PRINCIPLES AND PRACTICES OF FINANCIAL MANAGEMENT (PPFM)

Royal London Main Fund

January 2026

Contents

PART A

1 Introduction

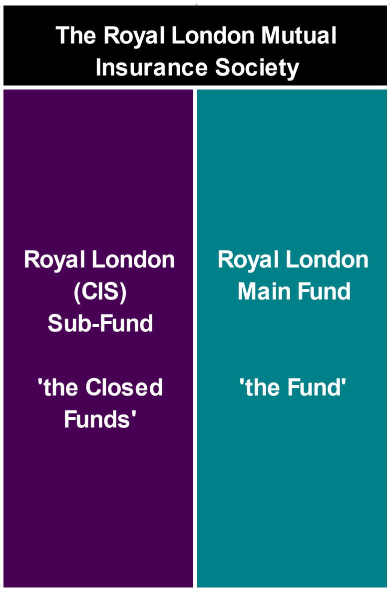
1.1 About Royal London

Royal London is the UK's largest mutual life insurer.

Royal London Group consists of The Royal London Mutual Insurance Society Limited and its subsidiaries. The Group's businesses offer pensions, life assurance, savings and investment products and provide investment management services. Products are distributed directly to policyholders and through independent financial advisers.

In this document, when we say 'we', this means Royal London and its Directors and management team.

Within The Royal London Mutual Insurance Society Limited are the Royal London Main Fund and the Royal London (CIS) Sub-Fund. The Royal London Main Fund is open to new business and is referred to as 'the Fund' in this document. In some policy documents it is also described as the 'Royal London Open Fund'. The Royal London (CIS) Sub-Fund is closed to new business and consists of three Sub-Funds, which will be called 'the Closed Funds' in this document.



The assets of the Fund and the Closed Funds are managed by Royal London Asset Management (RLAM), which is a subsidiary of Royal London Mutual Insurance Society Limited. RLAM provides investment management services to Royal London and to external clients.

The Royal London Mutual Insurance Society Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. In this document they will be called The Regulators.

1.2 Mutuality

As a mutual we're customer-owned so our profits are shared with our eligible customers, not shareholders.

For a mutual company the main source of money to run and develop its business is called the Estate. The Estate is the assets of the Fund that aren't needed to pay policy benefits and other liabilities. Other sources of money, or capital, used by Royal London include reinsurance and subordinated debt. Reinsurance is a way of transferring some of our risk to other insurance companies, which can free up some of our capital for other purposes. Subordinated debt is a type of loan that ranks lower in priority than other debts such as policyholder liabilities. This means that if we ever face financial difficulties, we will pay our policyholders and other creditors before we pay our subordinated debt holders. However, this is a very unlikely scenario, as we take various management actions to protect our solvency and liquidity. We would only default on our subordinated debt if we had exhausted all other options.

Some of our profits are shared out between our customers. When we do well, we aim to boost the value of eligible policies by adding a share of our profits each year. This is called ProfitShare. We also reinvest profits into the Fund to develop new products and services that are expected to benefit customers.

Royal London remains committed to mutuality, which has served the company and its policyholders well over the years. Not all policyholders are members and the rules determining membership are set out in Royal London's Articles of Association, found on the Royal London website. For example, some with profits policies originally taken out with different insurance companies aren't entitled to membership. Another example is where a policy is written under trust. For this type of policy it is usually the case that the Trustee is a member but the beneficiary isn't entitled to membership.

A policyholder may lose their membership if they make changes to their policy such as assigning it to another person, or in some cases if they do not pay premiums on a regular premium policy.

1.3 Acquisitions

The Fund contains many policies that have been transferred from other firms. Some of these policies were initially held in separate funds but over time they have been moved into the Fund. Background information about these acquisitions and fund changes is shown in Appendix 1 for reference. This covers information about the relevant legal documentation, including, for example, schemes of transfer of business and schemes of arrangement. In this document these will be described as 'legal documentation'.

1.4 Reinsurance

The Fund also includes business reinsured in from Royal London Insurance DAC, Royal London's Irish subsidiary. This means that although Royal London Insurance DAC is the insurer, the Fund has responsibility for paying the claims.

This reinsurance arrangement means that the Principles and Practices in this document apply in the same way to the reinsured policies. Further information about Royal London Insurance DAC and the reinsurance is shown in Appendix 2 for reference.

1.5 About this document

1.5.1 What is a PPFM?

The Principles and Practices of Financial Management (PPFM) explain how Royal London manages its with profits business. The Regulators require companies to publish a PPFM covering each fund that contains with profits business. This document covers the PPFM for the Fund. There are separate PPFM documents to cover the Closed Funds.

Although this document has been written in straightforward language as far as possible, it contains some technical language and terms which have been included in a glossary. This PPFM aims to explain how the Fund is managed. It also helps the reader to understand the potential risks and rewards of taking out and holding a with profits policy with Royal London. It covers the possible issues that may have a significant impact on the Fund's management. For example, the mutual status of Royal London, how we set payouts and things we do to ensure policyholders are treated fairly.

1.5.2 What are the Principles and Practices?

The Principles are high level statements of the standards that Royal London will follow in managing the Fund. They set out how Royal London plans to manage the Fund over the longer term and how Royal London expects to respond to longer term changes that might impact the policies, for example changes to the business, regulatory and economic environment. The first Principles in the PPFM are guiding Principles, which cover our overall approach. In the following sections we set out Principles specific to particular aspects of the way the business is run.

The Practices describe the approach Royal London uses to manage the Fund and to respond to shorter term changes that impact the policies. In other words, the Practices describe how Royal London plans to follow the Principles in the day-to-day management of the Fund. The Principles and the Practices may evolve over time in response to changing circumstances.

The Principles are not expected to change often. Policyholders will be given three months' written notice of changes expected to affect them, unless otherwise agreed with The Regulators. We may also use annual statements that we send to policyholders to let them know about other changes, including more minor changes that are not expected to affect them.

If we make a significant change to the Practices, we will inform the policyholders who are affected within a reasonable timescale, unless otherwise agreed with The Regulators. We may use annual statements that we send to policyholders and we may provide information on the Royal London website.

The Directors are ultimately responsible for managing with profits business. For practical purposes they may agree to delegate certain decisions to particular members of their management team. In this document we refer to 'the Directors or their representatives'.

The Directors are supported by a With Profits Committee which provides independent advice and challenge on the way the Fund is managed. They also monitor compliance with the PPFM and look after the interests of with profits policyholders, making sure that they are treated fairly. Before making any changes to the Principles or the Practices, the Directors will receive actuarial advice. This is advice provided by the Actuary or Actuaries responsible for advising the Directors on the management of with profits business. Under current regulatory rules this is the With Profits Actuary or the Head of Actuarial Function.

1.5.3 Management of the Fund

In managing with profits business, judgements are needed on how the objectives described in the Principles and Practices can be met. These judgements aim to achieve what the Directors believe is a fair balance between the different interests of individual policyholders and groups of policyholders, now and in the future.

The Directors publish a report with their view on whether the PPFM has been complied with. The report for each calendar year is published on the Royal London website and is usually available at the end of the following June.

1.5.4 How to read this document

For easy reference, this PPFM document has been written in sections.

- Part A
  - Section 1 provides background information on Royal London and its with profits business.
  - Section 2 sets out the Principles and Practices covering the majority of the business. Principles are shown in a box, so that they can be found easily.

- Part B
  - Section 3 contains some more detailed Practices covering specific groups of policies which were originally taken out with other companies. These are differences that were kept when the policies were transferred to Royal London.
  - Section 4 is a guide for policies not originally taken out with Royal London. This shows where the extra Practices relevant to your policy can be found. You should read this first, so that you can look at the extra Practices relevant to your policy at the same time as the main Practices set out in Part A.

In summary, to understand how this PPFM document relates to a particular policy, Part A and the relevant section of Part B should be read together.

In most cases, the additional Practices in Part B provide additional information to the main practices in Part A. However sometimes they differ, in which case it is the Part B Practices that apply.

1.6 Types and features of with profits contracts business in the Fund

1.6.1 Types of with profits business

A with profits policy is a policy that shares in the profits of the Fund, through bonuses which are added to the policy value.

This section provides a general description of the main types of with profits policies and key features of them. More detailed features are set out in each policy's terms and conditions.

The main types of business are:

- conventional with profits policies;
- unitised with profits policies;
- unit-linked with profits policies; and
- deposit administration policies.

These have been written in both the United Kingdom and the Republic of Ireland.

Other types of business in the Fund that aren't included in this PPFM include annuities and non-profit policies, which are types of non-participating policies. Non-participating policies don't share in the profits of Royal London.

Conventional with profits policies are contracts that pay a guaranteed sum assured or a guaranteed pension with added bonuses. The guaranteed sum assured is paid at the maturity date or on earlier death as long as all agreed premiums are paid. The guaranteed pension is normally paid on or after the maturity date. These policies use something called asset share, to track the value associated with the policy. The asset share is increased with any ProfitShare and is used when we set final bonuses, more detail on how this works is shown in Section 2 of this PPFM.

Unitised with profits policies are contracts where the premiums buy units in a with profits fund. As premiums are paid units are added to policies and, depending on the policy type, units may be removed to meet expense charges, the cost of life cover or other benefits. The guaranteed value of units may grow over time as regular bonuses are added. Like conventional with profit policies, these policies use asset share to track the value associated with the policy. The asset share is increased with any ProfitShare and is used when we set final bonuses, more detail on how this works is shown in Section 2 of this PPFM.

Unit-linked with profits policies are contracts where the premiums buy units in one or more unit-linked funds. These policies differ from unit-linked non-profit policies (not included in this PPFM) because they're entitled to share in the profits of Royal London by receiving bonuses. As premiums are paid units are added to policies. Units may be removed to meet expense charges, the cost of life cover or other benefits. These policies are quite different to conventional and unitised with profits policies because the policyholder chooses which funds to invest in. Also, the policy value depends on the number and value of units in the policy. There are no guaranteed maturity benefits. Bonuses are added to these policies as additional units when ProfitShare is declared. These bonus units cannot be taken away.

Deposit administration policies are different to the other types of with profit policies because they operate in a similar way to a bank account, whereby annual bonus is added like interest from time to time. These policies are not eligible for ProfitShare or final bonuses. For simplicity, where this document refers to with profits policies it will also include deposit administration policies. Depending on the policy type the policy's value may be reduced to meet expense charges, the cost of life cover or other benefits. Sometimes they may be covered instead by reducing the annual bonus or interest.

Some policies may contain a mixture of conventional, unitised and unit-linked with profits benefits. The PPFM wording applies to the relevant part of each policy as if they were separate contracts.

Bonuses are a way of sharing the profits of the Fund. They are added to the benefits payable on with profits policies and usually take two forms:

- regular bonuses which are added during the policy term; and
- final bonuses which, if they apply, are only added at the date of a claim.

1.6.2 Regular bonuses

For conventional with profits policies and deposit administration policies, regular bonuses are usually added yearly. They are usually added as a percentage of the guaranteed sum assured or guaranteed pension. In some cases, they can be added as a percentage of the regular bonuses that have been added in the past. For some types of policies they are called annual bonuses.

For unitised with profits policies, regular bonuses are usually added by increasing the price of units held in the fund. In some cases extra units can be added to the policy.

For unit-linked with profits policies regular bonuses are added as extra units in the chosen unit-linked funds.

A further type of bonus, called interim bonus, may also be added when a policy claims. For some types of policies, the interim bonus compensates for some or all of the expected regular bonus that the policy may have earned since we last announced the regular bonus rates.

1.6.3 Final bonuses

Depending on the type of policy, a final bonus may be added to the claim value of a policy if all agreed premiums have been paid up to that date. This final bonus amount will only be known for certain at the claim date and it is possible for final bonus to be zero.

For conventional with profits policies, final bonus is usually added as a percentage of the sum assured or guaranteed benefit. Final bonus rates will usually vary depending on the calendar year that policies were taken out.

For unitised with profits policies, final bonus is usually added as a percentage of the unit value. Final bonus rates will usually vary depending on the calendar year or quarter that policies entered.

Final bonuses are not paid on unit-linked with profits policies or deposit administration policies.

1.6.4 Amounts payable

For most conventional with profits policies the amount paid at the maturity date or the agreed retirement date will usually be:

- the guaranteed sum assured or pension, plus
- any regular bonuses added to the policy, plus
- any interim bonus added, plus
- any final bonus if it applies.

For most unitised with profits policies the amount paid at maturity or at the agreed retirement date will usually be:

- the value of the units on the payment date, plus
- any final bonus if it applies.

For unit-linked with profits policies, the amount paid at maturity or at the agreed retirement date is the value of the units.

For deposit administration policies, the amount paid at maturity or at the agreed retirement date is the annual bonus additions after any reductions for expense charges, the cost of life cover or other benefits.

Some with profits policies don't have a maturity date and they pay out only on death or early exit, which is also known as cashing in or surrendering the policy.

Any amounts paid out on death will depend on the policy type and are set out in policy terms and conditions.

For unitised with profits policies or unit-linked policies the amount paid on death is usually the value of the units and any final bonus that applies.

For other policy types the amount is usually the guaranteed benefits and regular bonuses that have been added to the policy. In some cases, interim or final bonuses may also be paid. Some policies pay only a minimal death benefit, for example a return of premiums paid.

Amounts paid on surrender are not usually guaranteed before the surrender date. For conventional with profits policies the surrender value is calculated by applying a formula to the guaranteed benefits that would have been paid at maturity. For unitised with profits and deposit administration policies, a market value reduction (MVR) may be applied which reduces the surrender value. This makes sure that the surrender value isn't more than a policy's fair share of the Fund. If we didn't do this there would be less in the Fund for other customers when their policies claim in the future, which wouldn't be fair. An MVR would apply only where allowable, in line with the policy terms and conditions.

For most unit-linked with profits policies the amount paid on surrender will usually be the value of the units, including any bonus units added under ProfitShare.

2 PRINCIPLES AND PRACTICES OF FINANCIAL MANAGEMENT

2.1 Guiding Principles

Royal London applies some overall guiding principles when managing the Fund under the Principles and Practices set out in this document. If there are any areas of doubt or conflict within this document, the following guiding principles will always apply.

Guiding Principles

Royal London will manage the Fund in line with the legal and regulatory requirements that apply to it. This will include holding enough assets to satisfy Regulatory Capital Requirements. These requirements are in place to make sure companies are financially secure. They say how much money Royal London must have on hand to still run smoothly if there are any unexpected problems.

Royal London will manage the Fund in line with any legal documents that were used to transfer policies into the Fund or to make changes to them. If there are any areas of doubt or conflict with a Principle or Practice within this document, the legal documentation will prevail.

Royal London will act in good faith with due regard to the interests of its policyholders, with a view to treating policyholders fairly, meeting their needs and achieving good outcomes for them.

Royal London will aim to manage the Fund so that all guaranteed benefits can be paid as they fall due. This will include following all rules set out in policy terms and conditions.

2.2 Management of the Estate

The Estate is the assets of the Fund that aren't needed to meet the expected value of its liabilities.

The Estate provides capital to support the business activities of Royal London, such as writing new business and developing the business in other ways for the benefit of policyholders.

The Estate doesn't currently include any of the Closed Funds; they have their own Closed Fund Estate. The legal document that transferred business into the Closed Funds sets a point when the business can be transferred into the Fund. At this point, the Closed Fund Estate will be shared out among the eligible policies. More information can be found in the separate PPFM documents for the Closed Funds.

2.2 PRINCIPLES - Management of the Estate

Royal London will manage the Fund to make sure that the Estate is a suitable size compared to the expected with profits liabilities, taking into account the fair treatment of with profits policyholders. The Directors will decide the appropriate size of the Estate after receiving actuarial advice.

The Estate will be used to provide capital to write new non-participating and with profits policies and to support other Royal London business activities. In return it will get profits or losses from those activities.

If the Estate has more money than it needs for the business and its future management, some may be shared with appropriate policyholders through ProfitShare. This decision would need to be approved by the Directors after receiving actuarial advice. Any restrictions imposed by legal documentation used to transfer policies into the Fund would also need to be considered.

The Directors agree a target level for the Estate after considering what it is being used for and whether there is any risk of not meeting Regulatory Capital Requirements. If the level of the Estate falls below the target level, the amount of the Estate which may be shared, or distributed, to policyholders may be reduced or set to zero. Appropriate charges to asset shares may be introduced or increased as needed to restore the level of the Estate. Asset shares represent a policyholder’s individual portion of the assets within the Fund. They are used to help track and allocate the financial benefits of policies within the Fund.

The Estate may be used to meet exceptional costs which the Directors, after receiving actuarial advice, believe shouldn’t be passed on to with profits policyholders.

In rare cases, the Estate may need to provide money to support the Closed Funds. If this happens, it will be refunded to the Estate as soon as possible when it is no longer needed by the Closed Funds. Also in rare cases, in the same way, the Closed Fund Estate may need to support the Fund. This would also be refunded to the Closed Fund Estate as soon as possible when it was no longer needed by the Estate. Any support would be subject to any restrictions imposed by legal documentation.

The Estate is managed assuming that there won’t be a re-attribution process. A re-attribution process involves a change to how the interests of with profits policyholders and members are balanced.

2.2 PRACTICES – Management of the Estate

As a mutual, Royal London uses the Estate so that we can:

- fulfil the fair expectations of current policyholders;
- invest in a variety of assets designed to optimise the Fund's long term returns and make sure that there's enough money to meet commitments;
- write new with profits and non-participating business;
- smooth and improve payouts;
- develop the business of Royal London; and
- meet our Regulatory Capital Requirements in all expected situations.

The Estate's target level is set as a multiple of the Regulatory Capital Requirements. A range around the target level is also agreed, and the Estate is managed with the aim of staying within this range.

The Directors usually review the Estate's target level and range each year, considering actuarial advice. Changes may be recommended, for example if there is a change in the economy or in regulatory requirements, or if there is a change in the Directors' risk appetite. Risk appetite is the level of risk that Directors are willing to accept to achieve Royal London's goals.

Each year the Directors determine the profits from the Estate that are available to be shared with eligible policyholders. This is referred to as 'ProfitShare'. The amount available is decided by the Directors and may be zero. It is shared with different types of policies in different ways, referred to as 'distributions'. For conventional and unitised with profits policies, distributions are normally applied as regular bonuses and enhancements to asset shares. This is described in section 2.6.2. For unit-linked with profits policies distributions are normally applied as a regular bonus by adding more units to the policy, described in section 2.6.4.

The rate of ProfitShare for conventional and unitised with profits policies that started before 31 December 2021 is different to the rate that applies to unit-linked with profits policies. The conventional with profits and unitised with profits rate is 8 times larger than the rate applied to unit-linked with profits policies. This multiple can be changed by the Directors to reflect circumstances at the time, after receiving actuarial advice. However, if the proposed multiple is lower than 6 or higher than 10, the Directors must obtain independent actuarial advice that supports the change. For policies sold before 31 December 2021, The Regulators would be told in advance if there were plans to change the multiple of 8. For former Scottish Life unitised with profits business that was transferred into the Fund on 31 December 2021 and for business sold or switched into with profits on or after 31 December 2021, the Directors made the decision on where to set the multiple after receiving actuarial advice. For this business the rate is 2 times larger than the rate applied to unit-linked with profits policies.

The level of the Estate is managed by the Directors after receiving actuarial advice. If the size of the Estate moves outside the target range they may authorise an increase or reduction in the level of the Estate. This would be done by making changes to the way the business is managed. For example, by changing the investment strategy, bonus strategy, payout strategy or smoothing strategy to make sure that customers are treated fairly. These strategies are described later in this document. Any actions taken by the Directors will depend on why the Estate moved outside of the target range, if it's expected to be a temporary or long lasting situation and how much the Estate has moved by. The Directors will consider a range of potential actions and their impacts after obtaining actuarial advice.

The Directors will assess the level of the Estate to decide whether to make a distribution to policyholders. They will take into account the need to use the Estate to support the business and provide the right level of investment flexibility, because Royal London is a mutual. This flexibility allows Royal London to maintain the investment strategy in line with policyholder expectations.

The investment strategy of the Estate is generally different from that of the rest of the Fund. The Estate contains strategic investments which are described in section 2.5.

The following expenses are the costs of operating with profits business, they are taken from the Estate:

- the administration expenses of with profits and non-participating policies;
- the cost of risk benefits passed on to with profits and non-participating policies;
- the cost of guarantees on with profits and non-participating policies; and
- the cost of smoothing for with profits policies.

The following charges are fees which may be collected for managing with profits business, they are added to the Estate:

- the administration charges passed on to with profits and non-participating policies;
- the charges for risk benefits passed on to with profits and non-participating policies;
- the charges made for the cost of guarantees on with profits and non-participating policies; and
- the charges made to with profits policies for the cost of smoothing.

The following expenses are also subtracted from the Estate:

- the expenses of managing certain types of with profits policy where the expense levels are higher than charges to policyholders; and
- the cost of guarantees on annuity policies that are not charged to policyholders.

The Estate is used to provide capital to write new with profits and non-participating business. It is also used for certain agreements described here, in line with the legal documents that were used to transfer policies into the Fund.

As described earlier in this document, the Estate may be used to support the Closed Funds.

The United Friendly Ordinary Branch policies that transferred from the United Assurance Group (UAG) receive distributions from some of the Estate's surplus, in line with the legal documents.

When the Police Mutual Assurance Society Limited (PMAS) policies transferred to Royal London, a Notional Account was set up within the Estate. The Notional Account operates in line with the legal documents and it will be in place until 1 October 2030. It tracks the movements in the value of PMAS assets and liabilities that are not related to the everyday operations of life policies.

The legal documents say that if the value of the Notional Account becomes higher than £5m or lower than -£5m, actions will be taken to bring it back into this range. The value of the Notional Account and any actions needing to be taken will be reviewed at least once a year. The With Profits Actuary has discretion over these actions. Any change in the Notional Account's value due to these actions will be split between PMAS asset shares and the Estate, as set out in the legal documents.

For some policies, there are additional practices in Part B. These are described for different groups of policies under the heading '2.2 Management of the Estate'.

2.3 Business Activities

2.3 PRINCIPLES - Business Activities

The Fund can engage in business activities only after approval by the Directors. This approval should follow appropriate professional advice and should be in line with agreed guidelines on the level and type of risk allowed.

The main goal of engaging with any activity with potential business risk is to create long term value for with profits policyholders who share in the Estate. This does not remove the possibility that losses may occur. In such situations, the Estate would cover any losses or compensation costs initially.

The Directors will act to reduce and manage any new business risks that are taken on. They will also aim to control the Fund's exposure to all existing business risks.

2.3 PRACTICES – Business Activities

Royal London operates a risk framework to identify, prioritise, manage and report the important risks for each business area through the year. Royal London's risk framework has three important parts that are linked together:

- the governance structure;
- the risk appetite; and
- a range of risk policies.

The risk policies set out how Royal London plans to manage significant risk exposure. The Directors review this framework regularly and it is updated when needed.

All areas of the business have responsibilities and procedures in place to manage risk. We make sure that all staff understand their responsibilities. We also make sure that the organisation of the business, the processes, systems and controls are all appropriate to manage risk in line with Royal London's risk policies.

Within Royal London the Group Risk & Compliance and Group Internal Audit teams provide independent advice about whether risk management systems and internal controls are operating effectively. The Group Internal Audit team also provide an independent opinion about how effective the key systems and controls of the business are. This includes checking how well the risk management processes work and making sure that rules and procedures are followed. Our external auditors also look at how effective our internal controls and risk management are. They consider this when they review our financial statements.

Examples of some of the Fund's business risks are set out below, along with mitigating actions that may apply. Mitigating actions are steps that we can take to reduce the chance of the risk happening or minimise its impact if it does happen.

Risk	**Mitigation**
The risk that guarantees on with profits policies were promised in policy terms and conditions but they can no longer be afforded.	The Fund's exposure to guarantees is limited by using appropriate methods to help manage risk. One example is matching up the timing and amount of our assets with our liabilities.
Changes in how profitable the Fund's non-participating business is. This comes mostly from the risks relating to costs, the number of policies that claim and whether policyholders continue to pay premiums.	When new policies are sold, processes and limits are applied to make sure that the price is appropriate and that certain rules are met. We also use suitable methods such as reinsurance and matching assets with liabilities. Reinsurance is like insurance for insurance companies, it helps us to manage our risks.
Not complying with the rules set by The Regulators. This is also known as a breach of regulatory requirements.	Regulatory requirements are monitored closely and continuously. Appropriate action is taken when it is needed.
Risks in transactions, for example errors in updating policy or investment information.	Processes are in place to reduce the risk of error and fraud.
The Fund may need to give financial help to the Closed Funds. This could reduce how much of the Estate is shared with policyholders.	The Closed Funds are managed to operate within their own resources to reduce the risk of needing support from the Fund.

Other risks have processes to monitor them and appropriate mitigating actions. For example, risks relating to new business, investment, expenses and tax. The risks that come from writing and looking after new policies are covered in the next section.

The risk framework sets out limits on the amount of risk that the Fund will accept for any other business risks.

The rewards or losses from business risks are usually added to or subtracted from the Estate. There is no specified limit on these amounts and, in most cases, they don't directly affect the benefits paid to policyholders. If a distribution was made to the Estate, or if the size of the Estate needed to be increased following such rewards or losses, there may be an indirect effect on the benefits paid to with profits policyholders which share in the Estate. Section 2.6.2 describes how expenses can be charged to asset shares. In such cases, business risks which result in higher or lower expenses may be added to or subtracted from asset shares rather than the Estate.

As part of managing the Fund, Royal London and its subsidiaries sometimes use capital instruments, which are financial tools, to raise money. The Fund is managed, and such capital instruments are arranged, so that the payments needed to treat policyholders fairly will be calculated and paid before such capital instruments would be repaid. This means that no business risk should arise from the issue of capital instruments by Royal London or its subsidiaries.

An example of a capital instrument is an option contract, which gives us the choice to buy or sell assets at an agreed price and time period.

2.4 New Business volumes

2.4 PRINCIPLES - New Business Volumes

Royal London expects to remain open to new business.

There is no specific limit to the volume (amount) of new with profits and non-participating business that's allowed to be written in the Fund. The aim is to make sure that the volume of new business written doesn't adversely impact the expected benefits of any policyholders.

If it is decided that the Fund should be closed to new with profits business, policyholders would be told about appropriate changes to the Principles as part of a wide-ranging process. Part of the Estate would need to be kept to write new non-participating business.

If it is decided that the Fund should close to significant amounts of all new business, Royal London's aim would be to continue treating with profits policyholders fairly. This would be done by reviewing investment policy, smoothing practices and managing the Estate in an appropriate way.

If it is decided that the Fund should be closed entirely to all new business, one possibility is that the Fund would be run off and any remaining Estate shared among the appropriate policies. This would happen over the future lifetime of the policies that were active at the time.

2.4 PRACTICES – New Business Volumes

The volume of new business written in the Fund may be limited to make sure that the Fund can always meet its Regulatory Capital Requirements.

Royal London has a business planning process which gives the Directors regular reports and financial forecasts.

A business plan is produced each year, which sets out the planned volumes of new business for the next year. We decide how much new business to plan by considering its impact on the Estate. We analyse different amounts and types of new business and consider their risks before making decisions. The planned new business is decided so that, if it was achieved, the size of the Estate would still be appropriate. The business plan will consider the results of any financial modelling carried out during the year. Examples of financial modelling include looking at possible situations in the economy and thinking about the capital that we may need in such situations.

The Directors approve the planned new business after receiving actuarial advice and considering how policyholders may be affected. The main areas that the Directors consider are:

- the amount of capital needed to write the planned new business;
- the risks associated with the planned new business, which are considered with the risk framework; and
- any requirements that the legal documentation has for existing business.

There is a formal process to review and approve the pricing of new products. This process checks that the minimum profits are likely to meet certain criteria, such as whether expected costs will be covered. These criteria are agreed by the Directors.

There are no additional practices in Part B relating to new business volumes.

2.5 Investment Strategy

2.5 PRINCIPLES - Investment Strategy

The investment strategy aims to optimise the long-term return for with profits policyholders and maintain the Estate at the target size. This is done making sure that guarantees and other commitments to policyholders are met.

After receiving actuarial advice, the Directors may group the liabilities of the Fund into separate pools and they may determine different investment strategies for each pool.

The Fund invests in a wide range of assets, also known as a mix of assets. When assets have similar characteristics, they are grouped into categories called asset classes. When deciding the mix of assets with different asset classes, the investment strategy will consider:

- the size of the Estate;
- the Fund's ability to meet its Regulatory Capital Requirements in all likely situations;
- the long term expected return for each asset class; and
- the actual and expected market fluctuations for each asset class.

The non-participating business in the Fund is supported by assets that are either cash or have a fixed income for an appropriate amount of time. For unit-linked policies, policyholders choose the funds that they invest in and we hold assets that are in line with that choice. Royal London aims to invest a large amount of the rest of the Fund in shares and property. The amounts held in fixed income assets will be varied to protect the Estate and keep it at the target size.

When deciding the range of assets to invest in, derivatives and other financial tools may be used to manage or protect the Estate. To reduce risk, the Directors set limits on how much these tools can be used. They also set limits on the amount that we invest with different third-party companies. The limits take into account their credit rating and any other contracts that Royal London has with them.

The Fund can hold assets that aren't usually bought and sold, such as the office buildings occupied by Royal London employees or investments in Royal London companies. We check these holdings regularly to make sure they're still necessary for the business and are a suitable share of the Fund. There aren't any restrictions on holding these assets, but Royal London must hold enough other assets that are easily sellable, to meet its requirements.

The Fund can invest in wholly-owned Royal London companies if there's an expectation of getting a reasonable return on the amount invested.

When deciding the investment strategy of the Fund, we don't consider the assets held in the Closed Funds. As a mutual there are no other assets held outside the Fund.

2.5 PRACTICES - Investment Strategy

The assets that support with profits business in the Fund are managed as one group of assets, aiming to optimise the returns to the Fund. This is done considering the types of policies in the Fund and the size of the Estate.

Unit-linked and unit-linked with profits business are supported by assets that align to the funds chosen by policyholders. Other non-participating business and certain types of with profits policies that have significant guarantees are supported only by cash and fixed income assets with suitable terms. The mix of assets supporting the remaining with profits policies is set with reference to the type of policies in the Fund, considering their currency. The mix of assets for the Estate is decided by looking at the Estate's value compared to its target size and to the Regulatory Capital Requirements.

The Directors set guidelines for how the Fund's assets are allocated. They regularly review fund performance, normally at each quarter but it can be more often if needed. The investment strategy and asset mix are typically reviewed annually. Any significant changes to the guideline allocations need to be approved by the Directors after receiving actuarial advice.

The Directors set guidelines for how much of the Fund can be invested in certain types of assets or individual companies. Investment is only allowed in approved asset classes. We keep records of approved companies, their minimum credit rating and limits on investments with them.

The Fund can hold certain types of assets that aren't typically bought or sold. Examples are our main offices and investments in Royal London ventures. We monitor these holdings to make sure that they form an appropriate part of the Fund and don't restrict the Fund's ability to invest freely.

The Fund holds certain investments that the Directors believe support the overall goals of Royal London. These investments may not be traded by RLAM without approval from the Group Chief Executive Officer.

The Fund may use derivatives and other financial tools that provide a close match with the liabilities of guaranteed options and benefits within the Fund. They are used to manage risk and meet our investment aims.

The Directors set performance goals to measure how well different types of investments perform. Performance goals for bond investments are aligned with the durations of policy benefits and expenses. This involves comparing future bond cash flows against expected payouts for policy benefits and expenses each year. The bond contributions and cash flows are adjusted to allow for the risk that they won't be repaid.

RLAM manage the Fund's assets and make investments within guidelines set out in an investment management agreement. The Directors or their representatives meet quarterly to check RLAM's performance compared to the agreed investment goals. This is done for the mix of assets and the performance of the different asset categories. They also make sure that RLAM follows the investment management agreement.

Royal London discloses the asset mix for conventional and unitised with profits business in the Fund every year on 31 December. This information can be found in the annual report, on the Royal London website or shared with policyholders, for example in the annual statements or bonus notices.

Each unit-linked fund that unit-linked with profits business invests in has its own investment aim and goals.

There are no additional practices in Part B relating to investment strategy.

2.6 Policy Benefits Payable

This section describes how Royal London decides the benefits that will be paid to with profits policyholders. The first two parts describe the general Principles and Practices that Royal London uses to decide the benefits and explain how asset shares are used for this process. The final parts describe how payouts are smoothed, how regular (or annual) bonuses are set and how final bonus and market value reduction (MVR) scales are decided.

The benefits that are paid on unit-linked with profits policies are decided using the number and value of unit-linked units allocated to the policies. Asset shares and smoothing do not apply to these policies.

This document often refers to asset shares, especially when describing the benefits that will be paid out for a policy. Asset shares are simply a measuring tool. We use them to set bonus rates and to assess the size of the Estate. We do not quote asset shares on individual policies. Section 2.6.2 explains more about them.

2.6.1 PRINCIPLES - Policy Benefits Payable

When deciding the amounts to pay, Royal London aims to fulfil the fair expectations of all policyholders, treating different groups and generations of policyholders fairly.

One aspect of fairness involves protecting remaining policyholders from the effects of others choosing to leave the Fund voluntarily. This happens when policyholders don't complete the full terms and conditions of their policies. For example when they stop paying premiums, alter their policy or withdraw some of the benefits from it. Royal London aims to meet the fair expectations of these policyholders, but will also aim to make sure that enough credit is given to the Estate to protect the benefits of continuing policyholders.

For conventional, deposit administration and unitised with profits business, Royal London aims to smooth payouts so that over the long term the amount paid for maturity or death claims is the asset share, with a minimum of the guaranteed benefit. To calculate maturity and death claim amounts a final bonus is usually added to guaranteed benefits, but this can be zero. For certain groups of existing policyholders Royal London may pay more than asset share, for example where there are significant guarantees.

For unit-linked with profits business, claim values consider the number and value of units held in each policy. Any ProfitShare that has increased the price of units held or added extra units will also be included.

When a policyholder exits their policy voluntarily, the claim value may be reduced to collect any owed charges, such as charges for using the Fund's capital. For unitised with profits business, claim values on surrender or part surrender may also be reduced to allow for a market value reduction (MVR) if it is appropriate.

The method used to decide payouts can be changed following a formal process with approval from the Directors after receiving actuarial advice.

When calculating the benefits for with profits policies, a fee is charged to allow for the cost of managing the policies. For policies where a service provider is used to provide administrative and management services, the fees are agreed each year. They're set based on what's fair for all policyholders, considering the cost of managing each type of business.

Historical parameters used to calculate the benefits for with profits policies may not be changed unless the Directors, after receiving actuarial advice, find it necessary. This could be to correct errors, update with new information or to make sure there is fairness between policyholders and the changes are large enough to be considered necessary.

We sometimes use estimates when calculating payouts, by combining the overall experience of the Fund and across different groups of policies. This includes using the same set of bonus rates for policies that have similar characteristics. For example, for altered or unaltered policies, for endowment or whole life policies. For some groups of policies where asset shares are not calculated, they may be estimated.

2.6.1 PRACTICES - Policy Benefits Payable

We keep documents that set out the methods, processes and assumptions used to calculate policy values. Any significant changes are approved by the Directors, after receiving actuarial advice. Assumptions and factors may be updated after receiving actuarial advice. For example, we may change the estimates of expenses or other charges. These updates are only usually made if more accurate information becomes available or if we need to correct an error that has a significant impact on asset shares.

The benefits paid on unit-linked with profits policies depend on the number and value of units held; asset shares aren't used. The maturity amounts paid on conventional and unitised with profits policies are usually set using asset shares as a guide.

Death claim payouts will be at least the value of any guaranteed minimum death benefit. This is the minimum amount of death benefit, as set out in the policy schedule and any attaching endorsements. In some policy terms and conditions there may be a maximum death benefit that can be paid. For example, this may be a return of premiums or a fixed amount.

For some types of policy, the amounts paid on death or maturity don't depend on asset shares. Instead, bonuses are paid in line with terms and conditions and benefits are calculated using a formula.

The asset shares used to set maturity payouts may be before or after any enhancements or smoothing that applies, depending on the type of business being considered. For simplicity, this document will refer to all definitions as ‘asset shares’ unless further details are needed. Further details about the enhancements that may apply are included in the next section.

For some groups of business asset shares are calculated using individual policies. For others, they are calculated using specimen policies, which are sample policies chosen to represent the group of policies expected to mature or claim in a given period. Their details are usually based on the averages of actual policy information.

We aim to set bonus rates that keep maturity payouts, as a percentage of asset share, within a specified range. We call this the target range for payouts. For most conventional with profit policies the target range is 80% to 130% and for most unitised with profits policies it’s 75% to 125%. For the purpose of this target range test, maturity payouts are those before any distribution is made from the Estate.

The target range differs for some groups of policies that weren’t originally taken out with Royal London. They are set out in Part B.

To set maturity payouts, we calculate asset shares for policies that are expected to mature in the period being considered. The method used to calculate asset shares is described in section 2.6.2.

For conventional business, a formula is usually used to calculate the benefits paid when a policy is exited voluntarily, also known as surrendering a policy. The aim is to allow for the length of time that the policy has been in force and for the collection of expenses and other charges. Regular bonuses that have been added to the policy are reduced as needed to allow for the adjustment to benefits and the early payment. A final bonus may be added but this may be at a reduced rate and it may be adjusted to make sure that remaining policyholders are treated fairly. From time to time we use asset share methods to check if the formulae used for surrender calculations are appropriate.

We aim to set payouts on surrender so that when it is expressed as a percentage of asset share it is the same as the maturity payout, excluding any guarantees that only apply on maturity, in the long term. This is done with the condition that the benefits of remaining policyholders are protected. For most conventional business, the surrender payout falls within 80% to 130% of asset share. For most unitised with profits and deposit administration business the surrender payout falls within 75% to 125% of asset share.

For most unitised with profits business, the benefits paid on surrender or part surrender consider the guaranteed benefits of the policy, with a possible final bonus that may be added. The claim amount is adjusted to collect any owed expenses or other charges. A market value reduction (MVR) may also be applied. For most unitised with profits business, the surrender value falls within 75% to 125% of asset shares. For some unitised with profits business, the benefits paid on surrender or part surrender consider the asset shares and the guaranteed benefits where no MVR applies.

Maturity and surrender payouts are normally reviewed against the target ranges each year, using actual or specimen policies. As the ranges are targets, payouts aren't guaranteed to fall within them. We use enough specimen policies to make sure that our sample method doesn't significantly differ from using actual policies.

The target ranges don't apply:

- When guarantees on a policy cause the payout to be higher than the range.
- For some small types of business where asset shares are not calculated.
- When the asset share does not represent a fair guide to the payout. For example, altered or paid-up policies, certain conventional whole of life policies and policies with very small or negative asset shares. A paid-up policy is one where the policyholder stops making payments and the policy stays in force with reduced benefits.
- In extreme investment conditions or after a long stretch of good or bad conditions.
- In exceptional circumstances, for example when the Fund is expected to be unable to continue to meet its Regulatory Capital Requirement.
- When surrender values need to meet the legal terms and conditions of a previous transfer of business into Royal London.

For certain types of business where asset shares are not calculated, or where asset shares aren't a reliable indicator of payouts, other methods are used to set claim values. These methods aim to align with the amounts calculated for other policies, making sure that payouts are fair for different policy types.

For paid-up policies, we usually set payouts using premium paying policies that haven't been altered as a reference. This means that paid-up policies usually have the same, or similar, rates of final bonus as policies that aren't paid-up. However, other benefits may have been reduced when a policy is made paid-up meaning that the overall payout is lower for paid-up policies than for those which have paid all premiums.

Payouts will be adjusted for any debt, adjustments or loans that have been taken against the cash value of a policy. Debt can also exist on a policy if there are any unpaid premiums, in line with policy terms and conditions.

For some policies, there are additional practices in Part B. These are described for different groups of policies under the heading '2.6.1 Policy Benefits Payable'.

2.6.2 Calculation of Asset Shares

2.6.2 PRINCIPLES - Calculation of Asset Shares

Asset shares are calculated by adding up the premiums paid allowing for how much we've earned on the investments supporting policies, and taking account of expenses and charges. These may include:

- the expenses of setting up and managing the policies;
- the cost of risk benefits, which is the money set aside to pay possible claims;
- the cost of guarantees, to meet the promises made to policyholders;
- the cost or benefit of smoothing payouts to reduce the impact of market fluctuations;
- the cost of securing and holding capital and;
- the cost of tax.

Similar methods are used for sample policies and actual policies, using appropriate premiums and charges for the sample policies.

2.6.2 PRACTICES - Calculation of Asset Shares

This section looks at each part of the asset share separately to show the main factors that affect them.

Asset shares do not apply to unit-linked with profits business.

Investment Returns

We look at how much we've earned from the mix of assets supporting different groups of with profits policies and we add this to their asset shares. This is known as the investment return.

The investment return included in asset shares and specimen asset shares is usually the actual return for each calendar year. If this is not yet available, an estimate is used.

The assets supporting each group of with profits business may vary according to:

- the type of business;
- the amount of guaranteed benefits compared with the amount of asset shares and;
- the duration that has passed since the policy started, or the time left until the policy's maturity date.

Expenses

Expenses are mainly set up costs, administration fees, commission expenses (if they apply) and investment management expenses. Usually, expenses for a policy are at their largest when the policy is set up. The expenses of looking after a policy and managing the investments over time are usually much smaller.

The amount of expenses is affected by the type and nature of the policy. The expenses charged to asset shares or specimen asset shares may be:

- a fixed amount for each policy;
- related to the size of the premium;
- related to the size of the policy's fund;
- related to the size of the policy's sum assured;
- related to the size of the asset share or;
- some combination of these.

Further details for policies not originally sold by Royal London can be found in Part B. For these policies, the expenses are normally set out in the legal documents when the policies transferred to Royal London.

All expenses that are not charged to asset shares will be paid for by the Estate. The charges made for managing investments are set out in the investment management agreement which is described in the Investment Strategy section.

The terms and conditions for a policy set out the actual charges that are taken. They also set out how they increase over time. Charges such as policy fees are normally updated each year and increase with inflation. The Directors may agree increases in other charges such as annual management charges after receiving actuarial advice.

Cost of Risk Benefits

Risk benefits are the benefits that are paid out on events such as death or sickness. The cost of risk benefits reflects the difference between the expected and actual claims.

Charges are taken from asset shares to allow for the cost of risk benefits. These charges are estimated using standard actuarial tables of data, with adjustments to reflect the experience of the Fund. These standard tables are available in the insurance industry to estimate the possibility of certain events, such as death or sickness. They are typically based on past data from a wide population.

Guarantees

Guarantees are the minimum benefits that are promised regardless of investment performance or other experience. Examples of guaranteed benefits are the sum assured of a life policy or a guaranteed annuity rate for a pension policy.

The cost of guarantees is calculated by taking the difference between the guaranteed benefits and asset shares, when guaranteed benefits are higher than asset shares.

The Directors may decide to apply a charge to asset shares to cover all or some of the cost of guarantees, after receiving actuarial advice. This charge would help to cover the average expected cost of guaranteed benefits over a defined period of time. The charge may be applied by reducing asset shares or by reducing the investment return that's added to asset shares.

For some policies, there are no charges to asset shares for guarantees.

Asset Share Enhancements

Asset shares may be increased from time to time by an enhancement. These enhancements may be added to asset shares temporarily or permanently. They are included in the asset shares used to compare payouts to the required target range.

For some policies, including those not originally sold by Royal London, there are additional practices in Part B. These are described for different groups of policies under the heading '2.6.2 Calculation of Asset Shares'.

Tax

We reduce investment returns to allow for appropriate rates of tax. For example, we assume different tax rates for income and for profits made when selling an investment, and for shares and other investments. Where products may incur a tax for policyholders, we reduce our expenses to allow for tax relief. This method allows for the right amount of tax in the asset share calculation.

The actual tax to be paid is calculated separately using a more detailed method. The difference between the actual tax paid and the tax included in asset shares is added to or subtracted from the Estate.

2.6.3 Smoothing

Smoothing is an important feature of with profits investments. It is one of the key ways that we can reduce the impact on policyholder payouts of the variation in returns earned year on year by the Fund. The Fund invests in a range of assets and their values can go up and down, sometimes significantly, over time. One year a particular investment may do very well, the next its value could fall sharply.

We add bonuses in a way that partly protects policyholders from any large falls in the investments held by the Fund. Instead of adding large bonuses in good years and small or no bonuses in bad years, we aim to smooth them out. We hold back some of the investment gains earned during good years so that we can release them as bonuses when returns are lower.

Smoothing does not apply to unit-linked with profits business.

2.6.3 PRINCIPLES - Smoothing

We aim to smooth maturity payouts for with profits policies. This means that we try to limit the difference between payouts on similar policies that mature in different time periods. The aim is to reduce the impact of changes in the values of assets supporting the policies. We may vary the amount of smoothing to make sure that policyholders are treated fairly and that remaining policyholders are protected. Consistent methods will be used for different groups and generations of policyholders. Our smoothing methods may be varied if considered necessary, after receiving actuarial advice.

Smoothing adjustments can be positive or negative and any amounts held back or given out will be calculated so that policyholders are treated fairly. In the short term there is no set limit on the positive or negative smoothing amounts. Overall we aim for the cost of smoothing payouts to be neutral over the longer term. This means that over a long time period, we aim for the positive and negative smoothing amounts to roughly balance out.

Unit-linked with profits business does not have any smoothing applied.

2.6.3 PRACTICES - Smoothing

We smooth the year on year maturity payouts of similar with profits policies. Each year the Directors consider whether to limit how much payouts should change since the previous year. To do this they consider the cost of paying bonuses and the need to keep the Estate at an appropriate size. They also take into account the future payments expected to be made into and out of the Estate.

To set maturity payouts on with profits policies we start by comparing recent payout amounts and asset shares. We use a formula with certain components which aim to move payouts towards asset shares in a managed way. While the overall approach remains the same, the method may differ between different types of policies, such as conventional with profits or unitised with profits, to reflect their different characteristics. The formula acts as a guide and the factors can change over time. For example, the factors depend on the size of the Estate and the need to balance fairness between continuing policyholders and those with maturing policies.

If recent payouts have been higher than asset shares, it is likely that payouts will be reduced. In a similar way, if recent payouts have been lower than asset shares, it is likely that payouts will be increased. The size of the reduction or increase will depend on how different the recent payouts are to asset shares. If they're very different then the reduction or increase in payouts would be larger than if recent payouts and asset shares were closer together.

There aren't any maximum amounts for the increases or reductions used to smooth payouts. Instead, the aim is to balance the fair payouts expected by policyholders exiting the Fund and those who remain part of it. The same approach is used for different groups and generations of policyholders.

Usually there is no limit on how much maturity payouts can change year on year. However, the Directors can set a limit if they believe it is appropriate at a particular time.

For conventional with profits policies, a formula is usually used to calculate the benefits paid when a policy is surrendered or transferred. These benefits are not usually smoothed, except where the formula includes a final bonus. In some cases, smoothing may be used to align early exit payments with long term maturities. This is done by comparing the benefits as a percentage of asset share.

For some policies, there are additional practices in Part B. These are described for different groups of policies under the heading '2.6.3 Smoothing'.

2.6.4 Regular (or Annual) Bonus

A regular bonus, also referred to as annual bonus in some policy documents, increases the value of a policy gradually over time. Once added to with profits policies it becomes part of the guaranteed benefits and can't be taken away. The guaranteed benefits, including regular bonus, will be paid in line with the terms and conditions of the policy. For example, for an endowment policy they may be paid out at the end of the policy term or on death if this is sooner.

For unit-linked with profits policies a regular bonus adds extra units to the policy.

2.6.4 PRINCIPLES - Regular Bonus

When setting all bonus rates, the Directors aim to meet the fair payouts that policyholders expect, treating different groups and generations of with profits policyholders fairly. The aim when setting regular bonus rates for with profits policies is to increase guaranteed policy values reasonably over time. We aim to pay bonus rates that are expected to continue over a long period of time, considering the current and future outlook of the economy.

Regular bonuses for unit-linked with profits policies are set differently. They aim to pay a fair share of Royal London's profits over time.

We set regular bonuses at affordable rates that won't place a burden on the Estate. If the Directors believe the outlook for the economy is poor or the Fund can't afford to pay regular bonuses, they may set regular bonuses of zero at a particular time.

To treat policyholders fairly, different regular bonus rates may be set for different groups of policies. For example, different bonus rates may be set for life and pension policies, or for groups of policies that have different guarantees.

The Directors regularly consider the methods used to set bonuses to make sure they're still suitable. A new set of bonus rates may be introduced if they become necessary for fairness or to keep the Estate at the target size.

2.6.4 PRACTICES - Regular Bonus

Regular bonus rates are normally set once a year.

For some unitised with profits policies the regular bonus is added to the unit price. Regular bonus rates may be changed more than once a year depending on the movements in the economy. Once they are set, regular bonus will apply at that rate until a change is made, which may be at any time.

For unit-linked with profits policies, ProfitShare is normally applied as a regular bonus.

When ProfitShare is awarded to eligible conventional or unitised with profits policies, an extra regular bonus is added to the normal regular bonus and an enhancement is applied to asset shares. When ProfitShare is awarded to eligible unit linked with profits policies, more units are normally applied to the policy.

When deciding regular bonus rates, investigations are carried out. For example:

- we consider the expected future strength of the Fund;
- we consider the expected future returns from the assets that support the Fund;
- we explore how much the guaranteed benefits can be increased to leave the possibility that final bonus could be paid at maturity; and
- we use models to check that the Fund can still meet its regulatory requirements if a variety of different situations happen to investments or in the economy.

We consider whether any suggested regular bonus rates could be expected to continue over a long period of time. We also consider whether the Fund is able to afford them.

When setting regular bonus rates for conventional and unitised with profits policies, our aim is to gradually increase guaranteed benefits during the policy term. This is done in a way that leads to a high possibility that final bonuses can be paid at the maturity date. We assess this using models which project the future value of asset shares and guaranteed benefits.

The Directors decide how much regular bonus to declare. They have to make sure that the Estate will have enough money to pay for everything it needs to, both now and in the future. Regular bonus is only added to with profit policies if the Directors are confident that Royal London will continue to have enough capital to meet regulatory rules. We usually make changes to regular bonus rates gradually from year to year, avoiding large increases or decreases whenever possible. There’s no limit to how much the regular bonuses can change from one year to the next, and they can go down to zero in certain market situations or in scenarios where they would otherwise limit the Fund's investment objectives.

We also add interim bonus for certain types of policies. These are usually set using the same method as regular bonuses.

Some groups of policies also have cash bonuses which are described in Part B. These are described for different groups of policies under the heading '2.6.4 Regular Bonuses'.

2.6.5 Final Bonus and MVR Scales

For maturity payouts on conventional and unitised with profits policies, final bonus rates are set to reflect broadly the extra money to be paid on top of the guaranteed benefits, which includes regular bonus. A smoothing process is also used.

During challenging market conditions, the asset share for a policy may fall below the amount of guaranteed benefits and any final bonus. When this happens, a market value reduction (MVR) will be applied for unitised with profits and deposit administration policies. MVR scales are usually set as the difference between asset shares and the guaranteed benefits plus any final bonus. MVRs are only applied if a policy voluntarily exits or partially exits when there are guaranteed benefits.

Since final bonus rates are smoothed over time, the MVR may still apply after the market conditions have improved. It usually applies until asset shares catch up with the guaranteed benefits and any final bonus.

2.6.5 PRINCIPLES - Final Bonus and MVR Scales

Final bonuses and MVR scales are set based on principles guiding payouts and smoothing. However, adjustments may be made at any time to keep the Estate at the target level and to make sure policyholders are treated fairly. There are no strict limits on how much final bonus rates, MVR scales or early exit claim calculations can change from one declaration to the next. Final bonuses may be reduced to zero and MVR scales could be introduced or increased as needed.

For fairness and to align payouts for voluntary exits more closely with asset shares, MVR*s* will be applied, or early exit claim calculations will be changed as needed.

2.6.5 PRACTICES - Final Bonus and MVR Scales

Changes may be made to final bonus and MVR scales at any time. All changes are approved by the Directors or their representatives after receiving actuarial advice. Final bonus is only added to a claim if the Directors believe that the Fund can still meet its regulatory requirements in all likely situations.

Final bonuses are added to the guaranteed benefits of conventional and unitised with profits policies to provide a total payout. This calculation is based on total asset shares and may include smoothing. A final bonus scale is set by the Directors or their representatives for individual policies or groups of similar policies, after receiving actuarial advice.

For most conventional and unitised with profits business we include a final bonus in a policy's surrender or transfer value. This is usually at the same rate used for death and maturity claims. However, it is possible for the final bonus amount to be reduced depending on the length of time the policy has been in force compared to its original term. It is also possible for the final bonus amount to be zero.

For unitised with profits policies, an MVR may be applied in certain times when market conditions are poor. This is done to align payouts more closely with asset shares. Where they apply, we calculate MVR factors by looking at how long policies have been in force and how long is left until the end of the term. MVR scales may be calculated for individual policies or for groups of similar policies.

Some policy conditions refer to MVR factors as Financial Adjustments. In this PPFM we use our preferred description of MVR factors instead.

Final bonuses and MVRs are not applicable to unit-linked with profits policies.

PART B

Some policies that are now managed by Royal London were originally taken out with other companies, such as Scottish Life, United Friendly, Refuge Assurance, and Royal Liver. These policies may have different features, terms and conditions, and bonus arrangements than those described in Part A. This section explains where there are any additional specific PPFM practices for particular groups of policies.

The sections are organised according to the original company that issued the policies, with examples of policy descriptions for each group. Your policy description can be found in your original policy documents and in the information that we send to you. To understand how the PPFM relates to your policy, it is necessary to read Part A and the relevant section of Part B together.

3 Policies included in this PPFM document

Group A

This group is made up of conventional with profits policies issued by Royal London before 1 January 2001. It covers Ordinary Branch pension business, Industrial Branch life business and Ordinary Branch life business. Examples of policies include:

Ordinary Branch pension business:
Adaptable Personal Pension
Personal Pension
Group Personal Pension
Free Standing Additional Voluntary Contribution plan

Ordinary Branch life business:
Peace of mind
Profitmaker
Endowment Economy Plus
Endowment low start
Endowment Plus
Cornerstone with profits
Whole Life
Orchid

Industrial Branch life business:
Peace of mind
Cashplan 5
Endowment with profits
Option 5
Family care
Whole Life

Group B

This group is made up of unitised with profits policies issued by Royal London that aren't Royal London Intermediary products. It covers the following products:

Investment Plan - With Profit Bond
With Profits Bond
European With Profits Bond (only available in Germany)
With Profits Bond Plus (only available in Germany)
Savings Plan
With Profits ISA (only open for top-ups to existing plans)
Personal Pension Plan (closed to new business in April 2001).

The European With Profits Bond and With Profits Bond Plus, together the Royal London Insurance DAC German Bonds, were transferred from Royal London to Royal London Insurance DAC with effect from 7 February 2019. The legal terms of this transfer are set out in the Royal London Insurance DAC Scheme. Upon the transfer they were immediately reinsured back to Royal London under the German Bond Reinsurance Agreement.

The Principles and Practices in this document apply to the Royal London Insurance DAC German Bonds in relation to the role of Royal London as reinsurer. Their inclusion shall not in any way operate or be interpreted as affecting the role, responsibility and discretion of the Royal London Insurance DAC Board or the Royal London Insurance DAC Head of Actuarial Function in respect of the reinsured policies.

The Principles and Practices will not apply to the Royal London Insurance DAC German Bonds if the German Bond Reinsurance Agreement terminates.

Group C

This group is made up of the Royal London Funeral Investment Plan taken out after 31 December 2014 and with profits benefits of Royal London Intermediary policies issued after 30 June 2001.
Also included are top-ups made on with profits policies that were held within the Scottish Life Closed Fund before the Scottish Life Closed Fund was moved into the Fund under the Scottish Life Scheme of Arrangement on 31 December 2021.
It covers the following Royal London Intermediary products:

Ordinary Branch pension business:
Crest Growth Final Salary (With Profits)
Crest Growth Money Purchase (With Profits)
Retirement Solutions Group Personal Pension Plan
Retirement Solutions Company Pension Scheme
Individual Executive Pension Plan
Individual Pension Portfolio
Individual S32 Buyout Bond
Talisman Continuation Pension Plan (Versions 1 to 6)
Talisman Group Pension Plan (Versions 1 to 6)
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 Executive Pension Plan
Talisman Free Standing AVC Plan
Talisman Group Personal Pension Plan

Talisman Phased Retirement Contract
Talisman Personal Pension
Crest Secure Final Salary
Crest Secure Money Purchase

<u>Ordinary Branch life business:</u>
Budget Plan (top ups)
Profitbuilder All Purpose Financial Plan
Profitbuilder House Purchase Plan
Profitbuilder Savings Plan
Funeral Plan

<u>Group D</u>

This group is made up of conventional with profits policies issued by the United Assurance Group. These are with profits policies written by United Friendly and with profits policies written after 31 December 2000 by Refuge Assurance but sold under the United Friendly brand.
It covers Ordinary Branch pension business, Industrial Branch life business and Ordinary Branch life business.

<u>Ordinary Branch pension business originally written by United Friendly and issued before 1 August 1997.</u>
With profits personal pension
With profits Freestanding AVC
With Profits APP

<u>Ordinary Branch life business originally written by United Friendly and issued before 1 August 1997.</u>
Endowment with profits
Whole life with profits
Low cost endowment

<u>Industrial Branch business originally written by Refuge Assurance under the Refuge brand and issued before 1 August 1997 and Industrial Branch business originally written under the United Friendly brand and issued from 1 August 1997.</u>
Endowment assurance
Flying start saver plan
Cash Back Saver
Solid growth saver plan
Shield Plus Protection
Life Plus Protection
Whole life plan
Whole life with 5 yearly cash payments (Tables 30, 32, 39)
Whole life with 10 yearly cash payments (Table 38)

<u>Industrial Branch business originally written by United Friendly: and issued before 1 August 1997.</u>

Whole life
Endowment
Whole life with 5 yearly cash payments (Tables 5, 25)

Group E
This group is made up of unitised with profits policies issued by Refuge Assurance before 1 January 2001.

Capital Investment Bond issued under the Refuge brand before 1 August 1997
Capital Investment Bond issued under the United Friendly brand from 1 August 1997
Investment Plan - With Profit Bond issued under the United Friendly brand before 1 January 2001
Personal Pension Plan issued under the United Friendly brand between 1 October 1999 and 31 December 2000.

Group F

This group is made up of conventional with profits policies issued by Refuge Assurance before 1 January 2001. It covers Ordinary Branch life and pension business.
Policies that were issued before 1 August 1997 were sold under the Refuge brand. Policies sold after 31 July 1997 and before 1 January 2001 were sold under the United Friendly brand.

Examples of policies include:

Ordinary Branch life business
Child savings plan
Bonus savings plan
Endowment assurance
Capital bonus savings plan
Homesaver
Homestarter
Low cost endowment
Mortgage endowment plan
Moneybuilder
Whole life assurance
Totalife Plus plan

Ordinary Branch pension business
Personal pension
Free standing Additional Voluntary Contributions plan
With Profit Personal Pension Plan
With Profit Freestanding AVC Plan

Group G

This group is made up of unit-linked benefits of Royal London Intermediary pension policies taken out after 30 June 2001 and unit-linked benefits of some pension policies sold by Police Mutual Assurance Society, Royal Liver and Phoenix Life Assurance Limited as specified below. It covers the following products:

Crest Growth Final Salary
Crest Growth Money Purchase
Retirement Solutions Group Personal Pension Plan
Retirement Solutions Company Pension Scheme
Retirement Solutions Individual
Income Drawdown
Income Release
Individual Executive Pension Plan
Individual Pension Portfolio

Individual S32 Buyout Plan
Stakeholder Pensions
Royal London Group Stakeholder Pensions
Talisman Buy-out Plan
Talisman Continuation Pension Plan (Versions 1 to 6)
Talisman Group Pension Plan (Versions 1 to 6)
Talisman Hallmark Plan
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 Executive Pension Plan
Talisman Free Standing AVC Plan
Talisman Group Personal Pension Plan
Talisman Personal Pension
Top Up Pension Plan
Police Mutual Group Personal Pension
Royal Liver Group Stakeholder
Police Mutual Stakeholder
Phoenix Life Assurance Limited Stakeholder
Royal London Stocks and Shares ISA

Group H

This group is made up of conventional and unitised with profits policies issued by Police Mutual Assurance Society before 1 October 2020.

Conventional with profits:
Regular Savings Plan
Low Cost Endowment
Minimum Low Cost Endowment
Children's Bond

Unitised with profits:
Platinum Bond
Guaranteed Investment Bond
Guaranteed ISA
Protected Growth Options ISA
Non-Guaranteed Options ISA
Top Up Pension Plan
Group Personal Pension

Group I

This group is made up of conventional and unitised with profits benefits, and deposit administration benefits on policies issued by Scottish Life before 1 July 2001.

Ordinary Branch pension business:

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
IPA Sovereign Plan
Personal Pension Bond (with profit)
Personal Pension Deferred Annuity
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

<u>Ordinary Branch life business:</u>
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

<u>Group J</u>

This group is made up of conventional Ordinary Branch and Industrial Branch with profits policies issued by Royal Liver, Irish Life, Friends Provident (including London and Manchester policies) and Caledonian Insurance, including those sold in Ireland and reinsured by Royal London under the Liver Reinsurance Agreement.

Ordinary Branch business:
Royal Liver Pension Plan
Royal Liver Whole of Life
Royal Liver Endowment
Royal Liver Retirement Annuity Contract
Royal Liver Low Cost Endowment
Caledonian Endowment: Cashback
Caledonian Endowment
Caledonian Mortgage Endowment
Caledonian Deferred Annuity
Caledonian Whole of Life

Industrial Branch business:
Friends Provident Whole of Life
Friends Provident Endowment
Royal Liver Whole of Life
Royal Liver Endowment
Irish Life Whole of Life
Irish Life Endowment
Irish Life Whole of Life with periodic payments

Group K

This group is made up of unitised with profits policies issued by Royal Liver and Caledonian Insurance, including those sold in Ireland and reinsured by Royal London under the Liver Reinsurance Agreement.

Ordinary Branch business:
Royal Liver Personal Investment Plan
Royal Liver Personal Pension
Caledonian Bond

Group L

This group is made up of unitised with profits policies issued by Phoenix Life Assurance Limited.

Life
Endowment Mortgage Plan – Low Cost
Endowment Mortgage Plan – Low Start
Ten Year Regular Savings Plan
With Profit Investment Bond
With Profit Bond (Savings and Investment Direct)
Flexible Lifetime Plan
Critical Illness Contract

Pension
Group Pension
Personal Pension (Regular)
Personal Pension (Single)
Contracted Out Pension Plan
Top-Up Pension Plan
Flexible Pension Plan

ISA
Mortgage Plan
Savings Plan

4 PRACTICES FOR DIFFERENT BUSINESS TYPES

For policies that were originally taken out with other companies, this section explains where there are any additional PPFM practices.

Group A
This group is made up of conventional with profits policies issued by Royal London before 1 January 2001. It covers Ordinary Branch pension business, Industrial Branch life business and Ordinary Branch life business.

2.6.2 Calculation of Asset Shares - Expenses
To calculate asset shares, the expenses for setting up and managing policies are the fees agreed between Royal London and the service providers who manage the policies.

2.6.4 Regular Bonuses
Some types of Industrial Branch life policies have guaranteed cash bonuses.

Group B
This group is made up of unitised with profits policies issued by Royal London that aren't Royal London Intermediary products.

2.6.2 Calculation of Asset Shares - Expenses
To calculate asset shares for policies other than the Personal Pension Plan, the expenses for setting up and managing conventional with profits policies are the fees agreed between Royal London and the service providers who manage the policies.
To calculate asset shares for the Personal Pension Plan, the expenses are an annual management charge and other policy charges set out in the policy terms and conditions.

2.6.2 Calculation of Asset Shares - Guarantees
When a surrender value guarantee is included on a With Profit Bond Plus policy, a one-off charge is taken from the initial asset share. Factors considered when calculating this charge include how long the guarantee applies for and the asset mix of the Fund. We also consider the market value and expected returns from the assets and financial tools we use to match the policy's liabilities.

Group C
This group is made up of the Royal London Funeral Investment Plan taken out after 31 December 2014 and with profit benefits of Royal London Intermediary policies issued after 30 June 2001.
Also included are top-ups made on with profits policies that were held within the Scottish Life Closed Fund before the Scottish Life Closed Fund was moved into the Fund under the Scottish Life Scheme of Arrangement on 31 December 2021.

2.6.2 Calculation of Asset Shares - Expenses
To calculate asset shares, the expense is an annual management charge.

Group D
This group is made up of conventional with profits policies issued by the United Assurance Group (UAG). These are with profits policies written by Refuge Assurance and United Friendly.
It covers Ordinary Branch pension business, Industrial Branch life business and Ordinary Branch life business.

2.2 Management of the Estate
Before 31 December 2022, the Estate received one-ninth of the shared surplus each year from certain with profits policies that were transferred from United Assurance Group (UAG). This transfer was initially made to UAG shareholders before Royal London acquired UAG. The right to the transfer was bought by Royal London when it acquired the shares of UAG and set out in the UAG Scheme of Transfer. The UAG Scheme of Transfer has since been updated to buy out and stop the transfers from 31 December 2022.

2.6.2 Calculation of Asset Shares - Investment Returns
Since 2010, regular premium pension policies issued before 1 October 1992, along with single premium pension policies and certain United Friendly Ordinary Branch policies, are considered to be invested only in fixed interest securities and cash. This reflects the high value of guarantees on these policies.

2.6.2 Calculation of Asset Shares - Expenses
To calculate asset shares the expenses for setting up and managing conventional with profits policies are the fees agreed between Royal London and the service providers responsible for managing the policies. Asset shares could also have expenses for non-routine costs that the Directors, with actuarial advice, this should not fully come from the Estate.

Charges also include a transfer to the Estate.

2.6.2 Calculation of Asset Shares - Enhancements
Asset shares of some policies in this group were previously enhanced by sharing in the distribution of the Refuge Assurance or United Friendly Estates. This included an enhancement when these funds were closed and when they were moved into the Fund. Within this group, only Ordinary Branch policies are entitled to share in the distributions of the Estate.

2.6.4 Regular Bonuses
Some Refuge Assurance Industrial Branch policies offer cash payments every five or ten years. For policies in Tables 30 & 32 a special bonus may also be added to the five-yearly cash payment, but this is not guaranteed and may be changed in future. For policies in Tables 38 and 39, normal annual bonuses are added to the ten-yearly and five-yearly cash payments. For Cash Back Saver policies no bonus is added to the five-yearly payments.

No annual bonus applies for whole of life policies that became paid up for the full sum assured before April 1988.

Some United Friendly Industrial Branch policies offer a regular cash payment. For policies in Tables 5 and 25 a regular cash payment is made to the policyholder and a bonus is awarded on the cash payment. This bonus is not guaranteed and may be changed in future. Policies in Table 5 have the option to set aside and delay payment of the cash payments. The amount of bonus awarded varies depending on the length of the time that the payment is set aside for.

Some United Friendly Ordinary Branch endowment and whole life policies written before September 1986 have a minimum guaranteed annual bonus rate. This rate is 1% for endowments and 1.5% for whole life policies. This means that the regular bonus rates for these policies will never be less than these amounts.

Group E
This group is made up of unitised with profits policies issued by Refuge Assurance before 1 January 2001.

<u>2.2 Management of the Estate</u>
Before 31 December 2022, the Estate received one-ninth of the shared surplus each year from certain with profits policies that were transferred from United Assurance Group (UAG). This transfer was initially made to UAG shareholders before Royal London acquired UAG. The right to the transfer was bought by Royal London when it acquired the shares of UAG and set out in the UAG Scheme of Transfer. The UAG Scheme of Transfer has since been updated to buy out and stop the transfers from 31 December 2022.

<u>2.6.2 Calculation of Asset Shares - Expenses</u>
To calculate asset shares for policies other than the Personal Pension Plan, the expenses for setting up and managing conventional with profits policies are the fees agreed between Royal London and the service providers responsible for managing the policies.
To calculate asset shares for the Personal Pension Plan, the expenses are an annual management charge and other policy charges set out in the policy terms and conditions.

Charges also include a transfer to the Estate.

<u>2.6.2 Calculation of Asset Shares - Guarantees</u>
When a surrender value guarantee is included on a With Profit Bond Plus policy, a one-off charge is taken from the initial asset share. Factors considered when calculating this charge include how long the guarantee applies for and the asset mix of the Fund. We also consider the market value and expected returns from the assets and financial tools we use to match the policy's liabilities.

<u>2.6.2 Calculation of Asset Shares - Enhancements</u>
Asset shares of some policies were previously enhanced by sharing in the distribution of the Refuge Assurance Estate. This included an enhancement when the fund was closed and when it was moved into the Fund.

Group F
This group is made up of conventional with profits policies issued by Refuge Assurance before 1 January 2001. It covers Ordinary Branch life and pension business.
Policies that were issued before 1 August 1997 were sold under the Refuge brand. Policies sold after 31 July 1997 and before 1 January 2001 were sold under the United Friendly brand.

<u>2.2 Management of the Estate</u>
Before 31 December 2022, the Estate received one-ninth of the shared surplus each year from certain with profits policies that were transferred from United Assurance Group (UAG). This transfer was initially made to UAG shareholders before Royal London acquired UAG. The right to the transfer was bought by Royal London when it acquired the shares of UAG and set out in the UAG Scheme of Transfer. The UAG Scheme of Transfer has since been updated to buy out and stop the transfers from 31 December 2022.

<u>2.6.2 Calculation of Asset Shares - Investment Returns</u>
Since 2010, regular premium pension policies issued before 1 October 1992, along with single premium policies are considered to be invested only in fixed interest securities and cash. This reflects the high value of guarantees on these policies.

2.6.2 Calculation of Asset Shares - Expenses
To calculate asset shares for conventional with profits policies, the expenses for setting up and managing policies are the fees agreed between Royal London and the service providers who manage the policies. Charges also include a transfer to the Estate.

2.6.2 Calculation of Asset Shares - Enhancements
Asset shares of some policies were previously enhanced by sharing in the distribution of the Refuge Assurance or United Friendly Estates. This included an enhancement when the funds were closed and when they were moved into the Fund.

Group G
This group is made up of unit-linked benefits of Royal London Intermediary pension policies taken out after 30 June 2001 and unit-linked benefits of some pension policies sold by Police Mutual Assurance Society, Royal Liver and Phoenix Life Assurance Limited.

There are no additional Practices for group G.

Group H
This group is made up of conventional and unitised with profits policies issued by Police Mutual Assurance Society before 1 October 2020.

2.2 Management of the Estate
The Notional Account actions may include one or more of the following:
- changes to guarantee charges applied to PMAS asset shares
- changes to the asset mix of PMAS asset shares
- one-off charges to reduce PMAS asset shares
- one-off enhancements to increase PMAS asset shares

2.6.1 Policy Benefits Payable
For unitised business, benefits payable on surrender or part surrender are determined by the asset share and the guaranteed benefits (when no MVR applies).

2.6.2 Calculation of Asset Shares - Enhancements
Asset shares may be enhanced by the agreement set out in the Notional Account. These policies don't share in distributions of the Estate. In line with the Police Mutual Assurance Society Instrument of Transfer, asset shares for this group of policies may be increased or reduced if action is needed for the Notional Account.

2.6.2 Calculation of Asset Shares - Expenses
To calculate asset shares for conventional with profits policies, the expenses for setting up and managing policies are the fees agreed between Royal London and the service providers responsible for managing the policies.
To calculate asset shares for unitised with profits policies, the expenses are an annual management charge.
Until 1st October 2030, non-routine expenses from the Notional Account may be charged to the asset shares of PMAS policies. This is in line with the PMAS legal documents.
There are no expenses for the cost of securing and holding capital because this was allowed for when the Notional Account was first set up.

No specific investment charges are applied for this group of policies.

2.6.2 Calculation of Asset Shares - Guarantees
A charge for the cost of guarantees may be applied to asset shares.

2.6.3 Smoothing
To help set claim values, a smoothed asset share is usually calculated after allowing for any enhancements.

In some situations, an unsmoothed asset share is calculated after allowing for any enhancements. For example, for all unitised with profits policies or when Platinum Bond or TUPP policies have a Market Value Reduction (MVR). This makes sure that payouts for exiting policies aren't more than the policy's fair share of the Fund.

2.6.5 Final Bonus and MVR Scales
For conventional with profits policies, surrender values and transfer values do not include final bonus.

Group I
This group is made up of conventional and unitised with profits benefits, and deposit administration benefits on policies issued by Scottish Life before 1 July 2001.

2.6.2 Calculation of Asset Shares - Enhancements
Asset shares of some policies were previously enhanced by sharing in the distribution of the Scottish Life Estate. This included an enhancement when the fund closed and when it was moved into the Fund.

2.6.2 Calculation of Asset Shares - Expenses
In line with the legal documents, we do not charge more for expenses than what other companies would charge for similar policies. For some types of policies, we take expenses directly from asset shares. For other types of policies, asset share expenses match the charges that apply. In both cases, we make sure that the expenses are fair and reasonable, and we use established methods to calculate them. Any changes to the way expenses are allocated to different types of policies must satisfy the legal documents.

Group J
This group is made up of conventional Ordinary Branch and Industrial Branch with profits policies issued by Royal Liver, Irish Life, Friends Provident (including London and Manchester 'LM' policies) and Caledonian Insurance, including those sold in Ireland and reinsured by Royal London under the Liver Reinsurance Agreement.

Further information about Royal London Insurance DAC and the reinsurance is shown in Appendix 2 for reference.

2.6.1 Policy Benefits Payable
A final bonus was applied to such policies when asset shares of conventional and unitised with profits policies were enhanced by sharing the Royal Liver Estate.

2.6.2 Calculation of Asset Shares - Enhancements
Before they were transferred into the Fund, asset shares of some policies were previously enhanced by sharing in the distribution of the Royal Liver Estate. This included an enhancement when the fund closed and when it was moved into the Fund.

2.6.2 Calculation of Asset Shares - Tax
Taxes for the Liver Ireland Sub-Fund will be charged through the Liver Reinsurance Agreement, while it is in place.

2.6.2 Calculation of Asset Shares - Expenses
The expenses to be charged to the Fund are set out in the legal documents and are the same for each type of business.

2.6.2 Calculation of Asset Shares - Guarantees
Details of the charges currently applied to asset shares for the cost of providing guarantees are published on the Royal London website.

Group K
This group is made up of unitised with profits policies issued by Royal Liver and Caledonian Insurance, including those sold in Ireland and reinsured by Royal London under the Liver Reinsurance Agreement.

Further information about Royal London Insurance DAC and the reinsurance is shown in Appendix 2 for reference.

2.6.1 Policy Benefits Payable
A final bonus was applied to these policies when asset shares of conventional and unitised with profits policies were enhanced by sharing the Royal Liver Estate. For contingent bonus policies, the benefits payable on voluntary exit are calculated using a formula.

2.6.2 Calculation of Asset Shares - Enhancements
Before they were transferred into the Fund, asset shares of some policies were previously enhanced by sharing in the distribution of the Royal Liver Estate. This included an enhancement when the fund closed and when it was moved into the Fund.

2.6.2 Calculation of Asset Shares - Tax
Taxes for the Liver Ireland Sub-Fund will be charged through the Liver Reinsurance Agreement, while it is in place.

2.6.2 Calculation of Asset Shares - Expenses
The expenses to be charged to the Fund are set out in the legal documents and are the same for each type of business.

2.6.2 Calculation of Asset Shares - Guarantees
Details of the charges currently applied to asset shares for the cost of providing guarantees are published on the Royal London website.

Group L
This group is made up of unitised with profits policies issued by Phoenix Life Assurance Limited.

2.6.2 Calculation of Asset Shares - Enhancements
Before they were transferred into the Fund, asset shares of some policies were previously enhanced by sharing in the distribution of the Phoenix Life Assurance Limited Estate. This included an enhancement when the fund closed and when it was moved into the Fund.

2.6.2 Calculation of Asset Shares - Tax
The investment returns after tax that are used to calculate specimen asset shares may vary for different types of policy. Specifically, returns from assets bought to cover guarantees may be set aside to meet the costs of those guarantees.

2.6.2 Calculation of Asset Shares - Expenses
Expenses can also include the difference between the price that units are bought and sold.

Glossary

'Actuarial advice'	Advice from the Actuary responsible for advising the Directors on discretionary or technical aspects of managing the with profits business. Under current regulatory rules this is the With Profits Actuary or the Head of Actuarial Function.
'asset share'	The share in the assets of a with profits fund that a with profits policy is considered to have. The asset share is calculated by adding up the premiums paid and looking at how much has been earned on investments after allowing for expenses and charges. It is calculated over the lifetime of the policy.
'contingent bonus policy'	A policy that was transferred from the Royal Liver Sub-Fund and is either a premium paying Industrial Branch policy, or one which has completed the agreed premium payments in full. These policies may have previously received a contingent final bonus at the Directors' discretion.
'conventional with profits'	A with profits policy that has a guaranteed amount of cash or pension that bonuses are added to.
'deposit administration'	A benefit type that acts like a bank account where interest additions are made as decided by the Directors.
'Directors' and 'Directors or their representatives'	The Directors of The Royal London Mutual Insurance Society Limited. This can also include the Royal London Insurance DAC Directors where appropriate. For practical purposes the Directors may agree to delegate certain decisions to particular members of their management team.
'enhanced asset shares'	Asset shares with either temporary or permanent enhancements. This includes any enhancements added when business was transferred into the Fund.
'Estate'	The assets of the Fund that are needed to meet the expectations of policyholders and to settle the expected value of its liabilities. The Estate may be used to support the sub funds where this is needed and allowed under the terms of relevant schemes of transfer. It is also used to fund new business.
'fair', 'fairly', 'fairness'	In this document, descriptions of fair, fairness or treating policyholders fairly refers to the obligation set by Principle 6 of the Regulator's Principles for Businesses, which includes the commitment to treat customers fairly.
'German Bond Reinsurance Agreement'	The reinsurance agreement between Royal London and Royal London Insurance DAC for the Royal London Insurance DAC German Bonds that took effect when the transfer under the Royal London Insurance DAC Scheme was completed.
'the Group'	The Royal London Mutual Insurance Society Limited and its subsidiaries.
'IB'	Industrial Branch Business.
'Independent Actuarial advice'	Actuarial advice provided by an actuary independent from Royal London and approved by our Regulators.
'Liver Ireland Sub-fund'	The closed fund of Royal London Insurance DAC called the Liver Ireland Sub-Fund created by the Royal London Insurance DAC Scheme.

'Liver reinsurance agreement'	The reinsurance agreement between Royal London and Royal London Insurance DAC for business in the Liver Ireland Sub-Fund that took effect when the transfer under the Royal London Insurance DAC Scheme was completed. It is also described in this document as a relevant scheme of arrangement that relates to policies in the Fund.
'LM policies'	With profits policies that were originally transferred from Friends' Provident (London and Manchester) Assurance Limited to Friends' Provident Life Office and then to Royal Liver.
'members'	Policyholders who 'own' Royal London. They can attend the Annual General Meeting and vote. Some groups of with profits policyholders are not members, including policyholders whose policies were previously with Co-operative Insurance Society, Phoenix Life Assurance, Refuge Assurance, Police Mutual, Royal Liver, Scottish Life or United Friendly.
'MVR'	A market value reduction which may be applied for claims on certain unitised policies in certain circumstances. An MVR acts like a negative final bonus. It reduces the value of guaranteed benefits plus final bonus, if they apply. An MVR is only applied if the value of the investments supporting a policy falls significantly below the value of the benefits being cashed. This is done for fairness between policyholders who cash in their benefits and those who keep their policies. An MVR will not usually be applied on death or in certain circumstances that are defined in the policy conditions.
'non-participating'	A policy which does not share in the profits, for example a non-profit unit linked policy.
'Notional Account'	The Notional Account tracks the movements in the value of PMAS assets and liabilities that isn't caused by the day-to-day operations, as set out in the PMAS Instrument of Transfer.
'OB'	Ordinary Branch Business.
'PLAL'	Phoenix Life Assurance Limited
'Phoenix Life Assurance Limited Estate'	The part of the PLAL With Profits Sub-fund that wasn't needed to meet the reasonable expectations of policyholders in that sub-fund.
'Phoenix Life Assurance Limited Scheme of Arrangement'	The scheme of arrangement under which the Estate of the PLAL With Profits Sub-Fund was fully distributed. This happened on 31 December 2022, and after this date the PLAL With Profits Sub-Fund no longer exists.
'Phoenix Life Assurance Limited Scheme of Transfer'	The legal document under which the liabilities of PLAL were transferred to Royal London on 29 December 2008.
'Phoenix Life Assurance Limited	On 29 December 2008, certain assets and liabilities of PLAL were transferred into the PLAL With Profits Sub-Fund, a separate closed sub-fund of Royal London. The

With Profits Sub-fund’	assets and liabilities of the fund were then moved into the Fund on 31 December 2022, and after this date it no longer exists.
‘PMAS’	Police Mutual Assurance Society Limited
‘PMAS Instrument of Transfer’	A legal document used to transfer PMAS business to Royal London on 1 October 2020.
‘ProfitShare’	One of the ways that Royal London shares profits to eligible policies. More information about eligibility can be found on the Royal London website and in your original policy documents.
‘RA’	Refuge Assurance plc.
‘RA IB’	Industrial Branch business originally issued by Refuge Assurance.
‘RA IB Sub-Fund’	The RA IB With Profits Sub-Fund which held the IB with profit liabilities of Refuge Assurance and the RA IB Additional Account. The assets and liabilities of the fund were moved into the Fund on 30 June 2021, and after this date the fund no longer exists.
‘RA OB’	Ordinary Branch business originally issued by Refuge Assurance.
‘RA OB Fund’	The RA OB with profit sub fund into which the OB with profit liabilities of Refuge Assurance were transferred on 1 January 2001. The assets and liabilities of the fund were transferred into the Fund on 31 December 2006 and after this date the fund no longer exists.
‘Regulator’	The Financial Conduct Authority, Prudential Regulation Authority or any other regulatory body defined by the UK Financial Services and Markets Act 2000 or any subsequent legislation.
‘Regulatory Capital Requirements’	The capital that Royal London must keep to comply with regulatory requirements.
‘reinsured policies’	Policies sold in Ireland by Royal Liver, Irish Life Assurance plc or Caledonian Insurance Company Limited and are reinsured under the Liver Reinsurance Agreement; or Royal London Insurance DAC German Bond policies sold in Germany and are reinsured under the German Bond Reinsurance Agreement. These policies were transferred from Royal London to Royal London Insurance DAC on 7 February 2019 under the Royal London Insurance DAC Scheme.
‘RL’	The Royal London Mutual Insurance Society Limited.
‘RL IB’	Industrial Branch business originally issued by Royal London.
‘Fund’	The Royal London Main Fund which includes Industrial Branch and Ordinary Branch business originally issued by Royal London, United Friendly, Refuge Assurance, Scottish Life, Royal Liver and Phoenix Life Assurance Limited.

	The assets and liabilities of the RA OB Fund were transferred into the Fund on 31 December 2006. The assets and liabilities of the RA IB Sub-Fund were transferred into the Fund on 30 June 2021. The assets and liabilities of the UF IB Sub-Fund, UF OB Sub-Fund and Scottish Life Fund were transferred into the Fund on 31 December 2021. The assets and liabilities of the Royal Liver Sub-Fund and PLAL With Profits Sub-Fund were transferred into the Fund on 31 December 2022.
'RLAM'	Royal London Asset Management Limited.
'RLCIS'	Royal London (CIS) Limited. This was the name given to Co-operative Insurance Society Limited when it transferred to Royal London.
'RL(CIS) Estate'	The part of the Royal London (CIS) Sub-Fund that isn't needed to meet the reasonable expectations of policyholders. It is the estate for RLCIS business in the Royal London (CIS) Sub-Fund.
'RLCIS Scheme of Transfer'	The legal document under which the liabilities of RLCIS were transferred to Royal London on 30 December 2014.
'Royal Liver'	The Royal Liver Assurance Limited.
'Royal Liver Estate'	The part of the Royal Liver Sub-Fund that wasn't needed to meet the reasonable expectations of policyholders in that sub-fund.
'Royal Liver Instrument of Transfer'	The legal document under which the liabilities of Royal Liver were transferred to Royal London on 1 July 2011. Within this document it is also described as a relevant scheme of transfer that relates to policies in the Fund.
'Royal Liver Scheme of Arrangement'	The scheme of arrangement under which the Estate of the Royal Liver Sub-Fund was fully distributed. This happened on 31 December 2022, and after this date the Royal Liver Sub-Fund no longer exists.
'Royal Liver Sub-Fund'	On 1 July 2011 certain assets and liabilities of Royal Liver were transferred into a separate closed sub-fund of Royal London, called the Royal Liver Sub-Fund. The assets and liabilities of this fund were then moved into the Fund on 31 December 2022, and after this date the sub-fund no longer exists.
'Royal Liver Sub-Fund Closed Fund Contribution'	An amount paid from the Royal Liver Sub-Fund to the Fund under the Royal Liver Scheme of Arrangement. This covered the cost of capital requirements that the Fund took on when the Royal Liver business transferred into it.
'Royal London'	We use the term 'Royal London' in this document to refer to The Royal London Mutual Insurance Society Limited and its subsidiaries, where they are relevant. Royal London is a brand name.
'Royal London Insurance DAC'	Royal London Insurance Designated Activity Company, a subsidiary of Royal London registered in Ireland.
'Royal London Insurance DAC Directors'	The Directors of Royal London Insurance DAC.
'Royal London Insurance DAC	The European With Profits Bond and With Profits Bond Plus business of Royal London Insurance DAC that was sold in Germany and is reinsured by

German Bonds’	Royal London under the German Bond Reinsurance Agreement.
‘Royal London Insurance DAC Scheme’	The legal document governing the transfer of business from Royal London to Royal London Insurance DAC on 7 February 2019. This includes the Royal London Insurance DAC German Bonds and other reinsured policies. Within this PPFM document it is also described as a relevant scheme of transfer that relates to policies in the Fund.
‘Royal London Intermediary’	The business unit within Royal London that sells policies through intermediaries. From 1 July 2001 to 23 November 2014 the brand name ‘Scottish Life’ was used. From 24 November 2014 this business was rebranded to use the main Royal London brand.
‘Royal London (CIS) Sub-Fund’	On 30 December 2014, certain assets and liabilities of RLCIS were transferred into the Royal London (CIS) Sub-Fund, which is a separate closed sub-fund of Royal London.
‘Scottish Life’	A division of Royal London which developed and sold products under the Scottish Life brand from 1 July 2001 to 23 November 2014.
‘SL’	The Scottish Life Assurance Company.
‘Scottish Life Estate’	The part of the SL Closed Fund that wasn’t needed to satisfy reasonable expectations of policyholders.
‘Scottish Life Closed Fund’	On 1 July 2001, certain assets and liabilities of Scottish Life were transferred into the Scottish Life Closed Fund, a separate closed sub-fund of Royal London. The assets and liabilities of this fund were then moved into the Fund on 31 December 2021, and after this date the closed fund no longer exists.
‘Scottish Life Scheme of Arrangement’	The scheme of arrangement under which the SL Estate of the SL Closed Fund was fully distributed on 31 December 2021, and after this date no longer exists.
‘Scottish Life Scheme of Transfer’	The scheme of transfer under which the liabilities of Scottish Life were transferred to Royal London on 1 July 2001.
‘smoothing’	The way that we reduce the impact on policyholder payouts when the returns earned by the Fund vary each year.
‘Smoothed asset share’	The enhanced asset share with a smoothed investment return applied instead of actual investment returns.
‘UAG’	United Assurance Group, which consisted of Refuge Assurance, United Friendly and other companies writing non-profit business and/or other non-life assurance business.
‘UAG Scheme of Transfer’	The scheme of transfer between Refuge Assurance, United Friendly and other United Assurance Group companies and Royal London which took effect on 1 January 2001.
‘UF’	United Friendly Insurance plc.
‘UF IB’	Industrial Branch business originally issued by United Friendly.

'United Friendly Industrial Branch Scheme of Arrangement'	The scheme of arrangement under which the Additional Account of the United Friendly Industrial Branch Sub-Fund was fully distributed on 31 December 2021, and after this date the sub-fund no longer exists.
'United Friendly Industrial Branch Sub-Fund'	The United Friendly Industrial Branch With Profits Sub-Fund which held the Industrial Branch with profit liabilities of United Friendly and United Friendly Industrial Branch Additional Account. The assets and liabilities of the fund were moved into the Fund on 31 December 2021, and after this date the sub-fund no longer exists.
'UF OB'	Ordinary Branch business originally sold by United Friendly.
'United Friendly Ordinary Branch Scheme of Arrangement'	The scheme of arrangement under which the Additional Account of the United Friendly Ordinary Branch Sub-Fund was fully distributed on 31 December 2021, and after this date the sub-fund no longer exists.
'United Friendly Ordinary Branch Sub-Fund'	The United Friendly Ordinary Branch With Profits Sub-Fund which held the Ordinary Branch with profit liabilities of United Friendly and United Friendly Ordinary Branch Additional Account. The assets and liabilities of the fund were moved into the Fund on 31 December 2021, and after this date the sub-fund no longer exists.
'unitised'	A with profits policy where premiums have been used to buy with profits units instead of unit-linked units.
'unit-linked'	A policy whose value depends on the number and value of units held in one or more linked funds.
'unit-linked with profits'	A unit-linked policy which shares in the profits of Royal London through receiving bonuses from time to time.
'With Profits Operating Principles (WPOP)'	Documents that describe how Royal London Insurance DAC manages its funds. There is one for the Liver Ireland Sub-Fund and one for the German Bond Sub-Fund.

APPENDIX 1 - Acquisitions of Royal London

In April 2000, Royal London purchased United Assurance Group which included:

- United Friendly and Refuge Assurance, both of which wrote with profits business.
- Refuge Investments Limited, United Friendly Life Assurance and Canterbury Life Assurance Company Limited, which only wrote non-participating business.
- Other non-life companies.

The assets backing the long-term business of United Assurance Group life companies and the associated liabilities were transferred into Royal London on 1 January 2001. The liabilities were transferred into separate sub-funds called the Refuge Assurance Ordinary Branch Fund, the Refuge Assurance Industrial Branch Sub-Fund, United Friendly Industrial Branch Sub-Fund and United Friendly Ordinary Branch Sub-Fund.

On 1 July 2001 Royal London purchased Scottish Life and its subsidiaries, which included Scottish Life International and other companies. The assets backing the with profits policies (and certain other minor types of policy) of Scottish Life and the associated liabilities were transferred into the Scottish Life Closed Fund, a separate sub-fund of Royal London. The assets backing the other policies and the associated liabilities were transferred to either the Fund or the Refuge Assurance Ordinary Branch Fund as appropriate.

The United Assurance Group Scheme of Transfer outlined that the Refuge Assurance Ordinary Branch Fund would merge into the Fund after a certain period and after certain requirements had been met. In line with this, the assets and liabilities of the Refuge Assurance Ordinary Branch Fund were transferred into the Fund on 31 December 2006 and after this date the Refuge Assurance Ordinary Branch Fund no longer exists.

Phoenix Life Assurance Limited was originally owned by Abbey National and was called Abbey National Life plc. On 1 September 2006 Resolution Life Limited acquired Abbey National Life plc and changed the name of the company to Phoenix Life Assurance Limited (PLAL).

On 1 May 2008, the Resolution Group of companies, including Phoenix Life Assurance Limited, was acquired by the Pearl Group. Parts of the businesses acquired, including Phoenix Life Assurance Limited, were sold on to Royal London as follows.

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

On 1 August 2008 Royal London purchased Phoenix Life Assurance Limited.
The with profits units for Phoenix Life Assurance Limited were originally held in the with profits fund of Scottish Mutual and were managed by Scottish Mutual. On 30 September 2008, the with profits units together with the underlying assets and liabilities were transferred to Phoenix Life Assurance Limited and the link with Scottish Mutual was broken.

On 29 December 2008 the assets backing the with profits policies of Phoenix Life Assurance Limited and the associated liabilities were transferred into the Phoenix Life Assurance Limited With Profits Sub-Fund, a separate sub-fund of Royal London. The assets backing the non-participating policies and the associated liabilities were transferred to the Fund. The hybrid policies were allocated to the Fund with the assets and liabilities backing the with profits benefits being transferred to the Phoenix Life Assurance Limited With Profits Sub-Fund and the assets and liabilities related to the investment linked benefits being transferred to the Fund.

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 Fund.

On 1 July 2011 Royal London acquired Royal Liver and its subsidiaries. The assets and liabilities of Royal Liver (except certain assets) were transferred into the Royal Liver Sub-Fund, a separate sub-fund of Royal London.

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. Co-operative Insurance Society was originally held as a subsidiary of Royal London and renamed Royal London (CIS) Limited. On 30 December 2014 the business of Royal London (CIS) Limited was transferred into the Royal London (CIS) Sub-Fund.

On 1 January 2019 Royal London Insurance DAC was registered as a subsidiary of Royal London. On 7 February 2019 certain business originally sold in Ireland and Germany was transferred from Royal London to Royal London Insurance DAC under the Royal London Insurance DAC Scheme.

On 1 October 2020 Royal London acquired PMAS which was transferred into the Fund under the PMAS Instrument of Transfer.

On 30 June 2021 the Refuge Assurance Industrial Branch Sub-Fund was moved into the Fund following an amendment under the United Assurance Group Scheme of Transfer. In line with this, the assets and liabilities of the Refuge Assurance Industrial Branch Sub-Fund were moved into the Fund and from this date the Refuge Assurance Industrial Branch Sub-Fund no longer exists.

On 31 December 2021 the United Friendly Industrial Branch Sub-Fund was moved into the Fund under the United Friendly Industrial Branch Scheme of Arrangement. In line with this, the assets and liabilities of the United Friendly Industrial Branch Sub-Fund were moved into the Fund and from this date the United Friendly Industrial Branch Sub-Fund no longer exists.

On 31 December 2021 the United Friendly Ordinary Branch Sub-Fund was moved into the Fund under the United Friendly Ordinary Branch Scheme of Arrangement. In line with this, the assets and liabilities of the United Friendly Ordinary Branch Sub-Fund were moved into the Fund and from this date the UF OB Sub-Fund no longer exists.

On 31 December 2021 the Scottish Life Closed Fund was moved into the Fund under the Scottish Life Scheme of Arrangement. In line with this, the assets and liabilities of the Scottish Life Closed Fund were moved into the Fund and from this date the Scottish Life Closed Fund no longer exists.

In line with schemes of transfer, some with profits and non-profit business in the Royal Liver Sub-Fund was previously transferred to Royal Liver from Friends' Provident Life Office on 31 March 2001 and from Civil Servants' Annuities Assurance Society (CSAAS) on 19 December 2001[1].

In line with schemes of transfer, some with profits and non-profit business was previously transferred to Royal Liver from Caledonian Insurance Company Limited on 31 December 2000 and from Irish Life Assurance plc on 28 February 2002. This business, alongside that sold in Ireland by Royal Liver (together the 'reinsured policies') was transferred from Royal London to Royal London Insurance Designated Activity Company (Royal London Insurance DAC) on 7 February 2019.

The legal terms of this transfer were set out in a Court approved Transfer Scheme (the Royal London Insurance DAC Scheme). Upon transfer the relevant policies, and certain assets and liabilities, were allocated to a separate sub-fund (the Liver Ireland Sub-Fund) of Royal London Insurance DAC. Following the transfer, the reinsured policies were immediately reinsured back into the Royal Liver Sub-Fund under the Liver Reinsurance Agreement. This allowed the Royal Liver Sub-Fund to remain financially stable.

[1] All with profits policies of CSAAS were provided with fixed guaranteed increases in benefits and ceased to participate in profits from 19 December 2001. CSAAS policies for which regular premiums were being made were converted to paid up for the full benefits at the date of transfer. CSAAS policies are not considered further in this document.

The management of the business originally sold by Friends Provident Life Office, Civil Servants' Annuities Assurance, Caledonian Insurance Company Limited and Irish Life Assurance plc is subject to the legal terms of the relevant transfer. As a result, this document sometimes refers to these blocks of business (excluding the Civil Servants' Annuities Assurance) separately.

On 31 December 2022 the Royal Liver Sub-Fund was moved into the Fund as a result of the Royal Liver Scheme of Arrangement. In line with this, the assets and liabilities of the Royal Liver Sub-Fund were moved into the Fund and from this date the Royal Liver Sub-Fund no longer exists.

On 31 December 2022 the Phoenix Life Assurance Limited With Profits Sub-Fund was moved into the Fund as a result of the Phoenix Life Assurance Limited Scheme of Arrangement. In line with this, the assets and liabilities of the Phoenix Life Assurance Limited With Profits Sub-Fund were moved into the Fund and from this date the Phoenix Life Assurance Limited With Profits Sub-Fund no longer exists.

APPENDIX 2 - Interaction with Royal London Insurance DAC

The Liver Ireland Sub-Fund and German Bond Sub-Fund (both sub-funds of Royal Liver Insurance DAC) have their own PPFM Guides, known as the With Profits Operating Principles (WPOP)s. These explain how Royal London Insurance DAC manages its funds. If your policy is held in the Liver Ireland Sub-Fund or German Bond Sub-Fund you should refer to these guides first. The WPOPs refer to this document for much of the detail because of the strong link generated by the Liver Reinsurance Agreement.

These Principles and Practices should be considered to include the reinsured policies in Royal London's responsibility as reinsurer, unless stated otherwise, during the durations of the Liver and German Bond Reinsurance Agreements. Including the reinsured policies in these Principles and Practices does not change the role, responsibility or decisions of the Royal London Insurance DAC Directors or the Royal London Insurance DAC Head of Actuarial Function (HoAF) for these policies.

Before the Liver Reinsurance Agreement ends, the Directors will discuss with Royal London Insurance DAC any important matters that impact the Fund, such as the declaration of bonuses. These discussions will be in good faith and acting reasonably. If there are any disagreements between the Directors and Royal London Insurance DAC on these important areas, for example when setting bonuses or sharing the estate, an independent expert will make the final decision.

When the Liver Reinsurance Agreement ends, this will no longer apply.

If the Liver Reinsurance Agreement ends, a fair amount will be paid to Royal London Insurance DAC for the benefit of the reinsured policies that are eligible. The reinsured policies would no longer be covered by the Principles and Practices in this document because there would no longer be a link between the Fund and the Liver Ireland Sub-Fund.

The fair amount will be calculated as:

- the total realistic best estimate of the liabilities in the Liver Ireland Sub-Fund plus
- a refund of part of the Royal Liver Sub-Fund Closed Fund Contribution that was paid when the Royal Liver Sub-Fund was moved into the Fund in line with the Royal Liver Scheme of Arrangement.

When deciding the fair amount, the Directors must:

- consider the reasonable expectations of the policyholders, including those with reinsured policies;
- consider the advice from the With-Profits Actuary of Royal London, the Head of Actuarial Function (HoAF) of Royal London Insurance DAC, the Chief Actuary of Royal London and the With Profits Committee;
- get approval from the Royal London Insurance DAC Directors. If there is a disagreement, the amount will be decided by an independent expert and
- get a certificate from an independent expert to show that the amount is fair. A copy of this certificate must be provided to the Regulator.

The amount transferred from the Fund to Royal London Insurance DAC will consider any amounts in the Liver Ireland Sub-Fund at the point of the transfer.