ReAssure Limited

Windsor Life With-Profit Fund

December 2020

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 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 ("ReAssure" or the "Company") in respect of the with-profits business held in the Windsor Life With-Profit Fund ("WLWPF").

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 Windsor Life 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 made to cover the cost of providing it to anyone who does not hold a with-profits policy in the Windsor Life 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 Windsor Life With-Profit Fund is managed" has been produced, summarising the key elements of ReAssure's management of the with-profits business in the Windsor Life 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 was incorporated in England in 1963 and is authorised by the Prudential Regulation Authority to carry out long-term insurance business. Prior to 1 December 2011, ReAssure was known as Windsor Life.

2.2 ReAssure 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. This has led to a number of transfers of business; those involving with-profits business are mentioned throughout this section. These transfers were sanctioned by the court on the dates shown in the glossary.

2.3 In addition, some of the existing non-profit business within the WLWPF arose as a result of it being transferred to the WLWPF as an investment, whereby the WLWPF purchased the stream of margins from the business. In 2012 the WLWPF sold (via an internal reinsurance arrangement) its share of these margins (see section 2.9).

2.4 The Company principally wrote non-profit business with a very small amount of with-profits business until 1992, when the businesses of Gresham Life Assurance Society Limited ("Gresham Life") and Gresham Unit Assurance Limited ("Gresham Unit") were transferred to ReAssure. Gresham Life was a with-profits company with a small amount of non-profit business. At the time of the transfer the long-term business was allocated into two sub-funds, the WLWPF and the Non-Profit Fund ("NPF"). The WLWPF comprised all of the long-term business of Gresham Life plus some non-profit business from Gresham Unit and ReAssure (although a small amount of ReAssure's with-profits business remained in the NPF; this was moved into the WLWPF in 1996).

2.5 At the time of the transfer ReAssure set up certain Guiding Principles for managing the business. The Guiding Principles have been modified over the years and are considered at the end of this section.

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2.6 In 1998, the business of Aegon Life Assurance Company (UK) Limited ("Aegon Life") was transferred to ReAssure. Aegon Life had a small amount of with-profits business, which was allocated to the WLWPF.

2.7 In 2007 the businesses of NM Pensions Limited ("NM Pensions") was transferred to ReAssure. All the conventional with-profits business in NM Pensions was allocated to a new sub-fund called the National Mutual With-Profit Fund ("NMWPF"). A separate document sets out the PPFM that ReAssure applies in managing the NMWPF.

2.8 The unitised with-profits business of NM Pensions was allocated to the WLWPF, but the with-profits investment of this business is wholly re-insured back to the NMWPF. The PPFM of the NMWPF defines how the with-profits investment element of this business is conducted; it is not defined by this document. The surplus arising on this business in the WLWPF is treated in the same manner as the surplus arising on the non-profit business in the WLWPF. This business is assumed to be non-profit business in the remainder of this document.

2.9 The WLWPF receives 15.75% ("WLWPF Release Amount Percentage") of the stream of margins from most non-profit business in the WLWPF. The WLWPF Release Amount Percentage was calculated at the time of the transfer of the business of NM Pensions, so that the value of the stream of margins from non-profit business that the WLWPF benefits from was expected to be unaffected by the transfer. With effect from 1 January 2012 the WLWPF entered into an internal reinsurance arrangement whereby the future margins are reinsured to the NPF in exchange for an appropriate ceding commission. Following this arrangement, the only non-profit business in which the WLWPF has a financial interest are Deposit Administration and Guaranteed Fund business (see Appendix A1), and a small number of policies which converted from with-profits to non-profit when becoming paid-up.

2.10 Between 1992 and 2012, the WLWPF sold with-profits business, consisting largely of with-profits bonds from 1993 and with-profits annuities from 2000, plus a small amount of endowment business. The WLWPF closed to new business in 2012.

Types of with-profits contracts

2.11 There are three main versions of with-profits contracts within the WLWPF:

- Conventional with-profits ("CWP") policies
- Unitised with-profits ("UWP") policies
- With-profits annuity ("WPA") policies

2.12 For CWP policies, a guaranteed amount is payable on a specified event or date stated in the policy terms and conditions. This amount may be expressed as a lump sum amount or as an annual pension. The guaranteed amount can be increased by the addition of Bonuses, as described in sections 2.16 – 2.22. In some contracts a different guaranteed amount is payable on death of the policyholder.

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2.13 UWP policies are contracts under which premiums are used to purchase with-profits units. These units are allocated to policies as premiums are paid, and in some cases may be cancelled to meet expense charges, the cost of life cover or other benefits as set out in the policy terms and conditions. The units have a bid price which increases as Bonuses are added. The bid value of units forms the basis of determining policy benefits on death, Surrender or Maturity. In some contracts a different guaranteed amount is payable on death of the policyholder.

2.14 WPA policies are single premium contracts where an annuity is purchased which is payable for the remaining life of the policyholder; in some cases the annuity commences after a deferred period agreed at outset. The level of annuity guaranteed at the start of the contract will be increased in line with any Bonus rates declared.

2.15 There is also a small amount of Deposit Administration and Guaranteed Fund business where policyholders receive credited interest at rates set at the discretion of the Board from time to time. See Appendix A for a description of this business.

Types of Bonuses

2.16 Bonuses are additions to the benefits payable on with-profits policies and usually take the form of Regular Bonuses, which are added throughout the policy term, and Final Bonuses, which are added at the date of claim. A further type of Bonus, an Interim Bonus, may also be added at the date of claim.

2.17 Regular Bonuses increase the level of Guaranteed Benefits on a policy and so increase the value of a policy over time. Once added they cannot subsequently be taken away. Regular Bonuses may be added in a variety of ways:

- For CWP policies, Regular Bonuses are declared as percentages of the basic benefit and attaching Regular Bonuses, and are added yearly. For certain contracts, different rates are applied to different components of the Guaranteed Benefit.
- For UWP policies, Regular Bonuses are normally declared in the form of daily increases in the price of with-profits units.
- For WPA policies, the Bonuses are added on the policy anniversary each year and are expressed as a percentage of the guaranteed annuity and attaching Regular Bonuses.

2.18 Final Bonuses may be added to policyholders' benefits at the date of claim. Final Bonuses are not guaranteed. The rate of any Final Bonus payable may be changed by the Board, upon receiving actuarial advice, at any time. For CWP policies, Final Bonuses are currently expressed as:

- a percentage of basic benefit, or
- a percentage of attaching Bonuses, or
- a percentage of total Guaranteed Benefits.

Normally these percentages vary by year of entry and for some pension contracts by age at retirement.

2.19 For UWP policies, Final Bonuses are currently expressed as a percentage of the nominal value of units and these can vary by year of entry.

2.20 Final Bonuses are not paid on WPA policies.

2.21 Interim Bonuses are paid on some classes of CWP business at the date of claim. If paid, the Interim Bonus is added in respect of the period between the end of the year to which the last Regular Bonus declaration relates and the date of claim.

2.22 The levels of Bonuses payable on policies in the WLWPF are determined by the Board upon receiving actuarial advice, and depend on the profits arising in the WLWPF over time. It is possible that if profits are insufficient then Bonuses in one or more years could be zero. ReAssure's approach to Bonus declarations is described in more detail in sections 4 and 5.

Market Value Reductions

2.23 In some circumstances, an adjustment may be applied to claims on UWP policies, which reduces the claim value to below the nominal value of attaching with-profits units. Such an adjustment is known as a Market Value Reduction ("MVR"). The Company applies MVRs in order to protect the interests of continuing policyholders in the fund.

2.24 The Company will normally consider applying an MVR when the market value of the assets backing UWP policies is below the nominal unit value, unless the volume of Surrenders of UWP policies is not considered to be sufficiently material. The rate of any MVR applying from time to time may be varied by the Company. The rate of MVR may be different for different policy types and unit series, and may vary according to the period over which the policy has been invested in the fund, and the size of the policy which is Surrendering. Practices in setting the level of MVR are covered in sections 3.43 – 3.48.

Claim benefits

2.25 In general, the circumstances in which claims arise on policies in the WLWPF can be categorised in three ways, that is, Maturities, Surrenders and death claims.

2.26 For life policies (other than whole-of-life policies), the Maturity date means the date stated in the policy schedule as the date on which the policy proceeds are finally paid. For pension policies, it means the contractual retirement date or the date stated in the policy schedule. Claim payments at the Maturity date will not be less than any applicable guaranteed minimum amount (which may be increased by Regular Bonuses). Maturity claim payments may also be increased by Final Bonuses, but will not be reduced by the application of an MVR.

2.27 Surrender claims occur when a policyholder elects to take some or all of the benefits other than on the contractual Maturity date. For example, on pensions policies, early or, in some circumstances, late retirements are regarded as Surrenders, as are transfers to another company. For life policies, partial or full withdrawals other than at the Maturity date are classed as Surrenders. On whole-of-life policies, any claim other than a death claim is a Surrender claim, as there is no contractual Maturity date. Surrender claim payments are generally not guaranteed in advance and may be less than any guaranteed amounts payable on Maturity. They may have been increased by Final Bonuses and, in the case of UWP policies, reduced by application of an MVR.

2.28 The term death claims is used in this document to describe claims on death or on the occurrence of certain other events, such as diagnosis of a defined serious illness for certain policies. Death claim benefits depend on the contractual terms of each policy type, as defined in the policy terms and conditions. They may be increased by Final Bonuses, but will not be reduced by application of an MVR. The way in which ReAssure determines the appropriate amount of payouts in respect of claims of each type is described in more detail in section 3.

Smoothing

2.29 ReAssure regards smoothing as a normal part of the operation of with-profits business. Essentially, the purpose of the smoothing process is to reduce the impact on claim payments of fluctuations in asset values and other factors affecting the WLWPF. ReAssure applies smoothing by means of the Bonus mechanism, including, for example, limiting the changes in Bonus levels at each review and setting Bonus scales which apply to groups of policies rather than individual policies. Changes are carefully controlled to ensure that policyholders are treated fairly.

2.30 The degree to which ReAssure can reasonably apply smoothing depends on the available financial resources of the WLWPF and on the economic circumstances. In adverse circumstances the Board may, upon receiving actuarial advice, substantially reduce or cease to apply smoothing on certain (or all) groups of policies. Where smoothing is applied, it works both within groups of policies (for example, where the payouts may not reflect exactly the characteristics of an individual policy and its contribution to the WLWPF) and across different periods (for example, where changes in payouts in a period of time may differ from changes in the value of the underlying assets). ReAssure's approach to smoothing is described in more detail in sections 4, 5 and 6.

Investments

2.31 ReAssure uses a mix of investments to support the with-profits business in the WLWPF, including equity-type assets (such as UK and overseas shares, as well as property) and fixed interest type assets (such as government and corporate bonds). The Company may change the mix of assets or use different assets in accordance with its overall investment strategy from time to time. The investment strategy is set by the Board upon receiving actuarial advice with the overall aim of ensuring the adequacy of the available resources within the WLWPF to meet at least the guaranteed level of benefits and maximise additional returns subject to an acceptable level of risk. The investment strategy for the WLWPF is described in more detail in section 7.

The Estate

2.32 The Estate is the excess, if any, of the value of assets in the WLWPF over the value of assets needed to support the current and expected future liabilities of the WLWPF. The Estate is the means by which ReAssure is able to provide smoothing of payouts on with-profits business and otherwise support the

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operation of the WLWPF. As the WLWPF is closed to new business, the Company will seek to make an appropriate distribution of the Estate. ReAssure's plans for managing the Estate are discussed in more detail in section 10.

With-profits governance

2.33 The Board has overall responsibility for managing the with-profits business, including setting Bonus rates. ReAssure has established procedures in order that the Board can satisfy itself at regular intervals that the with-profits business is being managed in accordance with the PPFM.

2.34 A governance committee (now called the Fairness Committee) was established in March 2004 to consider the interests of policyholders and provide advice to the Board on whether the management of with-profits business is in line with the Company's PPFM and if any changes are needed to ensure this. A majority of the members of the Fairness Committee have to be independent of Phoenix Group. A With-Profits Actuary was also appointed to advise the Board on their use of discretion in managing with-profits business.

Sharing of surplus arising

2.35 Each year an amount of surplus arising is recognised in the WLWPF, which is used to fund the Cost of Bonuses to policyholders and make a transfer to shareholders through a payment to the NPF. Shareholders receive a transfer from the WLWPF equal in value to 1/9th of the Cost of Bonuses to policyholders. The Cost of Bonuses is calculated as the aggregate of:

- The increase in the regulatory liabilities for CWP business and WPA business in respect of Regular Bonuses
- The increase in the face amount of bid value of units for UWP business in respect of Regular Bonuses, or the discounted amount in certain circumstances (for example where capital units are allocated to policies)
- The cash payment made in respect of Final Bonuses or Interim Bonuses to policyholders for CWP and UWP business.

Guiding Principles

2.36 ReAssure operates the WLWPF in accordance with certain Guiding Principles that were established in 1992, when the WLWPF was created (subsequently the Guiding Principles were amended in 1998, 2005 and 2007). The Guiding Principles set out the shareholder commitment to the WLWPF.

- The NPF will be managed to minimise the risk of WLWPF free assets being required to meet the NPF margin of solvency. If at any time the free assets of the WLWPF are required to meet the NPF margin of solvency then certain conditions apply which include the NPF being required to compensate the WLWPF on terms contained within the Guiding Principles.

Sections 2.37 – 2.41 below set out certain overarching principles, which apply to the management of the business.

Overarching Principles

2.37 The business of ReAssure will be managed to ensure that all relevant legal and regulatory requirements will be met, and that adequate financial resources will be maintained to meet the requirements of UK regulations.

2.38 Subject to the requirements of 2.37 above, the WLWPF will be managed with the objective of ensuring that the contractual terms set out in policy terms and conditions, including the payment of any Guaranteed Benefits, are met.

2.39 The WLWPF will be managed with the objective of treating all policyholders (having regard both to the relevant interests of any policyholders leaving the fund and those remaining) and shareholders fairly given the financial resources of the fund and the liabilities of it.

2.40 Payments to policyholders will be smoothed, and fairness will be assessed across broad groups of policyholders and generations of policyholders. Smoothing will aim to even out the effect of the experience of the WLWPF over time and to reflect the pooled experience of different policy groups within the WLWPF. The degree of smoothing will reflect the financial resources available within the WLWPF.

2.41 The WLWPF will be managed in compliance with the Schemes. The Schemes will take precedence if a conflict arises between them and a principle or practice in this document or these overarching principles (unless amendments to the Schemes receive court approval).

3. The amount payable under a with-profits policy

Principles

3.1 The amounts payable on Maturity or death under a policy will not be less than any guaranteed amounts payable under the circumstances in which the claim arises, as set out in the relevant policy terms and conditions.

3.2 Surrender value bases will be determined from time to time by the Board upon receiving actuarial advice and reviewed regularly with the aim of ensuring policyholders leaving the WLWPF and those remaining are treated fairly. Except to the extent, if any, set out in the policy terms and conditions, Surrender values are not guaranteed. Where there is any conflict between the interests of those policyholders Surrendering and those remaining, priority will normally be given to the latter.

3.3 Except in circumstances where they are determined by reference to guaranteed amounts, ReAssure will aim to apply smoothing to claims payments by means of the Bonus mechanism. The degree to which smoothing can be applied from time to time will depend on the current and projected future financial position of the WLWPF and will be determined by the Board upon receiving actuarial advice.

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3.4 Amounts payable on Maturity, Surrender or death claims may be increased by the application of a Final Bonus. For UWP the amount payable on a Surrender claim may be reduced by the application of an MVR. For all policy types, Final Bonuses and MVRs, if applied, will be set having regard to Asset Shares (see 3.17-3.35), the underlying level of guarantees and the financial circumstances of the WLWPF at the time of the claim.

3.5 As a consequence of the degree of approximation inherent in the application of Bonuses, MVRs and smoothing, ReAssure will determine payouts having regard to the average levels of benefits across groups of policies rather than to individual policies, except in respect of policies where guaranteed minimum payout levels apply.

3.6 Subject to having sufficient resources within the WLWPF, the Company will over the longer-term aim to pay, on average, 100% of Asset Share on Maturity or Surrender of a policy. Maturity and Surrender payouts are determined to be consistent with the Target Range (where appropriate).

3.7 Material changes to methods and assumptions used to determine amounts payable on claims are subject to agreement of the Fairness Committee following a report by the With-Profits Actuary.

Practices

Calculation of death and Maturity payouts for with-profits policies

3.8 The guaranteed amount payable on death or Maturity is calculated as follows:

- For CWP policies, the guaranteed amount is generally the aggregate of the original sum assured on death or Maturity and the annual Bonuses added over the duration of the policy. For some pension policies, the guarantee is expressed as an annual pension rather than a lump sum. For UWP policies, the guaranteed amount is the bid value of the with-profits units.
- For some policies, the guaranteed payment on death may be higher than the guaranteed payment on Maturity.
- Some policies have guaranteed annuity rates applicable when converting cash into pension at retirement.

3.9 Subject to a minimum of this guaranteed amount, ReAssure's long-term aim is to pay 100% of Asset Shares on death or Maturity. A Final Bonus may therefore be declared to reflect the difference between Asset Shares and Guaranteed Benefits for a group of policies. MVRs are not applied on death or Maturity.

3.10 The Final Bonus rates are set such that, where appropriate, Maturity payouts are consistent with the Target Range.

3.11 For Maturity payouts for most business the Target Range is between 80% of Asset Share and 120% of Asset Share. This range is a target and it is not guaranteed that the payout will fall within this range.

3.12 For CWP policies the Asset Share is calculated for each individual policy in accordance with 3.18 and is not subject to smoothing.

3.13 For UWP policies the Asset Share is calculated for model policies in accordance with 3.19 and is not subject to smoothing. Using a model policy approach for UWP policies will not have any material effect on the Maturity payout.

3.14 The Target Range is not appropriate for the following:

- Whole-of-life policies.
- Policies that have been subject to material alteration – for example paid-up policies. For paid-up policies the Final Bonus rates paid at Maturity are based on those paid at the Maturity of a similar premium-paying policy with the same duration in force.

Policies with guaranteed benefits on Maturity exceeding the upper bound of the Target Range are not considered to have breached the Target Range.

3.15 CWP whole-of-life policies receive Final Bonus rates paid on death based on those paid at the Maturity of CWP endowment policies with the same duration in force.

3.16 For each product class the Company determines a set of model policies. For each model policy an Asset Share is calculated as the accumulation of premiums paid less expenses and other charges and cost of mortality benefits plus contributions from miscellaneous sources. This model Asset Share is then projected and used to determine Bonus rates as described in sections 4 and 5. The Asset Share calculation is described in more detail below.

Asset Share methodology and basis

3.17 In order to set Bonuses, Asset Shares are calculated on a set of model policies which are broadly representative of the portfolio. The purpose of this calculation is to assess the contribution a policy has made to the WLWPF during its lifetime. The calculation therefore uses a methodology and basis intended to mirror the historical cashflows in and out of the WLWPF attributable to the policy in question. A number of different approaches to calculating Asset Shares are used, reflecting the different origins of the business.

CWP and WPA Asset Share methodology

3.18 For CWP and WPA business, Asset Shares are derived as an accumulation of:

- Premiums Paid
- Plus investment return
- Less expenses
- Less the cost of life cover or other risk benefits
- Less any benefits taken
- Less adjustments for tax
- Less shareholders' share of profits
- Plus contributions from the Estate.

These items are discussed in greater detail in sections 3.20 - 3.35 below.

UWP Asset Share methodology

3.19 For UWP contracts, the Asset Share calculations are simplified. ReAssure does not model the whole contract but merely its investment component. This consists of:

- Invested premium (that is, premiums allocated to units after any deduction of bid/offer spread)
- Plus investment return
- Less charges and tax
- Plus contributions from the Estate.

These items are discussed in greater detail in sections 3.20, 3.22, 3.23 and 3.35 below.

Investment return credited to Asset Shares

3.20 For each class of with-profits business a notional asset allocation is maintained. Investment returns are calculated for each asset class and using the asset allocation proportions the investment return is calculated for that block of with-profits business.

Expenses charged to Asset Shares – CWP and WPA

3.21 Expense allowance scales are maintained for each CWP and WPA product. The scales are calculated in respect of each calendar year taking account of the nature of the expenses incurred, which are initial expenses, maintenance expenses and fund related expenses. The scales are intended to broadly reflect the level of expenses attributable to each product over the long term.

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Charges to Asset Shares for UWP products

3.22 For most UWP policies, the charge to Asset Share is calculated as follows:

- Shareholders' transfers of 1/9th Cost of Bonus
- Plus an expense allowance
- Plus fund related expenses

For life contracts, the expense allowance is reduced to allow for tax relief. Any difference between the total expense allowances and the total actual expenses falls to the Estate.

3.23 For ex-Aegon policies and Preserve and Profit Bonds (series 6 and above), the charges are expressed as a fixed percentage of Asset Shares, as shown below:

Table 4.1 With-profits contracts with fixed charges	
Preserve and Profit Bonds Series 6 and above	0.95%
Ex- Aegon UWP Life	0.75%
Ex- Aegon UWP Pension Initial II	4.25%
Ex- Aegon UWP Pension Accumulator II	1.00%
Ex- Aegon UWP Pension Initial III	4.00%
Ex- Aegon UWP Pension Accumulator III	0.75%

Taxation for life policies

3.24 For life policies, tax on investment income and capital gains is also allowed for at the relevant rates. Where life company tax rules defer or spread the tax over a number of years, then an appropriate reduced rate is applied.

Cost of mortality and other risk charges

3.25 For CWP and WPA business, a deduction is made from Asset Shares for the historic cost of providing death and any other risk benefits, where these benefits are in excess of Asset Shares. For classes of business where benefits on death are less than Asset Share, the adjustment is positive and is added when accumulating the Asset Share.

3.26 This cost is determined by using a mortality rate derived from a standard mortality table considered suitable for that purpose and applying this rate to the difference between the death benefit and the Asset Share.

3.27 The actual mortality experience may be more or less favourable than assumed, and such mortality profits or losses fall to the Estate.

3.28 For UWP policies, no risk charges are deducted from the Asset Share calculation.

3.29 The Company does not currently charge the cost of providing additional policy guarantees, such as guaranteed annuity options, to Asset Shares. Any cost arising in the WLWPF as a result of meeting these guarantees falls to the Estate. If the relative size of the Estate decreases in future, this approach may be revised.

Benefit outflows

3.30 When calculating Asset Shares for WPA policies, it is necessary to reduce the Asset Share each time an annuity payment is made.

3.31 In the case of Preserve and Profit Bonds, the policyholder is entitled to make regular income withdrawals of up to 7.5% of unit value, determined at outset. In the Asset Share calculations for the model policies, an average level of regular withdrawals is assumed. Bonus rates derived on these principles are then expressed as a percentage of the individual unit fund in the usual way. The Company does not aim to make any Surrender profits so Asset Shares do not need to be adjusted to reflect payment of Surrender benefits.

Adjustments for tax

3.32 Taxation is allowed for within the Asset Share calculation to reflect the marginal level of tax that the WLWPF would bear in respect of the revenue items related to that policy. Where the tax rules require spreading of tax or tax relief over a period of seven years, this is allowed for in the calculations by discounting the tax.

3.33 For life policies, tax on investment income and capital gains and tax relief on expenses is allowed for. Where tax is deferred or spread over a number of years, then an appropriate reduced rate is applied.

Shareholder share of profits

3.34 A deduction is made from the CWP Asset Share to cover the shareholders' share of profits. This represents 1/9th Cost of Bonuses in respect of that policy. For UWP policies, this cost is allowed for as part of the charges discussed in sections 3.22 and 3.23.

Contributions from the Estate

3.35 The Company makes contributions from the Estate to Asset Shares. These are expressed as a percentage of Asset Share. The level of contribution is set each year based on the financial condition of the WLWPF and is described in more detail in section 10, which relates to management of the Estate. Contributions from the Estate also reflect profits made from miscellaneous sources which are not directly included in the Asset Share calculations.

Calculation of Surrender payouts under with-profits policies

3.36 For Surrender payouts for most business the Target Range is between 80% of Asset Share and 120% of Asset Share. In the calculation of Asset Share a suitable allowance is made for the costs of administering the Surrender. This range is a target and it is not guaranteed that the payout will fall within this range.

3.37 For CWP policies the Asset Share is calculated for each individual policy in accordance with 3.18 and is not subject to smoothing.

3.38 For UWP policies the Asset Share is calculated for model policies in accordance with 3.19 and is not subject to smoothing. Using a model policy approach for UWP policies will not have any material effect on the surrender payout.

3.39 The Target Range is not appropriate for the following;

- CWP whole-of-life policies where the Asset Share can be variable. CWP whole-of-life policies receive Final Bonus rates on Surrender based on those paid at the Maturity of CWP endowment policies with the same duration in force.
- Policies that have been subject to material alteration – for example paid-up policies. For paid-up policies the Final Bonus rates paid on Surrender are based on those paid at the Maturity of a similar premium-paying policy with the same duration in force.

Policies with guaranteed benefits on Surrender exceeding the upper bound of the Target Range are not considered to have breached the Target Range.

CWP Surrender values

3.40 For CWP policies (other than Deferred Annuities), a formulaic approach is used whereby the basic benefits are reduced to reflect premiums paid compared to premiums payable, attaching Bonuses are added in full, then the resulting value is discounted to allow for early encashment. Final Bonus, if any, is also included at the applicable rates.

3.41 For Deferred Annuities, a formulaic approach is used whereby the basic benefits and attaching Bonuses are reduced to reflect premiums paid compared to premiums payable and the resulting value is discounted to allow for early encashment. Final Bonus, if any, is also included at the applicable rates.

3.42 Although the Company will only carry out a formal review of the Surrender basis infrequently (usually every 5 years), it is subject to change more frequently if circumstances are such that it is in the interests of remaining policyholders to do so. The review will consist of comparing the aggregate Surrender values with the aggregate Asset Shares for particular classes or groups of policyholder with the aim that payouts are broadly equal to 100% of Asset Shares over the longer term.

UWP Surrender Values

3.43 On Surrender of a UWP policy, the amount payable will be the value of units (adjusted by Surrender penalties applied to units, in some cases) plus any Final Bonus and less any MVR. Where a policy would be eligible for Final Bonus on Maturity, then it is added on Surrender at the same rate.

3.44 For partial withdrawals (up to a specified amount) on some with-profits bonds a MVR is guaranteed not to be applied.

3.45 The value of the unitised fund is compared to the aggregate Asset Shares for a product class and if it is significantly higher then an MVR may be introduced.

3.46 Once introduced an MVR is then subject to frequent review. The rate of the MVR applied to a policy may change at any time and is determined by the Board upon receiving actuarial advice. The MVR for Preserve and Profit Bonds is normally reviewed at the same time as Final Bonus rates for this product (see section 5) and is applied as a negative Final Bonus rate. However, it may be reviewed more

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frequently if considered necessary to protect the interests of the remaining policyholders in the Fund.

3.47 At each review the Asset Shares and unit values (including existing MVRs) are compared for groups of policies and if the difference exceeds 5% in aggregate then the MVRs will be altered. If the difference is less than 3% the MVRs will not be altered and in between 3% and 5% the Board will exercise its judgement taking into consideration factors such as the volatility of the markets.

3.48 The Board may override these calculations by applying a lower MVR or no MVR at all if it considers that there would be no adverse impact on other policyholders or any significant financial impact on the fund as a whole.

Controls, documentation and change approvals process

3.49 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. 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.

3.50 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.

3.51 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.

3.52 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.

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4. Regular Bonus rates

Principles

4.1 All Bonus rates will be kept under regular review and revised when appropriate in order to manage the business in line with the principles below and the overarching principles and to maintain equity between policyholders of different generations and Bonus series. A new Bonus series may be created if reasonable equity could not be maintained by linking the business to an existing Bonus series.

4.2 Regular Bonuses will be added, when appropriate, to provide policyholders with additional Guaranteed Benefits. However, when necessary, the Board will restrict the build-up of guarantees in order to protect the solvency of the WLWPF, measured against a target solvency rate, and to ensure that a reasonable balance can be achieved between the proportions of Regular and Final Bonuses payable at Maturity or on retirement. This may mean a Regular Bonus of zero in one or more years until the solvency position has been restored to an acceptable level or to prevent it falling to an unacceptable level.

Practices

Approach to setting rates

4.3 The Company aims to set the Regular Bonus rates at a level such that projected Asset Shares will exceed the Guaranteed Benefit levels at Maturity, taking account of recent investment experience and possible future adverse investment conditions, thus allowing a margin for a Final Bonus where appropriate.

CWP Business

4.4 Currently Regular Bonus rates are declared each year and once added to the policy form a permanent addition to the Guaranteed Benefits.

4.5 Regular Bonus rates are set by considering a set of model policies of different durations which are all due to Mature in 10 years' time. Asset Shares and benefits are projected over the 10 year period to Maturity. The projections are first carried out assuming that the current Regular Bonus rate is not changed. Best estimate assumptions are used to provide an estimate of likely future Final Bonus levels. Projections are then carried out using a variety of adverse investment assumptions (that is, considering falls in asset values and changes in yields). The aim is to set the Regular Bonus at a level that allows the payment of Final Bonus in most circumstances. If this is not the case with the current Regular Bonus rate, the projections will be repeated using a lower Bonus rate. The Bonus rate that meets this criterion is known as the Supported Bonus Rate.

4.6 If the Supported Bonus Rate and the current Bonus rate are close (currently that is within 0.25%) then no change will be made, otherwise the Board determines a smoothed Bonus rate equal to 60% of the supported rate plus 40% of the current rate. The rate declared is the smoothed Bonus rate rounded appropriately, subject to a minimum of zero.

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4.7 Interim Bonus rates are declared at each Bonus declaration and are generally, but not always, set equal to the Regular Bonus declared at that time. However, Interim Bonus rates are not guaranteed and could be changed at any time.

UWP business

4.8 Regular Bonus rates are in the form of daily increases in the price of with-profits units and once added to the policy form a permanent addition to the Guaranteed Benefits. The Regular Bonus rate may be altered at any time. Currently the Company reviews the rate twice a year and at other times if circumstances warrant it, for example, when investment markets are volatile.

4.9 Regular Bonus rates are set by considering a set of model policies due to Mature in up to 10 years' time and projecting Asset Shares and unit fund to Maturity. The projections are first carried out assuming that the current Regular Bonus rate is not changed. Best estimate assumptions are used to provide an estimate of likely future Final Bonus levels. Different Regular Bonus rates are used until the projected Final Bonus rate in 10 years' time is equal to a target level. The target level will be set by the Board upon receiving actuarial advice so that the final bonus proportion of an endowment policy payout is normally between 0% and 25%, and the final bonus proportion of a policy payout for other products is normally between 0% and 50%. This gives the Supported Bonus Rate for each product.

4.10 If the Supported Bonus Rate and the current Bonus rate are close (currently that is within 0.25%) then no change will be made, otherwise the Company determines a smoothed Bonus rate equal to 60% of the supported rate plus 40% of the current rate. The new rate is the smoothed Bonus rate rounded appropriately, subject to a minimum of zero.

WPA business

4.11 The guaranteed annuity amount increases each year on the policy anniversary at the rate of Bonus applicable at the time. The rates are reviewed annually and at other times when circumstances warrant it, for example in adverse or volatile market conditions.

4.12 Benefits and Asset Shares are projected over the lifetime of the policies. The Supported Bonus Rate is then derived for each Bonus series. The Company determines a smoothed Bonus rate equal to 60% of the supported rate plus 40% of the current rate. The new rate is the smoothed Bonus rate rounded appropriately, subject to a minimum of zero.

4.13 A different Bonus series may apply where the supported Bonus is significantly different for tranches of business.

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5. Final Bonus rates

Principles

5.1 Final Bonus rates will be determined for each Bonus series in order to broadly reflect the excess, if any, of the payout target over the amount already guaranteed by the addition of Regular and Interim Bonuses.

Practices

Approach to setting rates

5.2 Final Bonus rates are set to provide a long-term average of 100% of Asset Shares at Maturity.

5.3 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).

5.4 "Supported Final Bonus rates" are calculated for a sample set of model policies by comparing the Asset Shares with the Guaranteed Benefits plus attaching Bonuses. New Final Bonus rates are then set equal to the supported rates, subject to modification following analysis of the change in payouts. 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.

6. Smoothing

Principles

6.1 ReAssure will aim to smooth payouts to with-profits policyholders to provide the stability characteristic of a with-profits contract. This is done by smoothing Bonus rates rather than smoothing the underlying Asset Share or smoothing payouts from year to year.

Effects of smoothing

6.2 The smoothing policy has the effect of dampening changes in payouts at each review and protecting policyholders from the impact of the short-term fluctuations in asset markets.

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6.3 The cost of smoothing is borne by the Estate and the current approach to smoothing is expected to be covered by the current available Estate. In the event that the Estate diminishes in relative terms, it may be necessary to reduce the scale of smoothing.

6.4 Subject to having sufficient resources within the WLWPF, the Company will over the longer-term aim to pay, on average, 100% of Asset Share on Maturity or Surrender of a policy (subject to a minimum of guaranteed amounts where applicable). In practice the effect of smoothing is such that the company aims to pay out between 80% of Asset Share and 120% of Asset Share as described in section 3.

7. Investment strategy

Principles

7.1 The investment policy of the WLWPF is the responsibility of the Board and is reviewed at least annually.

7.2 The assets of the WLWPF may be allocated to notional asset pools deemed to back the different classes of business and liabilities within the WLWPF. The investment strategy for each of the resulting pools is determined separately. No reliance is placed on assets outside the WLWPF.

7.3 The investment strategy for the assets backing all classes of with-profits business will be determined by the Board after taking into account:

- The current and projected financial position of the WLWPF
- The level of guarantees for each class of with-profits business
- The expected return, volatility and liquidity of asset classes
- Representations made to policyholders
- Advice from the With-Profits Actuary and Fairness Committee.

7.4 Subject to the above factors, the aim of the investment strategy is to maximise investment return subject to a degree of risk, which is acceptable in the opinion of the Board having taken advice from the With-Profits Actuary.

Practices

Asset Allocation

7.5 For each with-profits class of business, an asset allocation policy is determined. This is based on the characteristics of the business, such as the average term to Maturity and level of guarantees. The current benchmark for the investment mix is published on our website.

7.6 For the purposes of managing the assets, they are subdivided into asset classes, typically:

- Short-term fixed interest
- Medium-term fixed interest
- Long-term fixed interest
- Equities (UK)
- Equities (overseas)
- Property
- Emerging market debt
- Deposits

7.7 This list of asset classes may vary from time to time according to the investment strategy. The WLWPF may also participate in “Securities Lending”.

7.8 Investment guidelines exist for each asset class and the fund managers are monitored to ensure that they operate within these guidelines. For fixed interest assets, these guidelines cover counterparty exposure limits, credit risk and duration. For equity funds, the Company sets benchmarks and for UK equities controls tracking error using recognised statistical approaches.

Asset Liability Matching

7.9 The Company’s investment strategy consists of a mix of equities, property and fixed interest assets. The level of equity investment is a reflection of the level of guarantees inherent in the product class, while the fixed interest assets are chosen to reflect the duration of the liabilities.

7.10 Assets which are not allocated to specific liabilities (asset shares or guarantee costs) are classed as belonging to the Estate (see section 10). The Estate is permitted to have a negative holding in some asset classes (where the WLWPF as a whole holds less of that asset class than the value of its liabilities), sometimes doing so as a means of hedging guarantee costs. The fixed interest assets in the Estate are predominantly invested in government bonds, while the fixed interest assets deemed to support asset shares are permitted to be higher-risk, with the intention of producing higher future policy investment returns.

Risk control

7.11 When investing in fixed interest assets, each asset is assigned a credit rating. If a credit rating is available from a recognised rating agency then this is used; otherwise an internal rating determined by our investment advisers is used. Only securities rated A or above can be purchased. However, existing investments that have been downgraded can be held, subject to overall limits.

7.12 In determining the counterparty exposures that are acceptable, the Company has regard to the quality of the counterparty, the solvency position of the WLWPF and the impact on Asset Shares if the counterparty fails. Currently, as a general rule,

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counterparty exposures will not exceed 2.5% of with-profits assets, unless the asset is government-backed.

Liquidity

7.13 Most assets within the WLWPF backing policy liabilities are readily realisable. The least liquid assets are property, which can take some months to sell. The amount of property held is at a level such that distressed selling is very unlikely to occur; in particular the current investment guidelines restrict the level of property to no more than 20% of with-profits liabilities. The most liquid assets are cash instruments and gilts, which are held at levels sufficient to meet likely short-term cash flows at all times. The Company does not expect to have to sell assets at distressed prices. The Board Investment Committee aims to minimise the likelihood of having to sell assets at distressed prices through the investment strategy.

Derivatives

7.14 Derivative assets and other instruments would only be used for a specific purpose such as protecting the WLWPF against adverse market conditions or for efficient portfolio management or to hedge guarantees or options within the liabilities. Using derivatives requires Board approval and a report from the With-Profits Actuary assessing the potential impact on policyholders and on the WLWPF.

Assessing new asset instruments

7.15 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

7.16 There are currently no assets held by the Windsor Life With-Profit Fund that are not considered to be “available for sale”.

Review of investment strategy

7.17 The investment policy of the Windsor Life 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.

7.18 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.

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ReAssure

8. Business risk

Principles

8.1 The Windsor Life With-Profit Fund is subject to business risks arising from maintaining with-profits and non-profit business. The WLWPF does not undertake other business ventures.

8.2 As far as possible the Company will protect all generations and classes of with-profits policyholders from business risks by charging any costs arising from such risks to the Estate rather than to Asset Shares. If the relative size of the Estate falls below a level at which the Board, upon receiving actuarial advice, deems it imprudent to continue this approach, any costs arising from such risks will be allocated to Asset Shares.

8.3 The Company will manage the risks by monitoring experience in respect of specific risk factors and quantifying their potential impact. These factors will be taken into account in determining the level of the Estate contribution to Asset Shares.

8.4 Where appropriate, the Board will take action to reduce exposure to the risks arising from existing business.

Practices

Risk appetite

8.5 The Windsor Life With-Profit Fund will retain sufficient capital to be able to remain solvent following a '1 in 200 year' event. This will be assessed using the appropriate rules set by our Regulator, and apply after any relevant management actions that would be taken in response to that event.

New business risk

8.6 The Fund no longer writes new business, and therefore is not exposed to the risks (or profits) that this entails.

Vesting annuities

8.7 Non-profit annuities under vesting pension policies in the Windsor Life With-Profit Fund are currently 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 the NPF. ReAssure may set up the annuity in the NPF or use an external annuity provider to set up the annuity outside ReAssure.

8.8 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.

Existing business risk

8.9 Examples of existing business risk include the following:

- The risk that the margins on non-profit business are not sufficient to cover future adverse experience
- Longevity risk associated with annuity business
- The risk that guaranteed annuity options and other guarantees associated with the with-profits policies cannot be met from the Estate
- Investment risk associated with unfavourable fund performance
- Miscellaneous business risks from factors such as expenses, mortality, taxation, systems failure and the regulatory environment
- Risks relating to the cost of guarantees in Deposit Administration and Guaranteed Fund business

8.10 The Company will monitor these existing business risks and any others arising in future. Appropriate courses of action may include:

- Providing a capital support facility to the WLWPF to eliminate any deficit arising from the non-profit business in the WLWPF. This capital support facility is prescribed by the NM Life and NM Pensions Scheme and would require transferring suitable assets or assigning appropriate embedded value from elsewhere in the company to the WLWPF.
- Limiting Bonus declarations where necessary to control the level of with-profits guarantees
- Reducing the Estate contribution to Asset Shares in order to protect the solvency of the WLWPF (including reducing or removing previous Estate contributions)
- Matching liabilities with appropriate assets and otherwise managing the level of investment risk undertaken by the WLWPF
- Setting up explicit reserves such as the existing reserve for guaranteed annuity options
- Entering into an appropriate reinsurance treaty
- Using hedging exposure to reduce a specific risk
- Determining that the cost (or profit) resulting from the adoption of a particular business risk should be borne by the NPF rather than the WLWPF
- Converting with-profits business to non-profit (this would require future approval by our Regulator)

8.11 Before embarking on a course of action such as those outlined above, the Company will perform a cost/benefit analysis to assess the suitability of the action and obtain suitable advice, including actuarial advice, if deemed appropriate.

8.12 As far as possible the Company will protect all generations and classes of with-profits policyholders from business risks by charging any costs arising from such risks to the Estate rather than to Asset Shares. The Company will manage the risks associated with the existing business by monitoring experience in respect of specific risk factors and quantifying their potential impact. These factors will be taken into account in determining the level of the Estate contribution to Asset Shares.

9. Charges and expenses

Principles

9.1 Expenses will be charged to the WLWPF. In determining the level of expenses to be charged to the WLWPF the Company aims to;

- Comply with the Fixed Expense Agreement
- Subject to the above, treat WLWPF policyholders fairly.

Practices

Types of expenses

9.2 Expenses are allocated in accordance with the following practices and taking account of advice from the With-Profits Actuary;

- Investment related expenses are charged to the WLWPF as appropriate.
- Commission is charged (as appropriate) to the WLWPF.
- The WLWPF will not be charged one-off expenses (for example, development expenses).

9.3 For the remaining business in the WLWPF, expenses are charged using the tables in the next two sections:

A fixed scale of "weighted" charges (the weightings represent the relative levels of maintenance required for each policy type) as follows:

Contract Type	Life & PHI policies			Pension Policies		
	Regular	Paid Up	Single	Regular	Paid Up	Single
Unit linked	1.00	0.50	0.50	1.50	0.50	0.50
Unit linked pension review augments	-	-	-	-	-	0.25
With-profits contracts	1.00	0.50	0.50	1.50	0.50	0.50
DSS rebate policies	-	-	-	1.00	0.50	-
Annuities	-	-	0.60	-	-	0.60
Other non-profit contracts	0.50	0.40	0.40	0.50	0.40	0.40

This fixed scale of weighted charges is multiplied by a "unit cost" for the calendar year. The unit cost for a particular calendar year is determined by the "unit cost" for the 2004 calendar year expenses (£38.19) increased on 1 January each year by an appropriate inflation measure (using the increase for the 12 months to 1 July of the preceding year).

9.4 For a small number of policy types the expenses will be charged as follows:

Contract type	Annual expense allowances
PHI in payment	5% of payments
Waiver in payment	10% of payments
Riders and extra premiums	10% of premiums

9.5 The Company normally uses RPIX+1% p.a. (RPIX defined as 'All Items Retail Prices Index excluding Mortgage Interest Payments' produced by the Office for National Statistics) as an appropriate inflation measure. This may be changed if this measure is not considered appropriate, following advice from the With-Profits Actuary. The principle to be followed in deriving a more appropriate inflation measure will be a measure of inflation in both prices and earnings combined in the UK economy.

Outsourcing of services

9.6 The Company has procedures in place whereby outsourcing arrangements are assessed both in terms of cost/benefit analysis and risk impact, prior to proceeding.

9.7 Any major outsourcing arrangements are subject to an annual review and will include appropriate termination clauses. The termination clause would typically give the Company the right to terminate with a notice period of normally 3 to 6 months; however the actual notice period could be longer if considered appropriate by the Risk Committee.

10. Management of the Estate

Principles

10.1 The Estate is the excess, if any, of the value of assets in the WLWPF over the value of assets needed to support the current and expected future liabilities of the WLWPF. It is invested in the residual assets of the WLWPF.

10.2 With the WLWPF closed to new business, ReAssure aims to distribute the Estate fairly and evenly over the lifetime of the remaining policies.

Practices

Calculation of the Estate

10.3 The Estate is calculated by subtracting the realistic liabilities from the realistic assets (measured by market value).

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10.4 Realistic liabilities consist of the sum of:

- Asset Shares
- Additional cost of guarantees and smoothing
- Statutory value of non-profit liabilities
- Current liabilities
- Any other financial costs arising from the management of the WLWPF or relating to policies within it.

10.5 The size of the Estate is calculated every year using, where necessary, assumptions determined by the Board having taken advice from the With-Profits Actuary.

Use of the Estate

10.6 The Estate is available to support the operation of the with-profits business. It may be used for the following purposes:

- To meet the cost of providing the guarantees inherent in with-profits business
- To meet the cost of smoothing
- To meet the cost of guaranteed annuity options, in the event that this exceeds existing reserves
- To provide the WLWPF with capital to support existing business risks
- To provide the WLWPF with the freedom to invest in assets expected to maximise the returns for with-profits policyholders
- To enhance Asset Shares and hence benefit payments for with-profits policyholders.

Distribution of the Estate

10.7 The Estate is being distributed to policyholders over the lifetime of the with-profits business in the Fund, as the policies Mature or otherwise discontinue.

10.8 Uplifts to Asset Shares have been made every year throughout the lifetime of the WLWPF. A one-off uplift of up to 12% (depending on duration in force) was made to the Asset Shares of all with-profits policies in force at the date of the Fund's closure. 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.

10.9 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.

10.10 Uplifts will increase Asset Shares (as described in section 3.35) and will lead to increased Bonus levels (as described in sections 4 and 5) and an associated shareholder transfer (as described in section 12). Thus, in the long term, the Estate is expected to be distributed in the 90:10 proportions described in section 12.

11. New business

Principles

11.1 The WLWPF is closed to new business.

Practices

Closure to new business

11.2 On 1 July 2012 the WLWPF ceased writing new policies (apart from contractual increases to existing policies).

12. Equity between shareholders and policyholders

Principles

12.1 The surplus arising from the with-profits business in the WLWPF is shared between policyholders and shareholders in the proportions 90% and 10% respectively.

Practices

Emergence of surplus

12.2 All with-profits surplus arising within the WLWPF (and surplus from Deposit Administration and Guaranteed Fund business, and a small number of non-profit paid-up policies) is divided between with-profits policyholders and shareholders in the proportions 90% and 10% respectively. Surplus arises from a number of sources but is essentially a result of the difference between actual experience and the assumptions used to value policyholder Guaranteed Benefits, principally in the areas of investment return, expenses, mortality and tax.

12.3 84.25% of the surplus arising on most of the non-profit business in the WLWPF is transferred to the NPF or Shareholder Fund as prescribed by the NM Life and NM Pensions Scheme. Following the internal reinsurance arrangement (see section 2.9), with effect from 1 January 2012 the remaining 15.75% of this surplus is also paid to the NPF.

Surplus allocated to policyholders

12.4 Surplus is allocated to with-profits policyholders in the form of Regular, Interim and Final Bonuses, determined by the Board upon receiving actuarial advice. The amount of surplus allocated to shareholders corresponding to these Bonuses is charged to Asset Shares.

Surplus allocated to shareholders

12.5 Surplus allocated to shareholders is calculated by multiplying the value of surplus allocated to policyholders each year by 1/9.

12.6 In the case of Final Bonuses and UWP Regular Bonuses, the surplus allocated to shareholders is a percentage of face value or, in some circumstances, discounted value.

12.7 In the case of CWP and WPA Regular Bonuses, the value of the Regular Bonus is discounted to allow for the period until it is due for payment, at the interest rate used to determine the regulatory liability. This value is therefore dependent on the valuation discount rate used as well as the amount of Bonus declared. This discount rate is governed by rules and guidance issued by the Regulator and reflects financial conditions at the date of the valuation.

12.8 Tax in respect of the transfer of shareholders' surplus is met by the WLWPF.

12.9 If an MVR is applied to UWP policies, a suitable adjustment is made to the surplus allocated to shareholders. This ensures that the shareholder transfer being made in respect of these policies does not exceed one-ninth of the surplus allocated to policyholders.

12.10 A small number of products have a guaranteed rate of Bonus interest. The amounts in respect of the guaranteed rate of Bonus interest are not part of the Cost of Bonus calculation and therefore do not give rise to shareholder transfers.

13. Taxation

Principles

13.1 A charge in respect of tax will be deducted from the WLWPF each financial year and credited to the NPF, which will bear the tax charge from the whole of the long-term fund. The charge in respect of tax to the WLWPF will be determined as if that fund were a separate proprietary life insurance company, subject to the following points:

- Any profits transferred to the NPF from the WLWPF will be treated as if they were transfers to shareholders' funds.
- The charge in respect of tax may be reduced to take account of the utilisation by ReAssure of capital gains losses attributable to the WLWPF.
- If unusually large amounts of gains are realised in the WLWPF in a particular financial year then the tax rate used for the purpose of calculating the charge may be reduced to such rate as the Board shall judge to be fair to the WLWPF, taking account of advice from the With-Profits Actuary.
- As the charge in respect of tax will be deducted at the end of the financial year it will be adjusted to allow for any timing differences between the date of such deduction and the date upon which tax would otherwise be due.

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Practices

13.2 The tax charge is calculated each year as if the WLWPF were a separate company, with certain modifications. The main modification is where excess capital losses are realised within the WLWPF. In such an instance the excess may be offset against realised capital gains within the NPF.

13.3 The WLWPF will pay tax resulting from the transfer of profits from WLWPF to NPF (including tax on the shareholders' proportion of the Bonus).

13.4 The Board assumes overall responsibility for the calculation of tax and will obtain advice from the With-Profits Actuary.

14. Amendments to the PPFM

Amendment to the 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.

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.

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

"AETNA Scheme"	The scheme of transfer for the transfer of the long-term business of AETNA Life Insurance Company Limited to the Company which was sanctioned by the court on 8 December 1993 and took effect on 31 December 1993.
"Asset Liability Matching"	The practice of investing in assets that closely match the characteristics of the liabilities they are backing described in section 7.9.
"Asset Share"	The accumulated value of the historic cash flows relating to a policy. Used to assess the contribution the policy has made to the WLWPF.
"Board"	The Board of Directors of ReAssure.
"Board Investment Committee"	A sub-committee of the Board which is authorised to operate and monitor the investment programme for the funds under management from time to time.
"Bonus"	A method of distributing surplus arising in the WLWPF to policyholders.
"COBS"	The Conduct of Business sourcebook. This is written by the Regulator and sets out general standards of conduct for financial firms.
"Combined Life Scheme"	The scheme of transfer for the transfer of the long-term business of Combined Life Assurance Company Limited to the Company which was sanctioned by the court on 27 November 1996 and took effect on 30 November 1996.
"Company"	ReAssure Limited (Company number 00754167).
"Cost of Bonus"	The cost of distributing Regular, Interim or Final Bonuses to with-profits policies.
"Crown Life Scheme"	The scheme of transfer for the transfer of the long-term business of Crown Life Assurance Company Limited and Crown Life Pensions Limited to the Company which was sanctioned by the court on 15 November 1995 and took effect on 31 December 1995.
"CWP"	A conventional with-profits policy is one with a defined lump sum payable on death or Maturity, increased by the addition of Bonuses during the policy lifetime. (Also known as traditional with-profits.)
"Deposit Administration"	Deposit Administration pension contracts are non-profit policies whose funds increase in line with credited interest rates set at the discretion of the Company.

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"Deferred Annuities"	Pension contracts where benefits and Regular Bonuses are defined at retirement age.
"Estate"	The excess, if any, of the value of assets in the WLWPF over the value of assets needed to support the current and expected future liabilities of the WLWPF. In the Solvency II regime the Risk Margin is not considered to be a liability of the Fund when determining the Estate.
"Fairness Committee"	The role of the Fairness Committee is to consider the interests of policyholders and provide advice to the Board on the management of with-profits business. From March 2004 – February 2005 the internal name for the Fairness Committee was the With-Profits Committee.
"Final Bonus"	A Bonus added to a with-profits policy at the claim date. Also called Terminal Bonus.
"Fixed Expense Agreement"	The Fixed Expense arrangements contained in Schedule 2 to the Reassure/Virgin Scheme and Schedules 3 and 4 of the NM Life and NM Pensions Scheme. The Fixed Expense Agreement is designed to protect the WLWPF against diseconomies of scale.
"GAN Scheme"	The scheme of transfer between, amongst others, GAN and the Company, which was sanctioned by the court on 23 November 1998 and took effect on 30 November 1998.
"Guaranteed Benefits"	The guaranteed minimum level of benefits payable on a claim under a life insurance or pension policy, as defined in the policy terms and conditions.
"Guaranteed Fund"	The Guaranteed Fund is a fund available as an investment link for certain non-profit pension policies. The units in this fund increase in line with credited interest rates set at the discretion of the Company.
"Guiding Principles"	The guiding principles contained in Schedule 4 to the Gresham Scheme of Transfer and Schedule 1 to the GAN Scheme and amended in the Reassure/Virgin Scheme and NM Life and NM Pensions Scheme.
"Gresham Scheme"	The scheme of transfer between, amongst others, Gresham and the Company which was sanctioned by the court on 30 November 1992 and took effect on 1 December 1992.
"Interim Bonus"	A Bonus which may be added to a with-profits policy at the claim date in respect of the time which has elapsed since the last Regular Bonus declaration.

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"Maturity"	The Maturity date specified in the policy terms and conditions when payment of policy benefits becomes due. In the case of pension policies, the Maturity date is called the selected retirement date or normal retirement date (see section 2.26).
"MVR"	A Market Value Reduction may be applied to Surrender claims on UWP policies to reduce the claim value to below the nominal value of the attaching with-profits units, to reflect market conditions.
"NM Life and NM Pensions Scheme"	The scheme of transfer of the long-term insurance business from NM Life and NM Pensions to the Company which was sanctioned by the Court on 11 December 2007 and took effect on 31 December 2007.
"NMWPF"	The National Mutual With-Profit Fund of ReAssure, containing with-profits and non-profit business.
"NPF"	The Non-Profit Fund of ReAssure, containing non-profit business.
"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 Windsor Life With-Profit Fund.
"Principles"	The enduring statements of overarching standards that the Company adopts in managing the with-profits business in the Windsor Life With-Profit Fund.
"ReAssure"	ReAssure Limited (Company number 00754167). Prior to 1 December 2011, ReAssure was known as Windsor Life.
"Reassure/Virgin Scheme"	The scheme of transfer of the long-term businesses of Reassure UK Life Assurance Company Limited ("Reassure UK Life") and Virgin Money Life Limited ("Virgin Money Life") to the Company which was sanctioned by the court on 23 November 2005 and took effect on 23 December 2005 (Virgin Money Life business) and 30 December 2005 (Reassure UK Life business).
"Regular Bonus"	A Bonus added to a with-profits policy at regular intervals throughout the term, increasing the Guaranteed Benefits.
"Regulator"	ReAssure is regulated by the Prudential Regulation Authority and the Financial Conduct Authority
"Risk Committee"	A sub-committee of the Board responsible for managing the Company's risk strategy.

"Schemes"	The NM Life and NM Pensions Scheme, Reassure/Virgin Scheme, GAN Scheme, Gresham Scheme, Combined Life Scheme, Crown Life Scheme, AETNA Scheme and any further schemes by which business is transferred to the Company and which are relevant to the management of the WLWPF.
"Securities Lending"	Assets are lent out to a counterparty for a fee. This increases the income earned by the Windsor Life With-Profit Fund. Suitable collateral will always be put forward by the borrower.
"Supported Bonus Rate"	The future Regular Bonus rate which is supported by the underlying Asset Shares as described in section 4.
"Surrender"	A Surrender claim occurs when a policyholder elects to take benefits at a date other than the Maturity date. The term Surrender excludes any payment made on death (see section 2.27).
"Target Range"	Subject to certain exceptions, a firm is required by COBS 20.2.5R to set a target range for Maturity and Surrender payments. This is a range by which Maturity and Surrender payments must be benchmarked. The range must be specified in the PPFM and the business must be managed in accordance with this range to comply with the relevant COBS rules.
"UWP"	A unitised with-profits policy is one with benefits expressed in terms of a number of with-profits units.
"With-Profits Actuary"	The role of With-Profits Actuary is to advise the Board on their use of discretion in managing with-profits business as defined by the Regulator. The With-Profits Actuary is appointed by the Company.
"WPA"	A with-profits annuity is a single premium contract where a guaranteed annuity increases in line with declared Bonuses and is payable for the remaining life of the policyholder.
"WLWPF"	The Windsor Life With-Profit Fund of ReAssure, containing with-profits and non-profit business.
"WLWPF Release Amount Percentage"	15.75%, i.e. one minus the Release Amount Percentage (where the Release Amount Percentage is as defined in Schedule 7 of the NM Life and NM Pensions Scheme and is 84.25%).

A1. APPENDIX 1

Deposit Administration and Guaranteed Funds

Summary of Business

A1.1 Following the purchase of Crown Pensions and Crown Life early in 1995, its long-term business was transferred to ReAssure on 31 December 1995. The Crown Pensions business contained some Deposit Administration ("DA") and Guaranteed Fund ("GF") contracts, which were allocated to the WLWPF.

A1.2 The DA products and GF products are non-profit business and do not share in the profits of the WLWPF. The benefits payable under these policies are based on unit values, which increase in line with interest rates set by the Company from time to time. This Appendix describes the basis upon which the Company exercises its discretion.

Principles

A1.3 Separate pools of assets are notionally allocated to back each of the DA and GF classes of business within the WLWPF. The investment strategy of each pool will reflect the nature of the business.

A1.4 Interest will be added at the declared rate to increase the accumulated value of the account under these policies. The interest rate will depend on the performance of the underlying investments and could vary, but will not be less than any minimum guaranteed.

A1.5 Amounts payable on Maturity or death will not be less than any guaranteed amounts payable, as set out in the policy terms and conditions.

Practices

Interest Rates

A1.6 For DA products, interest will be added on a monthly basis using the declared rate of interest. For GF products interest is added on a daily basis. The interest rate will depend on the performance of the underlying investments and could vary.

Guaranteed Interest Rate

A1.7 There is an underlying guaranteed minimum interest rate throughout the term of the policy. The guaranteed minimum interest rate is 4% p.a. for DA policies and 5% p.a. for GF policies.

A1.8 For some DA products the guaranteed minimum interest rate is 2% if the policy is made paid-up.

A1.9 For some regular premium GF products, the guaranteed minimum interest rate is 1.5% for any units purchased in the first two years.

Charges

A1.10 Annual management charges of 1% and 2% apply to the GF and DA business respectively. These charges may be varied in future, although they will only be increased if the charges are otherwise insufficient to cover the on-going expenses estimated to relate to these contracts.

Determining the rates and smoothing

A1.11 Rates are reviewed annually by the With-Profits Actuary. To determine the rates the Company maintains a notional fund and a corresponding unit fund, for each class. The notional funds are increased each year in line with attributed fund performance less charges, and the unit fund is increased in line with rates of added interest declared by the Company.

A1.12 These values are then projected forward over a period of 10 years from the review date to determine the interest rate that is supported over that period.

A1.13 If this supported rate is within 0.25% of the current rate then no change will be made at the review, otherwise the Company determines a smoothed interest rate equal to 60% of the supported rate plus 40% of the current rate. The rates declared by the Company will be these smoothed interest rates rounded appropriately, subject to a minimum of the appropriate guaranteed minimum rate.

Investment strategy

A1.14 The investment strategy aims to reflect the nature of the liabilities, in particular the high level of guarantees associated with this business. The investments will consist of fixed interest stocks, equities and other investments chosen for security and return. The proportion of equities would not normally be more than 35% and the investment mix is reviewed at least annually by the Board Investment Committee taking account of advice from the With-Profits Actuary.