



ReAssure Limited

National Mutual With-Profit Fund

December 2020

Principles and Practices of Financial Management

National Mutual With-Profit Fund



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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 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.

About this document

- 1.3 This document sets out the Principles and Practices of Financial Management (“PPFM”) followed by ReAssure in respect of the with-profits business held in the National Mutual With-Profit Fund.
- 1.4 The Principles are enduring statements of the overarching standards that ReAssure adopts in managing the with-profits business. 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.
- 1.5 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.
- 1.6 Each year, the Fairness Committee will assess whether or not the with-profits business held in the National Mutual With-Profit 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.
- 1.7 A copy of this document can be obtained from ReAssure from its website www.reassure.co.uk or by writing to its registered address (a charge may be

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made to cover the cost of providing it to anyone who does not hold a with-profits policy in the National Mutual With-Profit Fund).

- 1.8 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.

Consumer-friendly version

- 1.9 This PPFM is a technical document designed for users with knowledge of the life insurance industry. A “consumer-friendly” version of this document, entitled “A guide to how the National Mutual With-Profit Fund is managed” has been produced, summarising the key elements of ReAssure’s management of the with-profits business in the National Mutual With-Profit Fund. A copy can be obtained free of charge from ReAssure from its website www.reassure.co.uk or by writing to its registered address.

2. Background

Company information

- 2.1 ReAssure Limited (“ReAssure” or the “Company”) is a life insurance company that is part of 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 National Mutual With-Profit Fund is a sub-fund of ReAssure, and is managed and accounted for separately from all other funds of ReAssure.
- 2.2 The National Mutual Life Assurance Society was formed in 1896 by the merger of the National Life Assurance Society (founded in 1829 and becoming a mutual in 1847) and the Mutual Life Assurance Society (founded in 1834). In 2002 this Society demutualised and transferred its business to GE Pensions Ltd, known as “GE Life”. The with-profits business was transferred into a sub-fund called the National Mutual Fund.
- 2.3 In April 2007 GE Life was bought by Swiss Re. At this time, GE Pensions Ltd changed its name to NM Pensions Ltd, known as “Tomorrow”, before transferring to Windsor Life Assurance Company Ltd (“Windsor Life”) on 31 December 2007. At that point most of the business of the National Mutual Fund transferred to the National Mutual With-Profit Fund.
- 2.4 On 1 December 2011, Windsor Life changed its name to ReAssure. In July 2020, ReAssure was bought by Phoenix Group.

Product range

- 2.5 The National Mutual Fund had two types of with-profits policy in force (“Conventional With-Profits Policies” and “Unitised With-Profits Policies”). The National Mutual With-Profit Fund contains all of the Conventional With-Profits Policies, along with the investment element of all the Unitised With-Profits Policies (the policies themselves reside in another sub-fund in ReAssure). In addition, it contains a small amount of non-profit business.

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- 2.6 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”). The guaranteed benefits, including the Regular Bonus, are recalculated if the benefits are taken other than at the maturity date.
- 2.7 Unitised With-Profits Policies are more recent policies whose benefits are defined in terms of a number of units purchased as premiums are paid. For these, the price of a unit, used in certain circumstances to determine its value, may be increased at a discretionary rate (the “Accumulation Rate”) set from time to time.
- 2.8 For both types of policy, a further discretionary bonus (“Final Bonus”) may be added to the benefits when the policy is discontinued. 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.
- 2.9 Both types of policy are subject to the same set of principles governing the operation of the with-profits business within the National Mutual With-Profit Fund. However, the translation of these principles to specific practices may differ.
- 2.10 No new business is being written in the National Mutual With-Profit Fund, apart from increases to existing policies. 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

- 2.11 The operation of the National Mutual With-Profit Fund is governed by a scheme of transfer (the “Scheme”), a legal document entered into by ReAssure in December 2007. The Scheme includes a set of “Principles of Financial Management” which guide the financial management of the National Mutual With-Profit Fund and which circumscribe the contents of this document. It also requires certain transactions affecting the National Mutual With-Profit Fund to be approved by a committee of the ReAssure Board (the “Fairness Committee”). A majority of the members of the Fairness Committee have to be independent of Phoenix Group. In addition, the Scheme imposes a number of other constraints and requirements relating to the operation of the National Mutual With-Profit Fund, such as the items that can be credited and debited to it and the ability or otherwise of the Fund to accept new business.
- 2.12 There is also an obligation under the terms of the Scheme to provide financial support to the National Mutual With-Profit Fund if required (the “Capital Support Facility”). The support can take the form of the assignment to the Fund of a percentage of the shareholder's share of the surplus projected to arise in the future under part of the business held elsewhere in ReAssure. Alternatively or in addition, a contingent loan can be advanced to the Fund, repayable by reference to the surplus that emerges in the Fund. The level of the Capital Support Facility is set so that it would have been £200m at the date National Mutual demutualised and then reduces broadly in line with the size of the Fund. None of the facility had

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been drawn down as at the date of this document. Further details regarding the operation of the Capital Support Facility appear in section 7.

- 2.13 Once the admissible value of the assets in the National Mutual With-Profit Fund falls below £300m (increased from 2008 in line with the RPI), the Scheme allows the Fund to be merged with another with-profits fund, subject to certain conditions being met (including the approval of both the insurance regulator and the Fairness Committee).
- 2.14 If the admissible value of the assets in the National Mutual With-Profit Fund falls below £60m (increased from 2008 in line with the RPI), then the Scheme requires the Fund to be merged with one of ReAssure's other long term insurance business sub-funds and the benefits under any remaining with-profits policies converted to a non-profit basis. The terms of the conversion would allow for any undistributed surplus within the Fund (including amounts expected to arise in the future to the extent that they were not required to repay any loans made to the National Mutual With-Profit Fund under the Capital Support Facility). Again, the terms of the merger would have to be approved by both the insurance regulator and the Fairness Committee.

3. The amount payable under a with-profits policy

Principles

Amount payable

- 3.1 ReAssure aims to pay an amount at the maturity or earlier discontinuance of a with-profits policy in the National Mutual With-Profit 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:
- 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 National Mutual With-Profit Fund that support with-profits policies;
 - the tax treatment to which the policy has implicitly been subjected;
 - any items of profit or loss experienced by the National Mutual With-Profit Fund not allocated to specific policies (for example, exceptional items of expense which may legitimately be allocated to the Fund); and
 - the terms of the Scheme, governing items such as the allocation of costs to the National Mutual With-Profit Fund and the distribution over time to eligible with-profits policies (“Eligible Policies”) of the amount by which the National Mutual With-Profit Fund’s total net assets exceed the amount expected to be needed to meet all the liabilities of the Fund (the “Estate”) and to pay benefits to policyholders in the Fund in accordance with their normal expectations.

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

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

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- 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;
- simplification in the manner in which the experience of the National Mutual With-Profit Fund is translated into individual policy benefits; and
- smoothing, so as to limit the change in payouts over time.

Approximations

- 3.3 In practice, a considerable 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.

Changes in methodology

- 3.4 Material changes to the methods employed to determine the amount payable under the with-profits policies in the National Mutual With-Profit Fund are approved by the Board. 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 Shares

- 3.5 The amount payable under most types of with-profits policy is reviewed periodically by accumulating a notional premium at the estimated return earned on the assets deemed to back Asset Shares over complete calendar year periods. For calendar years prior to 2000 the return is smoothed. The result is adjusted to allow for the interval between the end of the last complete calendar year and the period during which the new policy payments will apply. It is then compared with the guaranteed benefits that the premium would have secured using the interest rate and bonus loading assumptions under a typical set of premium rates. The guaranteed benefits include past annual bonus additions.
- 3.6 The exercise is performed for level regular and single premiums, both gross and net of tax. It is used to derive factors which bridge the gap between the investment return implied by the interest rate and bonus loading assumptions (including past bonus additions) and the estimated investment return (net of tax where appropriate) deemed to be earned on Asset Shares. The factors are translated into scales of Final Bonus rates that are applied to guaranteed policy benefits in order to determine the policy proceeds (before any further adjustment,

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such as the application of a Market Value Reduction Factor). Further details are set out in sections 5 and 6.

- 3.7 Some of the investment returns for past years have been adjusted so as to make an approximate allowance for profits and losses of a non-investment nature (although the only adjustment, when made, in recent years has been in respect of expenses, as described later in this section). Any items not incorporated into the investment return (or allowed for in policy charges) fall on the Estate.
- 3.8 However, with the Estate being distributed over time to Eligible Policies, such items have an indirect effect on policy proceeds. In particular, the National Mutual With-Profit Fund has to meet the benefits payable under the policies invested in the Fund. These include guaranteed minimum annuity rates and other guarantees underlying with-profits and other types of policy. Where the cost of a guarantee under a policy falls on the Estate, the amount of the Estate available for distribution to other policies is correspondingly reduced.

Assumptions underlying Asset Shares

- 3.9 Subject to the comments below, the investment return (before smoothing and other adjustments) for a given calendar year used to accumulate premiums is the estimated return for that year on the assets in the National Mutual With-Profit Fund deemed to support the Asset Shares underlying with-profits policies. These are taken as the total net assets in the National Mutual With-Profit Fund, less those notionally hypothecated to: (i) business other than with-profits (predominantly fixed interest securities backing the small amount of non-profit business in the Fund); (ii) the estimated cost of guarantees, options and smoothing under the with-profits policies in the Fund; and (iii) the Estate. For each year, the same investment return (before any adjustment for tax) is assumed to apply to all policies.
- 3.10 Any cost of meeting the guarantees underlying the policies in the National Mutual With-Profit Fund, beyond any charges built into the premium rates, is currently being allocated to the Estate. This practice is however subject to periodic review. In particular, were the expected cost (relative to the size of the Estate) to increase significantly, then part or all of it might be defrayed through a reduction to the investment returns used to accumulate premiums when deriving scales of Final Bonus rates. Further information can be found in section 8.
- 3.11 The method used to derive Final Bonus rates makes an implicit allowance for expenses and the cost of mortality based on the charges in the relevant premium rates for Conventional With-Profits Policies and on policy charges for Unitised With-Profits Policies (including a notional investment management charge). In addition, a global adjustment may be made to the investment return for each year to allow approximately for the difference between the actual costs attributable to with-profits policies and the costs implied by the premium rate and policy charges. Otherwise, this difference falls on the Estate. Expense items that are considered exceptional may also be allocated to the Estate rather than being incorporated into the calculation of Asset Shares.
- 3.12 The tax deduction made to the investment return is based on an estimate of the tax rate that would theoretically apply to a policy in isolation. Any significant

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difference between the composite tax rate this produces and the level of tax actually charged to the National Mutual With-Profit Fund is normally allocated to the Estate, but could be allowed for through a global adjustment to the investment return allocated to policies. The National Mutual With-Profit Fund as a whole is subject to a tax charge under the Scheme as though it were the long term insurance fund of a standalone mutual life office.

Target payout range

- 3.13 With-profits business is operated with the aim of ensuring that policy payments, whether at maturity or on surrender, fall within a range from 80% to 120% of the Asset Share underlying the policy. However, in normal circumstances most policy payments would be expected to fall within a narrower range than this. In addition, there is the aim that, over the longer term, payments in aggregate should equal 100% of Asset Shares (although for payments on surrender, this applies before the application of any Market Value Reduction Factor). For this purpose, the Asset Share for a given policy includes adjustments of a non-investment nature described elsewhere in this document (for example, the enhancement made to distribute the Estate to Eligible Policies), but excludes any impact on payments made by the guarantees under the policy.

Other methods in use

- 3.14 For durations in force below three years regard is had to the yields on short term fixed interest securities when setting the investment returns used to calculate the Asset Share for most contracts. For durations between three and five years, this approach is blended with the approach described above.
- 3.15 Deposit Administration contracts are operated as non-profit policies. Each premium is invested in a sub-account, subject to a guaranteed interest rate for fifteen years. This guaranteed rate is augmented each year by the addition of a bonus rate, based on the difference between the guaranteed rate and the fixed interest yield of an appropriate term at the date the premium was paid. No further bonus is added at the maturity of the sub-account.

Annuity guarantees

- 3.16 Some with-profits policies contain guarantees relating to the level of the annuity that can be secured at maturity. In general, where the original principal policy benefits are expressed as a deferred annuity, the guarantee provides a guaranteed minimum level for the annuity. Where the original principal policy benefits are expressed as a cash fund with an associated guaranteed annuity rate, the retirement fund at maturity is currently determined disregarding the guaranteed rate and the result converted to an annuity using current rates subject to a minimum of the guaranteed rate provided under the policy.

Controls, documentation and change approvals process

- 3.17 ReAssure maintains appropriate systems in order to determine claim values for with-profits policies. The appropriateness of these systems is regularly reviewed and, accordingly, they may be upgraded or replaced from time to time, but ReAssure will ensure that this does not affect its ability to comply with the PPFM.

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Any changes to the method used to determine the amounts payable to with-profits policies are approved by the Board, as is the decision to allocate any item to the Estate rather than to Asset Shares.

- 3.18 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 and agreed with the Fairness Committee. 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.
- 3.19 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.
- 3.20 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 Fairness Committee and obtaining the agreement of the Fairness Committee on the implementation of such changes.

4. Annual bonus rates

Principles

Level of rates

- 4.1 Annual bonus rates (the Regular Bonus rate for Conventional With-Profits Policies and the Accumulation Rate for Unitised With-Profits Policies) are set with the aim of improving or maintaining the investment flexibility of the National Mutual With-Profit Fund and of avoiding wherever possible the accumulation of a level of guaranteed benefits under individual policies or groups of policy that could be detrimental to the interests of other policyholders invested in the Fund.

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Differential rates

- 4.2 With Final Bonus rates acting as the principal mechanism to achieve equity, it is acceptable to have a similar or identical level of annual bonus rate across a wide range of types and generations of with-profits policy. Given that the National Mutual With-Profit Fund is closed to new business (apart from increases to existing policies), the issue of introducing a new bonus series for new business is unlikely to arise.

Practices

Approach to setting rates

- 4.3 Annual bonus rates are at very low levels. This is due in part to the comparatively low level of forecast future investment returns. It also takes into account the greater flexibility in the financial management of the National Mutual With-Profit Fund made available through using Final Bonus to pass the experience of the Fund on to policies. No explicit target is set for the proportion of the maturity proceeds under a policy to be paid in any given form. Annual bonus rates would be increased only if to do so was considered to be in the interests of policyholders generally.

Review of rates

- 4.4 Annual bonus rates are set each year. The Accumulation Rate can be set more frequently, although it is expected to be reviewed formally on an annual basis. There is no limit to the amount by which the annual bonus rate can be changed. Interim bonus rates are currently set to the level of the most recently declared annual bonus rate for the type of policy concerned, but in extreme circumstances could be reduced to zero.

5. Final Bonus rates and Market Value Reduction Factor

Principles

- 5.1 Final Bonus rates are used to lift the guaranteed policy benefits (recalculated where appropriate) up to the total amount payable under the policy, determined as set out in section 3. The result may be reduced (by the application of a Market Value Reduction Factor) where permitted under the terms of the policy document to reflect adverse experience yet to be incorporated into Final Bonus rates.

Practices

Approach to setting rates

- 5.2 Asset Share calculations as described in section 3 are performed to derive scales of Final Bonus rates to apply to policies. Separate sets of Asset Shares are calculated for life and pension policies and for level regular and single premiums (the latter including single premium additions to existing policies). In addition, each set of premium rates with a significantly different interest rate and bonus loading assumption generally has its own scale of Final Bonus rates. Similarly, policies

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whose original principal benefits are expressed as a deferred annuity (but not policies where the benefits take the form of a cash fund with an associated guaranteed annuity rate) are subject to a separate set of Final Bonus rates.

- 5.3 The aim in each of the above is to derive a scale of Final Bonus rates (before allowing for smoothing, as described in section 6, and for the distribution of the Estate, as described in section 10) that in broad terms bridges the gap between the guaranteed benefits and the estimated Asset Share (if the guaranteed benefits exceed the Asset Share, 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 Asset Share under each policy, due to simplifications in the method employed (for example, the use for practical reasons of a limited number of bonus scales).
- 5.4 The Asset Share calculations on which Final Bonus rates are based give full weight to the most recent economic experience. However, the extent to which this experience is reflected in the resulting bonus rates depends on the impact made by smoothing, as discussed in section 6.
- 5.5 The same underlying philosophy regarding Final Bonus applies to both Conventional With-Profits Policies and Unitised With-Profits Policies. However, the two are subject to separate bonus scales and have differences in application. For paid-up Conventional With-Profits Policies, the amount obtained by applying the Final Bonus rate to the guaranteed benefits is multiplied by a factor designed to reflect the impact of premiums being paid for only part of the policy term. For Unitised With-Profits Policies, the units allocated to the policy in each policy year are in general subject to a separate Final Bonus rate and the results amalgamated across the policy.
- 5.6 In the case of Conventional With-Profits Policies, the guaranteed benefits are recalculated if the policy is discontinued other than at its maturity date and the Final Bonus rate applied to the revised amount. The recalculated benefits are generally derived using the premium rate appropriate to the actual duration in force, adjusted to allow for any additional commission and life cover compared to a policy written over that term from outset (although for late retirements under corporate pension contracts, the maturity proceeds are rolled up at a deposit interest rate).

Market Value Reduction Factor

- 5.7 Where considered to be warranted by the prevailing investment conditions or other factors affecting payouts, and permitted by the terms of the policy document and regulatory requirements, the policy proceeds 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 (recalculated where appropriate).
- 5.8 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), early and late retirements (where permitted under the terms of the

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relevant policy document) and (for Unitised With-Profits Policies) fund switches out of with-profits. Whilst allowed by the policy document, a Market Value Reduction Factor is not currently applied to income withdrawals under Drawdown policies. However, one could be introduced in the future, were it considered to be in the interests of policyholders generally.

- 5.9 The Market Value Reduction Factor is kept under regular review. It reflects the difference across a range of terms and premium frequencies between the actual estimated Asset Shares and those implied by the prevailing rates of Final Bonus. Because of this, it will not in general replicate the Asset Share across all policies.

Review of rates

- 5.10 Final Bonus rates are currently reviewed quarterly. A review may also take place at any time if a significant event has occurred (examples include a large fall in the market value of the assets attributable to with-profits policies, a business risk that might have a significant impact on the fund, or changes in regulatory rules or guidance). The level of the Market Value Reduction Factor may be reviewed more frequently than quarterly, and Final Bonus rates would only be altered between regular declarations if there were a significant event accompanied by a high level of policy encashments not subject to a Market Value Reduction Factor.

6. Smoothing

Principles

Use for different types of claim

- 6.1 The amount payable on death or at the maturity of a with-profits policy is smoothed so as to limit the change in the policy benefits at any one declaration of Final Bonus rates. The amount payable on surrender or transfer (including partial encashments and unit switches out of with-profits) and on early and late 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.

Cost of smoothing

- 6.2 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. For surrenders and transfers (and other circumstances where a Market Value Reduction Factor is operated), smoothing can be expected to result in a net gain to the National Mutual With-Profit Fund.

Use of the Market Value Reduction Factor

- 6.3 Whilst the amount payable under a with-profits policy reflects all items of experience of the National Mutual With-Profit 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 smoothing

- 6.4 The Asset Shares used to derive Final Bonus rates are based on the estimated actual investment returns earned on the assets deemed to back them (adjusted as set out in section 3). The Final Bonus rates which bridge the gap between the investment returns implied by the guaranteed policy benefits and those underlying the Asset Shares may be adjusted so as to limit the change in the resulting policy payout, before being used to determine a full scale of rates. Adjustments may also be made to some of the entries in the resulting scale so as to limit the variation between payouts of policies commencing in consecutive years.
- 6.5 Smoothing is used to spread across more than one bonus declaration the impact on policy benefits of a sharp change in the market value of the assets attributable to with-profits policies where passing that impact on at a single declaration is considered to produce too great a change in payouts. For this purpose, the payout is compared to the payout under the same policy at previous declarations and not to the payout under a different policy of the same term.
- 6.6 The change in payouts at any one review may be subject to a cap to prevent large changes in payouts at any one declaration, while targeting payouts of no less than 90% and no more than 110% of Asset Shares, based on model policies. There is no explicit upper limit on the acceptable change in payouts at a single declaration, although changes are generally unlikely to exceed 5% at any one declaration in normal circumstances, or 10% if warranted by more exceptional circumstances. The derived rates may be rounded and smoothed to produce a smoothed progression for successive inception years. In addition, for ease of operation, where the existing payout is close to the new level of the Asset Share, Final Bonus rates may be left unchanged.

Limitations on the use of smoothing

- 6.7 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 at most a two-year period. However, in most circumstances, they are brought into line over a significantly shorter period.
- 6.8 The same approach to smoothing is applied to all with-profits policies, other than short-term and Deposit Administration policies, as described in section 3. In particular, it applies to new entrants as well as to existing policies (although, with the National Mutual With-Profit Fund closed to new business, the scope for new entrants is restricted to increases under existing policies).
- 6.9 The approach described above is used to determine payouts at the maturity of a policy. It is also used to derive death claim values expressed as a return of the accumulated fund (or equivalent) under the policy. The same Final Bonus rates currently apply to death claim values based on the sum assured at maturity and attaching bonuses. However, surrender and transfer values (including fund

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switches and early and late retirement values), whilst subject to the same scale of Final Bonus rates, may in addition have a Market Value Reduction Factor applied, as described in section 5.

Derivation of the Market Value Reduction Factor

- 6.10 The level of the Market Value Reduction Factor is reviewed frequently. It reflects the shortfall (if any) across a range of policy types and durations of the actual estimated Asset Shares and those implied by the prevailing rates of Final Bonus. As a result, it will not necessarily reflect the precise shortfall under the policy to which it is applied. Where the proceeds under a policy are subject to a Market Value Reduction Factor, they will not benefit from the protection provided by the smoothing approach described above.

Partial encashments

- 6.11 No adjustment is currently made to the final encashment value of a policy to allow for any differences between the amounts paid on previous partial encashments and the amounts theoretically justified by the underlying Asset Shares prevailing at the time those encashments were made.

7. Investment strategy

Principles

Overall aim

- 7.1 The investment strategy of the National Mutual With-Profit Fund seeks to maximise the investment return on the Fund through holding a diversified portfolio of assets, whilst recognising the 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. A different strategy may apply to different parts of the Fund.

Capital Support Facility

- 7.2 In assessing the capacity of the National Mutual With-Profit Fund to absorb a financial shock, account is taken of all the financial resources available to the Fund, including the Capital Support Facility described in section 2.

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 or the reduction of investment risk (or any other use permitted by regulations). There are no overarching constraints on the National Mutual With-Profit Fund's exposure to individual counterparties beyond those implied by the relevant regulatory rules.

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Assets not normally traded

- 7.4 The National Mutual With-Profit 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 Fairness Committee. In addition, the National Mutual With-Profit Fund may provide financial assistance to other persons or funds only with the prior approval of the Fairness Committee. In both cases, the Fairness Committee would have to be satisfied that the arrangement was in the interests of the policyholders in the Fund.

Practices

Overall investment mix

- 7.5 The National Mutual With-Profit Fund invests principally in a mix of government and other fixed interest securities (including from emerging markets), UK commercial property, UK and overseas equity shares and cash deposits. Derivatives may be used to assist with efficient portfolio management. The Fund may also participate in "Securities Lending". Different elements of the Fund may be subject to different investment mixes.
- 7.6 The investment policy sets a benchmark distribution for the assets attributable to with-profits policies, which is currently reviewed at least annually and is published on our website.
- 7.7 The investment mix applying to with-profits policies may diverge from the benchmark according to the relative attractiveness of markets. Divergence is normally limited to ten percentage points (of the total assets attributable to with-profits policies) for each category of asset, subject to a maximum permitted deviation for equities and property combined of ten percentage points, and a maximum permitted deviation for UK and overseas equities combined of ten percentage points. The benchmark allocation to overseas equities is unhedged, but the investment managers have the discretion to hedge against currency risk if they consider it to be appropriate.
- 7.8 The National Mutual With-Profit Fund is required to be able to absorb an immediate substantial fall in equity values and remain solvent on a Pillar 1 basis. For the purposes of assessing solvency, the Capital Support Facility is assumed to have been drawn down into the Fund. In some circumstances, this could lead to the investments in equities and property falling significantly below the benchmark levels noted in paragraph 7.6.
- 7.9 The benchmark distribution for the assets attributable to with-profits policies will change over time to reflect changes in items such as the view of the relative value of different asset classes, the National Mutual With-Profit Fund's liabilities and the asset allocation of similar funds.

Equity and property portfolios

- 7.10 The performance of each of the equity portfolios covering the world's major economic regions is measured against a published index. In addition, a risk profile

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is set (based on the expected deviation of the performance away from the index). A similar framework is set for the commercial property portfolio.

Fixed interest portfolio

- 7.11 The choice of securities for the fixed interest portfolio is based on the projected guaranteed cashflows from the underlying policy liabilities. The securities have to be investment grade at the time of purchase. The securities in the Estate are expected to be high quality, with a minimum of 70% of government bonds. The securities deemed to support the Asset Shares are permitted to be higher-risk, with the intention of producing higher future policyholder investment returns, with a minimum of 7.5% of government bonds. There are no explicit liquidity requirements, but the holdings of government bonds are extremely liquid.

Assessing new asset instruments

- 7.12 Any decision to invest in new types of asset is approved by the Board Investment Committee and the ReAssure Board. Regard is also had of any comments on the investment policy made by the Fairness Committee.

Assets not normally traded

- 7.13 There are currently no assets held by the National Mutual With-Profit Fund that are not considered to be “available for sale”.

Governance arrangements

- 7.14 The investment policy of the National Mutual With-Profit Fund is the responsibility of the ReAssure Board and is reviewed at least annually by the Board Investment Committee and Fairness Committee. In reviewing the investment strategy the Board Investment Committee will take advice from the With-Profits Actuary and the Fairness Committee.
- 7.15 The investment management of the individual asset portfolios is outsourced to various external managers. The performance of the investment managers is reviewed by the Board Investment Committee each quarter.

Operation of the Capital Support Facility

- 7.16 The investment policy of the National Mutual With-Profit Fund is set as though the capital available under the Capital Support Facility were included in the Fund, although regard is paid to the cost that would be incurred were the facility to be drawn on.
- 7.17 Under the terms of the Capital Support Facility, if there is a deficit in the National Mutual With-Profit Fund at the end of a quarter (defined as the Fund having insufficient assets to meet its liabilities and Pillar 1 capital resources requirement, both determined in accordance with the relevant regulatory rules), then ReAssure has to arrange for financial support to be provided to the Fund (up to the maximum level of support available) so as to extinguish the deficit (unless the deficit has since been eliminated and the ReAssure Board and Fairness Committee agree that no support is required). The support can take the form of

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the assignment to the Fund of a percentage of the shareholder's share of the surplus projected to arise in the future under part of the business held elsewhere in ReAssure.

- 7.18 Alternatively or in addition, a contingent loan can be transferred into the National Mutual With-Profit Fund. The loan has to be repaid from the future surplus emerging in the Fund to the extent that this is possible. Interest accrues on the loan at a rate equal to 2.5% p.a. above the five-year gilt index yield as at the date the loan is advanced.

8. Business risk

Principles

- 8.1 All the obligations and liabilities of the National Mutual With-Profit Fund fall to be met from the assets within the Fund. This includes the repayment with interest of any contingent loans made under the Capital Support Facility, provided that such payments are made in accordance with the terms of the Scheme.
- 8.2 When a pension policy in the National Mutual With-Profit Fund reaches retirement and an annuity is payable, the annuity is set up outside 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 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 ReAssure's Non-Profit Fund. The National Mutual With-Profit Fund also has an obligation to meet the fair cost of annuity guarantees applicable to any former National Mutual policies that are held in other funds of ReAssure.
- 8.3 Additional business risk can only be taken on by the National Mutual With-Profit Fund if permitted under the terms of the Scheme or if required by law.

Practices

Exposure to business risk

- 8.4 As a general rule, the National Mutual With-Profit Fund (and as a consequence the with-profits policies within the Fund) is currently only expected to be exposed to business risks (actual or potential) that were present in the Fund immediately after the point NM Pensions transferred its business to ReAssure.
- 8.5 In particular, the assets attributable to with-profits policies are available to meet the outgo of the National Mutual With-Profit Fund, to the extent that it cannot be met from resources set aside or otherwise available to do so. This includes (though is not limited to):
- the benefits under non-profit policies in the National Mutual With-Profit Fund (to the extent that the costs exceed the reserves established to meet them);
 - the cost of the annuity guarantees that are present under a small number of former National Mutual policies that are held elsewhere in ReAssure;

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- compensation costs (such as pensions and endowment mis-selling claims) and other non-contractual payments relating to policies in the National Mutual With-Profit Fund, to the extent that they relate to facts or circumstances which arose prior to National Mutual's demutualisation;
- the cost of the annuity guarantees that are present under a number of the with-profits policies in the National Mutual With-Profit Fund;
- the cost of all other guarantees and options under with-profits policies in the National Mutual With-Profit Fund (to the extent that these are not met by the policies themselves); and
- the cost of smoothing the benefits payable under with-profits policies.

Of the above, the first three items are unrelated to benefits payable under the with-profits policies in the National Mutual With-Profit Fund. The remainder are payments under with-profits policies that exceed the Asset Share accumulated by the policy in question and which therefore reduce the assets available to pay benefits under other with-profits policies.

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

Cost of business risks

- 8.7 Any costs arising from the various business risks to which the National Mutual With-Profit Fund is exposed are currently being met from the Estate. Were the latter to be considered inadequate, then the current plan is to meet the excess cost as follows, in the order specified (so the cost would be charged to an item only once the preceding item in the list is exhausted):
- by reducing the enhancement being made to with-profits payouts in order to distribute the Estate to Eligible Policies (including the uplift from past years as well as the uplift of up to 5% credited at the date of the EGM at which National Mutual's demutualisation was approved);
 - by introducing an annual deduction from the future investment return credited to Asset Shares;
 - from the Capital Support Facility; and finally
 - as an immediate charge to Asset Shares.
- 8.8 The excess will be allocated as soon as it is recognised (on a realistic basis), rather than waiting for it to emerge. Any deduction made from Asset Shares (in particular the point which triggers the use of the Capital Support Facility) will have due regard to the fair treatment of policyholders. The operation of the plan, including the order in which the steps occur, may be reviewed to reflect the circumstances at the time and in order to comply with the requirement to treat policyholders fairly.

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New business support

- 8.9 Other than for a small number of increases to existing policies, the National Mutual With-Profit Fund is closed to new business. The with-profits policies in the Fund are not therefore required to finance the cost of writing new business (beyond the fees paid under the Scheme for any new business written in the Fund), nor are they exposed to the potential risks (or profits) this entails.

Vesting annuities

- 8.10 Under the terms of the Scheme, annuities for vesting pension policies in the National Mutual With-Profit Fund are set up outside the Fund. This is achieved 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 ReAssure's Non-Profit Fund. ReAssure may set up the annuity in the Non-Profit Fund or use an external annuity provider to set up the annuity outside ReAssure. In addition, the National Mutual With-Profit Fund has to meet the fair cost of annuity guarantees under a small number of former National Mutual policies held elsewhere in ReAssure.
- 8.11 Where the annuity is set up outside ReAssure, the fair cost is taken to be the actual cost paid by ReAssure. Otherwise an amount which represents a fair cost of the annuity, taking into account the rates available on the open market, is charged. This approach will be reviewed periodically and may change in the future. The Fairness Committee is required to monitor these costs and to advise the ReAssure Board on their fairness.

Future business risk

- 8.12 The Scheme does allow the National Mutual With-Profit Fund to accept new with-profits business reinsured to it from elsewhere in ReAssure. In addition, the Fund may acquire assets outside its normal investments and provide financial assistance to other persons or funds. However, the Fund is not currently performing any of these activities (other than accepting a small amount of new with-profits business under increases to existing policies). In addition, it can only do so with the prior approval of the Fairness 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 charges and expenses (including investment costs and commission) that can be allocated to the National Mutual With-Profit Fund are set out in the Scheme. These are allocated to policies with the aim of ensuring that over time all those costs not met from resources elsewhere in the Fund are charged to the assets underlying the with-profits business in the Fund and are apportioned amongst policies in a fair and equitable manner.

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Review of approach

- 9.2 The costs allocated to the National Mutual With-Profit Fund are prescribed by the Scheme. The apportionment amongst policies of the costs that fall on the Fund (including the allocation of items to the Estate) will be reviewed annually and may be modified if considered necessary to achieve an equitable outcome across different generations and types of policy in the Fund.

Practices

Allocation of costs

- 9.3 Some of the costs allocated to the National Mutual With-Profit Fund may be offset against the expense charges in the premium rates underlying the non-profit policies in the Fund. In addition, certain costs may be allocated from time to time to the Estate. The remaining costs are charged to the assets accumulated by the premiums paid under with-profits policies (including the investment element of Unitised With-Profits Policies).

Charges set out in the Scheme

- 9.4 The fees charged to the National Mutual With-Profit Fund for administration services are predominantly expressed as amounts per policy in force, the level depending on the type of policy concerned. In addition, fees are set for the costs incurred processing the small amount of new business written in the Fund. The fees for investment services take the form of percentages of the funds under management, the level depending on the type of asset. The level of the fees is set out in the Scheme and was originally based on the unit costs experienced by National Mutual prior to demutualisation. The administration fees are indexed each year in line with the increase in the RPI plus 1%.
- 9.5 Certain additional items can be charged to the National Mutual With-Profit Fund, such as the commission payable on the policies in the Fund and any costs arising from actual or alleged maladministration or mis-selling by National Mutual prior to its demutualisation.
- 9.6 In April 2012 (ten years after National Mutual's demutualisation), the amount charged to the National Mutual With-Profit Fund for administration and investment services reverted to the actual costs incurred. However, in the case of the administration costs, the amount charged is subject to being no more than the continuation of the fees payable up to that date (still indexed in line with the RPI plus 1%).

Translation to policy level

- 9.7 When calculating with-profits payouts, the costs charged to Asset Shares are allocated to individual policies based on the charges in the premium rates for Conventional With-Profits Policies and on the policy charges for Unitised With-Profits Policies. The latter (which may be varied in the future) include a notional investment management charge based on the corresponding charge on unit-linked funds. The estimated difference between the aggregate of all such charges and the total amount attributable to with-profits policies (excluding amounts

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allocated to the Estate), if considered sufficiently material, is then met by adjusting the investment return allocated to policies. Otherwise, it accrues to the Estate.

10. Management of the Estate

Principles

Distribution of the Estate

- 10.1 Under the terms of the Scheme, the Estate is being distributed over time to Eligible Policies. The principles that are followed when determining the enhancement to policy proceeds in order to achieve this:
- allow for the size and term of Eligible Policies;
 - are gradual so as to maintain the financial strength of the National Mutual With-Profit Fund at an acceptable level;
 - reflect changes in the estimated value of the amount available to distribute, as the latter is updated to allow for the emerging experience of the National Mutual With-Profit Fund;
 - maintain continuity of the framework within which the additional benefits to policies are allocated; and
 - aim to distribute all the Estate over the remaining life of Eligible Policies, whilst seeking to maintain equity between policies maturing at different times.

Practices

Management of the Estate

- 10.2 The Estate forms part of the National Mutual With-Profit Fund and may have a different investment mix than other elements of the Fund. 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 National Mutual With-Profit Fund as a whole holds less of that type of asset than the value of its liabilities).
- 10.3 Certain costs are currently being allocated to the Estate. These comprise:
- the cost of paying annuities at retirement under certain pension contracts on rates guaranteed in the policy document that are in excess of those generally available in the market;
 - any compensation costs for mis-selling or maladministration relating to policies originating in National Mutual, to the extent they relate to facts or circumstances which arose prior to National Mutual's demutualisation; and
 - any remaining costs associated with National Mutual's demutualisation that are allocated by the Scheme to the National Mutual With-Profit Fund.



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Distribution of the Estate

- 10.4 The Estate is being distributed to Eligible Policies (policies and increases written up to 9 March 2001) as they mature or otherwise discontinue.
- 10.5 A one-off uplift of up to 5% (depending on duration in force) was made to the Asset Shares of all Eligible Policies at the end of 2001 (immediately following the EGM at which National Mutual's demutualisation was approved). Following this, further uplifts are declared annually at a level consistent with distributing the entire Estate to policies over the expected lifetime of the remaining business in the Fund. The Board (after considering actuarial advice and Fairness Committee review) is responsible for determining the appropriate level of the Estate and its distribution, and aims to keep the level of uplift reasonably uniform each year while maintaining the size of the Estate at an appropriate level and taking into account the solvency requirements of the Fund.
- 10.6 Despite this aim, the uplift will fluctuate and the appropriate uplift could be negative. In this case, uplifts for previous years (including the one-off uplift) may be reduced or removed. Details of the uplifts are published on our website.

11. New business

Principles

Ability to accept new business

- 11.1 The National Mutual With-Profit Fund is only able to accept new business to the extent permitted under the Scheme.
- 11.2 Apart from increases to existing policies in the National Mutual With-Profit Fund, new business will only be written in significant volumes in the National Mutual With-Profit Fund (and then only on a with-profits basis and through notional reinsurance from elsewhere in ReAssure) if such action were approved by the Fairness Committee. The latter would be required to take independent advice and consult with the insurance regulator and would then have to conclude that the new business concerned would not at any time have a detrimental effect on the benefits payable under the existing policies in the Fund.

Practices

Volume of new business

- 11.3 With the exception of increases to existing policies, the National Mutual With-Profit Fund is closed to new business. There are no limits on the amount of increase business the Fund can accept. With vesting annuities being set up outside the Fund, no new non-profit business of any significance can arise.

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12. Equity between shareholders and policyholders

Principles

National Mutual With-Profit Fund

- 12.1 All the surplus emerging in the National Mutual With-Profit Fund, other than that required to repay any loans made under the Capital Support Facility and to pay interest on them, will be distributed over time to the with-profits policies invested in the Fund.

Other Funds in ReAssure

- 12.2 Other than under the terms of the Capital Support Facility, none of the policies in the National Mutual With-Profit Fund has any entitlement to the surplus emerging elsewhere in ReAssure.

Practices

Apportionment of surplus

- 12.3 The apportionment of surplus between with-profits policies and shareholders is being operated in accordance with the Principles stated above.

13. Compliance with the Scheme

Principles

- 13.1 The operation of the National Mutual With-Profit Fund will be conducted in accordance with the terms of the Scheme.

Practices

- 13.2 The operation of the National Mutual With-Profit Fund, including compliance with the requirements of the Scheme, is monitored by the Fairness 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 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.



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- 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. Changes to the Practices will be recorded in this document 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.

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 Fairness 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

“Accumulation Rate”	The discretionary rate at which the price of the units allocated to Unitised With-Profits Policies is increased.
“Asset Share”	The notional accumulation of the premiums paid under a with-profits policy, less costs, at the rates of return earned on the assets deemed to be backing the policy during the period it has been in force, reduced where appropriate to allow for tax.
“Board”	The Board of ReAssure or a suitably-authorized committee.
“Capital Support Facility”	The obligation under the Scheme to provide financial support to the National Mutual With-Profit Fund in certain circumstances, whether by way of an assignment of surplus or through a contingent loan repayable by reference to the future surplus that emerges in the Fund.
“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”
“Company”	ReAssure Limited
“Eligible Policies”	Those with-profits policies allocated to or notionally reinsured into the National Mutual With-Profit Fund that are eligible to share in the distribution of the Estate.
“Estate”	The amount by which the National Mutual With-Profit Fund’s total net assets exceed the amount expected to be needed to meet all the liabilities of the Fund and to pay benefits to policyholders in the Fund in accordance with their normal expectations. In the Solvency II regime the Risk Margin is not considered to be a liability of the Fund when determining the Estate.
“Fairness Committee”	A committee of the ReAssure Board whose duties include advising the Board on the fair treatment of policyholders. It also has various duties and powers under the Scheme, requiring it to operate independently of the Board in certain circumstances.

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“Final Bonus”	A discretionary addition that may be made to the benefits payable under a with-profits policy when the policy is discontinued (before the application of any Market Value Reduction Factor). Also known as “Terminal Bonus”.
“Market Value Reduction Factor” or “Market Value Adjuster”	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 actual investment return earned on the assets deemed to back Asset Shares and the return implied by Final Bonus rates.
“National Mutual”	National Mutual Life Assurance Society
“National Mutual Fund”	A sub-fund of NM Pensions’ long term insurance business fund containing those policies transferred to NM Pensions on the demutualisation of National Mutual.
“National Mutual With-Profit Fund”	<p>A sub-fund of ReAssure's long term insurance business fund containing much of the business that was previously held in the National Mutual Fund of NM Pensions.</p> <p>(where appropriate, references to the National Mutual With-Profit Fund in the context of items arising prior to the transfer of business from NM Pensions to ReAssure should be interpreted as references to the National Mutual Fund or to National Mutual’s long term insurance business fund, as appropriate).</p>
“NM Pensions”	NM Pensions Limited
“Pillar 1”	The capital resources requirement for insurance companies as set out in relevant regulatory rules. In the Solvency II regime this is the Solvency Capital Requirement.
“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 National Mutual With-Profit Fund.
“Principles”	The enduring statements of overarching standards that the Company adopts in managing the with-profits business in the National Mutual With-Profit Fund.

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<i>“Principles of Financial Management”</i>	A set of principles set out in the Scheme which guide the financial management of the National Mutual With-Profit Fund.
<i>“ReAssure”</i>	ReAssure Limited (Company number 00754167). Prior to 1st December 2011, ReAssure was known as Windsor Life.
<i>“Regular Bonus”</i>	A discretionary addition made periodically to the guaranteed benefits under Conventional With-Profits Policies, also known as “Reversionary Bonus”.
<i>“Regulator”</i>	ReAssure is regulated by the Prudential Regulation Authority and the Financial Conduct Authority
<i>“Scheme”</i>	The legal document entered into by NM Pensions and the Company in December 2007 governing the operation of the National Mutual With-Profit Fund.
<i>“Securities Lending”</i>	Assets are lent out to a counterparty for a fee. This increases the income earned by the National Mutual With-Profit Fund. Suitable collateral will always be put forward by the borrower.
<i>“Unitised With-Profits Policies”</i>	With-profits policies whose benefits are defined in terms of a number of units purchased as premiums are paid.