interim and final bonus added at the date of claim. The amount payable at maturity or at the contractual retirement date in respect of most classes of **unitised** with profits policies will generally be the value of the units at the quoted bid price together with any final bonus added at the date of claim. The amount payable at maturity or at the contractual retirement date in respect of **deposit administration** policies is the face value of the account.

Some with profits policies do not have a maturity date and the benefits are payable only on death or surrender. Amounts payable on death depend on the policy type but will generally be the guaranteed benefits and attaching regular bonuses, or the value of with profits units, and may also include interim and final bonus. Some policies pay only a minimal death benefit, for example a return of premiums paid. The structure of the death benefits of any policy can be determined from the policy document.

Amounts payable on surrender are not generally guaranteed in advance of an application to surrender. For with profits and **deposit administration** policies an **MVR** may be applied to reduce the value of benefits available to policyholders who choose to surrender their benefits. An **MVR** would apply only where allowable, according to the policy terms and conditions.

This document covers the PPFM for the with profits benefits, both **conventional** and **unitised**, and for the **deposit administration** benefits of **SL** policies that are held within the **SL Closed Fund**. The complete list of products and policy types covered by this document is given in Appendix 2.

1.5 What are Principles and Practices?

The Principles are high level statements of the standards **Royal London** will follow in the management of the **SL Closed Fund**. These set out how **Royal London** intends to manage the **fund** over the longer term and how **Royal London** expects to respond to longer term changes in the business, regulatory and economic environment. The Principles are not expected to change often. However, changes may be made to the Principles and three months' advance written notice will usually be given to affected with profits policyholders unless otherwise agreed with the **Regulator**. The advance notice of changes to the Principles may be contained in annual statements we send to policyholders. The Principles are identified in the text by ***this typeface***

The Practices describe **Royal London**'s approach to managing the **SL Closed Fund** and to responding to shorter term changes in the business, regulatory and economic environment. In other words, the Practices describe how **Royal London** intends to follow the Principles in the day-to-day management of the **fund**. Any of the Practices may be changed and affected policyholders will be notified within a reasonable timescale unless otherwise agreed with the **Regulator**. Such notice may be contained in annual statements we send to policyholders and may also be published on the website. The Practices are identified in the text by *this typeface*.

In order to enable a reader to understand this document it is necessary to include certain background material which forms part of neither the Principles nor the Practices. This text is shown by the same typeface as in this paragraph.

The **Directors** are ultimately responsible for all aspects of the management of the with profits and **deposit administration** business. The **Directors** have established a With Profits Committee to provide independent advice on the way the **fund** is managed, to provide an independent view when they are considering the interests of with profits and **deposit administration** policyholders and to monitor compliance with the PPFM. Before making any changes to the Principles or the Practices the Directors will obtain **Actuarial Advice.**

The Principles and the Practices will continue to evolve over time in response to changing circumstances and changes in the business environment.

Management of the business is not a mechanistic process carried out strictly on the basis of compliance with a detailed set of pre-determined criteria. Rather, many judgements need to be made about the actions to take in aiming to meet the objectives which are described in the Principles and Practices set out in the PPFM. Those judgements are made with a view to achieving what the **Directors** believe is a fair balance between the different interests of individual policyholders and groups of policyholders, and furthering the interests of policyholders as a whole.

A report to policyholders from the **Directors** on compliance with the PPFM is published each year on the **Royal London** group website. The report for any year is usually available at the end of June of the following year.

As the Principles and Practices of Financial Management is a technical document a customer friendly Guide to how we manage our with profits fund is available on the Royal London group website.

2 PRINCIPLES AND PRACTICES OF FINANCIAL MANAGEMENT

2.1 Supervisory Committee

A **Supervisory Committee** with a majority of members who are independent of **Royal London** monitors the management of the **SL Closed Fund**. The committee's role is to ensure that the **fund** is managed in accordance with the terms that were approved by the Court of Session in Scotland during the transfer of the **SL** business to **Royal London**. The legal document setting out these terms is referred to below as **The Royal London Transfer Scheme**. A number of the matters referred to in this document require, under the terms of **The Royal London Transfer Scheme**, the approval of, or consultation with, the **Supervisory Committee**.

2.2 Guiding Principles

Royal London applies some overall guiding principles when managing the **fund** under the Principles and Practices set out in this document. Where there is conflict between one or more Principles or Practices or between any of these and the overall guiding principles the **fund** will be managed so that the guiding principles are applied.

GUIDING PRINCIPLES

Royal London *will manage the* fund *in accordance with the legal and regulatory requirements that apply to it from time to time. This will include maintaining sufficient assets to satisfy ongoing* Regulatory Capital Resource Requirements *applicable from time to time.*

Royal London *will manage the* fund *in compliance with the provisions of* The Royal London Transfer Scheme. *If a conflict with a principle or practice in this document arises then the provisions of* The Royal London Transfer Scheme *will take precedence.*

Royal London *will conduct its business in a sound and prudent manner with due regard to the interests of its policyholders and with a view to treating policyholders* fairly.

Royal London *will aim to manage the* fund *in order to ensure that all guaranteed benefits can be paid as they fall due. This will include observing all contractual terms set out in policy terms and conditions.*

2.3 Management of the SL Estate

The term '**SL Estate**' in this document means the excess of the market value of assets and value of in force business attributed to the **SL Closed Fund** over the value of the total of technical provisions for business of the **fund**. Technical provisions comprise **aggregate asset shares** and additional costs in respect of contractual guarantees, options and smoothing policies. This approach is consistent with the **Regulator**'s methodology for determining Capital Resources within the **Regulatory Returns**.

It is the **SL Estate** that provides the capital required to meet guarantees, including guaranteed annuity options, and the cost of smoothing in the **SL Closed Fund**. Following the acquisition of **SL** by **Royal London** on 1 July 2001, and in accordance with **The Royal London Transfer Scheme**, the **SL Estate** is being distributed to qualifying **SL** with profits policyholders over the period their with profits policies remain in force.

When the size of the **SL Closed Fund** falls below a preset amount **The Royal London Transfer Scheme** permits it to be transferred as a whole to the **RL Main Fund**. At the point the assets are transferred the residual **SL Estate** will be allocated to the remaining qualifying with profits policyholders.

PRINCIPLES - Management of the SL Estate

***The* fund *will be managed in accordance with* The Royal London Transfer Scheme *which sets out the division of the* SL Closed Fund *from the other assets within the* RL LTF *and constrains the use of the* SL Estate. *It will be managed to ensure that it is maintained at an appropriate size in relation to the with profits liabilities calculated on a realistic basis and having regard to the* fair treatment *of with profits policyholders. The appropriate size of the* SL Estate *will be determined by the* Directors *upon receiving* Actuarial Advice.**

The* SL Estate *will be distributed within the* SL Closed Fund *to* qualifying with profits policies *over the period these with profits policies remain in force. This process is managed by assessing the outstanding* SL Estate *on a regular basis. From this assessment, annual rates of enhancements to* bare asset shares *are set and applied. Other policies will not receive a distribution from the* SL Estate. *By its nature this process aims to balance the rate of distribution of the* SL Estate *and the

size of the* SL Estate *to ensure that the size of the* SL Estate *remains appropriate.

Under the terms of* The Royal London Transfer Scheme *the* Estates *may, in extreme circumstances, be required to support the* SL Closed Fund. *Any shortfall covered by a payment from the* Estates *into the* SL Closed Fund *will be refunded to the* Estates *as soon as possible. Similarly, the* SL Estate *may, in extreme circumstances, be required to support the* RL Main Fund *and the* RA OB Fund. *Any shortfall covered by a payment from the* SL Estate *into the* RL Main Fund *and the* RA OB Fund *will be refunded to the* SL Estate *as soon as possible.

PRACTICES - Management of the SL Estate

Currently the **SL Estate** *is meeting or being credited with the differences between*

- *the expenses of administering with profits,* ***deposit administration*** *and* **non-participating** *policies and the administration charges passed on to such policies*
- *the cost of risk benefits and the charges for risk benefits passed on to with profits,* ***deposit administration*** *and* **non-participating** *policies*
- *the cost of guarantees on with profits,* ***deposit administration*** *and* **non-participating** *policies and the charges made for those guarantees*
- *the cost of smoothing for with profits and* ***deposit administration*** *policies and charges made to with profits and* ***deposit administration*** *policies for the smoothing*

The **SL Estate** *is being used to meet the costs of annuity guarantees which are not currently charged to policyholders.*

The **SL Estate** *is being distributed to holders of qualifying* **SL** *with profits policies.* **Qualifying with profits policies** *are those that were in force on 11 September 2000. Policies effected after this date are not entitled to any such distribution. Information describing which policies qualify is set out in* **The Royal London Transfer Scheme.** *In meeting this requirement the* **SL Estate** *bears the cost of smoothing and the cost of enhancing* **asset shares** *by an amount calculated explicitly to effect this distribution. Such enhancements are not permanent additions to the guaranteed benefits and are reviewed on a regular basis.*

The **SL Estate** *contains strategic investments which are identified in the later section in this document under* ***Investment Strategy*** *and therefore the investment strategy of the* **SL Estate** *will generally be different from that of the rest of the* **fund**.

The target level of the **SL Estate** *is determined as appropriate multiple of the* **Regulatory Capital Resource Requirements**.

The target level of the **SL Estate** *will be reviewed by the* **Directors**, *normally annually, and may be changed following* **Actuarial Advice** *to reflect for example changes in economic conditions, changes in regulatory requirements or expectations and changes in the* **Directors'** *risk appetite.*

If the size of the **SL Estate** *is outside the range around the target level, the* **Directors** *may authorise an increase or a reduction in the level of the* **SL Estate** *by changing as necessary the investment strategy, bonus strategy, payout strategy or smoothing strategy as described in the later sections in this document*. *Any action which the* **Directors** *may decide to take will depend on factors including the reasons for and extent to which the* **SL Estate** *is above or below the target level, whether the situation is expected to be temporary or longer lasting, and an assessment of the impact of a range of appropriate actions, including changes in the rate of distribution of the* **SL Estate** *and the introduction of, or increases in, charges to* **asset shares** *for the cost of guarantees*. *The* **Directors** *will obtain* **Actuarial Advice** *when assessing the range of potential actions.*

Regular reports, normally monthly, are provided to the **Capital and Investment Management Committees** *and the* **Directors** *to enable them to monitor the level of the* **SL Estate** *in relation to the target level, the range around the target and the likelihood of the level of the* **SL Estate** *moving outside its range.*

As a result of the information provided in the regular reports the **Capital and Investment Management Committees** *makes recommendations to the* **Directors**, *with the agreement of the Group Chief Executive Officer, on any investment-related action required to steer the level of the* **SL Estate** *towards the agreed target.*

*The **SL Estate** is managed in accordance with the principles of financial management in **The Royal London Transfer Scheme**.*

*The **SL Closed Fund** as a whole may be transferred to the **RL Main Fund** after the assets in the **fund**, excluding assets allocated to **deposit administration** policies, fall below £500m (indexed in line with the retail prices index from 1 July 2001). At the point the **fund** assets, excluding assets allocated to **deposit administration** policies, fall below £50m (indexed in line with the retail prices index from 1 July 2001) the assets and liabilities will be transferred to the **RL Main Fund**. On transfer the residual **SL Estate**, if any, will be allocated to the remaining qualifying with profits policyholders in a manner consistent with the ongoing distribution prior to this point. Paragraph 35 of Part F of **The Royal London Transfer Scheme** gives the relevant details.*

*On 31 December 2006 the assets and liabilities of the **RA OB Fund** were transferred into the **RL Main Fund** and the **RA OB Fund** ceased to exist. Any shortfall in the **SL Estate** will therefore be covered by the **estate** of the **RL Main Fund** and will be refunded as soon as possible. Similarly any support provided by the **SL Closed Fund** to* the ***RL Main Fund** will be repaid by the **RL Main Fund** as soon as possible.*

2.4 Business Activities

The **SL Closed Fund** has a limited exposure to business risks as a result of the terms set out in **The Royal London Transfer Scheme**.

PRINCIPLES - Business Activities

***The business risks within the* fund *will be limited to those provided for in section 15 of* The Royal London Transfer Scheme.**

PRACTICES - Business Activities

*The business risks set out in **The Royal London Transfer Scheme** include:*

- *The cost of guaranteed annuity options on business transferred from **SL**.*
- *Any compensation costs relating to mortgage endowment policies or to the mis-selling of **SL** policies written prior to 1 July 2001.*

- *Any costs or fines associated with fraud, arising out of negligence or imposed by a* **Regulator** *where the originating act is prior to 1 July 2001.*
- *A proportion of the costs associated with making computer systems compliant with the Euro currency prior to 1 July 2011.*

A full list of the categories of business risk accepted by the **fund** *is contained in* **The Royal London Transfer Scheme.**

The **Supervisory Committee** *reviews the business risks accepted by the* **fund** *on a regular basis to ensure that the terms of* **The Royal London Transfer Scheme** *are being followed. Profits and/or losses arising from the business risks accepted are borne directly by the* **SL Estate**. *These will affect the distribution of the* **SL Estate** *to* **qualifying with profits policies** *and may affect the investment freedom afforded to other with profits and* **deposit administration** *policies and thereby the benefits.*

2.5 New Business volumes

PRINCIPLES - New Business Volumes

The Royal London Transfer Scheme *permits very limited amounts of new business to be written within the* **SL Closed Fund** *provided specific conditions are met.*

PRACTICES - New Business Volumes

Incremental contributions continue to be allowed to certain **deposit administration** *policies provided the* **Supervisory Committee** *is satisfied that it is not inappropriate to do so and upon receipt of* **Actuarial Advice** *supporting this view. It is also possible for very limited amounts of new business to be written in the* **fund** *for administrative reasons, for example where the* **RL Main Fund** *does not have existing products that could provide the benefits required, but this is permitted only where it does not adversely affect existing with profits and* **deposit administration** *policyholders' benefits.* **SL** *pension policyholders who make incremental contributions after 30 June 2001 to with profits benefits have these incremental contributions re-directed to the* ***RL Main Fund***. **The RL Main Fund** *is covered by a separate PPFM.*

2.6 Investment Strategy

PRINCIPLES - Investment Strategy

The aim of the investment strategy is to maximise the long term return on investments for with profits and deposit administration *policyholders whilst recognising the need for the* fund *to meet its guaranteed liabilities and commitments to policyholders and maintaining the* SL Estate *at an appropriate size.*

The Directors *upon receiving* Actuarial Advice *may group the liabilities of the* fund *into separate pools and the investment strategy for such pools may be determined separately.*

The fund *invests in a wide range of assets. In determining the mix of assets between different asset classes, the investment strategy will take into account the size of the* SL Estate*, the* fund*'s ability to meet its ongoing* Regulatory Capital Resource Requirements *in all reasonably foreseeable circumstances, the long term expected return available from each asset category and the observed and expected market volatility of each asset class.* Royal London *does not rely on assets outside the* fund *to maintain this investment strategy.*

The non-participating *business in the* fund *is backed by cash and fixed interest holdings of an appropriate term. A portion of the rest of the* fund *is invested in equities and property. The proportions held in fixed interest and deposits will be varied to maintain adequate protection for the* SL Estate*. A close match is maintained between the size and nature of the liabilities and the assets used to match them. In particular the proportion of the* fund *in respect of with profits policies that is invested in fixed interest assets reflects the approach set out in 2.7.2 below. Derivative instruments are used where appropriate to assist in this overall matching process.*

In considering the range of assets in which to invest, derivatives and other financial instruments may be used within the limits determined from time to time by the Directors *for efficient portfolio management or for hedging purposes to protect the* SL Estate*. In order to reduce the*

risk of loss resulting from the failure of a third party the* Directors *set limits for exposure to various counterparties, taking into account their credit rating and any other contracts* Royal London *has with them.

***There are no restrictions on the* fund *holding assets that are not normally traded in order to support the operation of the business provided that the* fund *also holds sufficient liquid assets to meet its requirements. Assets that are not normally traded might include, for example, the office buildings occupied by* Royal London *employees. Any such holdings are reviewed on a regular basis to ensure that they continue to be required to support the operation of the business and that they form an appropriate proportion of the* fund.**

PRACTICES - Investment Strategy

Currently the **fund** *is managed as one pool of assets and is invested in a mix of assets designed to maximise the returns to the* **fund** *whilst protecting the* **SL Estate** *and maintaining it at the target size.*

The investment policy of the **fund** *is determined by the* **Directors** *after having received* **Actuarial Advice**. *The* **Directors** *set benchmarks for the asset allocations of the* **fund**. *Currently the strategy and the asset mix are reviewed quarterly by the* **Directors** *but these may be changed more frequently or at any time in order to reflect changes in circumstances. The investment mix is monitored by the* **Capital and Investment Management Committees**, *which normally meets every two months or more frequently if market conditions dictate. Changes to the benchmark asset allocations are recommended to the Group Chief Executive Officer by the* **Capital and Investment Management Committees** *upon receiving* **Actuarial Advice**. *Significant changes to the benchmark allocations require approval by the* **Directors** *upon receiving* **Actuarial Advice.**

The **Directors** *set guidelines for the proportion of assets that may be invested in particular asset classes or in individual securities or companies. Investment may be made only in permitted asset classes. Details of permitted counterparties and limitations on exposure and minimum credit quality for investments are maintained.*

Investment in any new asset class is only permitted after following the approval processes in force. The investment management agreement is revised as appropriate to include such new investments.

The **fund** *currently holds certain quoted investments that are regarded by the* **Directors** *as strategic and may not be traded by* **RLAM** *without obtaining the consent of the Group Chief Executive Officer.*

The **fund** *may invest in a range of unit trusts and* **OEICS** *managed by* **RLAM** *within guidelines issued by the* **Capital and Investment Management Committees**.

The ***fund*** *may invest in commodities, infrastructure financing or insurance related investments to provide credit diversification within the* ***fund***. *Investment in any of these classes is only permitted after following the approval process in force.*

The **fund** *holds derivative instruments, including options and interest rate swaps and swaptions, to provide a close match with the guaranteed annuity option liabilities within the* **fund** *to provide backing for other guaranteed benefits and for efficient portfolio management.*

The **Directors** *set performance benchmarks against which the returns achieved on the individual asset categories are measured. The performance benchmarks for those assets invested in bonds are set such that the durations of the benchmarks are consistent with the duration of policy benefits and expenses which the bonds are to meet by comparing the expected future contributions and cash flows from bonds held to support with profits business, after adjustments for the risk of default with the expected amounts payable in respect of policy benefits and expenses year by year.*

The **fund** *is managed by a wholly owned subsidiary,* **RLAM**, *which invests the assets within guidelines set out in an investment management agreement. The* **Directors** *meet quarterly to monitor the performance achieved by* **RLAM** *against the agreed asset allocation benchmarks, to monitor the performance achieved by* **RLAM** *of the investments in each asset category against agreed performance benchmarks and to monitor adherence to the investment management agreement.*

***Royal London** publishes the asset mix at 31 December in respect of the **fund** each year. Such information may be provided in the annual report and accounts or it may be published on the website. It is also provided to policyholders by other means, for example in literature accompanying annual statements or bonus notices. Information on the approximate asset mix of the **fund** is also normally available quarterly.*

2.7 Policy Benefits Payable

This section describes how **Royal London** determines the benefits payable to with profits and **deposit administration** policyholders. Section 2.7.1 describes the general Principles and Practices **Royal London** uses to determine the policy benefits payable and section 2.7.2 explains in detail the calculation of **asset shares** in this process. Section 2.7.3 describes the smoothing policy adopted by the **fund** , section 2.7.4 describes how final bonus and market value reduction (**MVR**) scales and surrender bases are determined and section 2.7.5 describes how regular (or annual) bonuses are set.

2.7.1 General Principles and Practices

PRINCIPLES - Policy Benefits Payable

When determining the amount payable **Royal London** ***will aim to meet the reasonable benefit expectations of all policyholders, treating different classes and generations of policyholders*** **fairly.**

One aspect of **fairness** ***is the need to ensure that the interests of remaining policyholders are safeguarded against the impact of policyholders voluntarily exiting the*** **fund.** ***Voluntary exits are those arising where policyholders do not complete the full terms of their policies. This might be for example by ceasing to pay premiums, altering the policy or by surrendering early.*** **Royal London** ***aims to meet the reasonable expectations of these policyholders, but will also seek to ensure that the appropriate credit is made to the*** **SL Estate** ***in order to safeguard the benefits of continuing policyholders.***
If a with profits policy qualifies for enhancements as a result of **The Royal London Transfer Scheme** ***then an addition is made to each year's***

investment return within the asset share *calculation (described in the section on* asset shares *below).*

For conventional *and* deposit administration *business* Royal London *aims to smooth payouts in order to ensure that on average over the longer term the amount paid on maturity and death claims is the* asset share *subject to a minimum of the guaranteed benefit. For* unitised *business* Royal London *aims to ensure that on average over the longer term the amount paid on maturity and death claims is the* asset share *of the policy subject to smoothing. For both types of with profits business maturity payouts and death claims will be calculated by adding a final bonus, which may be zero or positive, to guaranteed benefits.* Deposit administration *contracts always have a zero final bonus. In order to meet the reasonable benefit expectations of certain classes of existing policyholder* RL *may pay greater than* asset share.

Payments on voluntary exit will reflect a charge for any un-recouped expenses and other charges, including a charge for the use of capital. In addition, for with profits and deposit administration *business, payments on surrender or part surrender may reflect the application of an* MVR *as appropriate.*

The method of determining payouts may be changed in the future but in the event of any such change a formal process will be followed requiring the decision of the Directors *after receiving* Actuarial Advice. *Any change will comply with the principles of financial management of* The Royal London Transfer Scheme.

The fees charged explicitly against with profits and deposit administration *policies in the calculation of benefits will follow the terms of* The Royal London Transfer Scheme *which sets out per policy and* fund *related amounts to apportion expenses* fairly *between policy types. These can be found in Schedule 4 of that document.*

***The overall aim of the expense allocation is to ensure that each policy is charged, implicitly or explicitly, an amount which represents a* fair *proportion of the total expenses incurred in administering all policies, using accepted actuarial techniques. Constraints are imposed on changes to this approach to allocating expenses by* The Royal London Transfer Scheme.**

Documentation setting out the methods, procedures and assumptions used in the calculation of policy values is maintained.

***The calculation of* asset shares *requires some approximations and the exercise of judgement and discretion which is subject to the approval of the* Directors.**

Historical assumptions or parameters may not be changed, unless the* Directors *upon receiving* Actuarial Advice, *consider changes are required to correct errors, to reflect new information or to maintain* fairness *between policyholders and the effect of the change on* asset shares *would be material.

Some approximations in calculating payouts are made, including adoption of a common bonus series for altered and unaltered policies, for endowment and whole life policies in some policy classes and for policies of different sizes. For classes of policy where* asset shares *are not calculated the payout may be determined by methods which provide an approximation to* asset share. *All methods used, assumptions made and parameters used lead to approximations in calculating payouts as a result of pooling of experience over the fund and over policy classes.

PRACTICES - Policy Benefits Payable

The amounts payable under a policy are currently determined by the use of **asset shares** *as a guide to setting payout levels.*

We may target payouts above 100% **asset share** *in order to distribute the* **SL Estate** *over the lifetime of the* **qualifying with profits policies**.

We aim to set bonus rates and surrender bases so that the vast majority of payouts on maturity or on earlier voluntary exit fall between 75% and 125% of **asset share**. *This range will be reviewed periodically, usually annually. The range is a target and it is not guaranteed that all payments will fall within the specified range. In particular the range does not apply in the following circumstances:*

- *Where the effect of policy guarantees leads to a higher figure;*
- *For some small classes of business where* **asset shares** *are not calculated;*
- *Where the* **asset share** *does not represent a* **fair** *guide to the payout, for example whole of life policies at older ages and for policies with very small (or negative)* **asset shares**.
- *In extreme investment conditions.*
- *In exceptional circumstances, for example when the* **fund** *is expected to be unable to continue to meet its* **Regulatory Capital Resources Requirement**.

Asset shares *are calculated for specimen average contracts representative of policies expected to mature or becoming claims in the period under consideration. The average premium and the average age at entry are calculated for representative years of entry to determine the specimen average contract for that year. The method of calculation of* **asset shares** *is described below.*

Specimen policies are used when determining consistency of payouts with the target range. Sufficient numbers of specimen policies are used to ensure that there is no material effect of this approach compared to assessment using individual policies.

For classes of business where **asset shares** *are not calculated, or where* **asset shares** *do not represent a* **fair** *guide to payouts, claim values are determined using other methods. These methods aim to arrive at amounts consistent with those calculated for other policies in order to ensure* **fairness** *between the different policy types.*

2.7.2 Calculation of Asset Shares

PRACTICES - Calculation of Asset Shares

CALCULATION

Asset shares *are calculated by accumulating the premiums paid at the rate of return earned on the assets backing the policies after allowing for charges. These* *charges include the expenses incurred (for example, set up costs, commission payments, administrative fees and investment management costs), the cost of risk benefits, the cost of guarantees, the cost of smoothing and the cost of tax. Some of these are described in more detail below.*

INVESTMENT RETURNS

The overall investment performance of the assets backing **asset shares** *is credited to* **asset shares**. *However, the type of asset assumed to back an individual policy is set broadly to reflect the accrued guarantee for that policy. This means that policies with low levels of guarantees compared to* **asset share** *are assumed to be invested more heavily in equities than the* **fund** *average. Conversely policies with high levels of guarantees compared to* **asset shares** *are assumed to be invested more heavily in fixed interest securities than the* **fund** *average. If a policy qualifies for enhancements as a result of* **The Royal London Transfer Scheme** *then an addition is made to each year's net of tax investment return. For group with profits business and for* **deposit administration** *policies the same asset allocation is assumed for all policies within each class. The asset allocation for with profits policies is set separately from* **deposit administration** *policies.*

TAX

The investment returns after tax are currently calculated by applying the appropriate tax rates to the components of the return (excluding any enhancements as a result of **The Royal London Transfer Scheme***). For example different assumed tax rates might be used for income and gains, and for equities and other investments. This broad approach gives an appropriate allowance for tax within the* **asset share** *calculation. Actual tax paid by the* **fund** *is calculated separately using a much more detailed approach and the difference between the actual tax paid and the notional tax assumed in the* **asset share** *calculation is charged/credited to the* **SL Estate**. **Royal London** *as a mutual, has no shareholders and hence there are no transfers to shareholders and no tax implications arising from such transfers.*

EXPENSES

Expenses broadly cover set up costs, administration fees, commission expenses (if applicable) and investment management expenses. Expenses prior to 1 July 2001 were assessed by allocating the overall office expenses between product groups and *between initial and maintenance costs using standard actuarial techniques. From 1 July 2001 for ten years the expenses incurred by the* **fund** *were as set out in section 25 and Schedule 5 of* **The Royal London Transfer Scheme.** *Since the expiry of this ten year period, the scheme limits the level of increase in expenses to at most those chargeable by third party competitor companies, limiting the need for the* **Directors** *to review this arrangement. Where expenses are allowed for explicitly in the calculation of* **asset shares** *they follow those set out in the terms of* **The Royal London Transfer Scheme.** *The allowance for expenses is made implicitly for some classes of business and for these classes the expenses allowed for match the charges applied to the policy. In each case the amount applied represents a* **fair** *proportion of the total expenses incurred in administering all policies, using accepted actuarial techniques.* *The difference between implicit and explicit allowance is an established practice and constraints are imposed on changes to this approach to allocating expenses by* **The Royal London Transfer Scheme**.

COST OF RISK BENEFITS

The charge for life cover and other risk benefits in the calculation of **asset shares** *is approximated by using standard mortality tables, morbidity tables or other appropriate tables, adjusted to reflect the experience of* **Royal London** *for this business.*

GUARANTEES

At the discretion of the **Directors** *upon receiving* **Actuarial Advice**, **asset shares** *may be reduced by the average expected cost in the medium term of guaranteed benefits within the* **fund**. *This cost arises when the guaranteed benefits exceed the* **asset share** *on a claim. Currently charges are taken from* **asset shares** *in respect of death benefits, which are referred to in the description of* **asset shares** *above as the 'cost of life cover'.*

Any excess cost of any guarantees not charged to **asset share** *is charged to the* **SL Estate**.

2.7.3 Smoothing

Smoothing is an important feature of with profits and **deposit administration** investment and is the means by which the impact on policyholders of fluctuations in the value of the underlying assets is reduced. Smoothing can be seen in the way in which the payout levels change from time to time for policyholders, where the changes may be more or less than the movements in the underlying assets. Changes are controlled carefully to ensure that policyholders are treated **fairly**.

For with profits business; a final bonus may be payable in addition to the guaranteed benefits when the policy benefits are taken. **Deposit administration** policies do not receive a final bonus. Payment of any final bonus is not guaranteed however and **Royal London** aims to pay out the accumulated value, if any, of policy benefits above the guaranteed benefits and any annual bonus already attaching to a policy. In so doing **Royal London** has regard to the practices within **SL** prior to the transfer of business.

PRINCIPLES - Smoothing

Payouts on with profits and* deposit administration *policies will be smoothed in a manner which is consistent with the past practice of* Scottish Life *so as to avoid excessive differences in payouts on similar policies over short periods of time. A consistent approach will be applied between different classes and generations of policyholder.

RL *aims to smooth payouts at maturity to limit the amount of change between payouts on similar policies of the same term from one period to another. The aim is to reduce the effect of volatility in the underlying assets but the amount of any smoothing may be varied to ensure that policyholders are treated* fairly *and to protect the remaining policyholders. A consistent approach will be applied between different classes and generations of policyholder.* RL *may vary its approach to smoothing upon receiving* Actuarial Advice.

Any adjustments for smoothing may be positive or negative and any amounts withheld or advanced as a consequence of smoothing will be calculated so that so far as is practicable all policyholders are treated fairly. There is no explicit maximum accumulated cost or excess from smoothing in the shorter term. Overall the effect of smoothing is intended to be neutral over time after allowing for the effect of any enhancements.

PRACTICES - Smoothing

The amounts by which maturity payouts on similar policies with a similar term to maturity vary from one year to the next are smoothed. Each year the **Directors** *consider the cost of the bonus addition and the need to maintain the* **SL Estate** *in determining whether to limit the percentage change in payouts. The* **Directors** *take into account the size of the* **SL Estate** *and the expected future contributions to or from the* **SL Estate** *in determining the percentage changes to payouts.*

Our approach to setting payouts at maturity is to start by looking at both recent payout levels and **asset shares***. We use a formula to help guide us in determining the maturity payout, which depends upon how payouts relate to* **asset shares** *and the strength of the fund. The formula acts as a guide and the parameters in the formula can change over time, dependent upon factors such as the size of the* **estate** *and the need to balance the respective interests of continuing policyholders against those of holders of maturing policies.*

Where the size of the **SL Estate** *has reduced and the payout had been above* **asset share** *a reduction in payout is likely to be applied. Similarly, where the size of the* **SL Estate** *has increased and the payout had been below* **asset share** *an increase in payout may be appropriate. Where the payout is significantly above or below* **asset share** *then the reduction or increase in payout would be larger than if payouts* **and asset shares** *were more closely aligned.*

There is no explicit maximum accumulated cost or excess from smoothing. However a balance is struck between the reasonable benefit expectations of policyholders exiting the **fund** *and those who remain part of it. A consistent approach is applied between different classes and generations of policyholder.*

There is also no explicit maximum limit set by the **Directors** *on the change in level of payout at maturity between one period and another although in recent years there have been occasions when the* **Directors** *have exercised their discretion to limit the highest change in payout levels between periods.*

The same principles are used to smooth the adjustments made to those policies which participate in final bonus indirectly.

Currently amounts payable on surrender are only subject to smoothing indirectly by the inclusion of the smoothed Final Bonus rates within surrender calculations. The aim of the surrender calculations is to pay out unsmoothed ***asset share*** *on average over the longer term.*

2.7.4. Final Bonus, MVR and Surrender Bases

For payouts at maturity final bonus scales are set to reflect broadly the amounts to be paid out in excess of the guaranteed benefits including attaching regular bonuses, subject to smoothing. For with profits and **deposit administration** policies **MVR** scales are normally set to reflect broadly the amounts by which the value of guaranteed benefits plus final bonus are to be reduced towards **asset share** subject to smoothing. Adverse market conditions may reduce the **asset share** for a policy to a point below the level of guaranteed benefits plus final bonus. In such circumstances an **MVR** will be applied. As final bonus rates are smoothed over time the **MVR** may still be required some time after the initial adverse market movements while the **asset share** remains below the level of guaranteed benefits plus final bonus.

PRINCIPLES - Final Bonus, MVR and Surrender Bases

Final bonus, **MVR** ***scales and surrender bases will be set having regard to the principles for determining payouts and for smoothing. However changes may be made at any time in order to maintain the*** **SL Estate** ***at an appropriate level and to ensure policyholders are treated fairly. There are no explicit constraints on the size of change in final bonus rates,*** **MVR** ***scales or surrender bases from one declaration to the next.***

MVR***s will be applied or surrender value bases will be altered following adverse market conditions to reduce the level of smoothing applied to voluntary exits and to bring payouts closer to underlying*** **asset shares.** ***In addition Final Bonus rates may be reduced to zero in extremely poor market conditions.***

PRACTICES - Final Bonus, MVR and Surrender Bases

Final bonus and surrender value bases are regularly reviewed during the course of the year, but may be reviewed at any time particularly following relatively significant volatility in markets. **MVR** *scales are reviewed on a monthly basis.*

Current practice is to calculate specimen **asset shares** *for policies due to mature in the following year using the method set out in the section describing the amounts payable (above). A final bonus scale is determined using the following method.*

Unsmoothed rates of final bonus are determined at least once every year. They are calculated as the difference (positive or negative) between guaranteed benefits of sample policies and their underlying **asset shares.** *These rates are then subject to a smoothing process. We may target payouts above 100%* **asset share** *in order to distribute the* **SL Estate** *over the lifetime of the* **qualifying with profits policies**.

The same series of final bonus rates is applied to all claims within a particular class irrespective of the type of claim. However, voluntary claims are calculated by applying final bonus rates for the expired term and, normally during depressed markets, may be subject to an **MVR** *that will bring payouts down towards* **asset share**. *For policies with formulaic surrender values these are calculated allowing for final bonus. The surrender and transfer bases may be altered, normally during depressed markets, to bring payouts down towards* **asset share**.

Where appropriate **MVR** *factors are calculated that reflect the term in force and the duration left to run on a year by year basis. When benefits are cancelled the factor corresponding to the term in force and duration left to run is applied.*

The final value of a policy is calculated using the same methods and assumptions regardless of any partial payments made without **MVR** *during the policy term. That is, no additional charge is levied purely as a result of a prior* **MVR**-*free withdrawal.*

Regular and final bonus rates are normally set from January at levels that take into account expected future accrual of benefits during the following year. However, changes to final bonus scales may be made at any time by the **Directors** *upon receiving* **Actuarial Advice.** *Final bonus is only added to a claim if the* **Directors** *are satisfied that the* **fund** *will be able to continue to meet its* **Regulatory Capital Resource requirements** *in all reasonably foreseeable circumstances***.**

2.7.5 Regular (or Annual) Bonus

A regular (or annual) bonus increases the value of a policy gradually over time. Once added it becomes part of the guaranteed benefits and cannot be taken away. However the guaranteed benefits, including annual or regular bonus, are payable at face value only in the circumstances defined in the contract. For example this might be at the end of the policy term or on earlier death for an endowment policy.

Conventional with profits and **deposit administration** policies receive annual bonuses whereas **unitised** with profits policies receive annual or regular bonuses. Throughout the rest of this section 'regular bonus' will be referred to for all policies.

PRINCIPLES - Regular Bonus

In determining the bonus rates, the objective of the **Directors** ***is to meet the reasonable benefit expectations of policyholders, treating different classes and generations of with profits policyholders*** **fairly.** ***The aim in setting regular bonus rates is to increase guaranteed policy values over time at rates which it is expected can be maintained over the longer term, taking into account economic conditions and the economic outlook at the time. Regular bonuses will be set at rates which are affordable and which will not prejudice the future distribution of the*** **SL Estate fairly** ***amongst different policyholders. If the economic outlook is poor or regular bonus is not affordable within the*** **fund** ***the*** **Directors** ***may be constrained to declare no regular bonus.***

Separate regular bonus rates may be set for different classes of policy in order to treat policyholders **fairly.** ***Separate bonus rates may be set for life policies and pension policies or for classes of business which have different levels of guaranteed benefits. For example,*** **deposit administration** ***policies have a separate bonus series from with profits policies.***

The bonus policy will be regularly reviewed by the **Directors** ***to ensure it remains appropriate. A new class of bonus will be introduced if this becomes necessary to preserve*** **fairness** ***between different policy classes and generations of policyholder or to maintain the*** **SL Estate** ***at the appropriate size determined by the*** **Directors.**

PRACTICES - Regular Bonus

The regular bonus rates are normally set and declared once a year but may be set more often for **unitised** *with profits policies where growth is allowed for in the unit prices. The aim of setting regular bonus rates is to build up the guaranteed bonus gradually over the term of a policy whilst permitting sufficient surplus to emerge at maturity to support a final bonus.*

In deciding the rates of regular bonus investigations are carried out. Examples of investigations which may be carried out include those to assess the future financial condition of the **fund***, the expected long term returns on the assets underlying the* **fund** *and the amounts by which the guaranteed benefits can be increased whilst leaving sufficient margin for a final bonus to emerge at maturity. The supportability of proposed regular bonus rates over the long term is assessed together with the ability of the* **fund** *to pay such bonuses. The results of other investigations to assess realistic solvency including scenario testing to assess the impact of variations in current and future economic and investment conditions are also taken into consideration when setting regular bonuses.*

The levels of regular bonus declared are determined by projecting asset share over the expected lifetime of the policies. The projections are based on assumptions consistent with the current regulatory framework. Guaranteed benefits are projected forward assuming different levels of annual bonus in the future, starting with the current annual bonus rates. The projected asset shares and guaranteed benefits are compared to assess whether asset shares are expected to exceed guaranteed benefits by sufficient margin to leave a reasonable level of final bonus.

Regular bonuses are only declared if the **Directors** *are satisfied that the ability to distribute the* **SL Estate fairly** *to all* **qualifying with profit policies** *will not be adversely affected over the short or long term. Regular bonus is only added if the* **Directors** *are satisfied that immediately after the declaration of such regular bonuses,* **Royal London** *will have sufficient assets to be able to meet its* **Regulatory Capital Resource Requirements** *and that the declaration of such regular bonuses is not expected to prejudice* **Royal London***'s ability to meet its* **Regulatory Capital Resource Requirements** *in the reasonably foreseeable future. Changes in the regular bonus rate are normally made gradually but there is* *no maximum to the level of change from one declaration to the next and regular bonuses may fall to zero following some market conditions.*

Interim bonus rates that cover the period from the last declaration to the claim date are also set normally once a year but may be changed more frequently depending on economic conditions. These interim rates are set using the same approach to that used to determine regular bonus.

GLOSSARY

'accumulating with profits'	Refers to a with profits policy that has a notional fund to which bonuses are added.
'Actuarial Advice'	Advice provided by the Actuary responsible for advising the **Directors** on discretionary or technical aspects of the management of the with profits business. Under current regulatory rules this is the With Profits Actuary or the Head of Actuarial Function.
'aggregate asset shares'	This term refers to the total sum of all **asset shares** for a particular fund or class of business.
'asset share(s)'	The share in the assets of a with profits fund that a with profits policy is deemed to have. The **asset share** is calculated by accumulating the premiums paid less all applicable expenses and charges with the investment return credited to with profits or as appropriate **deposit administration** business over the lifetime of the policy.
'bare asset share'	**Asset share** with no enhancements.
'Capital and Investment Management Committees'	The Capital Management Committee and the Investment Strategy Committee, two committees put in place by Royal London to manage the processes required to ensure that Royal London's capital position is maintained within its target range, is sufficient to enable fulfilment of stated core strategic objectives and to ensure that Royal London's investment strategy supports those objectives as determined by the Directors from time to time or such replacement committees as may carry out the same functions.
'CIS'	Co-operative Insurance Society Limited
'CL'	Canterbury Life Assurance Company Limited
'conventional'	Refers to a with profits policy that has a guaranteed amount of cash or pension to which bonuses are added.

'deposit administration'	A benefit type that acts like a bank account where interest additions are made from time to time. The level of these additions is at the discretion of the **Directors**.
'Directors'	The **Directors** of The Royal London Mutual Insurance Society Limited from time to time. For practical purposes the Directors may agree to delegate certain decisions to a sub-set of their number.
'estate' or 'Estate'	General term used to describe the excess of the assets realistically required to meet the current expectations of policyholders and to settle other liabilities relating to each class of business to which it relates. It may also be used to provide support to sub funds where necessary and where allowable under the terms of relevant schemes of transfer.
'Estates'	This refers collectively to the **RL Estate** and the **RA OB Estate**. Following the transfer of assets and liabilities of the **RA OB Fund** into the **RL Main Fund** on 31 December 2006 this became the '**Estate**' of the **RL Main Fund**.
'fair', 'fairly', 'fairness'	References to and use of the concept of fair, fairness or treating policyholders fairly in this document relates to the obligation created by Principle 6 of the **Regulator**'s Principles for Businesses to, amongst other things, treat customers fairly.
'FCA'	Financial Conduct Authority
'fund'	Refers to the **SL Closed Fund**.
'IB'	Industrial Branch Business.
'MVR'	A market value reduction which may be applied on claims under certain with profits and **deposit administration** policies in certain circumstances. An MVR reduces the value of guaranteed benefits plus final bonus and effectively acts like a negative final bonus. An MVR is only applied if the value of the investments underlying a policy has fallen

sufficiently below the value of the guaranteed benefits plus final bonus cashed. This ensures fairness between those policyholders who cash in benefits and those who remain. An MVR will not usually be applied on death or on certain pre-defined circumstances as laid out in the policy conditions.

‘non-participating’	Refers to a policy which does not participate in profits, including a unit linked policy.
‘OB’	Ordinary Branch Business.
‘OEIC’	Open ended investment company
‘PLAL’	Phoenix Life Assurance Limited
‘PLAL With-Profits Sub-fund’	The fund into which certain assets and liabilities of Phoenix Life Assurance Limited (PLAL) were transferred with effect from 29 December 2008, a separate closed sub-fund of the RL LTF.
‘PRA’	Prudential Regulation Authority
‘qualifying with profits policies’	With profits policies issued by The Scottish Life Assurance Company which were in force on 11 September 2000. This does not include deposit administration policies.
‘RA’	Refuge Assurance plc.
‘RA OB’	**OB** business originally issued by **RA**.
‘RA OB Fund’	The **RA OB** with profit sub fund into which the **OB** with profit liabilities of **RA** were transferred with effect from 1 January 2001. The assets and liabilities of this fund were transferred into the **RL Main Fund** on 31 December 2006 whereupon the fund ceased to exist.
‘RA OB Estate’	The **estate** associated with the **RA OB Fund**.
‘Regulator’	The **FCA**, **PRA** or any other regulatory body as defined in accordance

	with the provisions of the UK Financial Services and Markets Act 2000 (or any such legislation that supersedes it).
'Regulatory Capital Resource Requirements'	The capital resources that **Royal London** must hold in order in accordance with regulatory requirements from time to time.
'Regulatory Returns'	The statutory returns detailing the company's solvency position that must be submitted to the **Regulator** on an annual basis (or at such times as the **Regulator** requires).
'Royal Liver'	The Royal Liver Assurance Limited.
'Royal Liver Estate'	That part of the **Royal Liver Sub-Fund** not required to satisfy the reasonable expectations of policyholders in that sub-fund.
'Royal Liver Instrument of Transfer'	Refers to the Instrument of Transfer under which the liabilities of **Royal Liver** were transferred to the **RL LTF** on 1 July 2011.
'Royal Liver Sub-Fund'	The fund into which certain assets and liabilities of **Royal Liver** (except certain infrastructure assets) were transferred with effect from 1 July 2011, a separate closed sub-fund of the **RL LTF**.
'RIL'	Refuge Investments Limited.
'RL'	The Royal London Mutual Insurance Society Limited.
'RL Estate'	The **estate** associated with the **RL Main Fund**.
'RL LTF'	The Royal London Long Term Fund which consists of the **RL Main Fund,** the **SL Closed Fund,** the **PLAL With-Profits Sub-fund,** the **Royal Liver Sub-fund** and the **CIS Sub-fund**.
'RL Main Fund'	**Royal London** main fund which includes **OB** and **IB** business originally issued by **RL**, **UF** and **RA**. The assets and liabilities of the **RA OB Fund** were transferred into this fund on 31 December 2006.

'RLAM'	Royal London Asset Management Limited.
'RLCIS'	Royal London (CIS) Limited – the name given to **CIS** following its acquisition by **Royal London**.
'Royal London'	We use the term '**Royal London**' in this document to refer to The Royal London Mutual Insurance Society Limited and (where the context so requires) its subsidiaries. **Royal London** is a brand name.
'Royal London (CIS) Sub-Fund'	The fund into which certain assets and liabilities of RLCIS were transferred with effect from 30 December 2014, a separate closed sub-fund of the RL LTF.
'Scottish Life'	A division of **Royal London** manufacturing and distributing products under the **Scottish Life** brand since 1 July 2001.
'Scottish Provident'	A division of **Royal London**, manufacturing and distributing products under the **Scottish Provident** brand.
'SL'	The Scottish Life Assurance Company.
'SL Closed Fund'	The **fund** into which certain assets and liabilities of **SL** were transferred with effect from 1 July 2001, a separate closed sub-fund of the **RL LTF**.
'SL Estate'	That part of the **SL Closed Fund** not required to satisfy reasonable expectations of policyholders i.e. the **estate** associated with **SL** business retained within the **SL Closed Fund**.
'Supervisory Committee'	A committee whose role is to ensure that the **fund** is managed in accordance with the terms that were approved by the Court of Session in Scotland during the transfer of the **SL** business to **Royal London**.
'The Royal London Transfer Scheme	The scheme of transfer under which the liabilities of **SL** were transferred to the **RL LTF** with effect from 1 July 2001.
'UAG'	United Assurance Group, which consisted of **RA**, **UF** and other

	companies writing non profit business and/or other non life assurance business.
'UF'	United Friendly Insurance plc.
'UFLA'	United Friendly Life Assurance Limited
'unitised'	Refers to a with profits policy where premiums have been used to purchase units.

APPENDIX 1

1. Acquisitions of Royal London

In April 2000, **Royal London** purchased the **UAG**, which included **UF** and **RA**, both of which wrote with profits business; **RIL**, **UFLA** and **CL**, which wrote **non-participating** business only and other non life companies. The assets backing the long term business of the **UAG** life companies and the associated liabilities were transferred into the **RL LTF** with effect from 1 January 2001. The **OB** with profits liabilities of **RA** were transferred into a separate sub-fund, the **RA OB Fund,** and all other with profits liabilities were transferred into the **RL Main Fund**.

On 1 July 2001 **Royal London** purchased **SL** and its subsidiaries, which included Scottish Life International and other companies. The assets backing the with profits policies (and certain other minor classes of policy) of **SL** and the associated liabilities were transferred into the **SL Closed Fund**, a separate sub-fund of the **RL LTF**. The assets backing the other policies and the associated liabilities were transferred to either the **RL Main Fund** or **RA OB Fund** as appropriate. The **SL Closed Fund** is closed to new business.

The **UAG Scheme of Transfer** provided for the **RA OB Fund** to merge into the **RL Main Fund** after a certain period and after certain requirements had been met. Accordingly the assets and liabilities of the **RA OB Fund** were transferred into the **RL Main Fund** on 31 December 2006 and thereafter the **RA OB Fund** ceased to exist.

On 3 June 2008 **Royal London** purchased Scottish Provident International Life Assurance Limited.

On 1 August 2008 **Royal London** purchased **PLAL**. On 29 December 2008 the assets backing the with profits policies of **PLAL** and the associated liabilities were transferred into the **PLAL With-Profits Sub-fund**, a separate sub-fund of the **RL LTF**. The assets backing the other policies and the associated liabilities were transferred to the **RL Main Fund**. The **PLAL With-Profits Sub-fund** is closed to new business other than increments or switches from investment linked funds.

Royal London purchased certain protection business written by Scottish Provident Limited and Scottish Mutual Assurance Limited and on 29 December 2008 the assets backing these protection policies and the associated liabilities were transferred to the **RL Main Fund.**

On 1 July 2011 **Royal London** acquired **Royal Liver** and its subsidiaries. All of the assets and liabilities of **Royal Liver** (except some of the infrastructure assets) were transferred into the **Royal Liver Sub-Fund**, a separate sub-fund of the **RL LTF**. The **Royal Liver Sub-Fund Fund** is closed to new business.

On 31 July 2013, **Royal London** acquired Co-operative Insurance Society (**CIS**) and The Co-operative Asset Management business from the Co-operative Banking Group. **CIS** was originally held as a subsidiary of **Royal London** and renamed **RLCIS**. On 30 December 2014 the business of **RLCIS** was transferred into the **Royal London (CIS) Sub-Fund**.

2. Mutuality

Royal London is a mutual insurance company. In common with other mutual organisations **Royal London** is owned by its members and has no shareholders. Because the members are policyholders of the business, there is often a greater common purpose between owners and policyholders than is found in other organisations.

For a mutual company the primary source of capital to operate and develop its business for the benefit of its members is the **estate**, although other sources are available. Other sources of capital used by **Royal London** include reassurance and subordinated debt.

This use of the **estate** by a mutual company to provide the capital requirements of the business means that all the profits and losses remain in the business for the benefit of policyholders and members rather than a share of the profits being paid out to shareholders in the form of dividends.

Royal London remains committed to mutuality, which has served the company and its policyholders well over the years. Only some policyholders are members however, and the rules determining membership are set out in **Royal London**'s Articles of Association as amended from time to time.

There are certain categories of with profits policy which do not confer membership and these include, among others, policies taken out originally with **RA, UF, SL, PLAL, Royal Liver** or **CIS**.

Generally, where a policy is taken out by Trustees any membership is conferred on the Trustees who propose the policy. The trust beneficiaries do not gain membership and if the original Trustees change their membership may be lost. The exceptions to this are personal pension and free-standing additional voluntary contribution policies written under the trusts of The Scottish Life Personal Pension Scheme and The Scottish Life Free-Standing AVC Scheme. In these cases Counsel has advised that membership is conferred on the individual for whom the policy is taken out.

Membership may lapse if changes in a policy which confers membership are made, for example failing to maintain premium payments on a regular premium policy, or the assignment of a policy.

APPENDIX 2

Policies included in this PPFM document

This document covers the PPFM for the with profits benefits, both **conventional** and **unitised**, and for the **deposit administration** benefits of **SL** policies that are held within the **SL Closed Fund**.

OB pension business:

Description
Crest Growth Final Salary (With Profits)
Crest Growth Money Purchase (With Profits)
Crest Secure Final Salary
Crest Secure Money Purchase
Deferred Annuity Policy (With Profits)
Group Buy Out Bond and Policy
Group Endowment Plan (With Profit)
Group Health Plan (Crest Secure)
Group With Profits Plan
Hallmark Executive Pension Plan
Individual Pension Arrangement Deferred Annuity
Individual Pension Arrangement Deferred Annuity
IPA Sovereign Plan
Personal Pension Bond (with profit)
Personal Pension Deferred Annuity
Personal Pension Deferred Annuity
Personal Pension Policy
Personal Pension Policy
Personal Pension Sovereign Plan
Protected Growth Plan
(Group Policy)
Retirement Solutions Company Pension Scheme
Retirement Solutions Group Personal Pension Plan
Scheme F
Scheme H
Talisman 98 Executive Pension Plan (Versions 1 and 2)
Talisman 98 Free Standing AVC Plan (Versions 1 and 2)
Talisman 98 Personal Pension (Versions 1 and 2)
Talisman 98 S32 Buyout Bond
Talisman Buyout Bond
Talisman Continuation Pension Plan (Versions 1 to 6)
Talisman Executive Pension Plan
Talisman Free Standing AVC Plan
Talisman Group Pension Plan (Versions 1 to 6)
Talisman Group Personal Pension Plan
Talisman Personal Pension (post 30 June 1988)
Talisman Personal Pension Plan (pre 1 July 1988)
Talisman Phased Retirement Contract
Versatile Retirements Benefits Plan

OB life business:

Description
Bonus House Purchase Plan (with profits)
Budget Plan (top ups)
Budget Plan (with profits)
Capital Plan (With Profits)
Capital Plan deluxe (With Profits)
Economic Low Cost Mortgage
Endowment Pension (With Profit)
Low Cost Mortgage
Profitbuilder All Purpose Financial Plan
Profitbuilder House Purchase Plan
Profitbuilder Savings Plan
Stockholders Endowment Assurance Plan
The Reinforced Policy
Whole Life With Profit with Limited Premiums
Whole Life With Profits
With Profit Endowment