ReAssure

ReAssure Limited

LG With-Profits Fund

January 2023

Principles and Practices of Financial Management

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1. Introduction

Reason for producing this document

1.1 All insurance companies in the United Kingdom which carry on With-Profits business are required to establish and maintain a document setting out the principles and practices that guide the management of that business. This is because the benefits under With-Profits policies depend in part, and sometimes to a considerable extent, on discretionary bonus additions which are made by the company from time to time and which cannot be known in advance.

1.2 The document therefore forms part of the corporate governance arrangements, setting out how a company exercises its discretion as between different groups and generations of policyholders, and between policyholders and shareholders, so that policyholders and shareholders are treated fairly when operating its With-Profits business. It is also important for policyholders to have access to the information so that they can better understand the way in which the company carries on its With-Profits business and decides the level of bonuses it adds to policies. This should in turn help them understand the material risks and rewards from effecting and maintaining a With-Profits policy.

1.3 Should a situation arise where there is a conflict between the policy documents, terms and conditions and this document, the terms and conditions for individual policies always take priority over the principles and practices in this document.

About this document

1.4 This document sets out the Principles and Practices of Financial Management ("PPFM") followed by ReAssure (the "Company") in respect of the With-Profits business held in the LG With-Profits Fund (the "Fund").

1.5 The Principles are enduring statements of the overarching standards that ReAssure adopts in managing the LG With-Profits Fund. They describe the business model used by ReAssure to meet its duties to With-Profits policyholders and in responding to longer-term changes in the business and economic environment. From time to time, however, the Board of Directors of ReAssure (the "Board") may decide that the Principles should be changed. The procedures that will be followed when a Principle is changed are set out in sections 14.1 - 14.3.

1.6 The Practices describe ReAssure's current approach to managing the With-Profits business and how it responds to shorter-term changes in the business and economic environment. Practices are likely to be revised in response to changes in the business and economic environment, as well as changes in the regulatory framework or developments of new methods and techniques within the life insurance industry. The procedures that will be followed when Practices change are described in section 14.6.

1.7 Each year, the With Profits Committee will assess whether or not the With-Profits business held in the LG With-Profits Fund has been operated in accordance with the Principles and Practices during the preceding financial year. In addition, ReAssure will produce a report, available on request to the With-Profits policyholders in the Fund, setting out with reasons whether or not it believes it has complied with the obligations imposed by the Principles and Practices during the preceding financial year.

1.8 A copy of this document can be obtained from ReAssure from its website www.reassure.co.uk or by contacting us (a charge may be made to cover the cost of providing it to anyone who does not hold a With-Profits policy in the LG With-Profits Fund).

1.9 From time to time our Regulator may publish new regulatory rules and guidance or amend existing rules and guidance. The PPFM will be updated as necessary to comply with these.

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Consumer-friendly version

1.10 This PPFM is a technical document designed for users with knowledge of the life insurance industry. A number of documents designed for customers describing ReAssure's management of the With-Profits business in the LG With-Profits Fund, are also available. Copies can be obtained from our website www.reassure.co.uk/fund-centre/reassure/ or by contacting us.

2. Background

Company information

2.1 ReAssure Limited ("ReAssure" or the "Company") is a life insurance company owned by the Phoenix Group. In recent years, ReAssure has grown by acquiring existing blocks of business from other companies, or by purchasing other insurance companies outright. The LG With-Profits Fund is a sub-fund of ReAssure, and is managed and accounted for separately from all other funds of ReAssure.

2.2 The Legal & General Assurance Society was founded in 1836. Its With-Profits fund was closed to new business with effect from 31 January 2015. In 2017, ReAssure reached agreement to acquire Legal & General's mature savings business, including the With-Profits fund, and the With-Profits fund was transferred into the LG With-Profits Fund within ReAssure with effect from 7 September 2020.

Product range

2.3 The LG With-Profits Fund has two blocks of With-Profits business, "Conventional With-Profits Policies" and "Unitised With-Profits Policies". The LG With-Profits Fund has an extensive range of With-Profits policies, comprising:

(A) life insurance policies, including bonds, mortgage endowments and other endowments;

(B) individual and group pensions policies; and

(C) immediate annuities and deferred annuities.

In addition, it contains a significant amount of Non-Profit unit-linked business and a smaller amount of conventional Non-Profit business.

2.4 Conventional With-Profits Policies are generally older policies whose benefits are defined in terms of the guaranteed amount payable at the maturity date of the policy. For these, the maturity benefits may be increased by a discretionary bonus addition each year ("Regular Bonus"). Since the benefits are typically guaranteed at the maturity date or on death only, the benefits, including the Regular Bonus, are recalculated if a claim is made on the policy other than at the maturity date or on death.

2.5 Unitised With-Profits Policies are more recent policies whose benefits are defined in terms of a number of units purchased as premiums are paid. The benefits under these policies may be increased by Regular Bonus additions each year by increasing the number of units allocated to a policy.

2.6 For both types of policy, a further discretionary bonus ("Final Bonus") may be added to the benefits when the policy is discontinued. There are certain products, such as Income Bonds, where all the bonus is paid as a Regular Bonus, and no final bonus is declared. In addition, in certain circumstances, the resulting benefits may be reduced by the application of a factor ("Market Value Reduction Factor"). Further details of both these adjustments are set out later in this document.

2.7 With-Profits Annuity contracts are a specific type of Conventional With-Profits Policies. These contracts are not eligible for Final Bonus. Instead a Temporary Bonus may be added to the annuity benefits payable in each policy year.

2.8 Both types of policy are subject to the same set of principles governing the operation of the With-Profits business within the LG With-Profits Fund. However, the translation of these principles to specific practices may differ.

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2.9 No new business is being written in the LG With-Profits Fund, apart from increases to existing Pension Policies, new members to existing Group Personal Pension Schemes, and top-up policies in relation to certain existing protection policies in the LG With-Profits Fund. The Fund is being run with the intention that its contents are paid out in their entirety over time, as policies mature or otherwise discontinue.

The scheme of transfer

2.10 The operation of the LG With-Profits Fund is governed by a scheme of transfer (the "Scheme"), a legal document entered into by ReAssure in September 2020. Should a situation arise where there is a conflict between the Scheme and this document, the Scheme will always take priority over the principles and practices set out in this document. The Scheme requires certain transactions affecting the LG With-Profits Fund to be approved by a committee of the ReAssure Board (the "With Profits Committee"). A majority of the members of the With Profits Committee have to be independent.

2.11 Once the value of the assets in the LG With-Profits Fund falls below £400m (increased from 2020 in line with the RPI), the Scheme allows the Fund to be merged into another ReAssure With-Profits fund, subject to certain conditions being met, including the approval of both the Regulator and the With Profits Committee, and including the approval of an independent actuary. The Scheme also allows another With-Profits fund to be merged into the LG With-Profits Fund subject to similar approvals.

2.12 Alternatively, once the value of the assets in the LG With-Profits Fund falls below £400m (increased from 2020 in line with the RPI), then the Scheme allows the Fund to be merged into ReAssure's Non-Profit Fund and the benefits under the remaining With-Profits policies converted to a Non-Profit basis. Again, the terms of the merger include the approval of both the Regulator and the With Profits Committee, and the approval of an independent actuary. Once the value of the assets in the LG With-Profits Fund falls below £80m (increased from 2020 in line with the RPI) then the Scheme permits such a merger but without the need for the approval of an independent actuary. The terms of the conversion (under either of the circumstances described here) would allow for any undistributed surplus within the Fund, including amounts expected to arise in the future.

2.13 The Scheme allows ReAssure at any point in the future to transfer the Non-Profit business currently within the LG With-Profits Fund to ReAssure's Non-Profit Fund. Certain conditions would need to be met before this can happen, including the approval of the Regulator, the With Profits Committee and where material an independent actuary.

Overriding principle of financial management

2.14 ReAssure manages the Fund with the objective of ensuring that the assets within the Fund are sufficient to meet all of the Fund's current and future liabilities, together with its regulatory and other capital requirements, without the need for capital from outside the Fund. ReAssure applies this overriding principle in managing the Fund in accordance with the Principles and Practices set out in this document.

3. The amount payable under a With-Profits policy

<u>Principles</u>

Amount Payable

3.1 ReAssure aims to pay an amount at the maturity or other discontinuance of a With-Profits policy in the LG With-Profits Fund that reflects the premiums paid under the policy, along with the return earned on the assets in which those premiums have been invested. Regard is also had, where appropriate, of:

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- the cost of any additional benefits under the policy (including, though not limited to, guarantees, options and death benefits);
- the expenses incurred in connection with the sale and administration of the policy and the costs incurred in connection with the investment of the assets in the LG With-Profits Fund that support With-Profits policies;
- the transfers to shareholders;
- the tax treatment to which the policy has implicitly been subjected;
- past payments on death, surrender or transfer, regular withdrawals or one-off withdrawals; any items of profit or loss experienced by the LG With-Profits Fund not allocated to specific policies (for example, exceptional items of expense which may legitimately be allocated to the Fund);
- any past distributions of the Estate or charges applied to maintain the financial strength of the fund (see section 10 for details);

Some of the amounts above, and other amounts allocated to the LG With-Profits Fund may be restricted by the Scheme.

This amount is referred to as an “Asset Share”.

3.2 In addition, the amount payable under an individual policy may be influenced by:

- the pooling of items of experience such as the investment return (so that the experience attributed to a policy does not mirror precisely the experience to which it has actually been exposed);
- a time lag before the amount payable is adjusted to reflect in whole or in part the emerging experience (due to the translation of that experience through the periodic review of bonus rates);
- the sharing across all policies collectively of certain items of profit or loss attributable to individual policies or groups of policy (e.g. adverse experience in the Fund could affect the investment returns applied to policies);
- simplifications in the manner in which the experience of the LG With-Profits Fund is translated into individual policy benefits; and
- smoothing, so as to limit the change in payouts over the short term.
- The implementation of any charges or implementation of any of the other actions noted in paragraphs 10.8-10.9 in order to maintain the overall financial health of the LG With-Profits Fund.

The amount payable is therefore guided by but is likely to differ from the Asset Share due to smoothing and the translation of target claim amounts in practical bonus scales.

3.3 Where a policy specifies guaranteed minimum benefit amounts that apply to certain claim types and/or to claims arising at specified times, we will pay the higher guaranteed amount where this is higher than the amount described in 3.1 and 3.2 above.

3.4 In order to ensure all policyholders are treated in a fair and equitable way, different methods may be applied to the calculation of amounts payable to different groups of policies. These differences may reflect factors such as the guarantees and options within the product, the risk benefits provided and the taxation applicable to the product.

Approximations

3.5 In practice, a degree of approximation will be permitted in determining the amount actually payable under With-Profits policies. Such approximations could arise from the pooling of experience, from the estimation of items of experience not easily ascertainable and from the translation of theoretical amounts into a practical scale of bonus rates. We determine whether such approximations are appropriate by considering the costs and benefits of removing the approximation.

Changes in methodology

3.6 Material changes to the methods employed to determine the amount payable under the With-Profits policies in the LG With-Profits Fund are approved by the Board after considering advice from the With-

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Profits Actuary. These can include changes to the historical assumptions or parameters that underlie the methods if analyses indicate that those assumptions or parameters are no longer appropriate.

Practices

Use of Asset share

3.7 Asset Share calculations are performed for most business in the LG With-Profits Fund, so that the overall affordability of bonus proposals can be examined. The amount payable under most types of With-Profits policy is reviewed periodically by considering asset shares for different groups of business. For most product groups, asset share calculations are based on the actual in-force policies.

- For Personal Retirement Plan specimen policies are used which aim to be representative of the actual in-force policies.
- For Conventional With-Profits (Life) and Cashbuilder, specimen policies are used which aim to be a representative subset of policies that are due to mature during the period over which bonus rates are expected to apply.
- Approximations or alternative methods are used for minor classes of business.

3.8 The asset shares are then compared with the guaranteed benefits for the same business. The guaranteed benefits include past annual bonus additions as well as past CMA and CAI additions, where applicable.

- For UWP, Private Income Plan and Adaptable Pension Plan business, this assessment is performed separately for each bonus pool within each bonus series.
- For Conventional With-Profits (Life) business, this assessment is performed separately for each bonus entry year. Whole of Life policies and some significantly altered policies are not included in this analysis.
- For Personal Retirement Plan, Conventional Buy Out Plan and With-Profits Annuity business, this assessment is performed separately for each bonus pool.

3.9 An adjustment to the investment returns applied to Asset Shares may be made in respect of any of the following:

- To make distributions from the Estate.
- To claw back some or all of previous distributions from the Estate.
- To apply a charge (or refund a previous charge) in order to maintain the overall financial health of the LG With-Profits Fund.

3.10 Additionally, adjustments may be made to the investment returns applied to the Asset Shares of certain classes, groups, or generations of policyholders in order to ensure that the Asset Shares for such classes, groups or generations of policyholders fairly reflect their experience and their contribution to the assets of the Fund. For some business, where the guarantees are heavily in the money, the Asset Shares backing this business may primarily be invested in fixed interest assets. However, the investment returns used when calculating the Asset Shares for such business are based on a notional asset mix that may include exposure to a wider range of assets.

3.11 Where partial payments are made on policies without a Market Value Reduction being applied, the full cost of the withdrawal will normally be allowed for in the calculation of asset shares. However, in certain circumstances to ensure fairness, some or all of these costs may be allocated to the Estate.

Assumptions underlying Asset share

3.12 Different asset mixes apply to different groups of policies within the Fund. The investment return that is used when calculating asset shares is the return for each period on the assets in the LG With-Profits Fund deemed to support the Asset Shares of the underlying With-Profits policies. For the most recent periods, it may be necessary to estimate the investment return.

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3.13 Regular experience investigations are performed in order that the calculation of Asset Shares can reflect experience and in order to seek to test the appropriateness of the grouping of policies. In doing this the Company aim to balance the benefits and costs of applying approximations.

3.14 The calculation of Asset shares include an allowance for expenses of managing the business. For Unitised With-Profits policies and certain Accumulating With-Profits policies, the deductions from Asset Shares in respect of expenses and experience variances are applied via a mechanism which aims to spread the effect of such deductions uniformly over the full term of the policy (for policies with a defined term) or over an appropriate fixed period (for policies with no defined term).

3.15 The administration charges and expenses that can be allocated to the LG With-Profits Fund are set out in the Scheme, except for:

- Expenses in relation to any compensation or redress to a policyholder or former policyholder arising from actions prior to 31 July 2009;
- Any rectification payments;
- Any expenses in relation to any compensation or redress to a policyholder or former policyholder arising from actions on or after 31 July 2009 will be met by the Shareholder.

3.16 The level of expenses deducted from Asset Shares for some product types and generations has been capped, as follows:

Initial expenses for most Unitised With-Profits (Life) business written since 1995.

- Initial expenses on some Conventional With-Profits (Life) business sold in the late 1980s and early 1990s.
- The accumulated deductions for some Personal Pension Plan 2000 contracts (post 5 April 2001 members), excluding any deductions or refunds (for example in respect of guarantees and options as set out under section 9.7), are capped at the level of the accumulated explicit charges made.
- Since 1995 the levels of initial and (since 1997) renewal expenses for most other new Unitised With-Profits (Pensions).

Further caps may be applied, or existing caps may be removed, where ReAssure considers this to be appropriate.

3.17 Where expenses are not capped, the same expense deductions, excluding certain exceptional expenses charged to the Estate, are applied to Asset Shares as are borne by the LG With-Profits Fund, suitably apportioned.

3.18 Expenses in excess of the cap are charged to the Estate. Such expenses affect the financial position of the LG With-Profits Fund as a whole and so can still influence the bonus declarations for both the capped products and other With-Profits Policies.

3.19 There are Non-Profit Policies in the LG With-Profits Fund. Any profits or losses arising in respect of the Non-Profit Policies form part of the Estate and will be distributed as part of the Estate.

3.20 Assumptions used to calculate the amount payable under With-Profits Policies are set at levels which are judged by the Company to be realistic estimates of possible future experience, taking into account past and current experience plus trends.

3.21 The tax charged to the LG With-Profits Fund aims to be a realistic reflection of the liability for tax arising in respect of the business and activity within the LG With-Profits Fund on a stand-alone basis, without incorporating the effects of tax synergies or dis-synergies between different parts of the Company. The tax charges modelled in the calculation of Asset Shares reflect the tax charged to the LG With-Profits Fund and also include an allowance for tax in relation to unrealised capital gains or losses.

3.22 For some contracts, an explicit charge is applied to the investment returns used in the Asset Shares to cover the cost of guarantees and options.

3.23 The amount which may be deducted from Asset Shares in respect of the transfer to shareholders is currently subject to a maximum. This maximum deductible from Asset Shares is currently 10% of Distributed Surplus. In addition, for periods up to and including 31 December 2004, an allowance for tax in respect of the transfer to shareholders was included.

3.24 As is the case for expenses, the deduction from Asset Shares may be lower than the total of the transfer to shareholders. The deduction from Asset Shares varies by product type and generation.

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3.25 The cost of bonus used in the calculation of the deduction from Asset Shares in respect of the transfer to shareholders is currently the increase in the regulatory value of the liabilities arising from the bonus addition, excluding any Guaranteed Annuity Option costs.

3.26 When Distributed Surplus arises in the LG With-Profits Fund in respect of any year, the proportion of that Distributed Surplus allocated to shareholders is transferred immediately to the shareholder funds of the Company, subject to there being sufficient surplus assets in excess of liabilities in the LG With-Profits Fund. The proportion of Distributed Surplus allocated in respect of each With-Profits Policy continues to be invested within the LG With-Profits Fund until that policy matures, lapses, is surrendered or there is a payment on death. Upon lapse or surrender, the terms of certain Unitised With-Profits Policies may permit ReAssure to apply a Market Value Reduction. Where such an adjustment is applied, there is a corresponding reduction in Distributed Surplus allocated to shareholders. Hence the proportion in which Distributed Surplus is initially allocated between the With-Profits Policyholders and shareholders does not change when policies lapse or surrender.

Target payout range

3.27 With-Profits business is operated with the aim that policy payments, whether at maturity or on surrender, fall within a range from 80% to 120% of the Asset Share underlying the policy. In addition, over the longer term the Board aims to make aggregate payments equal to 100% of Asset Shares (unless for maturities, the effect of policy guarantees leads to higher benefit payments). For this purpose, the Asset Share for a given policy includes adjustments of a non-investment nature described elsewhere in this document (for example, any enhancement made to distribute the Estate to With-Profits Policies).

Other methods used

3.28 Approximations or alternative methods are used for some minor classes of business.

3.29 Other factors may be taken into account in formulating bonus proposals including:

- Comparison of benefits on different generations of the same product.
- Comparison of benefits on similar generations of different products.

Controls, documentation and change approvals process

3.30 The Company maintains documents on the methodology and assumptions used to determine Asset Shares and the bonus rates derived from them. These contain detailed assumptions for each product type and the results of recent calculations. The assumptions are reviewed each year by the With-Profits Actuary, proposed to the With Profits Committee who review and provide recommendations to the Board. Changes may, for example, be made to the methodology in the event that:

- New techniques are developed that become standard industry practice
- Changes are made to relevant legislation
- The changes to methodology correct an error or improve accuracy going forwards.

3.31 Historic Asset Share assumptions are not generally reviewed or updated. However, ReAssure would, for example, consider making a change if a material error were discovered that led to inequity between classes of policyholder.

3.32 In addition, there are times when the Asset Share systems are updated and such updated systems can produce different results. In such cases the Company will ensure that any changes are fair to policyholders, by requiring the With-Profits Actuary to report on the impact of such changes to the With Profits Committee who review and obtain the agreement of the Board on the implementation of such changes.

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4. Annual Bonus Rates

Principles

4.1 We set Annual Bonus rates by considering the past and expected future experience of different groups of With-Profits Policies. We determine these groups by balancing the principle that some pooling and sharing of risks is a key feature of With-Profits Policies with the benefit of further subdivision. Our overall aim when determining such grouping is to treat all With-Profits Policyholders equitably.

4.2 Some products are eligible for Final Bonus or Temporary Bonus as well as Annual Bonus additions and the way we set Annual Bonus rates reflects this difference:

Annual Bonus only business

Annual Bonus rates are set by considering the current and future expected progression of asset shares and policy benefits. Annual bonus rates are set to be consistent with the aims set out in section 3 above, whilst avoiding unduly rapid changes in bonus rates.

Annual Bonus plus Final Bonus business

For these products, we use Final Bonus (Temporary Bonus for With-Profits Annuity contracts) rates as the principle mechanism for determining the total benefit. We set Annual Bonus rates with a view to building up the guaranteed benefits in a controlled fashion, to avoid the accumulation of guaranteed benefits under individual policies or groups of policies that could be detrimental to the interest of other policyholders in the Fund and to improve or maintain investment flexibility in line with the Investment Strategy for the Fund.

4.3 Annual Bonus additions increase the level of guaranteed benefits that apply at contractual points. Some With-Profits Policies are also eligible for Contractual Minimum Addition or Contractual Annual Interest and each of these features contributes to the build-up of guaranteed benefits. We allow for these features when setting Annual Bonus rates. This reduces the level of Annual Bonus for investments eligible for either of these features so as to avoid an excessive build-up of guaranteed benefits.

Practices

Approach to setting rates

4.4 The Company's current approach to setting bonus rates is guided by a series of objective formulae designed to limit the annual bonus rates payable in order to manage the future level of guaranteed benefits and to ensure a reasonable level of final or temporary bonus rates (for products eligible for Final Bonus or Temporary Bonus). The Company keeps the formulae under review and may adjust the results of the formulae where it considers it appropriate to do so, with the aim of ensuring ongoing fairness.

4.5 An Interim Bonus may be payable in respect of any period for which an Annual Bonus rate has not been declared. Interim bonus rates are currently set at the level at which ReAssure would normally expect subsequently to declare as the Annual Bonus rates for the period in question. Interim Bonus rates are not guaranteed and can be changed without notice to Policyholders. Additionally, for some With-Profits policies, Interim bonus rates are also adjusted as necessary to account for changes in the rate of Contractual Minimum Addition.

Review of rates

4.6 Annual bonus rates are set each year. There is no limit to the amount by which the annual bonus rate can be changed, however the company aims to avoid unduly rapid changes in annual bonus rates for With-Profits Policies from year to year. In extreme circumstances annual bonus rates could be reduced to zero.

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Contractual Minimum Addition and Contractual Annual Interest

4.7 Some With-Profits Policies are eligible for Contractual Minimum Addition (CMA). CMA rates are announced within the LGWPF Fund Factsheet available on our website www.reassure.co.uk/fund-centre/. CMA is not a bonus but is taken into account when setting bonuses. CMA rates are declared in addition to the annual bonus.

4.8 The CMA rate is deducted from the interim bonus rate and is currently determined formulaically based on indices. The rate of CMA is currently calculated as the lowest of:

a) 90% of the net dividend yield on the FTSE Actuaries All-Share Index averaged over the three month period ending on 30 November of the previous year (80% in the case of Life business);
b) 40% of the FTSE Actuaries UK Gilt 15 Year Yield Index averaged over the three month period ending on 30 November of the previous year (32% in the case of Life business); and
c) 4.5% (4% in the case of Life business).

4.9 In the past, different formulae have been used to calculate the CMA rate reflecting the prevailing market and legislative conditions. ReAssure may, in the future, make changes to the current CMA formulae due to material market or legislative changes if considered to be more appropriate. Any change in the formula used will be reported upon in the Principles and Practices of Financial Management or in any equivalent publication at the relevant time.

4.10 The rate of CMA will be applied to the number of With-Profits units standing to the credit of the policy when annual bonus and CMA are added in order to create a number of additional units. For claims arising during any calendar year, the number of additional units to be credited will be calculated on a proportionate basis, using the rate announced for that year, in respect of the period from the previous 31 December to the date of claim.

4.11 The CMA will not apply to Initial Units, which are credited under certain contracts.

4.12 Some With-Profits Policies are eligible for Contractual Annual Interest (CAI). CAI rates provide a minimum level of guaranteed addition to the policy value and are taken into account when declaring bonuses (i.e. for any pool with CAI the annual bonus rate will be reduced to allow for the CAI and for any pool where the CAI rate exceeds the level of annual bonus that we would otherwise pay, the annual bonus rate is set to nil). The CAI rate is set at policy outset.

5. Final Bonus rates and Market Value Reduction Factors

<u>Principles</u>

5.1 Final Bonus (Temporary Bonus for With-Profits Annuity contracts) rates are used to lift the policy benefits for eligible policies up to the total amount payable under the policy, determined as set out in section 3. In order to meet our overall aim of treating all With-Profits Policyholders equitably, the result may be reduced (by the application of a Market Value Reduction) where permitted under the terms of the policy document to reflect adverse investment experience yet to be incorporated into Final Bonus rates.

5.2 Whilst the amount payable under a With-Profits policy reflects all items of experience of the LG With-Profits Fund, changes to the level of the Market Value Reduction Factor, other than in exceptional circumstances, only reflect changes in underlying asset values or in Final Bonus rates.

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Practices

Approach to setting rates

5.3 Asset Share calculations as described in section 3 are performed to derive scales of Final Bonus (and Temporary Bonus) rates. Separate Final Bonus and Temporary Bonus rates are generally determined for each set of premium rates that were set using significantly different assumptions, for policies incepted at different times and for policies maturing or becoming death claims at different times. Additionally, for some classes of business, separate Final or Temporary Bonus rates are applied to premiums paid at different points in time. There are some bonds where all the bonus is in the regular bonus form and no Final or Temporary Bonus is applied. Final Bonus rates are not guaranteed and can be changed without notice to Policyholders.

5.4 Final Bonus and Temporary Bonus rates are normally set annually. However, a review may also take place at any time if a significant event has occurred and to ensure all policyholders are treated equitably, resulting in changes to rates at any time during the year.

5.5 The company sets target payouts by applying a target payout ratio to the asset share. The target payout ratio is determined so as to smooth claim values as described in section 6. The company aims to derive a scale of Final Bonus rates that in broad terms bridges the gap between the guaranteed benefits and the target payout, making appropriate allowance for any interim bonus that will be added upon claim. In carrying this out, if the guaranteed benefits exceed the target payout, then the Final Bonus rate would normally be set to zero. However, applying the Final Bonus rates to actual policies in practice will not always replicate the target payout under each policy, due to simplifications in the method employed.

5.6 For With-Profits Annuity Contracts we aim to derive a set of Temporary Bonus rates that in broad terms bridge the gap between the guaranteed benefits and the target payout over the entire term of the contract.

5.7 Both historical economic experience and prospects for the future are taken into account when determining appropriate bonus rates, by comparing benefits with Asset Shares. However, the extent to which this experience is reflected in the resulting bonus rates depends on the impact of smoothing, as discussed in section 6.

Surrender values

5.8 For Conventional With-Profits policies, the bases for calculating surrender values are revised annually following the bonus declaration and may also be revised at other times during the year, such as in the event of market movements that differ significantly from the investment return assumptions used in calculating bonuses. For the avoidance of doubt, the guaranteed amounts payable at contractual points may be reduced on surrender, reflecting the early surrender. In reviewing the bases for calculating surrender values, the Board has regard to the Payout Ratios.

5.9 For Conventional With-Profits Policies, an allowance for any applicable Final Bonus is made in the calculation of surrender values. This allowance varies by product type and generation. The total surrender value payable, where discretionary, is set with regard, among other things, to Asset Shares for groups of policies. The notional Final Bonus element of the surrender value is calculated in order to determine the amount of the surrender payment to be included in the calculation of Distributed Surplus, so that the transfer to shareholders can be calculated.

5.10 For some With-Profits products, ReAssure aims for surrender values to progress steadily towards maturity value as policies approach maturity. For some Unitised With-Profits investments this may result in only a proportion of the full Market Value Reduction being applied as the policy approaches its maturity date. For Personal Retirement Plan contracts, transfer values currently move towards normal retirement open market option values over the period from age 55 to age 60.

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Market Value Reduction Factors

5.11 Where considered to be warranted by the prevailing investment conditions, and permitted by the terms of the policy document and regulatory requirements, the policy proceeds (other than at contractual dates such as maturity or normal retirement) may be subject to a downwards adjustment through the application of an appropriate factor (the "Market Value Reduction Factor"). This reduction is applied after any Final Bonus has been added, but is not limited in size to the amount of the bonus addition. It may therefore result in the policy proceeds falling below the level of the guaranteed benefits at non-contractual points. When determining whether a Market Value Reduction is necessary and the appropriate size of the Market Value Reduction, we consider the relative size of the policy proceeds to the asset share.

5.12 The policy proceeds to which a Market Value Reduction Factor would be applied include most surrender and transfer values (including internal transfers and partial encashments) and early retirements (where permitted under the terms of the relevant policy document) and (for policies investing in Unitised With-Profits fund) switches out of With-Profits. Under some contracts, the policy terms allow some withdrawals to be made without the application of an MVR.

5.13 The Market Value Reduction Factors are kept under regular review. Generally Market Value Reduction Factors are set at the same level of subdivisions as bonus rates, for example based on annual pools or quarterly pools to correspond with bonus rate subdivisions.

5.14 Some minor classes of pension business may be subject to a Market Value Adjustment. This allows for investment experience that is not yet reflected in Final Bonus rates, in a similar way to a Market Value Reduction. However, a Market Value Adjustment may reduce or increase the policy proceeds.

5.15 For bulk discontinuance of certain group pension schemes where large premium payments have been made, for example Trustee Investment Plans, Market Value Reduction Factors may be subdivided to a greater extent than are bonus rates.

6. Smoothing

Principles

6.1 ReAssure's overall aim when managing the LG With-Profits Fund is to treat all With-Profits Policyholders equitably. We use smoothing to limit the impact of current market and other experience on the amounts payable on With-Profits policies in any given period. The level of smoothing applied varies to reflect the past and expected future experience of different groups of With-Profits Policies, and also the type of claim being made on individual policies. In order to treat all With-Profits Policyholders fairly, the degree of smoothing may differ between different types of contract and between regular and single premiums and may vary over time based on the strength of the Fund.

Use for different types of claim

6.2 The amount payable on death, maturity, annuity or retirement of a With-Profits policy is smoothed so as to limit the change in the policy benefits at any one declaration of Final (or Temporary) Bonus rates. The amount payable on surrender or transfer (including partial encashments and unit switches out of With-Profits) and on early retirement (where the policy document permits the use of a Market Value Reduction Factor) has greater regard to short-term fluctuations in the market value of the assets attributable to With-Profits policies.

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Cost of smoothing

6.3 For Annual Bonus only policies, benefits are smoothed to avoid unduly rapid changes in bonus rates. For With-Profits Annuity contracts benefits are smoothed to avoid unduly rapid changes to the annuity payments due in the coming year. For other contracts, smoothing of benefits currently focuses on the total claim value payable at maturity, normal retirement date or on death.

6.4 The smoothing of death claim and maturity values is operated so as to have no expected net cost over the longer term. Regard is also had of the shorter-term cost so as to control its impact where appropriate on the benefits payable under continuing policies.

Practices

Approach to smoothing

6.5 Smoothing is used to spread the impact on policy benefits of a change in the market value of the assets and other experience attributable to With-Profits policies across more than one bonus declaration.

6.6 The approach to smoothing for one class or generation of With-Profits business is currently considered by examining the experience of that business on its own merits with particular emphasis on investment experience.

6.7 For groups of policies for which bonus investigations rely on Asset Share calculations, the most important guide to determining appropriate levels of payments is the ratio of benefits to Asset Share - the Payout Ratio. For policies eligible for Final Bonus, we smooth payouts by setting an appropriate target Payout Ratio. For With-Profits Annuity policies eligible for Temporary Bonus, smoothing is applied by the spreading of emerging experience over the full future term of the business. For Annual Bonus only business we smooth payouts by avoiding unduly rapid changes in bonus rates. Where we consider it necessary in order to achieve a fair outcome, payouts may target more than 100% of asset share.

6.8 The Board aims to set benefit payments so that Payout Ratios are in the range 80% to 120% for most business (unless the effect of policy guarantees leads to higher Payout Ratios). In the longer term the Board aims to make aggregate benefit payments at maturity or normal retirement date that amount to 100% of the respective Asset Share (again unless the effect of policy guarantees leads to higher Payout Ratios). All of these aims are targets, and it is not guaranteed that benefit payments will fall within those aims.

Limitations on the use of smoothing

6.9 Regard is had both to the short-term cost of smoothing and to its longer-term impact on the benefits available under continuing policies. Whilst there is no minimum period over which the smoothing of death claim and maturity values is expected to be neutral nor is there any explicit overall limit to the accumulated cost of smoothing, payouts are set with the expectation of being brought into line with Asset Shares over a period considered appropriate for each product class.

7. Investment Strategy

Principles

Overall Aim

7.1 The investment strategy of the LG With-Profits Fund aims to balance risk and reward. It seeks to maximise the investment return on the Fund through holding a diversified portfolio of assets, whilst recognising the

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need to safeguard the solvency of the Fund by investing in assets appropriate to the underlying liabilities. Regard is also had of the capacity of the Fund to absorb a financial shock due to holding assets not fully matched to the relevant liabilities.

7.2 Different assets may be held in respect of different product groups within the Fund. The investment mix for each product group may change over time and reflects the liability profiles of each product group, such as differences in the nature and extent of guarantees and options, as well as the strength of the Fund as a whole. As a result of the different asset mixes for different groups of products, the investment return applied to each group of products when determining the amount payable may also differ.

Use of Derivatives

7.3 The investment strategy may include the use of derivatives where that use is for the purposes of efficient portfolio management, improved matching of assets and liabilities, or the reduction of investment risk (or any other use permitted by regulations). Additionally, the investment strategy may include the use of internal asset liability management techniques which are equivalent to the use of derivatives.

7.4 There are no overarching constraints on the Fund's exposure to individual counterparties beyond those implied by the relevant regulatory rules. However, we consider the Fund's exposure to individual counterparties and the impact of the failure of a counterparty when balancing risk and reward.

Assets not normally traded

7.5 The Fund may invest in assets that are not normally traded. However, the acquisition, sale or disposal of such assets (if material and outside the management of investments in the ordinary course of business) would require the prior approval of the With Profits Committee. In addition, the Fund may provide financial assistance to other persons or funds only with the prior approval of the With Profits Committee. In both cases, the With Profits Committee would have to be satisfied that the arrangement was in the interests of the policyholders in the Fund.

Practices

Overall investment mix

7.6 The LG With-Profits Fund invests principally in a mix of government and other fixed interest securities (including from emerging markets), UK commercial property, UK and overseas equities and cash deposits. Derivatives may be used to assist with efficient portfolio management. The Fund may also participate in "Securities Lending" which increases the income earned by the LG With-Profits Fund while ensuring that suitable collateral will always be put forward by the borrower. Different elements of the Fund may be subject to different investment mixes.

7.7 The investment policy sets a benchmark distribution for the assets attributable to With-Profits policies, Non-Profit business in the LG With-Profits Fund and the Estate. These benchmarks are currently reviewed at least annually. The actual Asset allocation for policies of various types is published on our website annually.

7.8 The investment mix applying to With-Profits policies may diverge from the allocation benchmark according to the relative attractiveness of markets. The fund managers are given performance benchmarks, objectives and guidelines as to stock selection and have the freedom to select the stock in which to invest taking account of these objectives and guidelines. The allocation benchmarks and operating ranges are reviewed on a regular basis. Investment decisions and benchmark distributions will change over time to reflect changes in items such as the view of the relative value of different asset classes with the aim to maintain sufficient capital resources.

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7.9 The benchmark distribution for the assets attributable to With-Profits policies may change over time to reflect changes in items such as the view of the relative value of different asset classes, the LG With-Profits Fund's liabilities and the asset allocation of similar funds.

7.10 For certain product groups the investment mix may be gradually moved into a higher proportion of fixed interest securities, which may vary by the average duration of the policies in the group. This may result in different investment returns being applied to policies with different durations.

7.11 The asset mix applied to determine investment returns used in the calculation of Asset Shares may differ, and has differed, from the mix of the assets held. Differences may arise as a result of the aim to reduce the susceptibility of the LG With-Profits Fund as a whole to adverse investment conditions. Differences may also arise due to it being efficient to buy and sell certain investments, such as derivatives, in tranches which do not equate precisely with amounts of With-Profits business in respect of which the investments are being bought or sold.

7.12 For some lines of business, where the guarantees overall are heavily in the money, the Asset Shares backing this business may primarily be invested in fixed interest assets. However, the investment returns used when calculating the Asset Shares for such business are based on a notional asset mix that may include exposure to a wider range of assets.

7.13 In circumstances where it is not possible to obtain reliable valuations of assets, or where it is not possible to realise assets that would otherwise be required to make claim payments, appropriate adjustments may be made.

7.14 In respect of derivatives, to the extent that the Board considers it appropriate, ReAssure may acquire various types of derivatives and hedging products when managing investments backing With-Profits Policies. Such derivative and hedging products are acquired where ReAssure believes that this is likely to reduce investment risk, enable better matching of assets and liabilities, or enhance efficient portfolio management. These derivatives and hedging products may include options to buy and sell particular assets in certain circumstances, financial futures and other products which seek to limit losses in the event of a fall in market values.

7.15 Currently projections of the next twelve months' cash flows are calculated in order to assess what the company judges to be the required level of liquidity in the LG With-Profits Fund. Consideration is also given to longer time horizons when assessing liquidity needs.

7.16 Counter-party limits are set and monitored dependent on credit rating, so as to try to mitigate the exposure of the LG With-Profits Fund to a default. The investment management agreements restrict the purchase of bonds below certain grades. Limits on credit ratings are calculated for portfolios and expressed as limits compared to appropriate benchmarks. The investment management agreements list permitted holdings of securities.

Assessing new asset instruments

7.17 Decisions to invest in new or novel investment instruments are subject to approval at the With Profits Management Committee (or any successor Committee).

Assets not normally traded

7.18 Currently the level of investments in assets which are not normally traded is not material.

Governance arrangements

7.19 The investment policy of the LG With-Profits Fund is the responsibility of the ReAssure Board and is reviewed at least annually by the Board Investment Committee and With Profits Committee. In reviewing the investment strategy the Board Investment Committee will take advice from the With-Profits Actuary and the With Profits Committee, and have regard to Phoenix Group's approach to Responsible Investment.

7.20 The investment management of the individual asset portfolios is outsourced to various external managers. The performance of the investment managers is reviewed regularly by the Board Investment Committee.

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8. Business Risk

Principles

8.1 All obligations and liabilities of the LG With-Profits Fund fall to be met from the assets within the Fund. Therefore, With-Profits policyholders will share in the risks of the Fund, including business risks such as operational risk, and any profits or losses from the operation of smoothing, guarantees and options on other business written in the Fund.

8.2 When some pension policies in the Fund reach retirement and the primary benefit under the policy is an annuity, the annuity is set up outside of the Fund. This removes the Fund's exposure to the potential risks (and profits) that would otherwise arise under the business concerned. Any obligation to provide an annuity under such policies in the Fund is met by transferring the appropriate retirement fund value (or, in the case of a policy with an annuity guarantee, the fair cost of the annuity) to the provider of the annuity.

8.3 We seek to manage the concentration of risks within the Fund in a sound and prudent manner, seeking a balance between risk and reward.

Practices

Exposure to business risk

8.4 Policyholders and shareholders share business risk, such as:

- profits or losses arising from the operation of smoothing, guarantees (including annuity guarantees) and options on With-Profits Policies;
- profits or losses arising from the expenses of maintaining and acquiring With-Profits Policies relative to the expense agreement further described in section 3. This agreement means that the LG With-Profits Fund is not currently exposed to the majority of the business risk relating to expenses;
- profits or losses from mortality, sickness and withdrawal experience of With-Profits Policies;
- profits or losses arising from Non-Profit Policies in the LG With-Profits Fund;
- changes in taxation or other legislation or regulation;
- risks from other investments, for example, in investment management companies, service companies or overseas subsidiary insurance companies. The LG With-Profits Fund currently has no significant investment in such companies;
- risks from failure of a third party, for example a reinsurer; and
- costs from operational risks, such as compensation costs, and where permitted under the Scheme.

Cost of Business risks

8.5 Currently profits and losses arising from business risks are generally distributed to Asset Shares. However exceptions to this, where profits and losses are instead attributed to the Estate include but are not limited to:

- profits and losses from Non-Profit Policies in the LG With-Profits Fund. Therefore they do not influence Asset Shares directly, but do indirectly by contributing to the amount of Estate and affecting the capital resources of the LG With-Profits Fund.
- rectification and costs associated with regulatory reviews
- certain expenses of an exceptional nature.

The Board, after receiving advice from the With-Profits Actuary, determines whether profits or losses attributable to the LG With-Profits Fund from business risks on With-Profits Policies are applied to Asset Shares or to the Estate.

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8.6 In addition, there are in law certain extreme circumstances where the assets could be made available to meet certain debts of ReAssure outside the LG With-Profits Fund where those debts could not be met from resources elsewhere.

New business support

8.7 Other than for a small number of increases to existing policies and new entrants into existing pension schemes, the LG With-Profits Fund is closed to new business. The With-Profits policies in the Fund are not therefore required to finance material costs of writing new business, nor are they exposed to the potential risks (or profits) this entails.

Vesting annuities

8.8 Where benefits are expressed as an annuity and the policyholder chooses to receive all or any part of the benefits as an annuity, ReAssure will set up an annuity in payment with Legal & General, with the cost charged to the Fund being equal to be the actual cost charged by Legal & General. This approach will be reviewed periodically and may change in the future. Where the policyholder is able to and wishes to transfer the policy retirement fund to another provider, ReAssure and Legal & General will facilitate this process.

Future business risk

8.9 When considering the nature and extent of risks taken in the future, no general limits are set. However sensitivities to alternative outcomes are tested and specific limits may be set as a result. Changes to the business risks taken on require prior approval of the With Profits Committee, the members of whom would need to satisfy themselves that such action was in the interests of the policyholders in the Fund.

9. Charges and expenses

Principles

Overall Aim

9.1 The ongoing administration charges and expenses (excluding investment costs and commission) that can be allocated to the LG With-Profits Fund are set out in the Scheme. Additionally, investment management fees and commission are also incurred by the Fund.

9.2 The ongoing administration charges and expenses that are allocated to the LG With-Profits Fund are apportioned to policies in a way that ReAssure considers to be equitable, having regard to the contribution of each particular class of policies to the expenses and at the same time seeking to avoid undue bias in favour of one group of Policyholders over another. The administration charges and expenses that have previously been allocated to the LG With-Profits Fund prior to the implementation of the Scheme have been apportioned to policies in a way which is believed to be equitable to policyholders.

9.3 Generally, for Accumulating With-Profits Policies, explicit deductions act to determine the relative levels of benefits within a group and are taken into account in setting bonus rates, with the objective of endeavouring to strike an equitable balance between different policies. For Conventional With-Profits Policies there are generally fewer explicit deductions inherent in policy terms.

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Practices

Allocation of costs

9.4 The administration charges and expenses charged to the LG With-Profits Fund are set out in the Scheme. For the avoidance of doubt, expenses charged to the fund on Non-Profit policies and charged to the With-Profits asset shares are not necessarily the same as those charged to the Fund and the balance is charged to the Estate. Where services are provided that are in addition to those specified in the expense agreement then additional fees may be payable.

Charges applied to With-Profits policies

9.5 The costs that fall on the Fund (including the allocation of items to the Estate) will be reviewed annually and the apportionment may be modified if considered necessary to achieve an equitable outcome across different generations and types of policy in the Fund. The basis of apportionment of expenses varies according to the category of expense, as follows:

- Commission is charged as incurred.
- Administration expenses are apportioned in accordance with numbers of policies administered within broad policy types.
- Fees for investment services are based on a scale of charges, which varies by asset class and the nature of the investment management services provided. These fees have been set by reference to typical market fees for the investment management services.
- Exceptional expenses, such as those arising from the development of a new administration system, are charged to specific relevant product lines, or across the With-Profits business as a whole, or to the Estate.

9.6 Any change in the expected cost of guarantees and options will be included in the assessment of the adjustment to investment returns (as described in section 3).

9.7 Explicit charges for mortality and sickness benefits are applied to some products. These charges are generally proportional to the amount at risk. The explicit charging rate per unit of cover is generally dependent on an assessment of the probability of a claim being made, and so may vary by, for example, the age of the life assured.

9.8 Where expenses are incurred due to the purchase of goods or services from a supplier outside the LG With-Profits Fund (including other parts of ReAssure) the Company aims to achieve competitive commercial terms on behalf of With-Profits Policyholders.

10. Management of the Estate

Principles

10.1 The Estate is used to help ensure all obligations and liabilities of the Fund can be met from the assets within the Fund, including the need to meet regulatory capital requirements, without the need for external capital. In particular, the Estate:

- Provides flexibility in investment management, potentially increasing policy benefits
- Enables benefits to be smoothed
- Meets certain costs arising within the Fund that are not charged to asset shares
- Helps meets any future costs that arise as a result of adverse experience

10.2 As the LG With-Profits Fund is now closed to New Business, ReAssure will aim to distribute the Estate to With-Profits policyholders over the fullness of time. Any distributions will only be made subject to ensuring the ongoing financial strength and sustainability of the LG With-Profits Fund, and will be made in a fair and equitable way.

10.3 In certain circumstances it may be necessary for ReAssure to take action to ensure the ongoing financial strength and sustainability of the LG With-Profits Fund. This may require past Estate distributions to With-Profits policyholders whose policies remain invested in the LG With-Profits Fund to be removed or recouped. This may also require additional actions to be taken which take precedence over several of the principles set out in this PPFM.

Practices

Management of the Estate

10.4 ReAssure will consider annually whether part of the Estate should be distributed to With-Profits Policyholders. In order to make distributions from the Estate an adjustment to the investment returns applied to Asset Shares may be required. In adverse circumstances this adjustment may be used to claw back some or all of the previous distributions from the Estate (as set out in paragraph 3.9). The amount and timing of any distribution from the Estate shall be determined by ReAssure. ReAssure will do this considering the interests of all With-Profits Policyholders and the requirements of the LG With-Profits Fund in accordance with the Principles.

10.5 The Estate forms part of the LG With-Profits Fund and may have a different investment mix than other elements of the Fund. The investment mix for the Estate takes account of the overall strength of the Fund and the risks to which the Fund is exposed. Since the Estate contains the excess of assets over liabilities for each type of asset, the Estate may have negative holdings of some types of asset (where the With- Profit Fund as a whole holds less of that type of asset than required to back the value of its liabilities).

10.6 Certain costs relating to business risks are currently being allocated to the Estate (as set out in paragraph 8.5). In addition, any permitted shareholder transfers that are not charged to asset shares and all tax related to known and future shareholder transfers will be allocated to the Estate. In considering the allocation of tax and any tax impacts that may arise from time to time, fairness between the stakeholders is considered.

Distribution of the Estate

10.7 ReAssure (after considering advice from the With-Profits Actuary and With Profits Committee review, and operating within the terms of the Scheme) is responsible for determining the appropriate level of the Estate and its distribution, taking into account the current and future solvency requirements of the Fund.

10.8 As described in paragraph 3.9, if ReAssure judged that the Estate was, or was likely to become, inappropriately small it may, after receiving advice from the With-Profits Actuary, claw back some or all of previous distributions from the Estate (this would impact the amounts payable to policyholders). ReAssure would also consider whether it was necessary for the Company to provide temporary additional support for its capital requirements from its shareholder funds, and the terms of any such support.

Other actions that may be necessary to manage the Estate

10.9 Other actions (in addition to those referred to in 10.8 above) which may be taken in adverse circumstances in order to manage the Estate and maintain the overall financial health of the LG With-Profits Fund include:

- An adjustment to the investment returns applied to Asset Shares to apply a charge (this would impact the amounts payable to policyholders) – see paragraph 3.9.
- Reducing future bonuses, including future annual bonuses, if necessary to zero.

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- Adopting a more active and/or granular approach to Surrender Values and Market Value Reduction Factors.
- Reducing the proportion of investments in equities, property and other similar assets.
- Reducing or suspending the smoothing of payouts.
- Removing expense caps that would apply in the future (see paragraph 3.16)

10.10 Any such actions noted in 10.8 and 10.9 would be reviewed by the With Profits Committee and approved by the Board prior to implementation.

11. New Business

Principles

11.1 The LG With-Profits Fund closed to new business with effect from 31 January 2015. Since this date, only certain types of incremental business has been written.

Practices

11.2 Since 31 January 2015, only increases to existing Pension Policies and new members to existing Group Personal Pension Schemes where allowed for in the Policy terms and conditions can be accepted. Regular premiums in payment at the date of closure will also continue to be accepted. In addition, top-up policies in relation to certain protection policies in the LG With-Profits Fund may also be written in the LG With-Profits Fund.

12. Equity between shareholders and policyholders

Principles

12.1 Not less than 90% of any profits distributed from the LG With-Profits Fund are available for distribution to With-Profits Policyholders. The remainder of any distribution from the LG With-Profits Fund is available for distribution to shareholders.

12.2 None of the policies in the LG With-Profits Fund has any entitlement to the surplus emerging elsewhere in ReAssure.

Practices

12.3 The Practices, described in section 3, of applying expense caps and of limiting deductions from Asset Shares in respect of shareholder transfer plus any additional tax, act systematically to reduce the Estate.

12.4 CAI and CMA are not bonuses, and so do not generate a transfer to shareholders.

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13. Compliance with the Scheme

Principles

13.1 The operation of the LG With-Profits Fund will be conducted in accordance with the terms of the Scheme.

Practices

13.2 The operation of the LG With-Profits Fund, including compliance with the requirements of the Scheme, is monitored by the With Profits Committee.

14. Amendments to the PPFM

Principles

14.1 ReAssure may amend the Principles set out in this document, after seeking advice from the With-Profits Actuary on the matter, if the Board is of the opinion that there is a need to:

- Respond to changes in the business, regulatory or economic environment;
- Protect the interest of the policyholders; or
- Correct an error or omission in the PPFM, to improve clarity or presentation of the PPFM without materially affecting its substance or to make an immaterial change.

14.2 The Board will have due regard to the reasonable expectations of policyholders, having taken advice from the With-Profits Actuary, when approving an amendment.

14.3 Policyholders will be provided with 3 months' notice prior to any change in the Principles contained in this document, unless an alternative arrangement is agreed with the Regulator or unless the change is to correct an error or omission in the PPFM, to improve clarity or presentation of the PPFM without materially affecting its substance or is immaterial. This notice may be contained in any annual statements that are provided to policyholders, subject to adherence to the 3 month notice period (or any other period agreed with the Regulator) if applicable. It is expected that changes to the Principles will be infrequent.

Practices

Amendment to the Practices

14.4 The With-Profits Actuary will be responsible for regular monitoring of the practical application of the PPFM to the business. This document reflects the current approved Principles and Practices, and all previous versions will be kept for at least five years.

14.5 Policyholders will not be given prior notice of changes to Practices, although they will be informed within a reasonable timescale after any change has been made unless the change is to correct an error or omission in the PPFM, to improve clarity or presentation of the PPFM without materially affecting its substance or is immaterial. This notice may be contained in any annual statements that are provided to policyholders.

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Procedures for amending Practices

14.6 Prior to amending any Practices within the PPFM the Board shall seek advice from the With-Profits Actuary regarding the proposed changes, the reasons for the changes, any potential impact on policyholders and an opinion on whether such changes are consistent with the Principles. Practices can be changed to better achieve the With-Profits principles, to correct errors or omissions, to improve clarity or presentation without materially affecting substance or if the change is immaterial. Parameters or assumptions not specified within the PPFM, but relevant to the methods described in the PPFM may be amended from time to time. The With Profits Committee will consider any changes of significance, taking advice from the With-Profits Actuary. In all cases the Company will document such changes and how they are consistent with the PPFM.

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15. Glossary

Accumulating With-Profits Policies	A With-Profits Policy which has a readily identifiable current benefit, whether or not this benefit is currently realisable, which is adjusted by an amount explicitly related to the amount of any premium payment and to which additional benefits are added in respect of participation in profits by additions directly related to the identifiable current benefit, or a policy with similar characteristics.
Accumulation Units	Units under a With-Profits policy other than Initial Units
Annual Bonus	A discretionary addition made periodically to the guaranteed benefits under With-Profits Policies, also known as "Reversionary Bonus".
Asset Share	A value for each policy reflecting the premiums paid, increased by investment returns allocated to the assets purchased by those premiums, and allowing for the costs of maintaining the policy including expenses and charges, taxes, and profits or losses relating to experience of the Fund. A detailed description can be found in paragraph 3.1 of this document.
Board	The Board of ReAssure or a suitably authorised committee or individual.
Capital Requirements	The amount of capital the fund is required to hold (covering both regulatory and internal management requirements as approved by the Board) in respect of its current liabilities and in order to protect against the financial implications of certain risk scenarios applied to those liabilities.
Company	ReAssure Limited
Contractual Annual Interest (CAI)	A non discretionary addition to policy benefits which is specified in the policy documents. Once added for each year, this amount cannot be withdrawn for payments at contractual points.
Contractual Minimum Addition (CMA)	A non discretionary variable addition to policy benefits, the rate of which is announced at the beginning of each calendar year in respect of Eligible With-Profits Contracts.
Contractual Point	With-Profits Policies generally provide a combination of smoothing and guaranteed minimum benefits under certain conditions, for example at maturity, normal retirement or death. Within this document such payments are referred to as payments at Contractual Points.
Conventional Non-Profit business	Policies whose benefits are defined in terms of a guaranteed amount (or series of amounts) payable at the maturity date of the policy, or on death.
Conventional With-Profits Policies	With-Profits policies whose benefits are defined in terms of a guaranteed amount (or series of amounts) payable at the maturity date of the policy. Also known as "Traditional With-Profits"
Distributed Surplus	The aggregate of distributions to With-Profits Policyholders in advance of surplus and the cost of bonus, together with the associated transfer from the With-Profits Fund to the shareholders.

Eligible Policies	Those With-Profits policies allocated to the LG With-Profits Fund that are eligible for one or more of; receiving bonuses, sharing in the distribution of the Estate, Contractual Minimum Addition, Contractual Annual Interest.
Estate	Sometimes also known as the Inherited Estate, the amount by which the LG With-Profits Fund's total net assets exceed the amount expected to be needed to meet all the liabilities of the Fund (including payment of benefits to policyholders in the Fund in accordance with their normal expectations).
Final Bonus	A discretionary addition that may be made to the benefits payable under a With-Profits policy when the policy becomes a claim. Also known as "Terminal Bonus".
In The Money	A guarantee is "in the money" if the value of the guaranteed benefits exceeds the Asset Share.
Initial Units	A form of unit under a Unitised With-Profits policy, generally credited in order to apply an initial charge to a policy or to increments paid into a policy. Lower bonuses and/or Contractual Annual Interest normally apply to such units than apply to Accumulation Units.
Interim Bonus	A bonus which may be added when payments are made from a With-Profits Policy in respect of any period for which an Annual Bonus rate has not been declared. For Unitised With-Profits Policies such a bonus may also be payable on switching out of Unitised With-Profits.
Market Value Adjustment	Acts in the same way as the Market Value Reduction Factor for certain specific policy types, but can act to increase or decrease payouts depending on current circumstances.
Market Value Reduction (Factor)	The reduction made in certain circumstances to the amount payable under a With-Profits policy to reflect the difference over a range of policies between the Asset Shares and the policy value including Final Bonuses.
Non-Profit Unitised business	Policies whose benefits are defined in terms of a number of units purchased as premiums are paid, but which do not participate in With-Profits.
Payout Ratio	The benefit payment under a With-Profits Policy divided by the Asset Share.
Phoenix Group	Phoenix Group Holdings and its subsidiaries and subsidiary undertakings.
PPFM	The Principles and Practices of Financial Management is a set of principles and practices according to which the With-Profits business of the Company is conducted.
Practices	A set of statements describing the Company's current approach to managing the With-Profits business in the LG With-Profits Fund.
Principles	The enduring statements of overarching standards that the Company adopts in managing the With-Profits business in the LG With-Profits Fund.
ReAssure	ReAssure Limited (Company number 00754167).
Regular Bonus	A discretionary addition made periodically to the guaranteed benefits under With-Profits Policies, such as Annual Bonus or Interim Bonus.

Regulator	ReAssure is regulated by the Prudential Regulation Authority and the Financial Conduct Authority. Either or both of these authorities may be relevant to the references to Regulator within this document.
Responsible Investment	The practice of incorporating Environmental, Social and Governance (ESG) factors into investment decisions.
Scheme	The legal document entered into by Legal & General Assurance Society and the ReAssure in September 2020 governing the operation of the LG With-Profits Fund.
Shareholder	The owners of ReAssure through holding shares purchased on the stock market. Shareholders are entitled to 10% of the distributed profits of the LG With-Profits Fund.
Securities Lending	Assets are lent out to a counterparty for a fee. This increases the income earned by the LG With-Profits Fund. Suitable collateral will always be put forward by the borrower.
Smoothing	A mechanism designed to even out the application of bonuses across the life of a policy, and across different generations of policies.
Specimen Policy	A policy constructed to represent the portfolio of business for which bonus affordability is being assessed.
Temporary Bonus	An additional bonus which may be added to annuity payments from With-Profits Annuities for a limited period.
Unitised With-Profits Policies	With-Profits policies whose benefits are defined in terms of a number of units purchased as premiums are paid.
Unrealised Capital Gains / Losses	The current capital value of assets compared with the starting capital value of those assets.
With-Profits Annuity	A With-Profits Annuity contract launched in 2000, the annuity payments from which may be increased by Annual Bonus and Temporary Bonus. With-Profits Annuity benefits had been provided under some earlier contracts, but with a different bonus structure.
With Profits Committee	A committee (or any successor committee) of the ReAssure Board whose duties include advising the Board on the fair treatment of With-Profits policyholders. It also has various duties and powers under the Scheme, requiring it to operate independently of the Board in certain circumstances.
With-Profits Policies	Policies in the LG With-Profits fund which participate in the pooling of investments and share in the profits and losses of the LG With-Profits Fund through bonuses.